

Financing Tourism Certification in Africa

January 2006

A report to The International Ecotourism Society

Dr Anna Spenceley

Research Fellow
Transboundary Protected Areas Research Initiative
University of the Witwatersrand
Private Bag X3, 2050, Wits, South Africa

Tel: +27 (0)72 3115700

Email: anna@ecotourism.org
www.anna.spenceley.co.uk

CONTENTS

1. Overview.....	3
2. Approach.....	4
3. Results.....	4
3.1 Start-up funding.....	5
3.2 Operational funding.....	5
3.3 Donors and NGOs.....	7
4. Discussion.....	8
5. References.....	9
6. Appendix 1: Questionnaire for certification schemes.....	10
7. Appendix 2: Questionnaire for NGOs and donors.....	12

TABLES

Table 1: Start-up funding.....	5
Table 2: Operational funding.....	6
Table 3: Certification fees.....	6

Acknowledgments

Many thanks to the individuals and institutions who contributed their time to complete questionnaires, namely Paul Zille, Commark; Tim Parkhouse, EcoAward, Namibia; Judy Kephergona, Ecotourism Society of Kenya; Jennifer Seif, Fair Trade in Tourism South Africa; Heather Koch, Green Globe 21; Steve Collins, GTZ Transform; Anthea Stephens, IUCN-South Africa; and Greg McManus, Qualitour.

1. OVERVIEW

In November 2004 the International Ecotourism Society commissioned a study of the financial structure of tourism certification systems operating in Africa were financed, supported by the Ford Foundation.

The review was undertaken in December 2005 with data from five tourism certification schemes (the Ecotourism Society of Kenya EcoRating Scheme, Fair Trade in Tourism South Africa [FTTSA], Heritage Environmental Rating Scheme, EcoAward Namibia and Green Globe 21) a development agency (GTZ Transform) and two NGOs (IUCN-South Africa and the ComMark Trust).

There were differences between start-up and operational funding reported, and the study found that most certification schemes obtain their initial costs from just one source (be it a development agency or a private foundation) in the form of a donation, grant or private funding. Operational funding is more complex, and the schemes either obtain the majority of their funding (70% or more) from grants or donations, or directly from the products they certify in membership and accreditation fees. Schemes that charge higher fees for certification within the sample are less reliant on donations, grants and in-kind support. However, it should be noted that charging higher fees may act as a barrier to emerging enterprises in Africa, and therefore a more complex structure is likely to be beneficial on the continent as a whole.

Key constraints to obtaining start-up funding included the lack track record, a lack of market information and knowledge of demand, and the lack of market acceptance for certification. Constraints to achieving operational financial viability highlighted that customers wanted viable returns on their certification investment, and that a start-up phase of 3-5 years was required before achieving self-financing from the certification process. Schemes largely concurred that self-financing was the most viable funding system in the long term.

A series of recommendations are made for the financial establishment and operation of national and regional tourism certification programs. Further research would usefully concentrate on potential sources of funding for the start-up phase, and evaluating different scenarios to attain financial self-sufficiency within 3-7 years.

2. APPROACH

Information was gathered primarily using questionnaires that were sent to certification system managers, donor agencies and non-governmental organisations (NGOs). Two different questionnaires were devised: one for certification schemes and one for potential funding agencies and NGOs. The questionnaires were emailed to individuals at 26 relevant institutions, namely:

- 10 tourism certification and award schemes addressing aspects of sustainable development (including a quality scheme);
- 2 non-tourism sectoral certification schemes;
- 2 financing institutions;
- 5 development agencies; and
- 7 NGOs.

Questionnaires were initially sent between 25 and 28 November 2005, and a reminder was issued on 12 December 2005. In all there were eight returns (31%) from five tourism certification schemes (the Ecotourism Society of Kenya EcoRating Scheme, Fair Trade in Tourism South Africa, Heritage Environmental Rating Scheme, EcoAward Namibia and Green Globe 21), a development agency (GTZ Transform), and two NGOs (IUCN-South Africa and the ComMark Trust).

This report provides a synthesis of responses that were received and an overview of existing analyses by agencies such as the World Tourism Organization (WTO). The questionnaires sent to certification systems and NGOs/Donor agencies can be found in Appendix 1 and 2.

3. RESULTS

The WTO makes a series of recommendations regarding the financial aspects of certification system establishment¹:

- Costs associated with research, development and operation of certification programmes should be sought with co-financing and technical contributions from a variety of institutions (e.g. different government departments, NGOs, academic institutions, international finance and development agencies, private foundations, etc).
- Balance between financial contributions of the public and private sectors should be sought.
- Consider in-kind contributions by governments for the operation, e.g. providing facilities, office space and equipment.
- Sources of funding should not create conflicts of interest.
- Fees should be established so that participants cover (at least partially) the application and verification costs.
- Fees should be kept as low as possible in order to encourage participation.
- Funding mechanisms for the application, verification and certification processes is a crucial and a critical element of success.
- Fees should be calculated proportionally to size of businesses (e.g. by number of beds or visitors, turnover, etc.).
- Incentives should be provided to support the application of companies, especially of small and medium size enterprises that would otherwise be left out (e.g. by soft loans and subsidies to make the necessary improvements to meet the criteria).

¹ WTO, 2003

The results that follow address issues raised by representatives of certification systems operating in Africa regarding start-up funding, operational funding, and constraints faced in achieving financial viability. Issues raised by potential funding sources are also reported.

3.1 Start-up funding

Four of the five certification schemes obtained all of their start-up funding in the form of either 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%)
Green Globe 21	100% grant	Private foundation
Heritage Environmental Rating Scheme	100% private funding	Not specified

Constraints to obtaining start-up funding from potential funding sources that were raised primarily addressed a lack of information and certainty, including the following:

- 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.

3.2 Operational funding

Operational funding was 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 2).

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
Green Globe 21	75% certification 25% shares	- Membership fees - Government funded research body (20%) and private foundation (5%)
Heritage Environmental Rating Scheme	100% certification	- Membership fees (60%) & verification (40%)

Fees that are obtained from the certification systems vary, and go some way to the key differences between operational funding structures listed above (see Table 3). The highest fees are charged by Green Globe 21 and the Heritage scheme: the same schemes that obtain the majority of their operational funding from certification.

Certification scheme	Fees
EcoAward, Namibia	N\$150 – N\$1440 p/a (~US\$25 - \$240) based on capacity/type of accommodation, plus inspection fee of N\$100 – N\$1250 (~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
Green Globe 21	Varies from US\$75 p/a to \$12,000 depending on type of enterprise and capacity
Heritage Environmental Rating Scheme	R11,000 – R29,500 p/a (~US\$1,833 - \$4,916 p/a)

A series of constraints to achieving financially commercial viability were identified by the 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);

² Spenceley, 2005; Pers. Comm. T. Parkhouse, 2006

- difficulty for clients in translating a label into a ‘bargaining chip’ in the tourism market place;
- 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 and/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.

3.3 Donors and NGOs

The donor agency GTZ Transform and NGOs IUCN-South Africa and ComMark provided responses to the questionnaire.

GTZ Transform is a joint venture between GTZ and the South African Ministry of the Environment and Tourism established in 1996. GTZ is the international cooperation enterprise for sustainable development for the German government.

GTZ Transform had provided a grant to FTTSA in 2002 to assist their attendance at the Hanover Reise pavillion tourism fair. Their support included funding for publications, travel and accommodation

The **IUCN** raises funds through various funding sources (e.g. bi- and multi-lateral agencies, foundations, private sector, etc) typically for large projects or programmes. These are often implemented in partnership with other organizations that align with and support IUCN’s mandate on addressing biodiversity conservation and sustainable development.

Commark provides grant funding to address areas of market failure (typically relating to policy and regulatory issues) which inhibit high growth, pro-poor sectors from growing more quickly and inclusively of poor people (whether workers, consumers or entrepreneurs) who relate to those sectors.

Both NGOs had previously supported a certification scheme through either in-kind support (IUCN-SA) or a small grant (ComMark). The in-kind support from IUCN-SA was used to house and support fundraising by the certification scheme. The grant provided by ComMark was used to organise members to become self-financing after the set-up phase.

Neither the NGOs or donor agency institution were interested in financing the operation of a certification scheme, and only ComMark would potentially be interested in financing the start-up phase. Their propensity to assist would depend upon the design and proposed operation of the programme, and whether it was conducive to more effective, inclusive operation of the market. ComMark would also consider whether it was self-financing, or reliant on subsidies, or dependent on the participation only of ‘well-heeled’ enterprises. Programs that mitigated against the integration of poorly resourced (and therefore probably uncertified) enterprises into marketing chains would not be supported.

GTZ Transform considered that making certification systems more financially viable would be improved if their participation in Trade fairs was funded, and support was given to enhance their capacity to get clients for their certified businesses. Government funding was suggested if the certification schemes were country specific, as the initiatives could form part of a national tourism marketing program, and would support pro-poor strategies being implemented by governments. However, this assumes the governments would support the kind of certification scheme being promoted, and that there can institutional and financial independence from government.

4. DISCUSSION

The review of the financial structure of tourism certification systems in Africa was undertaken in December 2005. Completed questionnaires were obtained from five tourism certification schemes (the Ecotourism Society of Kenya EcoRating Scheme, Fair Trade in Tourism South Africa [FTTSA], Heritage Environmental Rating Scheme, EcoAward Namibia and Green Globe 21), a donor agency (GTZ Transform) and two NGOs (IUCN-South Africa and the ComMark Trust).

The study differentiated between start-up and operational funding, and found that most of certification schemes obtain all of their initial costs from one source, be it development agencies or private foundations. The funds are provided through a donation, grant or private funding. Only one scheme, FTTSA, obtained more than one source of start-up support: grants and in-kind contributions. Operational funding is more complex, and the schemes tend to either obtain the majority of their funding (70% or more) from grants or donations (i.e. EcoAward, EcoRating, FTTSA), or directly from the products they certified (i.e. Green Globe 21, Heritage). Heritage has a very simple funding structure, obtaining all its income from certification, while FTTSA has a more diverse funding base of four types: grants, in-kind contributions, certification and donations. The schemes charging higher fees for certification were more likely to be less reliant on donations, grants and in-kind support. However, simply charging higher fees may act as a barrier to emerging enterprises in Africa, and therefore a more complex structure is likely to be beneficial on the continent.

Key constraints to obtaining start-up funding included the lack of a track record, a lack of market information and knowledge of demand, and lack of market acceptance for certification. Constraints to achieving operational financial viability also highlighted that customers wanted viable returns on their certification investment, and that a start-up phase of 3-5 years was required before achieving self-financing from the membership and accreditation process. Schemes largely concurred that self-financing was the most viable funding system in the long term.

Since only three responses were received from donors and NGOs, there is limited potential for extrapolation of the information received regarding the propensity of such agencies to fund certification. However, GTZ Transform, IUCN-South Africa and ComMark indicated they had previously supported certification systems. ComMark would potentially be interested in assisting schemes that addressed areas of market failure and promoted poverty alleviation. GTZ suggested that governments might provide useful support for certification, if their objectives for poverty alleviation and tourism marketing were complemented.

Recommendations: Based on the sample responses and the guidance provided by the WTO, there are some recommendations for the most effective mechanisms for national and regional financing certification schemes:

- Establish a suitable host institution and its financial focus (e.g. profit or non-for profit).

- Consider the financing structure in two stages: start-up and operation. The start-up phase may take up to 7 years.
- Use appropriate government, donor, grant or private foundation funds from one or many sources during the start-up phase. Do not assume the scheme will be self-financing at the beginning.
- Consider valuable contributions through in-kind support and volunteers.
- Ensure that the scheme has a business plan that describes how it will become commercially viable in the long term by maximising the contributions of members through certification, and decreasing reliance/input of donations and grants.
- Ensure that the business plan includes initiatives for marketing to tourists, tour operators and potential funders relevant information.
- Communicate projections of current and likely future market demand to potential supporters.
- Develop membership and certification fees that are in line with a business plan for commercial viability, but are fair in relation to the size and turnover of particular enterprises.

Limitations: The study was constrained by a low 31% response rate, which is normal for a mail survey (often 10-50%³). However, given the low number of responsible certification schemes operating in Africa currently, the scheme sample represents 50% of known existing schemes on the continent⁴, and is therefore representative of the local situation.

Further research: Future research would usefully concentrate on potential sources of funding for the start-up phase, and evaluating different scenarios to attain financial self-sufficiency within 3-7 years.

5. REFERENCES

Neuman, W. L. (1997) *Social research methods: qualitative and quantitative approaches*, 3rd Edition, Allyn and Bacon

Spenceley, A. (2005) *Tourism Certification in Africa*, Report to The International Ecotourism Society, January 2005

World Tourism Organization (2003) *Recommendations to governments for supporting and/or establishing national certification systems for sustainable tourism*

Personal communications

ComMark	Paul Zille
EcoAward, Namibia	Tim Parkhouse
Ecotourism Society of Kenya	Judy Kephher-Gona
Fair Trade in Tourism South Africa	Jennifer Seif
Green Globe 21	Heather Koch
IUCN-South Africa	Anthea Stephens
Qualitour	Greg McManus

³ Neuman, 1997

⁴ i.e. Blue Flag, Greenstop.net, Green Hotels, CERT and ISO are also operating in Africa

6. APPENDIX 1: QUESTIONNAIRE FOR CERTIFICATION SCHEMES



QUESTIONNAIRE ON FINANCING CERTIFICATION IN AFRICA

This questionnaire is part of a study the International Ecotourism Society (www.ecotourism.org) is conducting. They want to investigate certification Africa from the perspective of certification program directors. TIES guarantee that all information collected will be used for the sole purpose of identifying major trends in sustainable tour and ecotourism and will be treated with confidentiality. With your permission, we will identify your organization as a participant in this study without attribution to specific comments. We welcome your analytical perspective based on experience, and your recommendations for financing certification systems.

Thank you for your assistance.

1. Name of Certification Program:.....
2. Name of Person completing this questionnaire.....
3. Is your Certification Program FOR PROFIT or NON-PROFIT?:
4. Please describe the sources and types of funding that were used in the START-UP PHASE of your certification program, by completing the table below.

Source of funding	Type of START-UP funding (e.g. GRANT, DONATION, SUBSIDY, IN KIND CONTRIBUTION, LOAN)	% of your certification program income (or amount per year)
Government department	1.	
	2.	
Development Agency	1.	
	2.	
NGO	1.	
	2.	
Private Foundation	1.	
	2.	
Other (specify)	1.	
	2.	
TOTAL (Amount or %)		

5. What are the main constraints to obtaining START-UP funding?.....

.....

.....

6. Please describe the sources and types of funding that were used in the OPERATION of your certification program, by completing the table below.

Source of funding	Type of OPERATTIONAL funding (e.g. GRANT, DONATION, SUBSIDY, IN KIND CONTRIBUTION, LOAN)	% of your certification program income (or amount per year)
Government department	1.	
	2.	
Development Agency	1.	
	2.	
NGO	1.	
	2.	
Private Foundation	1.	
	2.	
Other (specify)	1.	
	2.	
Certification products	Application fees	
	Verification costs	
	Membership fees	
TOTAL (Amount or %)		

7. What are the main constraints to achieving operational financial viability?.....

.....

.....

8. What do you think is the most viable funding system for certification programs?

.....

.....

We welcome any other thoughts or suggestions you may want to share with us. Thank you.

7. APPENDIX 2: QUESTIONNAIRE FOR NGOS AND DONORS



**QUESTIONNAIRE ON FINANCING CERTIFICATION IN AFRICA
FUNDING AGENCIES**

This questionnaire is part of a study the International Ecotourism Society (www.ecotourism.org) is conducting. They want to investigate certification Africa from the perspective of funding agencies. TIES guarantee that all information collected will be used for the sole purpose of identifying major trends in sustainable tourism and ecotourism and will be treated with confidentiality. With your permission, we will identify your organization as a participant in this study without attribution to specific comments. We welcome your analytical perspective based on experience, and your recommendations for financing certification systems.

Thank you for your assistance.

1. Name of Institution:.....

2. Name of Person completing this questionnaire.....

3. Please describe the type of funding you provide

.....
.....
.....
.....
.....
.....
.....

4. a) Would you be interested in funding the START-UP of tourism certification programs? **YES / NO**
(delete as applicable)

b) Would you be interested in funding the OPERATION of tourism certification programs? **YES / NO**
(delete as applicable)

If **YES** to either of the above, please specify the criteria for funding (or attach documentation):

.....
.....
.....
.....

5. Please describe the tourism certification schemes that you currently support, or previously supported, by completing the table below.

	7.1.1 Name of certification scheme		
	Scheme 1:	Scheme 2:	Scheme 3:
CURRENT or PREVIOUS support of the scheme?			
Type of funding <i>(e.g. grant, donation, subsidy, in kind contribution, loan, etc.)</i>			
What does the certification scheme use the funding for?			
Frequency of funding <i>(e.g. once-off, annual)</i>			
Amount of Funding per year <i>(please specify currency)</i>			

6. What do you think is the most viable funding system for tourism certification programs?

.....

.....

.....

.....

We welcome any other thoughts or suggestions you may want to share with us. Thank you.