
Developing Private SEZs in India – Key considerations

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Key points of today's discussions

- Where we are with SEZs
- Comparison of Indian and international SEZ development models
- Key considerations for private SEZs in India
- Way forward in the Indian context

Where we are with SEZs

- GoI SEZ Policy announced in 2000

- More than 17 green-field zones given “in-principle” approval
 - Feasibility studies under preparation
 - Project marketing and international investor search in process
 - Financial closure process underway for 1 SEZ

- SEZ Policy
 - Central SEZ Act (awaiting clearance)
 - State SEZ Act passed - Gujarat, Uttar Pradesh, Madhya Pradesh ...

- Existing EPZs converted to SEZs

- Product/sector specific SEZs also under consideration

What can be done to promote private SEZs in India ...?

Distinct features of Indian SEZ development model

- Internationally, free zones have been “publicly” funded
 - Indian model envisages private financing of SEZs
 - Fiscal constraints place limitations on public funding of SEZs
- Economic and indirect benefits have been the main motivations
 - Financial viability a key consideration in Indian context
- Zone marketing has been carried out mainly by governments
 - Indian model envisages private sector carrying out zone marketing
 - Unfamiliar experience for private sector
- Internationally, free zones were indeed “special” in their dispensation
 - Comparatively, Indian zones are less “special” due to an overall liberalized domestic regime
- FDI has been the main driver of zone investments
 - Domestic Investment may play an equally prominent role in Indian context
 - Relatively, Indian private sector is more developed

Indian strategy will have to factor these distinctions

Feasibility and Financing of SEZs – key considerations

- SEZs are economically feasible but pose financial viability challenges - this is the case worldwide
 - We must consider the overall economic viability resulting from the zone, not just revenues and project cost
- It has to be accepted that the government must contribute in some form
 - Every rupee of zone infrastructure cost requires corresponding investment in “external” infrastructure
 - Investment promotion & marketing has traditionally been government functions. Private sector is not fully familiar with this risk (unlike private IT Parks)
 - Revenues from sale / lease of land and from utilities may not pay for the whole zone infrastructure
 - Private investors do not have control of the investment climate that influences locating decisions

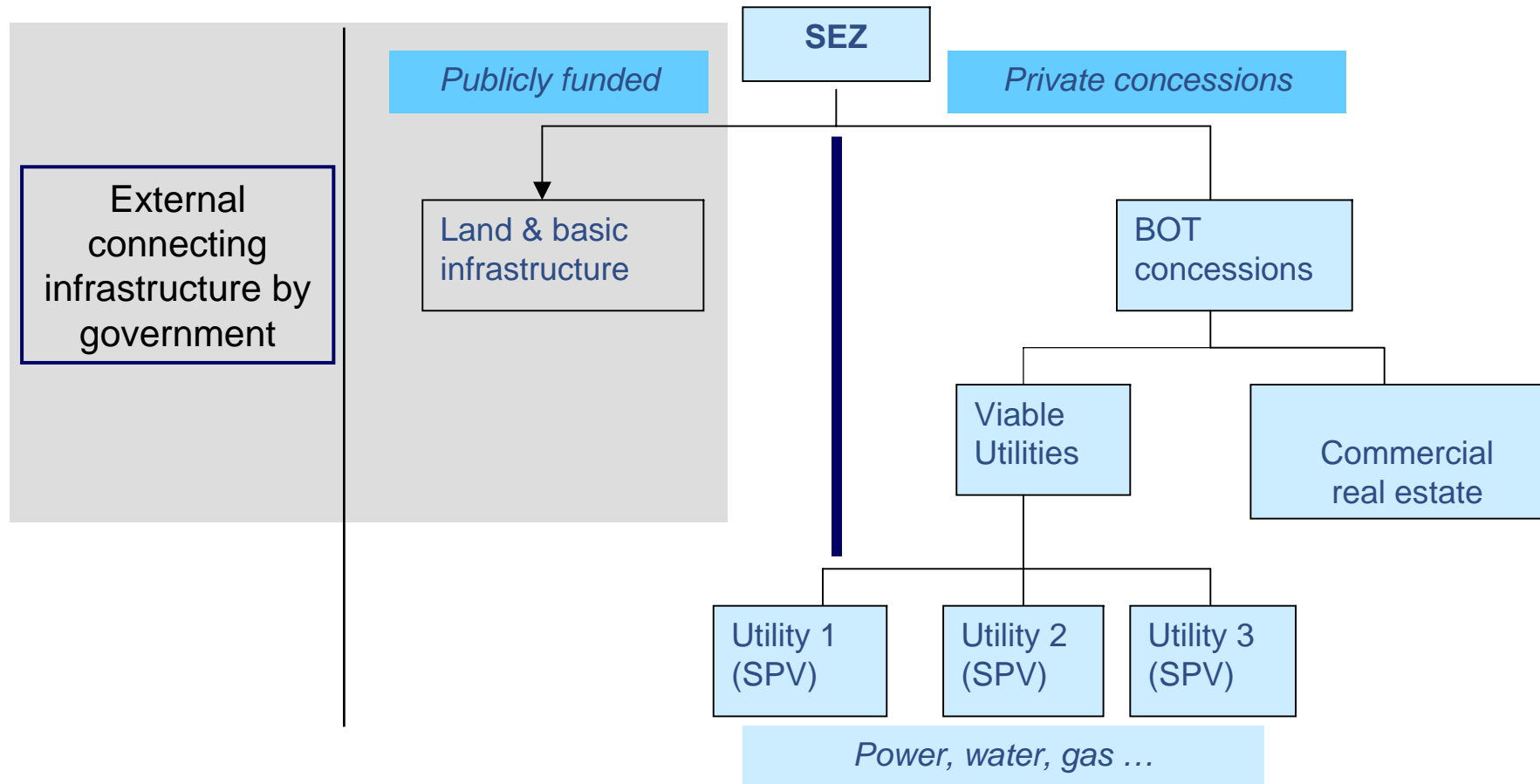
Government role should be based on these considerations

Broad options for developing private SEZs

- 1 : Government develops the entire zone infrastructure
 - Through local/government bonds e.g.. China
 - Multilateral funding
 - Multiple turnkey contracts OR design & build contracts
 - O&M concession for parts/whole of the SEZ

- 2 : Government funds a portion of zone infrastructure
 - Multiple turnkey contracts for land and core infrastructure
 - Private BOT concessions for individual components e.g.. Power, water & drainage

Government funds a portion of zone infrastructure



This option and its variants can potentially improve bankability

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- 3 : BOT zone development with enhancers from government
 - Certain minimum revenue support OR
 - Providing an “anchor” tenant (through “G-to-G” partnerships ??)
 - Deferred payment / annuity payments
 - Payment is linked to the developer providing pre-defined services to agreed standards of Quality, Reliability and Safety
- 4 : Zone development on a Joint Venture
- 5 : Full Concession

Different models will suit different requirements

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Thank You !!