Infrastructure & Export Industry Status to Hotel Industry, Land Banks Will Boost Investments in Hotel Infrastructure: FICCI-Evalueserve Study

NEW DELHI, January 9, 2010. In a bid to boost investments in hotel infrastructure and give a fillip to the tourism sector, a FICCI-Evalueserve study has set out a nine-point agenda.

The FICCI-Evalueserve study calls for the grant of infrastructure status and export industry status to the hotel industry, delinking of hotel projects from commercial real estate, 100 percent FDI in developing tourism infrastructure in India, escalation of investment in the tourism sector, creation of land banks for budget hotels and single-window clearance for new hotel projects by the state governments, identification of hotel sites to be given on long-term leases, improvement in civic amenities through the PPP model, and development of one destination in each pro-active state as a model tourism destination.

The study maintains that the Indian tourism industry is expected to present a number of opportunities in the first-class and mid-market hotel segments, with most of the room supply being added to these segments in the next five years. In Q1 2009, India had a hotel project pipeline of 421 projects amounting to 72,682 rooms. According to WTTC, the Indian travel and tourism industry is expected to generate INR 3,239 billion (USD 67 billion) worth of economic activity (includes direct and indirect activity) in 2009. The industry's direct impact on the GDP is INR 1,165 billion or about 2.2 percent of the GDP, and it provides direct employment to 12.9 million people (2.7 percent of the total employment).

The Indian travel and tourism industry is expected to grow at a much faster rate than the global counterpart or the South Asia regional industry as the following table shows.

Comparison with South Asia and World – Sub-segment Growth

Parameter	*Year*	*India*	*South Asia*	*World*
Growth in Personal Travel and Tourism	2009	6.0%	5.1%	-2.9%
	2019	7.6%	7.3%	3.8%
Growth in Business Travel	2009	-4.2%	-3.6%	-7.2%
	2019	7.6%	6.8%	3.6%

Source: World Travel & Tourism Council

Although the business travel segment has suffered a slowdown in 2009, it is expected to bounce back by 2019. Growth in business travel is less than that in personal travel not only in India but across the globe. This trend is expected to continue over the next 10 years. Table 15 represents India's standing among its counterparts in the South Asia region on select parameters.

India's Standing in South Asia – Based on Travel and Tourism Industry Statistics

Ranking	*Travel and Tourism's total Contribution to GDP*	*10 Year Real Growth in Travel and Tourism's contribution to GDP*
1	Cambodia **(17.5%)**	China **(9.2%)**
2	Thailand **(14.7%)**	India **(7.7%)**
3	Vietnam **(13.1%)**	Vietnam **(6.5%)**
4	Malaysia **(12.3%)**	Thailand **(6.1%)**
5	China **(9.8%)**	Bangladesh **(6.0%)**
6	Sri Lanka **(7.9%)**	Indonesia **(5.7%)**
7	Indonesia **(7.8%)**	Cambodia **(5.7%)**
8	India **(6.0%)**	Sri Lanka **(5.6%)**
9	Pakistan **(5.5%)**	Pakistan **(4.4%)**
10	Bangladesh **(4.0%)**	Malaysia **(4.0%)**

Source: World Travel & Tourism Council

Thus, to facilitate investments in hotel infrastructure, the FICCI-Evalueserve study has suggested the following:

Grant of infrastructure status to the hotel industry: The hotel industry is unable to enjoy a multitude of benefits, owing to the fact that is has not been accorded industry status across the country. The status will encourage re-investment in the hospitality sector. This will also channelise investment flow in the tourism sector and help bridge the demand-supply gap. India requires investments worth INR 600 billion over the next five years to meet the unmet demand for about 1,50,000 rooms. According to WTTC, the Indian tourism industry will be generating about 31 million jobs (directly and indirectly) in 2009 and will be responsible for creating 40 million jobs by 2019.

Export industry status to the hotel industry: The tourism industry earned foreign exchange worth USD 11.7 billion in 2008, an increase of 9.5 percent from the previous year. Given this quantum of earnings, the industry should be granted deductions on foreign exchange earnings. The benefits available under Section 80HHD of Income Tax Act 1956, which was discontinued after 2005–06, should be revived. An exemption on the foreign exchange earning of tourism industry on the same lines as that given to other foreign exchange-earning industries would be beneficial for the industry's growth.

Hotel projects de-linked from commercial real estate: Currently, hotel projects are categorised as commercial real estate projects, which means they have to meet the stringent terms and conditions meant for commercial real estate, bear higher interest rate and be rated non-priority sector for financial assistance. This has an impact on the growth of the industry. For sustained growth, tourism projects must not be clubbed under the real estate sector. Earlier, both hotels and hospitals were included under real estate; however, hospitals are no longer clubbed under real estate. The same benefit should be extended to hotels. This de-linking will support growth in new projects and also assist the on-going projects (including projects targeted at Commonwealth Games 2010).

100 percent FDI in developing tourism infrastructure in India: According to a WTTC report, India's travel and tourism industry will directly contribute INR 3,345 billion (USD 61 billion) to the GDP by 2019, allowing 100 percent foreign direct investment in hotel infrastructure development. This will prove to be a major growth driver for the industry.

Investment in tourism needs to be escalated: In 2008, India's expenditure on tourism as a percentage of the total expenditure will be about 1 percent as against Malaysia's 1.74 percent, China's 3.9 percent and Singapore's 10.2 percent. For the industry to gain momentum, it is extremely important to initiate an increase in investment. Government's capital expenditure on tourism is negligible compared to the foreign exchange earnings (FEE) of the industry.

Land banks for budget hotels & single-window clearance for new hotel projects by state governments: Land is a major cost component of any hotel project and high land prices have made it difficult for budget hotels to become viable. Hence, availability of land banks is very important for the growth of budget hotels. Additionally, hotel projects suffer delay related to plethora of processes, as various approvals are required for the construction and running of a hotel. A single-window clearance would help in reducing the time required for making a project operational as well as attract entrepreneur participation.

Identify hotel sites to be given on long-term leases: According to a WTTC report, India's travel and tourism industry will require capital investments worth INR 5,183 billion (USD 94.5 billion) by 2019. In order to overcome the hurdle associated with high land costs, the government should identify sites which can be given on long-term leases for hotel projects. The government also needs to develop guidelines to rationalise the land sale and lease processes in order to increase the room supply in the country.

Urgent need to improve civic amenities through the PPP model: Improving the approach roads to various tourism sites and providing better civic amenities in their vicinity and identification of select model cities (major tourist hubs) by the Ministry of Urban Development, where a pilot PPP model-based civic amenities improvement scheme can be launched. This scheme can be run in collaboration with the Ministry of Tourism (MOT).

One destination in each pro-active state to be developed as a model: Each state government pro-actively involved in tourism development should aim to develop one of its major tourist destinations as a model destination. This successful model can then be replicated across other destinations within that state as well as across the country and further the process of effective investment in hotel infrastructure.