

# Mechanisms for Attracting Investment in the Infrastructure of Resort Regions

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**Abstract:** Over the past 10 years, the tourism and recreation industry has grown at a rate exceeding the growth rate of the world economy. The Russian Federation has the potential for the development of almost all types of tourism and the prospects for increasing tourist flows due to the reorientation of outbound tourism to domestic. However, it is hindered by the tourist infrastructure underdevelopment. The purpose of the work is to study the features and advantages of the public-private partnership in the form of concessions to intensify the investment process in the tourism industry. This paper analyzes the successful experience of this mechanism in other countries, and also provides an overview of the current and forthcoming concession agreements in the field of tourism in the Russian Federation. The main features of concession agreements, which ensure the attractiveness of this mechanism for both the state and the private investor are studied. The most suitable factors for tourism and recreation are considered.


## 1 INTRODUCTION

The sphere of tourism and recreation is one of the most dynamically developing sectors of the modern economy. The growth rate of the tourism industry has outstripped the global average growth rate of GDP over the past decade. The total contributions of tourism to global GDP, including the indirect effect on related industries, are estimated at 9.3% - 10.9% (Statista, 2020). Even despite the losses due to the Covid pandemic, it is expected that by the end of 2021 it will still be one of the top ten global industries and generate more than one and a half-trillion dollars in revenue (Ibisworld, 2020).

At the same time, the recreation and tourism sphere is not only important in terms of economics. It also plays a significant social role (Tkhamitlova Yu.O., 2016). Tourism contributes to the realization of people's needs for rest, new impressions, personal and physical development, health improvement (Trofimov, E.N., Moshnyaga, Seselkin, A.I., Novikov V.S., Rassokhina, T.V., Sarancha, M.A., Kruzhalin, V.I., Shabalina, N.V., Gulyaev, V.G., Laguseva, N.N., Pisarevskaya, O.I., Kalnei, V.A., 2014).

The Russian Federation has a unique potential for the development of almost all areas of tourism. However, the existence of a potential is not yet a guarantee of successful development, but rather raises the question of finding and implementing new effective modern forms of cooperation between various participants in the process in the implementation of ambitious tasks (Dudin, Burkaltseva, Tsohla, Voronin, Yanovskaya & Guk, 2017). Currently, the contribution of tourism to the Russian Federation GDP is only 4.8% (Knoema, 2020). To a certain extent, it is related to the high share of outbound tourism. Almost 7 million Russians visited Turkey alone in 2019 (Association of Tour Operators, 2020), which is comparable to the tourist flow throughout the Crimea for the same year.

One of the key factors, determining this state of affairs is the lack of modern, high-quality infrastructure in Russia. Intensification of investments in the field of recreation and tourism is a priority task of the state. One of the targets of the Strategy for tourism development in Russia for the period up to 2035 (Government of the Russian Federation, 2019) is to triple investment in tourism by 2035 compared to the level of 2017. This, in turn, sets a task for the state to find effective mechanisms

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for attracting private investment to the industry. One of such promising mechanisms can be public-private partnership and, in particular, concessions. The world experience clearly shows that the thoughtful application of this mechanism can lead not only to accelerated, but also to breakthrough development of tourism and entire regions.

## 2 MATERIALS AND METHODOLOGY

The study used global analytical and reference data, data from the Russian platform for supporting infrastructure projects "Rosinfra", conducted studies of legislative materials. The works of Russian and foreign scientists, dealing with tourism, investments, public-private partnerships, including Internet resources, were studied. When studying these materials, analyzing the processes taking place in tourism, and forming conclusions, a number of methods were used: observation, comparison, economic and statistical analysis, systemic and integrated approaches. The methodology of the systems approach made it possible to highlight the key tasks, the solution of which will allow to achieve the target indicators of tourism development. The selection of analysis data, formal procedures, a consistent and logical interpretation of detected patterns, and the results contributed to the formation of information content and to ensure the validity of conclusions. To analyze the foreign experience in the application of concession agreements, information materials of the International Finance Corporation, data from the American National Park Service were studied, a number of projects implemented through concessions were selected. Diagrams and tables were used for visualized, aggregated, and holistic data presentation. When determining the prospects for the development of domestic tourism, as well as the development of author's recommendations, an integrated approach was used.

## 3 RESULTS

The need to intensify investment in the recreation and tourism sphere, declared by the state in the Strategy for tourism development, becomes even more urgent

in the context of events, occurring on the world stage. The latest decade has been marked by complex political and social processes, which in many respects have significantly reduced the level of stability, security and comfort in many countries. All these factors steadily increase the attractiveness of recreation within the country for many Russians. In the context of the 2020-2021 Covid pandemic, which was accompanied by the closure of borders, travel inside the country remained the only guaranteed opportunity for our fellow citizens to exercise their right to rest. At the same time, attempts to switch outbound tourism to domestic tourism can only be successful if the growing domestic tourist flow is linked to the industry's willingness to provide a modern, high-quality and affordable product.

Figure 1 shows the target indicators for the development of the main directions of tourism, set in the Strategy for tourism development for the period up to 2035 (Government of the Russian Federation, 2019). Goal-setting in each of these areas is associated with ambitious plans to modernize existing or build new infrastructure, its weak development, according to some researchers, is holding back the growth of tourism in the Russian Federation (Center for Social and Economic Research, 2020). But a fundamental change in the current situation and a rapid renewal of infrastructure are impossible without increasing the investment attractiveness of the industry. This is a large-scale and long-term task, the achievement of which, in addition to economic measures, requires the consolidation of a wide variety of interdisciplinary efforts. In particular, such as establishment of:

- A complex of infrastructure auxiliary in relation to the tourism facilities - at least transport and communal;
- Industry-wide training system to ensure the quality of the services and effective management of the tourist facilities;
- Recognizable travel brands, development of marketing programs, both at the meso-level of regions and clusters, and at the level of individual products;
- A unified system of quality standards and management of the tourism sector. At the same time, these efforts should be accompanied by the adoption of economic measures to stimulate investment activity in the recreation and tourism sphere.

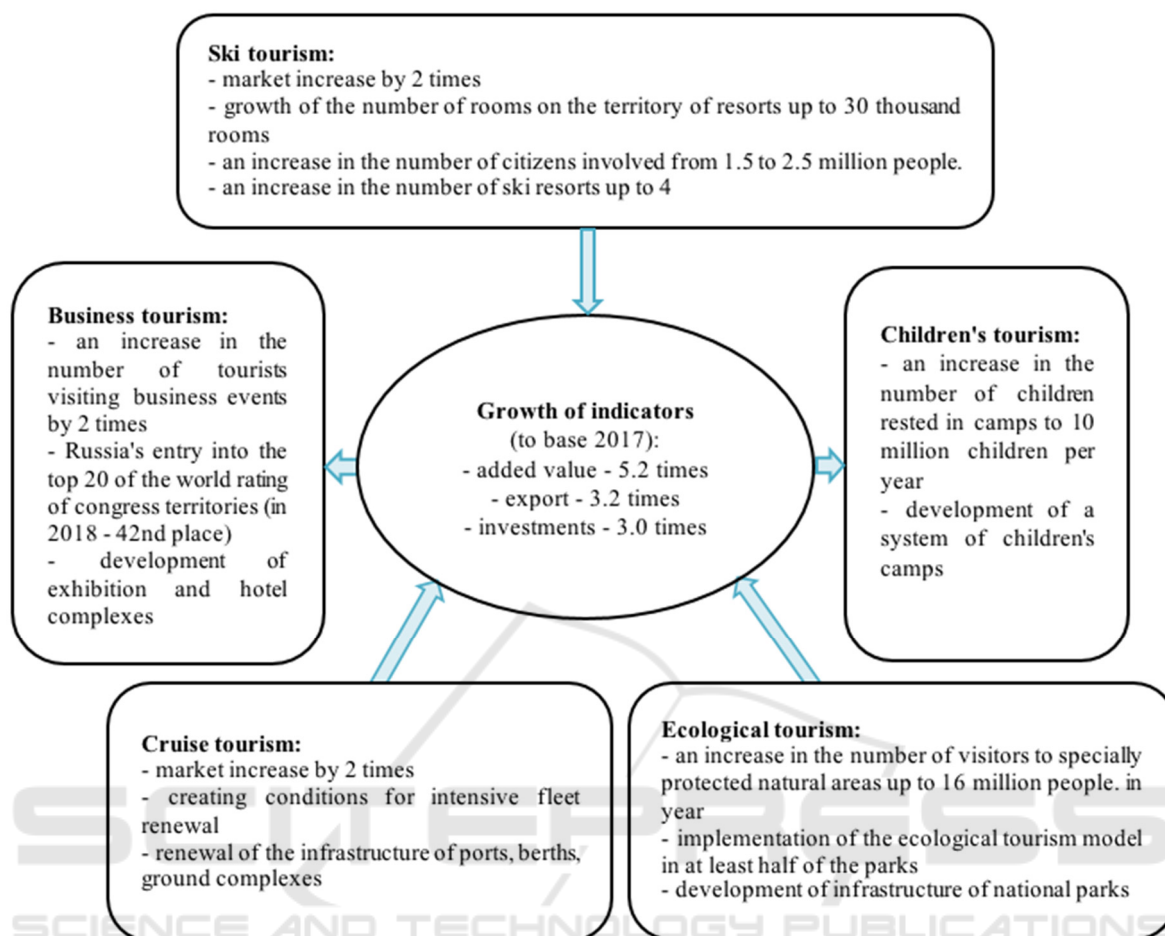


Figure 1: The main directions and indicators of tourism development for the period up to 2035.

The researchers identify the following measures such as:

- active use of the mechanism of public-private partnership in the form of concession agreements (da Costa and Ribeiro, 2019; Moioli, Boniotti, Konsta and Pili, 2018; Karanatova, Khodachek and Kulev, 2017)
- creation of tourist clusters and investment management at the meso-level (Karanatova et al., 2017).
- - provision of state guarantees, direct subsidies and tax benefits, including through the creation of free economic zones and territories of advanced development (Afanasyev, Oborin and Shman, 2017).
- direct attraction of foreign investment (Fauzel, 2020).

The new present challenges make us look differently at the ongoing processes and, to some extent, rethink the effectiveness and applicability of various measures. So, for example, the process of

attracting foreign investment today is somewhat complicated by sanctions, and the possibility of providing government subsidies and guarantees in the post-Covid period, when the state has already spent significant funds on various types of support and subsidies for industries and citizens affected by the pandemic during 2020, may also be on hold. In such conditions, there is an acute issue of finding new forms of interaction between the state and a private investor, effective tools for attracting private capital to solve problems that are significant for the development of the industry and the economy of resort regions. The mechanism of public-private partnership in the form of concession agreements can become just such a tool. This mechanism allows authorities at the federal, regional, and municipal levels to solve urgent problems of sustainable development of an industry or region, develop infrastructure, create new jobs, and increase the level of well-being of the population. On the other side, the personalized attitude of the state towards a private

partner, provided by the very essence of concessions, helps the investor to develop his business in a more transparent, understandable, stable environment.

## 4 DISCUSSION

### 4.1 Features of Concessions

In its economic essence, a concession is a government initiative to find and attract a private partner (investor) to create infrastructure and provide services, created and provided by the public sector (Farazmand, 2018).

By inviting a private partner, the state receives a number of additional benefits of a very different nature:

- saves money that would otherwise have to be spent on investments in the creation and reconstruction of infrastructure. Even the most developed countries are regularly faced with budget deficits and the need to borrow. At the same time, tourism is traditionally not included in the list of priority areas for spending public funds. Attracting a private investor is in many cases the only real opportunity for a large-scale renovation of the tourism infrastructure.
- receives all the benefits of doing business, which are traditionally associated with the private sector. It is the achievement of higher economic efficiency; flexibility of approaches and a higher degree of innovation; less bureaucracy and faster decision-making speed; creativity in response to changes in external conditions and challenges of the time.
- transfer of commercial risks to a partner. This is even more valuable in the case that the state, as has already been shown, is usually less adaptable and less effective in responding to emerging risks.
- maximizing budget revenues. The concept of concession agreements provides the possibility of establishing concession payments from a private partner in favor of the state for the right to conduct commercial activities using the objects of the concession agreement. The existence of the specified payment is not mandatory, but rather represents an additional option.
- In turn, a private partner also receives a number of benefits:
- obtaining a commercially attractive object. In the tourism and recreation sphere, concession objects are often represented by hotel,

sanatorium and other facilities that have a rich history, an advantageous location, a large adjacent territory, an initially good and well-thought-out infrastructure, but outdated or desolate. Operating this facility provides a number of competitive advantages.

- concession agreements, as a rule, imply some additional obligations on the side of the state participant. For example, preferential connection to public utilities, construction of access roads, and the organization of additional transport routes may be provided. Moreover, concession agreements may contain clauses to protect against changes in legislation or competing infrastructure construction.
- personalized attitude of the state towards a private partner. Concession agreements are concluded on an individual basis, in which each concessionaire provides its own conditions for the volume and timing of investments, the size of the concession payment, and the obligations of each of the parties. Thus, for the state, each concessionaire acquires its own unique features, turning from just an investor into a partner helping the state to solve urgent problems. That is, the concessionaire receives that degree of attention to his activities and his problems, which he would not have received by entering the investment process outside the concession framework.

### 4.2 Examples of Foreign Concessions

Due to these distinctive characteristics, concessions have become quite widespread in the world economy. Table 1 provides an overview of some foreign projects in the recreation and tourism field, implemented through a concession (Global Ports Holding, 2020, Lisbon cruise port, 2020, NPS Commercial Services Program, 2020, The National Council for Public-Private Partnerships, 2013, Macautripping, 2020).

Table 1: Examples of foreign concessions in the recreation and tourism sphere.

Country	Object	Main Results
Bahamas	Cruise Port of Nassau	Investments of \$ 25 million, construction of piers, a terminal, a coastal amusement park complex
Portugal	Lisbon port	Investment 25 million euros, new terminal
USA	103 National Parks	Revenue of concessionaires for 2018 = \$ 1.5 billion, concession payment to the state = \$ 126 million.
USA	Union Station, abandoned former Central Station, Washington	Investment 160 million dollars, annual number of visitors = 25 million people.
Australia	Former quarantine facility in Sydney	Investments 20 million austral. dollars, conservation of historical objects, creation of exhibition and hotel complexes
PRC	Macau Gaming Concessions	Investments over \$ 3 billion, construction of dozens of new hotel and gaming complexes, 39 million tourists in 2019, the share of the total contribution of tourism to the region's GDP is over 70%

This table shows that concessions have successfully proven themselves in various projects and in countries with very different levels of economic development.

Within the framework of concessions, old ports are being successfully reconstructed and new ports are being built, both in Europe (Portugal) and in the Caribbean (Bahamas). In the USA, the concession mechanism is recognized as a priority model for operating national parks.

The concession to “reset” the former Washington Central Station also had great success. The huge building had been empty since 1978 and increasingly decayed. The state was seriously considering demolition. However, a private concessionaire

breathed new life into it and turned it into an iconic entertainment, shopping, and business complex that attracts more than 25 million visitors annually. A similar process took place with the former Sydney quarantine station.

Macau's gaming concessions also achieved impressive success. After the transfer of the former Portuguese colony to the jurisdiction of the PRC in 1999, the Chinese authorities set themselves an ambitious task: to turn an essentially unremarkable, ordinary city, of which there are many, into an Asian Las Vegas, eclipsing its older brother in beauty, splendor, and fame. A concession mechanism was chosen to accomplish this task. Twenty years later, it is safe to say that this mechanism has fully met the expectations placed on it by the Chinese government.

### 4.3 Tourist Concessions in Russia

From the point of view of the Russian legislation, under a concession agreement, a private partner (concessionaire) undertakes at its own expense to build or reconstruct an object of a concession agreement (real estate), use this object in its commercial activities, and subsequently transfer it to the ownership of a state partner (concedent) (Federal Law on Concession Agreements, 2005). Russian legislation also allows the use of a concession mechanism for tourist sites. In particular, the following objects are included in the list of permitted facilities under concession agreements:

- health resort treatment facilities;
- culture and sports facilities;
- facilities used for the organization of recreation and tourism;
- sea and river ports and ships.

The legal framework and economic needs created successful preconditions for the application of concession agreements in the field of tourism in practice. Table 2 shows a list of existing agreements with an investment amount of more than 100 million rubles. (Rosinfra, 2020).

Table 2: List of concession agreements in force in the field of tourism.

No.	Project name	Region	Amount of investments, mln. rub.
1	Cultural heritage site "Sanatorium" Kislovodsk "	Stavropol region	1878
2	Year-round children's center "Polar Star"	The Republic of Sakha (Yakutia)	1 474
3	Sanatorium, p. Elton Pallasovsky district	Volgograd region	850
4	Reconstruction of the cinema "Pervomaisky"	Omsk region	600
5	Reconstruction and operation of the facility for organizing recreation of citizens and tourism	St. Petersburg	470
6	"Former estate of Zheleznov"	Sverdlovsk region	380
7	"Nizhnekamsk terms"	Republic of Tatarstan	370
8	Hotel service facility in historic buildings	St. Petersburg	303
9	Reconstruction of the "Wagon barn"	Omsk region	160
10	"House of the manufacturer"	Sverdlovsk region	150
11	Children's health camp in Svetlogorsk	Kaliningrad region	140
	Total		6 774

Unfortunately, so far there are only 11 such agreements in Russia totaling 6,774 mln. rubles. However, 17 more projects totaling 71,750 million rubles are in the stage of pre-competition development or competition. The list is given in Table 3 (Rosinfra, 2020).

Table 3: List of projects in precompetition development.

No.	Project name	Region	Investment volume, mln. rub.
1	International resort "Three Volcanoes"	Kamchatka Territory	39 200
2	Resort cluster "Mratkin"	Republic of Bashkortostan	7 700
3	Reconstruction of the sanatorium. G.K. Ordzhonikidze in Kislovodsk	Stavropol Territory	6 700
4	Construction of an administrative and business center with an exhibition complex	Tomsk region	5 387
5	Reconstruction of the Imperial Stables Department	St. Petersburg	3 200
6	Creation of the tourist and recreational complex "Ramon"	Voronezh region	2 703
7	Zoo construction	Samara region	1 600
8	Festival - park	Samara region	1 026
9	Resort "Krestov Brod"	Moscow region	970
10	Military - patriotic park	Samara region	720
11	Children's health camp "Chernomorets" in Anapa	Samara region	700
12	Ski complex "Manzherok"	Altai Republic	666
13	Reconstruction of a social and cultural facility	St. Petersburg	300
14	Multifunctional cultural and information media center in the city of Kovrov	Vladimir region.	300
15	Center of gravity "Bereg Don"	Voronezh region.	250
16	Reconstruction of the facility for organizing recreation of citizens and tourism	Primorsky Krai	198
17	"Belkino Estate"	Kaluga Region	130
	Total		71 750

Despite the relatively small number, the examples of successful concessions in the tourism and recreation sector prove that they are absolutely a working mechanism in this industry. The total volume of investments for projects at the stage of pre-competitive development is more than 10 times higher than the volume of investments under the agreements already signed. It indicates the growing interest of the regions in this mechanism for attracting investment, as well as the significant need for such a mechanism. Thus, all the prerequisites are being created for concessions to play a more prominent role in creating a modern, high-quality, affordable tourist infrastructure, contributing to the achievement of ambitious goals for the development of domestic tourism in the Russian Federation.

## 5 CONCLUSIONS

The use of public-private partnerships in the form of concession agreements can make a significant contribution to the intensification of the investment process in the field of tourism and recreation. This mechanism is inherently universal and has been successfully used in a wide variety of industries. However, there are several distinguishing features that make it particularly suitable for the travel industry.

1) Attracting medium-sized investments. Concession agreements imply, on the one side, that the size of investments will be large enough to solve some problem noticeable for the industry or region (otherwise the state partner will simply not be interested in its concluding). On the other side, problem solution at the regional level may require less investment than is necessary to attract the attention of the federal center. An analysis of agreements in the field of tourism and agreements shows that in most cases this refers to investments from several hundred million rubles to several milliard. This is a lot in order to expect that a private investor on his own, without initiative from the state, will sharply intensify his investment processes. And too few to be of interest to the federal center.

2) Reduced seasonality. One of the hallmarks of the tourism industry is its seasonality. The uneven tourist flow means that all the resources of the region are worn out in the high season, and idle time in the low season. Reducing seasonality should be one of the targets when planning the creation of new infrastructure. To solve this complex task, it is necessary to coordinate the efforts of all parties: both from private business and from the state.

Concessions are a convenient mechanism for combining the interests of the state and business.

3) Improving efficiency and reducing costs. A significant increase in the domestic tourist flow is not possible without the fact that the proposed product, on the one side, is modern and of high quality, and on the other side, it is accessible to the general population. It means that the field of recreation and tourism must look for ways to increase efficiency. A private partner is an irreplaceable participant in this process. At the same time, the participation of the state and the determination of the parameters of investment projects in concession agreements will contribute to a more thoughtful investment, avoidance of close competition between projects, a price war, and ensuring the diversity and complementarity of the infrastructure being built.

These several points represent the most key positions, the implementation of which will contribute to both the intensification of investment processes and an increase in the efficiency of the provision of tourist services, an increase in the tourist flow and the development of tourism, the provision of year-round employment and the growth of the economies of resort regions. The concession mechanism has great prospects for attracting private capital for those projects that the state considers the most priority and significant.

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