Significance of Venture Capital in Tourism and Hospitality Sector:
A Lesson for India from MENASA Region

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Abstract: Around the world, tourist's flow is increasing year after year. The flow of international tourists increased from a mere 25 million in 1950 to 898 million by 2007 (with a CAGR of 4.7% during 1980-2007). The international tourism receipts was only US$ 2.1 billion in 1950, but increased to over US$ 738 billion by 2006 (with a CAGR of 8.3% during 1980-2006). The written history of the world reveals that Arab traders (basically from Middle Eastern region) were the pioneers of retail and distribution industry and it was the result of the adventurous nature of those traders to explore the potentiality of goods and services from the Asia Pacific and African region, which they succeeded by identifying the market for these products in the European market. This is in a way can be considered as the ancient form of business travel. From 1818 onwards, European colonial powers took over the Arab supremacy, and till 1940's most of the countries in Middle East, North Africa, and South Asian (MENASA) region was under colonial rule. From 1940's onwards there seems to be a complete reversal of the scenario from Western and European dominance towards MENASA region. This is because of the growth and development of tourism and travel industry, coupled with parallel growth in hotel and hospitality industry. The major source of funding was found to be venture capital, which has the inherent characteristics of generating / creating / adding wealth in a manifold way. Though there was a decline in the global venture capital activity after 9/11; the picture from MENASA region shows a positive growth completely deviating from the global pattern. Utilising on the significance of venture capital financing, a socially responsible growth can be seen in tourism and hospitality industry in MENASA region in the near future. India can learn a good lesson from this changing scenario and take the lead; then in the near future the world can witness a harmonious growth and development in the entire MENASA region; which will act like ripples in water and the result will be global prosperity.
Key words: Travel and Tourism, Hospitality, Venture Capital, MENASA region, India

Introduction

Travel & Tourism means jobs; and more than jobs, it means service to customers, a gateway to economic progress at national and local levels, and prospects for greater dignity and a better life for people across the world. Over the past few years, the Travel & Tourism industry has had to contend with a series of unprecedented challenges. International events, such as terrorism and SARS, and economic turbulence have led to significant changes in Travel & Tourism demand. At the same time, international events have acted as a catalyst, accelerating fundamental changes in market behaviour and travel patterns that have been slowly emerging over the past decade (WTTC, 2003). In the present Globalised economy; only those who identifies the potentiality of this industry and at the same time takes pro-active steps to capture the market will succeed and survive. The pro-active steps taken by the governments of many countries in Middle East, North Africa, and South Asian region (MENASA) are good examples of not leaving this sector's growth to chance. But the success depends on the growth and development of hospitality industry in the host countries/regions.

As a key-trading partner in tourism, the hotel industry has an important role in environmental responsibility issues (Kasim, 2007). Excessive water use by hotels has been claimed as contributing to water use conflicts all over the world (Orwin, 1999); coupled with the issue of water contamination, over consumption of energy (electricity), and also solid waste management are the most crucial factors that needs to be considered for preventing environmental degradation resulting form tourism and hotel industry. The reason why the environmental issue of tourism and hotel operations became more important is because of the increased flow of tourists; a mere 25 million in 1950 to 898 million by 2007 with a receipt of US$ 2.1 billion in 1950 to over US$ 738billion by 2006 (UNWTO, 2006; 2007; and 2008), and the trend is going to continue. The growth in tourism and hospitality industry in MENA region is the direct result of the emergence of (Islamic) venture capital financing. Majority of the VC activities are revolving around North America to the tune of 64% of the amount raised and 48% of the amount invested; and Europe to the tune of 25% of the amount raised and 30% of the amount invested (GPE, 2008). A gradual shift is being seen after the 9/11 impact in Asia Pacific, Middle East and African regions in terms of the amount raised and very soon investment climate will also change favourably in MENASA region. But by using the wealth generating/creating/adding capability of venture capital and combining it with the multiplier effect of job creating ability of tourism and hospitality industry; MENASA region can outperform all other players in the arena of tourism and hospitality by refocusing on stabilizing the region's most crucial problem of insecurity and safety issue. Though MENASA region is considered as the highest populated regions in the world, in the present Globalised scenario, because of the improved standard of living as well as the increase in purchasing power, the '*evil*' became the '*angel*' for economic development (Subhash, 2008a). It is also evident that venture capital does have the power to generate employment opportunities as well as overall economic development of a region, and if it happens in the MENASA region; the problem of unemployment may slowly comes down, the mind setup of younger generation may change positively in transforming their economy in to a ***welfare economy*** than a ***warfare economy***, then everything is going to change for the betterment of the world (Subhash, 2007a). But a concentrated effort from Western and European region is required in proving the much-needed infrastructural and technological support for bridging the gap between the less developed and the developed nations in MENASA region. Once it happens, then the environmental issues related with travel and hotel industry also gets reduced.

This paper tries to give an insight on otherwise unexplored area in academic literature so far. It begins with a brief over view of MENASA region, the present economic scenario, as well as the prospects for the infrastructure investment requirements of this region for future economic prosperity. This is followed with evaluating the global venture capital activity over a decade (1998-2007) to get an insight of the changing pattern emerging from different regions with respect to amount raised, invested, as well as the stages of investments and industry preferences. A closer look at the regional scenario after 9/11 impact, throws light on the emergence of the concept of Islamic venture capital activity, mainly in Middle Eastern region. This is followed with the analysis of travel and tourism industry around the world over the last 5 decades (1950-2007), which throws light on the growth trajectory happening in different regions. Finally the article aims at identifying some strategies, which India can learn from MENASA region for the overall improvement of, and socially responsible, growth in tourism and hospitality sector utilising the potentiality of venture capital financing. Ultimately the entire exercise should (1) give vigour to economies, (2) stimulate development, and also (3) offer people jobs and career prospects, around the world for a better future.

MENASA Region: An overview

There have been many observations in the history of mankind of the geographical concentration of economic activities in specific regions depending on favourable environmental factors (Subhash, 2007a), and this clustering is a global phenomenon (Subhash, 2007b). An over view of clustering of economic activities during 3500 BCE until the present century shows that clustering started during the emergence of ancient civilizations, i.e., the ancient Middle East (Sumerian city states founded during 3500–2500 BC), Ancient Egypt (Old Kingdom during 2800–2160 BC), India (Indus Valley civilization during 2500 BC), Ancient Greece (Minoan civilization emerges in Crete during 2000 BC), and Ancient America (Neolithic culture first develops in Central America during 2600 BC). The main reason for the emergence of civilizations and their subsequent flourishing was the favorable environmental climate that existed at that time. Gradually, the exodus of adventurous groups for better pasture paved the way for the development of civilizations around the world.

The written history of the world also reveals that Arab traders (basically from Middle Eastern region) were the pioneers of retail and distribution industry and it was the result of the adventurous nature of those traders to explore the potentiality of goods and services from the Asia Pacific and African region, which they succeeded by identifying the market for these products in the European market (Subhash, 2008a). This is in a way can be considered as the ancient form of business travel. Till 1818; when the Ottoman Empire got defeated by European Christian power, Arabs enjoyed the supremacy of the retail and distribution in the world, and subsequently the technological advancement made European region to gain control over the global retail and distribution sector. The result of the industrial revolution was the mass colonisaiton of the three main regions; viz.; Middle East, Africa, and Asia Pacific, by few European powers. Most of the colonized countries were not allowed to develop indigenously, instead considered as either raw material depot or dumping ground for the finished goods from Europe.

From 1940's onwards all the colonized countries in MENASA regions became independent and their economy slowly and steadily started showing progress towards prosperity. One of the most significant developments, which made the countries in the MENASA region to gain supremacy in the world economy, was the abundant oil reserve. Most of the countries in this region are having rich oil reserve, and also the countries in this region are having high population growth rate, sizable number of labour force, and low unemployment rate than rest of the world. But the evil side effects of this dirty politics played by the European colonial powers; viz.; '***divide and rule policy***' still exists and is considered as one of the main reason for the internal unrest in many countries in this region. Except in South Asian region; most of the countries are following the Islamic Law, which is considered as both the strong as well as the weak point of the economies in MENA region. Strict administration of the law and order situation as well as the judiciary system makes the economies in MENA region to move forward faster than the countries in the South Asian regions. The development, which has been happening in MENA region during the last 10 years, is the direct result of the legal system prevailing. The main drawback of this system is the violation of human rights; especially towards workers from other regions working in MENASA region. Since most of the countries in this region are not complying with International Court of Justice (ICJ); there is no compulsion on the judiciary system to strictly follow the guidelines framed for protecting human rights.

The geographical area covered in MENASA given in **Exhibit 1**, the region of focus, encompasses over 28% of the world's population and has a combined GDP of over US$ 2,500 billion (ABRAAJ, 2006). Much like its Middle Eastern neighbours, South Asia is today suffering from severe historic under investment in infrastructure; however, the needs for India and Pakistan are arguably more urgent than those of the Middle East and North Africa region (MENA). Both India and Pakistan have emerged as two of the fastest growing economies in Asia. In the first half of 2006, the Middle East, for the first time in its history, became the largest source of infrastructure related project finance in the world, accounting for US$ 33 billion, or one dollar in every three, that was raised in the industry globally. Furthermore, the vast infrastructure requirements of the region going forward suggest that this situation is likely to remain the case for the foreseeable future, mainly in Power & Utilities (US$ 155 billion), Water (US$ 133 billion), Healthcare (US$ 49 billion), Education (US$ 18 billion), Transportation (US$ 188 billion), Petrochemicals (US$ 87 billion), and Mining.

Exhibit 1: Primary and Secondary Focus Countries in MENASA Region

Source: A Special Report on "***The Infrastructure Investment Requirements of the MENASA Region***"; An Abraaj Capital Publication, November 2006.

Various key economic indicators of MENASA countries explains the impact of the strength of the present population, labour force and the level of unemployment, GDP growth rate and the level of inflation, GDP per-capita income, and finally the status of oil wealth in MENASA region (WFB, 2007 and ABRAAJ, 2006). Of the world population, almost over 27% is in MENASA region (ME – 3.24%. NA – 2.48%, and SA – 22.20%). India is leading with 17.11% holding the 2nd rank after China. This huge population size itself is the high demand potentiality for the goods and services produced inside / outside this region. When it comes to population growth rate, India is lagging behind most of the countries in MENA region, which shows that in the years to come, the size of the population in MENA region is going to increase which will lead to more demand. The labour force in this region shows that almost 25% of the world labour force is from MENA region, and here also India is leading with 16.97% of the world labour force. But in terms of the unemployment rate; except Libya, all other countries are having low rate compared to 30% for the world. This is the appropriate time for MENASA region to refocus on tourism and hospitality industry by making use of the available venture capital financing to assist the entrepreneurs to come forward with new ideas as well as helping them with modernization and expansion schemes. In many countries in the ME region this has already started taking place, and NASA region has to learn from this experience.

Almost all countries; except Iran, Iraq, Tunisia, and Lebanon (showing negative rate); all other countries in MENASA region is showing high GDP growth rate than the world rate of 5.10%. Inflation rate is also less than 10% in most of the countries, except in Iran, Iraq, and Sri Lanka. This is the clear indication of a future growth potential. Only few countries in MENA region are found to be having more GDP per-capita above the world figure of US $ 10,000. This is mainly because of the oil power / wealth of these countries in ME region; the resultant liquidity has given local governments, primarily in the Gulf Cooperation Council (GCC), the confidence to push ahead with a wide range of projects. Almost 30% of the world oil production is from MENASA region (Saudi Arabia leading with 11.4% share). In terms of oil consumption, only 14% of the world oil consumption is from MENASA region. But when it comes to surplus (resulting to more export), majority of the countries in MENA region are having almost between 16-92% surplus. In terms of the total oil reserve availability; almost 68% of the world reserves are in MENASA region. This is a clear indication of MENASA regions future potential for generating much needed finance for its infrastructural development programmes for refocusing their economies. Without significant levels of investment, the current infrastructure will be a material constraining factor, impeding continued economic growth and development (ABRAAJ, 2006).

Considering all the economic indicators, the over all country risk-rating shows that majority of the countries (first six from ME, only Tunisia from NA, and India from SA regions) are coming under 'Investment Grade' category. UAE, Qatar, Kuwait, and Saudi Arabia are the only countries with low level of credit risk; where as Bahrain, Oman, Tunisia, and India are having medium risk level. The countries coming under the second category are Jordan, Lebanon, Turkey, Egypt, Morocco, and Pakistan, which are having substantial to high level of risk, hence are categorized as speculative / junk category countries. Rest of the countries is not ranked so far. This clearly indicates that the economies of majority of the countries are showing prospect of high economic growth. **Exhibit 1** also shows somewhat similar classification of countries in to primary focus and secondary/opportunistic focus. The countries where primary focus to be given includes India, Pakistan, Oman, UAE, Saudi Arabia, Qatar, Bahrain, Kuwait, Jordan, Lebanon, and Egypt. These are the countries where majority of the infrastructural development is going to take place in the years to come.

VC: A Global Scenario and MENA Regions Status

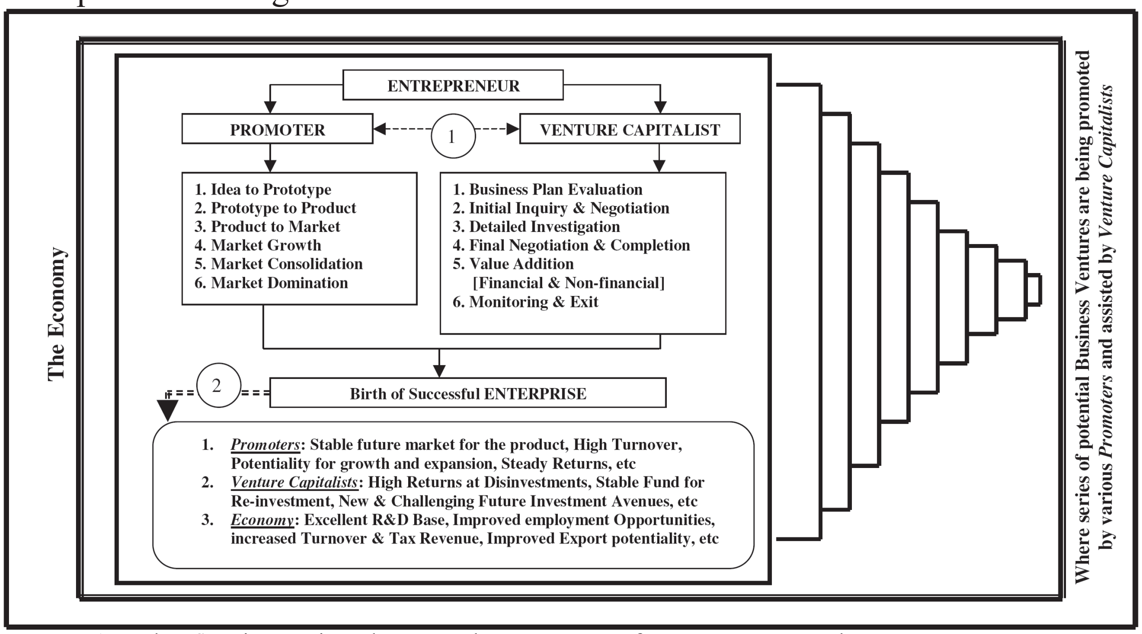
As it is well-established fact that the modern concept of VC originated in US in the year 1946 (Bruton, 2002), expanded there to Europe during 1980's and later to Asia, and finally reached South & Central American region as well as the Middle East & African regions to become a worldwide industry (Subhash, 2007a and 2007b). Success of industries in Silicon Valley in US fuelled the growth of VC industry to become a global phenomenon (Koh and Koh, 2000). But in many parts of the world similar financing practices were being practiced much before 1946 (Subhash and Nair, 2004). This dates back to the time of great explorers, and it got evolved in to different forms (Subhash, 2008b). The reason for the success of all such explorations around the world became a reality only because of the financing done by wealthy individuals (ancient VC's) to those explorers (ancient entrepreneurs).

The last 61 years (1946-2007) have evidenced that the greater the technological advancement in a region, the more active the venture capital financing there. Though many traditional sources of financing exist, for the start-up business venture with mostly intangible assets (in particular, the idea itself), the only source of financing may be venture capital, which glimmers with the prospect of generating wealth in ways not envisioned by other sources of financing. Presently over 80 countries around the world have adopted the concept of VC financing. This is mainly because of the inherent capability of VC in generating wealth in many avenues: 1) *to the promoters* - those who nurture the business idea; 2) *to the VC's* - those who offer lifeblood to the idea in the form of financial as well as non-financial support; and 3) *to the economy at large* - the playground where the first two players engage in their game (Subhash, 2007a). The detailed picture of how this happens is shown in **Exhibit 2**. With the first two players (promoters and VC's) falling under the category of entrepreneurs (VC's are categorised as a special breed of entrepreneurs whose primary aim is to embrace high-risk business ventures conceived by the potential promoters), union of these two will assert a multiplier effect on the economy.

When promoters and VC's join hands, the result, ideally, will be the successful completion of the entrepreneurship process: the birth of a successful enterprise. Following this, both players' wealth is maximized and the economy also receives an indirect boost. The resulting picture will be the wealth maximisation of all the stakeholders of the firm; viz.; shareholders, directors/managers, employees, creditors, suppliers, customers, local communities, the general public, and the government. As mentioned earlier, this is mainly because of the non-financial support provided by VC's in the form of serving as a sounding board to the entrepreneurial team; obtaining alternative sources of equity financing; interfacing with the investor group; monitoring financial performance; monitoring operating performance; obtaining alternative sources of debt financing; formulating business strategy and recruitment and replacing management teams (MacMillan et al., 1988; Gorman and Sahlman, 1989; Rosenstein et al., 1990; Ehrlich et al., 1994; Fried and Hisrich, 1995).

The benefits of venture capital financing can be seen in many advanced countries in the form of large scale industrial development, increased employment opportunities, higher turn over as well as revenue generation to the government, more and more investments in R&D, and also manifold increase in export of goods and services. These benefits are technically called as the ***economic impact of venture capital***.

Exhibit 2
Process of Wealth Generation: Multi-Faceted role of Venture Capital Financing



1. The ***first*** interactions between the two types of ***Entrepreneurs***, where ***Promoters*** submit the business plan with ***Venture Capitalists***.
2. The Wealth Generation/Creation/Addition stage once the business venture becomes successful.

Source: Subhash. K. B. Geography of Venture Capital Financing: A Global Perspective. The Journal of Wealth Management. Spring 2007.

Most of the developed and developing countries where the economic impact of venture capital survey was conducted reveals that venture backed business units are out performing their non-venture backed counterparts in all respects; viz.; employment generation, turnover/revenue generation, export, as well as R&D investments (Subhash, 2007b). Overall increase in different indicators is much higher with respect to venture backed business units. Another significant factor to be considered here is that the only country from MENASA region where such an extensive survey is being carried out is India; which is the only country coming in the top 20 list of the global venture capital players. The present global scenario for the period 1998-2007 throws light on the changing nature of venture capital (GPE, 2008). The period 2001-2003 shows the negative impact of 9/11 on the global venture capital industry. Except for the year 2003 where utilisation rate was 133%, for all other years the utilisation rate was only around 67% on an average, which clearly indicates the under utilisation of venture capital fund globally. Almost in all the regions the situation was similar, but in Asia Pacific region from 2001 onwards the utilisation rate is above 100%, averaging to almost 138% during the last 10 years period. It is a clear indication of the growth potentiality of this region in comparison to North America and Europe. Of the total global venture capital activity (both raised and invested), North America is holding almost 64% of the amount raised and 48% of the amount invested. The second and third positions are held by Europe (25% raised and 30% invested) and Asia Pacific region (9% raised and 18% invested). Thus put together these three regions holds almost 98% of the amount raised and 96% of the amount invested. The other two regions; viz., Middle East & Africa as well as Central & South America; are also potential players in terms of future growth prospects (remaining 2% of the amount raised and 4% of the amount invested).

This being the case around the world, in India 1964 onwards the modern concept of venture capital started, and in spite of the idea (proposed by US and accepted globally) that involvement of government may adversely affect the venture capital environment in the region; over the years the Indian venture capital industry with all the governmental interventions reached a commendable position globally (3rd position in terms of the amount invested after US and UK; and 1st position in terms of the CAGR during 2007). The most preferred stages of investment in India is later stage (almost 90% of the investments), and most preferred industry is services sector (almost 54% of the investments); which is in a way similar to the global trend. The present financial crisis around the world may lead to yet another shift in the growth potential of Indian venture capital industry, including Brazil, Russia, and China; technically called as BRIC Opportunities (GPE, 2008). The success lies in identifying the Opportunities and utilising them before it becomes a Threat with the help of the existing Strength, which India is having, and of course the Weakness needs to be managed properly (Subhash, 2008b), but compared to other global players, India is considered as a baby (Subhash, 2006). The only other country from MENASA region, which reached to the top 20, is Pakistan and this is the main reason why these 2 countries should be given more focus, because the development of these two countries will act as the required catalyst for other countries in MENASA region for developing their economies.

The global venture capital activity also reveals the changing pattern of venture capital investment in terms of the preferred stages as well as the industry sector. In terms of the preferred stage of industry, it was the early stage till the early 1990's, but subsequently the preference shifted from early stage towards later stage (almost 92% during 1998-2007) and the trend is still continuing (GPE, 2008). This is in a way a positive sign for the tourism and hospitality sector, mainly because they can make use of this feature for modernizing their operations to make it more socially responsible by going for the latest technology for minimising the water, electricity consumption as well as resorting to solid waste management in an effective manner. When the preferred industry sector on a global basis is considered; a similar picture can also be seen where more and more focus is being given to non-high tech industries (almost 60%) where tourism and hospitality sector also becoming more and more prominent as it leads to more employment than any other industrial sector. Main focus is given to services sector (financial as well as non-financial; where tourism and hospitality comes in non-financial category).

This being the case around the world, an altogether different picture is emerging from countries in Middle East. There and in Africa, Central and South America, and Asia Pacific will overtake today's leaders in the global venture capital arena within the next five to seven years. In the next decade, the biggest player will be the Middle Eastern region, thus the concentration of global venture capital will shift once again. The driving force of this change is the duel impact of 9/11; i.e.; (1) most worldwide venture investment activities slowed following the attack, and the mindset of Western and European communities refocused away from Middle Eastern oil dependency and toward alternative energy sources for industrial purposes. This *dependency reduction strategy* led to (2) oil-rich Middle Eastern countries organizing to develop their own form of venture capital financing to promote and develop Arab entrepreneurs (promoters as well as VCs), a type of *Islamic venture capital* (Choudhury, 2001). Islamic venture capital forms part Islamic finance; perhaps the fastest growing segment of modern international finance. Since their inception three decades ago, Islamic financial institutions have increased in number from 1 in 1975 to over 300 today in more than 75 countries (Qorchi, 2005).

The impact of the second force mentioned above is more significant than the impact of the first. This was apparent during the first gathering of the Gulf Venture Capital Association (GVCA) in Bahrain in February 2006, where no fewer than 41 private equity funds were represented and sharing information about the funds raised, in progress, or planned for the near future. The theme of the conference was Arab LPs investing in Arab-founded, Arab-run and Arab-operated funds (Borrell, 2006). In a single day at least 21 new funds were announced, with sizes ranging from US$28 million to over US$10 billion, reflecting a projection of almost US$17 billion by the end of 2006. If the rate of new fund formation continues across the next three quarters, the total could pass that of all new PE funds currently being raised in Asia (including China and India).

This unprecedented increase in funds raised reflects the capability of Middle Eastern countries to raise funds, accumulated over time using their oil power, for Islamic venture capital financing. Abdullah M. Al Subyani, president of GVCA, said that the "venture capital industry does not exist in the region, although it has helped the economies of the U.S., European nations as well as economies of India and China. The region has the money but it never really thought of benefiting from venture capital." (Khaleej Times, 2006). The purpose of this conference was to introduce, promote, and highlight ways of building a vibrant venture capital (VC) and private equity (PE) industry for the benefit of the regional entrepreneurs and the economies of the regional states. According to Arif Masood Naqvi, Executive Vice Chairman and CEO of Abraaj Capital, "What we are seeing now is a knock-on effect from high oil prices. And instead of being sent out, it's retained. That is the post 9/11 effect ... (Stock) markets have taken off, there's lots of investment opportunities and people are making money" (Arab News, 2006). As witnessed, raising funds is not the greatest challenge in this region; rather, the crucial work of building channels to link finance with promising entrepreneurs, complemented with the requisite regulatory infrastructure to promote and ***protect*** their business ideas (Eid, 2005).

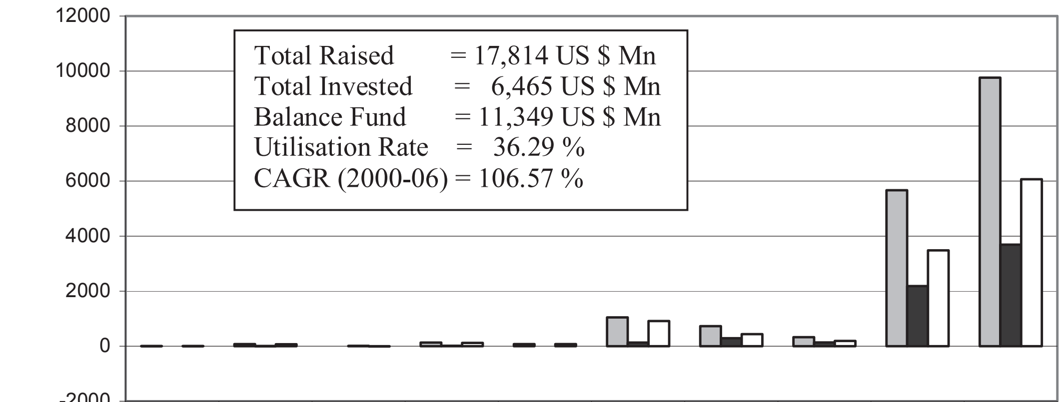
The picture of MENA regions venture capital activities during 1997-2006 is shown in **Exhibits 3**. In terms of the amount raised and invested, MENA region also follows the global pattern; viz.; there was a slowdown due to 9/11 impact. But the most significant impact of 9/11 in MENA region is the exponential growth of the amount of venture capital raised during the last 5 years. Since 1997 the total closed funds that have been raised in the MENA region aggregate US$ 18 billion. Of the total closed funds, a remarkable 55% (US$ 9.8 billion) was raised in 2006 alone, and a further 32% (US$ 5.7 billion) was raised in 2005 (GVCA, 2006).

Historically, private equity / venture capital players in the MENA region tended to restrict their activity to collecting funds for investment in pre-identified opportunities. More recently, they are collecting funds prior to seeking opportunities to invest the funds in ventures both in the MENA region and worldwide. This is the main reason for the exponential growth; where almost over US$ 11 billion is now available for investment. Though the overall utilisation rate is coming to only 36.29%, the CAGR during 2000-2005 is almost equal to 107%, which reflects on the high growth potentiality of MENA region in leading the global venture capital industry in terms of the amount raised in the coming years, which can be effectively invested in MENASA as well as other regions around the world.

The information about the investment activity clearly indicates a concentration towards UAE, almost 79% of the amount invested during 1998-2006. This is the clear indication of the infrastructural developmental activities, which are taking place in UAE during the last 8 years to become one of the most sought after tourist destination as well as the hot bed of real estate industry in the world. Presently they are trying to develop UAE as the world-learning center (CERT, 2006), where focus is being given to education, research, entrepreneurship, and innovation. In the words of Nahayan Mabarak Al Nahayan, Minister of Education; "The UAE represents one of the oldest centers of civilisation and present-day progress is rooted in the participation of everyone". This clearly shows about the wisdom that interdependency and interrelation between countries/regions should exist for a bright future for the entire world. Though UAE and Qatar are the only 2 countries in MENASA region ranked as A1 investment grade (lower credit risk), Qatar is not a major player in this region. Few other countries in this region are slowly following the pattern set by UAE during the last one decade.

As it is already seen from global arena that from late 1990's, the industry preference for venture capital investment is slowly shifting from high-tech to non-high tech industries. This is equally applicable to MENA region also. Almost over 77% of the investment is given to non-high tech industries. The most prominent sector is Real Estate which got almost 44% share of investment, which is already evidenced from the exponential growth happening in UAE in the Real Estate sector coupled with the development in tourism and hospitality sector. Financial Services and Transport are having similar share of 12%, where as the fourth priority is given to Travel and Tourism sector (almost 10% share).

Exhibit 3:
Venture Capital Activity in MENA Region (US $ million during 1997-2006)



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Raised	3	76	0	132	78	1047	726	326	5666	9760
Invested	0	5	12	13	0	132	291	137	2185	3690
Balance	3	71	-12	119	78	915	435	189	3481	6070

Source: Private Equity and Venture Capital in MENA Region 2006. Report prepared by GVCA & KPMG.

This clearly indicates that in MENA region, most promising sectors, which are getting venture capital assistance, are broadly falling under tourism and hospitality sector; which can be followed by India also along with its booming high-tech industrial sector. This clearly indicates that in MENA region, there is going to be a high growth potentiality in tourism and hospitality related industries, which needs to be identified and the players should capture this opportunity and exploit it to the maximum by utilising the balance venture capital fund already available to the tune of over US$ 11 billion.

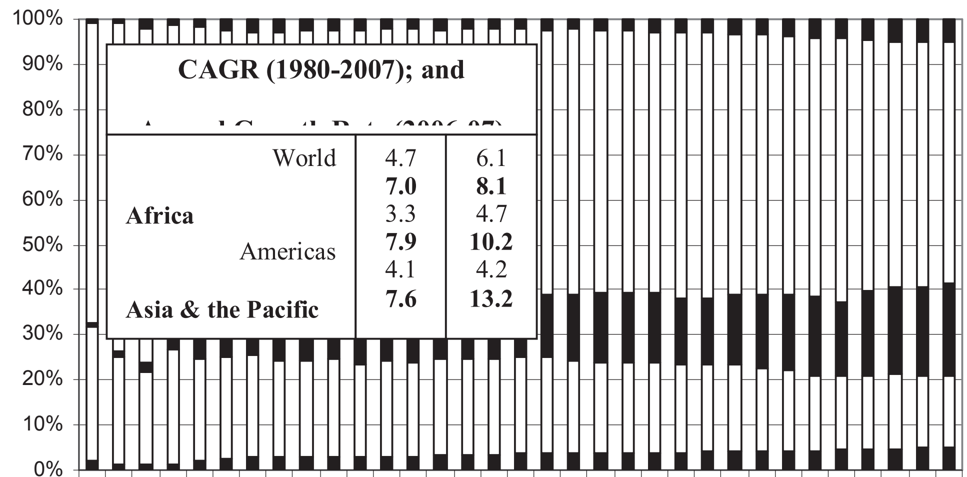
Thus MENASA region is showing a bright growth potentiality in the coming years and also the flow of venture capital in MENASA region is going to increase in a manifold way to make the region to develop in to a strong economic power in all aspects by combining the resources from its partner countries; viz.; money, man power, as well as technology, which are now held by different players. According to White (2008); MENA region is emerging as an economic tiger in the near future, and it has positive impacts on commercial real estate due to the increased tourism activities in this region.

Travel and Tourism: A Global Perspective (global with a focus on MENASA region)

In terms of the international tourists arrivals as well as the revenue generated during the last 50 years period (1950 – 2007) reveals a similar growth potentiality in the MENASA region. In terms of the percentage share of tourist arrivals; **Exhibit 4** reveals that Asia

Pacific is the only region, which showed a steady increase (from mere 1% in 1950 it went up to almost 21% by 2007). Africa and Middle East (except a decrease during 1960's and 1970's) also shows an identical increasing trend, almost 5% share by 2007. Between the other two regions, Americas shows a constant decrease, from 30% share in 1950, it gone down to only 16% by 2007. Though Europe is the single largest region catering the international tourists, there is a gradual slow down, from 66% in 1950 to 53% share in 2007. Of course, Europe is still the biggest player in terms of the tourist's arrivals in the world. In fact, world tourism enjoyed its fourth consecutive year of growth in 2007 above the long-term forecast of 4.1% and, surprisingly, it even exceeded the 5.5% increases recorded in 2005 and 2006 (UNWTO, 2008).

Exhibit 4: Regional Share of International Tourists Arrivals during 1950-2007



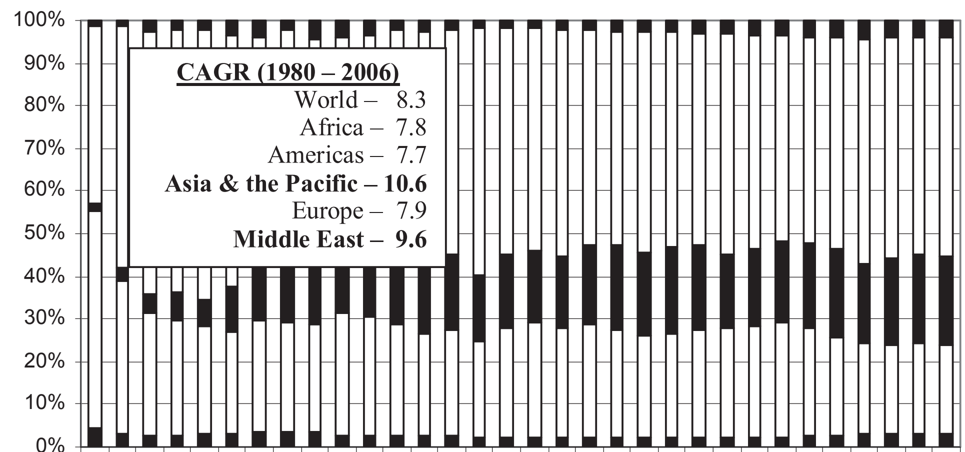
	50	60	65	70	75	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07
■ Middle East	1	1	2	1	2	3	3	3	3	3	3	2	2	2	2	2	2	2	2	2	3	3	3	3	3	4	4	4	4	5	5	5	5
□ Europe	66	73	74	68	69	64	63	63	64	63	64	62	62	60	61	60	60	59	59	58	58	58	59	59	58	58	58	58	59	55	55	54	53
■ Asia & the Pacific	1	1	2	4	5	8	9	9	9	10	10	11	12	13	12	13	13	14	15	15	15	16	15	14	15	16	17	18	16	19	19	20	21
□ Americas	30	24	21	26	22	22	22	22	21	22	20	21	21	22	21	21	22	21	21	20	20	20	19	19	19	19	18	17	16	16	17	16	16
■ Africa	2	1	1	1	2	3	3	3	3	3	3	3	3	3	3	3	4	4	4	4	4	4	4	4	4	4	4	4	5	5	5	5	5

Source: ***Tourism Market Trends***, 2006 Edition – Annex 10 World Tourism Organization (UNWTO) and UNWTO ***World Tourism Barometer***, 6/1, January 2008.

All the different regions registered increases above their long-term average, with the Middle East leading the regional growth ranking, with an estimated 13.2% rise to 46.4 million international tourist arrivals. The Middle East is emerging as a strong tourism destination with visitor numbers climbing much faster than for the world overall. In second place were Asia and the Pacific up by 10.2% to 185 million, followed by Africa, with above 8.1% to 44.2 million. Africa confirmed its good momentum sustaining the growth of 2006, and has now averaged 7% growth a year since 2000. The Americas (4.7%) did much better than last year, achieving 142 million arrivals, driven by the good results in North America as the USA doubled its growth rate. Europe, the world's largest destination region, with a share of over 50% of all international tourist arrivals, grew by 4% to reach 480 million. In terms of the CAGR, countries from MENASA region are leading (ME with 7.6%, NA with 7%, and SA with 7.9%). This is a clear indication of the future growth potentiality of countries from MENASA region to cater more number of international tourists.

Percentage share of international tourism receipts shown in **Exhibit 5** reveals that the biggest player is still Europe; from 43% in 1950 it increased to almost 51% by 2006. The Americas lost almost half of its receipts during 1950-2006; i.e.; from 52% share in 1950, it came down to only 21% share by 2006. The biggest beneficiary is the Asia Pacific Region; from mere 2% share it increased to a remarkable 21% (almost equal to Americas share) by 2006. This shows the income generating potentiality of Asia Pacific region. The other two regions in MENASA; only ME showed an increase (from 1% in 1950 to almost 4% by 2006) and Africa showed a decrease from 5% in 1950 to only 3% by 2006.

Exhibit 5: Regional Share of International Tourism Receipts during 1950-2006



	50	60	65	70	75	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06
■ Middle East	1	1	3	2	2	3	4	2	4	4	4	2	3	2	2	2	2	2	2	3	3	3	3	3	3	4	4	4	4	4	4	4
□ Europe	43	57	62	61	64	59	54	55	53	51	52	54	55	53	58	53	52	53	50	50	52	50	50	52	50	48	48	50	53	52	51	51
■ Asia & the Pacific	2	3	4	7	6	11	12	13	14	13	14	14	16	18	15	17	17	17	18	20	20	20	20	17	18	19	20	21	18	20	21	21
□ Americas	52	36	29	27	25	24	26	26	25	29	28	26	24	25	23	26	27	26	27	26	24	24	25	26	26	27	25	23	21	21	21	21
■ Africa	5	3	3	3	3	3	3	3	3	3	3	2	3	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	3	3	3	3

Source: ***Tourism Market Trends***, 2006 Edition – Annex 10 World Tourism Organization (UNWTO) and ***UNWTO World Tourism Barometer***, 5/3, October 2007.

Thus, in terms of the income generating capability, Middle East as well as Asia Pacific regions is showing positive signs. The CAGR during the period 1980-2006 for the world is 8.3%, and only two regions are having higher CAGR than the world; Asia Pacific with 10.6% and Middle East with 9.6%. All other three regions (including Africa) are showing below world CAGR of 8.3%. As mentioned earlier that this is the clear indication of the countries in Asia Pacific and Middle East region to attract more international tourists and generate higher revenues from tourism and hospitality sector. The authorities should focus on improving the much-required infrastructural facilities for developing the countries in this region to help the tourism and hospitality sector to cater the needs of the international tourists who requires internationally comparable services.

Addressing to this need, ABRAAJ Capital, one of the premier investment firms specialising in private equity investments in MENASA region; already identified through their research and confirms an immediate need for extensive infrastructure investment across a broad range of sectors in the MENASA region at around US$ 630 billion (ABRAAJ, 2006). This can be seen as an opportunity for venture capitalists to come forward and take up the challenge of reshaping MENASA region in to a most sought after tourist destination in the world

A Lesson for India from MENASA Region.

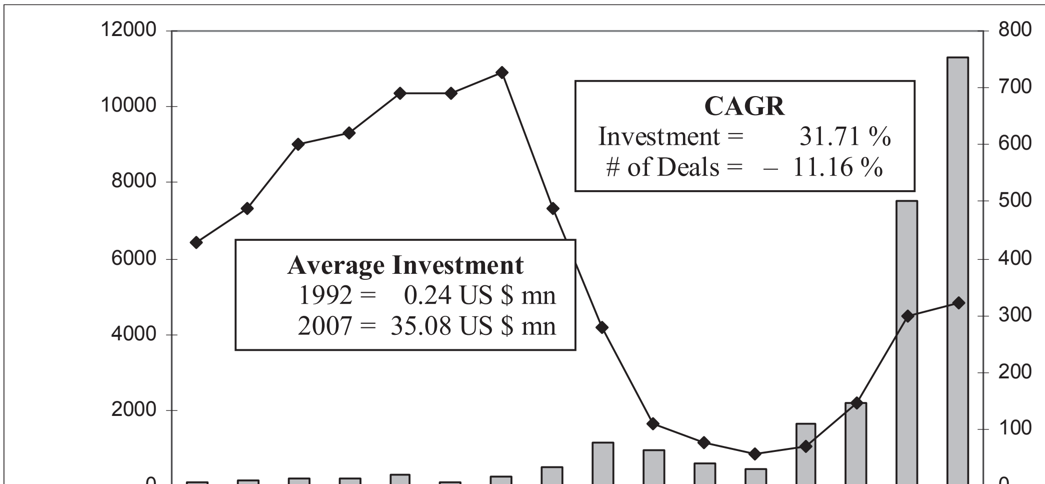
Having seen the profile of MENASA regions countries with their respective economic indicators to identify the most promising countries with potential investment opportunities; the position of the global venture capital industry along with the position of MENASA countries in contributing towards global venture capital industry in the future; and also the growth potential of global tourism and hospitality industry focusing on countries from MENASA region; it was identified that the most promising countries having investment potentiality are in MENASA region. The primary focus countries given in **Exhibit 1** clearly shows that only few are showing higher growth potential and helping these countries will help them to act as a catalyst in promoting much needed economic impetus for other countries in the entire region also. The most promising sector where more employment can be generated to cater the much needed unemployment situation plaguing many of the countries in the MENASA region is to go for promoting tourism and hospitality sector, which is considered globally the biggest employment generating sector. So what India can learn from the present situation is the main focus of this section.

In terms of the venture capital activities, India is the only country having shown its credibility in the global arena consistently for the last 10 years. But why India is considered as one of the hot spots for venture capital investments; the reason is very simple; (1) India's technology level is very high, (2) India has high GDP growth rate, and (3) India has the large and developing market for the private equity industry; compared to other MENASA countries (PWC, 2007).

The picture of the Indian venture capital industry shown in **Exhibit 6** during the last 16 year period clearly indicates the large; almost developed; and matured venture capital market suitable for providing the much needed impetus for the growth and development of tourism and hospitality sector by focusing on investment activities on various infrastructural projects, as India has the technological capability compared to other countries in MENASA region.

The growth of Indian venture capital industry in terms of the amount of investment during the last 16 year period was tremendous. From a mere US$ 104 million (428 deals making an average deal size of US$ 0.24 million), it grew to US$ 11,296 million by 2007 (322 deals making an average of US$ 35.08 million). The CAGR of the amount of investment found to be almost 32% during 1992-2007. In the initial years the number of deals were more compared to the later period (hence the average is showing a declining trend), this clearly indicates that the investment activities during the last few years are, comparatively, towards big business ventures, where it was smaller companies got assistance in the earlier periods. This is very good signal for India as it is the only country from MENASA region to enter in to the global venture capital arena consistantly during the period 1998-2007 (GPE, 2008).

Exhibit 6: Status of Indian Venture Capital Industry (1992-2007)



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
US $ mn	104	135	182	201	282	80	250	500	1160	937	591	470	1650	2200	7500	11296
# of deals	428	488	602	622	691	691	728	489	280	110	78	56	71	146	299	322

Source: Venture Activity 1993-1997 (IVCA); Venture Capital in India (Satish Tanija 2002); Venture Capital Year Book 2001-03 (IVCA); and Venture Intelligence Report 2004-06 (TSJ Media).

The shift in the preferred stage of investment from early stage towards later stage is also visible in India, but on a higher rate (almost 90%). This is a clear indication for the existing business entities in the tourism and hospitality industry to resort to venture capital financing for their future expansion and modernisation needs to make the growth happening in a socially responsible manner. The CAGR of the later stage investment also shows a 42.13% compared to only 9.91% attributed to early stage during the period 1992-2006.

With respect to the preference towards various categories of investment; there are no clear informaiton about how much is provided towards tourism and hospitality sector. During the period 1992-2006 (except for 2001) the share of service sector was on an average more than other two categories. The share in 2007 is 54%, other two sectors (IT&ITE and Production) are sharing the balance equally. The CAGR during the period shows a higher rate for IT&ITE (35.22%), followed by services (30.53%) and production (15.59%). Since the second sub group of industries coming under service sector which consists of tourism and hospitality industries; it can be concluded that Indian tourism and hospitality sector are getting much needed attention from venture capitalists. But need to develop a growth strategy for the tourism and hospitality sector in India where more focus is provided to make this sector more socially responsible by encouraging the existing tourism and hotel sector players to voluntarily come forward and make use of the venture capital finance for modernising their present level of operations. Most of the countries in Middle Eastern region (mainly UAE) are presently using these latest technilogical advancements which can be easily copied in Indian tourism and hospitality sector also.

With respect to the venture capital scenario, India is going to play a greater role from MENASA region and this increased activities should be channelled towards tourism and hospitality sectors also (WTTC, 2007 and 2007 a), because the South Asian region is expected to generate US$ 82.0 billion economic activity / total demand (in India US$ 61.0 billion) in 2007; growing to US$ 205.0 billion (in India US$ 158.9 billion) by 2017. This indicates a growth rate of 7.3% per annum (in India 7.9%) between 2008 and 2017; which makes South Asia the topper among other regions and India in 3rd position among all 176 countries. This increase in total demand in India is expected to contribute 2.0% to GDP in 2007 (US$ 18.1 billion) rising in normal terms to US$ 42.8 billion by 2017. The impact on the Indian job market indicates that tourism & travel employment is expected to reach 25,607,000 jobs in 2007 (5.5% of total employment or 1 in every 18.3 jobs). By 2017, this should total 28,322,000 jobs (5.2% of total employment or 1 in every 19.1 jobs).

All the positive growth signals in venture capital industry as well as the tourism and travel industry promptly indicates the crucial role which government of India needs to take up in the years to come to capture the forecasted increase in various economic indicators. But as it is already mentioned in the beginning of the paper that hospitality industry should be given much needed support for developing their operations on a socially responsible manner there by minimising the wastage of precious natural resources and also reducing the pollution by resorting to effective solid waste management technology.

Conclusion

Though it was evidenced from the written history that emergence of civilisation started in MENASA region and Arab travelers are considered as the pioneers of retail and distribution industry as well as the proponents of business traveling; during agricultural and industrial revolutions European colonial powers defeated their supremacy. Only after 1940's the countries from MENASA region regained their natural instinct and started progressing domestically. Over the last 60 years period; a gradual shift of economic supremacy can be witnessed in MENASA region, which is mainly because of the oil wealth in MENA region and technological advancement in South Asian (SA) region. This is even evidenced from the global venture capital industry. Though the leading players are still from North America and Europe; slowly and steadily countries from MENASA region are gaining prominence mainly in terms of the quantum of funds raised as well as the future investment opportunities in infrastructural projects. But the main problem now a day faced by most of the MENASA region is the growing population leading to unemployment. The significance tourism and hospitality industry clearly shows that majority of the unemployment problem can easily be managed by the growth potentiality of tourism and hospitality sector in MENASA region which is also evidenced from the available information during the last 50 years period.

Among the MENASA region; India can take an active part and become the role model for other countries. In terms of technological development and also contribution in the global venture capital industry; India can certainly become the leader in making MENASA region to progress uniformly. From the written history itself it is clear that from time immemorial there was a strong bond / relation between India and other countries in MENA region. Thus India should take active role in identifying the appropriate trade partner from MENASA region for developing tourism and hospitality sector on a socially responsible manner; following the footsteps of countries from Middle Eastern region (like UAE, Kuwait, Bahrain etc). If it happens in the proper manner, then MENASA region can become the biggest economic power. Reason is very simple; MENASA region is the only region having the highest population (which is the targeted future prospective consumers), which will act as the biggest labour force in the world, and also the biggest reservoir of all future energy requirements. Once the potentiality of MENASA region is tapped properly and if India (one of the few countries which never fought any war with other countries for capturing territory; allowed all religion/faith to flourish there by showing the world the true meaning of globalisation) takes the lead; then in the near future the world can witness a harmonious growth and development in the entire region; which will act like ripples in water and the result will be global prosperity.

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