



USAID
FROM THE AMERICAN PEOPLE

SUSTAINABLE TOURISM DEVELOPMENT IN RURAL AREAS

NOTES FROM THE FIELD NO.2



May 2008

This publication was prepared by CHF International in collaboration with Weidemann Associates Inc. for the Business Growth Initiative Project and financed by the Office of Economic Growth of EGAT/USAID. This report is also available on the Business Growth Initiative project website at www.BusinessGrowthInitiative.org.

SUSTAINABLE TOURISM DEVELOPMENT IN RURAL AREAS

TECHNICAL BRIEF

Authored by:

CHF International in collaboration with Weidemann Associates, Inc.

Submitted to:

USAID/EGAT/EG

Contract No.:

EEM-C-00-06-00022-00

November 2007

www.BusinessGrowthInitiative.org

Captions in order of left to right: Tourist hotel in northern Montenegro, Tourist on Montenegro Adventure's Photo Safari, Tourist hiking in northern Montenegro.

All photos in this report are copy written by Montenegro Adventures 2006

DISCLAIMER

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

SUSTAINABLE TOURISM DEVELOPMENT IN RURAL AREAS

This technical brief draws on and summarizes the experience of CHF International in founding the Centre for Sustainable Tourism Initiatives (CSTI), a local non-governmental organization leading the development of the tourism sector in northern Montenegro, and its for-profit partner tourism agency, Montenegro Adventures (MA). CSTI and MA were initiated in April of 2006 as an extension of the Tourism Marketing Unit within the USAID funded Community Revitalization through Democratic Action – Economy (CRDA-E) program in northern Montenegro. The goal of the CRDA-E program was to stimulate economic growth and job creation in the economically disadvantaged region through targeted assistance to small businesses and institutions serving the private sector.

The economy of Montenegro has expanded over the past decade with GDP per capita increasing more than 70% from 2000 to 2005. However rates of employment creation and economic growth in the municipalities of northern Montenegro were much lower than those in the south. While just one-third of the population resides in the north, nearly half of those who fall below the poverty line live there. One result of the economic divide is considerable north-south migration, resulting in a net population decrease of 8% in the north over the last ten years. With recently privatized state-owned industrial enterprises in the north either not operational or operating well below previous levels, the main economic sectors are tourism, agriculture and forestry. Although tourism offers the most immediate prospects for significant job creation, the region unsurprisingly lags behind the Adriatic Coast in tourism growth. Increasing international recognition combined with the prioritization of tourism development in the north by the national government is beginning to curb this trend.



Tourist chalet in northern Montenegro.

Tourism Opportunities and Challenges in Northern Montenegro

The CHF International approach to sustainable tourism development is rooted in the company's worldwide experience working with economic stakeholders to determine economic priorities, and select sectors that achieve broad-based impact on incomes and employment with small, targeted investments. In Montenegro, CHF conducted secondary research on key sectors and combined those results with knowledge of regional assets to select tourism as a priority sector for intervention. Findings revealed sector development challenges and opportunities in the following areas: *demand potential, tourism resources, enabling environment and sustainability.*

- **Demand potential** for tourism in the north was clear as the region abounds in natural and historic attractions, such as Durmitor National Park, a UNESCO World Heritage site encompassing 27 peaks over 2,200 meters, 18 glacial lakes and the breathtaking Tara and Piva river canyons. Until recently, these and other natural attractions of the north were little known outside the immediate region. Although the region is proximate to many European markets, only 10% of foreign tourists to Montenegro visit the northern region and only 1% of the overnights are spent there. The *World Travel and Tourism Council* recently reported that

northern Montenegro's unique natural attractions may lead tourism demand in the region to one day match, or even exceed demand for its coastal regions.

- **Tourism resources** were limited, but showed some signs of improvement. The north was burdened with poor roads, electricity and water infrastructure and aging tourism assets. Although there had been some upgrading of hotels and other facilities, significant investments remained scarce. Human capital was also a constraint within the sector, as economic isolation and high levels of out-migration left many communities with limited skilled labor able to respond adequately to the language and service requirements of tourists. However, local government leaders together with tourism entrepreneurs were beginning to recognize the opportunity and address the constraints through investment.
- With consensus on tourism opportunities established, there was clear momentum to improve the **enabling environment**. The national government had expressed strong support for tourism development by drafting favorable laws and policies and initiating a strategic planning process to define development goals. Municipal governments began to recognize the value of their tourism assets and established local tourism organizations to promote local attractions. A handful of international donors showed readiness to support tourism development and foreign investors started to show interest in the region. The challenge remained to coordinate these disparate efforts through planning and targeted interventions to address the prevailing shortcomings in the sector.
- From a **sustainability** standpoint, the types of activities envisioned – adventure tourism and eco/cultural tourism – favorably align the goals of environmental and cultural preservation with that of attracting tourists. In terms of economic sustainability, increasing publicity and pace of tourism investment in Montenegro were reasons for optimism but had yet to yield meaningful impact on incomes in the north. However, there was a distinct opportunity to spur an upswing of visits to the north by drawing tourists from the overcrowded coastal areas. Still, to establish tourism as a stable source of income for the region's residents, much had to be done to develop the services and infrastructure to attract adequate numbers and extend the season beyond a few months.

Selecting Our Approach

After considering each of these factors, CHF began developing a strategy for tourism development. In early 2006, the experienced staff of the Tourism Marketing Unit within CHF International Montenegro chose to employ a versatile approach which simultaneously addressed supply and demand constraints in the tourism market. This included investing in small-scale tourism infrastructure in partnership with local and municipal leaders through the CRDA-E program and establishing a local tourism non-governmental organization (NGO), the Centre for Sustainable Tourism Initiatives. A commercially registered subsidiary tourism agency, Montenegro Adventures (MA), was also established to address limitations in tourism services, capacity and promotion. Both were created as lasting mechanisms for developing and promoting tourism.

Other interventions were considered but eventually ruled out due to the local context and the specific development needs of the sector in northern Montenegro.



Tourists white water rafting in northern Montenegro.

- Focus on capacity building of tourism stakeholders. A common and straightforward approach to sector development is to target the supply side through capacity building of service providers and local government institutions. While this approach addresses identified constraints it fails to recognize other significant needs thus jeopardizing the achievement of results. In the case of Montenegro, lackluster demand for northern tourism products and services would leave

tourism entrepreneurs little opportunity to apply new knowledge and skills. To create real results, obstacles to demand such as poor marketing and promotion, and limited coordination among tourism stakeholders would need to be simultaneously addressed.

- Establishing a tourism cluster organization. The tourism sector in the north is highly fragmented, comprised primarily of small players who lack the resources and ability to develop or market products effectively. In a business environment characterized by limited trust and low levels of cooperation, where more than 72% of businesses expressed no interest in joining a business or trade association establishing a tourism cluster organization, significant obstacles would have to be overcome to effectively channel needed assistance to tourism stakeholders.¹ This approach may gain traction with further development of the sector.
- Working through existing tour operators. Individual tourism entrepreneurs in the north typically have a narrow focus on individual services (rafting, guided tours etc.) and are unfamiliar with business basics including how to connect with potential buyers or to meet international service standards. As a result local and international tour operators have become frustrated with the lack of business professionalism and inconsistent service quality. These tour operators do not have the time or resources to devote to building the capacity of their business partners resulting in their lack of willingness to bring customers to the north. CHF also recognized the inherent challenges of working through multiple partners to institute capacity building in an underdeveloped market.

Balancing NGO and Business Approaches

Direct CHF involvement in the establishment of CSTI resulted in the hiring of a professional staff and provision of ongoing management oversight. This involved input on recruiting, budgeting, design and implementation of program interventions and overall strategy development with the intent to strengthen the capacity of CSTI management to be a self-sustainable NGO at the forefront of tourism sector development. Although CSTI and Montenegro Adventures work closely together, they are distinct organizations with unique missions. CSTI is an NGO focused on developing the tourism assets in northern Montenegro through research, planning, product development and targeted capacity building of tourism service providers. While Montenegro Adventures is a for-profit tourism agency that facilitates direct market linkages with tourism-related business in the north with its unique focus on promoting and selling tourism services in the region.

Since their establishment, CHF International has worked with CSTI and MA to set clear goals for development of the supply and demand sides of the tourism market in northern Montenegro

¹ Survey of Micro, Small and Medium Enterprises' Needs in Northern Montenegro. CHF International, FORS Montenegro and CEED. August 2007. Funded by USAID.

while contributing to the regional and national dialogue on broader development issues. Together CHF and CSTI/MA prioritized initiatives relating to *strategy and planning, product and service development, capacity building, and promotion and business linkages*.

Strategy and Planning Key components of CSTI's work were two-fold: First is to overcome the historic political and economic isolation of northern municipalities from the center and south of Montenegro. Second is to encourage cross-municipality coordination and to bring the voice of the north, including its grassroots constituents, into the national dialogue on tourism development. The organization has acted as an effective intermediary between the municipal and national levels in both strategy development and implementation through offering technical expertise, conducting targeted research, leveraging donor funds, and, perhaps most critically, linking small entrepreneurs and other nascent tourism service providers into national government-led strategic initiatives.

Product and Service Development With abundant natural attractions but limited complementary products and services CSTI and MA immediately recognized the need for development within the adventure and eco/cultural tourism markets in northern Montenegro. Together the organizations designed pilot tours to better understand the current supply of products and services, and the existing and potential market demand and the expectations of potential tourist-customers. By facilitating pilot tours, CSTI and MA brought income and experience to partner tourism businesses while identifying gaps in specific tourism value-chains and targeted capacity building needs. Further, by beginning with pilot tours, CSTI/MA gained credibility with their partners by combining the tangible results of a business relationship (customers and income) with the added value of NGO assistance, which primarily consisted of market information and training.

Capacity Building In preparation for each tour, CSTI and MA worked closely with local service providers learning first-hand their limitations and provided personal, on-site business training and consulting. CSTI capacity building activities have focused on entrepreneurial lodging providers, guides and tour operators to improve their readiness to create satisfied, repeat customers. As municipalities increasingly buy-in to development of the tourism sector, CSTI will work with new government sponsored Local Tourism Organizations (LTOs) to establish stronger linkages between them and the private sector businesses that they aim to assist.

Promotion and Business Linkages CSTI recognized early on that sustained and increasing promotional efforts were required to establish the north as a popular international tourism destination. As recently as 2005 there was virtually no information or promotional material produced on the region. To fill this gap, CSTI and MA created high-quality materials which feature the terrain, accommodation and other services in the north. In addition, through the development of tourism products and promotion of tourism businesses, CSTI and MA worked directly with businesses in the north to improve their awareness of the expectations of tourists and their ability to serve them at a level consistent with other tourism destinations. Through this approach, CSTI and MA created lasting linkages among businesses in the north, and between northern businesses and partners on a national and international level.

CSTI and MA Activities and Results

CSTI and MA are a small but devoted team; over the first two years they have achieved significant results in all four target areas. Their emphasis on the distinct competencies of an NGO and a business allowed for a comprehensive approach to tourism development in the north – responding to the market demands of today while anticipating the needs of future.

Strategy and Planning CSTI and MA have stayed in-step with strategy and planning efforts on the local and national level while simultaneously working with community leaders and local entrepreneurs in the northern municipalities to improve their short and long term planning.

- Recognizing the importance of tourism as a strategic economic development tool, the Ministry of Tourism and Environmental Protection of Montenegro led a 2007 revision of the *National Tourism Master Plan*. CSTI actively represented the interests of northern constituents, contributing to the greater inclusion of priorities for tourism development in the north in the final document.
- CSTI and MA built reputations as results-oriented organizations, resulting in their frequent collaboration with the government sponsored National Tourism Organization (NTO) on promotion and activity implementation. The Hiking-Biking Initiative, detailed below, provides a clear illustration of the relationship forged between the NTO and CSTI and MA – and the resulting benefits for the north.
- Following their involvement in developing the Master Plan and the inaugural Hiking-Biking tour, CSTI was invited to take part in Ministry-led, public-private working groups to strategize and implement the Hiking-Biking Initiative and to establish a credit line for tourism stakeholders.
- CSTI mapped tourism assets in northern Montenegro, visiting more than 400 natural and cultural attractions, tourism businesses, NGOs, and associations. This process led CSTI to identify entrepreneurial leaders in the tourism sector and capitalize upon their talents during pilot tours.
- Early on CSTI conducted market analyses to better understand global trends in tourism and relate them to potentials in the north. CSTI then identified priority market segments including adventure and eco/cultural tourism. Already, CSTI and MA are taking the next steps in attracting customers in these segments by building partnerships with highly regarded international tourism associations and tour operators.
- The lack of data in relation to tourists, expectations, habits and overall satisfaction is another obstacle to tourism development. In response, CSTI completed the first in-depth opinion survey(s) focused on the north. Surveyors interviewed more than 1,000 tourists traveling to both the mountains and the coastal areas providing CSTI and its public and private partners with a better understanding of regional and international visitors to Montenegro.

Product and Service Development By leading the design of products and services in the north CSTI and MA gained valuable insights into how best to link supply and demand in this nascent market.

- When developing tours CSTI worked directly with tourism entrepreneurs to adapt products and services to meet the needs of consumers. CSTI has worked with dozens of individual small lodging and service providers to guide their preparations to serve foreign visitors. After developing 5 initial Pilot Tours for the 2006 season, MA has since conducted more than 60 tours and conferences ranging in size from 2 to 40 people and typically involving up to six tourism entrepreneurs per trip.
- After receiving certification training from the British tour operator, *Exodus Tours*, CSTI hosted a familiarization trip for 8 Exodus-certified guides to test tours developed by CSTI. Based on their experience, Exodus selected two tours for inclusion in their catalogue which is viewed internationally. The first tour is an 8-day trek throughout Montenegro, focusing on the north; the second is an 11-day regional discovery tour that includes Montenegro, BiH and Croatia (Dubrovnik). The tours can be viewed at <http://www.exodus.co.uk/brochure-request.html> (see pages 47 and 50).

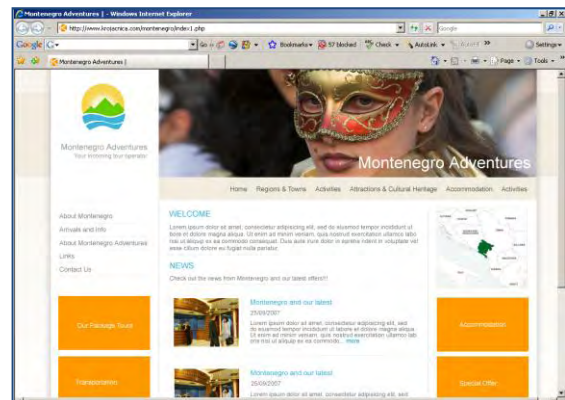
- CSTI and MA have captured an integrated picture of the tourism sector in the north and consequently are able to advise donors and investors on crucial infrastructure upgrades and equipment needs such as improved signs for hiking and biking trails.

Capacity Building At the core of CSTI's activities were efforts to build a strong foundation of tourism services in the north through basic training and consulting in business management, product development, marketing and promotion and customer service.

- Knowing that small tourism stakeholders lack the finances and know-how to participate in regional tourism fairs, CSTI escorted 15 enterprises and service organizations to two regional tourism fairs in Budva and Belgrade in February 2008. There they gained exposure to business practices and were instructed on networking and promotion as well as standards of professionalism.
- Years of functioning wholly or partially in the informal-economy have left many businesses unwilling to include value-added tax (VAT) in prices, or to provide business partners and customers with valid receipts. CSTI and MA continue to leverage their influence over businesses to encourage them to legitimize transactions, providing a service to both customers and the economy.
- In working with emerging entrepreneurs and associations, CSTI and MA provided valuable contributions to product design. In one example, an informal group expressed interest in preparing traditional *rostilj* (barbecue). Although known for grilling excellent barbecued meat, they had no experience in preparing complimentary fare such as grilled vegetables and other sides. CSTI and MA worked with these entrepreneurs to diversify their menu to meet the expectations of foreign tourists.
- As a business partner for hotels and alternative accommodation providers in the north, CSTI and MA encouraged business owners and managers to provide photos, specifications and pre-determined price lists for inclusion in national and international marketing materials and the MA website.
- One well-respected hotel in the center of a popular mountain town is known to provide comfortable accommodation and excellent fare. MA often sent individual customers to stay, however, recognizing the limitations of the hotel staff; a CSTI manager recently arrived in advance of a large tour group to coach the front desk clerk on how to improve the efficiency of their check-in procedures.

Promotion and Business Linkages CSTI and MA contribute to the education of international tour operators and tourists alike on existing attractions and services.

- CSTI has developed top grade promotional materials including brochures, pamphlets and two websites for CSTI and Montenegro Adventures – the latter www.montenegro-adventures.com will soon be equipped to take reservations, providing a critical new service to businesses in the north.
- Due to financial and foreign language constraints, most small businesses from northern Montenegro focus their promotion efforts on local and regional markets; CSTI and MA have broadened the visibility of northern



Screen shot of www.cstimontenegro.org.

Montenegro by representing more than 30 tourism stakeholders in the north at fairs in key European markets such as the UK, Germany, and the Czech Republic.

- To improve awareness of the north, and build the reputation of its service providers, CSTI leads familiarization tours for tour operators and journalists. One highlight was a ten-day visit by a journalist-photographer team from *National Geographic Adventure* which led to an article in the widely circulated travel magazine.
- The extensive research on tourism assets enabled CSTI and MA to contribute a great deal of content for the latest internationally-distributed *Bradt Guide* for Montenegro, which features 50% more pages on the north than in previous editions. Employees from both organizations are featured in the acknowledgements. Significant contributions were also made to *Montenegro in Your Hands*, which will be published in May 2008.
- During the 2007 season (April-September) CSTI and MA worked directly with a total of 224 local tourism entrepreneurs resulting in \$81,477 in income generated. Based on additional investments into product and service development and promotion, CSTI and MA expect this amount to double in 2008.

Case Study: Pilot Biking Initiative

Trend data shows that mountain biking is expanding globally and especially in Europe. Given Montenegro's rugged terrain, scenic vistas and proximity to the Europe Union, it is an ideal destination. The Ministry of Tourism and Environmental protection saw the potential and has launched a nationwide Hiking/Biking initiative to develop this segment of the tourism market. The current infrastructure and services available to mountain bike tourists are very limited. There are no designated biking trails in Montenegro and existing mountain tracks are of poor quality and are not well marked or maintained. There is also a lack of information on the expectations of mountain bike tourists. To better understand the potential for mountain biking tourism in Montenegro, CSTI together with the NTO and members of the Allgemeine Deutsche Fahrrad-Club (ADFC), a German Cycling Association, conducted a 14 day pilot bike tour culminating in a conference of stakeholders.

Beginning in early 2007, CSTI and the NTO began researching potential roads and trails around the country which met basic criteria for mountain biking tourism. Once tentative routes were selected, CSTI identified tourism service providers interested in participating in a pilot mountain biking initiative. CSTI worked closely with these service providers in refining the biking routes and adapting services to meet the needs of the ADFC cyclists. For example, following the trail assessment, the Zajovic family from the Ceranica Gora *katun* (mountain hut), expressed an interest in hosting the cyclists. Over the summer, CSTI worked with them on hospitality skills and helped them to improve their service standards for food and accommodation. In total, CSTI engaged more than 32 tourism service providers in preparing for and executing the tour.

Over two weeks, the cyclists covered more than 700 kilometers. The three-day conference that followed brought together key stakeholders to discuss the development of Montenegro as a mountain biking destination. The organizers sought to identify the current strengths and weaknesses of mountain biking infrastructure and services and to identify solutions. All participants shared the conclusion that the foundation of mountain biking tourism is high quality trails and signs, followed by adequate safety services and tourism products tailored to meet the specific needs of mountain bikers. CSTI plans to follow-up the tour and conference with tangible steps including designing mountain-biking tours for northern Montenegro, supporting existing mountain biking guides in improving their services, and continuing to work with entrepreneurs – like the Zajovic family in Ceranica Gora - to expand their ability to serve visitors.

Lessons Learned in Working with CSTI and MA

- Leadership is critical. A strong leader has been the driving force behind CSTI and MA's initial successes. She has also gathered a committed staff, with diverse talents and strong connections to the local communities leading to instant traction with entrepreneurs and other community representatives.
- Identify local champions early. CSTI and MA carefully mapped the assets of northern Montenegro recognizing leadership, talent and innovation at the local level and forming partnerships with these individuals thus encouraging local ownership over key activities and investments.
- Start small and stay focused. In the beginning, CSTI and MA ambitiously designed more than 40 tours incorporating a wide variety of tourism assets, activities and entrepreneurs. This process proved very time consuming and had limited appeal to customers, who instead requested custom tours.
- Think local first. Because northern Montenegro is an emerging tourism market, traditional source countries were unknown. CSTI and MA immediately targeted their promotional activities toward Western Europe, perhaps overlooking customers in Serbia, Albania and elsewhere in the region.
- Balance supply and demand. A key hallmark of CSTI and MA success has been their emphasis on expanding supply of tourism options while awakening demand in a largely unknown destination. Excessive program emphasis on developing the supply-side can result in dashed expectations of local stakeholders should tourists not show; while focusing on stimulating demand without improving service may lead to dissatisfied tourists and negative word of mouth.
- Complement business and NGO competencies. On one hand, local entrepreneurs perceive the development activities of CSTI as a benefit to their business relationship with MA, thus improving the agency's ability to provide business linkages. On the other, CSTI's affiliation with MA provided the credibility among businesses to offer consulting services, avoiding the common perception that NGO assistance does not result in tangible gains.
- One thing at a time. Establishing an NGO and for-profit business almost concurrently resulted in spreading resources very thin and drawing the attention of the leadership and staff in many directions. Although the NGO/Business balance of CSTI/MA has been critical to their success, future initiatives should provide adequate time to respond to the unique needs of each organization.

For more information on the work of CHF International and the Centre for Sustainable Tourism Initiatives on tourism development in Montenegro, please contact Christopher Brown, Country Director, at chris@chfcg.org or visit our websites at www.chfinternational.org or www.cstimontenegro.org.