

H. M. Patel Memorial Lecture

Making of GIFT City

by

Shri Sudhir Mankad

Chairman, GIFT City &
Former Chief Secretary, Government of Gujarat



**PG Department of Economics &
Agro-Economic Research Centre
H. M. Patel Institute of Rural Development
SARDAR PATEL UNIVERSITY
Vallabh Vidyanagar 388120, Anand, Gujarat, India**

H M Patel Memorial Lecture 2016



Seating on dais - Dr. Mahesh Pathak (Hon Adviser, AERC), Dr. Harish Padh (Vice Chancellor, S P University, VVN) and Shri Sudhir Mankad (Chairman, GIFT City)



Felicitation of Shri Sudhir Mankad by Dr. Harish Padh & Dr. Mahesh Pathak

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About the Institute and Lecture:

As the Post-Graduate Department of Economics and the Agro-Economic Research Centre have been working in close collaboration for several decades, the Sardar Patel University has put them under the common umbrella of the H. M. Patel Institute of Rural Development in order to help them to work together which will be mutually beneficial to both of them. The H.M. Patel Memorial Lecture is instituted by the H. M. Patel Institute of Rural Development with the help of generous endowment grant given by Dr. Mahesh Pathak (Hon. Adviser, AERC).

About the PG Department of Economics:

The Sardar Patel University was established with a view to serve the cause of rural transformation. Hence, ever since its establishment in 1958, the PG Department of Economics has given rural bias to its teaching and research programmes. Recognizing the past record, the UGC also identified agriculture and rural development as thrust areas for the Department and awarded its Special Assistance Programmes for three consecutive phases of five years each. The Department also received Rs. 40 lakhs from the UGC under its ASIHS (Assistance for strengthening Infrastructure in Humanities and Social Sciences) programme. During its long journey of more than five decades, apart from providing rigorous teaching at the Post Graduate level, the Department has prepared more than 100 project reports and guided 43 M. Phil and 50 Ph. D. students. Recently, UGC has recognized this Department as Centre of Advanced Studies (CAS) in Economics.

About the Agro-Economic Research Centre (AERC):

The Agro-Economic Research Centre (AERC) for the states of Gujarat and Rajasthan was established in July 1961 at the Sardar Patel University, Vallabh Vidyanagar by the Directorate of Economics and Statistics, Ministry of Agriculture, Government of India, New Delhi. The Centre has completed 55 glorious years of its journey marked by both achievements and challenges. During these years, the Centre has emerged as a strong policy feedback centre of the Ministry of Agriculture, Government of India due to hard work and strong commitment of the staff in the Centre. The Centre has by now completed 167 problem-oriented studies, 21 village surveys and 4 village resurveys. The studies have come out with useful findings and policy implications for agricultural and rural development of the states of Gujarat and Rajasthan.

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Making of GIFT City

Sudhir Mankad

Prof. Harish Padh, Vice Chancellor of the Sardar Patel University, Dr. Mahesh Pathak, Amritaben, Dr. Chauhan, Dr. Kalamkar, all the dignitaries present here, faculty members and students. I am grateful to the Department of Economics and Agro-Economic Research Centre for inviting me to deliver H. M. Patel Memorial Lecture. This provides me an opportunity to pay my tributes to H. M. Patel. When I think of Shri

The 3rd H.M. Patel Memorial Lecture delivered at H.M. Patel Institute of Rural Development, Sardar Patel University, Vallabh Vidyanagar, on February 12, 2016. This lecture was jointly organized by the Post Graduate Department of Economics and Agro-Economic Research Centre (AERC) of Sardar Patel University, Vallabh Vidyanagar.

The GIFT City text was originally written for and has been published in a compendium '*The Making of Vibrant Cities*' as a part of BRICS Friendship Cities Conclave held in Mumbai from April 14-16 April 2016. This text is published as H.M. Patel Memorial Lecture, with the approval of the Conference Organizers obtained by the author, for private circulation, mainly among faculty and students. We acknowledge with thanks the support of Conference Organizer.

Patel Saheb, I go back 40 years sometime in 1978. It was around this time in early summer that I was asked to join his personal staff in Delhi. H.M. Patel was the Union Finance Minister at that time and I was a young inexperienced Civil Servant with less than 7 years of service to my credit. My responsibilities in his office were limited. He needed a Gujarati knowing officer as Union Finance Minister daily used to receive 60 to 70 letters in Gujarati. My work was to read these letters and to draw his attention to important letters and prepare drafts for reply. He normally liked to reply himself. During Diwali and New Year lots of greetings cards came and he himself used to send reply with his signature. As H.M. Patel was suffering from insomnia, he could not sleep more than two to four hours at night. He used to get up at that time to read or write letters. He used to arrive in his office around 9 to 9.15 am. His reputation as a boss was such that people will think twice before entering his chamber. However, he was a very compassionate man. As a Finance Minister and as a Home Minister, he was required to do lot of work but he always found time for giving dictation. As a general practice the ministers are not expected

give dictation but he kept busy two to three Stenographers the whole day. His thought process was very fast and so also was his dictation skill. His Stenographers Ramakrishnan and Deshikar were quite competent and yet they had a challenging assignment to handle. He never used long words or difficult words. He wrote very simple, elegant and yet effective English. All of us who worked with him learnt a lot about how to draft letters, how to draft memos and how to write notes.

H.M. Patel maintained very high standards of integrity and probity in his public life, a quality so rare in our present day life. H.M. Patel had to celebrate a marriage in his family in Delhi. As we were working in his office, we got some small responsibilities. But clear instructions were given to us not use Government vehicles. We had to make arrangements for many guests and yet no government cars were used. This small example illustrates the high standard in public life maintained by H. M. Patel. I remember he used to visit Vallabh Vidyangar every month. H. M. Patel used to receive hundreds of letters for admission in

management quota in Medical and Engineering College. Though recommendations were made by MLAs, Chief Ministers and Union Ministers, he used to act on the basis of merit. I am happy that today Dr. Amritaben Patel, as Chairman of Charutar Arogya Mandal, is following the same tradition even though she is facing lots of problems in hospital management. These noble and high traditions were set by H. M. Patel. We may sometimes think that this is not relevant today. But certain basic values never become irrelevant. I think our society will remain stable and safe so long as we follow these basic values.

Patel Saheb was a great institution builder. As a Defence Secretary he had guided the entire planning for the Hindustan Machine Tools. If power supply and system are stable in Gujarat, it is due to the fact that entire grid planning was done when H. M. Patel served as Chairman of Gujarat Electricity Board. Later in life he devoted his life for building both this University and other institutions. Another good example of institution building is Shree Krishna Hospital and Medical College at Karamsad. I remember in 1978-79

when he was conceptualizing the planning for medical college and the hospital. Today, you can see what has been achieved.

Today, I am going to talk about a project of which H. M. Patel would have been proud because he created lots of Institutions thinking 30, 40, or 50 years ahead of his times. It is a project which some people have called visionary or futuristic but if you look at what is happening all around the world, you may consider it very contemporary.

Genesis

For centuries, Gujarati entrepreneurs have travelled all parts of the world to trade, set up businesses, and create wealth. In 2006, the then chief minister of Gujarat, Shri Narendra Modi, believed that Gujarat should provide a global business platform for these entrepreneurs on the soil of Gujarat.

Initially, the thinking was to create a business district, like the Bandra Kurla Complex in

Mumbai. When the chief minister travelled with business delegations to Singapore, Hong Kong and Shanghai in 2006–07, he was convinced that Gujarat should not aim to replicate Mumbai but benchmark with Pudong (China) and Raffles Place (Singapore).

The vision was clear and got reflected in the acronym, GIFT, which stands for Gujarat International Financial Tec-City. GIFT was to focus primarily on promoting financial services, both for Indian and international markets, using the latest in information technology. The city was to have infrastructure comparable to the best in the world, modern high-rise offices and residential buildings and social infrastructure to ensure a rich quality of life.

Planning

Gujarat has had an excellent record of promoting large projects in partnership with private enterprise. For GIFT too, the government decided to partner with Infrastructure Leasing &

Financial Services Ltd (IL&FS). Promoted by Central Bank of India, Housing Development Finance Corporation (HDFC) and Unit Trust of India (UTI), it had established itself as a leading infrastructure company in the country.

A joint venture company was formed in June 2007 with 50 per cent equity contribution each from Gujarat Urban Development Company (GUDC), a fully-owned company of the state government, and IL&FS. The JV agreement provided for four directors, including a non-official chairman to be appointed by the government, four directors, including a managing director, to be appointed by IL&FS, and four independent directors to be nominated by mutual consent of the JV partners. As project manager, IL&FS had the responsibility for the planning and implementation of the project.

For the first time in the history of the country, a new city was to be set up in a public-private partnership. IL&FS kick-started the project with the appointment of a consultant to prepare a master plan for the city. Several other studies were also initiated, among them a pre-feasibility study by

McKinsey & Company. The McKinsey report was ready in 2007. It estimated that India had the potential to generate 10 million jobs in financial services by 2020, and would require nearly 800 million square feet of office space. GIFT's master plan targeted only 10 per cent of this potential—1 million jobs and about 80 million square feet office space. The Percy Mistry Committee, appointed by the government of India had also concluded that financial services offered greater job opportunities than even information technology.

The early years

The consultant/s prepared a concept plan for the city and an audiovisual which showcased the chief minister's vision for GIFT city. The consultant/s also got prepared concept designs for imposing, high-rise office towers, along with a city model, which were used effectively for promoting the project. The response from real estate developers was staggering: between 2007 and 2008, the GIFT management signed MoUs for developing more than 100 million square feet of

office space by private developers. GIFT was on a roll!

The bubble was to burst soon. The 2007–10 subprime home loan crisis in the USA triggered a global depression, investment sentiment in India soured, and real estate developers who had queued to get into GIFT, suddenly thought the project was too futuristic, too ambitious, too expensive, and doomed for failure.

Inevitably, the knives were out and the blame game started. Those who had praised the project earlier now became critical of it. Questions were raised about the competence and capability of IL&FS. Suggestions were made to change the management.

Those were difficult times for the GIFT project. The company had no resources, and expenses had to be met with for payment of salaries and for conducting studies for the development of the city infrastructure. The GIFT management borrowed from IL&FS to keep the project alive, but it was clear that GIFT was losing the confidence of state authorities.

In 2008, the company had applied to the state government for an allotment of around 680 acres of government wasteland for the project. The Collector had given advance possession of land and the company did some preliminary work of land levelling and construction of approach roads, but no investment in infrastructure or real estate could be undertaken till the land was transferred to GIFT. The bitter reality was that GIFT had lost credibility, and the project was dying a slow death.

In the-then prevailing atmosphere of trust deficit, critical meetings were held with the chief minister and senior officials in November 2010, and finally, in the cabinet meeting held on 5 January 2011, the state government approved the allotment of 673 acres of land for the project for a token payment of one rupee. This was announced at the 5th Vibrant Gujarat Summit held on 12–13 January 2011, and orders for land transfer were issued on 22 March 2011. GIFT was back in business.

To redeem the faith which the government had reposed in it, IL&FS agreed to become an anchor investor. Work on the first 120 metre-high,

28-storey tower was started in June 2011 and completed in sixteen months. The chief minister inaugurated GIFT One tower at the time of the 6th Vibrant Gujarat Summit on 10 January 2013.

Master Plan

The GIFT master plan envisages a total land area of 886 acres. The total built-up area (BUA) is 62 million sq. ft: commercial 42, residential 14, and social facilities 6 million sq. ft. Sixty per cent of the land area is reserved for open spaces and green areas.

The GIFT city development plan is divided into two zones: one for domestic financial and IT services (412 acres), and the other (261 acres) for international financial services under Special Economic Zone (SEZ). The project is to be implemented in three phases as follows:

Phase I: 10 mn sq. ft BUA2012–16

Phase II: 22 mn sq. ft BUA2016–20

Phase III: 30 mn sq. ft BUA2020–24.

City infrastructure



GIFT is a greenfield project. The land was undulating and full of ravines. There were no roads, water, or electricity at the location. The GIFT management had to plan for and create a city infrastructure comparable with the best in the world. It set for itself certain ambitious benchmarks, and then worked at achieving them.

Safe drinking water

The target was to have no one in GIFT drink bottled water; tap water should be safe and meet with the highest safety standards. The first phase of water treatment plant of 3MLD capacity was commissioned in May 2014 at a cost of Rs 6.5 crores. Everybody in GIFT city can safely drink tap water, a first for India.



District Cooling

We did not want window or split air conditioners hanging out of every window, radiating heat, spilling water, guzzling power and creating noise. The entire city is air-conditioned by district cooling plants, which supply chilled water to every building through insulated pipes, and air is forced past the pipes to create an air-conditioning effect. District cooling is energy-efficient and pollution-free. The first plant of 10,000 tons was commissioned in March 2015 at a cost of Rs 91 crores.



Automated waste management

We did not want any visible garbage anywhere in GIFT city. After a global search, we selected a system in which the garbage would be dropped into chutes, provided in all buildings, at street level, and evacuated through pipes using high-pressure vacuum, to a central collection system, where it would be segregated, processed, and the unusable garbage would be eventually incinerated. The first plant was commissioned in January 2015 at a cost of Rs 27 crores. This, again, is a first in India.



Utility tunnel

We did not want GIFT city to be ever dug up to repair pipes and cables. All pipes and cables are housed in an underground concrete tunnel, equipped with ventilation and firefighting equipment, and sensors to detect faults and leaks. The tunnel is wide enough for maintenance vehicles to go through. The first phase of 2.2 km of tunnel has been completed at a cost of Rs 72 crores. This is, again, a first for the country.



Information and communication technology

The GIFT management had commissioned British Telecom to study ICT (Information & Communication Technology) facilities in all major financial centres of the world and recommend the most modern IT platform for GIFT city. The ICT plan is under implementation. Forty-five km of telecom ducts and optic fibres have been laid. A control and command centre for utility monitoring and surveillance is operational. Tata Communications has commissioned its 900-rack Tier 4 Data Centre which has been provided with 99.999 per cent power reliability.

Other utilities

GIFT has built 38 km of pothole-free roads, commissioned power distribution network, built a fire station, planted thousands of trees and shrubs, and created a green and non-polluting environment.

Business model

The mandate of GIFT Company Ltd is to develop land, and build and maintain city infrastructure. The state government has notified GIFT city as a notified area under Art. 243Q of the Constitution, thereby declaring it a local authority. In this capacity, the GIFT management has to perform all municipal functions, including approval of building plans. For running utilities, such as water, power and waste management, it has promoted subsidiaries which will collect user charges for the services provided.

All commercial, residential and social facilities are to be built by private developers. GIFT sells transferable development rights to developers for 99 years. The current rates for development right are:

Commercial: Rs 1250 per sq. ft

Residential: Rs 950 per sq. ft (around 75 per cent of commercial)

Social: Rs 350 per sq. ft (around 25 per cent of commercial)

At present, the rates for development charges in SEZ are lower. The Board revises rates of development rights periodically in line with market conditions.

The allotment of development rights for commercial developers is through a process of bidding: actual users are given development rights on receipt of proposal and meeting GIFT City criterias. Payment of development rights is in instalments; investment in building construction is to be done entirely by the developer, who is free to lease or sell his property within certain prescribed norms.

Financing of GIFT

The financing of the city infrastructure is the responsibility of the GIFT management; no grants have been given by the government. GIFT raises funds by the sale of development rights and commercial borrowing. Till now, GIFT has spent more than Rs 500 crores, from a sanctioned loan of Rs 1157 crores for creating the infrastructure, and

collected Rs 455 crores by the sale of development rights. The total sale value of development rights is Rs 1163 crores which would be collected over a period of the next 3–5 years.

Given below are details of allotment to major institutions/developers:

- IL&FS – 7.77 mn sq. ft for office, residential and social development (out of which 1.4 mn sq. ft has been already completed).
- Brigade Group – 1.1 mn sq. ft for office, residential and hotel.
- World Trade Centre – 1.5 mn sq. ft for office and residential, work in progress.
- BSE Brokers Forum – 0.5 mn sq. ft for office building.
- State Bank of India – 0.2 mn sq. ft of BUA for office building.
- Life Insurance Corporation of India – 0.2 mn sq. ft for office building.

- Reliance Capital – 0.5 mn sq. ft of BUA for office and residential.
- Hiranandani Group – 0.3 mn sq. ft of BUA for office building, work in progress.
- Jamnabai Narsee School – 0.1 mn sq. ft – operational.
- Sterling Addlife – 0.2 mn sq. ft for a hospital.
- Janaadhar Group – 0.14 mn sq. ft for affordable housing, work in progress.
- West India Hospitality – 0.16 mn sq. ft for GIFT International Centre, work in progress.

The table below gives a summary of development rights allotted under different categories:

Use Type	BUA (mn sq. f.)	Investment (in Rs cr.)
Commercial	8.2	5900
Social	1.7	900
Residential	4.1	2800
Total	14	9600

GIFT International

GIFT had earmarked an area of 261 acres for developing a multi-service Special Economic Zone (SEZ), for which an approval from the Ministry of Commerce and Industry was received in August 2011. GIFT was also given an in-principle approval for an International Financial Services Centre (IFSC) in December 2011.

Currently, many financial service transactions are carried on outside India by overseas financial institutions, Indian financial institutions/entities and their overseas branches/subsidiaries. IFSC seeks to bring them to the Indian shores, to a centre which has been designed for all practical purposes as a location with the same ecosystem as their present offshore locations.

In April 2015, the Ministry of Finance, RBI (Reserve Bank of India), SEBI (Securities and Exchange Board of India), and IRDA (Insurance Regulatory and Development Authority) notified regulations for IFSC for banking, insurance, and

capital markets operations. With these notifications, it has become possible for Indian and foreign financial service providers to set up their international operations in GIFT city. The response has been very encouraging. YES BANK and Federal Bank opened their International Banking Units (IBUs) in November 2015; many other banks have received licences from RBI and are expected to start IBUs from GIFT city in the next few months.

Insurance and re-insurance companies, and stock and commodities exchanges are also seriously considering international operations from GIFT.

With the recent announcement of special tax incentives for IFSC by government covering MAT (Minimum Alternate Tax) reduced from 18.5% to 9%, Securities Transaction Tax (STT) waived off, Commodities Transaction Tax (CTT) waived off, Dividend Distribution Tax (DDT) waived off and Long Term Capital Gain (LTCG) waived off, it is expected that IFSC will take off in a big way soon. .

In retrospect

- The GIFT city project is unique in its financial structuring; this is the only city which is being built without any capital investment by the government, both in infrastructure and buildings. The project is financed by leveraging land and FSI (floor space index). India has to build 100 new cities by the middle of the century to meet with the needs of growing urbanization, and GIFT offers a model by which they can be built with private investment by capitalizing land.

- GIFT is a good example of the effective use of public–private partnership in urban development. The role of IL&FS has changed from that of an equity partner and project manager, to that of an anchor investor. Its presence on the Board has facilitated quick and often risky decisions, while the presence of the government and independent directors has ensured due regard for processes and transparency.

- Looking back, the slowdown of the economy from 2008 was a blessing for the project. The project had not yet started, so, nothing was

lost. It also gave the GIFT management ample time to re-size the project and to plan the city infrastructure using the experience of the best in the field. This facilitated several innovations and firsts in the country, and set models for others to emulate.

- The important lesson learnt is that, while building a new city, it is essential first to create the infrastructure and only then to start building offices and residences. In most cities, the trend is exactly the reverse, infrastructure follows real estate and, until the infrastructure is completed, citizens have to manage without roads, power, water and drainage.

- The Gujarat government has taken some decisions which, typically, governments are reluctant to take. The building code for GIFT city was re-written to facilitate flexible FSI for each building consistent with the city master plan. By declaring the GIFT city management as a ‘local body’ under Art. 243Q of the Constitution, the government paved the way for professional management of all utilities and quick decision-taking in the approval of building plans and other

statutory requirements. Environmental approval for the entire project, including all the buildings in the master plan, was given before the first foundation was dug.

- The government also accepted responsibility for external infrastructure, the most important being the provision of external connectivity through metro rail, BRTS (bus rapid transit system), approach roads and bridges. Thirty MLD of water has been allocated from the Narmada Canal just 6 km away, assuring perennial availability of soft water. Gas and power transmission lines have been extended to the city.

- All this is a dream come true for developers—they do not have to approach various government agencies for approvals. The GIFT city management provides the infrastructure and is authorized to give all approvals which a developer or investor would need.

- GIFT city, even though it is being built mostly with private investment, is a public interest project. Land, its most valuable asset, has been provided free. The Comptroller and Auditor

General of India (CAG) had raised an objection to this decision, and a Public Interest Litigation (PIL) was filed on that basis, but the high court and, later, the Supreme Court held that the project was in public interest, the process of selection of JV partner and consultants was transparent, and the government was well within its rights to give land free for such a project. It was also noted that, as per the conditions of a land grant, when GIFT Company starts making a profit, it would repatriate most of it to the state. Although GIFT deals in real estate, it never allows itself to forget that this city is being built in public interest and that, perhaps, has helped it survive, with head held high.

Acknowledgments

There are many who have contributed, and are continuing to do so, to the making of GIFT City. Two, however stand out:

IL&FS, our JV partner, has stood by us, rock-solid, even during the most difficult days. It came in as an anchor investor when no private investor

was willing to risk investing in GIFT. Hari Sankaran, Vice Chairman and MD of IL&FS, used to tell me when nothing was going right for GIFT, ‘Boss, do not despair, you and I will make GIFT a success.’

It would have been impossible to undertake a project of this magnitude and complexities without the political will and support of the state government. Shri Narendra Modi took a great political risk when he finally agreed to allot land, at no cost, for the project, overriding the objections of almost everyone else in the government. If the project had failed, he would have had to shoulder the blame. At one point in time, he did have serious doubts, but he continued to repose his trust in us, and I believe we have not betrayed that trust. The regulations for IFSC, which had hibernated in government files for a decade, were issued within a year of his becoming prime minister.

With the announcement of tax concessions he has reaffirmed his commitment to make GIFT truly international.

GIFT is on it's way to fulfil his dream.



Thank you.

12th February 2016

Sudhir Mankad, IAS (retd.)
Chairman, GIFT Co. Ltd

For more copies of this lecture, please write or contact:

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Distinguished audience at the Memorial Lecture.



Shri Sudhir Mankad

Chairman, GIFT City &

Former Chief Secretary, Government of Gujarat

Shri Sudhir Mankad has about 45 years of experience in public policy and administration. He obtained his B.A. from St. Stephens College, Delhi and M. A. from Delhi University School of Economics. He also holds a Diploma in Development Studies from Cambridge University, U.K. He joined IAS cadre in 1971.

As Gujarat cadre IAS officer, he served as Secretary in several government departments including Finance. He also served as Chairman / Director of several Joint-Sector Ventures of Gujarat such as Gujarat State Fertilizers, Gujarat Narmada Fertilizers and Gujarat Alkalies and Chemicals. During his deputation to GoI, he served as Secretary in the Ministries of Agriculture, Finance and Human Resource Development. He served as Chief Secretary, GoG during 2005-2007.

He has served as Chairman / Director of several Companies such as Navin Fluorine, Shri Dinesh Mills, Gujarat Gas, Deepak Nitrate. He is on the Board of Directors of the RBI. As Chairman of GIFT City Project, he has made a remarkable contribution in shaping this dream project of international importance. Shri Mankad is known for his astute leadership qualities and dedicated public service.