

Finmin rejects tourism pitch for subsidies to budget hotels

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Finance ministry sees no merit in proposal by tourism ministry that offered capital subsidy to budget hotel builders.

New Delhi: Union finance ministry has rejected a tourism ministry proposal to subsidize private companies building one-three-star category hotels.

"We have been asked to reformulate our package and send a fresh proposal to the expenditure finance committee (EFC). This is a major set back as the country lacks over 100,000 budget hotels," says a senior official at tourism ministry who declined to be named. "This is when we helped creation of 2,000 budget hotel rooms in 2007-08 by extending capital subsidy."

The committee, a part of the finance ministry, approves allocation of money for government projects.

The tourism ministry had proposed an incentive for a new one-star hotel at Rs 2 lakh per room, subject to a cap of Rs 30 lakh for the hotel, Rs3 lakh per room for a two-star facility subject to a cap of Rs 75 lakh for the hotel and Rs3 lakh per room with an upper limit of Rs1 crore for a three-star hotel.

"The package was a combination of capital subsidy (or a grant) and loans from the bank, which ever will be lower, Now that our proposal has been turned down we are not expecting any money coming for this project in 2008-09", said the same official.

The rejection comes even as the 11th Plan has envisaged a central assistance of Rs235 crore as an incentive to develop accommodation-infrastructure. According to the ministry of tourism there is a shortage of 150,000 hotel rooms in the country. Of this 110,000 rooms will be required in the budget category.

"The proposal was rejected in the EFC meeting on Monday as it was not properly structured. A 10% or 15% subsidy in a hotel project such as this will not lead anywhere. It will not take off. What you need is land," a senior government official in the know of the development but who declined to be named, said. He also added there have not been too many takers for such kind of subsidies during the 10th Plan period (2002-007). Those in the business of budget hotels agree.

"The bureaucracy is so terrible that there is a big difference between practice and intent," said Patu Keswani, chairman and managing director Krizm Hotels Pvt. Ltd, which runs 10 budget hotels under the Lemon Tree brand and is developing another nine under the Red Fox brand. "It doesn't make much of a difference because if I am building a 100-room hotel at a cost of Rs40 lakh per room, then I am spending Rs40 crore; but the cap of Rs75 lakh per hotel is less than 2% of my cost. I think if the government would provide an interest rate subsidy, that would help more."

Akshay Kulkarni, director South Asia, Cushman and Wakefield, a real estate consulting firm, says that although the idea of providing subsidy to budget hotels is good, even implementation sometimes can be a problem as well.

Tourism contributes \$6 billion (Rs28,380 crore) in foreign exchange earnings to India, according to data from the ministry of tourism, and the first half of the year saw 2.72 million foreign tourist arrivals, up 11.1% over the same period last year. However, tour operators are expecting a 15-30% fall in tourist arrivals after the Mumbai terror attack and due to economic slowdown.

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