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Financing Development of Tourism in Croatia through Future Flow Securitization

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Abstract: The trend of rapid development in the tourist industry set by international tourist demand provides opportunities for various entrepreneurial initiatives and investment in a continuously growing sector. Tourism cannot develop without strong financial instruments of any kind. It needs expensive projects and investments in infrastructure, accommodation capacities, objects and human resources. Foreign experiences show that besides long-term bank loans, there are other sources of financing which are not present or recognized enough. One of the newest financial instruments is securitization based on future revenues from tourism. It is one of the most exciting areas of application of securitization, particularly from emerging market countries. Securitizing future receivables from tourism can allow the country borrowers with good credit to overcome sovereign credit ceilings and raise financing in international capital markets. It allows the originator to borrow more than under traditional funding methods, as well as at lesser cost. Securitization also allows issuers from developing countries to lengthen the maturities of their debt, improve risk management and balance sheet performance, and tap a broader class of investors. From investors' point of view, the attractiveness of this asset class lies in its good credit rating and its stellar performance in both good and bad times.

Keywords: securitization, future-flow receivables, tourism, development

JEL Classification: G200

Introduction

Over the past 40 years, tourism has become the major activity in our society and an increasingly important sector in terms of economic development. It forms an increasing share of discretionary income and often provides new opportunities for upgrading the local environment. (Giaoutzi and Nijkamp, 2006). International tourism is one of the most expanding fields of the world economy. Europe and

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particularly Mediterranean is one of the most important tourist destination and major tourist market.

The World Tourism Organization predicts a 3% annual growth rate for the Mediterranean, where Croatia is recognized as one of the countries with the highest growth rates in terms of international tourist arrivals - 8, 4% (WTO, 2006).

The Croatian National Bank's figures show that international tourism generate 18, 4% of Croatian GDP (HNB documents, 2007). International tourism accounted for a 39, 2% share of total exports of goods and services, and for 74, 5% of total exported services.

The European and world tourism industries are in a process of change. First, the polarization of incomes in Western Europe is likely to lead to disproportionate increase in demand from the more wealthy segments of society. This will probably add to the relative stagnation of mass tourism and to the demand for new tourist activities and destinations. Second, economic convergence within the EU is contributing to the growth of tourism markets in Southern Europe. Third, there is the growing presence of Central and Eastern Europe on the tourism scene. One of the issues for the future is the creation of governance structure for tourism, which embraces efficiency and equity interests. (Williams and Shaw, 1998)

Investments in high quality tourist facilities that provide new jobs are a priority. The trend of rapid development in the tourist industry set by international tourist demand provides opportunities for various entrepreneurial initiatives and investment in a continuously growing sector.

The Republic of Croatia holds stakes in 153 companies engaged in tourism and catering. It is 28% of total authorized capital. The privatization of hotel and tourist companies in state ownership will continue. Croatian government itself has raised priority of development of tourism, main goals being:

- to profile Croatia as one of the best tourist destination in the Mediterranean and Europe
- to increase earnings from tourism, as it belongs to the group of the most profitable industries (by raising spending in tourism, especially the so-called non-room-and-board consumption and by extending the season).

Tourism 2020 Vision is the World Tourism Organization's long-term forecast and assessment of the development of tourism up to the first 20 years of the new millennium. An essential outcome of the Tourism 2020 Vision are quantitative forecasts covering a 25 years period, with 1995 as the base year and forecasts for 2010 and 2020. Experience shows that in the short term, periods of faster growth (1995, 1996, 2000) alternate with periods of slow growth (2001 to 2003). While the pace of growth till 2000 actually exceeded the Tourism 2020 Vision forecast, it is

generally expected that the current slowdown will be compensated in the medium to long term. (UNWTO 2007).UNWTO's Tourism 2020 Vision forecasts that international arrivals are expected to reach nearly 1.6 billion by the year 2020. Of these worldwide arrivals in 2020, 1.2 billion will be intraregional and 378 million will be long-haul travelers.

The total tourist arrivals by region shows that by 2020 the top three receiving regions will be Europe (717 million tourists), East Asia and the Pacific (397 million) and the Americas (282 million), followed by Africa, the Middle East and South Asia. East Asia and the Pacific, Asia, the Middle East and Africa are forecasted to record growth at rates of over 5% year, compared to the world average of 4.1%. The more mature regions Europe and Americas are anticipated to show lower than average growth rates. Europe will maintain the highest share of world arrivals, although there will be a decline from 60 per cent in 1995 to 46 per cent in 2020.

Table 1: Market share and annual growth forecast

	Base Year 1995	Forecast		Market share (%)		Average annual growth rate (%)
		2010	2020			
	(Million)			1995	2020	1995-2020
World	565	1006	1561	100	100	4.1
Africa	20	47	77	3.6	5.0	5.5
Americas	110	190	282	19.3	18.1	3.8
East Asia and the Pacific	81	195	397	14.4	25.4	6.5
Europe	336	527	717	59.8	45.9	3.1
Middle East	14	36	69	2.2	4.4	6.7
South Asia	4	11	19	0.7	1.2	6.2

Source: WTO statistics, 2007

Long-haul travel worldwide will grow faster, at 5.4 per cent per year over the period 1995-2020, than intraregional travel, at 3.8 per cent. Consequently the ratio between intraregional and long haul travel will shift from around 82:18 in 1995 to close to 76:24 in 2020.

The year 2007 exceeded the expectations for international tourism with arrivals reaching new record figures close to 900 million. The results confirm both the

sustained growth path of the past years and the resilience of the sector regarding external factors. This development has been supported by a strong world economy, which has experienced its longest period of sustained growth for more than two decades (UNWTO, 2007). Economic and tourism growth are driven by emerging markets and developing economies. While mature markets remain the leading destinations in the world, the faster growth rate of new markets confirms UNWTO's main message of tourism's potential for the developing world.

Of the additional 52 million worldwide arrivals, Europe received some 19 million and Asia and the Pacific 17 million. The Americas was up by around six million, Africa by three million and the Middle East by five million.

All the different regions registered increases above their long-term average, with the Middle East leading the regional growth ranking (+13%), followed by Asia and the Pacific (+10%), Africa (+8%), the Americas (+5%) and Europe (+4%) (UNWTO, 2007).The Middle East totaled 46 million international tourist arrivals and continues to be one of the tourism success stories of the decade so far, despite ongoing tensions and threats. The region is emerging as a strong destination with visitor numbers climbing much faster than the world total, with Saudi Arabia and Egypt among the leading destinations in growth in 2007.

The world's largest destination region with a share of over 50% of all international tourist arrivals, Europe is growing above average and totaled 480 million tourists in 2007. Destinations like Turkey (+18%), Greece (+12%) and Portugal (+10%) or Italy and Switzerland (both at +7%) are proof of the positive impact of the continued economic pick-up of the region in 2007.

World Gross Domestic Product (GDP) has experienced its longest period of sustained growth for 25 years, with figures around or above 5% since 2004. Particularly emerging markets and developing economies are driving the global GDP for the most part of this decade. This also correlates to their behavior as emerging tourism destinations, which on average nearly double the growth of destinations in high-income countries.

For 2008, confidence remains high, although this perception might deteriorate. Economies worldwide have shown increased volatility and confidence has weakened in some markets due to uncertainty about the sub prime mortgage crises and economic prospects, in particular for the USA, alongside with global imbalances and high oil prices.

International tourism might be affected by this global context. But based on past experience, the sector's proven resilience and given the current parameters, UNWTO does not expect that growth will come to a halt.

Financing Investments in Tourism

Travel and tourism have today become the biggest world industry in which many countries are aware of the possibility to solve the problem of unemployment, to increase exports and stimulate investments (Bartoluci, Čavlek, 2007).

To implement the tourism development policy in a way to achieve the goals set, it is necessary to create new types of offerings and products in tourism, to raise the quality of accommodation, catering and other services in the tourist industry while protecting the environment, cultural and historical heritage.

The main problem is – where to find adequate funds to finance the development of tourism. Common ways of capital raising are through debt and equity. Generally, an equity investment would enable a shareholder (1) to receive an income return in the form of dividends paid out of post-tax profits, (2) to receive a repayment on the investment on the winding up of the company, limited to any surplus funds from the sale of assets after settlement of all other prior claims and (3) to vote at a shareholder’s meeting. Equity investment could be done through initial public offerings (IPO), right issues and warrants. Some of disadvantages of IPO are the upfront and ongoing financial costs, the stock exchange s requirements, the change in management style, and the threat of an unwelcome takeover. (Agar, 2005). Debt finance allows a company to raise funds at lower costs than equity, and have more flexibility when managing the pool of capital. It can be repaid, refinanced, restructured or synthetically altered using derivatives, for example. It can enhance the return on equity via leverage effect.

Investors in tourism across Europe are keen to buy hotels, although the sentiment decreased in importance compared to the previous years, shows the survey made by Jones Land LaScalle Hotels, one of the world’s leading investments services firms.

Historically favored buy markets such as Paris, London and Amsterdam are joined by Zagreb, Lisbon, the French Riviera and Brussels. High levels of competition and decreasing yields in major gateway cities are driving investors to alternative cities in Europe. (HISS, 2006). The turmoil in the debt markets in 2007 did initiate an immediate effect on hotel investments and has the potential to spiral into a wider slowdown of transactions, mostly driven by a self propagating negative sentiment, which could fundamentally be ill founded. Investors may need to take a slightly longer-term view than the short hold periods which have become the norm in recent years. Encouragingly, Hotel Investors Sentiment Survey results for 2007. show more investors willing to sell assets, up 4.4% from June 2007, however, for every seller we continue to have over two buyers. (HISS, 2007).

Securitization as a New Financial Instrument

Securitization in its widest sense implies every such process, which convert a financial relation into a transaction. (Kothari, 2006). It is a structured finance process in which assets, receivables or financial instruments are acquired, classified into pools, and offered as collateral for third-party investment. It involves the selling of financial instruments which are backed by the cash flow or value of the underlining assets. It is a fairly recent financial innovation. The first securitized transactions occurred in the United States in the 1970s and involved the pooling and repackaging of home mortgages for resale as tradable securities by lenders. Since then, securitized markets have grown in sophistication to cover a wide range of assets. (Ketkar, Ratha, 2001).

Securitization typically applies to assets that are illiquid. In real estate industry, it is applied to pools of leased property. In lending industry it is mostly applied to lender' s claims on mortgages, home equity loans, student loans and other debts. Assets which are to be securitized have to be associated with a steady amount of cash flow. Securitization utilizes a special purpose vehicle (SPV) in order to reduce the risk of bankruptcy and thereby obtain lower interest rates from potential lenders. For an issuer there are advantages such as: reducing of funding costs, reducing of asset-liability mismatch, lower capital requirements, risk transfer, earnings and liquidity, But it could also has some disadvantages like reducing of portfolio quality, costs, risk of prepayment, as well as credit loss. Investors have opportunity to earn a higher rate of return and portfolio diversification.

In Europe, securitization issuance reached 440 billion euros in 2006. Outstanding estimates for securitization was 1.28 trillion euros as of 30 June 2007. Mortgage-related markets accounted for 70.2 percent of total issuance. (Angheben, 2007).

Securitization of Future Flow Receivables

It is one of the most exciting areas of application of securitization, particularly from emerging market countries. It has a relatively short history in developing countries. A number of Latin American, African and emerging market originators have future flows securitization to be attractive as a device for offshore funding. (Ketkar, Ratha, 2001). Mexico was the first country to securitize future flows of telephone receivables in 1987.

In a typical future flow transaction, the borrowing entity (originator) in a developing country sells its future products (receivables) directly or indirectly to an offshore Special Purpose Vehicle (SPV), which issues the debt instrument.

Designated international customers (obligors) are directed to pay for the goods they import from the originator directly into an offshore collection account managed by a trustee. The collection agent makes principal and interest payments to lenders. Any funds left over are forwarded to the originator.

Sovereign transfer and convertibility risks are mitigated because the borrowing entity has obtained a legally binding consent from designated customers that they will make payments to the offshore trust; bankruptcy risk is also decreased in such transactions because SPVs typically have no other creditors and hence cannot go bankrupt. Of course, there is always a risk the originator will go bankrupt. Lenders can reduce this risk by favoring originators with high credit ratings for domestic-currency debt and a strong ability and willingness to produce and deliver the products that generate the receivables. Rating agencies have come to accept the argument that an entity may continue to generate receivables even when it is in financial default. While securitization may not be of much help to sub-investment -grade borrowers in developing countries, it can help investment-grade issuers (in local-currency terms) to pierce the sovereign credit ceiling on long-term external debt.

Although market risk arising from price and volume volatility, which may cause cash flow to fluctuate, cannot be totally eliminated, it can be mitigated through excess coverage or over collateralization. Typically, product risk is easier to control for commodities like oil, gas, metals, and minerals, for which there is demand from many diverse sources, than for custom-made products unless long-term sales contracts are enforceable.

Based on their assessment of performance, product, and sovereign risks, the rating agencies have ranked future flow receivable transactions from most secure to least secure (Table 2). But it is possible to securitize even the least secure future flow receivables. Of course, the lower in the hierarchy they are, the more future flow receivable transactions require safeguards to improve their credit ratings. Insurance companies are playing a growing role in structured finance transactions by providing complete financial guarantees.

The innovative structure of these transactions has allowed many investment-grade borrowers in developing countries to obtain financing at much lower interest rates than their governments. Securitization also allows issuers from developing countries to lengthen the maturities of their debt, improve risk management and balance sheet performance, and tap a broader class of investors—for example, insurance companies facing limitations on buying sub-investment-grade debt. Moreover, by establishing credit histories for borrowers, these deals enhance borrowers’ future ability to access capital markets and reduce their borrowing costs.

Table 2: Ranking of future flow-backed transactions

From most secure to least secure
1. Heavy crude oil receivables
2. Airline ticket receivables, telephone receivables, credit card receivables, electronic remittances
3. Oil and gas royalties, export receivables
4. Paper remittances
5. Tax revenue receivables

Sources: Standard and Poor's Rating Services; Fitch IBCA, Duff & Phelps

From investors' point of view, the attractiveness of this asset class lies in its good credit rating and its stellar performance in both good and bad times. Although there is a lack of information on secondary market prices and spreads for securitized debt, because it is traded so infrequently, the information available suggests that prices and spreads tend to be less volatile for future flow securities than for unsecured debt from developing countries.

Future flow asset-backed debt has not yet been severely tested because it still represents a very small percentage of total debt. So far, given the low volume of future flow issues, the pledging of future assets has not affected the cost or rating of unsecured debt. But there are obviously limits to the amount of future exports that can be pledged.

Latin American issuers dominate the market for future flow securitization. Mexico alone accounts for over one-half of asset-backed transactions in nominal dollar terms; Argentina, Brazil, and Venezuela account for another 34 percent.

Although nearly one-half of future flow transactions, in dollar terms, are backed by oil and gas export receivables, non-oil deals account for a much larger number of transactions. The asset class has demonstrated an enormous scope for creativity: recently, credit card and telephone receivables, workers' remittances, tax receivables, and even export receivables to be generated by developing new investment projects have been securitized.

Fuel and mineral exports of low- and middle-income countries totaled $196 billion and $63 billion, respectively, in 1998. Using a conservative 5:1 over collateralization ratio—that is, only one dollar of debt is issued for five dollars of receivables—the volume of securitization supported by future fuel and mineral export receivables, based on 1998 data, could reach nearly $52 billion a year. Adding securitization of remittances raises this amount to $56 billion annually. This calculation excludes credit card vouchers and telephone receivables, which could add another $8 billion a year (not shown in the table). (Ketkar, Ratha, 2001).

The estimated potential for future flow securitization from developing countries in Latin America and especially in Eastern Europe and Central Asia appears greater than current issuance might indicate. Countries in the Middle East have large oil receivables. In South Asia, the potential for securitization lies in remittances, credit card vouchers, and telephone receivables.

Several constraints, however, have prevented the realization of this potential. A major constraint on the growth of future flow transactions is the paucity of good collateral in developing countries. The paucity of good collateral is also reflected in the absence of high-quality public and private issuers in developing countries. Securitization deals tend to be complex and involve high preparation costs and long lead times. The lack of legal clarity on bankruptcy procedures in many developing countries further complicates these deals.

Governments may find this asset class attractive because it can provide a way of accessing markets during liquidity crises. Because of their investment-grade rating, future flow deals attract a much wider class of investors than unsecured deals. Thus, future flow deals can improve market liquidity and reduce market volatility, making them even more attractive to international investors in other asset classes. For many developing countries, securitization of future flow receivables may be the only way to begin accessing international capital markets. (Kothari, 2006).

An equally important incentive for governments to promote this asset class lies in the externalities associated with it. Future flow deals involve a much closer scrutiny of the legal and institutional environment—the existence as well as the implementation of laws relating to property rights and bankruptcy procedures—than unsecured transactions. Thus, these deals can produce enormous benefits by making valuable information available to investors. In addition, the preparation of a future flow transaction often involves reforms of the legal and institutional environment that facilitate domestic capital market development and encourage international placements, as the Brady bond deals did in the early 1990s.

The distinguishing feature of future flows securitization is the fact that the asset being transferred by the originator is not an existing claim against existing obligors, but a future claim against future obligors. In other words, the claims are yet to be created, against obligors who are yet to be identified. Examples can be: export receivables (normally crude exports), future royalties, hotel revenues, sports receivables, etc.

Most of the future flow securitizations are by originators from emerging markets, whose offshore borrowing abilities are stymied by the sovereign rating of the country where the originator is stationed.

Future flow securitization essentially aims at piercing the rating of the sovereign and having a security of the originator rated above the rating of the sovereign.

The only right the sovereign has is the right of redirecting the exports, which can always be rated.

Motivations in Future Flow Securitization

An originator in a future flow securitization would look essentially at two motivations:

- does it allow the originator to borrow more than under traditional funding methods;
- does it allow the originator to borrow at lesser cost than under traditional funding methods.

There is no certain answer to either of these two questions, but the economics of any future flow deal should be tested on the above. It is possible that a future flow securitization may allow the originator to borrow more, since, while a typical traditional lender looks at the assets on the balance sheet (say, receivables which have fallen due), a future flow investor looks at receivables which are not on the balance sheet. A future flow transaction may even allow the originator to borrow at lesser costs, for reasons discussed above, particularly in case of cross border financing.

Risks in Future Flows

While future flows securitizations try to minimize the risk hinging on the sovereign, they do not minimize the following risks:

Performance risk: Every future flow securitization is subject to performance risk, that is, the risk of the originator continuing to be in business, produce, and, as in the example above, export. While this risk cannot be avoided, a future flow transaction must certainly put in two mitigants: First, the receivables in question must be such which arise out of an existing framework, and with a minimal performance by the originator, the framework can result into receivables. Second, the receivables in question must sufficiently over-collateralize the investor's outflow, so that in an apprehended event of default, an early amortization trigger may save the transaction. Early amortization triggers have saved certain transactions during the Asian currency crisis.

Bankruptcy risk: Future flows securitizations cannot be bankruptcy remote, as existing asset securitizations can be. This is easy to appreciate as at any point of time,

the assets in existence, that is the receivables that have been created, are not enough to liquidate the investors' claims.

Securitization in Croatia

Most developing countries lack ready access to international capital markets, while those with access are prone to crises. (Rotha, 2002). In Croatia neither a special securitization low, nor special securitization provisions in other lows have be enacted so far. A securitization transaction, however, may be effected by following the basic civil low principles on transferability of claims in general, receivables included, as set out in the Croatian civil code of obligations. (FBD, 2005)

Securitization did not develop in Croatia mainly due to regulatory uncertainties and problems. In autumn 2005 Croatian Ministry of Finance, supported by the World Bank, EBRD and KfW, decided to implement regulations of securitization in Croatia. The final draft of the Croatian Securitization Low was made in July 2007 and it's acceptance is planned for the first half of 2008. A number of benefits justify regulator's interest for securitization. It:

- Provides enhanced liquidity management tools to financial institutions, corporations and governments,
- Promotes international financial stability by transfer of risk and more stable access to liquidity,
- Improves the efficiency of the lender of the last resort function of central banks,
- Reduces borrowers financial risks by allowing access to more diversified set of financing options,
- Allows for diversification of credit risk and related optimization of capital in sectors with minimum capital requirements,
- Makes market surveillance easier for regulators,
- Reduces volatility of supply of credit and makes credit less procyclical hence benefiting consumers in a form of easier access to finance at better terms,
- Makes fixed interest rate loans at better terms available to consumers,
- Enhances powers of public financial intervention,
- Leads to optimum international allocation of risks,
- Promotes market efficiency.

This is not to say that all of these benefits will happen in Croatia in the short run. Besides benefits listed above, specific benefits for Croatia encompass:

- new opportunity for diversification of pension fund's portfolios,

- faster integration of Croatian capital market with EU financial market,
- retaining regulation powers over particular segments of international transactions in anticipation of forthcoming liberalization of capital flows.

Pitfalls of securitization include:

- moral hazard due to weakening of incentives to monitor final borrowers,
- unfair behavior of either creditors or debtors if final debtor's rights and obligations change after securitization takes place,
- greater exposures of originating banks to macro risks if they purchase the highest risk trenches or securities.

One of the open issues is whether securitization's impact on foreign debt should be counted under benefits or pitfalls. Opinion is that net impact on foreign debtness is controllable. Moreover, there are scenarios that lead to actual decrease of foreign debt. This happens due to built-in incentives for banks to use receipts from securitization to repay foreign liabilities as long as marginal rate of reserve requirement is high, but not applied to securitization itself. Originators (banks, other financial intermediaries, corporations) obtain new way of financing and, moreover, they obtain new instrument for managing capital and asset/liabilities structures, increasing their robustness in face of financial shocks.

Financing Investments in Tourism

It is to be assumed that in Croatia it will take some time for the corporate sector to understand the instrument and begin to play the role in originations. Tourist industry could be among the first participants in future flow securitization. Big hotel companies or regional investment projects could be financed by this instrument.

Table 3: Hotels and restaurants investments (in 000 HRK)

Year	Long-term assets	New long-term assets	Total investments	Index
2000	661.207	692.150	1.343.357	-
2001	847.255	779.778	1.627.033	121,1
2002	1.813.647	1.762.692	3.576.339	219,8
2003	2.094.427	2.316.238	4.410665	123,3
2004	2.431.839	2.357.985	4.789.824	108,6

2005	2.339.014	2.295.958	4.634.972	96,8
2006	3.991.690	4.062.191	8.053.881	173,8

Source: Central Bureau of Statistics, 2007

The current situation in Croatia demands an influx of fresh capital. Foreign investment into tourism, not only directly contributes to the development of tourism offerings but also has a significantly positive indirect influence on the other economic areas which otherwise would fail, or would emerge considerably later. Aside from this, Croatia finds itself in the process of market transition and with an increase in foreign-exchange cash flow from tourism, which represents a significant aspect of the country's monetary policy. (Tourism Development Strategy, 2003).

In January 2007 the Ministry of the Sea, Tourism, Transport and Development organized a survey regarding investments. Results show investment activities in the amount of approximately 2 billion euro (Mičić, 2007).

Istria as an Example

Though small part of Croatia, Istria is still the most advanced in its tourist provision. Its ten year Mater plan targets discerning visitors and includes many opportunities for serious investors. It began with private individuals buying property; others followed with expensive new builds – luxury villas giving work to local craftsmen and suppliers. Now there is plenty of scope for hotel investors willing to be part of the Plan, both on the coast and inland.

The Plan claims that if it is fully implemented, it will speed-up the restructuring of tourism in Istria, position the region amongst the top destinations, increase occupancy and prices, kick-start better productivity, drive-up satisfaction levels of visitors, sharply push up ROI, which will in turn hasten economic growth and, as a desired added value, improve quality of life for locals. (Napier, 2006).

In the Plan, 13 sectors are given high priority. Lowest priority are cheap-income businesses, such as one-star campsites and hotels. These will either be replaced altogether or improved vastly to reach a far higher star-rating. It stands to reason, then, that foreign investors need not concentrate only on new builds, they can also propose buy-outs of low-star establishments with potential.

Highest priority is given to proposals involving golf, corporate meetings, large marinas, marine biology, special-interest holidays, the higher-end hotels (3 to 5 star), anything to do with 'wellness', gourmet venues, apartments, touring, city and short breaks, special events, anything nautical, plus cultural and sports tourism. Whilst these higher-priority proposals have to compete with the finest in the world, lower-status options only invite quick-fix finance with no real prospects. So, the

competition element is seen to be a welcome challenge. Part of the process is to 'cluster' new and vibrant ventures in different areas of Istria, so that visitors will have a wide variety of high-quality venues to go to in each area, all of which will be different.

Istria wants to meet a large number of standards, so it has an investment in what it terms 'survival' – things it must do to just remain in the tourism market. For example, by improving the infrastructure, parking, sewage and solid-waste management, roads, water, promenades and lighting. (Master Plan, 2003).

To bring these investment opportunities into being, Istria will spend 3 billion euros on 468 projects. Almost equal funding will be given to the development of attractions and services, accommodation and the infrastructure. By far the biggest spending is all on private sectors. Largest amounts for attractions will be spent between 2010 and 1012, so there is still plenty of scope for investors there, too. Of new investment opportunities – sophisticated golf resorts, 'wellness' ideas, theme parks, etc., 11 out of 115 projects have been realized. Thus, there is plenty of room for foreign investments.

By 2009 investment in large hotels are expected to increase over 100%, and new tourist projects to increase by a similar percentage. There ought to be a reasonable rise in both local municipality and small business investment. Investment in catering and handicrafts are expected to rise by one third, with a smaller rise in private sector accommodation (villas and apartments, etc), agritourism and rural tourism. Compared to the Master Plan's figures, attractions should take 33.4% of the total investments by 2009, services and competitiveness 75.5%, accommodations a huge 136.3% and infrastructure 220.6% - the latter again proving the seriousness of Istria to be a major contender in the tourism market. (Nappier, 2007).

Conclusion

Croatian Central Bureau of Statistics reported that in the 2007, 11, 2 million tourists, who made 56 million overnight stays, visited Croatia. Almost 84 percent of the arrivals were foreign tourists who accounted for 89 percent of overnight stays. In 2007 tourist arrivals rose by 7.5 percent, while overnight stays went up 5.6 percent in comparison to the 2006.

Croatian Ministry for tourism predicts that more than 7 billion Kuna will be invested in tourism during the 2008. More than 20 percent of that amount will be invested in Istria. It is to expect that investments in years to come will continue to grow. Besides common ways of financing, there is also a possibility to introduce securitization of future flows as one of the newest instruments on Croatian capital market. Although Croatian Securitization Low is still waiting to be accepted,

companies and government could assume it as an alternative to other instruments, which are currently being used.

The biggest hotel companies in Croatia still use classical instruments to finance their development. Regarding the field research done at some of Istria's hoteliers, most of them rely on bank's loans for the next 5 to 10 years. Securitization is quite unknown, even to the experienced financial managers. Some of the benefits, as well as the pitfalls of future flow securitization are explained in this paper, hoping that it will become a popular financial instrument in the near future.

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