

# Does Tourism Eco-Certification Pay? Costa Rica's Blue Flag Program

Eco-certification can generate private benefits for tourism operators in developing countries and therefore has the potential to improve their environmental performance.

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Tourism associated with beaches, protected areas, and other natural resources often has serious environmental impacts. The problem is especially acute in developing countries, where nature-based tourism is increasingly important and environmental regulation is typically weak. Eco-certification programs--voluntary initiatives certifying that tourism operators meet defined environmental standards--promise to help address this problem by creating a private-sector system of inducements, monitoring, and enforcement. But to do that, they must provide incentives for tourism operators to participate, such as price premiums and more customers. Rigorous evidence on such benefits is virtually nonexistent.

To help fill this gap, we examine the Blue Flag Program (BFP), an international program that certifies beaches and other tourist destinations, in Costa Rica. We focus on BFP because, as noted above, it is one of the most prominent eco-certification programs in the developing world. We study Costa Rica because it is a global leader in nature tourism and is struggling to mitigate the serious environmental damage this sector causes, particularly in coastal areas.

Our analysis aims to determine whether BFP certification of tourist beach communities generates significant private economic benefits for local hotels. We use panel data on 141 tourist beach communities in Costa Rica, compiled from a variety of sources, including the country's national tourism and census agencies and a geographic information system (GIS) on beach communities' geophysical characteristics. We use fixed effects and propensity score matching to control for self-selection bias. Data directly measuring economic benefits—for example, hotel occupancy rates and room prices—are proprietary and/or quite noisy. Therefore, as a proxy, we use new hotel investment, which is closely associated with expected private economic benefits. A finding that, all other things equal, past BFP certification spurs new hotel investment would indicate that local hotels expect significant private economic gains from certification.

### Key Points:

What are the causal links among BFP certification, private economic benefits, and hotels' decisions about where to locate new facilities?

- Hotels may locate in BFP certified areas because certification generates private economic benefits.
- BFP certification could also deter hotels from building new facilities or expanding existing ones.

## Conclusions

We find that past BFP certification has a statistically and economically significant effect on new hotel investment, particularly investment in luxury hotels. Our results suggest that certification has spurred the construction of 12 to 19 additional hotels and 1,158 to 1,628 new hotel rooms per year. The findings suggest that BFP certification has significant private benefits for local hotels. Although we have not tested it directly, we assume that the causal mechanism for the correlation has to do with signaling. Presumably, BFP certification gives tourists a credible signal of overall environmental quality of beach communities and therefore increases demand for hotel rooms in certified beach communities.



What are the policy implications of our findings? They provide some of the first evidence that tourism eco-certification programs can generate private benefits for local operators in developing countries. They suggest that these programs are apt to attract operators and at least have the potential to improve environmental quality. Moreover, they may boost local economies. These capabilities are particularly important in the developing country context, where conventional command and control environmental management tools are often if not typically ineffective and where concerns about economic growth often trump worries about environmental protection. One cautionary note, however, is that if eco-certification attracts new businesses, it also will put additional pressure on the environment and presumably on local communities' ability to meet certification standards.

## ABOUT THIS BRIEF

This brief is based on Blackman, Allen., María A. Naranjo, Juan Robalino, Francisco Alpizar and Jorge Rivera, 2012, "Does Tourism Eco-Certification Pay? Costa Rica's Blue Flag Program", Environment for Development Discussion Paper Series November 2012. EFD DP 12-13

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