Financial Instruments for Tourism Development: Challenges and Opportunities

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Abstract. Currently, the development of tourism faces many challenges that make this industry extremely unstable due to political, medical and economic fluctuations. All the ups and downs are usually outside the control of tourism. One of the most important economic problems associated with tourism is the lack of investment and financing. This is a serious problem, considering that tourism is one of the largest employers of labor in the world, and its development has huge benefits for the economy. The purpose of this article is to consider the problems and opportunities in the field of tourism financing. For the purposes of the study, we have achieved a substantial and relevant analysis and research on the main areas of financial support of tourism.

Keywords: Tourism · Finance · Economic growth

1 Introduction

The importance of tourism development for an individual country is due to the fact that it acts as a means of foreign exchange earnings, employment, increasing the contribution to the balance of payments and GDP, economic diversification, income growth and improving the welfare of the nation [23]. Tourism development is particularly important for poor developing countries, where tourism can be a major source of income and generate a large share of their GDP. This is due to the fact that in these countries, many industries are poorly developed and do not bring such income as tourism. This is particularly evident in island countries, where limited territory, small populations, lack of resources, remoteness from countries that generate the main economic activity, exposure to natural disasters, heavy dependence on international trade, etc. make it difficult to develop other industries. The dynamic development of tourism has a multiplier effect on other sectors of the economy, in which investment activity is activated, new jobs are created, and the turnover of funds is expanded [17]. At the same time, tourism is an activity that requires a favorable economic environment for development and attracting significant amounts of financial resources. Therefore, the issue of considering the financial side of the functioning of the tourism industry is important in practical and theoretical terms.

In modern economic conditions, and especially in times of crisis, it is necessary to pay special attention to the analysis of financial support for tourism, as a branch of the
national economy that forms various types of socio-economic activities that perform production and sales and coordination and management functions in the economy. There is a need to study the impact of the financial security mechanism (regulatory framework, methods, sources of financial security, financial instruments, incentives, sanctions) and its adaptation to the specifics of the management object. Effective implementation of the mechanism of financial support for tourism is hindered by a number of certain factors. First, there is the problem of organizing financial support due to time constraints, given the outpacing growth of the export tourism potential of developed market economies over developing countries. Secondly, the organization of financial security usually takes place in a context of a shortage of financial resources, high cost of capital raising, as well as in the context of public policy, which in developing countries is usually not marked by a systematic and gradual implementation of powers in the field of financial security regulation.

Many scientists around the world have made a significant contribution to the study of tourism industry financing and tax incentives. The problems of financing are addressed in the works of C. Chang, H. Hsu & M. McAleer [2], E. Dedkova & A. Gudkov [4, 9, 11], M. Mahmoodi & E. Mahmoodi [13], S. Vujović, D. Vukosavljević & Ž. Bjeljac [21], R. Trynko & Y. Grygorieva [20], I. Carrillo-Hidalgo & J.I. Pulido-Fernández [1]. Aspects of tax incentives for the tourism industry are considered by A. Gudkov et al. [8, 10] and E. Dedkova et al. [5]. A. Shirvani et. al. [19] explain and evaluate market risk before and during an actual distressed market period. M. Gasic et. al. [7], G. Nyikos, G. Soós [16] and O. Manta [14] discussed EU financial instrument that supports member countries in various levels and subsidies of financial intervention (direct payments) or with a financial agency/financial intermediary.

However, the new challenges of the modern world require a review of the priorities of economic problems of tourism development and the improvement of financial instruments to support it. Knowledge of the tools, characteristics, and ways of channeling development cooperation is fundamental if we are to find out whether tourism finance fosters financial inclusion [1].

2 Methodology

Using classic research tools based on analysis and synthesis, induction and deduction, as well as modern methods, we have achieved a substantial and relevant analysis and research in the main areas of financial support for tourism. The theoretical information needed for the study was taken from research articles in the field of tourism financing. Practical data is based on official statistical information.
3 Results

3.1 Financial and Economic Problems of Tourism Development

Tourism is one of the largest highly profitable and most dynamic sectors of the world economy. But at the same time, the development of tourism in developing countries faces many problems that make this industry extremely unstable. The problems of modern tourism are based on political, medical, and economic fluctuations.

In the modern world international tourism is influenced by the following factors:

– demographic (territorial distribution of the population, its size, urbanization);
– socio-economic (the degree of development of productive forces, industrialization and scientific and technical revolution; the nature of the socio-economic system; labor activity, cultural level, educational and professional structure of the population);
– socio-psychological (influence of traditions and the presence of certain behavioral stereotypes; value orientation; religion);
– environmental and medical-biological (quality of the environment of permanent residence and the state of health of the population);
– natural (various climatic and landscape conditions; exotic flora and fauna; availability of mineral water sources);
– political (expansion of international economic, political, cultural, scientific relations; stability of foreign economic relations and domestic policy; social policy of the state).

The following Table 1 shows the main current economic problems of tourism.

| Infrastructure problems                          | Poor transport accessibility | Small number of leisure facilities | An undeveloped health care system | Lack of accommodation facilities |
|-----------------------------------------------|-----------------------------|-----------------------------------|----------------------------------|-----------------------------------|
| Financial problem                            | Insufficient investment and financing | Significant tax burden | Lack of government support programs | Large risks, inadequate system of insurance |
| Organizational and managerial problems        | Lack of proper management | Lack of control in various areas | Lack of awareness and falsification of data | Lack of an adequate education system |
|                                              | Corruption                  | Political instability             | Gradual loss of national identity | Terrorism, high crime rate         |

Poor infrastructure is one of the most common economic problems of tourism in developing countries. In order for tourism to flourish in any country, it is necessary to take into account such basic factors as good roads, constant electricity, and drinking
water. International tourists are also primarily concerned about accommodation. Countries such as the United States, France, Spain, and Germany are advanced in terms of the development of the tourism industry. In these countries, there are numerous hotels that meet international standards, quality roads, seaports, and airports. Thus, it is obvious that the lack of infrastructure, its non-compliance with international standards, as well as its centralization, for example, only in the country’s capital, creates obstacles to the development of tourism.

One of the most important contemporary problems that have significantly affected tourism in recent years and generally affects the entire economy of the country is terrorism and the security problem. On the one hand, the phenomenon of terrorism and its impact on different countries are well studied— and the most obvious conclusion, which came to a variety of researchers, was the idea that the economic systems of rich and successful countries are much easier to cope with the economic consequences of terror than in the case of developing countries. For example, in seven developed Asian countries in 1980–2005, the effect of terrorist attacks was close to zero, while in 35 developing countries, one terrorist attack per million inhabitants caused an economic decline of 1.4% [6]. The explanation is simple: the economies of developing countries are highly dependent on investment from abroad, and fears of threats and instability affect the mood of investors, including in the tourism industry. In addition, in developing countries, governments overwhelmingly use the pretext of fighting terrorism as a justification to tighten the political regime. And of course, terrorism and high crime rates discourage tourists.

The next major economic problem related to tourism is insufficient investment and financing. This is a serious problem, given that tourism is one of the largest employers of labor in the world, and its development has huge benefits for the economy. In developing countries, tourism is underfunded relative to its potential, there are usually no government support systems, there are no tax incentive programs for tourism, and the insurance industry is in its infancy to reduce risks. This has caused tourism development to move very slowly and give priority to the extraction and sale of natural resources. However, this neglect of other important aspects of the economy often contributes only to the economic degradation of the country and the loss of its attractiveness for tourism in the future.

As a rule, problems with financing are related to corruption and lack of adequate quality training. Education in the field of tourism is undoubtedly the main factor contributing to the development of tourism, and its absence will create serious problems in understanding the main processes of its development and impact on the economy of the state. In many developing countries, corruption has penetrated deep into public administration and at the highest levels of government, creating favorable conditions for the theft of public funds and budget allocations, contributing to the stagnation of the economy in general, and the tourism industry in particular. Corruption is also a system-forming factor for the development of crime. Sometimes the crime rate in poor countries is so high that other states warn their citizens against traveling to these countries, which is a devastating blow to any possibility of tourism developing.

Recently, the level of development of the health care system has become a particularly sensitive factor in maintaining a good tourist image of the country. The spread of Covid-19 virus in 2020 revealed the inability of many countries to fight not only for
the lives of tourists, but also their own residents in such difficult unexpected conditions. Health is a serious problem for people of all classes, and if travelers are not convinced of the availability of good medical care in the host country, if necessary, they will refuse to travel to that country. Safety in tourism will always be a top priority, so solutions that ensure safety and peace of mind should be the government's first steps in the right direction.

The Fig. 1 presents a system for developing the export potential of tourism based on financial, investment, and resource support.

![Fig. 1. The main elements of developing and supporting the export potential of tourism.](image)

### 3.2 Financial Support of Tourism Industry

Statistics provide an accurate description that today tourism is one of the most profitable economic sectors in the world, which in modern conditions is constantly and dynamically developing, contributing to the solution of a whole range of vital socio-economic problems [15].

The tourism industry is becoming increasingly important for the development of the economy and social sphere of any country in the world. The priority direction for the development of inbound and domestic tourism is an important factor in improving the quality of life of people, increasing additional jobs, replenishing the state's currency reserves, and increasing the revenue part of the state budget.

However, to stimulate tourism, it is necessary to provide stable and timely financial incentives to the industry, including the implementation of an adequate financial policy. Historically, fiscal policy was quite often used as a tool to ensure financial stability and boost economic growth. Applying a wide range of fiscal instruments and levers, this policy provides a certain regulation of business activity of economic agents, investment and consumer demand, and the household incomes as well [3].

Financial support of the tourism industry has a number of features and specific features associated primarily with the mechanism of its functioning. Basically, this industry needs financing in related areas of activity (hotels and restaurants, various
types of transport and its infrastructure, entertainment facilities, folk crafts, etc.), and on the other hand, the social effect is that the upgraded infrastructure is used not only by tourists but also by the local population.

Researchers of the tourism industry quite highly assess the effectiveness of its financing. All of them note that this is an industry that can generate significant profits at relatively low costs, since the capital turnover in this area is 4 times higher than the average for other sectors of the world economy, and the cost of creating one job in the tourism infrastructure is 20 times less than in industry. Therefore, the solution of financial issues for the tourism industry is of national importance.

The state should play a leading role in creating an enabling environment for tourism development in developing countries. Pandemic 2020 once again proved that, despite the presence of private financial initiatives in crisis, much greater efforts are required to reverse the negative trend.

The Fig. 2 shows the ratio of the number of trips of foreign citizens to the Russian Federation and the amount of budget allocations of the Federal budget for implementation of the tourism development program.

![Figure 2](image.png)

Figure 2 shows that the decline in funding for the tourism development program aimed at attracting foreign citizens to the Russian Federation has led to a complete stop in the growth of the number of foreign arrivals. The lack of growth in foreign tourists is also explained by the fact that since the crisis of 2014, the business initiative has not yet regained its previous values.

As for public financing of the tourism industry, its form and scale depending on the place and role of tourism in the national economy. The main directions of tourism financing policy are both direct and indirect sources of financing. Among the direct sources, it is necessary to allocate the enterprises’ own resources, budgetary and extra-budgetary sources of financing [21]. Indirect sources are attracted capital, mainly
borrowed, at the expense of private and foreign capital [13], as well as funds of public organizations, tax preferences, etc. In the conditions of recovery from the financial and economic crisis and limited opportunities to provide direct financial support, the role of indirect forms of financial support should increase (in particular, reducing the rates of certain types of taxes and fees [5, 10], establishing benefits, etc.).

World experience provides the following types of state assistance to tourist enterprises:

– subsidies to help solve the monetary problem, especially at the first stage of implementing tourism projects;
– soft (preferential) to compensate for the gap between the fixed and commercial rates, monitoring the implementation of the project for which the loan is issued is carried out throughout the entire period of its implementation;
– interest bonuses and guarantees on loans and subsidies-the state or a special body guarantees loans provided by commercial banks for the development of tourism. At the same time, it is expected to assess the project's ability to meet the conditions set for granting loans, as well as to assess the risk of using guarantees;
– tax benefits that are provided before and after a certain tourist project begins to generate revenue.

However, it should be noted that by financing tourism and creating conditions for its development, detailed planning should be balanced, since an increase in the flow of tourists can have negative consequences (rising prices, environmental degradation, growing dissatisfaction with the population, etc.) this is observed in some regions, such as Catalonia (Spain).

So, given the importance and specificity of the functioning and development of the tourism industry, the solution of financial issues should be based on a systematic approach and take into account the following aspects:

– rational and effective use of tourism resources based on sustainable development in order to form a national tourism product [17];
– introduction of a systematic approach to the regulation of socio-economic and financial relations in the field of tourism, since tourism covers various sectors of the economy (according to research by scientists – about 30), so the concept of tourism development with a clear regulatory and socio-economic mechanism should be adopted [11];
– the functioning of the tourism industry is impossible without the availability of modern infrastructure, so the main direction of financing involves attracting funds for the development of tourism infrastructure [18];
– promotion of domestic and social tourism. A certain share of revenues from the tourism industry should be allocated to support domestic tourism and, above all, social tourism, as well as to restore tourism resources and infrastructure [12].

Financial instruments are increasingly used in tourism to stimulate its export potential, as domestic tourism has great limitations for growth and development. With an invisible export orientation, as well as providing direct and indirect employment, the tourism sector has become a significant part of the economy and finance [23]. Financial support allows to reduce risks and get tax benefits, but requires additional investment
and the collection of a large amount of documentation. Therefore, many participants in the tourist market often prefer to operate without state support due to currency fluctuations, strict requirements for the provision of state benefits and subsidies, on the one hand, and high competition in the world market, on the other hand.

The following Table 2 shows the main proposed ways to improve financial instruments to support tourism exports.

**Table 2.** The main ways of improvement of financial instruments to support tourism exports.

| Type                                      | Description                                                                                                                                                                                                 |
|-------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Credit availability                       | The availability of export credits means that they can be obtained with minimal costs. For example, the methods can be used to simplify the procedure for obtaining, reduce the time for reviewing the application, and limit the period for creating a commercial offer by the bank |
| Export insurance development              | The availability of Internet services for reviewing applications, expanding the range of services provided, improving the skills of employees of insurance companies, as well as state control of compensation payments—these measures will make the insurance market more accessible, reliable, and convenient for all participants in legal relations |
| Simplification of the taxation and tax accounting system | In order to operate within the framework of tax legislation, in many countries it is necessary to keep separate records of goods and services subject to different tax rates. To simplify it, integrated electronic commodity turnover systems are being created with customs and tax services, and simplified taxation systems are being introduced for the tourism industry |
| Reduction of currency risks               | Reducing currency risks is very important for tourism enterprises. It is important to stabilize the national currency, ensure the independence of the domestic market from intervention, develop industry and avoid commodity exports, reduce capital outflows, and increase the country's balance of payments |
| Fuel subsidies                            | Promotion of inbound tourism can be carried out by providing state fuel subsidies to air carriers that operate tourist flights to the necessary airports |

Thus, financial support tools are primarily designed to ensure the price attractiveness and competitiveness of tourist destinations, attract the interest of tourists from various countries, facilitate the activities of national companies engaged in the hospitality sector, which will eventually stimulate the development of the national economy, create new jobs and improve the well-being of citizens.

In order for the existing financial instruments to be effective, it is necessary to have a comprehensive interaction between exporters and importers, financial institutions and
the state [8, 22], and to create an effective foreign economic policy [4, 9], the performance of insurance companies’ obligations to the insured, availability of highly qualified personnel. Only then will the created financial support measures fully work, allowing the tourism sector to develop effectively.

4 Conclusions

The tourism sector is one of the types of business that is developing quite dynamically and is capable of rapid recovery even after significant crises, including the Covid-19 pandemic. Interest in tourism is explained by a number of factors: despite competition, large, medium and small firms successfully interact in the tourism market, the tourism business is characterized by a rapid turnover of capital, tourism is the largest industry in terms of the number of people involved and the income received. Despite the fact that international tourism has a number of negative consequences: violation of the way of life of the local population and traditions, inflation, destruction and pollution of the environment, the effective functioning of the tourism industry makes it possible to mitigate these shortcomings by partially directing financial flows from tourism to compensate for its negative consequences.

The problem of financial support for the tourism industry is particularly relevant, since the development of tourism stimulates other sectors of the economy and contributes to strengthening the authority of the state at the international level. In times of crisis, the following financial incentives are most often used: direct financial support for industry entities and tax preferences.

Financial support should solve the following main tasks of the tourism industry:

– achieving maximum efficiency in the use of available financial resources—maximizing the volume of GDP produced based on the choice of a rational financial security model;
– establishment of optimal proportions of distribution and redistribution of the produced GDP in order to fully meet the needs of citizens, enterprises of the tourism industry, the state;
– comprehensive assistance in attracting all temporarily available funds and income received through financial market institutions for the needs of financial support for non-production sectors, in particular the tourism industry.

Thus, the main goal of financial support for the tourism industry is to create a favorable conditions for the allocation, distribution, and attraction of financial resources for the effective and balanced development of tourism. Given that the financial support of the tourism industry has a number of features and specific features associated primarily with the mechanism of its functioning, the solution of these problems requires a comprehensive and prolonged approach.
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