TOURISM POLICY AND DEVELOPMENT ISSUES: THE FINANCING AND REGIONALIZATION POLICY OF GREEK TOURISM

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BIOGRAPHICAL NOTES

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ABSTRACT

International experience has indicated that while tourism concentrates on space and time as a particular form of a changing private consumption with its subsequent production and distribution problems, which diffuse society and economy as a whole, it requires the state’s regulatory intervention. The particular approach of the Greek case is made because tourism evolves in a developing country like Greece, which at the same time is a member of the European Union (EU). This means that it is gradually subject to the wider framework of the developed EU member states. Particularly, this article examines the impact of the indirect financing policy, for the production and distribution of the tourism product in Greece, mainly through the examination of the regional variation of development incentives in the hotel industry. The financing policy of Greek tourism is promoted as a basic development instrument for regions and especially for socio-economically disadvantaged regions.

JEL CLASSIFICATION: R12, R51 and R58.

KEYWORDS: regionalization of tourism, financing policy, development incentives, Greece.
1. **INTRODUCTION**

This paper is based on the results of a multi-year research effort (doctoral thesis), which aimed at an overall approach and interpretation of the financing policy and tourism development of host countries, focusing particularly on the Greek case, since tourism arrivals in the country have increased from 1950 and on, followed by a lowest growth rate the hotel beds (for further information: Vlami A. 2009). The financing state policy as an instrument for the creation of the necessary tourism capital in Greece, aiming at the consolidation of its tourism product in the global tourism industry but also the development of regions in which the signs of the economic decline and depopulation are obvious, is particularly noted in the international tourism bibliography (Burkart & Medlik 1981; Hall 1994; Holloway 1998; etc.).

More specifically, tourism is an important industry in Greece, offering 963.000 jobs, resulting in raising both the national and local income and restraining migration to urban areas (WTTC 2008). The current global economic crisis comes also to demonstrate the decisive role of tourism in Greek economy. In fact Greek tourism managed to maintain its strength and prove to the state - but also the society - that with an effective support, the sector can become a driving force for the creation of more income in the country and the improvement of the economy competitiveness (since its participation exceeds a 17% of GDP whereas industry contributes only a 6% with a constant downward trend). However, the Greek rural areas fail to an extent to take advantage of tourism and ensure the sustainability of its resources, as the sector has presented some fundamental problems. Seasonality and spatial concentration are probably the most important problems, having severe impacts on the economic, social and environmental levels. The emphasis on island tourism development and the ‘three’s’ product (sea, sun and sand) has dominated the tourism profile of the country, resulting in the saturation of many destinations and the consequent degradation of their natural resources. At the same time, many inland areas, including mountainous ones, remain unexploited, despite their strong comparative advantages for tourism. In this context, the need for the diversification and regionalisation of the Greek tourism product constitutes a basic issue in the discussion amongst policy-makers and stakeholders, from 1970 onwards.

2. **STATE INTERVENTION IN TOURISM DEVELOPMENT**

This paper attempts to view and interpret state interventionism in the development of tourism from the perspective of host countries. In particular, tourism policy is defined as a set of interventions (of
institutional, economic, social, cultural and environmental nature) that governments of host countries undertake to the benefit of their tourism development (Edgell D.1990; Kerr W.R. 2003; Page S.J. 2003). It is a distinct interventionist behavior of the public sector concerning all productive sectors, institutions and interest groups of the economy and the society (Hall C.M. & Jenkins J.M. 1995). A distinct state intervention which is directly related to the objective and goals needed and the intervention areas the state will use to achieve these goals. The main areas of state intervention according to the international scientific debate are: coordination and planning of tourism development, legislation and regulation of tourism, providing social tourism, educating and training human resources, promotion and marketing as well as many other activities aiming at boosting and controlling tourist flows, financing tourism development, and the overall policy for the creation and geographic allocation of the tourism capital in host countries (further information Vlami A. 2009 – table 1). The intensity with which the state decides to be involved in these areas depends on two factors. On the one hand it depends on the seriousness with which the government views the boosting of tourism mainly as a part of the country's overall economic and social development. On the other hand it relies on the degree of rationality of the partial more general state policies.

Table 1. The Main Areas of State Intervention in Tourism Development in Host Countries

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<th>Main Areas of State Intervention</th>
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The reason we cope with the financing framework more extensively here is because this is considered to be the most decisive policy area affecting the more general tourism development in host countries. In fact the continuous production and distribution of individual products and services consumed by tourists during their stay in a host country requires the continuous investment of financial resources for the construction, maintenance and modernization of a series of tourism infrastructure and superstructure works (Zacharatos G.A. 1986; Vlami A. et.al. 2006). That is the prerequisite for the necessary creation of a multi-level financial framework, which appears to have been implemented by the most European governments from the post-war period to the present. This framework includes the three following forms of financing procedures, depending on the origin of financial resources (state, local or foreign private capital and international financing organizations) and the nature of the investment works to be financed (Vlami A. 2009):

i. the direct public financing and management of infrastructures of a general and specific tourist nature of infrastructures

ii. the direct financing and management of installations of a business nature

iii. The indirect financing and support of the local and foreign private initiative with the provision of a favorable framework of development incentives.

In fact, state planning intervenes having a compensatory and mitigating effect, providing the necessary terms and conditions for the successful creation of the necessary tourism capital in the whole territory of the host country. Development incentives operate particularly towards the direction of the convergence across a country's regions, trying to affect their location and direct private investments towards less developed regions (Bodlender J. 1982; Jenkins C.L. 1982; Wanhill S. 2001). That is because the layout of tourism and especially hotel business is a matter of a great importance since an initially wrong decision on the establishment location will constantly create problems for a hotel unit. The major importance of the establishment location for the viability of a hotel is noted by Conard Hilton, who says that 3 are the important elements for the success of a hotel: the location, the location and the location (Barth J. 2000; Keiser J.R. 2000).
The hotel business, because of the simultaneous production and provision of the tourism product, cannot differentiate between the production and the provision location of its products (Walterspiel G. 1974; Medlik S. & Ingram H. 2000). This situation makes the business follow a continuous 24 hour operation plan, in order to make possible the production and provision of products and services needed for the “accommodation” of tourists any time during the day (Paulidis P. 2000). As opposed to the inelasticity of the hotel provision of services is the high elasticity of demand. It is a kind of demand characterized by a significant instability and change, since the incentives and desires of tourists can be modified any time depending on the international political and economic circumstances, trends and many destinations offering similar tourism products, yet in significantly different prices. Therefore, private hotel businesses, in their effort to reduce the business risk, are focused on already “standard tourist destinations” offering favorable conditions like external economies and links (Vlami A. et.al. 2006). The financing state policy and especially the incentives policy, aims to influence the centripetal force that seems to be applied during the decision making for the establishment of a hotel unit, since the spatial structure of the hotel capital affects the financial and social prosperity of third parties, namely inhabitants, bodies for the use of common resources and other kindred established units.

3. THE OUTSET OF A DISTINCT FINANCING POLICY IN GREEK TOURISM

The outset of a distinct intervention policy by the Greek state in tourism appears in the 1920’s as a response to the demand for dealing with the rise of international tourism or of “sightseeing” (as it was then called) after the failure of the private sector to establish an agency for regulating and encouraging sightseeing in the country and as a result of the urban intellectual awakening followed by careful thought concerning a national establishment of the state in the context of the first Greek Democracy (Zacharatos 2000). More coordinated actions though are found right after World War II and more specifically after the reestablishment of Greek National Tourism Organization (GNTO) in 1951 and the development of an extended plan of direct financing for the tourism infrastructure and superstructure that created the main conditions for the tourism production. GNTO was focused on the construction and management of standard businesses entering directly or indirectly in the tourism consumption demand and especially the creation and management of a basic network of hotel units under the typical name “XENIA”, thus undertaking the cost for the opening of different destinations of the country in the global market (figure 1).
It was an intervention which could be considered as the first policy of regionalization of tourism in Greece, since public investment was directed mainly towards the Capital (Athens) and then towards the rest of the territory with particular interest in regions with medicinal water sources and archaeological sites but also the coastal and insular regions, due to the great turn of the demand towards the littoral tourism. That was opposed to the investment activity of the Greek hotel business which was accumulated in the urban centers of Athens and Thessaloniki due to the existence of a continuous demand for hosting businesses and due to the value of land that could meet the criteria and the requested guarantees of banks for the provision of long term loans. For the new hotel units a system of "financial incentives" was adopted, through Decisions of the Monetary Committee of the Bank of Greece according to which banks provided long term loans on a restricted scale. The same participation of the investment body reached a 50% of the total expenditure for that work and for their provision the expenditure budget had to be provided by the bank’s technical department, based on private economic criteria.

The first completely organized period, characterized by the acceleration of the qualitatively and quantitatively tourism capital and the incorporation of Greece in the international tourism reality, could be the period from 1964 to 1975. This period includes also a special phase (1967-1974) where...
the basic characteristic of the financing policy is the change of the bank criteria for the provision of long term loans for the construction of hotel units with clearly touristic and political criteria (through GNTO). Notable is the shrinkage of the same participation to a 20% of the total investment, including the value of the land. The above correlation and the illegal management of incorporating land and its value to the cost of investment allowed a rapid formation of hotel capital with great potential. However, it reinforced the creation of large scale tourism enterprises that were not viable (CPER 1981). In the end of that period, the first designation of the tourism policy as a regional policy was introduced, with the adoption of the LD 1313/1972. The main goal was the encouragement of the existing hotel units to make modernization investments, using tax and tariff exemptions. The national territory was divided for that reason into regions of high, medium and low incentives of operational cost. At the same time the credit policy for hotel construction investments with the adoption of special Acts, was differentiated depending on the region.

The main characteristic making the next five years (1975-1980) to be considered as a separate period is the significant reduction of public investments. That period essentially comprises the continuation and the end of the main phase of the constitution of the business sector of GNTO.

4. **The Financing and Regionalization Policy of Greek Tourism**

After 1980, the regionalization of tourism, to the extent it was made, was exclusively the result of the incentives policy, as expressed by the basic Development Laws and their modifications. During the 1980’s, there were some influential changes in incentives’ policy. These changes comprised the institution of incentives that reduced investment cost through grants and interest subsidies and were a result of the imperative requirement of alignment with the financial policy of the European Union (EU), of which, Greece had become a member state (L. 1116/81 amended by L. 1262/82). According to this law, the national territory was divided into four areas with clearer distinctions between them and with a special emphasis on border areas. It is during that period that an elementary recording of private investments in the tourism sector begins, using the enterprises’ decisions that were approved and financed through grants and interest subsidies by the Ministry of Economics. Law 1262/1982 was considered as being essential for the tourism development of the country, since it enabled the creation of a significant number of small and medium size hotel units and the employment growth mainly in the touristically developed regions, except urban centers. However, that policy had resulted in the uncontrollable dispersion of small accommodations in the
coastal and insular regions and especially in regions having the best access to the foreign tourist traffic. Consequently, a new state intervention of a spatial nature was necessary, with the introduction of the concept of “saturated regions” and aiming at the further turnover of the concentration of hotel rooms in already developed regions. Furthermore, another characteristic of the 1980’s, was the spatial expansive policy of the direct financing of many infrastructure and superstructure works, which remained incomplete though, because of the huge cost.

It was a situation which kept going in the 1990's, when the tourism designated authority hardly dealt with issues concerning the protection and promotion of non-exploited spatial ensembles and business units that had entered in a depreciation and clearance phase. The main goal of the tourism policy emerged: “the qualitative upgrade of the tourism product, with its simultaneous harmonization with the modern needs of the tourist demand and thus the new forms of tourism”. Within this framework there was an effort to coordinate the policy of public investment and the policy of regional investment incentives, since emphasis was given to regions presenting a decreasing development path having as an instrument the development of alternative forms of tourism. Moreover, the credit policy, as this expressed through the law 1892/1990, discouraged or almost excluded investments for the creation of hotel rooms of medium and law classes (below 3*) and was focused on investments for the modernization of operating hotels and the transformation of traditional or listed buildings into main tourism accommodations.

The dispersion of private hotel investments, from 1990 to 1997 was slightly better because of the decrease of investments in the Dodecanese region (due to saturation). The greatest part though of the financed hotel rooms was accumulated in touristically developed and developing destinations, also, because of the delay of the decision concerning the exclusion of these regions from the incentives of the reduction of the capital cost (until May 1995), therefore these regions remain in medium or high incentives zones. Consequently, high development rates of hotel rooms were noted in touristically developed regions and in this situation contributed the operational legalization of a significant number of illegal hotel beds and rent rooms.

During the next seven years (1998-2004), the policy of incentives, as this was expressed through the development law 2601/1998, limited subsidies to a significant degree, giving access only to new bodies under this form of support. The investment incentives supported the modernization of high class hotel units and discouraged or even excluded the option of creating small or medium hotel
units. This was based on the fact that large units are capable of financing new technology and environmental friendly investments and can have lower operational cost and higher profit than small or medium units, since they are in a position to secure significant economies of scale and have higher negotiable abilities towards multinational tour operators.

Although the effect of the development law resulted in the acceleration of the increase in the rate of hotel beds in regions of medium and low intensity, this did not manage to modify considerably the spatial structure of the hotel industry, since only 63 investments of this category were completed. This policy contributed considerably to the increase of the modernization of the country’s hotel potential, It did not meet however its goal of differentiation:

✓ either because in regions with an important hotel capital (like Attica, Dodecanese and Lasithi prefectures) the percent of their modernization remained in considerably (law) low levels, since investments of this category were made by a relatively limited number of units of a large size that could meet the criteria and conditions set by this particular incentives system.

✓ either because in touristically developed prefectures with high rates of modernization (like Zakynthos, Chalkidiki, Rethimno, Chania and Heraklio prefectures, with rates ranging from 26,04% to 41,38%) investments (mainly of class 4* and 3*) were of a very low cost.

This law did not accomplish its objectives to a satisfactory level, because its criteria were unattainable by the majority of small scale businesses as they didn’t have the required capital for covering 40% of their participation and to proceed to expensive feasibility studies and Integrated form investments.

In 2004 the Ministry of Tourism was re-established, renamed to "Ministry for Tourism Development" and constitutes the main line and coordinating instrument for the national tourism policy making, while GNTO was set as its executive lever. One could say that the interest for the tourism development of the country increases, this institutional development though is made during a period the financing framework is reduced even more and there is an increase of a disengagement.
trend of the tourism designated authority from some of its basic functions (such as marketing and promotion). The current incentives policy (Law 3299/2004) changes and from focusing during the last fifteen years on the encouragement of investments for the modernization of existing units, it is becoming an expansionist policy, which is focused on the acceleration of the creation of hotel units.

This expansionist policy belongs and operates in three zones of incentives, where the volume of incentives in different regions is differentiated depending on the kind of investment, the size of the business and, for the first time, the time frame for its completion. It should be noted that there are distinct parts but also prefecture ensembles in all regions of incentives, where the investment plans of small and medium sized hotel businesses can cover a 60% of their total investment. Furthermore, since the saturation regime is abrogated, allowing to the touristically developed regions of the country (except Athens and Thessaloniki) the increase of investments for the creation of high class hotel units (4* and 5*) or even the expansion of hotels 3*, if they are combined with modernization plans. Essentially, the Ministry of Tourism Development made that decision, hoping that in that way the upgrading of the hotel potential would be achieved. It was a decision however that was not based on a complete study of the carry capacity of these regions.

That kind of policy resulted in the dependence of a noticeably increased number of investment plans from the incentives of reduction of the capital cost. Most of the approved plans are made in the three insular regions of Crete, South Aegean and Ionian Islands. That is due both to the activation of an important number of modernization plans which follow the spatial structure of the hotel capital and the mobilization of an increased number of hotel constructions, which follow the cumulative procedure of the increase of supply in touristically developed destinations of the country. The greatest part of the investment for the creation of hotel units concerns luxury hotels (107 units of a total capacity of 23,668 beds) which are intended exclusively in already developed and saturated regions of the country (like Dodecanese, Messinia, Lasithi, Lesvou, Chania, Zakinthos, Heraklion, Magnisia, Pieria, Chalkidiki, Argolida, Cyclades and etc.). Furthermore, it is expected that in the islands of Rhodes and Kos almost a 32% of the financed luxury beds is going to be accumulated. This situation creates serious considerations, since it is greatly believed that the concentration of new luxury beds is going to aggravate the problem of oversupply, since the tourist period is has shrunk, compressing the prices downwards and creating unfair competition. At the same time, it is going to increase the galloping construction industry and the further damage to the natural environment. Although it should be commonly accepted that to call a law a “Developing
Law” in Greece it is necessary to improve and enrich the operating superstructure, without adding new beds, to lead part of capital for the creation of hotel beds in developing regions and mainly to improve the infrastructure of a general and special nature, determining the quality of life of inhabitants but also the tourist experience.

5. Conclusions

According to the diachronic results of the research, it is noted that the financing policy from 1950 to the end of 1970 actively supported the trends of location of the Greek hotel industry in the urban region of Athens and the insular regions. With Law 1262/1982 further incentives enhanced the investment activity and contributed to the employment growth in the Greek region. During the next fifteen years the effort for the coordination of the direct and indirect financing intervention resulted in the creation of hotels of higher classes in certain prefectures of the inner country and the mobilization of an important number of investments for the modernization of the operational units in touristically developed regions. Nevertheless, the new financial credit policy exercised without the existence of a particular and mandatory national land use plan and the purely significant nature of the public investment program (that at a great extend remained inapplicable) lead to (figure 2):

- the even larger concentration of the tourist activity in traditional tourism centers (Athens, Thessaloniki, Rhodes, Corfu etc.)
- the creation of new tourism concentrations of fixed installations of a big scale (Heraklion, Chalkidiki, Lasithi, Zakinthos etc.) and
- the simultaneous creation of a number of new and small scale of tourism centers (Cyclades, Chania, Rethimnon, Magnesia, Pieria, Argolida, Kavala, Samos, Lesbos, and Kefalinia)

The dominant characteristic of all these cases is the element of the insufficiency of satisfactory infrastructure. Furthermore, the majority of Greek hotels are of a small scale, and of a medium class, something that denotes the existence of serious problems concerning the variety and quality of the services provided and consequently of the "economic quality" of tourists.

In fact the policy that was pursued, independently of its goals, increased the same concentrations with just a few differentiations. Traditional and newly rising tourist areas concentrate and will continue to concentrate more than 66,10% of the total amount of hotel units and 74,78% of capacity – a fact which indicates that the incentives policy was not able to offer more attractive benefits to private investors than those offered by the installation of a hotel enterprise in already ‘established tourist areas’. The credit policy was based more on social and political criteria and less on the particularities and needs of the country.
The most important problem of the Greek tourism during its evolution is the deficit of the economic, political opinion and conception concerning what is tourism, how it functions in the social and economic structure of the country and consequently what is its place in the structure and hierarchy of the state's policies. So, within the framework of an ideologically neoliberal theory and practice, today there is a promotion of policies of "sale" and "exemption" of the state from its property and functions. The problem though is that the spatial structure of the Greek hotel industry is not combined with a policy of public investment, capable of improving the level of infrastructure which is necessary in the evolution of the volume of the touristic production. Based on these noted problems, the debate concerning the necessity of the state support in tourism returns, since the nature itself of the phenomenon does not permit its withdrawal. Therefore, the question is not just if the state has to have an interventional role in the tourism development. The issue that has to be further examined is the more general evolution of public investment concerning issues of a general and more specific touristic nature of infrastructure, which could not follow the volume of the touristic production in Greece and maybe that is what illustrates the weakness of the state.
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