

# Sustainable Local Development Potential of the Elaphites, Croatia

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## Abstract

The Elaphites comprise the archipelago of 13 islands, among them eight larger and five smaller stretching northwest of Dubrovnik in the Adriatic sea. The islands are covered with characteristic Mediterranean evergreen vegetation and attract large numbers of tourists during the summer due to their beaches and pristine nature. Only the three main islands are permanently inhabited, supporting a modest tourist industry. The diffuse hotel model („Albergo Diffuso“) is defined as creating visitor accommodation by reusing and restructuring existing houses, which must be located within an inhabited town center and therefore has multifold economic, social and environmental benefits for local communities. The core of the scattered hotel concept envisages its interaction with small village communities. The paper analyzes the socio-economic and environmental characteristics of this innovative approach to enhancing tourism activities and restoring the valuable cultural, natural, and historical heritage of the Elaphites.

**Keywords:** The Elaphites; diffuse hotel concept; sustainable tourism; cost-benefit analysis; risk analysis

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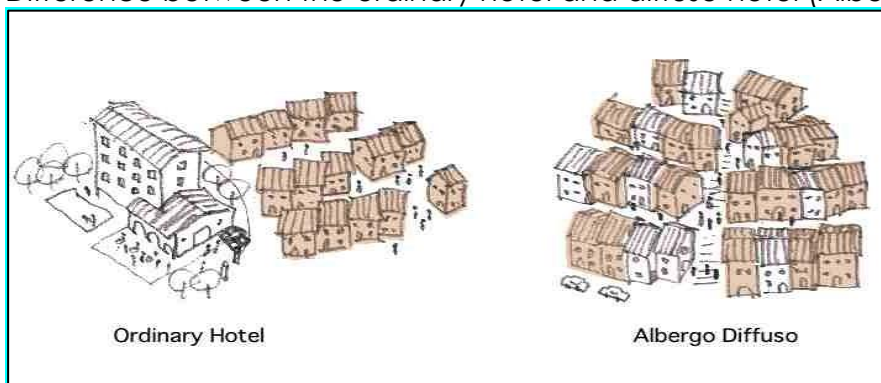
## Introduction

The diffuse hotel concept is designed to connect small tourism providers in a small geographic area and ensure broader and more complete tourist services offer. The diffuse hotel ("Albergo Diffuso") was developed in 1982 in Italy, initially in a mountainous area, as a new form of hospitality De Montis et al. (2014). The characteristics, occurrence, development, and importance of the diffuse hotel were described by Gazzola et al. (2019), whereas Dall'Ara (2005), Dall'Ara & Morandi (2010) gave an overview of various aspects such as conditions and needs that must be met to implement diffuse hotel in a certain area as well as marketing approaches. Its components are located in various buildings and consist of an accommodation facilities network in the vicinity of the historical center in the rural area. The diffuse hotel enables villages or specifically selected areas to become "hotels" with one reception, offering overnight accommodation, gastronomic and other services. This spread has proved particularly suitable for protected historical areas that can welcome tourists without fear of being devastated by the construction of new hotels Avram & Zarrilli (2012). The importance of the diffuse hotel for sustainable tourism development is significant since the diffuse hotel contributes to the preservation of cultural heritage by using indigenous materials and intangible heritage sources of the area (Vignali, 2011) since it can be organized exclusively in historic and traditional buildings in small settlements (villages) and towns that are decorated and equipped traditionally.

The central point includes the main building, reception desk, and restaurant. It is a tourist accommodation management system able to deliver the services of a standard hotel based on a "horizontal" rather than the vertical scheme of traditional hotels. Thus it offers tourists the opportunity to become temporary residents of the rural area by taking part in the local community social life and enjoying at the same time the comfort of standard hotel services. Figure 1 presents the difference between an ordinary hotel and a diffuse hotel.

Figure 1.

Difference between the ordinary hotel and diffuse hotel (Albergo Diffuso)



Source: Albergo Diffuso

Croatian Tourism Development Strategy until 2020 (OG, 55/13) identifies family-owned tourism accommodation facilities as one of the key challenges of Croatian tourism in the years to come in terms of improving their quality to transform family accommodation into various forms of communal accommodation facilities (e.g., diffuse hotels, integrated hotels). Đurkin & Kolarić (2016) found a discrepancy between the initial idea and aims and actual implementation in Croatian tourism practice. Targeting these needs is crucial in enhancing tourism competitiveness in

the global market. The Government proposed a National programme with detailed guidelines and activities for transforming family accommodation facilities into diffuse hotels. (Ministry of Tourism). The necessity of improving family accommodation quality has also been recognized and incorporated in the Tourism Development Strategy of Dubrovnik Neretva County from 2012 until 2022 (Tourism Development Strategy, 2013). The strategy outlines diffuse hotels represent a “model that requires minimum investment which enhances the value of family accommodation facilities using public assets”. Changes in relevant national legal documents have also been made to support the development of diffuse hotels. In 2014, the Bylaw on classification, categorization, and exceptional standards of catering facilities and hotels (OG, 33/14) was amended by defining necessary preconditions for setting up a diffuse hotel.

Considering legislation on the local level, it is the local Government's responsibility to ensure proper spatial planning documents as a precondition for implementing the diffuse hotel. Hence, one of the basic preconditions for achieving this goal is the application of the concept of „Albergo Diffuso” in all segments of the tourism system, from legislation to entrepreneurial practice, which will be possible by participating in EU projects dealing with rural development (Dropulić *et al.*, 2008).

## Material and methods

The Elaphiti islands are under the jurisdiction of the city of Dubrovnik and Dubrovnik Neretva County. The total area covers 90 km<sup>2</sup>, of which 27 km<sup>2</sup> relates to 13 islands. The research area covered three populated and most developed islands - Koločep, Lopud, and Šipan.

Current situation analysis results from detailed desk research of relevant sources (statistical databases, tourism board information, and previously conducted scientific research) and in-depth interviews with local stakeholders. SWOT analysis summarizes and highlights key internal strengths and weaknesses and external threats and opportunities for applying the diffuse hotel on the Elaphiti islands. The advantages of the current tourism offer were also analyzed. Cost-benefit analysis is used to give an insight into the financial framework to justify the implementation of the model on the Elaphiti islands. Risk analysis lists all potential risks that might negatively affect the implementation of the model and proposes risk mitigation activities to minimize their negative influence.

## Results and discussion

Strengths indicate the existence of favorable preconditions for implementing a diffuse hotel model on the Elaphiti islands. In addition, it can be expected that diffuse hotels would provide added value to the current tourist offer and thus reinforce existing strengths. Local tourist stakeholders are familiar with the diffuse hotel and are willing to participate in the implementation of such a model on the Elaphiti islands. Identification of the following strengths of current tourist offer on the Elaphiti islands can be summarized as follows:

- Abundant natural, cultural and historical heritage is the basis of the touristic development of the Elaphiti islands. More than one hundred different protected cultural properties on the islands and six natural sites are protected or proposed for protection.
- Tradition in indigenous agricultural production (e.g., olive oil, wine, liquors, citrus, etc.) complements the existing tourist offer and creates a unique tourist product.

- Accommodation facilities are diverse, and their quality is continuously upgraded to meet tourists' expectations. They range from small family-owned facilities to high-quality hotels such as Lafodia hotel, Kalamota island resort, etc.
- There is an increase in the tourist traffic on all three islands (tourists from Norway, France, the UK, Germany, USA, etc.), proving that Elaphiti islands are recognized as a tourist destination on the world tourist market.

The analysis has also revealed certain weaknesses that represent obstacles in improving the current touristic offer on the Elaphiti islands. Finding solutions for these weaknesses is a prerequisite for developing and implementing a diffuse hotel model on the islands. The identified key limiting factors in improving tourism on the Elaphiti islands include:

- Outdated basic infrastructure, which mainly includes obsolete sewage and electric power systems, creates a negative image of tourist destinations and limits tourism-related investment activities. However, these problems expand the scope of this study and thus will not be included in the cost estimation for implementing the diffuse hotel model.
- There is a lack of cooperation between key tourist stakeholders, and existing touristic offer is disconnected and incoherent, which causes undiversified tourist offer and a lack of a unique tourist product. Implementing a diffuse hotel model would thus be useful in bringing the local key tourist stakeholders together - accommodation facilities owners, travel agencies, agricultural producers, associations, and local tourism policy decision makers.
- Local stakeholders are often confronted with unsolved ownership of the land plots, representing obstacles to expanding tourism activities.
- Tourism is strongly dependent on the external environment. Political, economic, and environmental factors from international, national, and regional surroundings cause spillover effects which can either cause benefits or losses for tourist destinations. For the Elaphiti islands, the most common threats from the external environment are the following:
  - Cross-border marine waste from neighboring countries such as Albania and Montenegro;
  - Insufficient financial support from decision-makers on the national level;
  - Lack of vertical and horizontal cooperation in the tourism sector etc.

Threats could be minimized or avoided by exploiting opportunities that arise from the external environment. Replicating the diffuse hotel model as a successful Italian practice is already an opportunity. Adequately utilized opportunities from the external environment could further support the implementation of the model and are related to the following:

- Demand for authentic and unique touristic experience based on a network of local tourist supply;
- EU funding as a solution to limited public budget;
- Information and experience exchange with Italian touristic stakeholders in replicating and implementing the diffuse hotel model in Croatia;
- Participatory and holistic approach in developing and delivering public policies, which ensures the creation of tourism policy adjusted to local needs and its implementation in partnership with all relevant local stakeholders.
- The insight of current tourism offer on the Elaphiti islands results is given below and should be taken into consideration while implementing the diffuse hotel model:

- Undiversified touristic offer leads to uniform tourist products and services. There is no full exploitation of great touristic potential on the Elaphiti islands except for the "sea and sun" as touristic key drivers.
- Comparative advantages of the islands are underutilized. Tangible and intangible cultural heritage, traditional and unique crafts, and production of indigenous agricultural and food products are insufficiently incorporated into the tourism offer.
- A lack of cooperation between providers of tourist products and services and tourist policy decision-makers hinders understanding and creating unique and recognizable tourist products with added value.
- Entrepreneurial activity lack creates unfavorable socio-economic conditions on the islands in terms of insufficient life quality level, lack of jobs, and negative demographic trends (depopulation, demographic aging, low birth rate).
- Global competitiveness in tourism poses an imperative for constant quality improvements.

This is in line with research conducted by Baćac & Demonja (2021), in which authors claim that the diffuse hotel has the strategic goal of networking the existing stakeholders of tourism service providers into a unique, competitive, innovative, and complex tourism product by fostering mutual trust and cooperation between vacation rental owners, caterers and other service providers through hotel entrepreneurship focused on year-round operations instead of seasonal ones. Furthermore, the diffuse hotel encourages the revitalization of abandoned and demolished historic buildings by connecting and putting them into tourist functions. It encourages new employment of highly educated and skilled employees trained to serve modern tourism services. Hence, Croatian legislation improvement is necessary to maximize the effects and benefits of diffuse and integral hospitality.

The alternative to a diffuse hotel is keeping the current tourism offer most attractive to a limited number. It's important to point out that in Dubrovnik-Neretva County, complete service is still missing when speaking of agricultural households and private accommodation Dragičević et al. (2014). Even though accommodation capacities are fully booked in high season, there is a serious concern that a lack of innovative tourism products and services might change this trend. Hence viability of current tourism offers can be questioned. The interviews with local stakeholders have shown the necessity for improvements to prolong the tourist season and attract wider groups of tourists. Improvements are slow due to insufficient educational activities, financial resources, and low cooperation between stakeholders. Successful implementation of a diffuse hotel model would require systematic and coordinated cooperation among relevant stakeholders on all levels of governance.

The costs for implementing diffuse hotels on the Elaphites range between 325,000.00 and 1,625,000.00 HRK depending on the type of investment according to the cost-benefit analyses. Various financial resources can be used to cover these costs – from national and local public budgets to private investments and EU funds.

Once established, the operation costs amount to 520,000.00 HRK per year. They are mostly expected to be funded from local public and private funds, which implies careful planning to ensure annual operation costs coverage. The model will not impose a severe burden on public financial resources, particularly after its developmental phase.

Parts of the costs are eligible to be funded from the EU funds, which require the preparation and application of quality project proposals developed in close partnership with all relevant local stakeholders. Multiple benefits expected to be



generated from the model, such as short time of investment return and expected project-generated revenues, outweigh the costs and provide justification for investing in the diffuse hotel model.

The risk analysis shows that identified risks are not likely to occur; however, if they happen, this might negatively impact the diffuse hotel implementation. Thus mitigation activities need to be undertaken as preventive measures to minimize and eliminate risks. Project sustainability must be ensured with institutional and financial support from the local Government, coordinated cooperation among the local tourism stakeholders, and the willingness of entrepreneurs to support the project financially.

## Conclusion

In the short run, the diffuse hotel model has been proven to spur innovation, generate added value, and bring novelty to the current tourism offer. In the long run, it generates wider socio-economic benefits for the local community (e.g., new jobs, revenue increase, better life quality, negative demographic trends decrease).

The diffuse hotel model does not require significant investments since it utilizes existing local capacities. Its implementation mostly requires financing so-called "soft" activities that would strengthen local stakeholders' cooperation to improve management and efficiency. The diffuse hotel poses no threat to the environment; moreover, it contributes to its preservation as it relies on the sustainable use of natural heritage. It can also be expected that the time for investment return will be quite short as there is a growing demand for innovative tourist products. In the longer run, the expected increase in tourist traffic will also benefit local public budgets, generating additional revenues from fees, taxes, and charges.

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