State Of-The-Art and Development of Rural Tourism in Bulgaria

by
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Abstract. The South Central region has all natural, cultural, historical and other sights and prerequisites for development of rural tourism. Over 300 small and medium tourist enterprises serving specialized forms of tourism are concentrated in the region. Significant funds and other capital have been invested here. This research aims to analyze the economic conditions and development of rural tourism in Bulgaria on the example of the South Central region. The objects of study - operating small and medium tourist enterprises are located in the mountain regions. We examined three of the most common tourist sites: 1. Farmhouse with yard and agricultural land; 2. Guest house; 3. Family hotel. Due to significant costs differences, two distinct periods are considered – heating period and non-heating period. The results from the research show that providing tourist service in tourist enterprises classified as farmhouses with yard and agricultural land is just a form of diversification of the principal activity of the family and the farm – production of agricultural production. Tourist establishments which are categorized as guest houses and family hotels are independent specialized tourist enterprises. The level and trends of change in sales revenue from tourist service in family hotels is satisfactory during both periods. The following conclusions can be drawn from the examined correlations and dependencies: since the level of labour productivity is directly dependent on the occupancy rate, it is necessary to enhance the activities of attracting new clients. The strong influence of current expenses over economic results requires improvement of their management inside the tourist enterprise.

Key words: economic assessment, rural tourism, tourist enterprise, sustainable development.
JEL classification: Q13

1 Introduction

In Bulgaria, the changes in the Regional Development Act entered in 2008, and the Operational programs direct European aid to the planning regions as decentralized centers to produce an economic impact and create conditions for a higher standard of living. One of the opportunities for achieving sustainable development in the regions is rural tourism. Bulgaria is rich in cultural-historical and natural peculiarities – a prerequisite for development of alternative types and forms of tourism, such as rural tourism (Kilimperov, 2012). The concept "Rural tourism" is interpreted differently in different countries and covers a range of economic and specialized tourist activities carried out only in rural areas or in general in areas outside urban agglomerations (Alexandrov, 2010). The name "rural" denotes the place where this type of tourism takes place – in suburban and rural regions. Rural tourism is defined as "a wide range of recreational activities carried out in rural environment using specialized rural houses for the purpose as well as other accommodation facilities" (Stamov and Alexieva, 2005, Stankova, 2003, Roberts, 2001). A regulation of the European Union (1998) sets out the following definition of rural tourism: integrated tourist activity which may include tourism in a farmhouse, small rural hotels or tourism initiated by rural communities". The common thing in these definitions is the place where rural tourism takes place – in rural areas. The latter are characterized by: low population density (over 150 people per m^2); rural network consists of villages and small towns (under 30 000); the population in these regions is mainly occupied with agriculture and forestry, crafts, small production and trade with local products. The regions that were examined meet all of the above conditions, i.e. they can be defined as rural areas. Rural regions in Bulgaria cover 81.4% of the overall territory of the country with population of 3.6 million people. The

number of settlements in one county varies from 10 to 130. Out of 278 counties in the country, 229 are defined as rural.

EUROSTAT, the statistical agency of the European Union (www.eurostat.com) recommends the observation of the so called disadvantaged regions to attract constant attention and impact. These are rural regions where the unemployment rate is above 150% of the national average, the coefficient of economic activity of population is below 50% of the national average. Due to the continued demographic crisis in Bulgaria, many settlements and entire rural regions fall into this category, particularly those located in the mountain areas. The growth rate of gross domestic product in these areas is slower than the national average. They are highly dependent on the development of agriculture. The rate of employment in agriculture is higher than the national average.

The latest research of the World Bank (www.worldbank.org) regarding poverty in Bulgaria shows that the poverty rate in villages is four times higher than in the cities. Households living in villages represent 66% of the poor population in the country. This is determined by the higher unemployment and underemployment, lower salaries, the high percentage of people living on pensions or social aid, the high price of social services, etc. The technical infrastructure in rural areas is severely impaired due to insignificant investments in its development and maintenance. This is a great impediment of rural areas to serve the needs of the population and to attract investments.

Social and economic instability compels the population in these areas seek supplementary activities to support the livelihood of their families. Over the last two decades, a large number of small and medium enterprises have been set up to carry out rural and other types of specialized tourism. Investments of large scale for the social and economic condition of the region have been made. It is now necessary to evaluate the efficiency of the operational activities of these enterprises.

The aim of this research is to make an economic assessment of the operating small and medium tourist enterprises serving the development of rural tourism in South Central Bulgaria.

2 Material and methods

The object of study – South Central region – has been selected by the concentration of tourist sites serving rural tourism measured through the number of beds per 100 people of economically active population as it is one of the basic production factors and contributors to the process of providing tourist service. For the purposes of this research, the tourist enterprises are divided according to their basic functions and their capacity (number of beds), regardless of their ownership type or legal registration, into the following groups: 1. Farmhouse with yard and agricultural land – with a capacity of up to 10 beds; 2. Guest house – up to 20 beds; 3. Family hotel – 30 beds on average. The Ordinance for categorization of accommodation, catering and entertainment facilities (last amended in State Gazette, issue 46, 12.06.2007) has been taken into consideration.

The methods used in the study are the comparative, inquiry and statistical methods: descriptive, correlation and regression analysis.

Sampling was based on the simple random sampling method where the units are selected without replacement. The size of each sample features over 36 tourist enterprises.

For a more profound examination of the economic problems, the tourist enterprises are grouped according to the rate of asset economic realization, i.e. the occupancy level represented by the index number of occupied nights per annum. This index is synthesized and reflects the effect from the availability of resources, the management and marketing in the tourist site.

The economic assessment of the operating small and medium tourist enterprises serving rural tourism in South Central Bulgaria was made using the following index system: amount of average variable income; variable/fixed costs ratio; one night costs; labour productivity; revenue per unit variable costs; income per 100 BGN costs. Due to the significant differences in the amount of costs, two distinct periods are considered – heating period and non-heating

period. In order to achieve greater disclosure of the cognitive values of the economic indexes, we use and interpret their statistical characteristics. We have also examined the connections between factors and results, as well as the narrowness of connection. Factors impact strength has been assessed, too.

The empirical research is based on structured interviews and surveys among owners and managers of tourist sites. The survey features questions concerning the number of employees, facilities, the type and structure of costs, achieved economic results. The following software products are used in processing empirical data, determining economic indexes and presenting their graphic and tabular expressions: specialized statistical package SPSS, Version 13.00, Office Word, Office Excel.

3 Prerequisites for rural tourism development in South Central region

South Central region is situated in the central part of the Republic of Bulgaria. It comprises five counties: Pazardzhik, Plovdiv, Smolyan, Haskovo, and Kardzhali. Most of its territory is mountainous and semi-mountainous covering a large part of the Balkan mountain range and the Rhodopi Mountains, as well as the entire Sredna Gora and Sakar mountains.

The South Central region has all natural, cultural, historical and other sights and prerequisites for development of rural tourism. Villages have preserved the original architectural traditions, the authentic National Revival period houses, craft workshops, architectural and historical monuments, etc. Over 300 small and medium tourist enterprises serving specialized forms of tourism are concentrated in the region (Atanasova and Kaneva, 2005).

The accommodation base is comfortably furnished and fully equipped with modern facilities preserving architectural and interior authenticity at the same time. All counties and municipalities in the region have tourism as their major priority in local development plans and strategies (Statev, 2007). Four tourist destinations have been developed – each with its own unique visage: 1. The region of Central Balkan National Park with the Sub-Balkan valley and Sredna Gora; 2. The region of Maritsa River valley; 3. Western Rhodopi Mountains; Eastern Rhodopi Mountains. There are favorable conditions for developing rural, spa, cultural, eco-, sport and other types of tourism all year round; industry trade and product associations that have been set up in the region, unify the interests of the entrepreneurs in the sector.

The population is unevenly distributed on the territory of South Central region. Population age structure is of regressive type. More than 25% of the total population is above 65. Working and reproductive age groups are shrinking. Besides, from year 2000 onwards, the population with comparatively constant intensity has been reduced by 0.9% per annum.

The service sector generates 45-50% of gross added value; 40% of operating companies deal with trade, repair and technical service; 14% with hotel and restaurant management, and only 6% - with agriculture and forestry. The structure of household income in the region shows that 30% to 36% of it comes from employment; the share of farm business income is 20-25% which means that rural households are highly dependent on it to support their living and needs. 27% of total household income is from pensions due to the strongly impaired age structure.

Unemployment composition shows that 33% of unemployed men and 36.6% of unemployed women have been jobless for three or more years; 23.1% of unemployed men and 19.7% of unemployed women remain jobless from one to five months. These statistical data (Statistical Yearbook, 2011) reveal the social and economic condition of the people residing in South Central region rural areas.

4 Empirical results and discussion

The analysis of the statistical characteristics of the achieved level of economic indexes for the three categories of tourist sites revealed the following: tourist enterprises from category farmhouse with yard and agricultural land have lowest rates of labour productivity. The ratio

between variable and fixed costs varies significantly: from 0.17 to 3.25 in heating periods, and from 0.05 to 2.17 in non-heating periods. Revenues on 1 BGN variable costs range from 0.89 to 5.16 BGN during heating periods and from 3.45 to 9.17 BGN during non-heating periods. One night contribution during heating periods amounts from 6.15 to 30.24 BGN and from 10.36 to 32.38 BGN in non-heating periods. Profitability on the basis of general expenses varies widely: from 7.63 to 45.02 during heating periods, and from 14.91 to 18.71% during non-heating periods. According to a survey data, only 20-30% of the activities in a farmhouse with yard and agricultural land are related to rural and agricultural tourism. Earned revenues are insufficient to provide year-round means of livelihood for the family. The obvious conclusion is that providing tourist services in farmhouses with yard and agricultural land is just a form of diversification of the principal activity of the family and the farm – production of agricultural products in particular. In addition, this type of tourist sites is characterized by the strongest variations in occupancy rate. These significant fluctuations decrease the certainty of projections for future activity.

The economic indicators for tourist enterprises from guest house category show higher values than those of farmhouses with yard and agricultural land. Labour productivity during heating periods varies. Highest occupancy rates increase labour productivity by 22.4% compared to lowest occupancy rates. During non-heating periods labour productivity is 2.5 times higher. Since operating costs are constantly changing during non-heating periods, the amount of variable costs is from 0.12 to 2.05 BGN per 100 BGN fixed costs. Revenues per 1 BGN variable costs during heating season range between 1.82-8.63 BGN. Non-heating periods generate higher revenues per 1 BGN variable costs, however, revenues vary. The contribution for one night ranges between 9.83 – 30.14 during heating periods and from 9.70 to 28.28 during non-heating periods. Since this indicator ignores variable costs which are the main arrears in the values of the said indexes, there is no significant difference between the index levels during both periods.

Table 1. Statistical relationship between occupancy rate and basic economic indexes, heating period

Statistical indexes	Average variable costs	Labour productivity	Profit from one night occupancy	Sales revenue
Farmhouse with yard				
Correlation coefficient	0,4926	0,8611	0,4727	0,9324
Determination coefficient	0,2426	0,7415	0,2234	0,8693
F-test level of significance	0.0031	0.0004	0.0048	0.0001
Regression ß-coefficient	0,0049	2,7980	- 0.0047	12,1210
ß-coefficient level of significance	0.0031	0.0000	0.0004	0.0000
Guest house				
Correlation coefficient	0,0878	0,8665	- 0,0403	0,8553
Determination coefficient	0,0077	0,7509	0,0016	0,7315
F-test level of significance	0.0001	0.0000	0.8265	0.0002
Regression ß-coefficient	0,0002	2,4262	- 7E-0,5	12,6323
ß-coefficient level of significance	0.0001	0.0000	0.0800	0.0000
Family hotel				
Correlation coefficient	0,5618	0,9451	0,5618	0,9417
Determination coefficient	0,3156	0,7689	0,3156	0,8868
F-test level of significance	0.0005	0.0000	0.0000	0.0000
Regression ß-coefficient	0,0008	2,5020	- 0,0008	18,8346
ß-coefficient level of significance	0.0001	0.0000	0.0000	0.0000

Source: Own research

Service profitability during heating period shrinks to its lowest level – 1.18%, but with the increase of occupancy, its variability decreases.

Tourist enterprises categorized as family hotels reach labour productivity of 3010 BGN/occupied, which ranks them first and shows that there is consumer demand for this type of sites. This is also illustrative of some other facts: family hotels offer good quality services and tourist product; there is high occupancy rate; effective management determines a rational number of employees according to the demand and the season. The amount of fixed costs per night in family hotels is high and, for this reason, profits are sought in the greater number of occupied nights. However, the various strategies employed by family hotels to attract clients produce different impact on costs structure: extensive advertising campaign, increasing the number of year-round personnel, etc. increase the amount of fixed costs in a disadvantageous way. Using commissions, disadvantageously, increases variable costs, promotions and budget package services increase demand, hence revenues. Higher level of gained revenues per 100 BGN direct costs is observed.

Profitability during heating period ranges from 10.39% to 54.43%, and during non-heating period from 20.28% to 74.63%, on average 25.80% to 74.63%, respectively. For the other tourist enterprises explored by this research, such levels remain beyond reach. In consideration of these indicators, we can assume that family hotels are independent specialized tourist enterprises.

Table 2. Statistical relationship between occupancy rate and basic economic indexes, non-heating period

Statistical indexes	Average variable costs	Labour productivity	Profit from one night occupancy	Sales revenue
Farmhouse with yard				
Correlation coefficient	0,4457	0,8587	- 0,4695	0,8736
Determination coefficient	0,1987	0,7374	0,2205	0,7632
F-test level of significance	0.0082	0.0000	0.0051	0.0000
Regression ß-coefficient	0,0029	2,3393	- 0,0030	9.4420
ß-coefficient level of significance	0.0000	0.0000	0.0000	0.0000
Guest house				
Correlation coefficient	0,5110	0,9224	- 0,5110	0,9155
Determination coefficient	0,2611	0,8508	0,2611	0,8258
F-test level of significance	0.0020	0.0000	0.0020	0.0000
Regression ß-coefficient	0,0007	2,1304	- 0,0007	10.9411
ß-coefficient level of significance	0.0002	0.0000	0.0000	0.0000
Family hotel				
Correlation coefficient	0,5398	0,9615	- 0,5362	0,9609
Determination coefficient	0,2914	0,9245	0,2875	0,9233
F-test level of significance	0.0010	0.0000	0.0011	0.0000
Regression ß-coefficient	0,0008	2,3987	- 0,0008	14,4137
ß-coefficient level of significance	0.0001	0.0000	0.0001	0.0000

Source: Own research

Recognizing the relationship between occupancy rate and economic results allows us to check if there is any correlation between these indexes. The results and the regression analysis during heating period are shown in Table 1. Strong correlation (according to Pearson's scale) is observed between occupancy rate and labour productivity in tourist enterprises from the category farmhouse with yard and agricultural land during heating period. The correlation coefficient is 0.8611, coefficient of determination – 0.7415, which means that

74.15% of the variations in labour productivity level are determined by the change (increase) of the occupancy rate. The results are confirmed also by the level of significance which is less than the margin of error – 0.05. The regression coefficient, ß = 2.798, is a positive value, which means that the correlation is directly proportional and by increasing occupancy rate by 1 night, labour productivity will grow by 2.798, nearly 3 BGN per person of the average number of personnel.

The level of significance of ß-coefficient is 0.003. Strong correlation between the two indicators is observed during the non-heating period, too (Table 2). The strength of the relationship between the number of nights and the average variable costs during heating period is moderate – the correlation coefficient is 0.4926. The regression coefficient is positive; the relationship is directly proportional, which is uneconomical. The coefficient of determination indicates that only 31.56% of the change in average variable costs is determined by the change in the number of occupied nights. In other words, the number of occupied nights is not the determining factor for the level of average variable costs. The result is confirmed also by the level of significance of F-test. The low level of the determination coefficient requires further examination of the residual variation which brings forth other factors that are not considered in the regression model. A moderate correlation between the two indicators is observed during the non-heating period, too.

Moderate correlation between the occupancy rate and the profit generated from one night is also observed – correlation coefficient = 0.4727. The main reason for the low profit during the heating period is the high amount of current costs. Moderate correlation between the occupancy rate and the profit from one night is observed during the non-heating period, too.

Dropping out heating costs increases the profit from one night by 0.77 BGN.

Figure 1 and Figure 2, and the calculations thereof, show close relationship between occupancy rate and labour productivity in the categories guest house and family hotel during both periods, strong unidirectional relationship between variables, correlation coefficients are 0.8665 (heating period) and, respectively, 0,9224 (non-heating period), 0,9451 and 0,9615, i.e. within the range of strong correlation.

Coefficients of determination show that 75.09% (heating period) and 85.08% (non-heating period) of variations in guest house, and 76.89% and 92.45% of variations in family hotels may result from the change in occupancy rate. The correlations described above are confirmed by F-test levels of significance which are lesser than the margin of error. Regression coefficients show that by changing the number of occupied nights by one, the labour productivity in a guest house will grow by 2.426 BGN/occupied (heating period) and by 2.136 BGN/occupied (non-heating period). The increase of labour productivity in family hotels is, respectively 2.70 BGN and 2.40 BGN/occupied. This gives sufficient grounds to conclude that labour productivity is a function of the occupancy rate in tourist enterprises from these two categories.

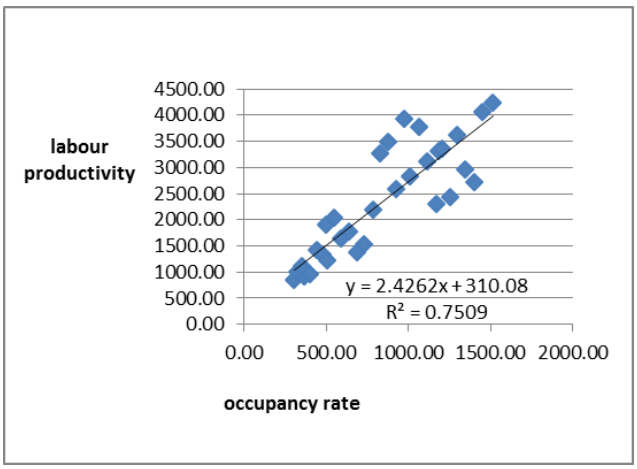

Figure 1. Relationship between labour productivity and occupancy rate (Guest house, heating season)

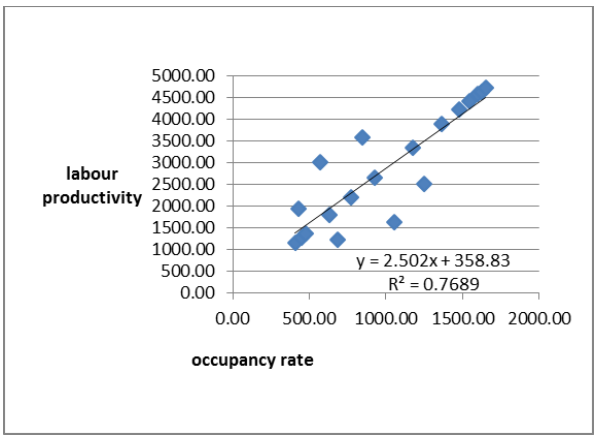

Figure 2. Relationship between labour productivity and occupancy rate (Family hotel, heating season)

The same applies to the amount of sales revenue (Figure 3 and Figure 4). The regression analysis of the relationship between occupancy rate and average variable costs shows that: there is weak, insignificant relationship between the two indicators in guest houses during heating period, correlation coefficient = 0,0878; during non-heating periods, there is a moderate correlation, correlation coefficient = 0.5110; during heating periods, only 0.77% of the change in average variable costs and 26.11% during non-heating periods results from change in the number of occupied beds; increasing the number of nights by one raises average variable costs only very slightly - by 0.02 BGN, yet objectionable.

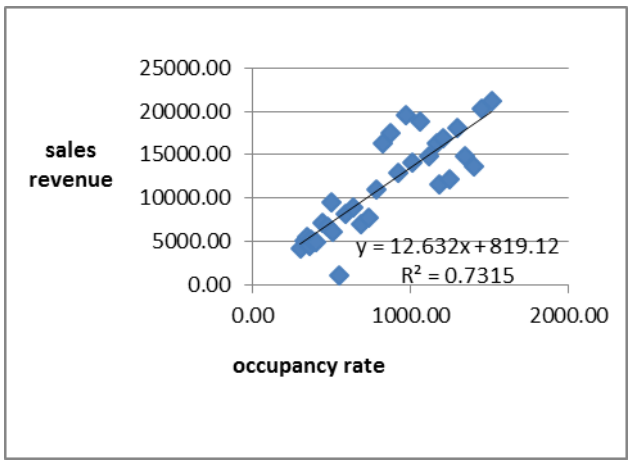

Figure 3. Relationship between sales revenue and occupancy rate (Guest house, heating season)

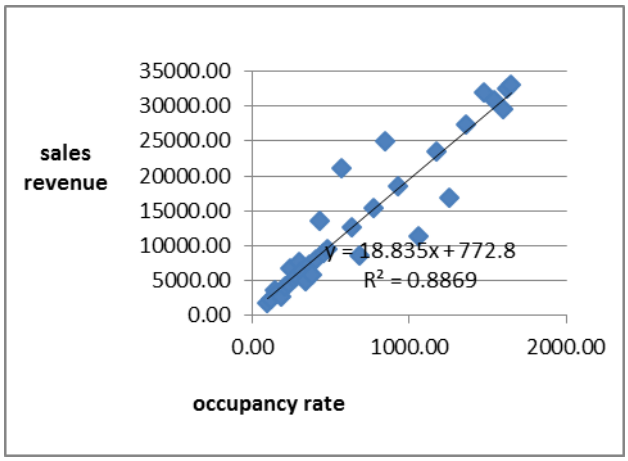

Figure 4. Relationship between sales revenue and occupancy rate (Family hotel, heating season)

Moderate directly proportional unidirectional correlation is observed in family hotels during both periods, correlation coefficient = 0.5618 (heating period) and 0.5398 (non-heating period) respectively. Coefficients of determination indicate that only 29-31% of the change in average variable costs is determined by the number of occupied beds. According to the regression coefficients (significant), by increasing the number of nights by one, the average variable costs will be increased by 0.08 BGN during both periods.

The verification of the strength of the relationship between occupancy rate and net profits from one night in a guest house indicates no correlation in heating periods. The two indexes vary freely and independently from each other. The correlation coefficient during non-heating periods is 0.5110 which indicates moderate relationship. The regression coefficient shows that both indicators change in one and the same direction. The efficiency of one night, measured by the amount of earned profit, is determined by a variety of complex factors and occupancy rate is just one of them (26.11%). It is a managers' responsibility to analyze and specify these factors, and, consequently, control them. The analysis reveals moderate feedback in tourist enterprises from the category of family hotels during both periods; correlation coefficient = 0.5618, coefficient of determination = 0.3156, ß coefficient = 0.0008, proving the extent to which profits may increase by increasing the number of occupied nights by one.

5 Conclusions

The following conclusions are drawn based on the research and analysis made:

South Central region provides contemporary accommodation facilities which have both the capacity and the structure of supply (types of tourist sites) to receive significantly higher tourist flow.

Bed capacity has increased significantly in recent years, but has not been fully utilized. Entrepreneurs offering rural tourist product act independently and separately.

The social and economic condition of the region is aggravated by the demographic decline, strongly impaired age structure, the lack of livelihood, seasonable economic emigration of working-age population, lack of large industrial enterprises, and high dependence on domestic farm business as a source of income.

The fact that 11.2% of employed people in the region are entrepreneurs (4% are employers and 7.2% - self-employed) reveals strong motivation in people at working-age to seek economic realization.

Tourist enterprises from the category of farmhouses with yard and agricultural land provide tourist services only as a form of diversification of the principal activity of the family and the business – production of agricultural products. The tourist enterprises from the categories guest house and family hotel are independent specialized tourist enterprises.

The level and the tendencies of changing sales revenue from tourist services in family hotels are satisfactory in both seasons.

Since labour productivity is directly dependent on the occupancy rate for all of the examined categories, it is necessary to enhance promoting activities to attract new clients such as advertising, PR, improvement of the image of the tourist site, etc. This will increase income rates and will have a positive effect on the development of rural tourism and on the social status of the population in the region.

Since the economic results of all examined tourist sites are strongly influenced by the amount of current expenses, it is necessary to improve the internal management of the tourist enterprise. Managers can apply strategies of flexible management of variable costs through preliminary negotiation of quantities, prices, terms, making suitable storehouse, etc. Cutting variable costs for one night improves the competitiveness of the tourist site.

The supply of rural tourism is less elastic due to its incapability of quick response and adaptation to the changes in the tourism market. There are several reasons for this: tangible and technical facilities are stationary and cannot be remodeled for a short time; the buildings of the tourist site have depreciated with time and cannot easily adapt to current changes.

Rural tourism is connected with a particular territory and season. In case of drop in demand, offered conditions cannot be replaced to another place. Rural tourism is characterized by the high specialization of supply.

Demand for rural tourism products is characterized by disorganization, heterogeneity and variety of nationalities, which makes it extremely elastic. Consumers differ in payment abilities, traditions, customs, religion, lifestyle, national characteristics, etc.

Territorial dispersion and flexibility of demand (the demand's participants) reduce the possibilities of its organization and management. Tourism demand is secondary and not vital. This is why tourism demand can be replaced easily. The demand for rural tourism if formed by the impact of the so called genetic factors in tourism: the prices of goods and services, currency exchange rates, advertising, the transport factor, climate changes, epidemics, attractiveness of the tourist site, quality of service, etc.

The recommendations below can be used to enhance the development of rural tourism in Bulgaria, on the example of South Central region:

- Greater coordination of the activities of all entrepreneurs who offer rural tourism products.
- Increasing and expanding the composition of rural tourism and rural tourism products by including all types of tourism which can be carried out in the particular rural region.
- Full and integrated development of tourist activities.
- Attracting greater number of investments.
- Providing support of private initiative.
- Greater utilization of the funds from projects and programs which will gradually erase the differences between different regions to achieve sustainable development of the regions.
- Development and maintenance of the regional infrastructure.
- Holding events and campaigns to promote rural tourist sites and their activity.

- Organizing periodical trainings to increase their professional qualification and foreign languages preparation.

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