Promoting economic diversity in Ukraine:

The role of the enabling environment in the hotel sector

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The number of incoming tourists for the period of economic growth 2000-2008 has grew 4 times.

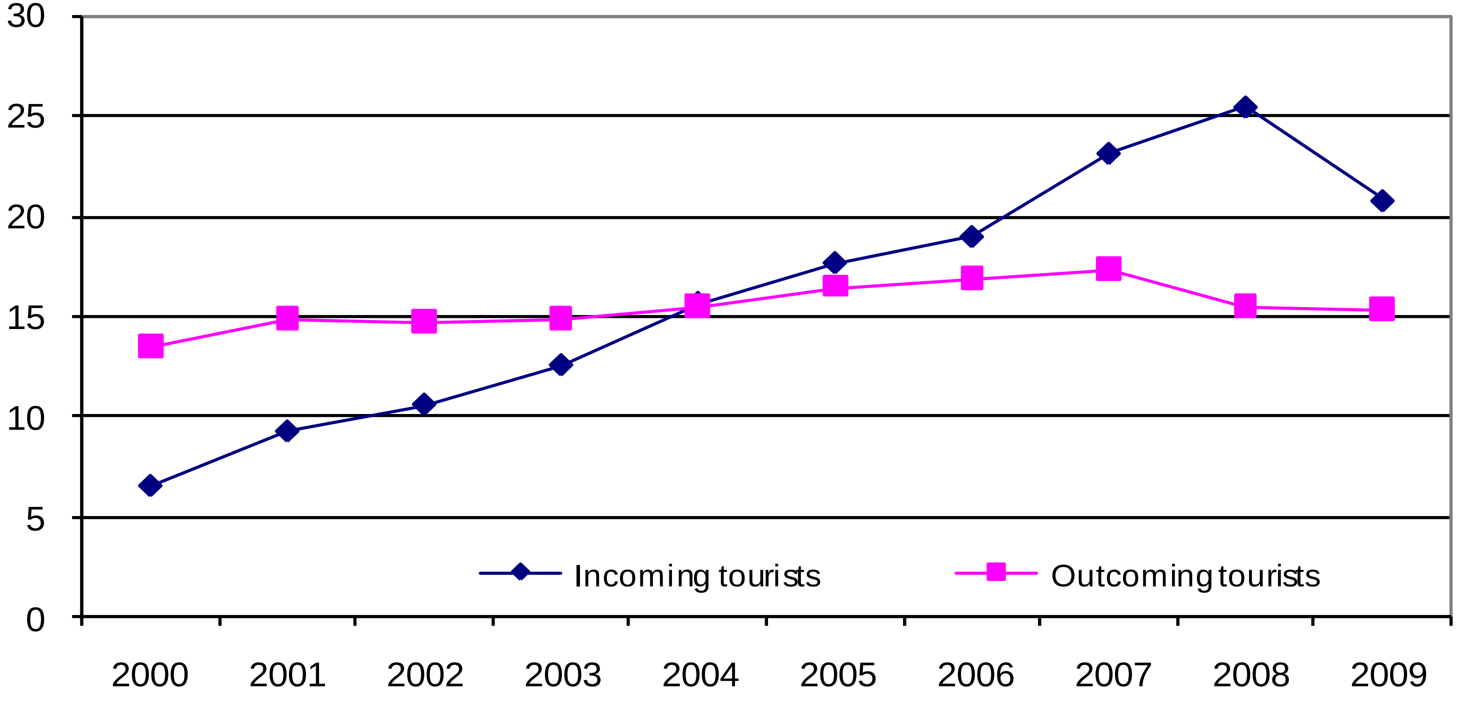

Fig.1. Dynamics of foreign tourists flows in Ukraine, mln of persons

Systemic constraints for Ukraine's competitiveness in touristic sphere:

- underdeveloped touristic infrastructure in the majority of the regions, lack of modern touristic class hotel servicing capacities;
- high comparative prices for T&R services for the present price/quality ratio, high costs of hotel accommodation;
- bad investment climate in touristic infrastructure, high administrative barriers, complicated land rent conditions;
- lack of qualified servicing personnel in tourist industry;
- lack of systemic management and state regulation of T&R industry development;
- insufficient budget financing of T&R sphere, including the sphere of national tourist product promotion.

Organized tourists, serviced by national subjects of touristic activity

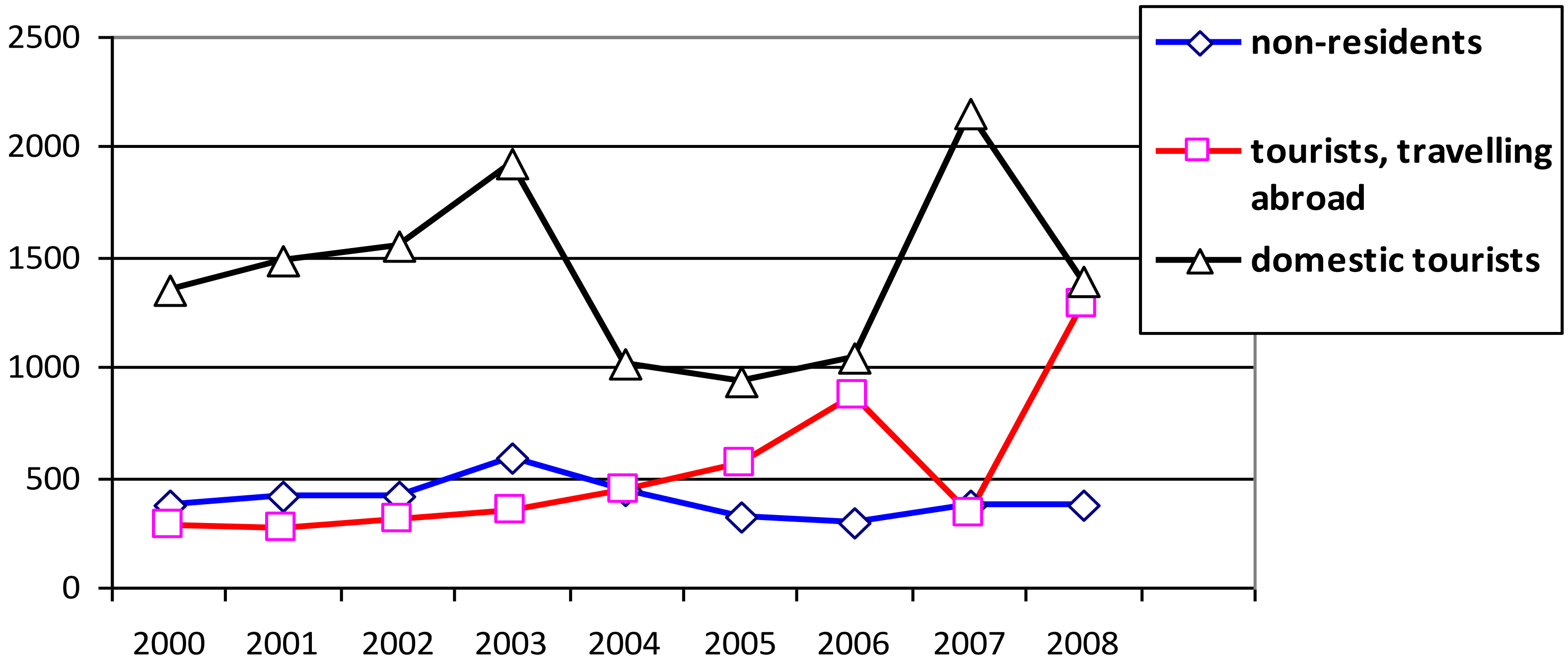

Fig. 3. Tourists, serviced by subjects of touristic activity, thous. of people

The share of officially serviced incoming tourists in 2008 accounted for 1,6 %, outcoming – 8,6 % of total appropriate flows

Quality of material investment

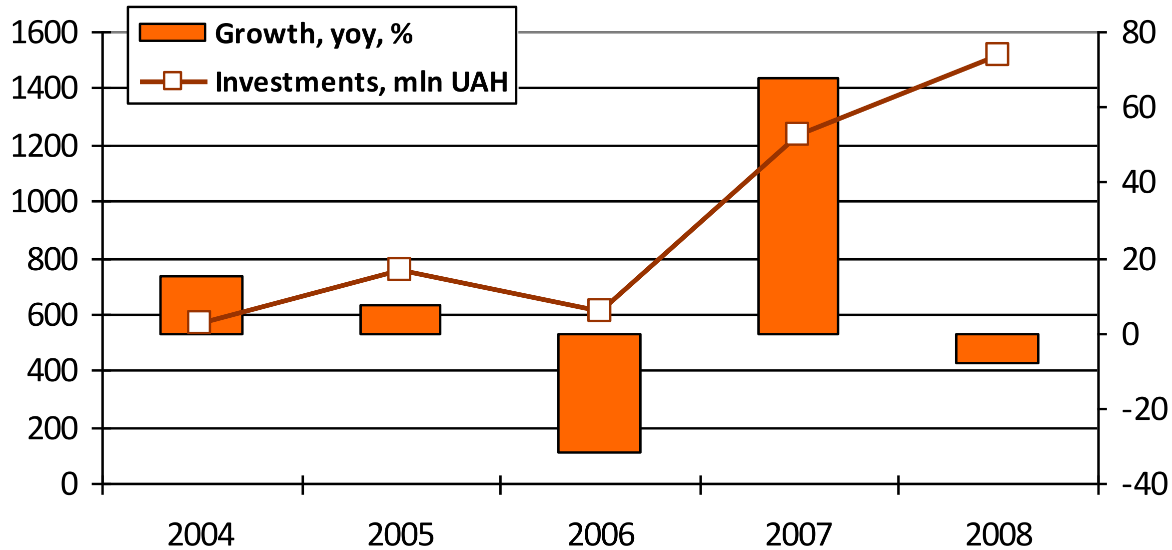

Fig. 10. Investments in fixed capital of hotels: in current prices (left scale) and real growth rate (right scale)

Only 0.5-0.7% of Ukraine's fixed capital investment takes place in the hotel sector and this with an unstable evolution

Hotel sector as one of pillars of tourism industry development.

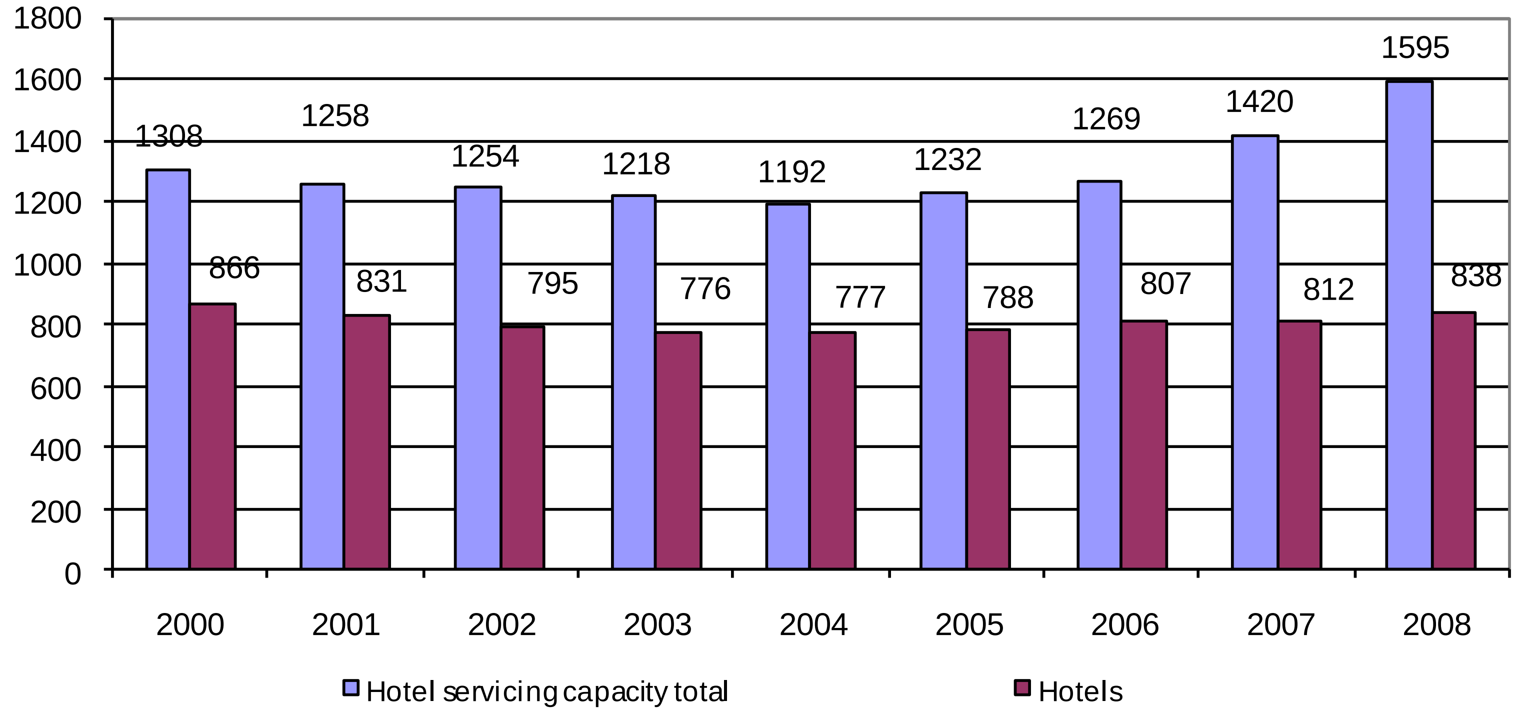

Fig. 6. Number of hotel servicing capacities

The trends of evolution of hotel servicing capacities structure

- number of hotels and motels increased very slowly (10 and 20 % correspondingly for 2002-2008), increasing in urban and reducing in rural areas;
- number of campings reduced 1,5 times;
- number of youth touristic camps increased more than twice, but primarily – in urban area;
- number of other accommodation capacities increased 1,7 times, increasing in urban and reducing in rural areas.

The prospective trend is the growing competition to hotels, represented by individual entrepreneurs, providing main (accommodational) and adjacent services of appropriate quality and for prices, lower than hotels.

Main weaknesses of hotels sector:

- Low comfortability, level, quality and culture of tourists servicing;
- Imbalanced price policy;
- Lack of integrated system of tourism and resorts management;
- High seasonality in usage of a mayor part of hotel servicing capacities;
- Lack of qualified personnel;
- high share of “shadow” services;

Quality of material investment

FDI: Radisson, Inter-Continental, Hyatt International, Hilton, Sheraton Hotels & Resorts, Marriott International, Accor Group, Magic Life, Rixos, Kempinski Hotels&Resorts, Continent Hotels & Resort, Park Inn, Orbis, Rival Hotels, Comfort Green Hotels Holiday Inn etc,

- Hotel servicing sector receives 1.2% of total FDI (2002-2007)
- More than 85% of accumulated FDI went to Kiev, Crimea, Lviv and Odessa regions
- 30% of FDI originated in Cyprus, 20% in UK, 15% in Switzerland and 10% in Russia

Impediments of investments

- Complicated procedures of hotels building legalization, unfavorable conditions of land purchase and renting
- Lack of hi-tech hotel equipment, due to high prices, increased by high transportation and custom tariffs
- Unresolved problem of hotels servicing capacity usage after the EURO-2012.

Transparent and competitive markets ?
How are prices set?

Prices in US$, August 2009

	Kiev	Donetsk	Lviv
5 star	350 - 3500	350 - 3450	
4 star	160 -1000	70 - 550	45 - 300
3 star	70 - 100	70 - 200	40 - 110
2 star	65 - 150	40 - 200	30 -100

Prices are high by European standards and have no clear relationship with quality (stars)

- **Business development in hotels sector is constrained primarily by the general unfavorability of business climate in Ukraine.** As a result, regulatory and stimulative instruments of state policy of tourism development have not been supported by an adequate development of private business in this sphere, causing an inefficient usage of T&R resources.
- **Development of hotels sector in Ukraine requires business climate improvement.** At the same time, hotels sector has to stay as the **object of active state regulation,** aimed to ensure the quality of services and rights protection of tourists.

Creation of the favorable conditions for touristic business development:

- reorganization of the system of state supervision and regulation of touristic services;
- creation of the Center for support of tourism, informational, advertising and marketing, and investment projects escort in touristic sphere;
- state stimuli and support of innovative modernization of tourist infrastructure, hotel servicing capacities equipment, marketing and organizational strategies;
- creation of informational databank concerning investment projects and business plans in the sphere of tourism: present the finished kits of legalization documents for the projects (primarily, for land possession);
- stimulation of co-operative relations of touristic and recreational sphere companies;
- diversification of touristic services;
- training of skilled personnel for touristic and recreational sphere;