

**STRATEGIES FOR FIGHTING POVERTY THROUGH INCLUSIVE TOURISM:  
EXPERIENCES FROM TWO INTERNATIONAL CASE STUDIES**

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**ABSTRACT**

Poverty is one of the severest problems in developing countries. Lack of capital and education combined with lack of competitiveness and the low return of informal and small businesses present high barriers for poor people to participate in markets and economic growth.

In the eighties and nineties environmental and social aspects of business gained ground in economic and developmental theories and practices. These social concepts are briefly presented and two case studies are classified according to the theoretical approaches. Factors of success and lessons learnt are identified and conclusions and recommendations for tourism as a sustainable engine for development are elaborated.

**Key Words:** poverty, social concepts, developing countries, inclusive business with local communities.

**INTRODUCTION**

Poverty is one of the severest problems in almost all developing countries and constitutes a vicious cycle as a limiting factor to development. By “development” we mean both a physical reality and a state of mind in which society secured the means for obtaining a better life (Todaro, 1998: 18) achieving at least the three basic objectives of development:

1. To increase the availability and widen the distribution of basic life-sustaining goods (food, shelter, health...)
2. To raise levels of living (higher income, jobs, education, humanistic values, self-esteem...).
3. To expand the range of economic and social choices.

In this context the concept of sustainability or sustainable development refers to the triple bottom line which means an economic, social and environmentally sustainable development, which is usually the approach in international development cooperation and in tourism cooperation in particular (BMZ, 2011). In order to achieve

the MDGs<sup>1</sup>, tourism can contribute to both MDG 1 (creating jobs and reducing poverty) and MDG 7 (climate protection and ecological balance).

Well known problems from development theory, such as lack of capital and education, lack of competitiveness, missing linkages and low return of informal and small businesses present high barriers for poor people to participate in markets and economic growth. These people often depend on self-sustainable activities in agriculture, forestry and fishing.

Overcoming these huge challenges will not be achieved through aid and development cooperation around the world alone: There is growing awareness that different forms of private sector involvement are needed (BMZ, 2011a; BMZ, 2011b), while the "aid business" is heavily criticized (see the discussion in Banerjee and Duflo, 2011) by parts of the international community and the developing countries themselves.

While in the seventies private sector and neoliberal economic approaches did not consider social topics very much, in the eighties and nineties environmental and later social aspects of business gained ground in economic and developmental theories and practice and companies began to realize that they have responsibilities towards the "wider" community<sup>2</sup> (Baumüller et al. 2011: 4). One of the best known "social entrepreneurs" who took the argument further and addressed social gains more than financial gains was Muhammed Yunus who started a micro-lending scheme for the poor (Yunus, 2007).

The new concepts engaging the private sector and their usefulness for tourism as instruments to integrate and include poor people in tourism will briefly be presented in the following.

## CONCEPTS

Concepts nowadays discussed should be seen as a continuum of approaches, partly overlapping and not exclusive. Approaches are such as:

### Corporate Social Responsibility (CSR)

CSR is a concept where companies integrate social and environmental concerns in their business and in their interaction with their stakeholders on a voluntary basis (EC 2011: 6). In an Anglo-Saxon tradition where economic and social affairs are differentiated, CSR wants to promote self-regulation and socially responsible corporate activities<sup>3</sup>. In the developmental context CSR often is a push "towards compliance" and not "beyond compliance", as in theory many standards, laws (labor law etc. ) and regulations exist, but are not implemented and enforced by weak states. So CSR is sometimes seen as "green wash", only addressing some obvious symptoms of poverty, doing what should be done anyway, but ignoring the underlying challenges of development.

CSR can make a contribution but it seems unrealistic to expect too much, as companies usually put their own goals before the CSR, leaving most CSR activities as charitable side events with reduced financial and organizational capacity and usually no scaling-up (Baumüller et al. 2011: 20).

Typical CSR activities in tourism are for example the health post for the locals near a tourist resort or the bio-diversified hotel gardens.

### "Bottom of the pyramid" (BoP) and "inclusive business" approaches

The BoP approaches recognize and investigate the market opportunities of the poor<sup>4</sup>. They try to look at complementarities of social and corporate objectives (Pralhad, 2010). So far the BoP focuses mainly on markets in order to sell to the Poor and less on the poor as creative entrepreneurs. The question is, if access to consumer goods for poor necessarily brings developmental benefits (Baumüller et al. 2011: 8).

<sup>1</sup> Millennium development goals by the UN

<sup>2</sup> Nevertheless history (early 19th century) knows „social entrepreneurs like Robert Owen in the UK, Leon Harmel in France and later philanthropists like Carnegie or Kellogg in the US. In Germany Raiffeisen brought up ideas of „social business“.

<sup>3</sup> There is a different tradition in Germany or the Nordic countries where concepts of a „social market economy“ integrate social concerns in a more systematic and compulsory way.

<sup>4</sup> Depending on the definition of „poor“ the market is estimated as large as 4 billion in the world.

Inclusive Business (for the poor) emphasizes the benefits of engaging the poor along the entire supply chain and includes them on the demand side as well as on the supply side as employees, producers and business owners. In order to generate income and empower them inclusive business approaches have their strong point in organizational and financial capacity to mobilize capital through the private sector (often lead companies).

A typical inclusive business approach in tourism would be the integration of small scale producers and subsistence farmers into local supply chains for tourism resorts (out-grow schemes of commercial farmers).

#### Creating shared value

The “Shared Value” approach promotes the mid- and long term view and postulates that it is in the interest of all business to create social value for strategic, profit and social reasons and therefore rethink the business strategy (Porter and Kramer, 2011). Although a multinational like Nestle puts forward these ideas, so far implementation of the concept is unclear as well as how to measure the creation of social capital through private sector (Baumüller et al. 2011: 11). The “fair trade” movements could be seen as an example for shared values and an option for tourism at least on the demand side.

#### Social entrepreneurship and Social business

While other approaches follow the principle of profit first or complementarity of social and corporate objectives, social entrepreneurship and business<sup>5</sup> use entrepreneurial principles to organize, create and manage a venture with the primary aim of bringing about social change. Unlike a business entrepreneur who typically measures performance in terms of profit and return, a social entrepreneur measures success in terms of progress towards the creation of social values. That is the main purpose of a social business (Baumüller et al. 2011: 11). Nevertheless there is no commonly accepted definition and it is not clear if the attribute non-profit or profit-seeking distinguishes a social entrepreneur or business from a “normal” business. Hybrid forms and organizations may also exist. The same holds for NGOs applying entrepreneurial approaches.

An example from the tourism sector would be the hospitality projects which mainly employ handicapped people and sell their services through commercial markets.

#### Social investing

The finance side of these new approaches is reflected in a group of investment and financing instruments such as “Socially responsible Investing (SRI)”, “Impact investing” or a so-called “Social Stock Exchange”.

SRI tries to exercise ethical and social criteria in the selection and management of investment portfolios. Impact investment differs from SRI as it aims not only at avoiding negative consequences of investing, but it actively targets social problems (Baumüller et al. 2011: 15). It tries to complement financial and social objectives, respecting the bottom lines of sustainability. For example, social stock exchanges<sup>6</sup> and impact investors would have the means to finance social entrepreneurs.

A typical example for impact investment from tourism would be the investment in a community lodge promoting inclusive business (empowerment) for the locals while protecting the environment.

### METHODOLOGY

We will briefly present two case studies on two different continents (South America and Africa). Both started with the idea to develop tourism in the respective areas based on a strong ecological approach. One case study (Inkaterra – Peru) exemplifies a positive contribution to inclusive development for poor people through tourism while the other case study (Covane – Mozambique) shows mixed results. We will try to identify factors of success and lessons learnt as well as classify them according to the theoretical approaches presented above.

The Inkaterra case outline is based on a contribution of researches of the University of Peru which initiated a case study research project in February 2010 in order to find out how a business model for ecotourism was pioneered in the Peruvian forest. Interviews with the top-level executives of Inkaterra were conducted to explore research interests and potentials for collaboration on a joint research project (Richter et al. forthcoming).

<sup>5</sup> For example the Grameen Bank.

<sup>6</sup> Like the BOVESPA in Brasil: Bolsa de Valores Sociais

The Covane case is based on an evaluation of a donor financed project. The lodge was visited, employees and technical assistance providers were interviewed and donor interventions analyzed. Especially the economic viability and sustainability were scrutinized.

Both examples faced the same challenges when they started the business, which included

- Lack of market
- Lack of human capital
- Cooperation with local people
- Competing industries
- Institutional void
- The socio-political environment

and can therefore be compared although the Covane case is a relatively new business as it only started 10 years ago, while the Inkaterra case has already been operating for more than 30 years.

Conclusions and recommendations for tourism as a sustainable engine for development will be elaborated in the last section.

### **INKATERRA – PIONEERING ECOTOURISM IN PERU**

Jose Koechlin founded Inkaterra in 1975 to combine the conservation of the rainforest with a sustainable business mode. His priority was to form a team capable of offering new knowledge and skills to local indigenous communities who could combine the benefits of tourism income with environmental protection and care for local people.

Operations were started in 1978 with 15 handmade cabins in the Peruvian Amazon rainforest, at that time an isolated destination with little infrastructure, lack of goods and services in the forest to operate with and no tourism skills among the local people. The macroeconomic situation was very bad at that time, with hyperinflation, political instability and no growth. Only after the nineties did the socio-political environment improve.

Inkaterra focused on creating a new tourism destination in South Eastern Amazon Peru, engaging and capacitating local communities and building a knowledge base on the biodiversity of the region. It started by directly targeting the European market and the training of people to raise awareness of tourism needs like good service, good sanitary conditions, respect for property rights and engaged with local communities through cooperative projects, campaigns and workshops. It provides educational support for the community, engages in health campaigns, organizes workshops in agro-forestry and aims at the conservation of the natural reserves.

30 years after the initial private investment of the founder, the business part is economically sustainable: Today it has turned into a large tourism complex, Inkaterra Reserva Amazonica, and consists of 35 luxury-style eco-friendly cabins and a canopy tree house targeting wealthy tourists. Each year around 46,000 hotel guests are received, turnover in 2009 was around 10 Million USD and 500 people are currently employed. It even generates the financial resources to support both the research driven conservation work and the local cultures through staff trained to develop a sustainable retreat resort. All have expert knowledge of surrounding ecosystems and the immense regional biodiversity.

Inkaterra can be classified at the outset as a social responsible investment managed by the philosophy of social entrepreneurship. It is now economically sustainable and allows for the redistribution of profits into ecological and social activities. Although sustainable forest management and local employment are the main objectives, to a limited extent inclusive business for the poor is being realized through simple supply chains in the tourism business.

### **COVANE, A COMMUNITY BASED LODGE IN MOZAMBIQUE**

At the beginning of the new millenium international donors founded a project to create inclusive business with aid money. They provided communities in the South of Mozambique with infrastructure to run commercial lodges in the long run, to open markets for goods and services produced in the communities and to protect nature

and biodiversity.

The Covane Community Lodge officially opened in June 2004. It was built by the local Canhane Community and is situated near the gate of the Limpopo National Park section of the Great Limpopo Transfrontier Park. Covane was designed as a community initiative, but was planned and driven in cooperation with a Swiss Development Organization. The lodge offers basic accommodation and camping ground with its own generator and is fully staffed with local people. Beside the lodge business, traditional dancing, food, arts and crafts and tours with local experts on plants, medicines and local story-telling are supposed to be offered. As additional activities, boat trips, walking trails and tours by bicycle can be chosen.

The community participated in training programs with the objectives to increase the capacity of the people to run a lodge and other business activities autonomously and to link the lodge to the tourism market demand. The components of the training were management training and capacity building in the communities, quality and service standards at the lodge, guiding services, conservation of natural and cultural resources, income generation training skills and linkages with local suppliers.

Although still in its infancy the lodge business is disappointing so far. The occupancy rate was only at 3% in 2010 (170 nights per year). Standards and service were still very basic and not attractive for mainstream tourism and the additional activities such as tourists guides, were seldom demanded. Nevertheless, the lodge provides stable employment to 8 people who are still financed by external resources.

The training components raised the awareness and motivation of the community to benefit from tourism and also of the need to diversify products and services and to improve the quality standards. It was still too early to evaluate the impacts of conservation of natural and cultural resources. The capacity building amongst small producers at the local level in order to include their products and services in the local offer to tourists and lodge was still in a premature stage.

The disappointing results show that it is not sufficient to raise awareness and to do basic capacity building. An entrepreneurial approach and additional infrastructure would have been needed to improve the marketing and quality standards.

In order to establish a supply chain to the lodge as a form of inclusive business a complex transformation would be needed: To transform good ideas and entrepreneurial skills in real activities apart from technical training, a change in mentality and a micro finance system would be needed. The lack of capital was identified as the biggest obstacle for micro entrepreneurs around the lodges.

Donors were not helpful to understand entrepreneurial thinking and even distributed the full income of the lodge among the community without a proper cost calculation and no sensitivity for economic sustainability. Revenue was considered as profit. After more than 6 years of substantial financial and technical support the lodge is still far from being economically sustainable.

Covane cannot be classified as a social business or entrepreneurship. Although donors considered their initiative as a socially responsible investment, no entrepreneurial principles were used. An inclusive business can only work if it is regarded and handled as a professional business.

In contrast to the Peruvian case, which started in a very isolated area, the Covane lodge is situated next to a national park which turned out to be more a competitor than a catalyst for tourism outside the park.

## CONCLUSION

Fighting poverty can only work on the basis of a sound business concept as social business or entrepreneurship concepts suggest. There has to be a comparative advantage in the market at least in the long run, in order to make the project sustainable.

Covane can be considered as a somewhat naïve BoP – approach, not respecting entrepreneurial principles but fighting poverty as the main objective without a thorough strategy.

Inkaterra started as a business and aimed at earning profits, although the profits are used for social projects and the protection of the environment. It started more as a CSR project involving the poor gradually in a shared

value concept which created a win-win situation. Now, as the lodge is economically sustainable, the poor take a bigger share in the form of inclusive business.

The main difference is that Inkaterra started with a professional manager as a lead investor on site with a clear vision. The principal-agent problem became evident in the Covane case, which was supported and financed mainly by external donors but never managed and owned by people understanding the core business of tourism. As Covane is a younger project compared to Inkaterra it is certainly not possible to draw a final conclusion, but it seems clear that Covane without a lead investor, respecting the principles of entrepreneurship will not take the positive course of Inkaterra.

The approach of social responsible engagement must be carefully planned and must obey at least a basic concept of economic sustainability in the long run. Concepts of social involvement can change over time according to the stage of development and economic conditions. It seems recommendable to apply a business style which looks at profit and thinks in the entrepreneurial way from the beginning.

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