

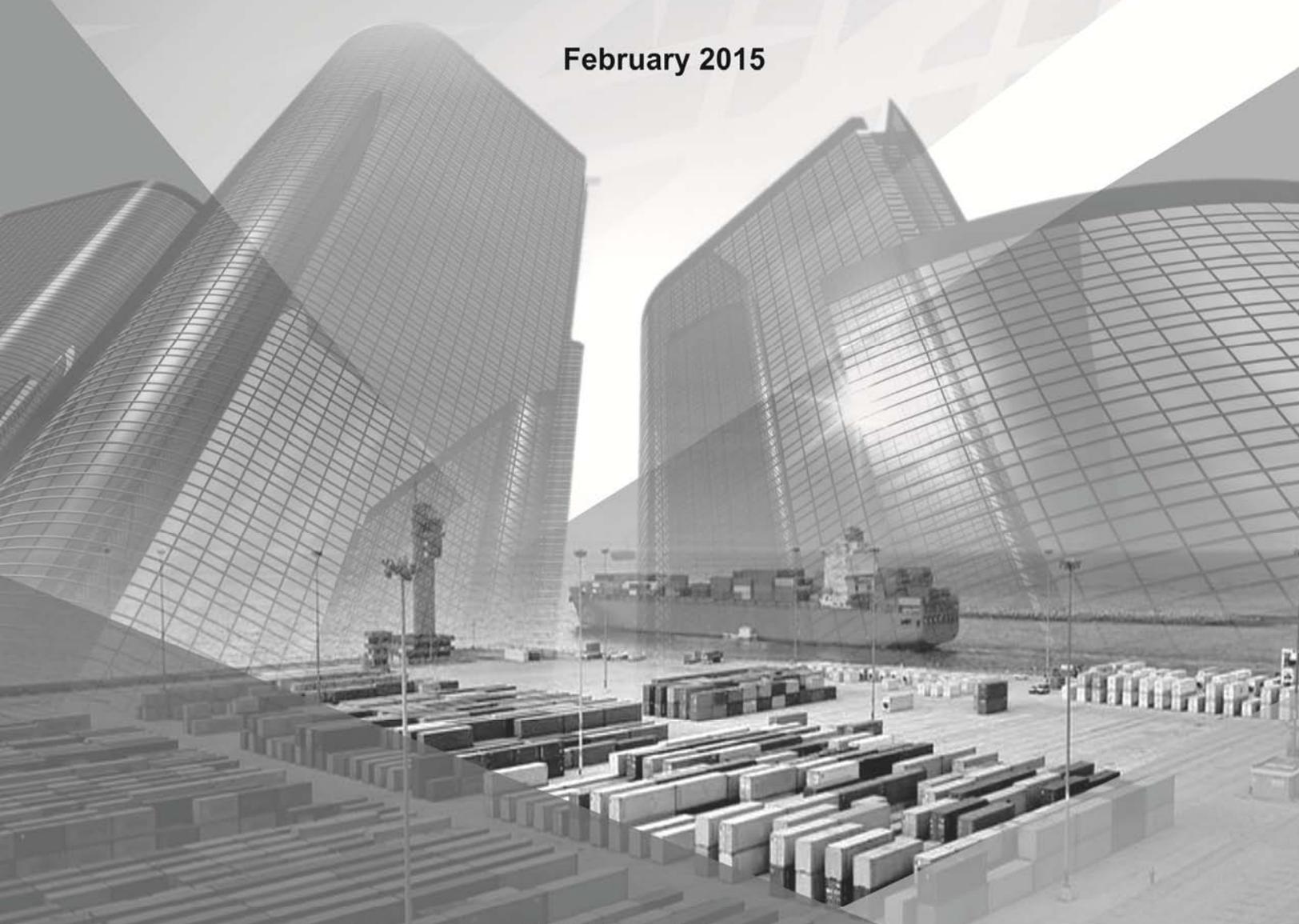


PROGRESS HARMONY DEVELOPMENT

Estd. - 1905

SEZs in India Criss-Cross Concerns

February 2015



**PHD Research Bureau
PHD CHAMBER OF COMMERCE AND INDUSTRY**

PHD House, 4/2 Siri Institutional Area, August Kranti Marg New Delhi 110016
Phone: 91-11-49545454 Fax: 91-11-26855450, 26863135
Email: research@phdcci.in Website: www.phdcci.in

From President's Desk



Mr. Alok B. Shriram

The establishment of the India's first SEZ unit and its consequent success had served as an inspiring model for Indian policy-makers to construct and implement a dedicated regulatory framework on SEZs. This inspiration was followed by announcement of a comprehensive SEZ policy in April 2000 as part of the EXIM Policy, which was later complemented by the SEZs Act in February 2006. The Act bestowed a number of benefits to SEZs in terms of fiscal incentives and state of the art infrastructure.

However, a varied number of structural issues started to arise, which directed the focus of the policy-makers towards the weaknesses in the supportive legislative framework including the Land Acquisition Act, Labour Laws, Indirect Tax Laws among other procedural bottlenecks.

The Indian economy is at the brink of major structural reforms with arrival of new government at the Centre. An important task of the new government will be to revive the manufacturing sector to new heights in order to support the perpetually growing demand of our economy and to generate employment opportunities. SEZs Model has been an epicenter of huge expectations on which the Indian Incorporate has also pinned its hope in order to revive the stagnating growth of Indian manufacturing sector. At this backdrop, it is pertinent for the policy makers to revisit the SEZs Act of 2006 and strengthen the foundations of SEZs framework in the light of structural and legal impediments.

In recent times, the new Government has taken a number of initiatives including implementation of prescribed timelines for service delivery, digitization, standardization of procedures, practices and forms and improved redressal mechanism to improve ease of doing business. We appreciate the new Government's meaningful policy initiatives in order to enhance the functioning of SEZ units in India. We firmly believe that SEZs will play a crucial role in revolutionizing the industrial make-up of India and enhance the level of growth and development in the coming times.

From Secretary General's Desk



Mr. Saurabh Sanyal

Special Economic Zones (SEZs) have been recognized as an important mechanism for trade and investment promotion, creation of infrastructure, employment generation, increase in foreign exchange earnings, improving export competitiveness and transfer of skills and technology. The SEZs have been in existence for decades, but have attracted renewed attention world-wide in recent years due to globalization of trade and financial markets. It is well recognized fact that the SEZs are instrumental in developing local and regional infrastructure facilities, which in turn are necessary for overall economic development of a country.

“SEZs in India: Criss-Cross Concerns” is a survey based study which the PHD Research Bureau undertook with an objective to assess the performance of SEZ units in India under various aspects including understanding the evolution of process of SEZs, analysis of current status, identification of issues and challenges, and the implementation of policy measures to address the concerns of SEZ developers/unit.

I commend and appreciate the tireless efforts of PHD Research Bureau led by Dr. S P Sharma, Chief Economist & Director Research, Ms. Rashmi Taneja, Senior Research Officer and Ms. Pallavi Mehta, Research Associate, PHD Chamber for producing this momentous study of great analytical value and practical consequence which would help the Government and policy makers to undertake the policy reforms pertaining to revisiting the SEZs model in India and making it a catalyst for India’s economic growth story in coming times.

I sincerely wish that this report would serve as an informative guide to the policy makers, researchers and industry stakeholders.

Acknowledgements

We would like to extend my gratitude and great appreciation to all the SEZs Developers/Units and other stakeholders for providing their valuable inputs and deep insights while conducting this survey.

This has enabled the PHD Chamber to make this study attain its objectives of analyzing overall efficacy of SEZs in India; identifying the major concerns of the SEZs developers/units and drafting the policy recommendations to address their concerns, going forward.

We take this opportunity to express our gratitude and respect to our office bearers Shri Alok B Shriram, President, Shri Mahesh Gupta, Sr. Vice President, Shri Gopal S Jiwrajka, Vice President, PHD Chamber and Shri Saurabh Sanyal, Secretary General, PHD Chamber for their constant support and motivation to make this report a successful and insightful piece of information for the benefit of the industry.

PHD Research Bureau

Contents

S.No.	Topics	Page No.
1.	Executive Summary	11
2.	Journey from EPZs to SEZs in India...	13
3.	Bird's Eye View of SEZs and Legal Framework	19
4.	Objectives and Research Methodology	27
5.	Current Status and Performance of SEZs	29
6.	Survey Results	37
7.	Economic Analysis: Conclusions	57

Tables & Figures

S.No.	Contents	Page No.
Table 4.1	Current Status of SEZs in India	30
Table 4.2	State-wise distribution of SEZs	32
Table 4.3	Employment Generation	35
Table 4.4	Investments (Rs. Crores)	35
Table 4.5	Exports (in Rs. Crores)	36
Table 5.1	Time spent for getting approvals	44
Table 5.2	Comparison of duty structure and taxes in SEZ and DTA in engineering industry	48
Figure 4.1	SEZs : Approved-Notified-Operational	31
Figure 4.2	State-wise distribution of SEZs	32
Figure 4.3	Formal & Notified Approvals	33
Figure 5.1	Respondents' level of satisfaction w.r.t various Administrative Procedures & Processes (%)	41
Figure 5.2	Respondents' view point w.r.t prescribing time limit for different processes (%)	42
Figure 5.3(a)	Existence of Single Window Clearance Mechanism	43
Figure 5.3(b)	Integration of all required clearances	45
Figure 5.3(c)	Whether timely clearance given?	45
Figure 5.4(a)	Stamp duty exemptions availed	47
Figure 5.4(b)	MAT/DDT should be discontinued	47
Figure 5.5	Shortfall between the projected and actual employment/investments/exports	51
Figure 5.6	Reasons for IT/ITES SEZs constituting a major chunk of total no. of SEZs in country	52
Figure 5.7	Monitoring & Controlling	53
Figure 5.8	Loan raised against the land allotted for SEZ	54

Boxes & Exhibits

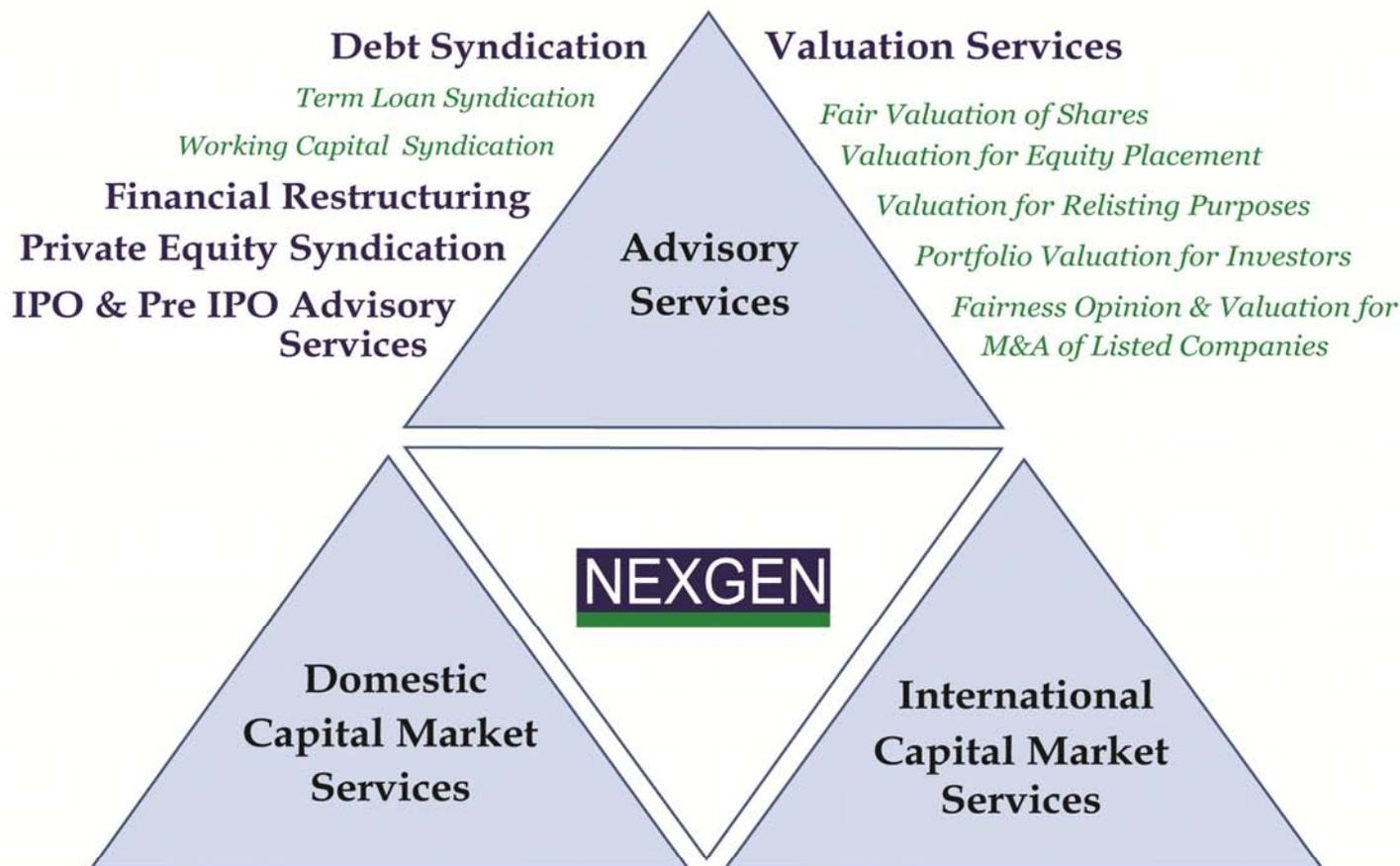
S.No.	Contents	Page No.
Box 2.1	Ease of Doing Business: Recent initiatives by the Government of India under implementation for SEZs	23
Box 5.1	Experience with respect to administrative procedures	40
Box 5.2	Prescribing fixed time period	42
Box 5.3	Existence of Single Window Clearance Mechanism	43
Box 5.4	Concessions/exemptions availed & should MAT/DDT be discontinued	46
Box 5.5	Shortfall between the projected and actual employment/investments/exports	50
Box 5.6	Reasons for IT/ITES SEZs constituting a major chunk of total no. of SEZs in country	52
Box 5.7	Monitoring & control	53
Box 5.8	De-notification & exit and loan raised	54
Box 5.9	Other issues and concerns reported by the SEZs developers/units	55
Exhibit 1.1	Journey from EPZs to SEZs in India : Snapshot	17
Exhibit 2.1	SEZs layout: Processing vis-à-vis Non Processing Area (NPA)	20
Exhibit 2.2	Key Individuals/Entities of SEZs	21
Exhibit 2.3	Three tier administrative set up of SEZs	24
Exhibit 2.4	Life cycle of SEZs: Approval Process	25
Exhibit 2.5	Survey Categories	39

Abbreviations

AC	Approval Committee	HPR	Half Yearly Progress Report
APR	Annual Performance Report	IEC	Importer Exporter Code
BoA	Board of Approval	IT	Information Technology
CAG	Comptroller and Auditor General of India	ITES	Information Technology enabled Services.
CEPZ	Cochin Export Processing Zone	KFTZ	Kandla Free Trade Zone
Cr.	Crore	LoA	Letter of Approval
CST	Central Sales Tax	LOP	Letter of Permission
CTE	Consent to Estabiles	MAT	Minimum Alternate Tax
CTO	Consent to Operate	MEPZ	Madras Export Processing Zone
DC	Development Commissioner	MOC&I	Ministry of Commerce & Industry
DDT	Dividend Distribution Tax	MSMEs	Micro, Small and Medium Enterprises
DGFT	Directorate General of Foreign Trade	NEPZ	Noida Export Processing Zone
DoC	Department of Commerce	NOC	No Objection Certificate
DGVCL	Dakshin Gujarat Vij Co.Ltd	NPA	Non Processing Area
DTA	Domestic Tariff Area	PPP model	Public Private Partnership
DTC	Direct Taxes Code	PESO	Petroleum and Explosives Safety Organization
EC	Environment Clearance	Rs.	Rupees
EOUs	Export Oriented Units	SEEPZ	Santa Cruz Electronics Export Processing Zone
EPZs	Export Promotion Zones/Export Processing Zones	SEZs	Special Economic Zone
Exim Policy	Export Import Policy	STP	Software technology Park
FDI	Foreign Direct Investment	UAC	Unit Approval Committee
FEPZ	Falta Export Processing Zone	UT	Union Territory
FTDR Act	Foreign Trade (Development & Regulation) Act	VAT	Value Added Tax
FY	Financial Year	VEPZ	Vishakhapatnam Export Processing Zone
GPCB	Gujarat Pollution Control Board	WTO	World Trade Organization
GIDC	Gujarat Industrial Development Corporation	Y-o-Y	Year on Year

NEXGEN Financial Solutions Pvt. Ltd.

together we can...



Domestic Market Offerings

- ❖ *Initial Public Offer , Follow on Public Offer, Rights Issue, Preferential Allotment*
- ❖ *Buy Back Offering, Delisting, Disinvestment*
- ❖ *Qualified Institutional Placements*
- ❖ *Corporate Bond Issue*

International Market Offerings

- ❖ *Integrated services starting from planning up to successful execution for the following:*
- ❖ *ADRs/ GDRs/ AIM Listing*
- ❖ *Foreign Currency Convertible Bonds*

NEXGEN An Introduction:

- ❖ SEBI Registered Merchant Banker
- ❖ Focused on : Raising Funds for Infrastructure Companies : Valuation of Global Corporates
- ❖ Team NEXGEN's Credentials in excess of INR 50,000 cr.

NEXGEN Team's Deals include:

Central/GoI	Debt- Rs.3,200cr.
State Govt.	Debt - Rs. 3,300 cr.
State Govt. Undertaking	Debt- Rs.35,000cr. Equity -Rs.2,000cr.
Private Sector Companies	Debt- Rs.10,000cr.

NEXGEN

NEXGEN Financial Solutions Pvt. Ltd.

Merchant Banker. SEBI Regn No. INM 000011682

709, Madhuban Building, 55, Nehru Place, New Delhi – 110019

Tel.: + 91-11-30682000 , Fax : + 91-11-30682111

Web: www.nexgenfin.com Email id: sanjeev@nexgenfin.com

Executive Summary

Special Economic Zones (SEZs) have been recognized as an important mechanism for trade and investment promotion, creation of infrastructure, employment generation, promotion of regional development, increase in foreign exchange earnings, improving export competitiveness and transfer of skills and technology.

According to the Fact-Sheet on SEZs employment, investment and exports registered a growth of 4692%, 1679% and 1276% respectively between 2006 and 2012. To illustrate, 17 SEZs contribute to 14.16% of employment, 40.49% of investments and 51.10% of exports in the country and at the same time the macro indicators show no variation in the trend growth for the last 7-8 years.

While, it is observed that SEZs developers/units are facing several challenges in terms of procedural complications; cumbersome land acquisition processes; higher taxes and so on. In the wake of assessing the efficacy of SEZs in India, **PHD Chamber** has conducted a comprehensive survey to analyze the efficacy of the functioning of SEZs in India. The survey-based study from the developer's/ Unit's point of view, assessed the overall efficiency, issues related to SEZs and developer's/Unit's expectation with regard to formulation and modifications of policy measures.

The survey found that the approach of SEZ developers/Units towards SEZs has become pessimistic in the present times. They felt that operating in Domestic Tariff Area (DTA) has become more beneficial as compared to operating within SEZs especially after withdrawal of exemption for Minimum Alternate Tax (MAT) and Dividend Distribution Tax (DDT) for the SEZs.

Signing of more Free Trade Agreements (FTAs) by India which enabled Indian exporters outside the SEZs to import duty free imports of inputs also acted as a disincentive for exporters operating within SEZs. In a nutshell, almost all the SEZs' developers/units unanimously felt that, hardly there is any significant export benefits are left to operate within the SEZs in India over to operate within its DTA.

However, on the administrative processes and procedures almost all of the respondents' experiences with respect to different processes for getting approvals for setting up SEZs are quite satisfactory. With respect to coordination between Central ministries, between Central and State Government also, almost all the respondents' experience has been satisfied. The experience of almost all the respondents are also found satisfied with respect to the acquisition of land process for SEZs, notification process of the government and redressal of grievances by UAC/BOA.

However, around 40% respondents' expressed 'dissatisfaction' with respect to getting permission from the custom authorities or DC and to get sanctions of claims & process of de-notification & exit. With respect to prescribe the fixed time period for different processes, almost all the respondents felt that a fixed time period needs to be prescribed for getting approval by BOA. The survey found that 88% of the respondents avail the stamp duty exemption and with respect to discontinuation of MAT/DDT almost all the respondents felt that MAT/DDT should be discontinued so as to keep the developers/units encouraged.

With respect to 'shortfall' between the projections' and actuals' ports/employment/ investment in the SEZs, almost all the respondents considered global recession as the major reason of this shortfall while 66% felt

cumbersome land acquisition process is 'not' reason for the several instances of shortfall. While, 46% of the respondents considered end of tax holiday, too many restrictions and frequent changes in policies viz. Minimum Alternate Tax (MAT) are the next major reasons for this shortfall.

About 35% of the respondents reported that single window clearance mechanism exists in their respective States and it integrates all the required clearances envisaged in the Act. 45% of them reported that the clearances are not given timely.

With respect to monitoring and control, almost all the respondents are satisfied the most with the sufficient time given for submitting APRs. Most of the respondents (87%) considered present format of APRs relevant and user-friendly; however around 40% of the respondents reported redressal of grievances by UAC/BOA inefficient and unsatisfactory.

In the light of these existing issues, the Government should undertake sound policy measures to regain the confidence of SEZ's developers'/units.

Export benefits accrue to DTA units should also be extended to SEZ units, re-imposition of MAT/DDT should be reconsidered and some additional benefits such as period for 100% tax exemption should be increased to 10 to 15 years from 5 years presently.

Procedures relating to exit mechanism should be speedy, clear and transparent and should be devised so as to tackle the exit cases effectively. Single window clearance mechanism should be devised in all States so as to reduce the unnecessary botheration and time involved in taking approvals from different authorities.

It is vital to reconsider this change so as to keep the MSME exporters motivated and encouraged going forward. The rules pertaining to Non Processing Area(NPA) should be relaxed in a way to permit the development of more social/other infrastructure for dual SEZs/DTA.

1.

Journey from EPZs to SEZs in India...



1. Journey from EPZs to SEZs in India...

Special Economic Zones (SEZs) have been recognized as an important mechanism for trade and investment promotion, creation of infrastructure, employment generation, promotion of regional development, increase in foreign exchange earnings, improving export competitiveness and transfer of skills and technology. The SEZs have been in existence for decades, but have attracted renewed attention world-wide in recent years due to globalization of trade and financial markets. Now, it is well recognized fact that the SEZs are instrumental in developing local and regional infrastructure facilities, which in turn are necessary for overall economic development of a country.

SEZ is a fenced-in industrial estate that offers firms, free trade conditions and a liberal regulatory environment and specializes in manufacturing for export. As per the Ministry of Commerce and Industry, ***“Special Economic Zone (SEZ) is a specifically delineated duty free enclave and is a deemed foreign territory for the purpose of trade operations, duties and tariffs.”*** According to the Exim Policy (2004-09), SEZ is a geographically distributed area or zone where the economic laws are more liberal as compared to other parts of the country. They are self-contained and integrated, having their own infrastructure and support services. Goods and services flows from DTA(Domestic Tariff Area)¹ to SEZ are to be treated as exports and goods coming from SEZ into DTA are to be treated as imports. SEZs are also be considered as industrial zones with special incentives, in which imported materials or data, undergo some degree of processing before being (re)-exported again.

The genesis of SEZs in India lies in the basic model of EPZs² (Export Promotion Zones) which was set-up at Kandla (KFTZ, Kandla Free Trade Zone) in Gujarat in 1965 as an instrument of promoting exports, attracting foreign investments, earning foreign exchange and

generating employment in the economy. With this, India became one of the first in Asia to recognize the effectiveness of the EPZs model in promoting exports. Since then, a number of EPZs have come up in various sectors and in different states of the country.

The second EPZ, SEEPZ (Santa Cruz Electronics Export processing Zone) was set up in Maharashtra in 1974. Subsequently, the government set up four more zones namely NEPZ (Noida Export processing Zone) in Uttar Pradesh, MEPZ (Madras Export Processing Zone) in Tamil Nadu, CEPZ (Cochin Export Processing Zone) in Kerela, and FEPZ (Falta Export Processing Zone) in West Begal during the mid-eighties; and VEPZ (Vishakhapatnam Export Processing Zone) in Andhra Pradesh was commissioned in 1994. Surat EPZ became operational in 1998. In 2000, the Export – Import (EXIM) policy of India shifted towards a new scheme of special economic zones (SEZs). Under this scheme, EPZs at Kandla, Santa Cruz, Cochin and Surat were converted into SEZs. In 2003, the other existing EPZs at Noida, Falta, Chennai and Vizag (also know as Vishkhapatnam) were also converted into SEZs.

In all, the EPZs have progressed over four distinct phases over the last five decades which are discussed briefly here below:

I. Initial Phase (1965-1980) - The initial stage witnessed the establishment of the KFTZ (Kandla Free Trade Zone) in the city of Gujarat in the year 1965 and the consequent

¹ “Domestic Tariff Area” means the whole of India (including the territorial waters and continental shelf) but does not include the areas of the Special Economic Zones.

² An EPZ is defined “as a clearly delineated industrial estate, which constitutes a free trade enclave in the customs and trade regime of a country and where foreign manufacturing firms producing mainly for export benefit from a certain number of fiscal and financial incentives” (World Bank, 1981).

establishment of the SEEPZ (Santacruz Electronics Export Processing Zone) in Mumbai in 1973. However, it is believed that these EPZs were established with an overall **'Inward Looking'** policy approach. It was argued that the policies were rigid, infrastructure was weak and the package of incentives and facilities were not attractive within the zone.³ To overcome this, various committees were appointed by the Government of India to review the working of the zones. Kandla FTZ was reviewed by the Kaul Committee in 1978, while Santa Cruz FTZ was reviewed by the Review Committee on Electronics in 1979. In 1980, there was another Committee organised, known as the Tandon Committee, to review both these zones.

The main objective of the committee was to formulate policy measures for accelerating the progress of free trade zones and 100 % export-oriented units. These committees pointed at the absence of an implementation authority to centrally coordinate and control the zones, procedural constraints, infrastructural deficiencies, limited concessions, and limited powers of the zone authorities to take actions on the spot, resulting in inordinate delays. Moreover, it was highlighted that there was no clarity of objectives for setting up of EPZs in India until 1988. These committees made several concrete recommendations to improve the functioning of these zones.

II. Expansionary Phase (1981-1990) - The second phase started in the 1980s, during which more zones were established based on the Tandon Committee recommendation that the inward-oriented developmental approach needed to be reorganised by strengthening outward-oriented export promotion. Followed by the report, the Government decided to establish four more zones in 1984. The zones established during this phase were NEPZ at Noida (Uttar Pradesh), FEPZ at Falta (West Bengal), CEPZ at Cochin (Kerala), and MEPZ at

Chennai (Tamil Nadu). Visakhapatnam EPZ in Andhra Pradesh was established in 1989.

Thus, the total number of operational EPZs in India increased to seven. Another significant step was taken in 1980, when the Government introduced the Export Oriented Units (EOUs) Scheme. This scheme facilitates the setting up of EOUs beyond the boundaries of EPZs. The responsibility of administering these units was also entrusted with the zone administration. While, the primary objectives of these EPZ were not still specified and there were no significant changes in other laws and procedures governing the EPZs.

III. Consolidation Phase (1991-1999) - Since 1991, the Indian economy has undergone through a paradigm shift in terms of restructuring of economic policies. There was a transformation from the regime of regulated economic development to a competitive regime through industrial delicensing, import liberalisation, and removing barriers to exports for accelerating growth. This phase can be highlighted as the third stage in the development of EPZs in India. EPZs underwent administrative restructuring, procedural simplification, delegation and decentralisation of powers at functioning level, and rationalisation of customs procedures.

One of the significant changes was that the powers of the Board of Approval (BoA) were decentralized by introducing an automatic approval route for streamlining licensing procedures and providing operational flexibility. The scope and coverage of the EPZ/EOU scheme was enlarged in 1992 by permitting agriculture, horticulture, and aquaculture sector units as well. In 1994, trading, re-engineering and re-conditioning units were also permitted to be set up. This period was known as a consolidating phase in the transformation of EPZs which continued until 2000.

IV. Emergence Phase (2000 – 2006) - While the first Indian EPZ was already established in the 1960s, EPZ policy has not been part of a

³ Rajiv Kumar (1989), India's Export Processing Zones, New Delhi, Oxford University Press.

coherent national strategy and its impact on the Indian economy was found not much significant. Administrative inefficiencies, lack of infrastructure, difficult customs procedures were the major concerns of the EPZs in India.

However, in April 2000, the Government of India adopted a new policy framework titled '**Export and Import Policy 2000**' for the establishment of public, private or joint public-private SEZs. The objective was to provide internationally competitive and business friendly environments for goods manufacturers and services suppliers. The number of fiscal and non fiscal incentives were extended to the units operating in the SEZs. Several measures have been adopted to improve the quality and governance of these zones. These include relaxation in the conditions for approval process and simplifying the custom rules. SEZ Policy thus became an identity towards ensuring the success of EPZs.

In this light, On November 1, 2000, the export processing zones at Kandla, Santa Cruz , Cochin, and Surat were converted into SEZs. In 2003, the other existing EPZs, namely Noida, Falta, Chennai, and Vizag, were also converted into SEZs. Altogether, a total of 19 SEZs were established prior to the promulgation of the SEZ Act. These SEZs in 2005 got a legally deemed status after the enactment of SEZ Act 2005⁴. This development is further followed by implementation of SEZ rules in 2006.⁵

V. Growth Phase (2007-2014) - Post enactment of SEZ Act 2005 witnessed the growth in number of formal approvals, notifications and

operational SEZs in India. No. of formal approvals for setting up SEZs increased from 453 in 2007-08 to 589 in 2011-12, while number of operational SEZs increased from 87 in 2008-09 to 170 in 2012-13. Though, the figures are showing the rising trends of the establishment of SEZs in the country, but as many as 33 developers had surrendered their SEZ projects between December,2008 to July 2011 was reported.⁶

According to the survey, the reasons given by applicants for de-notification of their projects range from the economic meltdown, poor market response, non-availability of a skilled labour force, lack of demand for IT/ITeS space and the imposition of MAT and DDT on SEZs. Thus the concept of SEZs in India started loosening their significance and could not be revived despite of undertaking several measures by the former government. The new Government has signaled focus on SEZs and making efforts to sort out issues hampering the growth of special economic zones (SEZs) with an eye to boost manufacturing, exports and employment in the country.

The Commerce Minister while sharing his experience stated that "the last few years show that imposition of MAT and DDT suppressed the potential of SEZs as a tool of exports and industrial development.⁷ So this is felt that those impositions should be done away with and this will liberalize the environment around SEZs so that entrepreneurs will make investments, which will lead to manufacturing and employment"⁸.

⁴ An Act to provide for the establishment, development and management of the Special Economic Zones for the promotion of exports and for matters connected therewith or incidental thereto. The Special Economic Zones Act 2005 was passed by Parliament in May,2005 which received Presidential assent on the 23rd of June,2005. All the activities relating to the SEZ are guided by the provisions contained in the SEZ Act, 2005 and the SEZ Rules, 2006.

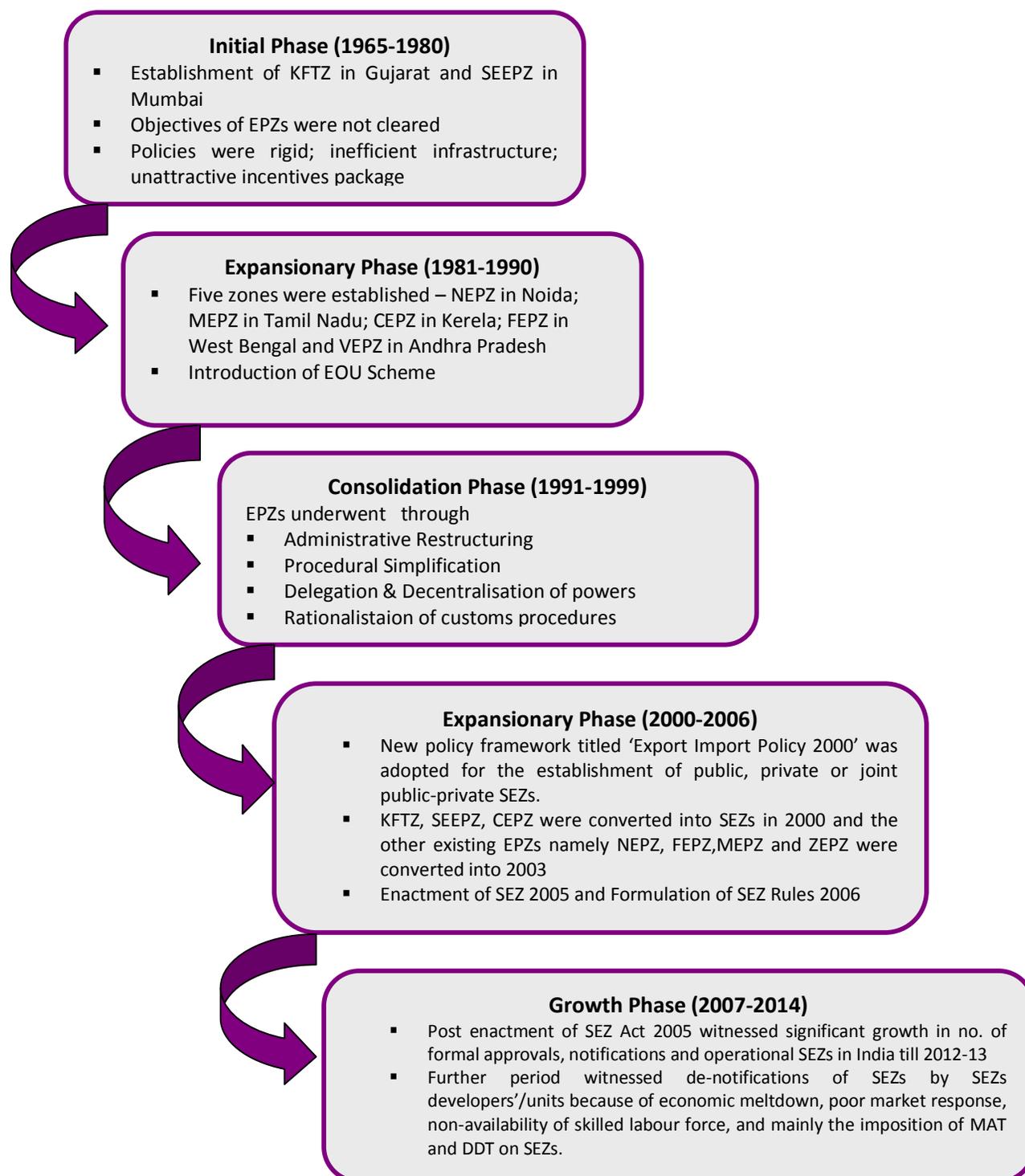
⁵ The SEZ Rules 2006 become operative w.e.f 10th February,2006 to support were framed to support SEZ Act 2005 and to provide for drastic simplification of procedures and for single window clearance on matters relating to central as well as for state governments.

⁶ 33 SEZs denotified between Dec 2008 and July 2011, The Economic Times, 17 August,2011

⁷ Commerce ministry asks finance ministry to roll back MAT on SEZs, The Economic Times, 11 June, 2014

⁸ Narendra Modi to hold meeting to sort out SEZ growth issues, Live Mint, 25th December, 2014

Exhibit - 1.1 : Journey from EPZs to SEZs in India : Snapshot



Thus, journey from EPZs to SEZs in India has witnessed several developments and failures in terms of conception of EPZs, expansion of EPZs across India, conversion of EPZs into SEZs in the light of various inefficiencies, its reintroduction under the ambit of new SEZ Act, growth of SEZs establishment in India and further loosening its significance due to imposition of MAT and DDT. While the new Government is again set to put a great emphasis on revisiting the SEZs model and making it a catalyst for India's economic growth in coming times.

“Until the establishment of SEZ Act in 2005, the operation of EPZs in India was under the shadow of legal constraints. SEZ practically framed a new industrial relations regime in the country.”



**Bird's Eye View
of SEZs &
Legal Framework**

2.

2. Bird's Eye View of SEZs & Legal Framework

Until the establishment of SEZ Act in 2005, the operation of EPZs in India was under the shadow of legal constraints. SEZ practically framed a new industrial relations regime in the country.

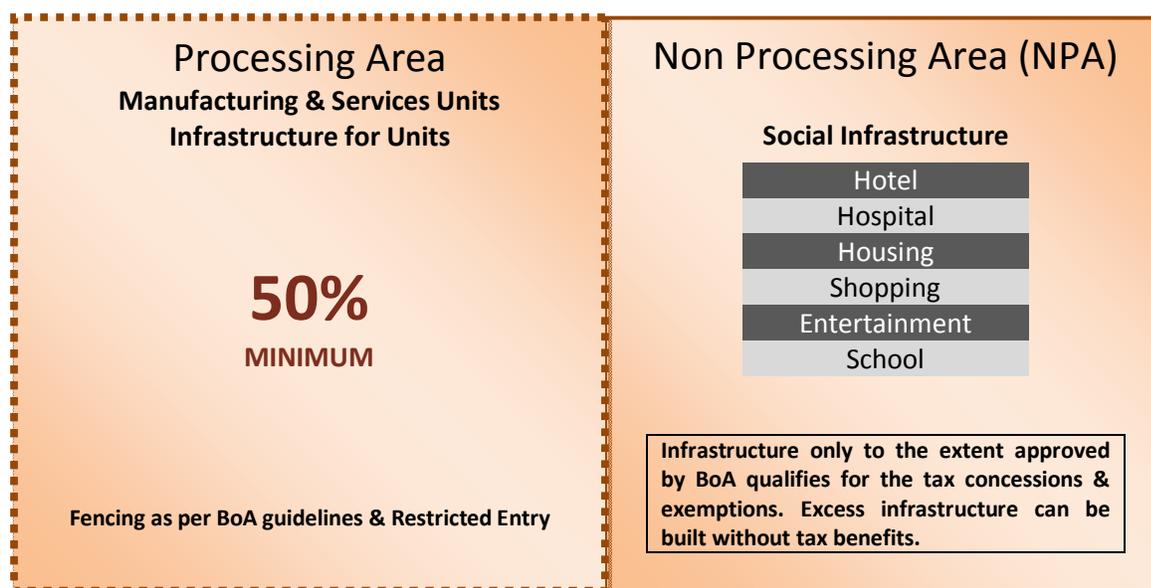
2.1 Bird's Eye View of SEZs

Before discussing the key regulatory provisions encompassed in the SEZs Act and SEZs rules, here we depict broad layout (**Refer Exhibit-2.1**) of an SEZs & the key individuals/entities involved in the entire process.

2.1.1 SEZs Layout – The areas falling within the SEZs are demarcated by the Central Government or any authority specified by it as (a) the processing area for setting up Units for

activities, being the manufacture of goods, or rendering services or b) the area exclusively for trading or warehousing operations. While, “**Non-Processing Area (NPA)**” means an area of the special economic zone for activities other than those specified under (a) & (b) or which support export-oriented (processing) area. SEZs are initiated by developers, co-developers and SEZs units.

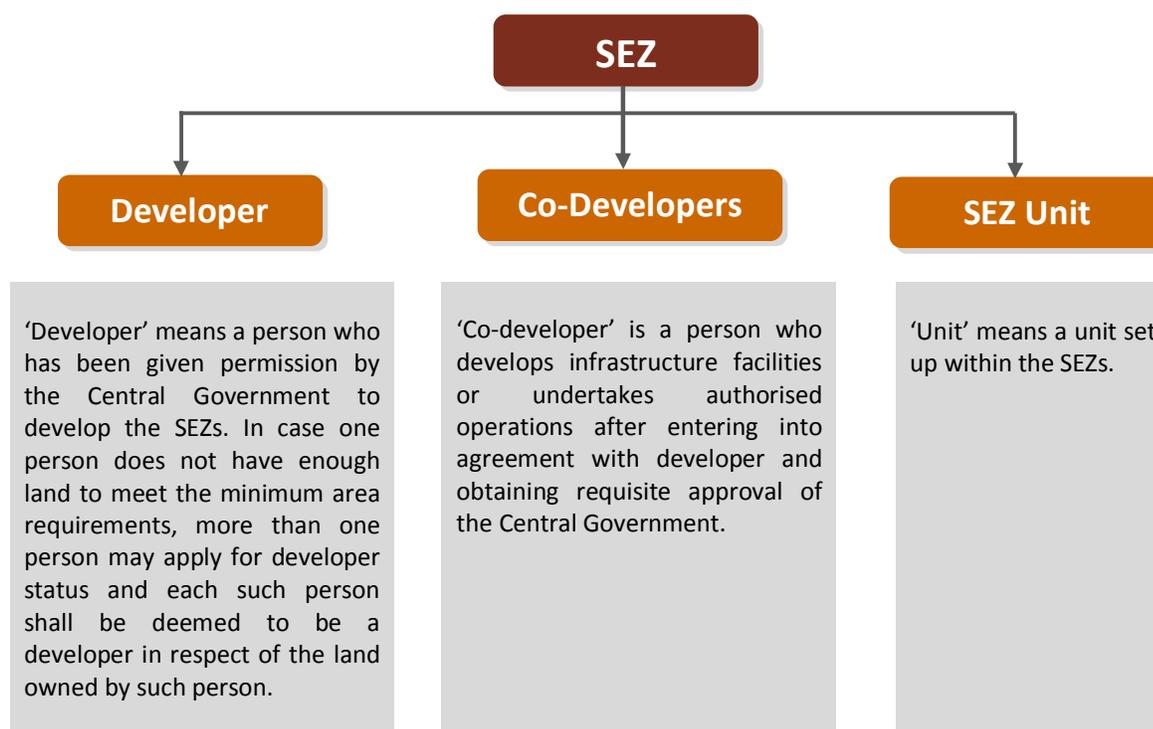
Exhibit - 2.1 : SEZs layout: Processing vis-à-vis Non Processing Area (NPA)



2.1.2 Key Individuals/Entities - The entire process of setting-up/operating of SEZs is initiated by developers, co-developers and SEZs

units which are described briefly here below(**Refer:Exhibit-2.2**).

Exhibit 2.2 : Key Individuals/Entities of SEZs



2.2 SEZs: Legal Framework

“An Act of parliament, the SEZs Act 2005, was enacted for the establishment, development and management of the SEZs in India with a view to promote exports and other matters connected therewith.”

The Act came into effect on June 23, 2005 and has clearly laid down legal backup for establishment of SEZs and constitutes of approval and administrative machineries like Board of Approval (BoA), Development Commissioner and SEZs authority, etc.

The main thrust of SEZs Act is on: (a) generation of additional economic activity, (b) promotion of exports of goods and services, (c) promotion of investment from domestic and foreign services, (d) creation of employment opportunities, and (e) development of infrastructure facilities.

The SEZs rules came into force with effect from February 10, 2006. These rules deal with the procedures to be followed for establishment of SEZs, nature of units in the

SEZs, terms and conditions for the developers and the entrepreneurs in the SEZs, the movement of goods from/to Domestic Tariff Area (DTA), monitoring by the authorities, etc.

2.2.1 Fiscal Incentives and facilities offered to SEZs⁹

Under the provisions of SEZs Act, several tax incentives and other facilities are offered to the SEZs Developers and Units. These are:

- 100% income tax exemption for entrepreneurs on export income of SEZs units under section 10AA of the Income Tax Act for first five years, 50% for next five

⁹ www.sezindia.com

years thereafter and 50% of the ploughed back export profit for next five years.

- Income Tax exemption for Developers on income derived from the business of development of the SEZs in a block of 10 years in 15 years under Section 80-IAB of the Income Tax Act.
- Exemption from Minimum Alternate Tax (MAT) under section 115JB of the Income Tax Act (withdrawn from 1st April 2012).
- Exemption from Dividend Distribution Tax (DDT) under section 115-O of the Income Tax Act (withdrawn from 1st June 2011)

2.2.2 Indirect Tax Benefits:¹⁰

- Duty free import /domestic procurement of goods for development, operation and maintenance of SEZs units.
- Exemption from Service Tax (Section 7, 26 and Second Schedule of the SEZs Act).
- Exemption from CST (Central Sales Tax).

2.2.3 Other Benefits:¹¹

- External commercial borrowing by SEZs units' upto US\$500 million in a year without any maturity restriction through recognized banking channels
- Single window clearance for central and state level approvals, and
- Exemption from state VAT tax, stamp duty and other levies as Extended by the respective State Governments.

2.2.4 Measures to revive investors' interest in SEZs

In the wake of loosening interest of SEZs developers'/units in the SEZs concept in India because of reintroduction of MAT/DDT the former government announced a package of measures under the framework of Annual Supplement 2013-14 of Foreign Trade Policy 2009-14 to revive investors' interest in SEZs and

to boost exports¹². **The salient features of the package are:-**

- In view of the acute difficulties in aggregating large tracts of uncultivable land for setting up SEZs, while ensuring vacancy and contiguity, this is decided to reduce the Minimum Land Area Requirement by half. For Multi-product SEZ from 1000 hectares to 500 hectares and for Sector-specific SEZ from existing 100 hectares to 50 hectares.
- To provide greater flexibility in utilizing land tracts falling between 50-450 hectares, it has been decided to introduce a Graded Scale for Minimum Land Criteria which would permit a SEZ an additional sector for each contiguous 50 hectare parcel of land.
- Further flexibility to set up additional units in a sector specific SEZ is being provided by introducing Sectoral broad-banding to encompass similar / related areas under the same sector.
- The requirement of 10 hectares of minimum land area has been modified. Government announced that there would be no minimum land requirement for setting up an IT/ITES SEZ. Only the minimum built up area criteria would be required to be met by the SEZ developers.
- The minimum built up area requirement has also been considerably relaxed with the requirement of one lakh square meters to be applicable for the 7 major cities viz: Mumbai, Delhi (NCR), Chennai, Hyderabad, Bangalore, Pune and Kolkata. For the other Category B cities 50,000 square meters and for remaining cities only 25,000 square meters built up area norm will be applicable.

¹⁰ IBID

¹¹ IBID

¹² Highlights of Annual Supplement 2013-14 to Foreign Trade Policy 2009-14, announced by Ministry of Commerce and Industry & Textiles on 18th April 2013.
<http://dgft.gov.in/exim/2000/Highlights1314E.pdf>

Under the purview of facilitating ease of doing business, following initiatives have been taken by the Government for Special Economic Zones (SEZs) which are presently under implementation:

Box 2.1 : Ease of Doing Business - Recent initiatives of the Government of India under implementation for SEZs

I. Service Delivery - Activities related to Developers and Units in SEZs were identified and timelines for completion of various activities were prescribed and implemented to ensure smooth functioning of SEZs and facilitating ease of doing business to SEZs Developers/Units. This initiative includes examination of the proposals for setting up of SEZs including site inspection of land and sending to the DoC (Department of Commerce) is 15 days, examination of the proposal for change of sector is 7 days, extension of LOA upto 4th year and execution of lease deed is 7 days, in-principle exit order is 7 days, issuance of Form-I for CST exemption is 5 days etc. This is expected that this move will work as a catalyst in providing good governance in the SEZs.

II. Digitization - Digitization and online processing of various activities relating to SEZs Developers and Units has been introduced in all Zones from 01.11.2014. The option of either filing applications online or in hardcopy is available to Developers/Units till 31.12.2014. Thereafter, from 01.01.2015, only online applications for all activities (except for setting up of new SEZs) will be entertained from Developers and Units.

III. Standardization - Standardisation of procedures, practices and forms in all SEZs has been implemented from 28.10.2014. Procedures for regulating certain activities which were not indicated in SEZs Act and Rules have been standardised, e.g. :-

- Utilization of goods by the Developer / Co-Developer,
- Approval of material for authorised operations by Developer / Co-Developer
- Information required for renewal of LoA(Letter of Approval)¹ for 5 years
- Format for lease deed and its renewal, and
- Format for APR (Annual Performance Report) ¹of the Units has been revised and simplified.

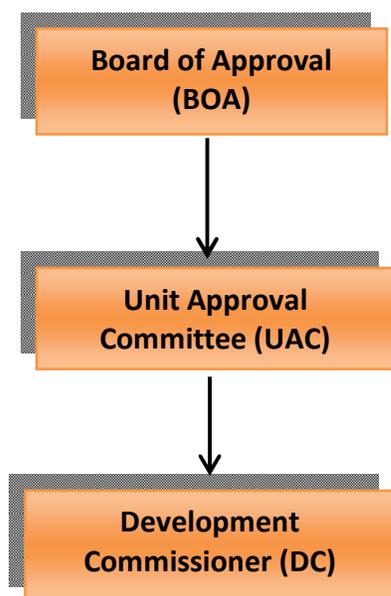
IV. Redressal Mechanism - The mechanism for redressal of grievances of SEZs Developers / Units and its monitoring has been revisited and implemented in all the Zones.

Source: Ministry of Commerce and Industry, Department of Commerce, Government of India

2.3 SEZs : Administrative Set-up & Approval Process

The functioning of the SEZs is governed by a three tier administrative set up (**Refer Exhibit - 2.3**) The Board of Approval (BOA) is the apex body and is headed by the Secretary, Department of Commerce¹³. The Unit Approval Committee (UAC) at the Zone Level deals with approval of Units within the SEZs and other related issues. Each Zone is headed by a Development Commissioner (DC), who is ex-officio chairperson of the Approval Committee (AC).

Exhibit - 2.3 : Three tier administrative set up of SEZs



Source : PHD Research Bureau

A single window SEZs approval mechanism has been provided through a 19 member inter-ministerial 'Board of Approval (BOA)'. The applications duly recommended by the

respective State Governments/UT Administration are considered by the BOA. Once an SEZs has been approved by the BOA and the Central Government has notified the area of the SEZs, units are allowed to be set up in the SEZs. All the proposals for setting up of the units in the SEZs are approved at the zonal level by the 'Approval Committee' consisting of DC, customs/central excise authorities and representatives of the State Government.

All post approval clearances including grant of IEC (importer-exporter code number), change in the name of the company or implementing agency; broad banding diversification, etc. are given at the zone level by the DC. The performance of the SEZs units is to be periodically monitored by the 'Approval Committee' and the units are liable for penal action under the provisions of the Foreign Trade (Development and Regulation) Act, 1992, in case of violation of the conditions of the approval.

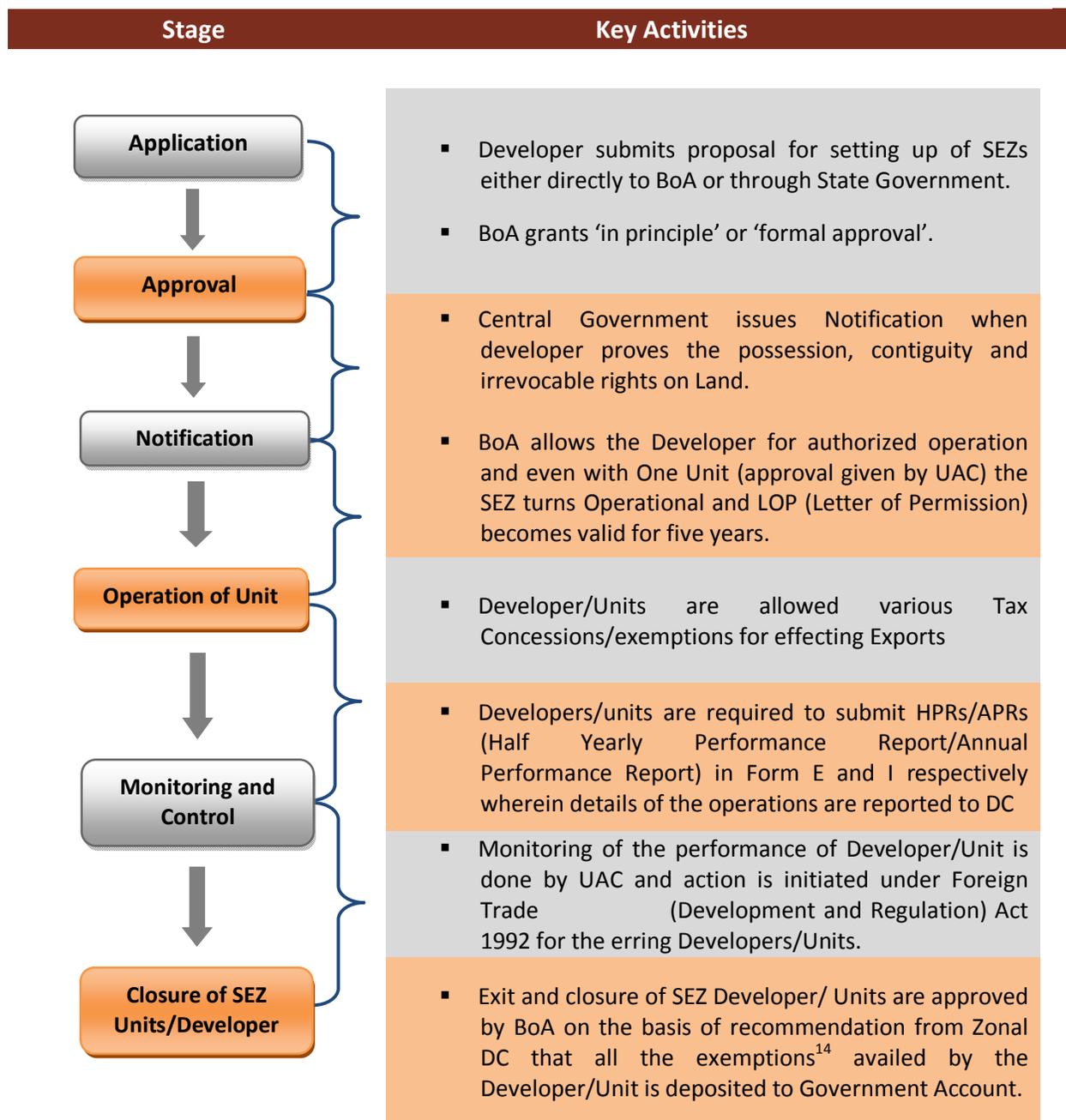
Life cycle of SEZs: Approval Process

Broadly, there are five distinct stages in the life cycle of any SEZs (**Refer Exhibit - 2.4**). They are,

- Application for approval
- Approval
- Notification
- Operation of Unit
- Monitoring & Control
- Closure of SEZs units/Developers

¹³ The Board of Approval has been constituted by the Central Government in exercise of the powers conferred under the SEZ Act. All the decisions are taken in the Board of Approval by consensus. The Board of Approval has 19 Members.

Exhibit - 2.4: Life cycle of an SEZ: Approval Process



Source : PHD Research Bureau, compiled from Report on Performance of Special Economic Zones(SEZs), Comptroller and Auditor General of India, Union Government, Department of Revenue – Indirect Taxes – Customs, No.21 of 2014.

¹⁴ In de-notification application (Form C6), the Development Commissioner has to certify that an amount equivalent to tax/duty exemption availed has been deposited to the Government Account.

“An attempt to determine the efficacy of SEZs in India from the perspectives of developers/units..”

3.

Objectives & Research Methodology



3. Objectives & Research Methodology

3.1 Objectives of the present study

The major objectives of the present study are to review the performance of SEZs which would seek to assess whether:

- a. To understand the evolution process of SEZs in India;
- b. To analyze the current status and performance of SEZs in India in terms of investments, employment and exports;
- c. To identify the issues and challenges of SEZs developers'/units in India
- d. To analyse the overall efficacy of the functioning and monitoring of SEZs in India.
- e. To recommend the policy measures to address the concerns of SEZs developers'/units in India.

3.2 Methodology

The present study is an attempt to determine the efficacy of SEZs in India from the perspectives of developers/units. For this, data are collected through primary sources whereby a survey is conducted through a structured questionnaire. The questionnaire is disseminated to about 200, SEZs inclusive of developers and units situated across India viz. Gujarat, Hyderabad, Indore, Noida etc. During this course, about 106 responses have been received which have provided the basis to

determine the final results pertaining to the stated objectives of the study. Statistical averages are used to analyze the survey results.

3.3 Structure of the Study

The entire study is divided into six broad categories. **First**, different phases of the evolution of SEZs since 1960s are described ; **second**, legal framework and administrative set up of SEZs are discussed; **third** , the objectives and methodology of conducting the survey; **four**, the current status and performance of SEZs in India specifically after the promulgation of the SEZs Act 2005 is analyzed; **Five**, comprehensive analysis and interpretation of survey results are undertaken; **Six**, conclusions and recommendations are presented to address the concerns of SEZs developers/units and for improvising efficacy of the SEZs in India.

3.4 Outcome of the study

The study under the purview of stated objectives would benefit the new government while revisiting the concept of SEZs in India. The survey involves the experience, view-points, issues, concerns and suggestions of the SEZs developers/units, therefore, the survey would help the government to formulate/modify the policies accordingly and finally it would serve the purpose of the government to make SEZs as a catalyst for the manufacturing and economic growth, going ahead.

4.

Current Status and Performance of SEZs



4. Current Status & Performance of SEZs

“According to the Fact-Sheet on SEZs employment, investment and exports registered a growth of 4692%, 1679% and 1276% respectively between 2006 and 2012. To illustrate, 17 SEZs contribute to 14.16% of employment, 40.49% of investments and 51.10% of exports in the country and at the same time the macro indicators show no variation in the trend growth for the last 7-8 years.”

- CAG, India

Since the promulgation of SEZs Act in 2005, the SEZs have shown mixed trends of significant achievements and shortcomings in the

performance of SEZs in the country. The key facts relating to the current scenario and overall performance of SEZs in India is discussed below.

4.1. No. of Approved & Notified SEZs

In a span of about eight years since the SEZs Act and Rules were notified in February 2006, formal approvals have been granted for setting up of 491 SEZs, of which 352 have been notified and 33 have been given In-Principal Approvals as of 5th December, 2014. While, 196 SEZs are

operational and around 3800 units are approved within the SEZs as of 30th September, 2014 (**Refer Table-4.1**). To have a better understanding of these approvals of SEZs, their definitions are described here below.

Table - 4.1 : Current Status of SEZs in India

Particulars	Number
Functional SEZs (Prior to SEZs Act)	19
Formal Approval Granted*	491
of which number of notified SEZs**	352
Number of In- Principal Approvals	33
Operational SEZs	196
Units approved in SEZs	3864

Source: PHD Research Bureau, compiled from www.sezindia.nic.in

* Excluding 67 SEZs approved by BoA for cancellation/de-notification; ** out of 352, 7 are Central Government SEZs and 11 are State/Pvt. SEZs

Note 1: For number of formal approvals and number of notified SEZs data is as of 5th December, 2014 and for operational SEZs and for Units approved in SEZs data is as of 30th September

a. Formal Approvals implies when the Developer does have the right (freehold / Lease/ developmental rights) over the land including possession and on the basis of the recommendations of the State Government to Central Government Board of Approval considers the case in meeting and recommends “formal” approval which is finally granted by Ministry of Commerce (MOC).

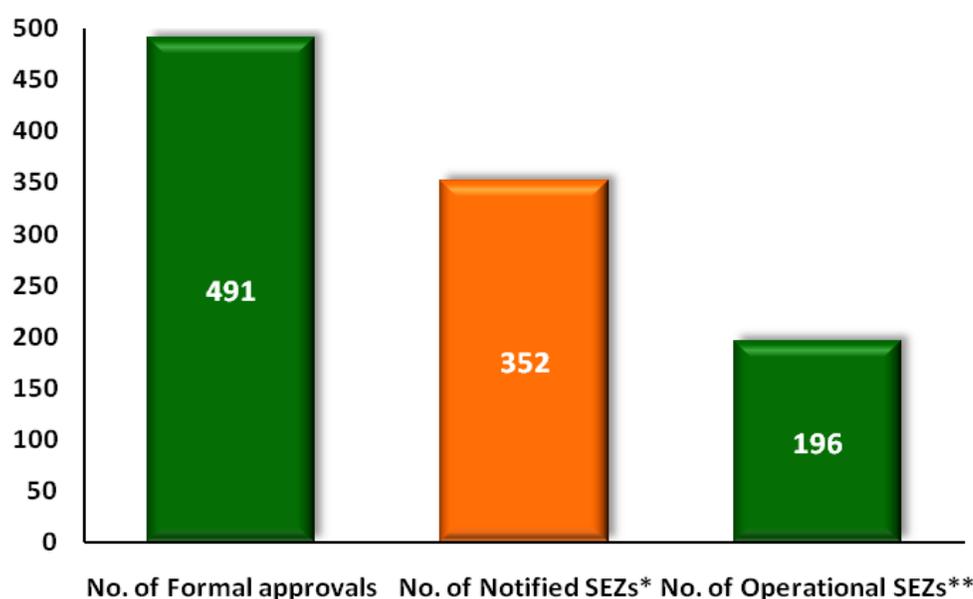
b. Notified SEZs implies, once the BOA gives formal approval and the concerned DC gives an inspection report certifying the contiguity and vacancy of the area, the area is regarded as notified SEZ.

c. In-Principal Approvals implies when the Developer does not have the right (freehold / Lease/ developmental rights) over the land

including possession and on the basis of the mandatory recommendations of the State Government to central Government Board of Approval considers the case in meeting and recommends "formal" approval which is finally granted by Ministry of Commerce (MOC).

d. "Unit" means a Unit set up by an entrepreneur in a Special Economic Zone and includes an existing Unit, an Offshore Banking Unit and a Unit in an International Financial Services Centre, whether established before or established after commencement of this Act.

Figure - 4.1 : SEZs : Approved-Notified-Operational



Source : PHD Research Bureau, compiled from www.sezindia.nic.in

*Data as on 5th December 2014,** Data as on 30th September 2014

4.1.2 State-wise SEZs

While, one of the significant objectives of establishing an SEZ is to achieve balanced growth across all regions of the country. However it is noted that 5 States, Maharashtra, Telangana, Karnataka, Tamil Nadu, Andhra Pradesh collectively constitute 55% of the total formal approvals 60% of the notified SEZs and around 55% of In-principal approvals by the government as of December 2014. While, 35% of the other States of India viz.

Gujarat, Haryana, Kerala, Uttar Pradesh (Refer Table – 4.2).

The spread of SEZs within the State is also in specific locations. To illustrate, in Andhra Pradesh most of its SEZs are situated to vicinity of Capital city Hyderabad. This scenario is similar in other States as well. This might have been because of the States could not be fully involved in the SEZs scheme and have not even framed their respective SEZs Act/Policy.

Table - 4.2 : State-wise distribution of SEZs

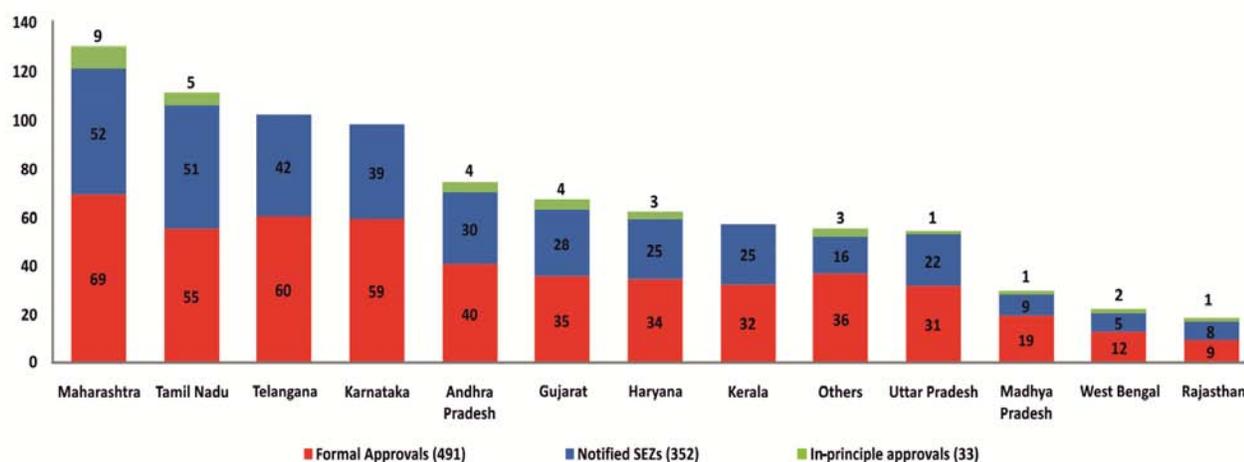
S.No.	States/UTs Formal	Formal Approvals (491)	Formal Approvals (in %)	Notified SEZs (352)	Notified SEZs (in %)	In-principle approvals (33)	In-principle approvals (in %)
1	Maharashtra	69	14.1	52	14.8	9	27.3
2	Telangana	60	12.2	42	11.9	0	0
3	Karnataka	59	12	39	11.1	0	0
4	Tamil Nadu	55	11.2	51	14.5	5	15.2
5	Andhra Pradesh	40	8.1	30	8.5	4	12.1
6	Gujarat	35	7.1	28	8	4	12.1
7	Haryana	34	6.9	25	7.1	3	9.1
8	Kerala	32	6.5	25	7.1	0	0
9	Uttar Pradesh	31	6.3	22	6.3	1	3
10	Madhya Pradesh	19	3.9	9	2.6	1	3
11	West Bengal	12	2.4	5	1.4	2	6.1
12	Rajasthan	9	1.8	8	2.3	1	3
13	Others	36	7.3	16	4.5	3	9.1

Source: PHD Research Bureau, compiled from www.sezindia.nic.in
Note: Data as on 5th December 2014

Therefore, almost all the states need to take pro-active steps in order to encourage investors to consider their states for investment. Measures which could be taken are: Enactment of State SEZs Act/Policy in

line with Central SEZs Act providing benefits to investors' i. Single window facility; ii. Proper screening procedure for granting State Government recommendations to SEZs proposals & Proper grievance addressal mechanism for investors.

Figure-4.2 : State-wise distribution of SEZs



Source : PHD Research Bureau, compiled from www.sezindia.nic.in

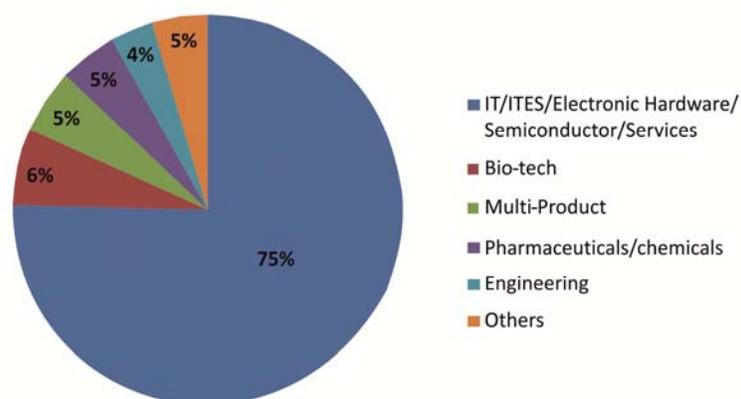
4.1.3 Sector - wise SEZs

The sector wise distribution of SEZ's clearly shows that majority of the formal approvals granted have been in IT/ITES sector which comprises nearly 75% of the total formal approvals granted till date (**Refer Figure - 4.3.a**). This can be as a result of India's growing prowess in the IT/ITES Sector and availability of trained manpower which is resulting in outsourcing of such activities to India. The high number of formal approvals of IT/ITES Sector

has also resulted in a high share of such SEZs in the notified SEZs category (61%) (**Refer Figure - 4.3.b**). Other prominent sectors include; Biotech, Textiles, Pharma, Engineering etc in addition to 21 formally approved multi-product SEZs. In terms of in-principle approvals, large multi-product SEZs have a share of more than 50% followed by textile/ biotech sectors. The SEZs BoA is not granting any in-principle approval to proposals for IT/ITES Sector.

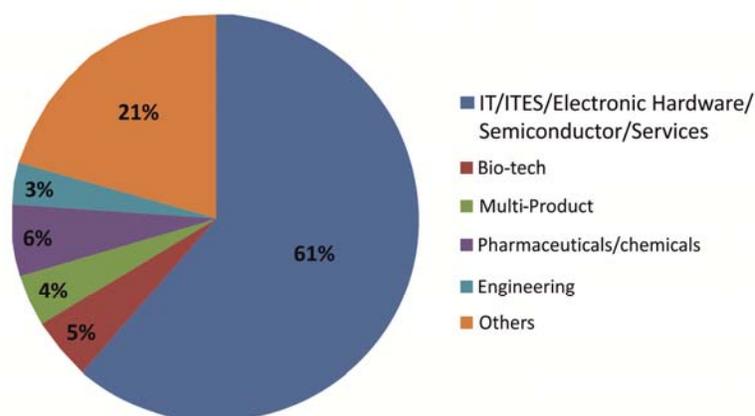
Figure - 4.3 : Formal & Notified Approvals

(a) Formal Approvals (%)



Source: PHD Research Bureau, compiled from www.sezindia.nic.in
Data as on 30th April 2014

(b) Notified Approvals (%)



Source: PHD Research Bureau, compiled from www.sezindia.nic.in
Data as on 30th April 2014

4.2 Performance of SEZs and Socio-economic impact

The three important objectives of the SEZs Act, 2005 are to generate employment opportunities, encourage investments and increase India's exports. Under this ambit performance of SEZs in India is measured in terms of employment, investments and exports.

“According to the Fact Sheet on SEZs employment, investment and exports registered a growth of 4692%, 1679% and 1276% respectively between 2006 and 2012. However, this does not reflect the complete picture of the performance of the SEZs in the country. To illustrate, 17 SEZs¹⁵ contribute to 14.16% of employment, 40.49% of investments and 51.10% of exports in the country and at the same time the macro indicators show no variation in the trend growth for the last 7-8 years.”
CAG, India¹⁶

While, DGFT (Directorate General of Foreign Trade) highlighted that SEZs scheme was introduced in April 2000 with a view to provide an internationally competitive environment for exports and for continuity and stability of scheme, SEZs Act was enacted in 2005.

The scheme has shown a tremendous growth in infrastructure investment, employment and exports. Exports have touched Rs. 425000 crore in 2014 vis-à-vis Rs. 22000 crore in 2005; similarly investment was Rs. 284000 crore in 2014 in comparison to Rs. 4000 crore in 2005.¹⁷

A comprehensive analysis on the performance of SEZs is discussed here below.

4.2.1 Employment

Incremental employment has been observed increasing significantly from 25% in FY2009 to around 47% in FY2011. However, incremental growth rate registered a decline to 32% in FY2013 on account of continuous de-notification of number of SEZs as a result of several adverse market dynamics. Corresponding to the incremental employment growth rate, cumulative employment growth rate has marked a positive growth from 15% in FY2009 to around 27% in FY2013 (Refer Table – 4.3).

In nutshell, SEZs has witnessed four-fold generation of employment from around 3 lakh persons in FY2008 to around 12 lakh persons in FY2014. However, it could not generate expected rate of employment on account of several legal and market changes.

¹⁵ Out of these two SEZs were already in existence prior to the enactment of SEZ Act, 2005

¹⁶ Report of the Comptroller and Auditor General of India, Performance of SEZs, Union Government, Department of Revenue – Indirect taxes – Customs No. 21 of 2004

¹⁷ Information is cited in Report of the Comptroller and Auditor General of India, Performance of SEZs, Union Government, Department of Revenue – Indirect taxes – Customs No. 21 of 2004

Table -4.3: Employment Generation

Year	Incremental Employment	Growth (%)	Cumulative Employment	Growth (%)
FY2008	201531		336235	
FY2009	252735	25.41	387439	15.23
FY2010	368907	45.97	503611	29.98
FY2011	541904	46.89	676608	34.35
FY2012	710212	31.06	844916	24.88
FY2013	940200	32.38	1074904	27.22
FY2014*	1105141	17.54	1239845	15.34

Source - PHD Research Bureau, Compiled from CAG, India

* Data as on 31st December,2014

4.2.2 Investments

Incremental investments have shown a positive growth rate over a period of time barring few years. On an average, incremental investments were increased by 40% from FY2009 to FY2011. However, FY2012 posted a negative growth rate of (-) 0.47% (Refer Table – 4.4).

This steep fall was attributed to several legal and market dynamics in the domestic as well as international economy including rising cost of operations, global slowdown, fall in market demand, imposition of MAT and DDT in 2011, lack of skilled man power etc. These factors eroded the viability of setting up industrial

projects within the SEZs and thus negatively impacted the investors' sentiments.

Though incremental investments growth rate turned positive at 18% in FY2013 and 22% in FY2014, yet could not achieve the earlier levels of around 40% achieved during FY2009-FY2011. Corresponding to the incremental investments growth rate, cumulative investments growth rate also depicted the same trends.

In nutshell, though investments in the SEZs increased from three fold from Rs. 77,000 cr. in FY2008 to Rs. 288,000 cr. in FY2014, however, its growth rate did not remain consistent owing to several unfavourable changes in the domestic and global market.

Table - 4.4 : Investments (Rs. Crores)

Year	Incremental Investment	Growth (%)	Cumulative Investment	Growth (%)
FY2008	73174		77210	
FY2009	104867	43.31	108903	41.05
FY2010	144453	37.75	148489	36.35
FY2011	198774	37.60	202810	36.58
FY2012	197839	-0.47	201875	-0.46
FY2013	232681	17.61	236717	17.26
FY2014	284441	22.25	288477	21.87

Source - PHD Research Bureau, Compiled from CAG, India

* Data as on 31st December, 2014

4.3.3 Exports

Exports from SEZs have shown a positive growth rate during the last many years. However, the exports growth remained extremely volatile from 52% in FY2007 to 121% in FY2010 and to 43% in FY2011. The

following years also registered the declining growth rate from 15% in FY2013 to 4% in FY2014 (**Refer Table-4.5**). In nutshell, though exports growth of SEZs in India remained fluctuating over the period of time, yet exports from SEZs have witnessed a significant rise of around 22 fold from Rs. 22000 crores in 2005-2006 to Rs. 5 lakh crores in 2013-14.

Table - 4.5 : Exports (in Rs. Crores)

Years	Exports from SEZs (in Rs.Crores)	Growth Y-o-Y (in %)
2005-2006	22840	-
2006-2007	34615	52%
2007-2008	66638	93%
2008-2009	99689	50%
2009-2010	220711	121%
2010-2011	315868	43%
2011-2012	364478	15%
2012-2013	476159	31%
2013-2014	494077	4%

Source - PHD Research Bureau, Compiled from CAG, India

* Data as on 31st December, 2014

5.

Survey Results



5.

Survey Analysis of the SEZs in India

Our survey for reviewing the performances of SEZs in India has enabled to know the SEZs' developers/units view-points relating to overall efficiency and issues of SEZs and their expectations with regard to formulating and modifications of policy measures.

The survey found that the approach of SEZs developers/Units towards SEZs has become pessimistic in the present times. They felt that operating in Domestic Tariff Area (DTA) has become more beneficial as compared to operating within SEZs especially after withdrawal of exemption for Minimum Alternate Tax (MAT) and Dividend Distribution Tax (DDT) for the SEZs.

Signing of more Free Trade Agreements (FTAs) by India which enabled Indian exporters outside the SEZs to import duty free imports of inputs also acted as a disincentive for exporters operating within SEZs. In a nutshell, almost all the SEZs' developers/units unanimously felt that, hardly there is any significant export benefits are left to operate within the SEZs in India over to operate within its DTA.

The detailed survey results w.r.t SEZs developers' viewpoints towards different aspects are discussed in the following categories (**Refer Exhibit – 5.1**).

1. Experience with respect to administrative procedures
2. Fixed time period
3. Single Window Clearance Mechanism
4. Concessions/ Exemptions availed
5. Operational Stage
6. Monitoring & Control
7. De-Notification & Exit

Exhibit - 5.1 : Survey Categories

5.1

Experience with respect to administrative procedures

The survey reveals the respondents' experience (SEZs developers'/Units') with respect to several administrative processes and procedures including obtaining approval from BOA/UAC; coordination between ministries and Central and State Government; process of acquiring land for SEZs; sanctions of claims; redressal of grievances and process of de-notification & exit. The results of the survey pertaining to all these administrative processes are described in **Box – 5.1**.

Box - 5.1 : Experience with respect to administrative procedures

The survey revealed that almost all of the respondents' (91%) experiences with respect to different administrative processes are quite satisfactory. This pertains to all kinds of approval processes inclusive of getting approval from Board of Approval (BOA) and Unit Approval Committee(UAC); and getting formal approval, if 'in-principal' was given earlier.

With respect to coordination between Central ministries & between Central and State Governments and w.r.t obtaining notification from the concerned authority, 89% of respondents' experience has been satisfied i.e. developers/units are not facing any problems on account of lack of coordination between the concerned authorities.

- Almost all of the respondents' (91%) experiences with respect to different processes for getting approvals for setting up a SEZ are quite satisfactory.
- With respect to coordination between Central ministries, between Central and State Government also, 89% of the respondents' experience has been satisfied.

The experience of around 70% of respondents is found satisfied with respect to the acquisition of land process for SEZ and redressal of grievances by UAC/BOA. Though the respondents reported that the custom clearance of goods has become easy with simplified procedures, however, around 40% respondents' reported that they are not satisfied with the process of getting permission from the custom authorities or DC for procuring/exporting/temporary removal/sub-contracting of materials/services etc.

While, most of the respondents' are also not satisfied with the process of getting concurrence of State Government, process of getting sanctions of claims and process of de-notification & exit as well .

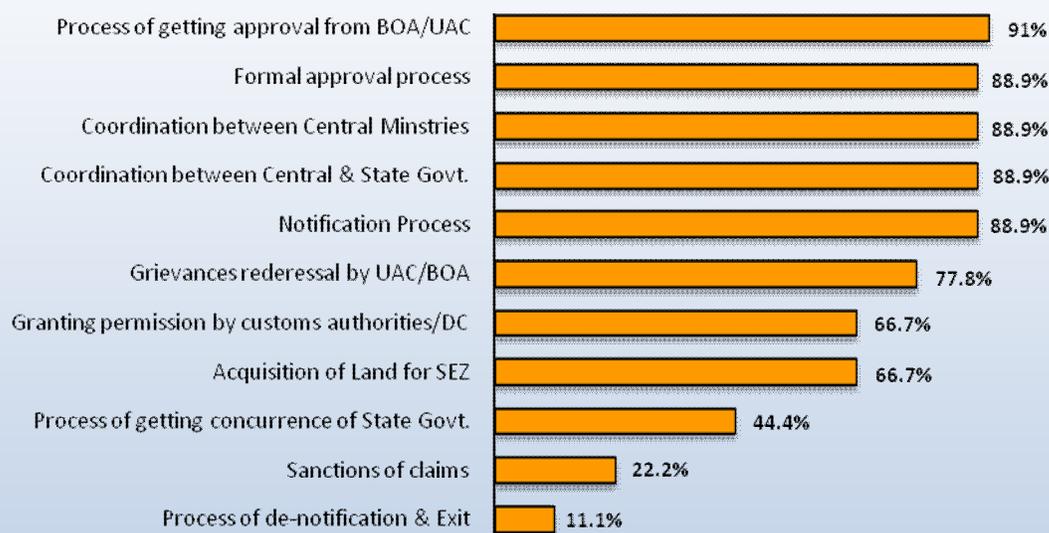
5.1

Experience with respect to administrative procedures contd...

Box - 5.1 : Experience with respect to administrative procedures contd...

- 70% of the respondents' are found satisfied with respect to the acquisition of land process for SEZ, and redressal of grievances by UAC/BOA.
- Around 40% respondents' experience with respect to getting permission from the custom authorities or DC and to get sanctions of claims; process of de-notification & exit is not satisfactory.

Figure - 5.1 : Respondents' level of satisfaction w.r.t various Administrative Procedures & Processes (%)



Source: PHD Research Bureau

Recommendations: Administrative procedures are required to be more streamlined and effective especially getting the customs clearances and sanctions of the claims.

5.2

Prescribing fixed time period

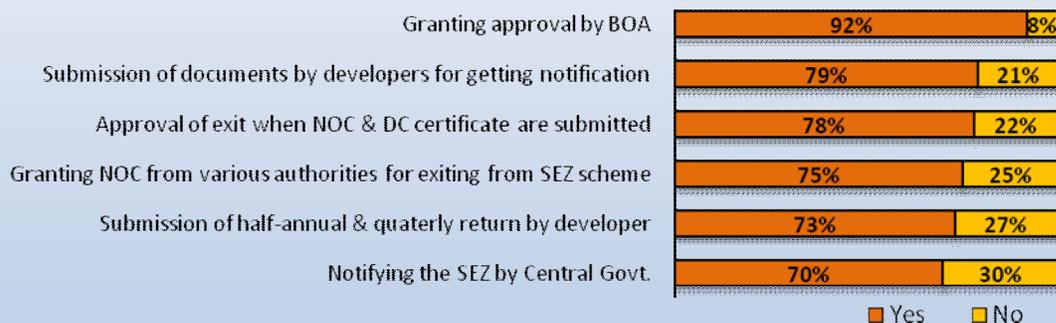
BoA is empowered to grant approval/reject/modify proposals for establishment of SEZs. A time limit has been prescribed on the part of all concerned authorities viz. development commissioner, State Government and Government of India ranging between 15 days to 6 months for processing at various stages. However, no such limit has been prescribed for BoA to grant the approvals which causes delays in approvals at several instances. Therefore with respect to prescribe the fixed time period for different processes the survey has found the viewpoint of the respondents' discussed in **Box- 5.2**

Box - 5.2 : Prescribing fixed time period

The survey found that with respect to prescribe the fixed time period for different processes, almost all the respondents(90%) felt that a fixed time period needs to be prescribed for getting approval by BOA. However, in case of submission of documents by developers for getting notifications; for notifying the SEZs by Central Government, for submission of half-yearly & quarterly return by the developers; for granting of NOC from various authorities for exiting from SEZ scheme and for approval of exit when NOCs and DC certificate are submitted, around 75% of the respondents felt that there is need to prescribe a fixed time period.

- Almost all the respondents (90%) felt that a fixed time period needs to be prescribed for getting approval by BOA.
- Around 75% of the respondents felt that there is need to prescribe a fixed time period in other stated cases.

Figure - 5.2 : Respondents' view point w.r.t prescribing time limit for different processes (%)



Source : PHD Research Bureau, survey findings

Recommendation - Timelines to be prescribed and followed strictly to reduce delays at several stages of approvals/other processes

5.3

Single Window Clearance Mechanism

This is observed that there is an absence of an effective single window mechanism as envisaged in the SEZs policy for giving all the clearances to the SEZs projects by a single authority and the mechanism has not worked as per its intended objectives.

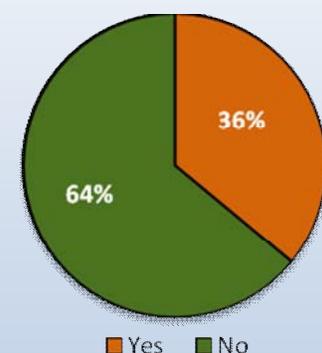
In order to verify the same, an attempt is made through the survey to find out the respondents' experience w.r.t taking required clearances at different stages for setting up/operating SEZs as a developer & as a unit. With this regard, survey results are depicted in **Box – 5.3**

Box - 5.3: Existence of Single Window Clearance Mechanism

Relating to Single Window Clearance Mechanism, about 36% of the respondents reported that single window clearance mechanism exists in their respective States Rest of the respondents (64%) reported that there is no single window clearance mechanism in their respective States and they are required to obtain the separate clearances from the different authorities viz. Pollution Control Board, Ministry of Environment & Forest, Police Station and others as mentioned in **Table 5.1**.

This defeated the purpose of providing the intended facilities of various clearances in a single counter and proved to be a major bottleneck in development of SEZ and establishment of Units. To conclude, it is of the opinion that the envisaged single window system for speeding up the process of approvals has not rolled out in most of the States of the country.

Figure - 5.3 (a) : Existence of Single Window Clearance Mechanism



Source: PHD Research Bureau

Recommendation - Since, Single Window Clearance Mechanism is one of the best practices for catalyzing the business environment in India it is imperative to review of the single window system in various States to unplug the loopholes and it is for the State Government to take the proper initiatives on this issue.

Table 5.1 : Time spent for getting approvals

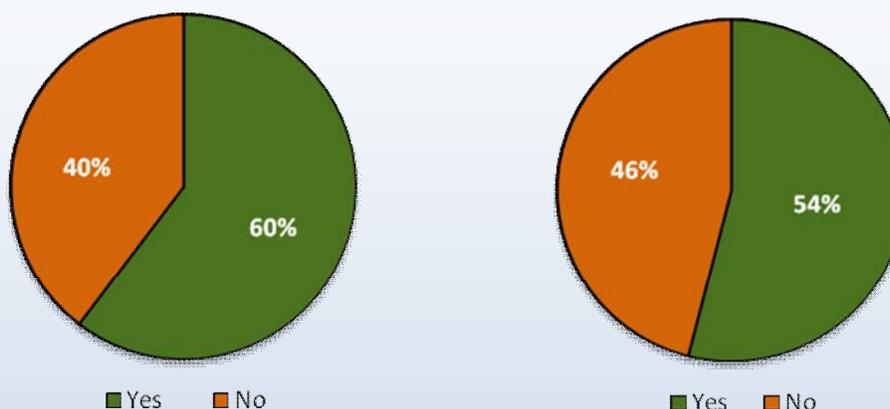
S.No.	Nature of Clearance	Name of the Authority	Time taken for getting approval
1	Electricity	DGVCL	4 to 5 Months
2	Water Supply	GIDC	4 to 5 Months
3	Effluent Disposal	GIDC/GPCB	4 to 5 Months
4	Environment Clearances	GPCB	4 to 5 Months
5	Land Related Matters	GIDC	4 to 5 Months
6	CTE,CTO	GPCB	4 to 5 Months
7	License	Directorate of Industrial safety and Health	2 to 3 Months
8	EC	Ministry of Env. & Forest	12 Months
9	EC	State Environment impact assessment committee	12 Months
10	License	Chief Controller of Explosives (PESO)	3 Months
11	NOC	Local Authority	4 to 5 Months
12	NOC	Police Station	4 to 5 Months
13	NOC	GIDC	3 Months
14	Poison License	Extra Chitins Dept – District Magistrate	8 to 12 Months
15	License related to prohibition and excise	Prohibition & Excise	1 to 3 Months

Source: PHD Research Bureau

Box - 5.3 : Single Window Clearance Mechanism Integrates all the required clearances

Though 64% of respondents have expressed the non existence of single window clearance mechanism, but majority of the respondents (60%) of the States where the mechanism exists reported that the mechanism integrates all the required clearances envisaged in the Act (**Figure 5.3b**). However, 46% of the respondents reported that the clearances are not given timely (**Figure 5.3c**).

Figure - 5.3 (b): Integration of all required clearances Figure - 5.3 (c) : Whether timely clearance given?



Source: PHD Research Bureau, survey findings

- About 35% of the respondents reported that single window clearance mechanism exists in their respective States and it integrates all the required clearances envisaged in the Act.
- 46% of them reported that the clearances are not given timely.
- Rest of the respondents (60%) reported that there is no single window clearance mechanism in their respective States.

Recommendation – Since in most of the States, Single Window Clearance Mechanism does not exist, it is required by the government to prescribe the average time to be taken by the respective authorities to give clearances/ sanctions for electricity, water supply, land related matters etc.

5.4

Concessions/ Exemptions availed (Stamp Duty, MAT and DDT)

The Indian Stamp Act, 1899 as amended through Section 57 of the SEZs Act 2005 stipulates that no duty shall be chargeable in respect of any instrument executed by or on behalf of or in favour of the Developer or Unit or in connection with the carrying out of purposes of the SEZs.

In regard to MAT & DDT, along with the SEZs Act 2005, the government incorporated a specific provision in relation to SEZs units under the Income Tax Act 1961 (the Act) through the Finance Act 2005, whereby it was specifically provided that liability in relation to MAT (18.5%) and DDT (16.995%) shall not arise on SEZs units i.e. developers/units within SEZs were made totally exempted from payment of MAT and DDT.

However, exemption from MAT was withdrawn from 1st April, 2012 and exemption from DDT was withdrawn from 1st June, 2011 on account of the erosion of tax base drastically. Pertaining to availing Stamp Duty concessions and respondents' view point towards withdrawal of MAT & DDT exemption other exemptions viz. MAT & DDT, the survey found the results depicted in **Box - 5.4**.

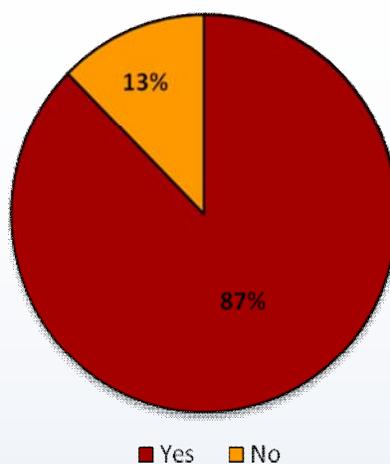
Box - 5.4 : Concessions/ Exemptions Availed & should MAT/DDT be discontinued

The survey found that 88% of the respondents avail the stamp duty exemption and with respect to discontinuation of MAT/DDT almost all the respondents (98%) felt that MAT/DDT should be discontinued so as to keep the developers/units encouraged. As the withdrawal of exemption of MAT/DDT has negatively impacted the morale of exporters within the SEZ in recent times.

They felt that operating in Domestic Tariff Area (DTA) has become more beneficial as compared to operating within SEZs especially after withdrawal of exemption for Minimum Alternate Tax (MAT) and Dividend Distribution Tax (DDT) for the SEZs. Therefore, they considered it as a big blow to the promotion of SEZs in the country. In this reference, a case of engineering industry is discussed where in duty structure and taxes in SEZ and DTA are compared to show that operating in DTA is more beneficial as compared to operating within SEZs (**Refer – Table 5.1 & 5.2**).

- 88% of the respondents avail the stamp duty exemption.
- With respect to discontinuation of MAT/DDT almost all the respondents (98%) felt that MAT/DDT should be discontinued.

Figure - 5.4 (a) : Stamp duty exemptions availed



Source : PHD Research Bureau, survey findings

Figure - 5.4 (b) : MAT/DDT should be discontinued



Source: PHD Research Bureau, survey findings

Recommendation - Withdrawal of MAT/DDT exemption should be discontinued and once the policy towards benefits is made then it should not be changed till "time frame" is over.

Table - 5.2: Duty structure and taxes in SEZ and DTA in engineering industry

S.No.	Engineering Industry SEZ	Engineering Industry DTA
1.	Nil custom duty on capital goods	Custom duty 7.5% on capital goods(zero if unit exports 6 times duty foregone)
2.	Nil CVD on capital goods	CVD 12% on capital good + 3% cess +3 % education cess + 4% additional duty (zero if unit exports 6 times duty foregone) Note - CVD +cess +edu cess +SAD are eligible for cenvat credit
3.	CST –Nil	CST - 2 %
4.	VAT – NIL	VAT 14.5% (excavators) - this can be adjusted against VAT on inputs
5.	Excise duty - NIL	Excise duty payable at 12% (now 10% till June 2014)
6.	Service tax - Nil for services rendered or received	Service tax 10.5% payable for services rendered or received
7.	No income tax for first 5 years (MAT 18.5% payable)	Income tax payable from first year
8.	50% income tax for 2nd 5 years i.e.16.5% but MAT applicable at 18.5%	Income tax payable in all years
9.	50% income tax for 3rd 5 years i.e.16.5% but MAT applicable at 18.5%	Income tax payable in all years
10.	No duty on raw materials imports (duty+CVD+SAD)	duty payable but advance license for imports can be taken with 20% value addition
11.	Sales to DTA with duty +CVD +SAD subject to NFE	Exports to SEZ get duty drawback
12.	No chapter 3 benefits	Chapter 3
13.	Duty Drawback on exports - NIL	Drawback allowed as per product category

Source : PHD Research Bureau, survey findings

Table - 5.2.1 : Comparison of duty structure and taxes in SEZ and DTA in engineering industry

Comparisons of Net Realisation in case of SEZ vis-à-vis DTA	
Net realisation is computed in terms of tax savings for the company	
i. in case of operating in SEZs and	
ii. in case of operating within DTA in accordance with respective tax provisions.	
The comparison of net realisation in case of SEZs and DTA is based on the presumptions that a company in SEZs/DTA exports for Rs. 100/- and profit is 10%	

Source : PHD Research Bureau, survey findings

Table - 5.2.2 : Comparison of duty structure and taxes in SEZ and DTA in engineering industry

Net Realisation in case of SEZ (in terms of tax savings)	
Particulars	Amount
Exports	Rs. 100/-
Profits	Rs. 10/- (as profit margin for exporter is 10%)
Tax Savings (%)	33* - 18.5** = 14.5% on profit of Rs. 10/- Rs. 1.45 * Corporate Tax = 33% ** MAT = 18.5%
Net Realisation	Total exports Realisation + Tax Savings Rs. 100/- + Rs. 1.45/- = Rs. 101.45/-

Source : PHD Research Bureau, survey findings

Table - 5.2.3 : Comparison of duty structure and taxes in SEZ and DTA in engineering industry

Net Realisation in case of DTA(in terms of tax savings)	
Particulars	Amount
Exports	Rs. 100/- with 50% import content
Profits	Rs. 10/- (as profit margin for exporter is 10%)
Taxes	i. 7.5% custom duty on import content of Rs. 50/- = 3.75 ii. Additional tax compared to SEZ unit = 33% - 18.5% = 14.5% i.e. 1.45 /-
Tax benefits for DTA	iii. Duty Drawback = 4% i.e. Rs. 4/- iv. Chapter 3 Benefits = 4% Rs. 4/-
Tax Savings (%)	(iii.+ iv. - i. - ii.) = v : 4+4- 3.75-1.45 = Rs. 2.80/-
Net Realisation	Total exports Realisation + Tax Savings(v) Rs. 100/- + Rs. 2.80/- = Rs. 102.80/-

Source : PHD Research Bureau, survey findings

5.5

Operational Stage

SEZs are intended to generate employment, both direct & indirect; to attract investments (domestic & foreign) to expedite the growth of India's foreign trade. However, it is observed that there is a shortfall between the projections and actual realization of employment; investments and exports benefits derived from the SEZs till now. According to CAG audit survey, it was noticed that in the selected 117 Developers/ Units in 12 States¹⁸ the actual employment (2, 84,785) vis-à-vis the projections (39, 17,677) made by the Developers/Units had fallen short by nearly 93% (absolute number being 36, 32,892). Furthermore, the pattern of employment generation is also not uniform across sectors. The shortfall is significant in IT sector SEZs (34.2%) followed by Multi product sector (23.5%), Textiles & Apparels (7.3%) and others SEZs (35%).

The actual investment (Rs. 80176.25 crore) vis-à-vis the projections (Rs. 194662.52 crore) in 79 Developers/Units in 11 selected States¹⁹ was also found around 59% lesser than the projected amount. This includes shortfall in FDI to the tune of Rs. 2468.53 crore (67%). The CAG survey also highlighted that the actual exports (Rs. 100579.7 crore) vis-à-vis the projections(Rs. 395547.43 crore) in 84 Developers/Units in 9 selected States²⁰ was 74.6% lesser than the projected amount. The reasons for the shortfall between the actual and projected employment/ investments / exports are depicted in **Box - 5.5** and reasons for IT/ITES SEZs constituting a major chunk of total no. of SEZs in country are depicted in **Box-5.6**

Box - 5.5: Shortfall between the projected and actual of employment/ investments/ exports

The survey observed that there is a shortfall between the projections and actuals of employment/investments/exports and almost all the respondents (96%) considered global recession as the major reason of this shortfall. While, around 60% of the respondents considered lack of infrastructural facilities, end of tax holiday, too many restrictions and frequent changes in policies viz.

Minimum Alternate Tax (MAT) are the next major reasons for this shortfall. While, 75% of the respondents felt that cumbersome land acquisition process is not a major reason for the several instances of shortfall between the projection and actuals of exports/employment/investment.

¹⁸ Andhara Pradesh, Maharashtra, Tamilnadu, Kerela, Karnataka, Odisha, Gujarat, Rajasthan, West Bengal, Uttar Pradesh, Chandigarh, Madhya Pradesh

¹⁹ Andhara Pradesh, Maharashtra, Tamilnadu, Kerela, Karnataka, Odisha, Gujarat, Rajasthan, West Bengal, Uttar Pradesh, Chandigarh,

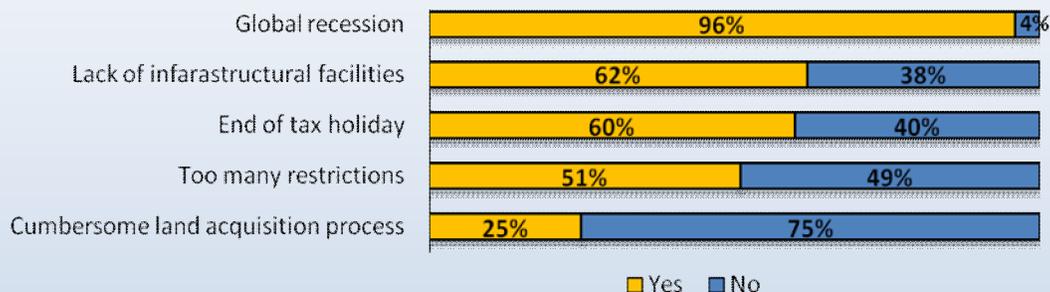
²⁰ Andhara Pradesh, Maharashtra, Tamilnadu, Kerela, Odisha, Rajasthan, Uttar Pradesh, Chandigarh, Madhya Pradesh

Box - 5.5 : Shortfall between the projected and actual of employment/ investments/ exports contd...

The shortfall is significant in IT sector SEZs (34.2%) followed by Multi product sector (23.5%), Textiles & Apparels (7.3%) and others SEZs (35%). The actual investment (Rs. 80176.25 crore) vis-à-vis the projections (Rs. 194662.52 crore) in 79 Developers/Units in 11 selected States²¹ was also found around 59% lesser than the projected amount.

This includes shortfall in FDI to the tune of Rs. 2468.53 crore (67%). The CAG survey also highlighted that the actual exports (Rs. 100579.7 crore) vis-à-vis the projections (Rs. 395547.43 crore) in 84 Developers/Units in 9 selected States²² was 74.6% lesser than the projected amount. The reasons for the shortfall between the actual and projected employment /investments/ exports are depicted in Box – 6.1.

Figure - 5.5 : Shortfall between the projected and actual employment/investments/exports



Source : PHD Research Bureau, survey findings

- Almost all the respondents (96%) considered global recession as the major reason of this shortfall.
- 55% of the respondents considered end of tax holiday, too many restrictions and frequent changes in policies.
- 66% of the respondents felt that cumbersome land acquisition process is not a major reason for the several instances of shortfall between the projection and actuals of exports/employment/investment.

Recommendation – Conducive business environment should be created for SEZs by simplifying procedures, developing state of the art infrastructure and stabilizing fiscal regime.

²¹ Andhara Pradesh, Maharashtra, Tamilnadu, Kerela, Karnataka, Odisha, Gujarat, Rajasthan, West Bengal, Uttar Pradesh, Chandigarh,

²² Andhara Pradesh, Maharashtra, Tamilnadu, Kerela, Odisha, Rajasthan, Uttar Pradesh, Chandigarh, Madhya Pradesh

Box - 5.6: Reasons for IT/ITES SEZs constituting a major chunk of total no. of SEZs in country

According to the survey, almost all the respondents (90%) felt short turnaround time & end of tax holiday in STP (Software Technology Park) as the major reason for constituting the major chunk of SEZs in the country by the IT/ITES SEZs. While, most of the respondents (80%) felt that availability of skilled manpower, availability of plug and play facilities and involvement of less investment and huge global market for the IT sector are the other significant reasons of its concentration in SEZs in India.

- Almost all the respondents (90%) felt short turnaround time as the major reason for constituting the major chunk of SEZs in the country by the IT/ITES SEZs.
- 80% felt that availability of skilled manpower, availability of plug and play facilities and involvement of less investment and huge global market for the IT sector are the other significant reasons of its concentration in SEZs in India.

Figure - 5.6 : Reasons for IT/ITES SEZs constituting a major chunk of total no. of SEZs in country



Source : PHD Research Bureau, survey findings

Recommendation - The overall SEZ policy should be directed towards involving all the states and sectors.

5.6.

Monitoring & Control

Annual monitoring on the functioning and performance of the units in the SEZs is carried out by the Unit Approval Committee. The performance of the Units/Developers is being monitored annually through Annual Performance Reports (APRs) in case of units and Half yearly/Quarterly returns in case of Developers. With respect to overall mechanism of monitoring and evaluation including relevance of present format of APRs, sufficient time for submitting APRs, redressal of grievances mechanism the respondents' view point is described in **Box - 5.7**.

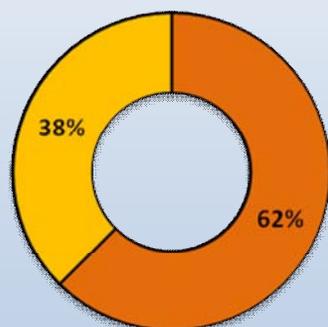
Box - 5.7 : Monitoring & Control

With respect to monitoring and control, almost all the respondents (95%) are satisfied the most with the sufficient time given for submitting APRs. Most of the respondents (87%) considered present format of APRs relevant and user-friendly; however 40% of the respondents reported redressal of grievances by UAC/BOA inefficient and unsatisfactory.

- Almost all the respondents (95%) are satisfied the most with the sufficient time given for submitting APRs.
- Most of the respondents (87%) considered present format of APRs relevant and user-friendly.
- 40% of the respondents reported redressal of grievances by UAC/BOA inefficient and unsatisfactory.

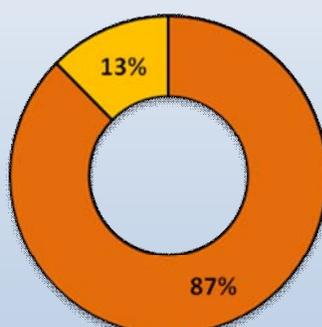
Figure - 5.7 : Monitoring & Controlling

(a) Sufficient time given for submission of APRs



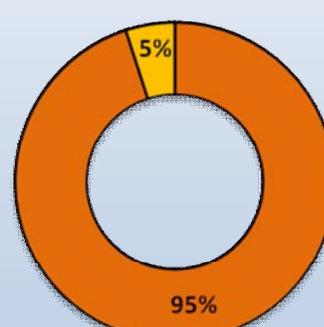
■ Yes ■ No

(b) Present format of APRs relevant & user friendly



■ Yes ■ No

(c) Grievances redressed by UAC/BOA



■ Yes ■ No

Source : PHD Research Bureau, survey findings

Recommendation – Grievances redressal mechanism is required to be made stringent and effective.

5.7

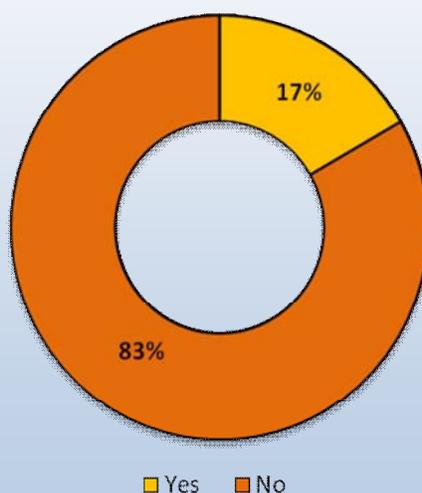
De-Notification & Exit

A developer, who is not interested in continuing with scheme, has an option to exit by de-notifying with an undertaking to pay back the concessions availed. The survey results pertaining to reasons of de-notification of SEZs are discussed in **Box - 5.8**.

Box - 5.8: De-notification & Exit and Loan raised

The survey found that 20% have applied for exit from scheme and that is mainly because of poor global market situation in recent times. While, the respondents also felt that operating in DTA has become more beneficial as compared with operating within SEZ especially after withdrawal of exemption from MAT and DDT. Most of the respondents (83%) reported that they did not have to raise any loan against the land allotted for SEZ.

Figure - 5.8: Loan raised against the land allotted for SEZ



Source : PHD Research Bureau, survey findings

5.8

Other observations

SEZs developers'/units apart from providing the inputs with respect to above discussed aspects, also revealed various other issues & concerns which are presented in **Box - 5.9**.

Box - 5.9 : Other issues and concerns reported by the SEZs

i. Lack of benefits for SEZs units -On account of policy framework, the respondents' considered that recent policy changes whereby minimum land area requirements for setting up Multi-product SEZ has been reduced by half, would benefit the developers only. There are no benefits for SEZ units under this new policy and therefore, growth will be slow unless these units are incentivized.

ii. Negligible tax benefits for MSMEs - The small entrepreneurs i.e. MSMEs which make small investments and that too is in low investment prone sectors viz. handicrafts, leather etc. would have to sacrifice their significant tax benefits on profits for the negligible tax benefits on investments. MSME entrepreneurs believe that there is a 4% disadvantage of being operational in the SEZ as compared in the DTA.

iii. Effective utilization of NPA - Respondents reported that due to very strict rules, Non Processing Area (NPA) area is restricted to provide several facilities like housing, gym, etc. to SEZ units only, while, the contractual/temporary employees like contractors, technology suppliers who are engaged in installing and commissioning units are not entitled to avail these benefits. It would therefore be better if developers are allowed to construct housing, hotels, gym etc. in NPA and are permitted to let these facilities out to anybody, if they do not avail duty benefits.

iv. Implications of FTAs - Respondents also felt that though SEZs have access to duty-free imports of manufacturing inputs but, as a result of signing free-trade agreements with different countries where duties on many products are eliminated or reduced substantially for exporters operating in DTA have outweighed the advantage of duty free imports accruing to SEZs .

v. Non-compliance with WTO rules results in export incompetiveness - The respondents also reported that SEZs are entitled to get various tax benefits but these are not compliant with the World Trade Organization (WTO) rules. Therefore, the importing countries impose countervailing duties on imports from India, to negate the effect of direct tax subsidies provided to the exporters operating within SEZs. This reduces the cost competitiveness of exports from SEZs from India. Therefore, India should not provide direct subsidies to SEZs which violates the WTO rules and rather provide indirect benefits in terms of sops on power and land acquisition as well as on services which are compliant with WTO rules. All these issues have discouraged the existing SEZs developers/units to further operate within the SEZs and also the potential investors to make investments/setting up in SEZs.

***T**he response of the developers / units within SEZs mainly points towards a need for revamping single window clearance system, efficient tax administration and review of the decision to introduce DDT and MAT.”*

6.

Economic Analysis: Conclusions & Recommendations



Economic Analysis: Conclusions

The Special Economic Zone Act (June, 2005) & the Rules (Feb.2006) came into force with the set of objectives, which included creation of employment, encouraging Investments (both domestic and foreign), and Increase in India's share in global exports. This is also envisaged that there should be simple compliance procedures and practices for development and conduct of businesses including single window clearances, self certification and world class infrastructure facilities.

Under this purview, the Government has provided several tax incentives and offered varied facilities to the SEZs developers / units over a period of time. As a result, in a span of about 8 years, since the SEZs Act & Rules were notified, formal approvals have been granted for setting up of 491 SEZs of which 352 SEZs have been notified and 33 have been given In Principal approvals.

SEZs in India have witnessed generation of employment, investments and exports over a period of time, however, it is considered that the SEZs model in India could not reap the expected rate of benefits pertaining to all these aspects. The underlined reasons which are found while conducting secondary analysis and primary survey are rise in cost of operation, global slowdown, fall in market demand, lack of skilled manpower and the primarily is imposition of MAT and DDT. Therefore, it is considered that SEZs model in India could never take off in the country.

Pertaining to the different stated aspects of survey, several positive and negative facts are observed and analysed. The survey reveals that SEZs' developers/ units are satisfied with regard to approvals, processes, creation and

acquisition of SEZs processes of the government. They also feel that concerned authorities are well coordinated to handle operational activities and their notification process is also satisfactory. However, with respect to getting permission from the custom authorities or DC (for procuring / exporting / temporary /removal/sub-contracting of materials/ services etc.) and to get sanctions of claims, their experience is not satisfactory.

The survey also observed that monitoring and control mechanism with regard to format of the APRs and submission time for APRs is satisfactory, while redressal mechanism for grievances is not efficient. The respondents opine that there should be a fixed time period to be prescribed for getting approvals by BOA, submission of documents and setting up of single window clearance mechanism in each State is to be ensured. However, the respondents showed their disagreement to the withdrawal of exemption from MAT/DDT and considered it as a big blow to the promotion of SEZs in the country.

The survey also observed the shortfall between the projections and actuals of exports/employment/investment in the SEZs and found global slowdown, recession in the shipping industry, too many restrictions & frequent changes in policies as the major reasons for this shortfall.

The respondents also revealed that different land requirements criterion for setting up a SEZ in different sectors also create sectoral concentration of SEZs in the country. This is evident with the fact that 60% of the SEZs in India are comprised of IT based products and services sector and it is considered that SEZs in

India has become an attractive area for information technology firms to avail tax incentives by shifting to the zones from domestic tariff areas. This high concentration in IT / ITES sector signals the malfunctioning of SEZs model in India.

The major change which is observed is change in SEZs' developers/units pessimistic attitude towards SEZs concept in India. The respondents feel that being operational in DTA is becoming more beneficial as compared with operating within SEZs. This is on account of enhancing several export incentives for the exporters operating within DTA which finally acted as a disincentive for the exporters operating within SEZ.

Though, SEZs have resulted in positive outcomes in the country in terms of employment, exports and investments, yet, the concept of SEZs in India is critically argued because of several other burgeoning issues. The foremost issue which overshadows the positive results of SEZs in India is acquisition of farmland for establishing SEZs in the country. The other issue is related to the concentration of SEZs in the districts that are relatively more

industrialized or situated in sea connected States, creates regional imbalances and income inequality and thus undermine the objective of promotion of balanced regional development in the country.

With regard to overall functioning of the SEZs, getting permission from the custom authorities for procuring/exporting materials/services and getting sanction of claims viz. rebate, CST etc. are considered to be the major difficulties. Also, non existence of single window clearance system widely and lack of clarity in certain procedures viz. exit from the SEZs results in operational inefficiency for SEZs.

In the light of these existing issues , this is believed that lack of robust policy design and its efficient implementation seriously jeopardized one of India's efforts to industrialize through SEZs. The response of the developers / units within SEZs mainly points towards a need for revamping single window clearance system, efficient tax administration and review of the decision to introduce DDT and MAT.

Recommendations

On the basis of observations and analysis, following suggestions are recommended for the fruitful outcomes of SEZs in India going forward.

1. Relating to administrative procedures, SEZs exporters are facing the difficulties in getting sanctions from custom authorities / DC for the procurement of material and services, getting concurrence of State Government and getting sanctions of claims, which results in unnecessary hassles and delays. This suggests that administrative procedures should be more streamlined wherein overall clearance mechanism should be speedy, robust and effective. The time frame should also be prescribed for granting approvals, notifications, submission of documents etc. so that operational efficiency can be enhanced further.

2. Since, the survey observed, single window clearance mechanism does not exist in most of the States in the country, therefore, SEZs developers/units are required to take clearances from the different authorities. This, finally results in unnecessary delays and operational inefficiencies. Therefore, single window clearance mechanism should be devised in all States so as to reduce the unnecessary botheration and time involved in taking approvals from different authorities. In addition, average time to be taken by the respective authorities to give clearances / sanctions for electricity, water supply, land related matters etc should be prescribed.

3. Relative advantages enjoyed by SEZs in terms of fiscal and other incentives vis-à-vis domestic tariff areas appear to have declined because of schemes such as Duty Drawback Scheme, Focus Product Scheme, Focus Market Scheme, etc. This has adversely impacted the confidence of SEZs' developers/units in the concept of SEZs.

Therefore, it is to be ensured that SEZs should be substantially benefited in terms of financial returns.

For this, export benefits accruing to DTA units should also be extended to SEZ units, re-imposition of MAT/DDT should be reconsidered. This would enable to retain the motivation amongst SEZs' developers/units for a long term.

4. Frequent changes in SEZs policy is one of the major reasons of slackening the confidence of investors to continue and make fresh investments in SEZs. Therefore to build a strong confidence amongst the potential/existing investors, it is imperative to frame a stable, favorable and highly transparent SEZs policy with long term perspectives.

5. Since lack of infrastructure facilities and too many restrictions are reported as the major deterrents for deriving the expected rate of employment, investments and exports growth from SEZs, it is suggested that conducive business environment should be created for SEZs by simplifying procedures, developing State of the art infrastructure and stabilizing fiscal regime.

6. Since, most of the SEZs are situated in the States which are industrialized and connected with sea ports. The other States did not get much attention pertaining to setting up a SEZ and thus resulted in regional imbalances in the economy in terms of employment, income and investments. Thus, to achieve a balanced development across the economy, the central government should assess the scope and potential for setting up SEZs in different States also and should support the States to create trade related infrastructure viz.

transport, communication etc. so as to develop a strong connectivity with the sea ports.

Since State Governments enact respective SEZ laws and provide administrative support for the SEZs, favorable SEZ policy should also be directed towards attracting the other major sectors of India viz. Biotech, Pharmaceuticals, FMCG etc. among others.

7. Relating to exit rules, a unit can exit by transferring its assets and liabilities to another, subject to the fulfillment of stipulated conditions. Despite fulfilling these conditions, some SEZ units find difficulties while exiting mainly on account of obtaining a No Objection Certificate (NOC) from the developer of the zone. The other procedures are also considered to be complex and time consuming. Therefore, speedy, clear and transparent exit mechanism should be devised so as to tackle the exit cases effectively.

8. MSMEs which make significant contribution to India's exports may get affected adversely

on account of changes in DTC which is supposed to provide investment-linked tax benefit instead of profit-linked tax benefit. Therefore, it is vital to reconsider this change so as to keep the MSME exporters motivated and encouraged, going forward.

9. The rules pertaining to Non Processing Area(NPA) should be relaxed in a way to permit the development of more social/other infrastructure for dual SEZs/DTAs use which are required for the success of economic activities in both SEZs and DTAs.

10. Since, Government interventions were noted to have stalled the projects even after the authorities have accorded the SEZ approval, therefore action should be taken to facilitate the formation of an SEZ so as to prevent stalling of the SEZs development.

11. SEZs developed through private investments needs to be extended more freedom as long as the operations are carried out within the framework of law and supervisory authorities.

Team, PHD Research Bureau, PHD Chamber



Dr. S P Sharma, Chief Economist & Director of Research, PHD Chamber of Commerce and Industry, has around 18 years of varied experience in the fields of the economy and businesses. He has held various positions in Government and Industry Chambers. He has worked with Economic & Statistical Organisation, Government of Punjab, Cabinet Secretariat of Government of India. Dr. Sharma has conducted various economic, financial and business studies for Ministry of Commerce and Industry, Government of India, various state governments, UNCTAD, European Commission and Industry Chambers. He has an MPhil in Industrial economics and PhD in International Business from the Panjab University, Chandigarh.



Ms Rashmi Taneja, Senior Research Officer, PHD Chamber of Commerce and Industry is a Post Graduate and Master of Philosophy in the area of commerce. She is presently pursuing PhD from Indian Institute of Foreign Trade, New Delhi. She has around 10 years of experience in the field of research and academics with specific focus on foreign trade and investments. Prior to joining PHD Chamber, she was associated with JIMS (Jagan Institute of Management Studies), Delhi as an Associate Professor and taught several international trade related courses. Currently she is looking after Trade and Investments department of PHD Research Bureau and engaged in conducting research studies and projects.



Ms Pallavi Mehta, Research Associate, PHD Chamber of Commerce and Industry, is a post-graduate in MSc International Finance from University of Westminster (U.K.) and a graduate in B.COM (Honours) from University of Delhi. Before joining PHD Chamber, she was an entrepreneur working for over a year in the Hospitality Industry. With an academic background in the field of finance & data-analysis, she has worked across a spectrum including international finance, capital markets and data-analysis. She has contributed/assisted in/towards analytical reports and research papers in the field of International trade and investments.

Disclaimer

Dr. S.P.Sharma

Chief Economist and Director Research

Ms. Rashmi Taneja

Senior Research Officer

Ms. Pallavi Mehta

Research Associate

“Special Economic Zones (SEZs) in India: Criss-Cross Concerns” is prepared by PHD Chamber of Commerce and Industry to analyze the efficacy of the creation and functioning of SEZs in India. This report may not be reproduced, wholly or partly in any material form, or modified, without prior approval from the Chamber.

It may be noted that this report is for guidance and information purposes only. Though due care has been taken to ensure accuracy of information to the best of the PHD Chamber’s knowledge and belief, it is strongly recommended that readers should seek specific professional advice before taking any decisions.

Please note that the PHD Chamber of Commerce and Industry does not take any responsibility for outcome of decisions taken as a result of relying on the content of this newsletter. PHD Chamber of Commerce and Industry shall in no way, be liable for any direct or indirect damages that may arise due to any act or omission on the part of the Reader or User due to any reliance placed or guidance taken from any portion of this publication.

Copyright 2015

PHD Chamber of Commerce and Industry

ISBN No. 978 93 84145 13 2

All Rights Reserved

No part of this publication including the cover, shall be reproduced, stored in a retrieval system, or transmitted by any means, electronic, mechanical, photocopying, recording or otherwise, without the permission of and acknowledgement of the publisher (PHD Chamber of Commerce and Industry)

PHD Research Bureau

PHD Research Bureau; the research arm of the PHD Chamber of Commerce and Industry was constituted in 2010 with the objective to review the economic situation and policy developments at sub-national, national and international levels and comment on them in order to update the members from time to time, to present suitable memoranda to the government as and when required, to prepare State Profiles and to conduct thematic research studies on various socio-economic and business developments.

The Research Bureau has been instrumental in forecasting various lead economic indicators national and sub-national. Many of its research reports have been widely covered by media and leading newspapers.

Dr. S P Sharma

Chief Economist & Director of Research

Economic Affairs

Ms. Megha Kaul
Sr. Research Officer

Ms. Ekta Goel
Research Associate

Financial Markets

Ms. Surbhi Sharma
Research Officer

Foreign Trade and Investments

Ms. Rashmi Taneja
Sr. Research Officer

Pallavi Mehta
Research Associate

Studies undertaken by PHD Research Bureau

A: Thematic research reports

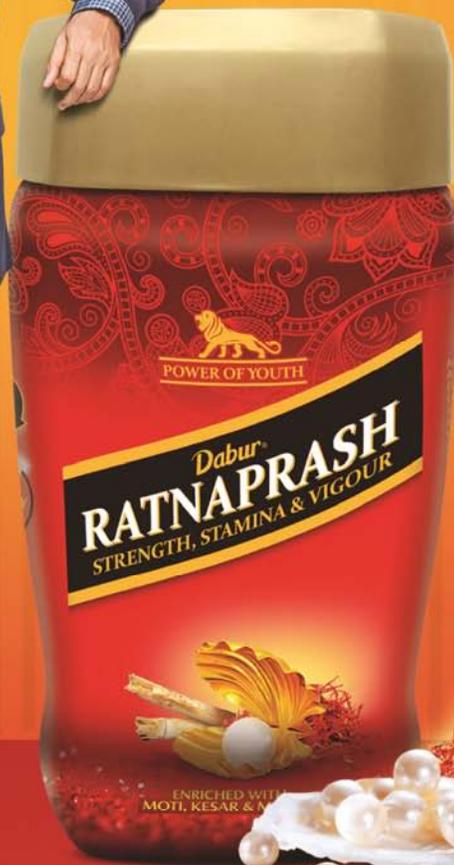
1. Comparative study on power situation in Northern and Central states of India (September 2011)
2. Economic Analysis of States: A Study of Northern & Central States of India (October 2011)
3. Growth Prospects of the Indian Economy, Vision 2021 (December 2011)
4. Budget 2012-13: Move Towards Consolidation (March 2012)
5. Emerging Trends in Exchange Rate Volatility (Apr 2012)
6. The Indian Direct Selling Industry Annual Survey 2010-11: Expanding Horizons (May 2012)
7. Global Economic Challenges: Implications for India (May 2012)
8. India Agronomics: An Agriculture Economy Update (August 2012)
9. Reforms to Push Growth on High Road (September 2012)
10. The Indian Direct Selling Industry Annual Survey 2011-12: Beating Slowdown (March 2013)
11. Budget 2013-14: Moving on reforms (March 2013)
12. India- Africa Promise Diverse Opportunities (November 2013)
13. India- Africa Promise Diverse Opportunities: Suggestions Report (November 2013)
14. Annual survey of Indian Direct Selling Industry- 2012-13 (December 2013)
15. Imperatives for Double Digit Growth (December 2013)
16. Women Safety in Delhi: Issues and Challenges to Employment (March 2014)
17. Emerging Contours in the MSME sector of Uttarakhand (April 2014)
18. Roadmap for New Government (May 2014)
19. Economy on the Eve of Union Budget 2014-15 (July 2014)
20. Budget 2014-15: Promise of Progress (July 2014)
21. Agronomics 2014: Impact on economic growth and inflation (August 2014)
22. 100 Days of new Government (September 2014)
23. Make in India: Bolstering Manufacturing Sector (October 2014)
24. The Indian Direct Selling Industry Annual Survey 2013-14 (November 2014)

B: State profiles

1. Rajasthan: The State Profile (April 2011)
2. Uttarakhand: The State Profile (June 2011)
3. Punjab : The State Profile (November 2011)
4. J&K: The State Profile (December 2011)
5. Uttar Pradesh: The State Profile (December 2011)
6. Bihar: The State Profile (June 2012)
7. Himachal Pradesh: The State Profile (June 2012)
8. Madhya Pradesh: The State Profile (August 2012)
9. Resurgent Bihar (April 2013)
10. Life ahead for Uttarakhand (August 2013)
11. Punjab : The State Profile (February 2014)



FOR ME, AGE IS
JUST A NUMBER.



Dabur Ratnaprash is enriched with Moti, Kesar, Musali and 47 other Ayurvedic ingredients to give you strength, stamina, energy & vigour. Regular consumption of two teaspoonfuls of Dabur Ratnaprash a day, will help you feel young.

Dabur®
RATNAPRASH
STRENGTH, STAMINA & VIGOUR



KESAR

Keeps you energetic and active



MOTI

Helps reduce stress



MUSALI

Provides strength and stamina

To know more, log on to www.daburchyawanprash.com or call +91-120-4181100. You can also mail us at Dabur Chyawanprash, Dabur India Limited, P.O. Box No. 3, Sahibabad, Ghaziabad-201010, Uttar Pradesh.

McCann/DCP/01/15

Ayurvedic medicine. Dosage & Directions as per label. Ek chamach is equivalent to approx. 12g



About the PHD Chamber

PHD Chamber is a 110 years old vibrant and proactive representative organization of business and mercantile community of northern and central India, serving their interest. This apex regional organization plays an active role in India's development and acts as a much needed link between government and industry, serving as a catalyst for rapid economic development and prosperity of the community in the region through promotion of trade, industry and services.

With its base in the National Capital, Delhi, the Chamber has Regional offices in States of Bihar, Chhattisgarh, Haryana, Himachal Pradesh, Jammu & Kashmir, Jharkhand, Madhya Pradesh, Punjab, Rajasthan, Uttar Pradesh, Uttarakhand and the Union Territory of Chandigarh.



PHD CHAMBER OF COMMERCE AND INDUSTRY

PHD House, 4/2 Siri Institutional Area, August Kranti Marg New Delhi 110016

Phone: 91-11-49545454 Fax: 91-11-26855450, 26863135

Email: research@phdcci.in Website: www.phdcci.in

Notes