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## Chazen International Study Tour Report

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# Exploring Ecotourism in Ecuador

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## **A Note from the Author**

The author is an MBA student at Columbia Business School. This paper was written following a study tour to Ecuador from January 2 to 12, 2006. The trip was organized by Laura Haverland, MBA '06, Caroline Champ, Social Enterprise Program coordinator, and members of the Jerome A. Chazen Institute of International Business at Columbia Business School. The primary basis for information on the organizations discussed in this paper is interaction with business representatives during the trip. The author met with the following representatives:

Douglas McMeekin, Executive Director of FUNEDESIN Foundation and owner of Yachana Lodge, Oriente Province

Andres Kirby and Michelle Hammersmith, Coowners and Founders of the Black Sheep Inn, Cotopaxi Province

Diego Andrade, Executive Director of the Ecuadorian Association of Ecotourism

Stephen Edwards, Tourism and Biocommerce Specialist for the Andes Region at Conservation International

## **Chazen International Study Tours**

Designed to enhance the classroom curriculum, Chazen International Study Tours offer students and their faculty adviser an intense, firsthand experience of the business culture of their chosen country or region. Study tours are initiated by students and organized with the help of the Jerome A. Chazen Institute of International Business. During study tours students meet with leading executives and government officials while visiting businesses, factories and cultural sites. Recent destinations include China, France, India, Japan, Russia and Scandinavia.

## Introduction

In January 2006, I traveled to Ecuador, traversing more than 600 miles in two weeks to visit two award-winning ecotourism destinations: Yachana Lodge, in the Amazonian Napo River valley, and the Black Sheep Inn, in the Cotopaxi region of the Andean range. Both have progressive and self-sustaining missions.

This paper analyzes Ecuador's attractiveness and potential as an ecotourism destination and profiles the business activities of Yachana Lodge and Black Sheep Inn. It also offers recommendations for the establishment and operation of an ecotourism business in Ecuador, based on guidance from the Ecuadorian Ecotourism Association (ASEC) and Conservation International (CI), as well as best practices from Yachana and Black Sheep.

## Exploring Ecuador

What exactly defines ecotourism, versus hiking trips and/or scuba excursions? According to Martha Honey, executive director of the International Ecotourism Society (TIES), ecotourism is "travel to fragile, pristine and usually protected areas that strive to be low impact and usually small scale. It helps educate the traveler, provides funds for conservation, directly benefits the economic development and political empowerment of local communities and fosters respect for different cultures and for human rights."<sup>1</sup>

Why then Ecuador? Ecuador, a small country in western South America, enjoys rich biodiversity and a high degree of endemism. According to Stephen Edwards, Andes region tourism and biocommerce specialist at CI, Ecuador boasts hotspots like the Tumbes-Chocó-Magdalena, one of the world's most biologically diverse regions, which runs through the country's western border. This rain forest is home to indigenous species like the bare-necked umbrellabird and brightly colored poison dart frog. The country also has significant marine regions, notably the Galapagos National Park and Marine Reserve, as well as mountain ranges that embrace Cotopaxi, the highest active volcano in the world.

In terms of its ethnic composition, Ecuador is primarily mestizo (mixed Amerindian and white); however, it is one of the few countries in South America that has managed to protect and preserve the culture of its indigenous Amerindian population.

Given the recent growth of Ecuador's popularity as an "eco" destination, many wonder whether it will become "the next hotspot." The answer is far from clear, because ecotourism is less competitive here than in other countries for several reasons.

First, Ecuador lacks significant infrastructure, a prerequisite for successful ecotourism. Outside of the capital city of Quito, there are limited airports and well-paved roads to connect international travelers with undisturbed ecologies. Political stability is another

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<sup>1</sup> Martha Honey, *Ecotourism and Sustainable Development: Who Owns Paradise?* (Washington, D.C.: Island Press, 1999).

aspect of infrastructure that tourists seek. Unfortunately, Ecuador has had 10 presidents in the last decade.

Second, unlike in Guatemala where the government mandates and manages ecotourism projects, efforts to establish sustainable tourism in Ecuador are bottom-up.

Third, the tourism industry is highly fragmented. There is no strong network to champion the social, environmental and financial benefits of ecotourism. Accordingly, there is much duplication of effort from multiple stakeholders, including NGOs, national communities and individual businesses. As a result, consensus on specific actions and implementation take considerably longer.

Lastly, tourism in Ecuador is considerably undermarketed when compared to Costa Rica, for example. Also, as a result of Ecuador's dollarization in 2000, prices are more expensive compared to other Latin American countries..

## **Ecotourism Lodges in Ecuador**

### **Yachana Lodge**

#### *An Ecotourist's Destination*

Yachana Lodge is situated deep in the Amazonian Oriente. It adjoins the community of Mondaña, roughly two hours upriver by motorized canoe from the city of Coca. Each cabin comes equipped with a private bathroom with hot showers, flushable toilets and potable water. The lodge provides an all-inclusive service, including transportation from Coca via river or road, meals and guides. Prices are approximately US\$112 per person per night.

The name Yachana is a Quichua (Indian language) word that means "a place for learning." Typical tourist activities include rain forest hikes, visits to the Mondaña school and participation in traditional crafts such as clay pottery and basket weaving. Even at dinner visitors can learn how to make Ecuadorian sancocho soup (filled to the brim with yucca, plantains and beans) and turn stinging nettles into a spinachlike side dish.

The lodge has won numerous awards, including the Latin American Award for Social Integration, the *Condé Nast Traveler* magazine World's Best Ecotourism Destination and recognition from the UN World Tourism Organization as an example of the best Sustainable Tourism for the Elimination of Poverty (STEP).

#### *Profile of Owner*

Yachana Lodge was constructed in 1995 by owner Douglas McMeekin. McMeekin, a native of Kentucky, had previously worked as a zoologist and real estate financier. After first going to Ecuador in 1986 to visit friends, he stayed on to provide an environmentally sound business plan for an oil company that had recently acquired land in the rain forest.

Eventually, McMeekin's involvement turned into a full-fledged consulting career with more than eight clients, including Conoco and Imperial Oil. McMeekin admits that although his compensation was good, the work did not enable him to directly "help people in their communities." After six years, McMeekin closed down his firm and established an NGO—The Foundation for Integrated Education and Development (FUNEDESIN).

#### *FUNEDESIN Ownership Structure*

McMeekin believes the well-being of the Amazon's inhabitants and the future of the rain forest are inextricably linked. His vision is that FUNEDESIN be dedicated to establishing workable solutions that integrate the ideals of rain forest preservation with the realities of everyday life in the Ecuadorian Amazon. To facilitate this, McMeekin has employed an innovative development model based on a hybrid nonprofit/for-profit business structure. FUNEDESIN, the nonprofit arm, manages two for-profit companies, namely, Yachana Lodge and Yachana Gourmet. These socially progressive companies alleviate poverty and protect the rain forest, while generating funds for FUNEDESIN's sustainable development projects—Mondaña Clinic and Yachana High School. All are further described below.

#### *Yachana Lodge—Profitability and Impacts*

Yachana Lodge became profitable after six years in operation. It has generated more than US\$2 million (net expenses) to date, all of which has been reinvested into the region, most notably to cover the shortfalls in the operating budget for Mondaña Clinic and provide initial funding for all other FUNEDESIN projects.

In contrast to some of the other eco-destinations in the Amazon rain forest, Yachana positively affects the social welfare of the indigenous population by employing locals (i.e., Ecuadorians from the Napo Province, not the highlands, coast or capital) to manage and operate the lodge. Yachana's operations are also attuned to the region's needs from an environmental standpoint. The canoe that transports visitors from Coca is constructed of fiberglass, thus avoiding the need to cut down trees to make a more traditional dugout canoe. In the future, the canoe might run on low-grade palm oil, a resource that would otherwise be discarded by local plantations. Lighting and other energy at the lodge are provided by solar power, while water is drawn from natural springs and then filtered and purified.

Through its association with FUNEDESIN, Yachana can impart social, financial and environmental benefits beyond what could be provided by an eco-lodge operating in isolation.

### *FUNEDESIN and Subsidiary Businesses—Impact*

As the umbrella organization, FUNEDESIN imparts its own share of benefits to the community. It has purchased and protected more than 3,600 acres of primary and secondary rain forest within a buffer zone designated as a UNESCO Man and Biosphere Reserve. In terms of financial impact, FUNEDESIN is responsible for the design of 17 microcredit programs, known as village banks. These allow rural farmers to increase and improve their production, cover health or education expenses and open their own microenterprises. To date, the village banks' accomplishments include

- growth of 85 percent in the number of communities of influence participating in the region, now totaling 412 members from 37 communities,
- a 603 percent rise in total capital managed by banks to a current level of \$37,372 and
- an 851 percent rise in capital loaned to a total of \$94,000 as of September 2005.

Yachana Gourmet, the other income-generating project, was started in 1998 and is today an ecologically conscious company producing chocolate and jams made from tropical fruits for export. In accordance with Fair Trade practices, Yachana Gourmet purchases agricultural commodities from rural producer cooperatives and family farmers in the jungle and identifies international markets for processing and/or resale. The approach enables local coffee growers to benefit directly when the demand and price for coffee rise in international markets. It also provides a source of additional income to the mostly women who gather these agricultural inputs. Furthermore, it offers a viable economic alternative to unsustainable land uses, such as unregulated logging and cattle ranging, and the cultivation of illicit crops. Lastly, Yachana Gourmet, working together with FUNEDESIN, provides agrotechnical assistance and cacao commercialization projects. Aside from improving and increasing cacao cultivation and its related revenues, these projects teach the indigenous population about sustainable farming and forest resource management.

Mondaña Clinic, one of two community-development projects, was established in 1997 in response to health studies carried out by the World Bank, UNICEF and the Ecuadorian Ministry of Public Health, which ranked the Napo Province last among Ecuador's 21 provinces. The clinic was organized by local communities and serves as the only full-time health care provider in the region, aiding more than 8,000 indigenous Quichua and mestizo inhabitants. Its two-way radio communication system for emergency service has helped to solve 80 percent of the health issues in the local community.

Lastly, in October 2005 FUNEDESIN opened Yachana High School, enabling nearly 70 students to study to the equivalent of 10th grade. Unlike other schools in remote

communities, Yachana teaches practical subjects, including agricultural techniques, methods of selling produce, environmental conservation and ecotourism.

## **Black Sheep Inn**

### *An Ecotourist's Destination*

The Black Sheep Inn is situated at 10,500 feet above sea level in the Cotopaxi Province of the Andes mountains. It lies just outside the tiny village of Chugchilán. Black Sheep is an ecologically friendly, intimate hotel, with only nine private rooms and one bunkhouse. The bathrooms, adjacent to the rooms, are equipped with hot showers and composting toilets. Much like Yachana, prices at Black Sheep are all-inclusive. Vegetarian breakfast and dinner are served daily, along with unlimited tea, coffee and purified drinking water. Prices are US\$20–\$38 per person per night, depending on accommodation.

Unlike Yachana, Black Sheep does not provide set activities but rather helps visitors arrange their own itineraries. These can include hikes to Iliniza Ecological Reserve and cloud forest, Rio Toachi Canyon and Laguna Quilotoa (a volcano lake); horseback riding; and visits to a local cheese factory and indigenous markets.

The inn has won several awards, including the *Smithsonian* magazine/Travelers Conservation Foundation (TCP)<sup>2</sup> Sustainable Tourism Award.

### *Profile of Owners*

The Inn was constructed in 1994 by owners Andres Kirby and Michelle Hammersmith. This American couple, who describe themselves as “hardcore backpackers,” first visited Ecuador in 1992 and discovered the remote location while trekking. In 1994, they returned to Ecuador and purchased property from residents in Chugchilán, drawn back by their memories of the dramatic countryside and the friendliness of the locals.

Kirby and Hammersmith recall that they had the business sense to know that they “couldn’t survive farming potatoes but had faith that the beauty and remoteness of the area would be enough to attract tourists.” They identified three features that they believed would appeal to tourists: a good bed, a hot shower and tasty food. At the time, none of these existed in Chugchilán.

### *Ownership Structure and Profitability*

Until January 2006, the Black Sheep Inn was run as a proprietorship; today it is a limited liability company. Two managers, a Canadian and an Ecuadorian from Quito, assist with day-to-day operations. The rest of the staff, approximately 10 strong, is composed of locals

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<sup>2</sup> Travelers Conservation Foundation is now Tourism Cares for Tomorrow.

from Chugchilán. Many have been working with Kirby and Hammersmith for more than a decade.

Kirby and Hammersmith's initial investment was approximately US\$30,000. For the first two years the Inn operated at a 10 percent loss simply because, according to Kirby, their prices were too low. To restore profitability and manage increases in demand, the couple raised prices. In spite of this, visitor interest continued, boosted by favorable word-of-mouth advertising and the lack of alternative accommodation in the region.

### *Impacts*

The Inn's mission is to provide comfortable lodging while simultaneously promoting ecological awareness and sustainable living habits. It was constructed using sustainable techniques, which involved using handmade adobe bricks, glass-bottle walls, solar panels and sensor-controlled illumination sections. Amazingly, Black Sheep generates a mere ounce of nonreusable material per day. The success in conservation stems from the implementation of permaculture—a multifunctional system that mimics a real-life ecosystem and, as such, designs for production and sustainability. At Black Sheep, the process involves combining organic gardening, alternative energy, gray water systems, composting, dry toilets, livestock farming and recycling. Kirby and Hammersmith plan to use the US\$20,000 provided by the *Smithsonian*/TCP award to partially finance a hybrid solar/wind electricity-generation system.

The couple have also made efforts to improve the social and financial welfare of the Chugchilán community. They have enabled some Black Sheep employees (thanks to loans taken out against their paychecks) to purchase or improve land and make a secondary living from agriculture and animal farming. They have also provided interest-free loans to various neighbors interested in starting their own businesses. Lastly, they procured and installed local telephone lines for the village. Aside from their financial investment, the couple have supported the development of locally run tourist destinations by organizing a transportation cooperative with local vehicle owners and establishing a native guiding association.

They have also been active in promoting education. Hammersmith teaches English and computers in the high school. With the help of generous donations, the couple has also subsidized school textbooks since 2002 and built a local learning center containing Spanish-language books and computers. Furthermore, they have sponsored workshops on family planning, first aid, nutrition, women's health and microenterprise. Their main challenge has been to teach the community to hold itself accountable for the lifestyle changes needed to preserve their environment. Unfortunately, while Kirby continues to champion recycling, water conservation and garbage/sewage plans, local support is limited to nicknaming him "King of Garbage."

## Best Practices from Yachana Lodge and Black Sheep Inn

Yachana Lodge and Black Sheep Inn are two examples of successful ecotourism operations in Ecuador. What contributed to their success? Is there room for improvement? What best practices can be examined for the industry as a whole, and from their business models and strategies?

A key aspect of the popularity and sustainability of these destinations is the owner's personality. McMeekin, of Yachana Lodge, describes himself as "an entrepreneur by temperament," and certainly his extensive efforts to establish and expand FUNEDSIN are excellent examples of this. For Hammersmith and Kirby of Black Sheep Inn, sustainable living is a way of life for them; they want "what's good for the Earth . . . is low impact for the property . . . that will create life and abundance."

Yachana and Black Sheep differ as businesses and ecotourism destinations. However, it is precisely these differences that suggest there is room for continued improvement or future expansion. For example, while Yachana's financial and social accomplishments are noteworthy, the lodge could benefit from a greater overt commitment to environmental protection. Consumer perception is that ecotourism is essentially nature-based travel. Studies conducted by TIES suggest that travelers are increasingly seeking accommodation, itineraries and products that respect the environment.<sup>3</sup> With this in mind, it is strongly recommended that Yachana implement sustainable waste-management techniques, similar to those at Black Sheep. Environmentally friendly recycling practices, prohibition of the flushing of nonbiodegradable products and composting of food remains could be three relatively simple projects with which to start.

Interpretive/educational programs and cultural experiences also rank highly as desired features of an ecotourism trip. These opportunities are considerably underdeveloped at Black Sheep. By adopting some of Yachana's practices, the inn could better satisfy a tourist's cultural curiosity. Examples include serving authentic Ecuadorian food as part of its current "eclectic, gourmet, vegetarian" menu and sponsoring a craft gallery that showcases the history of the region and the work of local artisans.

As for starting an ecotourist business, I discovered several qualities and mantras that are helpful, based on recommendations from McMeekin, Kirby and Hammersmith.

1. **Commitment is paramount.** "The joke around here is that 'gringos come and gringos go,'" McMeekin of Yachana said smiling. "When I was first starting out, I had difficulty identifying and developing water sources for the lodge and clinic. Church groups and government agencies who were here trying to develop their own agendas also tried to tap into water sources. We all failed on our first attempt. They left; I

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<sup>3</sup> Pamela Wight, "North American Ecotourism Markets: Motivations, Preferences and Destinations," part 2, The International Ecotourism Society (TIES), <http://www.ecotourism.org/index2.php?research/stats>.

stayed. . . . I am in it for the long run.” Both Yachana and Black Sheep have shown how relentless dedication to personal goals can be successful and rewarding.

2. **Strategic planning is essential.** Diego Andrade of ASEC and Stephen Edwards of CI mentioned that 95 percent of Ecuador’s ecotourism industry is run privately as mom-and-pop operations. They stressed how challenging it is to anticipate and provide for what tourists want while trying to manage a profitable business. As a result, training in business planning is critical for success. While none of the destinations visited have formal business plans, their owners have concrete goals and guidelines that inspire their everyday work.

McMeekin of Yachana stressed that flexible planning is the key. “Sustainability is about continuously reinventing opportunities and considering contingency plans. . . . In the past, it was USAID that provided Yachana Gourmet with money to cultivate cacao and, more recently, donated million-dollar harvesting and processing machines. But last year, USAID informed recipients that it would reduce project assistance time frames from three years to six months. This is impossible for cacao production; . . . it takes each plant five years to grow and bear fruit. How can you show required return on investment in just six months?” After eight years of fostering a relationship with USAID, McMeekin is now faced with refocusing grant requests to USAID or identifying other donors that he can substitute for USAID.

3. **Marketing can hurt sustainable tourism.** Kirby of Black Sheep suggests that marketing—certifications, advertisements and travel awards—is a double-edged sword. On the one hand, it can be used to attract visitors. Unfortunately, in the hospitality business, the increased volume of customers often creates a large amount of waste and environmental destruction. Furthermore, the prevalence of labels like “eco” often results in the proliferation of poor business practices. In Ecuador, “greenwashing” has become a problem; it entails promoting accommodation or activities as “eco” while behaving in an environmentally and socially irresponsible way. According to Kirby, “consumers want service and comfort; they don’t care if their bed is labeled ‘eco.’” For this reason, the owners of Black Sheep suggest educating travelers about ecological operations and the alternatives that exist in the field of sustainable tourism.
4. **Communities should own tourism establishments.** Andrade of ASEC spoke of the important benefits that tourism can bring to the local population and culture. One of ASEC’s notable efforts has been to work with the Ministry of Tourism to establish a legal framework whereby communities can own and manage their own ecotourism operations. Until recently, the system had extremely bureaucratic procedures that presented Amazonian or Andean communities with serious obstacles to launching their own venture—for example, traveling to the capital, contracting lawyers, negotiating

with travel agents and securing bank guarantees.<sup>4</sup> I noted the push for local management at both destinations. When I visited Yachana, McMeekin was preparing succession plans, while Kirby and Hammersmith of Black Sheep were considering incentivizing locals to assume the role of general manager.

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<sup>4</sup> Interview on Ecuador Exchange with Andy Drumm, founder of Tropic Ecological Adventures, an ecotourism operation in Ecuador.