

Ludmila Novacka

University of Economics in Bratislava, Faculty of Commerce, Institute of Services and Tourism, Slovak Republic

FINANCIAL SUPPORT OF TOURISM DEVELOPMENT TO THE TRANSITION COUNTRIES*

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Summary

This paper discusses financial support to the development of tourism in the transition countries. The level of economic development is different. It influences the possibility of capital investment out of domestic sources. It is also showed that the FDI (Foreign Direct Investment) is extremely important factor in the development process due to this economic situation. It is especially related to the Middle European countries, as the highest amount of the foreign capital has been invested there. Besides, different funds (programs) established within the EU, and primarily directed towards the Middle European countries, have considerably contributed so far. An exceptionally important role in it had PHARE program. It is pointed out that this kind of financial help has contributed to the development of the infrastructure for the general institutional and economic growth.

Key words: *financial support, tourism development, transition countries, FDI, development program*

* The basic statements of this paper were presented at International Conference on Tourism and Transition, University of Split, Faculty of Tourism and Foreign Trade, Dubrovnik, Croatia, November 22-24, 2000.

** Author's translation and proff-reading into English.

INTRODUCTION

Speaking about transition countries, and support funds to the tourism, we have to make clear several basic data, which can briefly express a great influence to the macro-space and micro-space of a tourist enterprise, too. I don't want to speak about all the factors, because everybody is aware of the priority between political development and economical development in transitional country. As economy follows the policy as the relations between both topics, both fields are close. It is known to everybody.

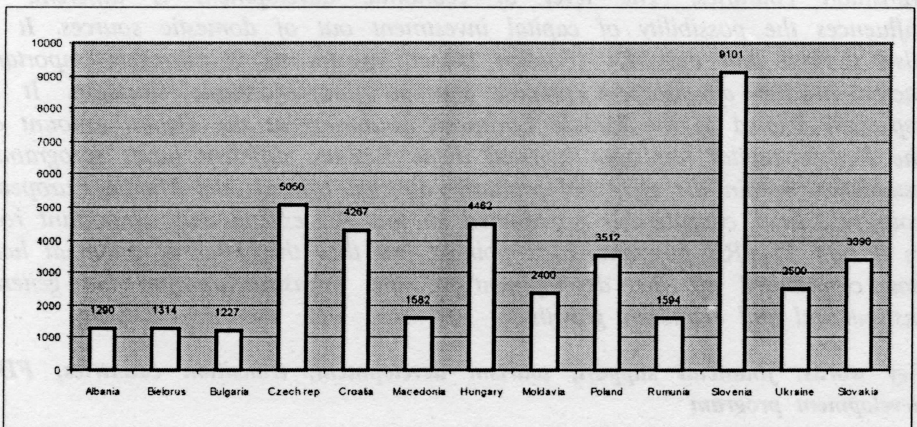
1. THE POSITION OF TRANSITION COUNTRIES

The basic economical data of countries in transition explain their position on the international market.

GDP (Gross Domestic Product) produced by transition countries and its indication per person is very different. The highest GDP in Slovenia (US\$9,101) is seven times higher than the lowest GDP per person of Bulgaria (US\$1,227). In Croatia GDP (US\$4,267) is only 46.9 per cent of Slovenia's value and in Slovakia (US\$3,390) 36.1 per cent. Anyway, non-named countries attain the level of EU countries.

Figure 1

GDP per person in the CEE (US \$)



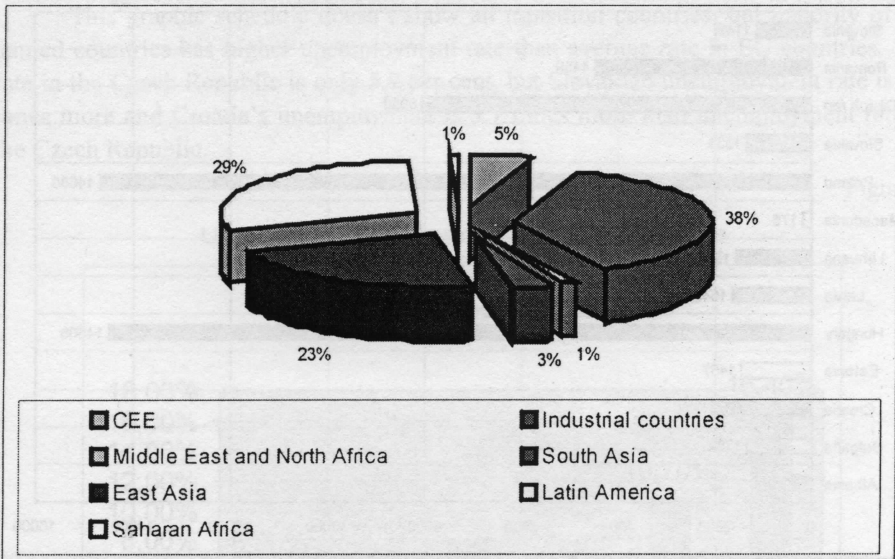
Source: Business Central Europe: <http://www.bcemog.com>

The capital market in Central and Eastern European's countries (CEE) is not developed very much and the level of individual capital market is also different. The foreign direct investment is targeting to these countries only by US\$18.9 billion or 4.6 per cent of the global world investment in 1997.¹

1 World Investment Report 1998, Trends and Determinants, United Nation, New York and Geneva, p. 361.

Figure 2

Global foreign capital investment

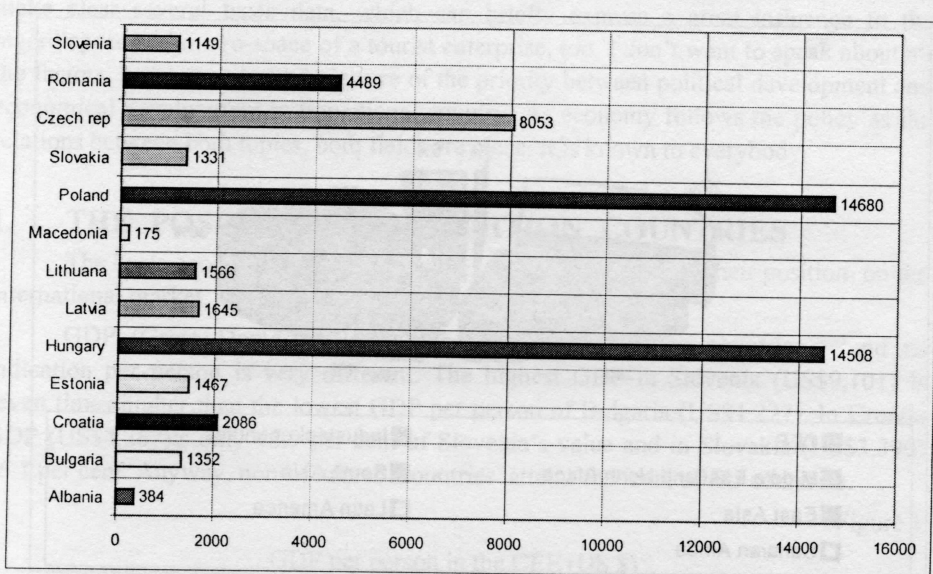


Source: Slovak Trade Forum, No. 4/1999, Bratislava

In the framework of Central and Eastern European countries Poland and Hungary are the most successful from the point of cumulated incomes in the period 1989-1998. Hungary and Estonia have the best results by cumulated incomes per inhabitant in the same period. Foreign direct investment-running to Slovakia is much lower than to other transition countries. Croatian results are better twice than Slovakian ones. The analysis by the Hungarian economists presented at the Zagreb Economic Forum suggested an annual loss of foreign investment from the Central European investment. Italy and Austria cause the major share up. The investment in services does balance between finance, transport, trade and telecommunications. The share of services in investment to Hungary and Slovenia is higher than the share of production. In the other countries this situation is quite opposite. The leading investor in the Central and Eastern European countries are the United States and Germany with 18 per cent on total investment. The United States leads in Croatia, Poland and the Ukraine. Germany has taken the lead in Bulgaria, the Czech Republic, Hungary and Slovakia. In Slovakia Germany is allowed by Austria, in other countries by the Dutch and the Austrians.

Figure 3

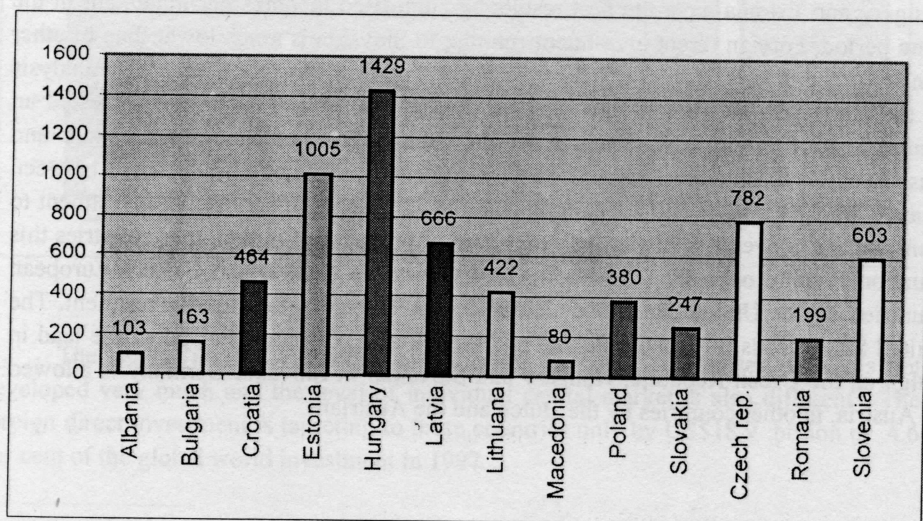
The foreign capital investment to the transition countries



Source: Finance at Development, No. 9/2000, FMI, Washington, DC

Figure 4

Foreign capital investment per inhabitant (US \$)



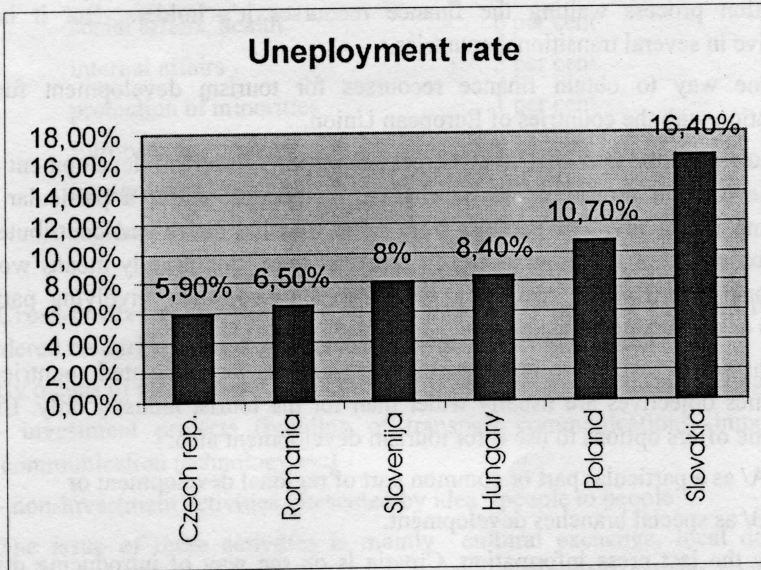
Source: Ibid, figure 3

Stagnation or recession of economy in transition countries could be presented by the unemployment rate. The highest rate is in Slovakia 16,4 per cent and in Croatia approximately 22 per cent.

This graphic schedule doesn't show all transition countries, but majority of the named countries has higher unemployment rate than average rate in EU countries. The rate in the Czech Republic is only 5,9 per cent, but Slovakian unemployment rate is 2.7 times more and Croatia's unemployment is 3.7 times more than unemployment rate in the Czech Republic.

Figure 5

Unemployment rate in several transition countries



Source: *International Nusiness, No. 7/1999, Bratislava*

Evaluated situation presents the backg of the capital investment. In several transition countries it is obvious.

However, the main task of the governmental authorities in transition countries is to support regional tourist products and their presentation abroad as a permanent process. Dropping the financial means in the regions is possible by approving of proposals for the state funds for tourism, or other form of a special program for tourism which would entitle to a grant. Tourism needs financing is a component of the conception of state policy towards tourism and the government has take into account the basic principles:

- carried into the National development plan,
- became an integral part of development regional plans in the country.

The support by state in relation to the regions will be very selective, supporting regions with sufficient conditions for development. The principle of solidarity with these regions is the backbone of the preparations of the law support of regional development, which, among other things, alters the operation of bodies of the higher territorial self-governing units.

Foreign national "Diaspora" of several transitions' countries abroad is not so generous, better approach to investing is from the side of Croatian or Hungarian diaspora. Unfortunately Slovak and Czech diaspora is more passive from this point of view.

Domestic finance capital is usually not very transparent. Following the privatization process waiting the finance recourses it's holders. But it is not so perspective in several transitional countries.

One way to obtain finance recourses for tourism development funding is collaboration with the countries of European Union.

How situation is in this area? Direct supporting of tourism development is not so easy. The tourism project could be eligible for support under a particular funding programme if one involves partners from other member states and contributes to the specific objective of the programme. In practical term, this usually means working in international partnerships, coalitions, associations or consortia involving participants from two or more member states.

The second way is to apply special programmes for associated countries. These programmes objectives are usually wider than for the tourist industry only. But every programme offers options to use it for tourism development also:

- A/ as a particular part or common part of regional development or
- B/ as special branches development.

By the last press information, Croatia is on the way of introducing discussion with the EU. It is the reason for taking into account serious preparations for this situation.

The following text presents several programs, which could be useful for tourism development in transition countries.

2. THE HELP BY PHARE PROGRAMME

The National PHARE (Programm of Assistance for Economic Restructuring in the countries of Central and Eastern Europe; primary title - Poland and Hungary: Aid for Economic Reconstruction) programme consists of extensive projects. 30 per cent of the funds are used for political aims /implementation of *acquis communautaire*, avaluation of law etc. Value - 70 per cent of costs is aimed at funding the following objectives:

- improvement of infrastructure
- restructuring of economy

- small and medium size enterprises development
- regional development.

PHARE financial resources in the period 1993-1999 were (in per cent):

| | |
|--------------------------------|-------------|
| private sector | 20 per cent |
| education, human resources | 13 per cent |
| finance, banks | 8 per cent |
| infrastructure, environment | 19 per cent |
| agriculture, forests | 9 per cent |
| social affairs, health | 6 per cent |
| internal affairs | 5 per cent |
| protection of minorities | 1 per cent |
| European integration | 9 per cent |
| non-governmental organizations | 2 per cent |
| regional development, CBC | 8 per cent |

Cross-border cooperation is very important for creating common regions of two bordered countries or Euro-regions based by trilateral agreement.

By means of cross-border cooperation it is possible to obtain the funding of

- investment projects (building of transport communications, improving of hi-tech communication technology etc)
- non-investment activities, presented by idea "people to people".

The issue of these activities is mainly cultural exchange, local democracy, human resources, planning and developing studies, economical development, tourism and environment.

In the framework of Cross-border cooperation very important programmes are:

- INTERREG III A (cross-border projects)
- INTERREG III B (trans-border projects)
- INTERREG III C (trans-national projects).

The financial support by structural funds is targeted to EU countries. They can ask other countries for co-operation in the region, associated countries or other countries, too. Financial support could cover whole project costs. The value of support is usually up to 57 per cent of the project budget.

C/ PHARE small projects programme has historical background given the Commission activities aimed at closer involvement of the citizen within the European Union itself. It is appropriate for the Commission to support activities with a broadly similar aim in the countries that have applied for the EU membership.

SAPARD (Special Accession Program for Agriculture and Rural Development) programme projects have to continue the National plans of agriculture and country development by way of:

- marketing projects
- investment projects.

Tourism target is eligible to apply in the framework of the following objectives:

- introduction of new sustainable production methods
- revitalization of rural centers and villages
- protection of the country and in the closed towns environment
- development of life conditions in the country
- development of the local or regional economy with the aim to create new jobs.

This program defines several priorities;

1. for tourism is convenient priority number, 2. sustainable development of the country and priority number, 3. development of human activities.

The last proposal of indicative finance plan for the candidate's countries for the year 2000 is (in _ 000s, prices 2000):

| | |
|----------------|---------|
| Bulgaria | 52,034 |
| Czech Republic | 22,025 |
| Estonia | 12,116 |
| Hungary | 37,998 |
| Lithuania | 29,777 |
| Latvia | 21,810 |
| Poland | 168,391 |
| Romania | 150,375 |
| Slovenia | 6,326 |
| Slovakia | 18,257 |

The total sum of financial support depends on circumstances, proposed by EU, for profitable projects the funding is 37 per cent, and non-profit projects are supported by 75 per cent value of the costs.

This project is possible for every country by way of "Plan of rural development" and its priority Sustainable development of the rural country.

ISPA (Instrument for Structural Policies for Procecion)is targeted to environment and communication development.

All transition-associated countries use this support funding for highway construction, railway multimode corridors, development of airtransport. Funding by this programme is high, up to 75 per cent of project budget.

CONCLUSION

One of very important economic growth and tourism development factors in the transition countries is investment. Under the economic underdevelopment conditions, i.e. relatively low GDP level, domestic financial sources are not abundant. They cannot ensure greater investment into economic development. Therefore, foreign investments (FDI) and different EU incentive programs are very important. However, due to different economic and political circumstances they are not equally distributed towards all transition countries. In the last decade, Middle European countries have gained the most of it. Also, certain development programs, financed by developed European countries, were acquired for these countries. The consequences of such actions are visible today, especially in the above average economic growth, and their achievements in the complicated transition process.

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Ludmila Novacka

Ekonomski fakultet u Bratislavi, Slovačka

FINANCIJSKA POTPORA RAZVOJU TURIZMA U TRANZICIJSKIM ZEMLJAMA

Sažetak

U radu se govori o financijskoj potpori razvoju turizma u tranzicijskim zemljama. Navodi se kako je razina ekonomske razvijenosti različita što utječe na mogućnost investiranja kapitala iz domaćih izvora. Ukazuje se kako su zbog takve ekonomske situacije FDI (Foreign Direct Investment) izuzetno važan činitelj razvoja. To se osobito odnosi na zemlje srednje Europe u koje je i do sada uloženo najviše kapitala iz inozemstva. Pored toga u dosadašnjem razvoju značajan su doprinos dali i različiti fondovi (programi) uspostavljeni u EU (European Union) a usmjereni su u prvom redu na zemlje srednje Europe. Osobito važnu ulogu je imao PHARE program (Programme of Assistance for Economic restructuring in the Countries of Central and Eastern Europe; primary title - Poland and Hungary: Aid for Economic Reconstruction). Naglašava se kako je takva vrsta financijske potpore pridonijela upravo razvoju infrastrukturnih pretpostavki za sveukupni institucionalni i gospodarski razvoj.

Ključne riječi: *financijska potpora, turistički razvoj, tranzicijske zemlje, FDI, program razvoja.*

JEL classification: L83