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Tourist tax-fee as a mechanism of urban renovation and upgrade of tourist product: Implementation on the municipality of Athens

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Abstract

The purpose of this article is to suggest the creation of an investment fund aiming at tourist development which will take full advantage of the tax-income that derives from the overnight stay at the tourist accommodations in Greece. It will provide a framework for an integrated project concerning urban transformation targeting interventions that will focus on the renewal of the tourism establishment infrastructure and the upgrade of the urban landscape. The aim will be on improving and differentiating the tourist product, prolonging the tourist season and highlighting new tourist destinations. This suggestion is focused on the Greek capital, which appears to have limited tourist activity in comparison to the rest of the European urban destinations. It also aims to overcome the barriers that prevent tourism development policies and the ability to face these barriers through this suggested mechanism.

Key words: tourism, local authority finances and tax-income.

JELs : L83,O18

I. Introduction

Tourism is one of the main leisure activities of individuals and in recent decades appears as a multifaceted phenomenon with social, economic, environmental and further dimensions. It

represents a multi-sector contributor to the economy at the global nation, regional and local level and marked a decisive course of development in many areas, both the developed and the developing world (Delitheou, Krabokoukis, Stavrakaki, 2013). The economic and political effects caused by tourism, which has become a monetary and social event at the present time, have significant consequences for a nation's economy, especially its international economic and political relations. For some countries, the tourism sector is the basis for their growth strategy. These countries have more foreign exchange input via export services and employment, and, therefore they are able to increase their GDP. Expansion of the tax base with an increase of national income and employment will result in a significant increase in state tax revenues. Increased tax revenues will help a country's development by increasing investment in central and local governments. Tourism revenues increase national income and create a multiplier effect on a national economy. This multiplier effect makes a positive impact on the economy and supports many sectors.

Modern tourism contains an ever growing number of new destinations which makes it a driving force particularly important for the economic and social progress.

Through the development of new tourism models, the touristic season will be able to be prolonged in a country but also to create a new climate of cooperation of numerous small and medium enterprises (represent the majority of Greek businesses). However, a customer analysis should be driven in the beginning as many seek to fill different needs (Delitheou and Krabokoukis, 2014). As sustainable tourism can be defined, the type of tourism that doesn't cause any implication to environment or to the society and the economy of the host country. Essentially, the concept of sustainability complements the concept of development. Hence, the combination of these two ideas has as a goal not only a better living of the population but also their future prosperity (Andriotis, 2008). Particularly for Greece nowadays and amid the current crisis, the development of tourism is a strategic objective of high priority contemporary tourism policy for the country is required to connect and combine tourism with actions related to the prevention of environmental impacts from such process, with technological improvements, public awareness, public information and participation (community, NGO'S) (Delitheou, Krabokoukis, Stavrakaki, 2013).

Greece is considered to be among the most touristic countries of Europe. Due to its natural environment, cultural heritage and rich history, it is a magnet of massive tourist activity every

year. Greece is considered to be one of the greatest destinations for summer vacations and at the same time it also provides a variety of tourist destinations considering the landscape.

Also, Greece is a popular holiday destination according to the World Tourist Organization reports (WTO, 2015) ranking at number 15 of the international worldwide arrivals. But despite the progress on the tourism industry over the past years, the main motto for tourist attraction remains as the country of “sun and sea”. According to Eurostat data, by the year 2012, 63,72% of the international arrivals took place between June and September, a percentage that is different from any other holiday destination.

Suggestions that could contribute in order to mitigate this seasonal phenomenon and be considered as a viable alternative prospect, for both economic and social and environmental reasons follow the route of enriching the tourism development model (Markaki et al. 2014). Following the benefits of these suggestions is the need for emerging new trends in tourism. For example the trend of city tourism (city break), seems to be very important so there could be an increase for both tourist facilities and financial incomes of countries in general.

Athens, as an urban destination itself, carries most of the necessary parameters to be a popular city destination, but the lack of adjustment, comparing to other European cities, shows that there is a need for intervening towards this direction which will create the appropriate conditions that will lead to the development of the tourist product.

II. City Tourism

The city tourism refers to a short period of time, usually shorter than three days, which occurs in urban centers based on hotel accommodations and refers to tourists with a high income profile whose consumption expenditure, during their stay, is larger than the tourism which is based on “sun and sea” (Dunne, 2009).

The increasing popularity of city tourism in Europe is due to a number of factors. To begin with, the most important are attributed to the increasing availability of flights at low prices emphasized on small distances (Dunne, Flanagan, Buckley, 2010) which combine a wide range of services at very low cost. Secondly, there is a continuous growing tendency of European people to have more vacations but in a shorter period of time. Thirdly, tourists have

the assumption, which is still very much prevalent, that the city can be a very desirable destination itself. And last, internet's growing role as a force that affects the decision of destination due to the immediate access to information and the direct booking of airline tickets, which makes the trip easier to a certain point, and it is often combined with the simple nature of the city tourism, which is based on two elements: transportation and accommodation and therefore, the factor of danger of this direct ticket-booking vacation is decreased.

Despite the continuous increasing tendency of city tourism, which is now in Europe up to 20% of the tourist market, rather than the average 15% held in 2007 (IPK International, 2016)¹, Greece's market share at the European tourism is limited to just 1,1% of vacation trips, 1,6% of overnight accommodation and 1,7% of expenditure factors, unlike the high share of tourism based on "sun and sea" which is up to 8,5% of vacation trips, 8,9% of overnight accommodation and 8,9% of expenditure factors (IPK International, processed by SETE Intelligence).

III. Athens as a tourist destination

Athens perfectly combines a rich cultural heritage, important monuments and modern way of living and thus can accumulate all the necessary factors which would make the city a popular tourist destination. But, the post-Olympic games lack of organized and upgrading blueprints on tourism infrastructure, the unattractive urban environment through the existence of deprived neighborhoods, located even inside its main core, and the existence of a significant number of abandoned buildings (more than 1.800) or buildings that show a deserted image, took an overwhelming bad turn in the city's urban landscape and eventually affected the tourist product which is the image of the city, as it appeared to be in several researches concerning the satisfaction of customers in Athens hotel accommodations and in the region in general (AAAHA², 2015).

Moreover, the Greek debt crisis has significantly limited the ability of public financing that was meant for completed urban interventions that would have helped the emergence of tourism and upgrade of Athens as a tourist destination. Furthermore, the consequences of Greek debt crisis didn't leave tourism industry unaffected, which, like all the Greek

¹ IPK International, "ITB - World Travel Trends Report 2015 / 2016", December 2015

² Athens – Attica & Argosaronic hotel Association

industries, face barriers in accessing funding or even cannot be funded at all (ECB, 2016)³. The image of the hotel industry is concentrated in small class hotel 2*, medium competitiveness and small financial profits while appear to have major funding needs for development in the coming years (PWC, 2016)⁴. A critical factor concerning the enrichment of the tourist product is the upgrade of hotel units (Markaki et al., 2014) in order to continue to be competitive and as result, Athens would be able to gain back its cutting share in this rapidly growing market.

What has been described above stresses the need for a funding mechanism set up towards this kind of interference which, after using all the limited resources, will ensure recyclable forms of sustainable funding for investment. This will lead to the development of the time being tourist facilities, while will also stand in the gap of the local urban landscape.

A possible funding source for this kind of interference could be imposing a small economic value fee which will be given to the massive tourist wave which will be overnight accommodated in Athens similar to other European cities.

Table 1. Hotel capacity of central Athens area (12/31/2015)

	5*	4*	3*	2*	1*	Total
<i>Units</i>	15	41	51	80	45	232
<i>Rooms</i>	3888	4152	3253	2636	1058	14987
<i>Beds</i>	7350	7578	5730	4812	1920	27390

Source : The Hellenic Chamber of Hotels

IV. Tourism tax system in European cities

Tourism tax- fee imposed to hotel units is a very common practice in many European countries. In some of them, this kind of tax- imposing serves certain purposes, such as the improvement of the tourism industry (tourism development, infrastructure and tourist improvement as well as improvement of public services that affect tourism such as waste disposal and management, city cleaning etc) or even environmental, social and cultural purposes.

³ ECB, “Survey on the Access to Finance of Enterprises (SAFE)”, June 2016.

⁴ PWC « Strategies on developing the tourist industry in Greece”, February 2016.

Specifically, a report from HOTREC/ Brewers of Europe (2013), called “The Hospitality Sector in Europe”⁵ mentions that only 15 from 31 European countries, involved in the research, are applying some kind of overnight accommodation tourist -fee that is set in local point and it is based usually on the type of accommodation unit. Most of these countries are applying reduced rates of value added tax (VAT) to the accommodation services.

However, it seems that the consequences of imposing an overnight tax-fee do not adversely affect the tourist product. A perfect illustration of this is the example of Rome, which after 4 years of imposing this kind of tax-fee, decided to double it by 2014, while cities such as Lisbon, in an effort of investment and priority actions financing to enhance sustainability of the tourist product, decided to impose a large fee of 1 euro per night until 2019, expecting to have a profit up to €15,7 per year.

In Greece there is no relevant overnight tax-fee that can be net recipient from the visitors. The accommodation services in hotel units and similar establishments, however, carry the burden of reduced rates of VAT, while there is an imposing tax-fee on visitors who temporarily stay in Greece that is up to 0,5% per bed in order to cover the increased needs of tourist facilities and municipality obligations that derive from the increased tourist activity and can be used for purposes such as cleanliness, light network and infrastructure development (road construction projects, upgrading projects, urban renovation projects etc).

V. Suggestion on setting up an Investment Fund for Tourism Development and expected benefits

A suggestion that could be used as a role model for urban renovation and development on the tourist product and which will be of a remunerative nature in order to bring, through the added value of the tourist product, a sustainable social, environmental and economic aspect, is the setting up of a investment Fund for Tourism Development in Athens, in which the tax revenues will flow through the overnight tax-fee that will be collected from hotel accommodation units within the boundaries of Athens municipality.

In order for the available resources of the Fund to be able to be re-used for further investment, promoting the sustainability and the long-term recycling of funds, it is suggested that the

⁵ <http://www.hotrec.eu/newsroom/press-releases-1714/study-shows-eu-hospitality-sector-is-key-economic-driver.aspx>

allocation of funds will be provided by two pillars. The first pillar, in particular, will be a guaranteeing mechanism allocated in hotel units that desire to be funded in order to make investment plans about the development of their establishments, but face hardships on accessing funding via the banking system. The available resources will be leveraged (e.g. by 1:4) in order for this mobilized amount of investment to be beneficiary. Hotel establishments will be benefited because they will draw an added funding insurance, which will limit the amount of necessary funding up to 25%. Credit institutions will also be benefited because they will be able to limit the credit risk derived from this kind of funding, by the corresponding percentage, because the security referred will be provided as cash collateral arrangement; that will be released symmetrically and proportionately via the repayment of the credit by the undertaking. Furthermore, due to the credit risk- mitigation given by this kind of security, businesses will be also benefited from reduction in their interest burden.

The second pillar will be provided in the form of direct financing for urban landscape interventions by the municipality of Athens, which will focus on the renovation of the abandoned buildings appearance or buildings that look abandoned, giving priority to the historic city center which welcomes a great portion of tourist activity. The actions of this pillar will be able to be combined with activities derived from national or community resources, increasing their efficiency.

An evaluation of the expected resources of the Fund is based on the numbers of overnight stays of the value of the applied tax-fee. According to the disposable numbers about hotel units built inside the municipality of Athens, it is estimated that there are 5,3 million overnight stays, according to Athens Development and Destination Management Agency (ADDMA) reports.

The imposition of a tax-fee of €0,50 per visitor and per overnight stay may bring a slight impact on the touristic activity and even some disaffection by professionals in this field, but nevertheless, it will contribute to the creation of a capital on the amount of €2,5 million. This will be able to be established after a year of Fund operation as a funding guarantee on businesses close to €10 million (by 1:4), while the whole amount of investment plans carried out, when combined with other type of actions such as these of the New Investment Incentives Law, will be able to mobilize investments over €40 million, if the banks borrowing comes under this investment on business funding project.

Interventions, which will be under this second pillar of the Fund, will be a certain amount of the annual incomes of the Fund, which will be progressively increased, in order for the businesses to benefit, given the right priority, so they will be able to undertake investment projects on developing their facilities and at the same time, be a part of smaller class accommodation, so that the disposable funds, during the first period of Fund operation, will be disposed to a significant number of potential beneficiaries.

Conclusion

The limited ability of public funding point to the need of imposing an affective and sustainable management of the available resources so there could be a multiplier benefit by using it. The suggestion discussed above about setting a financing Fund on tourist development aims at the maximization of the expected benefit through a small tax-income which will be imposed on a massive number of tourists who choose to stay overnight in Athens accommodation units and will be provided for private investments as well as public interventions that will eventually lead to the increase of the tourist product and urban renewal of deprived areas within the city's core.

The fact that Greece is considered worldwide to be amongst the most important tourist destinations is in fact very encouraging. Nevertheless, there is a high amount of effort needed to be done for the enrichment of tourist development model to be achieved.

Business actions, such as the enforcement of provided services as well as the increase of outward-looking business actions, are very important, but in order to obtain a strengthened effectiveness and an integrated nature, these actions should be supported by public actions and be under a integrated plan of urban renewal, which will make this venture sustainable and will indeed strengthen its economic, social and environmental impact.

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