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Financing Tourism Destinations from Public and Private Funds – a Case Study of Slovakia

Abstract. *A key precondition for the sustainable development of a tourism destination is an effective organizational structure that can be provided by a destination management organization (DMO). A DMO can coordinate the interests of the public and the private sector but, because its services are costly, it requires the pooling of resources of both these sectors. Therefore, the activities of DMOs should be funded through public-private partnership, where the budget is made up of contributions from all stakeholders, government subsidies, and incomes from business activity. In order to offer adequate support to tourism development in countries like the Slovak Republic, which admittedly has a great yet underdeveloped tourism potential, a complex financing mechanism needs to be set up. The Tourism Support Act No. 91/2010 partly regulates the promotion of tourism in Slovakia and creates conditions for the emergence of tourism organizations in tourist destinations.*

Keywords: *tourism, tourist destination, financing, destination management organization*

Introduction

A tourism destination can be a place, a region, or even a country as a travel aim for tourists. It is an area which is distinctly identified and promoted to tourists as a place to visit, and has to be co-ordinated by one or more authority or organization. It is a complex entity in which there exists a lot of stakeholders



with different interests. It is not only a private sector, but also a public sector and, of course, local inhabitants and visitors. Coordination and cooperation is most important in every tourism destination.

The aim of this paper is to describe financing tourism destination from public and private sources and to analyze the situation in Slovakia by comparing it with the Czech Republic and the European Union.

1. Financing tourism destinations

The financing of tourism destinations must be secured from public and private sources. A development of tourism destination in a dynamic environment requires significant financial resources. Financing of tourism destination is undertaken by organizations that sometimes have no direct financial interest in the tourism. In addition, many destination management organizations have a limited budget and help from the private and public sector is necessary¹. It is important to create a complex system of financing of the tourism development in the tourism destination which will be shared by all stakeholders in the development of tourism in the destination. Financing tourism destinations is different in different countries and depends on the kind of region and resort. First of all, it depends on the phase of the life cycle of tourism development in the tourism destination.

1.1. Financing tourism destinations from the public sector

Financing tourism destinations from public financial resources is based on the importance of tourism for the particular destination. If a territorial unit in the country or the country itself has the potential for tourism development it is the responsibility of the state or local government to ensure its development. From the perspective of the tourism development needs, it is important to create a system and use the financial resources of tourism². We investigate a tourism destination based on the macro scale. There is a difference between national, regional, and local level. A country as a tourism destination has financial sources from the government and the ministry (in Slovakia, from the Ministry of transport, construction, and regional development). At the local and regional level, it is important to create complex financing system where the precondition for the functioning of this system will need to be the efficient creation and allocation of

¹ S. Pike, *Destination Marketing Organisations*, Elsevier, Oxford 2004.

² J. Chovan, *Systémová tvorba a používanie zdrojov pri financovaní rozvoja cestovného ruchu v regiónoch*, in: *Cestovný ruch a regionálny rozvoj. Zborník z vedeckej konferencie*, Ekonomická fakulta UMB, Banská Bystrica 2000, pp. 143-148.

financial resources, and the existence of organizational structure with all stakeholders in the tourism destination. Financing of tourism at a regional and local level is provided by the municipality, which collects tax from accommodation. Visitors of accommodation enterprises pay the tax for overnight stays. The tax for accommodation is set by each municipality and the city itself. Money that the municipality collects should be refocused in the promotion and development of tourism in the destination. The municipality of the region can also support tourism with extra money from its budget. This support depends on the character and importance of the tourism destination for the region or country, including the host population and visitor numbers, as a ratio of visitor spending, number of commercial accommodation beds/rooms, and the number of taxpayers/ratepayers. Ultimately, the financing decision process will depend on the local situation, with influences including local politics, destination life-cycle stage and industry maturity, economic importance of tourism relative to other industries, and the DMO history and current structure³. Destinations may use financial sources from the regional programs of the European Union. Companies and organizations in tourism have a possibility to take financial resources from the European Union. Every member country of European Union has this opportunity. Candidates may be entrepreneurs in the private sector, but also can be cities, towns, villages, municipalities, associations, and organizations. However, they have to fulfill the conditions set up by the European Union and the government of the member's countries⁴. Currently there are no challenges of the European Union. Therefore, most often at this level of financing, a tourism destination refers to destination management organizations and the financing of their activities.

1.2. Financing through a destination management organization (DMO)

Destination management is considered an advanced form of cooperation among tourism stakeholders who are associated in a destination management organization. Financing of a DMO is a critical issue for destination management organizations (DMO). Financial resources of DMOs come from the public, as well as, the private sector, and from external and internal sources as well. Public sector enabling agencies normally contribute core financing for the DMO. The public sector may meet the basic establishment costs of the organization. Activities designed to benefit the private sector directly should be paid for through contributions towards

³ S. Pike, op. cit., p. 231.

⁴ G. Šimčíková, *Granty v cestovním ruchu*, „Hotelier“ 2007, roč. I, pp. 80-82; G. Šimčíková, *Granty v cestovním ruchu – ako začať*, „Hotelier“ 2007, roč. I, pp. 88-90.

marketing activities, commercial activities, and membership fees⁵. Membership in the organization for each member also means an obligation to pay a membership fee, and then the organization also receives money from the government. Membership in the organization is voluntary in some countries, and compulsory in others. Members of organizations may be a company or a person from the public or private sector. The income of these organizations are usually membership fees, income from business activities of the organization (after tax), financial resources obtained from the European Union, domestic and foreign support organizations, donations from individuals and legal entities, loans and credits, financial resources received from government support programs, and/or subsidies⁶. Income from the organization's business activities can be⁷ commissions on ticket sales, revenues from the sale of maps, tourist needs, souvenirs, income from the rental of sports equipment, revenues from the organization of congresses, and they can be from the procurement of accommodation, transport, and other services for visitors. Budget scale certainly affects the power and influence of the DMO, especially within the tourism sector itself. DMOs with low financing levels struggle to be influential – with a high budget they can “lead from the front” as they have adequate resources to take fresh initiatives and help other partners. Budget levels can vary from year to year based on external factors and the decisions of other players⁸. There are two most common types of financing for DMO's – traditional financing (statutory, public-law, other methods) and new approach financing of a destination. Statutory financing is in the statutes form the basis of the destination. Member fees are defined at the general meeting. The organization has active and passive members differentiated into active single members, active business members, and passive members. Public-law financing is financing through the law, this usually meaning through taxes (visitor's tax, tourism tax, fractional tourism tax, etc.). Visitor's taxes are paid by guests and person without a tax-based residence in the destination and the tax object are one overnight stays. Accommodation taxes are paid by the hotelier and the tax object is one night as well. This declaration is also fixed in the visitor's tax laws. Tourism development taxes are paid by all persons and organizations with a tax-based residence in the destination. A DMO also has other sources of financing. The most common are subsidies (support from the community, canton,

⁵ M.A. Morrison, *Marketing and Managing Tourism Destinations*, Routledge, London 2013, p. 632.

⁶ A. Micháľková, *Prínosy a riziká aplikácie Zákona o podpore cestovného ruchu*, 2010, http://of.euba.sk/zbornik2011/ZBORNÍK%20VEDECKÝCH%20STATÍ%202011-PDF/KSCR/MICH%C3%81LKOV%C3%81_A._KSCR.pdf [6.12.2013]; A. Micháľková, *Regionálne siete v cestovnom ruchu*, Ekonomická Univerzita v Bratislave, Bratislava 2010, p. 118.

⁷ A. Kiráľová, *Marketing destinace cestovního ruchu*, Ekopress, Praha 2003, p. 173.

⁸ A. Holešinská, *Destinační management jako nástroj regionální politiky cestovního ruchu*, Masarykova univerzita, Ekonomicko-správní fakulta, Brno 2012, p. 151.

or state) and self-financing (earnings from sales, revenues/provisions from direct bookings, advertising for third parties, sponsoring contributions, revenues generated from events, etc.). DMOs are using financial resources mainly on marketing activities (creating products, branding, etc.), planning activities, expenditures on research and education of staff, expenditures on quality management, crisis management, tourism infrastructure in tourism destinations, expenditures on statistics and reporting, as well as other uses.

2. The case study of Slovakia

In Slovakia, organized cooperation in tourism developed in the 90s of the 20th century. At that time, in the territory of the Slovak Republic, various organizations were spontaneously established as a result of the development of tourism, especially in localities with tourist attractions (Association of Tourism High Tatras). The problem was a lack of knowledge; they were not considered as authorities and suitable partners for cooperation. The situation has changed rapidly in the 21st century, where a large number of tourism organizations were set up because of operational programs drawing from EU funds⁹. At the national level in Slovakia there is financing of the development of tourism by the Slovak Tourist Board (Slovenská agentúra pre cestovný ruch – SACR). The Slovak Tourist Board functions as a management organization at the national level¹⁰. Their activities are financed from the state budget (Ministry of Transport, Construction, and Regional Development), grants from the EU, and partly by their own business. However, this financing is not sufficient. The Slovak Tourist Board finances mainly marketing activities and the promotion of the state as a tourism destination for foreign visitors. In 2010, the government approved Act No. 91/2010 Coll. on the promotion of tourism. The Act set the conditions for an organization of tourism and provided sources of its financing. It defines destination management organizations in Slovakia at the regional and local level. This Act regulates the promotion of tourism in Slovakia, the rights and obligations of persons engaged in tourism, the creation of policy documents, and the financing of tourism at the destination. The creation of a system of financing destinations was the one of the main objectives of this Act¹¹. Conditions for the collection and use of membership fees provides for the General Assembly of the

⁹ A. Holešinská, *Destinační management jako nástroj regionální politiky cestovního ruchu*, Masarykova univerzita, Ekonomicko-správní fakulta, Brno 2012, p. 151.

¹⁰ M. Gúčík et al., *Manažment cieľového miesta*, Slovak-Swiss Tourism, Banská Bystrica 2012, p. 219.

¹¹ Ibidem.

destination management organization. In addition to membership fees, there are source of voluntary financial contributions and the income from business and non-business activities of the organization. In this case, the organization shall have a license for doing business. The Slovak Act on the promotion of tourism enumerates the resources of financing for DMOs that can be divided into four categories – membership fees, grants (state subsidies, EU funds), income from commercial activities, and donations. The research of Holešinská (2013) shows that the structure of the Slovak DMOs' budget is affected by the Act because the proportion of memberships fees and state subsidies is roughly at a ratio of 50:50. In comparison with the Czech DMOs' financing, the situation in Slovak DMOs' financing is a little different. In the Czech republic there is no existence of a legal form of DMO. Due to this fact, in the Czech republic the legal form of a charitable trust has a higher percentage of income from commercial activities than from membership fees. On the contrary, the legal form of the association of corporate bodies relies on the membership fees. On average, the membership fees of the Czech DMOs reach around 30% of their budget which indicates a strong dependence on grants. On the contrary, it is typical of the Slovak DMOs that their income from commercial activities is very rare – only one in six local DMOs carries out commercial activities. The survey of Kamann (2008) shows that the largest percentage of financial resources of DMOs in Europe are created by the public sector, especially the local and regional government. The second largest financial resources are members fees and income from the business activities of DMOs. Sponsorship is one of the less frequent forms of financing, and the smallest percentage of financing are accommodation taxes, grants, and contributions from the European Union. The largest part of budget for DMOs in Europe is spent for promotion, branding, creating products, and planning. Expenditure on research, crisis management, quality control, and staff training represents only a small part of the budget of the DMOs in Europe.

In addition to destination management organizations, tourism development could be financed from financial funds from local governments and municipalities. This support may also be in the form of non-financial help, such as free rent of rooms, staff, etc.¹²

In our research we had an interview with representatives of local destination management organizations (DMO) in Slovakia (14). We examined the sources of funding, the number of members, and the use of financial funds. Since our sample is representative (14 out of 32 local destination organizations in Slovakia), the results can be generalized and applied to the whole territory of Slovakia. DMOs in Slovakia were created based on the distribution of its regions. However,

¹² M. Gúčík in: P. Patúš et al., *Manažment regiónu a strediska cestovného ruchu*, Merkantil, Banská Bystrica 1997, p. 160.

the scope of one organization is not always only in one region. The size of the regions is approximately the same. Differences are in the number of members in the organization and the amount of money in their possession. The sample group consisted of 14 DMOs located in the territory of Slovakia. We examined DMO Turiec-Kremnicko, DMO Rajecká dolina, Nitrianska DMO, DMO Horná Nitra – Bojnice, Bratislavská DMO, Region Senec, DMO Šariš – Bardejov, Region Vysoké Tatry, DMO Dudince, Zemplínska DMO, DMO Turistický Novohrad and Podpoľanie, OOCR Slovenský Raj, DMO Liptov and DMO Stredné Slovensko. The results of the research are in Table 1.

Table 1. Destination management organization in Slovakia

Name of organization	Date of creation	Number of members	Amount of subsidies 2012	Amount of subsidies 2013	Amount of subsidies 2014
Turiec-Kremnicko	26.03.2012	6	–	10 000.00	10 000.00
Rajecká dolina	28.12.2011	19	55 300.00	55 300.00	55 800.00
Nitrianska DMO	6.03.2012	5	93 045.60	75 851.19	75 851.19
Horná Nitra-Bojnice	1.03.2012	55	5 003.66	5003.66	6173.66
Bratislavská DMO	28.12.2011	77	394 806.00	394 806.00	397 486.00
Region Senec	27.02.2012	13	47 923.00	47 923.00	47 923.00
Šariš – Bardejov	7.12.2012	3	–	–	–
Region Vysoké Tatry	17.01.2012	6	719 923.50	767 068.31	767 086.31
Dudince	15.02.2012	7	24 300.00	24 300.00	24 300.00
Zemplínska DMO	8.03.2012	16	5 900.00	5 900.00	6 000.00
Turistický Novohrad a Podľanie	8.03.2012	58	18 777.20	18 777.20	20 183.92
Slovenský Raj	6.12.2012	31	–	–	8 190.00
Liptov	10.02.2012	14	303 838.20	337 595.00	397 486.00
Stredné Slovensko	6.03.2012	22	122 900.05	122 900.00	123 500.00

Source: own research, 2014.

The number of members of these organizations is different. The largest organization of the DMOs investigated is DMO Bratislava which has 71 members and the smallest DMO, when considering the number of members, is DMO Šariš – Bardejov, consisting of only three players – Bardejov, Bardejov Spa, and one more subject. The average number of members in the surveyed DMOs is 24. The DMO's number of members is not dependent on the size of their territory or the size of the region in which it operates. The amount of funding depends on the number of members. DMOs with more members have more

funds, and thus, the amount of subsidies is higher. DMOs receives funding from their members, from the state budget, as well as, from sponsorships and income from their business activities. The amount of the subsidies is based on the aggregate amount of collected membership fees, but up to a maximum of 90% of the accommodation taxes in member municipalities. Using funds from the grant, however, is earmarked and specified in the Act. It can be used for marketing and promotion of the region, product support and promoting, building infrastructure, and strategic development planning in destinations which includes data collection, quality management services, and educational activities.

Researched local DMOs use their funds mainly for presentations at exhibitions and fairs of tourism, for web development, the creation of a destination brand, to create and distribute promotional materials and billboards, to organize events for advertising on radio and television, to create healthy a environment in the region, and to create products and regional cards, etc.

Conclusion

In the Slovak Republic, we are witnessing the top-down approach towards the stimulation of the creation of sufficient organisational structures in tourism destinations. For many years in the Slovak republic, competitiveness of the tourism sector suffered from the lack of a system of complex financing. The tourism Support Act No. 91/2010 has partly improved the situation since it defined the bases for support of the marketing activities of destination management organizations on a local and regional level. In spite of the subsidies that DMOs receive on the local level, up to 90% of their income is raised from the public sector. Slovakia is in its infancy and tourism destinations in Slovakia are among the first generation of destinations. Country with developed tourism such as Switzerland and Austria are already developing the concept of third generation DMOs . The main difference is in the tasks which do not focus purely on marketing issues, but regard the organizational structures. They support networking across different sectors much more within the region, and as far as financing, a higher portion of income is raised by the entrepreneurial activities of the tourism organizations themselves.

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Finansowanie miejscowości i regionów turystycznych z funduszy publicznych i prywatnych. Studium przypadku Słowacji

Streszczenie. Podstawowym warunkiem zrównoważonego rozwoju turystyki w regionach turystycznych jest skuteczna struktura organizacyjna i zarządcza, którą zapewnić może powołana w tym celu tzw. spółka zarządzająca obszarem (miejscowością, regionem) turystycznym (destination management organization – DMO). Spółka taka ma za zadanie koordynowanie interesów sektora prywatnego i publicznego, a ponieważ jej działalność jest kosztowna, wymaga również łączenia zasobów obu tych sektorów. W związku z tym finansowanie DMO należy oprzeć na zasadach partnerstwa publiczno-prywatnego, a na jego budżet składać się winny wkłady interesariuszy, dotacje rządowe i dochody z działalności gospodarczej. Dla odpowiedniego wspierania rozwoju turystyki w takim kraju jak Republika Słowacka, która ma wielki, lecz – trzeba to samokrytycznie przyznać – niewykorzystany potencjał, konieczny jest złożony mechanizm finansowania. Ustawa o promocji turystyki nr 91/2010 częściowo reguluje wsparcie sektora turystycznego na Słowacji i tworzy warunki do powstania organizacji turystycznych w regionach turystycznych.

Słowa kluczowe: turystyka, region turystyczny, miejscowość turystyczna, finansowanie, zarządzanie turystyką