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PUBLIC SUPPORT FOR SUSTAINABLE TOURISM

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#### ABSTRACT

Sustainability tends to plan the ensuring of future revenue of the local community through the preservation and proper exploitation of resources. These, however, are a part of the collective heritage and as such are not freely available. This leads to an economic gap for the companies involved in sustainability strategy. This gap can be overcome only through a coordinated system of relationships between public bodies and private operators, able to both fairly distribute the "cost" of sustainability beyond the study area, and to optimize the use of inputs essential to the success of their business. At this stage a hypothesis of the possible intervention of public bodies is proposed.

Key words: sustainability, tourism, costs, revenue, public intervention, tourism policy, community, public sector, private sector

#### INTRODUCTION

In the scientific literature the main definitions for sustainable tourism show that the main recipient of the social and economic policy is the local community, which through the proper exploitation of cultural and natural heritage try to ensure its future economic survival. Apparently, the local community is a collection of individuals who share a particular physical territory, where they interact individually or in a group with the physical environment, resources, etc. In the reality, especially in the economic field, the concept of community has to include, in addition to the

individuals, all those abstract subjects (companies, cooperatives, associations, etc.) holders of rights, belonging to the set of relations and mutual exchange of influences, which are formed inside of a particular territorial space. Therefore a group of physical and abstract subjects is formed and is called community. The size of the community is then determined by the study of these aspects that characterize the profile: demographic, anthropological, economical, psychological, institutional and future prospects. Inside the community the various actors maintain with each other and outside, commercial relations related to goods and/or services which, in an economic sense, produce costs and revenues. These are held in private area when only the private entities are involved (hotels, restaurants, suppliers, employees, etc.) or in the public area if the local public institutions are the customers or suppliers. In both cases the whole community is affected positively or negatively. Reasonably costs are associated with the wealth-diminishing resources, while revenues mean a growing of resource-rich. Considering the entire economic system, in the totality of economic exchanges, each operation has neutral effects:

$$\text{sum of costs} = \text{sum of revenues}$$

But when we consider a restricted geographical area, such as a community, region or country, this relationship loses its validity. In a nutshell, we can therefore assume the following situations occur:

Table 1

Relationships between sale and purchase of services

Sale and purchase of services	Private	Community
Buyer belongs to the community Seller belongs to the community	cost revenue	neutral
Buyer belongs to the community Seller doesn't belong to the community	cost revenue	cost
Buyer doesn't belong to the community Seller belongs to the community	cost revenue	revenue

From the table it is clear that for the community (as a whole), sales and purchases can be neutral, a cost or a revenue, depending on the subjects involved in this transaction. *The economic territorial planning is designed to facilitate those processes that tend to preserve and enhance the local economy*, this consideration must be kept in mind without obviously recreating a closed economy of medieval type. This point of view may seem an anachronism in a time characterized by the disappear of any form of barrier, instead it is a simple tool to limit the devastating effects produced by the globalization without rules on the weaker and more exposed economies. Until some rules (economic, moral, ethical) will not be universally applied, protectionist actions may be the only viable hypothesis to ensure the survival of regional identity.

# 1. DIAGRAM OF THE CIRCLES

Usually, each country has a vertical administrative subdivision: municipalities, districts and regions. Added to these there are numerous private companies and legal entities created through agreements of cooperation and collaborations both public and private actors (associations, cooperatives, districts tourism, etc.). This allows the development of vertical or horizontal relationships: the first one involve different levels (e.g. municipalities-region), the second ones are on the same horizontal level (e.g. municipality-municipality). In the initial phase of development it is reasonable to assume few and insignificant relationships and joint actions between the public and private subjects in the area. There aren't any commercial relations, especially of horizontal type, belonging to various forms of cooperation, hence the planning of the territory is divided as follows:

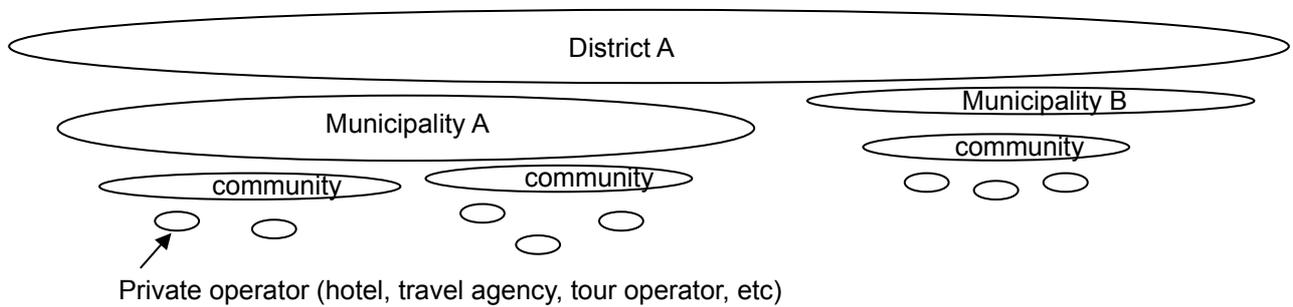
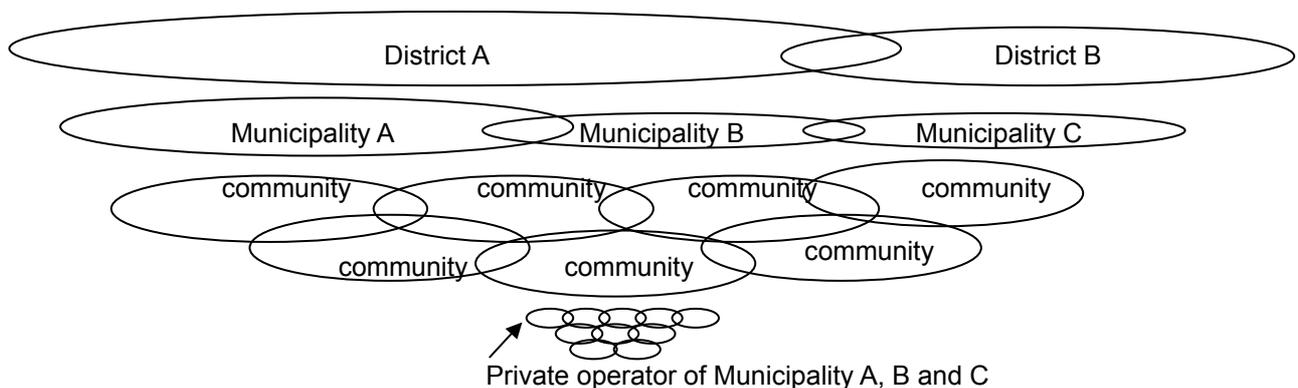


Fig.1. "Primitive" inter-relations structure

This situation is defined as "primitive" - where the inter-relations and especially the joint actions between the various actors are non-existent or negligible, or depend on administrative law, especially the vertical ones, rather than on economic and social reasons. Reasonably with the passage of time the system moves towards a "mature" situation characterized by more or less widespread inter-relationships and/or joint actions between various actors.

As already stated, these collaborations can be realized in horizontal direction when they involve subject of the same level, or in vertical one when they interact at different levels. Municipalities, districts, regions are seen as subjects under the institutional division of the territory.

## Horizontal relations



Vertical relations

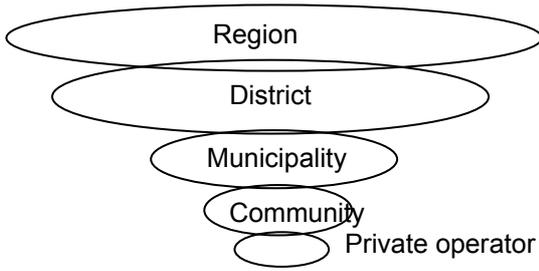


Fig.2. "Mature" inter-relations structure

1.1. The territorial element

Including in the concept of community those abstract subjects (companies, associations, public or private, etc.) that belong to a stable system of relations, it is clear that over time, through the development of economic exchanges and the emergence of new actors, the territorial area of reference tends to increase. In the situation "primitive" the territorial element is the community with its residents-operators (may correspond to a village of a municipality, or the same municipality), but already in the later stages of the evolution of the development of territorial relations, the territorial element increases the role of the geographical factor which must interact with other communities or with close subjects. Hence when the territorial element is referred to specific territorial spaces, it should include more villages, more municipalities, more districts, and the application of the relation  $\text{sum of costs} = \text{sum of revenues}$  increases. The purchase by a company (A) of community (A) of a service provided by a company (B) of community (B) can be considered in two ways (Table 2 and Table 3):

Table 2

Considered individually:

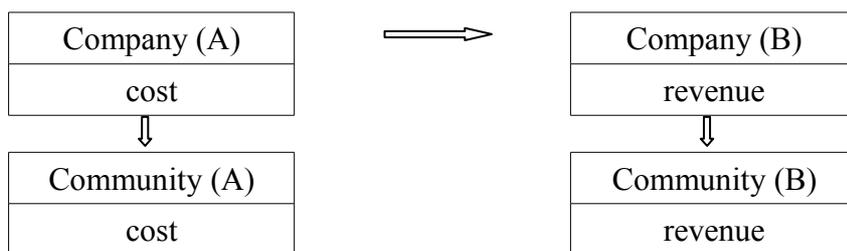
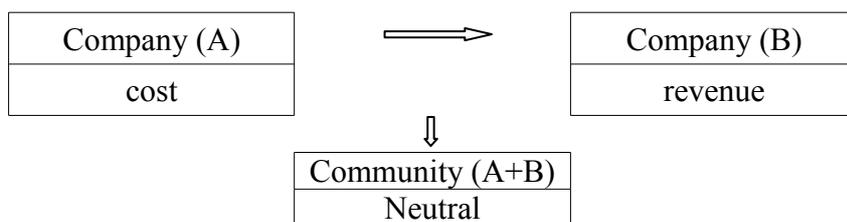


Table 3

Community A and B considered as a whole territory:



Apparently the two hypotheses seem to produce the same effects for both the private sector and the public, but in reality in the medium term the effects are certainly different. For example, when the companies (A) and (B) belong to the same area, even after stimulus policies defined by the community (A + B), it is very likely that company (B) will invest at least part of its revenue within the community itself. In contrast, in the absence of an unified idea of the territory and of policies which promote the use of local resources (when communities are separated, it is difficult to imagine interventions in support of workers from other communities), it is likely that the company (B) addresses the income in its community or even worse - outside. With a wider community (in economic sense and probably territorial) a better and more equitable redistribution of resources inside the area is reached, and the territory is better able to cope with external threats. Through the extension of the size of the community, it is easy that wealth will remain into the local area and reasonably, through the system of exchanges between private actors and public institutions, it will be better redistributed between the subjects. Be noted that the uniform socio-economic development strengthens "the ring" defines the breaking point of the whole system.

## 1.2. Sustainability is a way to preserve the public interest

From the most reliable definitions for sustainable tourism (WCED- Brundtland report 1987, WOT – 1988, Agenda 21 Rio de Janeiro, WTO – 1996, International Conference of Sustainable Tourism Rimini – 2001, Holden – 2000) follow that the main goal of sustainability is the preservation of the natural, social, cultural, etc. resources, in order to ensure economic exploitation for future generations. Apparently, the direct beneficiary, in economic terms, of sustainability seems to be the local community which through the proper use of resources tries to ensure its future profits. This report seems to exhaust its effects locally (keep for the future), but when natural and cultural resources are involved, it necessarily extends beyond the boundaries of the territory under consideration: the preservation of a natural park, traditions and architecture can offer valuable job opportunities for locals, but they are certainly an element of pleasure and cultural growth for all visitors. In recent years the success of tourist proposals aimed to discover the nature, culture and the traditions of a people or a territory, shows that there is a need that affects a growing proportion of the public. When an ancient folk tradition disappears and books, movies and the memory of the elderly become the only witness of it, the loss does not affect only the local community but the society. One can say that through the sustainability we tend to plan-ensure the future revenue of the local community (through the preservation and proper exploitation of resources), however these resources fall within the collective heritage and as such they are not freely available. One could speak that a company uses inputs whose exploitation is not and can not be free, but it must be a part of a logical protection of best interests. Based on these and other considerations contained in this

paper, it can be said that *the sustainability because of the public interest that it represents has a function that belongs to the public sphere*. This is an assumption of great importance because its acceptance can activate a series of specific measures of support and development that would be unacceptable in the traditional sector of the economy profit. The public nature of sustainability must then add the heavy constraints which, in an economic viewpoint, mean profit limitation imposed by the loading capacity and higher costs of management - for example, usually a faithful and original renovation of an old building is much more expensive than the total demolition and reconstruction. The public interventions must therefore translate into support for local communities and workers involved in sustainability through a kind of incentive-support, including those of extra-territorial origin, *which represent the right "revenue" for the constraints that must be complied with to ensure a future to the local subjects, but also to protect a collective interest that certainly does not fall within the scope of the private sector economy*. The objective of a company remains the profit and the preservation of culture, traditions, etc., are tools to get and/or to preserve it. *The support from the public entity-relationship and the development of partnerships, not only in economic terms, between the private operators (hotels, restaurants, travel agencies, etc) are the foundations of the sustainability upon which build those measures that can provide economical reasons to all public and individuals involved in sustainable tourism. The absence of such measures and the limitations imposed by sustainability result a structural gap difficult to overcome for the community and local actors and this is not an economical acceptable limit in the free market.*

## 2. THE PUBLIC

Traditionally, the goal of each public body is to pursue the public interest in favor the community through the development the so-called public service. Therefore, in this activity all those aspects that constitute collective interests are placed. Among these, and among the concerns of the public planner, certainly there is the need to achieve sustainable socio-economic realities homogeneously in the whole geographical area of reference. Recognizing that the preservation of those values, those resources, which are the subject of sustainable tourism, is a collective interest, it can be included in the priorities of the public body, whose actions, at least in our case, can be classified broadly in two categories:

- direct intervention: cash contributions, provision of services, lower taxes;
- indirect interventions: fostering-requirement of the development of exchange relations between economic realities and sustainable actors, certification of sustainable local activities.

Considering the commercial transactions, among the public subjects there are at least two distinct categories according to the different degree of involvement in the activities of sale-purchase of goods and services:*in other words the of direct benefit obtained by the activities supported by the*

*relation costs-revenues*. In fact, the revenue (from the sale of a good-service) for a private operator of district B, means for the same district B higher local taxes, employment, economic development, population growth, etc. Of course, this is a purely economic viewpoint, then follow the major socio-economic hardships produced by pollution, traffic, etc.

Suppose 3 districts, A, B and C, and one sustainable operator of A who buys a sustainable service from an operator of B. Sustainability is an advantage for all 3 districts (public function of sustainability), but while C is not directly involved in the specific transaction, A has a cost and B obtains a direct profit from the attainment of revenue by its operator that made the sale. Generalizing the example: A and C tend to be impoverished, while B is enriched. The positions of A, B and C should therefore be treated differently, for example applying a general contribution to all districts (Public Service of sustainability) and a specific contribution, which is called *transfers*, to the public (District B) that directly obtains benefits from the specific transaction. Hence:

- district A pays the overall (general) contribution
- district B pays the contribution of general and specific (*transfer*)
- district C pays the overall (general) contribution

It should be emphasized that from the operational point of view, the introduction of a general contribution to sustainability becomes difficult to implement because it must involve all the economic and institutional realities of the country. In the following text we will see, instead, that the *transfer system* can work even within a single geographical area, although a greater effectiveness is achieved by involving the largest number of bodies (municipalities, districts, regions, state), through various types of cooperation agreements.

### 3. THE TRANSFERT SYSTEM (the transfer of the costs)

Established that one of the main conditions for the practical application of sustainability in tourism is the elimination for the local operator and the community of the cost-loss characterized by a strong social component, it is now necessary to analyze the possible interventions that allow the transfer of such values on others. The municipality, district, etc. where the revenue is obtained by that operation, obtains a plus-value, certainly positive, from the difference between the benefits (higher local taxes, employment, development, etc.) and the negative (more pollution, traffic, increase of the cost of some services, etc.). Through the *transfer system*, this added value, not impossible to quantify, is returned in part or in whole to those "clients" that apply sustainability. *The basic idea is that the gain achieved by the public entity thank to sustainability, has to re-enter into the market: sustainability should not be a gain for any public institution.* The refund may be made directly through a provision on the "client" or indirectly by recognizing a benefit to the "supplier" that apply to the customer a lower price on sustainable goods and/or services purchased (see graphics in

contribution paragraph). This form of support for sustainability in relation to a contribution from general (for example, the municipalities in Bulgaria must donate 1% for the sustainable businesses of their budget) has some advantages:

- 1) relates only those subjects involved in the same operation, resetting the positions income (revenues) and expenses (costs) between all the public (no public institution-entity makes money)
- 2) allows the suppliers of goods or services to apply a lower price and thus to be more competitive than the competitors that do not fit into the *transfer system*. Thus two effects occur:

- an increase in revenues for the private operator and a consequent increase in local economic development
- the spread of the *transfer system* between different geographical areas. As already mentioned that the system can function effectively even only in a part of national territory.

Considering the public subject the *transfers system* is a direct intervention through the provision of grants, and/or a indirect intervention through the spread of the economic relations (and not only) between sustainable subjects. The transfers can be: a) vertical; b) horizontal

### 3.1. Vertical transfers

A vertical transfer takes place when the cost is shifted to higher levels, such as between local operator (hotels, travel agencies, etc) and communities, between communities and municipalities, between municipalities and district etc., until to reach the equality of incomes-costs.

Examples: an operator of municipality A needs a service that is not present in its territory. If the cost of the service is transferred to this district (B), you will have a vertical transfer. In this way the public body that represents the place where the revenue is produced, takes care the social cost of a municipality or a private subject belonging to another district, thus realizing the cost-revenue equality.

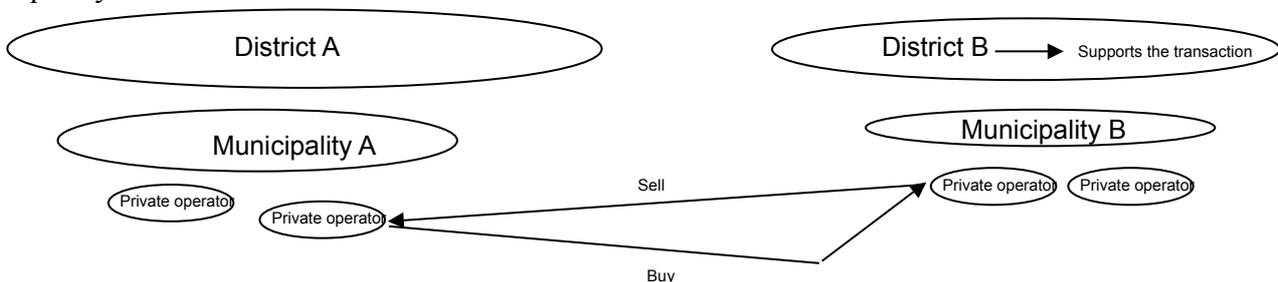


Fig.3. A vertical transfer

In turn, transfers can be external or internal if the equality between the cost-revenue takes place inside or outside the district in question.

#### External vertical transfers

This is certainly the most interesting transfer because, being directed to purchase goods and/or services by outside suppliers to the territory, develops - creates the system of relationships between

institutional actors, and is also the first way to increase the size of territorial element.

Example: suppose three Bulgarian municipalities A, B and C and all operators purchase goods from operators-suppliers of municipality B, probably more evolved than the other two.

We consider 3 cases:

1) there is a national contribution to sustainability

All three municipalities have to donate to sustainable national activities 1% of their budget, which will be distributed on the territory on the basis of costs incurred and presented by various operators involved in sustainability included in each municipality or other local areas. This occurs (Table 4):

Table 4

The case of national contribution to sustainability

Municipality		
A	B	C
<i>Costs</i> - 1% of public budget - purchases from suppliers B <i>Revenues</i> - refund from national fund (1%) of the purchases in B	<i>Costs</i> - 1% of public budget <i>Revenues</i> - sales of goods and services to operators (private) of A and C - refund from national fund (1%) of the purchases in B (B on B)	<i>Costs</i> - 1% of public budget - purchases from suppliers B <i>Revenues</i> - refund from national fund (1%) of the purchases in B
Loss = 1% of public budget	For public entity: loss = (1% of public budget) – (local taxes on private gain on sales). For community: the high sales can produce a gain	Loss = 1% of public budget

In all likelihood, by the system of general contribution the municipalities that host the major national suppliers will have benefit, although it is reasonable that they need fewer external resources than the others (public entity of B has a lower loss that the others two). This system promotes sustainable private operators who obtain a full or partial reimbursement of their expenses, but at the community level accentuates the differences in economic development already in the territory. In the long run the depletion of the host community will lead to a difficult social-economic situation also the private recipient of the contribution.

2) applying the *transfer system*:

Table 5

The case of the transfer system

Municipality		
A	B	C
<i>Costs</i> - purchases from suppliers B	<i>Costs</i> - refund to operators A and C	<i>Costs</i> - purchases from suppliers B

<i>Revenues</i> - refund a part of the purchases in B	the public gain <i>Revenues</i> - sales to operators A and C	<i>Revenues</i> - refund a part of the purchases in B
For public entity = neutral	For public entity = neutral (municipality B refund his public gain from private sales)	For public entity = neutral

With the *transfer system*, the cost of sustainability is more equally distributed among the different territories and the public entities (public entity B refunds to operators A and C, his public gain from private sales, in any case an amount lower the cost of the good or service). If we accept the assumption that without certain conditions the sustainable businesses can not survive, it is evident that the "customers" of A and C municipalities would disappear in the medium term, with the consequent loss for the suppliers B and the same municipality. Obviously, the *transfer system* has a limited scope with regard to the settlement of differences in the different degrees of development among municipalities, which in any case depend on the private actors. Not only that, the municipality B generates a system by which the private companies located within its boundaries are more competitive in the market and reasonably they are preferred by sustainable subjects "clients" of the same and other municipalities.

Previously it was said that the *transfer system* has the advantage that can be applied to a limited part of national territory. In fact, this system could be applied as a minimum to a single municipality through individual initiative and therefore outside of conventions and/or agreements with other municipalities.

3) applying the method of external transfers and the national contribution of 1% :

Table 6

Method of external transfers and the national contribution

Municipality		
A	B	C
<i>Costs</i> - 1% of public budget - purchases from suppliers B <i>Revenues</i> - refund a part from B and the difference from national fund	<i>Costs</i> - 1% of public budget - refund to operators A and C the public gain <i>Revenues</i> - sales to operators A and C - refund the difference from national fund	<i>Costs</i> - 1% of public budget - purchases from suppliers B <i>Revenues</i> - refund a part from B and the difference from national fund
Loss 1%	Loss 1%	Loss 1%

All municipalities enter a loss = 1% of their public budget (unlike case n. 1 there aren't differences between the three public entities), but in case n. 3 the national fund has more available money, for

new interventions on behalf of all sustainable actors. National fund, in fact, has to refund to private subjects only the difference between the cost of the good or service and the part already refunded, with the method of the transfert, by the public entity B.

#### Internal vertical transfers

They treat the purchase of goods or services for which the cost-benefit is equal within the same geographical area. *Among the objectives of the public planner, the increase of the size and/or complexity, in terms of goods and services available, of the geographical element, has to be included.* It should be noted that the territorial element is characterized not only by its spatial dimensions, but also by the present of economic subjects, measured in terms of both quantity and quality.

*Thus it is important to emphasize the opportunity that the public planner considers, as a priority for local economic development, the need to increase the spectrum of commercial businesses in the area, in order to offer to the local and extra-territorial operators a wider range of goods and/or services not only of the tourism sector.* Otherwise the local companies will be forced to satisfy their needs outside with the risk of leakage of resources.

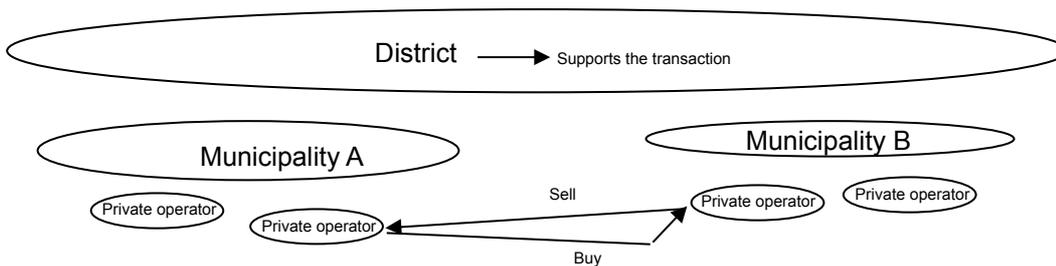


Fig.4. Internal vertical transfer

### 3.2. The contribution

Excluding the case where the service is done directly by the public body (it will be discussed later), from a technical standpoint, the contribution for a sustainable company, which buys goods and/or services, may be done through a distribution of money and/or a reduction in local taxes that the company should pay.

In both cases we obtain a reduction in management overheads for that company. The provision of support by the public entity can be done in 3 ways:

- through provision of funds directly to the subject "customer"

(Fig.5)

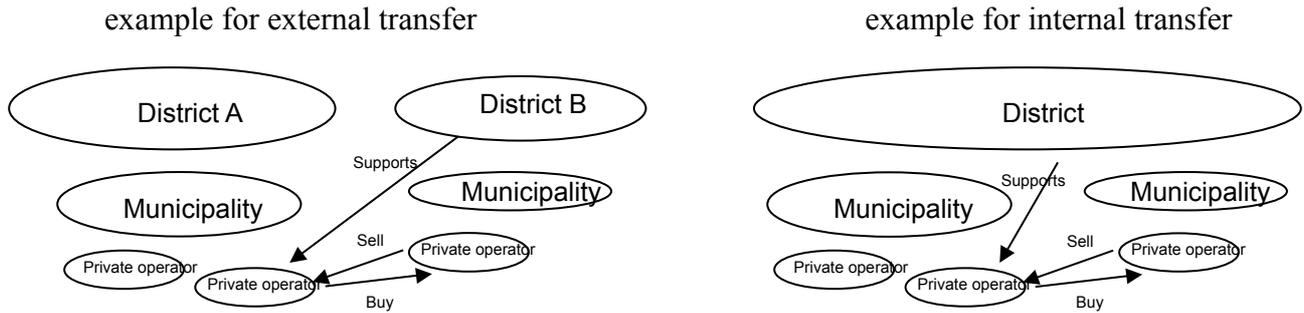


Fig.5. Provision of funds directly to the subject "customer"

- through a delivery of money or the recognition of a local tax credit to subject "supplier" - in this way it can apply a discount on goods and/or service sold to subject "customer" (Fig.6)

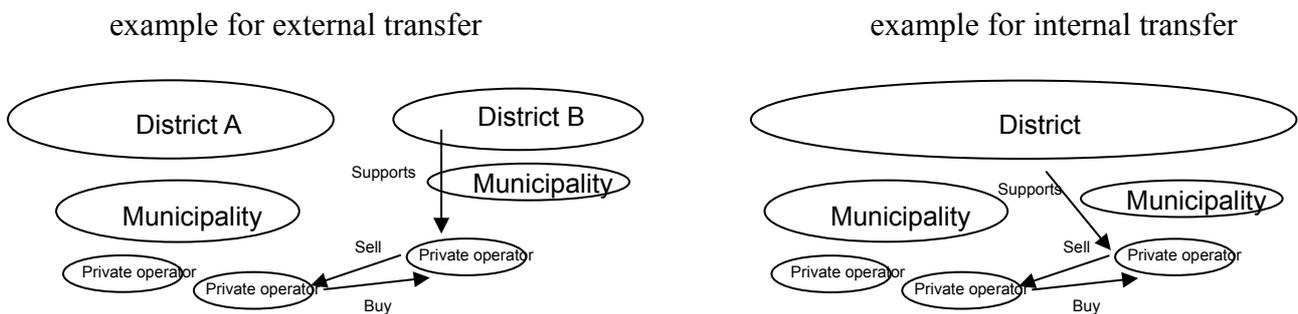


Fig.6. Delivery of money to subject "supplier"

- through a delivery of money or compensation to the municipality hosting the subject "customer", which then delivers the amount of money or approves a corresponding credit on local taxes



Fig.7. Indirect delivery of money

The quantification of the contribution requires a calculation procedure, which can determine the plus-value of the public entity for each unit of revenue received from private companies on its territory. *Leaving aside the social aspect, in purely economic terms, it is a definitively positive value* (otherwise it would make sense to the economic development of the territory) as the difference between components positive:

- increase in the local employment = produces an increase in local consumption and therefore in local taxes paid by these companies;

- increase in the resident population = produces an increase in transfers from the state in favor of the public body concerned (municipal, district, region, etc.) and an increase in local taxes;
- development of the activities induced in the activities of the companies 'suppliers' = produces an increase in local taxes paid by these companies;

and a negative:

- increase of the pollution = produces an increase in costs for the disposal of waste products;
- increased traffic and local congestion = produces an increase in costs for the traffic management issues and especially, those related to socio-economic factors.

At the national level

The above concerns the case where *transfers* involve limited parts of the country, without the direct involvement of the State. Obviously this is a starting point, we could say a kind of "laboratory" where the system can be fine-tuned and then extended to national or at least to a level, which also includes the Central Administration. Especially in those countries where salaries, consumption and local taxes are low, the *transfer system* limited to only small geographical area, runs the risk to produce contributions (cost reductions) in favor of the companies 'customers' of little significance: it is certainly not reimbursing the companies 'customers' a few percent of its costs that can make you think of developing sustainable tourism. If adopted nationally, the *transfer system* could, instead, include also the contribution share of state taxes paid by the "supplier" on the sales transaction. Hence, local taxes should be added to state taxes being approximately 20% (in UE countries are about twice as big), and it's possible a total refund of 25%.

It should be emphasized that the *transfer system* for the State in general and for the public entity is a temporary use of financial resources. In the medium term it is reasonable to assume that the positive effects of the subsidies granted to companies on sustainable local economies in terms of increased production, competitiveness (if sales increase, the effect of fixed costs will decrease and the power toward suppliers will grow), employment, etc., will be transformed into new-higher taxes and/or reductions of any action in support of unemployment. It is very easy to think a "feed back". In the short term, the cost for the State and/or the public sector due to the *transfer system* will reduce because the operator "customer":

- reduces production costs, if it retains the same sales price, gets more gain, then pays more taxes
- reduces costs, if proportionally it reduces the sales price, the gain amount doesn't change, but the lower selling prices will reasonably increase the number of clients and then the total revenues increase, subsequently it'll pay more taxes (Fig.8).

Therefore, in other words, it is a kind of anticipation and in the short-medium term public body gets more taxes and promotes the development of the local economy.

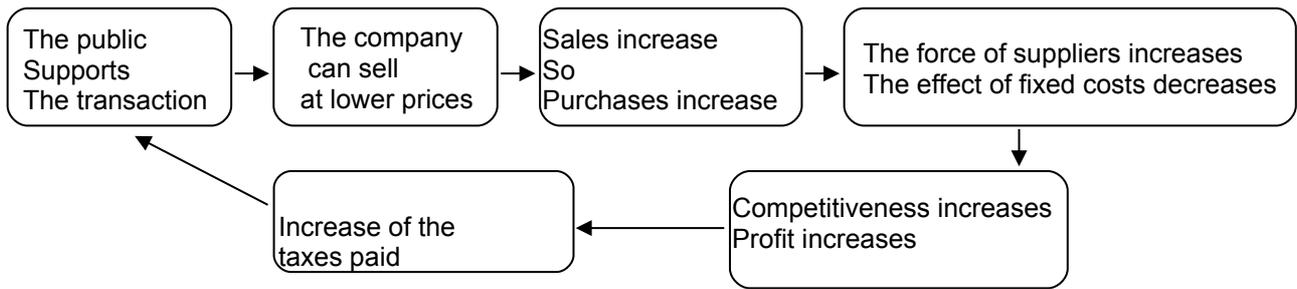


Fig.8. Return of taxes

### 3.3. Horizontal transfers

We can apply a horizontal transfer shifting the cost between public at same level, for example, between different communities, between different municipalities, including various districts, etc., until the revenue-cost equality is verified. Unlike vertical transfers, where we hypothesize relationships between operator and municipalities, etc., the horizontal ones are realized almost exclusively between public subjects. In a nutshell horizontal transfers are based on differences, in terms of public services and the production of goods and/or private facilities, between some different geographical areas.

Example: the municipality A, for some sustainable companies hosted on its territory, requires a service that has to be bought by operators of municipality B (Fig.9). If the cost paid by the municipality A is passed to municipality B, we will have a horizontal transfer.

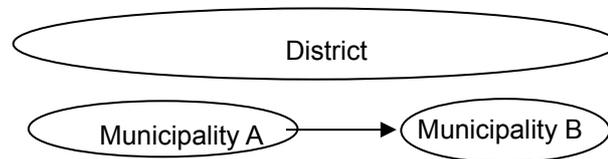


Fig.9. Model of a horizontal transfer

A special case of a transfer of costs is when the supply of services is done by a public entity.

This is the case where the service is done directly by the public body using its own internal organization. Training, financial advice and administrative, advertising, transportation and logistics services are probably the services that most likely a public entity is able to offer to private companies. This is a specific transfer cost, in this case without circulation of money, which can be: vertical or horizontal, interior or exterior. This sub-case of horizontal transfer if compared to previous situations, has some problems especially when it concerns external transfers, which require some specific operations. In previous cases the municipalities B refunded to the subject "customer" that could be internal or external to the territory. In the previous cases the cost-benefit equality was guaranteed by the same area, or through the *transfer system* based on the advantage that the municipality B obtained by the sale in its territory. However in this case the service is performed

directly by the public entity, no one local operator of municipality B gets a revenue and if the service is offered to an external subject, for municipality B it becomes only a cost or an increase of the workload.

For example, a private company located in the municipality A uses a service offered directly by the municipality B. If B offers a free service, the operation becomes a cost-loss (Table 7 and Fig.10). In the short term, due to the lack of any benefit to its local economy, B would be forced to terminate or limit the supply only for private companies on its territory.

Table 7

Service supply is done by a public entity

Municipality	
A	B
<b>Cost</b> - anyone <b>Revenue</b> - decrease of its costs	<b>Cost</b> - the service offered <b>Revenues</b> - anyone
Gain = services from B	Less

In this case, the support to sustainability becomes a gain for the community-municipality A and a cost for B that has the "misfortune" to have an internal organization more effective than other municipalities. The operation finds its balance only by transferring the cost of B on the municipality A that justifies the transaction through a lower cost for its local companies, in fact, equivalent to more revenue. The structure of the business cycle provides that while the costs are certain (before you buy-invest and then eventually sell) revenues are hypothetical.

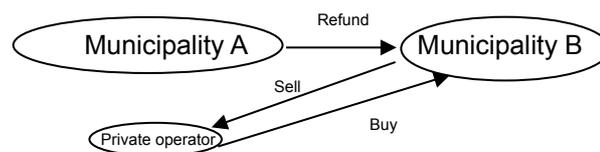


Fig.10. Service supply is done by a public entity

#### 4.0. THE PRIVATE COMPANIES

Business Administration defines the firm as a bundle of goods and people organized by the entrepreneur in order to produce goods and/or services that satisfy human needs. Hence, the goal of any private company is to meet needs through the production of goods and/or services and to obtain a gain for the holder.

Therefore the direct aim is typically individual and the social-public is made only indirectly through socio-economic values which it bears: employment, welfare, social tranquility, security, local

development, etc. Applying the theories for sustainability, the framework is almost reversed: the private interest, usually defined by profit, is subject to a direct interest in the public, determined, in summary, by the conservation of natural resources, cultural, social, etc.

#### 4.1. The issues about business activities

The goods are the precondition for its existence and it is formed by the initial investment (durable goods), which are flanked later, during subsequent stages of management, the consumer goods. There are several categories of goods, depending on their nature, their function, etc, but the aspect that they have in common is that their costs are anticipated with a respect to potential revenues. It is the business risk - first you purchase the inputs and then eventually you get the revenue and the profit. *The risk is an essential factor of business, but we will see that in this direction not all goods and related costs have the same effect.*

#### 4.2. Durable goods

They are the permanent structure of the company and some of their characteristics are (Table 8):

Table 8

Some characteristics of durable goods

Character	Effect
High cost	It's necessary to obtain external funding: high interests
Long use period	High obsolescence risk
They have to be bought before the income	They are the main part of the business risk due the high cost and the moment of purchase: they are bought long before the moment of the income, without any type of assurance, and only on hypothesis.

According to their nature they are divided into Physical or material goods (equipment, furniture, vehicles, buildings etc.) and intangible goods (up expenses, grants, licenses, research and development expenses, promotion expenses, marketing costs, training costs, etc.). Usually the first one is more expensive than the latter, but, for psychological and/or economic reasons, they are often handled by the company with greater ease and availability with respect to intangible investment type. The reasons are exposed in a nutshell in the following table 9:

Table 9

## Differences between physical and intangible assets

Physical goods	Intangible goods
They can be rented: it's not necessary to have a high initial capital	The company has to pay all the cost: it's very difficult to think about a rent, a leasing, etc.
They can be leased: it's not necessary to have a high initial capital	
They can be the collateral for bank loans	They are useless as collateral for bank loans
They are a part of the capital easy to quantify	They are difficult to quantify
They are easy to sell	They are difficult to sell
Usually, they are supported by UE	Usually, they are not supported by UE
When the company is closed, they can be sold and the investment will be recovered (in any case at least I have the house!)	Their value depends on the business, when the company is closed they are lost
	Usually it's difficult to protect them (e.g. after the training the employee goes to the competitor)
	Its' difficult to find skills locally
	Its' difficult to check the progress of the action
	It's difficult to quantify the results

Considering that especially in the tourist industry, some kinds of intangible costs play an indispensable role (think about the costs of product development for a tour operator, or the costs of promotion and marketing, staff training etc) it is clear that in supporting sustainable businesses these items should involve a large part of both public and private interventions. Another circumstance which must be taken into consideration in the development of interventions in favor of sustainability concerns the purchase of material goods. The management of business generally requires material goods that can be generic type and/or high technological value. The first one is characterized by long use and a low risk of obsolescence of technology (furniture, general equipment, vehicles, etc.), while the second one (computers, communications systems, etc.) are continually exposed to technological innovations and therefore their economic life cycles are extremely limited. All this means for the company a greater risk due to the rapid devaluation of goods and a higher cost due to their continual replacement and/or updates. Not to be underestimated is the fact, that while generic goods are reasonably produced locally (think of the buildings and furniture) and their purchase contributes to the development of local firms, high-tech surely come from foreign economies, with obvious outflow of resources from the territory. A municipality that supports the renovation of a building of sustainable activity almost certainly satisfies the cost-income equality (the client and the builder will probably belong to the same area), but if the

contribution supports the purchase of new computers, there is a outflow of resources to the outside: the support to avoid a total cost for the local economy, has to be done by a public subject outside the territory.

#### 4.3. Consumer goods

Such as for the purchases of durable goods, even in this case there are at least two categories characterized by a different risk degree: the costs related to tourists (direct) and those independent by the tourists (indirect). The first category includes those purchases of goods and/or services directly related to the presence of tourists. The second category is constituted by those costs for which the company claims regardless of the existence (and before) of tourists.

*It seems unnecessary to point out, that for the company it's very different, not only as a psychological approach, to support expenses in the hope of finding customers than buy goods for a confirmed sale.*

#### 4.4. Borrowing costs

Normally, the assets of a company are financed in part by the capital of the owner and partly by borrowed funds (usually bank loans): 60% of investments with internal capital and the remaining 40% with borrowed capital. Until now, the access to credit in Italy for tourism companies could be through cooperatives of guarantee associations and banks.

In the first case the rates fluctuated around 4-5%, in the second case, for a loan without collateral, around 7-8%. In Bulgaria the situation is very different: for a loan with property as collateral banks apply a rate about 12%, while for loans without guarantee, the rate is even 18%. In this situation, a Bulgarian company that uses bank loans to maintain an acceptable level will be forced to apply high sales prices, making them uncompetitive compared to other tourist destinations. In addition, a significant part of local resources is transferred to other external economies. Especially for small rural businesses, which almost always are the actors of sustainable initiatives, access to bank financing (loans) is often the only way to develop new tourism initiatives, but this is impossible because the interest rates are too high and there is a difficulty in offering guarantees. *Given the above situation, given the irreplaceable role of external financing for all types of businesses, management of costs is a key point in the search for those conditions that allow the development of sustainable activities.*

### 5. THE ACTIVITIES TRANSFERRED

*The preceding pages have shown that sustainability can be achieved only through a planning that involves both the public and the private sectors, according to their areas of expertise and*

*availability*. Identified the protagonists of the "project", we must define the type and content of the interventions envisaged.

The *transfer system* has been proposed in relation to the public sector: a way to transfer to institutions a part of the costs that otherwise would weigh on the sustainable operator. However, *especially in a time of economic crisis like the present one, it is necessary to provide a criterion to identify those activities, those phases of company management, on which to focus necessarily limited resources available to the public sector*. We have seen that thinking in terms of community, some operations are carried out within the same geographical area (cost-benefit equality is satisfied), while others lead to an outflow of resources, resulting in little effect on the development also prompted by the local economy, and this is certainly a fact that the public planner can not be ignored. For the purposes of this study, the management company is divided into the following aspects:

1) *Structural*

Represents the purchase (investment) of durable goods and determines the amount of capital resources required. Considering the report of previous paragraphs, the following table 10 gives to all costs-investments a degree of *internal and external vertical transferability* represented by a growing number from 1 to 5, based on:

- the propensity of the company towards the purchase of goods and/or service
- the character of capital assets (intrinsic value to the good)
- the presence in the territory of the goods and/or service
- the real contribution of goods and/or service to the conduct of the business

Table 10

Transferability of material goods and intangible assets

Goods	Transferability		Notes
	Internal	External	
Material goods			
buildings	3	1	Due to the possibility that the construction company belongs to the community, the support (limited to different cost between standard construction and sustainable construction) can be given by local public.
furnishings	3	1	As above
equipments	2	4	Only a small part of equipment is produced inside the community, the main part and all high-tech surely come from foreign economies
vehicles	0	4	They come outside the territory The support has to be limited to the mini-van, buses, etc.

Total material goods	<b>8</b>	<b>10</b>	
Intangible assets			
formation expenses	3	3	It's reasonable that 50% of the costs establishment the company belong the territory
licensing - permissions	4	4	Administrative fees, local- national taxes, etc
expenditure for research and development	5	2	The product of incoming companies is composed by local inputs and external inputs based on conventions and agreements with other subjects
commercial expenses (durable – for few years)	1	5	The commercial organization has outside territory costs
advertising expenses (durable – for few years)	1	5	As above
training expenses	1	5	it's difficult to find the right professionals within the community
Total Intangible assets	<b>15</b>	<b>24</b>	
Total Goods	<b>23</b>	<b>34</b>	

The table lead to the following hypothesis: in the investments in material (tangible) goods, there is a substantial equality between the external and internal transfers, while in the intangible investment the external transfers dominate the internal transfers. In terms of public intervention, this means that:

- the local public entity focuses its attention on
  - tangible assets with high value
  - administrative costs
  - costs for the construction of the product;
- the external public entity focuses on
  - material standard goods: vehicles, high technology goods and standards-low price
  - intangible investments

## 2) Patrimonial

Previously it was spoke that every company always has a certain ratio between equity (money invested by the entrepreneur) and funding from third parties (usually bank loans) and the disparity between the bank interest rates of financial markets Western and those of Eastern Europe.

Therefore, given these premises, it can be summarized as follows:

- close links between business development and external funding
- high impact on overall costs of the interest rates charged
- high impact on overall costs of the bank charges primarily related to the system of payments to and from foreign countries
- lower gross margins in the tourism market

- outflow of resources from the territory due to the payment of interest expense

*The correct management of the bank loans, is certainly one of the main aspects for the success and/or the mere survival of the tourist company.*

The activities of the local public body must be oriented towards:

- the transfer of costs related to bank loans, through:

- agreements with banks to obtain preferential conditions to domestic operators, in terms of interest rates payable and of expenses for payments to and from abroad. In some countries of the Balkans, to foreign bank transfers are often charged bank fees higher than the cost of the service sold, and this determines that:

- the total cost of the tourism product increases, making it less competitive
- a great part of the sale price does not belong to the normal tourist "chain"
- payment in cash upon arrival of the client, thus removing the local operator's guarantee of the advance payment
- seeking support by public subjects (such as interest rate subsidies from the state or the EU)

- the provision of guarantees in favor of sustainable businesses in the area

- use the public property to ensure the bank loans to local sustainable businesses for specific types of investments important for local economy
- facilitate the establishment of cooperatives of guarantee

### 3) Operative

What is mentioned in the section on consumer goods shows that in terms of business risk, there are two different categories of costs:

- costs for goods and/or services independent of the presence of tourists
- costs for goods and/or services closely related to the presence of tourists

The first (indirect) are certainly the category that most concern the companies, because they are necessary for the normal operations of the company (e.g. the reception staff, kitchen staff, etc.), but are not even related to sales potential. *Regarding the costs of operative, the public support to sustainable businesses must hence focus on the category of indirect costs, limiting intervention to those directed only to bank charges for payments and receipts.* As previously indicated, although these costs are directly related to the existence of a customer, they often take such large numbers in the final cost which could frustrate the operation. Obviously in this case we must see if the transfer of cost occurs within or outside the territory.

Table 11

## Transferability of operational costs

Costs	Transferability		Notes
	Internal	External	
Indirect costs			
employees	5	1	Sustainability needs local employees
share of maintenance costs	3	3	Part of the maintenance is done by local subjects
administrative costs	3	3	
energy purchases	1	5	
Total indirect costs	<b>12</b>	<b>12</b>	
Direct costs			
bank charges	1	5	
Total direct costs	<b>1</b>	<b>5</b>	

## CONCLUSION

The companies involved in sustainability, through their activities, advocate a collective heritage. These activities, which for private companies mean a negative economic gap, have a public nature, therefore, must be paid by the public entity: *if one accepts the need to pay the caretaker of a castle, a national park, an archaeological site, etc. it is not clear why this should not apply to the companies that, through sustainable business become custodian of a collective good, such as a popular tradition, a traditional processing, an old house, etc.*

The normal economic transactions transfer resources from one place to another and this means that some areas grow while others decrease. From the perspective of the public sector, the sustainability should instead be neutral: no one public entity (community, region, etc.) must earn or lose: also the economic entity that "pays" the sustainability claims a temporary loss of profit. In fact, with the increase of the competitiveness of companies in its territory, over the medium term, it will follow an increase in taxes collected. In the *transfer system*, the use of the support - payment (cash and/or free services) paid by public entity depends on the territory. In particular:

- the local public must support the purchase and/or renovation of buildings, furniture and furnishings, administrative costs, the costs for the construction of the product, the actions concerning the financial aspect, the purchases of goods and/or service independent on the presence of tourists (fixed costs)
- the external public will instead be involved in the purchase of goods and/or high technology services, intangible costs and borrowing costs

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