4. THE BUSINESS CASE: HOW CAN ECOLODGES BE FINANCIALLY VIALBE?

This section offers insights into the characteristics of successful ecolodge business and finance models and the key factors that promote the profitability and viability of small ecotourism and ecolodge businesses. The conclusions are based on a study of 15 internationally recognized ecotourism enterprises in Asia, Africa, the Caribbean, Central America, the Pacific, and South America (see Table 3). These 15 enterprises, which manage a total of 73 individual ecolodges, were chosen because they are respected, profitable businesses that meet triple bottom line standards, and have been innovative in developing a marketable brand for their lodges in their regions.

A Note About the Data

In an effort to better understand the business model for ecolodges, the authors felt that it would be difficult and less useful to isolate an ecolodge enterprise from the larger ecotourism business model. An attempt was therefore made to understand the success factors for both a “stand-alone” ecolodge and a larger ecotourism business.

Based on their experience in this sector, the authors believe that the study group is sufficiently diverse in terms of business type, geography, size, target market and product offerings to provide a good basis for making conclusions regarding small business viability in the ecotourism sector.

Conclusions regarding profitability are supported by information provided in interviews from ecotourism business owners and from a limited amount of financial data collected. The owners provided invaluable information that can only be obtained through years of concrete experience (see Appendix D for the contact list). Further data collection is necessary in order to establish statistical relationships and relevant benchmarks for this sector, but it is the judgment of the authors that it would be premature to seek out more statistical data at present. Ecolodges meeting international ecolodge standards are presently just emerging into profitability after a four-to-five-year start-up period, and the lessons to be learned at present will not be found by pursuing more statistically sound data.

For some ecotourism businesses participating in the study, complete financial data were not available because of: 1) limitations in accounting and finance systems, or 2) unwillingness to share certain confidential financial information. Nevertheless, it is the opinion of the authors that additional financial data would not have changed the conclusions. Important business information was acquired from each company by means of extensive phone interviews.
<table>
<thead>
<tr>
<th>NAME OF COMPANY</th>
<th>ECOLODGES</th>
<th>LOCATION</th>
<th>OWNERSHIP</th>
<th>BUSINESS TYPE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belize Lodge and Excursions</td>
<td>Indian Creek, Jungle Camp and Island Lodge</td>
<td>Belize</td>
<td>Private</td>
<td>Chain of ecolodges and tour operator</td>
</tr>
<tr>
<td>Borneo Tours</td>
<td>Sukau Rainforest Lodge</td>
<td>Malaysia</td>
<td>Private</td>
<td>Ecolodge and tour operator</td>
</tr>
<tr>
<td>Canopy Tower</td>
<td>Canopy Tower</td>
<td>Panama</td>
<td>Private</td>
<td>Ecolodge</td>
</tr>
<tr>
<td>Chalalan</td>
<td>Chalalan</td>
<td>Bolivia</td>
<td>Community</td>
<td>Ecolodge</td>
</tr>
<tr>
<td>Cooprena</td>
<td>9 ecolodges</td>
<td>Costa Rica</td>
<td>Community cooperative</td>
<td>Cooperative of ecolodges and tour operator</td>
</tr>
<tr>
<td>Nomadic Journeys</td>
<td>4 Yurt Camps (12 yurts each)</td>
<td>Mongolia</td>
<td>Private/Community</td>
<td>Chain of associated ecolodges and tour operator</td>
</tr>
<tr>
<td>Kosrae Village Ecolodge</td>
<td>Kosrae Village Ecolodge</td>
<td>Micronesia</td>
<td>Private</td>
<td>Ecolodge</td>
</tr>
<tr>
<td>Canodros</td>
<td>Kapawi</td>
<td>Ecuador</td>
<td>Private/Community</td>
<td>Ecolodge and tour operator</td>
</tr>
<tr>
<td>Lapa Rios</td>
<td>Lapa Rios</td>
<td>Costa Rica</td>
<td>Private</td>
<td>Ecolodge</td>
</tr>
<tr>
<td>Mamiraua</td>
<td>Mamiraua</td>
<td>Brazil</td>
<td>NGO</td>
<td>Ecolodge</td>
</tr>
<tr>
<td>Pico Bonito</td>
<td>Pico Bonito</td>
<td>Honduras</td>
<td>Private</td>
<td>Ecolodge</td>
</tr>
<tr>
<td>Rainforest Expeditions</td>
<td>Posada Amazonas Tambopata Research Center</td>
<td>Peru</td>
<td>Community/Private</td>
<td>Chain of ecolodges and tour operator</td>
</tr>
<tr>
<td>Tiamo Resorts</td>
<td>Tiamo</td>
<td>Bahamas</td>
<td>Private</td>
<td>Ecolodge</td>
</tr>
<tr>
<td>Turtle Island Resort, Fiji</td>
<td>Oarsman’s Bay Lodge, Safe Landing</td>
<td>Fiji</td>
<td>Community</td>
<td>Ecolodge supporting community lodges</td>
</tr>
<tr>
<td>Wilderness Safaris</td>
<td>44 ecolodges</td>
<td>Botswana, Namibia, South Africa, Zimbabwe</td>
<td>Private</td>
<td>Chain of ecolodges</td>
</tr>
</tbody>
</table>

*Total Businesses = 15  Total Ecolodges = 73*
WHAT IS THE BASIC ECOLODGE BUSINESS AND FINANCE MODEL?

The ecolodge businesses studied are small in terms of revenue generation, and the number of rooms and clients. Fourteen of the 15 businesses surveyed generated more than $100,000, but less than $3 million, annually. The number of rooms averaged between 11 and 35, and the number of clients handled by the majority of businesses reporting was between 501 and 2,000. Average occupancy rates ranged from 30 to 67 percent annually, with peak season occupancy rates as high as 80 percent.

While the average daily rate for the ecolodge businesses studied ranges from $40 to $500 per night per room, most are mid-priced, with 11 falling between $61 and $200 per night per room.

**Product Pricing (average daily rate)**

- **ECONOMICAL** (up to $60/day) - 2
- **MID-RANGE** ($61–$200/day) - 11
- **LUXURY** (greater than $200/day) - 2

Personnel expenses, on average, make up approximately 22 percent of total operating costs in the businesses surveyed. Most business managers said that personnel costs in the developing world are lower than in the developed world. On average, the ecolodge businesses have 1.89 staff per room. Nearly all ecolodge businesses indicated that they place a high priority on employing members of the local communities in the areas where they operate, and community employment averages 81 percent for the lodges. Although almost none of the ecolodges could identify the amount of funds invested in training, most mentioned that they had invested considerable time and resources in training local staff. Training costs for those ecolodges working in more traditional communities are higher than for their competitors who are not involved with local communities.

Although marketing was identified as the area that requires the most management attention, marketing costs were just 6-10 percent of operating costs, because of the low cost of Internet marketing. Ten of the businesses successfully book FITs via the Internet as their primary source of business, with tour operators representing an important secondary source of reservations. Many said that advertising and trade shows were ineffective. The North American market represents the overwhelming share of the ecotourism market for the study group.

Triple bottom line strategies, which take into account environmental, social and economic sustainability, were variable, with some businesses integrating them into all aspects of their operations, and others using more traditional philanthropic approaches. Although all owners are committed to using innovative community and conservation approaches, none could quantify the impact of these strategies on the profitability of their enterprise. A discussion of the triple bottom line approaches used by the ecolodges studied can be found online in the full study at [www.ifc.org/ebfp](http://www.ifc.org/ebfp).

Ownership, debt, and financing

Of the 15 businesses surveyed, private owners own 100 percent equity in four cases and communities hold 100 percent equity in four cases, with the remainder a mix of equity held between owners, the community and investors. Eight of the businesses are using some form of debt to finance their operations from a variety of sources, including standard market rate loans, no-interest loans from private sources, a debt swap concessionary loan, and market rate loans from three separate green funds. For those in the study group that
received loans for start-up, the average loan size was approximately $220,000. Expansion and improvement loans were smaller, averaging approximately $81,000. Interest rates varied widely from 0 to 12 percent, and maturities ranged from 5 to 15 years.

Most study participants were concerned about borrowing during the start-up phase, since it takes approximately three to five years to reach profitability, and servicing the debt would place substantial pressure on the cash flow. The managers of several ecotourism businesses that have reached profitability felt they were now bankable and had either sufficient collateral or personal resources to meet local banks’ credit and lending criteria. Most mentioned that local dollar interest rates were too high (10–12%) and were unaffordable.

Those owners who expressed interest in future debt financing said their needs were for infrastructure improvements (walkways and towers), expansions to room capacity, and equipment such as boats, engines and generators. No ecolodge mentioned the need for short-term financing for working capital, because most clients pay in advance.

In terms of start-up costs, profitability and operating costs, the majority of the businesses started with less than $500,000, while the minority started at or above $1 million. The average cost per room was approximately $58,000. Costs provided did not account for the amount of time and “sweat equity” invested by ecolodge owners. Community equity arrangements for construction also significantly lowered start-up costs.

**Profitability**

In 2002, 10 of the 15 ecotourism businesses surveyed were profitable, although the degree of profitability varied among the group, and exact data are missing for 3 businesses. For the purposes of this study, the profitability margin was used to measure profitability. This indicator measures the degree of profitability as a percent of sales that goes to bottom line profits (profits/sales). The profitability margin for the 8 ecotourism businesses that provided financial information ranged from minus 3 percent to 26 percent (see Figure 3). For these 8 businesses, the average profitability margin was 12 percent. Taxes, depreciation and finance charges are the expenditures that produce the difference between operating and profit margins.
Comparing the degree of profitability among different size businesses poses several problems in terms of defining which business is more profitable and what factors have influenced this profitability. Profitability can be measured in terms of percentages or gross dollar amounts. Also, one particular year may not be a good indicator of a business’ past performance, or a good predictor of future profitability. Using the profitability margin alone does present issues and potential distortions. For example, one ecotourism business could realize net profits of $10,000 and another $1 million, but the former could have a higher profitability margin.

Figure 4 categorizes the ecotourism businesses studied in terms of how sustainable their profitability may be. The authors evaluated both objective and subjective elements of sustainability to classify the study group into the following broad categories:

- **DYNAMIC**: Ecolodges that have been profitable over the last two or more years and demonstrate a strong probability that profitability will continue into the future.
- **EMERGING**: Ecolodges that have just reached profitability or are expected to reach profitability in the near future.
- **PRECARIOUS**: Ecolodges that are struggling to reach profitability and may have issues relating to the viability of their business model.

Several businesses in the precarious category would have been categorized as “emerging” before the events of September 11, 2001.

This snapshot of the financial sustainability of the ecolodges studied provides a good indication of the present status of the ecolodge industry and lodges that have survived after the first ten years in the marketplace.

**FIGURE 4: Ecotourism Business Sustainability**

WHAT MAKES AN ECOLODGE PROFITABLE?

The diversity of marketing approaches, product offerings and financial structures among successful ecolodges clearly demonstrates that there is no one business model or recipe for success. There are numerous factors that influence ecolodge profitability, including the amount of time in business; externalities such as the attacks of September 11, 2001 and the subsequent “war on terror”; infectious diseases, such as SARS; natural disasters; the reputation of the destination; the cost and financing structure; management and marketing capabilities; and partnerships and synergies.

Nevertheless, there are several key factors that have a clear impact on whether or not a particular ecolodge will be profitable. (See Box 3 for a checklist of ecolodge business essentials.) Each factor identified in this box must exist to some extent to ensure profitability, and they are all dynamically interconnected and linked to one another. While ecolodges that lack these characteristics have a lower chance of becoming sustainable over the long run, it is also true that successful ecolodges may be stronger in some areas than others, and that some ecolodges might fulfill nearly all these criteria and still be unprofitable. Key factors for profitability include:

- **DESTINATION**: The destination where the ecolodge is located must be attractive to the ecotourism market, in terms of the charisma of the natural or wildlife attraction; good government policies that foster local businesses, promote ecotourism and cover some of the costs for preserving the environment and providing local infrastructure; and the international media’s interest in the area as expressed through magazine, television and newspaper coverage. New locations that are not part of these established destinations often have a long road to profitability, since they alone have little chance of developing a rapport with this highly demanding developed world market.

- **VALUE**: Successful ecolodges are those capable of distinguishing themselves from their competition in ways that make their product more attractive and make clients perceive that they are receiving more value for their ecotourism dollar. The key is to compete not just on price but also
on value, in terms of design, facilities, location, wildlife resources and services compared to similar lodges or destinations worldwide.

**INTERPRETATION AND OTHER ACTIVITIES:**
Being located in a recognized destination is not sufficient for success. Management must also be able to translate available attractions, such as unique species or cultural experiences, into distinctive experiences and activities with high-quality interpretation. Educating clients about environmental and social responsibility projects and their benefits is an important element in increasing client satisfaction and loyalty, as is creating an emotional relationship between the client and the ecolodge and its projects. Other factors that enhance visitor experience include high-quality food, knowledgeable and personable guides, and comfortable accommodations.

**ACCESSIBILITY:** Although there are exceptions, the accessibility of an ecolodge generally impacts the cost of its product and determines the size of its client market. The additional time and money required to visit ecolodges with difficult access may be a disincentive to some travelers, particularly those from the United States, who tend to have shorter vacation time than Europeans. Ecolodge operators, who are on daily commercial flight schedules with easy connections to international flights, have a clear advantage over others with less reliable air service. An ecolodge’s geographic location and accessibility relative to other attractions in the country or region also influence travelers’ decisions.

**MANAGEMENT:** Successful ecolodge managers have a healthy balance of passion for the business, combined with the right mix of technical skills and vision. Good managers can manage marketing, finances, logistics, human resources and other systems in an integrated and efficient manner. For ecolodges, the ability to market the product and diversify the client base with a relatively small marketing budget is a key management requirement. Although ecotourism businesses, which have matured from an “entrepreneurial” start-up phase to a more professionally managed business, are better prepared to grow the business to sustainable levels, this professionalization should be balanced with the creativity, enthusiasm and innovation that characterized these businesses in the start-up phase.

**ACCESS TO CAPITAL:** Most ecolodges surveyed used a creative combination of multiple sources of capital to finance their ecolodge start-ups, a strategy that requires a certain level of management sophistication and tenacity to put together. Financing structures that allow for longer term return on investment perspectives and have a low amount of leverage (debt) appear to be a common characteristic of profitable ecolodges. Patient investor capital with realistic expectations for their return horizon and relatively small debt service payments to total cash flow both contribute to a more sustainable financial structure when equity or debt financing is involved.

Other factors that might contribute to profitability

In addition to the key factors listed above, a number of other characteristics found in some successful ecolodges may contribute to the overall financial viability of these lodges. These factors are summarized below:

- Business models that have the active involvement of an owner/entrepreneur at start-up have a greater chance of success.
- There is evidence that an ecolodge associated with a larger ecotourism business has a greater likelihood of being sustainable than a lodge that operates in isolation because of the advantages of synergies, economies of scale, knowledge transfer and linkages to larger markets.
- Design plays a role in profitability. Ecolodges that have aesthetic and practical accommodations and complement and enhance the natural experience and local environment are doing well.
- Ecolodges that are built faster tend to be more profitable, perhaps because efficiency in construction is an indicator of business viability.
- There seems to be no clear relationship between the size of an ecolodge, the room rate, the occupancy rate, and profitability.
- Lodges that take an integrated and focused approach to environmental and social sustainability are convinced that they benefit economically from a triple bottom line business approach; this linkage merits further study.
Although there is no single magic formula for a profitable ecolodge, the most successful share a number of key characteristics. Ideally, an ecolodge should:

- be no more than one hour from a local airport that has reasonable connections to an international gateway.
- be launched by individual entrepreneurs with an understanding of business, local construction, customs, natural history, interpretation and guiding, and community development, and who are willing to commit significant personal sweat equity during the start-up, while developing professional management over time.
- be constructed in no more than one year and cost just under $60,000 per room.
- have sufficient capital to cover start-up shortfalls during the four-to-five-year break-even period.
- have a business plan, with expansion of new lodge facilities thought through in terms of capital and land required.
- be staffed by community members, with just under two staff per room.
- offer long-term community member programs to develop well-trained staff with foreign language skills, and to promote the spin-off of a variety of well-managed, small microenterprises.
- keep marketing costs as low as 10 percent of operating costs through effective utilization of word of mouth, public relations, strategic alliances and the Internet as a primary source of information to the market.
- understand the source markets that drive ecotourism in the region, do not depend on advertising, and devote significant owner/partner/staff time to niche marketing.
- have, as its primary attraction, wildlife that is nearby, viewable, and is explained by qualified, skilled guides who know natural history and are fluent in the languages of the visitors.
- be part of a multilodge development model by one ecotourism business with the advantage of distributing marketing costs among more than one product, offering additional services and products to individual clients, and diversifying risk.
WHAT ARE THE POTENTIAL BARRIERS TO FINANCING FOR ECOLODGES?

Ecolodge owners have found that traditional banks in their countries rarely understand the tourism industry as a whole and do not understand the business models of ecolodges located in remote and less accessible areas of the country. Often, banks do not have operations in those areas and are unwilling to expand. Another problem is that banks tend to be unable to think beyond a traditional banking loan structure that relies on collateral rather than cash flow and business viability. Ecolodges lack good collateral, as their assets are seen as difficult to convert to cash and, therefore, have little value in the event of foreclosure. The short-term nature of traditional loans does not work well with the long lag time (an average of five years) between start-up and profitability for many lodges. Banks are also often unable to measure or understand ecolodge business approaches, and tend to take no account of the importance of triple bottom line business approaches. Banks also tend to give little credence to crucial business survival tools, such as niche marketing that does not include costly advertising approaches.

From a traditional banking and investment perspective, there are a number of risks associated with ecolodges that might deter investment in these enterprises. These risks include vulnerability to externalities outside the control of the business, such as terrorism, political upheaval, health concerns, government policies and economic downturns, and the complexity of nontraditional ownership structures that may include local communities. The fact that most ecolodges earn in U.S. dollars also presents risks, as the devaluation of the dollar relative to local currencies can increase local costs relative to fixed room prices. Finally, for equity investors, there are no real exit strategy options, since these businesses do not have access to capital markets.

WHAT ARE THE GREATEST HURDLES TO PROFITABILITY FOR ECOLODGES?

Although it could be argued that certain ecolodge businesses are unprofitable because they did not have feasible business models and are missing one or more of the factors discussed above, it is also important to examine how many failed because they lacked one critical element. Understanding these critical hurdles is very instructive for any future ecolodge development strategy.

One of the key hurdles to viability is the ability to continually finance operations during the start-up phase, in order to get through the long lag time from when the product is offered and when clients actually travel, as well as the time necessary to increase recognition and reputation in the marketplace. Because many ecolodge developers are trained on the job, they often need help in several key areas, including producing financial statements, developing financial projections and business plans, and obtaining international market data. Other key needs include dedicated resources for staff training, assistance with solar energy, composting toilets, and solid waste disposal, and other sustainability consulting services, which are rarely available locally.

WHAT KIND OF TECHNICAL ASSISTANCE DO ECOLODGES NEED TO BE PROFITABLE?

Effective development of profitable ecolodges will require a comprehensive technical assistance and development strategy to meet the needs of businesses operating in remote, underdeveloped settings. Surveys of successful ecolodge companies and managers reveal that lodges most need technical assistance in market studies and business systems, as well as in
accounting, financial statements, business planning, assistance with finding investment capital, financial projections, and new technologies for energy, waste, sewage and water. While some of the basic needs, such as accounting, can be met locally, more sophisticated technical assistance needs, such as business plans for investment capital, market studies and niche marketing approaches, triple bottom line approaches, guide training, and advice on new technology systems, may need to come from outside the country. While local nongovernmental organizations (NGOs) can be useful in contributing to community training, community development planning, and environmental impact assessment and monitoring, private sector ecolodge survey participants reported limited NGO capacity to assist with business needs, with most agreeing that NGOs are not well-equipped to assist with ecolodge development.

Technical assistance efforts for ecolodges should rely on individuals with existing private sector expertise in developing financial statements, business plans and financing packages. These individuals should understand and be skilled at creating strategic alliances and developing niche market strategies; have an understanding of the unique logistical, technical, management and community relations needs of ecolodges; understand the fundamental importance of training and hiring community members and maintaining a highly qualified guide corps; and have a proven ability to develop effective and high-quality wildlife viewing and conservation programs.

A business mentorship program that relies on successful businesses and skilled consultants to help foster the development of new lodges and the expansion of existing businesses is one way to provide this assistance. Other approaches might include the development of innovative mechanisms to encourage long-term business relationships between private tour operators and ecolodges, technical and financial assistance to successful ecotourism businesses to help them expand and replicate their business models, and incentives and technical assistance to successful local lodge owners and tour operators to expand their product offerings to include a sustainable ecolodge.

A global ecolodge development strategy would involve further study to identify the best locations for ecolodge development, based on attractive and accessible wildlife resources, relatively underdeveloped natural areas, sound political policies and frameworks, protected local land rights, a culture that values nature and wildlife, and easy access from key ecotourism markets. In addition, entrepreneurs could be identified through ecolodge investment workshops or mentorship programs. Box 4 provides a checklist of ecolodge assistance approaches for donors. Ecolodge development has been successful as a conservation and sustainable development tool, largely thanks to the efforts of private entrepreneurs — individuals in developing countries who have a genius for private business in difficult environments. Finding the next generation of such individuals and providing them with technical support will be crucial to the future success of the ecolodge sector.
Donors seeking to support ecolodges as a form of sustainable development will have a greater likelihood of positive outcomes using the following approaches:

• Targeting locations that can be reached efficiently and cost-effectively from domestic airports via daily connections from international gateways, or evaluating the feasibility of providing such service;
• Targeting countries that have attracted media attention and have viewable, charismatic wildlife, or evaluating the prospects of attracting such media attention with communications professionals;
• Targeting countries that are not yet saturated, but are close to already existing hubs for ecotourism — such as Nicaragua and Panama for Costa Rica; Bolivia for Peru and Ecuador; India and Sri Lanka for Nepal; Malaysia and Vietnam for Thailand; and Namibia and Zambia for South Africa;
• Undertaking professional inbound market demand surveys with statistically valid sample sizes in target gateways for FITs and group tour travelers, and researching key market supply channels in origin markets;
• Providing business mentorship assistance using experienced ecolodge professionals for targeted regions;
• Recognizing the additional challenges of running triple bottom line ecolodge enterprises, supporting established “senior” ecotourism businesses with incentives, loans and grants to expand their businesses, partner with local lodges, and develop a variety of junior enterprises, both with local entrepreneurs and communities;
• Undertaking business investment seminars in cooperation with tourism boards or ministries to identify promising local entrepreneurs and leverage local investment;
• Qualifying and training banking organizations to provide loans; and
• Reviewing the capacity of local NGOs and the local academic community to assist with community training and environmental monitoring
5. WHAT ARE THE POTENTIAL POSITIVE AND NEGATIVE IMPACTS?

Depending on how they are designed, constructed and operated, ecolodges can have wide-ranging positive and negative impacts on the surrounding biodiversity and local communities. While a well-designed, well-run lodge can have tremendous benefit for local areas, a poorly planned and run lodge can have serious negative costs for both the environment and local people.

POTENTIAL POSITIVE IMPACTS

There are two basic ways in which ecolodges can contribute to conservation and community development: one passive and one active. The mere presence of accommodations in or near natural settings can provide a crucial component for the growth of nature-based tourism and increase incentives and resources for conserving biodiversity and promoting responsible development in an area. At the same time, ecolodges can also make proactive direct financial or other types of contributions, such as providing nature guides, using low-impact construction and renewable energy, creating private reserves or developing community infrastructure.

Environmental Benefits

Through the use of responsible materials and practices in their day-to-day operations, ecolodges can minimize their impact on the surrounding environment. Some of these measures may also be of financial benefit to the enterprise. For example, the use of eco-efficiency business approaches and materials, including natural construction materials, environmentally friendly insecticides, composting toilets, renewable resources such as solar energy, and efficient and low-polluting boat engines, can benefit a company’s bottom line by lowering construction and operating costs. Ecolodges are also a good way to promote the use of green architectural design and low-impact construction.

What distinguishes ecolodges from other accommodations that may also follow good environmental practices, however, is that many of them have gone a step further and made proactive conservation investments in land and research projects, or developed creative partnerships with local communities to fund the conservation of endangered species. In some cases, ecolodges have leased or purchased surrounding or nearby land to establish private nature reserves or wildlife management areas, in order to generate income and preserve habitats. These reserves may be operated by commercial or nonprofit organizations. Such reserves supplement public protected areas, help to broaden the range of habitats, and serve as wildlife corridors.

Ecolodges and other nature-based tourism can also generate financing for public parks and conservation efforts through mechanisms such as taxes that support conservation at a national scale, or entry fees that help support management of a particular park or attraction. In some cases, expanded tourism development in an area, which can result from the construction of an ecolodge, has led to the enactment of laws and policies designed to funnel support directly into natural resources and local communities around that area. The revenues generated by ecotourism can further benefit biodiversity conservation by raising awareness among local communities and government officials, changing public attitudes toward conservation, and providing a strong economic justification to preserve natural areas, rather than convert them to alternative uses such as crop or pasture land.
Ecolodges and ecotourism can also benefit biodiversity indirectly, by giving local people economic alternatives to encroachment in conservation areas. Financing for community projects, employment, and income-generating opportunities for local people can help foster sustainable sources of livelihood for people who live in geographically remote and agriculturally marginal lands.

Community benefits

Local communities can earn revenue from an ecolodge business, for example, as full or partial owners of the lodge. In such cases, the community may choose to manage and operate the lodge itself or to enter into a management agreement where a private sector partner manages and operates the lodge. The community may also earn revenue by charging fees to an ecotourism operator for the use of its land or for access to certain people or sites, or by entering into a build, operate and transfer (BOT) agreement, whereby a private sector ecotourism operator pays to build and operate a lodge on community land. In a BOT agreement, which often includes employment and training benefits, the community will assume ownership of the property at some established date in the future.

Other benefits include employment of community members, increased leadership skills as a result of decision-making responsibilities, reinvestment of ecolodge profits into social projects such as schools and clinics, development of ancillary income-generating activities, such as selling consumable goods and artisan crafts to the lodge, and increased access to grants, donations and other types of financial assistance.

POTENTIAL NEGATIVE IMPACTS

The construction of ecolodges in remote areas also presents a number of challenges to conservation and community development. If lodges do not follow the principles and sound practices of ecotourism, they can have negative impacts on biodiversity in the surrounding areas, for example, by taming and keeping wild animals in captivity, dumping untreated sewage, neglecting to recycle or properly dispose of waste materials, wasting energy and water resources, and generating air and noise pollution.

Community benefits may be minimal if lodges do not promote stakeholder participation, including the employment and training of local people, local ownership, purchase of food, crafts and other supplies from local vendors, or the opportunity for local people to use or learn about their facilities and natural resources. In some cases, the failure to include local people may lead to conflict or confrontation within communities. Poor employment and management practices can also damage relations between the business and communities.

The relationship between visitors and local people can become strained if there are no resources available to educate visitors about local customs and norms, or if guides are uninformed about the local area and/or are not properly trained in how to manage cultural exchanges with guests.

The logical framework (logframe) methodology presented in Appendix A of this document provides a model for how to identify, monitor and evaluate the particular positive and negative impacts of a specific ecolodge. The Appendix contains a shortened version of the logframe; for the full version, see the study, Ecolodge Footprint and Justification for Biodiversity Conservation, at www.ifc.org/ebfp.
6. CONCLUSION: THE FUTURE OF THE ECOLODGE MARKET

Ecolodges are important to the sustainable development community, although the financial performance and social and environmental impact of ecolodges is as varied as the ecolodges themselves. By detailing the results of research on triple bottom line ecolodges, including an analysis of a select number of ecolodges’ performance, obstacles and impacts, this publication aims to provide a tool for continuing dialogue between investors, donors, policy makers, and ecolodge operators on how to further financial, environmental, and social benefits, as well as assist investors in their sustainable development mission.

While the demand for ecolodges is expected to increase by an average of ten percent per annum over the next several decades, the sector faces a number of challenges, and is in need of a strategic approach to support the growth potential. The high number of nature-based ecolodges in or near protected areas of high biodiversity value demonstrate the need for lodges to maintain sound environmental standards and practices. The research findings also indicate that there is inadequate government capacity to protect fragile environments from tourism overdevelopment on the environment which, in turn, can undermine the value of the natural assets upon which ecolodges depend. Some governments have developed and implemented voluntary certification programs for ecolodges and other accommodations. While these certification programs have provided important incentives for the private sector to green their businesses, the consumer demand for green certification and the business value of certification programs has not been demonstrated.

Although most of the profitable ecolodges surveyed shared a number of key characteristics related to location and setting, size, funding structure, operation and management, the sector remains very volatile, and is perceived as a high-risk market by financiers. The findings indicate that financiers typically do not have the experience in appraising ecotourism-sector-related risks, and that access to finance for this sector is limited, typically as a result of collateral requirements and lack of viable exit strategies. The ecolodge sector will require a comprehensive financing strategy, which should encompass debt financing, grant funding for technical assistance to address the needs of businesses, as well as both sector-specific supply chain and generic business management skills training and equity financing.

In conclusion, there is a need for a strategic approach to support the sustainable growth of the ecolodge industry which can only fulfill its potential if strategic investments are made in cooperation with donors, financiers, advisors, ecolodge operators and a range of other stakeholders.