

Feasibility Assessment and Proposal Formulation of a Certification System
for
Tourism SMEs

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1. Assignment background

In line with Samarth – NMDP program's aims to improve the underlying pro-poor performance of tourism in Nepal and usher in systemic changes to how the industry operates, the creation of a framework was needed to bring improvement in the standards (product and service delivery) and market performance of enterprises through certification of core tourism ventures, which will ultimately result in the increase of income for rural tourism workers and entrepreneurs.

The growth in value addition from core tourism ventures - accommodation establishments, food and beverage outlets, trekking & tour companies, guide services and others - is constrained by the lack of quality in their offerings. Lack of service quality, untapped opportunities for high value services, low price-quality induced overcrowding, degradation on food safety and hygiene and lack of proper safety measures have not only failed to add value in the industry, but seems to perpetuate cycles of unhealthy competition through price cutting. Tourism certifications are used internationally to inform tourists of a trusted supplier, and aim to develop logical and better enforced certification in Nepal is to provide a standard for quality product/experience to consumers while fostering responsible environmental, social and cultural behavior from industry stakeholders.

In this context, Siddharthinc was tasked to assess the feasibility of an appropriate certification system of tourism Small and Medium Enterprises (SMEs), develop SME certification standard criteria, and propose options for a certification process and operating modality. This short report outlines the progress that has been made so far on these deliverables.

2. Methodology

The survey was focused, as suggested in the scope of this project, on four service business sectors that includes accommodation provider (Room & Board), food and beverage, tour operators & trekking agencies and guides. The respondents for the survey for the feasibility study of the certification was divided into three categories; Small and Medium Enterprises (SMEs), Intermediaries and Regulators. Among three categories, we conducted the interview with 71 SMEs in 7 districts, 10 intermediaries, and 10 regulators. In addition, we conducted 6 focus group discussions trying to include SME's, intermediaries and regulators of all four sectors. Given the overarching nature of the project, the following survey strategy was pursued based current best practices in different sector of Tourism industry.

Siddharthinc collaborated with a loose civil society network of Himalayan communities, StoryCycle, NCCS College and volunteers from the National Volunteering Programme (led by Himalayan Climate Initiative), to help identify businesses in selected areas and gather data.

The survey collected data from the representatives from the below categories from all four sectors.

1. Sector leaders
2. Intermediaries
3. Regulators

1. Sector leaders

Leaders who are known in their sectors as trend setters. They self-regulate their establishment to ensure that the both tangible and intangible services that they provide are of high quality and standard.

2. Intermediaries

This group would include associations that represents the sector and provide support and guidance to the sectors in terms of sustainability and social responsibility. These intermediaries can provide the information on current best practices and influence/support implement standards and certifications.

3. Regulators

Regulators can be both government or non-governmental bodies who would can influence, enforce standardization regulations.

The questionnaires were prepared after completing a FGD with a group of sector leaders, educators of hospitality industry and independent regulators. The suggestions and sample questionnaires were collected from these individuals to prepare all three sets of questionnaires.

3. Survey Summary and Focus Group Discussions

The summary of the collected information is stated briefly below.

a. Small and Medium Enterprises (SME):

SMEs believe that certification could be an appropriate tool to promote their business and it will also impel higher food and service quality. It is believed that public relation can be accelerated with certification. Trekking guide states that certified trekking guides get more job compare to uncertified guides. Clients/Customer gets attracted on seeing the certified agencies to others.

There is both positive and negative opinion regarding certification as a way to quality standardization. Certification means being responsible and when we get certified our every kind of performances are evaluated which takes us to the route of standardization. Certification plays an important role to in standardization and helps to maintain quality. It also compels management to ensure the quality of their service and products. It makes easy to gain trust and confidence of the client/customer towards their respective product and service. On the other hand side, the performance of an organization is the key for quality service more than the certification itself says some of the respondent. The management policy, performance of staff, owner's investment are the main factors for standardization rather than certification. The good management policy, satisfactory performance of staff and adequate investments by the investors are supportive elements for certification.

Regarding an approach for implementation, everyone must be made aware of the benefits of getting certification. The certifying companies should create awareness regarding the importance of certification by giving attractive facilities to the registered members. The certification process must be reliable, easy to obtain and customer friendly with less complexity. Certification is not a one-time activity, rather it is a gradual process, thus certifying agency must monitor certified agency on a regular basis. For sustainability, the local level certification program should be designed. SMEs state that quality food/service, cleanliness, sanitation and

hygiene environment, clean drinking water, security, basic safety and proper communication skills related to trade are the non-negotiable standards.

The major challenge for implementing standards in terms of SME's are a lack of knowledge, basic facilities and resources like; electricity, good road, enough fuel, clean water, security. It is believed that such services should be provided by the government and that the standards cannot be maintained without such facilities. Also, it is difficult to maintain standards when the guest volume is low. Additionally, in terms of infrastructure when the roads are built, and unmanaged trekking routes directly affect the volume of trekkers in the area as it discourages tourists from trekking. Among others, lack of skilled manpower, unhealthy competition between SMEs, lack of proper regulation and monitoring, a back transaction between guest and employees are other challenges for maintaining standards.

There are some challenges to implement certification, but it can be overcome. It is mentioned that government should now allow tourist to be FIT (Free Independent Traveller) rather, a compulsory guide system must be set for every tourist. Proper facilities must be provided by the regulators and timely inspection of every department. Corruption should be controlled; rural area infrastructure should be developed. Basic facilities like continuous electricity, safe drinking water, waste management, proper road, healthy vegetables and other products should be provided and inspected by the respective agencies. The government must design a proper policy and set the limitation for the travel and tour operators like removing syndicate, making reliable trekking routes.

b. Intermediaries:

The intermediaries state that organizations must be registered with the government bodies such as small and cottage scale industries, Company Registration Office, VAT/PAN, and tourism office, so that it would be easy to work in collaboration and also provide certification.

Intermediaries go for regular monitoring in a random way. They have a certain checklist for inspecting the services and facilities provided to the guest. The monitoring is carried out on a request basis as well. Few examples of the intermediaries of Nepal are affiliated with following international organizations:

- Union of international alpine association
- International Hotel and Restaurant Association

- Bilateral relationship with other hotel associations in world
- UFTAA
- ILO, ITA

It is found that intermediaries follow international standard protocols, although it is not compulsory to follow. They also follow the HACCP (Hazard Analysis Critical Control Point) protocol and basic CTEVT (Council for Technical Education and Vocational Training) protocols. Some intermediaries' states that they don't follow international protocol as it is not compulsory. They follow rules and regulations of district administrative office, Government of Nepal.

They provide regular training on hygiene, kitchen, marketing to SMEs. Similarly, they are also providing training to member organizations to improve and manage their business. There are no such incentives but they provide a letter of appreciation to participants and member organizations. Most importantly, they also provide information regarding organization management with government requirements like VAT, and Taxes.

According to the intermediaries, there are always challenges to implementing certification and standards and challenge varies with urban and rural locality. It is said that there are no particular challenges in urban areas as the people in urban areas easily understand the importance of certification and standards. In a rural area, the lack of basic infrastructures and lack of understanding are the major challenges.

On an opinion of certification as a roadmap for quality standardization, it is said that certification helps to develop tourism business. It helps to increase the business if they could promote their business using this certification as a tool to gain the confidence of customer/clients. Certification is the best way for standardization as it adds responsibilities and also motivates the organization to move toward better quality service. Certification helps in solving problems and it also creates a certain responsibility to bring organization under one roof which creates a healthy competition. As per intermediaries, certification is also the basis for existing and potential customers to rely on the safe and quality experiences and fulfilling of the expectations of tourists

Currently, intermediaries are not giving certification to SMEs. Regarding the feasibility of standardization, it is quite difficult due to lack of even basic infrastructures like regular electricity,

fuel, transportation, and communication system. It is believed that it is moderate to monitor standardization in urban but difficult in a rural area due to lack of transportation and other basic facilities.

All the respondents/intermediaries whom we interviewed believe on feasibility to use certification as a way to standardization. As an approach, the registration process should be easy and tourist visa should be easily accessible. It is expected that regulators must come up with the ideas regarding certification and standardization. Some of the example areas that would require standardization stated by the intermediaries are as follows

- Food and water sanitation
- Infrastructure safety and sanitation (Hotels, restaurants, lodges, guest houses and homestays, trails etc.)
- Safety and Information
- Personal Hygiene standards
- Service Procedures
- Good environment, family behavior, respect, maintain good price

In order to maintain a basic non-negotiable standard, it is said that well-trained staff is a must. The regulators must set a limitation on the basic products and must also make a list of the items to be used by the organization. Committee should be formed for discussion, planning and implementation of hygiene standards at all level. Awareness program regarding standards and certification is a must. Success models of implantation should be shared with the mass public. Various training should be given to mountaineering trekking guide and porter. Similarly, clean and hygienic products must be used and service standardization should be done.

Some key factors that need to be addressed to move towards standards are listed below:

- Accessibility to resources (Skilled human resources, electricity water, etc.)
- Pricing strategy to minimize destructive market competition
- Relevant training in the respective field
- Support system that allows SME's to maintain standards
- Create demand through consumers

Current market rate is increasing with the decrease in the standards. One group believes that it will not make any difference in the tourism sectors, but there is another view that the current market rate is set according to the level of service provided to the guest, so it probably affects the standard. The current market is highly sensitive to price. If the standards add significant cost to the business, the businesses will be reluctant to take the certifications. It is believed that the price should be reduced a bit and focus should be given in facilities to improve the market rate. It was said that it is necessary to maintain market rate, behave friendly to visitors, polite speaking than we can change and improve the standards.

c. Regulators:

Regulators state that it is important for the industry to get standards because the growth of tourism economy is directly related to the standards. The industry with standard helps in the financial and infrastructural growth. It is important as it helps in the flow of quality tourists. It is very much fruitful and important as the industry-wide standards not only help the organization but also ensures the public health.

Currently, regulators are giving food safety, packaging, cooking, serving, and food handling training. They are also conducting a program on tourism standards. Bhaktapur Municipality has been working for the development of basic infrastructures, and facilities for the tourists such as constructing bus park, toilets, information Centre, clean environment, social and cultural developments. They mostly work as a facilitator and support body to the business entity. They have a very important role as they are the sole government body that inspects the standards and quality of food and hygiene in the nation.

It is a compulsion for stakeholders to follow the list of regulations that are mentioned in the book and those who violate the regulations are brought into the investigation. There are some inspection programs to monitor the organizations relating to hotel and tourism. It is possible to maintain the standard if every organization agrees to distribute the duties otherwise many obstacles are seen in implementing standards. Some of the non-negotiable products for standardizations are listed below:

- Basic safety and sanitation element that directly impacts consumers (water, food, Infrastructure)

- Knowledge of place, environment, language, culture, awareness about cultural activities (Tourist guides)
- Personal Security (All Sector)

Organization in urban areas tend to be very much complex as they feel they know better than the regulators, so they do not try to cooperate. Lack of awareness and basic infrastructures is the major challenges in the rural area. Due to lack of awareness about the Quality and Standards, people do not cooperate to maintain a level of standards in rural areas.

Certification is a good idea as it will help to improve the standard of the service in the industry. But still, it depends on upon the level of work that specific bodies could carry out. Also, it cannot be claimed that certification is the only tool to standardization. The feasibility of implementation varies from location to location. It is said that urban area is moderate for implementation whereas it is difficult in rural areas. Regarding monitoring, it is feasible to monitor but we need to work extra hard in rural areas. It also depends on the community and the type of people but overall it is feasible.

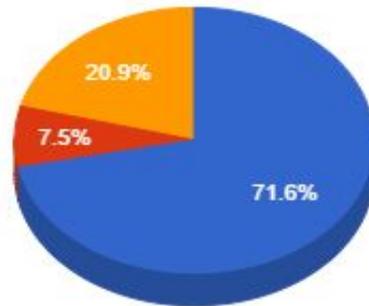
Both tangible and intangible service quality are important to bring under standardization. Regular inspection, motivation, and direction of the standard should be done. The right should be provided to the particular person or organization who gives certification. It should monitor whether the standard of food, service, cleanliness has to be maintained or not and should be given the right to take necessary legal actions including the right to cease. Till today, the organizations are basically focusing on profit but along with profit, they must be self-motivated towards maintaining the basic level of standard.

d. Collectively

In terms of certification as a feasible option to raise the standards, the majority of the surveyed were positive about its implications. Some were concerned about the gap that certifications can create between the enterprises who can afford to upgrade and those that cannot. The skeptics suggested that incentive and support programs are needed for SMEs to help raise their service quality. There was a consensus among the surveyed that certification cannot substitute for good business practices

Is certification feasible?

- Yes
- No
- Not sure



Feasible with some of the following comments

- Should begin with registration
- Should be easily accessible
- Should be reliable and monitored timely
- Should be properly marketed
- Should be properly categorized
- Should be regulated by reliable body, preferable government body

4. Possible options for certification

- a. *Self-regulating certification*: The case (as in the form of self-regulated disciplinary and voluntary code of ethics) when SME's declares that it meets all required criteria of standards but no one from outside check the claim.
- b. *Consumer certification*: The case where the feedback mechanism from client decides when SME's meets the standard criteria receive the certification.
- c. *Intermediaries Certification*: The case where intermediary organization take upon themselves to grant, regulate and monitor certification
- d. *Regulator Certification*: The case where government body take upon themselves to grant, regulate and monitor certification using various medium such as licensing.
- e. *Public and private partnership Certification*: The case where a core group is formed which includes representation from all three categories (SME', local or national intermediaries, local or national government bodies) who grants and regulates certification process
- f. *Third party Certification*: The case when a neutral, independent body clearly defines the criteria for standards and also grants and regulates it for profit.

5. Certification Process

The initial responses from the surveyed that certification can raise industry standards was positive; SMEs seemed open to the idea. However, there were numerous concerns from all sectors and areas that need to be addressed for the implementation of certification program to be successful. It is worthwhile to note that most concerns have arisen from responders misunderstanding what certifications were, and the link between standards and pricing. Below are prominent concerns we distilled from survey responses:

Awareness: Enterprises and regulators were not aware of importance and advantages of standardization and how consumers tended to respond to standards. Awareness of foodborne illnesses seemed most lacking. Stakeholders are also not able to directly identify what standards from the tourism industry can be applicable to any particular enterprise.

Policy: All stakeholders mentioned that there was a clear lack policy to support the stakeholders in their efforts towards higher industry standards and to enable them to coordinate. Alongside,

not only are clear standards for industry standards missing, but also missing are clear standards in terms of infrastructure safety and disaster preparedness.

Resources: Stakeholders claimed there was limited institutional capacity and lack of resources for implementing and monitoring standards. Quality control also suffers because of lack of resources in terms of incentivizing and penalizing enterprises. There is also a stark lack of public infrastructure required to serve basic human necessities of tourists (bathrooms, rest areas, information centers) that can contribute to and set examples of standards and quality required in the industry.

6. Possible Interventions and actions forward

The road to certification would require an effort from enterprises, regulators, and business intermediaries at different levels of governance for proper implementation. It is therefore vital for all of them to understand the intention and importance of process. Yet, supply side interventions are not enough and so the demand for higher standards, and hence certification, is needed from consumers and will contribute in outlining the ever-increasing standards for the industry and its monitoring. Some actions to proceed in the path to certification can be as such:

Consumer Awareness Campaign

Increasing the demand from the consumer for the quality product and services creates a pressure on enterprises to meet the type of services standards that their customer is expecting. Domestic consumers tend to be the biggest buyers of SMEs' products and services and thus an awareness campaign to raise consumer consciousness must start with them. Domestic consumers can be reached through multiple media sources and be informed and educated on the potential harms that can arise from compromising on non-negotiable standards of food and water quality, health and hygiene, and infrastructure safety. Consumer awareness to high school students and colleges can also be considered as cheap investments for the long run.

A media campaign can be initiated with the help of TV shows and radio programs. Fliers and notice boards can also be used at the airport and major tourist hubs to make consumers aware of the various standards that exist and how they are signaled by enterprises. Specific agencies such as the MoCTCA (Ministry of Culture, Tourism and Civil Aviation) or the health department

can also lead awareness programs. Consumers need to be engaged with incentive systems that reward consumers for choosing enterprises with good standards, as well as a feedback system through which consumers can help regulating agencies monitor businesses.

Awareness by increasing digital footprint can also be a very creative and effective way to raise the awareness among the consumers. A formalized process to create a digital footprint with necessary information can be set up which can be used as tool to educate entities in all sectors.

Regulators Awareness efforts: It is important for SMEs to have the right support from the regulators to run their businesses ethically and optimally. Regulators must be aware of the correlation between the quality of service - based on safety, sanitation, hygiene, etc. - and price. This will allow regulators to make more informed decisions while preparing policies and regulating SMEs, and ultimately providing support and guidance to help enterprises set right prices for particular levels of quality. The lack of awareness of the needed industry standards is directly impacting the regulators in designing incentives and amenities that support the industry. Focus group discussions and/or workshops with current and potential regulators can contribute to outlining next steps.

SMEs and Intermediaries awareness campaigns: Awareness among the service providers and the supporting intermediaries on how increasing the quality of service can bring in higher paying clients could help the enterprises to raise profit levels. Enterprises, through intermediaries, need to be made aware of the standards defined in terms safety, sanitation, and hygiene, personal services, cross contamination and foodborne illness and others, which are applicable to them. The timely FGD's, workshops and media announcements, consumer feedback tools can be used to bring awareness in this sectors.

Institutional body to identify standards and coordinate with regulators

Regulators and business intermediaries need more engagement with each other to help identify who will be responsible for approving and monitoring certification of standards. They may also choose to set up a new body that helps with the coordination. Such a step is needed to identify what certifications are feasible, the criteria for certifications, which levels regulators will operate at (local, federal, national), what incentive and penalties can be instituted, what and how can consumer and enterprise awareness campaigns be conducted, etc. Coordination between

various regulators, jurisdictions, and intermediaries is absolutely vital in the path towards certification.

Benefit identification: For the certification program to be successful requires major contribution from all three level of shareholders/stakeholders (SME's, Intermediaries, Regulators), it is mandatory to identify benefits, incentives and penalties for all involved. Focusing on incentives and benefits is more likely to work than focusing on penalties.

Establishing examples

Seeing is believing. Establishing good standards and certification work in a few cities can serve as examples to others. The city of Bhaktapur could be an excellent starting city. Representatives of the city are already very welcoming and positive about such an idea. After Bhaktapur, the idea can be extended to Syabrubesi, Rasuwa, Pokhara, Gorkha and Lumbini . Cities can also establish well managed public infrastructures such as restrooms, information centers, health centers, and communication centers to complement the new standards in the city's enterprises. These are particularly important near transportation stops and heritage sites.

Defining non-negotiable quality of service standards for all four sectors

The survey reveals that the all four sectors lack the proper and common definition of standards that SME's could relate to. Therefore, one of the actions can be defining non-negotiable standards will provide SME's with the par that needs to be pursued without confusion. This non-negotiables can be iterative and time tested.

Training program

One of the key findings of the survey is that there is huge need of skilled human resources to begin with to raise and maintain the standards. Hence, one of the interventions to raise the standards can be offering trainings to build the capacity and raise the market of of skilled human resources.