FINANCIAL ASPECTS OF TOURISM: THE EMERGING HORIZONS

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ABSTRACT

Tourism is a many faceted phenomenon, involving many disciplines and multiple environments. It is for this reason that it throws challenges for its comprehensive coverage. Discipline based studies on tourism have been helpful academically and for specified area research. For a sound development of tourism it is necessary that the approach should be integrated. This would require the involvement of experts from various fields such as landscape-geographers, economists, environmentalists and flora-fauna experts. There is no doubt that tourism has major effects on the economics of destination areas. Research focuses, primarily, on the economic aspect of the industry and this emphasis has resulted in a proportionately large number of studies of these effect. The majority of studies of economic impacts of tourism have been directed at international and national levels, with fewer investigations at regional and local levels.

Keywords:
The tourism organization in every country looks after the development, promotion and administration which include training programmes and research. Finance is required for these functions. The formulation and physical development of tourist product requires large capital investment in the infrastructure and in individual facilities. In the developing countries, particularly in new tourist areas, investment in infrastructure must precede investment in individual facilities. It represents a greater proportion of the total investment. For example, in the development of the Kovalam Beach or Gulmarg areas in India almost 70 to 80 % of the total investment requirements were for projects like roads, parks and clearance services etc., and 20 to 30 % for railways, accommodation and other individual facilities. It all requires long term finance. Even inspite of the completion of these individual items, long term and medium term finance is required for modernization and extinction schemes. The short term finance is also required for the maintenance of the infrastructure and for individual facilities. Tourism promotion also calls for current financing of the media employed. A large part of the budget of most tourist organizations is employed for financing these medias.

Thus, the finance is also required for operating expenses tourist organization. It includes all costs of the organizational structure. The requirements of finance can be divided into three parts:

- Development;
- Promotion; and
- Administration

The financial and technical resources required for successful promotional and development strategies in tourism are beyond the mean of private sector. Tourism is a capital intensive industry where profitability is long term oriented. Even the most developed countries, where vast travel plans modernization, expansion and related training programmes are taken up require large investments and are feasible only with assistance. In developing countries, the state’s role is even more vital in paving the wave for private sector which is often hesitant limited and untrained in modern technique.

This paper is divided into five parts. The first part discusses about the concept of financial aspects of tourism, while the second part examines the various sources of finance. In the third part, categorized as a mixed pattern of financing in tourism, while the fourth part examines the cost of tourism and in the last part provides some concluding remarks.

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Tourism is a social-cultural and economic phenomenon has emerged as one of the world’s largest and fastest growing industries. The tourist is the central and critical character in his phenomenon and is also the basic units of its measurements. The origin of the word “tourist” dates back to the year of 1292 A.D. It has come from the word “tour”, a derivation of Latin word torus meaning a tool for describing a circle or turner’s wheel. In the first half of 17th century the term was first used for traveling from place to place, a journey or an excursion, a circuitous journey touching the principle parts of a country or region. The 19th century Dictionary defines “tourist” as a “person who travels for pleasure of travelling, out of curiosity, and because he has nothing better to do”. The term “tourist” the Oxford Dictionary tells us; was used as early as the year 1800. According to Dictionnaire Universal, the “tourist” is a person who makes a journey for the sake of curiosity, for the fun of travelling, or just to tell others that has travelled. The New Webster Encyclopedic Dictionary of English language (1972) defines tourist as “one who makes a tour, one who travels for pleasure”.

These definitions of the term “tourist” were general in character and therefore were not much consequence for the purpose of measurement. In view of the growing importance of tourism industry urgent need for compiling tourists statistics and of securing international compatibility was realized. Accordingly, the League of Nations on the recommendation of the Committee of statistical experts and with the concurrence of member countries defined the term “foreign tourist” as: Any...
person visiting a country, other than that in which he usually resides, for a period of at least 24 hours. In 1945 United Nations confirmed the above definition and stated that tourist was a person who stayed in a foreign country for more than 24 hours and less than six months for any non-immigrant purpose. The leading commission organizations such as ETC, OEEC and IUOTO also adopted the above definition of a tourist, for the purposes of collecting tourist statistics. However, in 1963 the United Nations Conference on Travel and tourism held in Rome adopted a revised definition of tourist as:

“Any person visiting a country other than that in which he has his usual place of residence, for any reason other than following an occupation remunerated from within the country visited’.

This definition covered:

- Tourists, i.e., temporary visitors staying at least 24 hours in the country visited and the purpose of whose journey can be classified under one of the following headings:-
  - Leisure (recreation, holiday, health, study, religion and sport);
  - Business, family, mission and meeting.

- Excursionists, i.e., temporary visitors staying less than 24 hours in the country visited.

This definition of the “tourist” does not include “travelers”, who do not enter the country. It also excludes the day visitors from the category of the “tourist” as recommended by expert statistical group on International Travel Statistics Commission, 1967. Lambert has recorded the following three distinguishing characteristics of tourists:-

- He journeys of his free will.
- He journeys primarily in search of enjoyment.
- He returns finally to his original starting point.

According to Zivadin Joviac, “It is a social movement, with a view to rest, diversion and satisfaction of cultural needs”. Ogilive has laid down the following criterion, he maintains that a person is tourist when:

- He spends his money in the place he visits without earning it there.
- The person in away from home for a period of less than one year.

The Tourism Department of Government of India has adopted following definitions of the tourist:-

A foreign tourist is a person visiting India on a foreign passport, staying at least 24 hours in India and the purpose of whose journey can be classified under one of the following headings:-

- Leisure (recreation, holiday, health, study, religion and sport);
- Business, family, mission and meeting.

The following categories are not regarded as ‘Foreign Tourists’:-

- Persons arriving, with or without a contract, to take up an occupation or engage in activities remunerated from within the country;
- Persons coming to establish residence in the country;
- ‘Excursionists’ i.e., temporary visitors staying less than 24 hours in the country visited.

Statistics do not include the following:

- Nationals of Pakistan and Bangladesh;
- Nationals of Nepal entering India through land routes;
- All foreigners entering India from Bhutan by land.

The broad spectrum of these definitions have paid greater emphasis on the “duration of stay” in defining a tourist while as motives visiting a particular place have been regulated the secondary importance.

The importance of modern tourism was necessary to have a universally accepted definition of the Tourist. Since the economic aspects of international tourism assumed considerable importance of the United Nations definition, which is generally followed by all countries in compiling their tourist statistics, is not based on motivation but on an economic concept. “A tourist is a temporary visitor to a country other than one in which he usually resides for any reason other than following an occupation remunerated from within the country visited.” It was further elaborated that the temporary period should not be less than 24 hours. There is considerable cross-border day traffic among many groups of neighbouring countries. Such visitors are defined as Excursionists.

India has accepted these definitions but with some reservations. For instance, visitors from Pakistan and Bangladesh, whose number currently is about 3,00,000 a year, are not included in the tourist statistics, even though Pakistan and Bangladesh count Indian visitors as tourist for statistical purposes. Indian visitors domiciled abroad and holding foreign passports are counted as tourists but not those holding Indian passports, even though their pattern of foreign currency expenditure is likely to be the same. Besides, the basic criterion of the UN definition is residence, not nationality.

It has been argued that if pleasure and recreation have become the main motivations of present day tourism, then why should visitors whose main purpose is to conduct business, attend a conference of see relatives and friends, be regarded as tourists? The answer is that business or conference visitor in his spare time usually behaves like a ‘pleasure’ tourist. He goes on sight-seeing and shopping trips, visits nightclubs and so on. The determining factor is whether the visit is being paid for in foreign currency or from within the country. May be part of the expenses of Pakistani and Bangladeshi visitors, as also of Indian domiciled abroad, and are paid for by their relatives and friends in India. One can assess their expenditure on that basis but to ignore them altogether in the head-count is obviously not justified.

On the basis of the above discussions, we can say that tourism is a multi-dimensional concept and implies many things to many people. For the tourist it is travel, relaxation, a holiday, an expose to other cultures and traditions. Those who “sell” tourism naturally see things differently. To them it is an industry, a source of income, especially of foreign exchange.
Thus conceptually it is an amalgam of phenomena and relationships arising from the movement of people “to” and their “stay” in the different destinations. The “journey” (a dynamic element) and “stay” (a static element) are the two necessary constituents of the mass phenomenon called tourism.

Thus, tourism as a word appeared in 1811 and was associated for “mobility” for recreation. Burton and Noad have opined that recreation is not easily defined homogenous entity. It includes all the pursuits other than those associated with the work necessary tasks of personal and social nature. The essence of recreation is free choice. It embraces wide range diverse pursuits. The recreation is not always dominant motive for conditioning the travel and therefore, “tourism” is to be associated with all the motivators of travel.

**sources of finance**

The various sources of finance can be categorized as follows:

- Government Agencies.
- Leading Institutions.
- Investors.
- Industry.
- Tourists.
- Tourists Organizations.

The sources of finance can be discussed as below:

- **Government Agencies:** The state should pay for most of the cost of running tourism development programmes. The various arguments are put forward in support of the contribution of finance by the government in tourism:
  - International tourism solves problems of direct government concerns and the maximum benefit of tourism goes to the government as compared to any other economic sector of a country. The government is itself a major recipient of revenue from tourism through direct and indirect taxation. The multiplier effect of tourism is 3.2 times a year and the government collects around 10% in tax revenues from this additional business. Compared to the total expenditure required to run tourism development programmes, the tax revenues would give the government a greater return than is earned by any accommodation unit, transport agency or travel agents.
  - The Government of a country has an interest in the healthy balance of payments. Tourism plays a significant role in this aspect.
  - The economic benefits of tourism often extend directly and indirectly to a whole area and to the whole population. The contribution of tourism by the government can enhance the material well being of the community.
  - It is legitimate for the government to intravene financially in circumstances in which private enterprise may not be able to willing to do so adequately.
  - The government should finance at national, regional and local level. In most of the countries, the tourist organizations are a part of the machinery of the governments. Therefore, it normally plays an active role in tourism and uses the national tourism organizations as its administrative organ for the purpose. In the absence of non-government tourism organization the government is comparatively less involved in tourism financing. The government should finance tourism development organization by direct appropriation. Direct taxes on the tourists should be avoided as far as possible. These direct taxes are inadequate to raise the sufficient money, to run an effective tourism programme. It has been observed that direct taxation lend to cut off tourism itself and thus a loss of the government. The government also may utilize local currency funds generated by the sale of imports made available by foreign aid programmes to finance special training programmes, some of the cost of technical assistance, a part of the cost of improving an air terminal, lengthening or building an air stripe or building or improving special tourist attractions.

- **Leading Institutions:** There are three types of leading institutions which are as follows:
  - **International Bank for Reconstruction and Development (IBRD):** Established after the end of the Second World War by the Bretton Woods Agreement, the IBRD is an international finance organization associated with the United Nationals. Its object is to simply member states who should obligatorily be members of the International Monetary Fund, long term loan needed by them to finance productive development projects which are of top economic priority in cases where they cannot finds funds elsewhere on reasonable conditions.

In the beginning, the bank was especially designed to help countries economically received by the war. Subsequently under the impact of the Marshall Plan it oriented its activities towards helping the developing countries.

IBRD provides loans carrying to 6.5% rate of interest for specific profitable operations to solvent firms and states. These loans are designed to cover only a part of the project costs. Its direct and specific help in the field of tourism has been quite limited. But the part it has played in financing infrastructure, which represents its favourite sector (i.e. transport, communication and power) has been in many cases most valuable in promoting the development of tourism (the Adriatic and Central Highway in Yugoslavia).

- **The International Finance Corporation (IFC):** The IFC was established in 1956 to invest directly, without seeking government guarantees (which IBRD cannot do) in production private enterprises in the developing countries. As at June 30th, 1965 its subscribed share capital was $ 110 million of which $ 99 million was paid by 78 states.

The help given by the IFC may take the form of subscription to share capital, ordinary loans coupled with participation in dividends.

Besides its own help the IFC stimulates investment by bringing together national and foreign investors. It also strives to steer
private capital towards productive investments in the member countries.

- **International Development Association (IDA):**
  Established in 1960 to fill certain gaps in the activities of two organizations mentioned above, the International Development Association can finance all development projects irrespective of their profitability or productivity. This leads it to undertake investments of a social character. However, the financing of infrastructure (i.e. transport and water supply power) so essential to tourism development represents an important part of its activities.

- **Investors:** The financing of private investments called private because of the builder who undertakes them these investments contain large proportion of private capital, at least for that part which has to be supplied by the builder and often even for a part of the loans also. There are two types of investors:

- **Transfer Guarantee:** The first of the guarantees required is for the free transfer of profits from the business undertaken with the help of foreign capital. It is evidently quite normal for private foreign groups investing funds in developing country to seek assurance for being able subsequently to transfer back the profits from their capital irrespective of the monetary fluctuations in the country in which the investment may have been made. There is no doubt that foreign financing of investment limited to a large extent to the degree of trust which can be placed in the commitments undertaken by the country concerned.

- **Forms of Assistance:** Besides the transfer guarantee the developing countries may consider that it may help to attract foreign or national private capital investments in the form of assistance and facilities to encourage investors. Such assistance is designed to maximize final net profitability of the private capital invested either by lowering the costs of investment, (i.e. land allocation, services in kind, subsidies or investment bonuses) or by reducing the debt service loan capital (i.e. interest, rebates loan at reduced rate of interest). In other words, the private groups should be able to hope that the returns from their capital investments would be at least equal to what they would obtain-all risks being equal-from investing it in other sections or in other countries and particularly in their own country.

- **Industry:** The participant at each vertical level of the tourist organization is the government and the private tourist interests whose geographical areas of operation correspond to that level of tourist organization. They also finance the appropriate level of tourist organization, central, state or local.

Tourist Industry is the main financial beneficiary from tourism. The firms and industries participating in tourism contribute to the financing of the tourist organization in form of subscriptions, and donations. They also take active part in the co-operative research and promotion projects and share the costs of such schemes. The contributions by individual firms and industries is determined by the level at which these firms and industries operate. The local government plays a prominent role in a district, resort or town. The hotel and other local operators participate in the local tourist organization either directly or through the local association or both. Similarly at regional level, the participation in the tourist organizations is the state government. The groups of hotel located in those regions and the transport companies operating in the area also participate. At the national level, the Central Government is the sole financier of the tourist organization. In addition to it, there are a number of contributors such as airline, railways, chains of accommodation providers, travel agencies, bank and financial institutions of national coverage.

- **Tourists:** The main objects for the promotion, development and administration of tourism is to extend the maximum benefits to the tourists. They are the main beneficiaries of tourist services. They must make the contribution for financing tourism. A part of the revenue required by the tourist organization may be raised directly from the tourists. They make the payment for the services they buy and pay taxes while buying the various services. Thus they are the main contributors of finance in tourism. There are special taxes imposed on them in various countries like Switzerland, Austria, and Germany etc. These taxes are a good source of revenue to the tourist organization. The taxes thus collected which are utilized as follows:-

  - To of set the cost which tourists create; and
  - To provide a more equitable basis for sharing the cost of providing and maintaining the amenities used by local residents as well as visitors to that region. The foreign tourists have to pay some indirect taxes. They spend much higher rate than the resident population. The contribution by these tourists is greater as compared to the resident. In Ireland; it has been calculated that an increase of $ 10 million in gross tourist receipts generated by multiplication of income, means an increase of $ 5 million in tax revenue.

- **Tourists Organizations:** This is one of the most important source of finance. A tourist organization may generate income for its purposes through income from other levels, as it is often in a position to earn revenue for the provision of particular services. There are three methods of financing:-

  - **Grants:** In most of the countries, the central tourist organization wishes to stimulate the state organization and the state organization to the local organization. For this purpose, higher level of body provides finance to the lower body by way of grants for specific or general purposes or some other means of support. This help to establish a strong influence to carry out the direction of the higher body. In some of the cases, this type of financing continues till the lower level of organization becomes established and well organized.

- **Levies:** There is another method of financing also wherein the lower level an organization finances the higher level organization to create a strong higher level organization. The countries having advance
stage of tourist development, have the method of a levying of other contribution by a lower level organization to higher level organization in the vertical structure.

- **Revenue Earning:** There is various tourist organization in different countries which earn revenue from its own activities. The following are the important method of earnings revenue:
  - Sale of information materials to tourists;
  - Advisory services to individual firms and industries participating in tourism for fee;
  - Provide research and other material to operators and other interested parties; and
  - Advertising space in its publications to advertisers.

**MIXED PATTERN OF FINANCING IN TOURISM**

There are two types of mixed pattern of financing in tourism:-

- **Public and Private Finance:** There is a mixed pattern of financing in tourism i.e. public finance and private finance. The mixed form of financing are considered appropriate provided that the respective constructions of public and private funds are determined rationally as a matter of policy. The tourism programme should be based on close co-operation between government and private business. Contribution from private will help to ensure active participation by private business example, hotels, carriers, travel agents, tour operators and reputable business concerns. The political and economic system of the country, the importance of tourism to the national economy, the stage of tourism development reached in the country and the historical and other influence determine the respective rates of public and private finance in tourism.

The public funds are applied to promotion and administration and for development to be financed largely by private enterprise. The private fund, tend to supplement the provision of public funds for promotion and other purposes. Public finance is the prime and exclusive source of finance at the central level of the tourist organization and the private funds are used at regional or local levels.

- **Domestic and Foreign Finance:** Finance in tourism comes from both within and abroad. Tourism organization gets financial support from another level of organization or from outside its own area of operation. These organizations may derive income for the purpose of promotion from transport undertakings, which handle traffic to the destination. In a developing country like India, local capital is generally scarce and foreign investment constructed a necessary means of building upon tourism industry. International character of tourism finds an expression in the international ownership and operation of tourism industries in individual countries. There is much wider availability of foreign capital for individual facilities particularly when our area has satisfactorily demonstrated its tourist potential. The main source of foreign finance are private developers, investors, international agencies and the foreign tour operators representing a growing source of funds for hotel development. The international agencies and the foreign tour operators and the foreign private investors may undertake a hotel project or enter into partnership with local capital both private and public. The glaring example for the main source of foreign investment in infrastructure is World Bank and its affiliated development banks.

**COST OF TOURISM**

What are the costs of tourism of the public exchequer and what sort of an investment is required to maintain a healthy growth rate? Tourism was allocated Rs. 20 million for the first time, in the Second Plan, 1956-61. Larger allocations have been made in successive plans but in the sector and state sectors together they have never exceeded Rs. 50 million for any five year period. However, the budget allocations year after year have fallen short of the plan allocations and furthermore, 20 to 30 % is the budget allocations have remained unspent. Because five year plans have been interrupted by plan holidays and tailored and re-tailored in the last five years, it would be difficult to estimate precisely the total expenditure on tourism in the public sector since 1956. But considering the size of each five year plan - the last one finalized towards the end of 1979 was Rs. 720,000 million – the outlay on tourism has seldom exceeded one-fifth of 1 % (0.2 %). In the current budget the allocation for tourism in the Plan Budget at the centre is Rs. 92.2 million (including Rs. 60 million for the ITDC) which is 0.12 % of the Centre Plan Budget of Rs. 75,400 million. The Revenue Budget for tourism which includes a provision of Rs. 30 million for loans to transport operators is only Rs. 52 million against the National Budget of Rs. 208,520 million (0.024%). Considering the size of the country and the varied attractions which need to be publicized, the allocations for publicity and promotion including expenditure on the maintenance of overseas tourist offices is a niggardly sum of about Rs. 30 million.

The Governments in developing countries are playing an increasingly dominant role in the development and promotion of tourism but essentially it has to be a joint effort between the government and the industry. In India where the tourist industry took a fairly early initiative, nearly 30 years ago, it would have been a wiser policy, certainly a more effective one, to allow private enterprise to have more elbow room and to provide supportive measures for its development. The loans given by IFCI for hotel projects during the last 20 years amount to only Rs. 144.2 million, which is only 1.4 % of the total loans of Rs. 10347.7 million given to other industries during this period. It is significant to note that because incentives given to the hotel sector in Sri Lanka are comparable to those given to other priority industries; nearly 40 % of the portfolio of the Development Finance Corporation of Ceylon (DFCC) has been claimed by hotels during the last ten years.

The Ministry of Tourism has announced a new tourism policy. Targets of 3.5 million tourists by 1990 yielding foreign exchange receipts of Rs. 50,000 million a year have been fixed. The Ministry has also announced an investment of Rs. 54,000 million in the next decade would be required to reach these targets. On the basis of 1979 figures this amounts to a linear projection of 15 % growth rate in arrivals and 29.8 % in receipt. We consider these projections a sort of gimmick that our Ministers have to indulge in to hide the lack of performance.
Even in the best of times, between 1968 and 1978 the growth rate on a much smaller base was 12.5%. As the base grown larger it would be impossible to maintain even the growth rate of the last decade. It needs to be recalled that growth rate declined in 1979 to 2.2% as against 16.8% in 1978 and 19.9% in 1977. In the first seven months of 1980 it is only around 5%.

Thus, tourism in India is in serious trouble because of cumulative neglect on the part of the government to match the supply with demand for adequate tourist facilities. After all there are not many countries in the world which profess to be interested in developing tourism with such primitive international airports as ours and such an unsophisticated manner of handling of passengers and baggage. Besides, the economic growth rate of industrial countries is somewhat on the decline and the outlook for the next five years is not particularly bright. To make up for past neglect and to meet the demands of 3.5 million tourists by 1990 we shall need to build 45,000 more hotel rooms, expand and rebuild our international airports to handle four times the present traffic, improve and upgrade many existing airports, build several new gateway airports, import several thousand sophisticated buses and cars, develop half a dozen major sea resorts, undertake meaningful publicity and promotion and finally improve our communications system. The Indian Administrative System is just not geared to create the necessary infrastructure within ten years. Nor is the estimate of Rs. 54,000 million quite realistic. It is likely to prove grossly inadequate to create facility for 3.5 million visitors.

**CONCLUSIONS**

Thus, on the basis of above discussions we may have concluded that tourism offers a better option in economic terms than many other industries is not only propagated by its protagonists and the tourist industry but is also supported by experts from other disciplines, including International Monetary Fund and World Bank officials who have generally viewed tourism rather skeptically. In its global dimensions it has also proved to be the fastest growing industry and has shown greater resilience during the last six years of energy crisis than other industries, thus increasing its share of world trade from 5% to 5.5%. There are several valid reasons for assuming that its growth in the next decades will be an irreversible process.

Mass tourism has no doubt ruined the landscape and caused environmental pollution in many areas such as the Mediterranean, the Caribbean and resorts like Miami. The influx of tourists has also disrupted the indigenous way of life of societies with weak cultural traditions such as the South Pacific Islands, or the Incas in Peru. But a good deal of this environmental and cultural damage was due to poor planning. On the other hand, tourism has created awareness of the value of environment and ecology. It is tourism conscious persons who are spearheading the protest against the damage to the Tag and other monuments in Agra, to Dal Lake in Kashmir and so on. Indeed tourism has, in no small measure, helped the revival of folk arts and handicrafts of many countries. In India the expenditure on shopping by tourists, nearly 30% in a dollar is one of the highest in the world.

The importance of tourism vis-à-vis the economy of the country has been elaborated but there is urgent need for the government to appreciate the importance of the tourism industry to provide employment to the educated unemployed, help reduce the balance of payments deficit, and to develop areas of the country which remain undeveloped. The step suggested which are as follows:

- That all elements of the tourism industry i.e., hotels, tour operators, transport agencies etc., be recognized as a priority industry; and
- That all elements of the tourism industry be given the status of an Export Industry and be treated at par with other export industries.

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