

Government incentives for tourism sector investment

8 January 2019

On January 5, 2019 the President of Uzbekistan issued the Decree No. UP-5611 “*On Additional Measures for Accelerated Development of the Tourism Industry*”. The Decree is aimed at stimulating further development of entrepreneurial activities in the sphere of tourism infrastructure development, including hotels, and sanitary facilities.

Construction Costs Compensation Program

The Government initiates a compensation program, whereby a part of the investors' costs for the construction and equipping of hotels shall be compensated from the state budget. A special regulation specifying mechanisms for the allocation of funds for the compensation of investor's costs shall be adopted by March, 2019. The compensation payment shall equal to:

- UZS 40,000,000 (approximately USD 4,820) per room for 3-star category hotels; and
- UZS 65,000,000 (approximately USD 7,832) – for 4-star category hotels.

The compensation fee is subject to annual indexation. The compensation program shall run until the state target of creation of additional 50,000 hotel rooms is achieved.

To qualify for the compensation program, the following conditions shall be met:

- New-built hotels shall be put into operation until January 1, 2022;
- 3-star hotels shall have at least 50 rooms and 4-star hotels – at least 100 rooms.

At the same time, the State Fund for the Support of Entrepreneurship Development under the Cabinet of Ministers of Uzbekistan shall compensate small business enterprises interest payments under local bank loans directed at the financing construction and reconstruction of tourist infrastructure objects, including hotels and sanitary facilities.

Royalty Fee Financing

The Decree also covers the issue of royalty financing. Legal entities, residents of Uzbekistan, paying royalties under franchise agreements concluded with any of the top 50 global hotel brands, may be partially financed by the state budget for the first 3 years of the franchise agreement.

The overall state financing of royalty payments is limited to USD 10,000,000 and shall be distributed annually as follows:

- First 50 newly-built 3-star hotels shall receive USD 200 per room;
- First 30 newly-built 4-star hotels shall receive USD 400 per room.

Purchase of Land

Under the Decree, a land parcel allotted for the construction of a hotel, may be sold to the investor after the hotel construction is completed.

This rule does not apply to agricultural land and territories, where cultural heritage sites are located. Such cultural heritage sites may be leased out to investors for a period of 10 to 30 years, whereby the investor is exempted from rental payments for 5 years, provided that the released funds directed at renovation and preservation of such cultural heritage sites.

The list of land plots available for the sale and state-owned buildings that can be used for the construction of hotels shall published and regularly updated at the electronic trading platform “E-IJRO AUKSION”. It should be noted that entrepreneurs involved in the construction of modern sanitary facilities enjoy the priority right to receive land plots of 80-100 square meters at the request of the State Committee for Tourism Development without a need to participate on e-auction.

Certificates and Licenses

The Decree also accommodates further development of hotel services, as it abolishes a number of requirements, namely:

- (a) the requirement of mandatory certification of hostel services. Now, hostels shall be required to be included in the register of guesthouses and hostels;
- (b) the requirement for a hotel to receive separate certificates for each of its sales point and catering facility that trade alcoholic beverages to guests;
- (c) the requirement for hotels to have a separate license for the provision of transportation services, when offering transfer services from and to airports, railway and bus stations, as well as to touristic sites.

Customs payment privileges

The Decree provides for the custom duties exemption till January 1, 2022 (except for customs clearance fees) for the particular imported equipment that will be installed in places of tourist installations or will be used for cultural heritage sites, museums, theatres, galleries and protected natural areas. Several categories of such equipment is explicitly listed in the Decree, such as vandal-proof sanitary and hygienic equipment, inventory, turnstiles, software, payment and inquiry terminals and video surveillance systems.

Other Incentives

Importantly, the Decree eliminates existed restrictions that have limited individuals' right to private life. Now, hotel services should be provided regardless of the place of residence (*propiska*), citizenship, kinship and marital relations of individuals, and any other factors that may prejudice privacy rights.