

**FINAL REPORT  
CIPE TOURISM ADVOCACY FORUM  
FEBRUARY 15 AND 16, 2001  
PRESIDENT HOTEL  
MANGALIA, ROMANIA**

**Overview:** The forum was held on February 15 and 16, 2001 and was attended by 64 participants representing 27 business associations within the tourism sector. The purpose of the forum was threefold:

- Creation of an advocacy strategy for the tourism sector.
- Creation of a strategic plan in the areas of promotion and customer service.
- Development of dialogue between business associations, government, and partner NGOs.

The first day of the forum featured presentations on the history of tourism development since 1989, the current competitiveness of the tourism sector when compared to countries within the region, and other informative briefings. Workshops in the areas of advocacy, promotion, and customer service were held during the afternoon. The participants met in a workshop environment on the second day.

**Participants:** The following cities were represented: Bucharest, Constanta, Timisoara, Cluj, Bacau, Iasi, Sinaia, Sibiu, Brasov, Mangalia, Craiova, Miercurea Ciuc, Baia Mare, Piatra Neamt, and Tulcea. Also, the following partner organizations participated: European Commission, International Fund Corporation, Romanian American Enterprise Fund and IRIS. Ministry of Tourism officials also attended the forum. A list of participants is attached.

**Overview of Workshop Sessions:**

- **Advocacy Session** (Facilitator: Dragos Raducan, National Tourism Employers Association): The workshop participants discussed four specific topics that had been identified at the tourism workshop session held on January 24. Options on dealing with these issues were distributed prior to the forum. These option papers are attached in Exhibit A. This and the other workshops were six hours in length, split into three two-hour segments. All participants attended each workshop for at least two hours.
- **Promotion Session** (Paul Marasoiu, Romanian Convention and Visitors Bureau): The workshop participants took part in a brainstorming and prioritization process that yielded significant results over the day and a half of the forum. A draft strategic plan was developed and will be finalized by the end of February.
- **Customer Service Session** (Mihai Rajnita, National Federation of Hotel and Restaurant Associations): The workshop participants took part in a brainstorming and prioritization process that yielded significant results over the day and a half of the forum. A strategic plan was developed and will be finalized by the end of February.

**Outcomes:** The outcomes of the forum are attached in the following exhibits:

- Exhibit B: Advocacy Strategy
- Exhibit C: Promotion Strategy
- Exhibit D: Customer Service Strategy

In addition, an agreement was reached between the business associations and the Chambers of Commerce for increased cooperation. These associations will unite to support the advocacy strategy developed, and the Chambers of Commerce will provide promotional and training assistance to the associations.

**Evaluation:** The evaluation of the forum is as follows:

**Presentations:**

Historical Overview (Dragos Raducan)	64%
Competitiveness (Mark McCord)	88%
Finance Panel (RAEF, IFC, and EU)	79%
Regional Promotion (Magda Tepoi)	74%

**Workshops:**

Advocacy	71%
Promotion	81%
Customer Service	76%

**Logistics:**

Breaks	84%
Meals	85%
Hotel	91%
Length	86%

Overall Evaluation	85%
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**EXHIBIT A  
DISCUSSION PAPERS**

**CIPE TOURISM FORUM  
ADVOCACY WORKSHOP**

**ISSUE: Collection and Use of 3% Tourism Tax**

**OVERVIEW:** The Government of Romania (GoR) assesses a 3% tax on tourism companies for the purpose of promoting Romania as a tourist destination for international travelers. Tourism agencies pay this tax on their commissions while other tourism companies (such as hotels and restaurants) pay it on their turnover. The tax is paid to the Ministry of Finance, which allocates the funds through the Ministry of Tourism for use purposes of promotion and special projects. Approximately 70% of this funding is used for promotion, while 30% is used to fund "special projects". All in all, the amount collected amounts to approximately 80 billion Lei, or 3 million U.S. dollars.

**ISSUE:** Tourism companies have long argued there needs to be more transparency as to how these funds are spent. While many agree that the assessment is needed for promotion, they want to know how the funds are spent and an analysis of return on investment.

**OPTIONS:** Among numerous options that can be considered, four are offered for discussion:

- A. **Repeal of the 3% tourism tax:** Proponents of this option argue that tourism companies pay a disproportionate share to tax because they must pay the 19% VAT PLUS another 3% assessment for tourism promotion. In addition, few know how the funds are spent and have not realized a return on investment from the funds. Opponents of this option argue that the tax itself is not the problem. Rather it is the way the tax is collected and spent. They contend that the tax is necessary but it needs to be collected and allocated in a different way.
- B. **Local Collection:** Proponents of this option contend that the 3% tax should be collected on the judet level and outsourced to a private organization that that has a board of directors made up of tourism owners and managers... the people who pay the tax. Because it is administered locally under contract with a private organization, there will be transparency and a more effective use of the funds as they will be spent according to a plan approved by both the board of directors and government officials. Under this plan, 80% of the funds would remain in the judet, while 20% would be sent to the Ministry of Finance to be allocated for tourism promotion and for the support tourism initiatives such as rural and cultural tourism, etc. Opponents of this plan argue that it is not feasible given the current economic circumstances within the government, and that the funds could be better administered by the Ministry of Tourism *if*

there is more transparency to the process of distributing the funds.

- C. **Proportional Allocation of Funds by the Ministry of Finance:** Proponents of this option contend that the Ministry of Finance should continue to collect the 3% tax, but that it should be allocated back to the judets according to the percentage paid by tourism companies within that judet. For instance, if Constanta county tourism companies pay 45% of the overall amount collected for the country, it should receive a 45% share allocation with which to promote Black Sea tourism. 80% of the funds could be used in this manner, while another 20% of the funds could be used to provide subsidies to depressed tourism areas, and for overall promotion of Romania as a tourism destination. Regardless of how the funds are allocated, the expenditure of funds should be outsourced by the government to a private national tourism authority whose board of directors is comprised of tourism owners and managers and government representatives who are elected by the companies that pay the tax.
- D. **Allocation of Funds to the Development of MIS:** Proponents of this option claim that what is really needed for transparency is the development of a management information system (MIS) to track expenditures and generate reports for scrutiny by the public. This could be accomplished by the Ministry of Finance and the Ministry of Tourism by allocating a portion of the funds collected for the purchase of technology and in training staff members to use the technology. In addition, the Ministry of Tourism should set up a private oversight council to oversee the expenditure of funds and to communicate these expenditures to the taxpayers, as well as reduce the bureaucracy that currently exists in the areas of licensing and permits. Opponents argue that the development of a management information system has been discussed before, but nothing has happened. Additionally, they claim that without the development of an overall tourism strategy the funds will still be wasted.

## **ISSUE: Development of Standards for Tourism Enterprises**

**OVERVIEW:** Currently, the Government of Romania (GoR) sets and monitors the standards for tourism enterprises. This includes health inspections, building permits, and other functions. According to the regulations governing this area, there are over 13 different quality standards for hotels alone (see attached checklist). Many tourism enterprises consider these standards to be both arbitrary and onerous.

**OPTIONS:** Among numerous options that can be considered, two are offered for discussion:

- A. **Grant Standards Responsibility to National Associations:** Proponents of this option argue that the Government of Romania should outsource the development and monitoring of standards to the appropriate national association in a particular area (e.g. The National Hotel Association, The National Association for Rural Tourism, etc.). In doing this, the government should support the associations and guarantee enforcement of the standards that are applied, while also guaranteeing that the standards are applied fairly. Opponents contend that tourism operators will not comply with the standards and will render them useless. Also, some contend that this will give national associations too much power to control private businesses.
- B. **Grant Standards Responsibility to Governmental Commission:** Proponents of this option contend that the Ministry of Tourism should set up a governmental commission made up of tourism operators, Ministry representatives, and consumers to develop tourism standards of each area of tourism enterprise. This will ensure transparency and fairness in the application of standards. Opponents argue that this creates another layer of bureaucracy and that this function should be outsourced to business associations that represent these enterprises. These associations better understand the standards that should be put in place and can better monitor the implementation of these standards.

**ISSUE: Environmental Legislation to Protect Tourism Areas**

**OVERVIEW:** Each year, environmental issues such as pollution, erosion and decay cause damage to tourism areas throughout Romania. Few areas are more affected than the Black Sea Coast, as each year more beach is lost to erosion. In addition, pollution from the Port of Constanta and the Danube River erodes the natural habitat of fish, and the coastal environment for tourists. Few laws are currently in place to protect the environment of Romania's tourism areas.

**OPTIONS:** Among several options for consideration, the following two are offered for discussion:

- A. **Construction of Concrete Breakwaters Near Black Sea Resorts:** Proponents of this option argue that these breakwaters, or concrete barriers that keep beach-eroding waves and tides from pounding the shoreline, are necessary in order to stop the erosion that is currently taking place. These structures will allow for a pleasant environment for tourists as well. Opponents argue that what the breakwaters will do for the environment will be mitigated by the cost of construction and the negative visual impact they will have. A better use of funds, they argue, would be to finance a study to see what options are available to reduce beach erosion.
- B. **Environmental Responsibility Laws:** Proponents of these laws contend that the government of Romania (GoR) should pass laws requiring companies that harm the environment to pay the cleanup charges necessary to correct the problems they cause. This would include shipping companies that operate in the Port of Constanta. Proponents further argue that neighboring countries already have these laws, and that the positive effects on both the environment and tourism are already being felt. Opponents argue that such laws would further reduce utilization of the port while doing very little for the tourism industry. They argue that a private commission made up of port officials and tourism representatives from around the country be impaneled to study the issue.

## **ISSUE: Incentives for the Development of Tourism Enterprises**

**OVERVIEW:** At this time, there are no government incentives for the development of tourism enterprises such as attractions, hotels, and resorts. In addition, access to private financing and investment capital is severely limited. Based on this, money to increase tourism capacity is scarce, and the funds being spent on promotion of Romania as a tourism destination are being negated by this lack of capacity.

**OPTIONS:** Among several possible options in this area, three are proposed for discussion:

- A. **Tax Rebate for Tourism Enterprises:** Proponents of this option contend that a tax rebate for tourism enterprises will actually add money to the Romanian economy in that it will enhance re-investment in existing properties as well as promote Foreign Direct Investment. Proponents also contend that a rebate to companies that invest private capital in maintenance, new construction, and expansion will greatly improve the condition of tourism properties throughout Romania, which in turn will increase the image of the sector as well as the number of tourists that visit the country. Opponents argue that providing a tax rebate for one sector of the economy doesn't make sense, and that the payback to the government, if any, will be too long.
- B. **Low Interest Loan Pool:** Proponents of this option contend that a portion of the 3% tourism tax should be set aside to provide low interest loans to private developers of tourism enterprises. This access to financing, they argue, will enhance investment and contribute to an overall upgrade of properties and attractions. Opponents argue that this scheme will create a non-transparent system in which some will flourish while others languish. They argue that a better way to approach this issue is to reduce taxes and red tape to spur investment, and to gain the support of private investment funds from both within and outside of Romania.
- C. **Tax Exemption for Construction:** Proponents of this option site its success in other countries as a reason for its consideration. This option offers investors a VAT tax exemption on materials used directly in the refurbishment or construction of a tourism property. Proponents also argue that this will encourage investment in maintenance as well as foreign direct investment. Opponents argue that once again this is a sector specific scheme that will create an unfair opportunity for some enterprises while not benefiting others.

## **EXHIBIT B**

### **DRAFT TOURISM ADVOCACY STRATEGY**

#### **ISSUE: 3% Tourism Tax**

#### **STRATEGY:**

- 2001:
  1. Transfer of funds from the Ministry of Finance to the Ministry of Tourism and allocation of those funds for specific and publicly detailed tourism development initiatives.
  2. Allocation of 60% of funds for regional tourism promotion and 40% for promotion of Romania as a tourism destination and for specific projects.
  3. Creation of an advisory Review and Spending Oversight Committee made up of 7 business association representatives from the tourism sector that are nominated and elected by the associations.
  4. Development of a tourism steering committee within each judet that will be governed by a board of directors made up of elected members as well as a representative of the Ministry of Tourism and the County Council.
  5. Passage of a law that assesses the 3% tourism tax to customers of tourism enterprises rather than to the enterprises themselves.
  
- 2002:
  1. Collection of 3% tourism tax by the taxing authority on the judet level, with the requirement that these funds be outsourced under contract to the existing tourism steering committee, who will administer the funds according to a promotion plan developed with input from representatives of local tourism enterprises.
  2. 50% of the tax will be allocated to the tourism steering committees in each judet based on the percentage of the tax paid by tourism entities within each judet, and 50% will be paid to the Ministry of Tourism to be used for promotion of Romania as a tourism destination and other uses approved by the Ministry with spending input and oversight from the Review and Spending Oversight Committee.
  
- 2003:
  1. 80% of the tax will be allocated to the tourism steering committees in each judet based on the percentage of tax paid by tourism entities within each judet, and 20% will be paid to the Ministry of Tourism to be used for promotion of Romania as a tourism destination and for other uses approved by the Ministry with input from the Advisory/Oversight Committee.

**ISSUE: Deregulation of Quality Standards for Tourism Industry**

**STRATEGY:**

- 2001:
  1. Creation of a seven member steering committee of tourism business association representatives to review and revise the existing quality standards and the enforcement of the standards.
  2. Development of minimum quality standards for tourism enterprises that include health and safety as well as service standards.
- 2002:
  1. Approval for tourism business associations to develop their own voluntary quality standards oversight programs that build on the minimum requirements established by the Ministry of Tourism.

**ISSUE: Elimination of Duplication in Procedures**

**STRATEGY:**

- 2001:
  1. Review of administrative procedure requirements for licensing of travel agency or accommodation structures, elimination of the duplication of procedures, and the institution of an on-going process of regulatory analysis.

**ISSUE: Development of Environmental Regulations to Protect Romania's  
Tourism Areas**

**STRATEGY:**

• 2001:

1. Passage of a law assessing the liability for environmental cleanup to the companies or individuals whose actions foul the environment.
2. Assessment of a fine of up to one billion lei per violation for companies whose irresponsible actions cause environmental damage.
3. Allocation of funds for promotion of ecological tourism in Romania.
4. Development of a marketing campaign to create public awareness of the importance of environmental stewardship.

2002:

1. Funding of a feasibility study to determine the environmental impacts of erosion along the Black Sea Coast.
2. Using the results of this study, the development of a strategy to protect the Black Sea Coast.

## EXHIBIT C

### STRATEGIC PLAN FOR TOURISM PROMOTION

- 2001:
  1. Decentralize the 3% tourism tax and spend a majority of it on regional and local promotion.
  2. Identify and focus on niche markets that are specific to Romania as a whole and each region in specific. Focus on eco-tourism, rural tourism, gastric-tourism (regional foods), cultural tourism, and heritage tourism (e.g. Dracula legend).
  3. Once niche markets and customers are identified, develop materials and publications to reach them with the Romanian tourism message.
  4. Develop partnerships with Chambers of Commerce around the country in the promotion of tourism.
  5. Decrease the bureaucracy necessary to promote Romania as a tourist destination.
  
- 2002:
  1. Develop a management information system linking the Ministry of tourism with other government ministries.
  2. Utilize technology to support tourism promotion by creating a web page that will promote all aspects of tourism in Romania.
  3. Work with the Ministry of Tourism to provide funding for the creation tourist information centers at the country's borders.
  4. Develop an events and activities database for Romania that links events, festivals, and conventions.
  5. Develop a coalition with neighboring countries to promote the region as a tourist destination.
  
- 2003:
  1. Work with Ministry of Tourism and Ministry of Education to develop and update national heritage curriculum in schools.
  2. Pass legislation to allocate a portion of the tax levied on advertising for the promotion of tourism.

## **EXHIBIT D**

### **CUSTOMER SERVICE STRATEGY**

- 2001:
  1. Decentralize quality standards assessment to the national associations responsible for specific areas of tourism (e.g. National Hotel and Restaurant Association, National Association of Tourism Agencies, etc.).
  2. Using models from around the world, develop specific job descriptions and duties for positions in the tourism field.
  3. Pass legislation imposing specific penalty and enforcement regimes on companies that hire "black market" labor.
  
- 2002:
  1. Work with the Ministry of Education to revise the tourism/customer service curriculum at the National Center for Tourism Education and other institutions. Integrate practical application along with theoretical training.
  2. Develop partnerships that will facilitate the opening of private training schools for tourism.
  
- 2003:
  1. Develop train the trainer courses in order to facilitate practical on-site training at tourism attractions, resorts, and facilities.
  2. Work with the Ministry of Tourism, the Ministry of Education, and the Ministry of Finance to provide funding assistance for hospitality training (e.g. tax credits, low interest financing, etc.).

# Financing opportunities

## International Finance Corporation in Romania

presented by Cristian Nacu

Mangalia February 15, 2001



# International Finance Corporation

**OUR MISSION:**

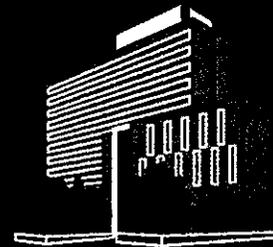
**TO PROMOTE SUSTAINABLE  
PRIVATE SECTOR INVESTMENT  
IN DEVELOPING COUNTRIES, AS A WAY TO  
REDUCE POVERTY AND  
IMPROVE PEOPLE'S LIVES.**



# The World Bank Group



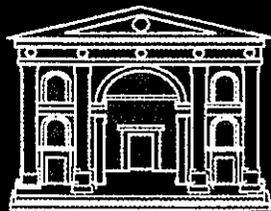
**Multilateral Investment  
Guarantee Agency, 1988**



**International Development  
Association, 1960**



**International Finance  
Corporation, 1956**



**International Bank for  
Reconstruction and  
Development, 1945**



# WBG Institutional Roles

- ◆ IBRD lends to governments of middle-income developing countries.
- ◆ IDA provides concessional loans to governments of the poorest developing countries.
- ◆ MIGA provides guarantees to foreign investors against noncommercial risk.



# IFC Mandate

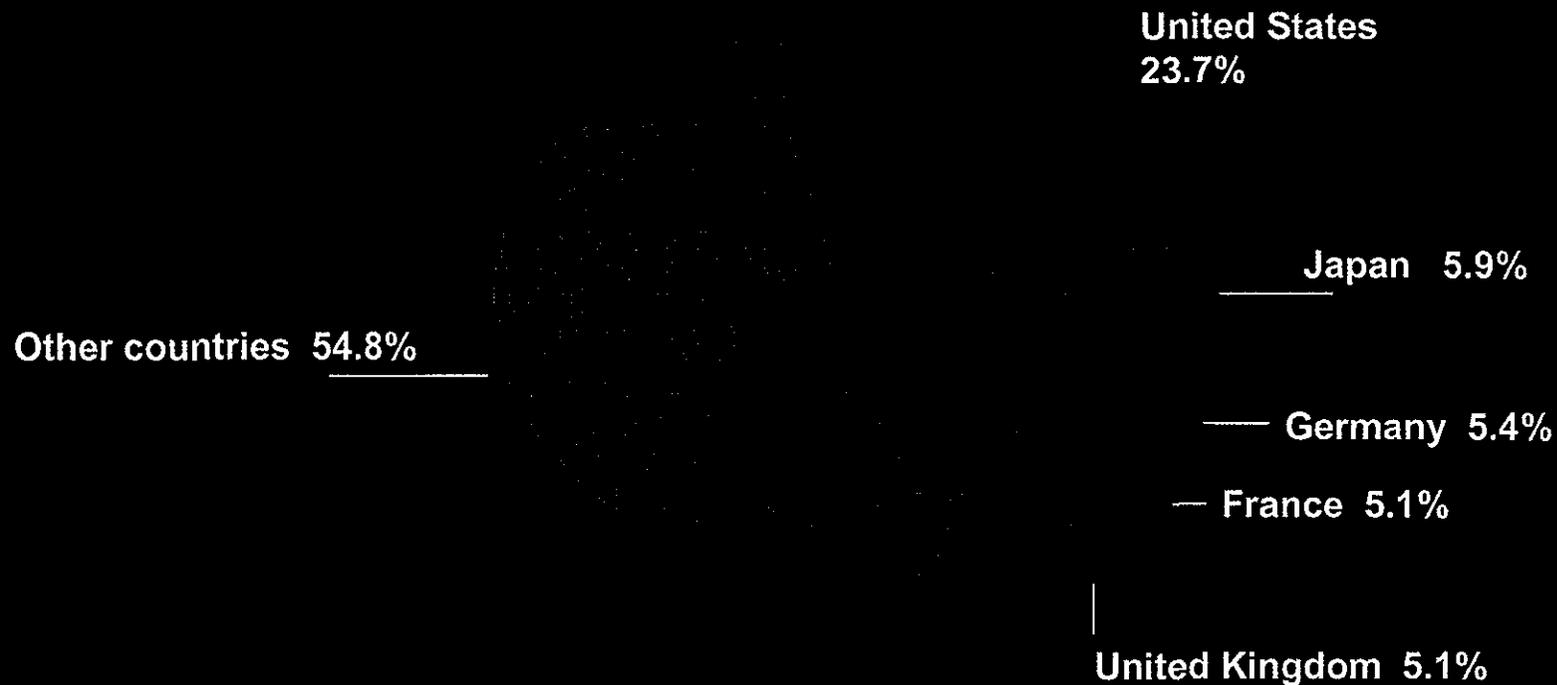
## *Promote Private Sector Development*

- ◆ Provide loans and equity for viable projects.
- ◆ Mobilize capital from other sources.
- ◆ Provide advisory services.



# IFC's Shareholders

## *174 Member Countries*



Five largest shareholders: 45.2%

Other countries: 54.8%



# Unique Characteristics

- ◆ Participates only in private sector ventures.
- ◆ Shares same risks as other investors.
- ◆ Invests in equity.
- ◆ Has market pricing policies.
- ◆ Does not accept government guarantees.
- ◆ Is profit oriented.



# Beneficial Role

- ◆ IFC presence reassures
  - Foreign investors
  - Local partners
  - Governments.
- ◆ Honest broker/neutral partner.
- ◆ Measure of political risk cover.
- ◆ Catalyst for other investors and lenders.



# Services Offered

- ◆ *Financial products:* loans, equity, quasi-equity, and risk management facilities.
- ◆ *Resource mobilization:* loan participations and securities offerings.
- ◆ *Advisory services:* country, industry, financial, and technical.



# IFC Project Cycle

- ◆ Business plan.
- ◆ Concept review.
- ◆ Project evaluation.
- ◆ Public review.
- ◆ Board review and approval.
- ◆ Mobilization of other funding.
- ◆ Deal signing (IFC commitment).
- ◆ Funding disbursed.
- ◆ Project monitored.
- ◆ Exit.



# Investment Guidelines

- ◆ Private sector.
- ◆ Financially, economically, and environmentally sound.
- ◆ 25 percent maximum IFC share of project cost.
- ◆ Investment size
  - \$1 million to \$100 million in standard projects
  - \$100,000 to \$1 million in small and medium projects.



# Loans

- ◆ Currency of choice.
- ◆ Fixed or floating market-rate pricing.

- ◆ Features

Tailored to cash flow

Long maturities of 8 to 12 years

Appropriate grace periods.



# Equity Investments

- ◆ Equity investments based on anticipated return.
- ◆ Never the largest shareholder.
- ◆ Passive investor.
- ◆ Often considered “local” shareholder.
- ◆ Long-term investor of 8 to 15 years.
- ◆ Public listing is the preferred exit mechanism.



# Quasi-Equity Financing

- ◆ Convertible debentures.
- ◆ Subordinated loans.
- ◆ Income warrants.
- ◆ Other hybrid instruments.
- ◆ Appropriately priced.



# Risk Management

- ◆ *Products:* swaps, options, forward contracts.
- ◆ *Purpose:* interest rate risk hedging, currency risk hedging, and commodity price risk hedging.

# Indirect Financing

- ◆ Credit and equity lines.
- ◆ Venture capital.
- ◆ Leasing.



# Loan Participations

- ◆ Agreement with borrower: loan funded by IFC and participant banks.
- ◆ Benefits for participant banks:
  - Reduced risk
  - Exemption from country-risk provisioning
  - Immunity from taxation
  - Extensive emerging-market experience
  - Detailed preinvestment appraisal
  - Sound due diligence and ongoing supervision.



# Global Product Groups

IFC-World Bank jointly managed  
departments:

- ✦ Information and Communication Technologies
- ✦ Mining
- ✦ Oil, Gas, and Chemicals
- ✦ Private Sector Advisory Services
- ✦ Small and Medium Enterprise



# Advisory Services

- ◆ Project assistance.
- ◆ Privatization and restructuring.
- ◆ Capital markets development.
- ◆ Foreign Investment Advisory Service.
- ◆ Small and medium businesses.



# Worldwide Representation

- *Headquarters in Washington, D.C.*  
*IFC worldwide offices*



# Southern Europe and Central Asia Department (SECA)

- ✦ Offices or Missions in: Albania, Bosnia and Herzegovina, FYR Macedonia, Croatia, Moldova, Bulgaria, Romania, Azerbaijan, Turkey, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan



# IFC in Romania

- ◆ Romania joined IFC in 1991
- ◆ IFC is establishing its first office in Romania in 1997
- ◆ In 1998 IFC's office was graduated to IFC's Mission in Romania



# IFC Mission in Romania

83 Dacia Bvd.

Bucharest 2, Romania

Tel: +401 2112866

Fax: +401 2113141

E-mail: [cnacu@ifc.org](mailto:cnacu@ifc.org)

[www.ifc.org](http://www.ifc.org)



# IFC's main investments in Romania

- ◆ First on shore leasing Company in Romania  
- Romlease
- ◆ Participation in venture capital funds and equity funds such as: Foreign & Colonial Fund, Danube Fund, Romania & Moldova Direct Fund
- ◆ A lending program for SME's in cooperation with Banca Romaneasca

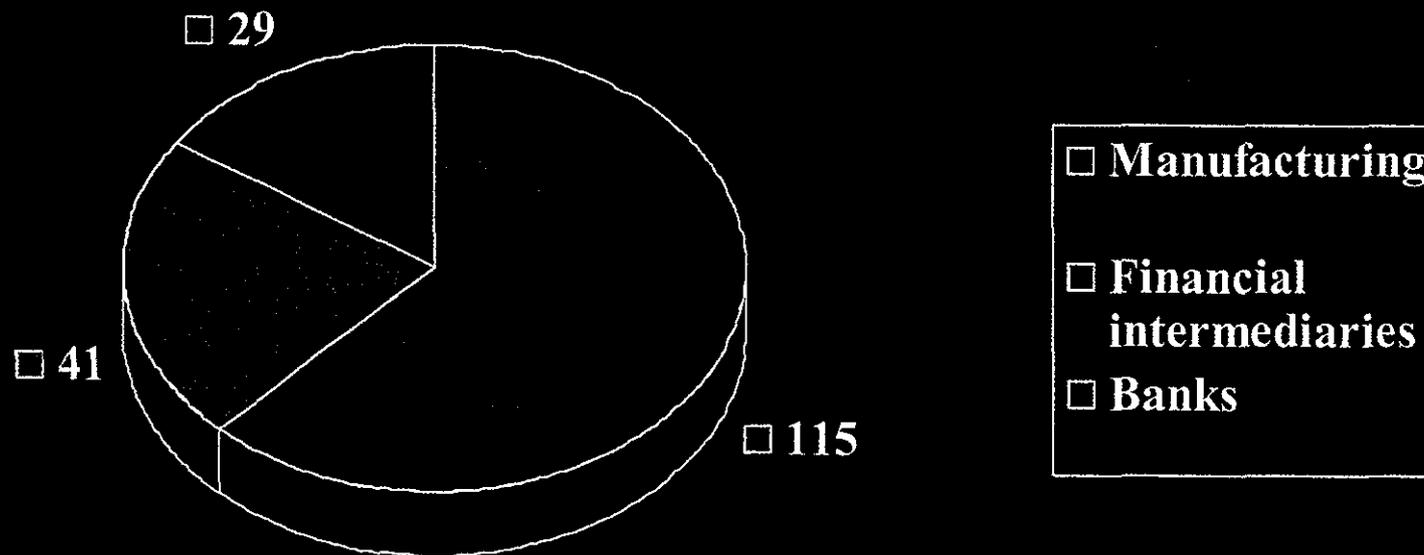


# IFC's main investments in Romania

- ◆ Involvement in two banks: Demir Bank and Bank Post
- ◆ Investment in a insurance company: Garanta
- ◆ Participation in a regional medical project: Medicovert
- ◆ Investments in manufacturing: Ambro, Bilstein, Krupp Compa Arcuri, Efes, Rambox, MobilRom, Alcatel



# IFC's investments in Romania



# IFC's advisory services in Romania

- ◆ IFC has been the adviser for the Bucharest Local Municipality in the biggest privatization of a municipal owned water company to date in Central and Eastern Europe
- ◆ TA for the Ministry of Labor in order to implement the private pension reform



Thank you

