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**Dr. Prabhakar Singh Bhadouria,**

## Gwalior Management Academy

Regd. Office: C-17 Kailash Nagar Near New High Court Gwalior M.P. INDIA-474006,  
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With best wishes to all

**Dr.P.S.Bhadouria**

## SOCIAL TOURISM RATES AND ITS PERSPECTIVES IN THE TOURISM DESTINATION OF UZBEKISTAN

Norkulova Dिल्фуза<sup>1</sup>

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### ABSTRACT

*This article reflects on the origins and development of social tourism in Uzbekistan, with particular reference to the socio-economic conditions in the country. It discusses the theoretical conceptualization of social tourism and its implementations. Hence, social tourism emerged as a distinct form of tourism, conducted by well-defined social measures to facilitate the vacation of those with the most limited access to relaxation; the extent of this participation is conditional on economic development and the importance that each country attaches social life in order to increase its quality. Paper focuses general trends of tourism in Uzbekistan region under the distinct investigation of social tourism as whole. In addition, status of socio-economic perspective of country has diffused on the theoretical part of research. Furthermore, it acclaims that advance market research be undertaken to analyze the trends identified in this exploration in more-depth along with implementing annual research instruments to continue to build upon this inaugural research. On this basis, major drawbacks and shortcomings of tourism industry will be identified, the result of work, which will be directed to further, studies of topic generally.*

### Keywords

Social tourism, tourism competitiveness, tourism strategy, tourism destination, Uzbekistan

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### Introduction

Globally, an ever-increasing number of destinations worldwide have opened up to, and invested in tourism, turning it into a key driver of socio-economic progress through the creation of jobs and enterprises, export revenues, and infrastructure development. Moreover, over the past six decades, tourism has experienced continued expansion and diversification, to become one of the largest and fastest-growing economic sectors in the world. Many new destinations have emerged as an untapped or unique one, in addition to the traditional favorites of World countries, Uzbekistan as a crossroad of Silk Road touristic destination has great potential in this case. Despite occasional shocks, globally tourism has revealed virtually uninterrupted evolution. International tourist arrivals have amplified from 25 million

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<sup>1</sup> Samarkand Institute of Economics and Service [ilm-bulim@yandex.ru](mailto:ilm-bulim@yandex.ru)

universally in 1950, to 278 million in 1980, 527 million in 1995, and 1133 million in 2014 (Alegre & Garau, 2010). International visitation to the Republic of Uzbekistan has maintained consistent growth in arrivals over the past five years, increasing from 1.2 million international visitors in 2009 to 2 million in 2013 (Republic of Uzbekistan, 2014; UNWTO, 2014). The majority (91%) of these tourists originated from neighboring CIS countries who were traveling for the purposes of visiting friends and relatives. Visitors to the Republic of Uzbekistan for the purpose of tourism accounted for 154,845 international tourists (9%) in 2013, with the Russian Federation representing the largest source market by arrivals with 28,255 tourists recorded (Handbook on E-marketing for Tourism Destinations, 2008).

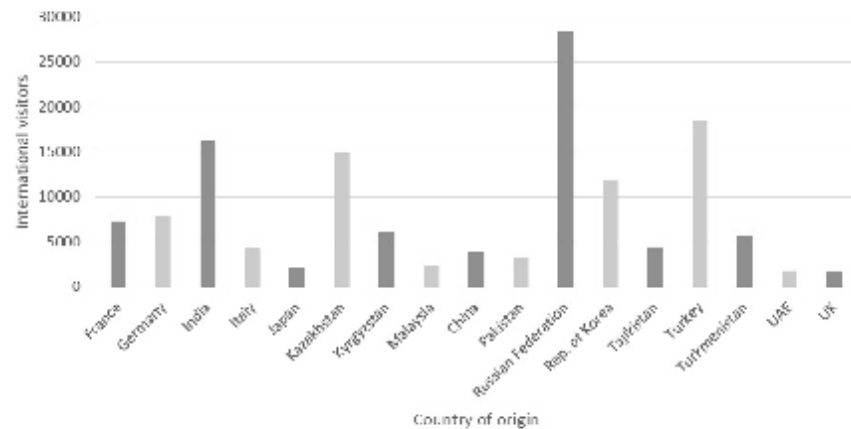
The Republic of Turkey and the Republic of India represented the second and third largest markets with 18,424 and 16,135 visitors recorded. Visitors from Germany (7881) represented the largest source market in Europe whilst visitors from the Republic of Korea (11,908) were the principal market segment inventing from the Asia and the Pacific region. Limited data is available analyzing outflow by country of origin, however it is suggested that markets such as Japan, United States of America, People's Republic of China, United Kingdom and France may also represent key or emerging source markets of economic importance (Almatova & S Gulamov, 2014).

Correspondingly, international tourism receipts fashioned by destinations global have heaved from US\$ 2 billion in 1950 to US\$ 104 billion in 1980, US\$ 415 billion in 1995 and US\$ 1245 billion in 2014. International tourist arrivals worldwide are expected to increase by 3.3% a year between 2010 and 2030 to reach 1.8 billion by 2030, according to UNWTO's long term forecast "Tourism Towards 2030". On this basis, as one of the developing country, Uzbekistan has also illustrates great deal of touristic potential as whole (Cantoni & Xiang, 2013).

According to findings, France, the United States, Spain and China continue to top the rankings by both international arrivals and receipts. Mexico, as one of the Latin American country, re-entered the Top 10 by arrivals at position 10. By receipts, destinations like China and the United Kingdom both moved up two places, to 3 and 7 respectively.

On this way, the trends of international arrivals to the Republic of Uzbekistan have amplified from 1.2 million in 2009 to 2 million in 2013, with visitors from the Commonwealth of Independent States (CIS) representing 91% of all arrivals to the country predominantly for the purpose of visiting friends and family (Republic of Uzbekistan, 2014; UNWTO, 2014). International visitors for the purpose of tourism accounted for 8% of all arrivals, with the Russian Federation, Republic of Turkey and Republic of India representing the three largest source markets.

Figure 1: International visitor arrivals for the purpose of tourism to the Republic of Uzbekistan by core market segments, 2013

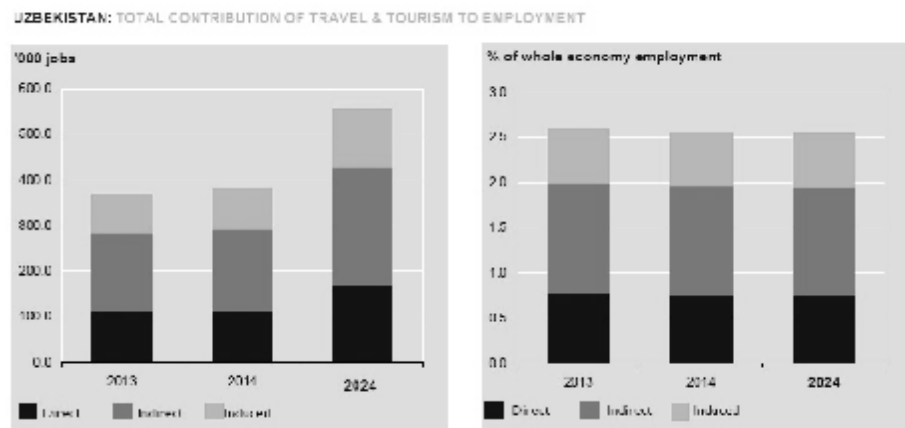


Data Source: Republic of Uzbekistan, 2014; UNWTO, 2014<sup>1</sup>

Visitors from Germany and the Republic of Korea represented the largest inbound markets from Europe and Asia and the Pacific respectively (Republic of Uzbekistan, 2014). It is believed that international tourists are predominately European, aged 55 years and older with a high level of education, and are travelling to the Republic of Uzbekistan for the first time on paid holidays from their career jobs or were retired. The majority of respondents (63%) are travelling as part of a pre-purchased tour. International arrivals to the Republic of Uzbekistan have increased from 1.2 million in 2009 to 2 million in 2013, with visitors from the Commonwealth of Independent States (CIS) representing 91% of all arrivals to the country predominantly for the purpose of visiting friends and family (Republic of Uzbekistan, 2014; UNWTO, 2014).

International visitors for the purpose of tourism accounted for 8% of all arrivals, with the Russian Federation, Republic of Turkey and Republic of India representing the three largest source markets. Visitors from Germany and the Republic of Korea represented the largest inbound markets from Europe and Asia and the Pacific respectively (Republic of Uzbekistan, 2014). The majority of respondents (63%) while traveling were from Russian Federation and Turkey (see Figure1). Since the break-up of the Soviet Union in 1991, the former Soviet Asian States (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) present important opportunities to become a major tourist destination in the way of unique cultural, historical, archeological, and natural attractions. After becoming independent, the policy and model of tourism development in these countries was mainly based on improving tourism infrastructure (Coulibaly et al., 2012).

Figure 2. Total contribution of Tourism in Uzbekistan



On this basis, as in Figure 2 mentioned above, share of tourism to employment and contribution of sector to life standard of people have increased significantly in recent years. Moreover, the basic needs of people and notion of this term have been appealing lots of investors to due to development of the services and structural policy of the government.

Well-located World Heritage sides of Central Asian States, amusing history of medieval scientists, and undiscovered nature of people make attractive for visitors from all over the world. A vital factor in the history of the southern part of the region was its location astride the most direct trade route between China and Europe, the so-called Silk Route which began to be developed in the Roman times (Kemal Kantarci, Muzaffer Uysal, & Vincent P. Magnini, 2014). Countries like Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan, and Tajikistan contain a marvelous and rich untapped tourism interest that has great potential to organize different type of uncommon accomplishments ("Central Asia: Problems and Perspectives of International Tourism::Slavomír Horák," 2014).

As a major Silk Road tourist destination, country possesses exotic tourist potential, distinct monuments of prehistoric times with unique natural landscapes, which may main role to become one of the principal tourist states on the globe. That is why much attention is devoted in Uzbekistan to the development of tourism and expansion of corresponding infrastructure as one of the priority directions of the nation's socio-economic development (Knobloch, 2013).

Therefore, Uzbekistan maintained trade, intellectual and religious contacts with South Asia, the Middle East and Europe. The oasis towns of Samarkand, Bukhara, Khiva, and Tashkent mark the famous "Silk Road" over which caravans took the products of Europe to

exchange for those of Asia. The 2500<sup>th</sup> anniversaries of the ancient cities Bukhara and Khiva and 2750<sup>th</sup> of Samarkand that once was capital city of great Tamerlane make interest of tourists globally. The administration of Uzbekistan wages great consideration for the development of the tourist industry: the development of services is defined as one of the top priorities of socio-economic development of the country. Yet in 2010 the number of tourists was 975000, very global tourism arrival inclination of Uzbekistan demonstrates overall upward trend since 2000 up today.



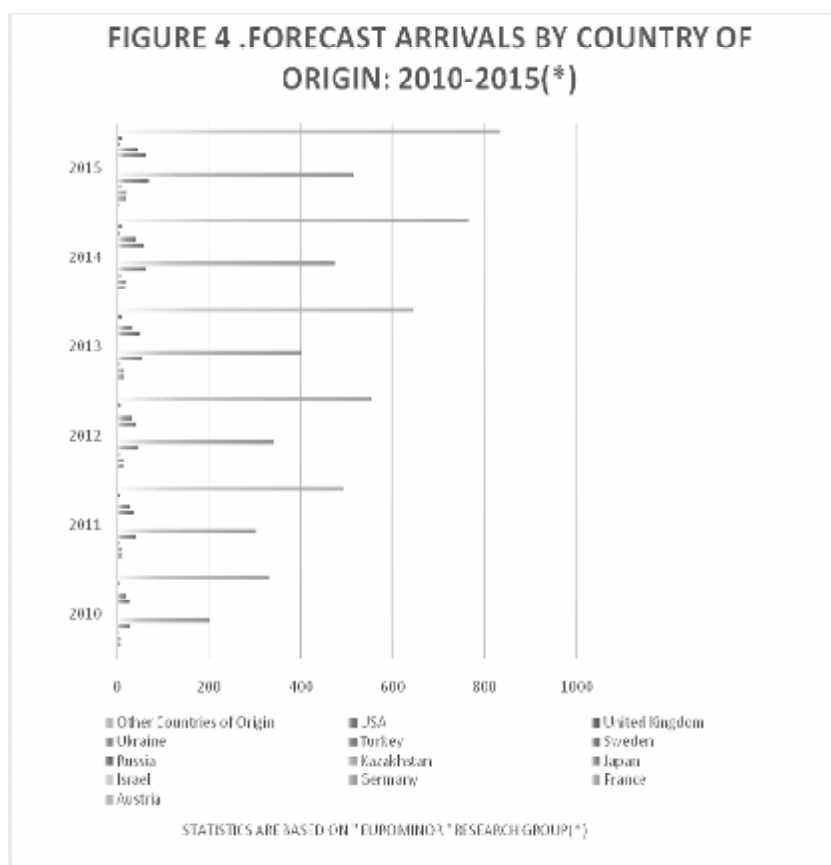
Based on tourism "National Company" data, a quantity of tourists in Uzbekistan were 1,977,600 in 2013 (see Figure 3).

Likewise, infrastructural proximity such as highways, railways and airports also provides relatively comfortable and ease accessibility to global world through the CA region. There appears to be sufficient resources to expand opportunities for investment in tourism infrastructure at all levels ("The World Factbook," 2014).

"Uzbektourism" as National Tourism Company believes that the flow of tourists are growing ominously, nevertheless this goes hand in hand with an increasing diversification and integration among services, infrastructures and modernization become major tourism destination. ("National Company 'Uzbek Tourism,'" 2014). According to Figure 4, which demonstrate arrivals by country of origin that mostly has visited this destination. The rate of arrivals is obviously revealed upward trends; mainly in the case of Kazakhstan and other

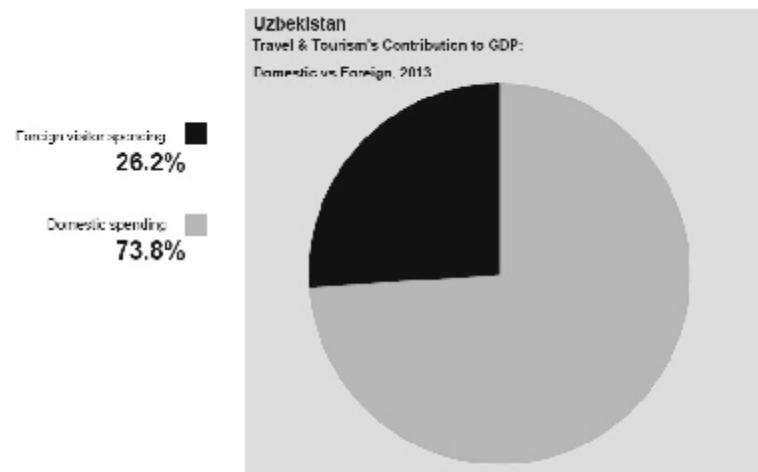


unlisted countries of origin from all over the world have expected great deal of tourists in the near future expectation. Furthermore, the number of tourists from Japan, Turkey and Russia have picked up gradually during this period and relatively expected to sharp steadily in the future. As well as , by 2020 it is predicted that China, Russia, India and the Middle East's trends will increase more than 200 million tourists annually visiting (Handbook on E-marketing for Tourism Destinations, 2008) . Therefore, as one of the main Silk Road tourism destinations, Central Asian countries could appeal a great deal of visitors from all over the world. As Edgar Knobloch (2013) mentioned, Central Asian countries have great resources and potential for development of tourism, however countries need integration and modernization to become competitive in tourism businesses.



In this context, the general purpose of this paper is to undertake a review of the potential of tourism and its related industry sectors, with the specific purposes of describing and analyzing the strengths that Uzbekistan and other Central Asia countries can have to develop a global tourist product, based on the Silk Road magnet, identifying major past trends , as an approach to better comprehend the existing knowledge of tourism in the region of Central Asia(Akimov & others, 2015).

**Figure 5. Comparison of Domestic and Foreign Contribution to GDP Total contribution of Tourism to GDP**



The government reported growth at 8.1% in 2014, slightly above 8.0% in the previous year. The government expanded public spending and commercial lending to sustain domestic demand in order to improve various sub-sectors of the economy.

On the supply side, industry and services were the main contributors to growth, as industry excluding construction expanded by 8.3%, versus 8.8% in 2013, and services expanded by 15.4%, up from 13.7% in 2013. In industry, the ongoing state modernization program, backed by substantial public investment, boosted the production of machinery, metals, and chemicals, which expanded by 10.2% and added almost 40% of total industrial output. In services, strong performers were information and communication technology (up by 24.1%) and finance (up by 33.9%), supported by robust demand and domestic lending.

Another important service subsector—trade and catering—grew by 17.5%. Despite unfavourable weather, agriculture grew by 6.9%, faster than in 2013, on healthy vegetable harvests and expanded livestock production (see Figure 5). Uzbekistan has revealed significant features in the development of economy while considering potential of touristic resources ('The State Committee of the Republic of Uzbekistan on Statistics - Economy in numbers', n.d.-a).

## **Methodology**

Although ‘social tourism’ has existed as a concept at least for the last 60 years, its definitions still uncertain and is interpreted variously in many countries. In 1957, Hunziker defined social tourism as a ‘particular type of tourism characterized by the participation of people with a low income, providing them with special services. For Arthur Haulot (1982), the term means ‘the totality of relations and phenomena deriving from the participation of those social groups with modest incomes participation which is made possible or facilitated by measures of a well-defined social character.

While for Minneart, Maitland and Miller (2007) social tourism relates ‘to an added moral value, which aims to benefit either the host or the visitor in the tourism exchange’ (Minnaert et al., 2007) thus presenting social tourism within an ethical position. As competition has increased and led to a fragmentation of markets within the commercial sector, alongside changes in public sector funding for social care, the essence of social tourism appears to have changed in recent years. In the UK and Ireland, social tourism most often refers to the provision of access to tourism for disabled or otherwise disadvantaged families who could not possibly take a holiday (see McCabe, 2009), whereas on continental Europe, social tourism appears to focus on social cohesion or integration issues and the ‘tourism for all’ (TFA) agenda. TFA is a concept related to social tourism.

While in Belgium, the term is integrative in the sense of addressing all individuals of the society, in Germany and in the UK for example, the term is used largely in the context of the integration of access for disabled people. The national organization of Germany refers purely to disabled people, one segment of the wider social tourism market. Furthermore, Mundt who worked deeply on this issues, defines German social tourism as the ‘deployment and grants through travel offers for people for whom travelling for recreational purposes is for any reason whatsoever outside their possibilities’ (Mundt, 2004, p. 166) thus creating a differentiation between social tourism and ‘tourism for all’ which is not consistent across all European countries. Along with commercial tourism, social tourism developed in the 1950s particularly in countries with well-developed social systems such France, Belgium, Germany, Spain and the Eastern European countries. The main organizers behind the social tourism movement were trade unions and welfare and health organizations. At the same time, international organizations promoting social tourism were set up, such as the Federation of Popular Travel Organizations (IFPTO) and the Federation of International Youth Travel Organizations (FIYTO) in 1950. At the Brussels international congress of social tourism in 1963, social tourism organizations together with the representatives of public authorities decided to create the BITS (Bureau International du Tourisme Social, recently changed to ISTO), whose aims are for common reflection, coordination and action (SOCAP International., 2013). Over the past 50 years, several governments have integrated ‘social tourism’ into their social welfare policies, resulting in state-backed schemes to provide and

promote affordable holidays and recreation. Social tourism is often defined in contrast to commercial tourism. Couveia also suggests that social tourism should be understood as a type of tourism whose main or exclusive characteristic should be a non-commercial goal.

In Eastern Europe, the former socialist countries deployed the term to designate the whole of tourism activities. In the Democratic Republic of Germany (GDR), for instance, collective social tourism was coterminous to severe limitations placed on general freedoms to travel (Mundt, 2004). The boundaries between commercial and social tourism then became blurred. From an economic point of view, social tourism is estimated by social tourism organizations such as the ISTO to play an important role notably in tourism employment.

Yet, it is apparent that few countries in Europe collect statistics in a way that allows the desegregation of social tourism activity from mainstream tourism, resulting in an inability to collect reliable data on the economic impact of social tourism. Only a few countries actively collect statistics resulting in inadequate data for international comparison. However, where statistics are collected, there are some useful trends highlighted (Berthon, Pitt, Plangger, & Shapiro, 2012). In France for instance, in 2003, UNAT estimated that 12% of the 45.4 million people going on a holiday were social tourists using social tourism infrastructures (Caire, 2005) and that about 10% of the whole accommodation sector was made up of social tourism stock (Caire, 2006). Social tourism is an imperative sector of the overall tourism economy in France, yet this is a result of an embedded system of financial support for social tourism, which is integrated well when compared with many other countries. The most well-known definition of social tourism originated from the Montreal Declaration on Social Tourism (1996), which forms the basis for article three of the ISTO statute, social tourism is: 'all of the relationships and phenomena resulting from participation in tourism, and in particular from the participation of social divisions with modest incomes (Berger & Paris, 2013; Dixon, 1999). This participation is made possible, or facilitated, by measures of a well-defined social nature' (BITS, 1996). This definition infers social/state support for a wide range of groups and is thus inclusive of TFA and a wide range of potential users. Furthermore, since the Palma conference organized by the Committee of Regions on Social Tourism in November 2005, sustainability has become an intrinsic aspect of social tourism. An example is the integration of social tourism issues in the policy remit of the Tourism Sustainability Group (TSG). In some countries such as Belgium there is an ongoing debate on the definition and image of social tourism, and while the adoption of TFA concerns have been positively welcomed, there have been doubts about the integration of the term sustainability as relevant to social tourism since these concepts potentially further blur boundaries and understanding about social tourism. It seems apparent that the lack of clear understanding and definition for social tourism has provided a hindrance to the development of integrative policies within Europe. One definitional aspect that has been largely overlooked is the degree of public funding given to social tourism. This is often linked with a political/ideological desire to provide people with the means to benefit from what is argued to

be their constitutional right to go on a holiday. With the exception of the UK, all countries under scrutiny in this paper have a public funding policy, even though levels of subsidies vary a great deal. Aside from the EU report of 1994 (Commission des Communautés Européennes – D.G. XXIII – Uniter Tourisme, 1994), these funding systems have hardly ever been researched or their effectiveness compared (Gretzel, 2011; Minnaert, Maitland, & Miller, 2011).

However, as argued in this paper, these issues cannot be separated from two important elements for tackling and understanding social tourism systems in the different countries. These are: the lack of a unified definition adopted by all countries in the EU; and the variation of target groups from one country to another. Finally, the term can have secondary meanings in some countries. For example, in Germany, ‘Sozialtourismus’ also refers to the migration of populations from poorer countries, but has hardly any connotation with tourism practices. Social tourism is also understood as a social action with a close link with volunteer tourism. This indeterminacy of definitions is exacerbated by only a partial analysis within the academic study of social tourism, which despite a current resurgence of interest remains incomplete.

Early research included considerations of the structural inequalities of access to tourism and cultural differences in attitudes and behaviors as a determining factor affecting participation (Richards, 1998, 1999). On this basis, the major strands of research on social tourism in the English language has focused on the benefits of participation (Hazel, 2005; Hunter-Jones, 2004) or access barriers in the context of disabled people (Shaw & Coles, 2004; Shaw, Veitch, & Coles, 2005). And while recent research has engaged with definitional issues of social tourism (Minnaert et al., 2007) and of the impacts of social tourism interventions on health and social policy connections (McCabe, 2009; Minnaert, Maitland, & Miller, 2009) overall, this tends to come from a benefits perspective leaving little analysis of the systems and structures of the supply of social tourism.

Recent research has addressed some of these gaps that highlighted significant systemic and structural differences (Diekmann et al., 2009 aforementioned). It is therefore critical to understand how the EU has shifted its ‘orientation’ towards social tourism in order to evaluate the organization and supply of services in this sector of the industry.

Actually, the earliest definition of social tourism by Hunzicker (1951) describes “social tourism as the relationships and phenomena in the field of tourism resulting from participation in travel by economically weak or otherwise disadvantaged elements in society”. In 1957, Hunzicker added a comment regarding the nature of social tourism provision, defining the concept as ‘a particular type of tourism characterized by the participation of people with a low income, providing them with special services, recognized as such’. These two early definitions highlight the complexity of the concept of social tourism, as they allow for four different interpretations. Each of these four interpretations is

apparent in social tourism schemes in Europe today: Form of social tourism concept is located in democratic Europe after the end of Second World War.

Accompanying this diversity of approaches to social tourism is a lack of attention within the academic community. Although social tourism can trace its roots to the beginnings of modern tourism, it has received little attention from the academic world. Recent research in France and the UK has rekindled interest however (Caire, 2005; Hall & Brown, 2006; McCabe, 2009; Minnaert, Maitland, & Miller, 2007).

The field lacks a single definition, thus research is often presented as a form of welfare tourism rather than being overtly linked to the concept of 'social tourism' (Abdel-Ghaffar, Handy, Jafari, Kreul, & Stivala, 1992; Hall & Brown, 1996; Jefferson, 1991). This lack of clarity is exacerbated by the fact that the concept of social tourism encompasses a broad range of activity, ensuring that there is often a poor level of knowledge or understanding about what social tourism means, despite valuable theorizing, which posits social tourism either as a social force or as a tool to reduce inequality (Graburn, 1983; Higgins-Desbiolles, 2006; Krippendorf, 1987).

There are also different ways of approaching social tourism. While much research takes a sociological approach, in France, the literature provides more socio-economical and organizational analysis (Caire, 2005, 2006; Chauvin, 2002; La Documentation Française, 1992). Therefore, the aim of the present paper is to begin to address these issues through a comparative analysis of diverse social tourism systems and practices including supply and demand (target groups) in seven European countries with important social tourism structures: Belgium, France, Germany, Poland, UK, Romania and Spain. The purpose is to propose a framework that would enable the development of a common approach for social tourism to be developed. The paper outlines different definitions and interpretations of social tourism and examines the systems in different countries. This is achieved through a discussion of the range of funding mechanisms, target groups (beneficiaries of social tourism), an assessment of the structures of supply and facilities, and finally an evaluation of the links with the commercial tourism sector. The paper draws largely on results of the recent study 'Employment in the European social tourism sector' (Diekmann, Duquesne, Maulet, & De Nicolo, 2009).

This project undertaken for the ISTO and EFFAT (European Federation for Food, Agriculture and Tourism) focused on employment issues within the European social tourism sector. While the current paper does not wish to repeat those findings, the purpose is to develop a discussion based on key issues that arose as a consequence of the research. Finally, the paper concludes with a consideration of perspectives for future development in the social tourism sector and a reflection on the consequences for future European policy in this area.

Thus, social tourism is the result tendering holidays of social groups as a result of domestic policies in some countries, actions and approaches to professional associations, trade unions or other meaning (Draica, C., 2003, pp. 102). Social importance of tourism as a formative of society, promoter of economic growth and sustainable development, with a large contribution to global development, led to the creation of specialized bodies (International Bureau of Social Tourism - BIST), inclusion on the agendas of the forums highest (UN, European Community Commission). The statute adopted by the General Assembly of May 15, 2002 BIST at the World Congress of Social Tourism held in Mexico stated: "the social tourism means all relationships and phenomena resulting from participation in tourism, and in particular the participation in tourism low-income social strata - participation possible or facilitated through measures of social well-defined "(Bizirgianni & Dionysopoulou, 2013; Kietzmann, Hermkens, McCarthy, & Silvestre, 2011).

- Social tourism is tourism that specifically encourages the participation in tourism activities of persons who are economically weak or otherwise disadvantaged. Social tourism initiatives in this category aim to offer tourism experiences that are already accessible to a majority of persons to groups who are excluded from them, usually for financial or health reasons. The product offered is thus a standard product, the same product as is available to non-social tourism users. The disadvantaged are especially and actively targeted to encourage participation: examples include children with disabilities or senior citizens with complex health needs. Eligible groups may vary over time and between societies. These types of initiatives will be referred to as the participation model.
- Social tourism is tourism that encourages participation in tourism by all, including persons who are economically or otherwise disadvantaged. In this category, social tourism initiatives aim to encourage tourism participation for many or most members of the society – for example, through subsidized schemes such as holiday vouchers. Such initiatives see assistance to participate in tourism as a universal benefit, but with particular benefit to the economically least well off. The tourism product offered is again standard, the same for disadvantaged and non-disadvantaged groups. These types of initiatives will be referred to as the inclusion model.
- Social tourism is tourism that is specifically designed for persons who are economically or otherwise disadvantaged. These social tourism initiatives offer a product that is specifically adapted for social tourism users, for example, through the selection of specialist accommodation or the provision of support services. These could include facilities for persons with mobility problems or the organization of specially designed activities to achieve particular social benefits. Participation in this type of social tourism is limited to the targeted users. These types of initiatives will be referred to as the adaptation model.



- Social tourism is tourism that provides economic opportunities via travel and tourism for persons who are economically weak or otherwise disadvantaged. In this interpretation, social tourism initiatives are mainly focused on providing economic benefits for the host community. The target users are seen as any potential client group that can be attracted during the shoulder season and increase sales and employment opportunities in the destinations. Certain social tourism users, such as senior citizens, can be an example of such a client group. A specific social tourism product (such as an all-inclusive group holiday) is proposed to attract participants in these initiatives, but selection criteria for participation are less rigid, as the schemes welcome both those who cannot participate in commercial tourism and those who can, but who opt for social tourism schemes instead.

### **Regional character of social tourism deployment in Uzbekistan.**

The role of tourism is a worthwhile prerequisite for the Uzbekistan tourism industry to prepare country for more intensive development. As one of the most untapped tourist destination, Samarkand plays huge role in the deployment of the tourism in the country. Moreover, other geographical areas of the country possess unique oriental monuments and architectures, which also may appeal a flow of tourists as well. A list of World Heritage sites demonstrates remarkable strength that underlined by lots of global organizations and government too. In this case, a vast amount of attention is dedicated in Uzbekistan to the tourism improvement and enlargement of corresponding infrastructure as one of the urgency instructions of the socio-economic deployment of the public. After endorsed in 2013 of the Programs of Tourism Development in Khorezm, Surkhandarya, Tashkent and Kashkadarya provinces, begins new era in the development of national tourism possibilities. It is noticeable that, more than US \$260 million is invested to implement in these regions which have a considerable tourist potential ('The State Committee of the Republic of Uzbekistan on Statistics - Economy in numbers', 2014).

Hence, directions provided by these programs highlight main ways of organization of projects in order to enhance infrastructure of tourism industry, for instance improvements of engineering facilities by the reconstructing of roads that connect most popular tourist zones all over the state and establishing hotels, restaurants for tourists of different economic prosperity. Remarkably, public and private support in hospitality sector, foresee its results a sophisticated package of honors for project stakeholders. Yet, a specific fraction of job is being done to this direction. A series of new accommodations, restaurants and other tourist centers have been erected and number existing ones have been reconvened entire of the republic. Besides, the foundation of many new sites is in the creation, and variations of cultural programmers are introduced for both local and foreign visitors. Wi-Fi communication is implemented in majority of centers of tourism in the state's historical towns



and main tourist sightseeing places. Following the current popular tourist routes, many new one are formed in the Republic (David Airey & Myra Shackley, 1997).

Objectively assessing the situation, it should be noted that government pays considerable attention to the development of tourism. During the years of independent development, in Uzbekistan established a legal framework and tourism infrastructure. Today, in the tourism operate more than 900 organizations and companies that have a license for tourist activity (subjects of tourist activity), of which 500 hotels, 371 - travel agencies (tour operators and travel agents), with about 90% of tourism organizations and companies related to the private sector, that affects the formation of a competitive environment in the tourism system to provide tourist services. Air gateway international airports are operating in Tashkent, Samarkand, Bukhara, Urgench, Nukus and Navaiy.

Many governmental subsidies have invested in the deployment of the tourist geographical regions in order to push facilities and support fundamental amenities for small enterprises such as family hotels stakeholders, service sector representatives and local people.

#### **Socio-economic justifications: potential impacts of social tourism**

The provision of social tourism has been linked to and justified by both social and economic benefits. A growing body of research evidence indicates that social tourism can generate both types of benefits. Scientists like Minnaert and McCabe have conducted research on the social impacts of participation in social tourism by low-income legates and have found evidence of welfares ranging from increases in self-esteem, improvement in family relations and widening of travel horizons to more pro-active attitudes to life and participation in education and employment (Bhatia, 2006).

On an economic level, there is evidence that the development of social tourism can help to sustain jobs in the low season and generate income for host communities. In recent interpretations of social tourism, the economic benefits of the phenomenon have started to play an ever more central role: they offer a financial, rather than purely moral, argument for social tourism development. This has resulted in a markedly increased interest in social tourism projects in the stimulation model. An example of this increased emphasis on the stimulation model is the Calypso program of the European Commission for Enterprise and Industry.

This program aims to develop social tourism programs and exchanges between different European countries. Four key target groups have been identified: senior citizens, families in difficult personal or financial circumstances, persons with disabilities and young people. The social aims of personal development, well-being, European citizenship and learning are highlighted, but the economic aims of the program are more specifically defined. The program aims to generate economic activity and growth across Europe, reduce seasonality, create and sustain more and better jobs in the tourism sector and assist in the

development of small emerging destination sat a regional level (European Commission, 2011).

In this program, the emphasis on helping people with low incomes has almost entirely disappeared: even though it is still a criterion for the target group of 'families in difficult personal and financial circumstances', it is not explicitly mentioned for the other three categories. Not all senior citizens, young people and persons with disabilities are excluded from the tourism industry and the benefits of holidays without social tourism provision – the benefit of economic stimulation for the host community and the positive social impacts on the participants are seen as a justification to widen the target audience for social tourism initiatives.

Charities, unions or companies ran most holiday centers while social tourism also directs on the deployment of this feature. This might have been one of the reasons for their management becoming very bureaucratic over the years. Still, they developed according to the needs of their public: many switched from full board to half board, the visitors had more freedom when choosing their activities and help with the chores was no longer required (Chauvin, 2002).

After 1980, social tourism faced a number of important challenges. This was mainly due to the changes affecting the traditional target group for social tourism, the manual workers: they were increasingly able to take holidays in the commercial circuit, because of the low prices that mass tourism could offer. Social tourism organizations, such as ISTO, have adapted to the changes in the market environment and have expanded their focus by adding Solidarity Tourism (see Belanger & Jolin, 2011) – as the demand for traditional social tourism product diminished, they extended their scope to demonstrate their continuing relevance.

It is important to highlight here that even though initiatives following the stimulation model may have a range of positive economic outcomes, they may perform less well in terms of social outcomes. Studies highlighting the positive social impacts of social tourism have not been carried out with stimulation schemes, but with initiatives in the adaptation and participation models – models that are focused exclusively on the needs of disadvantaged and socially excluded users. Emphasized investigations concluded with the outcomes of social tourism that positive outcomes were only reached if an adequate level of support could be provided to holidaymakers: some holidaymakers hardly need any support at all, but others may need help planning the transport, packing their luggage or finding things to do during their time away.

The revision also showed that support after the holiday might be equally important to harness the positive attitudes and motivation the holiday may have encouraged into the participation in courses, the search for specialized support or the search for employment. As

initiatives in the stimulation category currently do not include any of these support initiatives, the social outcomes may be less significant than those of more tailored and specialized programs. Justifying social tourism initiatives in the 'stimulation' category based on the positive social outcomes of other types of programs is thus only partially accurate: every program should be evaluated individually, in terms of both economic and social outcomes. In terms of the supply of social tourism services, there are different types that may be addressed on different market segments. Study suggests the following ones as a major categorized feature of social tourism development:



Due to some mentioned features, Uzbekistan has achieved most social characters on the way of deployment while organizing fundamental facilities. However, from global point of view it could be distinguished that social tourism in abroad are differ, in Germany for instance, it is in the hands of the BAGFE that comprises three different organizations. Altogether, they provide about 130 family centers throughout Germany. The organizations distinguish themselves from commercial suppliers because their main aim is not profit, but family-orientated welfare as a core element of all policies and activities. On the contrary, to Germany, in Belgium, the unions are the owners of many social tourism facilities. The purpose for their involvement in the provision of accommodation facilities is comparable to the German case, to provide an opportunity for social exchange with other people.

There are also very diverse points of view on the services provided by social tourism. In Romania, for instance, social tourism focuses on three basic services: accommodation, meals and medical care in spas. While in Belgium, infrastructures of social tourism, in particular for youth tourism, provide additional services and activities (guided tours, parties, etc.). In the UK, the provision of funding for activity/adventure holidays for young people is comparable. Common issues in terms of the supply of facilities seem to be the constant quest for quality improvement in social tourism facilities in order to meet the needs of more

demanding clients and sustain competition with commercial infrastructures (Diekmann et al., 2009, p. 29).

### **Further Suggestion to optimize tourism industry**

Assessing tourism development and planning is often subjective and related to a wide range of non-tourism associated variables. Despite several examples of socio-cultural and environmental degradation which resulted in a direct economic decline, the vast majority of destinations around the world are still “grey” areas and the interpretation of the impacts of tourism on the society are largely subjective and subject to interpretation. Although one can be accused of over-simplification, several interest groups in the social or scientific disciplines tend to formulate positive or negative opinions about tourism development. Traditionally, environmentalists, planners, sociologists and anthropologists and to a certain degree socialists tend to be much more critical of tourism development and skeptical about its contribution to local societies. They tend to argue that tourism has disrupted local sociocultural and environmental resources and jeopardizes the integrity of local communities by developing and delivering superficial and inauthentic facilities and services. The local community are treated as “second class” citizens within their own region whilst most of the benefits are ripped off by multinational organizations, which have colonized and destroyed resort after resort. They are often quite pessimistic and almost claim that each attempt to develop tourism in a new destination will inevitably end up in a new disaster and hence often discourage new areas from developing tourism (Bizirgianni & Dionysopoulou, 2013).

In contrast, economists, management and marketing experts and supporters of the free economy tend to see tourism as an opportunity for rational utilization of resources for enhancing the prosperity of local people and hence take a more optimistic view. They tend to compare the disposable income of locals before and after tourism, development and they emphasize the ability of local people to develop a more western way of life by acquiring consumer goods and services. Employment and job mobility are some of the most frequently quoted benefits for local people. This research claims that believes that the truth lies somewhere in the middle and varies from destination to destination according to local resources, planning and regulation, business arrangements and political situation. Arguments for and against tourism development can be explained for every single destination (‘The State Committee of the Republic of Uzbekistan on Statistics - Economy in numbers’, 2014). Therefore, only elaborate research, using a wide range of multidisciplinary research tools should be utilized in order to assess the real impacts of tourism and the winners and losers at the destination level. Based on this research, policies should be developed through partnerships between both the public and private sectors.

The results should be orientated to four major strategic directions:

- Maximize the benefit of tourism for the local society;

- Maximize the satisfaction of customers/tourists;
- Sustain local resources in the long term;
- Maximize the profitability of tourism enterprises.

Information technology may also be able to assist the sustainable development and management of destinations. Despite the fact that some of these directions may be conflicting with each other it is of paramount importance that all stakeholders at the destination make every effort to achieve them. Training will enable participants to appreciate the interrelated issues in tourism planning and management in order to enable decision-makers to develop vision. This will ensure that the tourism industry of the future will achieve equitable returns-on-resources utilised for the development and production of tourism, as well as equitable distribution to all stakeholders of local resources.

## Conclusion

This article has explored some of the definitions and interpretations of social tourism that are in use today. It has highlighted that there are tensions, and in some cases contradictions, between different interpretations of and motivations for social tourism. The beneficiaries of social tourism can differ greatly depending on the individual programs considered: in some cases, they are confined to members of economically or otherwise disadvantaged groups; in other cases, the beneficiaries include, but are not restricted to, disadvantaged persons. In other cases still, the beneficiaries are not those who travel, but members of the host community. The motivations for provision are equally diverse: social tourism can be seen as the expression of a fundamental right to travel, as a vehicle for the economic development of regions, as a measure to increase social inclusion or as a route to greater European citizenship. It can be said that 'social tourism' has become an umbrella term for all these different expressions, and this article has proposed that the concept needs to be defined and nuanced more precisely through sub-categorization. By examining the target users and the product offered in social tourism initiatives in Europe, the model proposes

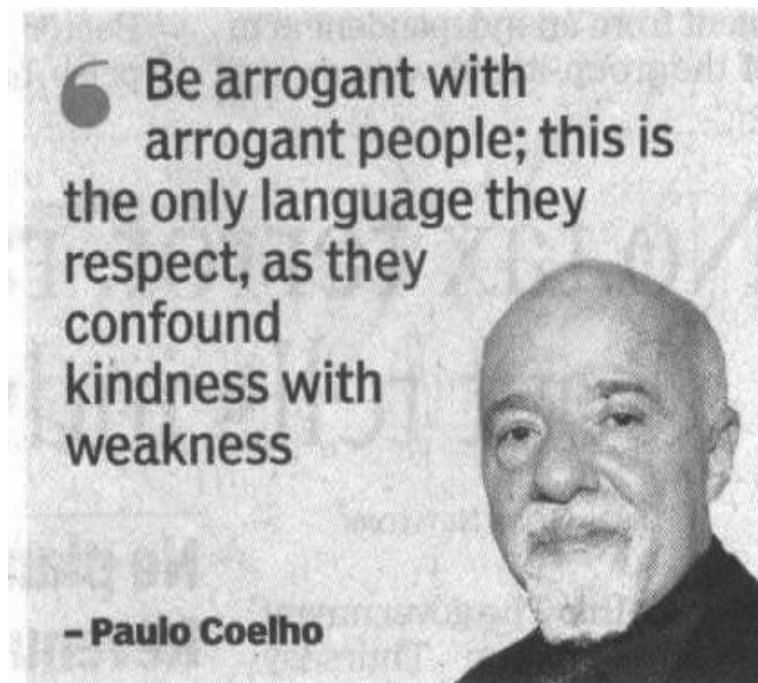
four main categories: the participation model, the inclusion model, the adaptation model and the stimulation model. Solidarity tourism, with its links to pro-poor tourism and community-based tourism, can be seen as a bridging model between social tourism and commercial tourism. Based on this model, the justifications and impacts of different types of social tourism can be compared, contrasted and evaluated for effectiveness. Social tourism research is still in a relatively early stage, and further research is needed before a 'signification' of the concept can take place. Jafari (2001) has explored how this 'scientification' developed for tourism studies, in itself a recent area of study. He discussed how knowledge and theory in the field of tourism, in general, have developed around four platforms: the advocacy, cautionary, adaptancy and knowledge-based platforms. A similar 'identification' is noted by Hardy, Beeton and Pearson (2002), who have applied the idea to

sustainable tourism. Links have been built between sustainable tourism and eco-tourism, community-based tourism, responsible tourism and alternative tourism, to name but a few; yet each of these concepts commands a specific definition and is developing its own strand in the tourism literature. A similar development can be seen to have started in the case of social tourism, with concepts such as the four categories proposed in this article, host- and visitor-related social tourism, solidarity tourism and tourism for all as potential nuances. If all the different forms of social tourism presented in this special issue are indeed expressions of the same concept, the concept perhaps needs to be more clearly defined and sub-categorized, so that it does not become a meaningless label. The question can be asked if a common definition of social tourism is at all possible, considering the different forms the concept can take, and if having this definition is desirable or unnecessarily limiting. The authors propose to define social tourism as 'tourism with an added moral value, of which the primary aim is to benefit either the host or the visitor in the tourism exchange'. Although definition such as this one does not, in itself, do justice to the different manifestations of social tourism and their individual characteristics, it has the benefit of positioning social tourism against regeneration projects that can be seen as mainly economic. The range of interpretations of the concept underlies the wealth of examples described in this issue, and the proposed definition highlights the common ground between them.

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## AVOIDANCE/MINIMIZING OF DISPUTES IN INFRASTRUCTURE PROJECTS THROUGH UNAMBIGUOUS CONTRACT PROVISIONS

Ratnesh Shukla<sup>1</sup>, Archana Tiwari<sup>2</sup>

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### ABSTRACT

*Construction projects are major component for the development of the nation. The construction projects are being in the process of standardization and improving efficiency; coordinated bidding conditions and standard bidding documents for domestic construction contracts have been developed and distributed to all Government agencies and public sector organizations as guidelines. There is essential for proper and clear cut contract provisions is to be made in construction contract agreements to minimize disputes and also it is necessary for proper resolution mechanism in the construction division. A considerable amount of money is locked up in abeyance of clear provisions in the clauses of contract agreements and subsequently leads to disputes between contractors and clients, resulting to cost & time overruns, delay in completion of projects and in conclusion it is a hurdle in growth of country. The aim of this article to suggest the various aspects to minimize the disputes in the infrastructure projects based on the case study.*

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### Introduction

Construction projects are unique and necessary to be completed within the specified period of time for efficient growth of nation which is possible only with distinctively created groups of experts to frame unambiguous contract provisions in the contract document. Additionally, construction projects can become complex in nature due to different attitudes, different areas of interests and because of the important issues of time, money and quality.

These days both public and privately owned construction projects are increasing throughout the country. The industry must change its treatment of conflicts, claims and disputes to save time and money. Time should be used for works instead of wasting time for litigation, and out-of-court dispute resolution.

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<sup>1</sup> M Tech student, Construction Technology & Management, Madhav Institute of Technology & Science, Gwalior (MP)

<sup>2</sup> Professor, Department of Civil Engineering, Madhav Institute of Technology & Science, Gwalior (MP)



## Literature Review

*Charles T Jahren, member of ASCE, article “Investigation into Construction Disputes” published in Journal Management of Engineering (1990),* Author, present the results of an investigation of professional opinion within the construction industry regarding the cause of disputes and suggested how to avoid disputes. For avoiding disputes, it is important to develop contracts that share risk in a fair manner among all parties.

*James E. Diekmann & Mathew J Girard, article “Are Contract Dispute Predictable” published in Journal of Constructional Engineering & Management of (1995),* Author, explains the three categories of project characterizes viz people aspects, process aspects and project aspects. The findings are based on statistical analysis of data on the frequency and severity of disputes on 159 projects. A logistic model named Dispute Potential Index was created that predict the disputed projects.

*Alaknanda Mane, S. S. Pimplikar, case study “Dispute – A case study” published in International Journal of Engineering and Advanced Technology (2012),* Author, presents case studies that investigate how to avoid dispute in future projects, he suggested to broken down the project into smaller well defined packages with a view to optimize the number of contracts to be needed for better planning, co-ordination and implementation of the whole project, so that project will be well organized/managed. To avoid disputes the improved procedures should be developed viz delegation of more powers at project level, project implementation manual, network based monitoring system, extensive training to project managers, etc.

## Dispute Aries in Construction

Most of the disputes arise due to faulty Detail Project Report (DPR) viz in sufficient scope of works, incorrect hydrological data for structures, coordinates of projects, survey details, etc., and the scope part of bidding documents are being prepared based on the DPR for awarding of contract. Therefore, there is sufficient ground for the contractors to raise disputes since from the inception of the project. Also, the various provisions in the bidding documents and contract clauses lead to disputes in construction contracts based on the case studies and experience and these following clauses of contracts are to be modified to minimize disputes:-

- Site Inspection by Contractor
- Awarding of Contract to lowest bidder
- Final and binding power
- Delay in completion and its extension
- Termination of contract

- Rates of variation and extra items
- Provision of escalation

**Site Inspection by Contractor:** - This clause of bidding documents/contract documents is not being used fairly by the both parties i.e. govt. agencies and private parties due to abeyance of clear cut provisions. The clause provides that the information about the site work and site conditions in the bidding documents is given in good faith for guidance only but the contractor shall satisfy himself regarding the aspects of site conditions.

Changed or differing site conditions are major constraints. Many times the actual site condition would be materially different from what is described in the tender specifications or understood from a visual inspection. There may be concealed or undisclosed or unforeseen abnormal conditions which would adversely affect the work leading to delay, extra cost and even breach. It may be possible to assess some (but certainly not all) concealed conditions by site inspection. But between the time the tender documents were received by the contractor, in spite of the best efforts to obtain them early, and the due for submission of the tender, if the time available was not sufficient for carrying out a proper site inspection, the contractor will be justified in not inspecting the site but agreeing to a date of completion and quoting a price on the basis of the specifications, site conditions and borehole investigation or soil test reports furnished in the tender documents. Additionally, in spite of a site inspection, if there is a condition capable of obstructing or substantially enlarging the work later, which an experienced contractor cannot detect at a normal inspection, the client is obliged to disclose it in advance.

Generally, courts are unhappy at contractors preparing tenders carelessly without site inspection and then returning to them for redress. But that cannot be true of concealed conditions which will not be known by visual inspection by an experienced contractor.

Mostly, the contractor are being raised dispute due to non availability of approach road to site, hindrances, encroachments, land acquisitions, shifting of utilities, etc., and the clients rejected his raised disputes by referring this clause only without referring other provisions/obligations of the each parties.

**Mitigation:** -When any changed condition is noticed, the contractor should not disturb the condition before notifying the client and recording it with evidences such as photograph, sketch and measurements.

When a major error or change or a concealed condition which varies from the specified or expected condition is noticed, work on the related area must be stopped at once as the continuance might enlarge the cost of rectification or correction. Infect, wasteful expenses knowingly incurred shall not be compensable. A written notification that a certain error or change is noticed and, therefore, an activity is suspended pending investigation and correction, will be a gesture that be appreciated by all.

**Awarding of contract to lowest bidder:** - The present procedure for awarding of contract is to lowest bidder and due to competitive bidding in present scenario of construction industry, the most of the bidder quote lowest rate to get the contract first. In most of the awarded contracts the quoted rates are not workable, and afterwards employer mostly ask from the lowest bidder to submit rate analysis with justifications for their quoted rates instead of rejecting submitted bid to avoid complexity of the present system. As per the conditions of the bidding documents the bidder submitted justification for his quoted rates with minimizing the cost of overheads, hire charges of equipments, optimum utilization of resources, etc.

Based on the bidder justification, employer asked the contractor to submit additional performance security in the form of Bank Guarantee, and the contractor submitted the additional performance security and finally the employer awarded the contract to the lowest bidder i.e. contract awarded to those contractor whose rates are not workable; and so, since from inception of the project, the contractor well aware about his quoted rates i.e. he understands that we will be unable to get profit from these quoted rates. Therefore, contractor put his all efforts to make the project profitable by way of variation in quantities, extra items, disputes/claims.

**Mitigation:** -To minimize disputes and claims it is suggested that contract will not be awarded to lowest rate quoted bidder and awarded to those contractor whose rates are workable. To avoid this situation, it is required a provision in the contract document for to get a realistic rate based on standard deviation (SD) i.e. to work out SD rates from the quoted bidders rates and award the contract to those contractor whose rates and cost nearer to SD rates. If this type provision is made in the contract documents then the contractor will quote workable rates during bidding of contract and finally the disputes/claims can be minimized.

### **Final and Binding Power**

In construction contracts while specifying the role of responsibilities of the parties in the contract also specify certain extra ordinary powers to a particular person whose decisions are final and binding to both parties. These decisions are administrative in nature and they are neither open to arbitration nor to court of law. They are meant to prevent disputes and are taken in the overall interest of the project. However, in practice the disputes arise due to varied interpretations of certain technical terms in a contract, unclear provisions of final and binding power or employer intensions in giving decisions under final and binding power, and thereby preventing contractors from referring the matter to an arbitrator.

In construction contract, the site handed over to contractor with hindrances with providing provisions in contract conditions that contractor should co-ordinate with concern service provider departments to made site free from encumbrances/hindrances.

As per this provision, contractor to liaise/coordinate with concern service providers department, but the employer insisted contractor to made site free from hindrances and also

sometimes employers asked the contractor to make proper coordination which is not being made. Ultimately, employer fixed the responsibility on the part of the contract under final & binding power.

**Mitigation:** - To avoid such situation, it is required to provide clear cut provisions in the contract about the limitation of final and binding power i.e. where this clause should be used by the client. To minimize the disputes arises due to varied interpretations of certain technical terms in a contract, unclear provisions of final and binding power.

**Delay in Completion and its Extension:** - Delay in completion of infrastructure projects due to various reasons other than the contractor failure viz supply of drawings and its clarifications, changed situations including errors, omissions, inactions and ambiguities.

Supply of drawings and clarifications is an important condition to be fulfilled by the client in a construction contract for timely completion. Many times, delay takes place in the supply of drawings and very often the drawings given will not be self-explanatory. Clarifications asked for will be usually referred to the consultant. By the time a clarification finally reaches the contractor, considerable time would have elapsed. Similar delay takes place in the approval of or modifications to the contractor's working scheme submitted for approval. Meanwhile the related portion of the work cannot proceed. The larger the client's organization, the more will be the delay. For a contractor, his construction cost is mostly linked with time and, therefore time lost is money lost. For this sort of delays, the organization is entitled to time extension and compensation for financial directly resulting from the delay.

Defects, errors, omissions and ambiguities in the specifications furnished by the client/consultant are not uncommon. They may be found out after much time has elapsed. Then it may be necessary to re-order or re-do some work, reschedule the whole of the remaining work. This situation would entitle the organization to time extension and cost compensation. Unspecified test and undisclosed or partially disclosed technical information causing errors in tender calculations leading to later changes and delays will also come under this category.

Delay or hold-up caused by other contractors is a common experience in the construction of a plant on which many contractors work simultaneously. The failure of any one will bring about a ripple adverse impact on all connected activities. A simple example is the delay or defect in the construction of concrete foundations holding up the structural erection and equipment erection. A substantial delay in the release of working front is a breach of a contract conditions. The contractor may seek remedy by way of time extension and cost compensation or even termination and damages depending upon the severity of the impact.

A dispute is a request or a demand for extension of time and/or payment of cost compensation for loss of time and /or extra costs arising from changed situations including errors, omissions, inactions and ambiguities disputes/claims are of two types:-

- Ø The contractor's disputes/claim against the client and
- Ø The client's disputes/claims against the contractor.

**Mitigation:** -If the contractor has the intention to claim additional payment for any change or extra or compensation for delay or idling, such intention should be notified immediately on noticing the necessity or existence of the change or extra or at the beginning of the idling and not after implementing or passing through it. A dispute/claim for an extra work or a change presented after receiving the normal payment for an activity will not be entertained unless a previous notice was given.

Careful and foolproof documentation should be planned right from the beginning of the work to support every type of change. If the owner has to pay damages for breach, the breach of duty or obligation should be proved with documentary evidence.

**Termination of Contract:** - In case of termination of the contract for the contractor's proven failure, payment for the work done only shall be due. But if the termination is for no fault of the contractor, then even demobilization expenses, employees 'terminal benefits, fabricators' claims and loss of profit will be claimable, beside treating the mobilization advance as specifically paid by the owner and expended by the contractor for mobilization and initial expenses, so that no part of it is deductible from the claim amount. Loss of profit shall cover both the executed and the unexecuted portions of the contract, as the loss of the contract deprives the contractor of an income in the firm expectation of which it had mobilized a site with all the required resources.

For the client's breaches, the contractor will be entitled to damages on the same lines as termination of the second category mentioned above. Where the claim-generally events have delayed the work, a reasonable extension of time shall be included in the claim.

**Mitigation:** - To avoid such situation, it is required to terminate the contract after getting legal opinion from the concerned professionals. Also, termination of contract should not be for that project whose extension of time is not approved, otherwise it comes under wrongful termination.

### **Rates of Variation and extra items**

Any work which is not envisaged in the base contract is an extra and every situation that necessitates a 'change' to increase or decrease the quantum of input of resources beyond or within what was originally considered as needed to be spent would call for a change order. The two forms 'extra' and 'claims' are interchangeable, but yet there is a slight difference between the two in the sense that extras and changes which cannot be resolved in the field

become claims between the organization and the owner for settlement through longer procedure and at higher level. Precisely, extras and changes of normal nature do not contain an element of dispute between the owner's, engineer and the contractors.

Although there may be some element of overlapping and/or duplication, we will discuss the two topics separately; extras and change orders in the execution and claims in the succeeding section. Change orders will extended even for claims when they are resolved. Extras would arise from the following: Execution of the work from what was originally set forth in the contract documents. This may be addition or deletion, favorable or unfavorable to the organization.

- Ø Change in the contract plan, or method of work
- Ø Change in the contract specifications
- Ø Inadequacy of design
- Ø Major change in the method of work or order of execution
- Ø Change in the site conditions
- Ø Overruns and under runs

In almost all contracts, there will be a provision for extra work at day, work rate or man-hour rate and a stipulation of the procedure for recording and paying for extra work. But such extras are for additional work not exceeding in the aggregate about 10% of the total base contract value. Therefore, it is a usual practice to initiate afresh proposal for every materials change. Where the owner opts to cover extras under the provision of man-hour rate of day work rate, normally no problem should arise, if the contractor's site team is vigilant. They should distinguish and identify all changes deviating from the original scope of the contract, give advance notice to the client's engineer, obtain his prior consent to carry out the changes, record the labour input on a daily basis in an indisputable manner and realize full payment on a monthly basis without delay. General tendency on the part of the client's representatives will be to get as many extras as possible done without additional payment. Just because a construction contractor with all its resources sits at the site, the client's officers will like to make several changes for their convenience, as a free service. Little will they realize that the every bit of service there is a cost and that any free service will make an inroad into the contractor's meager margin.

**Mitigation:** -So, whenever a request for an additional service is received, it will be absolutely fair to clarify before taking up the service if it is a change to be paid for. This need not strain good customer relations. However, the client should recheck and ensure if the service is clearly, outside the basic scope of work. He and his team should repeatedly study the scope of work to be able to handle changes, extras and claims efficiently.

**Provision of Escalation:** - Some of the construction contracts, the provision of escalation is not incorporated in contract documents for more than a year period of completion leads to dispute as per contract Act. Escalation provision is required for more than a year of contract period, if, these type of contract has not completed than the escalation is required to be paid in the extended period of time for those contracts where delay is not being caused by the failure of contractor.

**Mitigation:** - To avoid such situation, it is suggested to modify the clause that the escalation on materials is claimable where there is time lapse and price escalation between the original scheduled date of purchase and the actual date of purchase of the respective material based on actual requirement for the delay period.

### **Conclusion & Recommendations**

There is a general acceptance that the severity of disputation is higher in the infrastructure industry than in other major sectors of the economy. There is also extensive recognition that because of the high incidence of disputes, the industry is an accepted leader in the development of dispute resolution systems and processes. It is a mute point as to whether being a leader in the resolution of disputes deserves admire.

With respect to dispute avoidance, the basic motto which is frequently expressed is, that 'prevention is better than cure'. In terms of dispute avoidance or minimization there have been numerous industry initiatives which have sought to identify the problems of the industry and then develop strategies and actions to achieve a cultural shift away from an adversarial culture.

The fundamental premise with respect to dispute minimizing or avoidance being that the likelihood of disputes occurring will be significantly reduced if a pro-active project environment can be created in which change management is an accepted tool like technical audit.

Hence the technical audit team in the area of contract management to the professionals can be said to be of a great help in better treatment of the contract. This may also help proper drafting of contract with due care that would reduce the occurrence of disputes. However, the human attitude of the parties to get the maximum mileage from the gaps in the contract cannot be overlooked and in such situations the professionals may sometimes not prove to be very effective, rather become counterproductive by way of assertion of rights through disputes.

When judgements are not given without delay for the disputes and with time when further disputes are added on continuous basis over the existing, it becomes a challenge to the judiciary system. A knowledge based Technical audit team is to be considered as a handy tool for contract administrators to come to a conclusion faster and this being the motivation an attempt is made to develop the system.



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## WELLNESS INDUSTRY AND ITS POTENTIAL IN INDIAN MARKET

Pallavi Bhardwaj<sup>1</sup>, Sumit Agarwal<sup>2</sup>

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### ABSTRACT

*The Indian economy is on a rising slope due to many constructive steps taken in past. As a result people's income gradually increasing. There is an emergence of a new group which is more educated and more aware of what's happening around. They have preferences other than food and clothing and they have the financial strength to spend on it. The only thing that they are running short of is time. They are aware of the fact that their new lifestyle is affecting their health and that their health is their most important asset. They are also becoming more aware of the long term side effects of Allopathy. This has opened new flood gate of opportunities for the wellness industry.*

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### Introduction

Wellness is not a new concept in India. Yoga, Ayurveda and Spa therapy have been in this country since a long time now. However, it has not been able to draw much popularity. In the recent past it is gaining momentum. It is necessary to understand the concept to arrive at its present state.

Wellness is slightly different from sickness. Although as per some definitions sickness industry is a part of wellness industry, there is a difference between the two terms. Sickness is reactive as one looks at it after getting sick whereas wellness is a proactive industry. It is for the people who are already well and want to stay that way. The money spent on wellness is invested in making one stronger to make one look better, see better, hear better and fight the symptoms of ageing. Be it the hair growth industry, cosmetic dentistry, elective plastic surgery, antioxidants and diet systems, vitamins and food supplements, fitness clubs and personal trainers, organic and natural health products or body, hair and skin care products, they all fall under the same umbrella.

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<sup>1</sup> Asst. Professor Asian Business School Noida

<sup>2</sup> Asst. Professor DIT- School of Business, Greater Noida

### Industry overview

The Wellness Industry market can be seen as follows:

S. No.	Segments	Products	Services
1	Beauty services & cosmetic products	Skin Care, hair care, color cosmetics & fragrances	Saloons & beauty centers Cosmetic treatments
2.	Fitness & Cosmetic Products	Fitness equipments, Sliming products	Fitness centers Slimming centers
3.	Nutrition	Health & wellness food, beverages, Dietary supplements.	
4.	Alternative therapy	Ayurveda, Homeopathy, unani etc.	Treatment centers for Ayurveda, homeopathy, unani etc.
5.	Rejuvenation		Spas

### Wellness Industry

The wellness industry is based on the concept of giving the body what it needs to support optimal health and quality of life. Traditionally most of the people have belonged to the sickness industry as they would take only interest in their health when they fall sick. But now the time is changed and now people are start believing on the concept of prevention rather than cure. Wellness is a proactive and holistic approach to address and prevent the root causes of our personal and societal ills.

### Indian Wellness Industry

Global Wellness Industry: Around US \$ 2 trillion and still increasing at a very fast rate

Current Indian Wellness Industry: INR 490 Billions

Expected Indian Wellness Industry in 2015: INR 875 billions

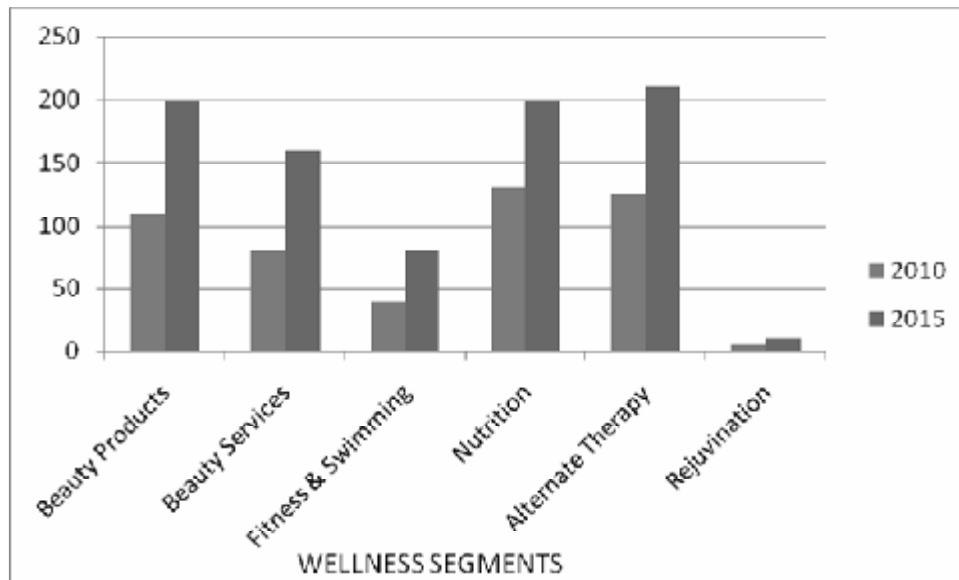
According to FICCI-PWC Publication sep-2012 Wellness today is a INR 490 billion industry in India. However, still it is less than 2 percent of the global wellness industry. Indian wellness industry has used the business potential of traditional Indian practices and

home remedies. Adjacent industries such as retail, health care, hospitality etc are assimilating wellness as part of their value proposition, providing huge opportunities going forward.

With the active involvement of government and private sectors, the wellness industry in India can create visible impact on a global scale. According to the report from the Stanford Research Institute (SRI)-2012 by the end of 2015, wellness services alone can generate more than 3 million job opportunities in India. INR

Several new players both national International are start coming to this sector. Few wellness sectors such as foods & drinks, dietary supplements and alternative medicines require greater investment while services like ayurveda treatment, alternative treatment centers, salons etc. required much lower investment.

**Segment wise Indian wellness industry (in billions)**



Source: Compiled from “Spas and the Global wellness market” Report from the Stanford Research Institute (SRI) – 2012

The aim of paper is

- To study the Indian wellness market in depth
- To find out the forces driving the growth of wellness services and products.
- To find out key areas of opportunities and major challenges

**Indian wellness market**

According to the joint report of the Federation of Indian Chambers of Commerce and Industry and Ernst & Young Indian wellness 2010 industry is growing at a rate of 35% annually. According to this report this growth is the result of the factors we are discussing below.

**Factors favorable for Indian wellness industry:**

- Favourable market demographics
- Consumerism
- Globalization
- Changing lifestyle
- Rising awareness
- Failing medical system
- More young population
- Rising Income
- Increase in urban population
- Low entry barriers
- More government support etc.

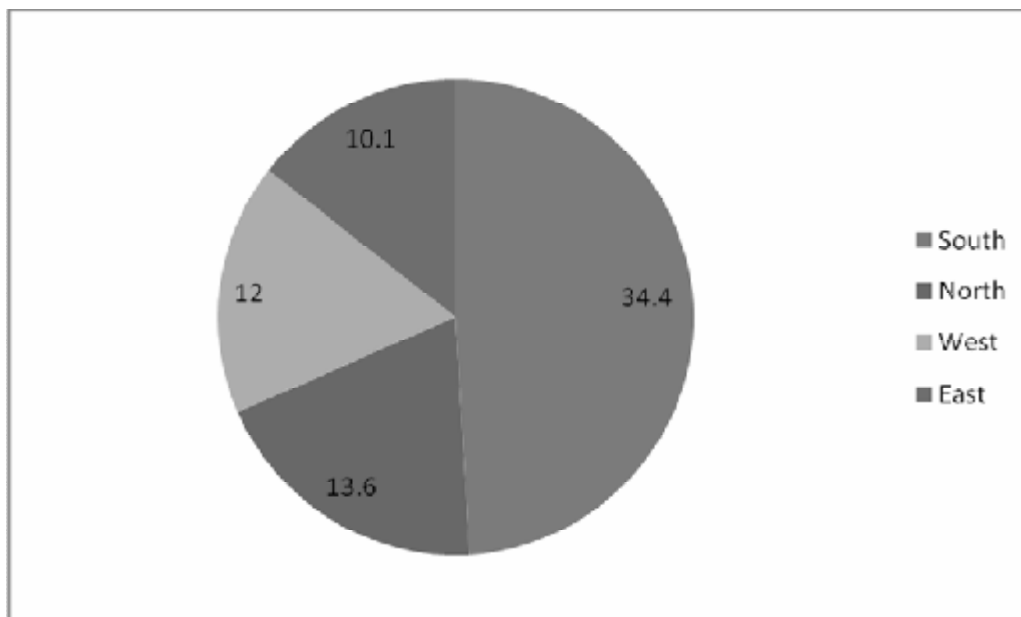
All these driving forces are discussed in depth in the latter half of the paper.

**Characteristics of Indian wellness industry**

- The overall wellness market in India is estimated at INR 490 billion and wellness services alone comprise 40% of this market. During the next three years it is estimated that this industry will grow at CAGR of 20% to reach INR 875 billions.
- Currently, wellness services employ around 1 million people and by the end of 2015, total employment potential of wellness services is expected to be around three billions.
- On an average more than 50% of the market is Unorganized and highly segmented with several small and regional players. Ayurveda and alternative treatments sector is mostly unorganized while health foods & drinks & dietary supplement are more organized.

- Larger service providers face a challenge from the presence of the unorganized sector as it puts tremendous pressure on pricing and therefore margins.
- Wellness Consumers are mainly young population with rising income levels. Increasing need to look good has led these young consumers to seek wellness solutions.
- When we are talking about region wise growth, South is much ahead followed by North, West & East respectively.

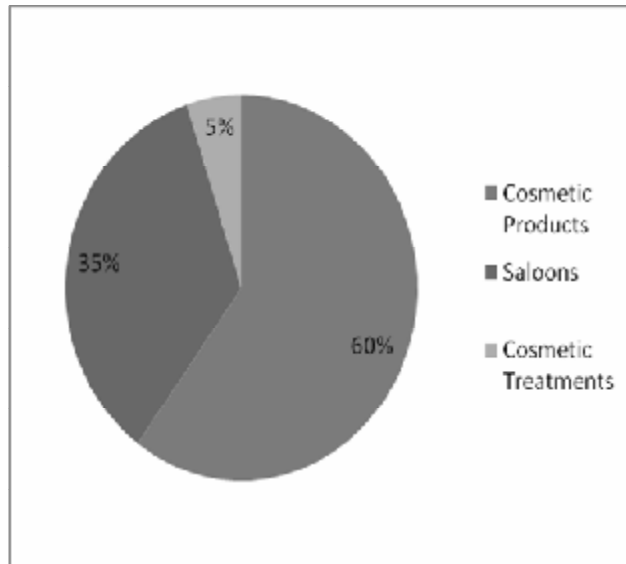
**Region wise organized wellness based centers per 100,000 households.**



Source: Compiled from “Spas and the Global wellness market” Report from the Stanford Research Institute (SRI) – 2012

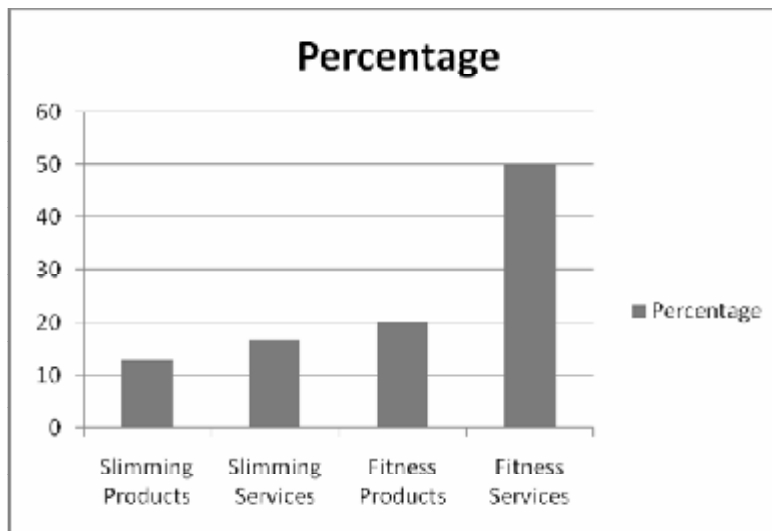
## Indian wellness market segments

### Indian beauty care market(INR 190-200 Billion)



Source: Compiled from “Spas and the Global wellness market” Report from the Stanford Research Institute (SRI) – 2012

### Fitness and slimming market (INR 40 billions)



Source: Compiled from “Spas and the Global wellness market” Report from the Stanford Research Institute (SRI) – 2012

**Health & wellness food & beverages Market (INR 130 billion)****The rejuvenation market (INR 4-5 billions)****Major Players in Indian market**

S. No.	Segments	International Players	National Players
1	Beauty services & cosmetic products	Neutrogena, M.A.C, The Body Shop	VLCC, Lakme salon Shahnaz Hussain, Jawed Habib and Naturals
2.	Fitness & Slimming	Any time fitness Snap Fitness	Club Fit line Talwalkars, Gold's Gym, Fitness One and Snap Fitness.
3.	Nutrition	Daichi Sankyo, Yakult Honsha Group	Golden Healthcare
4.	Alternative therapy		Birla Kerala Vaidyashala, Ayur Vaid
5.	Rejuvenation	Elizabeth Arden Red Door Spas, Aura Thai Spa, L'Occitane	CMYK Health Boutique

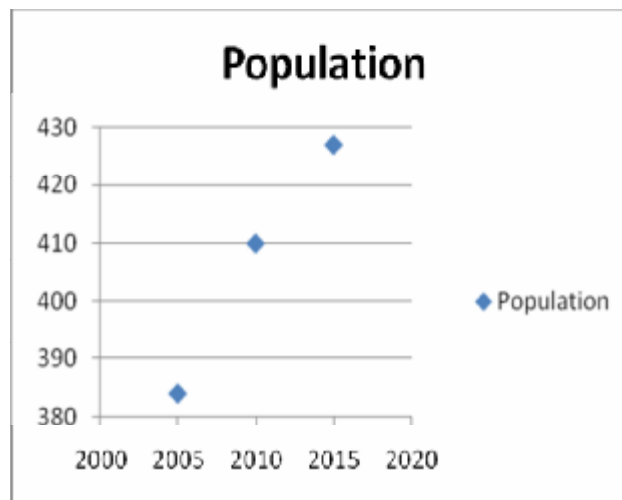
**Opportunities and challenges****Opportunities**

- Customers are developing a holistic perspective on wellness and wellness is becoming an integral part of the shift from remedial to preventive care.
- Entry of more & more international & national brands.
- Increasing brand awareness and rise in income, willingness to spend on non essential and luxurious items and exposure to western culture.
- Quality and range of product and services.
- India has no. of hospitals, beauty, fitness and slimming center's, which provide quality and wide range of product and services which attracts a vast pool of tourist from other countries.
- There is significant room for growth of international tourism in India. Wellness can be integral part of the plan to promote India as a tourist destination.

Favorable government policies can give a strong impulsion to the growth in wellness tourism.

- 34% of Indian population comprises of youth (in the age group 15-34 years) and is expected to cross over 400 million by 2015 and forms the core target group for wellness products and services.

**Youth population in India (in millions)**



Source: Compiled from “Spas and the Global wellness market” Report from the Stanford

Research Institute (SRI) – 2012

- The urban population constituted 28% of total Indian population in 2001 and is expected to increase to 37% in 2025. Increasing urbanization has the dual impact of higher availability and awareness of wellness products as well as higher incidence of stress related problems.
- Low entry barriers and growth potential of the wellness industry in India has attracted international players and domestic new entrants
- The growing wellness industry has attracted a large no. of domestic entrants and international companies.
- Micro segmentation like need based segmentation, age and gender based segmentation, price based segmentation and many more types of segmentation to develop more targeted value proposition for consumers has gained momentum.
- Increased demand for Health and wellness product and services with increasing population.
- Shortage and supply of Health and wellness product and services in other countries.

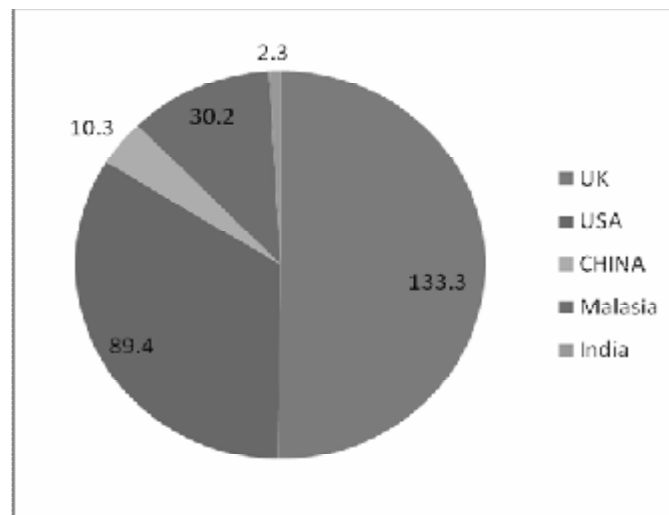


- Quality of the Product and services are good as compare to other countries

### Challenges

- Lack of coordination between different players in the industry such as airline operators, hospitals and hotels.
- Lack of uniformity in pricing of product and services
- Price sensitivity of the Indian customers, affected by the limited knowledge of wellness service offerings
- Complexity in implementing a control system for regular monitoring and auditing unorganized players
- Scarcity of skilled and trained personnel is one of the prime challenges in the industry today. Wellness services, it is estimated, will require 60,000 additional personnel over the next few years.
- Effective monitoring of this industry is also a major challenge and initial attempts at quality accreditation have not been effective.
- No Strong Govt. support for Health and Wellness Industry in India.

**Per capita spend on cosmetics (US\$)**



Source: Compiled from “Spas and the Global wellness market” Report from the Stanford Research Institute (SRI) – 2012

- Strong competition from countries like Thailand, Malaysia and Singapore.
- Significant investment costs and long payback periods due to a lag in creating brand credibility

- Inherent cost and lavational advantages of unorganized players leading to strong competition

## Conclusion

In a country where the scholars and vaidyas conceptualized and defined the field of ayurveda, wellness is a natural extension of the preventive approach. Consumer lifestyles along with growing influence of global trends are now changing the face of wellness and making wellness a part of a consumer's everyday life. While Indian players have forayed in the wellness industry, the potential still remains largely untapped. This is also attributable to the challenges that the players face, mainly due to the growing stage of the industry. As the industry grows in an unorganized manner, these challenges become even more cumbersome. Therefore, it now becomes vital for players to identify their potential and challenges, and derive solutions to tap the potential and overcome the challenges.

To address these challenges private participants and the government share a common agenda in developing education infrastructure and improving quality standards in the industry. Private participants will have to work together to create a visible rating system for the industry, that can provide an assurance of quality among consumers. In addition to this, greater collaboration with the government to create education infrastructure and generating internal and external awareness on quality accreditation are key action areas for private participants. The government on its part has to ensure that there are systemic checks for monitoring and that certified and licensed personnel are employed in critical service areas. During the next three years we estimate that the Indian wellness industry will grow at a CAGR of 20% to reach INR 875 bn. Consumers and their needs will continue to evolve, driving the transition from remedial care to a more holistic view on preventive care. This augurs well for the wellness industry in India.

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## CAN WE REGULATE A COMPANY'S VALUE BY MANAGING ITS ASSETS?

Rustam Abduraupov<sup>1</sup>

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### ABSTRACT

*The recent global financial and economic crisis demonstrated the issues of financial management tools in predicting and regulating the process of forming "bubble" of a company's share-price in a stock market. Because of a considerable difference in the company's share-price and its real value, there were speculative "games", which led to financial instability of businesses. The paper investigates the internal drivers based on the elements of a company's assets to regulate its real value, market capitalization and just value. To conclude with, further suggestions and outcomes of research will serve as management tools to provide the company's sustainable development.*

### Keywords

*Financial management tool, value of a company, real value, market capitalization, just value.*

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### INTRODUCTION

One of the most crucial conditions of providing financial stability and sustainable development of a company is adopting the right policy of financial management. The policy, in turn, depends on the goal of the financial management that was set by the company's owners. The authors of popular publications imply that the goal should be increasing shareholders' wealth by maximizing the company's fundamental (intrinsic) value, or its market value, or its value in general without emphasizing what value, which is already unclear goal. (Kudina, 2010; Ehrhardt and Brigham, 2011; Hawawini and Viallet, 2010). There is no doubt that top management of a company have various goals, however, the past world financial and economic crises demonstrated the consequences of not appropriately chosen goals.

In this way, if a financial manager has a goal of maximizing market capitalization (MC) of a company, which is an analogue of the market value, then it is a very important indicator for the investors, who plan to gain from reselling the owned shares. MC is a fairly sensitive indicator for both the external and internal environment of the company, starting

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<sup>1</sup> Senior Lecturer of Chair of Foreign Economic Activity, Tashkent State University of Economics, Uzbekistan E-mail: [rustamabdurapov@gmail.com](mailto:rustamabdurapov@gmail.com)

from the natural peculiarities in the area of the company, and ending with even unconfirmed rumors of its important employee. Based on the rumors, the company's share-price can either rise or fall. Therefore, we do not have to underestimate existing psychological factor in the share-price.

On the other hand, if a manager is fixated on maximizing the fundamental (intrinsic) value of a company, this may adversely affect the market price of its shares or reducing its reputation among partners (costumers) because of the tough financial management policies, focused mainly on the internal indicators. This, in turn, will affect the company's financial stability and prosperity.

Thus, there is a need to set a trade-off goal, which fulfills the expectations of the owners, managers and market.

## **THEORETICAL FRAMEWORK**

The trade-off goal of the financial management should include the aspects of the fundamental and market values of a company. Therefore, the modern goal of a company's financial manager should be increasing shareholders' wealth by creating the company's just value (JV). JV of a company is affected by its real value (RV) and its share-price in a stock market. JV can be illustrated by the geometric model (Shokhazamiy et al., 2014) or estimated by the just value ratio (JVR), which is calculated by dividing a company's MC on its RV.

To calculate the real value of a company we can use a common method (Ehrhardt and Brigham, 2011), which is based on discounting free cash flow (FCF) on weighted average cost of capital (WACC). In order to reveal the true potential of a company, it is not appropriate to use market indicators to avoid accounting of the "bubble", which forms in the market. As regards MC, it is calculated as multiplication of a number of outstanding shares and their price in a stock market.

The values of JVR, which are within the range of 0.414 and 3.172 indicate that a company has a JV. The optimal value is when  $JVR=1$ . In case, JVR is more than 3.172, it means that a high liquidity of a company's share, and at the same time that it is "overvalued" by the market. This may indicate the rise of investment risk because of a "bubble". Consequently, it is a caution signal for the investors, and a signal for the regulators to increase control measures and eliminate the formed "bubble". If JVR is less than 0.414, then a company's stocks are "undervalued" by the market. This may be a signal for strategic investors to invest into these stocks.

Overall, the concept of financial management based on the JV takes into account the aspects of financial management based on RV and MC, which leads to the balance of owners' and managers' interests (Shokhazamiy and Abduraupov, 2015).

## RESEARCH METHODOLOGY

### Data

The analysis exploits a dataset on foreign-invested enterprises of Uzbekistan. The data was obtained from the State Committee of the Republic of Uzbekistan on statistics (SCRUS) and the official web page of the Republican Stock Exchange “Toshkent” (RSET). It is an unbalanced panel dataset for the period of 2005-2013. The data was gathered on the basis of financial statements that were completed according to National Standards of Accounting.

Types of the companies’ activities that are covered in the dataset are presented in the coming table 1.

According to table 1, almost quarter of all the dataset consists of financials of electrical, electronic and optical products, and equipment manufacturing companies. 15%, 16% and 19% of the dataset are the companies that produce textile, leather and carpets; chemicals and chemical products; food, beverages and tobacco products respectfully. Each of the other type is less than 10% of the dataset.

**Table 1. Types of activities in the dataset**

Types of activity	In percent to total number
Manufacturing of oil and gas products	3%
Manufacture of metal products	7%
Manufacture of chemicals and chemical products	16%
Manufacture of electrical, electronic and optical products, and equipment	24%
Manufacture of furniture, paper and paper products	4%
Manufacture of non-metallic mineral products	6%
Manufacture of textile, leather and carpets	15%
Manufacture of food, beverages and tobacco products	19%
Other manufacturing	8%
Total	100%

*Source: elaborations of the author based on the data obtained from SCRUS*

### Regression models

The basic equation used for the analysis is as follows (1):

$$Y_{it} = \alpha + \sum_{j=1}^n \beta_j X_{i,j} + \varepsilon_{it} \quad (1)$$

where, Y – the dependent variable;  $\alpha$  – constant; X – independent variables; i – number of firms; t – period of time;  $\varepsilon$  – error term, which is defined as:

$$\varepsilon_{it} = \theta_i + \tau_{it} \quad (2)$$

where,  $\theta_i$  – unobservable individual effect;  $\tau_{it}$  – remained error.

We study the impact of the financial management policies on real value, market capitalization and just value ratio of a company using the following linear regression specification (3):

$$V_{it} = a + b_{i,1}PI_{it} + b_{i,2}PD_{it} + b_{i,3}PW_{it} + b_{i,4}PF_{it} + b_{i,5}PN_{it} + e_{it} \quad (3)$$

where,  $V_i$  – dependent variables;  $\alpha_i$  – constant;  $PI_i$  – policy of investments management;  $PD_i$  – policy of receivables management;  $PW_i$  – policy of working capital management;  $PF_i$  – policy of plant, property and equipment management;  $PN_i$  – policy of intangible assets management;  $\beta_i$  – expected (calculated) effects of the factors (PI, PD, PW, PF, PN);  $\varepsilon_i$  – error term.

### VARIABLES FOR THE EMPIRICAL MODEL

As the dependent variables ( $V_i$ ) we used natural logarithm of real value of the companies, natural logarithm of the market capitalization, as well as natural logarithm of its JVR. Description and expected effects of independent variables are illustrated in table 2.

In table 2, the expected effect of PI on RV and MC is positive. We suppose that the increase in the long-term and short-term investments volume means that the company invests its free resources. This should rise RV and MC. We also expect positive impacts of PW and PF on RV and MC. At the same time, it is hard to predict effects of the other indicators.

**Table 2. Description and expected effects of independent variables**

Variables	Description	Expected effect on dependent variables		
		RV	MC	JVR
PI	Natural logarithm of long-term and short-term investments of a company	+	+	±
PD	Accounts receivables turnover ratio, in days	±	±	±
PW	Ratio of current assets to current liabilities	+	+	±
PF	Ratio of net property, plant and equipment to total assets	+	+	±
PN	Ratio of amortization to historical value of intangible assets	–	±	±

*Source: elaborations of the author*

### **Descriptive statistics**

The descriptive statistics of the dependent variables is given in table 3 and is based on the dataset provided by SCRUS, merged with the appropriate data presented on the official web page of RSET.

**Table 3. Descriptive statistics of the dependent variables**

Variable	Mean	Std. Dev.	Min	Median	Max
RV	0.66	2.08	-6.52	0.62	7.63
MC	14.89	2.16	9.37	14.87	21.61
JVR	0.35	1.99	-4.76	0.48	5.77

*Source: elaborations of the author based on the data obtained from SCRUS and RSET*

According to the table 3, the figure for MC is higher than RV. The means of RV and



MC are very close to their medians, which indicate that the data is evenly distributed around them.

The descriptive statistics of the independent variables is given in table 4. The calculations are based on the dataset provided by SCRUS, merged with the appropriate data presented on the official web page of RSET.

Table 4, demonstrates that mean value of natural logarithm of long-term and short-term investments of a company is 13.92; accounts receivables turnover ratio is quite high and equals 121.68 days; mean PW is 4.76; ratio of net property, plant and equipment to total assets is 28% in average; and finally, ratio of amortization to historical value of intangible assets is 0.45.

**Table 4. Descriptive statistics of the independent variables**

Variables		Mean	Std. Dev.	Min	Max
PI	overall	13.92	2.80	3.69	21.68
	between		2.85	6.82	21.68
	within		1.42	8.50	21.31
PD	overall	121.68	281.88	0.12	3168.85
	between		311.29	8.98	1878.38
	within		156.53	-1320.39	1537.99
PW	overall	4.76	38.05	0.26	819.17
	between		44.17	0.53	410.50
	within		26.97	-403.90	413.43
PF	overall	0.28	0.22	0.01	2.68
	between		0.18	0.02	0.71
	within		0.15	0.23	2.34
PN	overall	0.45	0.30	0	0.99
	between		0.28	0	0.99
	within		0.19	0	0.99

*Source: elaborations of the author based on the data obtained from SCRUS*

Correlation matrix is presented in table 5. The table created based on the dataset provided by SCRUS, merged with the appropriate data presented on the official web page of RSET.

It is seen that there is no high correlation between independent variables, which is supposed to be a good sign.

**Table 5. Correlation matrix (rounded to the nearest hundredths)**

	RV	MC	JVR	PI	PD	PW	PF	PN
RV	1.00							
MC	0.56***	1.00						
JVR	-0.43***	0.51***	1.00					
PI	0.56***	0.58***	0.03	1.00				
PD	0.11	0.14***	-0.06	0.20***	1.00			
PW	0.06	-0.04	0.05	0.08	0.01	1.00		
PF	0.05	0.09**	0.15**	-0.20***	-0.16***	0.07	1.00	
PN	-0.06	0.16***	0.18**	0.14**	-0.06	0.05	0.08	1.00

\* p<0.1; \*\* p<0.05; \*\*\* p<0.01

*Source: elaborations of the author based on the data obtained from SCRUS and RSET*

### Regression results

The estimation results are reported in tables 6, 7 and 8. The random effects model has an advantage over the other presented models. It has a higher  $R^2$  for the RV and JVR equations,  $R^2$  for MC equation is just a bit lower than JVR's.

The regression results with the dependent variable RV are given in table 6.

**Table 6. Three different estimators of RV equation.**

Dependent variable: RV			
Independent variable	Fixed effects	Random effects	Pooled OLS
PI	0.1452	0.3357***	0.4345***
PD	0.0010	0.0014**	0.0018***
PW	0.1257*	0.1147**	0.0962
PF	-0.2734	0.9261	1.2221*
PN	-1.2265*	-0.9027*	-0.8047*
_CONS	0.9025	-4.1754***	-5.6996***
R <sup>2</sup>	0.2666	0.3935	0.3742
Mean VIF	1.07		
Hausman FE vs RE Prob> $\chi^2$	0.4855		
Breusch-Pagan RE vs OLS Prob> $\chi^2$		0.0119	

\* p&lt;0.1; \*\* p&lt;0.05; \*\*\* p&lt;0.01

*Source: elaborations of the author based on the data obtained from SCRUS*

According to the regression, results (table 6), we can see that the chosen indicators for the factor PI in Random effect (RE) and Pooled OLS (POLS) models, and PD in POLS are statistically significant at 1% level. The effects of PD and PW in RE are statistically significant at 5% level. The coefficients of PW in fixed effects (FE) model, PF in POLS and PN in all the three equations are statistically significant at 10% level. All the factors, except PN and PF in FE are positively correlated with the dependent variable. The FE, RE and POLS models have determination coefficients of 0.2666, 0.3935 and 0.3742 respectively.

Mean variance inflation factor (VIF) equals to 1.07. The results of Hausman's fixed effects versus random effects (1978) and Breusch-Pagan's random effects versus OLS (1980) tests indicate that it is appropriate to apply the results of RE model for the further managerial decisions on RV.

The regression results with the dependent variable MC are given in table 7.

**Table 7. Three different estimators of MC equation.**

Dependent variable: MC			
Independent variable	Fixed effects	Random effects	Pooled OLS
PI	0.3048***	0.3314***	0.5148***
PD	0.0001	0.0001	0.0004
PW	0.0485*	0.0421*	0.0135
PF	2.3093***	2.3212***	2.6125***
PN	0.0240	0.0529	0.4665
_CONS	10.1631***	9.5691***	6.9091***
R <sup>2</sup>	0.3525	0.3612	0.3631
Mean VIF	1.07		
Hausman FE vs RE Prob> $\chi^2$	0.1131		
Breusch-Pagan RE vs OLS Prob> $\chi^2$		0.0000	

\* p<0.1; \*\* p<0.05; \*\*\* p<0.01

Source: elaborations of the author based on the data obtained from SCRUS and RSET

The regression results in table 7 demonstrate that the PI indicator in all the three

equations, PF in FE and POLS are statistically significant at 1% level. The figures for PW in FE and RE are statistically significant at 10% level. All the factors have a positive effect on the dependent variable. The coefficients of determination are more than 0.35 in all the equations. The results of Hausman's fixed effects versus random effects (1978) and Breusch-Pagan's random effects versus OLS (1980) tests indicate that it is appropriate to apply the results of RE model for the further managerial decisions on MC.

The regression results with the dependent variable JVR are given in table 8.

**Table 8. Three different estimators of JVR equation.**

Dependent variable: JVR			
Independent variable	Fixed effects	Random effects	Pooled OLS
PI	0.1371	0.0469	0.0326
PD	-0.0009	-0.0010	-0.0012
PW	-0.0560	-0.0737	-0.0517
PF	2.9982*	1.8042*	1.5264
PN	-2.6223	1.0390	1.2849*
_CONS	-2.6223	-0.8857	-0.7407
R <sup>2</sup>	0.0603	0.0736	0.0384
Mean VIF	1.07		
Hausman FE vs RE Prob> $\chi^2$	0.9306		
Breusch-Pagan RE vs OLS Prob> $\chi^2$		0.0000	

\* p<0.1; \*\* p<0.05; \*\*\* p<0.01

*Source: elaborations of the author based on the data obtained from SCRUS and RSET*

The regression results (table 8) show that the factors PF in FE and RE, and PN in

POLS are statistically significant at 10% level. The adjusted R-squares in the FE, RE and POLS estimators are 0.06, 0.07 and 0.04 respectively. The results of Hausman's fixed effects versus random effects (1978) and Breusch-Pagan's random effects versus OLS (1980) tests indicate that it is appropriate to apply the results of RE model for the further managerial decisions on JVR.

## CONCLUSION

The estimates given in table 6 bring to the conclusions that the growth of:

- PI for 1% rises RV for 0.34%;
- account receivables turnover (PD) for 1 point increases RV for 0.14%;
- PW for 1% also rises real value for 11.47%;
- ratio of net property, plant and equipment to total assets (PF) for 1 point boosts RV for 92.61%;
- ratio of amortization to historical value of intangible assets (PN) for 1 point reduces RV for 90.27%.

The estimates given in table 7 bring to the conclusions that the raise of:

- PI for 1% increases MC for 0.33%;
- PD for 1 point rises MC for 0.01%;
- PW for 1% also rises the dependent variable for 4.21%;
- PF for 1 point rockets market capitalization for 232.12%;
- PN for 1 point increases MC for 5.29%.

The estimates given in table 8 bring to the conclusions that the increase of:

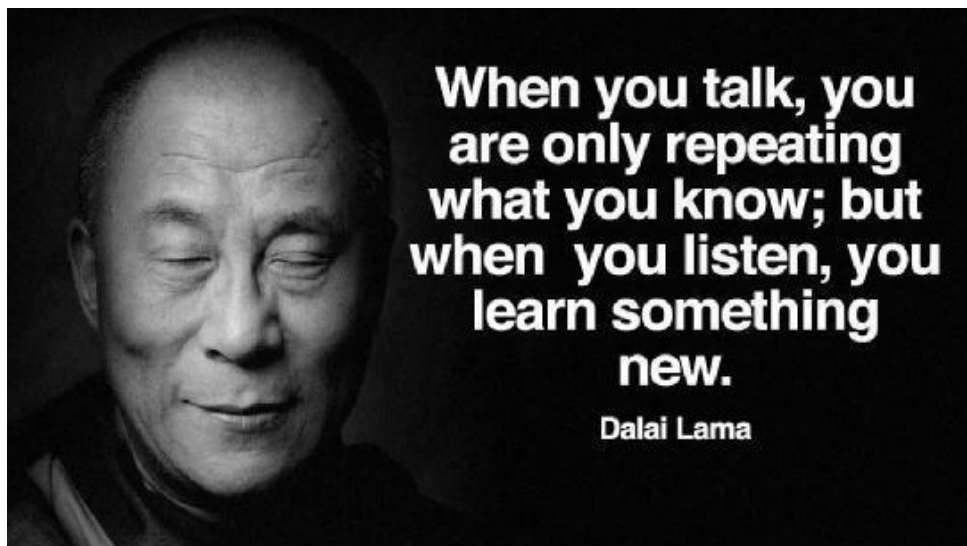
- PI for 1% rises JVR for 0.05%;
- PD for 1 point decreases JVR for 0.1%;
- PW for 1% also declines the dependent variable for 7.37%;
- PF for 1 point result a growth of JVR for 180.42%;
- PN for 1 point increases JVR for 103.9%.

Thus, the results of the empirical analysis demonstrated the expected signs of PI, PW and PF on RV and MC. The growth of PD rises RV and MC, and declines JVR, although its effect is not significant. Whereas the growth of PN decreases RV, but increases MC and JVR.

By using the identified drivers as management tools, we can regulate a company's value to provide its sustainable development.

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## EFFECTIVE MANAGEMENT OF INFRASTRUCTURE PROJECTS THROUGH TECHNICAL AUDIT

Ratnesh Shukla<sup>1</sup>, Archana Tiwari<sup>2</sup>

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### ABSTRACT

*The infrastructure projects are mostly developed through contracts and found that there are many ambiguities incurred during execution of projects. This article object to summarize and make clear the concept for conducting technical audit in the infrastructure projects, suggests effective management of projects through technical audit, the procedure of technical audit is formulated to develop the quality and durable infrastructure with minimizing loss of public money also by way of disputes/claims.*

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### Introduction

The idea of "technical audit" in this sense is thus different from traditional financial audit in many ways. However, "technical audit" is not one and the same with "technical examination", since the Audit, without omission, connects the results of technical audit with loss of public money which is invested in infrastructure project works, viz. how much money was wasted/fruitless because of engineering mistakes.

Expenditure on infrastructure project works accounts for a large percentage in the budget. Infrastructure projects works are aimed to improve public facilities while many audit in development works expenditure are from the viewpoint of financial accuracy. By conducting technical audit in infrastructure projects than results will able to emphasis about economy, efficiency and effectiveness of infrastructure project works. Simultaneously, the disputes/claims will be minimized due to effective management of projects through technical audit, and now days, it is necessary to rupture the progressive incremental of disputes/claims in the construction industry.

### Literature Review

*J. R. Cloe-Baker and G.J. Bowyer, article "The role of the independent technical audit in raising finance" published in Journal of the South African Institute of Mining and Metallurgy (1998),* Author, aim of this paper to assist the management of the companies seeking finance in appreciating the role of such technical audits. These audits should not be

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<sup>1</sup> M Tech student Construction Technology & Management, Madhav Institute of Technology & Science, Gwalior (MP)

<sup>2</sup> Professor, Department of Civil Engineering, Madhav Institute of Technology & Science, Gwalior (MP)

seen only as a mandatory additional task but rather as an activity which can also benefit the company. The timely involvement of independent technical audit can reduce the risk of prematurely seeking outside finance and exposing the project to technical questions which can delay or even jeopardize the raising finance.

*Awad S. Hanna, Justin R. Swanson, and Diane G. Aoun, article "Proper risk allocation during construction: Differing site conditions" published in Journal of legal affairs, ASCE (2014),* Author, examine the differencing the site conditions as per stipulation of contract or not stipulated in contract, due to this deference project gone to failure or under litigation, the aim of this paper to investigate the number of possible scenarios that occurred due to differing site conditions. Author suggested providing proper clause in contract document to avoid such situation.

Thanuja Ramachandra and James Olabode Bamidele Rotimi, article "Mitigating Payment Problem in the Construction Industry through analysis of construction payment disputes" published in Journal of legal affairs, ASCE (2014), Author, analyzed construction payment disputes with the view of exploring mitigating measures for payment problems prevailing within the industry. A summary of the nature of payments in dispute is prepared using information extracted from cases field in High court, and observed that 40% cases are successful. However, the balance cases are either partially successful or unsuccessful. Payment is the life blood of development.

### **The Present Procedure of Infrastructure Projects**

The major infrastructure projects are mostly developed through a process of design by consultants and construction by contractors, both selected through a lowest bid tender process. The selected consultant could then be responsible for:

- The design part only, in which case a different consultant would be appointed to review the design and supervise construction; or
- Both the design and construction supervision.

During construction, a team from the concern department attends monthly progress review meetings in order to monitor the progress of the project work with encourage adherence to the project specification; and for day-to-day work, the consultant are monitoring the progress and get work within the specifications. .

On completion of project or during progress phase, the client Auditor may carry out a financial audit and also technical inspection may carry out, whereas no technical audit of whether the department has obtained what it paid for is carried out.

On completion of construction, also a department team consisting of project officer, design engineer, materials engineer, maintenance engineer/technician and other relevant staff

inspects the works, together with the consultant, identifying deficiencies and defects, which the contractor has to correct before de-mobilizing and within the defect liability period.

This technical inspection and post-construction inspection carried out is essentially a visual evaluation and does not usually identify whether the specified materials have been used during construction or if the quality of the construction complies with the design specification. Technical or contractual weaknesses and construction defects that are not identified at this time frequently result in premature distress, which may occur after the stipulated defect liability period, making it difficult for the department to have adequate ground/recourse to claim or recovered from the contractor.

### **Need for Technical Audit**

To evade the above situation, it is essential to carry out technical audit of the project, technical audit initiated during construction allows the department to identify whether the all parties involved in the contract have given the client what it paid for. This involves a more detailed assessment than the technical inspection and post-construction inspection in terms of compliance of the materials and construction with the design specification.

In the infrastructure construction, wastage of public money can occur in different ways:-

- Ø Poor management and inspection
- Ø Poor construction.
- Ø Providing unnecessary constructions and facilities;
- Ø Over costing
- Ø Using expensive materials
- Ø Under-designing
- Ø Payment of claims

It is necessary to examine whether such situations exist or not; this could be done by experts of technical audit team. The field audit team also conducts physical examination of structures using photographs or by drilling cores, where necessary. The objective of such technical audit is not only to point out existing construction defects, but also prevent repetition of similar defects in future infrastructure projects.

The use of technical audits is to improve the quality of construction. The Technical Audit Team will be a team of 2 to 3 engineers with considerable experience in the respective field, comprising:

- Ø Auditor should be qualified engineer with 25 years experience in respective field of infrastructure viz design, construction and contract management.

- Ø Materials/Pavement Engineer should be qualified engineer with 20 years experience in their field.
- Ø Structure Engineers should be qualified engineer with 15 years experience in respective field.

### **Effective Management of Technical Audit Team**

The Technical Audit Team will be appointed after appointment of the Design/Supervising Consultant and before the start of the tender process for selection of suitable Contractor. This will allow the Audit Team to assess the evaluation of the project to its initial step i.e. from the bidding stage.

Technical Audit Team will be able to establish the deficiencies in design, bills of quantities, tender documents, etc. and suggested correction if any to the Client. The Technical Audit Team may, in addition to his specified duties, be called on to act as an advisor to the Client on matters pertaining to the project.

### **Relationship of the Audit Team with all Parties**

The Technical Audit Team is chosen by the Client, to whom he reports directly. Under no circumstances will the Technical Audit Team advise or issue instructions to the Contractor or Supervising Consultant.

Communication should be paying attention on looking for clarification or information about the project, and should avoid any interference with smooth implementation of the project. The Consultant, Contractor and Client must make available any document to the Audit Team, as and when required by him and relevant clauses in the tender documentation and/or letters of appointment will make provision for this.

The relationship between the Audit Team and the Client must be stipulated in his agreement with the Client. The Audit Team can review actions of the Client during the project and any deficiencies or lack of performance should be noted in his report. This should make the process transparent, improve on internal practices and avoid problematic projects.

### **Procedure of Technical Audit**

The Technical Audit for the infrastructure project should be carried out in four stages viz project familiarization, initial audit, intermediate audit and final audit. These stages are spaced through the duration of construction of an infrastructure project in order to develop in an early warning system.

**Project Familiarization:** - The Audit Team should clearly understand the scope and complexities of the project by reviewing all contract document, drawings, specifications, materials reports and conditions of contract. The tender documents and price submitted by the Contractor and the tender evaluation report should also be carefully studied and related to the

Contractors proposed programme and resources. This will probably require consultation between the Audit Team and the Client.

This stage should be carried out immediately after the Auditor has been appointed and the Auditor must visit the project site during this phase to acquaint himself with the ground conditions. A report should be submitted to the Client highlighting the outcome of this phase in order to clarify details before the issue of NIT.

**Initial Audit:** - This stage should be carried out within the 15% of the contract period, and also this stage should be carried out after construction has commenced to correct procedures from the beginning of the project. On site audit attention should center on project management issues and construction methodologies. These will be following :

- Ø A review of the Consultant, control and approval procedures;
- Ø Adequacy of the Field Laboratory;
- Ø Qualifications and experience of staff;
- Ø Knowledge of the contract;
- Ø Construction quality of work;

The Audit Team would also ensure/verify that the evaluation of the Contractor has been done satisfactorily by the Engineer, regarding the following issues and aspects:

- Ø Quality and Quantity of the plant and equipment;
- Ø Operator skills;
- Ø Methods of working;
- Ø Materials and water supply;
- Ø Site organization and site management;
- Ø Quality and detail of the construction programme;
- Ø Site safety;
- Ø Quality assurance procedures,
- Ø The format and content of Monthly Progress Reports and Monthly Meeting Minutes should be reviewed to ensure that all the important matters are raised and reported.
- Ø Proceedings of informal “technical” meetings should be assessed to ensure that no serious issues are being concealed.

This stage should conclude with the submission of realistic report to the client on critical issues. It should also include the audit team opinion on the construction supervision and the ability of the contractor to deliver on time and to meet all of his obligations.

**Intermediate Audit:** - The Audit Team should carry out an Intermediate Audit within the 40% of the contract period and it should concentrates on adherence with the specification and matters of effectiveness and ensures that the laid down procedures set up initially are running properly. The following should be addressed during the Intermediate Audit.

- Ø Review the Initial Audit and the subsequent actions by the Consultant and Contractor.
- Ø Review of as-built drawings, correspondence and minutes of meetings;
- Ø Inspect and check both the completed work and work in progress.
- Ø Assess the Consultant's quality assurance procedures, in particular the laboratory equipment, test methods and general procedures;
- Ø Ascertain the quality and distribution of borrow pits and water points for the contract by undertaking visual inspections and studying laboratory test results;
- Ø The construction methods and the care and diligence employed by the contractor should be carefully assessed.
- Ø Review progress against the programme and review the history of programme changes.
- Ø Check the current estimate against the tendered price using both the Consultant and the Contractor management systems;
- Ø Check measurement records and the latest payment certificates and ascertain whether disputes and claims are being dealt with in terms of the contract;
- Ø Check materials on site by sampling and testing and inspection of materials and records;
- Ø Check that all payments to the Contractor are as per the contract conditions.

**Final Audit:** - This should commence at least 2 months before issuance of the substantial completion certificate and should be completed before the site staff is completely demobilized from site. If an earlier starting time for the Final Audit is possible without causing disruptions to the project, then it should be encouraged.

The purpose of the Final Audit is to determine conformance with all aspects of the Contract. The principal sources of information will be the as-built drawings, test records,

measurement and payment data, site correspondence and minutes. Both the actions of the Engineer and the Contractor should be assessed.

A full report on the project would be presented to the Client summarizing any further testing considered necessary and indicating any contractual obligations that have not been fulfilled by either the Engineer or the Contractor or any other outstanding matters.

At the conclusion of each phase of an audit, the Audit Team should present his findings in their report to the Client who may deem it necessary to hold a meeting with the Engineer, to advise him of the conclusions in the Audit Team report. It should be noted that obvious problems identified during the Audit process (e.g., the use of inappropriate materials) should have been brought to the notice of the Client for early intervention.

After the Final Audit, an exit meeting to discuss the conclusions of the Technical Audit may be requested by the Client. This should involve the Client and Auditor and other relevant parties invited by the Client. The Technical Audit Team must be answerable for his duties to the Client, and must fulfill all the obligations specified in the Terms of Reference for his appointment.

## Conclusion

There is general acceptance that the condition of infrastructure project in our country is not to the specified standard of quality thereby condition of projects is not commendable for the public and some time the infrastructure has damaged immediately after construction. Therefore, it is necessary to carried out Technical Audit and it to optimized adherence of quality and subsequently durability of the infrastructure project. Also, the effective management of infrastructure projects through technical audit may minimize the claims and disputes in construction industry.

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## RATES OF TOURISM COMPETITIVENESS UNDER THE CATEGORICAL APPARATUS OF TOURISM INDUSTRY THROUGH STRATEGIC FUNDAMENTALS OF FORMATION, ANALYSES OF UZBEKISTAN

Khasan Turdibekov<sup>1</sup>, Yusuf Turdibekov Ibragimovich<sup>2</sup>

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### ABSTRACT

*This article presents the author's attempt to form the theoretical basis of categorical apparatus of tourism, is a theoretical and practical analysis of the current state of the conceptual apparatus of the tourism industry, on the basis of which the conclusions and proposals formulated by the creation of categorical apparatus of tourism. Moreover, tourism competitiveness of destinations will investigate speculatively through the case of Uzbekistan. Paper concludes major drawbacks of tourism competitiveness with the further analyses of sub-sectors.*

### Keywords

*Tourism competitiveness, tourism resources, tourism industry, tourism destination competitiveness, tourism infrastructure, tourism policy, destination audit*

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### Introduction

In Uzbekistan, the market of tourist services is at the stage of active growth. It is noted stabilization of financial indicators increasing the profitability of tourism enterprises. Gradually declining balance of payments deficit of tourist enterprises, and in conditions of crisis management come positive structural changes in the tourism sector. The pace of development of enterprises of tourist areas ahead of the growth of the economy. Moreover, most importantly, in the tourism sector employs more than 8% of total employment in the world. It accounts for 7% of the total investment, 11% of consumer spending, 5% of tax revenues and a third of world trade in services. Many economies heavily dependent on tourism, which is the only source of foreign exchange earnings. All of this suggests that the further development of the national economy, its growth potential is impossible without

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<sup>1</sup> Economics and Management Faculty, Samarkand Institute of Economics and Service, Samarkand, Uzbekistan [khasant2014@gmail.com](mailto:khasant2014@gmail.com)

<sup>2</sup> Management of Civil engineering Samarkand State Architectural and Civil Engineering Institute

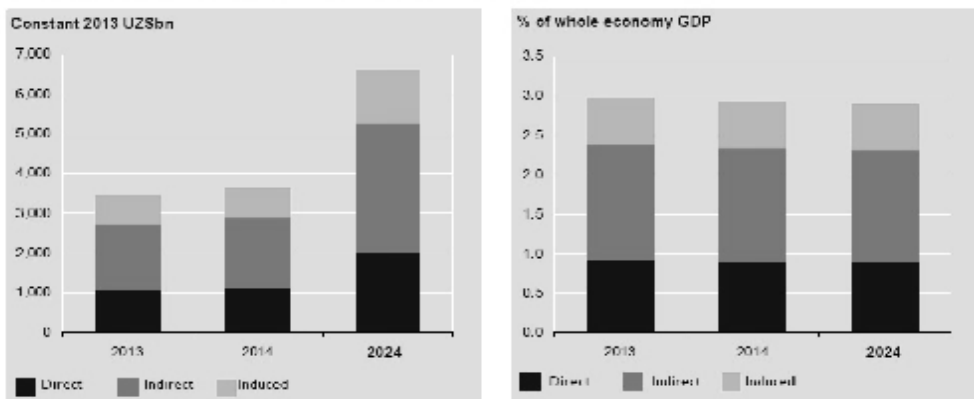


creating a base of high-tech knowledge-intensive small innovative enterprises in the tourism sector ('UNWTO and Government of Uzbekistan to host 5th International Meeting on the Silk Road | Tourism-Insider', 2014.).

In 2013, the direct contribution of the tourism sector in Uzbekistan's GDP was 0.9%, or \$ 1.1 trillion. sums, and the total - 3%, or 3.4 trillion. sums. But, despite this, according to the World Travel and Tourism Council (WTTC), tourism's contribution to world GDP (taking into account the multiplier effect) in 2013 amounted to 9,5%. The total volume of tourist services rendered in the world, has reached \$ 7 trillion, providing work for 266 million. People. Over the next decade is projected to grow the tourism industry an average of 4% a year. By 2024, it is expected that the share of tourism in world GDP will reach 10%, to provide work for 346 million people. One in ten jobs will be created in the tourism sector.

According to the WTTC, in 2013, the direct contribution of the tourism sector in Uzbekistan's GDP was 0.9%, or \$ 1.1 trillion. sum, and the total - 3%, or 3.4 trillion. sums. This is on average three times lower than the contribution of tourism to global GDP (see. Graph. 1), and much lower than in competing countries, which provide the same tourist product. As you know, in the framework of the implementation of regional programs for the development of tourism "Uzbektourism" in 2014, it was created 747 new jobs.

UZBEKISTAN: TOTAL CONTRIBUTION OF TRAVEL & TOURISM TO GDP



\* All values are in constant 2013 prices & exchange rates

WTTC Travel & Tourism Economic Impact 2014

In accordance with the protocol selector meeting of the Cabinet of Ministers of the Republic of Uzbekistan №EDO-01-13 / 1-02 from 02.28.2014 years, and on the basis of summarizing the proposals of the Working Group on the development of programs for the development of tourism in the regions approved by the protocol of the meeting of Cabinet of Ministers №01- 02/04/10 from 16.08.2013 year, has been prepared and submitted to the Cabinet a draft decree of the President of the Republic of Uzbekistan "On measures to

develop the tourism industry in the years 2015-2016", providing comprehensive development of tourism in the country (UNWTO, 2012).

For the integrated development of the tourism industry for the period 2015-2016 years, it is envisaged to implement 254 projects. All this will provide an opportunity not only to develop tourism infrastructure and improve the quality of tourist services, but also to diversify tourism products and itineraries.

It is important to note that the financing of the Program is planned to attract investments of over 186 million sum 439.0, including the initiators of their own funds - 129.0 million sums 64, commercial bank loans - 130.0 million sums 61 foreign investments - 9 580.0 million. UZS, the Republican Road Fund - 900.0 million sums and local budget - 50 700,0 million sum (Blank, 2012).

The state also created effective conditions with the help of this program, in particular, provides for:

- Commissioning of 103 accommodation facilities at 3659 locations (hotels, motels, guest houses, Yurt camps);
- Modernization of 45 and commissioning of 36 new tourism infrastructure (accommodation facilities, canteens, recreation centers, etc.);
- Diversification of tourism products and destinations due to the commissioning of 46 new objects of tourist visits (recreation, tourist complexes, centers of artisans, museums and permanent exhibitions);
- Creation in the tourism sector more than 2 300 new jobs.

Tourism has yet to play its role in the economy of Uzbekistan. His contribution in 2012 of GDP less than the world average and lower than in competing countries. However, the growth rate of the sector ahead of those in the world and in the economies of the competition. Although decisions on support of innovative small businesses in the tourism sector and the creation of a specific infrastructure in its functioning, still have to ascertain the presence of the negative trends in the development of this sector.

Suffice it to note that the current sectoral structure of the distribution of small enterprises in 2014 is characterized by the fact that more than 30% of the companies specialize in transport services, more than 20% of trade in services. Such an important sector of the economy as hotel services and tourist excursions are respectively only 0.2 and 0,4% [18b]. Despite this, the direct contribution of tourism to GDP in early 2014 amounted to more than \$ 1.1 trillion. soums (see. Table 1). It should be noted that Uzbekistan's world ranking in terms of long-term growth of the tourism industry amounted to 20 positions (see. Table 2) tourist services in 2011 increased by 127.3% and amounted to 64.1 billion sums.

**Table 1. WTTC forecasts for the development of tourism in Uzbekistan until 2024.**

	2010	2011	2012	2013	2020	2024
The direct contribution of tourism to GDP						
In million soums.	631,5	707,6	924,6	1061,9	2712,6	4558,7
In billion US Dollars	0,391	0,41	0,48	0,505	0,89	1,24
Real growth,%	18,2	-3,4	13,8	3,4	6,2	6,2
Contribution, %	1	0,9	0,9	0,9	0,8	0,8
The number of foreign tourists, thousand.	432,7	463,4	511,7	480,0	1220,0	2000,0
The total contribution of tourism to GDP						
In billion sum	2041,4	2298,7	2956,5	3430	8865	14829,2
In billion US Dollar	1,238	1,34	1,56	1,63	2,9	4,0
Real growth,%	6,8	-3	12	4,5	6,2	6,2
Contribution, %	3,3	2,9	3	2,9	2,8	2,8

Integration forecast is by definition not able to take into account the quality and institutional changes that are taking place in the industry. For example, last year saw a decade of WTTC forecasts (2013-2023), based on the assumption that the growth of tourism in Uzbekistan will average 5.6% per year. But after the actual performance in 2013 exceeded the expectations of the Board, he raised the forecast of growth to 6.2% per year (see. Table. 2).

**Table 2. World ranking of competitors in Uzbekistan in terms of long-term growth of the tourism industry**

Ranking in 2013	Country	The growth rate for the 2013-2023 years	Ranking in 2014	Country	The growth rate for the 2014-2024 years
29	Iran	5,8	20	Uzbekistan	6,2
34	Uzbekistan	5,6	25	Georgia	6,1
47	Kazakhstan	5,3	39	Iran	5,7
55	Kyrgyzstan	5,1	44	Azerbaijan	5,5
69	Georgia	4,8	49	Kyrgyzstan	5,3
71	Azerbaijan	4,8	66	Kazakhstan	5,0
75	Russian Federation	4,7	100	Ukraine	4,3
81	Ukraine	4,6	103	Turkey	4,2
	Average in World	4,2		Average in world	4,2
129	Turkey	3,5	111	Russian Federation	3,9
172	Armenia	2,1	141	Armenia	3,4

Despite this, the development of tourism for the Republic of Uzbekistan is of great socio-economic importance. Creating additional incentives for its development can give new impetus to the industry's growth. So, its role and place in the economy of Uzbekistan could become much more transparent.

Among the problems, hindering the development of innovative small businesses can distinguish their weak investment and financial-credit support from both the public and commercial structures. More than 85% of the capital of tourism companies formed their own expense.

Eliminating the disadvantaged position of small business entrepreneurs of tourism in the credit market sees the government in the development of new mechanisms of financial and credit and investment support them, in particular in the form of target financing structure of the individual fields of tourism, is the basis for the development of innovative small businesses in tourism.

The solution of these problems to some extent, should contribute to a more complete implementation of the provisions, decisions and orders of the Government of the Republic of Uzbekistan adopted in recent years. Now it is possible to accelerate the process of implementing measures to support small businesses of tourism, including innovation (Almatova & S Gulamov, 2014).

Funding is provided in the following areas: the creation and development of infrastructure to support small enterprises in the tourism, financial support for small businesses that produce goods (works, services) for enterprises of tourism, the development of lending to small businesses of tourism (credit cooperatives); the creation and development of the infrastructure of financial support of small innovative enterprises (creation of venture capital funds) in tourism (Akimov & others, 2015).

It should be noted that financial support for small enterprises in the sphere of hotel services is carried out by co-financing the budgets of all levels of the Republic of Uzbekistan (depending on the level of economic development of the territory).

Thus, a real prerequisite for the creation and development of innovative tourist enterprise database, which determines the effectiveness of an innovative tourism enterprises not only in the domestic market, but also to provide the appropriate conditions of domestic tourism products in the world market. However, there are problems that need to be addressed tourist-oriented enterprises in particular tourism products and tourist enterprises, create a new product. The main of them - the competitiveness of domestic tourism enterprises. This problem is especially acute in connection with the entry of the Republic of Uzbekistan to the World Trade Organization. The role and place of small domestic tourism business innovation takes on new meaning (Abdullaev, Konya, & others, 2014).

On the one hand, accession to the World Trade Organization in the country involves opening of branches of foreign tourist companies, which are interested in small tourist enterprises. On the other hand, free access of foreign tourist services on the domestic market will create a small tourist businesses serious competition in terms of quality and technical level of domestic tourist products. Even now coming into our country of foreign tourists is catastrophic. At the same time, there are no protective legal measures to create favorable conditions for the development of domestic tourism product innovation (Berger & Paris, 2013).

There are still serious problems - a product certification of small tourist enterprises, and intellectual property protection. So far, of the competitive tourism product scope of small tourist enterprises do not have international certificates. Nevertheless, as the world practice shows, ensuring the competitiveness of the tourism product in the world market contributes to the development and implementation of standards. However, to ensure the confidence of potential foreign contract with the domestic tourist enterprise of quality management system is not enough. We need qualified and authoritative confirmation of the implemented quality management system with a certificate.

This is of great importance, which authority issued the certificate, and who has accredited, ie, I checked his competence and granted the right to carry out certification work.

For tourism companies the process of implementing the quality management system takes up to a year and costs the financial costs. During 2010-2014, the number of certificates received minor tourism companies receiving foreign tourists. In this regard, small tourist enterprises urgently needed state support to address this problem (Abdullaev et al., 2014).

The result is a gap that our tourism small businesses do not have the modern technology of high-quality tourist services. As a result, resource-intensive and low-technology tourism products account for over 80% of the domestic tourism product. There are several ways to solve. Firstly, the increase of guarantees. Second, the expansion of the list of countries where visitors are directed to the provision of guarantees (now this list includes small number of countries). Another direction - implementation in practice of travel insurance and export credits.

In world practice, one of the most effective sources of funds used for the development of innovative small businesses is a tourist attraction of venture (risk) capital. It is known that venture investing is usually carried out in small and private or privatized enterprises without giving them any pledge or mortgage as opposed to, for example, from bank lending.

In Uzbekistan, the development of this area through innovative sector of tourism is on the initial stage. Although it should be noted that even in 1999-2005. Paper also sets up venture capital funds at the initiative of the European Bank for Reconstruction and

Development (EBRD). Gradually, however, the interest of foreign venture capital investors to work our innovative enterprises in the tourism began to narrow. Cheaper appeared to invite themselves carriers of innovative information, offering them high salaries, good working conditions and living conditions (Bakici, Almirall, & Wareham, 2013).

Underdevelopment of the domestic institutional investors, the lack of domestic infrastructure of venture financing and regulatory framework has led to the fact that for the last period on the territory of the Republic of Uzbekistan really functioned no more than 2 venture capital funds, check 10, and in the capital base of these funds were pledged by foreign investment.

For the purposes of national security, the development of scientific and technological progress, the question arose of creating a national network of venture capital financing, the majority of venture capital funds to operate in the field of innovative entrepreneurship, in particular the tourism industry. It is also noted the need for a clearer definition of the mechanism and regulatory framework patent holder relationships and venture capital fund.

Results of the competition back in 2012. Identified the creation of venture capital funds with a total supply of venture capital financing for small businesses in the amount of 20 billion soums. In fairness it should be noted that in 2012, according to the Ministry of Economy was formed Republic of Uzbekistan 7 regional venture funds. At their disposal, they were allocated funding in the amount of 16.0 billion sums.

It should be noted that those subjects Republic of Uzbekistan which received a subsidy in this area, made a commitment to build specialized investment funds with a 50 per cent participation of private capital. This small innovation of tourism enterprises were given the opportunity to apply to any local investment fund to obtain financing for new projects in exchange for a stake in the tourism business. It is important that the decision to grant the management company also provided funding, of course is able to take risks on a par with the state of private investors.

However, there is a serious problem concerning the small tourist enterprise. Thus, according to the world standards venture capital reaches 70-80% of the authorized capital of a small business. Moreover, on the domestic legislation of the subjects of small business formally ceases to be such, if more than 25% of its property owned by government entities or several local commercial organizations, which are not small businesses. In addition, when involving budgetary funds specially created for projects venture innovative small businesses, in this case, the latter loses the status of a small private tourist enterprise in the preparation of these funds (receives Turkey's, 2014).

Thus, the efficiency of the use of funds invested in innovative small tourist enterprise depends on the validity of the legal framework to ensure the feasibility of measures in these areas of development of small tourism businesses.

State tourism industry resources and this industry is both a cause and consequence of the tourist flow, and in the dialectical development. The relationship and the quality of the tourist product, the resources industry stands on one side of the supply and generates demand for tourist services. In turn, the maintenance of stable and sustainable demand requires the development and improvement of all the above elements. In the understanding of the unity and the key to successful development of the tourism sector and increase the number of tourists in the country or a particular locality.

Research seeks some comments on the conceptual framework, which is defined by law in the law "On tourism" and the Law on Amendments to the document. The basic concept of the selected object of research should be considered as a category "tourist" as the person moves in space. For complete identification of the concepts introduced very specific criteria: location, duration, purpose, absence at the seat of the activity that generates income to that person. The place should be outside the residence. Duration of time from 24 hours to 1 year in a row. The minimum criteria as stipulated - at least one overnight stay in the country (place) of temporary stay (Rolf Freitag, 2014).

The purpose of travel may be different and be grouped into types: health; cognitive; physical culture and sports and other. Introduction to the law of cause travel related to tourism, allowing the law to make clear, to investigate their structure, to identify structural changes in the orientation of travel of citizens in a particular range of the study. The emphasis on a certain kind of travel will affect the activation of a specific tourism resources and the demand for specific elements of the tourism industry. Fig. 3 shows the above criterial aspects of the category of "tourist".

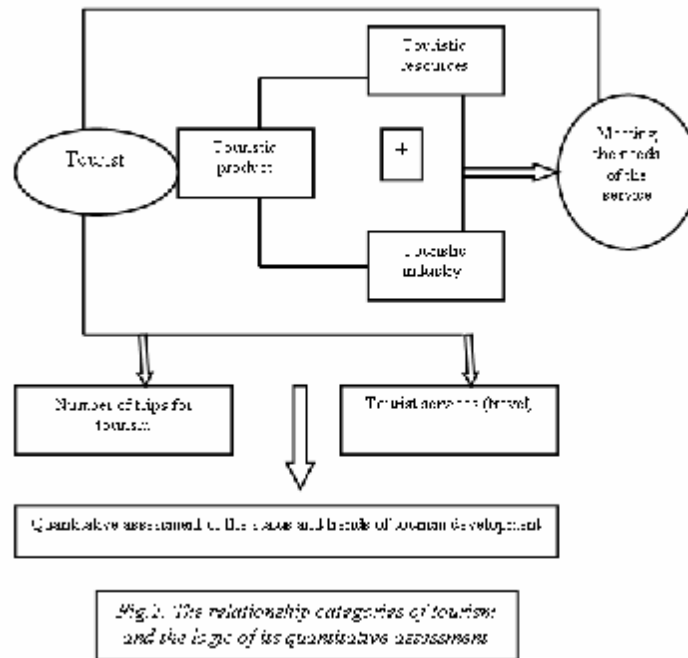
The category of "tourist" in the statistical accounting is refracted in the indicator "the number of trips for tourism" and it will be directly and indirectly reflect the state of the tourism sector in a particular country in international comparisons.

All this testifies to the fact that Uzbekistan has yet to reveal the enormous potential of the tourism industry. So, the livelihoods of tourism entities in constant dynamic development. We will try to explain it in the context of the formation of categorical apparatus of tourism based on the tracking of the changes in their objective assessment and scientific forecasting. One of the new areas of the economy for the Republic of Uzbekistan to implement the principle of "openness" should be considered as tourism, which had a steady rate of development up to the last year. The task of scientists is that the knowledge of an object and its methodology for building research is needed to deal with the conceptual apparatus - basic categories related to it, which is based on a specific analysis has to the collection and processing of practical material based on statistical data (Almatova & S Gulamov, 2014).

The object of tourism in general, characterized by the following concepts: "tourist", "tourism product", "tourism resources", "Tourism Industry". Their system is a real practical



implementation characterizes the degree of satisfaction with the service. Especially in conjunction and coordination of the last three elements in particular marketing on the market of tourist services and the management system in all its components. The relationship categories of our products can be conditionally shown in Figure 2.



State tourism industry resources and this industry is both a cause and consequence of the tourist flow, and in the dialectical development. The relationship and the quality of the tourist product, the resources industry stands on one side of the supply and generate demand for tourist services. In turn, the maintenance of stable and sustainable demand requires the development and improvement of all the above elements. In the understanding of the unity and the key to successful development of the tourism sector and increase the number of tourists in the country or a particular locality. On this basis, some comments on the conceptual framework, which is defined by law in the law "On tourism" and the Law on Amendments to the document. The basic concept of the selected object of research should be considered as a category "tourist" as the person moves in space. For complete identification of the concepts introduced very specific criteria: location, duration, purpose, absence at the seat of the activity that generates income to that person. The place should be outside the residence. Duration of time from 24 hours to 1 year in a row. The minimum criteria as stipulated - at least one overnight stay in the country (place) of temporary stay ('UNWTO and



Government of Uzbekistan to host 5th International Meeting on the Silk Road | Tourism-Insider', 2014).

The purpose of travel may be different and be grouped into types: health; cognitive; physical culture, sports, and other. Introduction to the law of cause travel related to tourism, allowing the law to make clear, to investigate their structure, to identify structural changes in the orientation of travel of citizens in a particular range of the study. The emphasis on a certain kind of travel will affect the activation of a specific tourism resources and the demand for specific elements of the tourism industry. Fig. 3 shows the above criterial aspects of the category of "tourist".

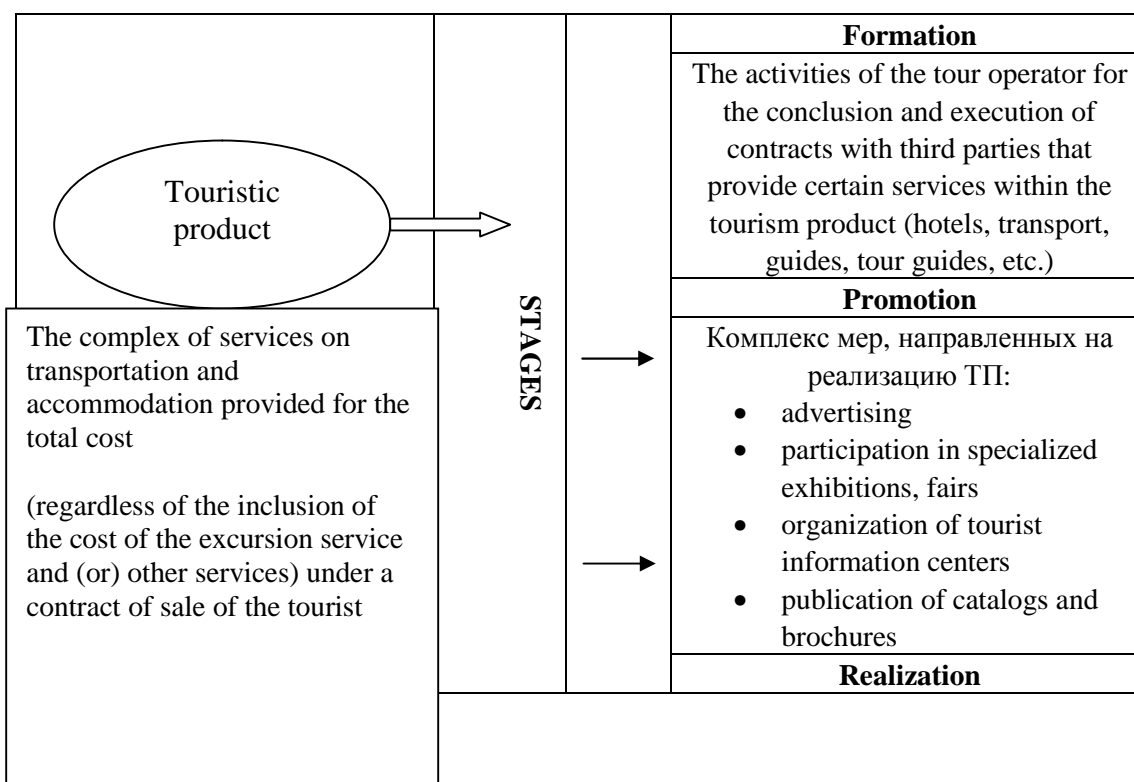
**Figure 3. The criteria for the identification of tourism (composed of 2)**

			<b>Place</b>
			In the territory of Uzbekistan
			Beyond permanent residence
			Excursion activity
			<b>Duration</b>
			Temporarily for the term: not exceeding 24 hours no more than 1 year in a country (place) of temporary stay
			<b>The purpose of travel</b>
			<ul style="list-style-type: none"> <li>• Health</li> <li>• Educational</li> <li>• Professional and business</li> </ul> Other goals without occupation, paid activity in the place (country) of residence: <ul style="list-style-type: none"> <li>Ø business</li> <li>Ø religious</li> <li>Ø recreational</li> <li>Ø fitness and sports</li> </ul>
			<b>Source of income</b>
			Do not engaged in activities related to the receipt of income from sources in the country (place) of temporary stay

The category of "tourist" in the statistical accounting is refracted in the indicator "the number of trips for tourism" and it will be directly and indirectly reflect the state of the tourism sector in a particular country in international comparisons.

That is why in our view, this indicator in conjunction with another - 'tourist services (travel)' "can be used in solving the problem of quantifying the status and trends of international tourism. The implementation of the needs of tourists in a particular journey is embodied in the "round," and not in the "tourist product" as a tourist traveling on a certain route and the program within a specific timeframe, the provision of services provided in the tourism product. Unfortunately in the current law the emphasis on this is not given, no changes in the law. Do not adopted the law "About bases of tourist activity". Some emerging-market countries of the CIS [2] tourist product is considered as a dynamic process with a specific stage of the movement: the formation, promotion and implementation of the (fig. 4).

**Figure 4. Content and stage movement of the tourist product (composed of 2)**



			<ul style="list-style-type: none"> <li>• Activities of tour operator or travel agent to conclude a contract with the TA tourist or other customer TP</li> <li>• tour operator activities and (or) third parties to provide tourist services in accordance with this agreement</li> </ul>
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Fig. 4 reveal the contents of each stage. It deals only with the formation of a tour operator, which carries out the work on the conclusion and execution of various contracts by third parties to provide various services. Stage promotion of tourist product combines a system of measures.

There is a place for advertising, and participation in trade fairs and exhibitions, organization of tourist information centers, publication of brochures and catalogs, and so on. Finally, the implementation of the tourism product can be carried out and the tour operators and travel agents. It is to conclude contracts with tourists on the implementation of the tourism product.

This should also include the activities of tour operators and third parties to provide tourist services in accordance with the specific contract. As can be seen from the contents of the above stages of the tourism product in order to place the fact of realization of tourist services, a system focused and professional work of the main perpetrators of such services - tour operators and travel agents.

To incarnate tourism product to meet the needs required at least two components of the conditions: the presence of tourism resources and tourism industry (Figure 2). Elements of tourist resources, both objective factors are: natural, historical, social and cultural objects, objects of tourist show (Figure 6).

In relation to them must be carried out security policy, educational work, it is an object of the advertising companies, as a prerequisite to the formation and promotion of the tourist product. Tourism resources should be considered as a potential opportunity for the tourist in terms of meeting its various needs: spiritual, cognitive, life support, aesthetic, rehabilitation and development of physical strength and others. They are static, that is, in the least affected by the factor of time in contrast to the tourist industry.

In Uzbekistan, the tourism industry is essential to the life of society. Because in this industry employing tens of thousands of people are directly engaged in the sector employs more than 111 thousand people (0.8% of total employment). Taking into account the multiplier effect of tourism's contribution to employment was 368.5 thousand. Jobs in 2013 or 2.6% of total employment of the population. In comparison, the world average and the total direct contribution of tourism to employment equal to 3.4 and 8.9%, respectively.

Uzbekistan annually about 1 million. People make tourist trips. In particular, in 2012 - 1.2 million, of which about 510 thousand. - Foreign tourists (see. Fig. 5). On average, during a visit to the country a tourist spends between 175 and 200 US dollars a day, including airfare, hotels, meals and transportation.

The country functioned 358 tour operators and 483 hotels (including similar accommodation) with a total capacity of 26.8 thousand. People a day. The annual average occupancy of hotels was around 40%, and the average time of stay of visitors in hotels - 2.5 person-days, which is 15% more than in the previous year. The optimal level of occupancy of hotel business entities about 62%.

**Figure 5. Capital investment in tourism sphere**

<i>Capital investment in tourism sector</i>		<i>2014 % increase</i>
<b>19</b>	<i>Azarbaijan</i>	<i>11.5</i>
<b>49</b>	<i>Iran</i>	<i>7.6</i>
<b>54</b>	<b><i>Uzbekistan</i></b>	<i>7.5</i>
<b>68</b>	<i>Ukraine</i>	<i>6.2</i>
	<b><i>World</i></b>	<i>5.7</i>
<b>109</b>	<i>Armenia</i>	<i>4.2</i>
<b>114</b>	<i>Georgia</i>	<i>3.8</i>
	<b><i>Europe</i></b>	<i>3.8</i>
<b>131</b>	<i>Kazakhstan</i>	<i>2.8</i>
<b>136</b>	<i>Turkey</i>	<i>2.6</i>
<b>142</b>	<i>Russia</i>	<i>2.4</i>
<b>179</b>	<i>Kyrgyzstan</i>	<i>-2.1</i>

According to the forecasts of tourism development in Uzbekistan by 2024, the benefit of tourist services in the country will reach 4.56 trillion sum. (0.9 billion UZS. 2012), or \$

1.24 billion. (\$ 0.48 billion. In 2012). The number of foreign tourists who annually visit the republic will increase by almost 4-times - up to 2 million per year.

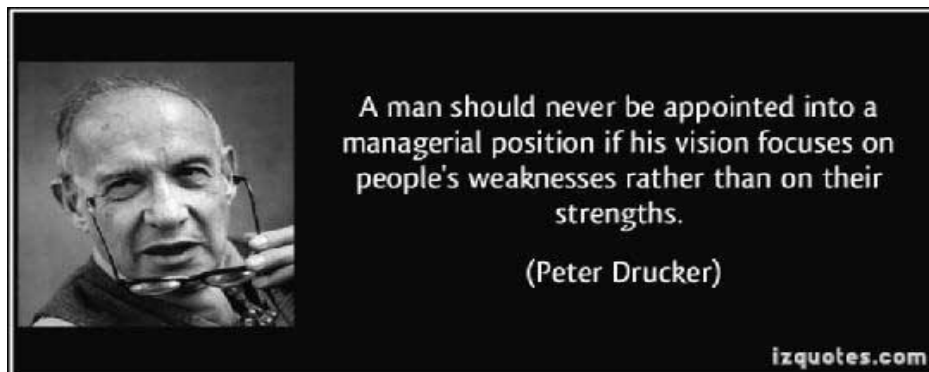
To tourist resources were opened to the public display and become meaningful trips of citizens of the need to develop tourist infrastructure, this is the second prerequisite for a real implementation of the tourism product. Only a coherent unity of these two components is formed by a specific tourist flow in a specific place with specific goals trips as a result and reflection of the tourist offer.

We make some comments on the tourist industry. Enlarge its elements can be grouped into four blocks: a means of transport; Hotels and other accommodation facilities; facilities; organizations (Figure 8). The first two components of the tourism industry is directly and primarily related to the tourism product. Block "organization", as seen in Figure 8, allows you to create, promote and sell tourism product.

Tourist flow of both domestic and international tourism should largely depend on the competence and professionalism, the level of wages of employees of tour operator and travel agency activities. Such flows in understanding the public interest it is possible to make adjustable with an emphasis on inbound and domestic travel. They come into the category of active, in terms of positive impact on the circulation of money in favor of the economy of a particular country.

Elements that require investment and active private sector, government support and implement specific targeted programs with specific funding, in our view, should be considered as a group of "objects" of the tourist industry. At the level of the most recent international standards without their collective satisfaction with the functioning of inconceivable quality services in the field of tourism.

Competition in this industry is primarily manifested in the development of tourist industry in the functioning of their high-performance. Of course, this can not detract from the value of the hotel business and the means of transport. World Hospitality is currently being developed under the scheme of multinational companies.



The accumulated experience in this field allows us to formulate the principles of its organization (see. Figure 6)

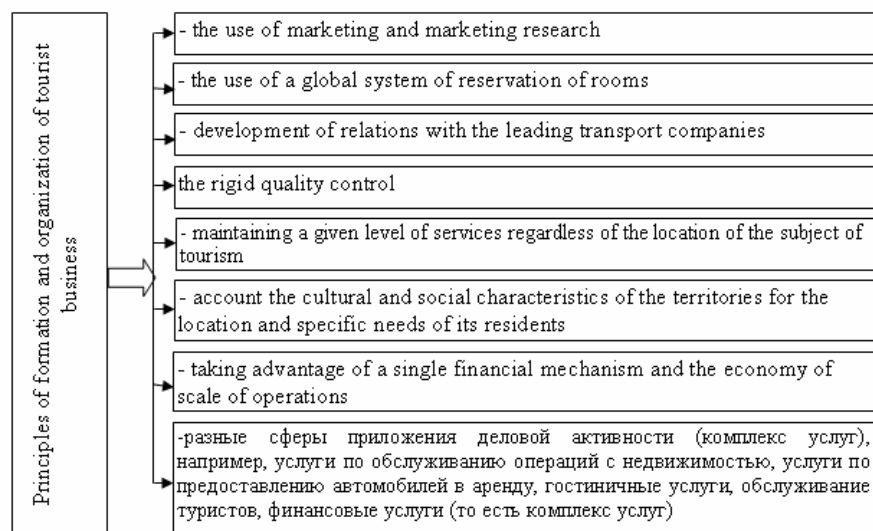


Figure 6. Principles of formation and organization of tourist business

In addition, these elements are combined into a set of services "packet":

- Ø Use different strategic operations: ownership, management contract, franchising, development of different segments of the market;
- Ø The way of deployment: depression and absorption of small independent owners and operators with a profitable market specialized services to the hospitality industry.

Summarizing the content of the tourist industry, it should be noted that the basic documents for tourism Republic of Uzbekistan have an understanding of the need for its development. Figure 9 shows the importance of the vector of development of tourist industry in our country. We believe that the main goal will be the needs of the citizens when making travel. Its implementation will require the creation of new jobs in the tourist industry (main effect), and this in turn will cause the growth of incomes of citizens and increase the profitability of state.

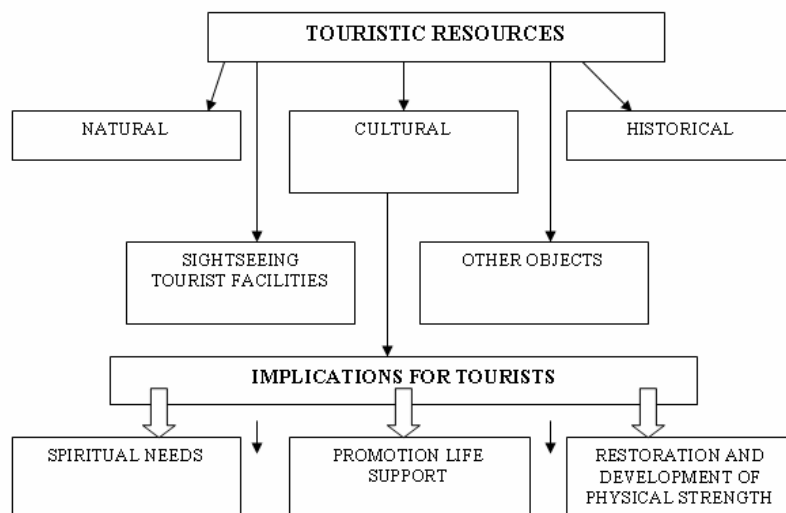


Figure 7. Elements of Tourist Resources

In this example, we see a chain of causation. The reciprocal influence can be considered and other dependencies: the needs of the development of international contacts; needs and the rational use of natural and cultural heritage.

In an effort to increase contacts between citizens of the world, the receiving State obliged to satisfy all requests of citizens in the commission of specific trips, on the one hand and face the objective necessity of rational use of natural and cultural heritage, on the other hand

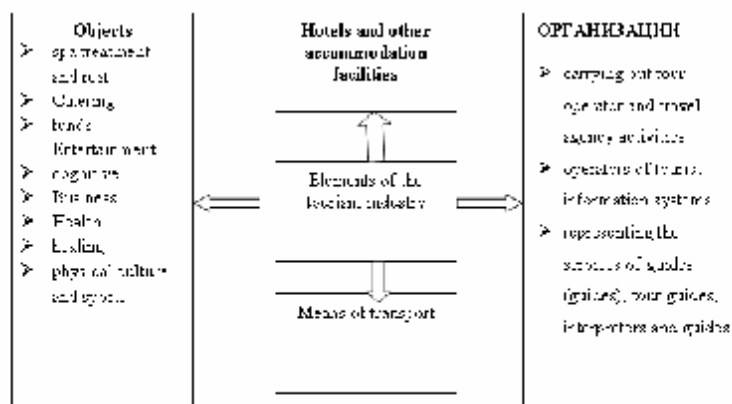
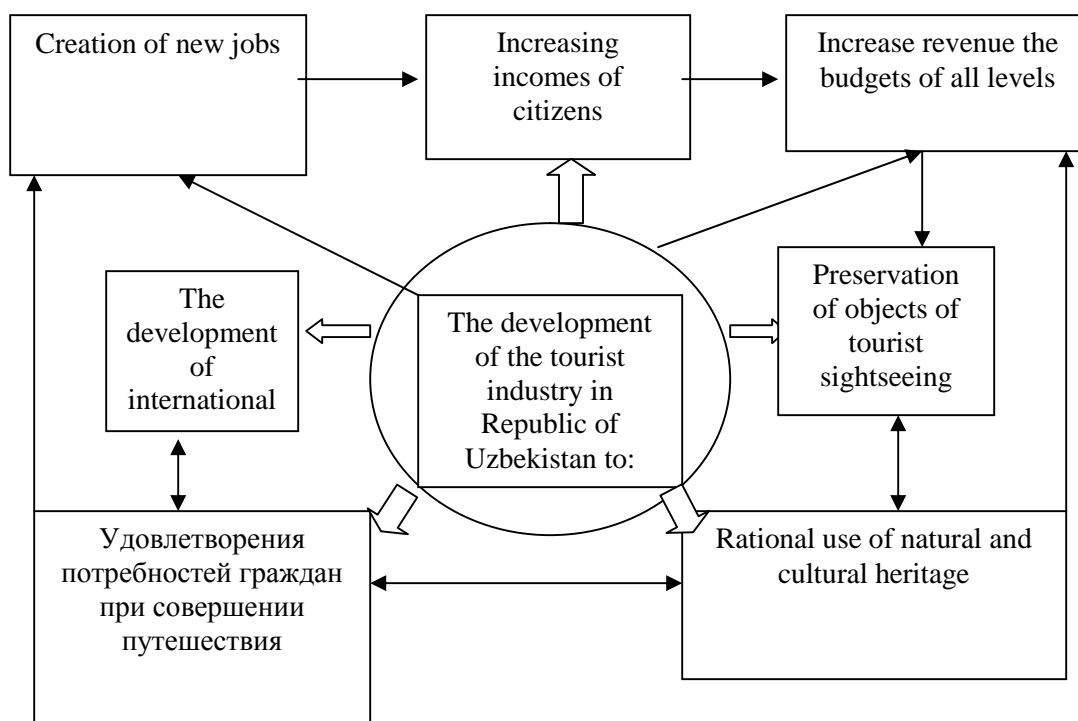


Figure 8. Elements of the tourism industry

In turn, respect for the natural and cultural resources will ensure the preservation of objects of tourist show. The importance of the tourist industry in the mutual contingency, in our vision, as shown in Figure 9.



**Figure 9. The value of the tourism industry to the Republic of Uzbekistan**

Paper searched upon the relationship the main categories of tourism, although in this area there are private and concepts. Their development and maintenance can be seen in the law "On Tourism", as they are available in publications over the next few years. The conceptual apparatus, reflected in the main document on tourism, describes the development of scientific thought and refinement of the main provisions of the dynamics in response to changing business environment of the tourism industry and the needs of the practice. Grouping concept proposed the following groups: 1- without changes in the dynamics; 2 to change the title of the concept, which does not apply to its contents; 3 clarifying the wording; 4- introduction of new ones.

From the foregoing, it is necessary to include in the statute "On Tourism" new categories, such as "Tourism International", "customer tourism product", "formation (promotion, distribution) tourism product", "sightseer", "guide-interpreter", "instructor the



conductor.» Most of them should be considered in conjunction with other concepts for tourism.

In summary, you should pay attention to the fact that tourism, as temporary departures of citizens in its scope and structure as well as the direction of travel is focused attractiveness of tourist resources, the state of the tourism industry, embodied in the tour. Hence it is natural to assume that the study trips of citizens with tourist purposes, and directly and indirectly reflect the state of the industry in the country. The specific methodological approaches (as a system of procedures) for the study of tourism (inbound and outbound) must, of course, be based on this theoretical basis

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## DIFFUSION OF CLUSTERING IN THE DEPLOYMENT OF RECREATIONAL TOURISM MARKET OF UZBEKISTAN

Nabieva Shakhnoza<sup>1</sup>, Dilbar Aslanova<sup>2</sup>

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### ABSTRACT

*The spatial expansion of tourism and the growing diversification of this activity in the world create opportunities for countries, regions and communities to seek new concepts of development. Cluster is as a progressive form of business network has strong business objectives focusing on improving sales and profits for both well-developed states and developing countries, Uzbekistan as whole. It makes the exchange of information and technology possible, encouraging different ways of co-ordination and collaboration within chains and service suppliers. Hence, clusters are considered as being efficient management and marketing tools for tourist destinations and local economies of Central Asian touristic destination. These tools could be diffused in appropriate manner in order to contribute at achieving competitive advantages through local development while establishing sustainable development basis for the recreational tourism.*

**Keywords :** *Tourism Clusters, Competiveness, Local Development, Sustainability, Tourism in Uzbekistan, Recreational tourism*

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### Introduction

In the era of globalization, tourism sector has experienced continued growth and deepening diversification to become one of the fastest growing economic sectors in the world. A growing number of new destinations in modern tourism is closely linked to deployment of recreational tourism in developing countries. Uzbekistan as one of the Silk Route tourist destination has great potential of advancement in this industry. Dynamics of tourism and policy that have been established by government have turned tourism into a key driver for socio-economic progress.

Today, the business volume of tourism equals or even surpasses that of oil exports, food products or automobiles. Tourism has become one of the major players in transnational commerce, and represents at the same time one of the foremost income sources for the list of tourist destinations. This growth goes hand in hand with a growing expansion and

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<sup>1</sup> Assistant teacher in Service and Tourism faculty, Samarkand Institute of Economics and Service  
Email: [shakhnozanabieva@gmail.com](mailto:shakhnozanabieva@gmail.com)

<sup>2</sup> Vice rector, Samarkand Institute of Economics and Service Email: [Ilm-bulim@yandex.ru](mailto:Ilm-bulim@yandex.ru)

competition among destinations in areas which will lead to competitive market. Over the decades, tourism has experienced deepening diversification to become one of the fastest growing economic sectors in the world. Modern tourism is closely linked to development and encompasses growing several new destinations. Furthermore, the contribution of tourism to economic well-being relies on the quality and the revenues of the tourism offer (“UNWTO Tourism Highlights” 2015 Edition). According to the UNWTO, the total contribution of Travel & Tourism to GDP (Gross Domestic Product) was 9% and international tourism receipts reached \$1245 billion worldwide in 2014, and is forecast to rise by 4.4% in 2023 by World Travel and Tourism Council. International tourist arrivals increased by 4,3% reaching a total 1133 million. Also, in 2012, the total contribution of Travel & Tourism to employment, including jobs indirectly supported by the industry, was 8.7% of total global employment and this is expected to rise by 2.4% to 337,819,000 jobs in 2023 (Yearbook of Tourism Statistics., 2014) .

Recently, international tourism has been gradually increasing, as well as the significance of the tourism industry for the economy of numerous countries. Today, the business volume of tourism equals or even surpasses that of oil exports, food products or automobiles. Tourism has become one of the vital industries that represents job places with adjustable live standards for many developing destinations (Xu, 2013).

Since the break-up of the Soviet Union in 1991, the former Soviet Asian States (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) provide important prospects to become major tourist destinations in the way of unique cultural, historical, archeological, and natural attractions. After becoming independent, the programs and models of tourism expansion in these countries were mainly based on infrastructural improvement of tourism (Coulibaly et al., 2012).

In the last fifty years, tourism has been one of the accomplishments with the highest expansion capabilities in the world. It plays a vital role as a local enlargement strategy due to its potential for growth and for being a product that can only be consumed in a great possibility. The spatial enlargement of tourism and the growing diversification of this activity in the world create prospects for countries, regions and communities to seek and bring extraordinary advancement.

On this case, tourism clusters analysis is adapted to the characteristics of tourism activity as it is based on the analysis of agglomerations, functional complementary, cooperative relationships and competition among destinations. Otherwise, the traditional cluster analysis is not clear when the objective is to assess local impacts concerning competitiveness, sustainability and social justice. One of the challenges for governments and stakeholders in charge of elaborating and employing expansion policies for tourism activities is to enhance business practices such as clustering or alternatively to build a model of

sustained improvement with competitiveness, sustainability and socioeconomic prosperities for the local societies.

The advantages of cooperation clusters in tourism activities permit for the effective exploitation of the collective productivities and the development of external companies from the enterprises (entrepreneurial cooperation, work productive specialization, collective infrastructure, service specialization etc.) and also make it possible to benefit from the increased ability to negotiate collectively with suppliers of inputs and components. In addition to these benefits, cooperation nets facilitate the development of new models, production processes and organization, the exchange of technical and market information, consortiums for buying and selling goods and services, as well as joint marketing campaigns. Interaction and synergy arising from joint actions have competitive advantages over the isolated activities of companies.

In this paper, the concept that a tourism cluster is a group of companies and institutions bound up to a tourism product or group of products is been explored. Such companies and institutions are spatially concentrated and have vertical (within the tourism productive chain) and horizontal relationships (involving factor, jurisdiction and information exchange between similar agents dealing with a tourism product offer).

They display an intern configuration that generally includes:

- a set of tourist attractions that draw non-resident attention;
- the concentration of tourism service companies: restaurants, accommodation, transport services, crafts, travel agencies etc.;
- sectors providing support to tourism services;
- suitable and low-cost infrastructure (roads, energy, sanitation, health services, etc.);
- companies and institutions that provide specialized qualification, information and financial capital;
- intern agents organized into class associations;
- government agencies and other regulating bodies that impact tourism agglomerations.

**Table1. Intern configurations of tourism services, Case of Uzbekistan**

They display an intern configuration that generally includes:
a) a set of tourist attractions that draw non-resident attention;

b) the concentration of tourism service companies: restaurants, accommodation, transport services, crafts, travel agencies etc.;
c) sectors providing support to tourism services;
d) suitable and low-cost infrastructure (roads, energy, sanitation, health services, etc.);
e) companies and institutions that provide specialized qualification, information and financial capital;
f) intern agents organized into class associations;
g) government agencies and other regulating bodies that impact tourism agglomerations.

Paper seeks an approach that could be made notionally the meaning of clusters in tourism. The representation of the model considering competitiveness and local development will be analyzed to prove the dynamics of creating clusters in the recreational tourism industry. Moreover, the effectiveness of tourism clusters in the local development perspective will be examined. Conclusively by presenting the benefits of practicing clusters in the tourist market will be proved that clusters are considered as efficient management and marketing tools for tourist destinations and local economies.

The main aim of tourism cluster is to build partnership between local business, educational and research units and representatives of local government. All members including those from private and public sectors work together for the furthestmost effective usage of the tourism potential of the local destination. In addition to this, clustering is a process that enables the participants to exploit their synergies and the complementarities between their outputs, involving several benefits. Clusters are vital for regional development increasing the competitiveness, productivity and local businesses' critical mass. Recreational tourism as a sub-sector of industry has great opportunity to push some extraordinary facilities in both local and international scale.

Cluster strategy highlights the need to exploit a home-grown source of competitive advantage. In some cases, local clusters and multinational enterprises can be interdependent. The local cluster provides important competitive advantages, whereas the multinational enterprise can provide the spark encouragement their creation and evolution. It is believed that the role of government and local authorities in upgrading clusters, rules and regulations may actually power the business case, enhance the local development and create a basic structure for implementing sustainability.

## Methodology

A tourism destination is a cluster of interrelated stakeholders embedded in a socioeconomic milieu that strive to meet visitor needs and produce the experience that travelers consume (Baggio et al. 2010; Del Chiappa and Presenza 2013). As a consequence, successful tourism marketing needs all the components to work together. Specifically, contributions relating to tourism destination planning do stress the essential for involving public and private players in order to reach a compromise so that the strategies of companies and institutions converge towards the same goals and worldviews (Burststein 1991; Pforr 2006). Achieving a consensus based collaboration within the network is essential for destination competitiveness and growth (Beritelli 2011; Nordin and Svensson 2007) and allows exploiting several benefits. In particular, it permits to reduce the costs involved in solving conflicts among stakeholders, it may bring legitimacy to collective actions when stakeholders are involved in the decision-making processes, and finally, it may enhance the coordination between policies and related activities (Bramwell and Sharman 1999). Theoretical analyses of this research paper directed on the concepts of clustering which were derived on literatures by scientists of the subject. Major investigations serve to identify and classify concepts of clustering and relevant database.

## CONCEPTS FOR CLUSTERS

A definition of the cluster concept, which is generally agreed upon seems that does not exist. The definition used in this paper will be based on Porter's definition: "Clusters are geographic concentrations of interconnected companies and institutions in a particular field, linked by commonalities and complementarities".

Porter points out that industrial production has to be assumed as a system of interrelated players and operations. He embraces the idea that agglomerations are not a new phenomenon, but he argues that the reasons behind the behavioral pattern have altered. What used to be done in an attempt to get easier access to raw material, to cut costs or get access to logistics has now turned into a deliberate.

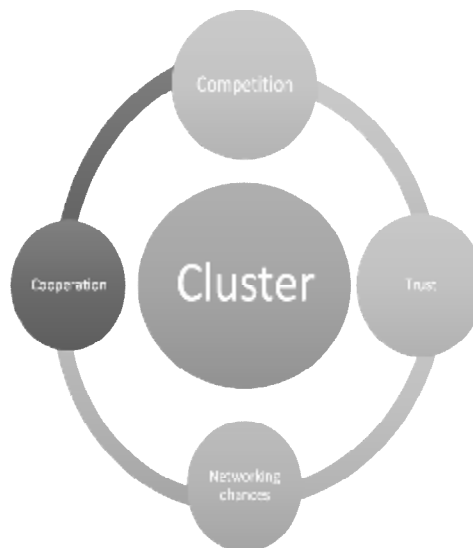
The variance between clusters and other forms of cooperation within a network is sometimes challenging to see. A helpful description can be found as following: The cluster concept focuses on the linkages and interdependencies among actors in the value chain in producing products and services. Clusters differ from other forms of cooperation and networks in that the actors involved in a cluster are linked in a value chain. The cluster concept goes beyond "simple" horizontal networks in which firms, operating on the same end-product market and belonging to the same industry group, co-operate on aspect such as R&D, demonstration programs, collective marketing or purchasing policy. Clusters are often cross-sectoral (vertical and/or lateral) networks, made up of similar and complementary firms specializing around a specific link or knowledge base in the value chain."

A cluster is a collection of business or industries within a particular region that are interconnected by their products, their markets and other businesses or establishments, such as suppliers, with which they interact. Porter defines clusters as ‘geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (for example, universities and trade associations) in particular fields that compete but also co-operate’ (Porter, 1998: 197). Clustering is a process that enables the participants to exploit their synergies and the complementarities between their outputs, involving several benefits. A cluster is a progressive form of business network, which has strong business objectives focusing on improving sales and profits. It makes the exchange of information and technology possible, encouraging different ways of co-ordination and collaboration within them (European Commission, 2003). Clusters are vital for regional progress increasing the performance, innovative capacity and local businesses’ critical mass.

Clusters involve several benefits (Michael, 2003; Poon, 2002; Saxena, 2005): economies of scale; a focus on cooperation and innovation; increased synergies and productivity; knowledge transfer; joint marketing; increased attractiveness and sustainable competitive advantage; all these create opportunities for synergy and mutual reinforcement to achieve the main aim of a destination: a rewarding holiday experience for its visitors. Tourism industry face the challenges of renewing business models to maintain competitiveness in the global economy, and networking and product innovations are typical responses to these challenges (Kokkonen & Tuohino, 2007).

According to Chart 1, the four key features of the Cluster are identified as in above:

**Chart 1. Clustering in tourism deployment of Uzbekistan**





## **Clustering in various touristic regions of Uzbekistan**

### ***Uzbekistan adopts tourism development programme for Khorezm***

More than \$86 million will be invested to the development of tourism in Khorezm by 2016, as one of major touristic region. Every year more and more guests visit this region. That's why the number of hotels has increased almost 4 times for the last 10 years. According to the Decree of the President \$86.8 million will be spent on the development of tourism in the region, about 200 projects will be implemented and about 30 new hotels will be built. To increase the number of the translators among young people regional department of educational consulting center at the National Company «Uzbektourism» started its work. A tourist map of this area and the magazine «Guide to Khorezm» in several foreign languages are being prepared for the publishing. There are 225 registered objects of cultural heritage in the oasis. Work is underway to expand the tourist destinations of the Kalazhik fortress in Bagatsk area, Bogishamol summer garden, Chodira garden, Eshonravot Lake in Khiva district, Ulli Hovli in Urgench district. Ecotourism develops In Bagatsk, Khiva, Hazarasp, Urgench districts and on the banks of the Amu Darya.

### ***Uzbekistan adopts tourism development programme for Kashkadarya region.***

On 1 November 2013, the Government of Uzbekistan approved a programme for developing tourism in Kashkadarya region for 2013-2015. The programme was approved with the resolution of the Cabinet of Ministers of Uzbekistan "On programme on developing tourism in Kashkadarya region for 2013-2015". According to GoUzbekistan.uz, the programme envisages measures on raising potential of tourism sector of the region and determines target parameters of tourism development in Kashkadarya region for the next two years.

In line with the preliminary data of Uzbektourism, total expenses to implementation of the programme will make up over US\$101 million. The programme will be financed due to resources of the state and local budgets, own resources of the project initiators, foreign investments, loans and grants, as well as resources of the Republican Road Fund.

The programme envisages creation of favourable conditions for effective use of unique historic-cultural heritage of Kashkadarya region, preserving and restoration of historic monuments, construction of new and reconstruction of existing hotels, tourism and entertainment places, as well as development of transport infrastructure. The programme includes over 80 infrastructure, marketing and organizational projects. In particular, the programme includes measures on developing tourism infrastructure, diversifying tourism products in the region, boosting measures on attracting tourists, developing hotel infrastructure, restaurants and catering, etc.

Within the programme, it is planned to purchase at least 20 tourism buses and create business hall for passengers at Karshi Airport and reconstruct buildings of Kitab railway



station. It is planned to construct over 30 new hotels in Kashkadarya region and reconstruct existing hotels, which will allow to double hotel places.

The programme stipulates measures on developing Shahrisabz and mountain areas of the regions such as Yakkabog, Kitab and Shahrisabz, where it is planned to develop ecologic, active, recreational and agricultural tourism. It is also planned to develop cultural-educational tourism in Karshi city and Karshi districts.

It is also planned to develop banking services for tourism sector. In particular, the programme envisages installation of ATMs and POS-terminals at tourism infrastructure places such as airports, railway stations, hotels, restaurants, and etc. There are also plans to promote regional tourism products in foreign markets, develop new tourism routes and improve quality of service.

It is planned to develop and promote tourism brand of Kashkadarya region and create web-portal Visit Kashkadarya. In order to promote ecologic tourism, it is planned to create unique object "Biologic preserve" near Achinkul water reservoir near Mirishkor district. The programme included a project on creation of the unique museum dedicated to family of Amir Temur in Hodjailgor village in Yakkabad district. It is planned to create yurt camp, agricultural tourism in some areas, artisans shops and others along the road from Samarkand to Shakhrisabz.

There is also a project on construction of mountain skiing base in Mingchinor village. It is planned to study opportunities on organization of tourists' visits to Gissar nature reserve. Electric cars will be purchased to provide services to tourists in Shakhrisabz. The electric cars will provide services at the famous touristy places of Shakhrisabz such as Oq Saroy, Dorus-Sodat and Dor-ut Tilovat.

It is expected that implementation of the project will allow to increase number of visiting foreign tourists by 1.4 times to 33,200 a year by 2015 and export tourism services by 1.4 times. Number of hotels will increase by 1.8 times to 66 units. Total volume of tourism services will grow by 1.5 times to 4.5 billion UZS (soums).

#### ***Uzbekistan to aid tourism development program in Tashkent region***

Uzbek Cabinet Ministers had approved a tourism development program worth US\$77.8 million in the Tashkent region for 2013-2015, the Uzbek tourism National Company told Azerbaijan's Trend news agency on Friday. The program includes measures to develop tourism infrastructure, diversify services and improve infrastructure facilities for tourists, as well as training specialists in the industry. According to the target parameters of tourism development in the capital, the volume of tourist services as of 2015 is set to increase 1.7 times compared to 2012 and exports of travel services by 1.5 times. The number of hotels is planned to double in the Tashkent region during this period from 31 to 58 and the number of rooms from 1,300 to 2,800 or 2.1 times.

The program is expected to be financed by enterprises and organizations foreign investments and state budget funds. Some US\$55.159 million will be invested in the construction and reconstruction of hotels and other tourism facilities in the region in 2013-2015, including US\$39.27 million for project initiators' funds, US\$10.23 million in loans from commercial banks and US\$5.65 million in foreign investments. According to statistics, fifteen new hotels will be built in Tashkent region by 2016 in order to fulfill accommodation demand in the region.

According to the Decree №259 of the Cabinet of Ministers of the Republic of Uzbekistan "On the program of tourism development in Tashkent region in 2013-2015" as of September 20, 2013, there have been approved new target characteristics of the development of the tourism sector in Tashkent region. In accordance with the program, it is planned to attract foreign investments, credits and grants of donor countries, international organisations and local sponsors for co-financing of projects which are included into the Program of tourism development in Tashkent region for the period of 2013-2015.

It is envisaged to perform restoration work and upgrading of cultural heritage, in particular, of the Mausoleum "Gumbaz bobo" in Angren city, of archeological monument "Shodmalik ota" and of "Sardoba Kaynar" archeological unit in Akhangaran district, of the mausoleum "Kizil Mazar" in Bekabad region, of "Zangi ota" complex in Zangiata district and of other cultural heritage sites.

According to the program of tourism development in Tashkent region for the period of 2013-2015 it is scheduled to build over 15 new motels and camping sites as well as guest houses and cottage settlements in Chirchik, Bekabad cities, in Bostanlyk, Akhangaran, Kibray, Parkent, Pskent, Yukorichirchik districts of Tashkent region, it is also envisaged to redesign "Angren", "Chirchik-zerom" hotels, of "Aktash" sanatorium, of the launch-pads for para- and hang-gliders in Chimgan mountain area, of "Balikchi" holiday cottage in Kuyichirchik district, of "Kumushkan" camp site, of "Goldenfishresort" recreational zone in Urtachirchik district, of "Orkhideya Lyuks" and "Favorit" camp sites in Chinaz district and other objects of tourist infrastructure.

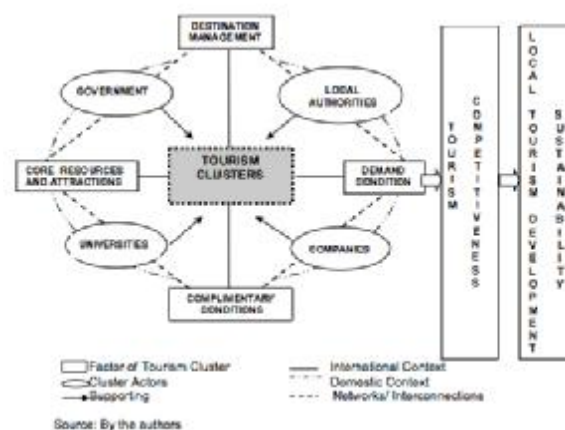
It is planned to build an integrated unit of the wayside tourist infrastructure (camping, hotel, gas-filling station, commerce and food service area) on the 853 km of the "Almaty-Bishkek-Tashkent-Shakhrisabz-Termez" route as well as of 20 sanitary and health stations in Chimgan-Charvak recreational zone, in Parkent district, in Yangiabad settlement and around Tuyabuguz reservoir, it is reported on the website of national company "Uzbektourism"

## **CLUSTERS AND COMPETITIVENESS IN THE TOURISM INDUSTRY**

The concept of industry clusters and the notion that they create competitive advantage is not a new framework to explain regional economies and to assist policy-making in regions or nations. Cluster theory originates from the "industrial district" of Marshall's

agglomeration economies (Marshall, 1920). This early framework claimed that when firms are closely located in geographic proximity they generate positive externalities and economies of scale, and then these agglomeration effects can contribute to their overall productivity. On this basis, recreational tourism as one of the major type of tourism generate lots of potential for the development of destination. A major breakthrough for the cluster concept was Porter's cluster theory and competitiveness in *The Competitive Advantage of Nations* (Porter, 1990). Porter has common expressively to the literature by providing a comprehensive understanding of national and regional competitiveness and by broadening the concept of industrial clusters. Porter defined the cluster as "a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities" (1998b: 199). In addition, Porter (1990) states that clusters are inherently local yet must be globally competitive, so he emphasizes the co-locating of firms and complementarities and a supportive home-environment for business success. Based on these elements of Porter's cluster theory its application to tourism can be perceived as a useful strategy in regional (local) expansion. Developing states of the world, Central Asian states as whole need to diffuse clusters on their tourism businesses. Porter's model suggests that there are four sources of national and local competitive advantage and their interactions: Factor (input) conditions, firm strategy, structure and rivalry, demand conditions, and related and supporting industries. Briefly, all components of clusters characterize economic dynamism. Porter's theory of competitiveness and the concept of cluster have been considered one of the most successful and influential theories or models of local development (Isserman, 1998). The cluster concept has been brought forward to explain industrial dynamics and in turn Porter's theories help address which factors can achieve optimal competitiveness in national and regional development.

### Check 2: Tourism Clusters theory based on Porter's "Diamond" Model and its contribution in competitiveness and local development



To conclude, the leading aim of the tourism clusters is to form partnership between local business, educational and research units, local authorities, and representatives of local governments. All members including those from private and public sector work together for the most effective use of the tourist potential of the local destination.

The Tourism Cluster is established to:

- Create common products or services;
- Make joined purchases of materials, services or technology;
- Use subsidized advisory services and encourage participation in the trainings.
- Create common brand and undertake promotion of the region;
- Enhance the tourist product and the local destination.

#### **Recreational tourism deployment potentials in Uzbekistan and tendencies of clustering on sustainability.**

As tourism is a growing industry in many national economies of the Central Asian countries. Especially for most of the underdeveloped countries, tourism is seen as an important and fundamental contributor to increase foreign incomes. In the meantime, tourism sector is defined as an advantageous sector to create income generating activities and job opportunities at the local scale. Many new destinations in the world have been introduced for touristic activities in order to generate more income from tourism industry. However, in most of the cases, the generated income is not utilized in proper ways to upgrade local capacities for development. In other words, the generated income is not used appropriately for increasing local well being and lifestyle of people in the community. This is mainly resulted from aiming to increase tourism profits only without considering social and environmental effects of tourism development. Yet, the tourism needs to be more about achieving sustainable development. This research is mainly set up to investigate sustainable tourism development according to its relations with the objectives, weaknesses and challenges of sustainable development in Uzbekistan.

It is obvious that, the concepts of ‘sustainability’ and ‘sustainable development’ were initially introduced and then the principles and objectives of sustainable development were given. The context of ‘sustainable development’ were discussed in reference to its’ impracticality in real life. Later on, the definition of ‘sustainable tourism development’ was introduced and the concerns about it were set forth in accordance with its challenges and weaknesses to understand whether tourism can be recognized as a sustainable sector or not. In the conclusion, analyses concerns about sustainable tourism development were summarized.

Lots of touristic fairs and exhibitions has been held in country in order to integrate facilities and make collaboration within countries. Between international organizations, such

as UNWTO and Uzbekistan has been established collaborative agreements that been leading to enhancement of tourism in region. According to UNTWO 99<sup>th</sup> session in October 2014, in Samarkand, was stated that, sustainable tourism development in Uzbekistan is obvious with the tourism arrivals.

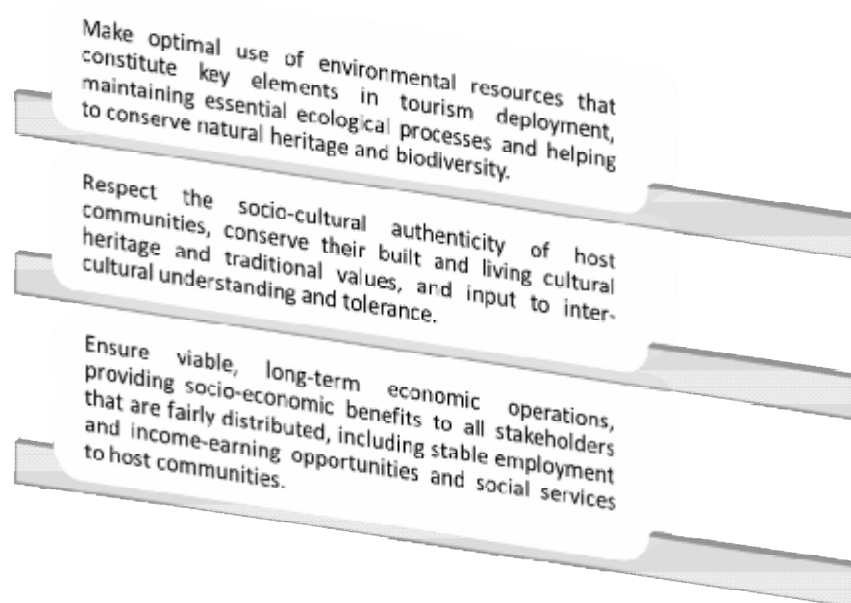
Even, in 2010 the number of tourists was 975000, totally international tourism arrival tendency of Uzbekistan illustrates overall upward trend since 2000 up today. Based on tourism “National Company” data, a quantity of tourists in Uzbekistan were 1,977,600 in 2013 (see Figure 2).



Guidelines and management practices of sustainable tourism development in Uzbekistan are applicable to all forms of tourism in all types of destinations, including mass tourism and the various niche tourism segments. Sustainability principles refer to the environmental, economic, and socio-cultural aspects of tourism development, and a suitable balance could be established between these three dimensions to guarantee its long-term sustainability.

Government of Uzbekistan pays great attention for the development of the tourist industry: the development of services is defined as one of the top priorities of socio-economic development of the country. As one of the popular Silk Route tourism destinations globally, eco based tourism facilities categorized into various parts.

In order to identify major principles of the ecotourism development, have been distinguished following steps toward sector.

**Chart 3. Concepts of Sustainable development of tourism in Uzbekistan**

Uzbekistan has a lot of distinctive features to develop clustering in destination. Mainly, the way of development will be presented under the usage of this platforms and tools. In order to establish high qualified clustering platforms both government and individuals need to make collaborative tasks simultaneously. On this case, there given diagram illustrates the main features, juridical sides and relevant tasks to be undergone.

The way of development in tourism needs some vivid categorized features that should be noticed as a vital one. Mainly this tasks are investigated in graph as following:

**Table 3. Clustering activities of Uzbekistan**

Main features	Inception to launch	Juridical sides
<ul style="list-style-type: none"> <li>• Attract local and foreign tourists.</li> <li>• Run new vocational places.</li> <li>• Rise living standards in society.</li> <li>• Maintain bio-diversity of sights.</li> <li>• Create new natural zones by tourism</li> <li>• Curtail demands of local dwellers to natural resources and find out alternative way to earn money</li> <li>• Support natural areas by external funding's</li> <li>• Raise facilities for entertain people</li> <li>• Support certain regions in socio-economic context</li> </ul>	<ul style="list-style-type: none"> <li>• Warn from harming bio-diversity of sights by visitors</li> <li>• Launch surveillance after visitors and destine touristic scheme</li> <li>• Economically render assistance to touristic sights</li> <li>• Regularly attend to seminars intending to protecting environment and etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Adopt laws</li> <li>• Set up programmes</li> </ul>

### Features and benefits of clustering processes in the recreational tourism market

During short period, government has contributed significantly on the deployment of tourism facilities, recreational type of tourism as well. Moreover, “Uzbektourism” national administrative company has the initiative to pave the way toward recreational tourism sub-sector, with the help of Tourist Management Organizations, under the legitimations and legalizations of state. Under initiatives of this regulator, a vast amount of job has been completed and it is expected to do more in forthcoming future. In order to improve both quality and quantity of provided restoration service specialists of this authority provide relevant options which prognoses as a way of total developing of this sub-sector. In their turn, recreational tourist places likewise to, widely utilizing natural resources in industrial needs, to suffice multifarious requirements, consolidation in harnessing of natural fields for human and its reputations sake, will suggest to immediately take appropriate decision to protect them. Being fields of high protection they will act as ecological, genetically, preserved, sanitary-hygienic, recreational, cultural functions and play a vital role in economical adaptation of fields.



Objects of research that will render assistance to stimulate and develop ecological tourism embrace:

- National gardens, orders of state, natural inheritances;
- Botanical gardens ;
- Medical places
- Recreational-recuperation spots and healthy resorts;
- Natural preservation places
- Retain genofond
- Chains
- Synergies which serve integrally

The main problems, the cluster faces in tourism industry is that the members lack the sense of belonging to it. A possible solution to the unwillingness to be affiliated or cooperate within the cluster lies in raising the level of knowledge regarding the benefits of the membership. Some of the benefits of clustering in the tourism industry are presented in the following table:



**Table: Potential benefits of the clustering process in the tourism market**

FEATURES	POTENTIAL BENEFITS
	
<input type="checkbox"/> By creating a shared mass of technical competencies, organizations can be more prepared to address unexpected events.	<input type="checkbox"/> Reduce risk and deal with uncertainty
<input type="checkbox"/> Synergetic collaboration provide better productivity	<input type="checkbox"/> Block or coopt competition
<input type="checkbox"/> Purchases, booking, sales, ect lead to a lesser incidence of unit costs.	<input type="checkbox"/> Create economies of scale
<input type="checkbox"/> The collaboration spirit allows greater distribution of specialization thanks to less internal competition.	<input type="checkbox"/> Opportunities to develop purpose economies
<input type="checkbox"/> Companies joined together in partnerships can move in larger markets.	<input type="checkbox"/> Effective market control
<input type="checkbox"/> The circulation of knowledge enhances the diffusion of technologies and the development of new operative techniques.	<input type="checkbox"/> Grow of technological and organizational know how
<input type="checkbox"/> Brands are reinforced at company level and at destination level, both towards the customers and the suppliers.	<input type="checkbox"/> Reinforcement of image and notoriety
<input type="checkbox"/> Operating in collaboration generates a healthy competition among companies that tends to raise both product quality and management skills.	<input type="checkbox"/> Company growth both in terms of product quality and process efficiency
<input type="checkbox"/> There cannot be an effective marketing action for the destination without the support of an integrated and coordinated supply system	<input type="checkbox"/> Conditions for an effective area marketing

Source : Nordin, S. 2003 p.27-28.

### **Tourism clusters, local development and sustainability**

The interaction of the consumption of the tourism product with its local base is one of the main characteristics of the activity, showing the fundamental role it plays in the strategies for local development. In most economic activities, it is the product that reaches the consumer, but when it comes to tourism, it is the opposite in that the consumer seeks for tourism services. Because of this characteristic, tourism has a heavy impact on local development. From this perspective, tourism and local development are interconnected because they take place if the regional socio-cultural and environmental characteristics are respected where the activity takes place.

The central idea of development includes a concept net made up of evolution, inclusion, participation, solidarity, production and competitiveness, which are mutually strengthened or directly opposed to movements of concentration, competition, exclusion, poverty and imbalance, amongst other things. Evolution and interaction are the focal points of the concept of development, a set of coordinated participation processes for continuously



improved discussion and increased planning capability and the ability to gather economic, social and environmental resources in the short and long term, whenever possible, owing to joint strategies that otherwise depend on arbitration and conciliation (OCDE, 2001).

The local development concept also includes to complementary ideas related to territory. One of them refers to a concrete and delimited space, which is linked to the idea of constancy and inertia, and can be identified as a limited area such as a municipality, micro-region etc. The other is the abstract space of social relationships and indicates movement and interaction between social groups that either cooperate or organize opposition to accommodate their common interests (Fischer, 2002). The idea of movement and interaction can be witnessed for as long as the territory has to take the interdependence between nature and its use into consideration, including human actions, i.e. work and politics (Santos, 1999).

Three elements of local development that stem from tourism are: society, the environment and the economy, which are integrated and mutually strengthened in a context where social and cultural diversity, as well as productive differences, should be used as resources to generate changes and local development.

The cluster's mission included in the Strategy is fostering socio-economic development in the local territories by improving activities occurring in the tourism sector. This is possible by applying principles of sustainable development into all levels of cluster functioning as it gathers main tourism businesses and other organizations working in close relation with tourism sector. Both, winning of the contests and actions taken on sustainable development, confirm the validity of efforts to make the destination friendly to residents, tourists and enterprisers. This idea will bind efforts to create a balance between environmental, social and economic aspects of regional development. Still a lot of effort is needed for gaining knowledge about sustainable development among entrepreneurs and the local community before actions in this direction is taken (Porter, 1998).

The most important benefits of clustering in tourism listed below:

- Acquisition of new clients due to the green trend in the industry by creation of green brands/labels to stand out;
- Easier founding if the Sustainable Development principles are being applied into companies strategy;
- Lowering the cost of the company's activities by improving their efficiency;
- Encouraging qualified employees to join the companies as there are becoming more attractive;
- Higher competitiveness and quality in the tourist product/ services;
- Long-term development of the region;

- More advanced technologies.

The tourism clusters may play an important role in this process. Since the Association brings together representatives of businesses, the cluster can become a platform for introducing sustainability to local entrepreneurs. It's easier to facilitate the promotion of sustainable development, because the local communities have already done a lot in the field of sustainability.

The benefits coming out of applying the sustainable development into functioning of a company are vast.

### **Conclusions**

The cluster's mission included in the Strategy is fostering socio-economic development in the local territories by improving activities occurring in the tourism sector. This is possible by applying principles of sustainable development into all levels of cluster functioning as it gathers main tourism businesses and other organizations working in close relation with tourism sector. Both, winning of the contests and actions taken on sustainable development, confirm the validity of efforts to make the destination friendly to residents, tourists and enterprisers. This idea will bind efforts to create a balance between environmental, social and economic aspects of regional development in Uzbekistan. The main aim of the tourism clusters is to build partnership between local business, educational and research units, local authorities, and representatives of local governments. All members including those from private and public sector work together for the most effective use of the tourist potential of the local destination.

Tourism Clusters are considered as management and marketing tools and they are tremendously effective in local development systems. The key points of their contribution in the local development considered as:

- Local development seldom takes place in isolation but is systemic. The notion of a cluster as a 'reduced scale innovation system'
- Clusters are networks of production of strongly interdependent firms linked to each other in a value-adding production chain.
- Clusters mostly encompass strategic alliances with universities, research institutes, knowledge-intensive business services, bridging institutions (brokers, consultants) and customers. This bears innovation and use of new technologies.
- Successful Cluster practices are fostering the implementation of sustainable tourism development.

Conclusively the main task of creating tourism clusters should be assisting the implementation of proposed principles, and their promotion to enhance local development and create a potential sustainable development basis.

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## DIFFICULTIES FACED BY STUDENTS TO AVAIL EDUCATIONAL LOAN IN INDIA

Nitha Unnikrishnan C<sup>1</sup>, Dr. Geo Paul<sup>2</sup>

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### ABSTRACT

*This paper explores various difficulties faced by students while they take educational loan in India and the role of Educational loan plays a big role in facilitating Higher Education in India. Higher Education in India has undergone tremendous change in the last few years. Education is the process by which society transmits its accumulated knowledge, skills and values from one generation to another. Development of human capital is a national priority and it should be the motive of all that no deserving student is denied the opportunity to pursue higher education for want of financial support. Among various alternatives available for financing Higher education Educational Loan is seen as increasingly important source of finance. Loans for education should be seen as an investment for Economic Development and prosperity (Reserve Bank of India).*

*Privatization of Higher Education and poor budgetary support increases the importance of Educational loan in our country. At the same time there are various issues faced by students while they apply for educational loan like lack of proper guidelines, unfriendly attitude of employees, delay in getting the loan sanctioned, poor track record, need of providing collateral security, etc.*

**Key Words:** *Difficulty, Educational Loans, Higher Education*

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### INTRODUCTION

“Education is the most powerful weapon which you can use to change the world”

- Nelson Mandela

“Educational Loan include loans and advances granted to individuals for educational purposes” - Reserve Bank Of India

Education is central to Human Resource Development and empowerment in any country, There is wide scope of higher education both in India and abroad covering new courses in diversified areas. As Human resource development is a national priority so that Educational loan is given to students should be considered as an investment for economic development and prosperity of the nation. But the reality is that it is not easy to raise finance to help children to go for higher studies in India as well as in abroad. Growing demand and

lack of capacity in public sector institutions and withdrawal of government's budgetary support has led to the growth of private higher education institutions. The state owned or aided colleges and universities had no capacity to absorb all eligible students. In order to face this situation the public sector banks introduced Educational Loan at affordable rates in 2001. Today both public sector and private sector banks are engaged to offer Educational loans to students. The 12th Five Year Plan of the Government of India has suggested urgent need of various means to finance higher education in India.

Credit Guarantee Funds for Higher Education sector, Interest Subsidies for Student Loans have been some of the new growth. Now let's have a look at some of the problem faced by students to raise resources for their higher studies and why we should overcome them in the best interest of students and for the development of the nation.

### **OBJECTIVE OF EDUCATIONAL LOAN IN INDIA**

Educational Loan in India has been introduced with the objective of providing financial support to those deserving students to pursue higher education in India and abroad. According to Educational Loan scheme the student should be provided with the financial support from the banking system with affordable terms and conditions.

### **EDUCATIONAL LOAN SYSTEM IN INDIA**

Indian students are talented with academic track record which makes them qualify for higher Education Programs in India and Abroad. As the cost of education is rising students find it difficult to meet the expense and are opting for Educational Loan.

In this scenario students are facing number of challenges to avail the aid of educational loan. Some important issues associated with are timely approval of loan, Customization of loan to suit the student's requirements, Margin Money, collateral security sufficient enough to cover the loan amount, proof of appropriateness of the university, college and course applied for, etc.

Problems faced by students to avail Educational Loan It is very easy to talk than to act. Same applies to the case of promoting education in India and thereby nation's development. Various issue that students have to face while they apply for educational loan is very much difficult to overcome. First and the most important problem lies with lack of proper understanding the terms and conditions of educational loan. One interesting fact is that most of the students availing educational loan are unaware of the rates of interest on educational loan and repayment schemes. It is very important to have a thorough knowledge of all those facts and figures while applying for an educational loan. Students apply for educational loan are not clear about the application formalities, eligibility criteria, terms of payment, etc.

Unfriendly attitude of bank employees contributes to increase the difficulty for students to apply for educational loan. Students do not feel it comfortable when there is no supporting attitude from the bank employees to help those needy. One of the important quality that the employees of service sector area is Friendly attitude which comes under better interpersonal communication. So it is very important to have supporting and helping mentality among the bank employees to promote financing of higher education and thereby the nation's development.

The processes involved in getting the loan sanctioned are very much complicated and the students have to visit the bank many times to fulfill all those conditions put forwarded by banks and to get it sanctioned. There are various issues like submission of various documents to the bank for processing educational loan for students. Students find it difficult to submit all those paper demanded by the banks for processing the loan. With all this there exists procedural delay and complicated formalities during this process.

Rates of interest and terms of repayment are very important issue and both banks and students need to be very much careful on the same. Another issue faced by students is to arrange guarantee, collateral security, etc. for getting the educational loan sanctioned.

Even with all this students might have to be recommended by some high officials or personalities. Even after fulfilling all the requirements and demands of the bank the delay for getting the loan amount sanctioned is a big problem students face. Some banks won't be able to grant the loan amount to the students even after the classes' start, which makes the loan availers in a situation that they have to generate the 100% of initial costs and fees by themselves and get repaid by the bank later once the loan is approved

## **CONDITIONS OF EDUCATIONAL LOAN IN INDIA**

### **Eligibility**

- The student should be an Indian National.
- She/he should have secured admission to professional or technical course in India or
- Abroad through entrance or on merit.
- She/he should have secured minimum 60% (50% for SC/STs) marks in the qualifying examination for admission.

### **Loan Limit**

- For studies in India-Rs.10 lakhs
- For studies Abroad-Rs.20 lakhs

**Expenses covered**

- Fee payable to school/college/hostel.
- Examination/Library/Laboratory fee.
- Purchase of books/equipment/instruments/uniforms.
- Caution deposit/building fund/refundable deposit supported by institution bills/receipts
- Travel expenses/passage money for completion of the course.
- Any other expenses required to complete the course-like study tours, project work, thesis, etc

**Rate of Interest**

- The government of India has now approved a scheme to provide full interest subsidy during the period of moratorium. The interest rate charged on the Educational Loan shall be as per the BPLR/Base Rate of the individual banks and as per the provisions for interest rates under the IBA model educational scheme.

**Security**

- Up to 4 lakhs, no security is required and parent will be the co-borrower of Education Loan
- Above 4 lakhs, it is the co-obligation of the parent up to 7.5 lakhs with collateral security in the form of suitable third party.
- Above 7.5 lakhs, it is the co-obligation of the parent with tangible collateral security of suitable value and assignment of future income of the student for the payment of installments.

**Repayment**

- Repayment should start with the completion of course period and one year or six months after getting job, whichever is earlier.

**CONCLUSION**

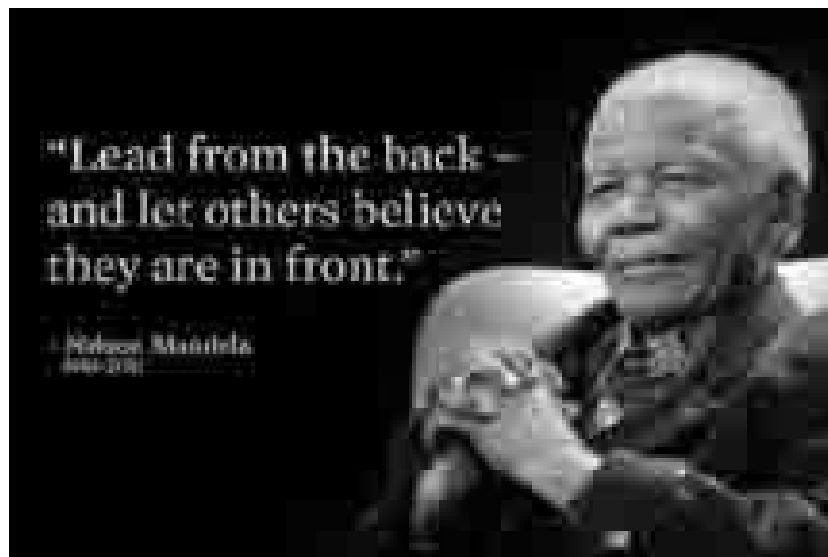
All the issues we have talked about the difficulties faced by students to avail educational loan are very serious and need to be given very importance to bring the maximum possible benefit out of it both for the student and the nation. Private Sector banks have least preference to provide Educational Loans to the students as the recovery period of educational loan is too long. This is also coupled with higher risk of default does not make it sound for the

private banks. Above all this Educational loans remain in the domain of public sector banks as they offer better terms and conditions than the private sector banks.

Banks should be more enlightened towards sanctioning Educational Loans so that no one is denied of access to Higher Education. Our former Finance Minister Mr. Chidambaram said, “one case of application rejection or two cases may be an oversight issue ,but if the branches a critical number like five or ten cases of rejection ,then there can be action against the manager”. The Government as well as banks should support students to avail the benefit of educational loan for their higher studies and to bring development to our nation.

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