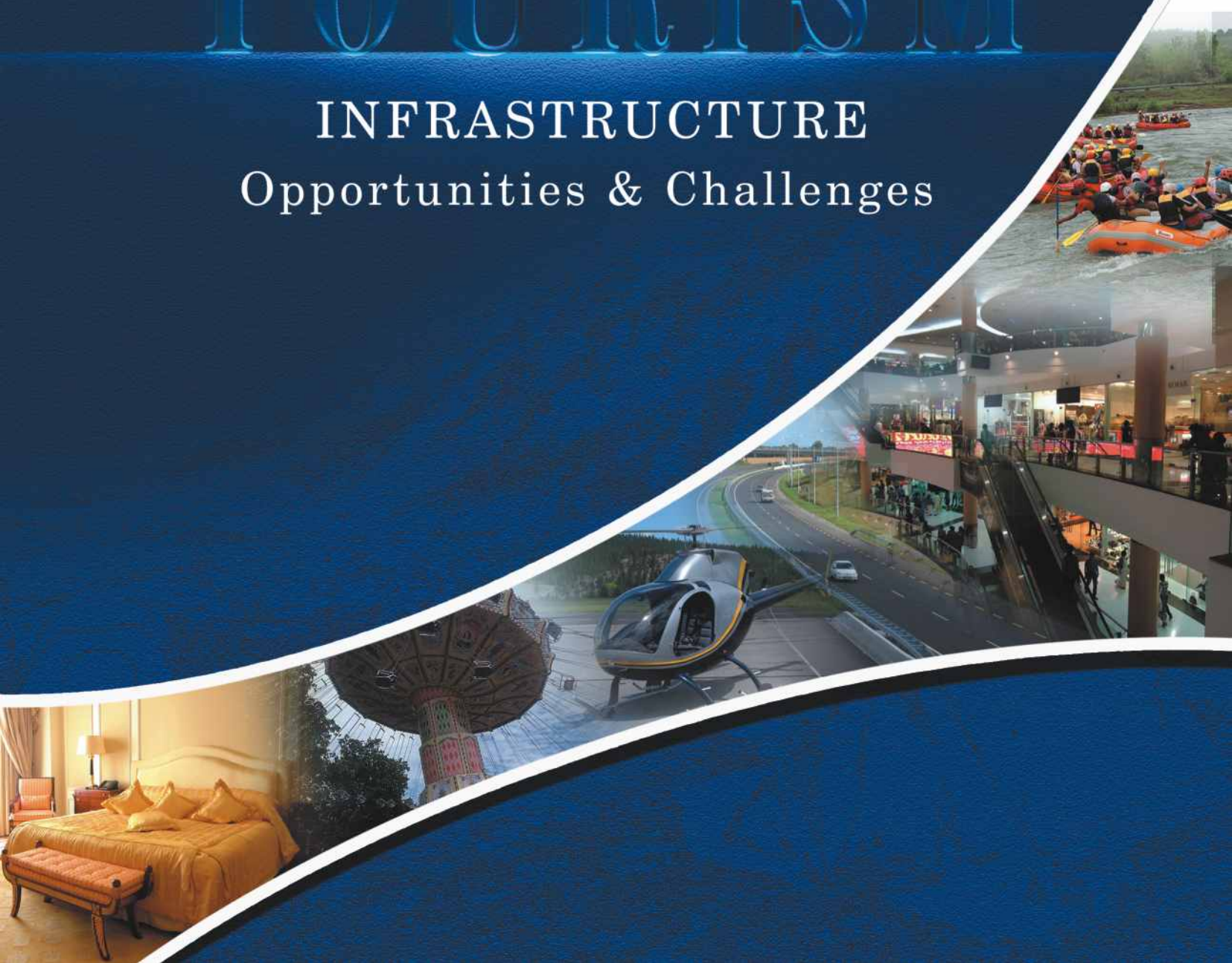
Incredible India

FICCI

INVESTMENT IN TOURISM INFRASTRUCTURE

Opportunities & Challenges



Acknowledgements:

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Executive Summary

Executive Summary



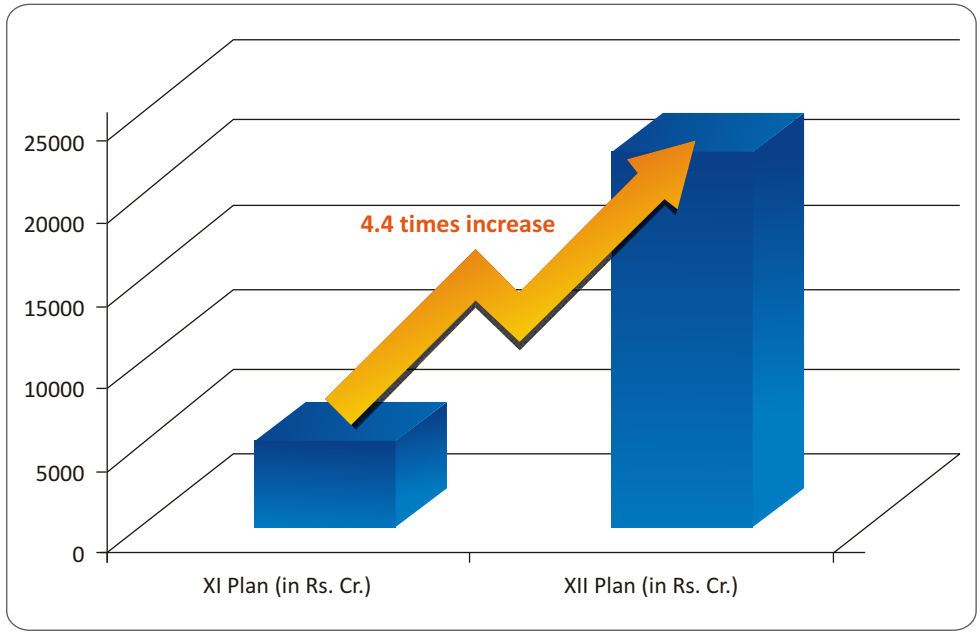
Economic growth, open-sky aviation policy, improving surface transport and tourist facilities, increased business travel and use of IT for communication and reservations have all together created a paradigm change in India's tourism sector in the past few years. According to the World Travel and Tourism Council (WTTC), in 2011 the contribution of travel and tourism in India was 6.4 percent of total GDP; this is projected to rise by 7.3 percent in 2012 and by 7.8 percent per annum (p.a.) in 2022.

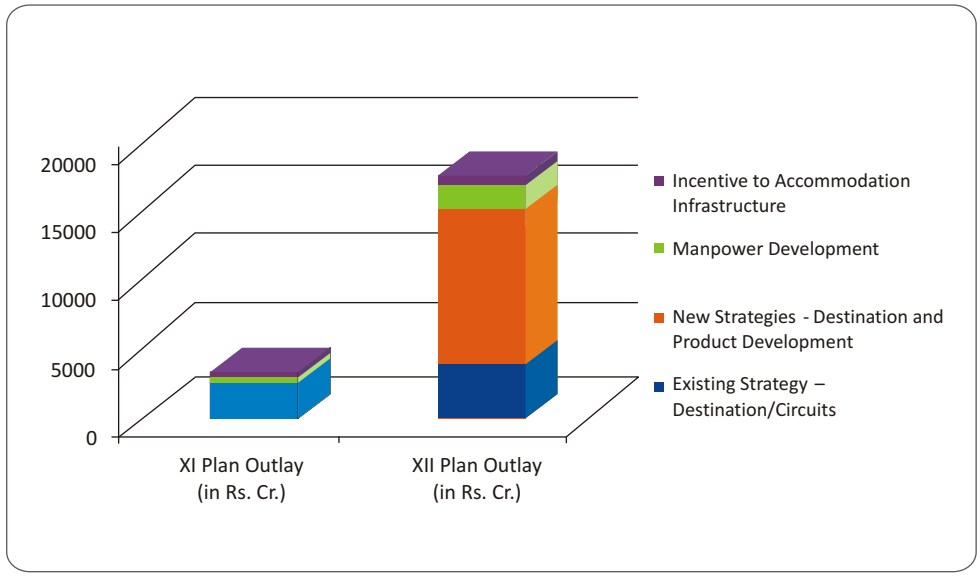
In 2011 the total contribution of travel and tourism to employment, including jobs indirectly supported by the industry, was 7.8 percent of total employment. This is expected to grow by 2.8 percent in 2012 and by 1.7 percent p.a. in 2022 (8 percent of the total). The sector creates 78 jobs per million rupees of investment, and by 2016 it is expected to create additional employment of 24.5 million (direct and indirect). The contribution of the travel and tourism to domestic employment is expected to rise from 1 in every 10 jobs in 2010 to 1 in every 9.6 jobs by 2020.

However, in a highly competitive market as this sector, a tourist destination can flourish only by consistently delivering quality services and ever-improving customer satisfaction, and the quality of infrastructure is an important determinant of overall tourist satisfaction. Hence, infrastructure development holds the key to sustaining the growth in India's tourism sector.

Data from WTTC show that in 2011, total investment in tourism infrastructure was Rs. 125,400 crores, approximately 5.1 percent of the total investment in the country; this is expected to have risen to 12.3 percent by the end of 2012. The Ministry of Tourism (MoT) has been making concerted efforts to develop and incentivise quality tourism infrastructure creation at various tourist destinations and circuits. But given the high growth rates in the sector, demand has been outstripping supply. To close the gap in tourism infrastructure investment, the Mot has advised the Planning Commission to increase its allocation in the 12th Five Year Plan to Rs. 22,800 crore, a 4.4 fold increase over the 11th Plan outlay. The outlay in destination development (existing and new) has gone up from Rs. 2,606 crore in the 11th Plan to Rs. 15,220 crore in the 12th Five Year Plan, a 5.8 fold increase.

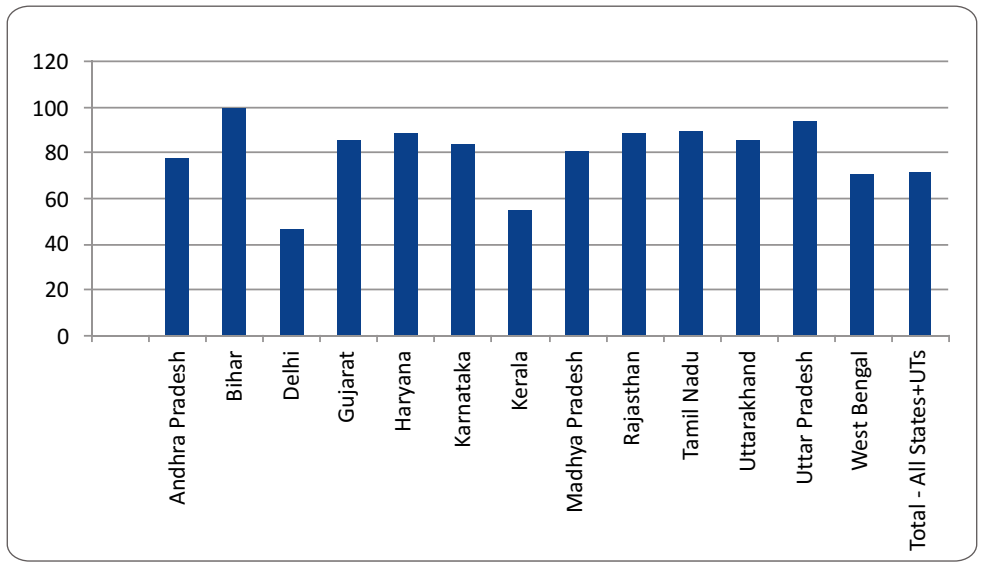
Chart: Tourism Sector Outlay in 12th Five Year Plan





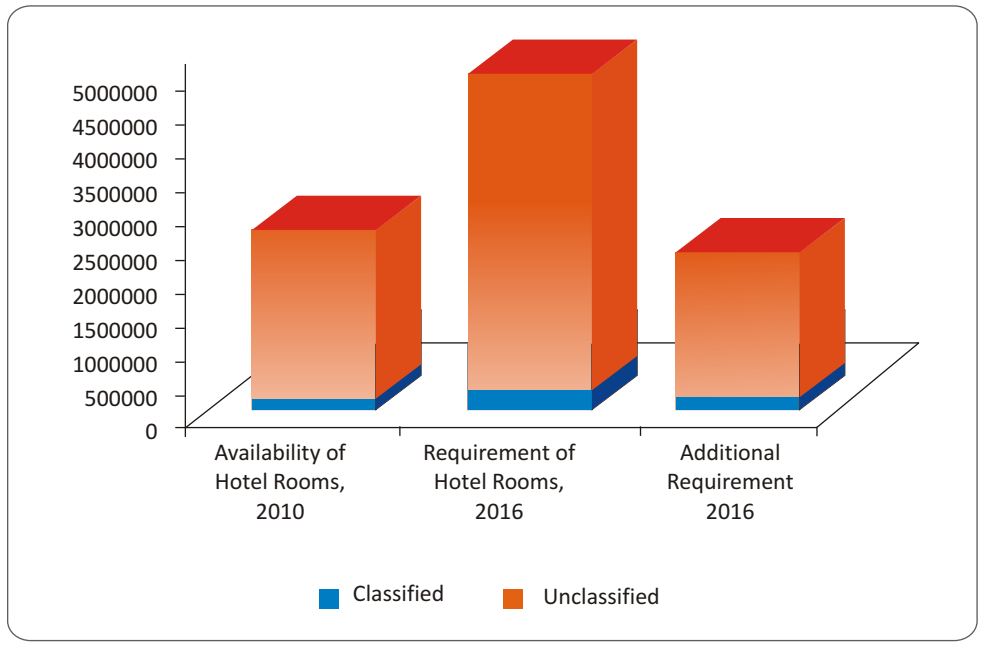
Data from the Planning Commission of India indicates that in the last financial year of the 11th Five Year Plan (FY 2011-12), in order to bridge the transport infrastructure gaps (especially in the access to tourist destinations), collectively States spent more than 71 percent on constructing roads and bridges out of the total planned outlays in transport expenditure.

Chart: Roads & Bridges as Percentage of Total Plan Spend on Transport, FY 2011-12



Also in the medium term, in order to meet an estimated shortfall of 2.26 million rooms by 2016, in the 12th Plan period States will need to prioritise hospitality in their domestic tourism policies and provide the necessary land and other incentives for meeting this rising demand.

Chart: Accommodation Infrastructure Requirements, 2016





The sector is open to 100 percent FDI through the automatic route into all construction and development projects including construction of hotels and resorts, recreational facilities, and city and regional-level infrastructure in order to create job opportunities in the tourism and hospitality sector. As per the Department of Industrial Policy and Promotion, total FDI equity flows between April 2008 to January 2012 in the Hotel and Tourism sector was Rs. 11,110.98 crores, in a total 1901 projects.

Several studies have shown that in India, visitor satisfaction is positively correlated with the quality of tourism infrastructure and facilities like tourist information services, general cleanliness and hygiene, wayside tourist facilities and public utilities, illumination and guidance/brochures at tourist destinations, safety and security matters, availability of appropriate accommodation, good roads (in particular the last mile connections), safe and efficient public transport systems connecting the different tourist destinations with the metro-cities in the country, etc. Addressing the infrastructure concerns urgently will be critical for India to realise its potential for tourism.

This is also the lesson from our analysis of the tourism policies in successful States. A not-so-surprising finding is that generally the States that have been focusing in developing relevant tourism products and increasing tourism related public investment, both directly from their own coffers and by using central government allocations, incentives and subsidy schemes (tourism and infrastructure sector), are also the States which have managed to consistently post high growth rates in the tourist arrivals. But the more successful States have also successfully leveraged their public investment in tourism and transports sectors to encourage private investments in the sector, either standalone or by means of PPP projects.

Given the awareness of the above at the highest levels of appropriate policymaking, and especially given that the States and the Centre itself has been making concerted efforts to vigourously promote tourism, ensuring adequate investment flows into this dynamic sector simply requires addressing the remaining implementation concerns of the tourism infrastructure sector. The key messages from the report and policy recommendations to promote investments in tourism infrastructure are therefore:

1) States should create land banks in association with local bodies (urban and villages) to help speedy implementation of essential tourist infrastructure projects by the private sector.

2) Private sector investment in development and maintenance of heritage buildings can be promoted by targeted 'adopt a heritage site' programmes through a judicious mix of tax incentives and subsidies.



State public funding can then be used to provide the last mile connectivity and creating complementary physical tourism infrastructure.

3) All States should promote the 'single window facilitation' for approval of projects related to tourism infrastructure, esp. hotel projects and theme parks.

4) Rationalisation of the tax structure and licensing regime will help promote development and operation of tourism infrastructure. This is particularly critical in the luxury tax for hotels.

5) Furthermore, special incentives/concession by way of providing land at concessional rates, special tax incentives and other subsidies/concessions will help development of Budget Hotels.

6) The FAR/FSI and development charge for hotels should be reviewed throughout the country, particularly in tourism-incentive cities, to help bridge the accommodation demand-supply gap.

7) Hotel industry should be treated like any other infrastructure industry, and given similar incentives and rebates as given to the industrial and infrastructure sectors, viz. extending bank loan repayment periods to 10 -15 years and assuring lower cost funding. Sector experts reckon that hotel tariffs may actually go down by 2-3 percent if the government agrees to remove the riders attached to the infrastructure status newly accorded to the hotel industry, and extend the infrastructure status to 'all' hotels and tourist accomodation units.

8) The hotel industry will enhance project viability if the benefits under the Section 80HHD of Income Tax Act 1961 for tourism industry are 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.

9) Tourism has 'industry status' in only 11 States and 2 UTs. The remaining State governments are requested to recognise tourism as an industry so that hotels and hospitality industry throughout the country can avail of the benefits under the industrial policies of the respective state governments, in particular with respect to: (i) Exemption of Stamp Paper duties; (ii) Exemption/ Concession in VAT and Sales Tax; (iii) Property tax, electricity rates and water charges levied as per Industrial rates; and (iv) Land banks for tourism projects.