



Center for Analysis of  
Economic Reforms  
and Communication

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# AZERBAIJAN ECONOMIC REFORMS REVIEW



# STRATEGIC ROAD MAP FOR DEVELOPMENT OF SPECIALIZED TOURISM INDUSTRY IN THE REPUBLIC OF AZERBAIJAN



The Strategic Roadmap encompasses actions such as the support of tourism sector development within the planned periods of time, supply of high quality and competitive tourism services in global and local markets, shaping of tourism practices in line with national values, attracting new investment projects based on the state-of-the-art ideas and innovations and effective interaction among respective bodies involved in the tourism sector development.

A working group was established for the purpose of developing a detailed development plan for 11 sectors (8 main and 3 subsectors) of Azerbaijani economy as specified by the Presidential Order No. 1897, dated 16th March, on “approval of main directions of the strategic road map for national economy and key sectors of the economy”. The working group was commissioned to develop an economic development strategy and action plan until 2020, strategic vision until 2025 and aspirational vision for post 2025.

To achieve the long term visions in this sector, Azerbaijan has defined four primary objectives for 2020 in tourism sector.

- **Realize Baku's full tourism potential by attracting more international visitors**

Establish a National Tourism Promotion Bureau and ensure its operation first in Baku city, Upgrade available information on tourism attractions in Baku and package tourism offerings, Implement a Baku city promotion campaign, Develop Baku's tourism infrastructure, including low-cost accommodations and robust tourist areas.

- **Implement Key Enablers to Develop Tourism in the Country**

Establish Tourism Council, create Tourism Recreation Zones (TRZs), develop Regional Tourism Service Infrastructure for Domestic and Regional Tourists to resolve seasonality problem in tourism, simplify and expedite visa processes and border crossing procedures, improve air connectivity to major source markets.

- **Develop regional tourism sub-sectors for domestic and regional tourists**

Revitalize demand for wellness tourism, support the development of winter tourism, create cultural tourism circuits, support development of business tourism, Strengthen sustainable tourism potential (eco- tourism, rural tourism, etc.)

- **Create a national tourism quality system to increase tourist's satisfaction**

Investment in tourism education programs, Improve standardization and certification system in tourism sector.

### **Global Trends**

The tourism industry is sensitive to the macroeconomic conditions, thus it was affected directly from the recent global crisis. However, it has recovered quickly after 2009 and got back onto a fast growth path in last four years.

This trend was driven by two factors:

- On one hand, the improvement of the economy in advanced markets resulted in increased tourism flows and spending from large tourism demand countries such as the US, Japan and Europe,
- On the other hand, global tourist arrivals and inbound spending are further boosted by the increasing demand from emerging markets. This emerging market growth trend is observed in Asia and Latin America, which are growing rapidly with expanding middle classes and public sector commitment to tourism and, additionally, increased and cheaper air services are among the key enablers of the growth.

In general, five themes have emerged as global trends for tourism strategy development in recent years, to address changing dynamics of the industry.

- **Countries and destinations have increased their focus on tourism branding and promotion**

The tourism industry has diversified the available choices, and segments to serve the increased number of tourists with different interests. These factors in addition to the vast choice of destinations generate the need to reassess existing structures and marketing strategies in order to adapt to the new market trends. In this light, public and private players have been exploring initiatives to further promote their destination, including targeting a niche positioning for exclusive and innovative offerings, differentiated business models, and brands for different products.

- **Countries focus on strengthening connectivity and accessibility, which is a key enabler**

Advanced countries try to balance between different objectives of achieving low fares, increasing market depth and breadth, while sustaining a healthy national carrier, to build economic impact. In addition, many countries take actions to ease visa processes to improve accessibility with no major investment.

- **Destinations place flagship projects at the core of implementing sector strategies**

Flagship projects are immediate, large-scale and visible investment projects that support the sector strategy. In addition, they can be powerful communication and marketing tools to implement larger reforms. Finally, they also reduce complexity of reforms by limiting the geographical coverage and act as an efficient pilot for the entire sector.

- **Master plan development is used heavily as tool for fast tourism sector development**

Central units are mandated as responsible for preparation and execution of these plans. This not only simplifies certain processes and makes investment attractive for investors, but also allows an integrated branding strategy.

- **Emerging and developing countries rely more and more on foreign direct investment (FDI) in tourism development**

This is primarily due to the fact that certain developments require high investment, particularly in cases where infrastructure investment is needed. However, even in situations where investment is not a major issue, collaboration with international investors could pay off, as value chain is largely influenced by international companies.

## **ANALYSIS OF CURRENT SITUATION**

### **Tourism policy frameworks**

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 No. 1029, dated 27 August, 2002, created favorable conditions for the development of tourism and laid foundation for the country’s integration into global tourism market.

As a continuation of this policy, “State Program on the development of tourism in the Republic of Azerbaijan in 2010 – 2014” was approved by the Decree of the President of the Republic of Azerbaijan No. 838, dated 6 April 2010.

2011 was announced “The year of Tourism” in the Republic of Azerbaijan by the Decree of the President of the Republic of Azerbaijan No. 1320, dated 15 February 2011 in order 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.

In order 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 the Decree of the President of the Republic of Azerbaijan No. 2295, dated 1 September 2016, on “Additional measures for the development of tourism in the Republic of Azerbaijan”.

### **Role of tourism in the economy of Azerbaijan**

Azerbaijan is a country located at the crossroads between East and West with its capital Baku having modern infrastructure and ancient rich historical sites and with regions encompassing fascinating nature and national parks. Partly because of this exposure, Baku has received the lion's share of Azerbaijan's global tourism recognition. According to popular tourism information websites, Baku is home to 75 percent of destinations preferred by international tourists.

An analysis of recent trends shows that Azerbaijan's tourism sector as a whole is on the rise. From 2010 to 2015, the number of tourism enterprises in Azerbaijan increased 4,5 percent in average per year, tourism employment grew 6 percent, and the number of international tourist arrivals grew 8,5 percent.

### **Tourism Potential of Azerbaijan**

#### **• Cultural tourism**

Cultural Tourism (or culture tourism) is the subset of tourism concerned with cultural heritage of regions, specifically the way of life, history, art, architecture, religion, etc. of the people in those geographical areas. This tourism potential of the country includes arts galleries 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.

- **Wellness tourism**

The country is endowed with thousands of hot and mineral wells. Istisu, Turshsu, Badamli, Galaalti, Shikhburnu and Surakhany are among popular curative water sources. Naphtalan oil is one of the key health resort resources of Azerbaijan.

- **Mountain and winter tourism**

As the result of determined actions taken towards developing mountainous and winter tourism in the country, mountain slopes have been developed as a tourism destination. At present, “Shahdag” Tourism Centre CJSC and “Tufandag” Winter-Summer Resort have turned into popular resorts.

- **Sports tourism**

In recent years, sizeable investments have been made in the development of sports infrastructure. The construction of Olympic sports complexes and creation of other sports fields and facilities in Baku, Masalli, Sheki, Guba, Gazakh, Ganja, Nakhichevan, Barda, Lenkaran, Zagatala, Aghdam, Bilesuvar, Oguz, Shemkir, Kurdemir, Sabirabad and other cities and districts enables the country to host popular sports tournaments (European and world championships) in the country.

- **Business tourism**

At present, existing hotels built throughout the country are being used for the development of this tourism sub-segment.

- **Beach tourism**

The northern (Khizi, Siyazan, Shabran, Khachmaz regions) and southern (Lankaran, Astara regions) zones, starting from Absheron peninsula of the Republic of Azerbaijan, have a beach tourism potential. To achieve development of this tourism sub-segment, servicing infrastructures in beach areas (water ponds, swimming pools, etc.) should be aligned with appropriate standards and scope of service offerings should be expanded (for example, entertainment centers, attractions). In addition, the biggest limitation the country is facing now is the short period of this tourism season.

- **Eco tourism**

The Azerbaijan’s territory where 9 out of 11 climate types are found (from semi-desert and dry field climate to mountainous tundra climate) is home to over 4100 plant varieties.

- **Hunting tourism**

Azerbaijan permits huntsmen, who have relevant licenses, to hunt several forest animals and wildfowls.

### **Primary market opportunities for Azerbaijan**

Azerbaijan receives tourists from almost all countries. Azerbaijan's strategic tourism priorities could be designed around attracting visitors from five main sources:

- Azerbaijan itself (local demand from domestic tourists);
- Neighboring countries including Turkey, Iran, Georgia, and Russia;

- The Gulf region including Saudi Arabia, Bahrain, Kuwait, Iraq, Oman, Qatar, and the United Arab Emirates;
- The Commonwealth of Independent States (CIS) including Belarus, Kazakhstan, Turkmenistan, Ukraine and Uzbekistan;
- Mass tourism countries including Canada, China, the European Union, India, Japan, South Korea and the United States.

### **SWOT analysis of tourism sector**

#### **Strengths**

- Azerbaijan territory is rich in ancient history, rich cultural sites, favorable geographic location, alluring nature, folklore, and location at the crossroads of different religions;
- Availability of conference halls, hotels and other relevant service infrastructure;
- government support of tourism;
- favorable geographic location – proximity to Asia, Europe and Middle East region;
- experience in organization of large-scale international events;
- selection of tourism as a priority sector by government to develop non-oil economy

#### **Weaknesses**

- Training of skilled workers does not meet labor market requirements both from quality and quantity perspectives;
- Inadequacies in protection of environment;
- Concentration of tourism attractions primarily in Baku city;
- Less tourism information centers in the regions;
- Touristic visits to regions are primarily possibly via car transport (insufficiency of railway and water transport, as well as flights);

- Relatively less foreign language speakers in regions;
- Insufficient promotion of the country abroad;
- Lack of fast track offerings for foreign country nationals in border crossing points;
- Lack of statistic database for tourism sector analysis;
- Lack of regular monitoring of the satisfaction level of foreign tourists visiting the country

#### **Opportunities**

- Increased professionalism of personnel;
- Creation and development of new tourism services;
- Further simplification of travelling opportunities for foreign and domestic tourists;
- Valuable resources such as Naftalan oil and Duzdag (Salt Mountain) in Nakhchivan Autonomous Republic owned by the country.
- Private sector support of tourism within public-private partnership.

#### **Threats**

- External threats to be caused due to geopolitical location of the country.

### ***STRATEGIC VISION***

#### **Strategic vision for 2020**

Azerbaijan's strategic vision for 2020 is to develop Baku into a major touristic destination, realize tourism potential for the entire country, establish favorable environment and infrastructure for the development of tourism industry, as well as increasing level of satisfaction among tourists.

### **Highlights on strategic vision**

The following activities will be implemented by 2020: strengthening marketing and branding efforts to fully leverage Baku's existing cultural-historical sites and modern infrastructure and better organize promotion and campaign measures; creating favorable environment in the country by implementing support measures such as introduction of simplified and expedited visa procedure to meet tourist preferences in different segments and by improving air connectivity; developing regional tourism under specific segments and creating necessary conditions; investing in education programs to increase tourist satisfaction and establishing high quality tourism system as well as improving standardization and certification systems in the tourism sector.

### **Long term vision of Azerbaijan in Tourism for 2025**

Azerbaijan's tourism vision for 2025 is to become one of the top attractive tourism destinations in the region and around the world.

### **Highlights on long term vision**

Until 2025, Azerbaijan would already leave behind key achievements on its way towards this vision in terms of branding and marketing campaigns, airline and ground connectivity, infrastructure, touristic themes and their operation, ease of doing business and vocational tourism education.

### **Aspirational Vision of Azerbaijan in Tourism for post 2025**

By post 2025, the country aims to be one of the most preferred 20 touristic locations and increase by maximum the indicators of effective use of existing tourism resources.

### **Highlights on aspirational vision**

As its post-2025 vision, Azerbaijan aims to be one of the most preferred 20 touristic locations in the international tourism sector. For this purpose, Azerbaijan will launch highly targeted and well-governed branding campaigns in key demand cities & countries and popular online platforms. Targeted tourism campaigns will be based on different themes and will be heavily data-driven.

### **TARGET INDICATORS**

In tourism sector, sixteen priorities are estimated to:

- Increase Azerbaijan's GDP by AZN 465 million in 2020, in real terms;
- Add 36,600 total and 25,000 direct (in tourism sector) employments by executing on its priorities, in Baku and other regions.
- To achieve this impact, there are six intermediate targets identified for 2020:
- Increase the number of nights spent by foreign tourists in hotels and hotel-like facilities in Baku in 2020 to a minimum of 3.65 million from estimated 0.8 million in 2015;
- Increase the average length of stay per tourist from 2 to 3 days;



- Increase the number of foreign tourists accommodated in hotels and hotel-like facilities in Baku from 0.5 million in 2015 to 0.9 million in 2020, and the number of non-accommodated foreign tourists from 0.8 million in 2015 to 1.5 million in 2020;
- Gradually accommodate 265 thousand incremental low-cost tourist arrivals;
- Increase capacity utilization rate to 65% in wellness facilities, compared to current level of 40% (leverage of wellness facilities in Naphtalan is considered);
- Attracting 180 thousand tourists to touristic attractions located along the “Silk Way” and other cultural tourism routes.

### **STRATEGIC OBJECTIVES**

- Achieve more foreign tourist arrivals in Baku in the long term establishing an efficient governance mechanism in order to fully leverage Baku’s tourism potential, strengthen marketing and branding efforts, upgrade information on tourism attractions and improve tourism infrastructure;
- Simplify entry and exit on borders to create favorable environment in the country, build coordinated activity among different players of tourism sector and achieve long term development introducing support mechanisms such as the creation of tourism and recreation zones;
- Develop regional tourism under specific themes, i.e., wellness, winter, culture, business, eco-tourism and rural, to diversify Azerbaijan’s tourism offerings and to attract more tourists in the long term;
- Achieve high satisfaction of tourists by establishing tourism quality system in order to upgrade quality and quantity indicators of services provided in the tourism sector.

### **STRATEGIC TARGETS**

Strategic Road Map on development of specialized tourism industry in the Republic of Azerbaijan defined 4 strategic targets, each consisted of relevant priorities. These could be classified as following:

#### **Strategic target 1**

- Realize Baku's full tourism potential by attracting more international visitors
  - Establish a National Tourism Promotion Bureau and ensure its operation first in Baku city, Upgrade available information on tourism attractions in Baku and package tourism offerings,
  - Implement a Baku city promotion campaign,
  - Develop Baku's tourism infrastructure, including low-cost accommodations and robust tourist areas.

#### **Strategic target 2**

- Implement Key Enablers to Develop Tourism in the Country
  - Establish Tourism Council, create Tourism Recreation Zones (TRZs),
  - Develop Regional Tourism Service Infrastructure for Domestic and Regional Tourists to resolve seasonality problem in tourism,
  - Improve air connectivity to major source markets.

#### **Strategic target 3**

- Develop regional tourism sub-sectors for domestic and regional tourists
  - Revitalize demand for wellness tourism,
  - Support the development of winter tourism, create cultural tourism circuits,
  - Support development of business tourism,
  - Strengthen sustainable tourism potential (eco-tourism, rural tourism, etc.)

#### **Strategic target 4**

- Create a national tourism quality system to increase tourist's satisfaction
- Investment in tourism education programs,
- Improve standardization and certification system in tourism sector.

#### **FINANCING MECHANISM**

The achievement of the specified strategic targets requires AZN 350 million investment. The implementation of actions in the State Strategy will be funded by using the following sources: Government budget; Non-budgetary funds; Funds of National Entrepreneurship Support Fund; Local budgets; Funds of local departments, enterprises and organizations regardless of the type of ownership; Foreign direct investments; Credits by country banks and grants; Credits, technical and financial assistance by international organizations; Other sources not prohibited by legislation.

In order to ensure effective spending of funds for priority targets, budgets will be prepared within performance based budgeting process. A larger portion of the required funds will be provided at the expense of the restructuration of existing budgets, joint financing initiatives of private sector and different investors.

#### **IMPLEMENTATION, MONITORING AND EVALUATION**

##### **Monitoring and Evaluation of the Strategic Road Map**

The Strategic Roadmap will be monitored and evaluated to ensure successful implementation through required tools, processes and other

resources. During monitoring and evaluation, focus will be placed on the implementation of core actions, expected results and indicators versus priorities, and also compliance with the completion schedule will be checked. The monitoring and evaluation will be carried out in accordance with procedures based on international methodologies.

The annual activity programs of the work groups will be agreed with the coordination unit and approved by the main executive organization. Representatives of the coordination unit will participate in the quarterly meetings of the work groups.

The main executive organization will submit quarterly work progress reports to the coordination unit at least 10 days prior to the work group's quarterly meeting. By taking into account extensive analysis and evaluation of quarterly reports including discussions held in the quarterly meeting of the working group, the coordination unit will submit quarterly monitoring results and its recommendations for the next period to the main executive organization within 10 days following the meeting date. The coordination unit and the main executive organization will take actions to ensure that the monitoring results and recommendations are taken into consideration by the working group in its daily activities.



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