

INVESTMENT OPPORTUNITIES OF TOURISM INDUSTRY IN AZERBAIJAN AND ITS REGIONS

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Abstract

Azerbaijan Republic has huge potential for the development of tourism. This sector is considered as one of priority fields of the non-oil sector of the country. Significant role here is played by investments and funding, implementation of big projects on tourism and the use of recreational potential of Azerbaijan.

This scientific work deals with the study of investments in the tourism industry of Azerbaijan Republic and its regions, the current situation and dynamics of investing in the tourism as well as the relevant role of governmental assistance of financing . Investments from various origins, their role, share and profitability are analyzed in the study work. The role and participation of the government, foreign investors and domestic entrepreneurs in investing of tourism activities as well as the changes and tendencies, observed by this sector in recent years , are analyzed in detail in the article. The authors offer appropriate recommendations on prospects of attracting investments in tourism industry of Azerbaijan.

Keywords: tourism, investment, non-oil, funding, finance, region, hotel, entrepreneurship

1. Introduction

Enlargement of economic potential of a region is an important factor in accelerating development of tourism industry. In the contemporary period, investments in tourism industry may be increased with through enlarging of resource potential of regions, and developing of small and medium entrepreneurship.

It is important to study classification and profitability of tourism services in terms of investments, considering resources of different consumption segments and norms of satisfying of their requirements. Lending by goods and services in tourism industry significantly depends on incomes and profitability in this field. In this connection, dependency between tourism potential and investment is determined by effectiveness of lending. The key question here is that funding, allocated for realization of tourism potential and the amount of investment by various subjects are taken into consideration when evaluating tourism

product. Turnover of tourism product must be regarded completely: costs of tourism products, and the relevant income must be in accordance with ability of paying the loan.

Profitability of investment in tourism may be different depending on functional assignment. Tourism resources may be used with various purposes. The use of these resources with technological variants is influenced by profitability. For example, indicator of renting in investment is low for infrastructure branches, and in this case businessmen are likely take benefit in less amount. In many developing countries, including in Azerbaijan, the major part of funding in infrastructure usually is managed by state agencies.

2. Study of the problem

In Azerbaijan Republic, there is an indefinite situation concerning financial potential of the private sector in terms of reliability of ensuring, service and investments. On the one side, allocating of financial resources by the state with tourism purposes, and lower banking rates in relation to private and foreign banks may seem to be more attractive for small and medium entrepreneurship. On the other side, the low share of private sector in the large tourism projects may be connected with financial inability of small and medium industries that do not allow implement these projects. Currently, private companies are very weakly participating in realization of big tourism projects and international advertising works.

The use of huge finance potential and lending capacity of state finds its practical reflection in implementation of big tourism projects. Financing of projects of state importance relates to management of tourism, agitation and advertising of the country during its participation at international events, and evaluation of resources. With increasing financial opportunities, partial investing of private small and medium tourism activities seems possible as well.

Concerning tourism industry, it should be noted that financial resources of the state are used mainly in order to develop the infrastructure and conservation of the recreational potential. Investing or concessional lending is conducted by the funds allocated by the National Fund for Entrepreneurship Support (NFES) under the Ministry of Economy and Industry. Since 2003, funding of the relevant projects is being managed on the basis of submitted business plans. Funds required by small and medium entrepreneurship are allocated for the creation and modernization of small hotels and recreation centers. The corresponding allocations was 6,5 million manat in 2006. In 2012, based on the submitted documents of the Ministry of Culture and Tourism, NFES allocated financial assistance for 32 small and medium entrepreneurs, engaged in tourism sector. Most of rendered funds were spent in order to build small hotels and resting centers. Since 2006, various tour operators and tourism objects also have taken advantage of soft lending of the state. In recent years, 5 tourism objects, 7 tour operators and 2 hotels have benefited lending as well.

It is notable that the role of private entities of tourism in investing of tourism businesses is much more compared to state-owned and foreign entities. The dominance of private companies is reflected on amount of their investments which is higher than others.

Enlargement of activity of entrepreneurship has positively influenced on volume of investments that gave an impetus to spread of different kinds of tourism in the regions following the State Programs. The share of foreign investments is lower (only 15%) in tourism market of Azerbaijan. German, English, Turkish, French and Austrian companies are functioning mainly in construction of modern tourism facilities, in particular hotels.

Foreign companies have their direct investment in implementation of some tourism projects, developed by the Ministry of Culture and Tourism, including by Gusar Ski Tourism Complex, Project on development of tourism in the Pre-Caspian territories, 'Green rural tourism', 'Dag-deniz' Tourism Project that covers Shabran, Guba and Khachmaz regions. The increase of interests of foreign investors in the domestic tourism may be achieved depending on restoration of infrastructure of the regions. Practice of the Eastern European

countries shows that attracting of foreign capital in tourism industry firstly necessitates improving of transport and communication infrastructure, after which recreational resources are to be evaluated.

Table 1

Amount of funds allocated from the state budget of Azerbaijan Republic for the Ministry of Culture and Tourism (in million of Azerbaijani manat)

Years	2009	2010	2011	2012	2013	2014 (estimation)
Total funds,	77,8	103,4	121,3	152,3	136,4	140,6
including						
For the purpose of developing tourism	12,3	13,7	21,8	26,4	23,1	23,4

Funds, allocated from the state budget to the Ministry of Culture and Tourism are being spent more in order to keep the Ministry itself, and to satisfy salaries of the personnel. The rest part of allocations goes for advertizing works, holding of exhibitions and participation of the country at international exhibitions as well as actions, implemented in accordance with government programs and other events.

Table 2

Financial assistance to tourism at the expense of funds allocated for National Fund for Entrepreneurship Support in Azerbaijan

Years	2009	2010	2011	2012	2013	2014 (estimation)
Funds from the state budget (in million of Azerbaijani manat),	144,5	153,4	166,3	174,3	178,6	202,5
of which						
Allocations, earmarked for tourism (percentage)	2,3	5,6	7,2	21,8	12,1	10,2

Concessional loans given by NFES are used mainly by the businessmen in the peripheral regions (the regions with the exception of the capital Baku city) of Azerbaijan. Concerning financial support, it should be noted that projects of industrial production are taking advantage of the funding more in comparison with others. The number of submitted projects on substantial development of a region is too less. Most of projects are incomplete, and intend only construction of tourism facilities without definite prospects of development. Non-governmental organizations also offer projects without hard substantiation. All these problems curb rendering of financial support by NFES.

According to the Reports of the Ministry of Economy and Industry of Azerbaijan, the foreign investments in tourism and hotel-related activities were 1234,3 million manat in 2008, 1345,6 million manat in 2009, 1342,1 million manat in 2010, and 1075,3 manat in 2012. In other words, the peak in investing was fixed in 2011. Over 90% of foreign investments were directed to the hotel-related businesses, in particular the construction of brand hotels. Currently, investments in this field are reducing.

The complete data on amounts of financing by local private businesses are not available. Private enterprises and subjects have invested in building of hotels, recreation centers, restaurants and other tourism facilities. The relevant funding made up 435,6 million manat in 2010, 562,1 manat in 2011, 431,8 million manat in 2012.

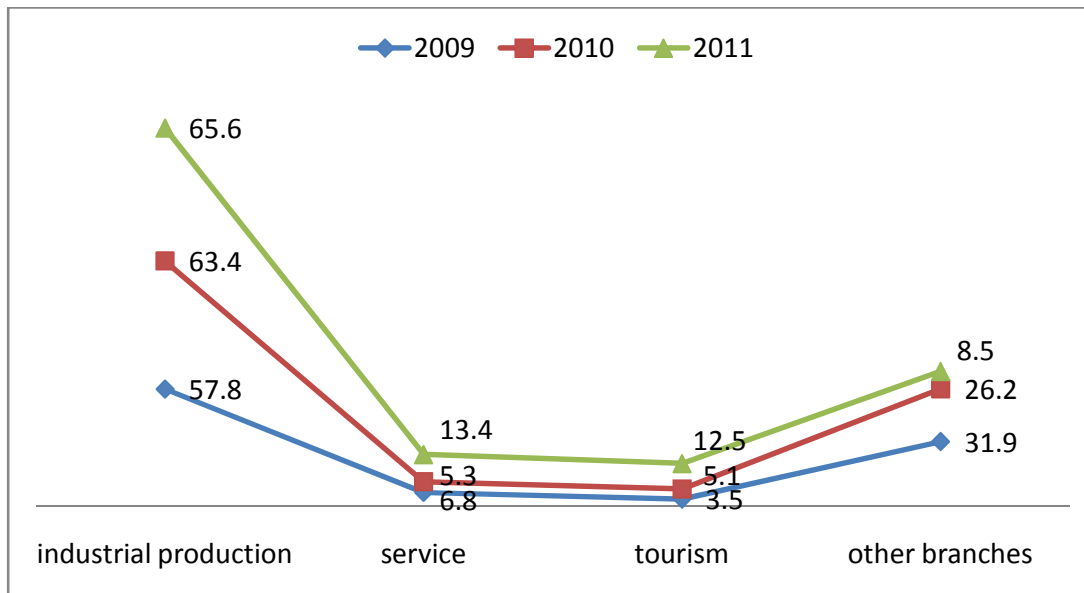


Figure 1. Dynamics of the share of products and services of private enterprises (in percent)

The production by different manufacturing fields has increased in recent years due to increasing activity of private enterprises in the country. The growth was seen as a result of investing mainly from the governmental budget and in part by foreign companies. Pursued investment policy has positively affected the activity of industries in all regions of Azerbaijan. The relevant financial support by the government has increased by 3 times in the last 5 years. Funding touched mainly the secondary sector of the country, but tourism also saw dynamic growth in this connection. Rich tourism potential of Azerbaijan must be effectively used in the future in order to accelerate further economic development of its regions.

The share of tourism services among other branches of the tertiary sector has been increased in recent years. However, in 2008-2010, absolute growth tourism services made up only 100-120 million manat in average. The considerable rise (over 2 times) was fixed in 2010-2011. The number of persons, enjoying entertainment objects and recreation centers of small owners, has risen by over 2 times in 2007-2012. The share of rendered paying services in tourism in gross product of tertiary sector has grown within the same period from 3,4% to 12,5%.

Major part of the investment directed to the tertiary sector is shared by tourism. Since 2009, the share of foreign investment in tourism industry has been increased in opposite to the share of small owners. The fall of the share of small entrepreneurs has been connected considerably with the reduction in funds, allocated for the existing hotels and amortization costs. In the meantime, foreign direct investment has small share in tourism sector of Azerbaijan. Considerable role is played by seasonal recreation centers, due to the activity of which local owners and enterprises are gaining additional profit. Most of the rendered services fall to the share of catering services.

Financing of construction of large facilities of accommodation is weakly practiced in the activity of local private industries. Among the large objects of accommodation, the hotels developed by the government, and those which were built by the existing local and foreign brand, are prevailing. The tendency of growth by services has found its reflection on indicators of main turnover of fixed assets.

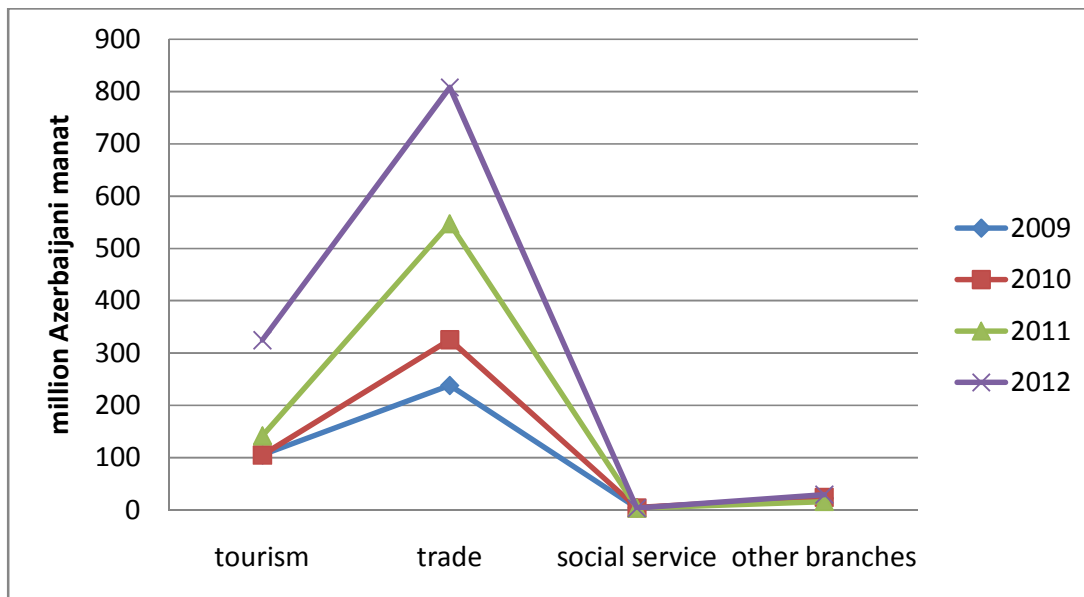


Figure 2. Products and services of small entrepreneurship

As is seen from Figure 2, the share of trade is higher in overall service turnover. In 2009-2012, it has grown by over 4 times.

In Azerbaijan, the rendered domestic services per capita by hotels and catering facilities has grown. Profitability of development of domestic services in hotels and recreation centers has fallen because of the shortage of main funds and technical gap. This is a reason of low profitability in functioning of recreation centers and tourism complexes in total. The volume of investment in hotel-managing business is not satisfactory, and on other hand, financial support by subjects of entrepreneurship seems as weak by this activity. Consequently, relatively weak investing may impede the development of tourism in Azerbaijan and establishment of tourism image in international scale.

In order to attract large investments to the regions of the country, it is necessary to submit new projects on tourism that would be of great interest for big companies. Concerning the development of tourism in the regions, it is notable that strategic plans, and definite subfields that are in need of investment, should be definitely shown as perspective priorities.

It also should be noted that till now customers have preferred to rest in small facilities of entertainment and accommodation. Therefore, funds were directed to small facilities of accommodation which served clients within a short term period and had comfort at the least level. Such financing has resulted in emergence of disorganization in the development of tourism businesses.

3. Regional approach

In Azerbaijan, one of the main aims in the economic development is the reaching of sustainability of non-oil sector, and this is also composition part of the budget and tax policy. In this regard, macroeconomic condition in the country must be stable with the purpose of rational regulation of the economy and motivating of dynamic growth. In the upcoming years, growth of industrial production, creation of favorable condition for investments and overall development of competitive infrastructure, and increasing of the role of internal resources in attracting of investments, are needed. In accordance with the State Program on socioeconomic development of the regions in 2009-2013, more direct subsidizing of agriculture, increasing of investments in creation of processing branches of industry as well as dynamism of non-fuel branches of the economy and tourism are regarded as priorities in Azerbaijan. As a result of this economic policy,

peripheral regions of the country continue to develop their tertiary sector, in particular infrastructure and tourism. The policy of assistance to non-oil sector, ensuring of further transparent and rational privatization, and also motivating of importing modern equipment in secondary sector will be continued in the next future. The development of tourism and expansion of international cooperation in this field is also the priority for Azerbaijan. It is important to convert tourism into profitable field of economy, create competitive, socially and environmentally reliable modern tourism complexes, and ensure the relevant workplaces.

Investment opportunities of the regions have risen in recent years. The volume of investments in tourism subfields has increased by over 3 times as much within the last 10 years. In 2001-2012, investing in main capital has increased by 55,4 times as much, reaching 1380,9 million manat. 86% of this investment were spent for building and reconstruction works. In 2012, the number of entities has increased by 2,2 times as well as individuals by 4,3 times compared to 2011.

The main assets have seen considerable growth in recent years due to increase of number and activity of the construction facilities in the regions. In 2012, the volume of fundamental investing made up 1380,9 million manat while 108,2 million manat were spent for the building of facilities of accommodation (hotels, motels, etc.), and 12,4 million manat for reconstruction works.

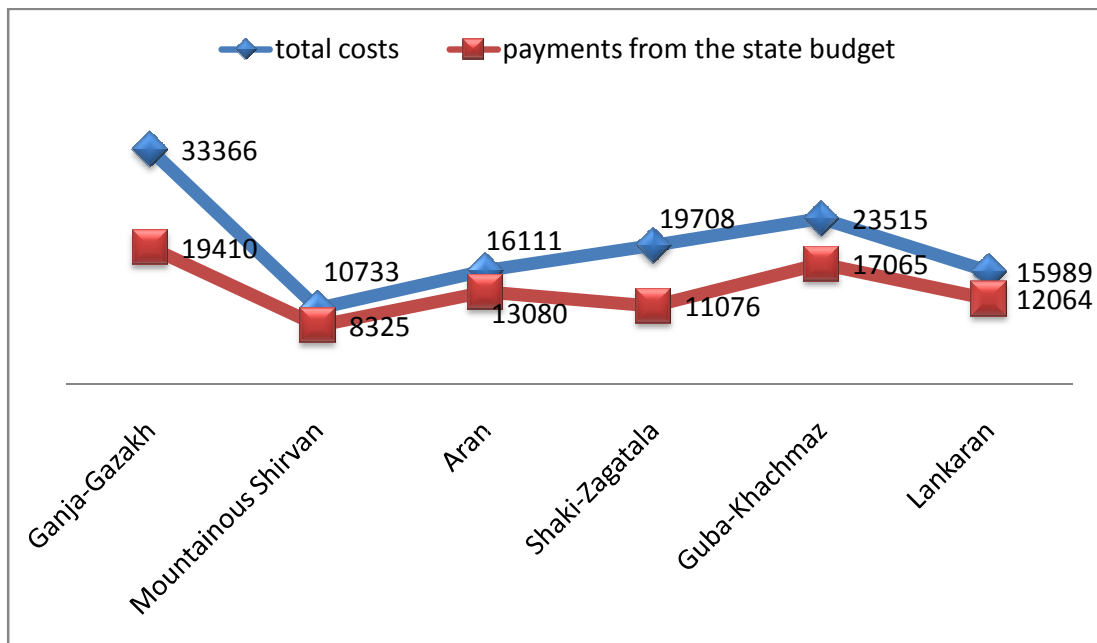


Figure 3. Basic costs in the economic regions of Azerbaijan (in Azerbaijani manat)

As is seen from Figure 3, the payments from the state budget still have higher share within the total costs in all regions of Azerbaijan: in Ganja-Gazakh – 58,2%; in Daglig (Mountainous) Shirvan – 77,6%; in Aran – 81,2%; in Shaki-Zagatala – 56,2%; in Guba-Khacmaz – 72,6%; and in Lankaran-Astara – 75,5%. The absolute indicator of payments from the state budget is highest in Ganja-Gazakh region. The Ministry of Culture and Tourism allocated 143,6 million manat at the expense of the governmental budget for the reconstruction of historical and architecture monuments in the regions of Azerbaijan.

In 2012, soft lending managed by NFES made up 123,8 million manat or 11,8% of the corresponding allocations from the budget. The same year 1092 permanent workplaces were created due to the loans, allocated by NFES in the regions of Azerbaijan. The tourism sector enjoys small part of these loans because of the less number of the submitted projects.

In 2012, the allocations of NFES for tourism industry made up 11,261 million manat (11,3% of all credits), or 8,6% less than that of 2011. Contracting services, implemented at the expense of local investing made up 959,6 million manat, or 2,3% higher than that of 2011. 28,6% of funds were assigned for tourism and catering services.

4. Conclusion

Analysis of investments in tourism industry of Azerbaijan shows that businesses on management of hotels are taking more profit due to financing compared to other activities. Most of investments is shared by local subject of entrepreneurship, activity of which directly affects the economic development of regions. The main outcomes of the carried research on investment potential of Azerbaijan's tourism industry may be formulated as described below:

- Financial assistance to tourism by the government is considerably related to funds allocated for entrepreneurs and private entities. Currently, the number of these beneficiaries is small.
- Governmental assistance in tourism is reflected on implementation of the big projects, including the creation of Shahdag Tourism and Sport Complex of winter- and summer type.
- Investment of foreign and large companies are benefited mainly by the hotel-managing industries. This is connected with that the capital Baku city has been formed as a business center, and secondly, the increasing demand for facilities of accommodation in the peripheral regions. Most of the existing 5-star hotels are constructed due to foreign capital in the country.
- Practically, funding of local subjects of entrepreneurship mostly concern small facilities of accommodation and catering service. This is because such activity is more profitable for them.

5. Recommendations

In Azerbaijan, financial assistance to tourism industry may be managed by the following priorities:

- * Providing of active participation of tourism companies in process of financing of small and medium businesses from the state budget;
- * Increasing of state funding in modernization of infrastructure;
- * Use of funds, allocated for development of the country's regions in developing tourism industry, considering the increasing role of it in the socioeconomic development;
- * Conducting of motivation measures on financing and taxes in order to support organizations, engaged in development of new hotels, motels, centers of accommodation, and other large tourism objects.
- * Financing of estimation and evaluation of recreational resources by the government is necessary, considering tourism as priority field of the country's economy.
- * In order to facilitate investing of activity of the local entrepreneurs in tourism sector, it is advisable to improve tax policy of the country as well as keep motivation actions concerning lending system and taxing new projects. In particular, it would be rational if entrepreneurs will participate in renovation of social infrastructure and take advantage of the relevant concessions. Such activities are practiced in many countries.
- * It will be advisable and more effective if investments in tourism projects are managed by implementation of definite projects considering planned financing and prevention of additional loading on the environment.

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