Production Linked Incentives (PIL) Scheme

[UPSC Notes]

What is the Production Linked Incentive Scheme?

The Atmanirbhar Bharat campaign focused on the government's plans to expand the country's factories and electronic manufacturing plants.

- Industrialization is the founding stone of the present import-export market. It affects economic growth immensely. So, the central government targeted the weak points and loopholes of the industrial model and came up with the PLI scheme.
- Atmanibhar Bharat is a term coined by our prime minister. People preparing for UPSC might know various schemes under Atmanirbhar Bharat.
- The PLI scheme guarantees 4-6 % incentives to companies for the step-by-step sale of manufactured goods in the country.
- This has attracted the giants in every sector to set up their manufacturing units in India and expand their business.
- This does not mean that the domestic units have been liquidated. The domestic companies are also encouraged to open new manufacturing units, giving more job opportunities and eliminating the country's import dependency.
- Through the scheme, the government is strengthening the economic model by increasing the export-import business and discarding the problem of unemployment as well.
- The government aims to expand the business of indigenous companies and open a gateway for big foreign investment countries to India.

PLI Scheme-Eligibility Criteria

The eligibility criteria for PLI Scheme is given below.

- Companies must have a registered manufacturing unit in India.
- The applicant must touch the inception point to be eligible for the cost of the incentive. INR 10 crore for the Ministry of Micro, Small & Medium Enterprises, INR 100 crore for others, and approximately INR 1000 crore for investment-oriented companies.

- The applicant can open a new unit or take an incentive for operating the existing unit.
- The scheme would support resource-friendly expenditure, including machinery, equipment, and technical enhancement, and would avoid expenditure for land and building.

The eligibility criteria vary for different sectors under the PLI scheme, which we will know in the Working model of the scheme below.

Working Model of the PLI Scheme

Initially, the scheme aimed at the following sectors:

  - Mobile and associated constituents manufacturing
  - Electrical Components Manufacturing
  - Medical equipment.

- Later, Honorable Finance Minister Smt Nirmala Sitharaman included more sectors in the scheme announcing an investment of INR 1.97 lakh, creating about 60 lakh new job opportunities and complementary Production of 30 lakh crore during the next five years.
- The PLI scheme is a five-year action plan with the base year of 2019-20. The following sectors come under the PLI scheme:

Pharmaceutical and Medicine Tool Manufacturing:

The Indian pharmaceutical industry contributes about 3.5% of the total medicines and drugs in the world. The Department of Pharmaceuticals is leading this scheme. To increase the production of bulk drugs at the domestic level, the Ministry has launched 2 schemes of support:

  - PLI scheme for bulk drugs
  - PLI scheme for manufacturing pharmaceuticals.
- The PLI scheme for bulk drugs grants an expenditure of 6940 crores, and the PLI scheme for manufacturing pharmaceuticals grants an expenditure of 15,000 crores.
- According to the eligibility guidelines, the company's net worth must not be less than 30% of the total investment committed.
- The aim is to produce high-value products in the global market and boost the drug-making capacity at the global level.

Mobile Phones and Associated Constituents:

The PLI scheme started from this domain. Electronic gadgets have a huge global market. The scheme's main aim was to attract global electrical giants like Samsung, Pegatron, Flex, and Foxcom to expand their presence in India by increasing the number of manufacturing units. These companies are in the final stages of consultations to benefit from the Ministry of Electronics and IT's PLI scheme for making mobile phones and electronic gadgets.

Under the scheme, companies that manufacture mobile phones of INR 15,000 and above will get an incentive of up to 6% on the step-by-step sale of such mobile phones in India. Total incentive over % years is approximated around INR 40,951 crores. The incentive has been bifurcated year-wise:

- First-year incentive: INR 5334 crores
- Second-year incentive: INR 8064 crores
- Third-year incentive: INR 8425 crores
- Fourth-year incentive: INR 11,488 crores
- Fifth-year incentive: INR 7640 crores.

Since the scheme was launched, many budget category companies like Lava, Karbonn, and Dixon have also increased their sales, while South Korean company Samsung, Taiwan’s Pegatron, and Singapore's Flex have shown considerable interest. LG India has also extended its manufacturing units. The scheme is implemented by a Nodal Agency, which provides executive and managemental support to the Ministry.

Telecommunication and Networking Gadgets

The PLI scheme for telecommunication and networking gadgets aims to provide 40000 job opportunities with an investment of around INR 3345 crores by 31 companies (including domestic and foreign companies). The scheme outlay is estimated to be INR 12,195 crores. The Department of Telecommunication would look after the amendments related to the scheme and the smooth functioning of companies to achieve the target.

The companies would get incentives of around 4% to 7% on the step-by-step sale of manufactured goods, including core transmission equipment, wireless accessed equipment, 4G and 5G channels, routers, and switches.

Textiles and Clothing:

The incentive percentage in this sector is highest among all other sectors. The scheme aims to provide around 11% incentives for manufactured goods, including Man-made textiles and Technical textiles, on incremental sales. The scheme has two parts. In the first part, the minimum incentive is around 300 crore rupees, and the minimum gross revenue attained by the incentive is 600 crore rupees.

The second part includes an incentive of 100 crore rupees and around 200 crores gross revenue for the incentive. To date, 61 out of 67 applications have been accepted, and the import duty on cotton is turned zero. The scheme outlay is estimated to be INR 10,683 crores.

Food Products

The PLI scheme for Food production and processing aims to increase the productivity of ready-to-cook and eat food products and increase the availability and processing of food in rural areas. The estimated scheme outlay is INR 10900 crore. The processed food is easy to store, decreasing the wastage of food, as most of the food in India which is kept in the buffer is wasted due to pest activities and various other aspects.

The Ministry has categorized the companies into three categories. 56 companies belong to category 1, 13 companies to category 2, and 80 companies in category 3. Specific products have a good market and also offer employment in numbers. The scheme targets this product line which includes honey, vegetables, mozzarella cheese, desi ghee, etc.

Automotive and Auto components:

The total outlay of the scheme in this sector is estimated to be INR 25938 crores. The scheme provides incentives of 18% for manufacturing advanced automobile components on an incremental basis. 95 companies have been selected under this scheme.

The increase in manufacturing would help our country to stand with other automotive giants. For this, more labor is required; hence more job opportunities are being offered under the scheme.

Aviation:

The Ministry of Civil aviation would implement the PLI scheme for this sector. The target product under this scheme would be drones and their related products. There has been some relaxation in drone rules by the Central government. Liberalized drone rules with advanced technology would help the country to lead the upcoming drone sector.

White Goods:

Department of promotion of Industry and Internal Trade has to give expenditure to develop a better sectoral model complemented by a boost in the market of internal goods and job opportunities. The incentives would be provided for products like LED, LED components, ACs, etc. The total outlay is around INR 6238 crores. By improving the scale of manufacture and enhancing the quality of products, the global market of White goods would be headed by India. The next five-year plan aims to produce around INR 17,000 crores from around 4-6% incentives.

Metals and Metallurgy:

The Ministry of Steel has calculated a total layout of around INR 6322 crore for the PLI scheme in this sector. The primary aim is to improve the exports and enhance the manufacturing capabilities to overrule the global market. The Ministry has distributed the incentives in 3 ways. 3% incentive would be provided to manufacturers who manufacture steel in construction and agriculture. 6% incentive for manufacturers who manufacture alloys and electro galvanized steel. 9% incentive is proposed for the manufacture of steel grade.

Non-Conventional Sources of Energy:

The Ministry of New and Renewable energy aims to harness the most abundant energy source, i.e., Solar energy, by introducing Highly efficient Solar PV models. The total outlay of the scheme is about INR 24000 crores. The target product to be manufactured is Solar photovoltaic systems. The scheme aims to get a direct investment of around INR 14000 crores from global market leaders.

Benefits of the PLI Scheme

The benefits of the Production Linked Incentives scheme are as follows:

1. Introduction of non-tariff rules to increase the rate of imports.
2. Increase job opportunities as it has around 10 sectors.
3. Identify the target product and increase its manufacturing units.
4. Development of domestic industries by giving incentives.
5. Aim to form a stable economy.