Chapter II: Performance of SEZs and socio-economic impact

2.1 Performance of SEZs

Though the objective of the SEZ and the fact sheet on (provided by DoC March 2014 -Appendix 3) its performance claimed large scale employment generation, investment, exports and economic growth, however, the trends of the national databases (Appendix 4) on economic growth of the country, trade, infrastructure, investment, employment etc do not indicate any impact of the functioning of the SEZs.

Outcome budget of Department of Commerce indicated that the capital outlay of SEZs for development of the infrastructure is funded under Assistance to States for Developing Export Infrastructure and Allied Activities (ASIDE) Scheme from 1 April 2002. An outlay of ₹ 3793 crore was provided under ASIDE scheme during the 11th Five Year Plan (2007-12). ₹ 2050 crore was spent in the 10th Plan period and ₹ 3046 crore (upto 1 Jan 2013) was spent during the 11th Five Year Plan under the scheme. However, the same has not been reflected in the outlay or domestic investment of SEZs.

DoC, in the Exit meeting (29 April 2014) stated that ASIDE only funds Government SEZs and is meant for development of infrastructure. No funds were allotted to private SEZs. Further, it was mentioned that the SEZ Act being only 7 to 8 years old contributed to the growth in the exports of the country and very few schemes are as good as SEZ and therefore, the scheme needs to be viewed in this perspective. Joint Secretary, DoC, emphasized that the Indian SEZs can not be compared with SEZs in China due to the fundamental differences.

DGFT further added that SEZ scheme was introduced in April 2000 with a view to provide an internationally competitive environment for exports, and for continuity and stability of the scheme, SEZ Act was enacted in 2005. The scheme has shown a tremendous growth in infrastructure investment, employment and exports. Export has touched ₹ 4,25,000 crore in 2014 vis-à-vis ₹ 22,000 crore in 2005; similarly, investment was ₹ 2,84,000 crore in 2014 in comparison to ₹ 4000 crore in 2005. At present 185 SEZs are operational, out of which only seven SEZs are Central government SEZs, clearly indicating the substantial contribution by the private SEZs.

The compounded annual growth rate shows decline in agriculture and manufacturing activity and stagnancy in service activity in the last seven years. Simultaneously, there was a decline in the number of operating and exporting STP units in the last five years almost to the extent of 45 per cent.

The following parameters indicated economic activity:

- GDP by economic activity
- Factor income by economic activity
- Gross State domestic product
- Industrial production

The following parameters indicated employments:

- Labour force and labour force participation rate
- Estimates of unemployment

The following parameters indicated investment:

- Gross capital formation
- Net capital stock
- Foreign investment inflows

The following parameters indicated Trade:

- Foreign Trade
- Terms of Foreign Trade

An average 15 per cent of exports were sold in DTA and it was observed that gradually the sales not counting for positive NFE has overtaken the value of DTA sales counting for positive NFE.

Though most of the investment and employment has been in the SEZs notified under the Act, in the private sector, the macroeconomic indicators did not show a change in the trend growth, indicating diversion of capital and labour from DTA, STP to SEZs.

2.2 Socio-economic impact

The three important objectives of the SEZ Act, 2005, are to generate employment opportunities, encourage investment (both private and foreign) and increase India's share in global exports. In this section, we review whether SEZ Developer/Units in the selected states and SEZs have been able to make a social and economic contribution as envisaged in their project proposals.

MOC&I measured its performance based on the employment recorded from year to year by various operating SEZs. According to the Fact sheet on SEZs, employment, investment and exports registered a growth of 4692 per cent, 1679 per cent and 1276 per cent 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 SEZs[6] contribute to 14.16 per cent of employment, 40.49 per cent of investment and 51.10 per cent 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, as reported in the above paragraph.

[6] *Out of these two SEZs were already in existence prior to the enactment of SEZ Act, 2005.*

Therefore, a different approach was adopted, whereby a comparison of the projections made by the Developers/Unit holders in their applications as accepted by BoA/UAC was made with the actuals as reflected in their APRs from time to time.

Using these results, the performance of SEZs in India in terms of achievement of the social objectives of the scheme viz., employment generated, and the economic objectives of the scheme viz., Investments, NFE status and Exports have been projected.

Social Impact

2.2.1 Employment

As per section 5 of SEZ Act, one of the objectives of SEZ Act was generation of Employment i.e both direct employment for skilled and unskilled labour.

We compared the statistics of employment provided by the developers from the QPRs/HPR/APRs submitted by the Developers/Units to the concerned DCs as a part of their monitoring mechanism with the projections made by them in Form-A submitted by them while applying for the SEZs. This comparison was restricted to only those developers where shortfall was noticed (as on March 2013) even after five years of their notification.

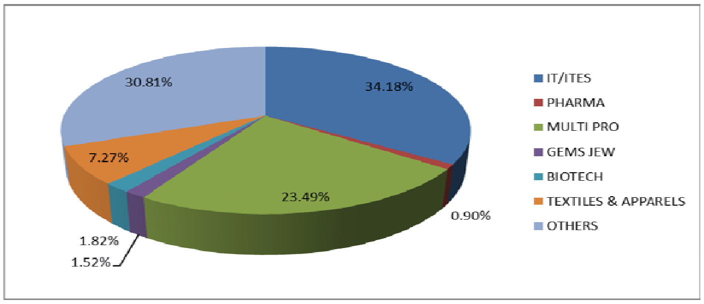
It was noticed that in the selected 117 Developers/Unit in 12 States the actual employment (2,84,785) vis-à-vis the projections (39,17,677) made by the Developers/Units had fallen short by nearly 93 per cent (absolute number being 36,32,892). State-wise contribution to this shortfall is indicated below:

States	No. of Developers/ Units	Employment (Number of people)			Shortfall (%)
		Projected	Actual	Difference	
Andhra Pradesh	33	16,78,945	1,13,780	15,65,165	93.22
Maharashtra	19	5,06,242	34,999	4,71,243	93.08
Tamilnadu	5	50,647	10,470	40,177	79.32
Kerala	4	8,551	1,545	7,006	81.93
Karnataka	10	2,08,875	44,483	1,64,392	78.70
Odisha	2	5,200	1,688	3,512	67.54
Gujarat	12	12,47,077	42,650	12,04,427	96.58
Rajasthan	2	40,000	8000	32000	80.00
West Bengal	8	1,58,550	22,742	1,35,808	85.65
Uttar Pradesh	11	4,617	1,082	3,535	76.56
Chandigarh	5	7,578	2580	4,998	65.95
Madhya Pradesh	6	1395	766	629	45.09
Total	**117**	**39,17,677**	**2,84,785**	**36,32,892**	**92.73**

Five states viz Andhra Pradesh, West Bengal, Karnataka, Maharashtra and Gujarat constitute 90 per cent of the total shortfall of the employment.

Further, the shortfall was significant in IT Sector SEZs followed by Multi product sector as depicted in the figure-4 below:

Figure 4: Sector-wise shortfall in employment



Thus, there are wide gaps in the employment projected by the developers and that provided in all the categories of the industries. It is clear from the above data that the pattern of employment generation is also not uniform across sectors and states. The other interesting fact is that there is a concentration of SEZs close to urban agglomerations resulting in employment generation in the districts that are already industrialized with higher levels of literacy. Thus, SEZs to be 'a new avenue of employment generation' as claimed by the MOC&I could not come true.

The following two cases typify the severe shortfall noted in Andhra Pradesh (Box-1).

Box-1: Breach of condition of MOU to generate employment

The Government of Andhra Pradesh allotted 80.93 hectares Land to M/s Hyderabad Gems SEZ in June 2007 vide MOU with the condition to generate employment for 15000 people within five years of allotment of land which was relaxed to 10000 people vide revised GO (February 2010). However, as of March 2013, the total employment generated was only 3835 i.e. 38.35 per cent of the commitment.

Similarly, M/s Wipro Gopanapally was allotted 40.46 hectares in October 2005 and they were required to generate employment for 10000 people. However, as of March 2013, the total employment generated was only a meagre 356 (3.6 per cent).
However, no action was initiated against the developers for violation of condition in the absence of any enabling provisions.

2.2.2 Rehabilitation, resettlement and employment

Government of Andhra Pradesh vide its G.O. Ms. No. 68 dated 8th April 2005 issued the Rehabilitation and Resettlement (R&R) Policy for the persons affected due to compulsory acquisition of land. Chapter VI of the policy stipulates the R&R benefits for the Project Affected Families (PAF) which includes free house sites, grant for house construction/subsistence allowances, etc.

APIIC acquired 9287.70 acres of land (6922.29 acres of Patta land and 2365.41 acres of Government/assigned land) during 2007-08 in Atchyutapuram, Rambilli mandals of Visakhapatnam district for development of integrated SEZ. The rehabilitation payout was proposed at Dibbapalem and Veduruvada villages for the Project Displaced Families (PDF) and the cost of rehabilitation package was worked out at ₹ 106.21 crore. 5079 families were affected in 29 villages (15 villages in Atchyutapuram mandal and 14 villages in Rambilli mandal). It was observed that only 1487 families could be shifted to Dibbapalem till date. Further, out of 4300 plots developed for the major married sons of the affected people, only 3880 could be allotted. In Vedurvada too, no plots had been allotted till date.

The difference between the value of acquisition and value of allotment in a few SEZs is as follows:

Name of the SEZ	Area of Land Acquired (acre)	Period of acquisition	Acquisition rate (₹ lakh/ acre)	Year of Allotment for SEZ purpose	Allotment Rate/ lease premium (₹ lakh/acre)	Difference per/acre (max of acquisition minus min of allotment)
Pharma SEZ Jedcherla	250	2005-06	0.55 to 1.80	2007 to 2010	7 to 35	5.20
APSEZ Vizag	5449	2001-08	2.95	2007 to 2013	30 to 52	27.05
Sricity SEZ	3796	2007-11	2.5 to 3.5	2009 to 2013	12 to 14	8.50
Total	9495					

The "Eighty-Third Report on the Functioning of Special Economic Zones", presented in the Rajya Sabha by the Parliamentary Standing Committee on Commerce (in June 2007), sought to address many of these issues through its new draft Resettlement and Rehabilitation (R&R) Bill, 2007. However, there is no policy for skill development for employment of the PDF/PAFs which has led to providing of employment to very few individuals. An isolated best practice is highlighted in Box-2.

Box-2: Best Practice- Skill impartation initiative to PDF/PAF by the Vizag district administration

District administration, Visakhapatnam registered "The Visakha Skill Development Society" to impart skill development training to the unemployed members from PDF/PAFs for facilitating employment. Upto period of audit (August 2013) training was imparted to 24 candidates, of whom 19 candidates were employed in SEZ Units.

Economic Impact

2.3 Shortfall in Investments

SEZs were intended to attract a foreign multinational enterprise which was supposed to have a catalytic effect. The foreign capital was to be attracted by means of leveraging incentives and to use foreign technology and management skills to augment exports. While applying for permission to establish an SEZ, the Developer indicates the quantum of investment proposed to be made in the SEZ. It was noted that during the period of audit the actual investment (₹ 80176.25 crore) vis-à-vis the projections (₹ 194662.52 crore) in 79 Developers/Units in 11 selected States was 58.81 per cent lesser than the projected amount. This includes shortfall in FDI to the tune of ₹ 2468.53 crore (66.83 per cent).

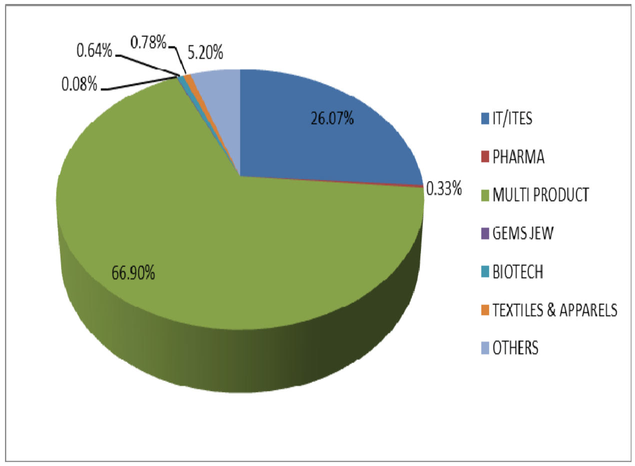
A comparison of state wise shortfall in investment made in respect of 79 Developers/Units drawn based on their projections made while applying and the actual investments received as depicted in the APRs/QPRs submitted by them to the Government is indicated below:

State	No. of Developers /units	Investment (₹ in crore)			Shortfall (%)
		Projected	Actual	Difference	
Andhra Pradesh	28	45897.41	11511.59	34385.82	74.92
Maharashtra	11	15433.86	4264.59	11169.27	72.36
Tamilnadu	4	1913.18	1369.50	543.68	28.41
Kerala	2	352.72	120.96	231.76	65.70
Karnataka	5	2700.34	1157.51	1542.83	57.13
Odisha	2	192.20	61.93	130.27	67.78
Gujarat	14	118962	58661.80	60300.20	50.68
Rajasthan	1	25.90	19.69	6.21	23.98
West Bengal	2	2773.88	874.57	1899.31	68.46
Uttar Pradesh	9	6146.03	1997.11	4148.92	67.51
Chandigarh	1	265.00	137.00	128.00	48.30
Total	79	194662.52	80176.25	114486.27	58.81

Five states (Andhra Pradesh, Uttar Pradesh, Karnataka, Maharashtra and Gujarat) contributed to 57 per cent of the total shortfall of the investment. In case of Madhya Pradesh, no short fall of investment was noticed.

One important concern is that despite the SEZ Act advocating investment to promote exports in the manufacturing and services sectors, the main contributor to the development of SEZs in India has been the IT/ITES sector. Investment in SEZs is primarily concentrated in IT and IT-enabled services, leaving behind the manufacturing sector. There was a large scale shift from the STPI units (45 per cent) to SEZs in the last five years. Therefore, multi product sector registered 67 per cent shortfall in investment in the selected zones located in various states during the period of audit. This was followed by 26 per cent shortfall in IT Sector as depicted in the figure 5.

Figure 5: Sector-wise shortfall in Investment



2.4 Exports

The establishment of SEZs was envisaged as an important strategic tool to expedite the growth of international trade which manifests itself in the form of increased exports as units set up in an SEZ have to produce goods and services mostly for exports. Hence, the increased level of exports has been critical to the success of SEZs.

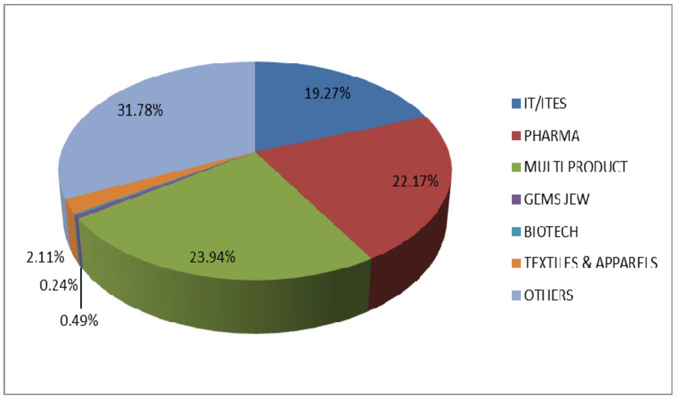
It was noted that the actual Exports (₹ 1,00,579.70 crore) vis-à-vis the projections (₹ 3,95,547.43 crore) in 84 Developers/Units in 9 selected States was 74.57 per cent lesser than the projected amount during the period of audit**.** State-wise details are indicated below:

State	No. of Developers /units	Exports (₹ in crore)			Shortfall (%)
		Projected	Actual	Difference	
Andhra Pradesh	18	1,84,592.72	11,415.50	1,73,177.22	93.81
Maharashtra	18	55,135.78	13,865.56	41,270.22	74.85
Tamilnadu	5	1,22,670.89	64,526.40	58,144.49	47.39
Kerala	12	2,468.76	5,76.73	1,892.03	76.64
Odisha	2	4161	618.64	3542.36	85.13
Rajasthan	2	11000	2251.09	8748.91	79.54
Uttar Pradesh	12	6,984.15	3,202.33	3,781.82	54.15
Chandigarh	9	5,648.34	3,041.11	2,607.19	46.16
Madhya Pradesh	6	2885.83	1082.34	1803.49	62.49
Total	84	395547.43	100579.70	294967.73	74.57

Four states viz., Andhra Pradesh, Tamilnadu, Maharashtra and Rajasthan constitute 72.61 per cent of the total shortfall of Exports.

The shortfall is significant in multi product sector SEZs (23.94 per cent) and this was followed by pharmaceutical sector SEZs (22.17 per cent) as depicted in the figure-6 below:

Figure 6: Sector-wise shortfall in Exports



2.5 Foreign Exchange Earning

Net Foreign Exchange is to be calculated cumulatively for a period of five years from the date of commencement of production (Rule 53). Export orientation is one of the key expectations from SEZs, but the only requirement imposed on them in this regard is to have positive net foreign exchange balance which applies only to industrial units in the zone, not for the SEZ as a whole. An average 15 per cent of exports has been sold in DTA and gradually sale, not counting for positive NFE, has overtaken the value of DTA sales counting for positive NFE. NFE is monitored through APRs of the Units and a report on this is sent to MOC&I periodically. It was noted that there was shortfall in respect of 74 operational SEZ Units which completed five years in the following 10 States.

Name of the state	No. of SEZ units	NFE (₹ in crore)			Shortfall (%)
		Projected	Actual	Difference	
Andhra Pradesh	5	413.66	85.46	328.22	79.34
Maharashtra	9	1302.52	800.18	502.34	38.56
Tamilnadu	13	32069.18	4841.50	27227.67	84.90
Kerala	8	495.54	257.68	237.86	48.00
Karnataka	3	3721.09	1228.58	2492.51	66.98
Rajasthan	5	109.42	68.16	41.26	37.71
West Bengal	6	240.27	46.27	194	80.83
Uttar Pradesh	13	3657.42	(-)321.50	3978.92	108.79
Chandigarh	8	4741.72	2144.74	2596.98	54.77
Madhya Pradesh	4	1784.05	795.18	988.87	55.43
Total	74	48534.87	9946.26	38588.61	79.50

Five states viz., UP, Tamilnadu, Karnataka, Maharashtra and Chandigarh constitute 97.87 per cent of the total shortfall of Net Foreign Exchange.

Though projections are not binding, however, they do serve as benchmarks for assessing a unit's success/failure. No records were produced to show that current operations were being pegged with the intended scale of operations and, consequently no attempts were on record regarding corrective action initiated to understand the possible reasons for the shortfall so as to realise the full potential of SEZs. Absence of any monitoring or study in order to redress possible reasons for the shortfalls makes the "projected figures" redundant.

However, there are some units that had surpassed their expectations. Two such cases in Andhra Pradesh are given in Box-3:

Box-3: Splendid performance

M/s.Wipro Ltd. Manikonda and M/s. CMC Ltd., Gachibowli both IT/ITES SEZs notified in 2006 at Hyderabad deals with software development. They have exceeded their projections made for five years with that of actual as on 2012-13 on all counts i.e, Exports, Employment and Investment as detailed below:

There was an increase in the projections made by M/s Wipro Manikonda on account of Exports, Investment and Employment by 415 per cent, 15.18 per cent and 21.32 per cent.

Similarly, in the case of M/s CMC Gachibowli, the projections made on account of Exports, Investment and Employment increased by 742 per cent, 47.72 per cent and 10.48 per cent respectively.

Thus, despite the good performance of SEZs being claimed by MOC&I noted in a few major SEZs, severe shortfalls were observed in audit in their performance on account of the social and economic parameters when compared to their envisaged performance in the selected states. The results of the above analysis also revealed that the real benefits from SEZs are yet to accrue commensurate to the investment.

DOC in their reply (June 2014) stated that in a short span of about eight years since SEZs Act and Rules were notified in February, 2006, formal approvals have been granted for setting up of 566 SEZs out of which 388 have been notified and the total exports, employment and investment in 2013-14 have increased by 124, 155 and 100 percent respectively, since 2009-10.

The reply is silent about prescribing performance indicators in line with objectives and functions of SEZ scheme to measure the actual performance of the scheme.

Recommendation: *The MOC&I may prescribe measurable performance indicators in line with the objectives and functions of the SEZs so that the real socio-economic benefits accrue for citizens and the States.*