



# THE ROLE OF ECONOMIC INCENTIVES IN THE GOVERNANCE AND MANAGEMENT OF SUSTAINABLE TOURISM IN COASTAL AREAS



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# **The role of economic incentives in the governance and management of sustainable tourism in coastal areas**

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UNWTO, 2013

## **1 Introduction**

The Collaborative Actions for Sustainable Tourism (COAST) Project is a Global Environment Facility (GEF) funded project with the United Nations Environment Programme (UNEP) as the implementing agency and the United Nations Industrial Development Organization (UNIDO) as executing agency in partnership with the United Nations World Tourism Organization (UNWTO). Its main objective is to demonstrate and support the adoption of best practice approaches for sustainable tourism that reduce the degradation of marine and coastal environments of trans-boundary significance in sub-Saharan Africa.

The COAST project has nine partner countries: Cameroon, The Gambia, Ghana, Kenya, Mozambique, Nigeria, Senegal, Seychelles and Tanzania. As well as addressing policy, governance and action at a national level, it is supporting local demonstration projects.

One required outcome of the project is “Enhanced national policies, regulatory and economic incentives supporting sustainable tourism governance and management”. Following studies, and individual reports, in each of the nine countries, an overall report was produced entitled *Sustainable Tourism Governance and Management in Coastal Areas of Africa*. This presented findings and recommendations for governance and management in a number of fields, including policy frameworks, governance structures, coastal zone planning, influencing tourism development and operations, managing coastal environments and supporting community livelihoods.

A Mid Term Evaluation of the COAST project concluded that the Governance and Management studies had been comprehensive, useful and of high quality. The review identified the use of economic incentives as one area which could be addressed more fully, recognising that it could have potential to influence the mainstreaming of project results and their adoption by the private sector.

This paper addresses this finding from the review by looking at the application of economic incentives as instruments to stimulate the uptake of sustainability policies and actions and their potential application in the context of coastal tourism in Africa. The paper is based on desk research on economic incentives and on interviews carried out during missions to Tanzania, Ghana and Kenya. It has also been informed by discussions during a COAST seminar on sustainable tourism governance in Nairobi in 2013, attended by representatives from Kenya, Mozambique, Seychelles and Tanzania.

The remainder of the paper looks first at the theoretical background and overall approach to the application of economic incentives in the field of sustainable development. It then considers how economic incentives have been applied in the tourism sector, followed by a look at their current use in relation to tourism in some COAST partner counties. Finally it makes some recommendations on steps to take in pursuing the use of economic incentives for sustainable tourism, as a component of governance and management.

## 2 The use of economic incentives in sustainable development

Information and guidance in this section draws on a range of international reports and publications (see Annex 1 for Bibliography).

### ***Background to the use of economic incentives in sustainable development***

The common element of all economic incentives is that they effect change or influence behaviour through their impact on market signals. Most commonly, these signals may be delivered through influencing the cost to an economic agent, such as a business, of undertaking certain actions. This cost may be influenced for example by imposing taxes or charges or providing tax relief, subsidies or other benefits. In this way, economic incentives can be used to encourage better practices and avoid harmful ones.

The primary focus of the use of economic incentives in sustainable development has been centred on addressing the external costs of economic activity to the environment, which may include environmental degradation or resource depletion. This is because the market on its own does not deal well with many environmental problems. Nature provides human society with a vast diversity of benefits, such as food, fibres, clean water, healthy soil and carbon capture, but these are predominantly public goods with no markets and no prices. Market based economic instruments are able to play an important role in integrating the costs associated with loss of value from degraded ecosystems services into decision making.

Economic instruments have for example been widely seen as a way of facilitating implementation of Principle 16 of the Rio Declaration, commonly known as the 'Polluter Pays Principle'. The article states: "National Authorities should endeavour to promote the internalisation of environmental costs and the use of economic instruments, taking into account the approach that the polluter should, in principle, bear the cost of pollution with due regard to the public interest and without distorting international trade and investment."

There has also been a focus on the use of economic incentives for the conservation and sustainable use of biological diversity and ecosystems. Article 11 of the Convention on Biological Diversity creates an obligation for Contracting Parties to "*as far as possible and as appropriate, adopt economically and socially sound measures that act as incentives for the conservation and sustainable use of biological diversity.*" The issue is firmly on the agenda of the Conference of the Parties and their work on incentive measures has been supported by an ongoing programme of international workshops, together with publication of associated reports.

The new Strategic Plan for Biodiversity for the period 2011-2020, adopted by the Conference to the Parties to the Convention on Biological Diversity at its tenth meeting, held in Nagoya, Japan in October 2010, reflects the urgent need to act on incentive measures by calling for the removal, phasing out, or reform, by 2020, of incentives, including subsidies, that are harmful to biodiversity, and for the development and application of positive incentives for the conservation and sustainable use of biodiversity.

Not everything that is useful commands a high value (water, for example). Nature is the source of much value, and yet it bypasses markets, escapes pricing and defies valuation. In 2007, a meeting of G8+5 environment ministers launched an initiative, The Economics of Ecosystems and Biodiversity (TEEB), which aims to promote a

better understanding of the true economic value of ecosystems services and to offer economic tools that take proper account of this value. Common messages emerging for developing the economics of ecosystems and biodiversity include:

- Rethinking today's subsidies to reflect tomorrow's priorities
- Rewarding currently unrecognised ecosystem services and making sure that the costs of ecosystem damage are accounted for, by creating new markets and promoting appropriate policy instruments
- Sharing the benefits of conservation
- Measuring the costs and benefits of ecosystem services.

External costs may also include social and health impacts. TEEB has found poverty and the loss of ecosystems and biodiversity to be inextricably linked. This is also recognised in the Strategic Plan for Biodiversity 2011-2020, which acknowledges that while there is now some understanding of the linkages between biodiversity, ecosystem services and human well-being, the value of biodiversity is still not reflected in broader policies and incentive structures. Economic incentives designed for environmental purposes can also be associated with other objectives, including improving the incomes and quality of living for the poor.

Conservation practitioners have themselves been turning to incentive-based approaches to encourage local resource users to change behaviours that impact on biodiversity and habitat. Unless conservation programmes address economic needs, local resource users will be forced to make choices that generate short-term economic returns regardless of destructive impacts. The challenge of making conservation economically attractive lies in constructing economic alternatives that make foregoing income from unsustainable resource-use a viable and preferred option for decision makers.

The opportunity cost of conservation is what is given up by choosing conservation as opposed to an alternative, more damaging, use of resources. Recognising that conservation can impose a loss on those who can least afford it in terms of foregone income or access to resources, current approaches use positive incentives to encourage particular conservation practices. If sustainable management and conservation is to be achieved, resource users, including those who find their livelihoods through subsistence farming, animal husbandry, fishing and informal forestry, need to see tangible rewards from changing their behaviour.

### ***Issues to be addressed through use of economic incentives***

An incentive measure should have a defined purpose and be designed so as to make sustainable activities more attractive than unsustainable ones. Economic incentives provide an approach which can contribute to achieving sustainable development and a green economy, through:

- Reducing environmental risks: addressing climate change, ocean acidification, release of hazardous chemicals and pollutants, and excessive or mismanaged waste.
- Reducing ecological scarcities: securing access to fresh water, managing natural resources (including wildlife, fisheries and forest resources) and improving soil fertility.
- Fostering patterns of more environmentally-friendly production and consumption.
- Improving human well-being: securing better healthcare, education and livelihood security;

- Increasing social equity: ending persistent poverty and ensuring social, economic and financial inclusion.

### **Types of economic incentives**

A wide range of possible economic incentives are available which can be applied to encourage conservation, sustainable resource use and best practice sustainable development.

It can be helpful to consider three areas of activity which may be influenced by incentives. These are set out below, together with an indication of the underlying market failure that can occur in each case and can be addressed by incentives:

- **The development of enterprises** – including making capital investments to establish or expand a business.  
Market failure arises where external costs to the environment and society are not fully reflected in the cost of undertaking a development, or where benefits to the environment or society of different types of investment are not reflected in the comparable returns received by the investor.
- **The operation of enterprises** – including the use of resources and output of waste.  
Market failure arises where external costs to the environment and society, e.g. from resource depletion or pollution, are not fully met by the enterprises, notably in the comparable prices paid for goods and services.
- **The management of environmentally sensitive areas** – including uses of the area and conservation of its biodiversity.  
Market failure arises where costs associated with different uses of the area and resources available for its management, do not reflect the value to the environment and society of its conservation.

Some of the different types of economic incentive presented below may be most relevant to one of the above areas of activity, while others are equally applicable to two or all three of them. This is indicated in the table which follows. A final column makes some comment on the ease of use of the incentive, bearing in mind the tourism context which is covered later in this paper. The table starts with incentives that would normally be applied nationally and by governments while more localised or project specific incentives are presented later in the table.

TYPE OF INCENTIVE	Applicable to	Ease of use (in tourism context)
<p><b>Phasing out or reforming environmentally harmful (perverse) subsidies</b> In any country there may be existing economic incentives, designed for other purposes, which are harmful to ecosystems and biodiversity. They can impact negatively by under-pricing the use of natural resources, leading to over-consumption, or by increasing production, leading to an increase in demand for resources and in polluting inputs. Perverse subsidies divert scarce resources, distort competition and inhibit development of more environmentally-friendly substitutes.</p>	<p>May apply to subsidies for development or operation</p>	<p>Requires commitment and agreement to policy change and implementation</p>

<p><b>Taxes and charges</b> can discourage environmentally harmful investments and activities by increasing their costs compared to other more environmentally friendly alternatives, including adoption of new technologies. Conversely, <b>subsidies</b>, exemptions or other advantages may be granted for investments and activities that are beneficial for conservation and/or sustainable use. Taxes can be waived or rebated on imports of sustainable technologies which are not locally available. Governments have direct control over the rate of tax or charge or subsidy, as well as deciding how to spend any revenue raised.</p>	<p>Can be applied equally to development or operational activity</p>	<p>Can be straightforward if applied to existing tax regimes. Financial resources would need to be reserved for new subsidies</p>
<p><b>Tradable permit schemes</b> are increasingly used where an acceptable level of resource use or pollution can be determined and the initial rights to use or pollute can be allocated to individual agents, sometimes by auction. An artificial market in which rights are traded allows the permits to be distributed in an economically efficient way.</p>	<p>Mainly related to operations</p>	<p>Could be complex to establish for fragmented sectors and small businesses</p>
<p><b>Pricing and charges</b> offer measures for eco-efficiency and wider resource efficiency through resource pricing, including tariffs and fees. One example would be watershed management charges for water and energy utilities.</p>	<p>Mainly related to operations</p>	<p>Varies according to control over resources and supply</p>
<p><b>Entrance fees</b> and charges for individual users of conservation areas can be applied to control visitation to sensitive natural areas, assist in financing conservation and support alternative livelihoods. The focus is often on cost recovery for purchase and maintenance of the service.</p>	<p>Particularly applicable to area management</p>	<p>Ability to collect charges cost-effectively will depend on the site</p>
<p><b>Market creation</b> is a positive incentive achieved through <b>labelling, certification and award schemes</b> which assess and recognise sustainable use and environmental best practice. While laws and norms define minimum acceptable standards, incentives can be used to encourage players to attain higher levels of sustainability. Information conveyed to consumers or purchasers enables them to express a product preference. Rewards from certification can include marketing value and preferential treatment within the supply chain. Award schemes highlight the best practices of champions and pioneers.</p>	<p>Mainly related to business operation, but can be used to influence businesses in their treatment of sensitive areas</p>	<p>Easier to support existing schemes than to establish new ones. Challenge to obtain business participation, which can be encouraged e.g. by selective marketing</p>
<p><b>Bonds and deposit schemes</b> involve an economic agent, e.g. an investor or business, handing over a sum of money to a third party, to be held securely for a period of time during which a development or operation is carried out. Ultimate release of the bond or deposit is linked to satisfactory environmental performance or demonstration of compliance with environmental responsibilities.</p>	<p>Mainly applicable to development</p>	<p>Requires appropriate specific circumstances and negotiation and acceptance by parties.</p>
<p>Access to <b>micro-credit schemes</b>, which make working capital available to SMEs, can be linked to environmental performance or a set of criteria for sustainable behaviour. Schemes come in a number of forms. For example, a Revolving Loan Fund can</p>	<p>Mainly related to development but can also</p>	<p>Could be used effectively for small projects but requires</p>

make loans for multiple small business development projects on more favourable terms than commercial credit. The issue of a loan for a new project is made possible through repayment of loans by projects already in receipt of support. Variations which can further improve access to development finance include Interest Rate Subsidies and use of a Guarantee Fund, whereby a third party underwrites the risk on a loan.	be used to support changes in operations	available funds and terms that are attractive to businesses and communities
<b>Compensation payments</b> incentivise resource users to cease an unsustainable practice and adopt a responsible livelihood approach. <b>Buyouts</b> offer the most direct approach, involving a complete transfer of property or user rights, where conservation investors purchase resource rights or equipment with the intention of retiring them.	Relevant to area management but also to operations	Depends on local circumstances and requires careful handling
<b>Conservation agreements</b> offer direct economic benefits to resource users in exchange for changes in resource-use practices. <b>Transfer payments</b> provide financial incentives for land users to maintain and enhance environmental services or to adopt sustainable environmental management practices that also benefit society. An example would be <b>Payment for Ecosystems Services (PES)</b> , which provides a mechanism for incentivising resource stewardship by rewarding the providers of these services. For practical reasons, targets are often defined in the form of a specific practice rather than an environmental outcome, which can inhibit innovation and new management techniques. While PES schemes are not in themselves a poverty alleviation tool, they can be designed in a pro-poor manner.	Particularly relevant to area management	Can be used in a targeted way to support conservation of areas if funds are available and clear agreements can be reached with users
<b>Supporting alternative livelihoods</b> offers an approach whereby resource users are helped to establish new income options through livelihood activities that replace unsustainable activities.	Relevant to area management and small project development	Requires well researched and implemented initiatives, sustained over time
<b>Concession schemes and lease agreements</b> , which involve facilitating and promoting the investment capacity and interests of the private sector, can be linked to satisfying specified operational conditions. Linked to property rights, these may involve benefit to the community through allocation of equity and the distribution of income	Can influence both development and operations and be applied to specific areas	Requires presence and clarity of legal rights as basis for negotiation and agreement

***Some points to bear in mind when considering use of economic incentives***

- Economic incentives can be effective in changing behaviour as they are meaningful to business by affecting their costs and performance
- In order to address a specific issue or given situation, measures should be selected or designed to meet clearly defined objectives, and based on measurable targets, associated indicators and, where appropriate, baseline standards.



- Needs, opportunities and constraints vary considerably from one country to another. Even within a country, there can be significant variation in the capacity to implement economic instruments across different regions or sectors. Programmes and payments should be tailored to local conditions. Governments can help by providing an adequate institutional framework, including well defined property rights.
- Economic instruments may not always be the ideal and only solution. They can be successfully used alongside other instruments such as command and control instruments (regulation) and voluntary agreements, and there may be benefits in combinations of this sort.
- First consideration should be given to removing or mitigating perverse incentives. Such action can make positive incentives more effective, reduce the need for their introduction and, in some cases, free up scarce fiscal resources.
- Careful consideration should be given to the strengths and limitations of alternative economic measures, in order to inform selection of the most appropriate measure, or combination of measures. Incentive measures should remain as simple and focussed as possible, be easily understood by all stakeholders and designed for ease and speed of implementation.
- Positive incentive measures require adequate funding and long-term commitment. Positive effects on biodiversity will require time to take effect and their maintenance will require continuation of the policies that encourage environmentally sustainable behaviour.
- Eligibility should be defined by a clear set of criteria. Where criteria have been externally set, for example through a certification scheme, they should be checked for relevance to the issue to be addressed.
- Resources for inspection and enforcement may be limited in many developing countries. Economic incentives are relatively efficient compared to alternatives such as regulation, incurring relatively low administrative and transaction costs.
- Building acceptance, including allaying any fears about loss of competitiveness within a sector, is key to the successful introduction of environmentally related taxes and charges. This will be helped by raising awareness of the environmental issue that the instrument has been designed to address, and of its importance to maintaining a healthy ecosystem.
- Economic measures can provide a tangible way of drawing the economic cost of unsustainable behaviour to the attention of those responsible.
- Economic measures which generate revenue can bring multiple benefits. For example, user fees provide both a management tool and a source of revenue for ecosystem management or support for environmentally-friendly practices. Governments can exercise choice about the use of tax revenue, which might include funding for additional positive incentive measures as well as supporting biodiversity and conservation activity.

- Local generation of revenue is likely to be better supported if it is used to fund conservation-related activity in the area rather than being absorbed into general or national budgets.
- Market based approaches build in flexibility for participants to choose how they will achieve a desired outcome, delivering continuous improvement and driving innovation.
- Outcomes can be very sensitive to the values at which taxes and charges are set. Adverse or unintended effects can arise if prices are set too high or too low. Price setting should be informed by the economic value of biodiversity and ecosystem services, as well as by what the market will bear, and reviewed on a regular basis.
- Monitoring and evaluation of outcomes for sustainability is essential, to judge the effectiveness of the instruments used.
- The context in which economic measures are implemented is subject to change over time. Incentives should be regularly reviewed and adapted to ensure that they continue to be effective.

### **Selecting economic incentives**

Experience from elsewhere has suggested a number of criteria which it may be helpful to bear in mind when considering or selecting an economic incentive, or set of incentives:

Environmental effectiveness	<ul style="list-style-type: none"> <li>• Will the instrument achieve the environmental objective within a specified time frame?</li> <li>• Will the instrument make those to whom it is targeted engage in pollution abatement, technical innovation, product substitution or sustainable resource use methods?</li> </ul>
Economic efficiency	<ul style="list-style-type: none"> <li>• Will the instrument achieve the environment objective or target at the minimum possible cost to society?</li> </ul>
Equity	<ul style="list-style-type: none"> <li>• Will the costs and benefits of the instrument be equitably distributed?</li> </ul>
Legal and policy backing	<ul style="list-style-type: none"> <li>• Is the instrument consistent with the legislative framework?</li> </ul>
Acceptability	<ul style="list-style-type: none"> <li>• Is the instrument understandable to the public, acceptable to the industry and politically saleable?</li> </ul>
Flexibility	<ul style="list-style-type: none"> <li>• Is the instrument flexible enough to adjust to changes in technology, the resource security and market conditions?</li> </ul>
Dynamic efficiency	<ul style="list-style-type: none"> <li>• Does the instrument provide stimuli for developing and adapting new environmentally cleaner and economically more efficient technologies?</li> <li>• Does it promote development of an environmentally friendly infrastructure and economic structure in general?</li> </ul>
Ease of monitoring and enforcement	<ul style="list-style-type: none"> <li>• How difficult or costly will monitoring and enforcement be?</li> </ul>

Source: UNDP/NEMA/UNEP Poverty Environment Initiative, Uganda, 2009

### **3 The use of economic incentives for sustainable tourism**

The understanding of economic instruments in the wider field of sustainable development and environmental management provides a basis for considering their application in the tourism sector.

In the last fifteen years, growing attention has been paid by international agencies, governments and, increasingly, the private sector to the relationship between tourism and sustainable development.

The particular characteristic of tourism as an economic sector that is, in itself, very often dependent on natural resources, is recognised. Tourism activity often takes place in natural environments, including areas of high biodiversity value and/or where resources may be particularly scarce or sensitive. This places a particular requirement on the sector to carefully manage its use of these resources. However, a further dimension of this relationship is the ability of tourism to offer local communities a source of livelihood that is dependent on the conservation of natural resources, such as biodiversity (including landscapes and wildlife). In this way, tourism can help to demonstrate to communities the value of natural assets and provides a source of income from them.

This relationship means that the use of tourism as a sustainable development tool can, very broadly, be seen in its entirety as an economic instrument in the conservation of biodiversity and natural resources. More specifically, it means that it is highly relevant to the measure 'Supporting alternative livelihoods' referred to earlier.

While recognising the relationship described above, it is important to consider how the range of more specific economic incentives can be used to influence the sustainability of the tourism sector.

Sustainable tourism has been defined by UNWTO as "tourism that takes full account of its current and future economic, social and environmental impacts, addressing the needs of visitors, the industry, the environment and host communities".

UNWTO and UNEP in their joint publication *Making Tourism More Sustainable – A Guide for Policy Makers* describe a range of instruments that can be used to influence the sustainability of tourism. Economic instruments are described as one group, alongside measurement, command and control, voluntary and supporting instruments. In describing economic instruments the document looks first at taxes and charges made on tourism businesses and tourists, recognising them as both a tool for behavioural change and as a source of revenue for use in conservation. Examples from tourism include the application of general bed taxes, charges on business for use of resources, such as water consumption, and charges on tourists for the use of amenity, such as an admission fee to a national park.

A second form of economic instrument covered in the UNWTO/UNEP publication is the use of positive financial incentives. This includes some examples of where tourism businesses have been encouraged to adopt more environmentally friendly practices through conditions applied to grants, loans or tax relief or through their direct use to subsidise relevant investments and purchases such as resource efficient heating systems. Finally, economic instruments related to the granting of rights are covered, such as conditions related to the granting of concessions to tourism businesses to operate in state protected areas.

The UNEP and UNWTO guide underlines the potential to use economic instruments alongside other instruments. In particular it illustrates the link between economic incentives and tools to identify tourism businesses that are pursuing good sustainability practice, such as through certification schemes. Economic instruments can also be used alongside supportive instruments such as capacity building with businesses and communities, and the marketing of more sustainable enterprises. Providing or supporting selective marketing can in fact be seen as a form of economic incentive – the demarcation between instruments is not precise as they are strongly interrelated.

The above consideration on how economic incentives have been applied to tourism can be summarised by referring to the three particular areas of activity, together with the consideration of types of incentive, identified in the previous section,

- **The development of tourism enterprises**

The provision of subsidies or tax relief for types or components of tourism enterprise development is applicable and has been used as a generic approach. There does not appear to have been much use of more sophisticated mechanisms such as bonds and deposit schemes. At a site level, there are many examples of the granting of concessions to allow development with particular conditions attached relating to social and environmental impacts and this appears to be very relevant to tourism. Micro-credit schemes have also been used to support types of tourism development.

- **The operation of tourism enterprises**

Differential pricing of resources appears to have been applied only generally as an influence on businesses rather than specifically applied to tourism. There is little evidence of the use of integrated schemes such as a tradable permit system. The application of conditions to the granting of concessions can equally apply to operations as well as development and is particularly applicable to tourism. Similarly, credit schemes can have operational conditions attached. Identification of good practice through certification and labelling is continuing to expand in the tourism sector and can be treated as an economic incentive that is backed by related promotion and marketing.

- **The management of tourism in environmentally sensitive areas**

There are many examples of environmentally sensitive areas where charges have been applied to tourism use – simply for access or for certain activities. However, they are often not applied systematically and revenue raised is not always used to support conservation or local communities. In general, there have been many initiatives to use tourism as a more sustainable source of livelihood for communities. More specifically, compensation payments to influence a change in land use, or to pay for ecosystem services, may be part of the mix, sometimes also related to tourism activities. Some incentives and conditions aimed at tourism business development and operations may also directly or indirectly support conservation and management of sensitive areas.

#### **4 Economic incentives in the context of the COAST project partners**

Having looked at the wider picture of the application of economic incentives in the field of sustainable development and tourism, it is necessary to consider how they

might relate to sustainable tourism development within the partner countries of the COAST project.

To assist in understanding the context in which they are currently applied or may be used in future, discussions were held in three of the countries (Tanzania, Ghana and Kenya) with government ministries and agencies responsible for investment promotion, and some views from the tourism sector were obtained.

In addition, material obtained initially for the Governance and Management Reports for each country was reviewed to check for additional relevant evidence. It is instructive to bear in mind that in the quite broad and open ended discussions held during the fact-finding missions at that time only limited reference was made by the countries to the use of economic incentives as current or potential instruments for making tourism more sustainable, suggesting that their use may be quite limited or low profile.

The main ways in which economic incentives are currently being used are presented below. These do have a bearing on each of the three areas of activity discussed in the previous two sections – i.e. enterprise development, enterprise operations and management of sensitive areas. The existing application of economic incentives appears mainly to relate to the development of enterprises. However, there are examples of influencing operations, such as through the promotion of certificated businesses, and of the use of charging etc. in the management of sites. These are described later.

### ***The work of Investment Promotion Agencies***

In all of the partner countries one of the main routes to engagement in the use of economic incentives with respect to tourism development is through the work of the Investment Promotion Agency (IPA) which has different but similar titles in each country.

The main activity of the IPAs involves facilitating the investment process. Assistance that is given can include guidance and coordination of various licensing procedures, including Environmental Impact Assessment requirements. This can be seen as a form of economic incentive for development, as a reduction in time delay in achieving investment approval can have a significant economic value for investors. It could be shaped to act as an economic incentive for sustainability,

It appears that all of the IPAs in the partner countries have been involved in assisting tourism projects. In some, such as The Gambia, tourism is singled out as a particular investment opportunity. Some countries require a registration process for investors to receive assistance from the IPA, which may have basic criteria attached<sup>1</sup>. In general it appears that the countries have not been using any formal sustainability criteria in discriminating between projects to assist. However, in practice some IPAs may have been influential in guiding investors on the nature of their projects. In the Seychelles, sustainability issues are made clear to investors by the Seychelles Investment Board, and they often put them in touch with relevant NGOs who can provide assistance in these matters. In Tanzania, the Investment Centre expressed considerable interest in using the *Guidelines for Coastal Tourism Development in Tanzania* in future to assist and influence their client investors.

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<sup>1</sup> For example, Registration with the Ghana Investment Promotion Centre requires projects to meet criteria relating to a minimum equity contribution.

It is important to ensure that if investors receive help from the IPA the resulting process does not entail any reduction in the scrutiny of projects in terms of sustainability, and indeed that IPA involvement should ensure that procedures are followed properly while also resulting in the economic benefits brought by efficiency. There is no clear evidence either way about this from the partner countries.

### ***Fiscal incentives for tourism investment and operations***

Normally IPAs are not responsible for establishing financial incentives for investment, which tends to fall under Ministries of Finance and to be mandated through legislation such as Investment Acts, but they are often the bodies most closely involved in their utilisation.

In all the partner countries consulted fiscal incentives are available for investment in different sectors of the economy and this explicitly includes tourism. Incentives may typically be applied through reduction in import duties, capital investment (capital allowances) and reduction in business taxes or sales tax, usually for a specified period. Some countries have rates of relief or schedules of exempt items that are particular to the tourism sector. For example in Tanzania, a particular import duty exemption is applied to 4WD vehicles designed for tourism purposes and for hotel equipment engraved with the hotel's logo.

Quite a common practice is to restrict some fiscal incentives to projects over a certain level of investment, which can be quite high. This may favour larger tourism projects which in turn may sometimes pose a potentially greater threat to coastal environments than small projects.

In general, across the COAST countries it appears that access to the fiscal incentives that are available for tourism investment overall is not currently dependent on any comprehensive sustainability criteria.

There are some examples of where fiscal incentives are offered differentially depending on the location of the tourism development, in order to attract investment in more needy areas. For example in Ghana certain incentives for tourism development, in the form of higher levels of tax relief, are only available outside of Accra. In Kenya consideration was given to having higher incentives in rural areas but these were difficult to define. It is possible that recent devolution to 47 County Governments in Kenya may mean that each area may offer different levels of incentive which could be confusing and create competition.

In Senegal incentive levels are linked both to location and to employment created. A 5 year exemption from Employers Flat Rate Contributions is available if 200 jobs are created or if 90% of the jobs are outside Dakar.

While the above examples relate to tourism development, fiscal incentives may also be applied to tourism operations. In The Gambia, relief on taxes and charges are offered to tour operators, airlines, hotels and ground handlers aimed at increasing tourism traffic during the low season (May to October) when it is badly needed. This is in the form of a 50% discount on aircraft handling and landing fees and a 50% discount on sales tax.

The above examples, relating to location, employment and seasonality, show how fiscal incentives are being used in a limited way in the COAST countries on some

issues that can have a bearing on tourism sustainability. It is important to appreciate that these examples are not comprehensive and it is likely that in some of the countries tourism businesses may be benefitting from other fiscal incentives relating to certain purchases or operations that are linked to sustainability.

### ***Interest in future application of fiscal incentives for sustainable tourism***

There is evidence to suggest that fiscal incentives may be quite highly valued by tourism investors and therefore have some potency in influencing behaviour. This value, as well as some of the difficulties involved in applying incentives, is illustrated by the current situation in Ghana. Here, tax relief on building materials for hotels has been withdrawn owing to suspicions of its misuse for non-tourism purposes. This has caused an outcry within the tourism industry and is reported to have significantly affected investment.

Although fiscal incentives for tourism development and operations may not be particularly linked to sustainability criteria at the moment in the COAST countries there is interest in pursuing this approach. The three IPAs interviewed felt that there was merit in looking at this further.

In Tanzania this quite positive reaction was apparent in both the public and the private sectors. The national environment agency expressed some interest in the idea of tax relief linked to the environmental performance of tourism businesses, and private sector representatives saw merit in tax relief for businesses investing in community projects. The Tanzania Investment Centre suggested that perhaps tourism investors might be most likely to be interested in new arrangements that encouraged them to provide more employment, such as by reducing the Skills Development Levy which is a tax charged per person employed. However, this latter suggestion demonstrates the dilemma that can be faced in applying economic instruments, because affecting the source of funding for skills development in the tourism sector could be seen as detrimental to some of the social objectives of sustainable tourism.

The involvement of private sector tourism associations in looking at possible application of incentives in future was underlined in Ghana. Here it was stressed by government that they would pay close attention to the views of the tourism federation, which is the main industry body.

### ***The application of grants and loans to support sustainable tourism***

In addition to fiscal incentives, tourism investment and activities can be influenced by the provision of grants and loans to existing and potential businesses. The availability of government grant and loan schemes for tourism may be quite limited in the COAST countries owing to lack of available resources. In The Gambia, for example there is a legal basis for the provision of grants and loans for tourism but this is not implemented partly because there are no funds for such a scheme.

There are instances of the use of microfinance as a source of credit for small community-based tourism enterprises. For example, this has formed part of the UNWTO backed ST-EP programme in Pangani in Tanzania and in various coastal communities on Ghana's West Coast. Projects assisted have been vetted to make sure they fit within the overall sustainable tourism objectives in these areas, and there have been some external criteria attached to part of the finance, for example in a requirement for a high percentage engagement by women. However, it is not clear

that the schemes have been used actively to leverage a change in behaviour, such as in environmental management, by potential participants as this has not been their main purpose.

### ***The use of other forms of economic instruments***

Some of the countries may have relevant policies for the setting of taxes and charges on resources, such as water and energy, which may be applied as a way of controlling use. Similarly, charges may be levied for waste management services and penalties applied to polluters. These charges are likely to apply both to residences and to business but may be at different levels. It is possible that particular policies, processes and rates may be applied to tourism enterprises. No evidence was collected from the countries on whether and how such charges are used to achieve specific sustainability objectives. This may need further clarification.

The application of charges for access to national parks, reserves and other protected areas is quite a widespread practice. This includes coastal protected areas, such as charges applied by the Marine Parks and Reserves Unit in Tanzania. The COAST Governance and Management Report includes case study examples showing how community members are involved in the collection of admission fees. The extent to which revenue streams from admission charges are used to support both local conservation activity and local communities is a particularly important issue, relevant to all countries.

The COAST Governance and Management country reports contain some examples of where concessions have been let to tourism businesses to operate on land under government control, including in relation to protected areas. In some cases conditions have been applied concerning the sustainability of the operations.

Various initiatives and projects exist in all the countries to support and promote tourism as an alternative source of livelihood for communities that is less damaging than existing activities. This includes projects supported by UNWTO, such as ST-EP initiatives in Tanzania, Ghana and Kenya and now also as part of the activity within the COAST demo sites.

In all the countries, governments are involved directly and indirectly in supporting the marketing of tourism, largely through the work of national tourist boards. Tourism businesses, local destinations and communities benefit from this. There are some examples where such marketing support is directed at particular initiatives that support sustainable tourism and have criteria for participation, such as the Cultural Tourism Programme run by the Tanzania Tourist Board. This can be seen as a form of economic instrument, as it provides free publicity to the initiatives.

Countries using or considering economic incentives will need to be able to determine where they should be applied, including identifying objectively the nature of good practice to be supported and which businesses are or are not complying with it. The advent of sustainability standards and certification in tourism provides a helpful mechanism that can be used alongside economic instruments. In two countries national certifications schemes have been established for sustainable tourism - the Kenya Eco-rating scheme and the Seychelles Sustainable Tourism Label. The latter, for example, is now featured in the government's tourism marketing activity and appears on the home page of the official destination website for Seychelles. In this way, enterprises may also consider the marketing exposure as an economic incentive to join the certification scheme and meet its sustainable tourism criteria.



### ***Link to actions pursued within COAST Project themes***

The COAST partner countries are variously involved with a range of practical actions in coastal tourism management within the COAST Project, with different countries engaging in ecotourism projects, environmental management systems (EMS), and reef and marine recreation management. The implementation of actions relating to these themes is partly related, directly and indirectly, to economic incentives.

The EMS work, which is implemented in Kenya, Mozambique, Senegal and Tanzania, involves the provision of advice, assistance and financial support to businesses to encourage and assist them to improve their sustainable use of resources and the management of environmental impacts. An emphasis of the work has been on the identification and demonstration of cost savings to businesses from improving environmental management. Financial assistance is provided to assist certain approved actions and the advice and training provided has, in itself, an economic value.

An aspect of the EMS work is to strengthen the influence and support provided by tourism businesses in improving environmental management and conditions within local communities. This may be seen as part of the implementation of Corporate Social Responsibility (CSR) policies and commitments by the businesses. Implementation of CSR and identification of community benefits has been used in justification for financial assistance, for example in a project by a hotel in Kenya to provide a composter to treat waste from its own operations but also for use by the community, with the resulting compost being used by local organic farming initiatives.

A number of actions under the Ecotourism theme of the COAST Project have sought to address environmental objectives by strengthening sustainable community livelihoods through tourism, which may be seen broadly as a form of economic incentive. Direct financial assistance as well as training and capacity building is being used to stimulate and support community based ecotourism projects. Economic incentives are also relevant to encouraging good practice in reef and marine recreation management.

The COAST Project recognises that a key tool in influencing sustainable tourism is the promotion and exchange of practical information, for example on good practices to pursue and results achieved. Effective communication can be considered as an economic instrument, especially where it is providing knowledge of economic value to businesses and local communities. The COAST Project's Knowledge Management and Communication Strategy, and its implementation through various tools such as a newsletter, website and social media activity, is increasingly important in the latter stages of the project. The strategy covers four results areas: Coastal Best Practices and Technologies; Coastal Local Voices; Coastal Environmental Economic Dynamics; and Coastal Policy Change processes.

## **5 Recommendations for pursuing the application of economic incentives for sustainable tourism in coastal areas of Africa**

Based on this review of economic incentives in general in the field of sustainable development and their application in tourism, together with the reflections on the situation in the COAST partner countries, the following recommendations are made for consideration:

- ▶ ***Understand the issues and the priorities for change***  
At the outset conditions, pressures and threats to coastal environments, related to tourism, should be clarified, together with an understanding of what behavioural changes are required, where and by whom. This is an overall requirement in approaching sustainable tourism governance and management. The need for coordinated policies and governance structures, covered in the Governance and Management Report, provides a basis for agreeing on priorities.
- ▶ ***Consider whether economic incentives are appropriate instruments to use***  
Economic incentives are not the only instruments available. The nature of economic instruments and points to bear in mind in their application have been covered in this paper. It is important initially to consider how they compare with other approaches, such as the use of regulations, for addressing the priorities identified.
- ▶ ***Look at the existing provision of subsidies and other instruments and their effect on sustainability in the tourism sector, with a view to amendment***  
Subsidies, especially in the form of tax relief, are being used to encourage tourism development in the COAST countries. It is possible that some may be acting contrary to the interests of coastal environments and sustainability, for example in terms of the size of enterprises that benefit or their location. It is important to consider whether these or other existing instruments might be amended or linked to conditions to encourage sustainability.
- ▶ ***Clarify policies over pricing and charging for the use of resources and management of waste in the tourism sector and consider any changes in their application***  
Policies and practices in the application of charging are likely to have been developed and applied quite generally across sectors and activities. They should be looked at more specifically with respect to the needs and impacts of the tourism sector. Experience from the COAST Project EMS activities in certain countries can help in elucidating the influence of pricing of resources and services on business decisions and performance.
- ▶ ***Ensure that any existing and future sustainability incentives are clearly identified and promoted to tourism stakeholders***  
It appears that in some countries tourism investors and operators may not be fully aware of existing incentives. Availability, eligibility and the process of application needs to be promoted and to be kept simple and made as clear as possible.
- ▶ ***Review policies and practice for charging for admission to protected areas and other designated sites and the use of resulting revenue***  
Charging of this kind is already in place in some areas as a relevant management tool on the coast and as a source of income. Charges can include not only admission but also permits for certain activities such as boating and diving. It is important that the application and use of charges are carefully thought through, to ensure that they are equitable for visitors and that the resulting revenue is used optimally to support conservation and communities. Their purpose should be well communicated to all stakeholders to win their support. .
- ▶ ***Review policies and practice for the granting of rights and concessions for the pursuit of tourism activities***

The granting of rights and concessions to undertake tourism activities can involve internal and external investors, local communities, land owners and land users. It can entail issues of property rights. The economic instrument is multi-dimensional and includes the opportunity to benefit, the payment for this opportunity and the use of resulting revenues. The situation can be complex but also provide important benefits for conservation and livelihood. It may be influenced by national policy, for example concerning natural resources management and land use, as well as local practice.

► ***Consider how certification schemes or other identification processes could be used more effectively in the application and impact of economic incentives***

Such schemes and processes provide an important tool for creating a market for sustainability in tourism. Existing schemes in the tourism sector should be assessed in terms of the relevance of the criteria to coastal sustainability issues and the rigour of their application. They could be supported, expanded and promoted more actively. Where relevant schemes do not exist, opportunities to develop them in conjunction with international practice and other regional schemes should be considered.

► ***Relate economic incentives to the promotion of Corporate Social Responsibility***

Irrespective of the use of certification, tourism businesses in general should be encouraged to support environmental and social projects in communities as a form of CSR. This should be more clearly recognised within legal frameworks and requirements and good practice should be awarded and promoted. Work with tourism businesses in the thematic areas of the COAST Project has included opportunities for strengthening CSR, such as in the example provided in the previous section of this paper.

► ***Review and seek to strengthen the impact of actions to promote and support alternative livelihoods based on tourism***

Various relevant projects are being pursued in this field, some of which are supported by the COAST Project Ecotourism actions. They should be reviewed in terms of their resulting outcomes and impacts not only in terms of livelihood but especially with respect to resultant changes in behaviour which affect biodiversity and other sustainability issues. Projects and enterprises must be carefully designed to ensure that they can be economically sustainable, especially through ensuring market relevance and access.

► ***Focus marketing on tourism products and activities that meet sustainability objectives***

Marketing is considered as a highly necessary and potentially powerful tool in successful tourism development. It can be well shaped to support and influence the shape of tourism through the market place and as an incentive to encourage and reward good practice. Marketing strategies and tactics should be reviewed to see how they may be more effectively applied, for example in promoting certified tourism businesses and community-based ecotourism.

► ***Communicate the economic advantages of adopting a sustainable approach to tourism***

It should be noted that the Mid Term Review of the COAST project advocated that the economic argument for the adoption of sustainable practices, such as benefits in terms of cost savings or market advantages, should be measured and presented as a way of encouraging response. While this is a more general

recommendation than the application of economic incentives per se, it is related and relevant to the subject of this paper. It requires good analysis of international evidence on the impact of sustainability measures in tourism, collection of local evidence, and, above all, good communication to all stakeholders. The COAST Project Knowledge Management and Communication Strategy identifies good practice approaches in communicating messages and results.

It is important that the above recommendations are considered and pursued not only by government but by all stakeholders together. In particular, the private sector of tourism should be fully consulted and engaged in the design of economic instruments if they are to be effective. This may occur nationally but it also important that certain instruments are addressed locally, also engaging local community and conservation interests in the process. The Governance and Management report provides extensive coverage of the necessary structures to establish effective stakeholder engagement in governance and management.

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