Ideal Land Acquisition Model for Development of Special Economic Zone (SEZ)

Main Point of discussion: *Safeguarding ownership right, proper compensation and sustained annual return is key for land acquisition from farmers/private land owners for development of SEZ*

Issue:

Why does a landowner of agricultural land hesitate to dispose his/her land right to the industrialist/government for SEZ development even with an offer of lucrative compensation package? The sole answers to this can be found from the sentiments of the landowners who are forced to dispose land for SEZ development. They often complain that they got so much income every year out of their agricultural crop production, which would cease now permanently if disposed for development of SEZ. If we find a way to safeguard the land ownership right of landowner as well as compensating loss of livelihood generated out of land in a sustainable manner, I don't think any landowner would be disinterested to lease out his land to the Industry. However, with certain pre-conditions such model framework is to be developed. To develop such corporate-private partnership, Panchayat Raj Institutions (PRIs) can certainly play a dual role. Let me take this opportunity to identify various role of Panchayat Raj Institutions to ensure a corporate-private partnership for SEZ development.

A Special Economic Zone (SEZ) is a geographical region that has economic laws that are more liberal than a country's typical economic laws. Usually the goal is an increase in foreign investment. Considering the need to enhance foreign investment and promote exports from the country and realising the need that a level playing field must be made available to the domestic enterprises and manufacturers to be competitive globally, The Government of India had in April 2000 announced the introduction of Special Economic Zones policy in the country, deemed to be foreign territory for the purposes of trade operations, duties and tariffs. One needs to keep in mind that the land acquired for SEZ may either be owned by government or private (such as agricultural farmers) or both. Generally, the land identified for SEZ development contains huge portion of government and remaining small portion belongs to local farmers and inhabitants. The private land that comes compulsorily under SEZ generally turns into disputed land.

Looking into the strong protests of local people affected by SEZ, now both Central and State Governments are actively advising the Industries/Capitalists desirous of owning SEZ to negotiate directly with landowners. In this context, the role Panchayati Raj Institutions, as constitutionally approved institutions for local governance, becomes pervasive.

SEZ vs. Classical Economics:

SEZ primarily appears to touch one of major component of Industries that is land, hence keeps functional linkage with other three primary factors of Industry as such labour, capital (resources), organization (entrepreneurship). As classical economists identify 4 factors such as Land, Labour, Capital and Organization (Management) as primary equal stakeholders for any industrial unit, each of such component including land for SEZ conceptually reserves at least 25% of share of total value of an industry.

Panchayat as lowest statutory local body could play potential roles among the pre-dominant inter-linkages of these 4 factors, while Land is acquired for SEZ development. However, prior to setting a model framework to identify role of Panchayat Raj Institutions (PRIs) in SEZ development, following pre-conditions need to be respected.

- During the acquisition of agricultural/private land for SEZ development, ownership right should not be fully sold out rather should be given to the entrepreneur under a lease agreement for 25 years, which means neither the government nor the entrepreneur operating in SEZ would enjoy absolute ownership of land.

- Since land conceptually keeps a minimum importance of 25% of stake in an industrial unit, the land components should be regarded as minimum 25% of the stake of the total value of the Industry. This means, in tune of growth of the industry, the value of land would be increasing and with downfall of industry, the value of land will be coming down to its original price. Hence, an industrial unit coming up in SEZ ideally needs to allocate 25% share of its industrial value to the land owners. An Industry coming up in SEZ often enjoys acquisition right with nominal price over government land. However, private land belongs to farmers or local inhabitants, which of consists a small portion of SEZ need only to be acquired with proper compensation.

- Hence, certain proportion of share/stake of the industry acquiring land in SEZ could be allocated to its private land owners in the exchange of lease rights of private land. The total value of share allocated to private land owners could be proportionately bracketed within the 25% of total stake of the industry coming up in SEZ, since land components ideally keeps 25% value of any Industry besides of other three prime stakeholders such as components of labour, capital and management as aforementioned. The total share value for private land owners could be calculated in this way. Suppose the total value of an industry coming up in SEZ is Rs. 100 crore in inception phase and it is acquiring a land of 100 acres in SEZ. The total value of land component would be ideally 25% of its value that is Rs. 25 crore. If 5 acre of private land belongs to local farmers/inhabitants out of 25 acre land acquired for SEZ, then the total share value of industry to be allocated to the owners of private land at inception phase would be Rs. 1.25 crore (Rs.25 cr/100 acre x 5 acre). Hence, out of its total value of Rs. 100 crore, the industry need to allocate its share value Rs. 1.25 crore to the private land owners.

- The industry acquiring the agricultural/private land need to employ at least the sole bread earner of the family of landowner from the very day the owner losses its right to earn agricultural livelihood from its land.

- High priority to be given to local work force for unskilled labour utilization in the industries of SEZ.
- The entrepreneurs will ensure local skill up gradation as per the requirement of industry through setting up Industrial Training Institutes in the surrounding areas of SEZ.

As already mentioned, to operationalise an industry, classical economist advocates that minimum 4 factors are to be involved, i.e., land, labour, capital (resources) and organization (entrepreneur). With reference to above four factors, following number of alternate relations between these major factors can be identified pertaining to the role of PRIs.

- Relation between land owners and entrepreneur
- Relation between land owners and capital/financial Institutions
- Relation between labourers and entrepreneurs

Role of Panchayati Raj Institutions (PRIs) in SEZ Development

SEZ, as allegedly being called as Special Exploitation Zone may flourish into Social Enrichment Zone, if the Panchayats are given fare share of participation as a negotiator between the landowners and entrepreneur.

- During pre-development phase of SEZ, Panchayat as lowest institution of local governance may play a role of negotiator acquiring land from the private landowners for SEZ development.
- During development phase of SEZ, it can act as guardian to protect its natural environment.
- During post development phase of SEZ i.e., operational phase of SEZ, it can act as a safeguard to protect natural environment as well as economic benefit of not only to the original landowners affected by SEZ but local people residing in the surrounding region of SEZ.

Protection of land ownership right of original land owner by PRIs

(PRIs as a negotiator between Land owner and Entrepreneur)

PRIs can effectively play a role of negotiator between landowner and entrepreneur to acquire land for SEZ. As already indicated in the preconditions set for SEZ development, PRIs may ensure that the right to land ownership should be retained with the original land owner, hence should not be fully transferred either to the Industries operating in the SEZ or to the Government. To acquire agricultural/private land for SEZ development, it should be leased out to the entrepreneur by the landowner for a limited period. This lease agreement may be extended to all the parties of SEZ interested on the land of original landowner. The landowner should lease out their property right for a period of 25 years to entrepreneur/industrialist operating in SEZ. This model has already been working for transferring mining right to industries for a limited period through leasing out the govt. land to Industries by various State governments of Jharkhand, Orissa etc. in India. With leasing out of ownership right of land to entrepreneur, neither the original land owner would lose his absolute ownership over land, nor the industries of SEZ or government could gain ownership right of the land to exploit it on its own wish. With sound growth of industry, extension of lease right to industry as well as sustained participation of original land owners could be ensured by PRIs for continual development of SEZ. Similarly with failure of industry in SEZ, PRI should ensure a modalities to return back the land right of developed land (developed by industry having urban amenities) to the original land owners. Here, PRIs could also play a pivotal role to lay out the procedures/rules in advance for extension of lease agreement in gainful circumstance of Industries or returning of land to its original land owners in circumstance of losing by industries. For leasing out the private land to industrialist or extension of lease period of land or returning of land right to the original land owner can only be strengthened and sustained if landowners are awarded with share of industries in proportion to amount of land leased out to the industry, which would in no circumstance increase maximum of 25% share of industry as already discussed. To understand the concept of recognizing the original landowners of private/agricultural land as shareholders of Industry, the relationship between the major stake of capital and landowner and role of PRI as a negotiator need is iterated below by analyzing the relation of landowner with capital of the industry coming up in SEZ.

Relation of Landowners and Capital and role of PRIs

Since the factor of land as among the 4 major stakeholders besides labour, capital and entrepreneur ideally reserves minimum of 25% stake industry, there is nothing wrong if the entrepreneur operating in SEZ awards certain percentage of share of total value of the industry to original landowners of the industry. As aforesaid, the share value for each original landowner may be fixed in proportion to percentage of land out of total acquired land of SEZ leased out for industrial development.

The point to be noted that awarding of share to landowners we are talking here is only for privately acquired land, which means higher the percentage of government land acquired for SEZ, lower the amount of share to be given to owners of agricultural/private land.

Hence, leasing out of land to industry by owner and awarding maximum of 25% of share of industry in return to land owner by entrepreneur would ensure that neither the industry can snatch the land from landowners nor the land owners can overpower the authority of industry.

However, while leasing out the landownership to industry, the industrialists need to compensate the owner by awarding prevailing market value of land to landowner as a part of lease agreement. During the extension of lease agreement after 25 years, the landowners should again be compensated with market cost of agricultural land prevailing at that time. This modalities for renewal will be going on with every extension of lease agreement. However, once the Industry come up in SEZ, the transfer right of land ownership of private land owner will be limited to selling or mortgaging the Share allotted to him or her. In this way, a private land owner can sell mortgage his/her lease rights of land by selling or mortgaging his portion of Share allotted by Industry. The land owner as share holder of industry could witness an increasing value of their land over a time period. However, if the industry doesn't grow, it may at any time return back the lease right of land to owners by compensating the original initial market cost of land.

Panchayats can certainly promote the above deal by negotiating with landowners and by framing rules and regulations in consultation with landowners in advance for leasing out of property rights to industry, extension of lease or returning of property rights etc. The market value of agricultural land prevailing in the area should be decided by PRIs through assessing the prevailing record of evidences.

Relations of Labour and Organisations and Role of PRIs

Besides, awarding the cost of prevailing market value of land, PRI should ensure a minimum employment of one bread earner from the family of land owners in the industry for at least for first 25 years of lease agreement from the very day of losing right to earn livelihood from the land by owners. Besides as already mentioned, PRIs should ensure that high priority is being given to local work force for unskilled labour utilization in the industries of SEZ. Hence, SEZ would bring overall regional development. The entrepreneurs will ensure local skill up gradation as per the requirement of industry by running Industrial Training Institutes in the surrounding areas of SEZ.

By adopting the above model for SEZ development following benefits could reach to the prime stakeholders of the Industry coming in the SEZ:

Benefit of above model to Landowners

1. By leasing out the privte land for SEZ, land owner would immediately earn the selling value of their land at prevailing market price but without losing their ownership right unlike in normal condition.
2. From the very day of losing the right to earn livelihood from their land, at least one bread earner of family of the landowners would be employed in the industry.
3. As shareholders of industry, the land owners will be earning debentures over time to time out of growth of share value of industry over a period of time.
4. If industry grows at a pace, the landowners will be receiving a compensation of their leasing of land (transfer of livelihood right out of land) at every 25 years at the rate of future market cost of their agricultural land.
5. Since original landowners own his property right, he can at any point of time sell his property right by just selling the share of industry he acquires. In this way, the landowners in no way need to feel insecure in any point of time of leasing out of his land to industry for SEZ development.
6. In the other hand, there will be an increasing tendency of acquiring government land for SEZ development, since acquisition of private land would invite for allocation of share rights of industry to private land owners. This way, the present crisis of forced acquisition of private land for SEZ would cease to some extent.

Benefit of above model to Entrepreneurs

1. The private landowners will just lease out their ownership of land to entrepreneur for certain period time and will loss only the right to earn agricultural livelihood out of land, which would be amply compensated by industry as per above model. Under such friendly and profitable deal with local landowners, the entrepreneurs could easily acquire land in designated SEZ and will remain as welcome phenomenon for the public.

2. The above proposed model facilitates enough flexibility to entrepreneur as well as to the landowners to bargain. For example, the amount to be awarded to owner for lease agreement, percentage of share to be given to landowner, amount to be fixed for extension of lease agreement and period of lease agreement etc can be negotiated by both landowners and entrepreneurs

3. Panchayat Raj Institutions and the entrepreneurs can certainly make a joint partnership for development of the region that accommodates SEZ.

With thanks from

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