

# **ABEC Tourism Master Plan**

## **Supplementary Document III**

### **Legal and Institutional Frameworks**

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# Chapter 1

## **1** Introduction and Institutional and Legal Frameworks in Kazakhstan and the Kyrgyz Republic

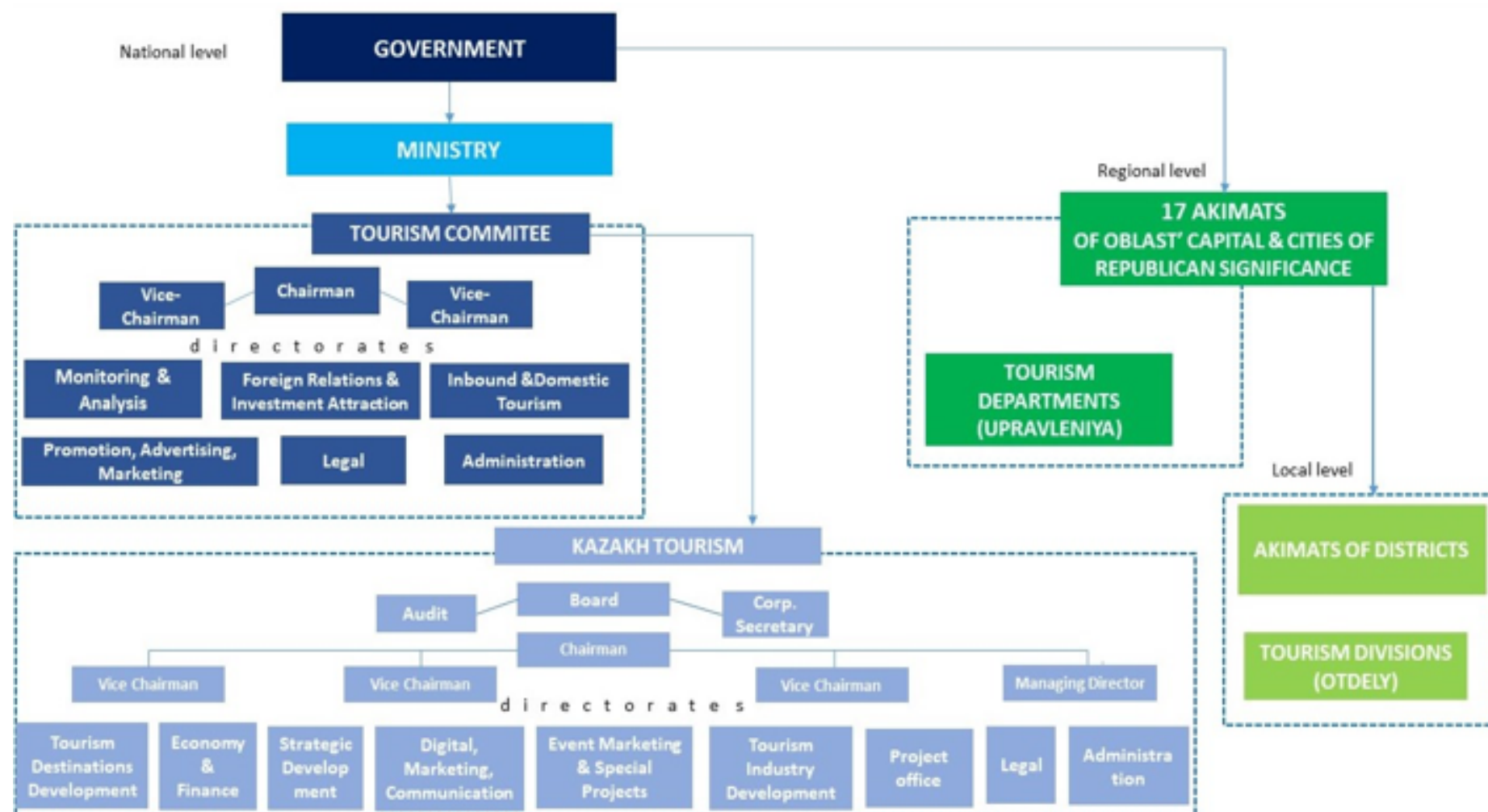
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## 1.1 - Introduction

- This module has **three main objectives**:
  1. To identify the **key success factors regarding institutionalization issues** in the Development of the Tourism Sector in reference destinations and their development lifecycle stage.
  2. To **characterize best practice** functions, attributions, competencies, responsibilities and legal delegated powers of the Institution Responsible for Tourism development (IRTD) in relevant comparable countries and how such countries have developed their Tourism Sectors in relation to Institutionalization issues.
  3. To **identify key legislative measures to be implemented by each Government to align both countries legal frameworks with international best practices** in the Tourism Sector in general and tourism segments in particular (ex. Health and medical).
- Additionally, this reports covers the issues of **FDI and investment incentive regimes in comparable countries** within a benchmarking exercise, with the purpose to identify gap areas of the ABEC countries relative to its peers, as **investment is a critical issue in Tourism Development**.
- Following the recent publication of the Tourism National Program of Kazakhstan, the **Institutional architecture envisaged is structured at three levels: National, Regional and local**.
- At the national level, the tourism related institutions have **three layers**, and are the **Ministry of Sports and culture** (first layer), through One of its branches: the **Tourism Committee** (2<sup>nd</sup> layer). Under its responsibility, there is the **Kazakh Tourism Company** (KTC) in a 3<sup>rd</sup> layer.
- At the **regional level**, each of the 17 Akimats of Oblast capital and cities of republican significance (Nur-Sultan, Almaty, and Shymkent) have its own Tourism Department (Upravleniya).
- At the **District (local) level**, each Akimat of District has its own tourism division (Otdely)

## 1.2 - Institutional Framework - Kazakhstan

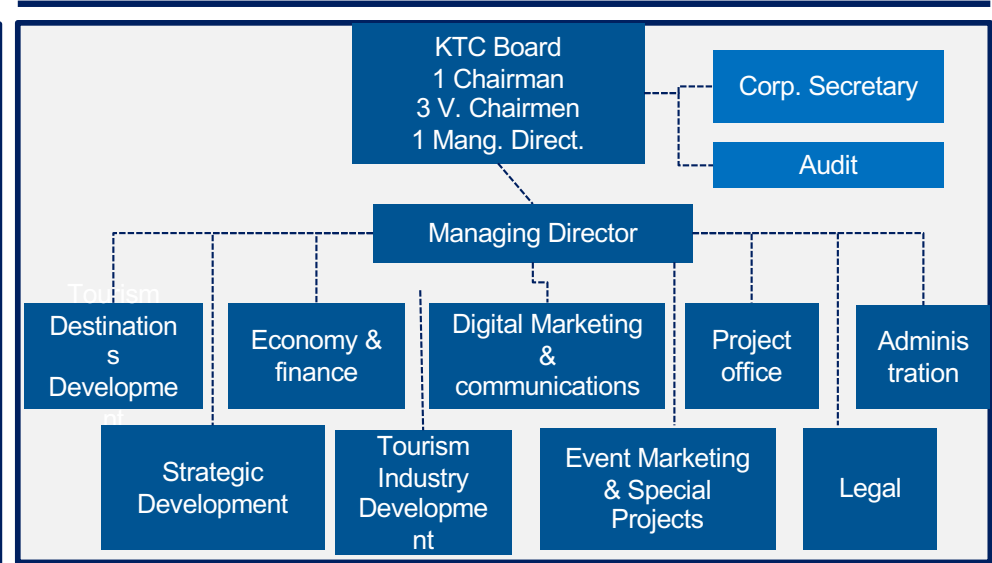
### Tourism Institutional Structure in Kazakhstan



### Structure of the Tourism Committee



### Structure of the Kazakh Tourism Company



- The Governance is structured around three members: a Chairman, and two vice Chairmen;
- The operations are set-up around six Directorates:
  - Monitoring and analysis;
  - Foreign relations and investment attraction;
  - Inbound and Domestic tourism;
  - Promotion, advertising and marketing;
  - Legal, and
  - Administration

- The Governance is structured around five members: a Chairman, three vice Chairmen, and a Managing Director.
- The operations are set-up around **nine Directorates**:
  - Tourism Destinations Development;
  - Tourism Industry Development;
  - Strategic Development;
  - Digital Marketing and communications;
  - Event Marketing and Special Projects;
  - Project office;
  - Economy and Finance;
  - Administration;
  - Legal

- This framework of analysis comprises six dimensions across each of the levels and layers of decision-making processes: primary functions; competencies; responsibilities; legal, enforcement, and delegated powers

### *National Level*

Government	1st layer
Dimension	Characterization
<b>Functions</b>	<ul style="list-style-type: none"> <li>▪ Policy formation, planning and implementation.</li> <li>▪ Adoption of regulations</li> <li>▪ Control over the MCS* and Akimats.</li> </ul>
<b>Competencies</b>	<ul style="list-style-type: none"> <li>▪ Adoption of the strategy of development, and planning documents;</li> <li>▪ Adoption of legal acts (listed in the Tourism Law) and undertake important appointments in tourism;</li> <li>▪ Management and control the activities of the MCS, and Akimats</li> </ul>
<b>Responsibilities</b>	<ul style="list-style-type: none"> <li>▪ Before the President and the Parliament for performance and effectiveness of implementation of policy</li> </ul>
<b>Legal Powers</b>	<ul style="list-style-type: none"> <li>▪ Creation of the state system of scientific provision for touristic activity;</li> <li>▪ Collaboration and coordination with foreign states;</li> <li>▪ Other rights</li> </ul>
<b>Enforcement Powers</b>	<ul style="list-style-type: none"> <li>▪ Cancellation or suspension of the actions of ministries, Akimats and other executive state bodies;</li> <li>▪ Cancellation or suspension, fully or in part, a validity of acts of Akimats, makes proposals for their cancellation or suspension for consideration by the President.</li> </ul>
<b>Delegated Powers</b>	<ul style="list-style-type: none"> <li>▪ No delegated powers</li> </ul>

Notes: \* MCS – Ministry of Culture and Sports

## National Level

### Tourism Council at the Government

2nd layer

Dimension	Characterization
<b>Functions</b>	<ul style="list-style-type: none"> <li>Provision of consultations and recommendations</li> </ul>
<b>Competencies</b>	<ul style="list-style-type: none"> <li>Provision of recommendations of non-binding nature on tourism development, attracting investments, provision of favourable conditions for arriving in and departure of tourists abroad, creation of touristic brand of the country, training of specialists in tourism.</li> </ul>
<b>Responsibilities</b>	<p>proposals on:</p> <ul style="list-style-type: none"> <li>participation of entities in the implementation of tourism policy, and main streams of activities for the Government;</li> <li>anti-dumping policy in the field of export / import of touristic services, and priority types of tourism / touristic zones;</li> <li>coordination of actions of state bodies / other organizations to ensure safety of tourism and control over tourist flows.</li> <li>maintenance of rating of persons carrying out the touristic activity in order to inform on quality of services.</li> </ul>
<b>Legal Powers</b>	<ul style="list-style-type: none"> <li>Creation of the state system of scientific provision for touristic activity;</li> <li>Collaboration and coordination with foreign states;</li> <li>Other rights</li> </ul>
<b>Enforcement Powers</b>	<ul style="list-style-type: none"> <li>Cancellation or suspension of the actions of ministries, Akimats and other executive state bodies;</li> <li>Cancellation or suspension, fully or in part, a validity of acts of Akimats, makes proposals for their cancellation or suspension for consideration by the President.</li> </ul>
<b>Delegated Powers</b>	<ul style="list-style-type: none"> <li>No delegated powers</li> </ul>

Notes: \* MCS – Ministry of Culture and Sports



## National Level

### Ministry of culture and sport

1st layer

Dimension	Characterization
<b>Functions</b>	<ul style="list-style-type: none"> <li>▪ Authorised body for</li> <li>▪ Policy implementation, approval of regulations, and elaboration of planning documents.</li> <li>▪ State control and Sector coordination.</li> <li>▪ Control over the Tourism Committee.</li> <li>▪ Events and promotion.</li> </ul>
<b>Competencies</b>	<ul style="list-style-type: none"> <li>▪ State and government regulation in tourism;</li> <li>▪ Management and control of activities of the Tourism Committee;</li> <li>▪ Inter-sectoral coordination</li> <li>▪ Approval of legal acts and standards</li> </ul>
<b>Responsibilities</b>	<p>Before the Government for:</p> <ul style="list-style-type: none"> <li>▪ Policy implementation performance and effectiveness</li> <li>▪ International treaties, representing interests of the state in international organizations and events in tourism;</li> <li>▪ Adoption of regulations, required under the law;</li> <li>▪ Provision to the Government composition and regulation of Tourism Counsel represented by the Tourism Committee.</li> </ul>
<b>Legal Powers</b>	<ul style="list-style-type: none"> <li>▪ Creation of consultative and advisory bodies under the Ministry</li> <li>▪ Request of information from state bodies, organizations;</li> <li>▪ Provision of events;</li> <li>▪ Other rights.</li> </ul>
<b>Enforcement Powers</b>	<ul style="list-style-type: none"> <li>▪ Cancellation or suspension in whole or in part of the acts of the Tourism Committee</li> </ul>
<b>Delegated Powers</b>	<ul style="list-style-type: none"> <li>▪ Delegates its' powers to the Tourism Committee</li> </ul>

Notes: \* MCS – Ministry of Culture and Sports

## National Level

## Tourism Committee

## 2nd layer

Dimension	Characterization
<b>Functions</b>	<ul style="list-style-type: none"> <li>Policy implementation</li> <li>Development of regulations, standards, and planning documents</li> <li>Capacity building and quality enhancement</li> <li>Sector coordination, State control (compliance), control over Kazakh Tourism Company</li> <li>Events and promotion</li> <li>Market research</li> </ul>
<b>Competencies</b>	<ul style="list-style-type: none"> <li>Participation in implementation of state policy in tourism and attracting investments;</li> <li>Management, inter-sectoral coordination and state regulation in tourism.</li> <li>Development of legal acts, agreements, MoUs, and treaties (negotiations and implementation);</li> <li>representation of state interests in international organizations;</li> <li>Distribution and promotion of information on Kazakhstan and its touristic possibilities.</li> </ul>
<b>Responsibilities</b>	<p>Responsible before the MCS for:</p> <ul style="list-style-type: none"> <li>Protection and safety of tourists, in tandem with interested bodies;</li> <li>Compliance with the System of Guaranteeing by touristic subjects;</li> <li>State control over tour operators and tour agents on their civil liability insurance contracts obligation</li> <li>State control over compliance with the legislation;</li> <li>Informing persons engaged in tourist activities and tourists about possible dangers for tourists in the country (place) of temporary stay;</li> <li>Bringing court actions.</li> </ul>
<b>Legal Powers</b>	<ul style="list-style-type: none"> <li>On inter-industry, inter-regional coordination, and cooperation with touristic organizations</li> <li>On standardization in tourism jointly with the state body on technical regulation;</li> <li>On the state register of tour agents, guides, ciceroni and tourism instructors;</li> <li>On generalization of practices, their application and proposals for improvement;</li> <li>Legal monitoring of regulations;</li> <li>Procurement for, and decisions' approval of the Administrator of the system of guaranteeing;</li> </ul>
<b>Enforcement Powers</b>	<ul style="list-style-type: none"> <li>Suspension of a license of tour operator in case of incompliance.</li> </ul>
<b>Delegated Powers</b>	<ul style="list-style-type: none"> <li>The powers and responsibilities are delegated by the MCS.</li> </ul>

MCS – Ministry of Culture and Sports

## National Level

### KTC – Kazakh Tourism Company

#### 3rd layer

Dimension	Characterization
<b>Functions</b>	<ul style="list-style-type: none"> <li>Marketing and promotion</li> <li>Information support (market research)</li> <li>Partnership building</li> <li>Development of proposals on capacity building and quality enhancement</li> </ul>
<b>Competencies</b>	<ul style="list-style-type: none"> <li>Promotion of tourism, domestically and internationally;</li> <li>Organization of international and entertainment events aimed at promoting the country's image;</li> <li>Development of children's and youthful tourism; inbound tourism; medical tourism;</li> <li>Foreign investment activities</li> </ul>
<b>Responsibilities</b>	<p>Responsible before the Tourism Committee for:</p> <ul style="list-style-type: none"> <li>Posting information about vacation-friendly tourist clusters of Kazakhstan;</li> <li>Provision of information and analytical support;</li> <li>Provision of proposals to tourism development plans and on social tourism;</li> <li>Creation and maintenance of the “Kazakh Tourism” web portal;</li> <li>Creation of cartography for regional travel agencies on sacral objects of Kazakhstan;</li> <li>Analysis of foreign markets, including the study of foreign experience on the promotion and development of domestic tourism, creation of cartography.</li> </ul>
<b>Legal Powers</b>	<ul style="list-style-type: none"> <li>Interaction with domestic, foreign and international organizations on tourism promotion;</li> <li>Cooperation with Akimats and tourism companies;</li> <li>Assistance in promoting domestic tourism to foreign markets through cinema, video – films</li> </ul>
<b>Enforcement Powers</b>	<ul style="list-style-type: none"> <li>No enforcement powers</li> </ul>
<b>Delegated Powers</b>	<ul style="list-style-type: none"> <li>Delegates its' powers to the Tourism Committee</li> </ul>

Notes: \* MCS – Ministry of Culture and Sports

## Regional (Oblast) Level

### Tourism Departments (upravleniya) of Akimats of oblasts, cities of Nur-Sultan, Almaty and Shymkent

2nd layer

Dimension	Characterization
<b>Functions</b>	<ul style="list-style-type: none"> <li>Implementation of state policy</li> <li>Planning, and Infrastructure development</li> <li>Statistics collection (on quantity of tourists)</li> <li>Licensing of tour operators</li> <li>State regulation on protection of touristic resources</li> </ul>
<b>Competencies</b>	<ul style="list-style-type: none"> <li>Provision of state regulation, licensing of tour operators, in the area;</li> <li>Implementation and coordination of state policy in the area</li> <li>Analysis of market of touristic services and inform the MCS;</li> <li>Coordination and regulation of activity on planning and building of tourism assets.</li> </ul>
<b>Responsibilities</b>	<p>Responsible before the President and the Government.</p> <ul style="list-style-type: none"> <li>Aligned with MCS, approval and implementation of action plans;</li> <li>Elaboration of measures for protection of touristic resources;</li> <li>Methodical and consultative assistance to touristic stakeholders;</li> <li>Support entrepreneurship in tourism to increase local employment;</li> <li>Establishing touristic informational centres;</li> <li>Organization of professional training guide (guide-translator);</li> <li>Maintenance of the state register of tourist routes and trails;</li> <li>Development of master plans of construction, monitor interventions on tourism assets, implement and inspect regulations on land and water use.</li> <li>To build and maintain public infrastructure of oblast' significance;</li> <li>To grant permissions on interventions on public networks and installations;</li> <li>To organize the state ecological expertise (related permission).</li> </ul>
<b>Legal Powers</b>	<ul style="list-style-type: none"> <li>Support the activities of infant and youth camps, associations of tourists and development of self-regulatory tourism;</li> <li>Provision of touristic information;</li> <li>Carrying out other powers imposed on local executive body.</li> </ul>
<b>Enforcement Powers</b>	<ul style="list-style-type: none"> <li>Issuance of licenses to the tour operators.</li> <li>Akims are representatives of the President and the Government and submit proposals to the Government of the Republic on issues of public administration.</li> </ul>
<b>Delegated Powers</b>	<ul style="list-style-type: none"> <li>No delegated powers</li> </ul>

## Regional (Oblast) Level

### Departments (otdely) of Akimats of districts and larger cities

3rd layer

Dimension	Characterization
<b>Functions</b>	<ul style="list-style-type: none"> <li>Implementation of state policy.</li> <li>Planning.</li> <li>Information provision.</li> <li>Infrastructure development.</li> <li>State regulation on protection of touristic resources</li> </ul>
<b>Competencies</b>	<p>In respect of its' territory:</p> <ul style="list-style-type: none"> <li>State regulation, implementation and coordination of state policy;</li> <li>Collection, analysis and provision of information to the Akimat of oblast', capital, city of republican significance;</li> <li>Coordination of activity on planning and building of tourism assets</li> </ul>
<b>Responsibilities</b>	<p>Responsible before the Akimats of Oblast' and relevant Maslikhats (Parliament territorial branches), for:</p> <ul style="list-style-type: none"> <li>Elaboration of measures on protection of touristic resources;</li> <li>Provision of information on touristic potential, tourism assets and persons carrying out touristic activities;</li> <li>Maintenance of the state register of tourist routes and trails;</li> <li>Development and submission to the Maslikhat for approval a development program for the district (a city of oblast' significance), ensuring its implementation;</li> <li>Development of master plans of interventions, operation, and maintenance of roads and public infrastructure;</li> <li>Granting a permission on construction of public networks and installations.</li> </ul>
<b>Legal Powers</b>	<ul style="list-style-type: none"> <li>Support of activity of infant and youth camps, associations of tourists and development of self-regulatory tourism;</li> <li>Carrying out other powers imposed on local executive body.</li> </ul>
<b>Enforcement Powers</b>	<ul style="list-style-type: none"> <li>No enforcement powers</li> </ul>
<b>Delegated Powers</b>	<ul style="list-style-type: none"> <li>No delegated powers.</li> </ul>

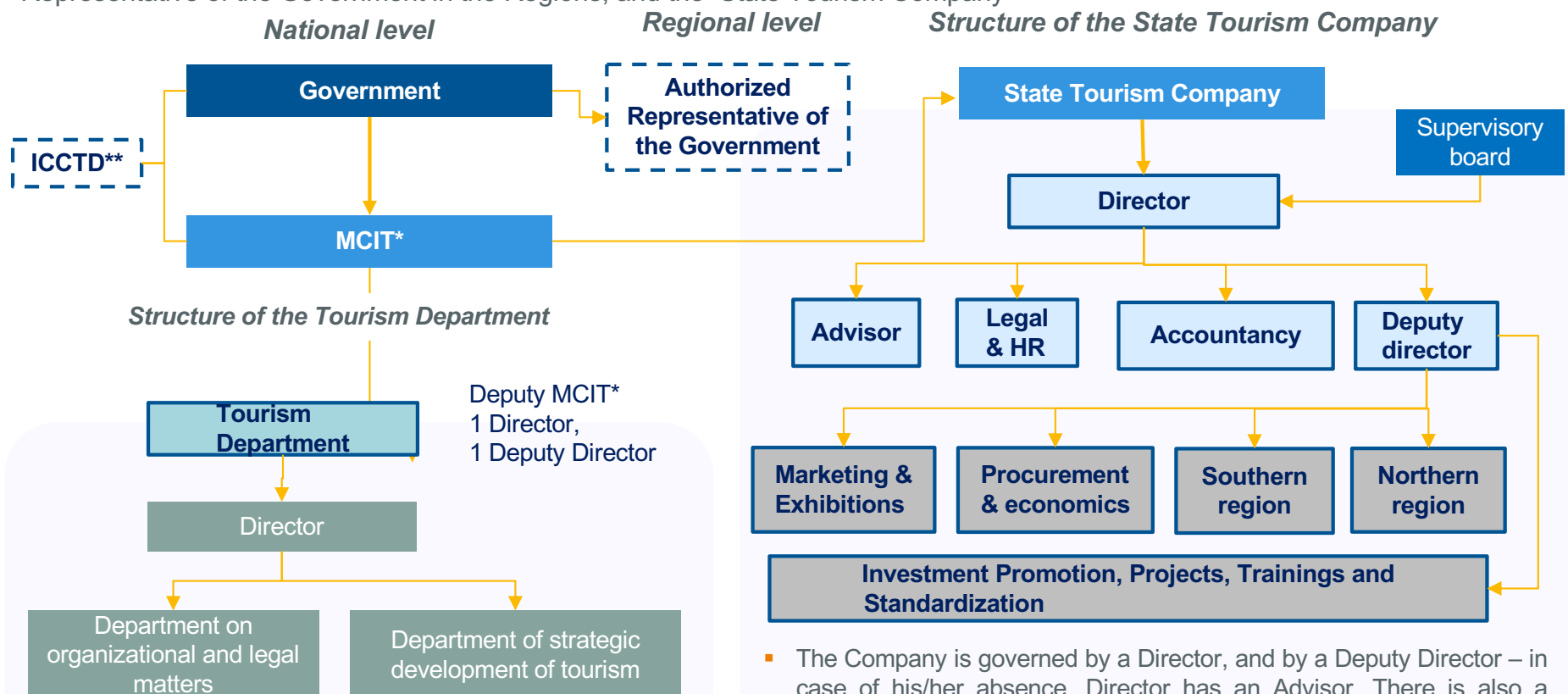
### 1.3 - Legal Framework - Kazakhstan

Theme	Characterization
<b>Expropriation of real estate</b>	<p>Expropriation of real estate is possible only if the following mandatory conditions are met:</p> <ul style="list-style-type: none"> <li>for state needs in exceptional cases listed in the Land Code (Art.84.2), among which are the construction of the road infrastructure, implementation of concession projects, for specially protected natural areas, for health-improving and recreation;</li> <li>Subject to an equivalent refund, at market prices defined by an independent appraiser</li> </ul>
<b>Foreign ownership</b>	<ul style="list-style-type: none"> <li>Foreign legal entities have the right to own industrial and residential property with certain exceptions.</li> <li>Foreign citizens who have Kazakhstani permanent residence can also own industrial and residential properties. Kazakhstani legal entities (including those owned by foreigners) are allowed to own immovable property.</li> <li>Foreigners are prohibited to own agricultural land, land of state forestry fund and land in a frontier zone of the State Border of Kazakhstan</li> </ul>
<b>Passage rights</b>	<ul style="list-style-type: none"> <li>Individuals shall have the right to be on the land plots, which are opened for public access, without any permission.</li> <li>If the land plot which is in the private ownership or land use is not fenced off, or if the private owner or land user didn't indicate, by other ways, that entry is prohibited without his permission, any person may pass through this land plot, if it doesn't harm the private owner or land user.</li> <li>Passage right within the territory of near-border territorial units is limited. Foreigners have to provide identification documents and passes for entrance to frontier zone, issued by the Ministry of Internal Affairs.</li> </ul>
<b>Construction permits</b>	<ul style="list-style-type: none"> <li>The main regulators are Akimats of oblasts, capital, cities of republican and oblast' significance;</li> <li>Construction activities require to obtain, comply with and keep in effect licenses and various permits and are subject to coordination by and approval with state authorities;</li> <li>Promoters submit requirements and projects, competent authorities issue permits and approvals through licences. Construction works cannot last for more than three years.</li> </ul>

Theme	Characterization
<b>Protection on environment and natural heritage</b>	<ul style="list-style-type: none"> <li>Environmental protection system in Kazakhstan is quite lenient despite very wide developed legal framework, due to insufficiency in enforcement;</li> <li>State control over protection of environment and natural heritage sites are provided by the state environmental inspectors, which powers are quite limited, and for example, they cannot independently suspend activities of individuals, which violated the laws, or impose a fine penalty;</li> <li>Powers of state environmental inspectors and environmental organizations are limited though and they have to apply to the regular enforcement bodies to seek enforcement in case of detected violations.</li> <li>Protection of natural heritage sites is provided through creation and expansion of Protected Areas (PA) within the territory of which business activities are constrained and protection regime is applied. Administration of each PA is established in a form of state legal entity with the status of an environmental organization. State national nature park (National Park) have a status of environmental and scientific organization.</li> </ul>
<b>Protection historical and cultural heritage</b>	<ul style="list-style-type: none"> <li>Protection mechanisms are not strong, due to absence of representations of the regulator (MCS) in the regions; resource constraints, such as shortage of adequate staff and technology; lack in powers to investigate; absence of clear mandate of the MCS to enforce its' laws and regulations.</li> <li>Different notions of historical-cultural heritage assets and historical-cultural monuments. Assets of historical-cultural heritage are subject to special protection regime upon inclusion in the List (acquisition of status) of historical-cultural monuments.</li> <li>Protection legal instruments are: issuance of preservation order obliging owners of historical-cultural monuments to protect and preserve them; licensing of archaeological and (or) scientific and restoration works on historical-cultural monuments; establishing the protection zones around the historical-cultural monuments; registering of historical-cultural monuments;</li> <li>local Akimats and MCS control the compliance of the legislation, however, MCS has no enforcement powers. The enforcement is provided on a regular order by the authorized enforcement bodies.</li> </ul>

## 1.4 Institutional Framework - Kyrgyz Republic

In the Kyrgyz Republic, the tourism institutional Framework comprises the Government, MCIT, ICCTD, the Authorized Representative of the Government in the Regions, and the State Tourism Company



- The Department is governed by a Director, Deputy Minister of Culture and Tourism, and by a Deputy Director in case of his/her absence.
- The operations are set-up around **two departments**:
  - Department on organizational and legal matters;
  - Department of strategic development of tourism.

Notes: \* MCIT – Ministry of Culture, Information and Tourism;  
MCT – Minister of Culture and Tourism; Interagency  
Commission on coordination of tourism development

- The Company is governed by a Director, and by a Deputy Director – in case of his/her absence. Director has an Advisor. There is also a Supervisory Board.
- The operations are set-up around **seven units (departments)**:
  - Marketing and Exhibition activities department;
  - Department of Investment Promotion, Projects, Trainings and Standardization;
  - Procurement and economics specialist;
  - Accountant;
  - Company Representative in the northern region;
  - Company Representative in the southern region;
  - Legal and HR officer.



## National Level

Government		1st layer
Dimension	Characterization	
<b>Functions</b>	<ul style="list-style-type: none"> <li>Policy formation, planning and implementation;</li> <li>Adoption of relevant regulations;</li> <li>Control over the Ministry and local state administrations</li> </ul>	
<b>Competencies</b>	<ul style="list-style-type: none"> <li>Adoption of the strategy on development of tourism;</li> <li>Development of legal acts and undertake important appointments in tourism;</li> <li>Management and control the activities of the Ministry and local state administrations.</li> </ul>	
<b>Responsibilities</b>	<ul style="list-style-type: none"> <li>Before the Parliament for performance and effectiveness of implementation of policy.</li> </ul>	
<b>Legal Powers</b>	<ul style="list-style-type: none"> <li>Creation of the state system of provision for touristic activity;</li> <li>Collaboration and coordination with foreign states;</li> <li>Other rights.</li> </ul>	
<b>Enforcement Powers</b>	<ul style="list-style-type: none"> <li>Cancellation acts of ministries, state committees, administrative bodies, authorized representatives of the Government in regions, local state bodies.</li> </ul>	
<b>Delegated Powers</b>	<ul style="list-style-type: none"> <li>No delegated powers</li> </ul>	

## National Level

### Ministry of Culture, Information and Tourism

1st layer

Dimension	Characterization
<b>Functions</b>	<ul style="list-style-type: none"> <li>Policy implementation, development of draft normative legal acts;</li> <li>Coordination and control over activities of competent units of the Ministry;</li> <li>Control over the Tourism Department;</li> <li>Events and promotion;</li> <li>Other.</li> </ul>
<b>Competencies</b>	<ul style="list-style-type: none"> <li>State and government regulation in tourism;</li> <li>Management and control of activities of the Tourism Department;</li> <li>Coordination of activities of competent units;</li> <li>Development of draft normative legal acts;</li> <li>Other.</li> </ul>
<b>Responsibilities</b>	<p>Before the Government for implementation of functions and competencies imposed to the Ministry</p> <ul style="list-style-type: none"> <li>Policy implementation performance and effectiveness;</li> <li>International treaties, representing interests of the state in international organizations and events in tourism;</li> <li>Development of draft normative legal acts.</li> </ul>
<b>Legal Powers</b>	<ul style="list-style-type: none"> <li>Creation of consultative and advisory bodies;</li> <li>Request of information from state bodies, organizations;</li> <li>Making proposals on formation of draft state budget in part related to financing of tourism sphere;</li> <li>Determining main strategic directions in development of tourism;</li> <li>Other rights.</li> </ul>
<b>Enforcement Powers</b>	<ul style="list-style-type: none"> <li>Suspension of the acts adopted by competent units</li> </ul>
<b>Delegated Powers</b>	<ul style="list-style-type: none"> <li>Delegates its powers to the Tourism Department.</li> </ul>

## National Level

### Interagency Commission on Coordination of Tourism Development

2nd layer

Dimension	Characterization
<b>Functions</b>	<ul style="list-style-type: none"> <li>Coordination of activities of interested parties on tourism development;</li> <li>Review of questions on creation of conditions for development of competitive tourism;</li> <li>Development of proposals on improvement of regulatory framework in tourism.</li> </ul>
<b>Competencies</b>	<ul style="list-style-type: none"> <li>Review of provided information on tourism development;</li> <li>Analysis of tourism sector for identifying and eliminating problems of tourism development;</li> <li>Review questions on deepening collaboration with foreign states in tourism sector.</li> </ul>
<b>Responsibilities</b>	<ul style="list-style-type: none"> <li>Ministry of Culture, Information and Tourism provides in-process control on enforcement of decisions of the Interagency Commission.</li> </ul>
<b>Legal Powers</b>	<ul style="list-style-type: none"> <li>Review of provided information on tourism development;</li> <li>Analysis of tourism sector for identifying and eliminating problems of tourism development;</li> <li>Review questions on deepening collaboration with foreign states in tourism sector.</li> </ul>
<b>Enforcement Powers</b>	<ul style="list-style-type: none"> <li>Development of proposals on improvement of regulatory framework in tourism.</li> </ul>
<b>Delegated Powers</b>	<ul style="list-style-type: none"> <li>No delegated powers</li> </ul>

## National Level

### Tourism Department

### 2nd layer

Dimension	Characterization
<b>Functions</b>	<ul style="list-style-type: none"> <li>Policy implementation;</li> <li>Development of draft normative legal acts, strategic documents;</li> <li>Capacity building and quality enhancement;</li> <li>Events and promotion;</li> <li>Market research;</li> <li>Other.</li> </ul>
<b>Competencies</b>	<ul style="list-style-type: none"> <li>Participation in implementation of state policy in tourism;</li> <li>Development of draft normative legal acts, agreements, MoUs, and treaties;</li> <li>Representation of state interests in international organizations;</li> <li>Development of educational, marketing events, and promotion of touristic potential</li> </ul>
<b>Responsibilities</b>	<ul style="list-style-type: none"> <li>Before the MCIT for implementation of functions and competencies imposed to the Department:</li> <li>Policy implementation;</li> <li>Development of draft normative legal acts, strategic documents;</li> <li>Capacity building and quality enhancement;</li> <li>Events and promotion.</li> </ul>
<b>Legal Powers</b>	<ul style="list-style-type: none"> <li>Cooperation with interested persons and legal entities;</li> <li>Participation in implementation of state policy in tourism;</li> <li>Development of draft normative legal acts, agreements, MoUs, and treaties;</li> <li>Development of educational and marketing events promoting of touristic potential</li> </ul>
<b>Enforcement Powers</b>	<ul style="list-style-type: none"> <li>No powers on cancellation and suspension of acts</li> </ul>
<b>Delegated Powers</b>	<ul style="list-style-type: none"> <li>The powers and responsibilities are delegated by the Ministry.</li> </ul>

## National Level

### State Tourism Company

3rd layer

Dimension	Characterization
<b>Functions</b>	<ul style="list-style-type: none"> <li>▪ To ensure the implementation of tourism policy at the state and regional levels;</li> <li>▪ To develop the market for tourism related services;</li> <li>▪ To attract investment for the development of the tourism infrastructure, assets, and businesses owned by the state;</li> <li>▪ Implementation of tourism commercial activities</li> </ul>
<b>Competencies</b>	<ul style="list-style-type: none"> <li>▪ To develop and implement marketing measures to promote tourism;</li> <li>▪ To draft documents for receiving grants, technical, donor and sponsor assistance in the tourism sector;</li> <li>▪ Development of tourism in the regions of the country;</li> <li>▪ Provision of methodological and advisory assistance to tourism entities;</li> <li>▪ Improving tourism infrastructure;</li> <li>▪ Other.</li> </ul>
<b>Responsibilities</b>	<ul style="list-style-type: none"> <li>▪ Before the Government - for results of its works on development of tourism sector, its industrial and economic activities and fulfilment of its obligations.</li> <li>▪ Before physical and legal persons – for fulfilment of its obligations.</li> </ul>
<b>Legal Powers</b>	<ul style="list-style-type: none"> <li>▪ Interaction with state bodies and other organizations, and request information from them;</li> <li>▪ Establishment of branches and representative offices to implement its activities;</li> <li>▪ Carrying out foreign economic activity in accordance with the Kyrgyz legislation;</li> <li>▪ Other rights.</li> </ul>
<b>Enforcement Powers</b>	<ul style="list-style-type: none"> <li>▪ No powers on cancellation and suspension of acts</li> </ul>
<b>Delegated Powers</b>	<ul style="list-style-type: none"> <li>▪ Depends from MCIT</li> <li>▪ No delegated powers</li> </ul>

## Regional Level

### Office of the authorized Representative of the Government

3rd layer

Dimension	Characterization
<b>Rationale and main Functions</b>	<ul style="list-style-type: none"> <li>■ In each oblast (region) there is Office of the authorized Representative of the Government of the Kyrgyz Republic that is responsible for implementation, control and monitoring of implementation of tasks of the Government in oblasts (regions) in different spheres, including tourism.</li> <li>■ However, in all other oblasts (regions) except Issyk-Kul oblast there is no separate sector responsible for review of tourism matters. Generally, review of tourism matters is included in the responsibilities of one of the specialists of the department of regional development. In Issyk-Kul oblast there is a sector responsible for review of tourism matters.</li> </ul> <p>Main functions:</p> <ul style="list-style-type: none"> <li>■ Organization of enforcement of regulatory legal acts of the Kyrgyz Republic, as well as decisions of the Government and the Prime Minister on the implementation of state policy in the entrusted territory (oblast);</li> <li>■ Systematic monitoring, analysis and control of the execution of normative legal acts by territorial government bodies, local governments, enterprises, organizations and institutions, regardless of ownership;</li> <li>■ Organization of development of programs for the integrated development of territories together with the local state administrations of regions, local governments and other interested parties;</li> <li>■ Attracting investments and grants for the development of the territory together with the local state administrations of regions, local governments and other interested parties;</li> <li>■ Monitoring and analysis of the integrated development of the region with the preparation of proposals for creating sustainable mechanisms for the growth of regional resources;</li> <li>■ Other.</li> </ul>

## 1.5 Legal Framework - Kyrgyz Republic

Theme	Characterization
<b>Expropriation of real estate</b>	<p>Expropriation of real estate is possible only if the following mandatory conditions are met:</p> <ul style="list-style-type: none"> <li>For state and public needs in exceptional cases listed in the Land Code (Art. 66 and 68);</li> <li>Subject to an equivalent refund, at market prices.</li> </ul> <p>Key issues:</p> <ul style="list-style-type: none"> <li>Need for strengthening mechanisms for compliance with investment protection guarantees;</li> <li>Insufficiency of mechanism and criteria for assessing compensation for expropriation of property;</li> <li>Insufficiency of mechanism and criteria for determining prices for the purchase of land plots for state and public needs.</li> </ul>
<b>Foreign ownership</b>	<ul style="list-style-type: none"> <li>Legislation provides for certain provisions for foreign legal entities and foreign citizens to own industrial or residential property and land.</li> </ul> <p>Key issues:</p> <ul style="list-style-type: none"> <li>Need for simplification of interaction and elimination of duplication of functions of state authorities and local authorities in land matters;</li> <li>Need for analysis of the activities of the State Agency for Land Resources;</li> <li>Insufficiency of mechanism of property protection;</li> <li>Need for improvement of interaction between state bodies and local authorities;</li> <li>Need for creation of uniform restrictions on property rights to land plots in the legislation of the Kyrgyz Republic.</li> </ul>
<b>Passage rights</b>	<ul style="list-style-type: none"> <li>The servitude may be established by agreement of the parties (voluntary servitude) or, if necessary, on the basis of a decision of the authorized body (forced servitude).</li> <li>The encumbrance of the land plot with servitude does not deprive the owner of the land plot or land user to use and dispose of his right to the land plot.</li> </ul>

Theme	Characterization
<b>Construction permits</b>	<ul style="list-style-type: none"> <li>▪ The main regulators are territorial bodies on architecture and construction;</li> <li>▪ Construction activities require compliance with and keeping in effect licenses and various permits as provided by the legislation and are subject to coordination by and approval with state authorities;</li> <li>▪ Competent authorities issue permits and approvals through licences for construction activities.</li> </ul> <p>Key issues:</p> <ul style="list-style-type: none"> <li>▪ Fairly outdated regulatory framework that does not meet modern realities;</li> <li>▪ Extensive procedure for issuing permits for design, construction and other changes of real estate objects.</li> </ul>
<b>Protection of environment, natural, cultural and historical heritage sites</b>	<ul style="list-style-type: none"> <li>▪ Despite wide regulatory framework in environment protection, it needs additional development in order to eliminate gaps in legal regulation of some issues.</li> <li>▪ Necessity to introduce sufficient enforcement measures in the regulatory framework;</li> <li>▪ For protection of natural heritage, cultural and historical sites, the legislation also requires amendments.</li> </ul> <p>Key issues:</p> <ul style="list-style-type: none"> <li>▪ The definition of the status of natural heritage objects in the legislation is not explicit enough;</li> <li>▪ The criteria for inclusion of objects of historical and cultural heritage, natural heritage are not clear enough;</li> <li>▪ Need for development of amendments to the legislation on the comprehensive support of historical and cultural monuments.</li> </ul>



## Chapter 2

**2**

### **International Case Studies Institutional and Legal Frameworks**

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**Case of Russian Federation**

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## 2 International Case Studies Institutional and Legal Frameworks

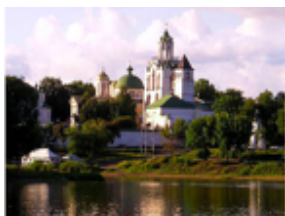
### 2.1 – Case of Russian Federation

Russian Federation focuses on five tourist products: (i) Cultural & educational; (ii) Health & Beach; (iii) Cruises; (iv) Nature; and (v) Adventure

#### 2.1.1 – Tourism offerings are designed around five tourism products

##### Cultural & Educational

- **Moscow city's** museums and galleries. (3-4 days packages);
- **Saint Petersburg city** an open-air museum. Many museums: the Hermitage, the Peter and Paul Fortress, the Kunstkamera, the Russian Museum. (3-4 days packages);
- The **ancient historical cities is the Golden Ring of Russia** all-year-round. (3-6 days packages normally combines with Moscow in 7 days packages);
- **Trans Siberian express** (Moscow-Beijing). (9-14) days.
- **River cruises on the route Moscow - St. Petersburg.** (6-8 days).
- Several cities in Russian Regions. (3-5 days).



##### Cruises

- Central, North-West, Volga and Southern Federal Districts



##### Nature

- **UNESCO World Heritage** : virgin forests, Lakes Baikal, volcanoes, Altai , Elbrus, hot springs, etc.
- **41 national parks and 103 nature reserves in Russia**

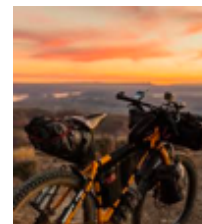
##### Health & Beach

- **Beach:** Krasnodar region (Anapa, Tuapse, Sochi) and Republic of Crimea
- **Mineral water:** Mineralnye Vody, Pyatigorsk, Zheleznovodsk, Essentuki, Kislovodsk



##### Adventure

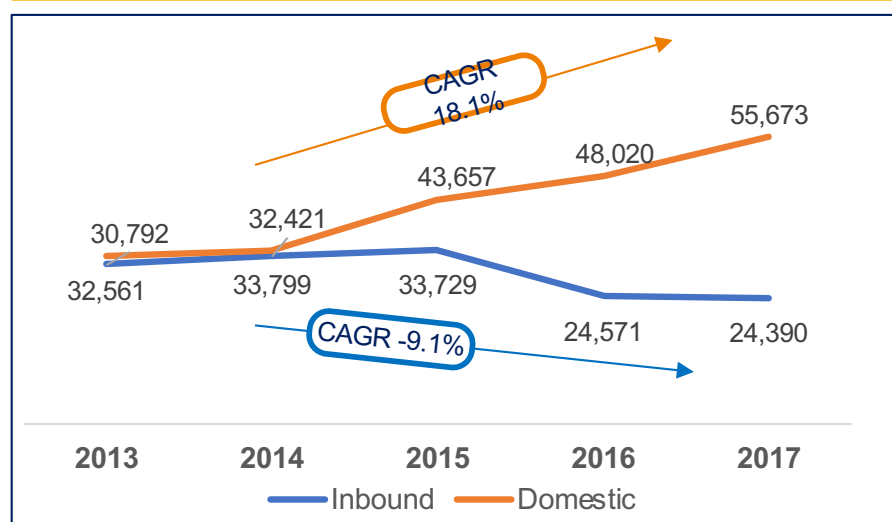
- There are 10 **ski resorts** in Russia: Rosa Khutor (Krasnodar region), Beaver log(Krasnoyarsk region), Sorochany (Moscow region), Igora (Leningrad region ), Bolshoy Vudiyavr (Murmansk region), Dombai (Caucasus), Sable Mountain on Lake Baikal (Siberia), Zavyaliha (Chelyabinsk)
- **Bicycle Tour:** Republic of Karelia, Krasnodar, Tver and Arkhangelsk regions
- **Rafting:** The Republic of Karelia, Altai Krai, the Caucasus, Eastern Siberia, Yakutia, Kamchatka, the Far East.



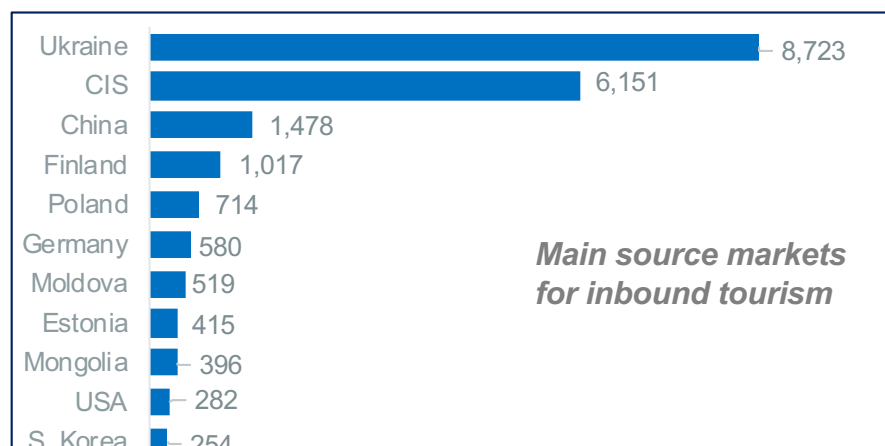
## 2.1.2 – Flows of domestic and inbound tourists in the Russian Federation

Russian's current State program (2011-2020) focuses on: preserving the cultural and historical heritage; improving the quality and availability of services in domestic and international tourism; and creating a favorable environment for the sustainable development of culture and tourism.

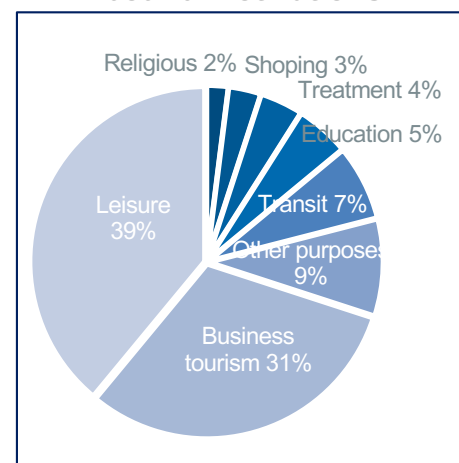
**Number of tourists [2017; in thousand tourists]**



**Motivation, mode of arrival and avg. stay [2017; %]**

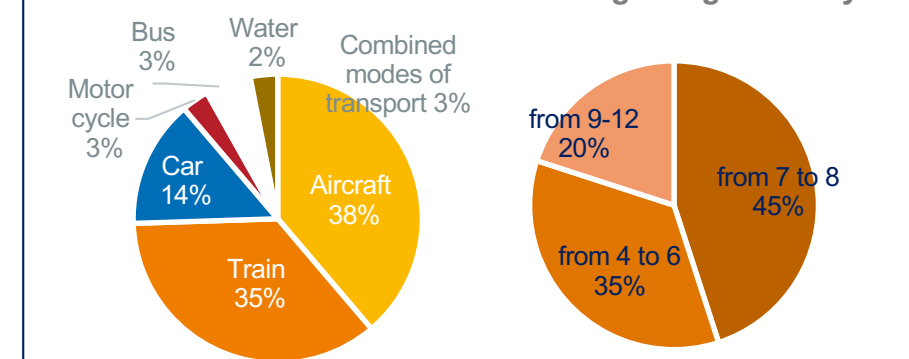


**Inbound motivations**



- Since 2014 Inbound arrivals have decreased\* at a fast pace, with the football WC in 2018, the trend was reverted;
- The tourism policy serves a double priority of building a strong domestic tourism to reduce the high level of outbound travel, and to foster nationalism through a strengthened cultural social cohesion;
- Major sources of inbound tourists are Russian speaking countries, followed by neighbouring countries

**Domestic mode of arrival and average length of stay**



Sources: UNWTO; survey 3300 Russian respondents, <https://www.tourprom.ru/news/37216/>; «Слетать.ру» и Onlinetours.ru; analysis project team; Note\* Creamea invasion, Ukrainian war and economic sanctions

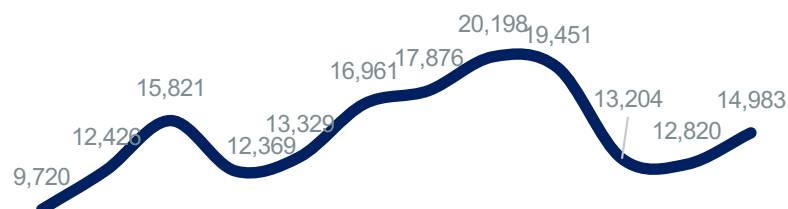
## 2.1.3 Tourism is an important industry of Russia's economy, but not a high policy priority

Tourism has a weight of 4.8% in the total GDP of the country, and is an important sector of the economy

### Russian Tourism Regions [2017; % of domestic tourists]



### Receipts of tourism\* [2016-18; \$ million]



2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017

### Socio-economic indicators [2018]

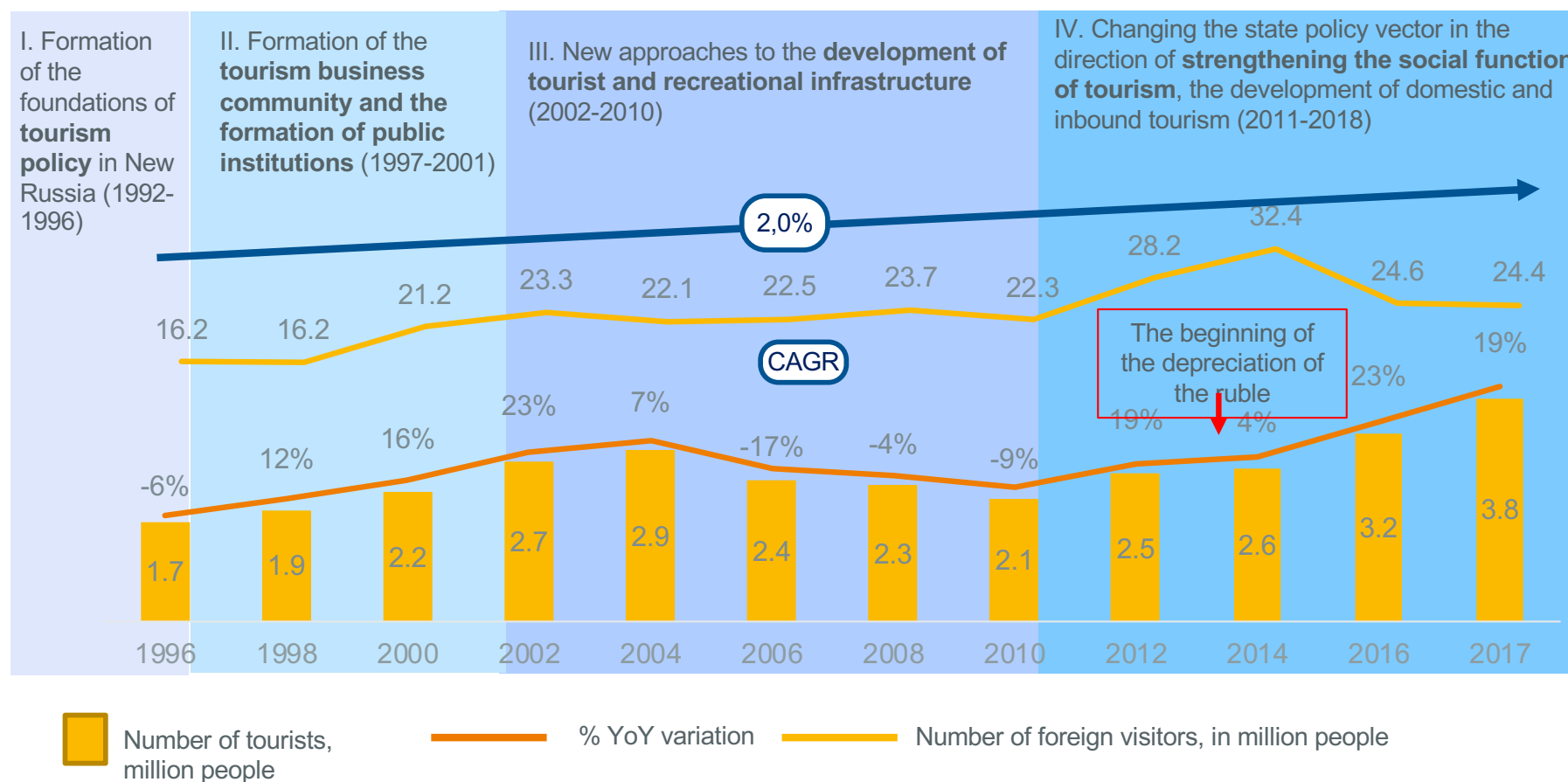
	2018
Population [million inhabitants]	144,5
GDP per capita [current US\$]	10 962
GDP growth rate [%]	1,5%
Tourism contribution to GDP [%]	4,8%
Tourism contribution to employment [%]	4,5%
Investment in tourism [%]	2,0%

Sources: Russian Federal Agency for Tourism; WBG; WTTC; ceicdata.com; analysis project team

## 2.1.4 - Russian Tourism Growth

Russian tourism has grown well below its potential and its peers in the 21 years since its inception in 1996, at only a modest 2%; Recent large scale global events (i.e. football world cup in 2018) are intended to revert that pattern. From 1992 to 2017, Russian tourism experienced four stages of development:

### Development of the Tourism industry in Russia; [million tourists; 1996-2017]



Source: Federal Agency for Tourism  
<https://www.russiatourism.ru/>

## 2.1.5 - Foundations of tourism policy, tourism stakeholders participation, public institutionalism, and new approaches

From 1996 to 2010 various attempts and initiatives were set in motion to develop the tourism in Russia

### **Foundations of tourism policy in New Russia [1992 - 1996]**

#### **A state regulatory authority for the tourism**

- In 1992 a State Agency was established to regulate the tourism sector: first within the Ministry of Culture and Tourism of the Russian Federation, and soon after as an independent department - the Committee on Tourism of the Russian Federation

#### **Tourism as a priority industry**

- In 1993, through a Presidential decree, tourism was recognized as a priority sector. Tourism has increasingly attracted the attention of the authorities as a source of budget revenues

#### **Standards and certificates**

- In 1994 it was introduced a system of: licensing of tourism activities; mandatory certification of tourism products, state standards for tourist services and accommodation facilities; and a tourism management bodies in the regions.

#### **First National program**

- In 1996 it was passed the "Development of Tourism in the Russian Federation until 2005", followed by regional tourism development programs

#### **First Law**

- In 1996 a Federal Law On the Basics of Tourist Activities was adopted

### **Tourism business community and public institutions [1997 - 2001]**

#### **Activism of public organizations**

- The National Academy of Tourism, the Russian Union of Travel Industry, the Russian Association of Social Tourism, the Russian Hotel Association (RGA), the Association of Guide Translators, Guides and Tour Managers have gathered to propose numerous initiatives to improve tourism legislation and regulations, however, State authorities focused only on gathering taxes from tour operators.

### **New approaches to develop tourism infrastructure [2002 - 2010]**

#### **SME in tourist accommodation facilities**

- To increase the share of small, family-run hotel enterprises in the total tourist accommodation facilities.

#### **Improvement of tourist product**

- Intensive improvement of the local regional tourist product with the active support of regional tourist administrations, and increasing interest of the authorities in the revival and development of social tourism.

#### **Creation of a Special Economic Zone of tourism and recreation**

- Since 2006, in the process of tourism development certain changes are outlined, such as creation of tourist information centres, special economic zones of tourist and recreational type in several regions of the country, the emergence of regulatory documents governing the activities of individual components of tourist infrastructure (beaches, ski centres, hotels).

#### **Unsuccessful strategy**

- In 2008, the Federal Agency for Tourism (Rostourism) define a new "Strategy for the development of tourism in the Russian Federation for the period up to 2015". However, this document had very limited possibilities for its effective use in the process of state regulation of the tourism sector in the country as a whole.



### 2.1.6 – With a strong ideological framework, new tourism plans are developed

Since 2011 a new program and strategy has been approved to develop inbound and domestic tourism

#### Changing the state policy vector in the direction of strengthening the social function of tourism, the development of domestic and inbound tourism (2011-2018)

##### Improving the state of domestic tourism

- **Domestic tourism** has been increasingly becoming associated in the Russian Federation with the development of **social tourism**, to which attention is increasingly being paid by the legislative and executive powers.

##### State program with the cluster approach for the development and budget allocation

- Adoption by the Government of the Russian Federation in 2011 of the targeted program “Development of domestic and inbound tourism in the Russian Federation (2011-2018)”, with the release for the first time in the whole history of New Russia of significant financial resource package (131,3 billion rubles including 73% extrabudgetary, 8% regional and 19% federal funds) for the implementation of the program proposals for the development of tourism infrastructure and the promotion of the Russian national tourist product to tourist markets

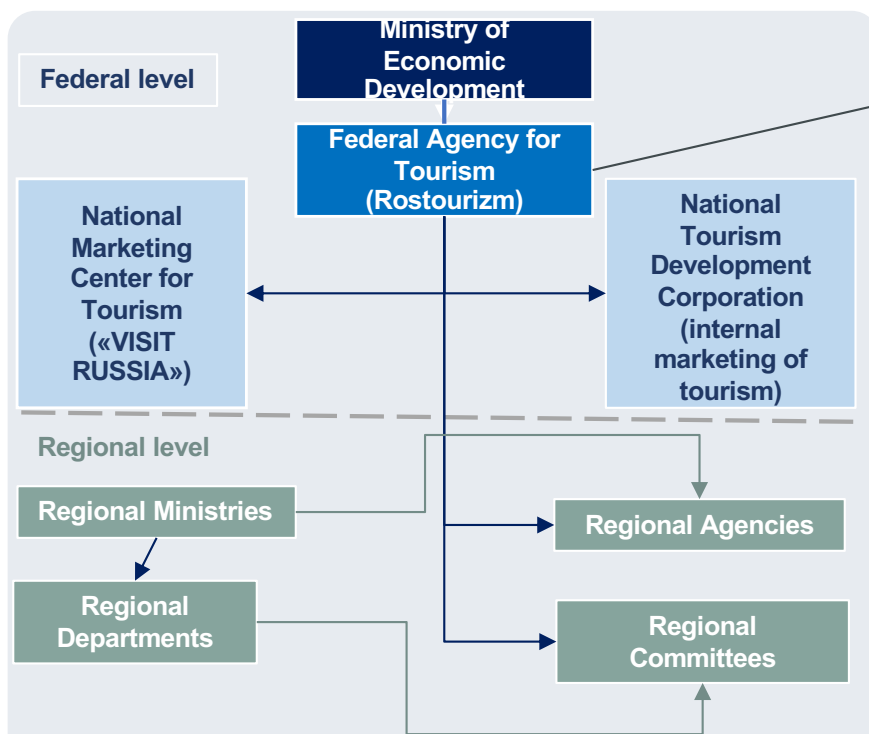
##### Strategy for the development of tourism in the Russian Federation until 2020

- Approved in May 2014, the 2011- 2018 development program is still the main document for tourism development. A new Program 2019-2025 was approved in 2019, is an improved and more detailed extension of the previous. The main approach is the development of clusters and public-private partnership, coordinating regional tourism development programs, and

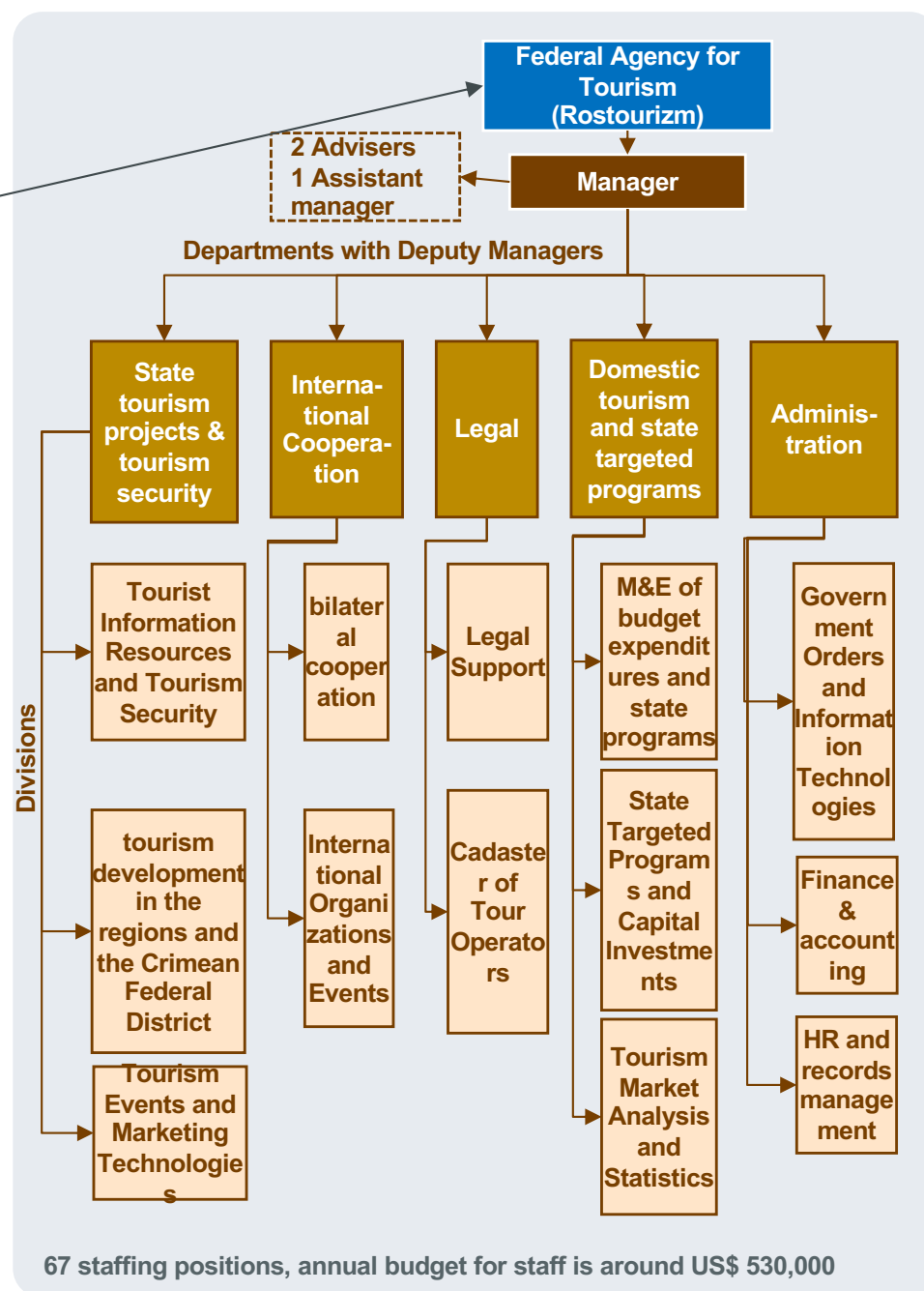
##### Various state and regional programs were approved

- State subprogram "Development of **Culture and Tourism**" 2013 – 2020 (US\$ 481 million)
- The subprogram "Development of a **tourist cluster in the North Caucasus Federal District**" 2013-25, US\$ 671.4 million
- Program "Social and economic development of the **Republic Crimea** and the city of Sevastopol" until 2020, US\$ 444 million
- Socio-economic development of **Far East and Baikal region** consisting of projects, US\$ 316 million
- Implementation of **event tourism**: Asia Pacific Economic Cooperation Summit, 2013 Universiade, 2014 Olympics (Sochi), 2016 World Ice Hockey Championship, World Football Cup in 2018.
- Development and promotion of new routes, products in the regions, infrastructure, increased direct flights and friendlier visa regime.
- Investment in training and skills development;
- Large-scale advertising and image international campaigns to promote national tourism products, and expansion of the network of tourism offices abroad.
- Improvement of law enforcement practice (accounting for tourist product, toughening legal responsibility, the development of the system classification of tourist assets, and standardization of travel services, insurance standards in tourism, security measures, etc.)

## 2.1.7 - Institutional Organization of the Tourism Sector



- Institution responsible for Tourism Development in Russia is the **Federal Agency for Tourism (FAfT)** or Rostourizm.
- The main **functions of the FAfT** are the provision of public services, management of state property, law enforcement in the field of tourism, and tourism activities
- Since November 2018, the Ministry of Economic Development of the RF manages the activities of the FAfT
- FAfT carries out its **activities in cooperation** with **other federal executive authorities in the regions of the RF**





## 2.1.8 - Functions and powers of the Federal Agency for Tourism (Rostourizm)

### Functions

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- To implement priority directions of state regulation of tourist activity in the Russian Federation, managing a unified federal cadastre of tour operators
- To inform, in the prescribed manner, tour operators, travel agents and tourists about the threat to the safety of tourists in the country (place) of temporary stay
- To carry out the promotion of tourism products in domestic and international travel markets
- To holds tenders and conclude public procurement contracts in the field of tourism
- To perform economic analysis of the activity of the subordinated state unitary enterprises
- To set-up and manage tourism representative offices abroad.
- To organizes congresses, conferences, seminars, exhibitions in accordance with the established procedures

### Delegated powers

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- To request and receive in the prescribed manner the information necessary for making decisions on matters within the competence of the Agency
- To provide legal entities and individuals with explanations on issues falling within the competence of the Agency
- To involve, in the established manner, in order to study the issues related to the sphere of the Agency's activity, scientific and other organizations, scientists and specialists
- To create and coordinate advisory and expert bodies (councils, commissions, groups, boards), including interdepartmental, in the established field of activity
- To establish in the prescribed manner print media for the publication of official announcements, posting other materials on issues related to the competence of the Agency

### 2.1.9 - Budget for the implementation of the Federal Programs

Development of inbound and domestic tourism in the Russian Federation (2011 - 2018)	US\$ million	Notes
Federal budget (intergovernmental subsidies)	424	97% of the budget had been spent on the development of 48 touristic clusters including infrastructure
Budgets of subjects of the Russian Federation and local budgets	188	
Extrabudgetary sources (private sector)	1,531	
<b>Total</b>	<b>2,143</b>	
Development of inbound and domestic tourism in the Russian Federation (2019 - 2025)	US\$ million	Notes
Federal budget (intergovernmental subsidies)	388	89% of the will been spent on the development of infrastructure in the clusters
Budgets of subjects of the Russian Federation and local budgets	96	
Extrabudgetary sources (private sector)	1,064	
<b>Total</b>	<b>1,548</b>	
OPEX of the Federal Agency for Tourism in 2017	US\$ '000	Notes
Development of international tourism	301	All expenses were related to activities under Program for development of inbound and domestic tourism 2011-18 and some subprograms. Note* most resources were one-off used for the FIFA World Cup
Development of domestic tourism	7,057	
Development of infrastructure and management systems in the field of culture and tourism	2,168	
Subsidies for the implementation of measures of the 2011-2018 program	53,346*	
Financial support for the performance of federal government functions, services and work	4,857	
Development of infrastructure and management systems in the field of culture and tourism	775	
Housing activities for federal civil servants	285	
Measures to develop the potential of young people and its use in the interests	79	
<b>Total</b>	<b>68,868</b>	

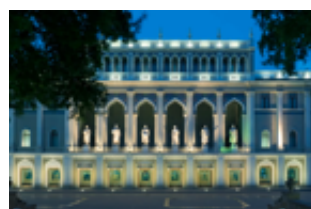
## 2.2 – Case of Azerbaijan

### 2.2.1 - Tourism offerings are designed around six products

Azerbaijan focuses on five tourist products: (i) Cultural; (ii) Wellness & beach; (iii) Nature; (iv) Business; (v) Mountain & winter; (vi) Sports & Adventure

#### Cultural

- **Cultural heritage** of regions, specifically the way of life, history, art, architecture, religion, etc. of the people in those geographical areas.
- Art galleries are available in Baku, national music – Mugham, advanced world jazz music, national and foreign dances, rich culinary with delicious taste, tolerance to various religious and secular views.
- Cities Ganja offers -architecture (in particular, caravanserai) and shopping centers, Sheki – architectural, the Palace of Sheki Khans (1763), mausoleums, fortresses and religious institutions



#### Mountain and winter

- Various mountain slopes have been developed as a tourism destination. Popular resorts: “Shahdag” Tourism Centre CJSC and “Tufandag” (all-year-round)



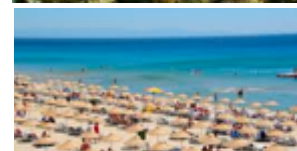
#### Business

- Existing hotels throughout the country are the main drivers of MICE. Baku has a congress centre for 4,000 people, equipped for international events.



#### Wellness & beach

- The country is endowed with thousands of hot and mineral wells and salt mines of Duzdag (1173 meters)
- The northern and southern regions (Absheron peninsula are the main beach areas), albeit the short season.



#### Nature

- **Azerbaijan has 9 out of 11 climate types:** semi-desert, dry field, mountainous tundra climate, and mud volcanoes. It has over 4100 plant varieties



#### Sports & Adventure

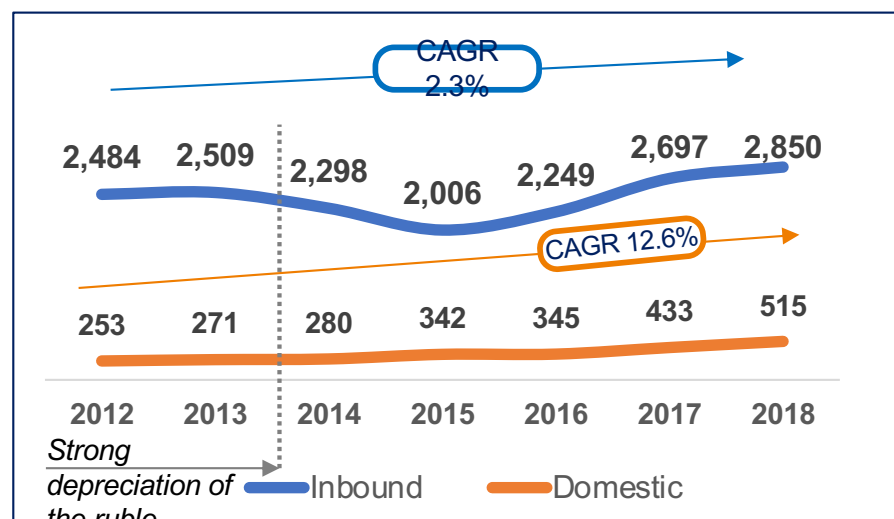
- All-year-round mountai sports (alpinism, trekking, skiing, paragliding, parachuting).
- Azerbaijan allows hunters, with relevant licenses, to hunt several forest animals and wildfowls



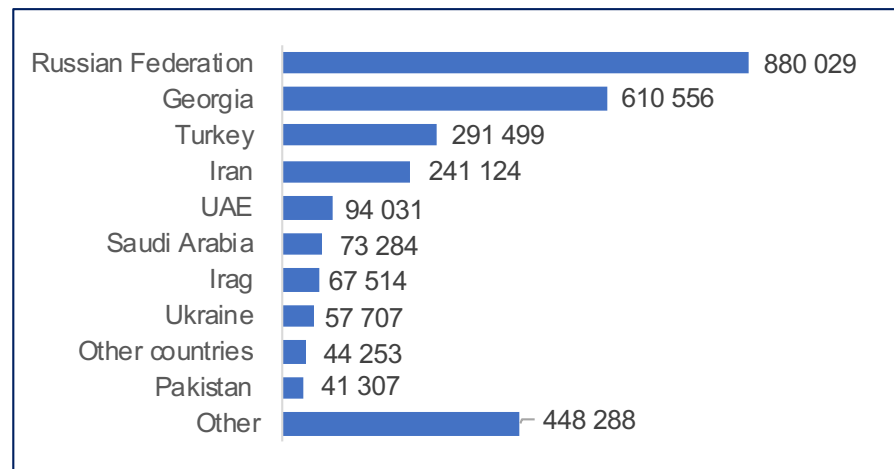
## 2.2.2 - Flows of inbound and domestic tourists to Azerbaijan

The great majority of tourists in Azerbaijan are inbound (2.85 million – 84.7%) while domestic represent only 515 thousand (15.3%)

### Number tourists [2018; '000 tourists]

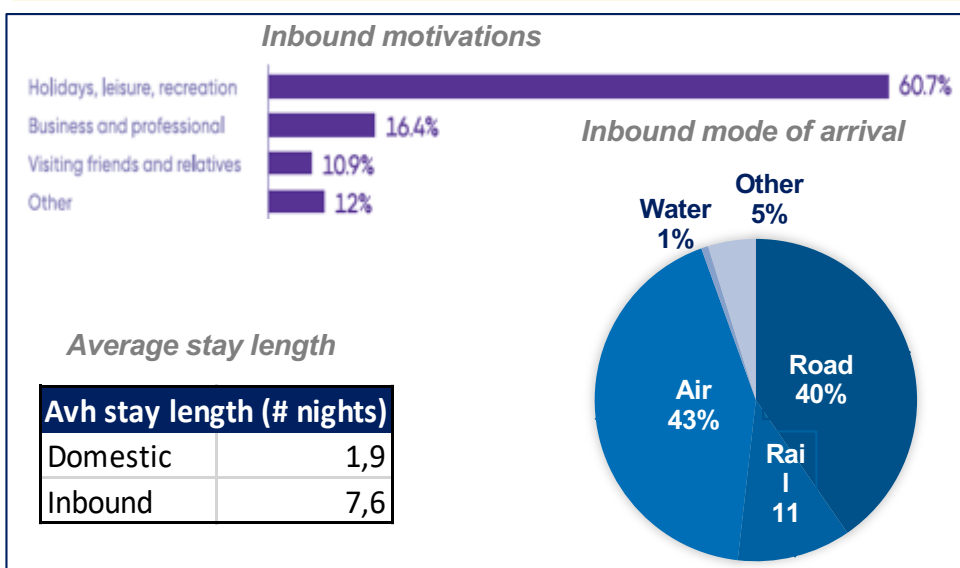


### Main source markets for inbound tourism



Sources: UNWTO; Azerbaijan stats; Azerbaijan tourism board

### Motivation, mode of arrival and avg. stay [2017; %]

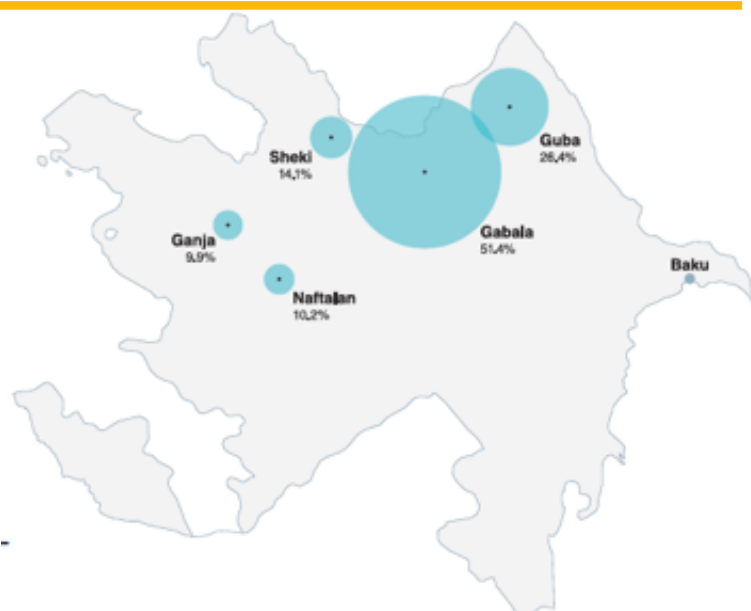


- The inbound tourism in Azerbaijan is the most representative with 84.7% of the total tourists, mainly arriving by air and road, for holidays. These have however been growing at a slow pace of 2.3% CAGR, well below world average. Inbound tourism is very dependent from the Russian economy, and when the ruble started to strongly depreciate in the end of 2013, the fall in number of tourists was in the range of 20% in 2 years.
- Most inbound tourists come from Russian speaking countries (CIS), followed by Muslim non-CIS countries, indicating a strong religious motivation, beyond simple leisure.
- Domestic tourism is growing rapidly, albeit from a very small base, at a robust 12.3% CAGR.

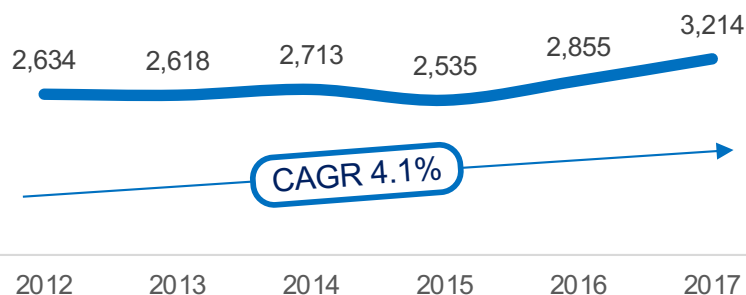
### 2.2.3 - Tourism as a strategic economic driver for the country

Tourism has a weight of 14.7% in the total GDP of the country, and is an important sector of the economy, one of the most important non-oil based.

#### Azerbaijan Tourism Regions and visitation [2018; % of inbound tourists]



#### Receipts of tourism [2013-17; US\$ million]



#### Socio-economic indicators [2018]

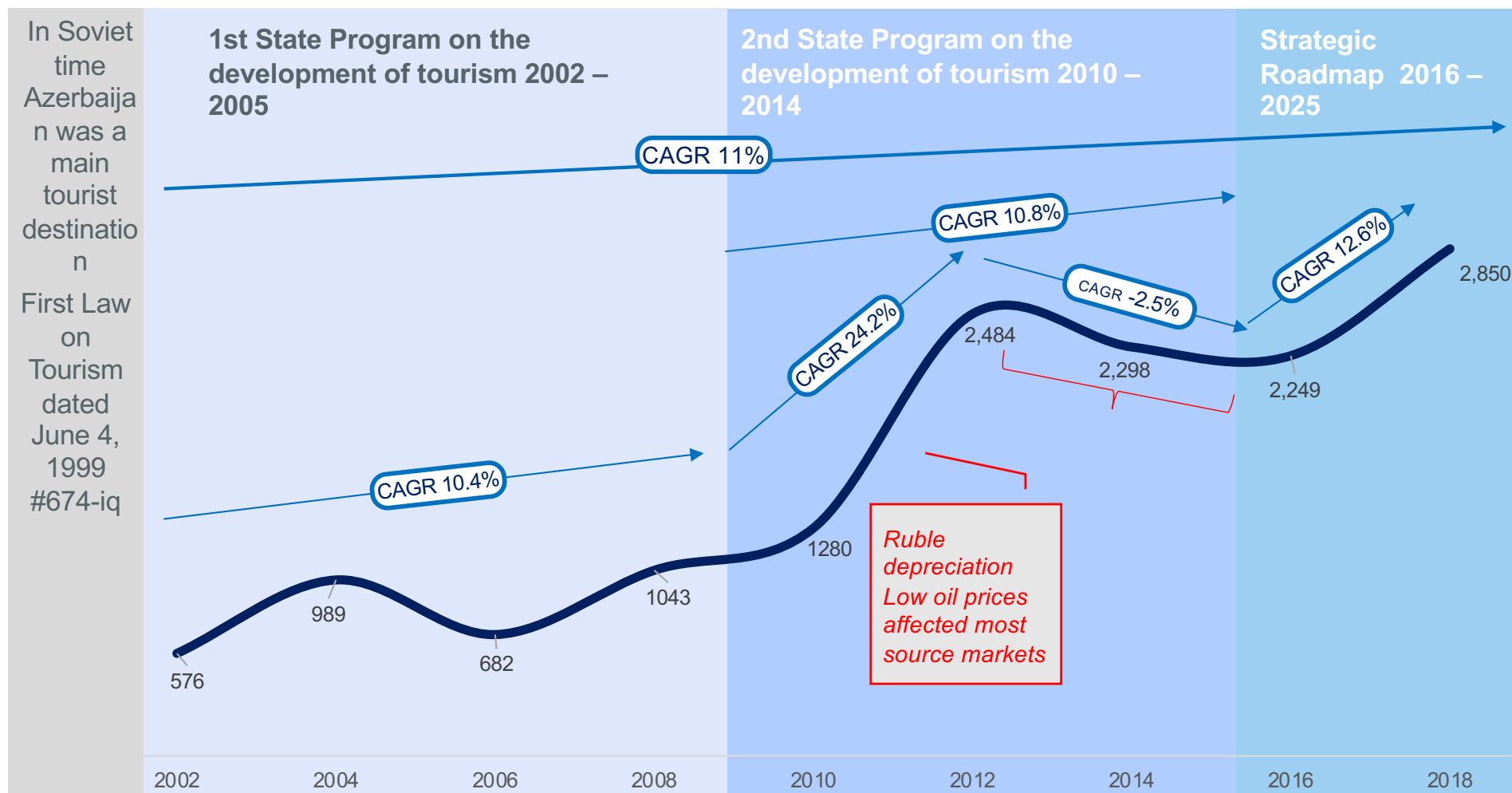
	2018
Population [million inhabitants]	10
GDP per capita [current US\$]	4 780
GDP growth rate [%]	1,4%
Tourism contribution to GDP [%]	14,7%
Tourism contribution to employment [%]	13,3%
Investment in tourism [%]	3,0%

Sources: WBG, Knoema;  
WTTC

### 2.2.3 - Tourism development has had 4 distinct periods, delivering a 11% CAGR in the past 16 years, well above world average

From 2002 to 2017 the number of inbound tourists grew by a 11% CAGR. It plans achieve 4 million by 2023

#### Azerbaijan inbound tourism [2002 - 18; '000 of inbound tourists]



Sources: World Tourism Organization, Yearbook of Tourism Statistics, Compendium of Tourism Statistics and data files



## 2.2.4 - Main stepping stones of the tourism development in Azerbaijan

Two National Programs for Tourism Development and a Strategic Road Map are the landmarks of the tourism industry development in Azerbaijan

### First State Program [2002 - 2005]

#### Implementation

- The **implementation** of the “State Program on the development of tourism in the Republic of Azerbaijan in 2002 – 2005” approved by **the Decree of the President** of the Republic of Azerbaijan # 1029, dated 27 August, 2002.
- It **created favourable conditions** for the development of tourism and **laid foundation for the country’s integration** into global tourism market.
- It was effective until the new program was approved in 2010

### Second State Program [2010 - 2014]

#### Implementation

- Continuation of policy of the previous program.
- “State Program on the development of tourism in the Republic of Azerbaijan in 2010 – 2014” was approved by the Decree of the President of Azerbaijan # 838, dated 6 April 2010;
- 2011 was announced “The year of Tourism” Azerbaijan by the Decree of the President **to promote natural sites**, as well as **cultural historical heritage** of the country enjoying rich geographic landscape while also ensuring the **efficient use of tourism resources**

#### Additional measures

- To achieve the development of tourism infrastructure in the country, provide tourism services in line with international standards and improve legislative framework governing this field, relevant government bodies were instructed to take necessary measures by ta Presidential Decree in 2016, on “Additional measures for the development of tourism in the Republic of Azerbaijan”

### Strategic Roadmap [2017 - 2025]

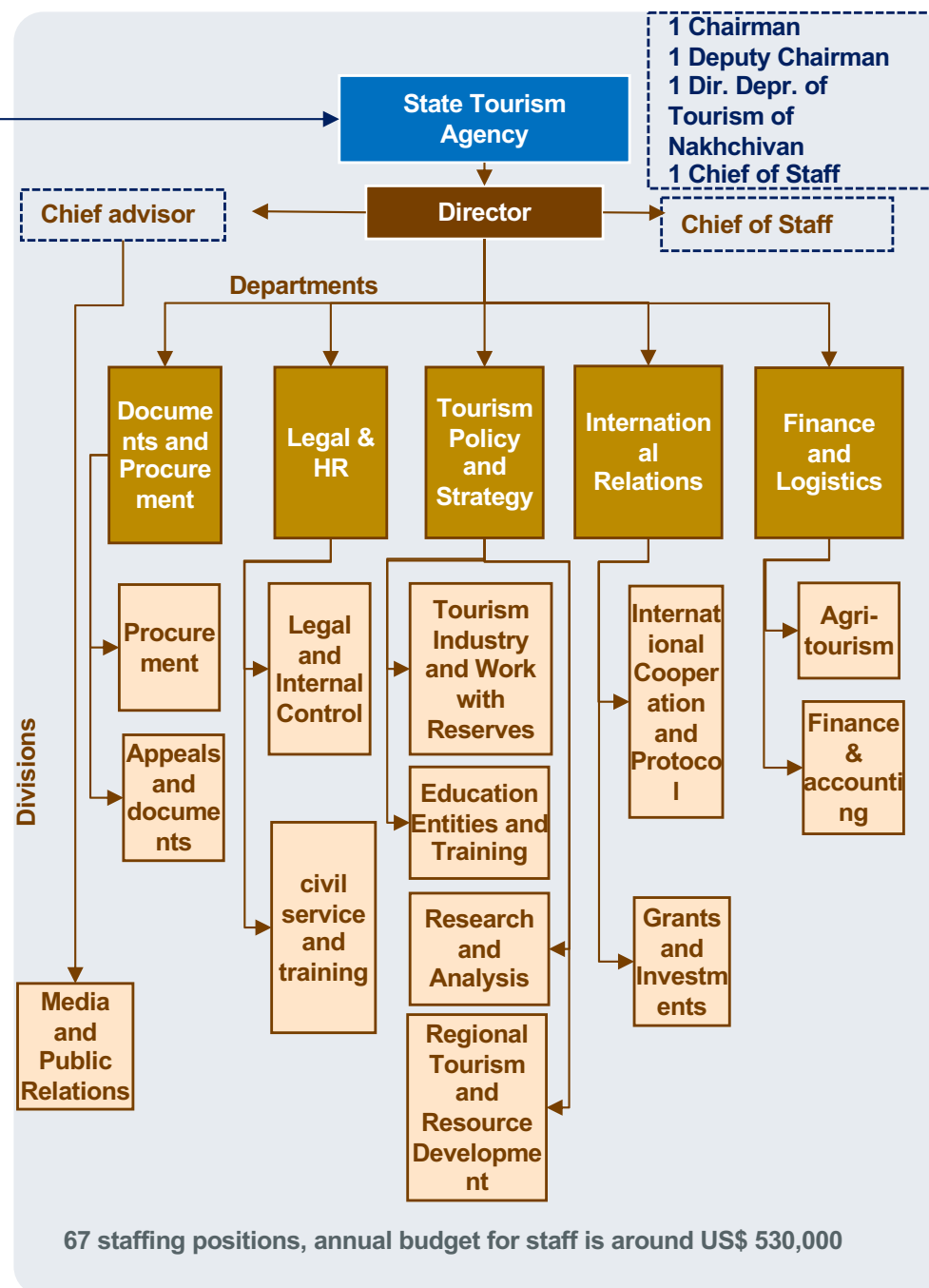
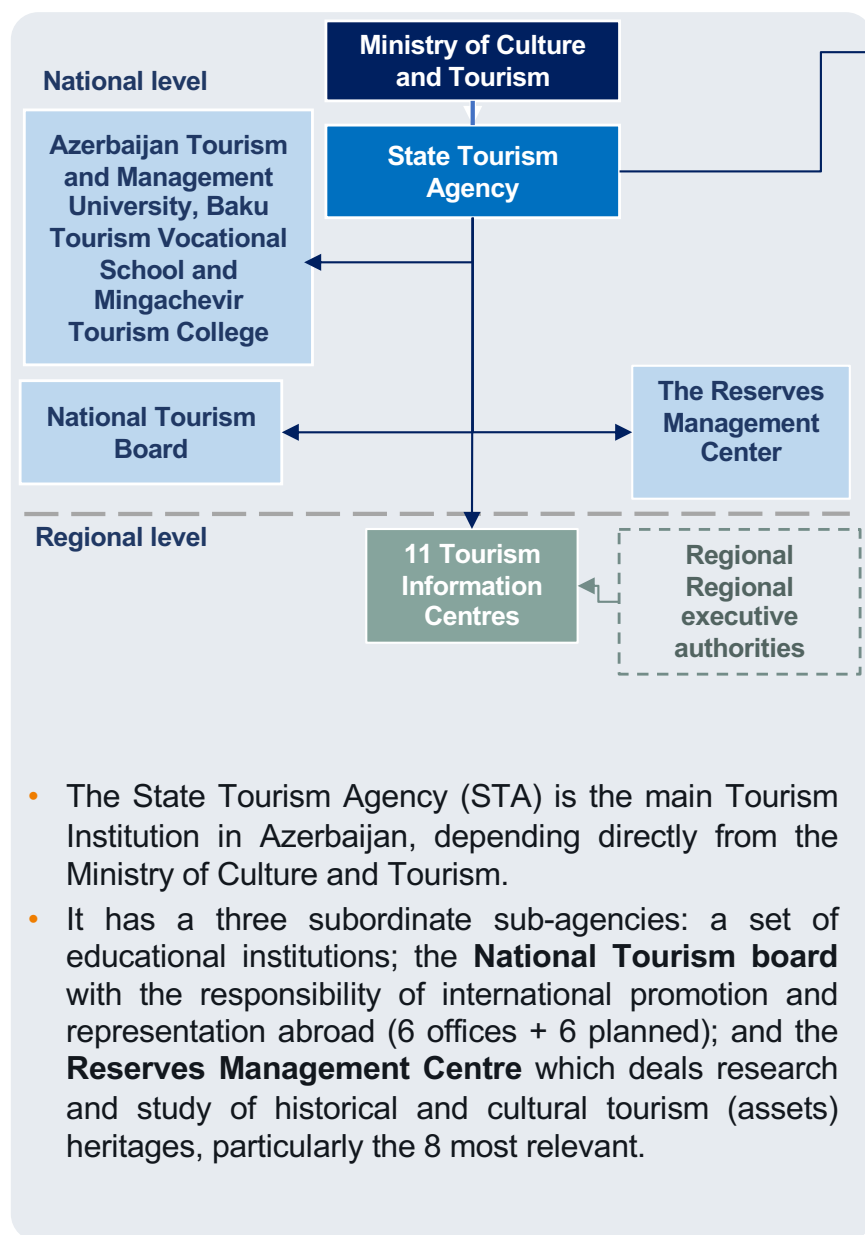
#### Implementation

- To achieve its long term visions in Tourism, Azerbaijan has defined **four primary objectives** for 2020 in tourism sector.
  - To deploy Baku's full tourism potential by attracting more international visitors
  - To implement Key Enablers to Develop Tourism in the Country
  - To develop regional tourism sub-sectors for domestic and regional tourists
  - To create a national tourism quality system to increase tourist’s satisfaction

#### Promotion bureau

- The Azerbaijan Tourism Board (Promotion Bureau of National Tourism was established in 2017 by Presidential decree ).
- The Bureau aims to ensure further increase of the country's **tourism potential** and popularization at the international level

## 2.2.5 - Organizational chart of the Institutional Framework





## 2.2.6 - Functions and powers of the State Tourism Agency

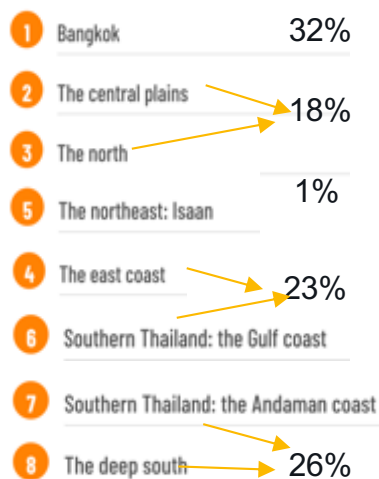
### Functions and Responsibilities

- To participate in designing a **unified state policy** in the relevant area and to ensure the implementation of the policy
- To carry out **normative activities** in the field of Tourism
- To carry out **state regulation, state control and coordination** in the field of Tourism
- To provide **related activities** with other government agencies, enterprises and organizations, as well as physical and legal persons, including international and non-governmental organizations, for the purpose of developing tourism
- To **organize purposeful Land Use of the territory for Tourism and ensure its preservation**
- To ensure the **protection and promotion of national culinary** examples
- To carry out tasks arising from the **normalization activities** in Tourism
- To **develop and implement state programs and development concepts** related Tourism
- To ensure the implementation of human and civil rights and freedoms in relation to the tourism activities
- To ensure **the improvement of tourism services** through subordinate agencies
- To carry out **scientific research and investigations** to determine the current situation in the field of **tourism, future development directions, as well as perspectives**
- To ensure **the development** of health, sports, mountain and winter tourism, cultural, extreme, business, ecological tourism, beach, hunting tourism and other **types of tourism**
- To **participate in the development of the tourism infrastructure**, including the relevant air, sea, automobile and rail networks, and to make proposals with relevant agencies for the purpose of raising the level of service in those roads
- To ensure **the development of sea passenger transport** services in the Caspian Sea, as well as in its Baku watercourse with related organizations
- To carry out **control over the activities of educational institutions** under the Agency, make suggestions on the determination of directions and specialties in the field of tourism
- To **encourage investment in education** programs in tourism
- To **coordinate the work of other executive authorities** in the relevant field, as well as the activities of the relevant bodies, associations and legal entities
- To **coordinate international relations** in the relevant field, to join international organizations on the field and to make proposals on signing relevant international documents

## 2.3 – Case of Thailand

### 2.3.1 - Strategic focus on the core products: Cultural; Sea Sun & Beach; and Medical. Support segments to increase spending: Wellness; Nature; and MICE

Thailand is a remarkable success story of driving tourism growth from 1.5 million tourists to more than 35 million in 40 years ...



#### Cultural

- **Is the largest segment in Thailand**, focused on daily visits.
- A leading cultural destinations in the world. Main assets are performing arts: drama, dance, theatrical (i.e. Muay Thai boxing), “Siam Niramit” shows, tribal dances, and puppet shows. Bangkok is the main cultural tourism destination in the country.



#### Medical

- In 2019 had 64 accredited hospitals contributing to be among the top 10 medical tourism destinations in the world. Cosmetic surgery is the leading type of treatment. Bangkok is the main medical tourism destination.



#### Sea, Sun & Beach

- Along the Gulf of Thailand coast (4, 6, 8), mangroves, various beaches remain the main natural attractions whereas the Andaman coast (7) with the famous Phuket, Phang-nga and Krabi cluster remains the top destination of international tourists.



#### Wellness & SPA

- It is the governmental target to increase this tourism segment to increase the level of spending and value added to the economy from current visitors, taking leverage of ancient and traditional Thai elements such as massage.



#### Nature

- Is very connected with both the Sea, sun & beach, and the adventure seeking travellers. The most popular activities are caving, trekking, elephant riding, natural heritage sites, such as waterfalls, rafting, mountain biking, and various see activities.



#### MICE

- It is the governmental target to increase this tourism segment to increase the level of spending and value added to the economy from current visitors. Conferences and congresses are the main drivers.

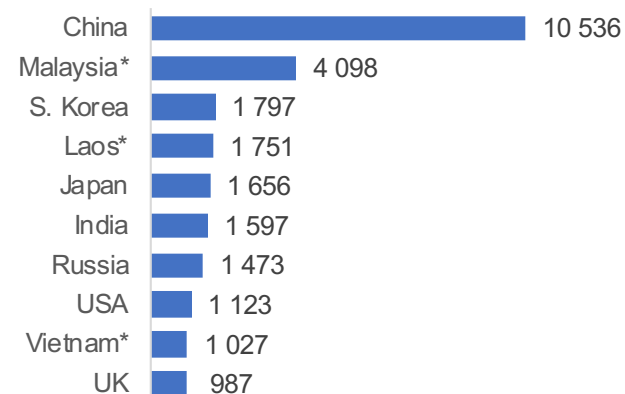


### 2.3.2 - Tourism flows are increasingly regional, particularly from China for leisure

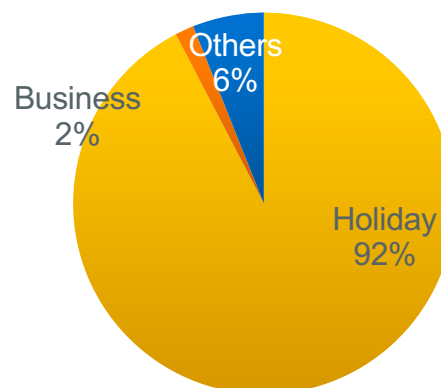
... mainly fueled by a growing regional demand, particularly from China ...

#### Characterization of the international Tourism flows in Thailand [2018; '000 tourists; %]

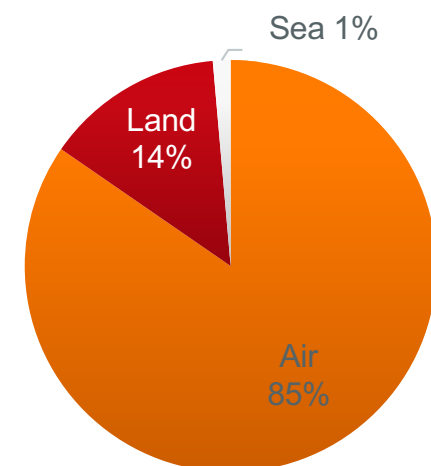
##### Inbound: country of origin



##### Purpose of visit



##### Mode of transport

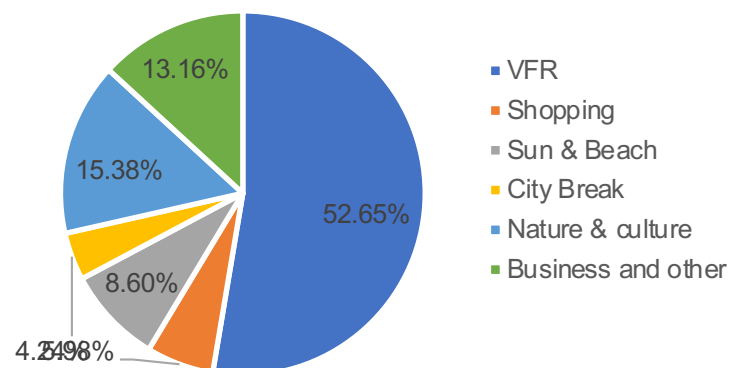


Sources: Thailand Tourism Authority; Source: Department of Tourism, Ministry of Tourism and Sports

#### Characterization of the domestic Tourism flows in Thailand [2017; '000 tourists; %]

##### Domestic: motivation

[2017; 159 million; 92% by car]

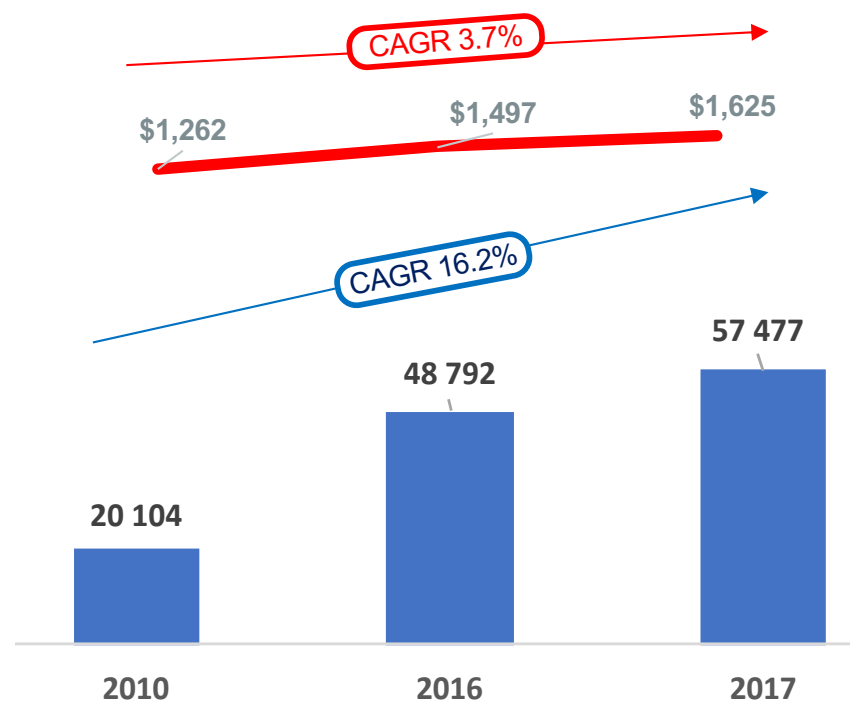


Journal of Advances in Information Technology Vol. 9,  
No. 2, May 2018

### 2.3.3 - Tourism as a strategic economic driver for the country, with increasing visitors and spending per trip

Tourism has a weight of 14.7% in the total GDP of the country, and is an important sector of the economy, one of the most important non-oil based.

#### Thailand Tourism total and per trip receipts [2017; US\$ million]



Receipts per trip

#### Socio-economic indicators [2018]

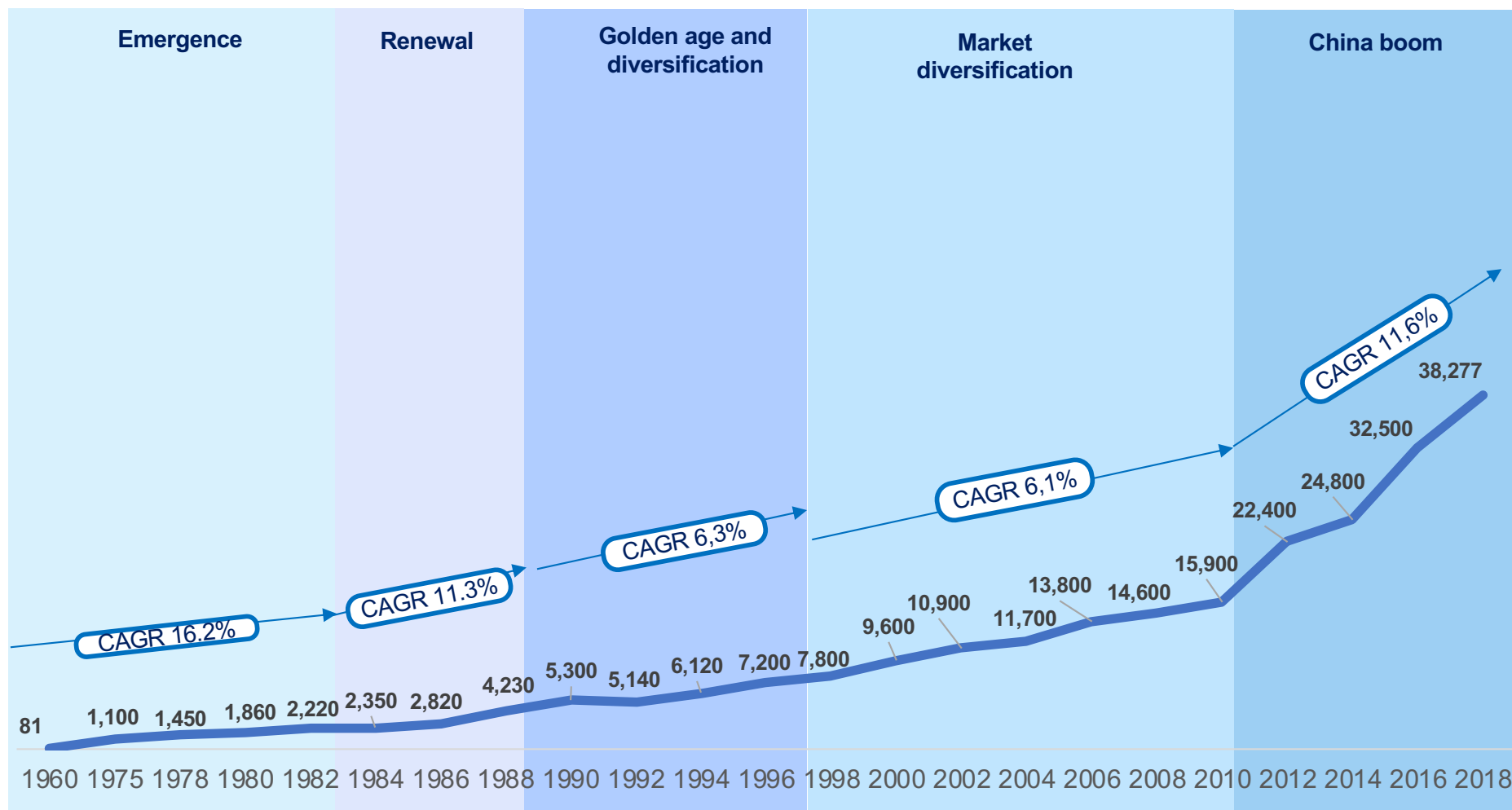
	2018
Population [million inhabitants]	69
GDP per capita [current US\$]	7 274
GDP growth rate [%]	3,8%
Tourism contribution to GDP [%]	7,6%
Tourism contribution to employment [%]	15,5%
Investment in tourism [%]	7,4%

Sources: WBG, WTTC

### 2.3.4 - Tourism as a strategic economic driver for the country, with increasing visitors and spending per trip

Tourism has a weight of 14.7% in the total GDP of the country, and is an important sector of the economy, one of the most important non-oil based.

#### Thailand inbound tourism [1960 - 2018; '000 of inbound tourists]



Sources: World Tourism Organization, Yearbook of Tourism Statistics, Compendium of Tourism Statistics and data files

### 2.3.5 - Main development stages of the tourism in Thailand

5 stages characterize the tourism development in Thailand

#### Emergence Period [1960 - 1982]

---

- During the war in Vietnam **from 1955 to 1975 Thailand** provided several **military bases for the US**. This was crucial for the development of tourism: airbases were the main infrastructure for the air travel, while Thailand also became well known for being the site of GI “R&R,” or **rest and relaxation**, meaning **soldiers** enjoyed prostitution and readily available opium while they awaited transport to and from the region, which was the basis for the emergence of hotel and hospitality capacity.
- Airline tickets became cheaper and flight times shorter with the **emergence of jet engines**.
- **European, American, Australian economies** were creating huge **middle classes** with enough disposable income and **vacation time** to afford a trip to a foreign destination. Thailand stood ready to strike this opportunity due to its available infrastructure and capacity.
- In 1960, the Thai government (Sarit Thanarat) made a deal with Scandinavian Airlines (SAS) to start a joint airline called Thai Airways International. The **Thai government owned 70% of this new airline and SAS owned 30%**. This served also the purposes of bringing tourists to the country, particularly the high income Scandinavians, and investment to fuel the necessary capacity growth.
- The 60’s was a time of **branding Thailand around the world**. The old state railway bureau of Tourism of Thailand (T.O.T) was put **under the office of the prime minister (Sarit Thanarat) and its name changed to the Tourism Authority of Thailand (T.A.T.)**. It was given a healthy budget. The first overseas office was in New York in 1965, focusing on **promotion in Hollywood, large visibility events, and promotion of Thai cuisine**.
- The natural environment of **sea, sand and sun**, friendly people, exotic culture and a **central position in the air routes of the region**. Thailand has also gained from **external factors such as growing world demand for tourism** partly based on rising real incomes, more leisure time and **lower air fares**. These factors have made Thai **governments fairly complacent in their attitudes towards tourism**.
- In 1974 The Man With The Golden Gun put the southern **Phang-Nga National Park on the map**. Visitors subsequently flocked to **‘James Bond Island’ Kho Tapu**.
- By 1977 SAS’s interest was bought and THAI Airways International became a key branding method for Thai tourism.
- The **70’s is important to Thai tourism history**. It was a decade of more **infrastructure and further branding**. More hotels were built; **airports improved**; interior transportation developed; and of course more and more **Thai restaurants sprouted up all over the world as the country’s leading brand ambassador**.

Sources: [mythailandblog.com](http://mythailandblog.com); James Elliott in “Government management of tourism - a Thai case study”

## Renewal Period [1982 - 1988]

- **From 1980-1987**, the number of visitors increased by more than 10 per cent a year, reaching **3.48 million in 1987**.
- **Tourism became the top foreign currency earner in 1982, replacing rice exports**. Tourism became a national priority to compensate for the shortfall of exports, help cut unemployment, and provide jobs for the increased number wanting to join the work force.
- Tourism **downturn in 1983**, the first since 1976 and only the second fall in 24 years. The decline of the dynamic tourism industry in Singapore was also a warning'. The government's response to the economic crisis was a tax on Thais travelling abroad to save foreign currency and the devaluation of the Baht in November 1981. Another **part of the response was to examine the relationship between government and the tourism industry**.
- **After Sarit Thanarat, however**, Tourism was not on the priority policy agenda. Governments were in favour of tourism, keeping a **practice of benign neglect**. Albeit plans were approved, such as those **to allow for the controlled development of important resort areas like Pattaya and Phuket**, they were **rarely implemented**. Warnings in later plans and by TAT about the deterioration of resorts were ignored, resources were not provided, and major decisions not taken.
- A very important factor resides in **the responsibility for tourism laying with a junior minister who was not a member of the key Cabinet Economic Council**. The minister also had **other responsibilities**, and had neither a department nor the necessary political or management resources at his disposal.'
- **TAT has made a substantial contribution to tourism growth with its various marketing activities**. including the establishment of a network of offices, and links with industry abroad. It has developed a group of dedicated, experienced, professional officers who provide not only expertise but continuity.
- The crisis has put pressure on the **Government to make serious commitments** not only **to promote tourism**, but also **to develop it**, and create the **institutional framework to make it happen**. Corresponding **funding and resources** were allocated. **in 1984, and in 1985 it was given the biggest budget in its history** at a time when other agencies were either being cut or held at negative growth. Incentives to hotels and businesses were given, and a substantial increase in charter flights allowed to countries in the region.
- Sixth National Economic and Social Development Plan (1987- 1991) which began in 1986 with firm coordination and monitoring from an influential Minister. Several working groups and committees have been established to help the industry, the most important being the "Joint Public/Private Sector Consultative Committee (PPCC) with a sub-committee on tourism.

Sources: *mythailandblog.com*; James Elliott in "Government management of tourism - a Thai case study"



### Golden age and diversification attempts [1988 - 1997]

---

- Tourism in Thailand reached a significant size for the first time in the 1990s. The period during the country's **Sixth National Economic and Social Development Plan (1987- 1991)** could be called the **“Golden Age of Thai Tourism,”** when **tourism income from 1987, doubled within 3 years**. The plan had Five strategic directions: (i) **Improving the logistics infrastructure** associated with domestic and international tourism; (ii) **development and reconstruction of places attractive for tourists**, improvement of **the legislative base and rules enabling** the attraction of a larger number of tourists; (iii) the implementation of **new projects and services** to expand the range of tourism services, as well as to use the **large human resources** of the industry; (iv) improving the **positive image of Thailand** in the minds of tourists who have already visited the country in order **to re-attract**; (v)) wide use of the **private sector**, civil society and local administrations in the implementation of the state tourism program.
- Phuket became recognized as the pearl of the Andaman and a renowned world destination, winning prestigious international prizes and destinations.
- The **industrialisation** in Thailand during this period **affected both culture and nature**. Environmental pollution and destruction brought about a **decline in nature-based tourism**, while the rural way of life also began to vanish due to the economic development. **Hotels and a new industrial valley nearby polluted Pattaya beach**, and only **10 percentage of the coral reef** east of Koh Lan Island (near Pattaya) **remained**. Sex tourism also grew and attracted tourists, and gave the country **the image of a sex tourism destination**. the money tourism brought in was one of the reasons for the lack of law enforcement against sex tourism in Thailand.
- **Policy shift** from growth focused on volume, to a **combination of volume with** increased spending, However, The **Thai tourism authorities** have been interested in alternative tourism development since the late 1990s, but they paid more attention to **high-volume tourism products** and services **than increase tourist's spending**.

Sources: mythailandblog.com; James Elliott in “Government management of tourism - a Thai case study”; Chalernpat Pongajarn in “Tourism Destination Development in Thailand”



## Market Diversification Period [1998 - 2010]

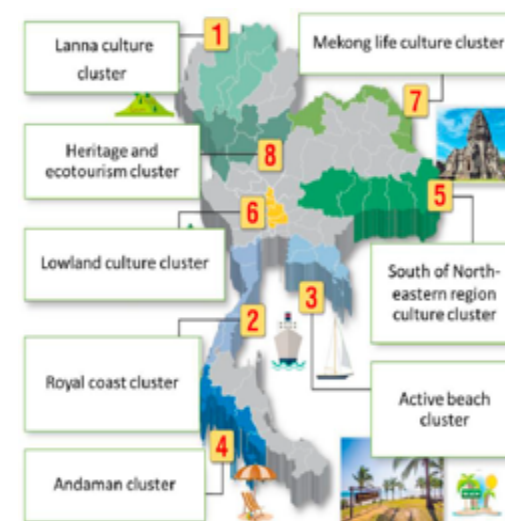
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- **Brand Amazing Thailand – international promotion since the late 1990s:** Some of the example of the Thailand promotion including, the “Seven Amazing Wonders of Thailand” (2007-8), “Amazing Thailand, Amazing Value” (2009), “Amazing Thailand Always Amazes You” (2011), plus minor sub-campaigns such as “Amazing Thailand Shopping Paradise”, “Amazing Thailand Grand Sale”, and “Amazing Thailand Golf Paradise”.
- The economic growth of Thailand, **ASEAN** (Southeast Asian countries) and **BRICs** (Brazil, Russia, India, South Africa, and China) allowed the **middle-class people from these countries** to travel for leisure and induced new flows of tourists besides those the Western countries. The structure of tourist arrivals changed. The **number of tourists from major emerging economies (BRICs), including Russia, India and China**, and Thailand’s neighbour countries (the ASEAN countries), such as Laos, Vietnam, and Cambodia, has grown rapidly in the last decade. The **number of tourists from Western European countries and the USA has relatively decreased**. Since 2000, the number of tourists from Russia grew exponentially, while the number of tourists from the UK decreased by 30 per cent and the inflow of tourists from the USA ‘only’ increased by 100 per cent.
- **The Ministry of Tourism and Sports was established in 2005 and took over the role of tourism planning and management from TAT**, so TAT’s **only task became to promote tourism**.
- **The rapid economic growth increasingly allowed the residents of Thai cities to travel for leisure**. Especially people from Bangkok can **now afford to spend their weekends at beach resorts or other nearby tourism destinations**. Tourism in Thailand therefore is no longer completely dominated by foreign visitors.

Sources: *mythailandblog.com*; James Elliott in “Government management of tourism - a Thai case study”; Chalermnat Pongajarn in “Tourism Destination Development in Thailand”

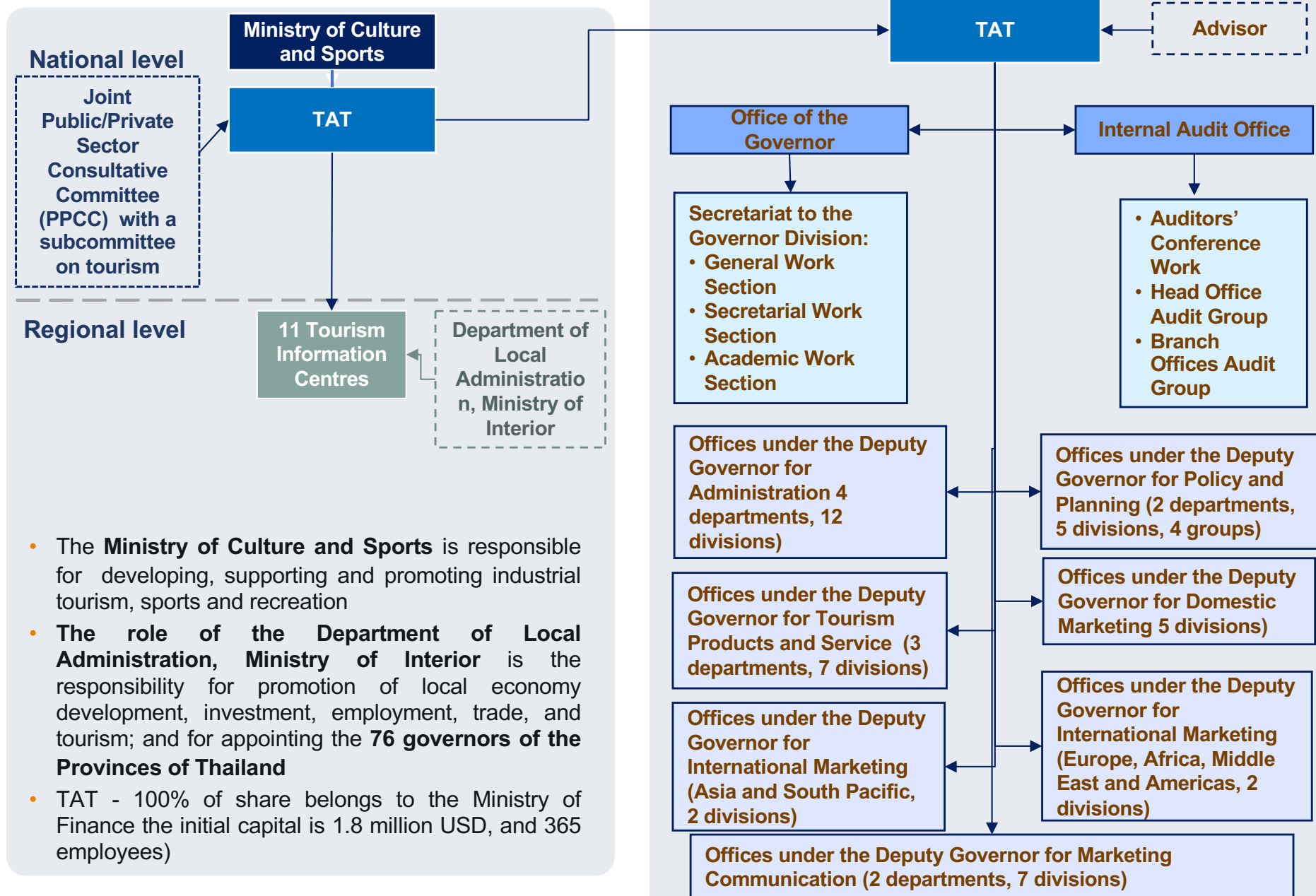
## China Boom Period [2011- 2018]

- **China became the most important source market.** Strong and successful marketing efforts have transformed China in the most important source market for Thailand, as it is also for several neighbouring countries.
- National Tourism Development Plan 2012–2016 (NTDP 2012-2016). The Ministry of Tourism and Sports is designed to play a key role in leading the development of this plan by providing guidance and support. The National Tourism Development Plan comprises **5 strategic axes**: (i) development of tourism infrastructures & facilities; (ii) rehabilitation & sustainable development of tourism sites; (iii) development on tourism products & services; (iv) tourism confidence & tourism promotion; and (v) encouragement of participation from government sectors, civil societies & local administration in tourism management. **There were also 8 tourism clusters established**, however, not from a development point of view, but from a promotional (TAT function). The 1st NTDP focused on building quality tourism offerings, while keeping the balance of demand and supply. Upon the conclusion, NTDP 2012-2016 had successfully developed the tourism market, resulting in tourism receipt growth of more than 15%, a beyond-target development of tourism competitiveness.
- **Launch of the Second NTDP (2017 - 2021).** The second NTDP continuing the growth, by better **preparing Thailand for the ever-changing global tourism market** and further embrace sustainable developments of Thailand's tourism sector. The Second National Tourism Development Plan comprises 5 strategic axes: (i) development of tourism attractions, products and services including the encouragement of sustainability, environmental friendly, and Thainess integrity of attractions; (ii) development and improvement of supporting infrastructure and amenities without inflicting negative impact to the local communities and environment; (iii) development of tourism human capital's potential and the development of tourism consciousness among Thai citizens; (iv) creation of balance between tourist target groups through targeted marketing that embraces Thainess and creation of confidence among tourists; (v) organization of collaboration and integration among public sectors, private sectors and general public in tourism development and management including international cooperation.



Sources: mythailandblog.com; James Elliott in “Government management of tourism - a Thai case study”; Chalernmpat Pongajarn in “Tourism Destination Development in Thailand”

### 2.3.6 - Organizational chart of the Institutional Framework



- The **Ministry of Culture and Sports** is responsible for developing, supporting and promoting industrial tourism, sports and recreation
- The role of the **Department of Local Administration, Ministry of Interior** is the responsibility for promotion of local economy development, investment, employment, trade, and tourism; and for appointing the **76 governors of the Provinces of Thailand**
- TAT - 100% of share belongs to the Ministry of Finance the initial capital is 1.8 million USD, and 365 employees)

### 2.3.7 - Role, functions and powers of TAT - Tourism Authority of Thailand

#### Primary role

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- **To promote tourism** that achieves a balance between the economic, social, and environmental dimensions, as well as, **created brand differentiation**, and presented Thai values through unique Thai local experiences

#### Functions/ Attributions of TAT

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- **To** carry out marketing promotion and publicity activities that highlight the value of Thailand's tourism
- **To drive the Value Chain** in the tourism industry to **create tourist satisfaction**, generate **added value and sustainable income distribution**
- Develop **in-depth information on the demands in the tourism markets**
- **Development of international markets:**
  - Tapping into **New Markets** in **different market groups**
  - Expanding Market Bases with **Spending Potential** in the **middle and high-end markets**. Focus on **China, India, Russia, USA, and UK to promote quality and ultra-luxury tourism products/services**
  - **Stimulating Spending and Retaining Existing Markets**
  - **Promoting AEC Connectivity Tourism by drawing ASEAN tourists**, through collaboration through the AEC Connectivity route
- **Development of the domestic tourism market**

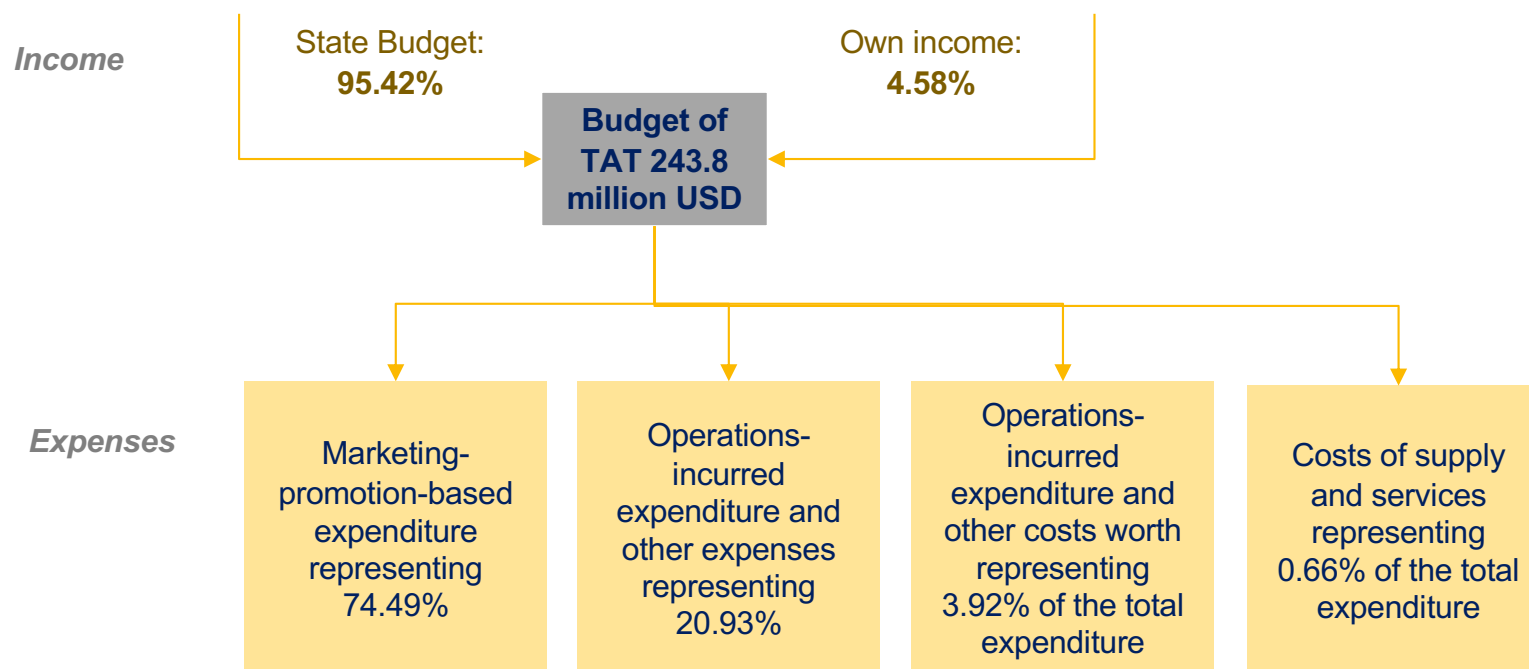
#### Powers delegated to TAT

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- **To promote tourism** and the tourism industry as well as the **occupations of Thai citizens working in the tourism industry**
- To **disseminate Thailand's reputation** as a country blessed with natural beauty, archaeological sites, valuable artefacts, history, arts and culture, sports, technological culture, as well as **promoting** a myriad of other activities to encourage tourists
- To **facilitate** and provide the utmost **safety for tourists**
- To **promote** good understanding and hospitality among peoples and nations by means of tourism
- To **initiate tourism development** along with related **tourist infrastructure and facilities**.

### 2.3.8 - Funding of the Budget of TAT in 2017

#### Budget sources and allocations



### 2.3.9 - Funding of the Budget of TAT in 2017

#### Budget expenditure by main category

Work Plan/Output	Allocated Budget (million USD)	% of Budget Disbursement
<b>1. Fiscal Budget</b>	235.8	99.7
<b>Work Plan: Personnel in Public Sector Generating Tourism and Service Revenue</b>	29.3	99.9
Output 1: Total Expenses for Personnel in Public Sector	29.3	99.9
<b>Work Plan: Tourism-and-service-generated Revenue Base</b>	135.8	99.4
Output 1: Overseas Tourism Markets Promotion	81.0	99.7
Output 2: Domestic Tourism Markets Promotion	42.9	99.4
Output 3: Marketing Operation Promotion and Support	11.9	97.3
<b>Tourism-and-service-generated Revenue Integration Plan</b>	64.6	100
Domestic and Overseas Tourism-generated Revenue Growth Acceleration Project	64.6	100
<b>Research Enhancement and Development Integration Plan</b>	0.7	100
Research for Tourism Marketing Development Project	0.7	100
<b>Domestic Economy Strengthening and Sustainability Enhancement Integration</b>	5.3	100
Phet Samut Khiri Tourism and Economic Stimulation Project	5.3	87
<b>2. General Budget</b>	8.0	87
<b>Work Plan: Creative-Economy-based Tourism Promotion</b>	8.0	87
Total Expenses for Domestic economy Enhancement and Strengthening Initiative	8.0	87
Total =1+2	243.8	87

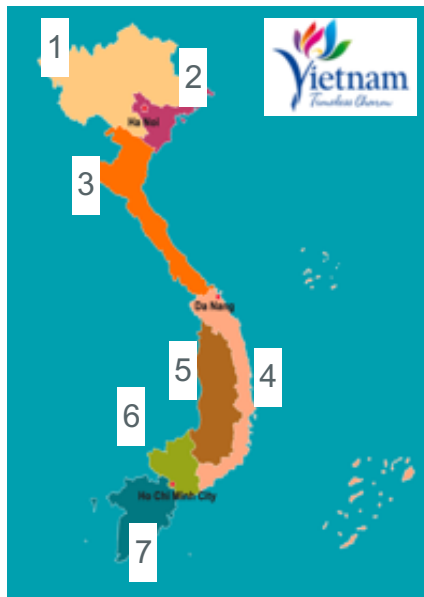
## 2.4 – Case of Vietnam

### 2.4.1 - Current tourism product and strategic focus based on its natural and cultural heritage.

Vietnam has successfully transformed its tourism industry from marginal to a strong and growing industry focused on 7 product markets ...

#### Tourism Products & Markets

- To develop **quality products based on the natural strengths** of Vietnam's **seven tourism zones**



- Zone 1 - Midlands & North:** majestic mountains with peaks 3,000 m above sea level

#### Cultural

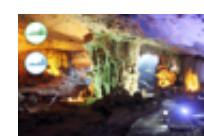


#### Nature



- Zone 2 - Red River Delta & Coastal Northeast:** one of the two biggest granaries of Viet Nam.

#### Nature



#### Cultural



#### Sun & beach



- Zone 3 - North Central:** between the Truong Son Mountains and East Sea. Beaches, natural and cultural heritage

#### Sun & beach



#### Nature



#### Cultural



- Zone 4 - South Central Coast & islands:** complex topography of hill, mountain, forest and sea. Beaches and cultural heritage

#### Sun & beach



#### Cultural



- Zone 5 - Central Highlands:** Located in the Trans-Asia Axis, with two distinct seasons of rain and dry and diversified natural resources. Nature, culture and adventure

#### Nature



#### Cultural



#### Adventure



- Zone 5 - South East:** located near Mekong River Delta and major regional gateway. Natural and cultural heritage

#### Nature



#### Cultural



- Zone 7 - Mekong River Delta:** canal system along with forests and sea – islands.

#### Nature



#### Cultural

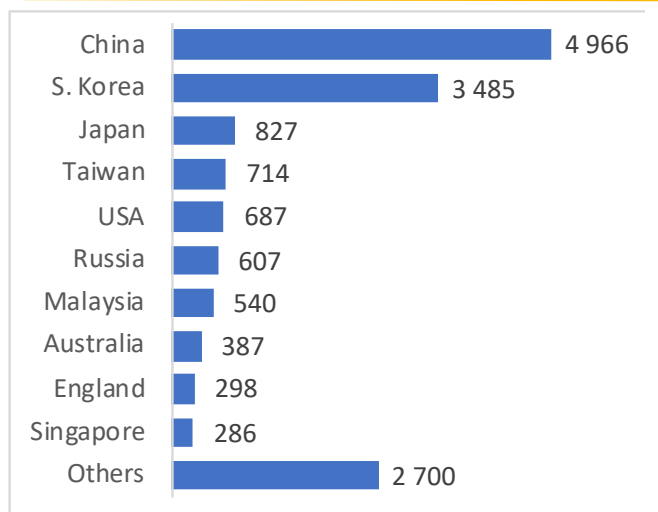




## 2.4.2 - Tourism flows are increasingly regional, particularly from China for leisure

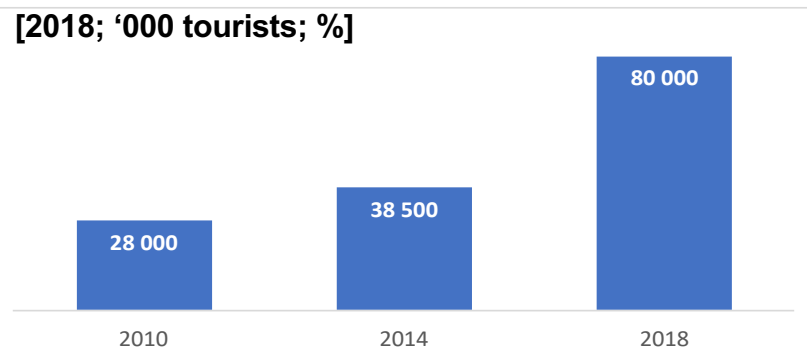
### Characterization of the international and domestic Tourism flows in Vietnam [2018; '000 tourists; %]

#### Inbound: country of origin

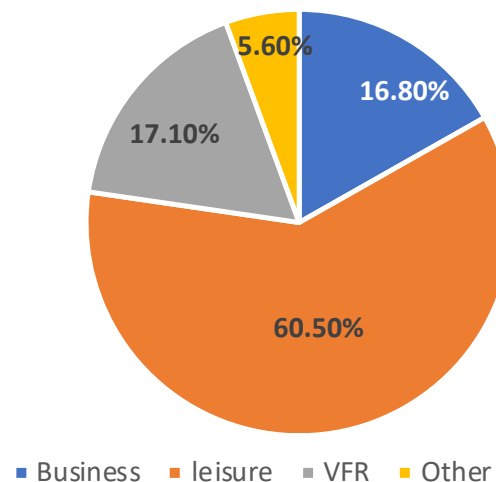


Source: Vietnam National Administration of Tourism

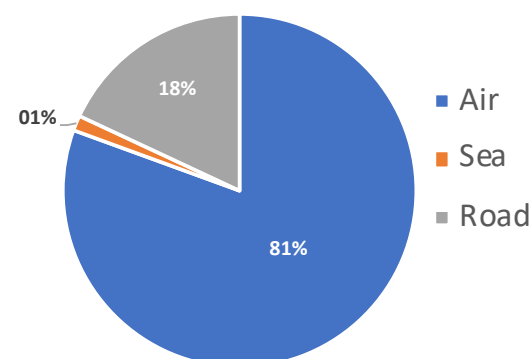
#### Domestic: Number of trips



#### Purpose of visit



#### Mode of transport





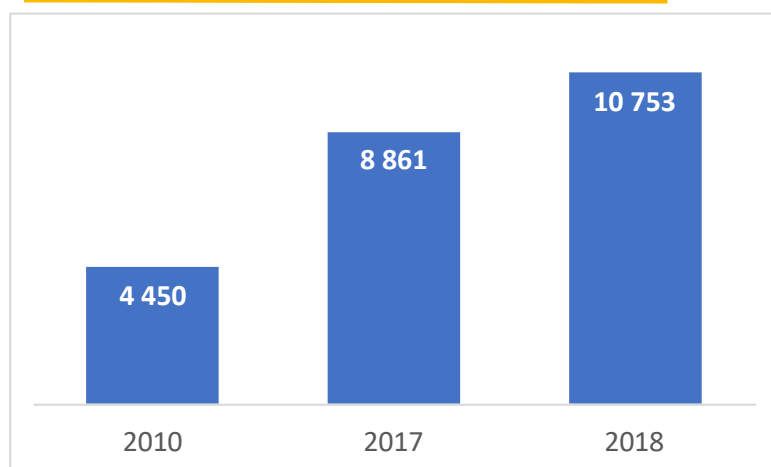
### 2.4.3 - Tourism is a key industry of Vietnam's economy, and an important driver of its growth

Tourism has a weight of 10% in the total GDP of the country, and is a key sector of the economy

#### Political division of Vietnam



#### Receipts of tourism\* [2018; US\$ million]



#### Socio-economic indicators [2018]

	2018
Population [million inhabitants]	96,5
GDP per capita [current US\$]	2,564
GDP growth rate [%]	6,0%
Tourism contribution to GDP [%]	10,0%
Tourism contribution to employment [%]	4,7%
Investment in tourism [%]	12,6%

Sources: VNAT; WBG; WTTC

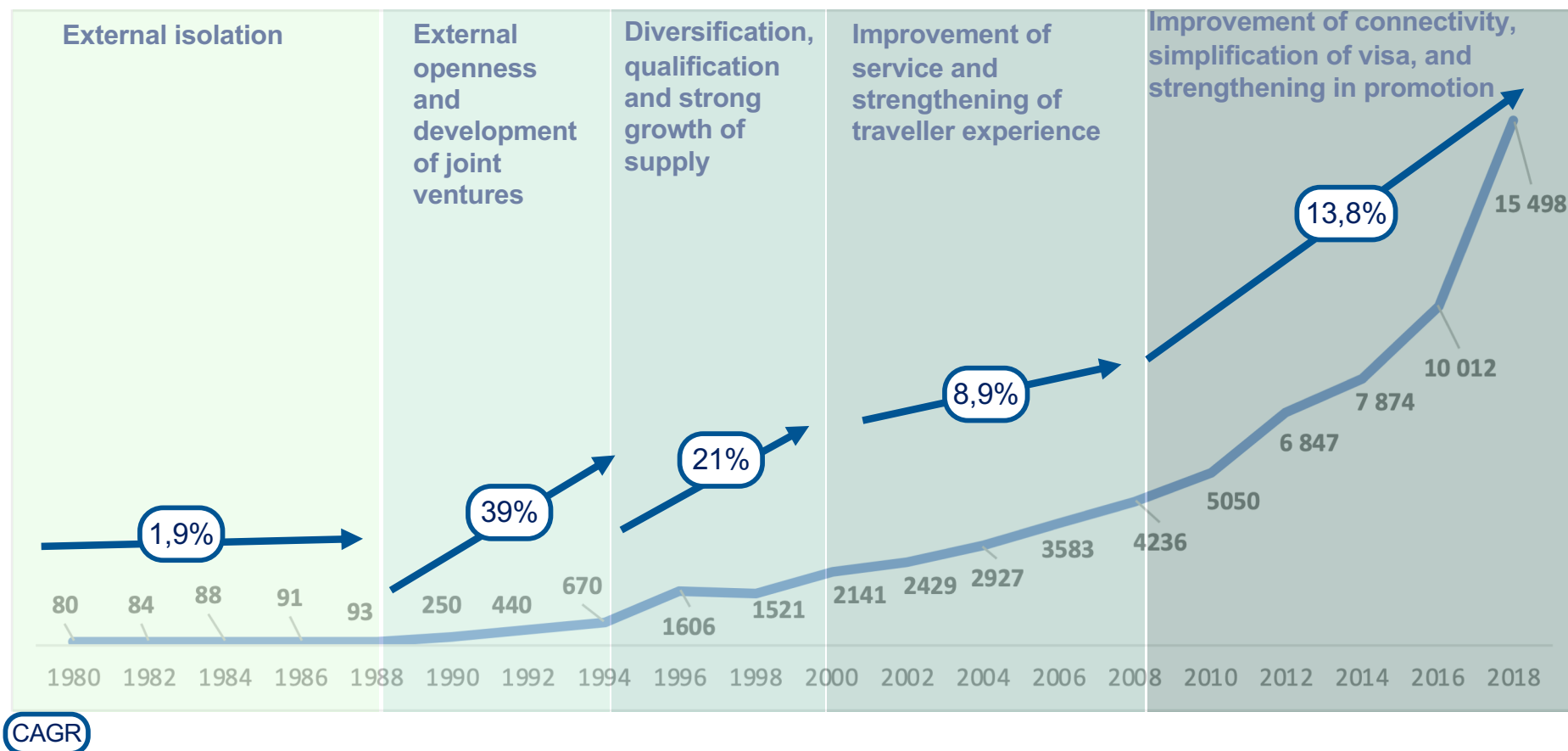
Note: \* The methodology of accounting receipts was changed in 2017, requiring an adjustment to the previous methodology for comparability purposes

## 2.4.4 – Phases of Tourism Development in Vietnam

Vietnam has made a successful transition from a isolated country to a booming tourism destination

Tourism in Vietnam is currently in its 5th phase, with the period between 1988-1994 with a remarkable growth from 93 thousand to over 1 million tourists; currently a new phase of improvement of infrastructure, qualified investment, connectivity, simplification of procedures and increased promotion is increasing growth rates again.

### Development of the Tourism industry in Vietnam [‘000 tourists; 1980-2018]



Source: VNAT; analysis from Project team

### 2.4.5 – From Isolationism to Openness

From isolationism, with hotel supply state owned of low quality, to openness with international brands ten folding the number of international tourists in less than a decade ...

The mainstream political agenda was the main driver of the tourism industry until 1986, followed by a period of reforms between 1986 – 1994 with government fostering joint ventures with international players to modernize tourism

#### Characterization of the external isolationism [before 1986]

##### Political context

- The regime fostered collectivism, with production means belonging to the State.
- The external isolationism hindered the entrance of foreigners, except from USSR aligned countries.

##### Hotel supply

- Hotels were outdated and degraded as a result of the war period.
- Hotels were all State owned, and managers were little qualified.

##### Positioning

- The supply was of poor quality
- Prices were very low to keep some customers.

##### International travelers' profile

- Foreign tourists were mainly from Eastern Europe and incapable of paying high prices.

#### Characterization of the reform period and international openness [1986 - 1994]

##### 1986 – Reform of the political system

- "Doi-Moi" – The Government launched a State reforms program, with legislative changes, making private property possible, and fostering PPP between the State owned hotel and international chains, ending the previous monopoly.

##### Lack of supply

- Existing hotel supply was strengthened but capacity was insufficient, particularly in rooms with international standards and main cities.
- Prices per room and occupation rates were very high (in main cities occupation was above 80%).

##### Increased weight of private sector

- Private sector (including local SME) invested in Tourism, either in the renovation of existing hotel, or in building new ones.
- In 1992, half of the hotel were privately owned, mainly in small sizes geared towards the low end of back-packers.

##### Demand

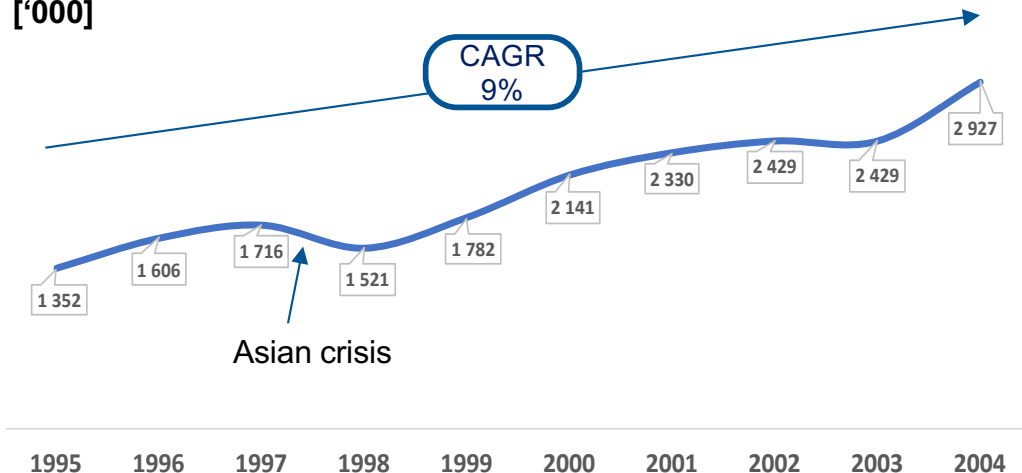
- The interest in travelling to Vietnam grew, both in the leisure and in business segments.
- International chains that invested in the country could attract their loyal customers given their service quality assurance transmitted by their brands.

## 2.4.6 - Phase of qualification of supply

Increased qualification and diversification of the tourism supply, with introduction of star classification system, seasonal pricing, modernization of state owned hotels, and specialization followed by a period of lower growth, but increasing improvement of quality

### Phase of qualification of supply [1995 - 2004]

#### International tourist arrivals ['000]



1

#### Hotel classification system and seasonal pricing

- Implementation of a star classification system for the hotel supply
- Implementation of seasonal differentiation of prices to optimize occupation and improve profitability

2

#### Modernization of state owned hotel

- Remodelations and acceptance of credit cards
- Emergence of marketing and sales departments, rebrandings and adoption of international names
- Greater focus on international tourists

3

#### Diversification and specialization of supply

- In the larger cities, development of international hotel chains focused in the business and upscale leisure segments
- Expansion of small scale private hotel, associated with Tourism of nature and particularly backpackers.

## 2.4.7 - Phase of capacity strengthening and service quality improvement

A simultaneous growth of supply in the higher standard range, and a substantial improvement of quality of services and traveler's experiences became a new framework of action to become clear that an improvement of service and strengthening of traveler experience was needed to increase volume and spending.

### Phase of capacity strengthening and service quality improvement [2000 - 2010]

#### Levels of service and diversification

##### Improvement of the quality of services

- Hotels of 4\* and 5\* invested in the staff skills qualifications and standardization of services to match it with international standards

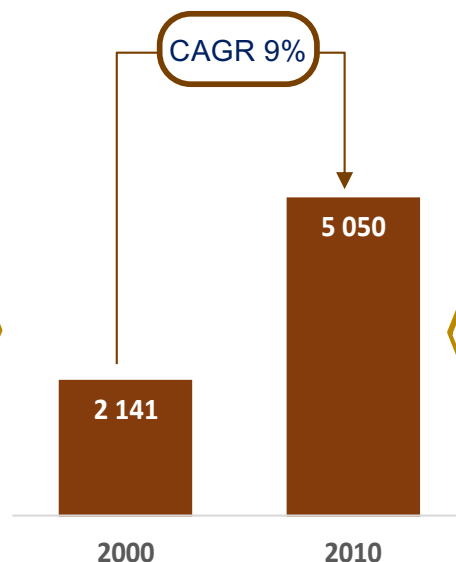
##### Number of services available available to the traveller

- Hotels strengthened their supply with new services (spa and wellness centres, massage) and improved their facilities with complementary shops (travel agencies, luxury goods, hair dressers, beauty centres, etc.)

##### Emphasis on the business segment

- Creation of infrastructure and outreach of events geared to the business segment.

#### International tourist arrivals ['000]



#### Development of capacity

##### Increased number of hotel rooms

- In 2000 there were 55,760 hotel rooms available for international tourists, and by 2010 this number has increase to around 130,000

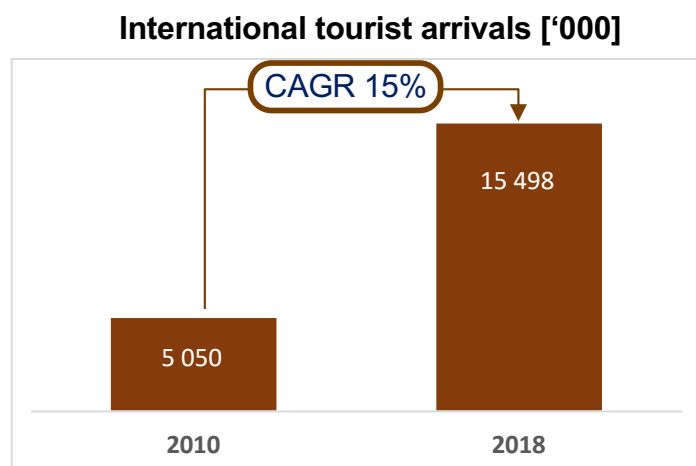
##### Attraction of private investment

- Emphasis on international hotel chains in the 4\* and 5\* categories with strong international recognition for their standardized high quality of services.
- Facilitation of investments through joint ventures between international investors and state owned enterprises.

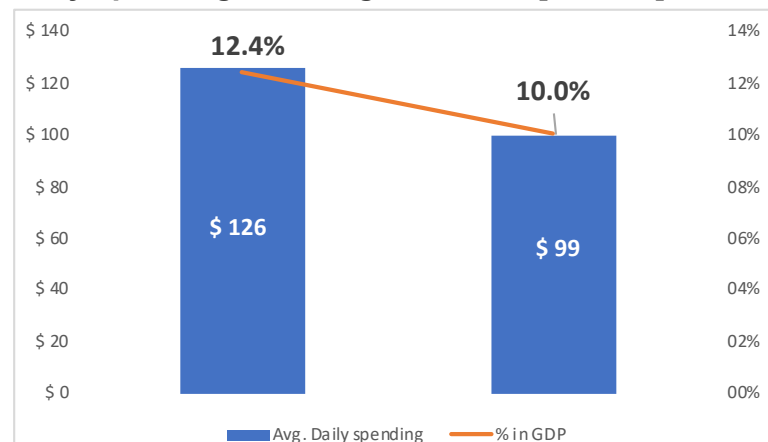
## 2.4.8 – Phase of consolidation of the destination

- Emphasis of capacity increase, product development to differentiate the country through its natural and cultural heritage, and strengthening of the domestic tourism;
- Results: Increased volume and reduction of the average daily spending per tourist
- A booming demand from the Asian countries geared towards leisure sun & beach products, and a focus on differentiation of the product towards a consolidated destination

### Consolidation of the destination [2010 - 2018]



### Daily spending and weight on GDP [US\$; %]



### Policy objectives [2010 - 2018]

#### Increase of foreign arrivals and domestic trips

- By 2020 to reach 10,0 – 10,5 million foreign tourist arrivals, 47-48 million domestic tourists, a revenue of US\$ 18 – 19 billion, 580,000 accommodation rooms, 35% - \$40%- of which in categories ranging from 3\* to 5\*, and 870,000 direct jobs added with 2,13 million indirect jobs.
- By 2030 to double the numbers of 2020 in tourist arrivals

### Main initiatives [2010 - 2018]

#### Development of tourism products

- 7 tourism regions based on the natural and cultural heritage

#### Development of infrastructure and technical facilities for tourism

- Transport, connectivity, information, communications, utilities
- Public services, improvement of cultural and natural heritage assets;

#### Improvement of tourism education and skills

#### Market development, tourism promotion and brands

- Diversification of source markets and tourism segments

#### Investment and policies for tourism development

- Role of the government of supporting the tourism development

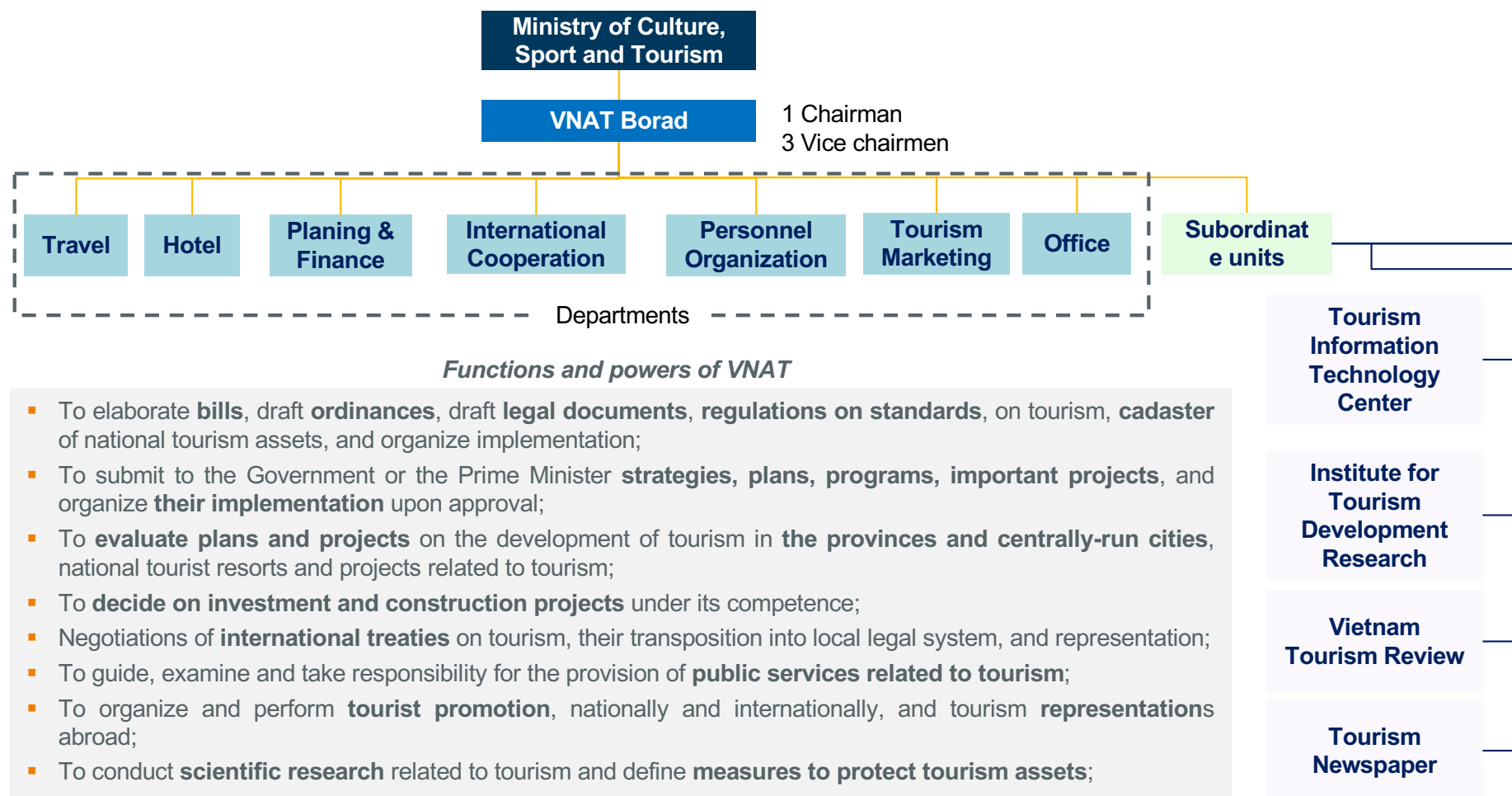
#### International cooperation in tourism

#### State management in tourism

- Improvement of the institutional and legal framework
- Restructuring of state owned enterprises

#### 2.4.9 - The Ministry of Culture, Sports and Tourism heads VNAT, a government attached agency.

- The Institutional configuration of Tourism in Vietnam is organized around VNAT – Vietnam National Administration of Tourism



#### *Functions and powers of VNAT*

- To elaborate **bills**, draft **ordinances**, draft **legal documents**, **regulations on standards**, on tourism, **cadaster** of national tourism assets, and organize implementation;
- To submit to the Government or the Prime Minister **strategies**, **plans**, **programs**, **important projects**, and organize **their implementation** upon approval;
- To **evaluate plans and projects** on the development of tourism in **the provinces and centrally-run cities**, national tourist resorts and projects related to tourism;
- To **decide on investment and construction projects** under its competence;
- Negotiations of **international treaties** on tourism, their transposition into local legal system, and representation;
- To guide, examine and take responsibility for the provision of **public services related to tourism**;
- To organize and perform **tourist promotion**, nationally and internationally, and tourism **representations** abroad;
- To conduct **scientific research** related to tourism and define **measures to protect tourism assets**;
- To **coordinate** with functional ministries and branches **training and skills development** related to tourism;
- To **manage the portfolio of state owned assets** in tourism related enterprises;
- To **inspect and license tourism related activities and operators**, manage complaints and fight corruption;
- To perform the tasks of State management over associations and NGOs related with tourism;
- To **organize the collection of statistics on tourism**, and report to Government, the Prime Minister, or other agencies

## Chapter 3

3

### FDI Regimes and Investment Incentives in ABEC and International Case Studies

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### 3 FDI Regimes and Investment Incentives in ABEC and International Case Studies

#### 3.1 Introduction

- For a more accurate analysis of the development of the tourism sector, **we compared the investment incentives provided by each of the ABEC Countries (Kazakhstan and Kyrgyz Republic)**, through general and sectorial (tourism) incentives. The data were collected from the following **neighboring countries**: Russia, China, Tajikistan, Turkmenistan, Azerbaijan, Georgia, Uzbekistan and Mongolia. Detailed comparative information on investment incentives for above mentioned countries is provided within the Annex “Tourism Information”, sheet “Investment incentives”.
- **A general analysis of the proposed incentives helps to understand which economic area each country is focusing on.** For example, **large and more developed countries like Russia and China** provide an **incentive program that encourages investment in high technology and IT**. **China** almost does not provide full exemptions from the tax, **only deductions**, and **there are no incentives specifically aimed at tourism**. As for **Russia**, there are **references to touristic and recreational free economic zones** in whose territory the rate of the profit tax is equal to 0%. Such zones help the **development of tourism exactly where it is needed**, whereas **such zones are not mentioned in the inventory of incentives of Kyrgyz Republic or Kazakhstan**. However, this is not the only difference. The state program of these countries (Russia and China) also contains the **description of restrictions on certain actions of investors**, which indicates that despite the fact that **these countries** are interested in investment, they are **also interested in controlling** every aspect related to **the situation inside the country**.
- The following **countries like Uzbekistan, Tajikistan and Turkmenistan do not provide much information about the current investment policy**. Their **incentives are more general and are aimed at protecting the rights of investors, tax exemptions and benefits within free economic zones**. In contrast to these countries, information about the incentives of Kyrgyz Republic and Kazakhstan is easier to access, which can be an advantage for investors, since the **availability of information is an important aspect in decision-making**.
- According to the **investment policy**, the **following countries are most interested in tourism investments**. **Mongolia** provides full **exemption from land tax for the first five years** for entities operating in the **tourism and hospitality sector**. The state also provides a **50% discount to enterprises that invest in the construction of hotels and tourist camps**. In **Kyrgyz Republic**, there is a **similar incentive**, which exempts **sanatoria and rest homes** from land tax, but does not provide for a tax rebate. Kazakhstan has no specific tourism related incentives.
- **A special feature of Azerbaijan is the incentive**, which provides a special simplified tax **for gambling operators**. In **Kyrgyz Republic, gambling is prohibited**, although they are one of the type of recreation, which attracts tourists. In Kazakhstan it is only allowed in specific zone of Kapchagay. Lotteries have free access of entry in the market.

- The most comprehensive approach to tourism is observed in Georgia. Their investment policy takes into account several aspects of the tourism sector. First, the policy is aimed at developing tourism in the least popular tourist destinations, which indicates their intention to spread tourism throughout the country. Since 2016, the Georgian government has provided financial and technical assistance to hotel business entrepreneurs in all regions of Georgia, except for the cities of Tbilisi and Batumi. The government will co-finance franchise fees / management agreements for the first 2 years. Such a policy could be applied to Kyrgyz Republic and Kazakhstan for the ABEC area, because the main direction of tourism is Lake Issyk-Kul and Almaty. Secondly, Georgia provides land. In special economic zones, the land plot is provided to the investor at a symbolic price of one GEL. In addition, the activities of hotels are exempt from tax on profits and property until 2026. Thirdly, hotels with more than 80 rooms can get a free license for a casino. That is, investors get quite convincing advantages in order to invest in tourism in Georgia.
- In addition, it is need to note that the Kyrgyz Parliament has initiated new draft law on “Special economic areas of the Kyrgyz Republic” The main objective of the draft law is to increase investment attractiveness, increase competitiveness of agriculture, introduction of high technology industries and development of large tourist infrastructure assts. The Law defines the following type of Special areas: industrial area, innovation technological area and tourist recreational areas. The law will set regulation of Special areas, preferences and incentives as well as Government support mechanisms. One of the key difference from the existing Free Economic Zones is that Special areas could be managed by private operational companies.

## 3.2 – FDI regime and investment incentives in Kazakhstan

### 3.2.1 - Main aspects of the regime in Kazakhstan

- **Investment preferences are provided to legal entities of the Republic of Kazakhstan**, including legal entities with foreign participation, in accordance with the requirements of the Entrepreneurial Code of the Republic of Kazakhstan for the implementation of the investment project.
- **In order to receive preferences and incentives, the foreign investors must register their activities in the Republic of Kazakhstan, and present projects that will be evaluated, if selected, as Investment Projects, or Priority Investment Projects.**

### Criteria for classification of investment projects

#### Compliance with the list of priority activities

- **Tourism is included in the list of priority sectors** of the economy in the provision of **hotel services** and services for living in a campsite, recreational place<sup>1</sup>

### Newly created legal entity

- with **an investment volume of more than 2 million MCI<sup>2</sup>** with the exception of:
  - Autonomous educational organizations in accordance with the tax legislation of the Republic of Kazakhstan and the legislation of the Republic of Kazakhstan on education;
  - Territory of the **special economic zone**
- **State registration of a legal entity** was carried out **no earlier than twenty-four calendar months** prior to the day of filing an application for the provision of investment preferences;
- **The share of the state** and (or) subject of the quasi-public sector as a founder and (or) participant (shareholder) of a legal entity of the Republic of Kazakhstan **does not exceed twenty-six percent**;
- For the implementation of the priority investment project, **state budgetary funds are not affected** as sources or guarantees of financing;
- Investment activity is **not** carried out under a **public-private partnership** agreement, including a concession agreement.

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### To obtain the above preferences, it is necessary to:

- Conclude a **contract with the Investment Committee** at the Ministry of industry and infrastructure development of the Republic of Kazakhstan.
  - In the **field of tourism** in Kazakhstan, there are **two free economic zones: 1) Astana-Technopolis; 2) Turkistan**.
-

### Types of state support for investment activities for the private sector:

- In the framework of the state program "The Road Map for Business 2020" - the allocation of funds through the second-tier banks, as well as **interest rate subsidies in the amount of 40%**. The maximum loan amount is 2.5 billion tenge (6.5 million US dollars).
- According to the state program "Crediting of priority projects" - allocation of funds through STB, **interest rate for the borrower - 8%, maximum loan amount** - without restrictions, loan term - up to 7 years
- **Mechanisms of financing** through the Social-entrepreneurial Corporation (thereafter -SEC). Capitalization of the SEC through the mechanism of replenishment of the authorized capital for the implementation of budget **investments through PPP**
- **Kazyna Capital Management** – corporate business financing, operator Baiterek Venture Fund. Prerequisite: participation in the capital of the company up to 49%. The allocated funds are from 1 to 5 billion tenge (2.6–13.1 million US dollars) at an interest rate of up to 8%, and a loan term of up to 10 years. Upon receipt of financing, a contract is signed for the mandatory redemption of the company's share, and the Entrepreneur also has the right, after 3 years, to demand the Fund to withdraw from the company's share.
- **Development Bank of Kazakhstan** - finances **infrastructure projects**. The allocated funds are from 7 billion tenge, the maximum loan amount is unlimited. Interest rate of 9 - 13% in tenge for a period of up to **20 years**. Own participation of the borrower is provided for at least 20% of the total cost of the project. Collateral (real estate, bank guarantees) should be at least 30% of the loan amount and interest for the grace period.
- **DBK Leasing JSC** - financing of the cableway and equipment. The maximum loan amount is 5 billion tenge. Interest rate of 9 - 15% in tenge for a period of up to **20 years**. Own participation of the borrower is provided for at least 30% of the total cost of the project. As collateral, a land plot is provided for GLK and the equipment that is purchased.

## Sources of financing in international financial institutions for the private sector

- Loans from International Financial Institutions

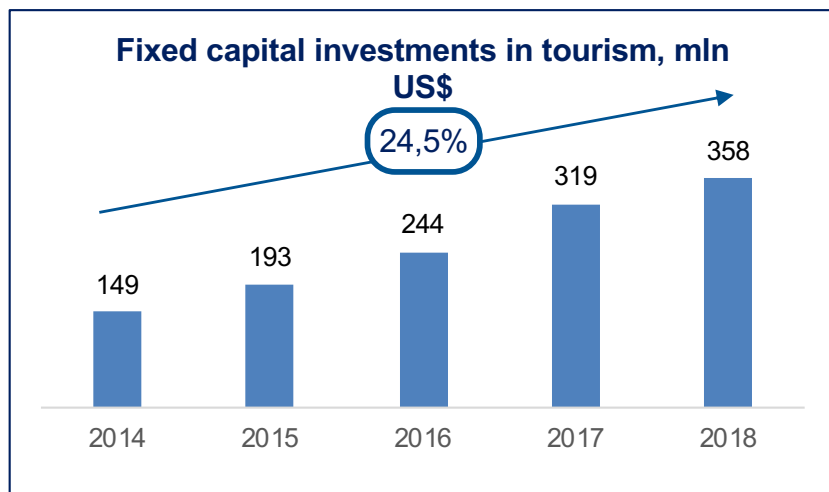
Notes: 1 - <http://adilet.zan.kz/rus/docs/P1600000013>

2 - MCI is a monthly calculation indicator approved by the law on the republican budget

Preferences and incentives	For investment projects		For priority investment projects:			For participants of the special economic zone (SEZ)
	Exemption from customs duties when importing technological equipment and its components, raw materials and (or) materials for a period of not more than five years	State natural grant-transferred for temporary uncompensated use of land, buildings, structures, machinery and equipment, the cost of which is not more than 30% of the volume of investments in fixed assets	Tax incentives: corporate income tax - 0% for 10 years; land tax - 0% for 10 years; property tax - 0% for 8 years	Investment subsidy of up to 30% for investor reimbursement for construction and installation works and equipment	Attraction of foreign labor for the period before commissioning and one year after commissioning of the investment activity	SEZ participants are exempted from paying VAT on imports and customs duties for up to 15 years.
Private sector						
FDI		Except land for agriculture				

### 3.3 – FDI regime and investment incentives in the Kyrgyz Republic

#### 3.3.1 - Main aspects of the regime in the Kyrgyz Republic



- **Kyrgyz Republic is an open country for investment opportunities.** The basis for building an open economy is the country's broad participation in international economic organizations. The Kyrgyz Republic is one of the founding states of the **Shanghai Cooperation Organization**, as well as the **first state in the Central Asian region to join the WTO**. Recently, became a full member of the **Eurasian Economic Union**.
  - The Kyrgyz Republic also provides **favorable conditions for foreign investment**. According to the **Agency for the Promotion and Protection of Investments in the Kyrgyz Republic**, the country has signed international agreements on **protection against the risk of double taxation with 21 countries** of the world, and an agreement on the **protection and promotion of foreign investments with 27 countries** of the world.
- **Foreign investments** come in **many sectors** of the economy of the Kyrgyz Republic, the **main of which are hydropower, energy, mining, agriculture and tourism**. To **stimulate economic activity**, Kyrgyz Republic provides about **80 investment incentives**. According to the World Bank research, Kyrgyz Republic is in **70th place in terms of the rating of the ease of doing business** in the country with a total score of 68.33, ahead of Tajikistan, which is in 126th place with a total score of 57.11. Despite this, **Kyrgyz Republic's scores are lower than the regional average (72.34)**
  - According to the National Statistical Committee, **one of the indicators of tourism development is the amount of fixed capital investments in tourism sector**. The table above shows the **increase of this indicator** for the last 5 years. However, the **incentives inventory of Kyrgyz republic has only one (direct) tourism related investment incentive: «Sanatoria, rest and recreation homes of the trade unions that are part of the sanitary and protected zones are exempted from land tax».**

#### Analysis per category of incentive

##### Incentives

##### Custom duties

- Preferences and/or deferrals and/or instalment payment of customs duties for the implementation of PPP projects in the manner and under the conditions stipulated by the legislation of the Kyrgyz Republic.

### **Customs privileges**

- Providing free customs zone – a customs regime, under which FEZ (Free Economic Zones) entities place and use goods within FEZ territory without paying customs duties and taxes, as well as with no tariff and non-tariff regulation of foreign goods and without any bans and restrictions on domestic goods.
- Import of tangible assets, raw materials and components intended for the formation of the authorized fund and targeted contributions for production purposes of the enterprises with foreign investment or ventures with foreign investors are not levied customs duties.
- Customs duties deferral or payment in instalments within 90 days in case of supply aimed to implement a public-private partnership project, if such deferral or instalments are provided for in the public-private partnership agreement based on the decision of the Government of KR.
- Reimbursing interests paid for customs duties deferral or instalment payment for individuals that are private partners and (or) project companies in accordance with the Law on Public-Private Partnership in the Kyrgyz Republic in the cases specified by the Government of KR.

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### **Social insurance**

- Preferential system of social contributions for entrepreneurs in textile and garment industry. Entrepreneurs operating in textile and garment industry are levied preferential insurance contributions to the Social Fund in the amount of 12%. In this case 6% calculated from 40% of the average monthly salary shall be paid by employers and 6% calculated from 40% of the average monthly wage shall be paid by employees.
- Preferential system of social contributions for agricultural cooperatives involved in agricultural production (crop and livestock breeding) – a monthly charge of 2 percent paid to the Mandatory Health Insurance Fund from all types of payments made in favour of hired permanent or temporary workers.
- Preferential system of social contributions for sole proprietors without creating a company and applying a simplified taxation system or taxation on the basis of a tax contract; the contribution rates are set monthly as 9.25 percent of the monthly average salary.
- Preferential social contributions for High Technology Park residents. Staff of HTP residents and Directorates and High Technology Park residents - individuals (other than employees performing maintenance and ensuring security of buildings, premises and lands) shall pay contributions of 12% of the average monthly salary.

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### **Financial**

- Providing concessional loans as necessary for the implementation of PPP projects. Construction and operation of highways, reconstruction and renovation of infrastructure in the energy sector, construction of waste recycling plants, as well as construction and reconstruction of hospitals can be pilot projects in Kyrgyz Republic.
- Bank guarantees for the implementation of PPP projects.
- Guaranteeing discharge of obligations by a state partner for the implementation of the PPP project.
- Providing tariff subsidies for the implementation of the PPP project.
- Providing some portion of funds required for the implementation of the PPP project.



## Financial (cont.)

- Granting the **right to collect fees** and generate income **from other activities** that are **not directly related** to the implementation of the **PPP project**.
- **Preferential rental payment** for the **use of state and/or municipal property** for the implementation of the **PPP project**
- **Accelerated depreciation for small businesses**. Small businesses are entitled to apply accelerated depreciation of fixed production assets and charge such expenses to production costs in an amount exceeding twice the norm established for the respective types of fixed assets. In addition to accelerated depreciation mechanism, small businesses can write off up to 50 percent of the initial cost of fixed assets with a service life of more than three years as a further depreciation.
- **Preferential loans to small businesses**. Small businesses receive loans on **concessional terms** with the respective **difference** being **compensated to credit institutions** at the expense of **small businesses support funds** (Article 11).
- **Preferential insurance** for small businesses.
- **Selling biological products to veterinarians** directly engaged in epizootic activity.
- Providing **repayable and non-repayable loans to inventors**, innovators, researchers in priority areas of the economy, science and technology.

## Regulatory incentives

- **Exempting export of products manufactured in FEZ from quotas** and licensing, except for export to the customs territory of the Kyrgyz Republic, the volume of which is set forth by the Government of the Kyrgyz Republic of the total production for each FEZ entity over the year. The quota size is set forth for each FEZ.
- **Reserving** for small businesses a **portion** of orders for the production and delivery of certain products and goods (services) **for public needs and providing incentive grants**.
- Measures aimed to **enhance** involvement of **small businesses** in the **export-import operations**, as well as measures for their participation in implementing **foreign trade related programs and projects**; facilitating their **participation in international fairs and exhibitions**.
- Preferential **information services for small businesses**.
- Providing production and technological **support to small businesses on favourable terms** in the manner established by the legislation of the Kyrgyz Republic.
- Providing **benefits to institutions and organizations engaged in training, retraining and professional development of staff for small businesses**.
- Providing a **simplified entry and exit regime** in FEZ territory for **foreign citizens**
- **Issuance of an investment visa** (type INV). Investment visas are issued to direct investors implementing investment activity in the Kyrgyz Republic, who have submitted appropriate supporting documents certifying their contribution in cash and tangible assets equivalent of **US\$ 500,000** to the economy of the Kyrgyz Republic and intended for production purposes for a **5 year period**.
- Providing **additional rights to movable or immovable property for the implementation of the PPP project (other than the right to an infrastructure facility)** in addition to the right to an infrastructure facility.
- **Support in obtaining licenses, permits and approvals** for the implementation of the **PPP project**



### Regulatory incentives (cont.)

- **Granting a servitude** on state and/or municipal movable and immovable property for the implementation of the **PPP project**.
- Granting **exclusive rights** for the activity under the **PPP agreement**.
- Providing **other support by a public partner** that does not contradict to the legislation of the Kyrgyz Republic.

### Taxation

- **VAT exemption on agricultural producer's supply** of agricultural products and products processed thereof, if produced and processed by this agricultural producer.
- **VAT exemption on entity's supply of products** resulting from **industrial processing** of berries, fruit and vegetables, if processed by this entity itself.
- **VAT exemption for entities from food and processing industry** that process domestic agricultural raw materials (except those used for the production of excisable goods). The exemption is valid for a period of 6 years in accordance with the List approved by the Government of the Kyrgyz Republic.
- **VAT exemption on supply of goods**, works and services by private partners and (or) a project company in the course of implementing the agreements on **PPP**. The list of agreements shall be approved by the Government of the Kyrgyz Republic.
- **Exempting agricultural producers, agricultural commodities and service cooperatives from profit tax**.
- **Profit tax exemption** for **sole proprietors** with disabled, blind and deaf people comprising at least 50 percent of the total employed staff, whose salary amounts to at least 50 percent of the total payroll fund. The list of these proprietors shall be determined by the Government of the Kyrgyz Republic.
- **Profit tax exemption** on **profits** gained from the sale of goods resulting from **industrial processing of berries, fruit and vegetables** using one's own raw materials and production facilities and aimed at acquisition, reconstruction and modernization of the major production facilities. Exemption is granted until 1 January 2016.
- **Profit tax exemption** for entities in food and processing industry involved in **industrial processing of agricultural products** (except those used for the production of excisable goods) for a period of 3 years.
- Exempting **credit unions** from **profit tax**.
- **Simplified procedure for VAT return and refund** in accordance with the list determined by the Government of the Kyrgyz Republic. The list includes taxable entities that in their production cycle use the equipment, raw materials and components for the production of goods (works and services) intended for export.
- **A zero rate VAT** is levied on **international carriage of passengers, baggage and freight**, transit flights by aircrafts, as well as services related to international carriage, except for carriage by railway transport.
- **Fixed assets imported** into the customs territory of the Kyrgyz Republic **by business entities registered as VAT payers** and intended for their **own production purposes** are VAT exempted.
- **Lots for livestock** passing and staying are **exempted from land tax**.
- **Import of fixed assets by agricultural producers** and agricultural commodity and service cooperatives for their own production purposes and for members of the commodity and service cooperatives and/or business entities under a finance lease (leasing) is VAT exempted.

## **Taxation (cont).**

- A zero rate VAT is levied on services related to electricity supply for pumping stations involved in agricultural lands irrigation and drinking water supply to the population
- Supply of prosthetic, orthopedic appliances, specialized goods for people with disabilities, including their repair, as well as supply of medicines in the list established by the Government of the Kyrgyz Republic are VAT exempted
- Supply of financial services is VAT exempted
- Supply of services related to retirement benefits, payment of pensions and trust management of pension funds' property, except for the lease of property is VAT exempted.
- Passenger transportation services on the territory of the Kyrgyz Republic are VAT exempted, with the exception of passenger transportation services using vehicles with at least 6 passenger seats
- International carriage of passengers, baggage and cargo by railway transport is VAT exempted
- Supply of textbooks, reading books, scientific, literary and artistic books, magazines, publications for children in the state language is VAT exempted
- Services for processing of goods imported into the customs territory of the Kyrgyz Republic and placed under the customs regimes "Processing of goods in the customs territory" and "Processing of goods under customs control" are VAT exempted
- Supply of agricultural machinery produced by entities from the Kyrgyz Republic and supplied to domestic agricultural producers is VAT exempted in accordance with the list approved by the Government of the Kyrgyz Republic.
- Export of works and services is VAT exempted
- Residents of High-Tech Park are exempted from profit tax, sales tax and value added tax
- A reduced income tax rate of 5 percent is levied on staff of the High-Tech Park resident (except for employees engaged in maintenance and ensuring security of buildings, premises and lands).
- Sole proprietors with disabled, blind and deaf people comprising at least 50 percent of the total employed staff, whose salary amounts to at least 50 percent of the total payroll fund are exempted from the land tax. The list of these companies, organizations and sole proprietors shall be determined by the Government of the Kyrgyz Republic
- Disturbed lands (degraded lands with disturbance of soil and other qualitative indicators of land) that require remediation and were received by local self-governments, organizations and individuals for agricultural purposes for a period specified by local councils are exempted from land tax
- Sanatoria, rest and recreation homes of the trade unions that are part of the sanitary and protected zones are exempted from land tax.
- Group 2 property of organizations operating in the sphere of science, education, health, culture, sports, social welfare and protection of children or low-income senior citizens is exempted from property tax
- Newly created organizations engaged in the production and/or processing are exempted from property tax for up to 5 years provided that the volume of produced and / or processed products amounts to at least KGS 30.0 mln per year;
- Providing preferential taxation regime (exemption from all taxes) for the activity of FEZ entities in accordance with the tax legislation of KR for the period of their activity in the FEZ territory as FEZ entities.
- Providing FEZ entities created to accelerate the development of the regions with additional benefits in paying taxes and state social insurance payments

### 3.4 – FDI regime and investment incentives in Russian Federation

#### 3.4.1 - Main aspects of the regime in Russian federation

##### Incentives

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##### Customs privileges

- Goods being imported in the customs territory of the Russian Federation as a contribution of a foreign founder to the charter (share) capital are exempted from customs duties provided (not excisable goods; basic production assets; and imported in terms provided for by the constitutive documents of the legal entity in question for formation of the charter (share) capital).
  - Imports into the customs territory of the Russian Federation and other territories under its jurisdiction of technological equipment (including components and spare parts thereto) according to the list approved by the Government of the Russian Federation analogues of which are not manufactured in Russia and which is imported as a contribution to the charter (share) capitals of organizations, is exempt from VAT.
  - Imports into the customs territory of the Russian Federation and other territories under its jurisdiction of technological equipment (including components and spare parts thereto) according to the list approved by the Government of the Russian Federation analogues of which are not manufactured in Russia and which is imported as a contribution to the charter (share) capitals of organizations, is exempt from VAT.
  - Goods imported into the SEZ - Special economic zones (except for a tourism and recreation SEZ) are exempt from import customs duties and import VAT, provided that certain requirements are met
  - The guarantees of compensation to a foreign investor or profit-making entity with foreign investments of the price of property being confiscated, and in the event of nationalization – of other damages as well.
  - Decrease of the company profit tax rate by 4.5% for a period from three to seven years, depending on the type of project
  - Decrease of the company property tax rate, with respect to the assets manufactured and/or bought, as well as with respect to the fixed assets, in the event that the assets in question are expanded, further equipped, reconstructed, modernised and retooled.
  - Special regulations in connection with determining the tax base for VAT, as well as the calculation and payment of excise duties by taxpayers operating in Crimea and Sevastopol.
  - Reduced rates of insurance contributions for FEZ participants in Crimea and Sevastopol: insurance contribution to the Pension Fund of the Russian Federation – 6%, the Social Insurance Fund of the Russian Federation – 1.5%, Mandatory Health Insurance Fund of the Russian Federation – 0.1%.
-

## Regulatory

- **The guaranty for a foreign investor or a profit-making entity the charter** (share) capital of which consists of more than 25% of foreign investors" contributions or implementing a priority investment project against a detrimental change of Russian legislation: in particular, changes of the rates of federal taxes (except for excise duties, VAT for goods manufactured in Russia and contributions to the state extra-budgetary funds (except for contributions to the Pension Fund), increase of the overall tax burden for implementation of priority investment projects or establishment or prohibitions and restrictions for foreign investments shall not apply within the term of the payback period of the investment project but no more than 7 years from the date of start of financing of such project at the account of foreign investments.
- 

## Skolkovo incentives

- **Exemption from companies" profit tax** within the first ten years from the date of becoming a participant of the **Skolkovo project**, provided that the revenue amount does not exceed RUB 1 billion, and 0% companies profit tax rate applicable to profits generated by the Skolkovo project participant after losing the right to the exemption from VAT.
  - **Exemption from companies" property tax** (provided that the amount of the profit does not exceed the established amount).
  - **Exemption from land tax** within the Skolkovo territory, with respect to management companies
  - **Exemption from VAT** within the first 10 years from the date of becoming a participant of the Skolkovo project (provided that the amount of the profit does not exceed the established amount).
  - **Reduced rates of contributions to social funds**, in the amount of 14% on the annual remuneration of each employee (provided that the amount of the profit does not exceed the established amount)
  - **Reimbursement of paid customs duties and VAT**, upon the importation of goods
  - **Exemption from the obligation to maintain accounting records**, unless the participant"s annual income exceeds RUB 1 billion
  - **Exemption from the payment of state duties for the issuance of work permits**, invitations and visas for foreign employees
- 

## Social insurance

- **Taxpayers engaged**, in particular, in the development and sale of software and databases; development, release and/or publishing of mass media; agricultural goods production; pharmaceutical activities and engineering activities, may apply reduced rates of contributions to the social funds (Social Insurance Fund, Pension Fund and the Federal Fund for Mandatory Medical Insurance).
-

## Taxation

- Reduced rate of company profit tax to be paid to the budget of the region (no more than 13.5%) and favourable treatment of certain expenses for company profit tax purposes.
  - **0% company profit tax** rate to be paid to the **federal budget** by **residents of technical research and implementation**, as well as **tourism and recreation SEZs**, combined into a cluster under the decision of the Government.
  - **Exemption from company property tax**, on assets manufactured or bought in for the purposes of the activities within the SEZ, for a period of 10 years from the date of their entering into the accounting records.
  - **Exemption from land tax**, with respect to the land **plots within the SEZ**, for the period of 5 years from the date of acquisition of such land plots into property ownership.
  - **Exemption from excise taxes** with respect to the **goods imported into the port SEZs**.
  - **0% company profit tax rate** for the licensed company engaged in priority medical and educational activities, included in the list approved by the Government of the Russian Federation.
  - **Exemption from VAT of technological equipment imported** into Russia that has no equivalent produced in Russia, included in the list approved by the Government of the Russian Federation..
  - **Exemption of FEZ participants** from payment of **property tax** (for 10 years after the registration of the property acquired for the purpose of relevant operations) and **land tax** (for 3 years).
- 

## Regulatory

- **The right for compensation of damages** caused to a foreign investor as the result of **illegal actions** (omission) of **state authorities, municipal authorities or officials of such authorities**.
  - **The guaranty of use in the territory** of Russia and transfer over its borders of income, profit and other legally gained monetary amounts in foreign currency in connection with investments made, subject to payment of taxes and duties provided for by Russian legislation.
  - **The right for unimpeded export from Russia** of property and information in documentary form or on electronic media that have been initially imported in Russia as foreign investments (without quotation, licensing and application of other non-tariff measures).
  - **Companies conducting eligible research and development activities**, included in the list approved by the Government, can apply for a 150% deduction of expenses, incurred in connection with such activities, to reduce the **company profit tax**.
-

## 3.5 – FDI Regime and Investment Incentives in the People’s Republic of China

### 3.5.1 - Main aspects of the regime in China

#### Incentives

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##### Deductions

- 200% of the actual salary expenses paid to **handicapped staff** are deductible.
  - **Entertainment expenses** are tax-deductible up to the lesser of 60% of the costs actually incurred and 0.5% of the sales or business income of that year. The excess amount must not be carried forward to and deducted in the following tax years.
  - **Advertising expenses** and business promotion expenses are deductible at **up to 15% (30% for certain enterprises in the cosmetics, medicine, and beverage industries)** of the sales (business) income of that year unless otherwise prescribed in the tax regulations.
- 

##### Financial

- A 50% deduction applicable for **salary costs of disabled employees**
- 

##### Social insurance

- **Basic social security contributions**, including basic pension insurance, basic medical insurance, unemployment insurance, injury insurance, maternity insurance, and housing funds, that are made by an enterprise in accordance with the scope and criteria as prescribed by the state or provincial governments are deductible.
  - **Staff welfare expenses**, labour union fees, and staff education expenses are tax-deductible at up to 14%, 2%, and 8% of the total salary expenses, respectively.
- 

##### Regional tax incentive

- Enterprises established in the **Qianhai Shenzhen-Hong Kong Modern Services Industry Cooperation Zone** are eligible for a reduced CIT rate of 15%, provided that the enterprise is engaged in **projects** that fall within **the Catalogue for CIT Preferential Treatments of the zone**
- Enterprises established in **Zhuhai’s Hengqin New Area** are eligible for a **reduced CIT rate** of 15%, provided that the enterprise is engaged in projects that fall within the Catalogue for CIT Preferential Treatments of the area.
- Enterprises established in the **Pingtang Comprehensive Experimental Zone** are eligible for a reduced CIT rate of 15%, provided that the enterprise is engaged in projects that fall within the Catalogue for CIT Preferential Treatments of the zone.
- From 1 January 2011 to 31 December 2020, encouraged enterprises in the **Western Regions** are eligible for a reduced preferential CIT rate of 15%.
- 2 + 3 years tax holiday for qualified new/high tech enterprises established in Shenzhen, Zhuhai, Shantou, Xiamen, Hainan, and Pudong **New Area of Shanghai** after 1 January 2008
- 2 + 3 years tax holiday for encouraged enterprises in underprivileged areas of Xinjiang



## Taxation

- Capped **Income Tax Rates at a rate of 15%**
- Depending on the activity the foreign investor is investing into he can get a 2+3 years or a 3+3 years or a 5 + 5 years further tax holiday. During the first period of 2,3 or 5 years depending on the circumstances the company will be totally exempted from **corporate income tax**. During the second period of 3 or 5 years the company will only paid 50% of corporate income tax that is to say at a rate of 7.5%. Thereafter the company shall be taxed at 15%.
- **Companies investing in High Technologies** Sector will benefit of a 15% reduced rate of taxes wherever they are investing and are also eligible to a further 50% deduction for Research and Development expenses.
- Tax deductions for companies that **reinvest their profits in China**.
- **Import VAT exemption** or deduction for company that import goods **if the finished goods made of imported material is re-exported**.
- Exemption or 50% tax reduction for **agriculture, forestry, animal-husbandry, and fishery projects**.
- 3 + 3 years **tax holiday** for the specified **basic infrastructure projects**.
- 3 + 3 years **tax holiday** for **environment protection projects** and **energy/water conservative** projects.
- 2 + 3 years tax holiday for **software enterprises and integrated circuits design enterprises**, established before 31 December 2017
- 5 + 5 years tax holiday for **integrated circuits production enterprises** established before 31 December 2017 with a total investment exceeding CNY 8 billion or that produce integrated circuits with a line-width of less than 0.25um, provided that its operation period exceeds 15 years
- 2 + 3 years tax holiday for **integrated circuits production** enterprises established before 31 December 2017 that produce integrated circuits with a line-width of less than 0.8um

## Taxation (cont.)

- 2 + 3 years tax holiday for **integrated circuits production** enterprises or projects invested after 1 January 2018 that produce integrated circuits with a line-width of less than 130nm, provided that its operation period exceeds 10 years
- 5 + 5 years tax holiday for **integrated circuits production** enterprises or projects invested after 1 January 2018 with a total investment exceeding CNY 15 billion or **that produce integrated circuits** with a line-width of less than 65nm, provided that its operation period exceeds 15 years
- 2 + 3 years tax holiday for **qualified integrated circuits packaging/testing enterprises** established before 31 December 2017
- 2 + 3 years tax holiday for **qualified enterprises that manufacture key parts or equipment used for the production of integrated circuits** established before 31 December 2017
- 3 + 3 years tax holiday for qualified **energy-saving service enterprises**
- 3 + 3 years tax holiday for projects involving a clean development mechanism (CDM)
- 2 + 3 years tax holiday for **certified animation enterprises** that produce self-developed animation products established before 31 December 2017
- Income derived from the **transfer of technology** in a tax year, the portion that does not exceed CNY 5 million shall be exempted from CIT and the portion that exceeds CNY 5 million shall be allowed a 50% reduction of CIT.
- A CIT exemption applies to the income derived by recognised **non-profit-making organisations** engaging in non-profit-making activities.
- Qualified new/high tech enterprises are eligible for a reduced CIT rate of 15%.
- **Key software production** enterprises and IC design enterprises are eligible for a reduced CIT rate of 10%.
- **Qualified technology-advanced service enterprises** are eligible for a reduced CIT rate of 15%.
- **For qualified small and thin-profit enterprises** with annual taxable income of less than 1 million renminbi (CNY), the CIT rate is reduced to 10% from 1 January 2018 to 31 December 2020.

## 3.6 – FDI regime and investment incentives in Uzbekistan

### 3.6.1 - Main aspects of the regime in Uzbekistan

#### Incentives

#### Customs privileges

- **Participants of free economic zones** are exempt from customs payments (except for fees for customs clearance) for equipment, raw materials, and components imported for own production needs, as well as construction materials not produced in Uzbekistan and imported for implementation of projects as per the list approved by the Cabinet of Ministers of Uzbekistan.
- **Exemption from customs payments** (except customs clearance fees) on imported **raw material and components for products required for production of exported goods** for the whole period of free economic zones functioning.



### Customs privileges (cont.)

- Payments in foreign currency within the free economic zones.
- Payments in foreign currency to Uzbek suppliers for goods, works (services), as well as use of preferable conditions and means of payment for exported and imported goods.
- Exemptions from payment of customs duties offered by the legislation for property imported for production needs by foreign investors and enterprises with foreign investment with foreign participation of not less than 33% within two years after state registration
- Exemptions from payment of customs duties offered by the legislation for Property imported for personal needs of foreign investors, citizens, or stateless persons residing in Uzbekistan in accordance with labour contracts concluded with foreign investors
- Exemptions from payment of customs duties offered by the legislation for goods imported into the customs territory by foreign legal entities that made direct investments in the economy of the Republic of Uzbekistan for a total amount equivalent to or more than USD 50 million, provided that the imported goods are products of their own production.
- Exemptions from payment of customs duties offered by the legislation for goods intended for works under the production sharing agreement and imported under the project documentation by a foreign investor or other persons engaged in the performance of the production sharing agreement, as well as goods exported by the investor under the production sharing agreement.
- Exemptions from payment of customs duties offered by the legislation for technological equipment imported according to the list approved in accordance with legislation, as well as components and spare parts, provided that their supply is stipulated by the terms of the contract (agreement). In case of sale or gratuitous transfer of imported technological equipment for export within three years from importation, this exemption is revoked along with restoration of obligations to pay customs duties for the entire exemption period.

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### Regional tax incentives

- **Participants of five small industrial zones in Tashkent** shall be exempt from payment of property tax and CIT, as well as unified tax payment for a two-year period starting from registration of a participant.

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### Regulatory

- **Enterprises exporting goods** (works, services) of their own production for freely convertible currency **may defer payment** of their import **VAT** in respect of material and technical resources used for production of goods to be exported. The deferral is granted for **up to 90 days** without application of any interest.

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### Taxation

- Resident corporations **supplying materials and rendering services to foreign companies carrying out oil and gas exploration** are **exempt from VAT**.
- All legal entities that have export share in total sales turnover exceeding 15% will be allowed to decrease taxable base for amount goods/works/services exported. Please note that this incentive **does not apply to export of** certain goods/services (e.g. **gas, electric power, precious metals**, etc).

## 3.6 – FDI regime and investment incentives in Mongolia

### 3.6.1 - Main aspects of the regime in Mongolia

#### Incentives

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##### Customs privileges

- Individuals and businesses may request a land possession and usage right in the FTZs through either project bid or auction.
  - Entities operating in trade, tourism, and hotel sectors in the FTZs are fully exempted from land possession and usage right payment for the first five years from commencement of operation. This payment is further reduced up to 50% for the following three years.
  - Businesses operating to improve infrastructures in the FTZs, such as energy and heating sources, pipeline networks, clean water supplies, wastewater sewage, auto roads, railways, airports, and basic communication lines, will be fully exempted from land payment for the first ten years from start of operation.
- 

##### Regulatory

- The State shall provide an investor with a guarantee of ensuring stability of the tax rate by a way of granting a stabilization certificate to the investor or by way of concluding an investment agreement with the investor as specified in this Law.
- Investors shall have a right to transfer their following assets and revenues out of Mongolia without hindrance on the condition of having properly fulfilled their tax payment obligations in the territory of Mongolia.
- To put land lease and use for up to 60 years on the basis of a contract and to extend the contract duration once for up to 40 years under the contract.
- To render support to the investors who are to make investments to the activities of free zones, production and technological park and to serve with alleviated regime of registration and checkpoint;
- to render support to implement creation projects in the infrastructure, sciences and educational sectors, to increase the number of foreign workforces and specialists, to exempt them from employment fees and to grant the required permits at eased regime;
- To render support to carry out innovation projects and to guarantee the financing for production of export oriented innovation products;
- to provide the foreign investors, who have made investment to Mongolia, and their family members with multiple visas and residential permissions under the applicable laws of Mongolia.

## Taxation

- Tax credit of 90% is available to a taxpayer conducting business activities in the following industries, provided annual/assessable income of a taxpayer does not exceed MNT 1.5 billion: Agriculture, livestock industry, farming industry, and other auxiliary activities; Food industry; Construction materials industry; Fabric and clothing industry.
- Interest on government notes payable (bonds) is exempt from CIT\*
- Income earned from the production and/or sale of produced equipment and spare parts intended for the activities of small or medium-sized production businesses in the territory of Mongolia is exempt from CIT.
- Income earned from the sale of a technique or equipment that economises natural resources, reduces environmental contamination, and is nature-oriented is exempt from CIT.
- Tax losses incurred by a business entity involved in the infrastructure and mining sector in a given tax year shall be deducted from taxable income for four to eight consecutive years after such tax year. The period will depend on the size of the investment, as defined from time to time by the responsible government agency.
- In the event that a business entity or a citizen has been found to have made a donation of up to MNT 1 million to support non-governmental organisations founded by citizens having developmental disabilities, such amount shall be deducted from taxable income of such business entity or citizen for the given tax year.
- A 50% tax reduction is available from CIT for an economic entity that produces or grows the following products: Fodder plants; Cereal, potatoes, and vegetable; Milk; Fruits and berries.
- Businesses that have invested 500,000 United States dollars (USD) or more in the FTZs operating to improve infrastructures, such as energy and heating sources, pipeline networks, clean water supplies, wastewater sewage, auto roads, railways, airports, and basic communication lines, shall receive a CIT discount equal to 50% of their invested capital in the FTZ.
- For businesses with more than USD 300,000 invested in building warehouses, loading and unloading facilities, hotels, tourist camps, or manufacturers of export and import-substituted goods in the FTZ shall receive a CIT discount equal to 50% of their invested capital in the FTZ.
- Entities using innovated and enhanced technology in their businesses shall be fully exempted from CIT for the first five years from the time of starting operation in the FTZs.
- Goods imported to the FTZs are not subject to VAT. If goods are to be transferred from the customs territory to the FTZs, there will also be no VAT on those goods, and any previously paid VAT will be reimbursed accordingly based on related documents.
- There will be a 0% rate on VAT for domestic goods to be transferred from the customs territory to the FTZs.
- Purchases in the FTZ of up to MNT 3 million made by passengers are exempt from VAT when entered into the customs territory.
- There will be no VAT imposed on goods and services manufactured and sold by registered individuals and businesses in the FTZs.
- Buildings and facilities built and registered in the FTZs are fully exempted from the immovable property tax.
- To calculate under the accelerated method the depreciation expense to be deducted from the taxable revenue
- To calculate the loss to be deducted from the taxable revenue by transferring to the future revenue

## 3.7 – FDI regime and investment incentives in Tajikistan

### 3.7.1 - Main aspects of the regime in Tajikistan

#### Incentives

##### Financial

- Investors can **repatriate profits invested capital and loans**, provided they comply with all national fiscal obligations.

##### Regulatory

- Equality of rights between foreign and domestic investors** and **non-discrimination** on the basis of their nationality, ethnicity, language, gender, race, religion, place of economic activity, as well as the country of origin of the investor.

##### Taxation

- Professional participants** who carry out activity on the Tajikistan **stock exchange** are exempt **from CIT for five years**.
- Tax benefits** are available for **professional participants**, emitters, and investors participating in the **organised security market**. Tax benefits include a five-year exemption
- Two-year exemption** if **volume of investments** is from USD 200,000 up to USD 500,000.
- Three-year exemption** if volume of **investment** is from USD 500,000 up to USD 2 million.
- Four-year exemption** if volume of **investment** is from USD 2 million up to USD 5 million.
- Five-year exemption** if volume of investment exceeds USD 5 million.
- Tax benefits** are available for the **investors that signed the production-sharing agreement with the government of Tajikistan**. Tax benefits include an exemption from **income taxes; VAT and excise tax** in respect of produced minerals; Import VAT for goods used in production-sharing agreements.
- Tax benefits** are available for **poultry farms** and producers of **combined feed for birds and animals**. Tax benefits include a six-year exemption from: Income taxes; VAT; Road tax; Property tax.
- Effective from 1 January 2017, a **five-year CIT exemption** is available on income derived **from tourism services** from the moment of state registration. In addition, import of equipment and construction materials for tourist objects are exempt from VAT. The list of tourist objects, titles, and amounts of imported equipment and construction materials is approved by the government of Tajikistan.
- The construction project owner** and the general contractor of a **hydroelectric power plant** can enjoy **tax exemptions** from the following taxes: **VAT; Road tax; Income taxes; Vehicle tax; Property tax; Social tax** with respect to foreign citizens involved in construction; State duty for registration of non-state securities prospectuses; Import VAT and customs duties.

## Taxation

- Newly established and existing enterprises operating in full-cycle processing of raw cotton can obtain tax exemptions from the following taxes if certain conditions are met: Import VAT and customs duties for goods imported for internal use; Income taxes; Property tax.
- An investors that satisfies the conditions of a production sharing agreement concluded with the government of Tajikistan Republic can enjoy the following tax benefits during the period when such production sharing agreement is effective: VAT (under certain conditions); Excise tax; Income taxes.
- Exports are zero rated for VAT, except for certain products such as precious metals and precious stones, jewellery made of precious metals and precious stones, primary aluminium, metal concentrates, ferrous and non-ferrous metals, goods produced in the free economic zones, cotton, cotton yarn and raw cotton
- The following activities are exempted of VAT: the supply or lease of real estate (with some exceptions), the supply of financial services in accordance with specifications approved by the Ministry of Finance and the National Bank (with some exceptions), the supply of national and/or foreign currencies as well as securities, the supply and export of precious metals and jewel stones and jewellery made of precious metals and stones, production of aluminium and ore concentrate, scrap of ferrous and nonferrous metals, ginned cotton, cotton yarn and raw cotton.
- Tax holiday of two years for investments between \$200,000 and \$500,000; three years between \$500,000 and \$2 million; four years between \$2 million and \$5 million; and five years for investments exceeding \$5 million. Manufacturing
- Exemption from the following taxes: corporate profit tax VAT, road, immovable property for a period of 12 years. They are also exempt from customs duties for importation of goods for own use in the same period. Poultry farms and enterprises producing feed for poultry and cattle
- Exemption from payment of corporate taxes, except for income tax and social tax in respect of employees. In addition, they are exempt of all customs duties, VAT and excise taxation for both foreign and domestic goods imported to the Free economic zones.

## 3.8 – FDI regime and investment incentives in Turkmenistan

### 3.8.1 - Main aspects of the regime in Turkmenistan

#### Incentives

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#### Financial

- **Foreign investors and foreign employees** are given the guaranteed **right of free property transference abroad**. The order of transference through the border of currency, payment documents, securities is determined by the legislation of Turkmenistan on currency regulation.

## Regulatory

- Legal regime of foreign investment and foreign investors activities directed to the investment implementation cannot be less favourable than regime for property, property rights and investment activities of legal entities and citizens of Turkmenistan.
  - Foreign investments in Turkmenistan are not subject to nationalization and requisition.
- 

## Taxation

- Property imported in Turkmenistan as the contribution of a foreign investor into the Charter fund of legal entities with foreign participation, and also property intended for their own material production are exempted from customs duty and the tax on import.
- Property brought to Turkmenistan by foreign employees of legal entities with foreign participation for personal needs is exempted from customs duty.
- Charter fund of an enterprise is exempted from the tax on dividends and the enterprise is exempted from the tax on profit.
- Enterprises with foreign participation directing their profit to reinvestment are exempted from the taxation in the sphere directed to reinvestment after the recovery of initial investment.

### 3.9 – FDI regime and investment incentives in Azerbaijan

#### 3.9.1 - Main aspects of the regime in Azerbaijan

## Incentives

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### Customs privileges

- **Customs exemptions on the territory of SEZs.**
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### Taxation

- **Exemption for seven years** from the date of registration in **industrial and technology parks** from **profit/income, land, and property tax for resident legal entities and private entrepreneurs.**
- **VAT exemption for import of equipment** for construction, scientific research works, and other activities in industrial and technology parks for **seven years or an indefinite period**, depending on the nature of these activities.
- The following transactions are not subject **to VAT for three years** from 1 January 2017: Import and sale of wheat, as well as production and sale of flour and bread; Sale of non-performing assets as part of restructuring and rehabilitation of insolvent banks; Sale of poultry meat.
- **The companies operating in SEZs** shall have A 0.5% tax levied on overall turnover from supplied goods, performed services, or works
- A **0% VAT rate** for companies operating in **SEZs**
- **The rate of profit tax** levied on production enterprises belonging **to community organisations for disabled persons**, and involving at least 50% of disabled persons, shall be reduced by 50%.
- **Persons rendering trade and catering services** (e.g. restaurants, coffee shops, etc.) with annual turnover exceeding AZN 200,000 may choose to be a **simplified taxpayers**. Simplified tax rate for them is 6% for trading and 8% for catering services.

## Taxation (cont.)

- "The Law on the **Special Economic Regime for Export-Oriented Oil and Gas Activities**.
  - Foreign subcontractors are taxable only by a 5% WHT.
  - Local companies are permitted to choose between (i) profit tax at a rate of 20% or (ii) 5% WHT on gross revenues.
  - 0% VAT rate.
  - Exemption from dividend WHT and taxation on branch's net profits.
  - Exemption from customs duties and taxes.
  - Exemptions from property tax and land tax.
- **A special rate of simplified tax** is set for **operators of gambling games** at a rate of 6% from gross receipts from game participants and for the sellers of such games at a rate of 4% from gross commission paid to the sellers by the operators.
- **Equipment, imported by residents of industrial and technology is exempt from VAT for the period of 7 years.**
- The **VAT exemption** is applicable to **goods imported into special economic zones** (excluding those that are subject to an excise tax)
- Starting 1 May 2016, all types of goods imported based on relevant supporting documents by the residents of the **industrial parks shall be exempted from VAT for the period of 5 years.**

## 3.10 – FDI regime and investment incentives in Georgia

### 3.10.1 - Main aspects of the regime in Georgia

#### Incentives

##### Customs privileges

- **Customs exemptions on the territory of SEZs.**

##### Financial

- From 2016 the Government of Georgia provides **financial and technical assistance** to entrepreneurs involved in **hotel industry in all regions of Georgia except Tbilisi and Batumi cities**. Government **co-finances franchising/management agreement fees** for the first 2 years. Upper limit of the co-financing amount is GEL 0.3 million annually
- **Government subsidies** 10% interest rate **for loans in GEL** and 8% for loans in **USD/EUR (hotels)**
- **Free land on the territory of Free Tourism Zones Anaklia and Kobuleti** - The land plot is granted to an investor for a symbolic price 1 GEL
- **"Cheap agro-credit program** has been initiated by the Ministry of Agriculture in 2013. Cheap agro-credit program includes two types of loans:
  - Credit for capital assets (12,000-600,000 USD) - rates are between 12-15% and APMA covers 11%.
  - Credit for working capital (2,000-100,000 GEL) - rates are between 14-15% and APMA finances 8%."



## Financial (cont.)

- Project "Produce in Georgia" aims to encourage manufacture and agriculture industries in Georgia. If company gets a loan from the bank, Government can finance part of interest payment. However credit amount should be between 150,000 – 2,000,000 USD for manufacturing projects and 600,000-2,000,000 USD for agricultural projects. Credit interest rate is between 11-13% and the government co-finance amount is 10% (covers only first 24 months). 80% of loan should be used for purchasing of capital assets.
- Income of budgetary, international, and charitable organisations (including grants, membership fees, and donations), except for the profit from commercial activity are exempt from CIT
- Profit received from financial services conducted by international financial companies is exempt from CIT
- Gains on sales of securities issued by international financial companies are exempt from CIT
- Income received by a FIZ enterprise from its permitted activities conducted in an FIZ is exempt from CIT.
- Operations carried out in a FIZ are VAT-exempt without the right to credit
- Property located in an FIZ is exempt from property tax.
- The PIT\* of employees is paid by those individuals through self-reporting
- Hotel activities are exempted from Profit and Property taxes until 2026
- Free Industrial Zones (FIZs) If a company produces goods for export in FIZ, it is exempt from all taxes except Personal Income Tax (20%), which is paid from employees' salaries.
- If a company imports products from FIZ to other territory of Georgia, in addition to Personal Income Tax, it has to pay VAT and 4% of revenue from national sales.

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## Infrastructure support

- If a company agrees on certain **investment obligation** and it invests in **new project** (new factory or enlargement of existing one), it can obtain a **state owned immovable property with free of charge**. Investment obligation states that the enterprise should invest at least 6 times more than the market price of the property in Tbilisi and 4 times more than the market price of the property in regions.

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## Regulatory

- **Free casino license for hotels which have over 80 rooms**



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### **Georgia**

<http://taxsummaries.pwc.com/ID/Georgia-Corporate-Tax-credits-and-incentives>

[file:///C:/Users/Admin/Documents/Promotank/%D0%A1%D0%B5%D0%BC%D0%B8%D0%BD%D0%B0%D1%80%2027-28%20%D0%B8%D1%8E%D0%BD%D1%8F/Georgia%20-%20Investment%20Law%20\(English\).pdf](file:///C:/Users/Admin/Documents/Promotank/%D0%A1%D0%B5%D0%BC%D0%B8%D0%BD%D0%B0%D1%80%2027-28%20%D0%B8%D1%8E%D0%BD%D1%8F/Georgia%20-%20Investment%20Law%20(English).pdf)

<https://www.investingorgia.org/en/keysectors/access-to-finance/government-incentive>

## Chapter 4

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## 4 – Recommendations

### 4.1 – Introduction and Lessons Learned from International Practices

Our proposed recommendations comprise a section of considerations, and a section dedicated to each of the ABEC countries

#### Typical Responsibilities of Institutions Responsible for Tourism Development (IRTD) and Tourism Organizations (TO)

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- IRTD are the purely public sector structures that govern the sector in most countries while TOs are typically created to undertake marketing efforts and other specific activities. According to the UNWTO, TOs in less developed tourism economies tend to answer directly to IRTDs whereas those in more developed tourism economies tend to be more autonomous public-private entities. Some countries do not have separate TOs and IRTD.
- While there is great variation in structures and roles played by various countries' IRTDs and TOs, the following represent the key responsibilities that they cover. These responsibilities are placed into nine categories, each with a brief description of typical activities within the category.

##### I. Marketing and Public Relations

- Marketing and Public Relations (PR) are the core activities of many TOs. While the focus tends to be on marketing to international tourists, many also promote domestic tourism. All IRTDs/TOs promote leisure tourism, while most also undertake activities focused on business and meetings, incentives, conferencing, exhibitions (MICE) tourism. For international marketing, most IRTDs/TOs have offices abroad, use local representative firms, or employ a combination of the two. When TOs and IRTDs are separate entities, this function is generally assumed by TOs.

##### II. Statistics Collection/Market Research

- Most IRTDs/TOs are involved in tourism statistics collection, often in collaboration with the country's national statistics agency. While some merely collect and disseminate the statistics, more advanced IRTDs/TOs dedicate considerable effort to analyzing the statistics. This often feeds into a larger market research effort that also includes gathering and analysis of secondary research on international market characteristics and trends, and linked to their marketing efforts.

##### III. Product Development and Events

- The majority of IRTDs/TOs undertake product development efforts at some level. In some cases, this involves the direct creation of new tourism products. More often, however, it involves stimulating private sector involvement in creating new products or improving current products. This is achieved through mechanisms such as technical assistance, credit facilitation, matching grants, and engagement with other government agencies. Many IRTDs/TOs also dedicate considerable resources to the creation or sponsoring of events, understanding the important role they play in attracting tourists and bolstering the destination brand. In some countries, events are managed by a separate Convention and Visitors Bureau (CVB).

#### IV. Sector Coordination/Partnership Building

- Understanding the cross-sectorial nature of the tourism industry, most IRTDs/TOs employ a number of mechanisms to ensure coordination with other government agencies as well as with the private sector, civil society, and other key tourism stakeholders. These often take the form of committees, working groups, regular consultative meetings, and even informal gatherings. When IRTDs and TOs are separate entities, this function is generally assumed by IRTDs.

#### V. Capacity Building/Quality Enhancement

- Most IRTDs/TOs provide some technical support to the industry in order to improve the sector's overall service offering. This can take the form of specific courses and periodic technical assistance to tourism companies, as well as tourism and hospitality training institutions. In fact, some of such institutions fall directly under the IRTD/TO. Moreover, some IRTDs/TOs also spearhead quality labels that provide a strong incentive for tourism businesses to continually improve their service provision.

#### VI. Licensing and Standards

- Most IRTDs/TOs help ensure minimal quality by licensing tourism establishments. Many also oversee standards programs that involve evaluation and grading of establishments into categories (often star-ratings), based upon pre-established criteria. Whereas licenses are generally mandatory, some standards systems are voluntary. In some countries, standards systems have not been implemented at all. When IRTDs and TOs are separate entities, this function is more often assumed by IRTDs. In some cases, it is performed by a semi-independent agency underneath the IRTD.

#### VII. Policy and Planning

- Sector planning and policy generally fall within the domain of the IRTD. Strategic guidance to the tourism sector is generally provided through national tourism plans, which tend to range between five and ten years in length. Tourism policies provide specific regulations that govern the sector.

#### VIII. Investment Promotion

- While many countries have a separate entity in charge of investment promotion for the country's various economic sectors, tourism investment promotion is sometimes managed by the IRTD/TO. Even when a separate entity is in charge of investment promotion, IRTDs/TOs are almost always involved in strategic and operational decisions as related to specific tourism-related investments.

#### IX. Infrastructure Development

- Some IRTDs/TOs are responsible for developing tourism infrastructure such as visitor information centers, interpretation centers, land and maritime transportation terminals, trails, signage, etc. IRTDs/TOs may also be involved in committees that influence decisions on major infrastructure developments such as roads and airports that have an important impact on tourism movement.

## The Role of the Government<sup>1</sup>

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- The role of government in the development of tourism in any country is crucial, but governments must operate within the given environment and with established factors which continually change and react with each other<sup>2</sup>. A test of a government's effectiveness is how it operates within this environment and how well it manages these factors. The internal economic and political environment in a country shapes the political frame wherein the tourism industry and its development will be managed and thereupon its development and international competitiveness.
- Most developing countries suffer from a shortage of resources, poor infrastructure, an inefficient, if not corrupt, public service and a perceived potential for political instability. Such constraining factors offset to some extent the more favorable factors and thus challenge the management ability of both the private and public sectors.
- A basic first step is for a government to recognize the importance of tourism to the economy and to accept some responsibility for, and make a commitment to, the development of the industry. Because of the nature of the political administrative system, a meaningful commitment requires government to establish permanent machinery within the system and to allocate the necessary resources for the same. In both ABEC countries, the recognition is in place, but the commitment not yet!
- Making tourism a centerpiece of policy agenda, has resulted in the highest competitive destinations of the world<sup>1</sup>, irrespective of the initial constraints. Many cases of success are today still benefiting from the vision, charisma, intention and focus of their political leaders, who at some point figured that tourism revenues would generate around 70% of added value for their economies, thus becoming a serious GDP contributor, at first, and driver at a further stage.
- Countries, typically managing tourism, leave it to bureaucrats, where little if any attention is given to tourism by the respective governments. Tourism is normally not on the policy agenda and is given no priority until economic crisis call for emergencies. Governments are always and generally in favor of tourism in principle, but their practices are fundamentally that of benign neglect. This is not to say that successive governments do not approve the objectives and plans drawn up by their IRTD/TO and the National tourism related councils (most used governance model to include the private sector) over the years. These plans, such as those to allow for the controlled development of important resort, infrastructure and unique tourism assets are approved almost automatically but rarely implemented. Warnings about the deterioration of tourism assets or major opportunities are generally ignored.

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1 - Source: JCF Strategy Consulting

2 - J. Elliott, 'Politics, power and tourism in Thailand', *Annals of Tourism Research*, Vol 10, No 3, 1983.

- It is not uncommon, particularly in developing countries, for national plans to be little more than token documents and for them to have little effect on policy in fact. Governments not giving priority to tourism, hypothetically correct\* considering the shortage of resources and other pressing problems. However, government ministers, including prime ministers, express their support and exhort government departments to cooperate in improving services and attracting more tourists, but there are no 'real support to improve the competitiveness of this type of industry', no extra resources, or political weight were given to tourism, and it keeps being difficult to get it on to the Cabinet agendas or for IRTDs/TOs to get 'real support' from the bureaucracy. Lip services are paid, decisions are taken but often not pursued or monitored, hence no implementation takes place. Other important decisions are hardly taken (unless strong policy influence from foreign powers luring with strong financial benefits), temporarily allowing the drifting, or are taken much later than advisable: frequently, key strategic decisions take many years for decisions before the Cabinets made a decision about the development. This has led to loss of international competitiveness in tourism and increase social and economic welfare in most countries, with a 30-40 year time lag.
- This approach to policy means, to the private sector, that no firm direction or management guidelines are given to those involved in the industry, resulting in mostly opportunistic approaches by entrepreneurs and bureaucrats, in what the limited resources are concerned.
- Cabinets are responsible for policy making and control and for ultimate management decisions. Yet, Cabinets are riven by internal factional conflicts and are overwhelmed with business. The situations are not helped by tourism sectors being controlled by ministers from different political parties. Among problems of agenda are "the urgency of all other matters". Most are not policy matters or important national problems requiring solutions. Prime Ministers are primarily concerned with the survival of their governments against political and/or military threats. There is little time for tourism which has no particular ideological or political support or opponents. It is generally a non-issue for politicians because it does not impinge on them directly, affect their re-election, or provide financial rewards (except in crisis situations, as referred in the Portuguese, Greek, or Thai cases). Nor does it have the prestige and influential connections for international positions. Above all tourism does not have the power of the military or organized agriculture groups to endanger governments or the ambitions of politicians. Its influence is lessened because it is not a large industry in terms of number of people involved, nor is it well organized or an influential lobby group.
- Further, its very success as a growth industry has suggested to governments that it needs no particular attention or assistance (a going concern that grows anyway). It is in the nature of governments to respond to powerful pressures. Tourism does not have such power, and therefore it is given minimal real support and subject to almost benign neglect. Normally there are no Ministry of tourism. Governments entrust the management of the tourist industry to the tourism IRTD within a department of a Ministry, and upon various deceptions, push for a TOs under the excuse of international best practice requiring the jump into the bandwagon with overlapping functions, under a regime of higher financial resources to obtain short term results.

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*Note: \* Source: JCF Strategy Consulting: under the financial crisis initiated in 2008, sovereign debt of the EU Euro countries created an emergency crisis. IMP+EU Commission + ECB rescued Greece and Portugal, at the time in the "benign neglect tourism policy making". Evidence showed that active tourism policies were critical for the turnaround of both countries, in conjunction with the ECB quantitative easing policy.*

- In crisis, however, because of strong economic pressures, the role and inputs of governments tend to become much more dynamic and responsive, and political clout is given to tourism to resolve the economic adversities, which normally work in countries with a strong reputation and readily available resources to deploy.
- Resilience of tourism structures happen in countries with strong pressure groups on government and industry simultaneously, seeking improvements and balanced development. This has been the most important cause of sustained leadership in highly tourism dependent nations. Done in various ways, such as provision of advice and support to government and private bodies, including training and the establishment of a tourist police force, in some cases. Immigration and customs procedures tend to be simplified, infrastructure improved and development plans drawn up for several regions and resorts. IRTDs and TOs act as link bodies between the various sectors, helping with communication and understanding and often speaking on behalf of the industry.
- IRTDs and TOs have problems, and these are not all due to a low budgets. Most issues are related to the quality and experience of the top managers, recruitment processes, and appointment mechanisms, particularly in overseas offices. Furthermore, without adequate means of accountability, large budgets tend to produce a high portion of unproductive investments.
- Striking a good balance between considerable management freedom and independency on the development and on the marketing side, while simultaneously manage effectively the regional and the national dimensions are the cornerstone of every IRTD/ TO.
- Development cooperation has lead in many circumstances to adoption of the latest “fashion” of models, however not adaptable to the local circumstances.
- There are also problems which can affect any organization, such as empire building, nepotism, paternalism, too much concentration on paperwork and regulation, poorly qualified or motivated staff, especially at the lower levels. A major problem for IRTD/ TO is the need for them to operate effectively in both the public and private sectors. Managers recruited as young graduates, who have life-long tenure and are trained internally, can be excellent specialists, but they may not have the qualities required to operate in a competitive overseas market and also within sensitive political systems. The insufficient attention given to education, lobbying and building up support from various groups partly explains the failure many IRTDs/TOs to get their tourism bills approved, particularly when regional powers are involved.
- Tourism could not exist on its present scale without the support of the public sector, but there are various problems in the relationship which managers need to recognize. First, the formal system, especially in the Third World, does not always reveal actual power relationships. Second, this system is extremely complex, diverse, fragmented, and strongly established. Civil servants are permanent, unlike politicians, and have their own priorities, connections and relationships. For example personnel practices can lead to the appointment of poorly motivated staff and the consequent problems of work quality and implementation. They are normally concerned about current problems rather than long-term objectives. There is a strong emphasis on hierarchy and informal relations, with decision making being long, complex and time-consuming. This is reflected in the difficulties of obtaining decisions on major tourism issues and long-term objectives. The nature of the bureaucratic system tends to lead to poor or non-existent implementation of decisions by the lower echelons of the hierarchy. A third problem area is that of departmentalism with a multiplicity of agencies each having its own objective and pursuing its own interests.



- ... departmentalism and narrow expertise can make for a restricted view of tourism and faulty decision making. Technocrats can make mistakes, for instance in forecasting (as funding is obtained through forecasts, and if negative, the funding gets reduced). A fourth problem is the perception of the industry held by bureaucrats and others. Tourism is not rated highly compared to agriculture, IT&CT, or other industries (however it indeed indirectly triggers every other industry). It is seen by many as a luxury industry for foreigners and not of benefit to the mass of the people, and therefore votes, leading to the idea that scarce resources should not be used for tourism. Furthermore, there is also a touch of nationalism and morality in the condemnation of the sexual aspects of the industry and its damage to “traditional costumes and image overseas”. This morality is reflected in the opposition to the introduction of gambling casinos (as an example). Some civil servants also believe that tourists would visit their country whether the government is involved or not. A fifth problem area is the lack of an effective central body which can direct government agencies and ensure that governmental policies for tourism are implemented. Central agencies such as the Prime Minister’s Offices, Ministry of Finance, Budget Bureau, National Economic, Central Bank, Presidential offices, and Social Development Boards, all help to make policy and to plan, including allocations of resources, follow-up and evaluation, resulting in short-circuiting each other in the quest for resources and power.
- There are various factors which impede between industry and governments. First, the improvement of relations the industry is conditioned by competitive market forces, with profits and growth the main objectives. The industry is dynamic and provides the capital and expertise which allows for almost continual growth, if preemptive actions and decisions are taken on time. Second, problems can arise from the nature of the industry. There is not only diversity in terms of services, size, location, ownership and market, there is also fragmentation and conflict within various sectors: every manager wants to do his own thing and build up his own organization and reputation for him(herself). Even when a sector can agree to have a peak association to represent it, there can still be conflict. Links and communications within the industry, if poor, make cooperation and coordination of policy and action difficult. These factors make it hard for the industry to agree on industry-wide long-term objectives or strategies, or to form a unified front. They also make the management of industry/government relations a major problem and do not inspire respect from public agencies. Oftentimes, national programs requiring massive investments from private sector do not materialize due to their lack of “buy-in and commitments. The various defects within the industry comprise a third set of problems with governments. For example, parts of industry sometimes act illegally or against the public interest and project a bad image of tourism. These activities can include the overdevelopment of sites, the destruction of areas of natural beauty, bribery and corruption, unofficial or unscrupulous agents, guides or managers, illegal taxis, exploitation of workers and unsavory sexual establishments. ...



- The industry has also oftentimes been accused of neglect of staff training and overseas marketing, and a unwillingness or inability to put its house in order. Some sections of the government believe that the industry is only concerned with profits without any consideration of their country and its people. Fourth, the process of communication and dialogue between industry and government needs to be fluent and effective. The main links are the peak membership associations/ federations. These entities can be represented on various government bodies. There are also informal links between members of the industry and the government, politicians and bureaucracy, giving the idea that the most well connected has critical competitive advantages. Relations between the two sectors (public and private) are further strained when, instead of using the normal channels, the industry criticizes government through the media.
- **A fifth problem area** is the industry's perception of governments' failures, real or otherwise. The industry is dependent on government for numerous services including infrastructure, transportation, security and overseas marketing. Government is considered to be inefficient because of delays and the lack of implementation of policy decisions. **Sixth**, industry also finds it difficult to deal with the public sector because of the latter's diversity, complexity, conservatism and the lack of cooperation, if not outright conflict, between various organizations. There is little understanding of the needs of the industry and no sense of urgency. The frustration which is often felt by the industry in its dealings with government. The industry finds negotiating with the governments necessitates numerous time consuming meetings, for instance over the proposed tourism bills and regulations. There is a feeling that governments fail in not solving long-standing problems such as airport security, border crossings, visas, and other policies, while unofficial and meter-less taxis, lack of certifications and accreditations seem to be quick and easy ways for private sector development.
- **There is today the firm consensus that institutional changes alone are not sufficient.** Strong political commitments and inputs into the process are essential. This should involve the highest ranking heads of state and be subject to continual direction and control by a senior Governmental officials in tandem with strong and influent private sector forces. Governments should have clear and consistent policies and priorities for the industry which should be explained to all concerned, but above all be developed within and bottom-up and top-down planning structure. It is only government which can ensure that financial and other resources are available and that there is coordination and unity of policy among the independent, self-serving agencies of the complex bureaucratic labyrinths which are public sectors, particularly in CIS countries. There needs to be much more understanding of tourism in the public sector and a direct involvement of top Senior officials in the major problem areas. A change of attitude is needed and whatever the status, power and resources available to IRTD/TO, it must also strive for expertise, competence, commitment, innovation, sensitivity and responsiveness...
- **No organization can gain all the qualities it needs**, but high-calibre managers are essential to engender a close relationship between the public and private sector by working together for the implementation of common objectives.

- **Much of the tourism industry lies in the private sector.** Every effort must be made to ensure that its enterprise and initiatives are not stifled so that it is able to respond competitively to highly dynamic market demands. **Management of relations between the various private groups and with the public sector needs to be improved to allow deeper understanding and closer cooperation.** There will always be problems in tourism because of the volatile competitive market situation, and the diversity and conflicting objectives within and between the public and private sectors. Other possible **problem areas which have as yet received little attention in many countries include wasteful use of scarce financial and other resources**, destruction of areas of natural beauty, exploitation and prostitution, cultural pollution and poor distribution of the gains from tourism. This inequitable distribution is widely recognized in many countries in their attempt to encourage tourism development in their regions beyond the major cities and tourism destinations. Although it is recognized that developing countries, solutions may only be partial and improvements may come slowly. The government tourism management systems not only have to recognize, but also to plan for and to try and solve the problems of the industry. It must also be able to evaluate sectional tourism interests as against the public interest and national needs while attempting to achieve the wider objectives of international understanding and cooperation.

### Similarities in both ABEC countries

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- **Tourism is a recent priority focus.** Both countries have developed their own “Tourism Companies” in the aspiration that it would be sufficient to develop the industry towards top tier industry performers.
- **Both countries are pursuing rapid results** in terms of economic impacts, whereas recent growth has provided the belief that it will develop rapidly and generate high returns in the short-medium term.
- **Fiscal, legal and institutional frameworks are fairly similar.**

## 4.2 – Proposed Legal Reforms

- Tourism development is highly linked with the legal frameworks in place and their role in either hindering or fostering the development of the Industry. Six elements are the most important to consider (annex III):
  - ✓ **Expropriation of real estate.** Tourism development is very dependent from appropriate land use, and where assets can be developed, where regional and urban planning are key instruments, requiring frequently that for public interest fair solutions are found for the expropriation of real estate plots where neither the state nor the private owner take advantage of one another.
  - ✓ **Foreign ownership.** Many tourism projects are of strategic nature, particularly in the early stages of development, such as the case of resorts and marinas, where real estate is particularly important as a revenue stream. Proprietary knowledge of development is an important asset not only to generate successful investments and ventures but also to induce demand and provide international quality references for tourists in countries that have not quality standards and assurance mechanisms implemented. Many multinational companies invest in joint ventures with local companies, but many other require ownership of the assets, resulting in that in either case foreign ownership of land and assets is an important tool for tourism development of a country.
  - ✓ **Passage rights.** Adventure and natural heritage-based tourism requires people to pass through private properties, particularly in organized trekking, hiking, biking and horse-riding trails. Passing through requires rights and obligations for both the landowners and the tourists which need to be reflected in the law.
  - ✓ **Construction permits.** Tourism is profoundly linked with construction. By definition a tourist needs to spend at least one night at the destination, and this means lodging and hospitality. Developing a tourism destination requires clear rules not only in terms of land use throughout the territory for tourism purposes, but also the rules and process of (re)construction permits and priority types of permit in regard to where the assets are to be located. Quite important are also the rules related to urban development, particularly the style, colours, materials, etc. which ultimately define coherence and harmony of aesthetics, a highly appreciated feature by tourists.
  - ✓ **Environmental and natural heritage protection.** Sustainability of tourism is fundamentally depending on effective protection of the environment and the natural heritage, particularly of a destination that has high potential for adventure and nature related activities. Such protection needs to be evident in the laws and in its effective enforcement as it is critical for the tourism development.
  - ✓ **Protection of historical and cultural heritage.** A country can develop inclusive tourism with good levels of appropriation of value by the various communities if it is serious in protecting its historical and cultural heritage, both in material and immaterial forms. Such protection, in the same manner as the environment and the natural heritage, need to be reflected in the laws and especially in its enforcement, for a tourism destination to be developed in an internationally competitive manner.

### 4.3 – Proposed Institutional Framework

- There is no one single solution that fits all countries. Tourism as an area of government policy and Institutional arrangements<sup>1</sup> is subject to a high level of departmental change/ministry reconfiguration. In recent years the recognition of tourism's capacity to create jobs, promote regional development and generate foreign revenue has increased. This is reflected in many countries through the realignment of departmental/ ministerial responsibility for tourism in order to deliver closer integration into national economic plans. While there are several countries (Brazil, Bulgaria, Costa Rica, Croatia, Egypt, India, Israel, Malta, Mexico, Morocco, Philippines and South Africa) with dedicated tourism ministries, increasingly, the tourism portfolio resides within economics ministries (business, industry, commerce and trade) of countries (Austria, Canada, Chile, Colombia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Latvia, Lithuania, Luxembourg, FYR of Macedonia, Netherlands, New Zealand, Norway, Portugal, Romania, Spain, Sweden, Switzerland, and the United States). However, in some other countries it is grouped with transport (Ireland, Japan and Slovak Republic), culture (Italy, Korea, Russian Federation, Turkey, and United Kingdom), sport (Poland), or a combination of these or other portfolios.
- In general, however, the complexity of institutional structures for tourism in many countries highlights the considerable scope to further rationalise governance frameworks to maximise policy coherence and effectiveness within and between levels of government.
- As a country develops its tourism industry, the focus of tourism policy tends to progress from the primary use of promotional instruments to maximise visitor numbers and tourism receipts, to creating the necessary conditions for competitive tourism enterprises and regions.
- The role of government in tourism is continually evolving and in a majority of countries there is an increasing focus on product development in addition to marketing and promotion. Improvements in the supply-side are focused on enhancing the competitiveness of the tourism industry by increasing productivity and quality, and encouraging innovation.
- The great majority of countries are searching for new and effective ways to structure their tourism sector, for example taking steps to synchronise national and regional policy and marketing as much as possible (Australia, Austria, Bulgaria, Colombia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Iceland, Ireland, South Africa).
- Budgetary pressure has resulted in a reduction in funding for tourism in some countries, with cuts in core tourism budgets (Austria, Canada, Czech Republic, Denmark, Ireland, Italy, Mexico, Netherlands, Norway). This has led to a greater emphasis on accountability and performance evaluation, a tighter focus on target source markets or niches, and identifying additional funding mechanisms to support tourism development (Austria, Slovak Republic).

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*Notes. 1- OECD Tourism Trends and Policies 2016; Haywantee Ramkinssoon and Dean Hristov in "Tourism Institutions and agencies"*

- In most countries the great majority of funding for the development of tourism comes from central government budgets (with exceptions including Costa Rica and Portugal) and for some European countries. In addition, a range of tourism-related taxes, fees and charges (falling under the broad category headings of: i) arrival and departure; ii) air travel; iii) hotel and accommodation; iv) reduced rates of consumption tax; v) environment; and vi) incentives), provide governments with additional revenue to help support public investment for tourism development. In general, the revenue raised from such tourism related taxes is not dedicated to providing tourism specific infrastructure, services, or protecting the natural environment upon which it largely depends. Tourism-related tax incentives are used as a mechanism to subsidize investment that would not occur in the absence of tax relief (Australia, Denmark, France, Greece, Hungary, Iceland, Ireland, Israel, Japan, Portugal, and South Africa). For example, promoting increased/additional investment in tourism enterprises (e.g. hotels), and/or increased spending by those undertaking tourism-related activities (e.g. reduced VAT/GST or refund schemes).
- To address one of the main challenges of vertical policy integration is co-ordination between central and subnational levels of government. Some countries, have pursued an approach (U.K, Australia, Canada, Chile, Czech Republic, Denmark, Finland) of approving national Tourism Strategic plans and incentivize the different Institutions at both central and local levels to draft their own plans aligned with the national plans. In countries where legal and budgetary enforceability are not linked with the performance of the plans the results have been disappointing, while in the other, where also open publicity of results according to monitoring, have proved more satisfactory.
- We propose for both countries a similar Institutional arrangement which is shown in in the following pages. This proposal comprises the following critical two aspects: (i) balanced governance, (ii) clear functions and responsibilities. This proposal will be described as one model that can be implemented for each country, requiring nonetheless an in-depth corporate development feasibility study in each country as it implies the merger of various Institutions in total or parts, into a single one, while it also requires detailed proposals on legal changes to accommodate the technical proposals. The scope of such feasibility should consider at least the following elements: (i) in-depth governance model with detailed description of the roles, powers, nomination entities and profiles, terms of mandate, and frequency of meetings; (ii) organizational chart with headcount per organizational unit; professional profiles of each staff position; management control system framework of the planning instruments (strategic plans and annual budgets); performance appraisal system; grid of remuneration of staff (salary + incentives), and career plans; (iii) detailed requirements and budgeting of IT&CT systems for full operation; (iv) 5 year activity plan and budgeting; (v) funding of the activity including the development of own revenue sources and those from the state budget on pluriannual terms.
- The rationale for an agency comprises three major arguments: (i) the best and most motivated people are hard to find and to attract them, remuneration packages have to be attractive, thus requiring the Institution to be independent from the Civil Servant regulations; (ii) the flexibility and prompt responsiveness require agility, which is not compliant with the governmental long and complex web of decision-making processes; (iii) with transversal powers, and independence allows for effective coordination with the various members of the Government and private sector. Responding before the President and Prime-Minister gives the necessary political clout and weight that is required by a transversal oriented Organization.

### The following principles should be part of the set-up of the proposed TDPA

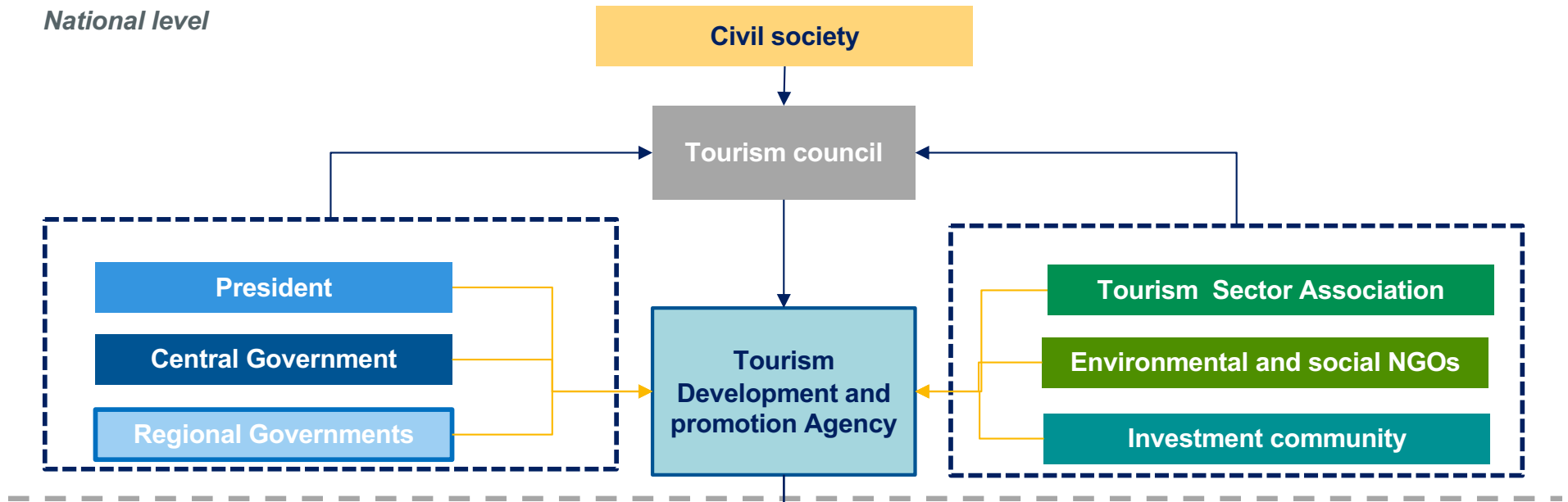
- **Governance:** It's the single most critical element to accommodate the key stakeholders with appropriate (not equal) balance: central and regional governments, private sector, NGOs and environmental Organizations, civil society, and investment community.
- **Accountability:** Management control systems, decision making process, scrutiny, open publicity of decisions and their making process, procurement, recruitment processes, and salary + incentives' grid are essential elements to be considered in the setting up.
- **Transparency:** full disclosure of information, decisions, budgets, responsibilities, and scrutiny and declaration of private interests of the key officials and managers.
- **Responsibility:** Each area of the decision making process shall entail a clear link to responsibility of each of the actors. This information should be public.
- **Commitment:** Every participant shall be accountable for its engagement. If poor commitment is witnessed, the entity proposing such person as a representative, should be invited to substitute the poor performing individual, in case it is not resolved internally.
- **Political clout and prestige:** The leadership/ chairmanship of the "Tourism Development and promotion Agency" shall be someone with extraordinary national credentials, enormous prestige (nationally and internationally), and above the political powers "intrigues". Example, former Presidents with a wide consensus within the society, capable of setting high pressure upon governments and private sector.
- **Social Status and influence:** The elite of society (civil society) shall be invited to participate actively as members of the National Tourism council. It is the case of elite sports people, arts/ entertainment stars, movie stars, etc. These shall be selected among the various political quadrants of society in a clear inclusion principle.
- **Inclusion of the regional administration at the top:** Striking a positive balance between the national and regional levels of administration requires the presence of the regions at the top of the decision making process, while pushing them to allow a strong influence of the national priorities and policies in the back yards: the regions, which are the core of tourism product development thorough linkages of economic benefits, poverty reduction, and social cohesion. Moreover, regional development and economic inequalities can be highly reduced if domestic tourism is fostered. Basic accountancy shows that higher income families, normally residing in major cities, if properly incentivized, will invest and share their wellness with poorer regions, through frequent tourism, leading to the development of their favorite destinations.

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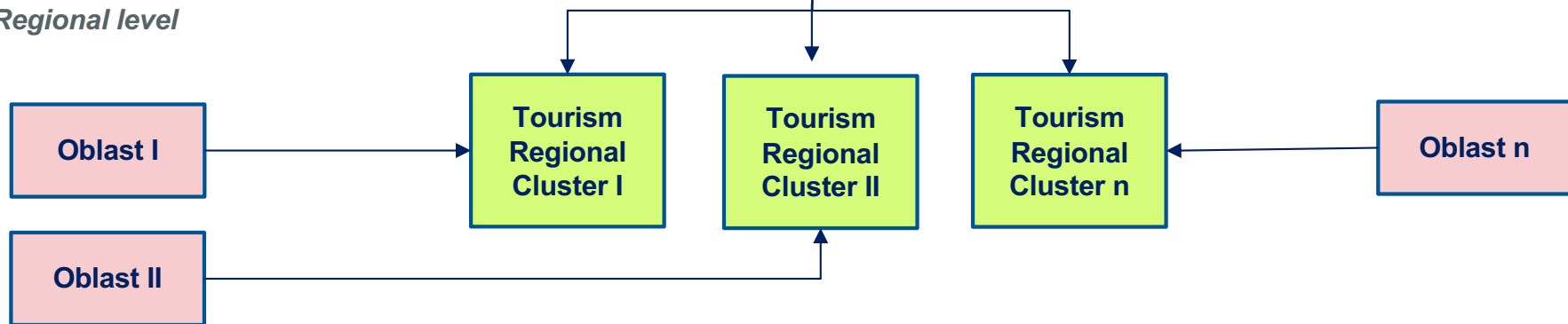
*Notes. 1- OECD Tourism Trends and Policies 2016; Haywantee Ramkinssoon and Dean Hristov in "Tourism Institutions and agencies"*

## Institutional Scheme

### National level



### Regional level

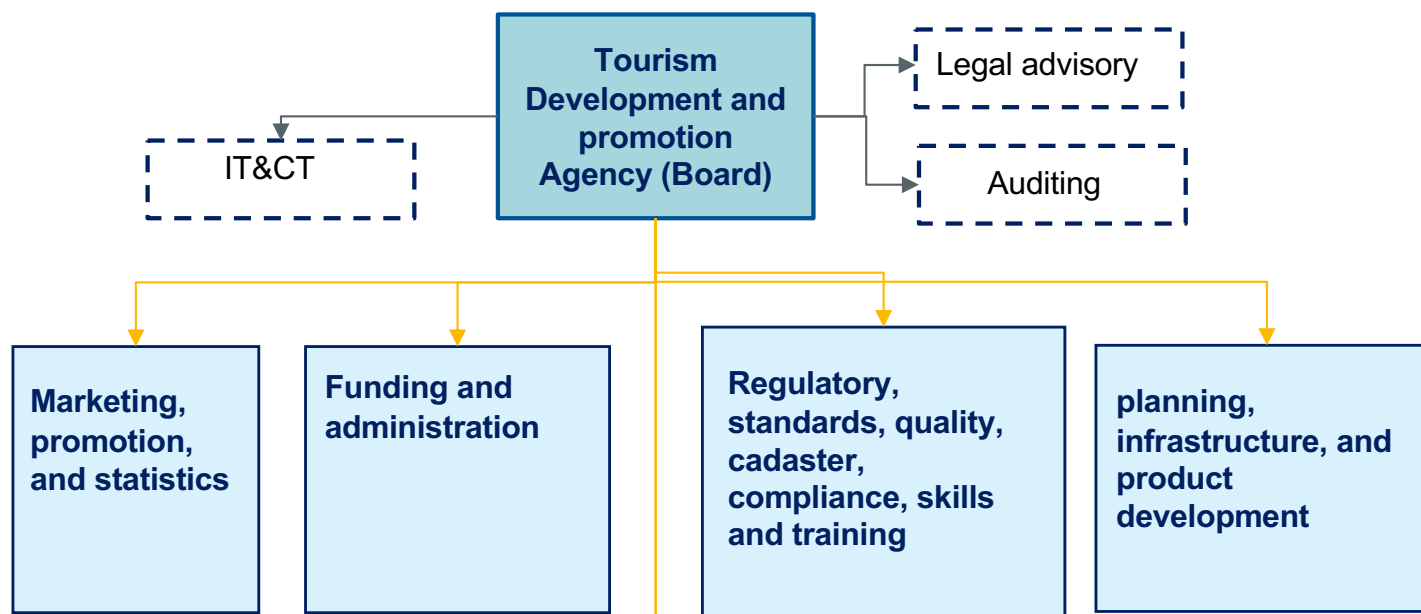




## Proposed structure

### National level

- Adequate management tools for procurement, accountability, staff appraisal, management control;
- Internal working procedures;
- Remuneration scheme (fixed + variable according to results and objectives)



### Regional level



- Each regional office has a Director proposed by the oblasts, and selected by the board
- Staff selected by the board in transparent processes.
- Each Regional office shall have a consultative working group with the most important representatives of the local stakeholders.



## Governance

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### Tourism council

- **A consultative body with comprehensive representation from** civil society members and its elite (highly reputable members of society with important achievements), each of the regions, the most influential and senior members of the government, the president (represented by its most important advisors), the private sector, environmental and social NGOs, and prominent members of the investment community. Its role should be to debate and discuss the national plans and programs before approval, and evaluating the results of such programs according to a pre-established monitoring framework of the plans. It shall work as a formal Tourism National Working Group

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### TDPA - Tourism Development and promotion Agency

- **A Non-Executive board** should be composed by a non-executive odd number of members, where each Oblast/Tourism Cluster shall be represented with a member. The role of the non-executive board is to scrutiny and influence the decision making of the Executive board, to provide guidance in strategic decisions, to monitor the performance and to approve the budgetary allocation options. It shall be lead by a Chairman, in at least 1 meeting per trimester with the presence of the relevant Executive Borad Members.
- **The Executive Board** of the TDPA (Tourism Development and Promotion Agency) shall have appointed executives based upon the criteria of their CVs, national prestige, knowledge of the sector, and consensus building capacity. The number of members should be odd: a CEO and a responsible for each of the following areas: (i) marketing, promotion, and statistics; (ii) funding and administration; (iii) regulatory, standards, quality, cadaster, compliance, skills and training (iv) planning, infrastructure, and product development.
- **CEO profile:** a person with a strong national and international prestige above the political parties. Well knowledgeable of the political decision making process, law enforcement, and a consensus builder.
- **Why an agency?**
  - The **best and most motivated people** are hard to find and to attract them, remuneration packages have to be attractive, thus requiring the Institution to be independent from the Civil Servant regulations.
  - **The flexibility and prompt responsiveness** require agility, which is not compliant with the governmental long and complex web of decision-making processes.
  - **With transversal powers**, and independence allows for effective coordination with the various members of the Government and private sector. Responding before the President and Prime-Minister gives the necessary political clout and weight that is required.

## Governance

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### Regional level

- **TDPA** shall have a regional branch per tourism cluster (which can have more than one Oblast). Each regional office has a Director proposed by the oblasts, and selected by the board based on his/ her CV and relevant experience. The staff selected by the board in transparent processes.
- Each Regional office shall have a consultative working group with the most important representatives of the local stakeholders, working in the same principles as the National Tourism Council.

### Management Instruments

- **Strategic Plans.** The National strategic programs shall be cascaded down into a 5-year strategic plan for TDPA, depicting how to achieve the overall goals through a coherent and integrated set of initiatives, measures and clear targets, budgeting it in a pluriannual fashion, and translating the measures into annual budgets.
- It shall include a **monitoring framework** with effective KPIs and reporting's every quarter for follow up my the non-executive and executive boards.
- **Annual reports** reflective the results of the activities and deviations from the forecasted results.
- **Annual strategic plan review** starting with the discussions at the council for corrective actions and their incorporation into the budget perspectives of the coming year.
- At the regional level, the Oblasts shall produce their own strategic plans incorporating the guidelines issued by TDPA, not only for tourism but for all areas, ranging from urban planning, transport, education, environmental protection, utilities, infrastructure, culture, social issues, etc, where one chapter should be allocated to Tourism. Those strategic plans should be approved by the central government and the tourism chapter validated by TDPA, for pluriannual funding by the Central Government.

## Proposed Functions

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- **I. Marketing and Public Relations**

- ✓ Centralized should be all international oriented activity, while Oblasts would be allowed to perform some activities in the domestic market.

- **II. Statistics Collection/Market Research**

- ✓ Statistics collection should be performed by TDPA (national and regional branches) mandatorily by law. Penalties should apply to entities not providing statistics. The statistics' collection should be designed to meet the UNWTO Satellite accounts.

- **III. Product Development and Events.**

- ✓ Centralized should be all international oriented activity, while Oblasts would be allowed to perform some activities in the domestic market.
- ✓ Includes the development of partnerships with Development Partners to develop and implement TAs to foster **mechanisms such as technical assistance, credit facilitation, matching grants, and engagement with other government agencies**, but also with private sector.

- **IV. Sector Coordination/Partnership Building**

- ✓ Following the detailed feasibility study of the set-up, TDPA shall develop and implement a series of mechanisms **to ensure coordination with other government agencies** as well as with the **private sector, civil society, and other key tourism stakeholders**. The Governance model helps, but additional elements such as **committees, working groups, regular consultative meetings, and even informal gatherings** might be required.

- **V. Capacity Building/Quality Enhancement**

- With the support of Development partners an integrated TA should be allocated to support the set-up of all these functions, but also in forming a team capable of providing some **technical support to the industry** in order to **improve** the sector's overall **service offering**. This can take the form of specific **courses and periodic technical assistance to tourism companies**, as well as **tourism and hospitality training institutions**. This should be made in alignment with the quality standards, licencing and accreditations

- **VI. Licensing and Standards**

- The implementation of the star system mandatory for the lodging activities in a first stage, and in a second a service quality rating for hospitality and other tourism related activities in a voluntary basis should be considered. The implementation should also have the support of Development partners under TA agreements.

## Proposed Functions

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- **VII. Policy and Planning**

- Sector planning and policy generally shall be a competency of TDPA. Strategic guidance to the tourism sector should generally be provided through national tourism plans, ranging between five and ten years in length. Tourism policies should be subject to the issuance of specific regulations by TDPA to govern the sector.

- **VIII. Investment Promotion**

- TDPA shall support the National agencies responsible to capture investments and promoting PPP arrangements. This support should be defined in terms of scope and resources, subject to defined MoUs of collaboration between TDPA and the other Agencies.

- **XIX. Infrastructure Development**

- These activities should be implemented by the Regions or National Government, while tourism infrastructure such as visitor information centers, interpretation centers, land and maritime transportation terminals, trails, signage, etc. should be direct responsibility of TDPA through its branches and collaboration MoUs with the Oblasts and cities. TDPA may also be involved in committees that influence decisions on major infrastructure developments such as roads and airports that have an important impact on tourism movement.