

Financial Sustainability of Sustainable Tourism Certification Programs



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Table of abbreviations

AAA – American Automobile Association
ABNT – Brazilian national standardization body
AES – electric generating corporation
ATA – Aboriginal Tourism Australia
ATAA – Australian Tourism Accreditation Association
ATC – Australian wholesalers conference to promote product to overseas buyers
ATE – Australian Tourism Exchange trade show
ATON – Australian Tour Operators Network
ATSIC – Australian & Torres Strait Islander Commission
B2B – Business to Business
CD – compact disk
COPANT – Pan-American Standards Commission
CRC – Cooperative Research Centres Programme (Australia)
CST – Certification for Sustainable Tourism (Costa Rica)
CSTP – Certificación de la Sostenibilidad Turística del Perú
DEST – Department of Education Science and Training (Australia)
DEWR – Department of Employment and Workplace Relations (Australia)
DFID – Department for International Development is the UK Government department responsible for promoting development and the reduction of poverty
EAA (EA) – Ecotourism Association of Australia
EBFP – Environmental Business Finance Program (IFC)
EGAT – Electricity Generating Authority of Thailand
EMAS – Eco-Management & Audit Scheme (Europe)
EPA – United States Environmental Protection Agency
ES – Energy Star
ESOK – Ecotourism Society of Kenya
EU – European Union
FEE – Foundation for Environmental Education (Europe)
FLO – Fair Trade Labeling International
FSC – Forest Stewardship Council
FTTSA – Fair Trade in Tourism South Africa
FUNDESA – Fundación para el Desarrollo de Guatemala
GATS – General Agreement on Trade in Services
GDA – Office of Global Development Alliances (USAID)
GEF – Global Environment Facility
GG – Green Globe
GG21 – Green Globe 21
GGAP – Green Globe Asia-Pacific
GTZ – Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (German government development agency)
IBA – Indigenous Business Australia
ICT – Instituto Costarricense de Turismo (Costa Rican tourist board)
IDB – Interamerican Development Bank
IES – International Ecotourism Standard (GG21)
IFC – International Finance Corporation

IH – Hospitality Institute (Brazil)
 IHEI – International Hotels Environment Initiative
 INCAE – Instituto Centroamericano de Administración de Empresas (Central American business school)
 ISEAL – International Social and Environmental Accreditation and Labelling Alliance
 ISO – International Organization for Standardization
 ITB – large international tourism trade show (Germany)
 IUCN – International Union for the Conservation of Nature
 MIF – Multilateral Investment Fund (IDB)
 MSC – Marine Stewardship Council
 NEAP – EcoCertification program (Australia)
 NGO – non-governmental organization
 NH – New Hampshire (USA)
 NRDC – Natural Resources Defense Council
 NSF International – product test, registration, and certification company (USA)
 NSW – New South Wales (Australia)
 ÖTE – Ecological Tourism in Europe
 PATA – Pacific Asia Travel Association
 PCTS – Programa de Certificação em Turismo Sustentável (Brazil)
 PROARCA/CAPAS – USAID program in Central America (now finished)
 RBF – Rockefeller Brothers Fund
 ROC – Respecting Our Culture Program (Australia)
 RTO – Regional Tourism Office (Australia)
 SA – South Africa
 SFI – Sustainable Forest Initiative
 SGS – Société General de Surveillance environmental audit company (Switzerland)
 SME – small and medium enterprise
 SRI – socially responsible investment
 ST – sustainable tourism
 STC – sustainable tourism certification
 STEP – Sustainable Tourism EcoCertification Program (USA)
 STI – Sustainable Travel International's (USA)
 STSC – Sustainable Tourism Stewardship Council
 SUTUR – Programa de Calidad de Turismo Rural Sostenible
 TCA – Testing And Certification Australia
 TF – Transfair USA
 TFA – The Food Alliance (USA)
 TIES – The International Ecotourism Society
 TNC – The Nature Conservancy
 UK – United Kingdom
 UNDP – United Nations Development Program
 UNEP – United Nations Environment Program
 UN-WTO (WTO) – World Travel Organization
 USA – United States of America
 USAID – United States Agency for International Development
 VAT – value-added tax
 VT – Vermont (USA)
 WGF – Wallace Global Fund
 World Travel and Tourism Council (WTTC)
 WWF – World Wide Fund for Nature or World Wildlife Fund

Executive Summary

Virtually all sustainable tourism certification programs in the Americas – and more generally around the world – are underfinanced and lack financial stability and mechanisms that will allow for growth and long-term survival. Linked to this, just about all of the programs have insufficient consumer marketing budgets and lack alternative mechanisms to deliver significant tangible benefits that encourage tourism operations to become certified.

The objective of this study is to propose strategies and mechanisms to help sustainable tourism certification programs achieve long-term financial viability. The study looked at financial models and mechanisms used by certification program from other industries (such as organic produce and forestry) and from various tourism certification programs from around the world. We examined seven non-tourism certification programs and one non-tourism accreditation program to determine which experiences were applicable to tourism. In addition, 33 tourism certification programs working in the United States, Latin America, Europe, Asia-Pacific and Africa were evaluated to examine their financial structures and strategies, as well as listen to their recommendations. Representatives of 12 funding bodies and two non-governmental organizations (NGOs) supporting sustainable tourism or green certification in the United States, Latin America, and Africa were also interviewed to determine their funding priorities and interests; find out what types of relevant projects and programs they have supported; and elicit recommendations for how to help sustainable tourism certification and accreditation bodies become more financially sustainable.

This information and an in-depth study on the financial details of a smaller number of certification programs provided the material from which a number of potential financial pathways that should lead to better financial viability and long term economic stability of sustainable tourism certification programs are discussed. An outline of the principle lessons learned, potential financial models and recommendations follows.

Non-tourism certification programs

The financial structures of seven leading non-tourism certification programs – The Food Alliance, SmartWood, Imaflora, Transfair USA, Green Seal, Energy Star, and the Marine Stewardship Council were examined for the lessons they might offer sustainable tourism certification programs. The principal findings were:

- **Start-up phase:** All the programs we examined received significant start-up funding, with grants from a variety of sources including government agencies, bilateral and multi lateral funding bodies, private organizations and international donors.
- **Operational phase:** Several certification programs claim to be financially self-sustainable, but this is not from income derived from certification fees alone. Most green certification programs continue to receive income or other support through continuing outside grants or loans or through subsidizes and underwriting from their parent organizations.

- **Achieving self sufficiency:** It takes many years to become self-funding – often 10 or more years. For example, SmartWood claims to be self supporting, but is still dependent on a long-term, low-interest loan, and did not reach “self-sufficiency” for 10 years. Many programs are still reliant on private foundations to bolster income from fees or have to continue to raise alternative income from other sources. These certification programs obtained funding needed to survive the early years of operation by either convincing philanthropic foundations or other sources (government subsidies, industry, industry associations, NGOs, etc.) to provide support for two to three project cycles or they sought special loans that offered low interest fees and extended payment terms.
- **Supply chain fees:** The most common forms of ongoing revenue generation are from fees charged to businesses all along the supply chain for use of the certification logo, as well as offering consultant services and technical assistance to organizations and companies within and beyond the sector in which they work.
- **Marketing partnerships:** As with tourism certification, marketing of these programs is often under-funded and insufficient. However, innovative partnerships with environmental and consumer advocacy groups and large certified businesses, who target intermediaries (wholesalers, distributors, institutions) as well as individual consumers, have resulted in improved marketing at little or low direct cost to the certification program. Smart marketing through intermediaries is shown by the Marine Stewardship Council (MSC) participates in Monterey Bay Aquarium’s annual “Cooking for Solutions Day,” promoting labeled products and educating consumers about fisheries issues. The MSC also has a range of other NGO partnerships – including NRDC, Sierra Club Canada, Fundación Natura and Consumers’ Choice Council. Perhaps smartest of all in dissemination of messages about sustainable seafood is a partnership with the *Seafood Choices Alliance*, an organization that connects conservation NGOs and professionals from the seafood industry, co-sponsors fundraisers and participates in public events.
- **Establishing performance indicators:** The ability to measure and demonstrate economic, environmental and social benefits of their programs (i.e. through robust performance indicators that demonstrate measurable benefits of certification) is critical in gaining financial and promotional support. These organizations attribute much of their successes to date to gaining the support of businesses, especially large and influential ones within their sector, as well as non-profit organizations who assist with outreach, education, marketing and policy influence. MSC has managed to bring on board large companies such as Whole Foods and Unilever, with public declarations from these firms that the products they sell will all be certified as sustainable within a given period of time. Both Unilever and Whole foods have also invested money into this commitment – Whole Foods funding an MSC staff person for three years to recruit to fisheries in North and South America in order to increase the supply and diversity of product for it to sell.
- **Business plan:** The programs stress the importance of functioning as a business, with a well thought out business plan and long-term financing strategy. Most programs recognized that long term reliance on significant amounts of income raised from sources other than certification fees was unsustainable. Most of these programs have moved from total reliance

on donors and grants to having certification fees that provide a substantial amount of their income – for example The Food Alliance plans to increase income from certification from 15% to 80% over the next 5 years. However, some of these organizations rely substantially on income outside that raised from certification fees – MSC obtains 50-60% of its funds from foundations (as does The Food Alliance), and Transfair USA is still dependant on obtaining approx 25% of its income from non-certification fee sources.

- **Assisting SMEs:** Many of these programs have found ways to assist small and medium enterprises access certification resources and services, through either sliding fee schedules, group conformity assessment, or through outreach programs and subsidies. Both these methods are used by Smart Wood, Imaflora and Fair Trade and seem to be successful in engaging smaller businesses. However The Food Alliance notes that it does not adequately satisfy the needs of small farm producers needs, and this, combined with fee charges, means they are rapidly losing this sector of their market.
- **Group marketing:** Collaboration and cross marketing among “green” certification programs in different sectors has potential to expand. Those interviewed stressed the importance of working with others to increase the use of certified sustainable projects. They emphasized that collaboration consisting of economical and multifaceted tactics to affect the policies of government, industry, and non-profit organizations is needed to increase the use of certified sustainable products. Although this strategy was mentioned by a few of the programs, no concrete examples were found to illustrate this.

Tourism certification programs

Existing sustainable and quality tourism certification programs around the world have many lessons to offer regarding the challenges of attaining financial sustainability. Of the 33 programs examined, none are entirely self-funded from certification fees alone, although some claim to be self-sufficient (EcoCertification, Green Business Program and Nature’s Best). As with non-tourism certification programs start-up costs are (relatively) easy to obtain from grants and support from a wide range of multilateral, government and private sector sources, but ongoing operational costs continue to be a problem. Those programs that are most financially successful, are based within larger organizations which subsidize running costs (e.g. NEAP–EcoCertification, which is housed with in Ecotourism Australia’s office), or receive continual on-going support from government or business sponsors (Natures Best receive on-going funding from Swedish Ministries and Agencies that cover nearly two thirds of their operational costs) rather than one-time grants.

Start-up and Marketing

- **Seed money and startup costs:** Most fundraising for certification has focused on obtaining seed money for program development. Few, if any funding sources finance on-going operational costs or provide sufficient long-term start-up funding that will support certification programs while they build up the critical mass of certified products necessary for users fees to be an effective and main source of income. There appears to be a lack of realistic business planning and financial reserves to support on-going operational start-up

costs of programs whilst they are building up a support base and recognition.

- **Partnerships:** Alliances with academic institutions and government agencies have proved valuable in development and revision of standards, training, technical assistance, auditing, monitoring and policy development. For instance the development of the Gum Nuts program and the Peruvian Sustainable Tourism Certification program has been partially developed through local universities, reducing the need and costs of consultants. However the quality and reliability of student “expertise” must be closely monitored. The close relationship between Green Globe Asia Pacific and the CRC for Sustainable Tourism (a consortium of Australian universities) has allowed research grant money to support development of practical products such as the EarthCheck indicators that are used to assess performance of certified product.
- **Marketing to consumers and intermediaries:** Little to no budget is provided for marketing of certification programs to the main consumers of tourism services – tourists. Poor outreach and promotion means dissemination of information about the program is hindered – hence insufficient consumer recognition and buy-in. Many certification programs not only lack marketing budgets but also lack marketing expertise. There has been little strategic promotion to targeted intermediaries (such as the secondary consumers listed below) that would enable more directed and less expensive marketing to them.
- **Effective consumer campaigns** are notoriously expensive, so secondary consumers such as tourism enterprises, protected area managers, tour wholesalers, etc. are and should be the main targets of certification programs marketing efforts. EcoCertification has successfully tapped into this market through various strategies, cooperatively marketing smaller certified tourism services under a united banner at large trade shows, including regular attendance at ATC (Australian wholesalers conference to promote product to overseas buyers), ITB (Berlin) and in Japan. Ecotourism Australia has also persuaded a protected area agency, the Great Barrier Reef Marine Park Authority to produce joint marketing collateral and help market certified operators on a joint stand at the ATC and on their website.
- **Cooperative marketing:** Certified businesses and sustainable tourism certification programs are beginning to take better advantages of cooperative marketing campaigns. Examples include Rainforest Alliance’s recent booklet for the Americas and the VISIT website in Europe. There are growing instances of branding initiatives that give profile to particular programs but do not incur the full costs. They include joint ads, one person paying for a booth at trade shows, or joint advertising brochures. Business to Business (B2B) marketing initiatives are achieving good market penetration for certification programs where cross branding of sustainable products is developed. An example is Viabono in Germany which sells ‘ecoproducts’ – organic wines and eco cleaning products – to certified tourism services and others.
- **Consumer recognition:** Linked to the above is the reality that consumer recognition of certification programs is generally low. Business enterprises have often been sold certification on basis of consumer demand – i.e. as a marketing tool – but reality has not borne this out and the cost is considered high. Enterprises value preferential placement in

advertisements (e.g. Qualmark in New Zealand and EcoCertification in some government brochures) and other initiatives that give them good market exposure (i.e. EcoCertified product gets preferential exposure to the Visiting Journalists Program paid by Australian Government), although they do not always connect this with the assurance that certification gives promoters.

The lack of consumer recognition is not surprising, given poor marketing budgets and sales experience of most certification programs. However, this should not be taken as a reason to invalidate the concept of certification. Rather, it must be recognized that building consumer awareness takes years and is best done by marketing through intermediaries.

- **Few certified products:** Most sustainable tourism certification programs have relatively few certified products. Tourism consultants estimate that most programs have less than 50 enterprises aboard and usually only between 1 and 5% of the eligible product. For programs to be both credible and sustainable, they need to have a critical mass, not just to facilitate consumer recognition, but also to ensure financial stability through certification fee income, as well as to establish economies of scale (i.e. reduce travel time between audits, employ full time staff). Given this, some programs have kept the cost of certification free or minimal during the initial years of a program's operation. In Costa Rica, for instance, the initial rounds of auditing for CST has been free to businesses and financed by the tourism ministry. In Australia, the ROC program has charged minimal fees to companies undergoing certification.

Operational costs

The costs and other realities associated with the long term operational running of certification present a mixed picture, with some significant challenges but also some emerging solutions.

- **Users' fees:** Currently no sustainable tourism certification survives entirely on user-pay certification fees alone. Even Blue Flag, the oldest of the 'green' tourism programs, is still dependant on sponsors for some of the running costs. The EcoCertification program survives predominantly on users fees for day-to-day running of the program, but relies on other sources of funding to upgrade the criteria every three years, and to run the audit program (which aims to audit every certified operator once in a three-year period).
- **Volunteers:** Many certification programs rely on volunteer labor or dedicated individuals to help both in initial development but also implementation of certification programs. The lack of operational funding means that dedicated volunteers or low-paid staff must fulfill positions of responsibility and importance, or that staff are overstretched and under-resourced, resulting in decreased levels of professionalism. For example, in both NEAP I and NEAP II the Assessment Panel conducted all review of assessments, carried out on-site audits that were necessary, and participated in review, upgrading and interpretation of standards for no remuneration for over 6 years. Initial assessment of applicants (a 150 page document) was farmed out to Assessors at the rate of US\$27/hour up to a maximum of 3 hours per assessment. This level of commitment of individuals is recorded in several other certification programs (see New Hampshire Lodging and Restaurant Association's Sustainable Lodging

Program, STI's STEP program, and Green Deal) and is obviously not sustainable in the long term. The potential for 'cheap' labor over the long haul is possible if programs partner with academic institutions; however quality and reliability may suffer. This solution has been experimented with by several different programs, including NEAP (partnership with Charles Stuart University with honors students providing technical expertise to tourism enterprises as part of their work experience) and routine use of interns (both EcoCertification and Green Globe).

- **Business capacity to pay:** In addition, the actual fees charged for certification or auditing are considered a significant barrier by many small businesses, especially in light of competition for limited funds and other, less esoteric needs than certification. This factor is likely to be even more exaggerated in developing countries.
- **Barriers to entry:** Ability to pay 'real' costs of certification of many tourism businesses applicants is low – because many enterprises are small or micro-businesses and the cost of the documentation and infrastructure changes necessary for certification is high. Even in cases where application fees have been paid by outside agencies (i.e. Chemonics in Caribbean with USAID for Green Globe, or Tourism Tasmania paying certification fees for nature/adventure operators for NEAP II and TCA certification), many enterprises did not complete certification because of challenges involved in interpreting requirements, lack of skills in documenting procedures and policies, costs of making needed improvements, and lack of time.
- **Insignificant marketing advantages:** At present, most businesses report that the value of certification is generally low in terms of generating customers. In the past, sustainable tourism certification was “sold” on the basis of significant customer recognition and marketing advantages or the ability to charge a price premium – neither of which has been delivered in the majority of cases. Applicants who apply for certification in order to gain access to markets are often disappointed by low consumer recognition and lack of buy-in.

Related to these two points is also an unwillingness on the part of the tourist industry to pay the real costs of certification, not just because of perceptions of poor value, but also because they have been “courted” by certification programs charging cheap “honeymoon fees” in order to build up a critical mass of products. Charging fees below cost-recovery may end up being counter-productive in the long run, especially if applicants are unaware of the true costs involved and perceive later, more realistic fees as opportunistic grabs for money.

- **Tangible benefits:** The picture is not, however, all bleak. An increasing number of certification programs are delivering tangible benefits, including preferential marketing, increased exposure through intermediaries, preferential access or extended tenure to protected areas, greater consistency of quality of product, and greater staff retention rates. More details on incentives are provided in a separate section below.
- **On-site auditing and credibility balance:** Physical on-site audits are one of the most costly aspects of certification, both for the program as well as for the businesses themselves. Some certification programs attempt to reduce audit costs by checking conformity with standards

by either less rigorous methods a (self check, referee checks, desk audits, telephone interviews etc.) or less frequent audits. For instance, the Green Globe Company standard currently demands an on-site assessment every year, but is moving towards reducing the need for on-site assessment based on a simple risk analysis. If an enterprise is relatively low risk (i.e. based in an urban area with access to town facilities for waste disposal, water and energy), demand for on-site audits remains in the first year of certification, but is extended to every three years thereafter. High risk enterprises (i.e. based in an area of high conservation significance or remote area without access to standard services and facilities) still demand annual on-site audits. The NEAP program initially relied on self-check audits, with yearly desk audits of selected criteria as evidenced by documentation (e.g. an interpretation plan). Even with the noted strengthening of NEAP III (EcoCertification) the stated aim is for every enterprise to be audited only once over the three year certification period. However, the cost savings from less frequent on-site audits – or none at all – has to be balanced with a serious risk of loss of credibility. The lack of independent checks (preferably third-party audits) increases the possibility of non-conformity with the program’s standard and the potential for fraud, which decreases the credibility of the program. Many so-called certification programs coming on line (i.e. Green Wisconsin) that rely solely on self check ‘audits’ are in reality nothing more than statements of self commitment and suitable only for awareness-raising purposes rather than quality assurance. As programs downgrade audit procedures to reduce costs, their reliability diminishes.

- **Auditing costs:** Certification programs are beginning to pass on the real costs of assessment and audits to users through charging cost-recovery or at least more realistic fees. This move mirrors trends in the quality tourism certification programs where subsidies are beginning to be removed. Some programs (i.e. Green Globe) rely totally on independent, third party auditors who charge their clients directly. This allows rivalry in the marketplace and removes monopoly of program auditors such that auditing costs become more competitive. However the real costs of third-party auditing may be a barrier for small businesses.

It should be noted that the real costs of physical on-site audits are high, and savings in travel costs are hindered by low numbers of certifying businesses. This is likely to be a recurring problem in large countries (e.g. Australia, Brazil, and the USA) until a critical mass of product accumulates and several audits can be conducted on the same day, or with minimal travel and associated costs.

- **Diversified income streams:** Certification programs are becoming more entrepreneurial and beginning to diversify their income sources. In addition to certification fees, some programs offer training courses, training manuals, consultation, provision of technical advice, and “gap analyses” through on-site audits or practice audits (“walk-throughs”).
- **Range of government support:** Governments support for certification programs is beginning to include in-kind initiatives or alternatives such as tax breaks, incentives, tax concessions, government commitment for a green procurement program, preferential access, extended tenure, access to special funding (airport taxes for environmental labels), or rebates. For instance, in Barbados there is 150% tax concession for the costs of sustainable tourism certification consulting that helps to lower water use and energy consumption.

- **Eco-efficiency and cost savings:** One of the major advantages of sustainable tourism certification programs is that many have resulted in significant cost savings to applicants through eco-efficiencies, green technologies, alternative practices. This is most pronounced with big companies and in developing countries. It is also most dramatic during the first year or two, and is not likely to be sustained. However the claim by certification programs that they are a good way to teach eco-efficiencies has been reduced because there are now many other avenues for finding out information on best practices, including websites, training courses, manuals, specialist organizations such as Green Seal, or even green procurement plans given out by government or utilities.
- **Obtaining a critical mass:** The long term financial stability of certification programs relies on being able to accumulate a critical mass of certified businesses to attract consumers and other supporters. There is a bit of a “chicken-and-egg” proposition because to build up a bank of certified businesses quickly, it might pay to offer certification for little or no cost, but the downside is that as more businesses are certified, the costs for the certification program are increased. The ROC program in Australia is in this predicament, where the costs are subsidized to such a great extent that applicants are only paying 5% or less of the real costs of the program. This is possible only because the program is considered a business development program more than a certification program per se and there are sponsors and philanthropic foundations that see the value of the program in terms other than numbers certified. Nonetheless, it does highlight the fact that support funding is necessary for an extended start-up phase.
- **Competing programs:** There are fears that increasing competition and confusion caused by other certification schemes covering similar sectors and markets (especially in Europe) may prevent the development of a critical mass. There has been some consolidation of programs – the VISIT network in Europe, Green Globe absorbing PATA’s Green Leaf Program, and several Australian programs giving 2-for-1 certificates (i.e. EcoCertification and the NTAP program; ROC and NTAP). There is an obvious need for reciprocity between programs and for a global accreditation body of certification bodies such that there is one international logo.

Incentives and funding bodies

Incentives

Offering incentives is of vital importance as one of the critical ways to build the financial viability of sustainable tourism certification programs. A key point, however, is that the number, variety, and value of incentives offered to certified businesses needs to increase, so that tourism enterprises feel that they cannot afford *not* to become certified.

Attractive incentives need to be solicited from governments, financial institutions, other businesses, certification programs, and other principal stakeholders (e.g. conservation NGOs). They might include tax credits, preferred access to tourism resources, discounts on tourism products and services, increased marketing, promotion or advocacy for certified product,

improved credit from banks, and grants or loans from socially responsible investors (among others). An abbreviated list of currently offered and potential incentives includes:

- Guidelines, criteria and a framework for implementing measures to ensure quality control, safety, security, social responsibility, Fair Trade, environmental responsibility, or management/administrative/financial accountability
- Training or consultant advice on environmental, social, quality, management, administrative or financial issues or on applying for certification
- Informational resources to implement technical or managerial changes
- Marketing statistics, information and training
- Networking support or assistance in developing cooperatives or mutual support systems
- Partnership opportunities with government, NGOs, other industry members, etc. Benefits may include marketing support, promotion, discounts, preferred access and technical assistance.
- Discounts on materials, equipment, consulting fees, labor, etc. needed to implement and conform with certification criteria
- Provision of training on best environmental and socio-cultural practices
- Reductions in certification (or re-certification) fees or financial assistance to pay fees
- Governmental endorsements for certification programs, sometimes as a response for implementing environmental legislation
- Reduced fees for use of common (government) resources, such as national parks
- Reduced fees for professional development opportunities (trainings, conferences) or membership in professional organizations
- Governments/ communities giving longer term permissions (extended tenure) or preferential access to protected or sensitive areas
- Governments offering tax breaks or other financial incentives
- Government endorsements for exemptions from certain policies or limited access regulations
- Governmental programs to help industries (e.g. hotels) adopt sustainable practices

Note: certain types of governmental involvement in certification programs, practices, or incentives may bring into play international trade agreements, such as GATS (General Agreement on Trade in Services).

Australia has taken the lead with industry certification programs giving extended tenure to certain protected areas – in Western Australia the Department of Conservation and Land Management grants 3 or even 5-year licenses to certified businesses, as opposed to the normal one year permits, and gives preferential access to Advanced Certified products to sensitive sites. The Great Barrier Reef Marine Park Authority grants EcoCertified product 15-year licenses. Tangible benefits are also delivered in Austria, with financial support for consultancy costs that improve energy saving from sub-national ministries and environment agencies. In addition, certified businesses get a 5% higher bank credit rating than non-certified businesses. Many programs offer web marketing services, and in some cases these may be linked with Government web portals that give increased exposure, if not actual bookings. The New Zealand Tourism Board gives prominence to Qualmark product, and Tourism Tasmania only market operators that have been through the Business Certification Program.

It is certainly evident that an increasing number of certification programs are delivering tangible benefits such as those listed above. In addition, there are also a number of other benefits delivered by undergoing certification that are not factored into calculations regarding financial “value” or cost/benefit returns by enterprises and secondary consumers. These include greater consistency of quality of product through adopting sound business practices (such as documentation of procedures), greater staff retention rates, free publicity through intermediaries, better reputation and other hard-to-calculate benefits such as improved staff morale and better community relations. Monitoring and evaluation of sustainable tourism certification programs to accurately record these presently ‘intangible’ benefits of certification needs to be implemented so that certification can be marketed more effectively (see point 10 below).

While the incentives listed here are those which build support for certification programs and for certified products and services in a positive way, there are several, more negative incentives which can stimulate certification. These fall under the category of regulatory pressures and may, especially in countries which have effectively enforced regulations, serve as the main incentive for businesses to adopt voluntary certification. Companies are increasingly the pressure from governments, as well as consumer groups and environmental organizations, to look and act in an environmentally and socially responsible manner. If they fail to do so, they suffer a range of consequences.

Funding Bodies

Sustainable tourism certification has drawn the attention of development agencies, private banks and philanthropic foundations because it is viewed as an important tool on the road to sustainable development. Such organizations have provided start-up and operational funding for “green” certification programs. Representatives of 12 funding bodies and two non-governmental organizations (NGOs) supporting sustainable tourism or green certification were interviewed to provide information on what strategies and policies would better contribute to enabling appropriate support for sustainable tourism certification programs. Major findings include:

- Funders are justifiably concerned that certification provide measurable benefits (economic, environmental, social and cultural) to businesses and destinations and want formal monitoring and evaluation tools to provide performance measures.
- Many funders do not appreciate the length of time (ten years or more) it takes for a certification program to develop and gain momentum (financial as well as measured by number of businesses participating).
- Funders want to see that after the start-up and initial operational phases, programs are self-supporting with realistic fees charged to participating businesses. The feasibility of this for programs oriented towards small businesses is questionable.
- Self-financing or financial stability is understood to be enhanced by a diversity of non-user fee sources including taxes, subsidies, incentive and other mechanisms provided by governments (national and local), local financial institutions, and the tourist industry itself. They strongly support creative and interdisciplinary partnerships to facilitate funding for and uptake of sustainability standards.

- Funders recognize that continued development grants or loans for small and rural business development, environmental protection, conservation, and “green” infrastructure will be needed to support SMEs through certification programs.

Solutions: Building Financial Stability in Certification Programs

Potential Financial Models

This study showed that sustainable tourism certification programs, despite some differences in their criteria, operating systems, and management, all face surprisingly similar challenges and hurdles. Foremost amongst these is the lack of robust and regular sources of income to effectively deliver and market relevant, appropriate and credible programs. This study identified major challenges and suggests possible solutions to ensuring sustainable tourism certification programs have long term financial viability.

However, because of the wide variety of organizational structures, market conditions, and availability of working capital, no single model can apply to all programs. The most salient features from a variety of programs, a range of potential income sources and development tools that could help build long term financial stability are identified.

All programs have two major phases: (a) start-up and standards development and (b) operations, including marketing and standards renewal.

In general, the three most common sources of income for programs are:

- (a) start-up contributions from multilateral agencies, philanthropic foundations, NGOs, and governments, for developing the standard and launching the program;
- (b) operating income from fees and services offered by the certification program; and
- (c) operating income from governments, NGOs, educational institutions, and other ongoing, long-term sources.

Funding for the initial development of certification programs is comparatively easy to obtain, but generally limited to standards development rather than the protracted start-up phase that includes the prolonged period between the program launch and sufficient product coming on-line to enable adequate financial returns from certification fees.

It appears likely, from the fact that most programs do not presently cover the cost of running their program on user-pay certification fees only, that sustainable tourism certification programs will need to subsidize their operations with funds from other sources. Even programs that target larger tourism businesses across national boundaries (such as Green Globe), and charge some of the most realistic fees, have found it necessary to support their program with alternative funds. This lack of financial “health” of most programs occurs for a variety of reasons, most of which have been identified from various studies, and are listed above and in more detail in the full report.

To be financially viable, certification programs need a diversity of income sources. Sound

business planning and sources of funding supplementary to user-fees should be integrated into the development and delivery of any sustainable tourism certification program from day one. The recommendations below illustrate potential steps to be taken to ensure better financial ‘health’.

1. Develop a business plan for the certification program. This must include:

- Determining activities to be carried out (e.g. in-house audits)
- Developing a financial structure which includes *all* cost centers
- Creating a financing plan
- Identifying partners and the tasks to be jointly implemented
- Establishing indicators (economic, environmental, management, social, etc.) to measure success
- Developing a monitoring plan.

2. Involve key stakeholders: The strongest certification programs are ones that are nationally based and supported by all relevant “stakeholders” – including government, businesses, trade associations, NGOs, host communities, and academic institutions, protected area managers -- but are independent of total control by any of them. It is vital that these key stakeholders see certification as an important tool for sustainability. Some, particularly governments, are vital to providing financial support.

3. Government: Of the stakeholders, national agencies (or in some cases state – Queensland, West Virginia, Wisconsin – or regional – European Union) are the most capable of providing both seed funding and on-going operational support. In order to do so, governments must be convinced that certification is an indispensable tool for ensuring that tourism is environmentally, socially, culturally and economically sound and that they must play a role in ensuring its success. Government may support programs through:

- Developing financial incentives to support certification, including:
 - Establishing tax mechanisms to raise funds from tourists (airport taxes, sales taxes, entrance fees, etc.)
 - Providing tax credits to certified businesses
 - Policies to favor certified business’ access to government resources (e.g. protected areas)
 - Easing the cost of certification for small businesses
- Promote and market certification programs and businesses through Tourism Ministries and other agencies
- Creating policies which favor certified businesses and sustainability programs
- Limiting government regulation on certified businesses.

4. Funds from grants and donations: while often short term, are essential for both start-up and initial operation. Money must be sought from a variety of sources:

- Recruit non-profit organizations, tourism businesses and trade associations to convince governments, private donors and multilateral or bilateral funders of the benefits of certification and to request financial support.
- Approach tourism and travel businesses (wholesalers, operators, airlines, etc.) and other businesses (media, environmental products and services, etc.) to seek their financial and in-kind support.

- Apply for grants from multilateral development banks, private foundations, government agencies, businesses (tourism wholesalers, airlines, travel media, etc.), trade associations, financial institutions (credit card companies, e.g.), national or international NGOs for start-up and limited term operational funding. Research and apply for operational funding (which includes providing training, technical assistance, resources) from existing development projects which support small and rural business development. That is, capture a part of the funding offered to larger sectors.

5. **Secure in-kind support** from organizations and individuals with research and technical capabilities can offer much-needed assistance in development, design, auditing, training, analysis and monitoring, and promotion of certification programs. Their input is often consistent with their missions and can be obtained at below-market costs.

- Academic: Work with academic institutions to take advantage of their expertise in research and policy development. Create mechanisms to shift or share the cost of a variety of tasks including:
 - standards development and revision
 - benchmarking
 - training and technical assistance
 - auditing
 - development and monitoring of indicators
 - researching incentives and financial strategies
 - development of marketing strategies
 - exploring additional policy incentives
- Solicit NGOs, businesses and individuals who support sustainable tourism to provide consultation, promotion, technical assistance, etc. at no charge or on a barter basis.

6. **Program products:** By offering a range of products and services, and charging for them accordingly, certification programs can raise a significant amount of necessary income. However, they should also identify and implement strategies to facilitate small businesses to become certified.

- Develop a fee structure, with a sliding scale for small businesses. Recommended fees to charge are:
 - Annual membership
 - Pre-assessment or self-audit
 - Site audit – to in-house auditor or contractor
 - License fee for using the logo
- Optional fund-raising through fees for other products and services:
 - Technical assistance
 - Consulting to other tourism certification programs, other industries, governments, etc.
 - Classes, training, workshops
 - Sale of standards to outside parties (i.e., not to businesses within the program)
 - Sale of guidebooks and promotional resources to outside parties
 - Advertising of certified businesses beyond a standard level

Great care must be taken to ensure that there are no conflicts of interest between those people providing these services and those assessing or determining certification awards. All business

conducted by the certification program should be open and transparent.

7. Attracting SMEs: Identify ways to attract small businesses into the certification program. This may mean subsidizing SME participation in certification and therefore this financial cost must be built in to the business plan. These include:

- Providing free technical assistance or partnering with other institutions to do so
- Helping to raise funds for small businesses to use to become certified from
- Developing a group certification program to reduce audit and other costs
- Combine the sustainable tourism certification site-audits with other audits/inspections (e.g. health and safety, quality, etc.)

8. Developing partnerships for outreach and marketing: Financial and in-kind support for promotion and marketing can come from a range of sources and should include partnerships with governments, non-governmental organizations, and industry and associates. Costs for collaborative marketing can then be split among a variety of players.

- Engage NGOs (such as environmental and conservation organizations, consumer advocacy groups, and others interested in cultural conservation and rural or economic development) for their assistance with education and outreach to their members and other constituents. They might:
 - Promote sustainable tourism certification in their newsletters and other communications resources
 - Encourage stakeholders to patronize certified businesses
 - Develop awards programs for certified businesses
 - Feature certified businesses in fund-raising events (e.g. by offering visits as auction items)
- Collaborate with the media (radio, television, newspapers, magazines, guidebooks, travel publishers, internet, film/video industry, etc.) to provide financial, in-kind and marketing support for certification programs and businesses.
- Develop marketing campaigns and resources with NGOs (especially environmental and consumer advocacy groups), tourism and travel companies (wholesalers, travel agents, tour operators, etc.) and trade associations, governments, financial institutions, donors, etc.
- Work with travel wholesalers and intermediaries, especially those who have direct contact with consumers, to develop policies and procedures that favor certified businesses.
- Establish incentives for businesses (travel and tourism as well as other relevant ones) to provide discounts and other financial incentives to sustainable tourism certified companies.
- Convene representatives from other “green” certification programs and environmental products and services producers and purveyors to collaborate on co-marketing or provide discounts to certified businesses. Companies representing energy efficiency and renewable energy, water conservation, waste reduction, “green” kitchen/bedroom appliances, organic agriculture, and Fair Trade are examples of potential partners.

9. Working with the financial community: The process of certification provides a measure of financial credibility to businesses, and can therefore be of interest to financial institutions and

investors who want to be sure that their money is well placed. Therefore, their support warrants seeking.

- Educate and convene financial institutions to develop mechanisms for improving credit to certified businesses and otherwise creating financial incentives for certification. Encourage banks to use certification as a means for which to approve grants or loans to businesses.
- Work with investors and their representatives to raise funds for certification. Socially responsible mutual funds, investors and brokers are potential supporters.
- Consider the idea of issuing bonds to finance certification program activities.
- Investigate possibilities to create new market mechanisms which can support sustainable tourism certification programs. Electric and other energy utilities could be interested, as well as carbon offset, wetlands banking and transferable development rights programs.

10. Importance of monitoring and evaluation: The most effective way to promote sustainable tourism certification is by demonstrating that it does what it says it does – i.e. sets and monitors standards that ensure that certified businesses fulfill the (economic, environmental, social, cultural, managerial, etc.) principles of sustainable tourism. Accurate, well-documented monitoring and evaluation program with indicators and data indicating the benefits of certification are necessary to successfully generate financial support and buy-in from industry players, funders, other partners and tourists.

- Analyze and continually monitor the economic, environmental and socio-cultural benefits of sustainable tourism certification.
- Circulate and publicize the benefits widely and often – to the tourist industry, governments, funders, NGOs, the media and communities.
- Enlist the media, NGOs and others to assist in showcasing the positive impacts of sustainable tourism certification.

Time Frame: Start-Up to Maturity

The growth of sustainable tourism certification programs is likely to follow a typical trajectory of:

1. Start-up (Years 1 – 3): 100% outside funding – from either grants, philanthropic organizations /foundations or government agencies (or a mix thereof)
2. Operational
 - a. Initial Years (3 – 10 years): mix of funding sources
 - i. 10 – 30% from fees
 - ii. 20-60% Grants/loans
 - iii. 0-10 % Government taxes, etc
 - iv. 10-30% Other products from certification body (consultation, training, manuals etc.)
 - b. Maturity (10 years onward)
 - i. 60 – 80% from fees
 - ii. 0-10% Grants/loans
 - iii. 10-30% Government taxes, etc
 - iv. 20-40% Other products from certification body (consultation, training, manuals etc.)

Note: these figures are based on estimates from current level of funding and income sources from both tourism and non-tourism certification programs. The level of grants/ loans in early operational phases are likely to remain high until development of alternate saleable products and services, and income from government taxes etc take time to come on-line.

Summary of Key Findings for Creating Financially Sustainable Tourism Certification Programs

The study has found that it is relatively easy to get donor money to fund the initial start-up costs of a certification program. Significant amount of donations can be attracted, especially for specific activities such as research, development of new standards or guidelines, and training. However few funding sources finance operational costs or provide sufficient long-term support to allow certification programs to build up the critical mass of product necessary for users' fees to be an effective and primary source of funding.

Most certification programs will need some kind of outside financial or in-kind support indefinitely, while others will take many years to become self-sufficient. In both cases, long-term financial partnerships are important. However, it is also evident that private donors do not wish to fund projects indefinitely – most donors only want to fund projects/organization in an initial start up period after which the donor expects that the project or organization will be able to “stand on its own” and be financially independent. Governments and public entities must be convinced that ensuring sustainability in business provides long-term benefit to all, and that they must establish permanent funding mechanisms for sustainable tourism certification.

Certification fees do not normally cover the expenditures related to the certification activities outside of the direct audit costs, so it is essential to get revenues from other sources that can subsidize other activities such as standard setting, training, and marketing. Certification programs need to become more entrepreneurial and diversify their income sources through alternatives to certification fees – associated training, training manuals, consultation, provision of technical advice, “gap analyses” through on-site audits, sales of products and technologies, etc. The alternative strategy of reducing costs of certification programs through compromising audit credibility is in the end self-defeating – for programs that do not give assurance and police a standard are subject to fraud and deception which tarnishes the reputation of the program such that it rapidly becomes unviable.

A key consideration in financial sustainability of sustainable tourism certification programs will be to provide significant benefits and incentives that make it more attractive for enterprises to join – delivering ‘value’ for fees, removing the barriers to entry, ensuring that businesses can't afford not to become certified. Sustainable tourism certification programs need to work to provide (through accurate monitoring and evaluation) more tangible benefits that encourage more tourism enterprises to actively engage with and reap the benefits of certification. These benefits should not be restricted simply to selling certification on the basis of better access to market (increased consumer demand), but must encompass the full gamut of potential incentives (not just financial incentives) from a range of intermediaries.

Clearly a central element of the financial sustainability is a predictable and stable flow of

revenue. The best way to ensure, at an early stage, the organization's financial health, is to set up an accurate and solid business plan that takes the organization through various development phases and potential sources of income, both from user-fees and other sources. This will need to be balanced by expenditure that balances financial costs of an audit program with credibility of the conformity assessment.

Chapter 1. Introduction

Most sustainable tourism certification programs began following the Rio Earth Summit in 1992, and at present there are 60-80 programs in operation in the world.¹ Very few of these programs have achieved economic equilibrium to the point where their activities can be sustained if short-term funding from donors is stopped. This study analyzes the existing situation in tourism certification programs, in environmental and social certification in other fields, and the historical trajectory of donor organizations. The objective is to propose a series of recommendations for a financial strategy, mechanisms for obtaining long-term partnerships with donors, and achieving financial stability – “sustainability” – through a mix of mechanisms to reduce costs and increase income.

At present, many governments and multilateral agencies in the Americas view sustainable tourism as an important tool for poverty alleviation and biodiversity conservation. Further, they view sustainable tourism certification as a useful policy tool for ensuring that their social, environmental, and economic goals for tourism development are met. However, despite the growing importance of both sustainable tourism and certification, virtually all ‘green’ certification programs in the Americas – and more generally around the world – have been underfinanced and lack financial mechanisms for growth and long-term survival. Linked to this, virtually all programs have also lacked adequate marketing budgets and strategies to ensure that they meet the needs of those they certify. This report reviews the problems and lessons learned from existing programs and outlines mechanisms for ensuring the long term financial viability of certification programs.

Chapter 2. Non-tourism certification programs

Analysis of the financial structure of leading “green” certification programs in a variety of sectors

Environmental and sociocultural certification in a number of industries – wood, coffee, appliances, etc. – has a much longer history than sustainable tourism certification and therefore it is important to look at some of the better known these programs for lessons that are relevant to tourism certification. We evaluated a number of successful, long-standing programs outside tourism with the perspective of determining those aspects that are applicable to sustainable tourism.

2.1 METHODOLOGY

In March 2006, representatives of seven “green” certification programs and one accreditation program were interviewed by telephone using a questionnaire, in order to learn more about how they are and were financed; how their fee structure works; what partnerships they have developed with other organizations; how they facilitate certification for small and medium enterprises (SMEs) and community-based businesses; financing constraints encountered; and recommendations for becoming financially sustainable.

¹ Although over 100 have been reported by the World Tourism Organization, some of these are no longer operating, while others are award programs, not true certification programs.

All of the programs examined are run as non-profits. Except for Imaflora (in Brazil), they all operate in the United States. They are:

- The Food Alliance – organic agriculture
- SmartWood – forest certification
- Imaflora – forest certification, operating in Brazil
- Transfair USA – fair trade products
- Green Seal – industrial products
- Energy Star – energy efficient appliances, homes, businesses
- Marine Stewardship Council – sustainable seafood accreditation organization

2.2 FINDINGS

2.2.1 Start-up Funding:

The most common and feasible way to get started is to obtain grants from private foundations, government donors and multi-lateral agencies. The Food Alliance, SmartWood, Imaflora, Transfair, MSC and Green Seal all started their programs with support from donor organizations such as: Ford Foundation, Kellogg Foundation, MacArthur Foundation, Alton Jones Foundation, Pew Foundation, Packard Foundation, World Wildlife Fund, Dutch, Austrian and Mexican governments, WWF, Oxfam-Netherlands, and USAID.

Energy Star (ES) used a very different model. It is entirely government funded through the U.S. EPA out of the climate change budget. It has demonstrated its financial value by establishing metrics to measure its impacts – i.e., to figure out how much energy and money is saved by using ES products and services. This is attractive to businesses as well as the government, and provides a strong argument for Congress to continue to support the program.

The Marine Stewardship Council (an accrediting organization rather than a certification program) was initiated by industry. Most of its start-up funding from the world's largest buyer of seafood, Unilever, in partnership with the World Wildlife Fund (WWF). Both organizations were concerned about dwindling supply of marine life and wanted to ensure the future of fish resources. In the early years and still today, it received/s significant funding from the Packard Foundation, in addition to 40-50 other corporate and private donors.

It is important to have a private sector market that is demanding certification services. Imaflora and MSC both had companies which helped out in initial phases. In MSC's case, Unilever actually invested in the development of MSC standards and early operation. Imaflora had a large paper and pulp company as one of their first clients, which helped tremendously.

2.2.2 Operational Funding:

Certification programs must eventually achieve financial stability or cease to operate. The amount of time required for stability varies, and depends partly on the degree of demand there is for certification. As many donor-funded projects last for 3-5 years, it may take two or even three project cycles to gain capacity to be financially stable. Stability does not necessarily signify self-sufficiency based on revenues from certification, as the majority of programs continue to receive other types of financial and in-kind support indefinitely and not all of their revenues come from

certification fees.

Imaflora's forest certification program became self-sufficient after only five years, and has even had a surplus in some years, allowing it to support its institutional parent. SmartWood, on the other hand, took 10 years to be self-supporting. Transfair USA is approaching sustainability through its fees, now needing only 25% of its funding from foundations. The other 75% comes from certification and licensing fees.

The Food Alliance, which started 13 years ago, is still dependent on grants for 60% of its revenue. Certification fees cover only 15% of revenue, with the remainder being generated through contract work and consulting fees. Several programs, including The Food Alliance (and the Mobil One-Five Star rating, in the tourism sector) have begun offering technical assistance and training specifically because they need to generate additional revenue – i.e. certification fees were not sufficient in themselves to pay for the costs of running the program.

SmartWood, on the other hand, prefers not to offer consulting or technical assistance because it diverts them from their focus and generates a perception issue. In the rare occasion when they do consult (1-2% of their revenue) to companies, they will not audit them, as it could appear to be a conflict of interest. Instead, SmartWood would rather spend its time and energy broadening certification program (e.g. to begin to conduct external audits of governments forestry programs).

SmartWood and Imaflora have taken out program-related investment loans offered by the Ford and McArthur Foundations. These loans offer low interest fees and extended payment terms, which make them attractive. SmartWood felt comfortable taking out the loan, used for general operating fees, because it saw the forest certification was taking off. The fact that for-profit companies were engaging it provided a positive sign of its potential for financial success.

Green Seal has relied in large part on government grants and contracts for specific projects such as developing standards for new products or services, establishing environmental purchasing plans, developing manuals and guidance for green building operation and maintenance and for evaluating products. In addition, they produced newsletters and reports on green practices and sold subscriptions to governments and industry.

MSC is also heavily reliant on foundation support for its operation. 50-60% of its revenue comes from foundations, with only 5-10% from the fees it charges companies for use licensed use of the MSC logo and certifier fees. Another 10% comes from individual contributions, most often at fundraising events (in 2004, there was a large fundraiser in London which generated \$100,000 and there have been smaller ones in the U.S.), and the rest (20-35%) is from corporate grants from retailers, often tied to specific projects.

MSC tries to raise money through its website, where it has an Internet-based fundraising campaign, entitled *Sea into the Future*, directed at consumers. The site encourages people to donate to MSC, individually or through corporate giving; buy an apron; or purchase books through Amazon.com using their link which generates revenue for MSC. This source of funding has been minimal.

Finally, MSC receives financial support from WWF for marketing the program to businesses. In fact, WWF has a small outreach office in Palo Alto, California, near the headquarters of Whole Foods, Inc. where it works with Whole Foods to promote MSC certified products.

2.2.3 Fees

The Food Alliance charges one fee to the farmers it certifies, based on gross sales. They found that charging separate fees to apply, be inspected and for an annual assessment was too complicated. However, they do have two different fees for processors, who pay an inspection fee as well as an annual assessment. This is because it can be difficult to predict the inspection costs, which are outsourced, because some processors have multiple facilities.

In the Fair Trade movement, the certifiers, e.g. Transfair USA, charge coffee roasters, importers, distributors for certification, and also charge a licensing fee for them to use the label. The fee is based on amount of purchases (per lb).

Green Seal bases its fees on the sales revenue of a company, but not of the product being certified. This is because, as the independent auditor, it does not want to benefit from sales of the product itself. There are two fees that businesses pay for certification of their products and both are tiered: an evaluation fee paid at the beginning for evaluating the product/service, and an ongoing monitoring fee, paid annually on the anniversary of certification. The second fee gives the company license to use the certification logo.

The fee structure used by the MSC is illustrative and may be of value for sustainable tourism certification because in both cases the resource that we are seeking to protect is a common one – for the MSC it is the fisheries of the world, and for tourism it is the integrity of destinations (each one with its own characteristics). MSC certifiers certify entire fisheries and charge two fees – a pre-assessment and then a full assessment, based on size. These costs are shared by the companies using the resource. The certification is good for five years but there is an annual audit fee of 10-20% of the original assessment. In addition, individual companies must also seek chain of custody certification if they want to be a certified company. It is good for three years and requires an annual audit.

While these fees go to the certifying body, MSC generates revenue in two ways. It receives \$1000/year from accredited certifiers as well as a license fee for use of the logo by chain of custody certified companies. The fee is divided into two: a license fee of \$250-2000/year, and a volume royalty – 0.1% of sales/year. The reason for the two is that they want to encourage the use of logo to create awareness but many companies do not want to pay. They've overcome this problem by charging the volume royalty only on consumer-facing products. That is, the 0.1% charge is applied just to those seafood items which consumers buy directly, not the ones that go to wholesaler or processor.

2.2.4 Partnerships

The marketing of certification programs and certified products can be costly and is often insufficiently considered by those developing new programs. The revenue generated by fees and offering technical assistance and consulting services is often not enough to also cover promotion

and marketing. Therefore, it makes sense to get others – government, retailers, distributors, non-profit organizations, etc. – to help with the marketing. Some examples of partnerships which develop markets are the following:

Many of the certification programs – e.g. Fair Trade, SmartWood, Rainforest Alliance organic bananas, coffee, chocolate, etc. – work closely with non-profit organizations, in marketing their programs and their labels. This is very important because the values of “green” certification are not widely and the market for certified products is still relatively small, especially in sustainable tourism. Examples include promotional campaigns through WWF or other environmental NGOs, as well as joining alliances for special events. MSC participates in Monterey Bay Aquarium’s annual “Cooking for Solutions Day,” promoting labeled products and educating consumers about fisheries issues.

The MSC has a range of other NGO supporters – including NRDC, Sierra Club Canada, Fundación Natura and Consumers’ Choice Council – as well collaborators. The *Seafood Choices Alliance*, an organization that connects conservation NGOs and professionals from the seafood industry, co-sponsors fundraisers and participates in public events. MSC has also worked with organizers of conferences held by conservation organizations or sustainable business leaders to supply certified seafood that was not otherwise available at the meeting site. This serves as a statement of commitment to sustainable fishing for the conference organizers as well as public relations for MSC.

At the same time, nearly all of the programs also depend on industry partners to help market certified products and to raise awareness about the certification label or brand. For the SmartWood and Fair Trade programs, the retail market – e.g. hardware stores, distributors, etc. – supports the producer market by doing marketing and paying costs of certification. For MSC, the key influences in the distribution chain are their retailers, stores and restaurants. They have engaged businesses – such as Unilever, Whole Foods, Legal Sea Foods, Xanterra Parks and Resorts, Shaws Supermarkets, Trader Joe’s, Whole Foods and Sainsbury’s (U.K.), and tour operators such as Lindblad Expeditions and Royal Caribbean Cruises – who sell MSC certified products to promote the MSC label directly to consumers as well as to their suppliers. In tourism, tour operators could subsidize tourism businesses, including SMEs.

Some of the buyers and sellers of certified products have gone even further than just promotion. Large companies such as Home Depot, Whole Foods and Unilever, have made public declarations that the products they sell will all be certified as sustainable within a given period of time. And, some of these companies are investing money into this commitment. Unilever’s investment in MSC is an obvious example. In addition, Whole Foods had funded an MSC staff person for three years to recruit to fisheries in North and South America for certification in order to increase the supply and diversity of product for it to sell.

Energy Star devotes 60% of its marketing budget towards working with retailers such as Home Depot, Sears, Sony and many others. It helps them build their brands, as well as the ES name, in stores. Retailers associate themselves with a program that has a good image in the public’s eye. The retailers commit to advertising ES in their outlets and they receive promotional materials which refer to ES and use ES messages. In return, the retailers receive recognition from EPA

through ES case studies, on the ES website, etc.

Green Seal has had limited success in co-marketing because it has not had the budget to devote to this, but it has benefited tremendously from a paper company which has promoted Green Seal in the media and has given out Green Seal brochures at large festivals. The Marine Stewardship Council (MSC) actively recruits large seafood buyers, first to commit to buying (and selling) sustainable seafood and then to issue public statements to announce their dedication to sustainable fisheries.

The Food Alliance (TFA) subsidizes its marketing through its foundation grants. In addition, it receives financial support beyond the normal certification fees from companies by asking them to sponsor events such as their annual dinner. In 2005, they raised \$40,000 in sponsorship. Donors included some that are not certified by TFA but who want publicity at the event. TFA also gains marketing value from the distributors – i.e., restaurants and food services – who have committed to using TFA products. These distributors use the TFA specification when taking with other vendors, thus spreading the word.

Non-monetary program support may also come from governments and financial institutions. In some countries, certified forests receive privileges from the government, resulting in lower costs. For instance, in Bolivia certified forests do not need to pay for governmental monitoring if they are FSC certified. The government uses information from SmartWood audits and only does its own monitoring if more information is needed.

Financial institutions (banks and other agencies) are now taking advantage of certification programs to determine social and environmental risks of providing loans to companies in the agriculture and forestry sector. For instance, Banco Real in Brazil, which is part of ABN AMRO, the largest Dutch bank, uses the FSC standard in their credit analysis for large and medium size forest enterprises in the Amazon. The company needs to be certified or to be in process to be eligible for credit.

Finally, Transfair USA gets in-kind donations for legal counsel and from public relations firms. The companies provide in pro-bono services regularly and like TF because it is an international, intellectually-rich program.

2.2.5 Financing Constraints

Lack of sufficient financing can impede the ability of certification programs to grow. FairTrade USA, SmartWood and Imaflora have all experienced this bottleneck. Imaflora, however, has been lucky enough to be part of an organization which has a lot of donor backing, and the donors allow the certification program to borrow from institutional funding in order to grow. This means that the program may occasionally function at a loss, as many businesses do, but that the investment will pay off in the end. They feel lucky that they are able to expand by using this funding mechanism from their donors.

The Food Alliance also lacks capital to expand and to be able to reach the point where it can depend on consulting services and fees to fulfill its financial needs. They have calculated that they need \$1.8 million in the next five years to be able to expand sufficiently to reach

sustainability. This money will have to come from foundations or from the federal government.

Imaflora is sometimes constrained by fluctuating or unfavorable exchange rates between Brazil and companies importing their wood and agricultural products.

Green Seal had felt insufficiently funded because they did not realize how costly it is to develop standards. Good science is needed, as well as the involvement of many stakeholders. As an organization which certifies a wide range of products, the cost of standards development is a critical concern. Green Seal has also felt constrained by opposition from industry.

The MSC fights for credibility among environmental organizations and others who want to see an even higher bar, or proof of sustainability, than the one currently being used. They realize that certification is a relatively young field and it's difficult to think through and answer ever eventuality that might occur. They have concluded that they need quality insurance of all of their independent, third-party certifiers, and are working with them to make sure the standards are consistent and are applied consistently by all. They spend on third of their budget this and other policy issues. The rest of their budget is spent on outreach to the industry and communications to the media and general public.

2.2.6 Incentives or Assistance Provided to Small and Medium-sized Enterprises (SMEs) and Community-based Businesses

SMEs and community-based organizations may need three types of assistance:

- Training or orientation to ensure that they understand the standard
- Consulting assistance to meet standards
- A good marketing strategy.

And, they have three types of costs:

- Auditing – the fixed cost of getting certified.
- Meeting the standards – i.e. making the changes necessary
- Making certification work through marketing and sales.

If SMEs have a business plan and a sustainability strategy, loans or grants become an option, especially because donors like to support small businesses to alleviate poverty and are looking to fund ones that take environmental and social responsibility seriously. Green certification, by its nature, addresses these concerns.

Grouping small operations together, as the SmartWood, Imaflora and Fair Trade programs do, helps a lot. With group certification, there is a manager who organizes the group and works with each member to ensure that certification standards are met. The certifier then audits only a sample of the businesses. The auditing and marketing costs are shared by many, reducing the individual cost of the members. This system could work with tourism also.

Many certification programs (TFA, Green Seal, MSC certifiers, etc.) have a sliding scale of certification fees, based on the amount of revenue a business or community generates. FSC uses a carrot approach, reducing costs for small landowners if they participate in a management plan administered by an FSC accredited forester. These reductions makes the auditing costs more

accessible to small businesses, but do not cover costs related to meeting the standards, nor marketing costs.

While Green Seal cannot subsidize small businesses, it provides product certification at cost. In addition, when they give conferences and seminars they make extra efforts to include small businesses.

Imaflora has developed a strategy in which funding to pay for the auditing and monitoring costs for forest and agricultural certification comes from two sources:

- Donors (USAID and EU) provide Imaflora with money to pay the salary (and a few other costs, such as airfare) of one staff member to work with communities.
- A social certification fund – each of the company clients (businesses certified) are charged an extra 5% above cost, and this money is put into the fund. The fund is 10 years old and receives no complaints.

They have a rule which says that funding from outside will pay up to 40% of the cost of service. Small businesses and communities actually pay less than 60% of cost, because they are not paying the cost of Imaflora staff. However, there is no mechanism for covering the membership costs of belonging to SmartWood or FSC. While the fees are graded according to revenue, they must be paid by small businesses.

Energy Star does not offer financial incentives for small businesses (product certification does not cost money, though there is an external paid audit for homes), but there is a specific program targeted to small businesses that includes provision of marketing materials, education, special awards and establishing buying groups.

2.2.7 Constraints for financing SMEs and community businesses

The Food Alliance is seeing a shrinking number of small farms becoming certified. Apparently, the small producers do not see value in it as they are direct marketer and have personal relationships with the restaurants and farmers markets that they supply. This relationship of trust precludes the need for third-party relationship.

Imaflora is concerned that when the small community certifications run out after five years, that the businesses will not have the funds to commit to recertification. The businesses need to turn a profit that is directly linked to their being certified, or they will not have the incentive or resources to pay. Money from the social certification fund, which helped them during their first certification, may not be available as it is being directed to new small businesses.

2.2.8 Funding for Accreditation Organizations

Fair Trade Labeling International (FLO) has three sources of revenue, two of which are fees:

- members – i.e. the 21 certification organizations. Also called national initiatives, they all use the FLO centralized standard center and inspection process.
- donations
- fees – producers pay for the cost of certification. They often do it through coops so the fee/producer is low. The fee is based on the volume sold under FairTrade conditions.

According to the feasibility study for a Sustainable Tourism Stewardship Council (STSC)², the FLO adds a VAT or small surcharge to the retail price of its certified products. Essentially, the VAT is a license fee linked to usage of the Fair Trade logo.

The MSC generates revenue as described above. Its fees are structured in an interesting way which could serve as a model for the Sustainable Tourism Stewardship Council (STSC). To support sustainable tourism certification, local or national governments and businesses involved in offering tourism services (including airlines) could pay a fee to a local certifying body in order to ensure that tourism development in the region is sustainable. Individual businesses would also pay to have their operations certified. Some of the revenue received by the certifying bodies (probably a flat fee for all) would go the STSC. In addition, the STSC could require certified businesses to pay a small fee directly to STSC based on the number of tourists that use a business displaying the certification label.

Accreditation organizations should also consider hiring full or part-time fund-raisers who would seek grants and put on fund-raising events. While there's a distinct cost for this, the pay off can be large, both financially as well as raising media and public awareness about certification.

2.3 LESSONS LEARNED

The financial viability and long-term sustainability of “green” certification programs depends on effective business planning. Programs must behave as strong businesses do, creating and following detailed budgets which consider all manner of expenses and income and which address short, medium and long-term needs and program developments.

Most of the “green” certification programs examined received the majority of their start-up funding from outside donors. These funders include private foundations, governmental sources and multilateral or bilateral development agencies and, less commonly, non-profit organizations. Support was provided primarily because of the donor's particular interest in the resource being certified or the threats posed by unsustainable production or use.

When governments are truly committed to the goals and outcomes of certification, as in the case illustrated by Energy Star, their continued financial and institutional contribution can ensure program success.

In order to generate support for new certification programs, demand from the private sector must be demonstrated. Engaging commitment from large industry players who are ready to go through the certification process can make a big difference, especially when getting a program off the ground. However, if industry members are to finance certification programs, as in the case of the MSC, it is essential that it partner on an equal basis with NGOs and others to avoid conflict of interest concerns.

Operational funding for most programs analyzed comes from a mix of donor support, loans and

² 2003, Rainforest Alliance. “Sustainable Tourism Stewardship Council: Raising the Standards and Benefits of Sustainable Tourism and Ecotourism Certification.”

generated revenue. When loans have been sought, “green” certification programs have applied for specific program-related investment loans (provided by the Ford and McArthur Foundations) which offer low interest fees and extended payment terms. Over time, the relative percentages of each should shift such that all or a large majority of a program’s income is generated through fees for products and services.

The length of time required for a program to become self-sufficient varies tremendously depending on the structure of the program itself as well as institutional factors (e.g. whether a program stands alone or whether it is one activity within a larger organization). Because most donor-funded projects last 3-5 years and it is difficult to reach self-sufficiency in such a short time, certification programs need to prepare themselves to be able to justify requests for operational funding, something which donors are often hesitant to provide. One suggested method is to measure and maintain clear records of program impacts. Such accounting can be an important tool for promoting certification to existing and potential funders, as well as to the general public, industry and NGOs. Among the indicators to be measured, one of the most sought-after is the economic value of certification.

Many certification programs have found that they need to supplement their income streams beyond the more routine charges of certification, membership, or licensing fees (for use of the brand or logo). They sell products and services to businesses and outside parties. These include: consulting and technical assistance, training, contracts with governments or others, products such as standards, technical manuals and guidebooks. Certification programs that use in-house assessors must be careful about providing technical assistance to businesses that they will certify. To avoid conflicts of interest, auditors and consultants must be separated – i.e. should come from independent institutions.

It may make sense to collect revenue from all of the links in the supply chain. The costs of certification and the marketing of the label/logo can be subsidized by taxing every member of the chain who uses the logo/label, generating revenue and promoting the certification program each time the seal is used. Both FairTrade and MSC benefit from this. The challenge is determining the optimum price. TFA tried to charge a fee to retailers selling certified products, but it did not work because these retailers are used to their vendors providing them with free marketing materials, not charging for them. The MSC, on the other hand, is able to exact payment from its buyers because its program is aimed at them, while TFA’s is more consumer-oriented.

In addition, once a program has achieved a critical level of recognition and demonstrated success, it is possible to raise operating funds from individuals and businesses. Fund-raising events have proved popular and lucrative for some programs such as the MSC. Generally, promotional and income-generating activities geared towards the public are most effective when conducted in partnership with other well-known organizations.

Fee structures for certification services vary from program to program, but most have a sliding scale so that smaller businesses pay less than larger ones. Gross sales, company revenue (vs. revenue only from the certified product) and volume of product sold are all measures used for determining certification costs. The types of fees charged businesses becoming certified include application fees, annual membership, reassessment or monitoring fees, pre-assessment fees, and

certification fees. In addition, some programs charge licensing fees for use of the logo either by the producer or the distributor/processor. It is most equitable for the licensing fee to be charged to the entity that gains value from the brand, i.e., the one that markets the product using the logo or label. E.g. small coffee producers do not sell their products under their own label because their beans are mixed with those of other coop members or small producers, so they do not pay a licensing fee.

In addition to charging individual companies for chain of custody certification, the MSC also charges a fee for certification of the resource (i.e., the fishery), paid by the fishing companies using it. Because the resource is a common one – available to all without charge, but also requiring stewardship by all – the common fee makes sense. Many tourism resources, including scenic attractiveness of a destination, are also common, and could be similarly treated. Tourism certification programs which address destinations (such as Green Globe 21) might consider using this model.

The marketing of certified products and services is a necessary but often under-budgeted task. Many “green” certification programs have become savvy in developing effective partnerships with non-profit advocacy organizations as well as certified businesses and trade associations in order to promote their programs and products. While more information on marketing is provided in other project reports, it is imperative that financial strategies consider costs and budgets for marketing. At the same time, partnerships may also be used for fund-raising, as in the examples of the Food Alliance and MSC which organize fund-raising events in partnership with NGOs and businesses.

Marketing certification and certified products across industry sectors is also effective, providing financial payoffs to all involved in “green” business. Organic foods, Fair Trade coffees, teas, chocolate and other products, sustainable seafood, certified wood, energy-efficient buildings and appliances and other certified products are all relevant to the sustainable tourism industry as well as to responsible consumers. This suggests that cross-marketing of these products and services could be advantageous.

The program that spends the most on marketing, Energy Star, uses 60% of its budget on working with retailers, especially the large, well-known ones. This strategy has proved extremely effective, such that the large majority of American consumers know of the program. On the other hand, programs that have not dedicated financial resources to marketing (e.g., Green Seal) have had minimal uptake and struggle to pay their bills or to expand appropriately. It is imperative that certification programs (as well as SMEs) raise funds from donors, governments, NGOs or industry players, or that they obtain in-kind support from these entities in order to develop and implement marketing programs.

Non-marketing partnerships can also have value for certification programs. These include seeking government incentives for businesses with certified products, as well as establishing linkages between financial institutions and certification programs.

One of the main constraints experienced by the more established “green” certification programs is that their limited budgets have prevented them from growing within their existing markets or

expanding into new markets. Even once a program is up and running, sufficient funding is required for program development and outreach. Many of these programs are not accustomed or able to apply for loans, such as other businesses do, but need to seek out low-cost credit options.

Another necessary item often not budgeted for by certification programs, is promotion of policies to favor certification. These may be internal, such as developing systems to assure credibility of operations, or external. The establishment of processes and standards in which the auditing role is carried out by capable, independent third-party assessors; advocating for government incentives or reforms which take certification into account; and repositioning industry standards towards sustainable practices are all examples of how policy changes can improve the climate for certification.

Many of the “green” certification programs examined provide support to SMEs (and community and indigenous businesses) to encourage their participation. Among the strategies used to remove or reduce cost barriers for small businesses are: providing free or low cost orientation and training workshops; giving technical assistance; providing free materials and promotion; offering reduced fees (using a sliding scale); offering a range of certification levels so that simpler, smaller operations can at least achieve basic certification; obtaining funds for small business certification from donors interested in poverty alleviation issues; and creating funding mechanisms to assist SMEs with certification costs. Regarding the latter, Imaflora has established a special certification fund to cover auditing and monitoring costs of community-based and indigenous forestry operations which comes from a 5% surcharge on certified business clients. An additional and very effective means of encouraging small producers to seek certification has been to assemble cooperatives of small businesses, dedicating resources and staff to develop processes and practices common to all so that group certification can be obtained, thereby reducing costs for each individual business.

One of the constraints observed by the interviewees is that some certified businesses, especially small ones, may be reluctant to keep up their certification once it has been granted and expired. The main reason for this is lack of financial support and other assistance. In addition, some small and even larger suppliers have developed strong personal, almost-exclusive relationships with buyers and do not feel a market need to display the certification label.

While not the main focus of this study, two accreditation organizations were interviewed, offering lessons for the STSC. In both cases, a small percentage of the revenue from sale of certified products goes to the accreditation organization. In the case of Fair Trade, it is a value-added tax, while for sustainable seafood it is a royalty on sales. In addition, they charge accredited certification programs an annual membership fee. However, in both cases these accreditation agencies are still dependent on donor funding. A dedicated revenue stream – an endowment or funding from ongoing taxation schemes – is necessary.

Chapter 3. Tourism certification programs

Analysis of the financial structure of leading quality and sustainable tourism certification programs

Existing sustainable and quality tourism certification programs around the world have much experience to offer regarding the challenges to financial sustainability. Of the 33 programs examined, none are entirely self-sufficient. They received start-up funding and operational support from a wide range of multilateral, government and private sector sources, and continue to function through a combination of these sources and a range of user fees. No program studied is financially self-sufficient, based on user fees for certification alone. Once in operation, ordinary operating income (certification fees, license fees, audit charges, sales of documents, training, etc.) covered anywhere from 0% (CST) to 75% (Green Globe) of operating costs. The remainder is covered by long-term associations with other entities or short-term donations.

The programs that are most financially successful are based within organizations, sharing costs, or receive continual support from government and business sponsors. On-site auditing is one of the most costly aspects of certification (both for the program as well as businesses) and is either farmed out to outside auditors, or eliminated (a self audit is done instead, lowering the credibility of the label or certification logo).

Partnerships with academic institutions and government agencies have proved valuable in development and revision of standards, training, technical assistance, auditing, monitoring and policy development have proved valuable. Businesses and non-profit organizations have a large role to play in marketing tourism certification, something that is consistently underfunded and insufficient. Marketing is most successful when targeted at travel and tourism intermediaries, including tour operators, travel agents, trade associations, as well as governments who promote certified businesses in their international tourism promotion campaigns as well as offering incentives to such businesses.

One of the main challenges that tourism certification programs face is low re-certification rates. Many businesses do not renew their certification once they have achieved it because of the expense (especially for auditing), low marketing value, insignificant cost savings once initial environmental efficiency measures have been put into place, and a decrease in the environmental learning curve (i.e. they've learned what they needed to become sustainable). This poses a problem both for the financial stability of certification programs as well as for being able to a critical mass of certified businesses to attract consumers and other supporters. They must work to increase the number and variety of incentives which could be offered by governments, financial institutions, other businesses and certification programs in other sectors. These include: government tax credits, preferred access to tourism resources, discounts on tourism products and services, increased marketing, improved credit from banks, and interest from socially responsible investors.

3.1 METHODOLOGY

In March and April 2006, representatives of 33 tourism certification programs working in the United States, Latin America, Europe, Asia-Pacific and Africa were interviewed by telephone using a questionnaire, to learn more about how they are and were financed, how their fee structure works, what partnerships they have developed with other organizations, how they facilitate certification for small and medium enterprises (SMEs) and community-based businesses, financing constraints encountered and recommendations for becoming financially sustainable.

The programs examined were:

- AAA Five Diamond Ratings (non-profit) – USA
- Austrian Ecolabel for Tourism Services (government) – Austria
- Blue Flag (non-profit) – Europe and beyond/international
- Blue Swallow (for profit) – Denmark, Germany, Austria, Switzerland, Italy, France and Madeira
- Camping and Caravan Industry Association of NSW Gum Nuts Program (non-profit) – New South Wales, Australia
- Certification in Sustainable Tourism Program (non-profit) – Brazil
- Certification for the Tourism Sustainability of Peru (non-profit) – Peru
- CST – Certification for Sustainable Tourism, run by the government’s ministry of tourism, ICT – Costa Rica
- Eco-Award – Namibia
- EcoCamping (non-profit) – Germany
- EcoCertification (formerly NEAP) (non-profit) – Australia
- Ecolabel Luxembourg (non-profit) – Luxembourg
- EcoRating Scheme – Kenya
- El Distintivo – Marca de Calidad Ambiental de Cataluña (government) – Catalonia, Spain
- Fair Trade in Tourism South Africa (FTTSA) (non-profit) – South Africa
- Forum Anders Reisen (for profit) – Germany
- Green Certificate (non-profit) – Latvia
- Green Deal (non-profit) – Guatemala
- Green Globe 21 (for profit) – Africa
- Green Globe 21 (for profit) – Asia Pacific and global
- Green Globe 21 (for profit) and Blue Flag (non-profit) – Caribbean
- Green Globe 21 (for profit) – Chile
- Green Hotels of the Green Mountain State (non-profit) – Vermont, USA
- Heritage Environmental Rating Scheme – South Africa
- Mobil One-Five Star Rating (for profit) – USA
- Nature’s Best (non-profit) – Sweden
- New Hampshire Lodging & Restaurant Association’s Sustainable Lodging Program (non-profit) – New Hampshire, USA
- Program for Quality in Sustainable Rural Tourism (non-profit) – Uruguay
- Respect Our Culture (ROC) (non-profit) – Australia

- SmartVoyager (non-profit) – Ecuador
- Steinbock (for profit) – Switzerland
- Sustainable Travel International’s (STI) Sustainable Tourism EcoCertification Program™ (STEP) (non-profit) – USA
- Viabono (non-profit/for-profit) – Germany

3.2 FINDINGS

3.2.1 Start-up Funding

Start-up funding for tourism certification programs comes from a variety of sources, using a variety of models. In many cases, tourism certification programs are only one part of a larger organization’s work, and start-up funding has been provided by the organization itself. This is true for the Mobil One-Five Star Rating system, AAA Diamond Ratings, Gum Nuts, STEP and Green Globe 21.

Many of the programs in Latin America and Africa received grant money from international organizations to get started. These include SmartVoyager in Ecuador, which got most of its funding from the World Bank; Green Deal, with funding from USAID and the English organization DFID; Green Globe 21 in the Caribbean with support from USAID; the Brazilian program with finances from the IDB and the EU; EcoAward (Namibia) and, in part, FTTSA. Other programs in Africa – such as EcoRating Scheme (Kenya) and Heritage Environmental Rating (South Africa) and, in part, FTTSA – also received grants or donations, but from private foundations. See Appendix 1: Funding sources for selected sustainable tourism certification programs for more detail.

In Europe, a good deal of start-up funding has come from national governments. Ecolabel Luxembourg’s initial funding totaled 347,000€ from the Ministries for Tourism, for Environment, and for Energy. The Swedish Nature’s Best certification program received 50% from national government agencies (agriculture, regional development agencies, etc.) and 50% from the European Union for its start-up in the late 1990s. The Swiss Steinbock label, known as OE-Plus, was started in 1993 with initial funding for development of criteria, verification and testing from the Swiss Government (the program for regional development in less developed regions) and support from Bund Switzerland, an environmental NGO. It also received support from a variety of consulting companies. El Distintivo, the official Catalanian ecolabel for industrial products since 1994 and for tourism services since 1998, was developed in a partnership between the regional government, industry, and environmental organizations. All of the start-up funding was covered by the Autonomous Government of Catalonia.

On the other hand, some European programs have been privately funded. The Blue Swallow label, operating in Denmark, Germany, Austria, Switzerland, Italy, France and Madeira, is a low-budget initiative. It was started in 1990 by Manfred Reuther, the publisher of the *Verträglich Reisen* magazine, issued annually to 250,000 German-speaking consumers and focused on “compatible” journeys. Certified businesses are listed in the magazine. The program was developed and operated with no external sources of funding, with 15-20 criteria and a self-audit. Verification is done informally via visitor feedback. As of 2006, there is a new owner; and

businesses are charged 300 € to be publicized in the Blue Swallow section of the magazine and on their website. If an on-site audit were to be conducted, it would cost ca. 500€ which is more than most businesses would pay.

In Africa, most of the certification schemes studied obtained all of their start-up funding in the form of a donation, grant or private funding from either a development agency or private foundation. Fair Trade in Tourism South Africa (FTTSA) was more complex, sourcing the majority of its grant funding from a development agency (70%) but also considerable in-kind contributions from the private sector (24%) and an NGO (6%) (see Table 1).

Certification scheme	Type of funding	Source
EcoAward, Namibia	100% donation	Development agency
EcoRating Scheme, Kenya	100% grant	Private foundation
Fair Trade in Tourism South Africa	70% grant 30% in-kind	- Development agency – Private sector (24%) and NGO (5%)
Heritage Environmental Rating Scheme	100% private funding	Not specified

Source: Spenceley, 2006

Some of the constraints to obtaining start-up funding are common to many of the programs (especially the smaller and newer ones) described above. They are:

- an inability to guarantee future financial sustainability;
- lack of a track record;
- lack of understanding of the need for a certification scheme;
- lack of market research / knowledge of demand;
- lack of confidence in market acceptance of certification;
- lack of personal relationships with potential donors; and
- the need to develop a coherent funding strategy.³

3.2.2 Case studies of start-up financing

The **Mobil** program was initiated and funded by its industry parent, the Exxon-Mobil Corporation in 1958, to encourage road travel and enhance motorists' travel experience in the United States. Likewise, the AAA Five-Diamond rating system, established in 1977, was developed and is supported by the non-profit American Automobile Association, which offers its members a wide range of services in addition to quality ratings for lodging and restaurants.

Green Globe began in 1994 as a program of an industry association, the World Travel and Tourism Council (WTTC). In 1999, it was radically re-structured and was bought by members of the WTTC. It has subsequently been re-structured again as Green globe 21 (GG21) and CRC for

³ Spenceley, Anna, 2006. "Financing Tourism Certification in Africa." Report to The International Ecotourism Society, www.anna.spenceley.co.uk/Papers.htm.

Sustainable Tourism, an Australian consortium of universities and research centers funded by the government as well as the universities themselves, now owns a 51% holding. The Australia-based company, called Green Globe Asia-Pacific (GGAP), is now the international holder of GG21 standards. It is estimated that the CRC has put in approximately US\$1.5 million into the development of the Green Globe program and associated services. One of these services is the monitoring and benchmarking of environmental performance required for certification, done through EarthCheck, a commercial entity of the CRC. Green Globe 21 is beginning to operate in South America and Africa. It is financed through the corporation's own funds as well as co-financing. In Chile, the government does not offer subsidies, nor does it receive international aid; rather it serves in a coordination role, responding to market demands.

Green Globe's **International Ecotourism Standard (IES)** was initially funded through a grant from the CRC of US\$74,000 to Ecotourism Australia (fed through a Brisbane University as CRC tourism funds have to be distributed to University partners) to redevelop the NEAP program for the international market. This grant funded the travel and workshops for a team of experts, but did not pay for expert's time. GG-Asia Pacific put in considerable in kind travel, review, and expertise into the standard, and had to fund additional materials necessary for the roll out of the standard (i.e. training PowerPoint for Assessors, Users Guide, exam etc) so the true cost of development of the IES is estimated by Cathy Parsons to be around US\$150,000.

In Costa Rica, the **Certification for Sustainable Tourism (CST)** was set up under the Costa Rican tourist board (ICT). It received and continues to get most of its funding from the government, which provided human, financial resources and international access through marketing and consulting support. They also received a small amount of help from international donors, such as the Spanish government (\$50,000), USAID through the PROARCA/CAPAS program and the Interamerican Development Bank (IDB), as well as involving the private sector (chambers of commerce, hotel associations, NGOs, general public) in non-financial ways. INCAE, a private Costa Rican university devoted to business and economics training, has provided much technical support. This structure has its advantages as well as disadvantages (see below).

PCTS was developed by Hospitality Institute (IH), a non-profit training institute for the tourist industry, in collaboration with ABNT, the Brazilian national standardization body (affiliated with ISO). The standard for PCTS is Brazilian national standard NIH-54. No businesses have been certified to date, but training workshops are underway. Start-up funding for development of the standard was from the Interamerican Development Bank (IDB)'s Multilateral Investment Fund (MIF), and this financed both the development of the standard and the preliminary training of businesses seeking certification. The total project funding was \$3,350,000, of which \$1,675,000 was provided by MIF. As of mid-2006, 80 companies are actively participating in the implementation phase and about 450 accommodations and nearly 300 agencies registered as interested in PCTS.

Respecting Our Culture (ROC) is an Australian program that certifies indigenous and non-indigenous tourism businesses with an indigenous component that adhere to national industry standards for sustainability and meet cultural protocols that protect cultural integrity and authenticity. It was a program developed by Aboriginal Tourism Australia (ATA), a non-profit

NGO that represents Aboriginal Tourism, with considerable support from ATSIC (Australian & Torres Strait Islander Commission – a government funded body that is now defunct – being replaced with Indigenous Business Australia (IBA) and the Indigenous Land Corporation. Both these bodies put in grants of US\$115,000 (i.e. a total of \$230,000) as start-up funding for the development of this program, with additional small grants (US\$4-8,000) from a number of other partners (private foundations, regional tourist bodies and Industry) in the consultation phase. These included Qantas Airways, South Australian Tourist Commission, Tourism Victoria, Victor Smorgon Foundation, Foundation for Rural and Regional Renewal, Cato Purnell Partners, Rio Tinto and the Departments of Education Science and Training (DEST) and Employment and Workplace Relations (DEWR). Consultancy teams – Wine Food Tourism (tourism business certification experts) and Seven Sisters Dreaming (indigenous tourism experts) wrote and produced the standard with an overseeing ROC Reference group, which was then taken out to consultation with various indigenous groups around the country. It is estimated that ATA put in an additional amount of US\$115,000 of in-kind support (staff wages, office expenses, travel, production costs, etc.).

The **NEAP/EcoCertification** program certifies nature and ecotourism products (i.e. not the operating entity) in tour, attraction or accommodation sectors in Australia. It was originally developed as NEAP by the Ecotourism Association of Australia (EAA) a non-profit NGO that represents the ecotourism industry and a range of stakeholders (i.e. protected area managers, local government councils, academic institutions, conservation groups, and consumers) in conjunction with a mainstream tourism body, Australian Tour Operators Network (ATON). It has undergone two revisions – NEAP II and NEAP III. NEAP III has been re-branded as EcoCertification. Funding was in the form of a grant of US\$30,000 from the Commonwealth Government – but the team of experts (ca. 13 people) that worked on the program charged no professional fees. Only travel and associated expenses for workshops were met. It is estimated that ATON, the Commonwealth, EAA and TCA (another mainstream industry body that actually held and distributed the grant) put an additional in-kind support of approximately US\$137,000 (the majority being expert's time). The redevelopment of NEAP I to NEAP II through its on-going commitment to continual improvement was also mainly supported by EAA and ATON experts donating their time, in-kind support from the organizations, and a grant of US\$15,000 from Tourism Queensland (TQ), a government funded State Tourism body responsible for marketing and promoting tourism in the region. This money was tied to the use of a TQ employee and the NEAP management Chair to travel around Australia and attempt to engage Protected Area managers more fully in the certification debate (as well as trying, unsuccessfully, to persuade them to provide sponsorship for the program). After NEAP II was developed, ATON decided to step back from active involvement in certification/accreditation issues and the EA became sole owner of the NEAP standard in May 2001.

The New Hampshire Lodging & Restaurant Association's one-year old **Sustainable Lodging Program** uses a unique form of funding: it is run on grants from the four power utilities in New Hampshire (the largest of which, Public Services of NH, covers 75% of the state). There is a surcharge on customer bills which funds a number of things including rebates for businesses and environmental programs. At present, \$13,000 per year is currently allotted to the certification program. While it is a small budget, the one part-time staff person is committed to the cause. While volunteerism is laudable, it is probably not a sustainable strategy for financing a

certification program. With only 4 currently certified businesses and 16 others in the process, the increased amount of work needed to maintain this program may become an issue.

The **Green Hotels of the Green Mountain State** program has a very small budget which comes indirectly from EPA Pollution Protection money provided to the states. The State gave the Vermont Small Business Development Center, a non-profit, non-governmental organization, a small part of this funding (less than \$10,000) to implement the hotels program. Fifty hotels are certified, paying a small fee of \$25/year for marketing assistance, but approximately 10 participating hotels have not completed the annual status survey and may be dropped as a result.

The **Certification for Tourism Sustainability of Peru (CST-P)** is somewhat unique in that it was established in a partnership between the government (Ministry of Foreign Trade and Tourism) and a private university, with funds from the Spanish Agency for International Cooperation and the IDB. However insufficient funding and the constraints of being housed in an academic institution have so far prevented the program from reaching the operational phase.

The **Viabono program** in Germany is run by two organizations, one for-profit and one non-profit. The Viabono Association started in 2002 as a non-profit association with about 20 national stakeholders. It is a partnership of leading German associations in the field of tourism, environment, consumers, communities, ministries and government, and received start-up financial supported from the German Ministry for the Environment and the Ministry for Economy, responsible for Tourism. The Association decides upon the criteria, verification procedure and fee structure and makes political decisions, as well as serving as the owner of the for-profit Viabono GmbH (Ltd.). Viabono GmbH is responsible for the promotion, the direct contact to the applicants and licensees, and provides services including the website and collaboration with other companies and services, etc.

The **Green Certificate** is a Latvian environmental quality ecolabel for tourism establishments, owned and managed by the non-profit Latvian Country Tourism Association. Inspections are done by the Latvian Country Tourism Association and decisions about awarding the certificate are made by the National EcoCertification commission, consisting of environment and tourism specialists. The program started in 1999 with start-up funding for the first few years from the European Commission LIFE program, the Latvian Environmental Protection Fund, and the Ministry of Environment of the Republic of Latvia.

The **Austrian Ecolabel for Tourism Services** is a government-funded program, developed by two federal ministries: Agriculture, Forestry, Environment and Water Management, and Economics and Labour. They paid for start-up in 1996-97 and are also covering criteria revision. Auditing is commissioned to the Austrian Consumer Association and auditors are paid by the government

The **EcoLabel for Tourism Businesses in Luxembourg** (EcoLabel für Tourismusbetriebe des Großherzogtums Luxemburg) was started with €347,000 in 1997 by the Ministries of Tourism in cooperation with the Ministry of Environment, the National Tourist Office, the hotel association Horesca, the camping association Camprilux und APC, the “Stiftung Öko-Fonds”, the Hotel School in Luxembourg and other cultural or educational centers, the Chamber of Commerce, and

the “Landtourismusvereinigung (ATPR). The OekoZenter Letzebuerg, a non-profit environmental organization, co-ordinates and implements the program and provides consultancy services to tourism businesses.

EcoCamping is a European association founded in 1999 which promotes environmental protection, conservation, safety and quality in the camping business. It operates an environmental management system for campsites and is currently active in Germany, Switzerland and Austria. It was financed by a variety of public and private partners such as the EU (LIFE project), Deutsche Bundesstiftung Umwelt, the Ministry for Environment, Youth and Family, VDWH, Tourist-Information Centre Constance, Lever Fabergé Deutschland, Provincia Verbano, the Ministry for Environment and Traffic in Baden Württemberg, Provincia di Verbano, Comune di Cannobio, and the City of Constanze. 50% of the cost was covered by European Commission LIFE program, 10% by 20 businesses who paid annual fees, and about 40% by the other project partners.

Forum Anders Reisen is a network of small and medium tour operators based mainly in Germany and launched in 1997/98 in co-operation with existing initiatives like *Verträglich Reisen* and ÖTE (Ecological Tourism in Europe). Members developed a code of conduct and a set of social and environmental and economic criteria, which they commit to following. Start-up and operating costs until 2004 were covered by the membership fees collected by the for-profit organization Forum Anders Reisen

The **Blue Flag** ecolabel for beaches and marinas, which now certifies over 3000 sites around the world (especially in Europe), is an 18-year old program with a broad spectrum of support nationally and internationally. Some of the organizations which funded start-up or provided in-kind support are the European Union, UNEP, WTO, the International Life Saving Federation at the international level; national Ministries for the Environment, national tourism boards, National Life Saving Federations, and environmental NGOs.

The Gum Nuts Program, the Australian Camping and Caravan Industry Association of New South Wales was started with a combination of funds from the association itself and the State (NSW) Dept of Environment and Conservation, who is providing funding for one year to the University of Western Sydney to develop and implement workshops to businesses. The development of the program was done cheaply using university staff and students who charged minimal fees.

The **STEP** program, run by the non-profit organization, Sustainable Travel International in Colorado, USA, has no grant or foundation money but is run by volunteers (the two principals/staff members of STI donate their time). The money is generated for STI is based on 8 revenue models, only some of which are functioning so far. These include their greenhouse gas offsets, membership program, education and training programs, and advisory services. They have recently licensed their program to NSF International, an auditing company in the Midwestern U.S., who will carry out the on-site audits. NSF charges a fee, of which a percentage of it will go to STI.

3.2.3 Operational Funding

Operational funding consists of the monies needed to run the program once businesses begin becoming certified. Costs include staffing, office rent, equipment and supplies, program administration, marketing, production of informational resources and publications, training, seminars and workshops, website development and maintenance, auditing – if conducted in-house, certification, evaluation and monitoring, additional outreach and partnership development. In addition, they include continuing development and modification of the program standards and procedures.

Europe⁴

There are at least 53 certification programs in operation in Europe, as of March 2006. A number of other programs are no longer in operation or have been combined with larger ones, such as Green Key. Many of the programs no longer extant failed because they were not able to achieve financial sustainability or adequate economies of scale.

While some tourism certification programs seem to be well established financially, this is simply because they are run by the government with public money. If one defines “**financial sustainability**” as a “**high % of coverage of operational cost covered by fees from the certified services**” then the level for the selected certificates in Europe would be as follows:

<i>Table 2: Operational funding in Europe</i>	
CERTIFICATE	FINANCIAL SUSTAINABILITY LEVEL
	high = > 2/3 by fees, low = < 1/3 by fees
Austrian Ecolabel for Tourism Services	low
Blue Swallow	high*
Blue Flag International	high
El Distintivo, Cataluña	low
EcoCamping	low-medium
Forum Anders Reisen, Germany	high*
Green Certificate, Latvia	low-medium
IBEX, Switzerland	medium
Ecolabel Luxemburg	low
Nature's Best, Sweden	low-medium
Viabono, Germany	medium-high**

* The costs of these programs are very low because businesses are self-audited and costs are absorbed by the organizations which offer other income-generating services.

** In the case of Viabono, there is an additional associated non-profit organization which determines criteria and operating procedures, leaving the for-profit company to take care of the more routine tasks.

It is clear, then, that the majority of programs require a mixture of public and private sources as

⁴ For a full description, see Hamele, Herbert, 2006, “Financial sustainability of Sustainable Tourism Certification programs in Europe”, report to The International Ecotourism Society, www.ecotourism.org.

well as fees for services offered.

Nature's Best has a 2006 budget of about €450.000, of which 1/3 is covered by membership/license fees (charged on a sliding scale depending on the business' annual turnover) and 2/3 through governmental support from Swedish ministries/agencies. They expect to be self-financing – i.e. 100% of costs would be covered by membership – in about 2010, 8 years after its official launching.

Operation of **Viabono** continues to be supported by the German government in order to further develop and implement additional product groups and for revision of the criteria and procedures. However, in 2006, it receives 50% from licenses – two thirds of which are from by hotels and destinations (e.g., nature parks); and 20% from its eco-shop which sells environmentally friendly products to certified businesses as well as through collaboration with travel agencies. The Viabono for-profit company expects to cover 100% of its cost by licenses, sales of provisions, and training services fairly soon. It will do cross marketing with other eco-certified food or manufactured products through its Viabono shop.

Half of the Swiss **Steinbock** program's operating costs are covered by the 21 businesses that pay an annual license fee and certification fees (paid every 3 years on a sliding scale according to number of beds). The rest is covered by private funding (mostly in-kind contributions of time by specialists). The program operates on a low budget, in part because it relies on trained "mystery guests" to conduct assessments. It receives in-kind support from its member businesses but would like institutional support from Swiss accommodation associations (e.g. Hotellerie Swiss) which provide hotel reservation and booking systems and other market benefits, and which could encourage more businesses to enter the program.

For **El Distintivo**, operational funding is largely from the Catalonian government supplemented by the businesses. Each business pays 25% of the cost and the government pays the other 75%. There are two fees: an application fee of 360 € for each three year certification, and auditing costs, which average about 300€ Upon recertification (after three years), the businesses are expected to pay the full cost, unless they are SMEs, in which case the government will pay half. The sum of the business's contributions does not equal even 10% of the operating costs of the program.

For the **Forum Anders Reisen**, applicants pay membership fees from €420-ca. €1000, depending on the number of employees. The certification is based on a self declaration, but the administration carries out random audits. The budget for 2006 is about €350,000, which includes ca. €90,000 from members' fees, €100,000 of special fees for marketing activities and advertisements they charge for, and > €100,000 of financial support from the German Environment Agency.

While budget figures for **Blue Swallow** are not available, the fee structure is. As of 2006, there is a new owner; and businesses are charged 300 € to be publicized in the Blue Swallow section of the *Verträglich Reisen* magazine and on their website. If an on-site audit were to be conducted, it would cost ca. 500€ which is more than most businesses would pay.

Operational funding for the Green Certificate consists of support from the EC Life Environment program (until 2004), the Latvian Environmental Fund and financing from the Latvian Country Tourism Association itself. In addition, applicants pay a fee of ca. €35 for a three-year certification. They do not pay annual fees. The fees do not cover full costs of inspection, however, without external funding the costs would be too high for small rural tourism businesses. They recommend continued public support.

The annual budget for the Austrian Ecolabel is ca. €500,000. This covers tourism services certification (using ca. 30-35% of the budget) as well as certification of industrial products and schools. Approximately €150,000 is used for marketing of the tourism ecolabel in a variety of ways. Businesses pay two fees on a sliding scale relative to the number of beds or seats (for restaurants): an application fee of €300-690, and a license fee of €90 – 380 per year for the 4-year period of validity. These fees cover the verification costs, but other costs (materials, marketing, workshops, phone hotline, etc. are covered by the ministry.

Operational costs for the Luxembourg Ecolabel have been broken down into three categories: 35% for general operation (including contacts to journalists, phone calls for acquisition, fairs, marketing, information services; 5% for training workshops; and 60% for on site pre-checks and consulting to interested businesses. Businesses pay about 70€ to participate in a workshop and to receive a manual containing detailed information about the criteria, examples, guidelines how to implement them, etc. This fee covers less than 10% of the total operational cost of the program. The remaining 90% of the costs – for verification, auditing, issuing the certificate, etc. – are paid by the government.

Operating costs for EcoCamping in 2005 were ca. €300,000. In each state in Germany the regional camping sites association is main partner. Financial support comes from the regional ministries of environment and tourism for workshops, training and certification of camping sites in their territory. Additional sources came from the European Commission for training 15 businesses for the European EMAS certificate, 3 businesses for the EU Ecolabel, and to participate in the TourBench project. This government funding covers ca. 50% of the costs. Another 20-30% comes from the participating businesses, which pay an average of €500/year, and 20-30 % from industry sponsors and marketing support.

Operating expenses for Blue Flag International are less than €200,000/year, and about 2/3 of this is covered by contributions from the national partner organizations of the Foundation for Environmental Education (FEE), who pay 30-35 € per awarded beach or marina in their countries. The other 1/3 is financed by sponsors who may be international bodies, NGOs, or private companies. Nationally, operating costs vary from country to country. In some countries, the national ministries cover the cost, while in others, the municipalities or private companies (e.g. hotels with beaches) pay the cost of some 100€ per year. Sponsors also play a large role. Proponents of Blue Flag say that it is difficult to recruit private sponsors each year. They would like to see tour operators provide financing in order to expand both the range of the program as well as to increase worldwide awareness about it.

*Africa*⁵

Operational funding in Africa is more complex than start-up funding, with sources combining donations, grants and in-kind contributions, and also income from the certified products themselves. The schemes either tend to obtain the majority of their funding (70% or more) from grants or donations (EcoAward, EcoRating, FTTSA) or directly from the products they certified (Green Globe 21, Heritage) (see Table 3). Those programs with the highest fees obtain more of their operational funding from certification.

Table 3: Operational funding in Africa

CERTIFICATION SCHEME	TYPE OF FUNDING	SOURCE
EcoAward, Namibia	80% donation 20% certification	Development agency (40%) and private company (40%) – Verification (15%) and membership fees (5%)
EcoRating Scheme, Kenya	80% grant 10% membership fees 10% certification	Private foundation – Host NGO
Fair Trade in Tourism South Africa	70% grant 18% in-kind 10% certification 2% donation	Development agency – Private sector – Verification (5%) & membership fees (5%) – Local development fund
Heritage Environmental Rating Scheme	100% certification	Membership fees (60%) & verification (40%)

Source: Spenceley, 2006

The three smaller Africa programs (EcoAward, EcoRating Scheme and FTTSA) have operating budgets which are 80% from grants or in-kind services. The remaining 10-20% comes from certification fees. Only the Heritage Environmental Rating Scheme (SA), which charges high certification fees (between \$1800 and \$5000 per year), operates solely on its fees.

A series of constraints to achieving financially commercial viability were identified by the African certification schemes. The constraints addressed both the issue of start-up periods and market awareness/demand for certification, and the need for customers to perceive a return on their investment. They schemes raised problems including:

- the need for 3-5 years of start-up funding (i.e. from grants) before achieving self-financing;
- lack of publicity of particular schemes;
- low awareness of the need for eco-certification (among products and tourists);
- difficulty for clients in translating a label into a ‘bargaining chip’ in the tourism market place;

⁵ For a full description, see Spenceley, Anna, 2006, “Financing Tourism Certification in Africa. ”, report to The International Ecotourism Society, www.anna.spenceley.co.uk/Papers.htm.

- demand from customers to show sufficient return for the outlay of certification fees;
- unwillingness of customers to pay the full cost of the program;
- uncertainty over whether participating facilities/businesses will renew their membership;
- low levels of absorption of certification concept by product consumers; and
- the need to use volunteers or low paid employees.

There were different opinions on the most viable financing system for certification schemes. The majority (four schemes) supported self-financing in the operation phase (i.e. through membership and application fees) after 5-7 years of start-up funding. One scheme recommended government support for fixed overhead costs.

The Americas

Many of the Latin American programs seem to be operating with minimal, insufficient funds that come from grants to their parent organizations (usually non-profits). This stems in part from the high cost of auditing (estimated at US\$2500-4000 per business), while the maximum certification fees that can be charged to small businesses are often less than US\$500.

Green Deal has a donation to cover its operating costs from IDB and also receives some revenue from its certification fees, but operates at a deficit. Operational funding is also obtained from certification fees, some of which are subsidized, rental of space in Alianza Verde's headquarters, and donations from the government competitiveness entity, multilateral agencies, and a foundation (indirectly). A single fee of \$500 or \$700 is paid annually by each business certified by Green Deal. For small businesses, a foundation (FUNDESA) subsidizes \$300 of the cost to Green Deal. This fee covers all services, which cost Green Deal nearly 6 times the amount of the fee. To reduce costs, all auditors travel to one region to work with the businesses in that region at that time. The independent certification commission meets 8-10 times annually, certifying 36 businesses in 2005; 75 in 2006. Green Deal also pays for outside financial audit every two years, occasional consultants to review standard, travel to international meetings. Training workshops are paid for by FUNDESA for businesses; Green Deal's parent organization, Alianza Verde pays for training instructors and auditors, as well as their travel expenses. Green Deal's operational deficit is covered by donations from government and multilateral agencies directly to Green Deal or by FUNDESA through subsidies to businesses to cover part of certification fees.

CST operates within the Costa Rican Tourist Board (ICT), which is a governmental entity subject to severe bureaucratic and budgetary restrictions. All services, delivered at no cost to users, are paid for by ICT out of annual budget. Onsite audits every two years. More than 50 hotels and 11 tour operators have been certified, as of late 2006.

SmartVoyager has obtained international financing for certifying small businesses of US\$175,000 and is in process (mid-2006) of obtaining US\$1.3 million for certified businesses. It has certified 9 vessels and 10 land operations; 33 small vessels were evaluated, but not certified.

The details of the financial mechanisms for PCTS are not yet clear, as the program is not yet fully operational. However it is likely that IH's long-established model for training and qualification of personnel may be followed in part. This has been an important source of income

for IH and has been well-supported by Brazilian government entities. As IH has a number of ongoing activities, it will have significant economies of scale for operational overhead (office, personnel, etc.). Because NIH-54 is a national standard, presumably any qualified organization could be accredited to certify and any qualified person could be accredited to audit it. Nevertheless, because of IH's role in the development of the standard and training, it is likely to remain the lead (or only) organization in implementing PCTS.

STEP plans to get its operational funding from basic fees (see below) and will leave the auditing to the private certification company, NSF International, to whom they have licensed their standards. NSF will charge a fee for on-site auditing and a small percentage of it will go to STI.

The **Mobil Rating system and the AAA Five-Diamond rating** schemes have operational funding from their parent organizations, as well as sales of products and services and advertising fees. For many years, the main revenue streams for the **Mobil** program came from its products – the Mobil Travel Guides, road atlas, and an on-line database in which hotel bookings generated revenue for Mobil – as well as by selling content to 3rd party providers (e.g., cell phone companies, websites, etc. offer value to consumers by providing recommendations on hotels and other travel providers, and pay Mobil for this proprietary information). Additional funding was provided by its corporate parent, Mobil-Exxon. In early 2005 the Mobil Rating system was spun off from Mobil-Exxon and is now an independent company. As a result, funding strategies have changed. They launched a consulting practice in which they offer training and evaluation of properties to help hotels and restaurants improve customer experience. They saw interest from hotels and, in addition to the financial reasons, they needed to reinvent themselves to remain competitive.

The **AAA Five-Diamond** rating has operational funding from its parent organization AAA, a membership organization of automobile owners providing roadside service, maps, guidebooks, insurance and other products and services. Like Mobil and some other programs, it imposes a separate charge, above certification fees, to certified businesses for use of the brand/label in promotional and advertising materials. While AAA or Mobil-certified hotels can say that they have been rated, they can only use the brand once they have paid a licensing fee. For Mobil, it ranges from \$500-\$1200/year, depending on the size of the hotel. In AAA's case, the hotels that have paid the fee, ranging from \$500-\$1500/year, can put the AAA brand on marketing materials and appear on the Travelocity and Expedia websites.

Asia/Pacific

The **Gum Nuts** program receives support from its parent organization, the Camping and Caravan Association. They, in turn generate revenue through membership fees and a magazine that is given away free at visitors center, but is also sold. The Association sells advertising space in its directory which it sells to non-members. And, the annual conference brings in revenue. Finally, there is a 10-day Supershow in Sydney each year, and attendance and exhibition fees provide significant revenue. They're savvy with their marketing – getting Tourism NSW involved. Much of marketing is done directly to consumers because the Association has direct links to the consumer. This is an advantage for members in their marketing.

The Australian **ROC** (Respect Our Culture) perceives itself principally as a business development tool for indigenous enterprises rather than just a certification body, and for this reason provides on the ground coordinators who mentor businesses to bring the indigenous product up to speed, as well as acting as auditors of the product. There are currently coordinators in each state (except Tasmania), who spend much of their time traveling. The business development role / function explains the relatively slow rate of uptake, with the program being released in 2003 but only 13-14 businesses certified to date, although 68 are in the process of application. Some businesses require one-on-one mentoring/training prior to application, and often this is done on-site. On-site audits take place after a desktop audit. If the ROC coordinator has been heavily involved in mentoring the applicant, a coordinator from another state is sent to do the on-site assessment (usually involves airfare and travel expenses). The application fees pay less than 1% of the running costs of the program. The 5 coordinators each cost approximately US\$45,000 in salary and costs (training, insurance, travel expenses etc), and there are additional expenses of offices and operation in each state. ATA subsidizes both the on-site audit costs and the offices (through income derived from membership, foundation support and sponsorship), and two government departments, the Indigenous Land Corporation and Indigenous Business Australia fund the outstanding operational costs on 3-year terms, based on selected performance indicators. It is expected that this level of subsidy will need to continue for the medium to long term for indigenous groups.

The **EcoCertification** (formerly NEAP) program claims to be entirely self-funding, but it is evident that although on-going administrative costs are being met by fees, on-going improvement of the program (the re- development of criteria every three years); a credible and regular audit program; marketing initiatives (either those to the tourism industry at the industry level – information/ training workshops run in the regions); and “selling” the brand to distributors are constrained by the necessity to raise outside funds/grants. Furthermore, there is no direct consumer marketing. With the development of NEAP in 2000, the move towards a more rigorous and formal audit program was started (aided by Tourism Queensland) that provided a grant of US\$11,000 to undertake 15 on-site audits in Queensland to be matched by an additional 10 audits (financed by NEAP/EA) around the rest of Australia. The 2002 Audit Policy and Protocol concluded that NEAP fee structure was insufficient to pay for regular on-site audits, or even much more than irregular desk/telephone interviews, and was totally reliant on grant or external funding to ensure relevant and appropriate level (once every 3 years) auditing of product. The average cost of an audit of an operator of NEAP product was estimated to be at least US\$380 (with auditors undertaking the audit on a semi-voluntary basis and most audits taking between 5-15 hours of professional time) excluding travel and associated out of pocket costs (accommodation etc). NEAP II's existing fee structure was not supporting this. In 2003 NEAP III (re-branded as EcoCertification) was again developed mainly in-house on a strict budget with volunteer/donated time from the EA committee and contributions from outside reviewers (a more comprehensive consultation program with various stakeholders was forgone because of budget constraints, although fundamental changes and additions to the structure were made). Funding was provided by EA (derived from profits/sponsorship of the annual EA conference). EcoCertification involved considerable changes to the original structure of the NEAP as it incorporated business certification criteria (business management, operational planning and business ethics) to ensure compatibility with the Australian Tourism Accreditation Association (ATAA) generic core components. In 2004 EcoCertification also moved to

independent environmental auditors employed on fee-for service basis with a commitment to auditing every certified product once in its three year certification period. The EA had to raise additional sources of funds to support this, again indicating that the program is not self-sufficient. The development (or adoption) of additional “business” criteria also meant that the certification program became ATAA eligible – and in Australia this was a significant move as there was government and mainstream tourism industry bodies interest, money and support for ATAA-certified product (however, this has led to criticism that the EcoCertification program is now attracting less “dedicated” ecotourism enterprises and possibly less sustainable product).

Operational funding for **Green Globe 21** (GG21) is predominantly from the users through membership and fees. That is, 75% of GG’s operating income comes from annual memberships, and Affiliation and Benchmarking fees, both of which are charged on a sliding scale dependent on the size of the business. Most of the latter fee is paid to EarthCheck, the organization that actually does the benchmarking, but the money passes through GG. 25% of GG21’s income is currently covered by ongoing support from the CRC. In addition, endorsed, but independent, GG21 trainers give training to businesses seeking to become certified by GG21, as well as to new auditors and consultants. While a small amount of the income from these training courses goes to GG21, these classes are generally operated financially-independently from GGAP. There is potential for these training courses to be sources of revenue, but the logistics of arranging the courses, marketing to potential candidates, and obtaining sponsorship is problematic without local on-ground support. The relatively intermittent or current lack of continued demand from a single location makes it difficult for courses to supply a consistent income for a Trainer. Consequently GG21 is very much in a capacity-building stage especially with regard to the newer standards (International Ecotourism Standard, Design and Construct Standard, and Destination Standard). The oldest and best known standard (Company Standard) is thriving in different locations around the world.

3.2.4 Fees

The schedule of certification fees charged by different programs is found in Appendix 2: Fee structures for selected sustainable tourism certification programs.

A few programs do not charge fees for a variety of reasons. CST is a government entity, and feels that it is in the interest of the country to provide the service. Some simply want to attract new members – as in the case of the Australian Gum Nuts program (at least at the initial level of certification) and the New Hampshire program. Others consider it an important service that is part of their business model – as in the case of Mobil and AAA. In most of these cases, except Mobil, the certified businesses have already paid membership fees or taxes to the organization offering the certification, and therefore deserve the benefits provided.

Other programs charge minimally or offer free services to members or prospective members. In Latin America, low fees are necessary for a large number of the small businesses that dominate the industry. For many of these businesses, a fee of more than US\$300 would be a hardship.

In general, a sliding scale of certification fees offers the greatest possibilities for financial sustainability, as long as there is a good mix of small, medium and large businesses. Small

businesses can be charged at cost (or less, when a development entity subsidizes the fees and implementation costs), whereas the largest businesses pay far more than cost, but still a reasonable amount relative to their scale of operation. This mechanism is reflected, for example, in the fee structure of Green Globe (Appendix 2: Fee structures for selected sustainable tourism certification programs).

A financial model can be developed to cover operating costs with a reasonable internal rate of return when there is a critical mass of businesses paying significantly more than variable costs of certification. Depending on the cost structure and the mix of business sizes, one model estimates that 300-500 certified businesses should be enough to achieve the break-even point, when administrative overhead is low.⁶

3.2.5 Case studies of fee schedules

GG21 has higher fees than most of the programs in this review, charging on a sliding scale dependent on number of rooms or of employees. Destinations are charged according to size. The revenue generated by GG21 comes mainly from the Affiliation fee and the annual membership fee, because the majority of the Benchmarking and Certification fees go directly to the auditing companies or assessors who carry out these tasks. While the Benchmarking fee is passed through GG, the cost of the on-site audit portion of the Certification fee is paid directly to the independent 3rd party assessor, who is licensed by Green Globe, which receives only a small administration fee from certification.

The **Viabono** “brand” in Germany charges the businesses a basic fee based on the number of beds/visitors, as well as an additional flexible fee depending on the number of guests contacting the entity via the VIABONO Internet portal.

A variation of the free certification strategy is one in which lower levels are free while higher ones incur a charge. In the **Gum Nuts** program, the first level of certification, bronze – with a score of 50% or higher on the checklist – is free to members, and is based on a self-assessment only, the higher two levels do incur a cost. If businesses get a score of 65% or more, they may go for the silver level which involves an audit, costing \$200 fee. The third, gold level for even higher scorers, costs \$1200, which affords them a site visit and on-site technical advice from an extension officer.

Green Hotels (VT) charges only \$25/year to cover the minimalist marketing program of program information cards with listed properties at state rest areas. The NH Sustainable Lodging Program also holds free quarterly educational seminars focusing on cost-benefits to attract new businesses.

For the Australian **ROC**, applicants pay an application fee on applying for the program to cover all support, desk top audit and on-site verification. The application fee is based upon the number of fulltime equivalent staff, ATA Membership, and whether or not they belong to another certification program. Certification to an Australian-recognized tourism business certification

⁶ Bien, A. (1999) “Factibilidad regional para la implementación del programa de Certificación de Sostenibilidad Turística (CST)”, INCAE, Costa Rica.

program will mean the first year's annual fee will be waived, and certification with NEAP (EcoCertification) provides a discount of \$50. An annual fee is also charged.

The Australian **EcoCertification** program charges two fees – an application fee and an annual fee. Both these fees are based on a sliding scale according to turn-over (i.e. large operations “subsidize smaller businesses”). In addition, for an additional fee, operators have the option of “EcoCert Plus” that gives them membership of EA, preferential marketing benefits, discounts on EA conferences and business website linking. EA also runs cooperative marketing exercises at international trade shows that are paid for by the participating certified operators. This is cheaper than standing individual participation, and provides advantages of branding an independent “seller,” as EA does not operate its own tourism products.

3.2.6 Partnerships

AAA has created a variety of strategic partnerships within the hospitality industry (major hotels, airlines, etc.) to help promote its tourism services. The AAA travel agency (the 7th largest in the U.S.) promotes AAA-rated properties through its website and media materials, and in return the properties offer 10-20% discounts to AAA members. The local AAA clubs receive revenue from this through commissions.

The Green Hotels (VT) receives some publicity from the State Tourism and Lodging Division who lists the program on the rotating banner in their Traveler's Guide website. However, they're not willing to identify green hotels on their webpage.

The AAA and the Gum Nut program, both of which are run by strong membership and member-driven organizations, do most of their marketing directly to their members (who are very loyal travelers). Hence they are easily able to build awareness of and backing from consumers. The Gum Nuts program, though only 3.5 years old, has succeeded in getting the word out to the NSW public, through the large annual Camping and Caravan Show.

STEP hopes that its alliance with NSF International will result in significant marketing advantage. Because NSF is a large and credible organization with marketing resources, it can reach a larger and broader market than STI's own, which is developed through its website, list of travel writers, environmental or green marketers, contacts in the industry, and attendance at conferences.

EcoCertification engages in partnerships with protected areas managers and Regional Tourism Offices (RTOs) to conduct tourism operator workshops that both promote and help train operators in the requirements necessary for certification. In some cases, the RTOs have even provided subsidy for the application document or initial costs of certification. International marketing initiatives (with EA attending ATE, ITB (Germany), and Japan Australia Mission) are funded through operator-pay fees for exposure on a cooperative marketing stand. EA successfully negotiated joint promotion and marketing initiatives with the Great Barrier Reef Marine Park (including joint promotion at ATE 2005) in an innovative partnership with the park where the protected area agency also attended a trade show and helped market certified operators products (certified product is also eligible for extended tenure on the Great Barrier Reef with 15-

year permits). EA has also successfully encouraged the Commonwealth Tourism Authority – ATC (Australian Tourist Commission) to give preferential exposure to certified product and a range of cooperative marketing rates in some of their annual marketing material. They have funded a Visiting Journalists program for certified products).

Training and technical support for programs in Latin America has been provided by NGOs, primarily Rainforest Alliance and secondarily The International Ecotourism Society, with financing on development of best practices from the Interamerican Development Bank and private foundations (such as Ford and Wallace Global Fund). In addition, the two above-mentioned NGOs, as well as others, offer help with promotion and marketing of sustainable tourism certification initiatives and programs.

The Austrian Ecolabel does cross-marketing with other businesses and governmental organizations, and among certified products. These partnerships include a large water company and Austria Railways. In addition, certified products are promoted within the school system. The Austrian Ecolabel has integrated criteria of the European Ecolabel for tourist accommodation services, and now the government promotes and implements both on an international level. However, more government marketing support is needed. It also participates in various European projects such as VISIT, Train to Ecolabel, TourLink and TourBench, which increase tour operator interest, and help businesses learn about the criteria and measure environmental impacts. Half of the business' costs for these services are paid by the European Union's EU Life Program.

EcoCamping has partnered with several tourism businesses (ADAC Camping- und Caravaning Führer, Viabono GmbH, Bayern Tourismus GmbH, Vorarlberg Tourismus and Camppartner) for media and marketing support. These supporters provide free advertising in lead publications (such as the ADAC European Camping and Caravanning Guide which issues 300,000 copies, sold to the consumers).

3.2.7 Constraints

CST has a unique set of constraints due to its structure as part of a government which places legal and bureaucratic contingencies that make it difficult to apply funding efficiently and that obstruct the program's growth and further development. Funding levels have not been constant over the years. Hotels want to join the program faster than the government's capacity and funding allow. This is likely because the service is free. Some believe that businesses do not value it sufficiently because there is no charge, and that if a fee is instated, fewer businesses will be interested.

While the Costa Rican government does not have the resources to carry out all the audits, some eager hotels are willing to pay outside auditors for the normally free certification. However, there is no mechanism within the government structure to allow third-party audits, nor for interested businesses to pay. The program could be privatized, but government does not want to give up control of it.

In Latin America, there is little awareness or culture of certification, regulation and similar

measures, making it difficult to raise awareness and generate support for such new initiatives. In addition, many incipient certification programs feel constrained by difficulties in raising funds, especially from multi-lateral development organizations, for new projects or innovative programs. These include: lack of donor awareness or interest in new concepts and strategies, difficulties in raising operational funds for organizations administering certification programs, excessive bureaucracy in grant procedures, and in some countries such as Uruguay, status as a country “in development,” (vs. underdeveloped or developing) with fewer international funding outlets. In Costa Rica, where there is program funding, the government has complex prerequisites in which the money must be spent on a very specific agenda, and thus hindering program expansion.

The SmartVoyager program in Ecuador is 8 years old and is feeling financially constrained. They need more money to increase coverage and to demonstrate the vast (approximately 25%) cost savings to certified operators as well as to financial institutions. The latter are starting to give certified businesses priority when offering loans and grants, and will do so even more once the value of certification becomes more evident. Increasing awareness and changing attitudes in favor of regulatory and certification programs take a long time, making the investment in successful certification a long-term one.

While Green Deal hopes to become financially sustainable in two years, its main constraint is the fact that businesses are paying a fraction of the actual value of certification and it is going to be difficult to raise the fees. They estimate that they need at least 200 participants to reach sustainability, and this will require significant investment of time and funds. There are few funders who will sustain salaries over the longer term (and long term is needed to ensure consistency).

The Peruvian program has insufficient funding and the university’s capacity to raise funds is limited. In addition, because of its university connection, it is constrained by institutional capacity and academic interests. Time to raise funds is limited, and poor planning by program initiators has hampered their ability to ensure continuity.

In Chile, the privately funded Green Globe 21 is more expensive than other tourism certifications which are, according to the interviewee, less rigorous and unbalanced. Because there are no subsidies for the program, and operators still are ignorant of the benefits of certification, there are barriers to entry for small operators. These barriers include not only the costs of certification in terms of fees, but also lack of expertise or time to devote to certification process and compliance measures. Therefore, uptake by small businesses is minimal. In addition, there is a lack of information about what tourism certification is and what constitutes a good program.

One constraint experienced by the Forum Anders Reisen is that members are not willing to pay more in fees, and while revision of criteria and verification are needed, they are not covered in the budget. However, as long as there is little demand for sustainable tour operators or packages, there is no incentive to make these improvements. Only if demand from consumers rises significantly would members be willing to pay more for a credible sustainability check. One method of reducing cost for verification will be the European TourLink, which has a self check tool for operators.

Challenges faced by the Austrian Ecolabel include recruiting new applicants and keeping the existing certified businesses (as some do not recertify once the 4-year period ends). They also feel that they do not communicate a clear and attractive message, nor create a unique image for their certified businesses. Thus, they face competition from other labels that do this more effectively. The cost can not be covered only by fees from certified businesses, nor can the fee system be changed significantly. Even if the demand for certified businesses from tour operators and green procurement by business travelers rises significantly, only about 50% of the cost could be covered by licensees with the rest by the Government.

Constraints for Ecolabel Luxembourg include the need to increase the number of certified businesses. Because there is some growth occurring, the government continues to provide ongoing financial support, equivalent to ca. 90% of the cost (with fees from businesses covering only 10% of the operational cost). More marketing is needed, especially in conjunction with the European ecolabels.

Practitioners of the EcoCamping label say that campsites are not willing to pay larger fees. The average €500/year covers training workshops, an on site visit and consultancy, a newsletter, certification, and free promotion on print media and the Internet, and networking with other certified sites. However this covers only about 20% of the program's cost. The program needs additional funding for operations and marketing. It hopes to expand beyond Germany into other EU countries by 2009, and to license the model so that each country will have one focal point which will implement the program there.

Mobil states that its greatest challenge now is supporting its existing data base of hotels, restaurants and spas.

The New Hampshire Sustainable Lodging Program is quite new and needs more corporate funding. At this point, it is a one-woman show and if she left, the program would disappear. They have tried to offer sponsorships where companies contribute at seminars, trainings, etc. but there is a low success rate to date. In addition, they are trying to seek funding from lighting and HVAC companies who are providing products and services to resorts which are renovating to meet certification standards. So far, it has not been too successful.

Green Hotels (VT) finds that their challenge is to keep hotels engaged after they get certified. They need to complete an annual impact survey, and the program has trouble getting it back. They're planning to drop about 10 hotels if they do not return their surveys. In addition, they are trying to find marketing partners outside of the certified hotels. Even the state lodging association is not interested. And, while the State tourism website portrays the Green Hotel program on its website, it is reluctant to market a select number of hotels. The thinking is that it must market them all.

Members of the Gum Nuts program state that the \$1200 fee required for gold certification is too high. It is justified by program managers because the businesses must be monitored and inspected. They must develop an integrated environmental management plan, including social, environmental aspects, and must show annual improvement. The monitoring provides data for

the program to demonstrate positive benefits over the longer term.

Regarding the ROC program, Aboriginal Tourism Australia states that the monopoly of existing voluntary tourism certification programs in Australia is a problem because they compete with ROC. The other programs generally have better government support, but do not meet the unique needs of the indigenous sector. In addition, funding for ROC is provided only in three year blocks and the uncertainty of grant renewals leads to angst and lack of long term certainty for the program.

EcoCertification still relies on external funds, additional contributions from certified operators, and partnerships (with protected area managers, etc) to implement a credible auditing program, redevelopment of the criteria every three years and both training and marketing initiatives that are essential for the long term sustainability of the program.

Likewise, GG21 indicates that one of its main constraints is the unwillingness of clients to pay for the full cost of the program. Two reasons for this are that the actual cost of a credible audit program with on-site assessment is expensive, and that the companies do not perceive sufficient value in being certified.

3.2.8 Incentives or Assistance Provided to Small and Medium Enterprises (SMEs) and Community-based Businesses

Many programs offer no special incentives to help small and medium-sized enterprises or community-based businesses either because certification (at least at a basic level) is free or because they have not yet developed such mechanisms. However, the most common incentive, used by the programs that make a point of encouraging both large and small companies to become certified, is a sliding fee scale in which the fees are based on annual revenues of a company. This makes it easier for small businesses to become involved.

Green Deal keeps certification fees well below cost in order to facilitate the certification of small businesses. This depends on continued financial support of the businesses to be certified by FUNDESA, which covers much of the certification fee and finances training activities. SmartVoyager has obtained significant funding to facilitate the certification of small businesses in Galapagos.

CST, a governmental program, established a system which is not yet functioning, to assist SMEs so that they can take advantage of the program. The idea is that independent, accredited auditors would assess the larger businesses, which would pay the auditors, while ICT would assess the SMEs at no or low cost, subsidized by ICT instead. At present, certification is offered at no cost to any business.

Businesses applying for certification in Austria can receive financial support for consultancy costs to improve on energy saving from sub-national ministries/environment agencies. In addition, certified businesses get a 5% higher bank credit rating for investment than non-certified businesses.

3.3 LESSONS LEARNED

Funding for both start-up and operation of tourism certification programs comes from a wide array of sources including: multi-national funding sources (such as the European Union), bilateral funds (such as USAID), governments (either through aid programs to other countries or from a program's own government), non-profit NGOs, in-kind services of individuals, and private companies (some with broader missions and additional programs; others, formed specifically to carry out certification; and including the certified businesses themselves who contribute through the fees they pay). In addition, and importantly, many certification programs (including NEAP, the GG's IES, Green Deal, STEP and others) have been developed with significant voluntary contributions from dedicated individuals or university/academic institutions, and continue to operate with considerable continued in-kind support. Most programs use a combination of sources and among the 37 programs studied, virtually all the combinations are represented.

Geography and politics play a critical role in obtaining funding. In the developed countries (U.S., Australia and Europe), funding is more likely to come from private sources as well as government ministries of environment, tourism, etc. In the developing countries (especially in Latin America and Africa), more funding comes from international donors, including development agencies and NGOs. When funding comes from outside donors, the long term sustainability of a program can be problematic. Companies must perceive real marketing value in being certified; otherwise, they cannot afford to pay the previously subsidized or waived fees, and are likely to drop out.

The programs which are part of organizations with larger missions than sustainable tourism certification – such as AAA, Mobil, and Forum Anders Reisen are financially stronger than the stand-alone programs. This is likely due to the fact that they share expenses among a variety of activities and because they have already-developed partners and supporters. The latter is important both for obtaining funding, marketing, outreach, and technical assistance.

In Australia and Costa Rica, some certification programs have been developed with support from the academic community. This has allowed for technically strong programs to be developed at a reasonable price. In Peru, however, association with the university has created undue barriers to success.

Local government support for program start-up, as well as operation, has been the lifeline for many of the European and Australian programs and the New Hampshire program. Government funding that comes from recurrent funding sources – i.e. is built into a government ministry or agency budget – is preferable to one or two-time government grants. However, proponents agree that certification programs should be independent entities, separated from government bureaucracy and limitations. Developing a broad-based coalition that represents the various stakeholders involved in tourism – businesses, trade associations, NGOs, academic institutions, host communities, development agencies, protected areas, and government – helps to distance the programs from political biases and fluctuations.

Most programs charge businesses a series of fees for the services offered. The possibilities

include: an application fee, an annual membership fee, an audit fee, a license fee (allowing use of the logo for marketing), training fees, a marketing fee, and a re-certification or renewal fee. The programs that do not charge for certification are generally heavily subsidized by the local government and have widespread participation of the sector as a key goal. In virtually none of the cases (with the possible exception of the Heritage Environmental Rating Scheme, which charges high fees), are the programs dependent solely on fees for operation. In fact, practitioners have found that if they are dependent on fees alone, the cost for tourism businesses would be prohibitively high. In addition to fees, revenues from businesses include purchase of products or services offered by the certification program or organization sponsoring it.

While there are a variety of fee structures used, not all of the various fees mentioned above are used by any one program. The selection of which ones to charge depends on who is carrying out the different functions of the program (e.g., is there an independent auditor), how long the certification period is, the ability of businesses to pay, the marketing and promotion offered, and the degree of complexity desired. In any case, most programs offer a sliding scale of fees, which is highly recommended in order to generate adequate revenue from larger businesses while also encouraging smaller businesses to participate. A few programs have a system where lower levels of certification cost less than more advanced ones; this serves as encouragement to businesses to at least begin the process even if they may not be able to meet all the criteria.

The programs that are most financially viable have one or several of the following characteristics:

- They are based in an organization which has other programs in addition to tourism certification. Costs are therefore shared with the mother organization (AAA is one example);
- They have assembled a broad variety of partners (representing governments, donor institutions, NGOs and the private sector) who contribute funding or in-kind services (including marketing and promotion) and, in some cases (e.g. Blue Flag), are active and recognized internationally
- They are largely supported by local governments who consider sustainable tourism certification part of their mission and programming.
- They have secured significant investment from the private sector and charge high fees for a variety of services offered (including certification, use of logo/label, advertising, training, consultancy, etc.). The downside to the latter is that it is difficult for SMEs to access the program.

Once a program has been developed, on-site audits are one of the most costly expenses. Some programs have chosen to farm out this service, using private companies or individuals who charge their own fees, often with a small portion of the audit fee being paid to the certification program.

While some resources are needed to train and monitor auditors (to ensure fair and accurate application of the criteria), this strategy is proving to be cost-effective. However, it can serve as a barrier to SMEs unless other resources are available to help them pay for the site audit. On the other hand, some programs do not demand an on-site audit but rely on self-audit. In this case, costs are reduced but credibility and the assurance that the companies conform to the standard

are compromised

As stated, some programs offer training and consultancy services to businesses in the process of becoming certified or re-certified. While this can be an important source of income, care must be taken to ensure that the trainers or consultants are not the same as the auditors/assessors (in order to avoid conflicts of interest). Green Globe endorses independent trainers, consultants and assessors who are paid directly on a fee-for-service basis by whoever employs them, but also receives a small administrative fee from components of the process (i.e. registration, certificate processing etc.). Training and technical support or help lines are important to remove barriers to entry for SMEs. Funding specifically to encourage SMEs to receive training and become certified can be obtained from multi-lateral and government sources and can contribute to a program's financial viability at least for the short term.

Marketing to certifiable businesses, as well as to consumers, is an often-neglected responsibility of most programs, in large part because insufficient funding and time are budgeted for it. While funding is required to develop and implement many parts of a marketing strategy, promotional assistance has been provided at little or no cost from a wide array of partners. The marketing of certification programs and certified businesses to consumers is very expensive and time-consuming. Therefore, most of the promotion that certification programs have carried out is "business to business" (or, organization to organization). For example, some programs have gotten governments, through tourism and environment ministries and tourism boards, to promote or list certified businesses in their directories and other publications. In Australia, Ecotourism Australia has received marketing support for certified products from the Great Barrier Reef Marine Park Authority, a government protected areas agency, which participated in a trade show and promoted the certified products in its jurisdiction. This government support is useful because they can reach national as well as international markets. Collaboration with non-profit advocacy groups and trade associations to educate constituents about sustainable tourism certification and certified businesses is also effective. The media (newspapers, magazines, trade journals, TV, radio, web, etc.) are obvious providers of advertising and promotional assistance. Finally, co-marketing with other "green" certification programs, businesses linked to tourism or to providing environmentally-friendly products and services also increases awareness and buy-in.

Marketing to tourism businesses, as well as to consumers, is vastly facilitated when certification programs are part of larger organizations with well-developed memberships or constituencies (Gum Nuts and AAA are examples). That is, organizations which already have a faithful market – of tourism businesses or consumers – can more effectively create a demand for certification services.

Many programs say that they are limited by insufficient interest from businesses to become certified or to re-certify when their logo/label expires. This makes it difficult for them to grow their programs, and thereby replenish budgets or pay expenses. At the same time, these programs cannot increase their fees because businesses will not pay more for the services offered. The root of the problem is that there is not currently enough demand from the marketplace for certification. Unless there is demonstrated market value, companies are reluctant to expend money for the logo/label. Similarly, donors want to see market value, as well as environmental and social or cultural value, for sustainable tourism certification to justify their investments.

Feeling constrained by their budgets also means that certification programs cannot do adequate marketing of certified businesses (which would increase the value of certification to businesses) nor of the programs themselves. Many would like to conduct outreach to increase demand from tour operators, but do not have resources for this, nor for a direct consumer campaign. Other programs see the need to improve or revise their criteria, but cannot afford to do so.

Some programs also feel constrained by the institutions that run them. This is especially true with government-run programs that have insufficient budget allocations and which may create bureaucratic impediments. It is also difficult for some of the privately-run programs to access donor support, market access and outreach to potential sponsors or partners. Some programs that are run by industry-based NGOs (such as EcoCertification) are also constrained by potential conflict-of-interest because it's the industry that's setting the standards and policing them. In Latin America, the market is also a constraint because there is little awareness or culture of certification or regulation, making it difficult to generate interest among businesses.

SMEs with limited resources to engage in certification are often able to receive support in order to stimulate their participation. A sliding scale of fees in which smaller businesses pay lower fees (for membership, application, audit, training, etc.) is a great help. For some programs, these costs are subsidized through the fees paid by larger businesses, while in others – especially those with significant government support – they have been accounted for within the budget. Some programs also receive outside funds from interested NGOs, as in the case of some of the Latin American programs, or from larger multi-lateral donors to assist SMEs in preparing for and becoming certified. A couple of programs allow SMEs to receive recognition for lower levels of certification at no cost. Financial incentives from government and banks are also beginning to become available. These institutions are starting to provide lower interest credit for SMEs who become certified.

Chapter 4. Incentives & Funding Bodies

Numerous **incentives** can be provided by governments and funding bodies to facilitate or promote certification. Many of these are described in detail in the document “Current range of incentives offered to businesses by ‘green’ certification programs and quality-ratings systems”, written by The International Ecotourism Society (TIES) for Rainforest Alliance (2005). Technical and governmental assistance may be offered as follows, among other possibilities:

- Guidelines, criteria and a framework for implementing measures to ensure quality control, safety, security, social responsibility, Fair Trade, environmental responsibility, or management/administrative/financial accountability
- Training or consultant advice on environmental, social, quality, management, administrative or financial issues or on applying for certification
- Informational resources to implement technical or managerial changes
- Marketing statistics, information and training
- Networking support or assistance in developing cooperatives or mutual support systems
- Partnership opportunities with government, NGOs, other industry members, etc. Benefits may include marketing support, discounts, preferred access and technical assistance.
- Discounts on materials, equipment, consulting fees, labor, etc. needed to implement certification criteria
- Reductions in certification (or re-certification) fees or financial assistance to pay fees
- Governmental endorsements for certification programs, sometimes as a response for implementing environmental legislation
- Reduced fees for use of common (government) resources, such as national parks
- Reduced fees for professional development opportunities (trainings, conferences) or membership in professional organizations
- Governments giving longer term permissions or preferential access to government-managed resources (e.g. cultural and natural assets such as are found in national parks)
- Governments offering tax or other financial incentives
- Government endorsements for exemptions from certain policies or limited access regulations
- Governmental programs to help industries (e.g. hotels) adopt sustainable practices

It should be considered that any governmental intromission into certification programs, practices, or incentives may bring into play international trade agreements, such as GATS (General Agreement on Trade in Services).

While the incentives listed here are those which build support for certification programs and for certified products and services in a positive way, there are also negative incentives that can stimulate certification. These fall under the category of regulatory pressures and may, especially in countries that effectively enforce regulations, serve as the main incentive for businesses to

adopt voluntary certification⁷. Companies want to avoid or preempt monitoring and stringent regulations imposed by governments. In addition, in many places they are increasingly feeling pressure from consumer groups and environmental organizations to look and act in an environmentally and socially responsible manner. If they fail to do so, they may suffer a range of consequences. Certification is seen as a less onerous and more attractive alternative to tough regulatory control and boycotts or negative consumer outcry. It is important to note that in places where regulations are ineffectively enforced or where consumer and NGO demand for social and environmental responsibility are low or non-existent, voluntary certification is more difficult to implement.

4.1 METHODOLOGY

In March 2006, representatives of 12 funding bodies and two non-governmental organizations (NGOs) supporting sustainable tourism or green certification in the United States, Latin America and Africa were interviewed by telephone using a questionnaire. The objective was to learn more about their funding priorities and interests; find out what types of relevant projects and programs they have supported; and elicit recommendations for how to help sustainable tourism certification and accreditation bodies become financially sustainable. In addition, their thoughts on helping small and medium enterprises (SMEs) and community-based businesses to become certified were elicited.

The funding organizations surveyed were multinational development agencies, private foundations and non-governmental organizations. They are:

- Interamerican Development Fund (IDB)
 - Multilateral Investment Fund (IDB-MIF)
- Global Environment Facility (GEF)
 - United Nations Development Program (UNDP) liaison
 - United Nations Environment Program (UNEP) liaison
- United States Agency for International Development (USAID)
 - Office of Global Development Alliances (GDA)
 - Natural Resources Management Unit
 - Guatemala Mission – Rural Income and Natural Resources Office
- International Finance Corporation (IFC)
 - Environmental Business Finance Program (EBFP)
- Rockefeller Brothers Fund (RBF)
- Wallace Global Fund (WGF)
- GTZ Transform
- IUCN-South Africa and ComMark Trust – both NGOs

⁷ Rivera, J., 2004. "Institutional pressures and voluntary environmental behavior in developing countries: Evidence from Costa Rica." *Society and Natural Resources*, Vol. 17: 779-797. and Rivera, J., de Leon, P. and Koerber, C., 2006. "Is greener whiter yet? The Sustainable Slopes Program after five years." *Policy Studies Journal*, Vol. 34, No. 2: 195-224.

4.2 FINDINGS

- ***INTERAMERICAN DEVELOPMENT BANK (IDB) and MULTILATERAL INVESTMENT FUND (MIF)***

IDB-MIF has provided significant funding for sustainable tourism planning, training and implementation, as well as for developing sustainable tourism certification programs in Latin America. They provide grants, mostly to the private sector, to finance risky operations that are innovative – primarily in the form of pilot projects that can be replicated elsewhere. While they are still interested in ensuring the success of sustainable tourism certification, unless a new project adds significant value to existing projects, they would be reluctant to put more money into certification, e.g. to fund the start-up or operation of additional programs. .

They do not finance recurring costs, so would be unlikely to fund individual certification program operations. In fact, 85-90% of their funding is for technical assistance. They also do not finance credit or acquisition of equipment or infrastructure.

The Center for Integrated Productivity in Chile runs a program in which the government subsidizes private sector institutions in a variety of occupations to modernize or improve their performance. While the IDB has financed programs of this sort, this mechanism has not been used in tourism. It would be possible, however, to establish a fund for sustainable tourism certification in which government funds obtained from sustainable tourism monies that IDB has provided cover half of the start-up and initial operating costs of certification, with private industry supplying the rest.

The IDB also has funds that are offered by non-borrowing members (such as the UK, USA, Japan, Holland, etc.) to provide technical assistance in a range of sectors. Even though project consultants and other service providers must come from the donor countries, such funds could be used to support early stages of sustainable tourism certification.

MIF feels that certification programs must be demand-based. That is, they must provide sufficient value to users so that tourism businesses will be willing to pay the full cost of certification services. MIF is willing to help the private sector, especially small businesses, to get started, but ideally the private companies should be able to influence governments to invest in incentive mechanisms to support certification. The private sector must engage in dialogue to convince governments of certification benefits, including return on foreign exchange, employment and conservation of natural and cultural heritage.

While it is not clear or demonstrated that sustainable tourism certification provides marketing or other economic benefits to tourism businesses, it is the industry that must buy into certification in order for it to work. The private sector who must take the lead role, with local governments providing policy and marketing support.

- ***GLOBAL ENVIRONMENT FACILITY (GEF) – UNITED NATIONS DEVELOPMENT PROGRAM (UNDP)***

UNDP-GEF has approved its first project to support “green” certification in 2006. It is a \$12 million grant to Rainforest Alliance to promote sustainable coffee. However, it is also working to develop the commercialization and sale of a variety of certified products around the world. Most

of these are agricultural, few are forestry. It has also done a lot of work in tourism with governments and NGOs, but not yet in certification. It has proposed the development of standards and then the introduction of certification into tourism projects, but to date no funding has been provided.

The program is open to funding both start-up and operation of sustainable tourism. However, they would like to see evidence or information on what the benefits of certification are to industry or governments. The more benefit they can see, the more willing they are to support and promote certification. And, of course, if certification can be shown to increase tourist numbers, governments would also get behind certification.

Continued financing for sustainable tourism certification could come, in part, through a government-run environment fund financed by tourism-related taxes or surcharges. It could be similar to Belize's airport tax which goes to the Protected Areas Conservation Trust (PACT) to help strengthen protected areas, or to Nepal's airport tax which is used by the tourism sector for marketing.

UNDP-GEF projects provide capacity-building and technical support to small and medium enterprises (SMEs) with the idea that financial payback comes through the premiums charged. If it can be demonstrated that tourism certification can increase income for tourism SMEs, loans for training and technical assistance can be paid back in a similar fashion. Or funders can provide grants for this purpose.

Another way that UNDP-GEF can encourage SMEs to become certified is through the banking institutions. When they provide financial incentives to banks, they help develop criteria to ensure that the investment is environmentally friendly. For tourism investment, certification programs could be used instead. In essence, becoming certified would be part of the cost of business development covered by the loan.

The UNDP could also be interested in supporting an STSC, though whether it has capabilities to do so is another matter. The Bureau of Development Policy – Energy and Environment Group should be approached.

- ***GLOBAL ENVIRONMENT FACILITY (GEF)
UNITED NATIONS ENVIRONMENT PROGRAM (UNEP) LIAISON***

GEF/UNEP has two sustainable tourism projects which involve support for certification. One is implemented by Rainforest Alliance and Conservation International and provides technical assistance to selected tourism SMEs in Ecuador and Belize or funds them to become certified. The other, implemented by Ecological Tourism in Europe, supports sustainable tourism development in Central and Eastern Europe by introducing a regional sustainable tourism certification program based on the Viabono program.

GEF finances a range of biodiversity interventions, but they must be innovative. They are unlikely to fund more certification-related projects unless the proposal is especially unique and promising. It should be noted that the nature of GEF funding will change in July, with grant resources for biodiversity being allocated on a country by country basis.

- ***UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)***

US-AID's Global Development Alliance (GDA) supports USAID staff in the missions to provide training and outreach to support public-private alliances. It has supported Rainforest Alliance's banana certification in Central America. It funds innovative ideas, which could include sustainable tourism certification. However, all projects must be initiated by USAID missions and must build partnerships, with 1 to 1 leveraging between USAID and the private sector. They recommend involving businesses at the end of the supply chain and closest to the consumer. These would include tour companies, cruise lines hotels and airlines that have resources and an established customer base and market. If partners such as these are interested, the USAID missions could be approached for support for training and outreach for sustainable tourism certification.

The USAID Office of Natural Resources Management also provides technical assistance and leadership to field offices/missions. Again, requests must come from the field and could support capacity building for businesses so that they can reach certification standards and also be able to qualify for loans that are contingent on being certified. This sort of assistance is especially useful to SMEs. However, eventually certification must become self sufficient, either with their own resources (memberships, fees, services offered, etc.) or with local government support.

The regional USAID Rural Income and Natural Resources Office, based in Guatemala, has supported two PROARCA projects in Central America since 1996. They included assisting SMEs and Protected Areas managers to implement best management practices in tourism, and provided funding for local and international NGOs to carry out the activities. While sustainable tourism certification is not a priority of USAID, adoption of responsible practices is.

There is a pending Request for Proposals in the Guatemala – U.S. bilateral program to support sustainable tourism, and the funding could be used to support SMEs in adopting best management practices, thereby helping them to become certified. As part of a USAID project to help INGUAT develop a five-year tourism strategy, ADP, a US company that works in expert services and offers consulting in different sectors, has been awarded a contract to promote responsible practices that support the conditions for CASCA implementation.

Another recommendation is to approach the Banco Centroamericano de Integración Económica (BCIE) which has a line of credit to support responsible business and cleaner production. It might be interested in supporting sustainable tourism certification if a well written proposal is presented.

- ***INTERNATIONAL FINANCE CORPORATION (IFC)
ENVIRONMENTAL BUSINESS FINANCE PROGRAM (EBFP)***

The EBFP helps develop markets for SMEs whose activities benefit the global environment. It is funded by GEF and it finances SMEs that undertake eligible activities in 6 sectors including tourism. They finance financial intermediaries or banks that lend to the sectors, and provide technical assistance to SMEs and financial institutions. In doing so, they help SMEs gain access to financing, boost demand and supply for environmental products and services, and build

strategic partnerships. They have provided funding for ecotourism, in part through the eco-lodge study that examined key factors that make an ecolodge environmentally, socially and financially successful. It is likely that they have not yet funded any “green” certification.

EBFP is interested in financing ecotourism and sustainable tourism anywhere along the value chain, as long as it is within the GEF areas of global biodiversity. The EBFP could potentially fund the start-up of a certification program in a particular country, especially if there is a bank interested in supporting sustainable tourism but that does not have criteria for determining which businesses are good candidates for investment.

They recommend that marketing of sustainable tourism certification be done with the support of environmental NGOs such as WWF. A real world example was the GEF small grants project in which Reef Check partnered with Blue Flag in the Dominican Republic to train dive operators and staff at resorts in one of the main diving centers, and helped the resorts become certified through Blue Flag.

- ***ROCKEFELLER BROTHERS FUND (RBF)***

The RFB is a major funder of the Forest Stewardship Council, having provided about \$10 million over a period of time. They have never funded any tourism certification. Now their main priority is climate change, with a much smaller focus on marine conservation.

They RFB believe that certification systems should be self-supporting. However, they feel that it makes sense for governments to subsidize the costs of tourism certification internally because the benefits of more sustainable management of hotel and tourist facilities are captured locally. Regional funding from a development agency such as GTZ, USAID, WB or IDB could be applied regionally to transform Central America into a sustainable tourism Mecca by “greening” existing as well as new tourism facilities.

- ***WALLACE GLOBAL FUND (WGF)***

WGF was one of the founding supporters of the FSC, and has also supported FairTrade and Rainforest Alliance’s certification work. In addition, it recently provided support to the Center for Ecotourism and Sustainable Development to explore ecotourism certification particularly for indigenous and community-based operations. They have limited interest in tourism or sustainable tourism, so future support for sustainable tourism certification is unlikely (for the CESD project, the focus on indigenous people was the attraction).

They also believe that over the long term, certification programs must be financed through memberships, fees and other services that they offer. However, support from government, as well as the social investment community, are viable options. In the case of the latter, certification programs could be viewed as an investment opportunity – as a business which issues bonds. This has been done in the energy sector (e.g., E + Co and the Energy Future Coalition which has developed Global Development Bonds, a new class of securities for sustainable energy investments in developing countries).

AFRICAN DONORS AND NGOS

- ***GTZ TRANSFORM, IUCN-SOUTH AFRICA AND CONMARK***

GTZ Transform is a joint venture between GTZ, the German government development agency, and the South African Ministry of the Environment and Tourism. They provided a grant to Fair Trade in Tourism South Africa (FTTSA) in 2002 to assist their attendance at the Hanover Reisepavillion tourism fair.

GTZ Transform feels that certification systems could be made more financially viable if their participation in trade fairs was funded and support given to enhance their capacity to get clients to become certified. Government funding is an option if the certification scheme is country specific, as the initiative could form part of a national tourism marketing program, and would support pro-poor strategies being implemented by the government. However, this assumes the government would approve of the program and would allow it to be institutionally and financially independent from the government.

IUCN, an international NGO which receives funding from multi-lateral agencies, foundations and private sector, and focuses on biodiversity conservation and sustainable development, provided in-kind support to a certification program to house and assist with fundraising.

Conmark, an independent trust dedicated to reducing poverty in Southern Africa, provides grant funding to address areas of market failure. It made a small grant to organize members of a certification program to become self-financing after the set-up phase. They might potentially be interested in financing the start-up phase of a certification program, depending on its design and proposed operation, and whether it was conducive to more effective, inclusive operation in the market. It would also consider whether it was self-financing, reliant on subsidies, or dependent on the participation only of 'well-heeled' enterprises.

4.3 LESSONS LEARNED

In order for sustainable tourism certification to gain the recognition and support, financial or otherwise, to become financial viable, demonstrable benefits must be shown. That is, it will be important to prove that certification provides economic, environmental, social and cultural value or benefit to businesses and destinations. Research and evaluations of the impacts of tourism certification will be necessary. Results of such analyses should be widely disseminated to governments, the tourism industry, non-profit organizations, funders (private, as well as multi and bilateral institutions), tourists and civil society.

Sustainable tourism certification must, in the long run, become financially self-supporting. There are several ways in which this might occur, but in any case, tourism businesses must recognize the economic value of certification and must become willing to pay the associated costs.

Private and public funding institutions can play an important role in the start-up and initial operation of certification programs, as well as in assisting SMEs, but their commitment will likely be relatively short. Many funders interviewed indicated interest in "green" certification in general, and sustainable tourism certification in particular, and have provided support for such programs, but they are unlikely to provide repeated support. They prefer to invest in programs

that are new and innovative, and that will serve as models for others, rather than to provide repeat funding for the same project or a similar one from another applicant,

Governments can play a longer-term role in providing support for sustainable tourism certification because it is in their national (and local) interest to ensure that tourism within their jurisdictions is sustainable. They must be convinced that sustainable tourism certification is an indispensable tool for ensuring that tourism is environmentally, socially, culturally and economically sound. Once convinced, they can and should provide financial, marketing and other in-kind support for certification programs and certifiable SMEs. Funding mechanisms for such assistance may include taxes on tourists or tourism businesses, as well as other revenue streams. They can also provide incentives – tax credits, special privileges, financing credit, etc. – to certified businesses or certification programs. Finally, governments can play an important role in marketing certification and certified businesses or products.

The private sector – industry, as well as NGOs – can play a key role in influencing governments to provide financial support by way of tax credits and other incentives for sustainable tourism certification.

Financial support can also come from private investors, especially those involved in socially responsible investing. Mutual funds, community investment trusts, and other investment vehicles can become sources of investment capital for certification initiatives. In addition, certification programs could issue bonds to investors as a source of financing.

Certification can be used as an incentive to businesses when seeking credit or financial support from banks and other financial institutions. Many donors and lenders now require that their investments be not only financially viable, but also environmentally and socially responsible. Certification can serve this purpose and should be promoted in this way.

4.4 RECOMMENDATIONS

Analyses of the economic, environmental and socio-cultural benefits of sustainable tourism certification should be conducted and the results should be disseminated widely – to the tourism industry, to governments, funders, NGOs and communities. Positive findings will be critical tools for promoting certification and generating financial support and buy-in from within the industry, as well as from funders, partners and tourists.

Persuade governments to provide tax and other financial incentives to certification programs and SMEs seeking certification, as well as to help market programs and certified businesses. Work with them to develop and impose taxes on tourists and tourism-related enterprises that can raise funds to support sustainable tourism certification and certifiable SMEs. Also, seek other sources of government revenue that can support certification and SMEs.

Educate financial institutions about the benefits of sustainable tourism certification and advocate that they use certification as a means for determining whether to approve grants and loans to businesses.

Explore the idea of working with the socially responsible investment community to seek

financing for sustainable tourism certification and certifiable SMEs. Approach socially responsible investment (SRI) mutual funds, as well as consider the idea of having certification programs issue bonds which would help finance their activities.

Research other creative sources of financing such as those which are being used by the conservation community and which utilize government funds for environmental mitigation (carbon offset, wetland banking, etc.) as well as private funds from environmentally and socially concerned businesses and individuals.

Engage tourism businesses and non-profits/NGOs to work collaboratively to convince governments, private donors and multi-lateral or bilateral funders of the benefits of sustainable tourism certification. Solicit their support for marketing and advocacy.

- IDB, together with the tourism industry, to explore the idea of creating a partnership program to support sustainable tourism certification programs. Financial assistance from IDB provided to governments for sustainable tourism could be combined with private funding for start-up and initial operation of sustainable tourism certification on a country by country or regional level.
- MIF for support to help SMEs receive technical and financial assistance to become certified.
- UNEP-GEF for financial support for start-up and operation of sustainable tourism certification programs once there is data to demonstrate certification's benefits. In addition, seek loan or grant funding for capacity-building and technical support for certifiable SMEs. Explore the idea of working with them to encourage local financial institutions to require certification from businesses requesting credit or other financial assistance. Finally, discuss and promote the STSC concept with them (specifically, the Bureau of Development Policy – Energy and Environment Group), as they might be willing to support it.
- USAID missions (as opposed to the global bureau) to apply for assistance from either the Global Development Alliance or the Office of Natural Resources Management for sustainable tourism certification training, technical assistance and outreach. In the case of GDA, private sector matching support is required, so industry must also be recruited.
- USAID partners such as ADP who promote responsible practices that support the conditions of newly-signed free-trade agreements.
- Banco Centroamericano de Integración Económica (BCIE) to require that its line of credit for responsible business and cleaner production require certification as a condition for support.
- IFC's Environmental Business Finance Program to seek aid for the start-up or initial operation of certification programs in countries that are within the GEF areas of global biodiversity and where local financial institutions support sustainable tourism. SMEs may

also be helped with financing, marketing and technical assistance with their support.

- GTZ to help governments fund and market country-specific (though not necessarily run by the government) sustainable tourism certification programs. Certification could be “sold” on environmental grounds as well as to support pro-poor strategies.

Continue to research other funding organizations and agencies, to explore their interest in providing support for sustainable tourism certification or SMEs.

Chapter 5. Potential Financial Models

5.1 INTRODUCTION

This chapter examines the process of developing, implementing, and operating a sustainable tourism certification program from a financial point of view. Financing the different steps in the initiation and operation of a successful certification program requires a variety of different income sources, and will likely include some sort of long-term public or private funding.

Because of the wide variety of organizational structures, market conditions, and availability of working capital, no single model can apply to all programs. Rather, we have identified the most salient factors for the majority of programs, especially those in developing countries of the Americas, and offer a range of financial sources and tools that can be used to both develop a program and build long term financial stability.

Most certification programs begin with a feasibility study, the development of standards, and the initial promotion of the program to potential users. This is followed by a long period of introduction of the program to the market, and a certification cycle that can vary significantly from program to program. Standards must also be periodically renewed, once a program is in operation. For clarity, we have divided these stages into two phases: (a) start-up and standards development and (b) operations, including standards renewal.

In general, the three most common sources of income are: (a) start-up contributions from multilateral agencies, philanthropic foundations, NGOs, and governments, for developing the standard and launching the program; (b) operating income from fees and services offered by the certification program; and (c) operating income from governments, NGOs, educational institutions, and other ongoing, long-term sources.

One very important justification for outside financing is that governments, multilateral agencies, and NGOs have instituted a number of rural development programs that depend on sustainable tourism as a tool for poverty alleviation and natural resource protection. Many of these programs have identified certification as a cost-effective way to ensure that their development and environmental goals have been met and will continue to be met over the long term. As a result, some entities have financed standards development, while others have focused on financing the direct costs of certification audits. Nevertheless, they seldom offer financial support for the first years after standards development (when there is little income from fees), marketing, support for technological and structural changes in the businesses being certified, or operating the certification programs themselves. As a result, many certification programs are financially stressed, unable to expand in the first years of operation, or unable to survive at all.

Once past the first years, financial sustainability depends on sufficient operating income to pay all necessary expenses. Self-generated operating income largely depends on the number of businesses or activities certified, the pricing structure, and cost-reduction measures. Most successful certification programs that consider themselves financially stable have a large number of certified businesses, shared operating costs with other parts of the same organization, and the support of large tourist industry players.

In nearly every case studied, however, the programs also received long-term support from sources other than certification fees. This support can be direct (money) or indirect (incentives). Tourist industry organizations, for example, have offered their support as a way of protecting the image of the industry in a given destination, while NGOs and governments may support these initiatives when they coincide with development or conservation goals. Governmental incentives for certification have been important in some countries in motivating businesses to become certified, increasing the likelihood of achieving the financial stability of the certification programs.

Some of the strategies that have been or might be used to start and operate a sustainable tourism certification program are described below.

5.2 PHASE 1: START-UP FUNDING AND STANDARDS DEVELOPMENT

Cost centers for start-up

There are three commonly-used routes used for developing certification standards:

1. In-house development of a proprietary standard that then belongs to the newly created certification organization. This method was chosen by CST, SmartVoyager, and Green Deal in the Americas. This has been the most common path in sustainable tourism certification, but it is quite unusual in other industries, where standards are usually developed by national or international standardization bodies.
2. Development of a national standard for sustainable tourism, through the national standardization body (usually affiliated with ISO and with the Pan-American Standards Commission [COPANT] in the Americas). This route establishes a public standard, through public consultation, that can be audited and certified by any accredited body. In some cases the lead organization in the development of the standard may have a competitive advantage in certification and training over other accredited entities. This method was chosen for the development of PCTS (NIH-54) in Brazil.
3. Adaptation to local conditions of an existing standard under license, as mentioned above. This method has been used by Green Globe 21 and Blue Flag in the Caribbean, and it has the best chance of international market recognition when based on a well-known standard.

It is not clear which of the first two alternatives is more cost-effective, but the third route is clearly less expensive than the others and is increasingly popular as more new sustainable tourism certification programs seek to conform to existing ones. Each of the routes, however, can lead to operational drawbacks:

- Route 1 tends to lead to a high, or even excessive, sense of ownership and a reluctance to change, compromise, give reciprocity to other propriety standards, or ensure harmonization with other standards. It can produce a strong attachment to its own label, with a corresponding reluctance to be subsumed by an accreditation body or network.
- On the other extreme, route 2 may well lead to an underdeveloped sense of ownership and lack of drive to promote the standard or program.
- The third route can also be problematic because the standard has to deal with the contradictions implicit in application over a wide geographic or even global area – often

leading to using a “least common denominator” approach to criteria – while suffering because the standard has been developed without local multi-stakeholder involvement from the beginning. However Green Globe (GG) has successfully overcome these barriers and adapted NEAP (Australia) to become the International Ecotourism Standard (IES), which in turn is adapted by GG to work with local programs and adapt to local conditions.

An intermediate path has been the adaptation by one country or region of a slightly modified standard from another region without licensing or recognition of intellectual property rights, which lowers development costs but may result in legal problems in the future. This path has been followed by some countries that have copied CST, NEAP, and GG and at least one that has copied Blue Flag. A more ethical approach, while still cost-effective, is to base a new national or proprietary standard on conformity with accepted baseline criteria, such as the VISIT standard for Europe, the baseline for the Sustainable Tourism Certification Network of the Americas, or the Mohonk Agreement.

Start-up costs in each of these routes can differ greatly, but share a number of common elements. The start-up phase ideally includes a feasibility study, the definition of the product group to be certified, analysis of the environmental and social impacts of the activity, definition of the potential to reduce negative impacts by voluntary measures, the calculation of cost and benefits, the definition of the criteria (including mandatory and optional, process and performance), scoring system, and verification system. It should also take into account the costs for launch, presentations, and promotion. Other aspects may include setting up the system in various destinations, support from complementary initiatives and legislation, development of communications, training systems, and so on. In addition, under internationally accepted good practice, public consultation with all important stakeholders is an indispensable, but very expensive, part of standards development.

Some start-up costs can be delayed until the final stages of the introduction of the standard. These include professional graphics (printed and online), logo production, corporate image, and branding. These are often expensive, as is the cost of producing interactive Web-based application documents and secure payment web pages for more sophisticated programs. The latter are generally unwarranted until a program is well established, has a large and widespread market base, or has an international focus.

Other costs can be delayed until the transition from start-up to operations: Most programs need to have some technical support (such as a help line) to encourage and facilitate the certification process. Training materials can be produced to specifically support programs, but take time and effort to produce. All of the above should be taken into account when determining initial capital costs of start-up.

In addition, the transition to full operations requires a long period with little income from fees and other services. This initial period, often handled by staff and volunteers working at low or no pay, should be considered a start-up cost. In many programs this period has been from two to five years.

Start-up funding

Every certification program studied received substantial outside funding for developing standards and other start-up costs. These amounts ranged from US\$200,000 (e.g. Green Deal and CST) to more than \$1.5 million (e.g. Green Globe and PCTS⁸). In Europe these costs are mainly covered by government or European Union funds or policy programs (e.g. the EC-LIFE program). In contrast, the start-up phase of certification programs in the Americas has been financed by a variety of principal sources: (a) by multilateral agencies, such as the Interamerican Development Bank (IDB) in Brazil; (b) by government tourism departments (as in the case of CST in Costa Rica); and (c) by NGOs (e.g. Green Deal and Smart Voyager). However in almost every case, a combination of several sources and in-kind support has been used. For example, CST was developed with financing from the government tourist board (ICT), a business school (INCAE), bilateral funds (USAID), and much in-kind collaboration from the tourist industry and academic institutions. In one program under development, STI's STEP, in the U.S., there is collaboration between an NGO and a for-profit standards development company.

Funding for new certification initiatives has been motivated by the interest of governments, multilateral agencies, and conservation NGOs in enhancing environmental, social, and economic indicators through voluntary mechanisms.

Currently, there appear to be only two ways to reduce these initial costs. The first is to adopt or adapt an existing standard, under license. Green Globe, Blue Flag, and Green Key all have such mechanisms to permit their standards to be rapidly adapted to new geographic regions. This is one of the reasons why these three are among the most successful of the sustainable tourism certification programs. Licensing agreements help to spread these programs and build compatibility among certification schemes; they also can provide a revenue stream for the host programs.

A second way to cut initial development phase expenses has been to rely heavily on in-kind or volunteer help from dedicated individuals, as well as from academic institutions. Many tourism businesses also offer in-kind support during the development phase. Green Deal, CST, NEAP, ESOK, and many others benefited from in-kind support from all of these.

Table 4: Cost centers and potential sources of income for developing standards for sustainable tourism certification programs

COST CENTERS	POTENTIAL INCOME CENTERS
<p><i>Initial standards development</i></p> <ul style="list-style-type: none"> • Consultants • Workshops • Publications (standard and manuals) 	<p>Typically range from US\$200,000 to over \$1.5 million, over 2-5 years.</p> <p>Donations from governments, NGOs, multilateral agencies or industry groups.</p>
<p><i>Validation</i></p> <ul style="list-style-type: none"> • Field testing 	
	<p>Interested businesses (hotels and tour operators) often offer in-kind support for</p>

⁸ Much of PCTS's start-up funding was for preparing a large number of businesses for certification.

<i>Introductory marketing and promotional materials</i>	program development. These can also often be justified as part of the original donation.
<i>First 2-5 years of operations, when there is little ordinary operational income from fees.</i>	These costs are unfortunately often not included in the proposal for start-up funding, but can cripple a program if not taken into account. This should include training workshops and initial operational costs.

5.3 PHASE 2: LONG-TERM FINANCIAL SUSTAINABILITY: OPERATING INCOME

Cost centers for the operational phase

The operational phase begins as soon as a program begins to certify, but, as mentioned above, full-scale operation in a well-run program usually takes 2-5 years before there is significant cash flow from fees. At that point, programs may receive user fees, government funds (usually derived from tourist taxes), partnerships with NGOs or industry associations, etc. Multilateral or bilateral assistance programs rarely finance full operations, although they may subsidize certification fees and preparatory costs for making businesses certification-ready.

The operational components vary significantly from one certification program to another. Nevertheless, they share in common a series of elements, divided into relatively fixed costs and the variable costs of the certification cycle.

Fixed costs, that vary only slowly as a program grows, include:

- Permanent staff (frequently 3-4 people, even in relatively large programs);
- Office costs (can be shared with other parts of a larger organization for cost reductions and economies of scale);
- Marketing, including advertising, publications, and regional seminars to attract businesses to become certified (*n.b. It has been amply demonstrated that certification programs rarely have the expertise or funds for direct consumer marketing, so internally financed marketing should be aimed towards potential clients to be certified and industry intermediates.*⁹);
- Website maintenance;
- Development of incentives for certified businesses, often in cooperation with governments and industry leaders;
- Feedback workshops: certified businesses and other stakeholders meet with program to review results and revise and modify standards as necessary;
- Lobbying governments for incentives and promotion;
- Participation in international events oriented towards harmonization and possibly accreditation.

⁹ “Marketing Strategy for Sustainable Tourism Certification”, The International Ecotourism Society (TIES), 2005, for Rainforest Alliance.

A typical operational cycle¹⁰ for certification, with variable costs, is:

1. Technical assistance training program for potential clients (very wide range of costs, depending largely on distance traveled by participants);
2. Business fills in online questionnaire on sustainability management system (SMS) and sends to certification program for evaluation, which analyzes results and proposes steps to follow and costs (usually done by in-house staff);
3. Preliminary site visit (usually one day or less per business);
4. Evaluation and validation of results; select date for certification audit;
5. Onsite certification audit (1-6 auditor-days, depending on business size, at US\$200-600 per day);
6. Certification commission members evaluate each audit report individually and then together in commission (reported costs in one program range from US\$150-250 per certified business, with commission members serving *pro bono*);
7. Certificate of conformity is awarded in annual ceremony (very wide range of costs, depending largely on distance traveled by participants; in some programs, this is done by mail and there is no ceremony);
8. Annual follow-up audits or unscheduled site visits.

Total variable costs per certified business have been reported to range from US\$600 to \$2500 for small businesses, up to \$3800-5000 or more for medium to large businesses.¹¹ In some cases, this is considerably more than the price charged to the businesses, leading to increasing losses for every business certified. Some certification programs maintain staff auditors, in order to reduce the cost of audits for the businesses to be certified (e.g. Green Deal and CST); many others use accredited outside auditors who are paid directly by the business, in order to keep certification fees low (e.g. Green Globe).

Several of these steps should ideally be performed by independent entities, since direct technical assistance, auditing, and certification should be kept at arms-length from each other to maintain credibility. These steps thus require separate operational and administrative procedures, with a consequent increase in costs.

Operational funding

Operational funding can come from user fees for certification, services such as training, sales of publications and promotional items, or long-term support from partners. It is evident (from chapter 3) that very few sustainable tourism certification programs are likely to cover all operating costs from user fees only. All programs examined received some financial support (25%-100%) from outside donors or institutions, even those that declare themselves to be self-sustaining (e.g. Blue Flag, NEAP/EcoCertification, Green Business Scheme, and Nature's Best). This study of certification programs in tourism and other industries has shown that many do not expect ever to become self-sufficient on user fees alone, but rather have established long-term partnerships with institutions that are willing and able to fund parts of their operations indefinitely.

In the few cases where user fees may eventually cover certification program costs (such as Green

¹⁰ This certification cycle is based on blending the procedures from Green Deal, CST, PCTS, and SmartVoyager, but has great similarity with most other programs.

¹¹ Based on confidential information offered by several certification programs for this study.

Globe and Viabono, from Germany), our research indicates that this requires the following significant elements:

- Market recognition and support by commercial intermediaries (such as large tour operators, travel wholesalers, corporate and government purchasing agents, guidebook publishers, etc.);
- Critical mass of certified businesses or products (several hundred or more);
- Enough time to establish credibility and recognition (in many cases 5-7 years for commercial intermediaries, up to 20 years for consumers);
- Complementary sources of income (e.g. Viabono receives 50% of its finances from license fees; another 20% from sales of environmentally friendly products to certified businesses; much of the remainder through travel agency commissions of 2% of bookings through the Viabono data base)

This is more likely to occur when businesses perceive that certification will provide significant market value, environmental savings (e.g. reduced energy bill), improved business management, increased community support, and valuable incentives (e.g. better access to credit at lower cost, preferred access to protected areas, etc.).

Table 5, below, drawn from a study of a wide range of programs, offers a comprehensive list of the operational components of a typical certification program and mechanisms for obtaining financing for each component. Following the table, there is additional explanation of some of the key potential income centers.

Table 5: Cost centers and potential sources of income for operating sustainable tourism certification programs

<i>ADMINISTRATIVE OVERHEAD</i>	<i>COST CENTERS</i>	<i>POTENTIAL INCOME CENTERS</i>
<i>Office overhead</i> <ul style="list-style-type: none"> • office rental • maintenance • utilities • office supplies • furnishings and equipment • communications and other 	Office overhead is nearly a fixed cost, but may be reduced by sharing with other organizations or when the certification program is only one activity of a larger organization	Administrative overhead is generally paid out of certification fees.
<i>Salaries – full-time</i> <ul style="list-style-type: none"> • executive director • technical coordination • administrative assistant • financial officer • cleaning and maintenance • other 	Administrative salaries are fixed costs that may be as high as US\$300,000 in developed countries.	

<i>ADMINISTRATIVE OVERHEAD</i>	<i>COST CENTERS</i>	<i>POTENTIAL INCOME CENTERS</i>
<i>Salaries – part-time</i> <ul style="list-style-type: none"> • professional services • other 		
<i>Auditors</i>	Auditors may be on payroll or accredited free-lance auditors paid by the business to be certified. To keep certification fees at a level acceptable to the market, many programs charge for audits at cost or at a loss.	Where audit costs are too high for small businesses to pay, financial support for SMEs is often available from multilateral agencies or governments.
<i>Non-certification activities</i>	Any licit activity that may produce a profit while not affecting the image of the organization or its credibility.	Commercial activities that do not affect the credibility of the certification may permit the cost of certification to be reduced.

<i>DIRECT COSTS FOR CERTIFICATION</i>	<i>COST CENTERS</i>	<i>POTENTIAL INCOME CENTERS</i>
<i>Induction workshop</i> <i>Preliminary visit to site</i> <i>Help line/ technical support</i>	These are standard operating costs in order to make a program viable.	Paid out of operating income. Workshops may obtain in-kind support from local businesses.
<i>Benchmarking</i>	The use of benchmarking and performance indicators is found only in some certification programs.	Paid by businesses directly to benchmarking organization.
<i>Referee checks/desk audit</i>	Usually done by in-house staff or auditors.	Paid out of certification fees.
<i>Field audits</i>	This is the most expensive component of certification from the point of view of the business certified.	In many cases, paid directly by businesses to auditors, including honoraria and travel costs.
<i>Certification panel meetings</i>	Travel costs and honoraria.	Members often serve ad honorem.
<i>Design and issuing certificates</i> <i>Awards ceremony</i>	In large countries, travel costs can be significant, and ceremonies might be conducted regionally or not at all.	Support can often be obtained from interested government institutions.

<i>DIRECT COSTS FOR CERTIFICATION</i>	<i>COST CENTERS</i>	<i>POTENTIAL INCOME CENTERS</i>
<i>Follow-up visits</i>	Most programs have provisions for checking anomalies or complaints. This is an operating cost.	Paid out of certification fees.

<i>PUBLICATIONS</i>	<i>COST CENTERS</i>	<i>POTENTIAL INCOME CENTERS</i>
<i>Standards and Implementation manuals</i>	Costs include printed matter in small quantities (standards and manuals), as well as large quantities of brochures for industry and the public. A dynamic website should be maintained giving current information about the standard, requirements, and how to contact certified businesses. These documents must be considered as part of the operating budget.	ISO and other organizations charge for standards and manuals. However public, free availability of standards enhances credibility. It is possible in some cases to obtain cooperative financial support from certified businesses for websites and brochures.
<i>Information for industry</i> <i>Information for general public</i>		

<i>TRAINING SEMINARS & WORKSHOPS</i>	<i>COST CENTERS</i>	<i>POTENTIAL INCOME CENTERS</i>
<i>For assessors/auditors</i>	Can be offered at cost, at no charge, or at a profit.	Independent auditors and audit firms will pay substantial sums to be trained and accredited.
<i>Other staff training</i>	Normal operational expense.	Staff training is normally paid for out of normal operating funds.
<i>For potential clients</i> <i>For established clients</i>		Training for clients is often funded by NGOs or multilateral organizations with ecotourism, poverty alleviation, or conservation projects in the region.

<i>PUBLICITY AND PROMOTION</i>	<i>COST CENTERS</i>	<i>POTENTIAL INCOME CENTERS</i>
<i>Advertising/ coop advertising</i>	Direct advertising to tourists is expensive and requires expert marketing; coop advertising with certified businesses is more cost-effective.	When large wholesalers, tour operators, and long-term partners advertise to consumers, certification information can be included at little or no cost to certification program.
<i>Flyers, posters, brochures, etc.</i>	This is often considered a service offered to certified businesses.	Can be offered as cooperative advertising with certified businesses.
<i>T-shirts & other sales items</i>	When given away, these represent a cost; when sold they represent income.	When sold, these represent an indicator of recognition of the program and serve as a source of income for the program.

<i>STANDARDS REVISION</i>	<i>COST CENTERS</i>	<i>POTENTIAL INCOME CENTERS</i>
<i>Consultants Workshops Publications</i>	Ideally standards should be revised every 2-5 years. This represents substantial cost, which is unlikely to be covered out of certification fees.	This should be built into cost models to be covered by long-term financial partners, such as governments.
<i>Field testing</i>		As in initial development, in-kind support is often available from certified businesses.

<i>ACCREDITATION, HARMONIZATION, AND PUBLIC RELATIONS</i>	<i>COST CENTERS</i>	<i>POTENTIAL INCOME CENTERS</i>
<i>Attending international events</i>	These events are important for keeping the organization abreast of international trends, as well as having voice and vote in decisions about international certification standards, but can represent an important cost for small organizations.	Often funded by organizer of event for programs in developing countries.

ACCREDITATION, HARMONIZATION, AND PUBLIC RELATIONS	COST CENTERS	POTENTIAL INCOME CENTERS
<i>Attending local events</i>	These events serve to keep certification programs in view of policy makers, businesses, and funders.	Often funded by governments or tourist boards.
<i>Compliance with standards from STSC/ISO/ISEAL or national standardization/accreditation bodies.</i>	Conformity with ISO Guide 65 and national standardization procedures has been shown to be expensive in several cases. Conformity with STSC or ISEAL standards is only in the proposal stage.	As yet, there is no known source of outside funding for this type of activity, except for the Sustainable Tourism Certification Network of the Americas.
<i>Accreditation fees</i>	Not yet applicable.	Not yet applicable.

The key sources of operating income are user fees, fees for products and services, and long-term partnerships.

User fees

1. Application fees

Most programs charge an application or administrative fee for processing and reviewing documentation for each business applying for certification. A lower amount is usually charged on renewal of the application. In programs with large numbers of certified businesses, application fees can cover a large portion of administrative costs.

The costs of processing an application are low, except in those programs that rely principally on self-assessment instead of an on-site audit. This procedure is known as a “desk-audit”. In this case, the administrative cost of a rigorous review of the documentation (substantive evidence of compliance is necessary) is higher, requiring a higher application fee. However the total amount paid by the business to be certified through desk-audits tends to be much lower, by obviating the need for expensive on-site audits. All of the operating sustainable tourism certification programs in the Americas use on-site audits, but desk audits are in use in other parts of the world.

2. Annual fees

Many certification programs have certification periods exceeding one year, and charge an annual fee in addition to the application fee. This annual fee is often based on means-testing – larger operations or ones with greater annual turnover effectively subsidize smaller operations.

The annual fee is an avenue for potential income, as yearly assessment is often minimal (sometimes requiring an annual declaration). This fee is much like a membership subscription – it best serves as unconsolidated funding that might be used for projects such as consumer marketing, refining criteria, research into brand recognition, trade show attendance, etc.

3. *Certification fees*

Most certification programs require re-certification after a period of one to five years. Many programs have a three year or more certification period, after which businesses must reapply for certification and repeat the certification process. Often the certification programs upgrades or changes some of the criteria (most have a continual improvement commitment) so recertification is not necessarily a simple process. A new on-site inspection may be mandatory. It is generally considered that a one-year certification period is too short, and anything longer than 3 years is not likely to accurately reflect significant changes to infrastructure, activities, and staff.

It is generally cheaper to recertify a business than start afresh with a new business unfamiliar with the standard and its requirements. In some cases (low risk activities in more urban settings) it may also be possible to forgo on-site auditing and again reduce costs. Unfortunately many enterprises do not renew certification if they feel the program is not delivering what they want (and many still see certification as primarily a marketing tool to attract tourists) and drop out of programs rather than recertify. Others may be reluctant to recertify, once they have achieved high eco-efficiency and learned what they can from the certification program. Money needs to be expended to ensure recertification – and customer loyalty needs to be rewarded (through press releases, cheaper fees, greater marketing of long service partners, etc.). Incentives for certification are very important and are discussed below.

Potential Partnership for fees

- Multilateral assistance programs are often prepared to pay all or part of the cost of application and certification fees for small businesses, at least initially, in order to help remove barriers to entry. This increases the viability of the certification program, as well as the possibilities for small businesses to become certified. This mechanism is used by FUNDESA to help businesses be certified by Green Deal in Guatemala; similar programs exist in Australia, Dominica, and other countries.
- A possible source for these funds might be tour operators or travel wholesalers interested in ensuring that their service providers are certified, as part of their due diligence. This would require recognition of the certification programs by the tour operators, as well as a critical mass of certified suppliers for that wholesaler. We know of no cases where this is currently in practice.
- To motivate recertification, awards and prizes can be instituted for outstanding certified businesses, through governments or NGOs.

Fee considerations for small and medium-sized tourism businesses (SMEs)

The financial success or failure of a certification program depends on having a critical mass of paying clients. But small and micro businesses are unlikely to be able to pay the full cost of certification (fees, audits, and reorganizing the business) without substantial outside assistance. Ongoing technical support and training is essential, in business and quality aspects, as well as in environmental and social impact mitigation. For businesses, except the very smallest, application fees by themselves are rarely a significant barrier to certification, although the sum of all fees and audit costs can be a significant limitation for them. Funding from other sources may pay part or all of the cost, when it does constitute a barrier.

Far more important for many small and micro businesses, as well as for indigenous and

community-based enterprises, the major barriers are the costs of compliance: becoming “certification ready” in term of putting into place procedures, documentation, and infrastructure. Small firms often do not have expertise, technological know-how, or time to implement certification requirements, nor money for fees. This has been shown in cases such as Dominica, where fees were subsidized for the initial GG certification, but many businesses did not renew the certification once the subsidy expired, because subsidized outside consultants implemented management systems, without transferring these capabilities to the small business managers. In NEAP/TCA business certification in Australia, technical knowledge was a far more important barrier than the subsidized certification and audit fees. Similarly, in Costa Rica, where CST certification and audits are free of charge, many small businesses in trials were unable to achieve certification because of not understanding reporting and documentation requirements. Rainforest Alliance’s pilot projects for best management practices demonstrated that these barriers could be overcome with careful, directed training. The certification programs themselves can facilitate the certification of SMEs by reducing or eliminating unnecessary technical requirements in low-impact small businesses and greatly simplifying required documentation.

Many programs have designed a sliding scale of fees, whereby the smallest businesses pay cost or less than cost, medium businesses pay the cost plus a profit margin, and the largest businesses pay fees based on a much larger profit margin. This is usually determined on the basis of the number of rooms or number of employees. When this fee structure is properly designed, the financial burden on small businesses is significantly reduced by internal subsidies, whereas the amounts charged to large businesses are not significant to them in terms of costs. Green Globe’s fee structure illustrates this:

Table 6: Green Globe 21 Company Standard fee structure

Type of company	Awareness (Affiliate)	Benchmarking = renewal fee	Certification = renewal fee	Audit
Micro-company (< 10 employees or < 10 rooms)	US\$150	\$295	Same as benchmarking	Cost charged by outside auditor
Small (10-49 employees or 10-69 rooms)	Renewal= 50% of benchmarking fee	\$540		
Single site large company		\$1350		
Large diversified company		\$7500		

Assessment and audits

An important part of a financial strategy is the proper management of audits and auditors. This is frequently the most expensive aspect for the business being certified or the highest cost for the certification program, depending on who pays for it.

There are three basic audit strategies in use at present in sustainable tourism certification programs. These are:

1. Audits are paid directly to accredited free-lance auditors by the business wishing to be certified. This model requires no outlay by the certification program, but the cost of audits can be substantially higher than certification fees and out of reach for small businesses. Auditors in some cases pay the certification program for training courses, which is an additional small source of income. It has been reported from Brazil that the cost of auditing quality management systems has dropped by over 80% in ten years, as the supply of accredited auditors began to exceed the demand. As tourism certification becomes widespread, this same phenomenon may occur.
2. Auditors are on the payroll of the certification program. This permits certification at low cost to the businesses, but is a substantial financial burden for the certification programs. The number of auditors must be closely correlated with the expected workload; if not auditors are either under-utilized, at high cost, or the scheduling of audits must be delayed according to availability (for many months or even years in some cases).
3. Audits are generally limited to desk audits, with field visits only when anomalies are reported or suspected. This method is rapid and inexpensive, but lacks credibility relative to annual field audits. In some geographically large areas, it may be too expensive to conduct regular field audits within budgetary and price constraints.

A fourth strategy for cost-effective audits, which has come into use in agriculture, but not so much in tourism, is to use auditors trained to more than one standard. Thus, a farmer can be certified for organic agriculture under a number of labels, simultaneous with fair trade certification. Because most tourist operations are subject to local health and safety inspections, as well as quality classification (star system) for hotels, a possible future strategy would be to negotiate joint inspections by auditors accredited for all these programs. Collaboration with safety, health, and quality certificates is attractive for various reasons:

- a. The businesses do not receive 2-3 different inspections, but only one.
- b. The cost of inspection is reduced.
- c. The business may perceive the various certificates as parts of one overall objective: offering good service and being responsible for sustainable development are complementary.

This already occurs with the Green Certificate in Latvia and the European EcoCamping certificate for quality, safety and environment. It looks likely to occur in New Zealand, where Qualmark operates a quality star rating program for accommodations but is expanding into adventure and nature tourism activity sectors. Some certification program (e.g. NEAP/EcoCertification, ROC) have integrated a business quality program into their certification program and jointly certify both standards under one umbrella. Along the same lines, Green Deal and PCTS have incorporated business quality components from the design phase, and CST is considering combining with the Costa Rican quality star system. The economies of scale achieved this way reduce costs, not only for the business paying for the audits, but also for the certification programs themselves.

Some operations may be happy to pay for regular on-site audits, not just for certification but to help them to identify specific information for their operation, such as potential environmental problem areas. This is most likely in areas of high environmental risk (such as Galapagos) or

with enterprises that need to protect their reputation or correct damaging publicity (such as at least one certified hotel in Costa Rica).

On-site audits can be very expensive. An auditor is required to verify compliance of the certification applicant's conformance with the certification standards. On-site physical audits require an auditor's time, which can be quite expensive when the auditors are not on the payroll of the certification program, as well as travel and living expenses. For this reason, many certification programs charge a separate fee for on-site audits, often higher than the rest of the fees combined.

Some programs have taken very different pathways in how audits are conducted and who pays. With Green Globe, the actual cost of an audit is borne directly by the applicant, and the auditor is required to self-finance, attend, and pass both Green Globe standard training and audit qualifications. There is potential for the training of auditors and consultants for a specific certification program to be a profit making exercise – but only once the program has reached a critical mass and demand for these types of services are regular and consistent.

To encourage uptake of certification it is recommended that price of audits be based on cost recovery only. Attempting to make a profit from this element of the certification process is likely to be counter-productive – and probably alienate customers. The potential for an on-site auditor to provide direct advice on improvements as a consultant is tempting, and a possible additional source of income – but is considered unethical. Feedback should be thorough and appropriate – but provided as part of the overall certification process.

On-site auditing is usually closely linked to credibility, but there are significant ways in which programs can retain credibility and have adequate evidence of applicants' compliance with the certification standard at lower cost. Policing and collecting evidence of compliance can be done by a number of different ways – some more reliable than others. If a number of different methods are used, it may obviate the need for annual on-site audits, and hence lower costs. Some of these alternative methods are: referee checks, peer review, telephone interviews, review of marketing and brochure claims, customer exit surveys, desk audit of documentation for specific criteria (e.g. presentation of interpretation plan or waste management process). Environmental risk assessment, based on the fragility of the operating environment and the potential impacts of the enterprise's activities, can be used to determine the need for regular on-site inspection for high-risk operations. The need for only an initial on-site audit but thereafter only every 3 or 5 years, for low-risk activities, can reduce costs considerably.

The SmartWood program has a process for small forestry companies to do group audits. The businesses form cooperatives with a manager who helps each business go through the entire process of certification. Then the auditor does spot checks only of some of the businesses. It seems that ultimately the group manager is responsible to make sure that all members are compliant. Because products are so dissimilar and competitive, this model may not be applicable to tourism certification. However Green Deal moves its in-house auditors as a group to a given region and audits all candidates in that area at one time.

Potential partnerships for auditing

- Partnerships for contract auditing can be established with large general-purpose audit firms (e.g. SGS in many countries or NSF in the United States). This can lead to reduced prices for audits, as well as financial and in-kind support for training.
- Aid agencies may fund training for tourism businesses and auditors, as part of their “capacity building” programs.
- Protected area managers may fund audits if they need assurance of proper performance before issuing permits and licenses.
- Assessment process might be carried out by academics or graduate students in environmental management or tourism

Monitoring and benchmarking

Some programs demand performance monitoring and proof of compliance of the certified business. This should not be confused with monitoring and evaluation of the impacts of a certification program, a recommended activity in order to justify the program to funders, businesses, governments, NGOs, and so on.

Fees are often charged for this type of service. However accurate benchmarking for tourism – which requires the monitoring of energy consumption, waste to landfill, and many other indicators – requires access to a large data-base of country-specific data and research. As a consequence benchmarking services are usually delivered by a very few worldwide providers (such as EarthCheck, TourBench, and IHEI) rather than the certification programs. Benchmarking is usually outsourced on a fee-recovery basis that is cost-neutral to the certification program. The costs are passed on directly to the certification applicant. It is unlikely, but possible that a commission might be charged.

At present, the most rigorous benchmarking program for certified businesses is the Green Globe 21 system, which requires all enterprises to benchmark specified criteria (dependent upon the type of business) for 12 months prior to certification, using the EarthCheck program. Certification programs in the European VISIT Association have a relationship like this with TourBench – a web-based, freely available, practical, multilingual benchmarking instrument that allows accommodations to monitor their consumption of energy, water, chemicals, and waste production. This permits the comparison of these impacts with similar accommodations all over Europe. This has been European Union funded initiative. In Thailand the Green Leaf initiative was initially partially funded by the electricity board, which needed data on consumption – showing this kind of partnership has potential.

Potential Partnerships for Benchmarking

- The TourBench benchmarking program is available free of charge on the Internet for European certification programs. It is considering expanding the scope of its operations worldwide. As it is free of charge, certification programs outside Europe might consider this to be an important opportunity for implementing benchmarking at low cost or as a profit center.
- National research institutions, universities, governments, and public electric and water utilities have reasons to collect data and encourage the reduction of consumption of water,

electricity, and fossil fuels. These bodies may have access to research grants, government funding (for future planning of service needs), or development money, and then provide the service to the tourism certification program.

Government incentives for certification

The survival of a certification program depends on having a critical mass of certified businesses. Therefore the motivations and incentives that convince a business to obtain certification are exceedingly important for financial sustainability.

It is well known that sustainable tourism certification programs do not yet deliver significant occupancy increases or preferential access to markets, although this may occur in the near future. Other tangible benefits need to be offered to compensate for the lack of immediate increased sales. In some cases these are provided by the certification program's structure itself, because the process of certification reduces operating costs, increases efficiency, and improves quality. These are reflected in increased profitability and increased occupancy from a reputation for better quality.

Better economic performance, especially by small and medium businesses in rural areas; decreased consumption of water, electricity and fossil fuels; and social responsibility are all government development objectives. Therefore it is logical for governments to provide incentives for sustainable tourism certification. Among the government incentives that have been implemented in different countries are:

- Important tax incentives for certified businesses (e.g. Barbados);
- Cooperative advertising and participation in trade shows (funded by national tourist board) at preferential rates for certified businesses (e.g. Costa Rica, although this has been promised and not yet implemented);
- Preferential treatment for licenses for access to and use of protected areas (e.g. Australia).

However there is much more that governments could do to motivate certification,¹² such as overt government support and publicity (as in billboards in Costa Rica promoting the CST program); technical support through government training programs on environmental technologies, environmental management, human resources, community relations, strategic planning, marketing, etc.; tax credits or deductions, lower interest rates on loans, discounts on concessions, or other direct subsidies; purchasing policies requiring their staff and contractors to prefer certified businesses; reduced regulatory barriers; and in-kind support to media (newspapers, magazines, guidebooks, television or radio productions, etc.) that promote sustainable tourism and certification. Governments can also support certification by officially endorsing it with the World Tourism Organization (UN-WTO) and the United Nations Environmental Program (UNEP). Some of these initiatives might be supported by a portion of tourist taxes (airport exit taxes, head taxes on cruise passengers, hotel taxes, etc.), as currently is the case in Costa Rica.

¹² See the TIES- Rainforest Alliance document "Marketing Strategy for Sustainable Tourism Certification", February 2005.

Documents, supporting materials, and training manuals

At the initial stage, companies interested in becoming certified may pay for the application form and supporting materials (self-help users' guides, supporting documentation, training materials). The fees at this stage are usually low, subsidized by the program itself or waived altogether, in the interest of getting potential applicants to join. Most certification programs have at least some of their documents available as read-only files on the web, but candidates often need to buy hard copy in order to actually apply. The cost of producing the application document varies considerably depending on quality and standard, but is generally quite low. Printing costs rarely exceed US\$10 per document or CD. However if development costs are partially amortized in the document cost, they can cost well over US\$100 each, which may constitute an important entry barrier for a business that has not decided whether to seek certification or not.

Written or digital training materials and supporting documentation may be sold at additional cost, but if this is essential for certification, rather than supplementary, it can create a hurdle for potential applicants. Many ISO documents, for example, sell for US\$80 or more for each short text, which can add up to a significant amount for a small business and an important disincentive at an early stage.

Potential partnerships for documents and training materials

The development of suitable documentation and training materials can be supported by outside funding. A general book or manual specific to a region might be used by many others.

- Development of these resources might be financed through partners such as an electricity or construction company. Thailand's Green Leaf program, for example included the Electricity Generating Authority of Thailand (EGAT) and the Metropolitan Waterworks Authority among the six initial funders. These companies are interested in reducing consumption of electricity and water, thereby reducing the need for new plant construction. Green construction companies and suppliers are interested in increased sales of solar panels, sewage systems, and innovative construction techniques, and certification programs allow highly directed marketing. These partners might also contribute expertise or authors (e.g. sections on energy-saving techniques or construction methods) Academic institutions and non-profit organizations with education as part of their mission might also be interested in producing such materials or training.
- Interactive on-line application documents might be sponsored by a certification networking organization (regional program such as the Sustainable Tourism Certification Network of the Americas or eventually, if it comes to exist, the Sustainable Tourism Stewardship Council – STSC) or a government portal.

NOTE: Care must be taken to ensure that there is independence between technical support and assessment/audit stages.

Training Courses

A portion of operating funds can also come from businesses seeking training and certification. Well-designed courses can provide a significant and constant income stream for certification programs. A number of programs have found this to be the most stable component of their operating income, especially courses, seminars, and workshops in good management practices and the basics of certification. These courses are often important venues for the sale of publications, t-shirts, and other products that promote the certification program.

Many businesses may seek training without actually completing the certification process. Technical support in best management practices and certification are greatly appreciated by businesses (for example those trained by Rainforest Alliance's pilot program or Instituto de Hospitalidade's regular training courses). Independent auditors and audit firms will pay substantial sums (well over US\$1000 per person) to be trained and accredited. Larger businesses are often willing to pay up to several hundred dollars per person to train their personnel, while small businesses are often eligible to receive subsidies from governments or multilateral agencies.

In Central America, multilateral projects such as CAMBio (scheduled to begin in 2006) are designed to finance improved environmental and social sustainability of small businesses in rural areas. Similar funds may be forthcoming in Costa Rica from an IDB project for ecotourism in and around protected areas. The funds could, in theory, be used to finance training in certification and best management practices in tourist businesses. A variety of other similar development projects, while not specifically oriented towards tourism certification, could justifiably be used to improve the performance of small businesses through certification.

However capacity building for certification programs, with the development of appropriate training courses, course materials, trainers, auditors, assessors and administration staff takes both time and money. Outsourcing these components may be the only feasible step for very small or young certification programs. In some countries, such as Costa Rica, there are national vocational training institutes that might be very interested in providing training at no cost to the students.

Potential partnerships for training courses

- Academic and training institutions can deliver appropriate tailored programs.
- Training for clients is often funded by NGOs or multilateral organizations with ecotourism, poverty alleviation, or conservation projects in the region.
- Some programs (such as Green Globe) outsource training and technical support to speed up capacity building, and hence run a small administrative office and save money on the high costs of supporting staff trainers etc.

Marketing

Sustainable tourism certification programs need to attract two types of clients: businesses to be certified and consumers to use the businesses. The previous sections have addressed, in large part, the considerations for attracting businesses to certification. Marketing to consumers, however, is a different and very expensive enterprise.

It should by now be recognized that certification programs do not effectively market to the primary consumer – the tourists –, but are achieving recognition and tangible benefits from marketing to secondary consumers such as tour operators and wholesalers, protected area managers, other certified tourism businesses, tourism information offices, and so on. Certification programs should help their client businesses to take better advantages of

cooperative marketing campaigns (such as Rainforest Alliance's 2005 booklet on certified businesses in the Americas), as well as branding initiatives that give exposure, without incurring the full costs – e.g. joint ads, trade show booths, or brochures. Rainforest Alliance has shown great success in trade show participation on behalf of certified businesses, and PCTS has initiated a similar program. Business-to-business marketing initiatives and partnerships will achieve far more effective market penetration for certified products than underfunded and unskillful attempts at direct consumer market campaigns. Most certification programs have neither the skills nor the budget for an effective consumer campaign (often notoriously expensive). Tourism wholesalers and large tour operators are skilled at direct consumer marketing and can often be persuaded to promote certified businesses at little or no additional cost.

An important and effective marketing tool that offers strong incentives for certification is a proposal that has been considered (but not yet implemented) in Australia, New Zealand, and Costa Rica, that only certified products can participate in government marketing programs or are listed first. This sort of in-kind support might mean that operators cannot afford not to be certified.

While these types of initiatives will not produce income for a certification program, they can dramatically reduce marketing costs, while making certification increasingly attractive to both consumers and businesses. In those cases where a certification logo has achieved consumer recognition, as in a few cases in Europe, a license fee is charged for logo users throughout the supply chain. This is not feasible for newer or smaller programs, but could eventually become an important source of income once secondary consumers (tour operators, travel agencies, wholesalers, etc.) become convinced that the certification logo will be helpful to them.

Long-term financial partnerships

Selecting the right long-term partners in the private and public sectors is critical to the financial success of most certification programs. Considerable time is needed to create logo recognition and a critical mass of certified products. Therefore, partners should be chosen who are likely to maintain a relationship indefinitely. These may have a distinct commercial interest (guidebooks¹³, airlines¹⁴, large tourism wholesalers¹⁵, renewable energy suppliers, etc.) or have development or conservation objectives (protected area systems, tourist boards, central governments, electric and water utilities, conservation NGOs, etc.).

In the cases where commercial support is obtained, it is critical to ensure that there is no influence on certification decisions and that credibility is maintained. Examples of how this may be done are found in the Forest Stewardship and Marine Stewardship Councils, where certification programs have received important industry support without affecting the program's integrity. In these instances, industry support consists in offering to purchase certified products,

¹³ For example, Lonely Planet guides, *Guia 4 Rodas* (Brazil), etc.

¹⁴ Many airlines are now concerned that vacationing consumers from Europe will reduce their airline use because of carbon dioxide emissions. Those certification programs that demand carbon mitigation mechanisms as part of their standard might be eligible for financial support from European airlines.

¹⁵ Most large tour operators have programs to ensure the quality and safety of the products they offer in other countries. This sort of due diligence is quite expensive, and those certification programs that include quality, health, and safety criteria in their standard could be chosen for support by tour operators.

as well as participation as one of many stakeholders in the certification forums for improving standards. Industry members are not involved in audits. Where a standard is developed and implemented by an industry body, it constitutes a “second-party” standard, where certification may be perceived as subject to bias (e.g. Sustainable Forest Initiative – SFI – of the American Forest & Paper Association). Where industries are involved in the certification process, transparent codes of practice and operating procedures must be implemented to avoid fraud or the appearance of it.

Certification programs can argue that they are a very low-cost, self-governing way to achieve the development or conservation objectives sought by governments or NGOs. These then can be asked for long-term support as a stable part of operating income. Nevertheless, programs that are *fully* paid for and run by governments may be subject to excessive budgetary and bureaucratic limitations.

Reducing costs through operational partnership with another organization or department

A common strategy that allows a certification program to operate at low cost is belonging to or joining a parent organization with other economic activities, of which certification is only one part. In these cases, administrative costs (offices, photocopiers, computers and software, telecommunications, etc.) can be shared or effectively subsidized. For example, FEE is a foundation that operates Blue Flag and Green Key, and participates in other activities. The Instituto de Hospitalidade (Brazil) operates many personnel training programs and other educational activities, as well as PCTS. Alianza Verde (Guatemala), in addition to operating Green Deal, also rents space in its headquarters to other entities. NEAP/EcoCertification is run by an industry association whose income is derived from membership fees and profit from an annual conference. Cost for running NEAP were completely subsidized by the parent body for at least the first 5 years of the program’s life

5.4 CONCLUSIONS

To date, most of the financial partners of certification programs have supported only start-up and program development. Few funding sources finance operational costs or provide sufficient long-term support to allow certification programs to build up the critical mass of product necessary for users’ fees to be an effective and primary source of funding. Most certification programs will need some kind of outside financial or in-kind support indefinitely, while others will take many years to become self-sufficient. In both cases, long-term financial partnerships are important.

Certification programs thus need to become more entrepreneurial and diversify their income sources through alternatives to certification fees – associated training, training manuals, consultation, provision of technical advice, “gap analyses” through on-site audits, sales of products and technologies, etc. These activities can offset the losses in necessary activities that cannot produce income without affecting the credibility of the program (e.g. certification decisions).

Certification programs also should become much more skillful in promoting their benefits to important stakeholders (government services, protected area managers, conservation NGOs, utility services, and academic institutions), such that certification programs receive appropriate

“top-up” funds necessary for running programs, and not just start-up funding. These longer term funding roles can easily be justified because of environmental or sociocultural sustainability encouraged and achieved through certification.¹⁶ Certification saves the government costs in environmental amelioration or having to spend money to boost economies in rural areas. It is in the national interest to ensure that tourism is sustainable, even from a purely economic perspective. Elements such as ensuring local employment and local purchasing policies can help reduce both poverty and the off-shore leakage of financial returns from tourism. It should be appreciated that government long-term funding does not necessarily mean cash support. It can include innovative in-kind initiatives or alternatives such as tax breaks and other incentives which may be all the commitment that is needed to allow the large-scale implementation of certification.¹⁷

Finally, certification programs should establish partnerships with secondary consumers – market intermediaries, such as tour operators, wholesalers, and guidebooks. Once these entities have committed to supporting certification, long-term relationships beneficial to all parties can help ensure the financial viability of the programs, as well as marketing and promotion to the end-users – tourists.

¹⁶ Monitoring and evaluation programs of key performance indicators are crucial for demonstrating this to key stakeholders.

¹⁷ For example, the preferential licensing and access to protected areas offered to certified businesses in Australia has caused an enormous increase in the popularity and importance of certification.

Chapter 6. Key Findings and Recommendations

6.1 PART 1: SUMMARY OF FINDINGS

6.1.1 Challenges

There are 60 to 80 different voluntary sustainable tourism certification programs around the world, and more are in development in at least a dozen countries, regions, and states. Despite some differences in the criteria, operating systems, and management all sustainable tourism certification programs face surprisingly similar challenges and hurdles. Foremost among them is the lack of robust and regular sources of income to effectively operate and market relevant, appropriate, and credible programs.

At present, sustainable tourism certification programs cannot cover the complete cost of running their program from user fees alone. Even programs that target larger tourism businesses across national boundaries (such as Green Globe), and charge some of the most realistic fees, have found it necessary to stabilize their operations with funds from other sources. Nonetheless, there are sustainable tourism certification that claim to be self-sufficient – NEAP/EcoCertification (Australia), Green Business Scheme (Scotland), Nature’s Best (Sweden) and Blue Flag – are most often quoted. Closer investigation reveals that these programs are financially viable because they have partners or sponsors that support the program, have sources of income other than direct user fees, or do not do regular onsite audits, typically the most expensive part of the certification process. While securing ongoing funding from government or private sources is advisable based upon the mutual benefits bestowed by effective tourism certification programs, it is important to ensure that the support will be reliable in the long-term or that alternative sources will be available to replace it, should the funding cease. Generation of income from sources other than fees can also be a viable financing method. However, cost savings brought about by eliminating an on-site audit requirement severely curtails the credibility of certification.

The lack of financial health of most tourism certification programs occurs for a variety of reasons, including:

- The majority of initial funding (government grants, seed development money, etc.) being devoted to start-up costs that cover the development phase of programs only;
- Lack of provision for the first few operational years after the launch of a new product, when ordinary income from fees is clearly insufficient;
- Lack of realistic business planning and financial reserves for the on-going operational costs of program;
- Insufficient operational funding means that volunteers and poorly-paid staff are forced to fulfill permanently positions of responsibility, leading to overstretched staff with inadequate resources, while professionalism suffers;
- Little or no marketing budget, which signifies that little is done to promote certified businesses or encourage other businesses to be certified;
- Lack of marketing expertise and hence poor strategic promotion to targeted intermediaries better able to do direct marketing to consumers;
- Business enterprises are “sold” certification on the basis of consumer demand that has not

- materialized and thus the cost of certification is considered high relative to the benefits;
- Real costs of physical on-site audits are high, and often beyond the means of small businesses or poorly financed programs;
 - Businesses unable or unwilling to pay full audit costs can lead to reliance on less costly auditing procedures, such as self-evaluation, desk audits, or infrequent on-site visits – all of which decrease the credibility of the program. Alternatively, the difference in cost versus charges for auditing may be absorbed by the program, leading to losses that increase with each new certification;
 - Inability of small and micro businesses to pay the costs of certification, both in terms of fees and audits, but also because of the cost and technical expertise required to establish the procedures, documentation, and infrastructure to meet certification demands;
 - Consequently, user fees must be kept very low, often below cost, for programs that focus on small businesses.

In broad terms, (a) most of the tourist industry is comprised of small businesses that cannot pay much unless substantial value is offered; (b) certification programs need to quickly attract businesses in order to get achieve critical mass and therefore often offer certification for free or at very low price during start-up; (c) once operational, certification programs that have not delivered value find that businesses are reluctant to pay. The key is therefore to offer sufficient value so that businesses are willing to pay the direct costs of certification and so that enough businesses are certified to cover fixed operating costs.

6.1.2 Solutions

Start-up funding for the development of standards and processes is comparatively easy to obtain from government sources, foundations and other donors, but the hiatus between the development of a standard and full operation with a large enough number of certified businesses and saleable products and services (if offered) is seldom funded. Ordinary income from user fees remains insignificant until a number of years have passed and several hundred businesses have been certified. To ensure that sustainable tourism certification programs become economically sustainable, income from sources other than user-fees should be sought and maintained for the life of the program.

It has been shown that tourism certification programs approach sustainability when well over 300 businesses are certified and paying the direct costs of certification.¹⁸ Even in those cases, no program studied has covered more than 75% of its operating costs from fees alone. Supplementary funding should be integrated into the development and delivery of any sustainable tourism certification program from the beginning. This requires that innovative partnerships and initiatives be developed to provide a return for all contributing parties. As an example, governments – key partners for supplemental support – can benefit through reduced costs of biodiversity conservation, decreased need for regulations, and increasing national competitiveness and image in international markets.

¹⁸All sustainable tourism certification programs evaluated in this study that are close to financial sustainability have more than 300 businesses certified. For a financial analysis of why this is so, see Bien, A. (1999) “Diagnóstico institucional y estructural regional para el programa de Certificación Sostenibilidad Turística (CST) en Centroamérica”, INCAE-CLACDS document 763, www.incae.edu/EN/clacds/investigacion/articulos/cen763.shtml.

There are a variety of potential sources of supplementary income for sustainable tourism certification programs, with no one model able to provide a definitive solution because of the variety in organizational structure, fees, assessment and auditing regimes, criteria and level of support for different certification programs. However, the most financially viable programs to date appear to be based in organizations that:

- have other interests than just certification, and are able to share costs, such as administrative staff, offices, website, etc. (e.g. FEE, with Blue Flag and Green Key);
- have assembled a broad variety of partners who contribute funding or in-kind services (marketing and promotion) (e.g. Viabono);
- are supported by governments that consider sustainable tourism to be part of their mission and programming, or have significant long-term private sector investment (e.g. Nature's Best); or
- charge realistic fees for a variety of services (i.e. certification, use of logo, training , consultancy, etc.) (e.g. Green Globe). This, however, may make it difficult for small businesses to access the programs.

The frequent reluctance of larger tourist businesses to pay the full costs of certification is based on lack of perceived market value, due to the failure of certification programs to achieve significant consumer recognition and thereby increase occupancy. A solution to this perceptual barrier is two-fold. First, innovative partnerships and financial strategies must be used to increase marketing, using a targeted approach to tourism intermediaries who already carry out broad and effective marketing campaigns and who interact directly with consumers.

Second, certification programs must deliver additional benefits such that initial costs charged for certification become insignificant when balanced by longer term cost-savings. The most obvious and easily-achieved benefit is significant cost savings through eco-efficiencies. These come most rapidly in reductions in water and electricity usage and purchasing policies, which typically result in up to 20% cost savings in the first two years. This benefit is most pronounced in large companies with high consumption rates, in developing countries where relatively low-cost initiatives in energy and waste management can deliver significant benefits, or in places where there is little available information about how to make a business more efficient. Unfortunately, eco-efficiency cost savings diminish with time, after the initial dramatic reductions, and there are an increasing number of other avenues for getting information and resources on environmental sustainability without the cost or pain of going through certification. However, a second benefit – the implementation of better management practices as a result of fulfillment of certification standards – results in improvements in quality that tend to produce occupancy increases. Services can be delivered at lower cost. In addition, improvements in both employee and community morale and relations often result. These changes are the ones that often persuade businesses to renew certification.

There are a range of other incentives which may be offered to certified businesses that confer advantages unavailable to those who have not demonstrated sustainability characteristics. While they have not yet been put to full advantage in most countries around the world, they deserve to be examined and tested. These include the granting of preferential access or extended tenure to protected areas, reduced costs for credit and insurance, government tax incentives or credits, reduced insurance premiums, or preferential access to government or private marketing

initiatives.

Therefore, a certification program business plan should employ two main strategies for achieving financial viability: a) developing a stream of revenue through fees and sales of products and services, while seeking to decrease operational costs; and b) convincing businesses of the cost-savings and management benefits in order to attract their patronage. The latter must be supported through monitoring, evaluation and generation of measurable performance indicators that can be used for education and outreach directed towards additional businesses as well as other interested parties such as governments and potential donors

6.1.3 Key participants

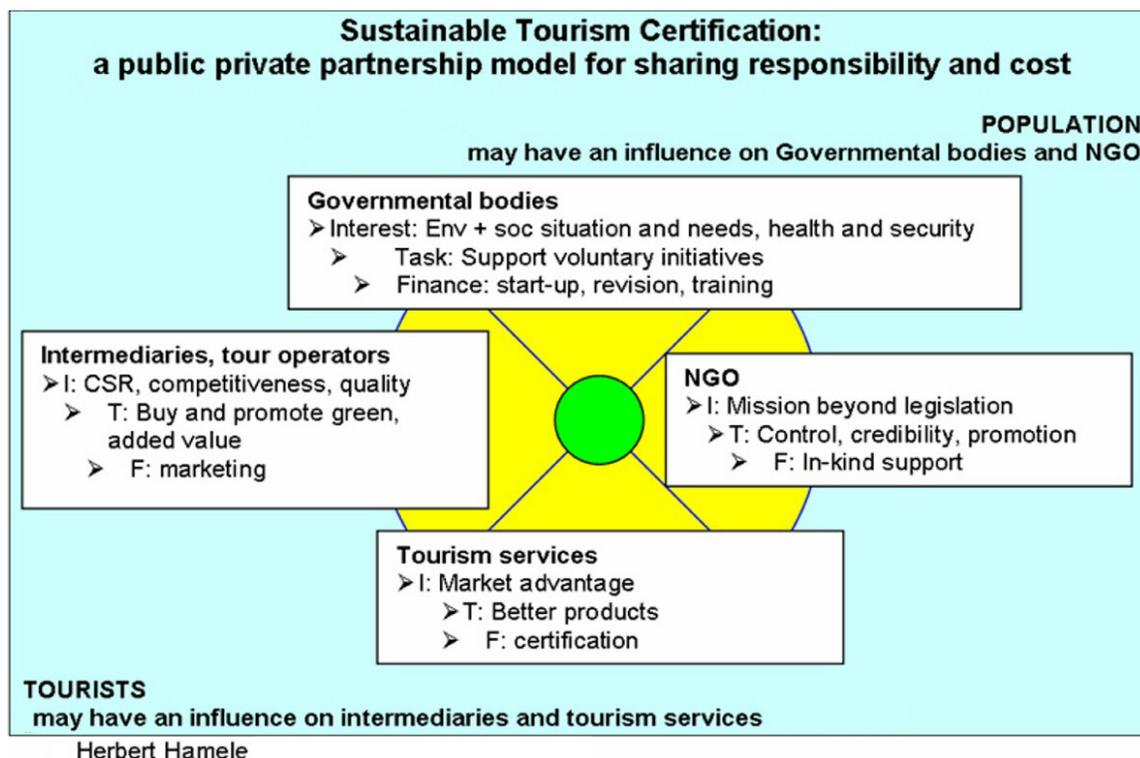
Sustainable tourism certification programs have been established by a wide range of actors and partnerships. This includes non-profit organizations, commercial enterprises, government bodies, social and environmental organizations, academic institutions, and tourism marketing organizations. Each entity has advantages, as well as disadvantages. For instance, non-profit organizations are eligible to receive a wide range of multi-lateral, public, or private development funds, and are often viewed as trustworthy and unbiased. In addition, they enjoy tax benefits that companies do not. On the other hand, organizations are often viewed with suspicion by businesses that doubt that they understand business parameters and needs. Similarly, for-profit companies that establish certification programs may be more likely to develop efficient business models, but they run the risk of not being sufficiently independent from the companies they are certifying.

Whatever the program's final operating entity or organizational structure, it is considered vital that it be developed with multi-stakeholder consultation involving all the different interest groups (i.e. industry associations, academia, conservation and consumer organizations, protected area managers, and government agencies responsible for environment, energy, transportation, finance, education, etc.). That is, certification programs should be established as public-private partnerships to maximize the advantages that each party provides. They may be housed within non-profit organizations that provide administration and management, but should include a coalition of government representatives, tourism and other businesses (including tourism intermediaries, producers and purveyors of complementary certified and environmental products, and information media), academic institutions, and other private sector interest groups as members of the governing council or board. In order to minimize costs, it is also recommended that the certification program be a program or division of a larger organization with a consistent mission and strategy. Income, equipment, supplies, and staff that the larger organization possesses can then be shared with the certification initiative.

Most sustainable tourism certification programs are nationally based. Governments can benefit from sound certification programs that ensure that tourism is environmentally, culturally, and socially sustainable and help to protect a country's image and reputation. Governments therefore should see certification as an important policy tool deserving of support. Government support for certification programs is very important at both the start-up and operational stages because governments are likely to be able to offer longer term funding than philanthropic foundations or development agencies through permanent mechanisms (taxes, fees, etc.). Developing country governments also have access to funding from international donors, which can be used for

program start-up. When certification programs are country-specific, governments can promote them through Ministries of Tourism and other government-sponsored tourism programs, many of which have strong tourism marketing capabilities. On the other hand, certification programs must remain independent of governments for financial and institutional reasons. Otherwise, they become subject to a variety of potential political, bureaucratic or financing idiosyncrasies and obstacles.

The diagram below summarizes briefly the roles and reasons that each of four types of stakeholders would have in the optimal tourism certification program. For more information on the types of support that each party could play, see Appendix 3: Stakeholders: roles and financial contributions.



6.1.4 Start-up funding

The key steps in start-up financing for certification programs are described in detail in chapter 5, along with examples. The sources for start-up funding are as diverse and varied as the key players involved in developing and delivering certification programs. Multilateral development banks, bilateral development agencies, and private donors have been sources of funding for start-up of certification programs. Their goals often mesh well with the sustainability objectives of certification, and they have access to other resources and organizations which can play supporting roles in program initiation. However, these organizations/entities generally restrict funding to a specific, relatively short time frames. And, they are generally willing to support only specific and necessary activities – such as research, development of new standards or guidelines and training – inherent in new program development. Some will only fund initiatives that are innovative or new models that can be replicated, while others require matching grants or clear public sector interest. In any case, donor funds from development banks and private foundations

are rarely available for longer term support or operational stage – with the most neglected element frequently being marketing. In recent years, for instance, Ford and Wallace have eliminated their funding for certification programs.

Relying on grants and donations can present challenges. Many funders only provide short-term (2-5 years) funds and may be unwilling to provide subsequent grants or any funds for the day-to-day running of a program. Funders often want to see their benefactors become entirely self-financing sooner than the 5-7 year timeframe that most certification programs investigated in this study appear to take. Therefore, certification programs must evolve efficiently and quickly find ways to generate their own income, as well as seek support from ongoing and long-term financial instruments.

Large businesses within the tourist industry – e.g. airlines, tour operators, and travel media – also have reason to want tourism in their country or region to be sustainable, and therefore may be willing to provide start-up funding. For example, the Austrian Ecolabel and the European Eco-camping certificate receive strong industry and travel media support.

Private tourist boards and trade organizations are important sources of potential corporate funding for both start-up and operation of a certification program. Financial institutions – e.g. banks and credit card companies – that serve tourism businesses as well as tourists by providing credit are often supportive of standards which improve the long-term financial sustainability of their clients, and therefore might be convinced to contribute to certification start-up. In any case, it is important that a significant number and mass of tourism providers and tourism-related businesses are demanding certification services. Otherwise, even a well-funded program will be of little use.

Governments often see sustainable tourism as a strong source of revenue, as well as a tool for poverty alleviation and development. Many European programs, as well as programs such as CST in Costa Rica, are funded by national or local governments, for both start-up and partial operating funds. These funds are usually derived from tourism taxes and multilateral agencies.

Non-governmental, non-commercial organizations and institutions are also sources for start-up funding. Environmental and development NGOs, many of which have international funding can provide cash or in-kind support, especially in cases where a certification program is housed within the organization itself. In addition, academic institutions such as universities and technical colleges can provide in-kind support for program initiation. Research and policy-making, development of standards and procedures, and training can all be provided by such institutions. This has been exceedingly important for the development of Green Globe 21 and the International Ecotourism Standard.

Certification programs must establish themselves as serious and fully accountable businesses. They must develop a business plan and use standard business procedures. They must be sure to budget for all expenses, especially marketing, which has often (dangerously) been neglected. And, they should monitor and record a variety of economic measures as well as environmental and social or cultural indicators in order to be able to evaluate progress. They should record

successes and challenges, and be ready to present quantifiable and qualitative data to future potential funders or other program supporters.

6.1.5 Operational Costs

Most of the sustainable tourism certification programs studied have required 2-5 years to become fully operational, and as long as 10 years to achieve enough market penetration of certified businesses to become internationally recognized.

Costs of operation of a sustainable tourism certification program vary depending on the range and degree of services provided. Chapter 5 describes the types of services, costs, and income in detail. At a minimum, they include continuing development and refinement of standards, criteria and procedures, education and outreach to tourism businesses, administration and verifications of initial applications, granting of certification logo, marketing and promotion to partners, marketing and promotion to intermediaries and consumers, outreach and collaboration with complementary initiatives and organizations.

While on-site audits are a necessary element of credible sustainable tourism certification program, they are not included in above list as they can be costly and are, in many cases, conducted by an outside organization. The fees for the audits can be paid directly to the assessor or funneled through the certification program with a small percentage going to overhead.

Covering operating costs has been a challenge for all of the certification programs studied, including those that are fully funded by the government. CST, for example is fully funded by the Costa Rican government, but its operating budget is subject to fiscal restraints by the central government and is inadequate to its needs. While the most obvious source of income for program operation is user fees paid by businesses becoming certified (see below), they cannot be the only source. In fact, not one of the programs studied is entirely self-sufficient on fees alone. If user fees were to be the only source of program revenue they would have to be so high that businesses would not be interested in becoming certified.

Other continuing sources of operating funds are required. These are described in detail in Table 5 of Chapter 5. It takes many years to become self-funding – often 10 or more years (or 2-3 rounds of funding), and even then 15-25% of funding in the most financially consolidated organizations comes from long-term support from financial partners or donors. In addition, operational funding is often needed to survive the hiatus in revenue generation (between completion of start-up grant funds and generation of significant income from user fees and products/services provided). Many programs find it necessary to expend energy convincing donors to support them for two to three project cycles (through additional grants or special loans with low interest fees and extended payment terms)

The success of a tourism certification program, both in terms of fund-raising capabilities as well as uptake by businesses and consumers, will depend on the demonstration of measurable benefits of certification. Programs will need to develop robust performance indicators, measure them on a continual basis, and maintain clear records of program impacts (economic, environmental, management, social, etc.). They should use the results when promoting certification to existing

and potential funders, as well as to the general public, industry and NGOs, to demonstrate the need for certification.

It must be remembered that the grants and donations described above are general short term. In addition, ongoing revenue generation and support will be necessary. The following sections offer recommendations for creating a certification program that can continue to fund itself over the long term and that will be both credible and successful in the marketplace (i.e. in demand by tourism businesses as well as users).

6.1.6 Fees for Products and Services

Certification programs can generate income from the tourism businesses becoming certified by offering a range of products and services. A variety of these are listed below, including an itemized list of basic fees for entering and completing the standard certification process.

- fees charged to businesses that are (or are becoming) certified:
 - annual membership fee
 - pre-assessment or self-audit fee
 - audit fee – may be either paid directly to the certification body or a percentage of the fee charged by an independent auditor
- license fee for use of logo – charged to distributors and retailers that sell certified products and services
- consulting – to businesses, other tourism certification programs, other industries and governments
- technical assistance
- classes, trainings, workshops
- sale of standards
- sale of guidebooks, maps, promotional resources
- advertising of certified properties on websites and promotional materials
- membership fees for certification program users/consumers
- sales of environmental products to certified businesses
- sales of souvenirs with the certification logos
- commissions on online bookings passed through or handled by the certification program's website.

All of these mechanisms are used by one or more of the certification programs studied. Especially interesting is the case of Viabono, described in Chapter 5.

6.1.7 Small and Community-Based Businesses

In order to attract small and medium-sized businesses into certification programs, successful programs have a sliding scale of fees, based on business size (number of rooms, number of employees, or cash turnover). These permit internal subsidies, whereby large businesses pay more and small businesses pay less. Many programs, especially in Europe, offer additional incentives. They can be supported through several mechanisms:

- tiered certification fee structures in which larger companies pay more than smaller ones
- free self-assessment or basic certification offered by governments, companies or programs which have funding specifically to favor small businesses
- technical assistance and training provided by NGOs and companies and paid for by donors or businesses themselves

- accessing funders for loans or grants which satisfy sustainable development and poverty alleviation criteria
- group certification in which small businesses join together under the supervision of a manager who is responsible for ensuring that criteria are met; fees for each company are reduced because only a sample of the businesses is audited.

6.1.8 Government Support

It should be in national interests for governments to ensure that tourism within its jurisdictions is sustainable economically, environmentally and socially. From a purely economic perspective, governments would agree that local employment and local purchasing policies of most sustainable tourism certification programs help stem out-of-community or off-shore leakage and ensure financial returns remain in-country. Environmentally, adherence to sustainable tourism standards prevents and reduces costs of environmental amelioration. A well-developed, suitably rigorous sustainable tourism certification program that demands industry best practices has the ability to save governments significant funds by removing the need for regulation and its connected implementation, legislative requirements, policing and control. This allows costs for environmental protection measures to be saved, and costs of ameliorating potential environmental damage should not arise. From a social standpoint, tourism sustainability contributes to improved community relations and well-being.

Most sustainable tourism certification programs have some form of government influence and support, with a significant number of programs having been led by government (i.e. CST in Costa Rica, many of the European labels, Qualmark in New Zealand etc.). Others have received seed funding for program development, marketing assistance, or in-kind contributions (such as expert contribution to criteria development or verification procedures) from government agencies. Government support for sustainable tourism certification programs is important and is likely to become imperative for many programs. This is because government has the luxury of access to funds and incentives mechanisms that are not directly available to non-government organizations or bodies (i.e. tax breaks, government marketing incentives, subsidies etc.). Many government funding mechanisms and incentives have the advantage of not being single, short term grants but represent possible long term sources of income.

In addition to support with start-up funding through one or two time grants or ongoing programs, governments can offer long term operational support in the following ways:

- Innovative tax mechanisms dedicated to sustainable tourism programs. Airport taxes, tourism sales taxes, and land transfer taxes are examples (as in Costa Rica).
- Tax concessions for certified businesses and programs (as in Barbados)
- In-kind contributions of government-funded academic institutions and technical or consulting staff or agencies (as in Australia)
- Space in government offices and use of selected equipment and supplies (as in Guatemala)
- Gaining access to funding from international donors, especially in developing countries (as in Brazil)
- Promotion through Ministries of Tourism and other government-sponsored tourism programs, many of which have strong tourism marketing capabilities (as in Guatemala).

6.1.9 Partnerships with other institutions for funding and in-kind support

Partnerships with educational institutions can provide significant value to certification bodies, especially when these institutions are engaged in developing and testing standards and benchmarks; conducting research on the effectiveness of program criteria; expanding programs into new sectors or new markets; and other activities. They are often more able to capture funds for these activities and can provide low-cost services from students and professors. This has been critical to the development of Green Globe's series of products, the development and operation of CST, and the operation of Green Deal.

Tourism certification programs can also take advantage of development funding (from government, multi- and bilateral sources) that targets small enterprise development, sustainable business development in rural areas, etc. Projects which provide training and technical support can also include funding for certification as a tool towards improved business performance and sustainability. Sustainable tourism certification practitioners will need to be creative in figuring out how to access existing funding opportunities. The CAMBio project in Central America is ideal for this sort of support.

Site audits often constitute one of the highest cost centers for certification programs, if conducted in-house, and are one of the more costly elements for businesses seeking certification. There are a variety of models available for apportioning the costs and responsibility of audits (see chapter 5), as well as potential for partnering with other organizations to reduce costs. These include academic or training institutions, government agencies (e.g. protected areas, health, small business, etc.), development programs (which fund capacity building and consider audits an essential part of ensuring sustainability), or large audit firms (that either already offer lower-priced auditing services or can reduce fees with assistance from government or development subsidies).

Certification and programs and accreditation bodies should gain access to and seek partnerships with financial institutions which require businesses to satisfy sustainability criteria as a prerequisite for loans. They may be interested in financing certification as it can be a useful tool for satisfying accountability prerequisites. In addition, cooperative relationships with such organizations can include education and outreach to the financial institution's clientele; joint marketing of certification and certified providers; opportunities for green investing for mutual funds, pension funds, and individual investors; and financial incentives for small businesses to become certified.

6.1.10 Creative financing

A final and potentially important source of ongoing support for sustainable tourism certification and accreditation may be found in the relatively new area of conservation finance. Around the world, investors, companies, economists and environmentalists are developing ways to create market mechanisms and financial incentives to protect the environment. Some are implemented entirely by the private sector, while others are initiated by governments. Some examples, with suggestions for how they might be applied to tourism certification, are given here:

- Power companies around the world, such as AES, British Petroleum, American Electric Power, have voluntarily entered into agreements with governments and conservation organizations to offset their carbon emissions by providing support for reforestation and

land conservation.¹⁹ Likewise, travelers are increasingly agreeing to pay for their share of carbon emitted by the transportation they use. While funding typically has gone for reforestation and energy efficiency, a similar model could be developed to support certification that ensures that the tourism activities travelers partake in are environmentally and culturally responsible. This sort of carbon trading would most likely have to be done outside of the framework of the Kyoto Protocol, as purely private initiatives, for a series of technical reasons. In private-to-private carbon trading, avoiding deforestation by supporting ecolodges with private reserves, or funding conversion to renewable energy sources might contribute to financing the certification process of eligible businesses.

- In 1996 the Costa Rican government created an environmental tax on fossil fuels, used to compensate forest landowners for protecting their forests and planting additional acreage. In a similar fashion, a small portion of existing tourist taxes might be directed to certification programs, to ensure that tourism in the country is sustainable.
- Wetland mitigation and transferable development rights are examples government-regulated tools which allow development to occur in one site in exchange for money or resources for conservation in another site. In Collier County, Florida, the local government used mitigation banking requirements to drive banks to compete against each other to lower prices for wetland mitigation, thereby creating a market for the mitigation credits.²⁰ Tourism development could become a right, with developments of a certain size or scale being required to contribute to certification programs. This was attempted in Costa Rica in the restricted maritime zone, but was ultimately rejected as legally untenable. Nevertheless, in other legal systems this might be implemented.
- Uncertified businesses could pay higher tax rates, as in Barbados. These higher taxes could be redirected towards financing the reconversion necessary to enable businesses to be certified.
- The Nature Conservancy (TNC) is accessing new forms of capital from four sources:
 - debt created by issuing TNC bonds
 - government-created tax credits and new tax-exempt convertible bonds with low transaction costs
 - private equity that funds sustainable income-generating activities
 - project financing.²¹

Large tourism companies or airlines could emulate their models to partially finance certification programs in accordance with their interests.

6.1.11 Marketing via Partnerships

The marketing of certification programs and of certified businesses is essential to ensure the success and viability of sustainable tourism certification. Only if consumers (including travel

¹⁹ Daily, Gretchen C., and Ellison, Katherine, 2002. *The New Economy of Nature: The Quest to Make Conservation Profitable*. Island Press, Washington, DC.

²⁰ Davis, Adam, 2005. "Mainstreaming Environmental Markets." *In: From Walden to Wall Street: Frontiers of Conservation Science*. Island Press, Washington, DC.

²¹ Schuyler, Kevin, 2005. "Expanding the Frontiers of Conservation Finance." *In: From Walden to Wall Street: Frontiers of Conservation Science*. Island Press, Washington, DC.

intermediaries) are aware of certification and see advantages in patronizing certified businesses, will companies be interested in becoming certified. At the same time, promotion and marketing budgets and expenditures have consistently been recognized as vastly insufficient. (Only Energy Star, which spends 60% of its budget on promotion, is widely recognized by consumers and industry.)

Financial and in-kind support for promotion and marketing can come from a range of sources and should include partnerships with governments, non-governmental organizations, and industry and associates. Costs for collaborative marketing can then be split among a variety of players.

Business to business (or organization to organization) is the least expensive and most efficient form of marketing. Within the tourist industry, certification programs should establish relationships with tourism boards and other tourism trade organizations, operators, travel agents, airlines and other tourism and travel wholesalers to develop ways to mutually promote and market products and services. The businesses that have direct contact with consumers have an especially important role to play, as they are generally trusted by their clients and therefore have a greater influence on them. Large travel wholesalers can play a crucial role in promotion and marketing of sustainable tourism certification both to tourism providers, as well as consumers. In fact, some tour operators in Europe and Costa Rica are requiring that the businesses they use be certified by a certain date²²

Certified tourism businesses also have an important role in collaborating with their partners to promote the certification label and its value. They should promote the logo/label on certified products they sell and encourage their clients to use the programs. They can also provide corporate donations to certification programs, as long as conflict of interest issues are overcome.

Outside of the tourist industry, there are also opportunities for co-marketing. Partners include other “green” certification programs such as organic agriculture, sustainable fisheries, Fair Trade, sustainable timber, green restaurants and green meetings associations, and more. Producers and purveyors of environmental products and services, especially those used by the tourist industry, should also be invited to do outreach regarding tourism certification.

Governments can and should also play a large and no or low-cost role in marketing certification. They are an especially valuable partner because they can reach national and international markets and, in many countries, offer needed credibility. Tourism ministries and boards, as well as environmental, energy and rural development agencies should be recruited to promote or list certified businesses in their directories and other publications. An example of such a relationship is in Australia, where EcoCertification received marketing support for certified products from the Great Barrier Reef Marine Park Authority (a government protected areas agency), which participated in a trade show and promoted the certified products in its jurisdiction.

NGOs that support environmental causes, conservation of cultures, rural or economic development, etc. should be enlisted to educate their members and other constituents about sustainable tourism certification and certified businesses through their publications and outreach

²²UNEP, 2005. “Tourism Certification as a Sustainability Tool: Assessment and Prospects.”

efforts. They can also influence government policies in favor of sustainable tourism certification. In addition, they can use their own fundraisers to showcase sustainable tourism certification and companies (through sponsorships, awards, auctions, etc.) Some NGOs also establish awards programs which can highlight businesses and promote certification.

The communications media (newspapers, magazines, guidebooks, trade journals, TV, radio, web, etc.) are obvious providers of advertising and promotional assistance. Certification programs need to better educate the media and then engage with media outlets get out the word.

6.1.12 Funding for an Accreditation Body

Accreditation bodies should also plan on using donor funds (both public and private) for start-up and initial operation. It is likely that their dependence on grants will be longer term than for certification programs. However, they can generate revenue through:

- small membership fees charged to certification programs
- licensing fees charged to certified businesses using the logo
- royalty fees charged to certified companies and based on annual turnover
- donations or subsidies from local governments interested in ensuring sustainable tourism

6.1.13 Barriers to Overcome

While it is clear that creative financial and in-kind support are necessary to achieve financial sustainability for sustainable certification programs, there are three common perceptual barriers cited by certification programs that must be overcome. They are:

- A lack of interest in certification by tourists and tour operators, which serves as a disincentive for businesses as well as potential backers. This is partly due to a lack of marketing, and funds for marketing, by certification programs and their partners or supporters (including NGOs and governments).
- Insufficient evidence to show that certified businesses experience economic advantage in the marketplace. Nor has it been demonstrated that governments, destinations or communities benefit from sustainable tourism certification. It is imperative that these questions be asked and answered. Monitoring and evaluation of key performance indicators should be implemented by certification programs. Clear evidence that sustainable tourism certification offers economic benefits for businesses and communities, as well as having positive impacts on environments, societies and cultures, will go a long way towards convincing businesses, governments, multilateral donors, and private funders to invest in it.
- Most programs do not yet have a critical mass of certified businesses to achieve visibility in the marketplace.

6.2 PART 2: LIST OF RECOMMENDATIONS

6.2.1 Planning a Sustainable Tourism Certification Program

For economic as well as functional reasons, sustainable tourism certification programs must have broad and deep support of a wide range of stakeholders. In addition, they must be developed as a business, with financial plans, effective working structure and operations, and strong governance.

- Identify and convene stakeholders from government (environmental, tourism, energy, and development agencies), non-governmental organizations (conservation, consumer advocacy, etc.), tourist industry, academic institutions, media, etc. to form a governing council or board of the certification program.
- Identify an existing private (non-profit or business) organization in which to house the program. Cost-sharing between the sustainable tourism certification and the organization's other activities reduces expenses.
- Develop a business plan for certification program. This includes:
 - Determining activities to be carried out (e.g. in-house audits)
 - Developing a financial structure which includes ALL cost centers
 - Creating a financing plan
 - Identifying partners and the tasks to be jointly implemented
 - Establishing indicators (economic, environmental, management, social, etc.) to measure success
 - Developing a monitoring plan.

6.2.2 Gaining Government Support

Governments must play a long term role in providing support for sustainable tourism certification because it is in their national and economic interests to ensure that tourism within their jurisdictions is sustainable. They must be convinced that certification is an indispensable tool for ensuring that tourism is environmentally, socially, culturally and economically sound and that they must play a critical role in its success.

- Conduct education and outreach to governments to garner their support of certification program for the following activities:
 - Providing funding for start-up
 - Providing funding for operation
 - Offering technical assistance via academic institutions and government agencies
 - Gaining access to funding from international sources
 - Developing financial incentives to support certification, including:
 - Establishing tax mechanisms to raise funds from tourists (airport taxes, sales taxes, entrance fees, etc.)
 - Providing tax credits to certified businesses
 - Policies to favor certified business' access to government resources (e.g. protected areas)
 - Easing the cost of certification for small businesses
 - Promote and market certification programs and businesses through Tourism Ministries and other agencies
 - Creating policies which favor certified businesses and sustainability programs
 - Limiting government regulation on certified businesses

6.2.3 Engaging Others for Financial Assistance

Grants and donations, while often short term, are needed for start-up and initial operation. Money must be sought from a variety of sources.

- Recruit non-profit organizations, tourism businesses and trade associations to convince governments, private donors and multilateral or bilateral funders of the benefits of

certification and to request financial support.

- Approach tourism and travel businesses (wholesalers, operators, airlines, etc.) and other businesses (media, environmental products and services, etc.) to seek their financial and in-kind support
- Apply for grants from multilateral development banks, private foundations, government agencies, businesses (tourism wholesalers, airlines, travel media, etc.), trade associations, financial institutions (credit card companies, e.g.), national or international NGOs for start-up and limited term operational funding. (See the end of Chapter 4 on Funding Bodies for suggestions on donors to approach for grants.) Research and apply for operational funding (which includes providing training, technical assistance, resources) from existing development projects which support small and rural business development. That is, capture a part of the funding offered to larger sectors.
- Be clear to donors that it may take 8 years or more for a certification program to reach financial independence, and that user fees alone provide insufficient revenue to support a credible, well-used program.

6.2.4 Securing In-kind Support

Organizations and individuals with research and technical capabilities can offer much-needed assistance in development, design, auditing, training, analysis and monitoring, and promotion of certification programs. Their input is often consistent with their missions and can be obtained at below-market costs.

- Work with academic institutions to take advantage of their expertise in research and policy development. Create mechanisms to shift or share the cost of a variety of tasks including:
 - standards development and revision
 - benchmarking
 - training and technical assistance
 - auditing
 - development and monitoring of indicators
 - researching incentives and financial strategies
 - development of marketing strategies
 - exploring additional policy incentives
- Solicit NGOs, businesses and individuals who support sustainable tourism to provide consultation, promotion, technical assistance, etc. at no charge or on a barter basis.

6.2.5 Gaining Income through Products and Services

By offering a range of products and services, and charging for them accordingly, certification programs can raise a significant amount of necessary income. However, they should also identify and implement strategies to facilitate small businesses to become certified.

- Develop a fee structure, with a sliding scale for small businesses. Recommended fees to charge are:
 - Annual membership
 - Pre-assessment or self-audit
 - Site audit – to in-house auditor or contractor
 - License fee for using the logo

Optional fees to be considered are:

- Technical assistance
 - Consulting to other tourism certification programs, other industries, governments, etc.
 - Classes, training, workshops
 - Sale of standards to outside parties (i.e., not to businesses within the program)
 - Sale of guidebooks and promotional resources to outside parties
 - Advertising of certified businesses beyond a standard level
- Identify ways to attract small businesses into the certification program. This means subsidizing SME participation in certification and therefore this financial cost must be built in to the business plan. These include:
 - Providing free technical assistance or partnering with other institutions to do so
 - Helping to raise funds for small businesses to use to become certified
 - Developing a group certification program to reduce audit and other costs
 - Combine the sustainable tourism certification site-audits with other audits/inspections (e.g. health and safety, quality, etc.)

6.2.6 Developing Partnerships for Outreach and Marketing

Financial and in-kind support for promotion and marketing can come from a range of sources and should include partnerships with governments, non-governmental organizations, and industry and associates. Costs for collaborative marketing can then be split among a variety of players.

- Engage NGOs (such as environmental and conservation organizations, consumer advocacy groups, and others interested in cultural conservation and rural or economic development) for their assistance with education and outreach to their members and other constituents. They might:
 - Promote sustainable tourism certification in their newsletters and other communications resources
 - Encourage stakeholders to patronize certified businesses
 - Develop awards programs for certified businesses
 - Feature certified businesses in fund-raising events (e.g. by offering visits as auction items)
- Collaborate with the media (radio, television, newspapers, magazines, guidebooks, travel publishers, internet, film/video industry, etc.) to provide financial, in-kind and marketing support for certification programs and businesses.
- Develop marketing campaigns and resources with NGOs (especially environmental and consumer advocacy groups), tourism and travel companies (wholesalers, travel agents, tour operators, etc.) and trade associations, governments, financial institutions, donors, etc.
- Work with travel wholesalers and intermediaries, especially those who have direct contact with consumers, to develop policies and procedures that favor certified businesses.
- Establish incentives for businesses (travel and tourism as well as other relevant ones) to provide discounts and other financial incentives to ST certified companies.
- Convene representatives from other “green” certification programs and environmental products and services producers and purveyors to collaborate on co-marketing or provide

discounts to certified businesses. Companies representing energy efficiency and renewable energy, water conservation, waste reduction, “green” kitchen/bedroom appliances, organic agriculture, and Fair Trade are examples of potential partners.

6.2.7 Working with the Financial Community

The process of certification provides a measure of financial credibility to businesses, and can therefore be of interest to financial institutions and investors who want to be sure that their money is well placed. Therefore, their support warrants seeking.

- Educate and convene financial institutions to develop mechanisms for improving credit to certified businesses and otherwise creating financial incentives for certification. Encourage banks to use certification as a means for which to approve grants or loans to businesses.
- Work with investors and their representatives to raise funds for certification. Socially responsible mutual funds, investors and brokers are potential supporters.
- Consider the idea of issuing bonds to finance certification program activities.
- Investigate possibilities to create new market mechanisms which can support sustainable tourism certification programs. Electric and other energy utilities could be interested, as well as carbon offset, wetlands banking and transferable development rights programs.

6.2.8 Advocating for Sustainable Tourism Certification

The most effective way to promote sustainable tourism certification is by demonstrating that it does what it says it does – i.e. sets and monitors standards that ensure that certified businesses fulfill the (economic, environmental, social, cultural, managerial, etc.) principles of sustainable tourism. Accurate, well-documented data indicating the benefits of certification are necessary to successfully generate financial support and buy-in from industry players, funders, other partners and tourists.

- Analyze and continually monitor the economic, environmental and socio-cultural benefits of sustainable tourism certification.
- Circulate and publicize the benefits widely and often – to the tourist industry, governments, funders, NGOs, the media and communities.
- Enlist the media, NGOs and others to assist in showcasing the positive impacts of sustainable tourism certification.

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Appendices

Appendix 1: Funding sources for selected sustainable tourism certification programs

Table A: Funding sources for green certification programs				
Program name and area of coverage	Profit status	Start-up funding	Year of start-up	Operational funding
TOURISM CERTIFICATION AND RATINGS PROGRAMS				
New Hampshire Sustainable Lodging Program – New Hampshire, USA	Non-profit	Grants from 4 public utilities in NH	2005	Grants from 4 public utilities in NH
Green Hotels in the Green Mountain State – Vermont, USA	Non-profit	Government – EPA grant to states	1999	Government (though program is housed in non-profit organization)
Mobil Rating System – USA	For-profit	Exxon-Mobil Corporation	1958	60% information and content sales 40% consulting and licensing fees
AAA Five Diamond Rating – USA	Non-profit	Automobile Association of America	1977	Automobile Association of America, licensing fees and hotel chain partnerships
Camping and Caravan Assoc. Gum Nuts – New South Wales, Australia	Non-profit	Camping and Caravan Industry Association and state funding	2001	
Sustainable Travel EcoCertification Program – USA	Non-profit	Sustainable Travel International	2003	not applicable because not yet operating
Certification for Sustainable Tourism – Costa Rica	Non-profit	Government and some international donors, including Spanish gov., USAID & IDB	1998	Government
SmartVoyager – Ecuador	Non-profit	Grant from World Bank and individual contributions	1997	

CSTP – Non-profit	International donors – Spanish Agency for International Cooperation, IDB – and the University of San Ignacio de Loyola	2002	
Certification for Tourism Sustainability of Peru			
Program of Non-Certification in Non-profit	International development agencies – IDB, EU, and industry	1998	
Sustainable Tourism (PCTS) – Brazil			
Green Globe 21 – Non-profit	International donors – USAID	1997	
and Blue Flag – Caribbean			
Green Deal – Non-profit	International donors – USAID, DFID	2001	Certification fees, donation from IDB, technical support from Rainforest Alliance, FUNDESA
Guatemala			
Green Globe 21 – Chile	Personal funds and co-financing		
SUTUR – Non-profit	None		
Uruguay			
OTHER INDUSTRY GREEN CERTIFICATION PROGRAMS			
The Food Alliance	Non-profit	Grants – Kellogg Foundation and others	1997
			60% grants 25% contracts and consulting 15% fees for certification
Smart Wood	Non-profit	Foundation grants – Ford, McArthur, Pew, etc. and audit fees	1992
			5-10% consulting and specific activities 90-95% audit fees
Transfair USA	Non-profit	Ford Foundation and individuals	1998
			75% fee revenue 25% donations from foundations
Green Seal	Non-profit	MacArthur, Alton Jones, Pew, Energy Fdns.	1989
			66% fees
Energy Star	Non-profit	U.S. Government – EPA and others	1992
			Government – EPA 34% government grants and contracts
Imaflora	Non-profit	Ford Foundation and others	1997
			Foundation grants and fees
ACCREDITATION ORGANIZATIONS			
Forest Stewardship Council	Non-profit	Grants – Austrian and Mexican govts.; Ford Foundation, WWF-Netherlands	
Marine Stewardship Council	Non-profit	Grants – Unilever Corporation, Packard, and many other private foundations, plus WWF	1997
			5-10% logo license fee 50-60% foundation support 10% fund-raisers or individual contributions 20-35% corporate grants from retailers

Appendix 2: Fee structures for selected sustainable tourism certification programs

Table B: Green Globe fee structure				
Type	Awareness (Affiliate)	Benchmarking renewal fee	= Certification = renewal fee	Audit
Company standard				
Micro-company (< 10 employees or < 10 rooms)	US\$150	\$295	same	cost
Small (10-49 employees or 10-69 rooms)	Renewal= 50% of benchmarking fee	\$540		
Single site large company		\$1350		
Large diversified company		\$7500		
Communities-Destinations				
Micro community (<10,000 exc. China: <30,000)	\$150	\$4500	\$1125	cost
Small community (<150,000 exc. China <250,000)		\$7500	\$1875	
Large complex community		\$15,000	\$3750	
Ecotourism products				
Type	Awareness (Affiliate)	Benchmarking & Certification first product = renewal fee	Subsequent products	Audit
Micro-product (< 10 employees)	\$150	\$295	\$75 affiliates;	cost
Small (10-49 employees)		\$540	\$120 benchmarked or certified products	
Medium product one site (>49 employees)		\$850		
Large product multiple sites (>49 employees)		On application		
Design & construct				
Type	Awareness (Affiliate)	Benchmarking renewal fee	= Certification = renewal fee	Audit
Micro-accommodation	\$120	\$1000	same	cost

(< 10 rooms) or single bldg. interpretive center	
Small accommodations (10-69 rooms) or large interpretive center	\$1800
Large accommodations (>70 rooms)	\$3800
Complex with different functions (resort with golf course)	\$7500

Table C: Certification fees in Galapagos (US dollars plus VAT)

Type of business	Preliminary audit and report	Certification audit	Annual fee for use of logo
Vessels <21 pax	US\$950	US\$950	\$1250
Vessels 21-40 pax	\$950	\$950	\$1500
Vessels 41-100 pax	\$1250	\$1250	\$2500
Small hotels	\$950	\$950	\$500
Large hotels	\$1250	\$1250	\$1500

Table D: Certification fees in Guatemala

Type of business	Preliminary audit and report	Certification audit	Annual fee for use of logo
Tour operator	free	US\$700	free
Small hotel 1-100 rooms	free	\$500	free
Big hotel >100 rooms	free	\$700	free

Table E: Certification fees in Africa

Certification scheme	Fees
EcoAward, Namibia	~US\$25 – \$240 per year, based on capacity/type of accommodation, plus inspection fee of ~US\$17-\$208.
EcoRating Scheme, Kenya	US\$150 -\$500 audit fee based on level of award, plus \$60 annual fee
Fair Trade in Tourism South Africa	Annual fee calculated from rack rate and capacity (varies), plus audit fee
Heritage Environmental Rating Scheme	~US\$1,833 – \$4,916 p/a

Appendix 3: Stakeholders: roles and financial contributions

Herbert Hamele

The many different partners and supporter of ST Certificates can be grouped as follows:

- **Governmental bodies:** ministries, policy makers, destination management authorities
- **Social partners:** tourism associations, trade unions, NGOs
- **Business & Industry:** tourism supply chain, manufacturers, other
- **Commercial intermediaries (tourism):** tour operators, travel agents, retailers, IT and media (publicity) companies
- **Academic and scientific bodies:** education and training establishments, research and consultancy bodies
- **Public & private:** public-Private Partnerships, Other Civil Society members (consumers)

This listing (derived from UN categorization of stakeholders worldwide) can be used to identify those stakeholders

- who are interested in making tourism more sustainable
- who are/shall become partner of a ST Certification initiative
- who do/shall financially support a ST Certification initiative

Question: Who finances the start-up phase and / or the operation phase and why ?

Answer: Those who (wish to) benefit from the STC

In Europe the involved stakeholders can be related to following (summarizing) arguments and types of financial contribution to the start-up and operation of ST Certificates.

Table F: Stakeholders and their financial contributions to sustainable tourism certification			
GROUPS	SUBGROUPS	ARGUMENTS	FINANCIAL SUPPORT, EXAMPLES
Governmental bodies	Ministries, policy makers, destination management authorities	To raise awareness in the public	Start-up funding, decreasing financial support
		To prove feasibility of better environmental or social performance beyond legislation To get knowledge and arguments for complementary steps (programs, legislation)	
Social partners	Tourism associations, trade unions, NGOs	Influence, support of own tasks	in Kind (revision of criteria)

Table F: Stakeholders and their financial contributions to sustainable tourism certification

GROUPS	SUBGROUPS	ARGUMENTS	FINANCIAL SUPPORT, EXAMPLES
Business & Industry	Tourism supply chain, manufacturers, other	Better products: healthy environment, unique nature, culture, destination experience and products and services to buy and to consume	certification fee (application, training and verification cost)
		Certificate as proof Use of brand logo, marketing support	license fee (e.g. 0,2 % of turnover (marketing cost))
Business & Industry	Tourism supply chain, manufacturers, other	Other certificates/brands, producers and traders of other green (ecolabeled) & regional (branded) products and services which shall be purchased e.g. in STC restaurants or visitor centers	Agricultural products (food and beverage), e.g. Bioland and Bio-Hotels Consumption articles (washing, cleaning), e.g. Weleda (and Blue Angel ?) and Viabono Regional handcraft products (wood, glass, etc. > souvenirs), e.g. Eifel Brand, Austrian Ecolabel, EU-Flower, Nordic Swan
Commercial intermediaries in Tourism	Tour operators, travel agents, retailers, IT and media (publicity) companies	CSR, self-commitment, potential market advantages, better competitiveness	Financial contribution: promotion in the catalogues
Academic and Scientific bodies	Education and training establishments, research and consultancy bodies		
Public & Private	Public-Private Partnerships, Other Civil Society members (consumers)		

Voluntary certification must follow market rules and principles. This means: the “beneficiaries” should finance the cost of the various services of a STC. Benefits can be created along the whole production and consumption process. Tourism as “tertiary” sector can support the primary and secondary sector by “green and regional purchasing” of manufactured products and food. This can be done by all services along the tourism supply chain of transport to and stay in the destination: mobility services, accommodation, restaurants, attractions (natural, cultural, visitor centers) and activity services. The intermediaries (tour operators, tourist offices, information services) can make visible these values to the final consumer and thus close the link to make a “green tourism market” a significant and self sustaining reality.