

Concept Note on

Special Economic Zones

by



September 2007

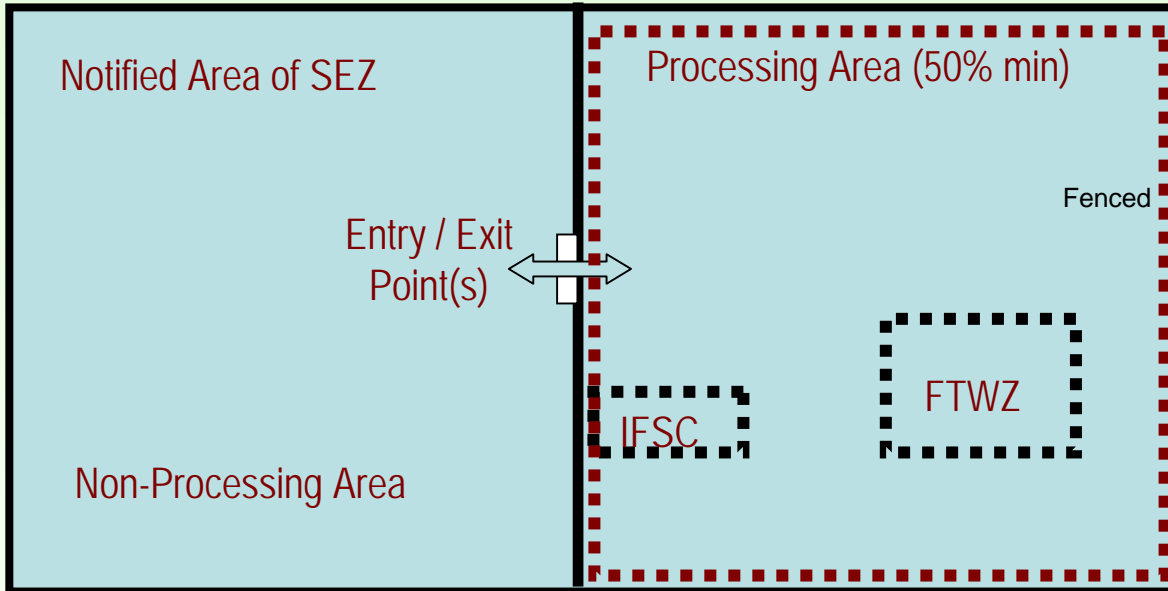
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Part A

SEZs – Physical Concept

Special Economic Zone – Physical Concept



The DC of the SEZ responsible for demarcating processing / non-processing areas

Land / built-up space in the processing area to be leased:

- To entrepreneurs holding valid letters of approval, with lease period co-terminus with LOA
- For facilities for exclusive use of the Units such as canteens, public telephone booths, first aid centres, creches, etc.
- To a person desiring to create infrastructure facilities for use by prospective Units

Developer may allot the land in the non-processing area for business and social purposes such as:

- Educational institutions
- Hospitals, Hotels
- Recreation and entertainment facilities
- Residential and business complexes
- DTA units not allowed to set up

Facilities such as Free Trade & Warehousing Zones, International Financial Services Centre may be approved for establishment within the Processing Area

Processing and Non Processing area

❑ Processing and non-processing areas:

The areas falling within the Special Economic Zones may be 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 purposes; or

(c) the non-processing areas for activities other than those specified under clause (a) or clause (b). [no vacant land in the non-processing area shall be leased for business and social purposes such as educational institutions, hospitals, hotels, recreation and entertainment facilities, residential and business complexes, to any person except a co-developer approved by the board: Provided that the developer / co-developer may lease the completed infrastructure along with vacant land appurtenant thereto for such purposes.] (16th March 2007)

[Refer Section 6 of SEZ Act, 2005 and Rule 11, sub Rule (10) of SEZ Rules, 2006]

Part B

Formats for SEZs in India

Types of SEZ

- ❑ Sector Specific SEZ-units may be set up for
 - manufacture of one or more goods in a sector
 - rendering of one or more services in a sector

- ❑ Multi-product SEZ-units may be set up for
 - manufacture of two or more goods in a sector or goods falling in two or more sectors
 - trading and warehousing
 - rendering of two or more services in a sector or services falling in two or more sectors

- ❑ Other SEZs
 - SEZ in a port or airport
 - SEZ for Free Trade and Warehousing

Minimum Land Requirement

Sr. No	Nature of SEZ	Minimum Contiguous Area Required (Max 5000 ha)		Minimum Processing Area Required
1.	Multi Product	1000 ha	100 ha *	50%
2.	Sector Specific	100 ha	50 ha *	50%
3.	SEZ in Port or Airport	100 ha	100 ha *	50%
4.	SEZ for Free Trade Zone and Warehousing	40 ha	40 ha *	50% , 1 lakh sq. m of built up area, (not exceed 20% of the Processing area in Sector Specific SEZ)
5.	Gems and Jewellery, Bio-technology, Non-conventional Energy	10 ha	10 ha *	50% (40000 Sq mtr for BT & 50000 Sq mtr for G&J)
6.	Electronic Hardware and Software, Information Technology	10 ha	10 ha *	50% (1 lakh sq. m of built up area - required to be centrally air-conditioned)

* In selected states like Goa, Meghalaya, Tripura, Assam, Sikkim, UTs, etc

Minimum Investment Requirements

❑ Sector Specific SEZs

- Investment should be more than Rs. 250 crores or
- Net worth* of Rs. 50 crores

❑ Multi product SEZs

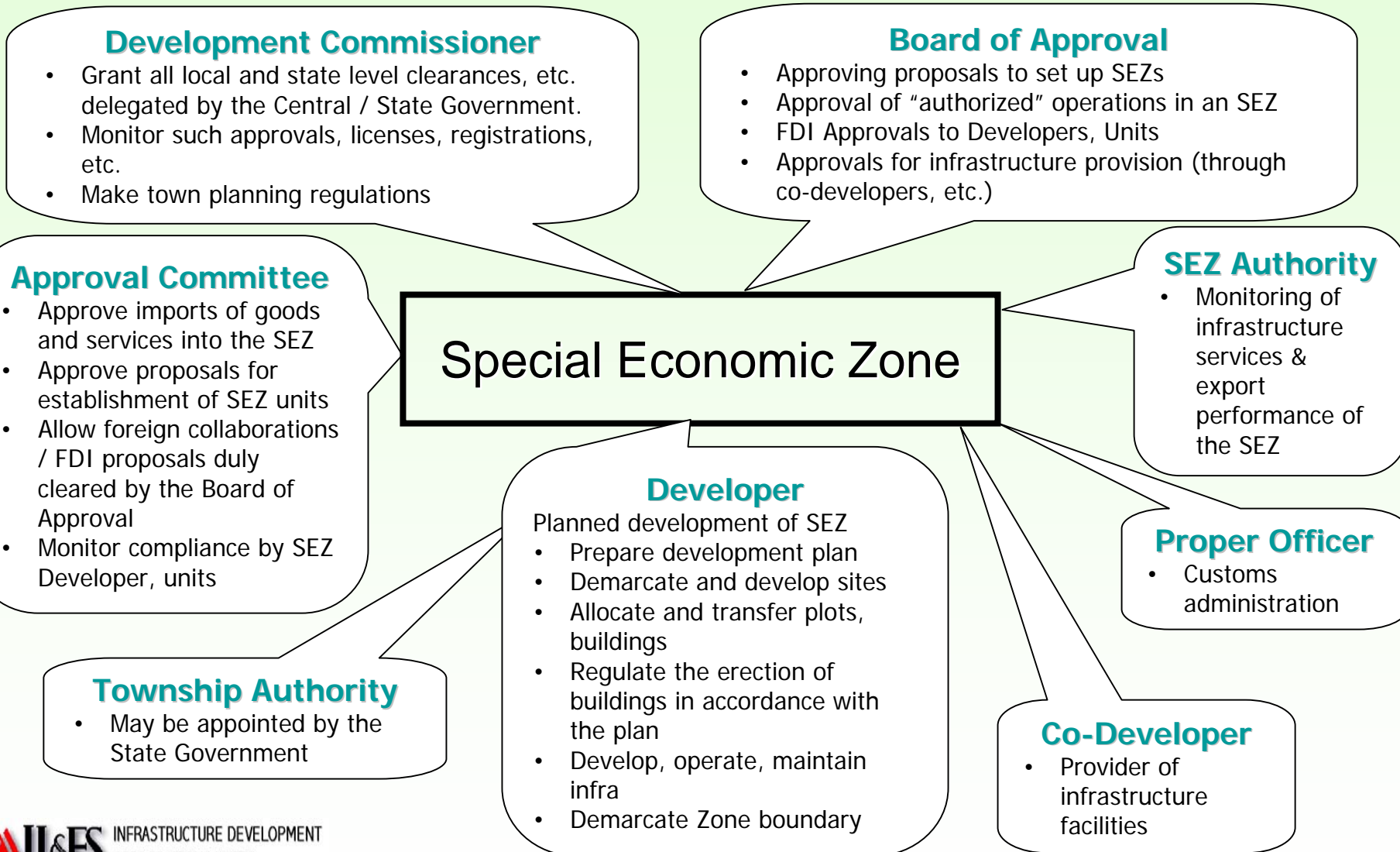
- Investment should be more than Rs. 1000 crores or
- Net worth* of Rs. 250 crores

* Net worth of promoter company along with group companies and the flagship companies to be considered for the purpose of calculation of net worth

Part C

SEZs – Institutional Framework

SEZ Institutional Framework - Overview



Part D

Developer Operations in SEZ

Definitions ...1

❑ Developer

“Developer” means a person who, or a State Government which, has been granted by the Central Government a letter of approval under sub-section (10) of section 3 and includes an Authority and a Co-Developer;

❑ Co-developer

“Co-Developer” means a person who, or a State Government which, has been granted by the Central Government a letter of approval under sub-section (12) of section 3;

❑ Entrepreneur

“Entrepreneur” means a person who has been granted a letter of approval by the Development Commissioner under Sub-section (9) of Section 15

❑ Manufacture

- “manufacture” means to make, produce, fabricate, assemble, process or bring into existence, by hand or by machine, a new product having a distinctive name, character or use; and
- shall include processes such as refrigeration, cutting, polishing, blending, repair, remaking, re-engineering and includes agriculture, aquaculture, animal husbandry, floriculture, horticulture, pisciculture, poultry, sericulture, viticulture and mining;

Definitions ...2

□ Service:

- Service means a tradable service which
 - Are covered under the General Agreement on Tariffs and Services annexed as IB to the Agreement establishing the World Trade Organisation concluded in at Marrakesh on 15th April, 1994;
 - May be prescribed by the Central Government for the purposes of this Act; and
 - Earn Foreign Exchange

□ Export Means

- Taking goods, or providing services, out of India from a Special Economic Zone, by land sea or air or by any other mode, whether physical or otherwise; or
- Supplying goods, or providing services, from Domestic Tariff Area to a unit or a developer; or
- Supplying goods, or providing services, from one unit to another or developer, in the same or different Special Economic Zone

SEZ Players

- ❑ Developer, Co-Developer

- ❑ Units in SEZ

- Entrepreneur
- “Entrepreneur” means a person who has been granted a letter of approval by the Development Commissioner under Sub-section (9) of Section 15

- ❑ Contractors

- ❑ Service Providers and Vendors

Who Can Apply

[Incorporating provisions of SEZ Act, 2005 and SEZ Rules, 2006]

❑ Who can make the Application for setting up of SEZ?

A Special Economic Zone may be established under this Act, either jointly or severally by ;

- the Central Government,
- State Government, or
- any person

for manufacture of goods or rendering services or for both or as a Free Trade and Warehousing Zone.

[Refer section 3, sub-section (1) of SEZ Act, 2005]

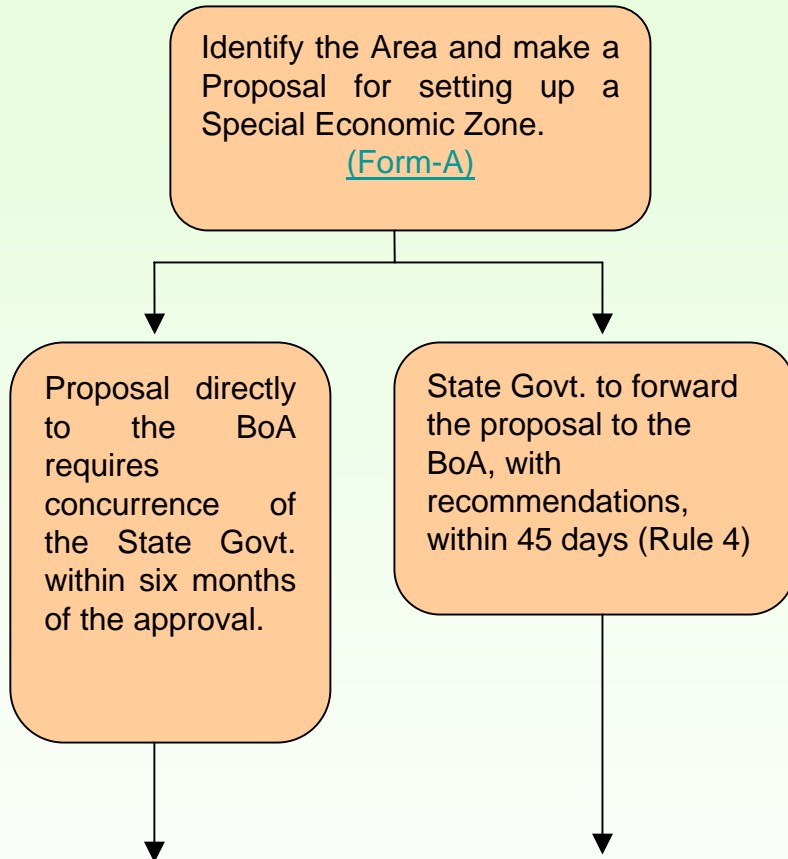
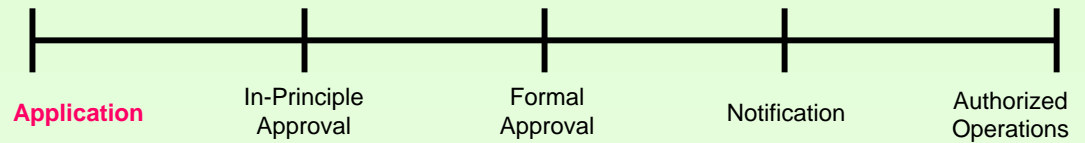
Person

- local authority and any agency or
- Association of Persons(AOP) or body of individuals (BOI)
(whether incorporated or not) or
- A Company
 - Incorporated in India or outside India or
- Co-operative society or
- Firm or
- Proprietary concern or
- Hindu undivided family
 - (whether incorporated or not) or
- an Individual or
 - resident in India or abroad or
- an Office or branch owned or controlled by above

Part E

SEZ Approval Procedure

Application



State Govt. shall endeavor the following prior to recommendation

- ⌘ Exemption from electricity duty or taxes
- ⌘ Allow generation, transmission and distribution of power within a SEZ
- ⌘ Exemption from State and local taxes, levies and duties
- ⌘ Providing water, electricity and such other services
- ⌘ Delegation of power to the Development Commissioner inclusive of power with respect to workmen employed by the developer.
- ⌘ Declaration of the SEZ as a Public Utility Service
- ⌘ Providing single point clearance system to the Developer and Unit under the State Acts and Rules.

State Govt. to ensure that requirements under Rule 5 have been complied with and copies of relevant notifications issued by it are attached with the proposal.

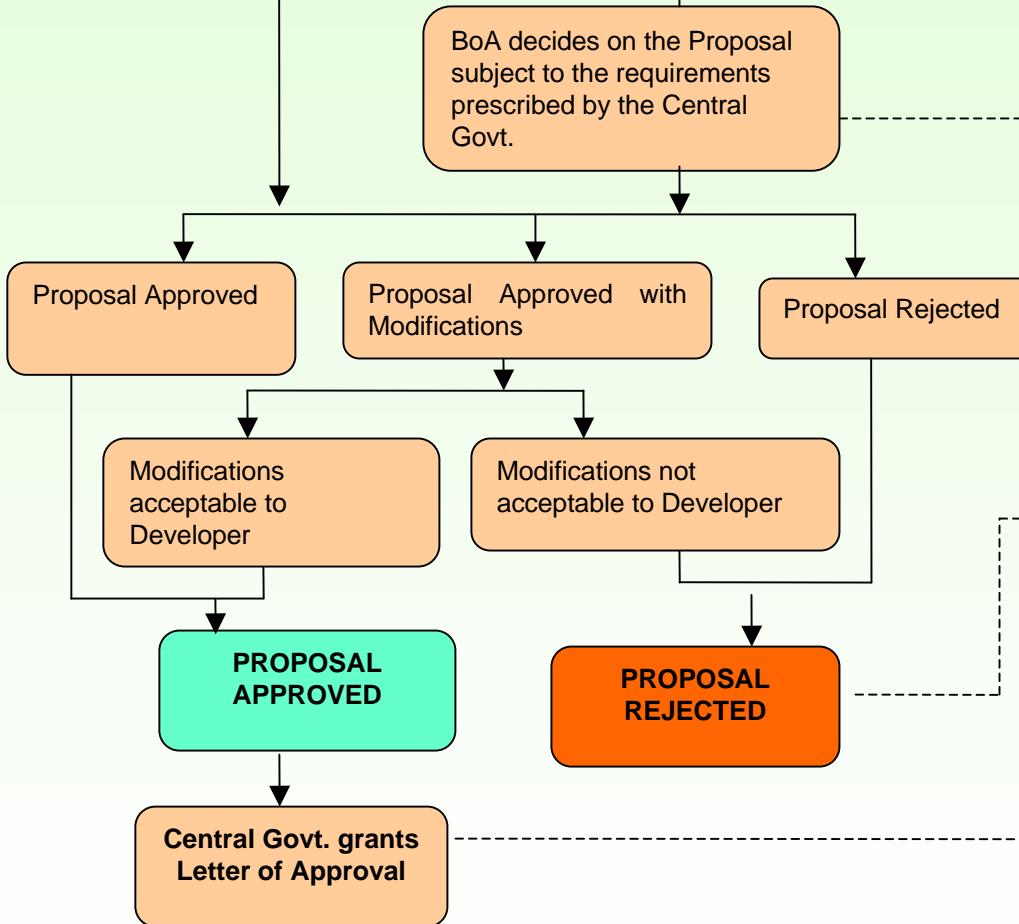
State Govts. required to indicate whether proposed area falls under reserved or ecologically fragile area as specified by concerned authority

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SEZ Approval



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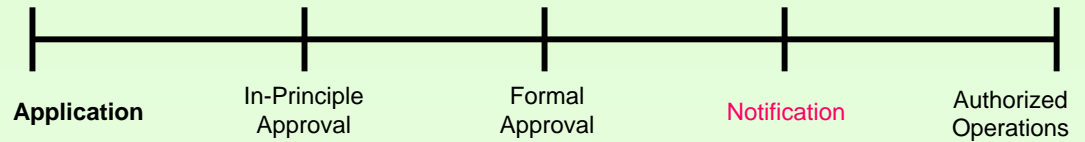
Rule 5 (2) - Requirements for Minimum (contiguous) Area and other terms and conditions for an SEZ

- ✦ Multi product - 1000 hectares or more (<5000 HA) & minimum 50% for processing area.
- ✦ Multi Product Exclusive Services – 100 hectares or more
- ✦ Specific sector or in a port or airport - 100 hectares or more and minimum 50% for processing area.
- ✦ Electronics and hardware and software including ITES and non-conventional energy-10 hectares or more
- ✦ Free Trade and Warehousing - 40 hectares or more & a built area of not less than one lakh sq. mtrs.

The BoA shall record reasons for the rejection and intimate the Central Govt., who informs the concerned person.

The Central Govt. shall grant the LoA within thirty days of receipt of communication to the concerned person or the concerned State Govt.
 LoA valid for **o n e** years but can be extended for a further period of two years in Form – B
 The Developer shall obtain approval from Concerned Departments of the Central and State Govts. or Government Agencies, as may be required.

Notification



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Letter of Approval received by Developer in [Form - B](#)

Application to the Central Govt. for Declaration of identified area as SEZ

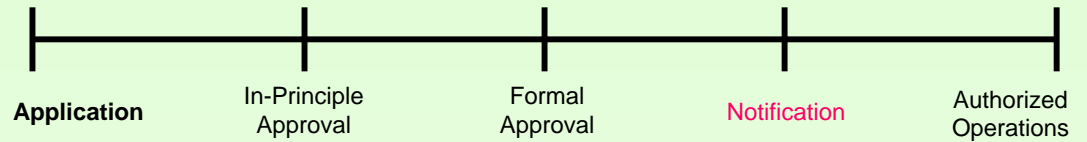
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The Developer is required to furnish following details:

- # Proof of legal possession and irrevocable right with regard to the identified area.
- # Developer to submit Certificate from the State Govt. or its authorized agency stating that
 - Developer has legal possession & irrevocable rights to develop said SEZ
 - The said area is free from all encumbrances
- # In case the identified area is a leasehold property, the lease shall be for period not less than twenty years.
- # Identified area shall be contiguous and vacant and it should have no public thoroughfare.

**** BOA can relax the condition of contiguity on case to case basis, on merits, for reasons to be recorded in writing**

Notification



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Notification for
Declaration of an area
as SEZ

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The Central Govt. shall notify the identified area as a SEZ subject to the following:

- Submission of details mentioned above and other details, if any.
- Acceptance of conditions specified in the Letter of Approval
- Area proposed is not less than the minimum area requirement.

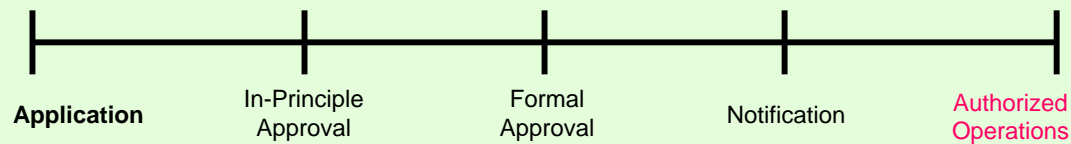
The Central Govt. shall be guided by the following as per sec. 5:

- Generation of additional economic activity
- Promotion of exports of goods and services
- Promotion of investment from domestic and foreign sources
- Creation of employment opportunities
- Development of infrastructure facilities
- Maintenance of sovereignty and integrity of India; the security of the State and friendly relations with foreign States.

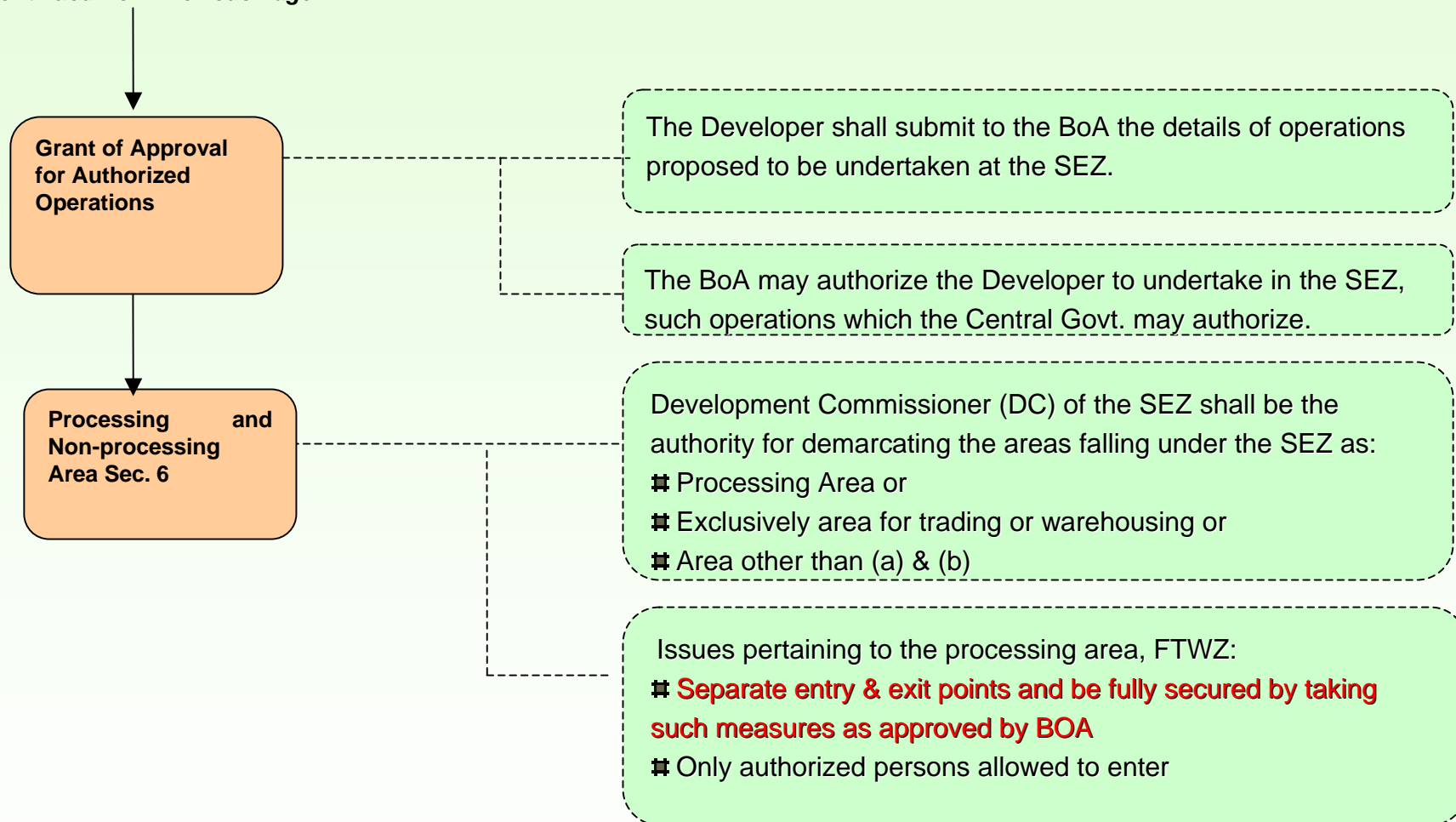
Exemptions, drawbacks and concessions shall be available for the authorized operations after the SEZ has been notified by the Central Govt.

The Central Govt., if it considers appropriate, notify subsequently any additional area to be included as a part of the existing SEZ. No minimum area requirement for additional area notification.

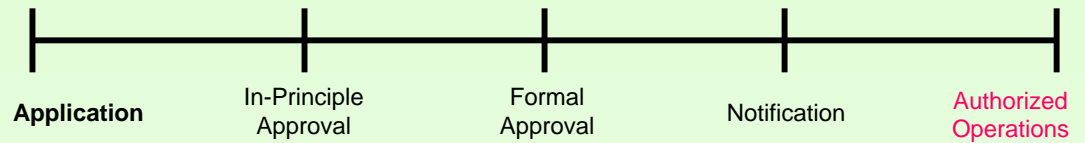
Operations



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Operations



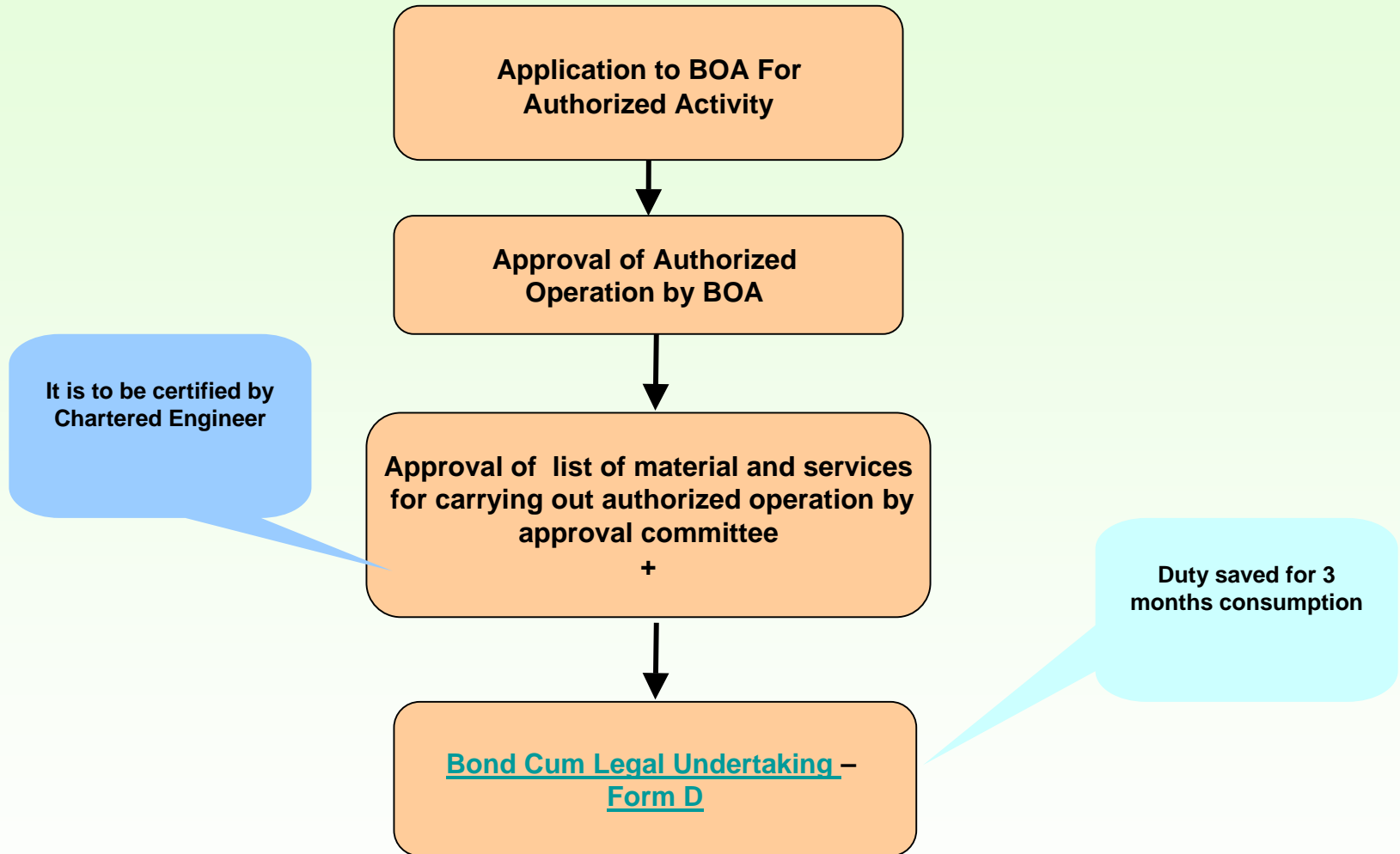
❑ Authorized Operation

means operation which may be authorized by central government and such operations shall be mentioned in Letter of Approval. *Sec 4 (2) And Sec 15 (9)*

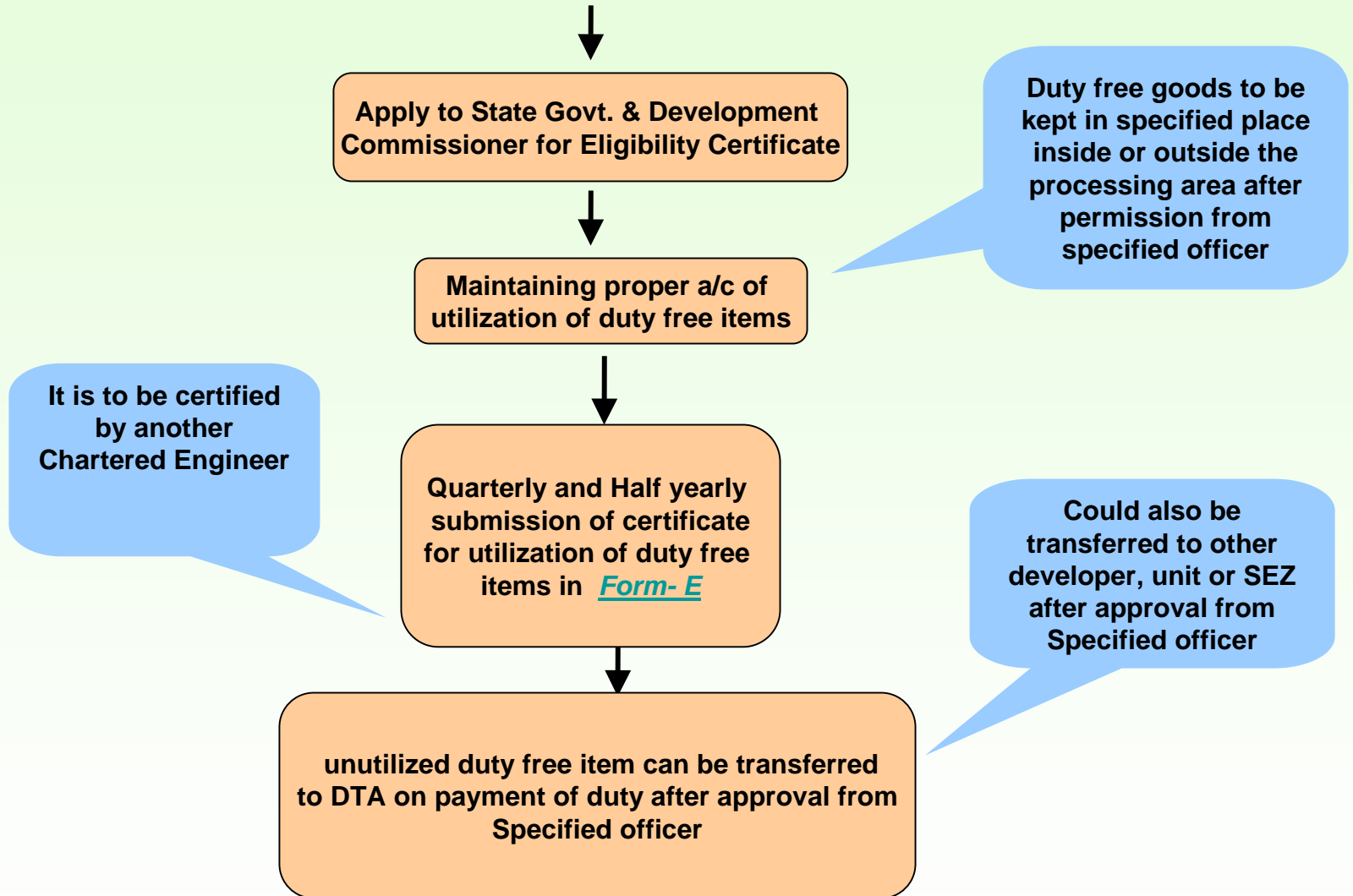
❑ Example : List of approved activities by BOA for certain SEZs

1. Land & Site Development
2. Utilities
3. Security Systems
4. Telecomm/Infocomm/Communication facilities
5. Facilities & Infrastructure
6. Waterside Infrastructure
7. Trading Hub
8. Common facilities & Services
9. Social Infrastructure

Procedure ...1



Procedure ...2



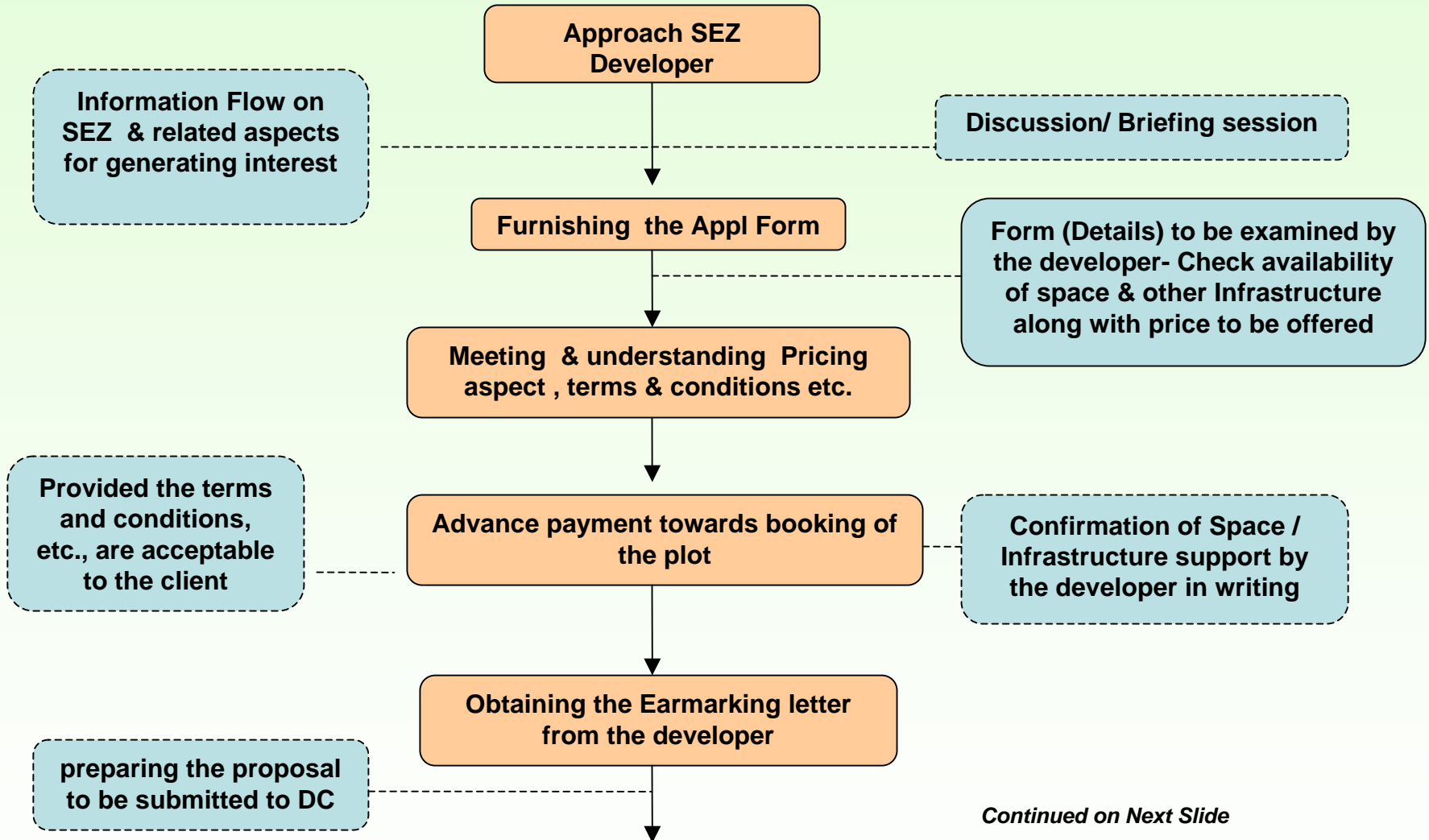
Part F

Setting up of Unit

Units eligible in SEZ

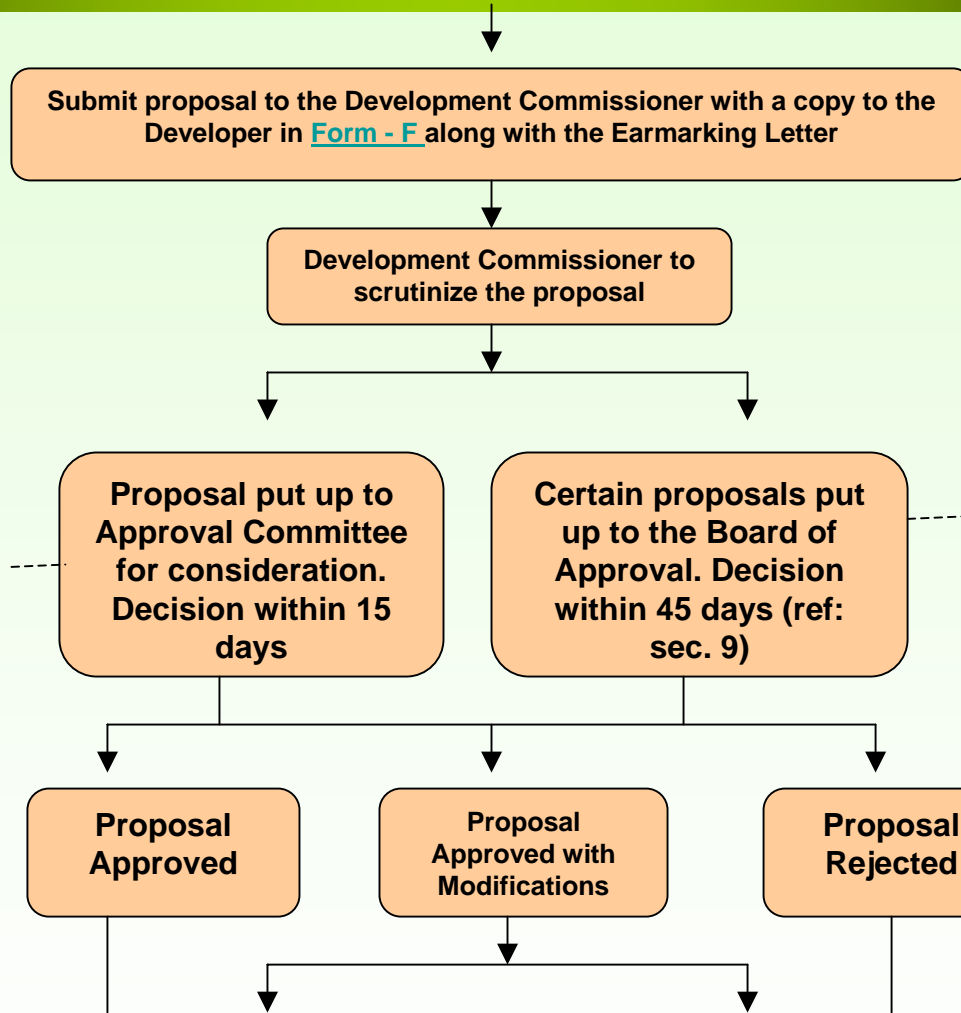
- The entities eligible to set up SEZ units may be classified into four categories
 - New units
 - For manufacture of goods
 - For provision of services
 - Carrying on the activities of trading and warehousing
 - Existing units
 - Any Unit which has been set up on or has been functioning in any existing SEZ before the commencement of this SEZ Act, 2005
 - Offshore Banking units
 - A branch of a bank located in a SEZ and which has obtained necessary permission from the RBI
 - Central Government may also permit the setting up and operation of one International Financial Services Centre in a SEZ

Unit Approval process ...1



Unit Approval process ...2

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Approval Committee requirements:

1. Positive net foreign exchange earning
2. Availability of space and other infrastructure support thru provisional offer by the Developer
3. Environmental and pollution control norms are fulfilled
4. Submission of proof of residence. Submission of Income tax returns or audited balance sheet for the last three years, as the case may be.

Proposals to Board:

- Approval for foreign collaboration and FDI
- proving infra. Facilities
- License to Industrial Undertaking

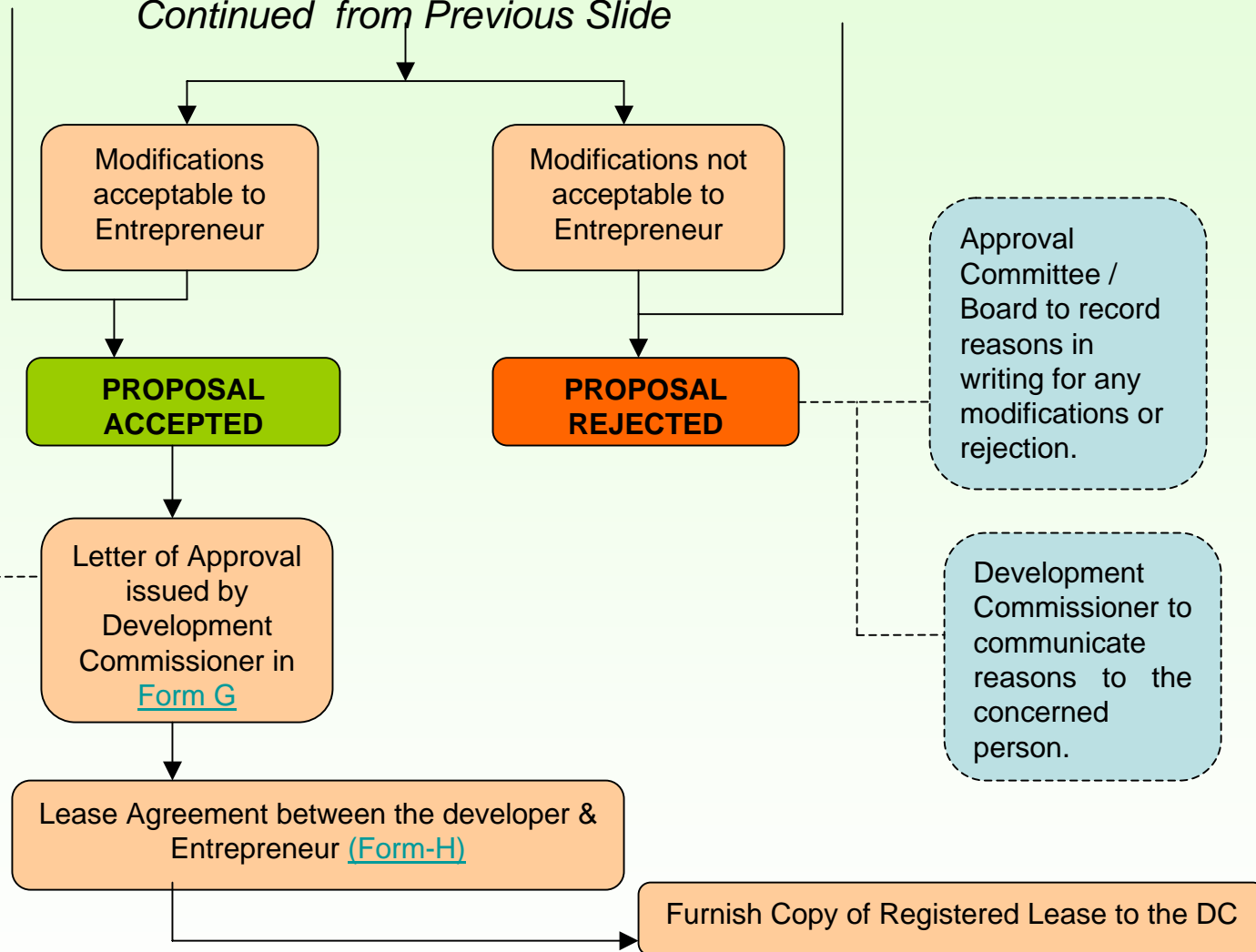
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Unit Approval process ...3

The Letter of Approval (LoA):

- 1 Specifies items of Manufacture, projected annual export, etc.
- 2 Entrepreneur should hold LoA to start unit in SEZ.
- 3 Processing area should be demarcated
- 4 Authorized activities should commence within one year from issue of LOA. Extension available for a period not exceeding two years for valid reasons.
- 5 Construed as a license and valid for five years from date of commencement of authorized operations. Extension available for further five years by the DC.

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Obligation of an Unit

- ❑ To achieve positive net foreign exchange earning (NFE)
- ❑ To provide periodic reports to the Development Commissioner & Zone Customs.
- ❑ To execute a bond cum Legal Undertaking with the Zone Customs for their operation in the SEZ.
- ❑ Any company set up with FDI has to be incorporated under the Indian Companies Act with the Registrar of Companies for undertaking Indian operations.
- ❑ To fulfill the environmental and pollution control norms.

Part G

Major SEZ Benefits

Tax Benefits

	Unit	Developer / Co-developer
Development Stage (Capital Goods, Consumables, Components & Spares)	<ul style="list-style-type: none"> <input type="checkbox"/> No Customs Duty <input type="checkbox"/> No Excise Duty <input type="checkbox"/> No Sales Tax <input type="checkbox"/> No Service Tax <input type="checkbox"/> No Purchase Tax <input type="checkbox"/> No Stamp duty & Registration Fees <input type="checkbox"/> No Stamp duty on Mortgages <input type="checkbox"/> No Electricity duty 	<ul style="list-style-type: none"> <input type="checkbox"/> No Customs Duty <input type="checkbox"/> No Excise Duty <input type="checkbox"/> No Sales Tax <input type="checkbox"/> No Service Tax <input type="checkbox"/> No Purchase Tax <input type="checkbox"/> No Stamp duty & Registration Fees <input type="checkbox"/> No Stamp duty on Mortgages <input type="checkbox"/> No Electricity duty
Operation Stage (Raw Materials, Consumables, Components & Spares)	As above	As above
Profit Stage	<ul style="list-style-type: none"> <input type="checkbox"/> Exemption from Income Tax 100% for the first 5 yrs 50% for the next 5 yrs 50% of profits ploughed back for the next 5 yrs <input type="checkbox"/> No MAT 	<ul style="list-style-type: none"> <input type="checkbox"/> No Income Tax for 10 years (80 IAB) <input type="checkbox"/> No MAT (115 JB) <input type="checkbox"/> No Dividend Distribution Tax (115 O)

Results of Benefits

- ❑ Reduced Cost of infrastructure
- ❑ Reduced Cost of Utilities
- ❑ Reduced Cost of Raw Material
- ❑ Reduced Cost of Capital
- ❑ Reduced Cost of Manpower
- ❑ Operational Ease Enabled
- ❑ Baskets of Benefits leading to global competitiveness

Part H

Other Regulatory Aspects

Exemptions of other Acts...1

- ❑ SEZ Act provides for a blanket exemption against all taxes, duties and cesses leviable by the following Acts:
 - The Agricultural Produce Cess Act, 1940
 - The Coffee Act, 1942
 - The Mica Mines Labour Welfare Fund Act, 1946
 - The Rubber Act, 1947
 - The Tea Act, 1953
 - The Salt Cess Act, 1953
 - The Jute Manufactures Cess Act, 1983
 - The Medicinal and Toilet Preparations (Excise Duties) Act, 1955
 - The Additional Duties of Excise (Goods of Special Importance) Act, 1957
 - The Sugar (Regulation of Production) Act, 1961

Exemptions of other Acts...2

- The Textiles Committee Act, 1963
- The Produce Cess Act, 1966
- The Marine Products Export Development Authority Act, 1972
- The Coal Mines (Conservation and Development Act, 1974
- The Oil Industry (Development) Act, 1974
- The Tobacco Cess Act, 1975
- The Sugar Cess Act, 1982
- The Additional Duties of Excise (Textile and Textile Articles) Act, 1978
- The Agricultural and Processed Food Products Export Cess Act, 1985
- The Spices Cess Act, 1986
- The Research and Development Cess Act, 1986

Part I

SEZs and IL&FS

SEZ Activities by IL&FS IDC

IL&FS IDC in SEZs

- IL&FS IDC is associated with more than 45 SEZs and FTWZ's in the country
- Total area of the SEZs is around 50000 Acres
- Investment in these SEZs is close to Rs. 242 Billion

Scope of Services by IIDC

- Assistance in Regulatory Approvals
- Assistance in carrying out Project Development Activities
- Assistance in identification of Co-developer/ Strategic Partner/ Contractor
- Assistance in Project Finance / Funds Syndication

Broad Structure

- Pure Advisory Role
- PDPP Arrangement with State Government/ Private Agencies
- Equity Stake in SPVs for SEZ Development

Role Play by IL&FS in SEZ Development

❑ Stage I : Project Preparatory Activity

- SEZ approvals
- SEZ notification
- State support assistance
- Other regulatory & statutory approvals
- Proposal for government grants (if any)

❑ Stage III: Project Implementation Structure

- Project bundling/ unbundling
- Project execution and O&M arrangements
- Financial structuring
- Development of detailed term sheet
- Legal assistance, marketing strategy

❑ Stage V: Project Execution

- Engineering & procurement
- Project management & supervision

❑ Stage II: Project Development Activity

- Carrying out feasibility study
- Site connectivity
- Business plan & financial modeling
- Risk management framework
- Strategy for co-developers/ partners

❑ Stage IV: Project Financing

- Arranging Financial closure

❑ Stage VI: IL&FS As a Co – Developer

- Equity participation, subject to due diligence

Involvement of IL&FS in SEZs / FTWZ's

Sr. No.	Project	Area (Acres)	Role of IL&FS
1	Mumbai Special Economic Zone (SEZ)	6000	Financial Advisor, Syndication Manager and Co-Developer.
2	Multiproduct SEZ in Gujarat	8000	Project Development Advisor for entire project development activities
3	IT SEZ, Bangalore	250	Project Development Advisor for entire project development activities
4	Multiproduct SEZ in Mangalore, Karnataka	3300	Co – Developer / Project Advisor including selection of developer
5	IT SEZ, Gurgaon, Haryana	75	Project Development Advisor for entire project development activities
6	Sector specific SEZ in Thane, Maharashtra	300	Project Development Advisor for entire project development activities

Involvement of IL&FS in SEZs / FTWZ's

Sr. No.	Project	Area (Acres)	Role of IL&FS
7	Butibori textile SEZ in Maharashtra	363	Project Development Advisor for entire project development activities (PDPP)
8	Amravati Multiproduct SEZ in Maharashtra	2525	Project Development Advisor for entire project development activities (PDPP)
9	Agroprocessing SEZ at Latur, Maharashtra	494	Project Development Advisor for entire project development activities (PDPP)
10	Pharma SEZ at Nanded, Maharashtra	370	Project Development Advisor for entire project development activities (PDPP)
11	Sector Specific SEZ, Bihar	250	Project Development Advisor for entire project development activities (PDPP)

Involvement of IL&FS in SEZs / FTWZ's

Sr. No.	Project	Area (Acres)	Role of IL&FS
12	Sector Specific SEZ, Bihar	250	Project Development Advisor for entire project development activities (PDPP)
13	Multiproduct SEZ, Bihar	2500	Project Development Advisor for entire project development activities (PDPP)
14	Textile SEZ, Andhra Pradesh	1000	Project Development Advisor for entire project development activities
15	Gems and Jewellery SEZ, Chhattisgarh	70	Project Development Advisor for entire project development activities
16	Auto Component SEZ, Jharkhand	90	Project Development Advisor for entire project development activities

Involvement of IL&FS in SEZs / FTWZ's

Sr. No.	Project	Area (Acres)	Role of IL&FS
17	Handicraft SEZ, NOIDA U. P	800	Develop a Product Specific SEZ for handicrafts, Carpets, Jute and other related products.
18	Kakinada Multiproduct SEZ, Andhra Pradesh	10000	Co – Partner / Project Development Advisor for entire project development activities
19	Visakhapatnam Multiproduct SEZ, Andhra Pradesh	3500	Project Development Advisor for entire project development activities / Completed (PDPP)
20	Gems & Jewellery SEZ, Verna, Goa	32	Project Development Advisor for entire project development activities
21	Bio-Tech SEZ, Sancoale, Goa	50	Project Development Advisor for entire project development activities
22	Biotech SEZ, Verna, Goa	120	Project Development Advisor for entire project development activities

Involvement of IL&FS in SEZs / FTWZ's

Sr. No.	Project	Area (Acres)	Role of IL&FS
23	IT SEZ, Jaipur	50	Project Development Advisor for entire project development activities
24	Sector Specific SEZ, West Bengal	250	Project Development Advisor for entire project development activities
25	Multiproduct SEZ near Pune, Maharashtra	5000	Project Development Advisor for entire project development activities
26	Engineering SEZ, West Bengal	500	Project Development Advisor for entire project development activities
27	IT SEZ, Naya Raipur	148	Project Development Advisor for entire project development activities
28	Gems & Jewellery SEZ, Delhi	82	Project Development Advisor for entire project development activities

Involvement of IL&FS in SEZs / FTWZ's

Sr. No.	Project	Area (Acres)	Role of IL&FS
29	Building Material SEZ, Andhra Pradesh	250	Project Development Advisor for entire project development activities
30	Agro and Food Processing SEZ, Nagaland	99	Project Development Advisor for entire project development activities
31	Multi Service SEZ, Rajarhat, Kolkatta	259	Project Development Advisor for entire project development activities
32	Gems & Jewellery SEZ, Dadra & Nagar Haveli	28.34	Project Development Advisor for entire project development activities
33	IT SEZ, Dadra & Nagar Haveli	34.90	Project Development Advisor for entire project development activities
34	Sector specific SEZ in Salem	1000	Project Development Advisor for entire project development activities
35	PCPIR Mangalore	62500	Project Development Advisor for entire project development activities for development of Petroleum Chemical and Petrochemical Investment Region

Involvement of IL&FS in SEZs / FTWZ's

Sr. No.	Project	Area (Acres)	Role of IL&FS
36	Sector Specific SEZ, Tamil Nadu	1000	Project Development Advisor for entire project development activities
37	FTWZ, NOIDA, U.P	100	Project Development Advisor for entire project development activities
38	FTWZ, Kandla, Gujarat	100	Project Development Advisor for entire project development activities
39	FTWZ, Chiplun, Maharashtra	240	Project Development Advisor for entire project development activities
40	FTWZ, Haldia, West Bengal	200	Project Development Advisor for entire project development activities

Contact Information

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