



# Concession relations as an instrument for infrastructural development of the tourism industry

## Las relaciones conceptuales como instrumento de desarrollo de infraestructuras en turismo

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### Contents

- 1. Introduction
- 2. Methodology
- 3. Results
- 4. Conclusions
- Bibliographic references

#### ABSTRACT:

The tourism industry of any country in the world is an important tool for the development of its economy, the operation results of which have a multiplicative effect on the socio-economic state of the country and society, determine the competitiveness, image and reputation of the country and the ability to provide the international collective security. Effective functioning of the tourism industry is possible only if there is a developed tourism infrastructure, formed to provide good quality tourism services, development of tourist destinations, preservation of historical and cultural heritage, overcoming of inter-ethnic cultural barriers and ecosystem restoration.

**Keywords:** tourism, concession, concession relations, infrastructure development, tourist destination

#### RESUMEN:

La industria turística de cualquier país del mundo es una herramienta importante para el desarrollo de su economía, cuyos resultados tienen un efecto multiplicador en el estado socioeconómico del estado y la sociedad, determinan la competitividad, la imagen y la reputación del país y la capacidad de brindar seguridad internacional colectiva. El funcionamiento efectivo de la industria turística solo es posible si existe una infraestructura turística desarrollada, formada para brindar servicios turísticos de calidad adecuada, desarrollo de distancias turísticas, preservación del patrimonio histórico y cultural, superación de barreras culturales interétnicas y restauración de ecosistemas.

**Palabras clave:** Turismo, concesión, relaciones de concesión, desarrollo de infraestructura, buceo turístico.

## 1. Introduction

During the second half of the twentieth century a significant economic and infrastructural development took place in many countries of the world, resulting in new challenges and opportunities for the rapid growth of national economies in general and their constituent sectors in particular.

The mentioned tendencies covered all spheres of activity, but especially acutely they affected the functioning of the tourism industry, which, besides obtaining economic benefits, fulfills an important function of restoring the labor potential of society, restores the rhythms of modern life, and enhances the person's vital activity.

At present, the effectiveness of the tourism industry is largely determined by the availability and state of its infrastructural provision.

Tourist infrastructure is a set of enterprises and institutions, which are the territorial, material and organizational basis for the development of tourism. It covers four main elements: accommodation facilities, catering, concomitant and communication spheres. Tourist infrastructure is represented by a set of material objects, whose activities are aimed at satisfying the tourist needs of the population. It includes the material and technical base of economic structures that are part of the territorial-recreational system of different level. Some researchers also include tourism objects of natural origin, monuments, museums etc. into tourist infrastructure. It is the tourism resources of tourist infrastructure that occupy a special place in the development of the entire tourism industry. The resources of the tourist infrastructure include a set of natural and man-made objects, which have comfortable properties and are suitable for creating a tourist product.

However, at the end of the previous century, a combination of factors, which are the gradual accumulation of physical and moral depreciation of the industrial infrastructure of countries' economies and the rapid increase in demand for tourist services, led to the inability of qualitative and uninterrupted functioning of the infrastructural facilities of the tourism industry at the proper level, which required changes in existing approaches to developing and financing infrastructural projects.

The formation of an effective tourism industry, aimed at the development of tourist destinations and their integration into the world market of tourist services, is conditioned by the need to solve acute socio-economic problems and to attract international experience.

The attraction of investments to the tourism industry in most countries of the world, ensuring the effectiveness of its functioning in modern conditions remains a strategic direction of the state economic policy, which to a certain extent is due to its ability to provide recreational and restorative functions of society's labor potential. However, a significant level of wear and tear of existing facilities of tourist infrastructure, as well as insufficient funding for innovative restoration and construction of new ones, restrict the state's ability to provide tourist services, which is a significant economic factor inhibiting the economic growth of national economies.

The absence of an effective mechanism for the development of tourism infrastructure creates a deterioration in the effectiveness of its functioning, causes the vulnerability of this sector of the economy to the destructive influence of internal and external factors, does not allow to fully meet the needs of consumers, worsens competitiveness and investment attractiveness. Such an obstacle has become an impulse for the search for new models of financing tourism infrastructure development in modern conditions in order to meet the growing needs of consumers for the quantity and quality of its services.

That is why an effective tool for overcoming the aforementioned destructive tendencies in many countries of the world is the concession, which, in the opinion of most scholars, are the relations regarding the provision, with the aim to meet public needs, by the authorized executive body or local self-government body, on the basis of a concession agreement on a fee and time basis to a legal entity or to an individual the right to establish or manage a concession object, on the condition of accepting the obligations to establish or manage the object of concession, property liability and possible business risk.

The application of the concession form of the management of infrastructure objects in the tourism industry is attractive enough for both domestic and foreign investors. That is why the development of an effective mechanism for the development of tourism industry infrastructure under concession conditions will ensure the inflow of long-term investments in the economy and will facilitate the formation of conditions for the progressive regeneration of the economy.

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## **2. Methodology**

The current stage of economic development in most countries of the world is characterized by the lack of sufficient financial resources in the state and local budgets, which does not allow making the necessary investments in infrastructure development. The experience of many countries of the world with different political and economic systems and the level of development of market relations suggests that one of the most effective ways to improve the quantitative and qualitative characteristics of the activity of state-owned objects is to attract private capital to financing and management of these objects on the concession basis. The main advantages of concessions are

the optimal mechanisms for creating stable and mutually beneficial relations between the state and the investor.

It should be noted that the systematic approach in economic science has appeared to be the most productive methodological key. It has found its practical application on both the micro and macro levels. At the same time, within the framework of economic science, the genesis of methodological ideas of the systematic approach occurred, parallel to the development of analytical tools of the very theory of systems: from simple awareness of the economy as a simple set of separate elements (Physiocrats, mercantilists) to understanding the economy as a complex dynamic system with feedback, the presence of compensating nonlinear effects.

Given the fact that the implementation of concession relations involves the management of integral property complexes, we can not ignore the wide practical application of the integrated approach, as well as its combination with the system one in substantiating the methodological approach of the study.

The theoretical and methodological principles of the research are based on the use of system and synergetic methods in the process of studying the existing trends and interconnections of the development of tourism infrastructure in the context of a significant increase of tourist flows in the world and the growth of requirements for the quality of tourist services, as well as the substantiation of the need to develop a system of measures, aimed primarily at improving the tourism infrastructure through the introduction of concession relations.

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### **3. Results**

The effectiveness of concessions in the management of infrastructure projects is confirmed by the current practice of many countries of the world. In the process of evolution of concession relations, most scholars identify six main stages, the differentiation of which is carried out in accordance with the following criteria: the change in the composition of concession objects; the presence of institutional, political and economic conditions that determined the status of concessionaires; features of the mechanism of state regulation of their activities:

- 1) formation (XIX - early XX centuries), when the objects of the concession were traditional (trade, crafts) and high-tech (railways, electrification, telegraph and telephone) activities;
- 2) transformation (1917-1944), in the process of which, along with traditional activities (communal services, urban transport), the new material and resources complexes, represented by large industrial enterprises, become the objects of concession;
- 3) stagnation (1944 - early 90's of the twentieth century), characterized by the suspension of the practice of concession relations;
- 4) recovery (1991-2005), when in the absence of the relevant legislation, individual elements of concessions were used in the framework of product sharing agreements, mainly in the field of natural resources;
- 5) diversification (2005-2012), in which the formation of the institutional basis of concession relations took place, which gave a new impetus to their development, caused the characteristics of their content filling, the diversification of sectoral application (natural resources, transport and other infrastructure) and new perspectives of development;
- 6) development (since 2012) - within the framework of which the financial and social conditions for the development of concession relations have been formed in order to create a competitive infrastructure in the conditions of globalization.

The presence of the periodization of the stages of concession relations allows us to interpret them as a process of interaction and interconnection of the state and private capital in order to combine the interests of society, to form the opportunities for economic development, which will create conditions for qualitative enhanced reproduction.

Among the advantages of concession relations are the following:

- concessions take off the financial burden from the state, since the concessionaire undertakes to deal with all the costs concerning financing, management and maintenance of the tourist facilities, transferred to the concession;
- concessions establish fairly strong long-term legally formalized relations between the state and the concessionaire;
- concession contracts allow to attract private, including foreign, capital without loss of strategic control over vital systems and objects.

The formation of the concession relations potential takes place in a harmonious combination of the development of human potential, social relations and social institutions, the tourism sphere and its infrastructure. Achieving strategic goals of the state development, improving the quality of tourist services, creating real conditions for improving the welfare of the population and satisfying tourist needs necessitates the prior development of concession relations in the tourism sector.

The concession is the most advanced, progressive and complex form of partnership between the state and the private owner at the present stage.

Firstly, unlike contractual relations, it has a multi-purpose and long-term character, which allows both parties to carry out strategic forecasting and planning of their activities.

Secondly, in a concession, the private owner has a high and often full right to freely solve administrative and economic issues.

Thirdly, within the framework of the concession agreement, the state has sufficient levers of influence on the concessionaire in case of violation of concession terms or general legislation, as well as when it is necessary to protect the public interests in the concession. In case of a public need, the state has the right to unilaterally terminate a concession with compensation to the concessionaire.

Fourthly, in concession projects, risks are redistributed among all their participants (state, concessionaire, investors, financial institutions, insurance companies, etc.), which significantly increases the viability of the concession project.

The main purpose of the concession contract is to increase the efficiency of the production process of its facility, which is impossible without investment. Given the current state of tourism sphere infrastructure, concession agreements are primarily caused by the need for the construction, modernization or use of other measures to improve the quality and ensure the continuity of the provision of tourist services. The concession is an instrument that differs from others not only by shortening terms but also by a guarantee of achieving the goal set by the owners and investors, which coincides with the final results of the investment, which is the basis for the use of concession agreements.

An important factor determining the development of concession relations in the tourism sector is the willingness of the public opinion to transfer the functions of ownership and use of the tourist infrastructure objects of the state and communal property to the private sector, the confidence of the authorities, the public and the population to this new type of economic relations. Only in this case, when introducing concession forms of management in the management of tourism infrastructure objects, a high-quality satisfaction of tourist needs of society can be provided.

The new financial paradigm for the implementation of concession relations in the tourism industry, which manifests itself in the practical implementation of the economic content of finance, is intended to distribute and redistribute the newly created value while simultaneously providing financial resources for the sustainable development of tourism infrastructure and to promote the acceleration of the recovery process of the society's labor potential.

The implementation of the new financial paradigm of the concession relations in the tourism industry and the introduction of a mechanism for its implementation will contribute to the achievement of a qualitatively new level of socio-economic development of society.

The need for implementation of new approaches to the management of infrastructure objects in the tourism industry in modern conditions requires the development and adoption of scientifically sound solutions that will help to ensure sustainable economic growth in the country. In this context, the need to study the economy transformation processes from an unstable to a steady state and in reverse order, taking into account possible synergetic effects, acquires an important theoretical and practical significance, fig. 1.

The transformation of the tourism industry in the process of transition from an unstable to a steady state as a result of the development of concession relations raises the issue of its financial provision, that is, the movement of resources, in particular financial ones.

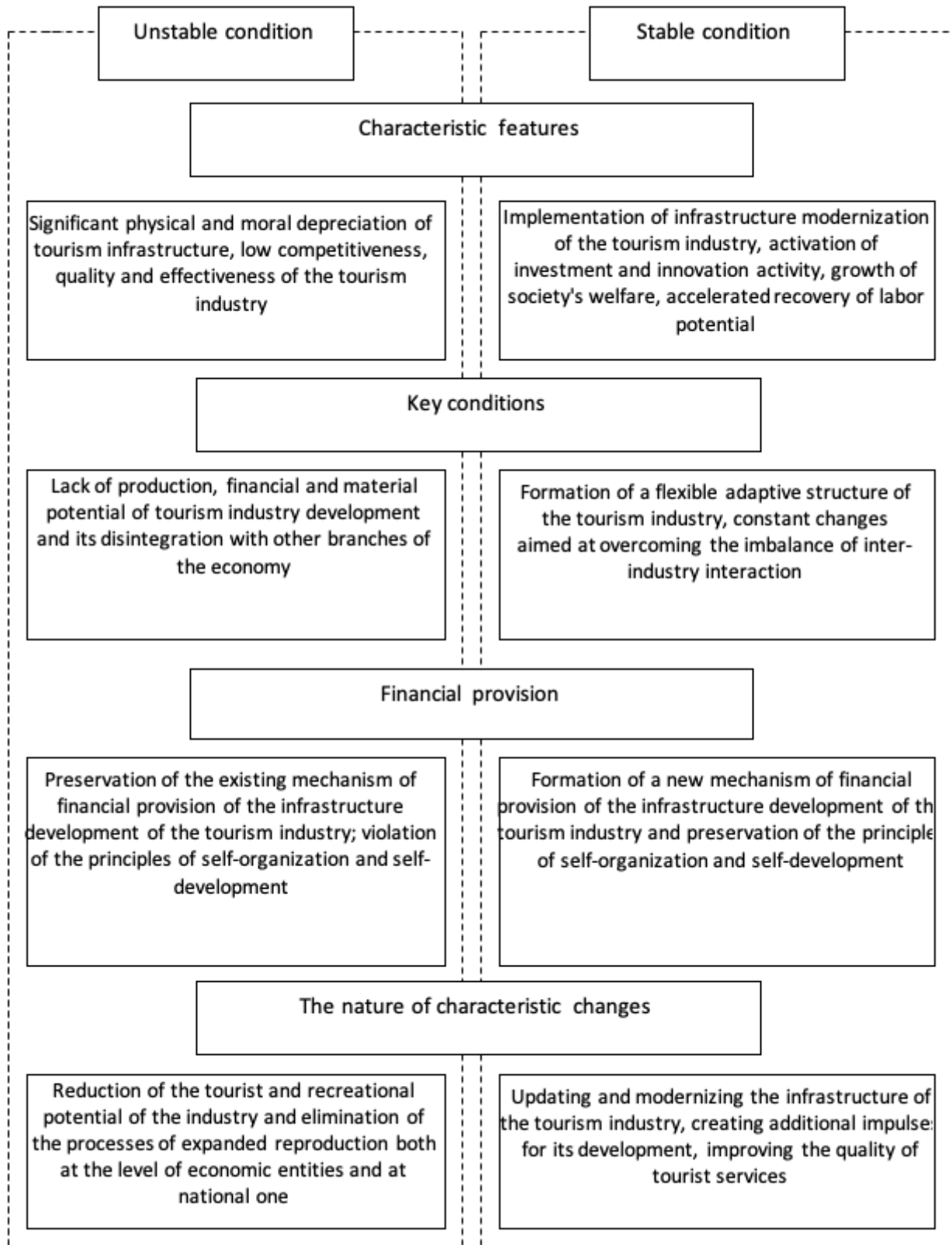
The construction of the financial architecture plays a leading role in the functioning of the concession object in the tourism industry, since it affects the level of its financial provision, determines the effectiveness of its financial and economic activity, the quality level of tourist services provision, fig. 2.

Depending on the strategic goal of tourism sphere development, the type of policy of its financial provision is determined as: aggressive, compromise, conservative.

The aggressive policy of financial provision is aimed at creating conditions for expanded recovery of tourism sphere infrastructure.

**Figure 1**

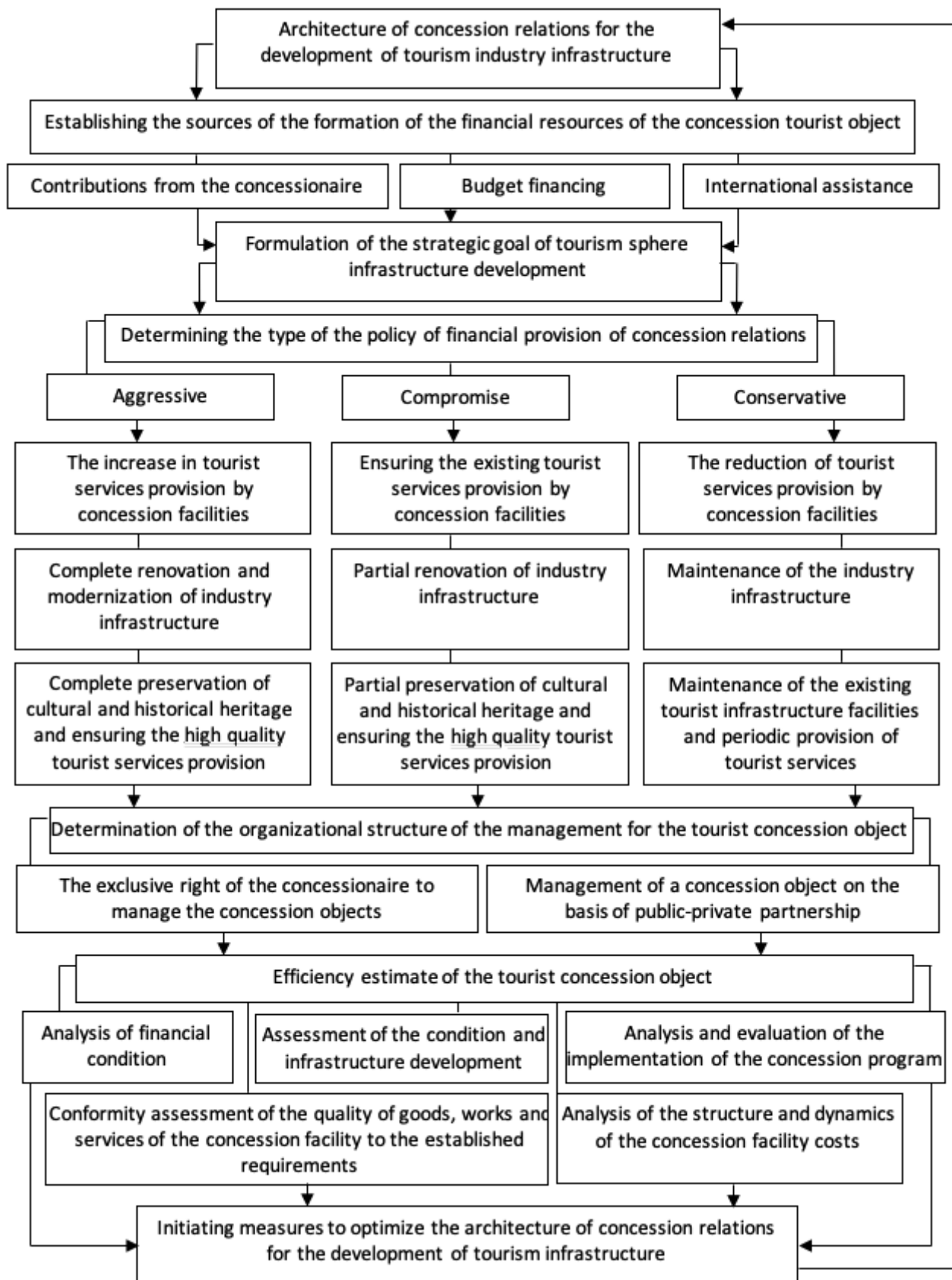
The transformation of the state of the tourism industry from an unstable to a stable condition as a result of the development of concession relations.



\* Source: Developed by authors

**Figure 2**

The process of building the architecture of concession relations for the development of tourism sphere infrastructure



\* Source: Developed by authors

Under these conditions one can see a complete renewal and innovative modernization of the tourist infrastructure, the conditions for improving the quality of tourist services through the active introduction of advanced innovative technologies are created. There is an expansion of the technical capabilities of the tourism infrastructure in order to provide opportunities for servicing increased tourist flows.

The compromise policy of financial provision of the tourism industry functioning is aimed at ensuring its current activity through a partial renovation of the tourist infrastructure. Among the main priorities of the tourism industry functioning in the context of this policy of financial provision

there is a gradual increase in the volume of tourist flows, ensuring the timely provision of tourist services of the proper quality.

The application of the conservative policy of financial provision of the tourism industry functioning is aimed at creating the conditions necessary for maintenance of the tourist infrastructure in working order.

Limited financial provision will lead to a gradual increase in unproductive costs of the tourism industry, which will have a direct impact on the growth of the cost of tourism services along with a decrease in their quality. It is impossible to expand the tourism industry infrastructure under these conditions. The organization of financial provision of concession relations in the tourism industry should be based on such basic principles:

- 1) systematic approach - the formation and distribution of financial resources should be carried out taking into account all tasks of the strategic development of the tourism industry, including the production, technical and social systems of the object of the concession and their reverse effect on financial provision;
- 2) unity of actions - the development and implementation of the financial provision of the tourism industry should combine the efforts and interests of all structures that carry out the industrial, technical and social development of the tourist facility;
- 3) differentiation of sources of financial provision - the formation of financial resources should be carried out with the involvement of different sources, which will allow to affect their cost and the level of risk;
- 4) Subordination to defined goals - the activities of the structures responsible for the formation, distribution and use of financial resources should be agreed and coordinated with all units of the tourist facility, combining the interests of all interested parties;
- 5) efficiency - rational and economic use of funds means to achieve maximum effect at minimum costs, which should ensure a stable profit-making activity of the tourist facility;
- 6) Optimality - the development of a financial provision policy should be based on the use of modern methods of planning, monitoring, analysis and multivariate calculations.

The main sources of financial provision for concession relations in the tourism sector include:

- payment for services by consumers of tourist services - revenues for consumed goods, works and services of the tourism industry;
- indirect budget financing - provision of financing from the state and local budgets in the form of grants, subsidies and subventions, setting preferences, etc .;
- lending - granting of long-term and short-term loans by the state and the subjects of the credit system on the principles of return, payment, terminable character and security;
- investment - attracting funds from investors in order to obtain additional income or other economic benefits;
- leasing - offering property for paid use and for a certain period in order to receive additional income.

Creation of an effective mechanism of financial provision of concession relations in the tourism industry remains an urgent and important task. For the broad development of concession relations in the tourism industry, it is necessary to determine the optimum source of financial provision or their synthesis in order to satisfy (provide) concession tourist objects with sufficient financial resources with the minimal impact of credit institutions (financial provision) on the financial activity of these objects.

first, the existence of an effective mechanism for financial provision of concession relations in the tourism sector will not only allow to diversify the sources of financial resources, but will also allow to attract significant amount of investment resources, which will reduce the burden on the budgets of the respective levels.

Secondly, this will allow to establish an effective cooperation between the concession agreement parties as well as consumers of goods, works and services, since concession relations activities in the tourism sector will be carried out on a parity basis, which will stimulate a long-term cooperation.

Thirdly, the sufficiency of financial provision of concession relations will contribute to the improvement of the quality of goods, works and services of the tourism industry, as well as their diversity in accordance with the constantly growing needs.

Thus, the mechanism of financial provision of concession relations in the tourism industry is a system for managing the financial relations of a business entity, whose operation is carried out on the basis of a concession agreement through financial leverage with the help of financial methods, aimed at increasing the efficiency of its operation. The action of the mechanism of financial provision of concession relations in the tourist industry is directly dependent on the characteristics of the creation and functioning of tourist destination, which influence the organization of the process of providing tourist services, the structure of sources, their amount, directions and risk of the use of financial resources. The purpose of functioning of the mechanism of financial provision of the concession relations in the tourist industry is to use all its elements to create such an amount of financial resources of economic activity, which would make it possible for the concessionaire to have the possibility of innovative infrastructure development and increase the level of efficiency of concession activity.

From the standpoint of financial provision of concession relations in the tourism industry, the following advantages for the state and local self-government can be distinguished:

- concession makes it possible to attract investment in the tourism industry, and its use creates conditions for an investor to invest in tourism infrastructure facilities, thereby reducing the local budget's heavy financial burden;
- tourist facilities created by the concessionaire while fulfilling the conditions of the concession contract automatically become state or communal property and the authorities retain the right of ownership of the property, which is improved, reconstructed and technically re-equipped at the expense of the concessionaire;
- concession is an effective mechanism for managing and organizing tourist destination. The advantage of a concession in the tourism industry is that it allows to involve an "effective" manager in the state and communal property management. A private concessionaire working for a remuneration, which is directly related to the results of his work, will be more effective than the municipal administration;
- concession gives the opportunity to use the best innovative experience in infrastructure development of the tourism industry, with the help of which there is an opportunity to improve the quality of tourist services and ensure their diversity;
- application of the concession provides for the complex use of property of the tourist destination;
- in accordance with the terms of use of the concession, the tourist object remains in state or communal ownership, and its activities are controlled by state or local authorities.

This actualizes the issue of improving the management of objects of the tourism industry in the current conditions of operation, which can only be achieved through the combination of state and market management mechanisms. An important direction for this is the use of concession agreements based on a combination of financial and organizational mechanisms of functioning. It allows to form organizational and managerial principles of financial support of concession relations in the tourism industry:

- the principle of interconnection and consistent, uninterrupted provision of all stages of the tourist service life cycle;
- the principle of stable reproduction of financial resources and technical assets;
- the principle of optimal level of financial and economic provision taking into account the risks and cost of financial resources;
- the principle of an objective assessment of the need for state support of tourism industry entities;
- the principle of saving resources;
- the principle of effective use of financial resources and technical assets;
- the principle of payback for the provision of tourist services;
- the principle of control over the proper use of financial resources;
- the principle of monitoring, accounting and control;
- the principle of priority;
- the principle of guaranteed security;
- the principle of economic incentives for rational use;
- the principle of reimbursement of damages caused by violation of legislation;



- the principle of ensuring free access to information;
- the principle of observance of uniform rules, norms and standards by all subjects of relations.

Financial provision of the development of concession relations in the tourism industry should address the following main objectives:

- to achieve maximum efficiency in using available financial resources - maximizing the output of GDP based on a rational model of financial provision of concession relations in the tourism sector;
  - to set optimal proportions of distribution and redistribution of produced GDP in order to fully meet the need of citizens, concessionaires and the state in tourist services;
  - to assist in attracting all temporarily free funds and income received for the needs of financial provision of concession relations in the tourism industry.
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## 4. Conclusions

Taking into account the whole spectrum of the above-mentioned advantages, we can assert that for both parties of the concession agreement there is a need for the comprehensive and purposeful development of concession relations in the tourism industry as one of the most important instruments of investment attraction.

This suggests that the concession relations in the tourism industry are one of the most optimal financial instruments of the financial mechanism, which makes it is possible to create conditions for solving many problems, improving the schemes of financing the tourism infrastructure development. But the intensification of the development of concession relations in the tourism sector is possible only on condition of the interaction of representatives of private business and local authorities, through the proper observance of the principles of concession activity and contract terms.

The problem of realization of the new financial paradigm of concession relations in the tourism industry is manifested in the need to harmonize the forms and methods of concession relations with the general course of social and economic reforms in the country, carried out transformations of the entire economic mechanism, attracting investment in infrastructure development of the tourism industry, ensuring the development of the national economy.

Although the concession has a millennial history, its forms have been continuously developed and updated. The world experience of using concessions convincingly confirms that this tool becomes today the leading form of financing the development and management of public property, which allows, while retaining the special right of the state to terminate a concession agreement, to maintain conditions for the effective use of tourist facilities and to ensure the social responsibility of business.

Thus, concession agreements, unlike other forms of public-private partnership, give the opportunity to more fully take into account the interests of all parties: investor, state, local authorities and the local community. Therefore, authorities should strive to introduce concessions as a form of effective management of tourism infrastructure facilities.

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[Index]

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