

# LEGAL FRAMEWORK FOR CATEGORIZATION OF HOSPITALITY OBJECTS AS AN ADVANCE FOR TOURISM DEVELOPMENT IN MACEDONIA

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## ABSTRACT

Even in the whole world global crisis are happened, it is very optimistic that in FYR of Macedonia, on the field of tourism, numbers and parameters show that there are huge tourism development. Very important in this chain is categorization of hospitality objects. Its proper implementation under European and world standards must be done. In accordance with basis of Law for hospitality activity in FYR of Macedonia, Minister for economy gives by-law Rulebook for categorization of objects for hospitality activities, with which in process of categorization is prescribed and analyzed in the paper.

**Key words:** tourism development, categorization, legal framework, implementation

## INTRODUCTION

Importance of tourism for FYR of Macedonia is significant for its whole economy and development as a state. Tourism development is put as one of top priorities of Macedonian economy and political system. In the period of last two years, set of measures are taken for achieving of this goal even on economy and on legal field. Decreasing of VAT for tourist visits and spent overnights from 18% to 5% is one of the most efficient measures. Then, giving subsidization for tour-operators for taking foreign tourists in our country is also very essential instrument for tourism development.

Increasing of number of tourists and overnights is on the level of plus 25% than previous years, number of foreign tourist are increased for 33% more, all this must be taken with big courage for further development.

In the paper legal framework for this is analyzed and also its implementation. Main facts obtained in new Strategy for tourism development, in laws and by-laws are also taken into account. Results that are gained, pointed fact that in bigger number of cases this legal framework is fully implemented and respected, but of course more must be done and always can be done in better way. There are some weaknesses and process of categorization should be revised in some cases and also legal framework for it should be revised and amended.

The Government of the FYR of Macedonia has identified tourism as a priority sector for development and adopted new Strategy for Tourism Development for 2009 - 2013. The framework created and the confidence expressed will be guided by the "Vision for Macedonian Tourism" which will by 2013 have established its image as a notable European destination for cultural and natural heritage-based tourism and be recognized for its environmentally sensitive and sustainable, high quality products and services developed in line with global best practice.

## TOURISM PERFORMANCE IN THE FYR OF MACEDONIA - FOREIGN AND DOMESTIC VISITOR ARRIVALS AND OVERNIGHTS

The high point for both foreign and domestic visitor markets in Macedonian tourism was 2000 and events of 2001 precipitated a collapse of in excess of 50 % in both markets that year. A major recovery took place the following year and generally strong trend growth has been exhibited from the foreign visitor markets since now, as shown in Table 1 - visitor overnights, with 2008 seeing the year 2000 figures surpassed for the first time.

**Table 1**  
**Foreign Visitor Overnights in Registered accommodation 2000- 2008**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Overnights	493,867	212,751	274,720	346,200	360,589	442,988	442,845	518,088	587,447
Annual increase %	4.1	-56.9	29.1	26.0	4.2	22.8	-0.3	17.0	13.4

Source: SSO Statistical Yearbook of Republic of Macedonia, 2007 and SSO News Release, 09.02.2009

The domestic market has not been so buoyant following its own recovery in 2002, suffering further declines and lower growth rates thereafter. However, it is clear from the figures for 2008, shown in Table 2 below, that although recovery beyond the 2002 position has been achieved, the figures are still well below the results for 2000.

**Table 2**  
**Domestic Visitor Overnights in Registered Accommodation 2000- 2008**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Overnights	1,940,772	1,041,831	1,575,664	1,660,667	1,504,845	1,527,053	1,474,550	1,501,624	1,648,073
Annual increase %	5.5	-46.3	51.2	5.4	-9.4	1.5	3.4	1.8	9.8

Source: SSO Statistical Yearbook of Republic of Macedonia, 2007 and SSO News Release, 09.02.2009

The comparative strength of the foreign visitor market is undoubtedly due to business related demand and this is evident from the more typical uniform seasonality pattern of this market exhibited across the year whereas the pattern for domestic demand demonstrates dramatic peaking during the traditional holiday months of July and August which account for nearly 85 % of their annual registrations and overnights.

### PRINCIPAL INTERNATIONAL VISITOR NATIONALITIES

The principal source markets for foreign visitors, the top 4 most significant markets, to FYR of Macedonia in 2007, as shown in Table 3 below, are its immediate neighbors, with Serbia, Greece, Bulgaria and Albania being responsible for almost 48 % of foreign registrations, arrivals and 49 % of overnights. Serbia and Greece have always been the leading nationalities.

**Table 3**  
**International Arrivals and Overnights by Top Generating Markets, 2007**

Country	Arrivals		Overnights	
	Numbers	%	Numbers	%
Serbia	44,661	19.4	116,909	22.6
Greece	28,618	12.4	58,525	11.3
Bulgaria	18,901	8.2	37,246	7.2
Albania	17,573	7.6	39,831	7.6

Rest of The World	120,327	52.4	265,577	51.3
TOTAL	230,080	100.0	518,088	100.0

Source: SSO, Tourism in the Republic of Macedonia, 2003 to 2007

## REVIEW OF THE PROVISIONS OF THE INSTRUCTION FOR SUBSIDING FOREIGN ORGANIZED TOURISM TURNOVER

This Instruction is by-law which is produced under Law for tourist activity in FYR of Macedonia, Law for hospitality activity and also in accordance with National strategy for tourism development in Macedonia for period 2009-2013.

With this instruction organized subsidizing foreign tourist trade is described. Subsidies are for encouraging foreign organized tourist operations and for that tour operators and travel agencies - organizers can hold subsidies for stay of foreign guests in the FYR of Macedonia for the part of realized organized tourist air, road and rail transportation during current year.

Subsidy can achieve the organizers of the package arrangements for foreign guests as Program which includes:

- Stay in FYR of Macedonia for at least 3 realized nights in all accommodation facilities that offer professional hospitality services, accommodation facilities, except for the issuers of accommodation in rooms and apartments that haven't reported the performance of tourist activity and which haven't categorization for the same activity;
- Organized group transport, with particular leased buses, planes or leased a minimum of 10 seats in the train from the departure station of the group to the place of using the service in the accommodation facility and return of the group to the same route, but in that bus driving and train transportation during their stay in FYR of Macedonia are not included;
- Organized group transportation of regular air-flight lines or regular rail traffic with arrival and return of the group, but group must have minimum 10 persons;
- Organized group transportation in combination with two vehicles as the main means of transportation such as plane, bus or train, and where the main mean of transportation is considered vehicle of arriving at the designated destination and it application is applied for that mean;
- Round-trip tours, with minimum 10 people in the group, which are with organized transportation, in departure and departure of aircraft, bus or train if at least two nights, as bed and breakfast with service included are achieved in different places in FYR of Macedonia.

## SUBSIDIES IN DIFFERENT TYPES OF TRANSPORTATION

For **bus transportation** the subsidy can be taken only for previously leased bus for realization of program and for different countries, and distinction is done:

- For Albania, Bulgaria, Serbia, Kosovo, Greece, Montenegro, Bosnia and Herzegovina - 10 Euros (€) per each tourist;
- For Turkey, Romania, Hungary, Slovenia, Croatia - 15 € per each tourist;
- For All other countries - 20 € per each tourist.

In **air-transportation** subsidy per passenger organizer can get with the lease of whole plane, part from the plane or at least 10 passengers which travelled on regular flight line. The amount of received subsidy per arrived tourist:

- For European destinations is 25 €;
- For intercontinental destinations such as North and South America, Australia and
- Far East is 45 €.

For **charter transportation**, for arrangements under programs, for charters, subsidy is 25 € per arrived tourist for all - 2 airports in the FYR of Macedonia. As an exception of above mentioned, for the charter, it can be approved transportation of the first group when arrived, and last group when leaving, agency should organize transportation with a different means of transport, and for that group it can be gained subsidy in amount of 15 € per arrived tourist. Also subsidy for the charter can be obtained for tourists who have organized stay in accommodation facilities at least 3 days with bed and breakfast service.

Subsidies for charter can get only organizers which will organize charter on their own risk. If the charter is organized by foreign air-flight company on own risk and organizers of travels leased part of charter, subsidy can be gained only if for leased at least 10 seats have package arrangement with a minimum stay of 3 days of bed and breakfast service, and this will not be able to get air-flight company.

If more organizers use the same charter plane, request for a subsidy can be submitted by the organizer, lease-acceptor with complete documentation of all organizers. For exception of above mentioned, the application of subsidy may submit every organizer separated, with the written consent of the organizer who lease charter as a whole.

Application for subsidy shall be submitted for each destination, each airport and each flight. In case of impossibility of landing to the arranged airport because of technical or other legitimate reasons, landing to the nearest airport will be recognized with evidence of the reasons for changing the airport. For the last empty flight subsidy can't be got.

For **railway transportation** the amount of subsidy is 15 € per taken tourist. Subsidy can be got for leasing of whole train - charter, leased wagon or a minimum of 10 seats leased on a regular line of the train. Applications for subsidies shall be submitted for each destination and each drive. Subsidy may be gained and for bus-transfers from railway station to accommodation facility if provided accommodation facility is in the city which hasn't railway station. The subsidy is only applies for the second class paid cards.

For **combined transportation** for which from the arrival at the destination is used air-transportation, the amount of the subsidy is 15 € per taken tourist. For combined transportation for which from the arrival at the destination is used bus, the amount of subsidy is 10 € per taken tourist.

The organizer can received subsidy **for organized group round trips**, or tours with minimum 10 tourists in group, for tourists which arrive in FYR of Macedonia by bus or by plane, or which will have at least 2 spent nights with breakfast in FYR of Macedonia, and on round trip with stay on different places. And amount of subsidy is 20 € per taken tourist. For circular tours organizer can't get a subsidy on any other basis except from mentioned.

## **RULEBOOK FOR CONDITIONS FOR CATEGORIZATION OF OBJECTS FOR PERFORMING HOSPITALITY ACTIVITY**

This Rulebook, as a by-law act, was passed by the Minister of economy in 2006, prescribes conditions for the categorization of facilities for the hospitality activity.

Hospitality objects are divided into different categories depending on arrangement and equipment and service quality. Different categories are marked with different number of stars. The classification of objects into categories and labeling categories are carried out as follows:

1. Hotels - hotels, motels and boarding houses in first, second, third, fourth and fifth category, adequately with five, four, three, two and one number of stars.
2. Hotel settlements in the first, second and third category with three stars (high comfort), two (comfort) and one (standard).
3. Tourist apartments in the second, third and fourth category with four, three, two and one number of stars. Tourist apartments from first category are marked with five-star and are called tourist residences.
4. Camps in the first, second, third and fourth category with four, three, two and one number of stars.
5. Houses, flats and rooms for issuance in the first and second category with two stars (comfort) and one star (standard).
6. Restaurants in first, second, third and fourth category with four, three, two and one number of stars.

Categorization of objects is performed out separately for each object. Blocks and whole of objects have the same category. Outbuildings have the same category as the hotel where they belong. Outbuildings with four and five stars should provide services for breakfast in the object.

Specific deviations out of the Rulebook for categorization can be approved if less than 10% of the criteria which are required for appropriate category is not met and if the Commission decides that deviations do not affect the quality of services for the required category by the applicant.

## LICENSING AND CATEGORISATION DE FACTO

The implementation of the licensing and categorization is unsatisfactory in that the star categorization has not been applied to all premises and its application does not reflect international standards, e.g. hotels of 3 stars quality being awarded 4 stars.

A national classification system is primarily a marketing tool which can also be used as a development tool to raise standards which in the long run can enhance the sector. It is not a negative for the industry. A classification system can therefore only be successfully implemented where there is a good understanding and partnership between Government authorities and the private sector of the tourism and hospitality industry. It is desirable that the categorization assessors are well trained with a hospitality background that it should be more private sector inclined as advisers rather than as government inspectors.

It is recommended that classification be confined to accommodation. Tourists do not tend to seek information on restaurants prior to arrival in a destination. Restaurant selections are usually based on local recommendations, independent guides, visitation and appearance. While restaurants are classified in a number of destinations this is usually done by non- statutory bodies such as commercial food guides or automobile clubs. These can be totally subjective in the application of the system and can be selective on the restaurants they include and exclude. A statutory system cannot be so selective and would have to base its judgments on objective as well as subjective elements.

The subjective elements are the dominant elements in restaurants as the basic product is the food and service and the quality of these. The ambience, atmosphere and general environment are equally important to the guest satisfaction level and are even more subjective. The assessment of the subjective elements requires highly experienced assessors with a detailed knowledge of food preparation, presentation and service and, as mentioned above, freedom from statutory impositions. The safety issues in catering establishment are covered by hygiene, health, fire protection implemented by the appropriate authorities.

The presence or absence of facilities and services are important criteria in assessing the categorization of accommodation. Equally important elements of all services to visitors are the subjective criteria such as the quality of the furnishings, decor, facilities, fittings, equipment, food and services. The present criteria for classification is lacking in the subjective elements. It is recommended that the categorization criteria be revised to include the subjective elements.

In addition to providing information on standards, facilities and services it is strongly recommended that categorization be used as a development tool to raise standards. Categorization can be used in this way by informing the facility manager of shortcomings and necessary improvements to retain a categorization or to move up to a higher categorization. Pre-determined time period should be allowed to reach the standards.

## CONCLUSION

From all above mentioned, and non-mentioned, it can be concluded that:

1. The past trend has been for overnights to increase and decrease very much in line with accommodation registrations. Although it is an objective to increase the length of stay of leisure visitors, it is likely that this will be offset by an increase in shorter duration business trips. Consequently, the overnights target is set at the same rate of increase as for registrations except for 2008 where the estimate has been based on the availability of data for that year. Table 4 below presents the target assumptions and forecasts.

**Table 4**  
**Target Foreign Visitor Overnights in Registered Accommodation 2008-2013**

	2008	2009	2010	2011	2012	2013
Overnights	587,447	616,819	647,660	686,520	734,576	793,342
Annual increase %	13.4	5.0	5.0	6.0	7.0	8.0

Source: State Statistical Office and UNWTO Consultant Estimates

2. The net effect of this is likely to be a slower increase in domestic registrations and overnights of about 3 % per annum in the medium to longer term. Thus the targets for domestic visitor overnights in Table 5 below demonstrate strong growth in 2008 followed by lower growth during the next two years when

international economic circumstances are anticipated to have an impact on the economy in FYR of Macedonia before slightly lower rates of growth in registrations and visitor overnights.

**Table 5:**

**Target Domestic Visitor Overnights in Registered Accommodation 2008-2013**

	2008*	2009	2010	2011	2012	2013
Overnights	1,648,073	1,730,477	1,817,000	1,871,510	1,927,656	1,985,485
Annual increase %	9.8	5.0	5.0	3.0	3.0	3.0

\* Actual Source: State Statistical Office and UNWTO Consultant Estimates

3. Table 6 below consolidates the target position for domestic and foreign visitor overnights from 2008 to 2013.

**Table 6**

**Target Domestic and Foreign Visitors Overnights in Registered Accommodation 2008-2013**

	2008*	2009	2010	2011	2012	2013
Overnights	2,235,520	2,347,296	2,464,660	2,558,030	2,662,232	2,778,827
Annual Increase %	10.7	5.0	5.0	3.8	4.1	4.4

\* Actual Source: UNWTO Consultant Estimates

According to the figures in Table 6, the growth in the number of overnights in FYR of Macedonia from domestic and foreign visitors in registered accommodation will decline from the strength of 10.7 % in 2008 to a more sustainable level of 4.4 % by 2013. This is both a reflection of the anticipated impact of negative trends in the world economy from late 2008 until 2010.

4. For improving of categorization set of administrative decisions should be done:

- To have trained and experienced inspectors who have the ability to give advice and guidance to operators/agents - the inspectors are usually recruited from hotel management and personnel;
- To allow a categorization to stand while the agreed improvements are being made;
- To grant an up-grade to a higher categorization on an undertaking.
- The criteria for accommodation categorization be reviewed to add a qualitative subjective aspect
- Categorization should be adapted to be used as a development tool

5. Process of new categorization for tourism firms, legal subjects and physical persons which perform tourism and hospitality activities, will give more effects in direction of attracting new tourists from new countries, improving tourism quality, of infrastructure, of tourist products, of tourist services. Also very significant is the fact that this process should be established with big attention in order not to cut and spoil present tourism infrastructures and early and present investments in tourism. With new categorization for sure tourism will be more developed and also tourist subjects, state and municipalities will have bigger income of that.

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