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# **Special Aid to the Tourism Industry During Covid-19 Pandemic**





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## Background

The tourism industry operates in an international competitive environment and is more sensitive to states of emergency than other industries. It is among the first industries to be negatively affected by emergency conditions and the last to recover. Before 2020, the Israeli tourism industry mainly relied on incoming tourism. 2019 was a record year for the Israeli tourism industry, with about 4.5 million tourists who entered Israel<sup>1</sup>.

The Covid-19 pandemic that broke out in China in December 2019 and spread to the rest of the world affected the tourism industry at a relatively early stage and severely, due to the restrictions imposed by different countries worldwide, including Israel, to minimize morbidity and mortality. These restrictions included, among other things, the closing of borders to foreign tourists. As a result, in 2020 and 2021, the number of tourists who entered Israel was about 832,000 and 397,000 respectively.

To help the tourism industry cope with the economic harm during the Covid-19 pandemic, the Israeli government decided to offer some sectors in the industry special aid in addition to the aid it provided to all parties in the market. Following the end of the third lockdown in February 2021, as the rate of vaccinated population grew, the Israeli market started to recover from the harm caused by the Covid-19 pandemic; however, tourists were still not allowed to enter Israel until the beginning of 2022. The number of tourists who arrived in Israel from January 2022 to September 2022 – about 1.7 million – was still low, about 49% lower than those who visited Israel from January 2019 to September 2019. The number of nights Israelis spent in hotels was about 7.5 million in 2020, compared to about 14.6 million in 2019. In 2021, there was a significant recovery, and the number of nights Israelis spent in hotels reached nearly 15.6 million.

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1 Tourists, according to Central Bureau of Statistics, are visitors who hold a foreign passport, enter the State of Israel with a tourist visa and exit the state on a different date (not the same as entry day).



## Key Figures

**about  
67%**

decrease in Israeli's market revenues from tourism in 2021, compared to 2019, before the pandemic (approx. NIS 14 billion compared to about NIS 43 billion) according to the Ministry of Tourism's estimations

**about  
1.6  
million**

number of passengers passing through Ben Gurion Airport from March 2020 to March 2021 compared to about 24.2 million passengers from March 2019 to March 2020

**About  
93%**

out of the special aid allocated for the tourism industry, designated for the aviation sector (about NIS 964 million) and the hotel sector (about NIS 450 million)

**about NIS  
256  
million**

by the end of June 2022, the state paid for 1,240 hotels' aid requests (out of a total of 1,450 correct requests) due to decrease in their revenues from June 2020 to May 2021

**about  
4–14  
months**

delay in providing special aid to the hotels – after the period for which the aid was suppose to be given, as of the audit end date (November 2022)

**about NIS  
60 million**

the state provided special aid to Israel's three most dominate hotel chains between 2020 and 2021. In retrospect, the necessity of the aid is questionable

**about  
16%**

rate of tour guides who received special aid from tours operated by the Ministry of Tourism from November 2020 to December 2021, out of the total number of tour guides registered at the Ministry (1,322 out of 8,377)


**about NIS  
6.2  
million**

scope of total special aid provided to tour guides from November 2020 to December 2021; about NIS 300 a month on average per guide



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## Audit Actions



 From 2020 to 2021, the State Comptroller issued 23 reports on various aspects the State of Israel coped with the Covid-19 pandemic to optimize its contending with the crisis in real time and improve its preparedness for future crisis. The present audit, conducted from February to November 2022, examined various aspects of the special aid provided to the tourism industry during the pandemic and its implementation, especially in 2021 and 2022, during which most of the Israeli market resumed its usual activity and the burden on the decision makers in terms of urgent, systemic coping with the crises was substantially alleviated, compared to 2020. Additionally, aspects of the Ministry of Tourism activities in routine which impacting the state preparedness level for emergencies affecting the tourism industry were examined to meet the industry's potential to recover after the crisis.

The audit was conducted in the Ministry of Tourism, Finance, and the Central Bureau of Statistics. Supplementary audits were conducted in the Israel Tax Authority, Israel Nature and Parks Authority, the Ministry of Economy and Industry, the Bank of Israel, the National Insurance Institute, the Ministry of Justice, the Ministry of Transportation and Road Safety, and the Ministry of Jerusalem Affairs and Heritage.

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## Key Findings



-  **Special Aid to Hotels** – in August and October 2020, the government allocated NIS 300 million as special aid to hotels. In December 2021, the government increased the special aid by NIS 150 million. This is to prevent the closing of hotels due to the Covid-19 pandemic.
-  **Dates of Providing Special Aid** – in 2015, the government decided to provide within a month special aid to the tourism industry after an emergency situation was declared. As of the audit end date (November 2022), special aid of up to NIS 300 million was provided to the hotels between 4–14 months from the end of the period for which the aid was suppose to be given. Furthermore, by mid-November 2022, almost a year after the end of the period for which aid was suppose to be given, the Ministry of Tourism had not started paying the additional special aid of up to NIS 150 million. It is an exceptional delay that reflects inappropriate late payment, which compromises the government decision purpose and the effectiveness of the aid.



- **Government Investments in Hotels Before the Covid-19 Pandemic** – one of the causes that led to the government's decision to provide special aid to hotels was to prevent the loss of past state investments to construct hotel infrastructures. It was found that before December 2021, when a decision was made to grant an additional special aid of up to NIS 150 million, the Ministry of Tourism and the Ministry of Finance had not checked whether, before the outbreak of Covid-19, the hotels that received investment grants from the state, based on the Encouragement of Capital Investment Law, met the legal criteria to receive grants from the state and whether these grants were supposed to be repaid partially or in whole. Before the outbreak of the pandemic and by the audit end date (November 2022), the Ministry of Tourism had no sufficient information indicating whether 43% of the hotels that received state grants at a total of NIS 115 million (79 hotels) and reopened were meeting the legal criteria. As of August 2022, the Ministry of Tourism had information regarding 13 hotels that had received investment grants at a total of NIS 60 million from the state, although they were not meeting the criteria. By the audit end date, the Ministry of Tourism had not completed the law amendment concerning entitlement for investment grants; The Ministry withholds 5% or 10% of the grant until it gets proof that indicates the hotel met the criteria and does not demand repayment of the grants from the hotels that received grants, although they did not meet the criteria.
- **Necessity of the Special Aid Provided to the Three Largest Hotel Chains in Israel<sup>2</sup>** – in 2021, the financial data of the three largest hotel chains in Israel reflected an economic recovery. As of the second quarter of 2021, there was a significant improvement in their revenues resulting from their activity in Israel. The improvement in the chains' profitability derives, amongst other things, from the increase in the number of bookings made by Israelis in 2021 compared to 2019<sup>3</sup>. The following charts present the three chains' turnover, profit and loss, and the balance of aggregated profits:

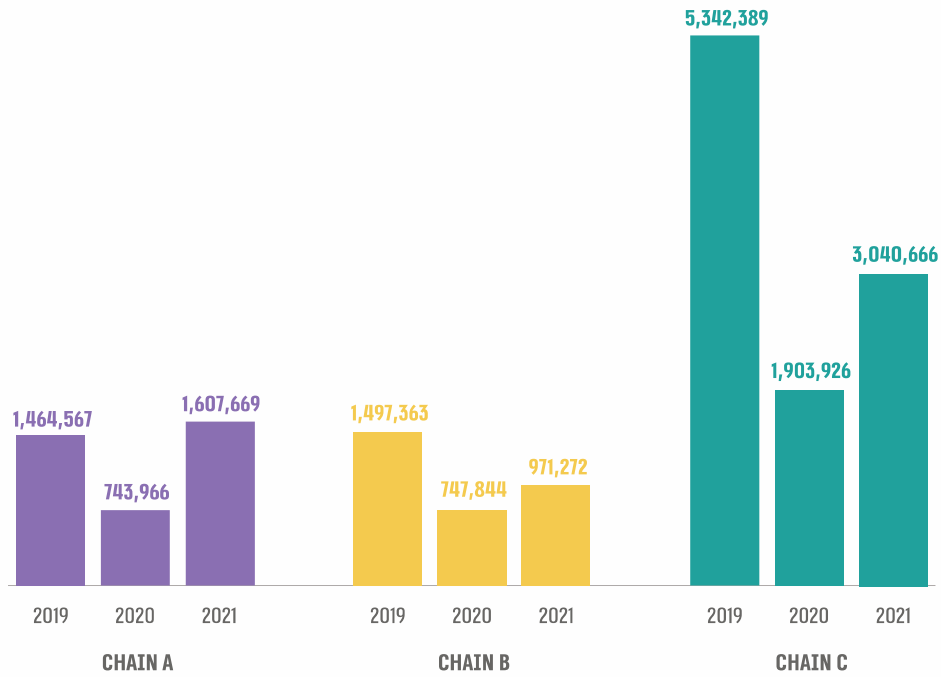
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2 Hotel Chain A - Isrotel Hotel Chain Ltd; Hotel Chain B - Dan Hotel Chain Ltd.; Hotel Chain C - Fattal Holdings (1988) Ltd.

3 Except for Hotel Chain B that reported to the State Comptroller Office on an increase in Israelis' bookings in 2021, compared to 2020, and a decrease in the number of bookings in 2021 compared to 2019.



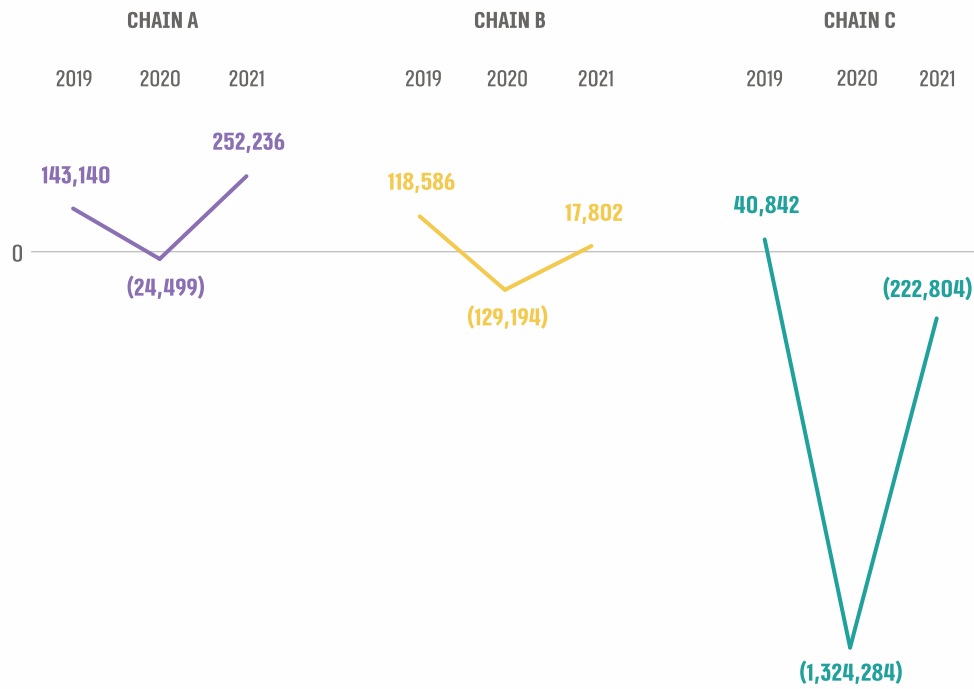
### Revenue of Hotel Chains A, B and C, 2019–2021



According to the hotel chains' financial statements, processed by the State Comptroller Office.



### The Profit (and loss) Data in NIS (in thousands) for Hotel Chains A, B and C\*, 2019–2021



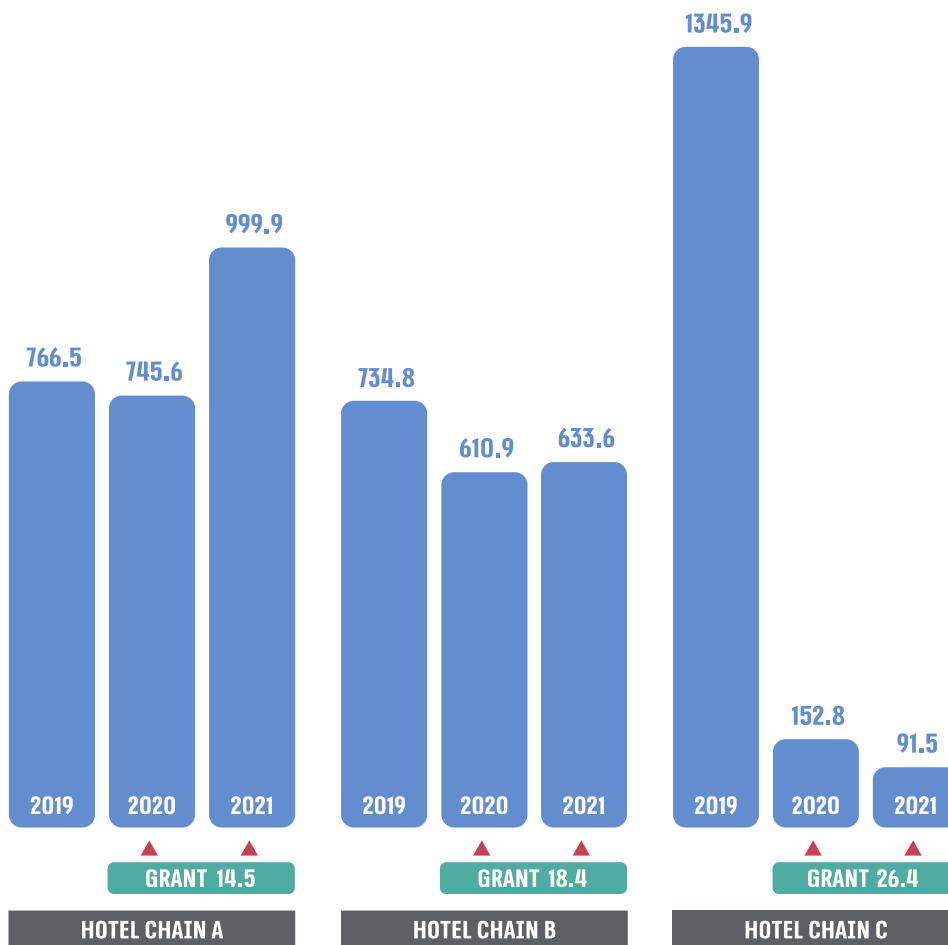
According to the hotel chains' financial statements, processed by the State Comptroller Office.

\* The loss of hotel chain C reflects losses in all its activities in Israel and abroad. Its activity in Israel yielded significant operating profits.





The Retained Earnings (accumulate Profit)\* of Hotel Chains A, B and C, as of 31st of December of 2019–2021 and the Grants the Chains Received During the Covid-19 Pandemic as part of the Special aid Given to Hotels in 2020 and 2021 (in NIS million)



Hotel chains' financial statements data, processed by the State Comptroller Office.

\* Also defined as the balance of surplus or surplus. It should be noted that these profits do not necessarily reflect the chains' level of liquidity since the profits could not be liquefied immediately to fund ongoing activity during the pandemic.



The criterion for receiving special aid is affected by changes in the revenue; however, given the scope of annual profits or losses, their share in the business cycle, the examined liquidity ratios and the scope of aggregated profits, and given the special aid program purpose: to prevent closing of hotels in Israel, the necessity of the special aid provided by the state through grants that do not depend on future developments at a total of about NIS 60 million is questionable. The doubt increases considering that although the state provided the special aid only 4–7 months following the end of the period for which the aid was supposed to be given, in 2021, hotel chains A and B indicated net profit, and hotel chain C indicated operating profit, with the exclusion of financing costs (approx. NIS 207.8 million), alongside relatively low tax adjustment losses (about NIS 7.7 million) for its business cycle which was about NIS 1.3 billion (a loss rate of about 0.6%).

- 📌 **Special Aid to Tour Guides** – to assist tour guides during the pandemic, the state allocated between 2020 and 2022 a total of about NIS 35 million to operate three rounds of free-of-charge guided tours intended for the general public. The Israel Nature and Parks Authority operated the tours in its sites and several cities in Israel.
- **Aid's Effectiveness** – the Ministry of Tourism did not set a quantitative target that reflected the purpose of the aid provided to tour guides through the second round of tours from November 2020 to December 2021 (for example, there was no indication of a minimal number of active tour guides that the Ministry was interested in retaining in the fields of domestic tourism, incoming tourism or by different geographical expertise). Under these circumstances, and since the aid funds, at a total of NIS 10 million, were fully utilized, it is impossible to determine whether the aid provided to tour guides by this round of guided tours has indeed met the purpose of generating employment for tour guides, to retain a minimal pool of tour guides during the crisis, and help them to cope with the economic, family-related and health-related hardships caused by the pandemic. The scope of the overall effective aid in the second round of tours (about NIS 6.2 million), the average monthly aid provided to each of the tour guides (about NIS 300, including VAT), and the rate of tour guides who took part in this round of tours (about 16%) raise some doubts regarding the efficiency and effectiveness of this round of tours.
- **Rate of Utilizing the Budget to Assist Tour Guides in 2022** – by the time two third of the third round of tours was supposed to take place in 2022, only a third of the budget for this purpose was utilized (NIS 8 million out of NIS 25 million). To use the entire budget allocated for this round of tours, the Ministry of Tourism extended the round of tours by 12 months until December 2023.



- **The Criterion for Receiving Unemployment Allowance by Tour Guides who own an Eshkol Tour Car<sup>4</sup>** – requires a qualification periods to be entitled to unemployment allowance. The Ministry of Finance objected to a plan according to which the qualification period for tour guides who own an Eshkol tour car would be the same as for tour guides who do not own an Eshkol tour car. As a result, despite the National Insurance Institute's attempt to assist the tour guides who owned an Eshkol tour car and were negatively affected by the pandemic, the tour guides were not entitled to claim unemployment allowances during the pandemic and would only be able to do so in future crisis. That while there was no difference between these tour guides and the guides who did not own an Eshkol tour car, and the reasons for not providing this type of aid were not different from those against providing other benefits to workers discussed during the crisis. Still, in specific cases there was a solution after balancing between the various reasons.
- 📌 **Career Retraining Program for Workers in the Tourism Industry who were Negatively Affected by the Covid-19 Pandemic** – the performance data of the program were low: about 1% (1,422 out of 140,000) of workers in the tourism industry contacted the Ministry of Tourism and expressed interest in the program; about a third (431 out of 1,422) of those who were entitled contacted the call center of the Labor Department to find out about career retraining options; few of those who contacted the Labor Department (51 out of 431 – about 12%) received a voucher for training and only 6% (3 out of 51) received scholarships during the training period. By the time Covid-19 started, the Ministry of Tourism had not completed the lesson-learning process it had embarked on in 2015 together with the Ministry of Economy and Industry about the efficiency and effectiveness of career retraining programs to help workers in the tourism industry during a future crisis and intended to consider options that would help optimize their activity in the field as necessary.
- 📌 **Defining Different Types of Workers in the Tourism Industry** – the tourism industry includes sectors that focus solely on tourism, such as tourists' accommodations and tour guides, and industries that provide services and products to economic activities that are not restricted to tourism, including transportation services, attractions and food and beverage services (multi-sectorial sectors). According to the Ministry of Tourism's Assessments, in 2019, the total income from the multi-sectorial sectors was about NIS 16.2 billion, and about 57,000 out of the 140,000 workers in the tourism industry were employed in these sectors. Before the Covid-19 outbreak, and by the audit end date (November 2022), the Ministry of Tourism had not set criteria defining which businesses included in the multi-sectorial sectors are tourist-related businesses. The fact that no criteria were set for identifying tourist-related businesses in the multi-sectorial sectors led to the decision to grant special aid only to hotels, organizers of incoming tourism, and tour guides and not to other tourist-related businesses that are part of the touristic aid package.

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4 Public vehicles owned by tour guides and used for tourists' transportation.



**Collecting and Managing Information by the Ministry of Tourism** – the ability of the Ministry of Tourism to provide the tourism industry with solutions that are adjusted to its needs and the scope of damage during a state of emergency requires data-based decision-making that is performed routinely. Information collection is also essential for the optimal development of the industry in routine.

- **The Information Available to the Ministry of Tourism** – before the pandemic and by the audit end date (November 2022), the Ministry of Tourism had no comprehensive data regarding the activity of the various sectors of the tourism industry needed for decision-making. Among other things, the Ministry did not have data regarding the number of bed and breakfast accommodations in the countryside, the number of apartments and houses for short-term rental, the geographical distribution of the above accommodations, and the number of tour guides and their different fields of expertise. The information gaps made it difficult to estimate the scope of damages that affected the various sectors and to find adjusted solutions.
- **Ministry of Tourism's Activities Designated to Complete Information Gaps** – by the audit end date (November 2022), no decision had been made according to which the Central Bureau of Statistics would collect information for the Ministry of Tourism of the several domains that were defined by the Ministry, in August 2020, as essential for its activity. In addition, the Ministry of Tourism had not developed mechanisms that facilitate collaboration with other public entities, such as the Tax Authority, the National Insurance Institute, the Bank of Israel, and the Israeli Employment Service, which would enable it to receive significant information necessary for its activity from the above entities. This is, among other things, information on employment, wages, and revenues in the tourism industry.
- **Maintaining Updated Information** – as of the audit end date (November 2022), the Ministry of Tourism had not periodically updated its information and had not appointed an official in charge of ongoing updating and managing of information. Hence, the completeness and reliability of the information available at the Ministry are questionable, and, in addition, there is a concern that the efforts made to collect the information were in vain. Two databases that the Ministry purchased were found during the audit (a database of touristic attractions and an interactive map that includes touristic information to be used by the public). The Ministry's investment in the above databases was lost since they were not updated.

**Developing Mechanisms to Assist the Tourism Industry in Crisis** – decisions made by the government in 2014 and 2015 about the development of future mechanisms to assist the tourism industry at a time of geo-political crisis by an inter-ministerial committee headed by the director general of the Ministry of Tourism were not






implemented. As a result, the government's ability to assist sectors in the tourism industry rapidly and efficiently during a crisis is minimal.



The State Comptroller Office commends the Ministry of Tourism's efforts to assist the tourism industry during the Covid-19 pandemic, mainly two of the Ministry's employees responsible for managing the particular aid program to assist about 600 hotels. The employees worked very hard to implement the program in collaboration with the members of the Support Committee, in addition to their main duties.

The third round of free-of-charge guided tours for the general public was managed better. The third round, which started in February 2022, was used as a tool to assist tour guides: about 94% of the budget designated for this round had been utilized by July 2022 (aid period) and used for paying the tour guides, while only 62% of the budget allocated for the second round of tours from November 2020 to the end of 2021 was used for paying the tour guides.

## Key Recommendations

-  It is recommended that the Ministry of Finance consider, from an economy-wide perspective, allocating some governmental aid budgets during future emergencies for managing, supervising, and controlling aid programs. It is further recommended that the Ministry of Tourism and the Ministry of Finance ensure that the information systems for immediate aid funds at times of emergency comply with the requirements expected of the system and users in a way that will facilitate their use.
-  The Ministry of Tourism, first and foremost, together with the Prime Minister's Office, the Ministry of Economy, the Ministry of Finance, the Ministry of Justice, the Ministry of Transportation and Road Safety, and the Ministry of Jerusalem Affairs and Heritage should implement the government decisions from September 2014 and August 2015 regarding the development of mechanisms to assist the tourism industry at time of emergency considering the findings of this report.
-  It is recommended that as part of preparing for future emergencies, the Ministry of Tourism and the Ministry of Finance conclude from the special aid given to hotels, including examination of the effectiveness and efficiency of the aid, the reasons for the delays in providing the aid and means of minimizing delays. It is further recommended that the Ministry of Tourism and Finance ensure that the distribution of aid funds is also beneficial for Israeli consumers. It is further recommended that for efficient allocation of public resources, the Ministry of Tourism and the Ministry of Finance consider including conditions



according to which businesses that receive aid funds, which then turn out to be unnecessary, would return these funds to the state.



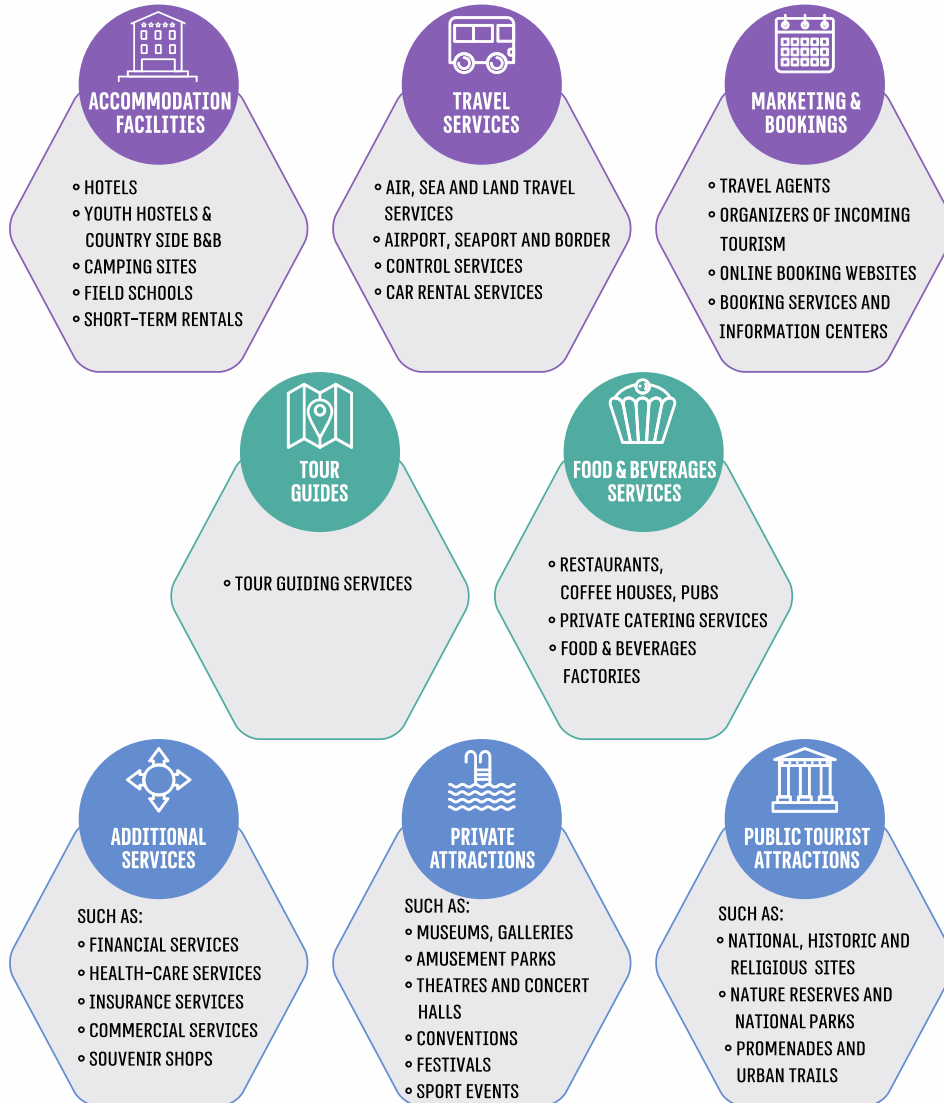
It is recommended that the Ministry of Tourism examine the reasons for the low utilization rates of the budget designated for the guided tours rounds from February to October 2022 (about 32%) to efficiate the provision of aid. It is further recommended that in the future, when the Ministry of Tourism conducts projects to assist tour guides, it increases the efficiency and effectiveness of the aid provided to them, establish some control mechanisms of future aid and draw conclusions following the provision, and examine ways of increasing the number of tour guides who take part in these projects.



It is recommended that the Ministry of Tourism complete information gaps in the tourism industry, reinforce the data collection systems, and periodically update these systems to optimize its operation during emergencies and in routine.



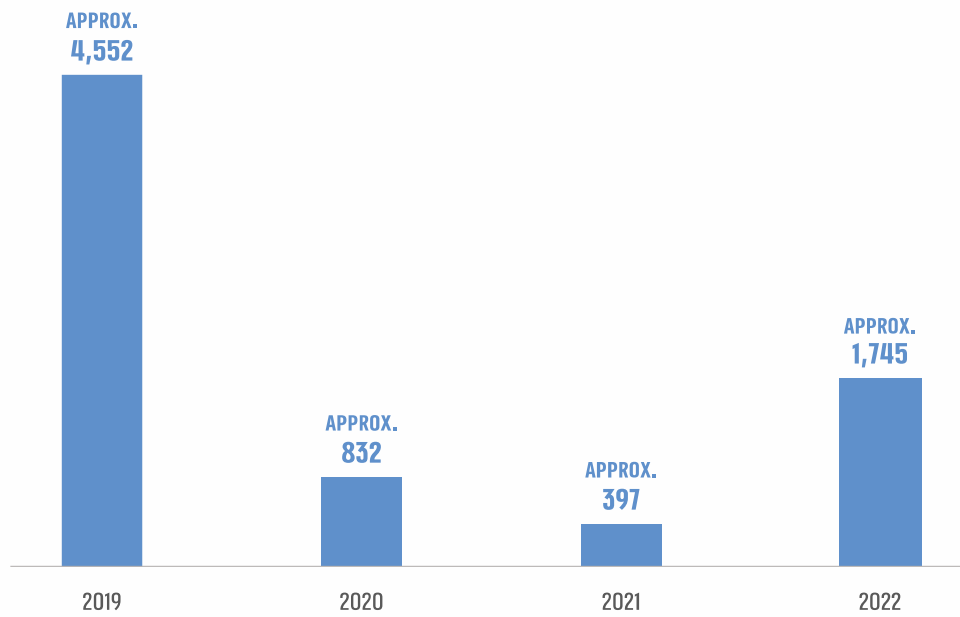
## The Economic Sectors in Israel that Provide Services and Products for Tourists



According to professional literature and information from the Ministry of Tourism, processed by the State Comptroller Office.



### Data of Tourist Entries to Israel, September 2019–2022 (in Thousands)



According to the Central Bureau of Statistics, processed by the State Comptroller Office (the data from 2022 refer to a period of 9 months).





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## Summary

Following the outbreak of Covid-19 in Israel in March 2020, the government took measures to minimize morbidity and mortality. One decision made by the government was to restrict movement and gatherings throughout the country and close the borders (for tourists). These restrictions significantly affected the tourism industry at the relatively early stage of the pandemic, and the number of tourists entering Israel decreased from about 4.5 million in 2019 to an unprecedented number of 832,000 in 2020. By the audit end date, the tourism industry had not recovered from the crisis, as from January to September 2022, only 1.7 million tourists entered Israel.

This report examined the special aid provided to the tourism industry at two levels: The Ministry's emergency preparedness, particularly the gathering of information necessary for providing aid in time of emergency and the definitions of the objects of assistance; Learning different aspects of the special aid provided to the tourism industry in 2021 and 2022 and its implementation.

The present audit raised gaps in the Ministry of Tourism collecting tourism industry information and its periodic updating, the Ministry's preparedness for emergencies, and the Ministry addressing only some of the sectors in the tourism industry. These gaps compromised the effectiveness and efficiency of the aid to assist the tourism industry during the Covid-19 crisis, since they limited the Ministry's ability to assess the damages caused to different sectors of the tourism industry and to estimate the scope and type of aid needed to cope with the crisis. As for the special aid given to several sectors in the tourism industry in 2021 and 2022 and its implementation, the audit raised findings that should be examined for lesson learning, including setting of criteria to identify tourist-related businesses, their characteristics and needs, examining the operational capability of the Ministry of Tourism to operate an aid program, the need of presenting a complete financial description of the outcomes, the financial status of the recipients of aid and developing control mechanisms of the aid provision to various sectors of the tourism industry.

Given the State of Israel's limited funds to provide special aid, which requires a high justification compared to aid intended for the entire economy, it is recommended that the planning stage ensures that the aid is provided effectively and efficiently and that it will fulfill its purpose of the speed of its distribution and of the identity of the entities that will receive assistance.

