

विकास आयुक्त का कार्यालय  
(सूक्ष्म, लघु और मध्यम उद्यम)  
सूक्ष्म लघु और मध्यम उद्यम मंत्रालय  
(भारत सरकार)

निर्माण भवन, सातवीं मंजिल, मौलाना आजाद रोड,  
नई दिल्ली-110 108



सत्यमेव जयते

**MSME**  
MICRO, SMALL & MEDIUM ENTERPRISES  
सूक्ष्म लघु और मध्यम उद्यम

*SPEED Post*  
OFFICE OF THE DEVELOPMENT COMMISSIONER  
(MICRO, SMALL & MEDIUM ENTERPRISES)  
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No.6 (2)/NMCP/2010/TE18 / 18/6-48

Dated: 04.12.2011

To,

All the Directors,  
MSME-DIs

Sub. : - Manufacturing Policy-reg.

Enclosed please find a copy of D.O. letter received from Secretary, DIPP addressed to Secretary, MSME enclosing a copy of approved manufacturing policy document as notified through a press note dated 4<sup>th</sup> November, 2011.

- The importance of SMEs is well recognized in the manufacturing policy. There is substantive package for SME sector includes incentive for adoption of green technology through a technology fund/patent pool, mandatory environmental audit, water audit, waste water treatment, rain water harvesting and green building in the proposed National Investment and Manufacturing Zone (NIMZ).
- Further, to address the issues related to inadequate finance available to MSMEs, relief from long term capital gains tax is proposed on sale of residential house/plot, if the proceeds are reinvested in the equity a new start of SME entity in the manufacturing sector. There are series of other incentives forms part of notified manufacturing policy.
- You are requested to give wide publicity of the Manufacturing Policy and the recognition given to MSMEs in the policy document amongst the industry through Industrial Associations, Clusters Associations, Other Government and Non-Governmental organizations falls under your jurisdiction, so that they can reap the maximum benefit. The website address of DIPP is [dipp.nic.in](http://dipp.nic.in).

Yours faithfully,

*Rakesh Kumar Choudhary*  
(Rakesh Kumar Choudhary)  
Deputy Director (NMCP)  
Ph. 011-23062396, 9212256205

Encl. as stated above.

पी. के. चौधरी  
P. K. CHAUDHERY

सचिव भारत सरकार  
Secretary to Government of India



औद्योगिक नीति और संवर्धन विभाग

वाणिज्य एवं उद्योग मंत्रालय

उद्योग भवन, नई दिल्ली-110 107

Deptt. of Industrial Policy and Promotion

Ministry of Commerce & Industry

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e-mail : pkchaudhery@nic.in

D.O. No.: 9/2/2011-MPS

12<sup>th</sup> December, 2011

Dear R.K.,

As you are aware, the Government of India has announced a National Manufacturing Policy with the objective of enhancing the share of manufacturing in GDP to 25% within a decade and creating 100 million jobs. It also seeks to empower rural youth by imparting necessary skill sets to make them employable. Sustainable development is integral to the spirit of the policy and technological value addition in manufacturing has received special focus. The share of manufacturing in India's GDP has stagnated at 15-16% since 1980 while the share in comparable economies in Asia is much higher at 25 to 34%. Inadequate physical infrastructure, complex regulatory environment and inadequate availability of skilled manpower have constrained the growth of manufacturing in India. Recognizing that the manufacturing sector has a multiplier effect on the creation of jobs, even in allied sectors the Government has brought out this policy.

2. I enclose a copy of the approved policy document as notified through a Press Note dated 04<sup>th</sup> November, 2011 for your perusal and use.

3. Recognizing the importance of SMEs in the manufacturing output, employment and exports of the country, the policy incorporates a substantive package particularly for the SME Sector. As you would have seen from the document, SMEs are proposed to be incentivized for adoption of green technology through a technology fund/patent pool. Some incentives are also proposed only for SMEs in the NIMZ for mandatory environmental audit, water audit, waster water treatment, rain water harvesting and green buildings. Noting that one of the major challenges faced by the SMEs is inadequate access to finance, the policy provides for measures to enable entrepreneurs to raise equity for SMEs, for instance, rollover relief from long-term capital gains tax is proposed on sale of residential house/plot if the proceeds are re-invested in the

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equity of a new start up SME entity in the manufacturing sector. Tax pass-through status is proposed for venture capital funds with a focus on SMEs in the manufacturing sector. These are some of the major measures specific to SMEs in the policy. SMEs will also be eligible for all other measures proposed in the policy for manufacturing industry generally. For ease of reference, I enclose an extract of the measures in the policy specific to SMEs.

4. I shall be grateful, if you could issue appropriate instructions to your field staff to create awareness among SMEs and SME clusters regarding the incentives available to them specifically as also the other incentives generally available to manufacturing industries in the policy so that the sector as a whole is able to derive maximum benefit from these measures as and when they are put in place. This Department is now undertaking the implementation of the policy in a time bound manner. I will be forwarding to you, the relevant enabling orders/instructions/guidelines issued in respect of various elements of the policy in due course.

*With regards,*

Yours sincerely,

*PKCA*

**(P. K. Chaudhery)**

**Encl:** as above

**Shri R. K. Mathur**

Secretary

Ministry of Micro, Small & Medium Enterprises

Udyog Bhawan

New Delhi.

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**Proposals in the draft National Manufacturing policy pertaining to  
Ministry of Micro, Small and Medium Enterprises**

- (i) SMEs will be given access to the patent pool and/or part reimbursement of technology acquisition costs upto a maximum of Rs. 20 lakhs for the purpose of acquiring appropriate technologies patented upto a maximum of 5 years generally, prior to the date of submission of the project. [Chapter 4 – para 4.2(i)(a)]
- (ii) 25% grant to SMEs for expenditure incurred on environmental audits subject to a maximum of Rs.1 lakh and subject to improvements/correctives effected. [Chapter 4 – para 4.3(i)]
- (iii) 25% grant to SMEs for expenditure incurred on water audits subject to maximum of Rs.1 lakh. [Chapter 4 – para 4.3(ii)]
- (iv) Policy proposals for improving access to finance for SMEs in the manufacturing sector
  - a) Rollover relief from long term Capital Gains Tax to individuals on sale of a residential property (house or plot of land) in case of re-investment of sale consideration in the equity of a new start-up SME company in the manufacturing sector for the purchase of new plant and machinery. This would enable a large number of entrepreneurs to raise equity by selling of ancestral properties and to raise the level of investments in the SMEs in the manufacturing sector, apart from boosting employment.
  - b) Tax pass-through status for Venture Capital Funds with a focus on SMEs in the manufacturing sector. These VCFs will be required to be registered under the Securities and Exchange Board of India (Venture Capital Funds) Regulations 1996 and appropriately notified under the Income Tax Act.
  - c) Liberalization of RBI norms for banks investing in Venture Capital Funds with a focus on SMEs in the manufacturing sector, will be taken up in consultation with RBI.
  - d) Liberalization of IRDA guidelines to provide for investments by insurance companies in Venture Capital Funds with a focus on SMEs in the manufacturing sector, will be taken up in consultation with IRDA.

- e) Setting up of a stock exchange for SMEs and implementation of SEBI's 'framework for recognition and supervision of stock exchanges/platforms of stock exchanges for SMEs', which is expected to boost the access of VC funds to small and medium enterprises.
- f) Implementation of the recommendations made by the 'Task Force on Micro Small and Medium Enterprises (MSME)', presented to the Prime Minister on 31 January, 2010, including:
  - the creation of a separate fund with the Small Industries Development Bank of India (SIDBI) using the shortfalls against MSE credit targets for commercial banks.
  - strengthening of the National Small Industries Corporation (NSIC) equity base, to give the demand side impetus to MSME enterprises.
- g) Easier access to bank finance through appropriate bank lending norms, to be arrived at in consultation with RBI, to cater specifically to the MSME sector and early stage business units. This would involve a shift of lending focus from tangible assets to other kinds of assets.
- h) Inclusion of lending to SMEs engaged in manufacturing as part of 'priority sector' lending will be considered depending on the recommendations of the Committee set up to look into priority sector lending.

[Chaper 6 – para 6.2(i)-(viii)]

(v) Service entity for collection and payment of statutory dues of SMEs

The compliance burden of laws and regulations is particularly severe on SMEs. By their very nature SMEs have limited manpower and resources which could be used more fruitfully in production activities if there is a mechanism to take care of the statutory compliances. For instance, there are a number of payouts which a company has to make under the EPF Act; Employees Pension Scheme; ESI Act; Payment of Gratuity Act; Personal Injuries Act; Workman's Compensation Act; etc. It is proposed that the setting up of one or more service organizations will be considered to undertake the responsibility of collecting dues from the companies and making the necessary payouts in return for a charge linked to the wage bill of the company. If this role can be played by an insurance company, the exit mechanism as envisaged in Chapter 3 can also be part of the functions of this organization. Such an organization(s) can be licensed by the Government and the industry will have the option to use the services of such licensed organisation. The statutory liabilities under the laws would however be of the companies themselves. [Chapter 6 – para 6.3]

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Government of India  
Ministry of Commerce & Industry  
Department of Industrial Policy & Promotion  
(Manufacturing Policy Section)

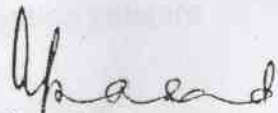
**PRESS NOTE NO. 2 (2011 SERIES)**

Subject: National Manufacturing Policy.

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The Government of India has announced a national manufacturing policy with the objective of enhancing the share of manufacturing in GDP to 25% within a decade and creating 100 million jobs. It also seeks to empower rural youth by imparting necessary skill sets to make them employable. Sustainable development is integral to the spirit of the policy and technological value addition in manufacturing has received special focus.

2. The share of manufacturing in India's GDP has stagnated at 15-16% since 1980 while the share in comparable economies in Asia is much higher at 25 to 34%.
3. Inadequate physical infrastructure, complex regulatory environment and inadequate availability of skilled manpower have constrained the growth of manufacturing in India.
4. Recognizing that the manufacturing sector has a multiplier effect on the creation of jobs, even in allied sectors, the government has brought out this policy.
5. The policy is based on the principle of industrial growth in partnership with the States. The Central Government will create the enabling policy frame work, provide incentives for infrastructure development on a Public Private Partnership (PPP) basis through appropriate financing instruments, and State Governments will be encouraged to adopt the instrumentalities provided in the policy.
6. The proposals in the policy are generally sector neutral, location neutral and technology neutral except incentivization of green technology. While the National Investment and Manufacturing Zones (NIMZs) are an important instrumentality, the proposals contained in the Policy apply to manufacturing industry throughout the country including wherever industry is able to organize itself into clusters and adopt a model of self-regulation as enunciated.
7. The approved policy document is annexed to this Press Note.

  
(Anjall Prasad)

Joint Secretary to the Government of India

File No. 10 (6) / 2010 - MPS

Dated: 04<sup>th</sup> November, 2011.

Copy forwarded to Press Information Officer, Press Information Bureau, Shastri Bhawan, New Delhi, for giving wide publicity to the above Press Note.

# **NATIONAL MANUFACTURING POLICY**

## **PREFACE**

The concern about the stagnant and low share of the manufacturing sector in India's GDP necessitated a dedicated policy for the sector with a view to accelerated development, inclusive growth and provision of gainful employment. The DIPP's vision to increase the share of manufacturing in GDP from 16% to 25% was endorsed in the conference of State Industry Ministers on 17 November 2009. The Hon'ble Commerce and Industry Minister made an announcement thereafter that the Government will come out with a manufacturing policy. Following this announcement, a draft was prepared and placed on the department's website on 31 March 2010 for stakeholder comments. As a response, the NMCC proposed a draft national manufacturing policy. Recently, the Planning Commission has prepared what it calls the National Manufacturing Plan. Relevant points from the NMCC and the Planning Commission papers have been incorporated in this policy document wherever appropriate.

Concomitant policy interventions which impact the manufacturing sector but which can be taken up for development of national policies in the medium term have not been directly addressed in this document. The Planning Commission has identified these as : digitization of land and resource maps and creation of land banks by states; water zoning; offset policy; fiscal and exchange rate measures; strategic acquisitions; development of world class manufacturing management capabilities; trade policy especially boosting India's exports; and reforming the role of public sector enterprises. A lower emission inclusive growth strategy is another important area. These issues may be addressed through separate policy initiatives.

This Policy document has been prepared after extensive stakeholder consultations and inputs from the industry, state governments and experts in the field of manufacturing, technology development, and business environment. The policy seeks to present specific action points in the areas identified as constraints that require immediate policy attention. There could be several other constraints which affect the sector but it is not possible to deal with all of them at the same time. This policy therefore does not claim to address all possible issues affecting the manufacturing sector in India but those that are critical to its growth at this juncture.

**1. POLICY STATEMENT**

1.1 In the last two decades, Indian economy has witnessed a transformational change and has emerged as one of the fastest growing economies of the world. Industrial development in Independent India was catalysed by three major industrial policy resolutions of Government of India in 1948, 1956 and 1991, which provided a strong industrial base. Economic reforms unveiled in 1991, have brought about a structural shift enabling the private sector to assume a much larger role in all sectors of economy. However, the growth of GDP in India has largely been enabled by a dynamic growth in the services sector.

1.2 Though in the recent past, the growth of the manufacturing sector has generally outpaced the overall growth rate of the economy, at just over 16 percent of GDP, the contribution of the manufacturing sector in India is much below its potential.

1.3 This situation is a cause of concern especially when seen in the context of transformation registered in this sector by other Asian countries in similar stages of development. The increasing gap in the sectoral share and the productivity of the manufacturing sector, between India and these economies, indicates that we have not been able to fully leverage the opportunities provided by the dynamics of globalization.

1.4 This also has attendant socio economic manifestations in terms of over dependence of a large section of the population on agriculture for its livelihood, disguised unemployment and urban unemployment. India has a favourable demographic profile with over 60% of population in the working age group of 15-59 years. For a country with the largest young population in the world, this creates a challenge of significant magnitude. Over the next decade, India has to create gainful employment opportunities for a large section of its population, with varying degrees of skills and qualifications. This will entail creation of 220 million jobs by 2025 in order to reap the demographic dividend. The manufacturing sector would have to be the bulwark of this employment creation initiative. Every job created in manufacturing has a multiplier effect of creating two to three additional jobs in related activities. Therefore, a thrust on manufacturing is integral to the inclusive growth agenda of the government.

1.5 Besides the employment imperative, the development of the manufacturing sector is critical from the point of view of ensuring that the growth model of India is sustainable by providing value addition to our natural and agricultural resources, addressing our strategic needs, and developing new technologies for the welfare of our citizens.

1.6 The relatively low level of 'value-addition' in the products manufactured in the country, and the growing imports of capital equipment – the building blocks of a

country's manufacturing competitiveness also needs to be addressed urgently. Acquiring depth in manufacturing is crucial from the stand point of long-term competitiveness in strategic areas of economy such as defence and tele-communication. It is important to have a strong indigenous value chain addition element from the stand point of national security.

1.7 Finally, the growth of the manufacturing sector has to be made sustainable, particularly ensuring environmental sustainability through green technologies, energy efficiency, and optimal utilization of natural resources and restoration of damaged / degraded eco-systems.

1.8 Developments of Indian manufacturing sector calls for deepening and recalibrating of economic reforms that would strengthen the sector and make it grow faster and become an engine of inclusive growth.

1.9 Government of India decided to bring out the National Manufacturing Policy to bring about a quantitative and qualitative change with the following six objectives:

- i. Increase manufacturing sector growth to 12-14% over the medium term to make it the engine of growth for the economy. The 2 to 4 % differential over the medium term growth rate of the overall economy will enable manufacturing to contribute at least 25% of the National GDP by 2022.
- ii. Increase the rate of job creation in manufacturing to create 100 million additional jobs by 2022.
- iii. Creation of appropriate skill sets among the rural migrant and urban poor to make growth inclusive.
- iv. Increase domestic value addition and technological 'depth' in manufacturing.
- v. Enhance global competitiveness of Indian manufacturing through appropriate policy support.
- vi. Ensure sustainability of growth, particularly with regard to the environment including energy efficiency, optimal utilization of natural resources and restoration of damaged/ degraded eco-systems.

1.10 In order to achieve these goals:-

- i. Foreign investments and technologies will be welcomed while leveraging the country's expanding market for manufactured goods to induce the building of more manufacturing capabilities and technologies within the country;
- ii. Competitiveness of enterprises in the country will be the guiding principle in the design and implementation of policies and programmes;
- iii. Compliance burden on industry arising out of procedural and regulatory formalities will be reduced through rationalization of business regulations.
- iv. Innovation will be encouraged for augmenting productivity, quality, and growth of enterprises; and
- v. Effective consultative mechanism with all stake holders will be instituted to ensure mid-course corrections.

1.11 The following industry verticals will be given special attention:

- i. **Employment intensive industries:** Adequate support will be given to promote and strengthen employment intensive industries to ensure job creation. Special attention will be given in respect of textiles and garments; leather and footwear; gems and jewellery; and food processing industries.
- ii. **Capital Goods:** A robust economic growth would necessitate a strong demand for capital goods. Such growth would create a strong and continuing demand for capital goods. The capital goods industry, which is the mother industry for manufacturing has not grown at the desired pace. A special focus will be given to machine tools; heavy electrical equipments; heavy transport, earth moving and mining equipments.

Time bound programmes will be initiated for building strong capacities with R&D facilities and also to encourage growth and development of these capacities in the private sector while strategically strengthening the public sector to complement the private initiatives where essential.

- iii. **Industries with strategic significance:** A strategic requirement of the country would warrant the launch of programmes to build national capabilities to make India a major force in sectors like aerospace; shipping; IT hardware and electronics; telecommunication equipment; defence equipment; and solar energy. Mission mode projects will be conceptualised in each of these sectors, recognizing the fact that a mission on solar energy has already been launched under the National Action Plan on Climate Change.
- iv. **Industries where India enjoys a competitive advantage:** India's large domestic market coupled with a strong engineering base has created indigenous expertise and cost effective manufacturing in automobiles; pharmaceuticals; and medical equipment. The concerned ministries will be formulating special programmes to consolidate strong industry base to retain the global leadership position.
- v. **Small and Medium Enterprises :** The SME sector contributes about 45% to the manufacturing output, 40% of the total exports, and offers employment opportunities both for self-employment and jobs, across diverse geographies. A healthy rate of growth shall be ensured for the overall growth of the manufacturing sector as also the national economy by policy interventions in areas like manufacturing management, including accelerated adoption of Information technology; skill development; access to capital; marketing; procedural simplification and governance reform.

The National Manufacturing Competitiveness Programme, being implemented by M/o MSME will be strengthened, and the recommendations of Task Force on MSME for creation of a separate fund with SIDBI, strengthening of NSIC, modification of lending norms and inclusion of lending to MSMEs under 'priority sector' lending will be given due regard in taking appropriate measures.

- vi. **Public Sector Enterprises:** Public Sector Undertakings, especially those in Defence and Energy sectors, continue to play a major role in the growth of manufacturing as well as of the national economy. A suitable policy framework will be formulated in this regard to make PSUs competitive while ensuring functional autonomy.

1.12 Specific policy instruments have been conceptualized to achieve the objectives stated above. These instruments which are outlined in greater detail in Part-B of the Policy document broadly cover the following areas:-

- i. Rationalization and simplification of business regulations;
- ii. Simple and expeditious exit mechanism for closure of sick units while protecting labour interests;
- iii. Financial and institutional mechanisms for technology development, including green technologies;
- iv. Industrial training and skill up gradation measures;
- v. Incentives for SMEs;
- vi. Special Focus Sectors;
- vii. Leveraging infrastructure deficit and government procurement - including defence;
- viii. Clustering and aggregation : National Investment and Manufacturing Zones (NIMZs);
- ix. Trade Policy.

1.13 Global experience of manufacturing has shown the advantages of clustering and agglomeration as it enhances supply chain responsiveness, provides easier access to market, talent and substantially lowers logistic costs. Though the government has been executing multiple schemes for promoting industrial clusters, full benefits of agglomeration are yet to be realized. One of the key instruments to catalyze the growth of manufacturing will be establishment of National Investment and Manufacturing Zones (NIMZs) which will be developed in the nature of green field industrial townships, benchmarked with the best manufacturing hubs in the world. These will also help us to meet the increasing demand for creating world-class urban centres in India, while will also absorb surplus labour by providing them

gainful employment opportunities. These NIMZs will seek to address the infrastructural bottleneck which has been cited as a constraining factor for the growth of manufacturing.

1.14 A comprehensive exit policy will be put in place which will promote productivity while providing flexibility by removing rigidity in the labour market and ensuring protection of workers' rights as laid down in the statute.

1.15 The growth of manufacturing has to come hand in hand with the concerted thrust on skill development programme. The National Skill Development Initiative launched by the Government of India has provided a renewed thrust to build productive capacities. This Policy seeks to make skill development integral to productive enterprise in the country which would be supported by robust government institutions.

1.16 The thrust with regard to labour management will be to encourage unions and employers to develop better institutional arrangements in the states, and within production units, through dialogue and consultation. The stress will be on rationalisation in employment laws and in shop floor practices.

1.17 Manufacturing management will be given a focused attention as it will facilitate improvement of productivity, quality and competitiveness of manufacturing enterprise. Industry will be encouraged to collaborate with higher educational institutions to develop curricula for grooming graduate engineers and supervisory managers for various facets of manufacturing.

1.18 In the context of sustainable development and in order to drive the "greening" of manufacturing operations and to explore the emerging technologies in this area, which offer opportunities to build local and global leadership, the government will take recourse to both regulatory as well as market based policy interventions. Government would prescribe emission and discharge standards, excluding green house gas emissions, and the choice of technologies to meet the standards would be decided by the project promoters. The Government will provide continuous incentives, monetary and otherwise, to encourage polluting entities to reduce releases of harmful pollutants to ensure that the standards are complied with.

1.19 Land has emerged as a major constraint for industrial growth in recent years. The Government will take measures to make industrial land available, which is critical for sustained industrial growth through creation of land banks by States; digitization of land and resources maps; and programmes for utilization of lands locked under non productive uses, including defunct or sick industries.

1.20 Manufacturing and technology development are closely inter-connected as technologies become useful when they are converted into products through manufacturing and the feedback from manufacturing fosters continuing technology development.

1.21 By leveraging the strength of our large market, policies and measures will be taken to ensure access for Indian companies to foreign technologies as well as development of advanced indigenous technologies. These would include:

- i. Incentives, in the form of tax concessions and government subsidies, for indigenous development of technology;
- ii. Partnerships between industries and government laboratories;
- iii. Preferential purchases by government agencies of indigenously developed products and technologies;
- iv. Judicious development of an Intellectual Property regime to enable more collaborative innovation, as well as more indigenous innovation and improved access to environmentally friendly technologies. India will be very cautious about further expansions beyond the present TRIPS regime which could have implications on development and ownership of technologies within the country and
- v. Joint ventures between foreign companies and Indian partners.

1.22 Trade and investment policy are inextricably linked with manufacturing policy to ensure greater harmony of objectives. While India will continue to integrate itself with the globalised world through bilateral and regional free trade agreements/comprehensive economic partnership agreements, it will be ensured that such agreements do not have a detrimental effect on domestic manufacturing in India. The government will also consider use of public procurement in specified sectors with stipulation of local value addition in areas of critical technologies and wherever necessary such as solar energy equipment, electronic hardware, fuel efficient transport equipment and IT based security systems.

1.23 The growth of manufacturing at over 12 percent per annum over the medium to long term would exert a lot of pressure on raw materials markets. Arrangements for assured supply of such materials over the long term will be put in place. Acquisition of advanced technology companies would facilitate transfer of technology to the parent manufacturing company, while acquisition of companies enjoying better brand value or strategic location advantages would enhance market access of Indian firms. For these to be achieved a clear set of policy guidelines will be put in place by the Government.

1.24 Implementation of the policy is as important as policy making itself, as unless properly implemented, the policy by itself will not deliver the desired result. In order to ensure effective implementation of the Policy, a manufacturing policy review mechanism will be instituted and a high-level committee chaired by Secretary, Department of Industrial Policy and Promotion will monitor the implementation on a regular basis. A Manufacturing Industry Promotion Board (MIPB) at the level of Union Minister of Commerce and Industry will be constituted to ensure coordination amongst Central Ministries and State Governments. State Governments would need to be equal partners in giving effect to this policy and the State Industry Ministers Conference will be convened on a half-yearly basis to initiate a dialogue for giving a focused thrust to manufacturing.

## **2. RATIONALIZATION AND SIMPLIFICATION OF BUSINESS REGULATIONS**

### **Rationalization of Regulatory Procedures**

2.1 On an average, a manufacturing unit needs to comply with nearly 70 laws and regulations. Apart from facing multiple inspections, these units have to file sometime as many as 100 returns in a year. This kind of compliance burden puts-off young entrepreneurs and they are not willing to take up an entrepreneurial role. As a result, a large number of people who could have been self employed and would contribute to further employment and enhance economic activity, end up accepting jobs much below their potential.

2.2 A number of efforts have been made in the past to bring down this compliance burden. There have been attempts at single window systems and fast track approvals. In certain cases technology has been leveraged to enable electronic approvals. These efforts have been only partially successful, because different Government departments are not willing to shed or reinvent their roles. The Government has to recognise the need to reinvent itself and allow the industry to self regulate itself to the extent possible. The objective of an act or regulation should be achieved without being intrusive and giving rise to complaints of corruption.

2.3 Several provisions of different acts may either be rationalised or implemented in cooperation with public or private institutions under the overall control of statutory authorities to facilitate the entrepreneurs. It is, therefore, proposed to have the following framework:

- i) Central/ State Governments may provide exemptions subject to fulfilment of conditions as provided in the statute. SPV may act as a facilitator in this regard.
- ii) Mechanisms may be developed for cooperation of public or private institutions with government inspection services under the overall control of statutory authorities. In respect of environmental laws/regulations, the inspection by specially trained/designated/notified agencies for third party inspection shall be considered to supplement the inspection by the Government agencies for compliance monitoring.
- iii) In respect of laws and regulations pertaining to environment, Central/State Governments may delegate the power as allowed by the relevant statutes to an official of the State Pollution Control Board (SPCB) posted in the zone. The Environmental Clearances for NIMZ units under the EIA Notification, 2006 shall be considered on a high priority, and the units thereon will be exempted from public hearing provided under the EIA Notification, 2006 in cases where such estates have undergone public hearing as a whole. Further, facilitative instructions and guidelines may be issued at the Central and State level from

time to time aiming at promotion of NIMZ investment while safeguarding environmental integrity.

- iv) The entire process of clearances by Central and State authorities will be progressively made web-enabled.
- v) Timelines will be defined in respect of all clearances. In case the decision is not taken in the specified timeline, the clearance will be 'deemed' to have been given on expiry of timeline.
- vi) A Combined Application Form and a Common Register will be developed as far as practicable.
- vii) Submission of multiple returns to different departments will be replaced by one simplified Monthly/ Quarterly return wherever feasible.

2.4 Of all the statutory clearances for running the industry, the most significant and important are the environment clearances and matters relating to labour welfare. Major environmental aspects will be taken care of in the NIMZ in the beginning itself by having an impact study while doing selection of the site and subsequently by having proper zoning during Master Planning. The Exit Policy will be prepared keeping in view the provisions for protection of workers' rights within the statutory framework. Mechanisms may be developed for cooperation of public or private institutions with government inspection services under the overall control of statutory authorities. Subject to setting up a suitable mechanism in concurrence with the Ministry of Labour & Employment to enforce various labour laws, the appropriate Government shall delegate the powers of inspection and enforcement to CEO of SPV who shall be a senior Government official. The Government will conduct periodic audit of the enforcement mechanism put in place to ensure compliance of all labour welfare provisions.

### **3. EXIT MECHANISM**

Continuation of non-viable businesses leads to locking of funds and capital assets, which can be more productively deployed for generation of higher output, incomes and employment. An expeditious exit mechanism is therefore essential for investments locked up in businesses. The National Manufacturing Policy seeks to introduce policy measures to facilitate the expeditious redeployment of assets belonging to non viable units, while giving full protection to the interests of the employees.

#### **3.1 Job Loss Policy**

Under Section 25FFF of the Industrial Disputes Act there is a mandatory requirement to pay compensation equivalent to fifteen days' average pay for every completed year of continuous service, or any part thereof in excess of six months. Under the Job Loss Policy, it is for firms operating in the NIMZs to insure workers against loss of employment in the event of a unit requiring to close down, or to reduce the workforce, due to financial constraints. This policy will be utilized for payment of compensation to workers at the time of closure or right sizing of the company if circumstances require them to do so.

The job loss policy will enable units to pay suitable worker compensation in the eventuality of business losses/closure through insurance and thereby eliminate the charge on the assets. This compensation may be equivalent to twenty days' average pay for every completed year of continuous service or any part thereof in excess of six months. SPV will facilitate companies to buy this insurance to meet the statutory requirement of retrenchment compensation, at the stage of land allotment at a premium determined by the SPV on the basis of competitive bidding. The insurance policy will be purchased before start of operations. The premium for the insurance will be paid upfront to create a safety net for the workers in the event of job loss. The SPV will be responsible for monitoring this.

#### **3.2 Sinking Fund**

As an alternative to job loss policy, the SPV can opt for a sinking fund mechanism to be funded by contributions as decided by the SPV. The terms and conditions for the creation and operation of the fund will be notified by the Central Government /State Governments. A certain minimum level of money commensurate with the expected liabilities will at all times be maintained in the sinking fund. The fund shall be continuously recouped in case money is drawn from the same. In case of the sinking fund route also, the worker compensation may be equivalent to twenty days' average pay for every completed year of continuous service or any part thereof in excess of six months.

#### **3.3 Combination of the two mechanisms:**

The SPV may opt either for a job loss policy or a sinking fund or a combination of the two for example the SPV may buy a policy out of the sinking fund. The SPV can

evolve any other suitable option/arrangement also. The SPV will be responsible to ensure that other statutory payments like EPF contribution and ESI are kept upto date. Subject to such arrangements being in place, to the satisfaction of Government, the assets of any sick unit could be allowed to be redeployed by freeing from the charge of the labour dues.

#### **3.4. Asset Redeployment**

The transfer of assets belonging to a firm which has been declared sick will be facilitated by the SPV of the concerned NIMZ. Such facilitation will be part of the contractual agreement between the SPV and the firm at the time of allotment of land and shall be initiated by the SPV provided the concerned firm is able to provide a 'Non- Encumbrance Certificate' after clearing all the dues, including statutory dues, to its creditors and to its employees. The mediation undertaken by the SPV will be aimed at realising the best value for the assets which can then be re-deployed for other productive purposes.

Similarly, the SPV will undertake the role of redeploying the labour of such units to others in the NIMZ which have a shortage. This redeployment shall be from the date of closure at the same remuneration and on the same terms and conditions of service as applicable to him immediately before the closure (will require extension of Section 25FFF(1A) to 'manufacturing'. This section currently refers only to 'mining').

In case there is a time lag between the closure of the unit and redeployment of the workers in another unit in the NIMZ, the compensation for the interim period will be charged to the sinking fund or insurance as appropriate. The same shall be however recouped through subscription from SPV members to ensure that a certain minimum level as specified in para 3.2 is maintained.

#### **3.5. Exemption from Capital Gains Tax**

Relief from Capital Gains Tax on sale of plant and machinery of a unit located in a NIMZ will be granted in case of re-investment of sale consideration within a period of three years for purchase of new plant & machinery in any other unit located in the same NIMZ or another NIMZ. This measure is proposed to encourage re-investment of income generated from the disposal of assets (other than land) owned by a company operating within the NIMZ, in the manufacturing sector.

## 4. TECHNOLOGY ACQUISITION AND DEVELOPMENT

Technology development and upgradation is critical to attaining the stated objectives of the Policy. Going up the technology ladder is the quickest way to become globally competitive and ensure sustained growth of the manufacturing sector. This will depend not just on development of indigenous technological expertise, but also on the ability to make crucial technology acquisitions in the global market.

In today's world, green technology is not a choice but an imperative for sustainable development. Availability of affordable technologies has always been a constraint on our manufacturing growth. Adoption and/or adaptation of these technologies entail costs which are substantial especially for SMEs. Hence, there is a need for supporting adoption of green technologies and resource conservation practices.

**4.1** The National Manufacturing Policy will leverage the existing incentives/schemes of the Government of India and also introduce new mechanisms to promote green technologies.

**4.1.1** This will necessitate specification of clear definitions/eligibility criteria for what can be categorised as 'Clean and Green'. The system for defining and implementing Greener and Cleaner Technology shall be devised which would address the following issues:

- Objective criteria will be prescribed by a Committee called the Green Manufacturing Committee (GMAC) comprising representatives from the concerned Ministries/Departments of the Central Government and relevant sectoral experts from outside government. The criteria will be consistent with the objective of the national action plan on climate change and the strategy for inclusive sustainable development.
- The criteria will be reviewed by the Committee annually as technology is dynamic and evolving constantly.

**4.1.2** SPV of NIMZ will be enjoined with the responsibility of ensuring project compliance with the above-mentioned criteria set-up by the Committee and also put up the cases for incentives after due diligence. The onus of proving 'cleaner'/'greener'/'energy efficient' will be on the claimant subject to third party certification by an agency/expert drawn from a panel approved by the GMAC. The claimant will provide clear, objective information on the product/technology throughout the lifecycle from manufacture to disposal. **In case of industrial areas/establishments located outside the NIMZ, the administrative body established through relevant statutes of the Central/State Governments shall perform the role of the SPV.**

**4.2** In order to promote acquisition and development of appropriate technology in the country, the following measures are proposed:

## **(i) Technology Acquisition and Development Fund(TADF)**

A Technology Acquisition and Development Fund will be established for acquisition of appropriate technologies including environment friendly technologies; creation of a patent pool; and development of domestic manufacturing of equipments used for controlling pollution and reducing energy consumption. TADF will address these concerns across a broadbased set of industries /sectors and it will be decided upfront for each sector as to how many units with a specific technology in the particular sector will be supported

- (a) SMEs will be given access to the patent pool and/or part reimbursement of technology acquisition costs upto a maximum of Rs. 20 lakhs for the purpose of acquiring appropriate technologies patented upto a maximum of 5 years generally, prior to the date of submission of the project.
- (b) Incentive for production of equipment/machines/devices for controlling pollution, reducing energy consumption and for water conservation: The fund will provide incentives for manufacturing/developing:
  - i. Equipment and/or technologies used to produce energy from the sun, wind, geothermal and other renewable resources; clean coal technology; creation and management of carbon sinks.
  - ii. Equipment used in energy-conservation technologies (including energy-conserving lighting technologies and smart grid technologies).
  - iii. Equipment used to refine or blend renewable fuels.
  - iv. Fuel Cells, Micro-turbines or energy-storage systems for use with electric or hybrid-electric motor vehicles.These incentives shall consist of:
  - Five percent interest reimbursement of the nominal interest charged by lending agency;
  - Ten percent capital subsidy.
- (c) Operation, Monitoring and Review of the Fund will be done by the Green Manufacturing Committee.

### 4.3. Green Manufacturing – Incentives

<b>i) Environmental Audit</b>	
Environmental audit will be mandatory for industrial and institutional units in NIMZs	<p>Audit will be carried out by the industrial/institutional units through external auditors/firms drawn from an approved panel of environmental auditors. The panel as approved by the GMAC will be maintained by the SPV.</p> <p>25% grant to SMEs for expenditure incurred on audits subject to a maximum of Rs.1 lakh and subject to improvements/correctives effected. Third party certification in this case will cover certification of the corrective action.</p> <p>The audit for each industrial/institutional unit will be done as per applicable legislations and rules.</p>
<b>ii) Water Conservation</b>	
Water Audit will be mandatory for industrial and institutional units in NIMZ	<p>(i) Audit will be carried out mandatorily by the industrial/institutional units through external auditors/firms drawn from an approved panel of environmental auditors. The panel as approved by the GMAC will be maintained by the SPV.</p> <p>25% grant to SMEs for expenditure incurred on audits subject to maximum of Rs.1 lakh.</p> <p>The water audit will be done as per applicable legislations and rules</p> <p>(ii) Exemption from water cess: Sec.16 of the Water Cess (Amendment) Act, 2003, provides <i>inter alia</i> that the Central Government may by notification exempt any industry consuming water below the quantity specified in the notification from the levy of water cess.</p>
<b>iii) Wastewater treatment</b>	<p>(i) Mandatory treatment of waste-water by every industry as per CPCB and PCB norms.</p> <p>(ii) Units practicing zero water discharge will be eligible for 10% one time capital subsidy on the relevant equipment/systems subject to actual usage for one year and third party certification (panel approved by GMAC).</p> <p>(iii) Rebate on Water Cess to industries setting-up wastewater recycling facilities as per Water Cess Act, 1977.</p>

<b>iv) Rain Water Harvesting</b>	Will be compulsory for the developer, all industrial/institutional units as per guidelines to be formulated by the GMAC.
<b>v) Renewable Energy</b>	Appropriate incentives under the existing schemes of Government of India and State Governments will be available for specific projects.
<b>vi) Green buildings</b>	All buildings (more than 2,000 sqm built up area) in the NIMZ including industrial/institutional/commercial/residential which obtain green rating under the Indian Green Building Council (IGBC/LEED) or GRIHA systems will be eligible for an incentive of Rs.2 lakhs.

#### **4.4. Compulsory licensing :**

**4.4.1** On occasion, a company may be unable to access the latest patented green technology, which can substantially reduce its carbon footprint, because of its inability to obtain a voluntary license from the patent holder. This could arise for two reasons. First, the cost of obtaining such voluntary license could be a barrier for the company. Second, the patent holder could be unwilling to part with the license, or it is not available at reasonable rates or it is not being worked in India.

**4.4.2** To address the first issue, the Technology Acquisition and Development Fund will also function as an autonomous patent pool and licensing agency. It will purchase Intellectual Property (IP) rights to inventions from patent holders. Any company that wants to use the IP to produce or develop products can seek a license from the pool against the payment of royalties. This company may then produce the product for use in specified geographical areas subject to meeting agreed quality standards. The TADF would reserve the right to license more than one company for a particular patent.

**4.4.3** To address the second issue, the Fund will have the option to approach the Government for issue of a Compulsory License for the technology which is not being provided by the patent holder at reasonable rates or is not being worked in India to meet the domestic demand in a satisfactory manner. Such compulsory licenses will be issued only within the provisions of TRIPS. Reasonable royalty will be paid to the patent holder.

## 5. INDUSTRIAL TRAINING & SKILL UPGRADATION MEASURES

It is estimated that between 2007-2017, 85 million persons will be added to the labour force. The growth of total employment during this period, based on the assumptions about employment elasticity and sectoral GDP growth rates, is estimated at 116 million. With incremental job opportunities in agriculture being negative, entire projected increase in workers will be accommodated in the manufacturing and services sectors. Additional job opportunities in manufacturing alone are estimated at 24.5 million during 2006-2017<sup>1</sup>. All these jobs would require sector and skill specific trained workforce. Since only 6% of the Indian workforce receives any form of vocational training currently, there is a pronounced 'skill gap' both in terms of quality and quantity. Overall skill gap would be significantly larger than the incremental workforce as even the existing workforce would need retraining/skill specific training. Recognizing the urgency of interventions needed to address both the qualitative and quantitative gaps in skill development, the National Manufacturing Policy proposes to create a three tier structure for skill development, namely:

- i. Skill building among large number of minimally educated workforce;
- ii. Relevant vocational and skill training through establishment of ITIs in PPP mode;
- iii. Specialized skill development through establishment of Polytechnics;
- iv. Establishment of Instructor's Training Centre in each NIMZ.

### 5.1 Skill-building among the minimally educated workforce:

- i. Skill-building in this segment would include 'Farm to Work', and 'School to Work' programmes targeted at the minimally educated workforce entering the non-agricultural sector for the first time and seeking seasonal employment. This group will be trained for low skill categories as loaders, cleaners, etc, as well as for skills of basic operations on the factory shop-floor, basic machine operations, and compliance with safety and quality requirements based on the ability and aptitude of trainees and the area specific skill gaps identified. Skill-building will also cover behavioural aspects pertaining to the urban-industrial work culture — timeliness, reporting, and ability to work in an organized set-up.
- ii. These will be demand driven short-term training courses based on Modular Employable Skills (MES) prescribed by DGET. The courses will be of short duration so that the opportunity cost of being away from productive work opportunities during training period is minimised.
- iii. Efforts of private sector companies/institutions, directly or through their non profit arms, on skill upgradation, will be scaled up with appropriate incentives and infrastructural support, through a mix of viability gap funding and weighted deductions.

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<sup>1</sup>Eleventh Five Year Plan 2007-2012- Volume I Inclusive Growth

To encourage private sector to effectively participate in the skill development initiative, the Government will provide a weighted standard deduction of 150% of the expenditure (other than land or building) incurred on Public Private Partnership (PPP) projects for skill development in manufacturing sector in separate facilities in coordination with NSDC.

- iv. Training and course content in local languages will be ensured.
- v. The apprenticeship concept is the most important intermediary step for improving employability of the workers. There hardly exists any institutionalized infrastructure which matches an apprenticeship candidate to an employer; an employer to a candidate; and a trained apprentice to a job. The apprenticeship programme will be remodelled so that it becomes effective on the job training rather than mere compliance with the Act without any focus on the outcome. Its scope will be widened to cover most sectors of the economy in consultation with industry and industry associations. This remodelling of the apprenticeship programme will be done by the Ministry of Labour and Employment.
- vi. In a NIMZ, the SPV will undertake skill up gradation in co-ordination with the National Skill Development Corporation (NSDC):
  - (a) Preference will be given to the local residents in the first five years of operation and training will be extended to others only if all the available seats are not filled up by the local residents.
  - (b) Independent certification and assessment by third party agencies acceptable to the industry will be mandatory to ensure quality standards and employment.
  - (c) The SPV and the service provider will undertake appropriate awareness and publicity campaign in local electronic/print media and organise meetings in different locations for mobilisation and selection of trainees.
  - (d) Wherever necessary, boarding and lodging facilities will be provided to the trainees by the SPV and service provider for trainees from the remote locations. In other cases, trainees will be provided with to-and-fro transport and food.

**5.2 Establishment of ITIs:** There are currently 8306 ITIs/ITCs (as on July 15, 2010) with a capacity of training 1.16 million persons per year. Though the 11<sup>th</sup> plan already envisages setting up of 500 new ITIs in industrial clusters/SEZs and 1000 new ITIs in other areas based on demand via the PPP route, the overall availability of training infrastructure will remain grossly inadequate. A study conducted by ICRA Management Consulting Services Limited (IMaCS) for the National Skill Development Corporation has identified a skill gap of 240 to 250 million persons until 2022. Close to 90 million of the identified skill gaps is expected to be in the manufacturing sector<sup>2</sup>. In line with the vision of the plan, a proposal outlining the details of expanding the existing training infrastructure is as below:

- i. As in section 5.1(iii), to encourage the private sector to set up their own institutions, the government will provide weighted standard deduction of 150% of the expenditure (other than land or building) incurred on Public Private Partnership (PPP) project for skill development in the ITIs in manufacturing sector in separate facilities in coordination with NSDC.
- ii. Companies will be enabled to utilize the existing facilities of ITIs/ITCs for conducting evening courses. This will also reduce the initial capital cost on setting up of the institutions.
- iii. The training modules and materials for most of the trades have become outdated and are not in line with the needs of the industry. Industry will be involved in developing training modules and developing benchmarks for assessments to evaluate skills, in classrooms, on-the-job training or internships. Development of training modules will be a continuous process and skill sets provided will be fully marketable.
- iv. In a NIMZ, the SPV will be mandated to establish an ITI under the existing rules, on Build, Own and Operate (BOO) basis.
  - (a) The SPV will assess the critical elements that determine the financial viability of the ITI, viz: identification of skill gaps and assessment of course/ training requirements, infrastructure for training and capital costs, technical parameters, quality to be maintained etc.
  - (b) These parameters will be clearly stated in the Request for Proposal to be published by the SPV. Qualified service providers (SPs) can then submit their proposal to the SPV for appraisal stating the user charge they will levy for providing the required services.
  - (c) For the development of the ITI in the NIMZ the SPV will enter into a contract with selected service providers (SPs). The terms of the contract for every NIMZ may vary according to specific requirements of each NIMZ.

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<sup>2</sup>Presentation by National Skill Development Corporation to the National Skill Development Coordination Board on September 15, 2010.

- (d) The ITI developed by SPV in NIMZ in itself may have only limited physical infrastructure to reduce capital costs, and specific job-based training may be imparted on the shop floor of the industries involved, or by specialized agencies contracted by the industry.
  - (e) The curriculum will be shaped by the industry representatives belonging to the NIMZ in accordance with the DGET norms. The trades and the curricula will be dynamic in nature and determined by the requirements of the industries so that the courses are job-oriented.
  - (f) The institute may be started with a few trades which have got immediate potential of employment but will have enough space for future expansion. This may require a system of standards and specification which can be a part of the contract with the SPV.
  - (g) The ITI will also be available for skill upgradation of existing workers.
  - (h) The ITI will be accredited with the Directorate General of Employment and Training.
- v. Each ITI irrespective of its area of operation will have a placement cell to coordinate placement of trained workers. Cost of placement cells will be provided by Central Government for first five years.

**5.3 Establishment of Polytechnics:** Initiatives in this area would include setting up of institutes of specialized learning such as a specialized Polytechnic for the automobile sector, or a Polytechnic focused on high-tech manufacturing and semi-conductors for the electronics sector, or one that fosters innovation and product development in the IT/ITES sector. These institutes will be a crucible for specialized skills in the workforce as well as for upgrading skills in the existing workforce.

Central Government will give Viability Gap Funding for setting up of these polytechnics covering the capital cost as per the VGF guidelines of the Ministry of Finance. Such funding will also be available to SPV in NIMZ. The mode of operationalization will be the same as discussed above for ITIs. Accreditation will be done as per the existing norms of the government.

## 6. SMALL & MEDIUM ENTERPRISES

The Small and Medium Enterprises (SME) contribute significantly to the manufacturing output, employment and exports of the country. It is estimated that, in terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. The sector is estimated to employ about 59 million persons in over 26 million units throughout the country. Further, this sector has consistently registered a higher growth rate than the rest of the industrial sector. There are over 6000 products, ranging from traditional to high-tech items, which are being manufactured by the SMEs in India. The MSME sector provides the maximum opportunities for both self-employment and jobs after agriculture sector.<sup>3</sup>

### 6.1 Access to Finance

One of the major challenges faced by SMEs is inadequate access to adequate and timely finance, mainly due to lack of financial information and non-formal business practices. They are largely dependent on promoters' resources and loans from financial institutions and banks.

- **Capital Markets:** are difficult to access, due to high costs, difficulties in complying with regulatory requirements etc.
- **Promoters' equity:** by its very nature, can provide only limited access to funding.
- **Bank finances:** access is limited, due to the inability of SMEs to create tangible assets, as also the debt-equity ratio norms followed by banks. Inadequate capital infusion, resulting in denial of adequate bank finance, is one of the basic reasons of sickness in such units.
- **Venture Capital/ Private Equity Funds:** First generation entrepreneurs, investing in SMEs, have also found access to VC funds difficult, despite the Venture Capital (VC) and Private Equity (PE) market having grown considerably in India. As per industry sources, there are over 250 VC/PE firms operating in India and the total private equity investments in the calendar year 2010, until September, 2010, stood at \$7.18 billion. However, VC/PE firms exhibit a marked preference to invest in medium and large sized firms. The reasons for this include greater costs of monitoring of SME units, non-formal operating structures, inadequate levels of disclosure, etc.

### 6.2 Policy proposals for improving access to finance for SMEs in the manufacturing sector

- i. Rollover relief from long term Capital Gains Tax to individuals on sale of a residential property (house or plot of land) in case of re-investment

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<sup>3</sup> Annual Report, Ministry of MSME, 2009-10

of sale consideration in the equity of a new start-up SME company in the manufacturing sector for the purchase of new plant and machinery. This would enable a large number of entrepreneurs to raise equity by selling of ancestral properties and to raise the level of investments in the SMEs in the manufacturing sector, apart from boosting employment.

- ii. Tax pass-through status for Venture Capital Funds with a focus on SMEs in the manufacturing sector. These VCFs will be required to be registered under the Securities and Exchange Board of India (Venture Capital Funds) Regulations 1996 and appropriately notified under the Income Tax Act.
- iii. Liberalization of RBI norms for banks investing in Venture Capital Funds with a focus on SMEs in the manufacturing sector, will be taken up in consultation with RBI.
- iv. Liberalization of IRDA guidelines to provide for investments by insurance companies in Venture Capital Funds with a focus on SMEs in the manufacturing sector, will be taken up in consultation with IRDA.
- v. Setting up of a stock exchange for SMEs and implementation of SEBI's *'framework for recognition and supervision of stock exchanges/platforms of stock exchanges for SMEs'*, which is expected to boost the access of VC funds to small and medium enterprises.
- vi. Implementation of the recommendations made by the *'Task Force on Micro Small and Medium Enterprises (MSME)'*, presented to the Prime Minister on 31 January, 2010, including:
  - *the creation of a separate fund with the Small Industries Development Bank of India (SIDBI) using the shortfalls against MSE credit targets for commercial banks*
  - *strengthening of the National Small Industries Corporation (NSIC) equity base, to give the demand side impetus to MSME enterprises.*
- vii. Easier access to bank finance through appropriate bank lending norms, to be arrived at in consultation with RBI, to cater specifically to the MSME sector and early stage business units. This would involve a shift of lending focus from tangible assets to other kinds of assets.
- viii. Inclusion of lending to SMEs engaged in manufacturing as part of *'priority sector'* lending will be considered depending on the recommendations of the Committee set up to look into priority sector lending .

### **6.3 Service entity for collection and payment of statutory dues of SMEs**

The compliance burden of laws and regulations is particularly severe on SMEs. By their very nature, SMEs have limited manpower and resources which could be used

more fruitfully in production activities if there is a mechanism to take care of the statutory compliances. For instance, there are a number of payouts which a company has to make under the EPF Act; Employees Pension Scheme; ESI Act; Payment of Gratuity Act; Personal Injuries Act; Workman's Compensation Act; etc. It is proposed that the setting up of one or more service organizations will be considered to undertake the responsibility of collecting dues from the companies and making the necessary payouts in return for a charge linked to the wage bill of the company. If this role can be played by an insurance company, the exit mechanism as envisaged in Chapter 3 can also be part of the functions of this organization. Such an organization(s) can be licensed by the Government and the industry will have the option to use the services of such licensed organisation. The statutory liabilities under the laws would however be of the companies themselves.

## **7. SPECIAL FOCUS SECTORS**

**7.1** While the proposals in this policy paper are sector neutral, it is proposed to identify special focus sectors where India can be cost competitive and which would generate maximum employment. These sectors would need sector specific policy interventions. Some of these sector specific policy interventions are already in place. Their efficacy would need to be examined and wherever necessary additional measures would need to be introduced. The priority sectors as identified in the Planning Commission and NMCC papers are:-

- a) Employment intensive industries like textiles and garments; leather and footwear; gems and jewellery; and food processing.
- b) Capital goods like machine tools; heavy electronic equipment; heavy transport, earth moving and mining equipment; high technology equipment like telecom, power, ICT and electronic hardware.
- c) Strategic industries like aerospace; shipping; IT and electronic hardware; renewable energy; solar, wind etc; defence equipment.
- d) Industries where India enjoys a comparative advantage like automotive; pharmaceuticals.

**7.2** UNIDO has identified textiles; chemicals; basic metals; machinery and equipment and electrical machinery, as sectors in which India leads among developing countries.

**7.3** This is an illustrative list of sectors which could be amended from time to time in keeping with the evolving economic situation. Ministries/Departments dealing with these sectors would need to come out with specific policy interventions to ensure that Indian industry is cost competitive viz-a-viz the other major players in those fields.

## **8. LEVERAGING INFRASTRUCTURE DEFICIT AND GOVERNMENT PROCUREMENT**

- 8.1** Government procurement is a major policy instrument for strengthening manufacturing industry and development of technological competence. Historically many countries have used it in their path to development. Some countries have resorted to it in response to the recent economic crisis.
- 8.2** Government procurement with stipulation of local value addition will be used in areas where we can club Government procurement needs over a number of years to create the volumes and scales which would enable the development of domestic manufacturing capabilities; in particular, capabilities in critical technological areas like LED, solar energy equipment, IT hardware and IT based security systems and fuel efficient transport equipment such as hybrid and electric automobiles.
- 8.3** Similar steps will be taken in respect of the infrastructure sectors where government agencies are importing equipment to a large extent. The infrastructure deficit and requirement of equipment in each area viz power; roads and highways; railways; aviation; and ports can be assessed over a number of years to create the volumes and scales which would enable the development of domestic manufacturing capabilities in these areas as well. On the basis of a very rough calculation, it can be said that if the infrastructure deficit is leveraged to the extent of the required equipment, the manufacturing sector growth could be enhanced by close to 3 percentage points per annum which is a substantial increase.
- 8.4** All contracts for purchase of equipment/products by government agencies for governmental purposes, in areas such as those illustrated in paras 8.2 and 8.3 will be required to contain provisions for local value addition.
- 8.5** Purchase preference for green products will be given in Government procurement contracts as appropriate. The criteria and procedures will be as in paras 4.1.1 and 4.1.2.

## **9. CLUSTERING AND AGGREGATION: NATIONAL INVESTMENT AND MANUFACTURING ZONES**

The National Investment and Manufacturing Zones (NIMZs) will be developed as integrated industrial townships with state-of-the art infrastructure and land use on the basis of zoning; clean and energy efficient technology; necessary social infrastructure; skill development facilities, etc., to provide a productive environment to persons transitioning from the primary sector to the secondary and tertiary sectors. These NIMZs would be managed by SPVs which would ensure master planning of the Zone; pre-clearances for setting up the industrial units to be located within the zone and undertake such other functions as specified in the various sections of this policy. To enable the NIMZ to function as a self governing and autonomous body, it will be declared by the State Government as an Industrial Township under Art 243 Q(c) of the Constitution. In sum, the NIMZs would be large areas of developed land, with the requisite eco-system for promoting world class manufacturing activity. They would be different from SEZs in terms of size, level of infrastructure planning, and governance structures related to regulatory procedures and exit policies.

### **9.1 Land for NIMZs**

- (a) Size of land for NIMZ – An NIMZ would have an area of at least 5000 hectares in size.
- (b) Availability of land- The State Government will be responsible for selection of land suitable for development of the NIMZ including land acquisition if necessary. The land may constitute:
  - i. Government owned land;
  - ii. Private lands falling within the proposed NIMZ, to be acquired by the State Government;
  - iii. Land under existing industrial areas/estates/sick and defunct units including PSUs.

Guiding principles- Following guiding principles will be applied by the State Government for the purpose:

- i. Preferably in waste lands; infertile and dry lands not suitable for cultivation;
  - ii. Use of agricultural land to the minimum;
  - iii. All acquisition proceedings to specify a viable resettlement and rehabilitation plan;
  - iv. Reasonable access to basic resources like water;
  - v. It should not be within any ecologically sensitive area or closer than the minimum distance specified for such an area.
- (c) Ownership – It is left to the State Government to adopt a model that it considers most workable. It may:
    - i) Keep the ownership with state government itself;

- ii) transfer the ownership to a state government undertaking;
  - iii) Have joint ownership with a private partner;
  - iv) Adopt any other appropriate model.
- (d) Irrespective of the model adopted, the state government will ensure that the land can be mortgaged by the prospective allottees for securing financial assistance from banks/FIs.
  - (e) After identification of the land, it will be the responsibility of the state government to get the environmental impact study conducted for a prospective NIMZ. DIPP in consultation with Ministry of Environment & Forests will notify designated agencies for conducting the study.
  - (f) At least 30% of the total land area proposed for the NIMZ will be utilized for location of manufacturing units. The states may reserve a certain percentage of the land as appropriate, in a zone, for MSMEs.
  - (g) The State Government will bear the cost of the resettlement & rehabilitation package for the owners of acquired lands, if any. An arrangement to recover the costs could be put in place in collaboration with the SPV.

## **9.2 Administrative Structure for NIMZs**

The administrative structure of NIMZ will comprise of a Special Purpose Vehicle, a developer, State Government and the Central Government.

### **9.2.1 Special Purpose Vehicle (SPV):**

The Central Government shall, by notification in the Official Gazette, notify an NIMZ. An SPV will be constituted to exercise the powers conferred on, and discharge the functions assigned to it under this Policy to manage the affairs of the NIMZ. Every SPV shall be a legal entity by the name of the NIMZ. This SPV can be a company, including a Section 25 company depending upon the MOU between stakeholders.

### **9.2.2 Constitution of SPV**

Keeping in view the financial participation of different stakeholders (govt., public sector or private participants), an appropriate financial and administrative structure of the SPV will be agreed to among different stakeholders giving due representation to nominees of different stakeholders on the Board of SPV. The CEO of the SPV will be a senior Central/State government official. The SPV will include an official/expert conversant with the work relating to pollution control/environmental protection. There shall be a provision to have a suitable representation of the allottees and subsequently the industrial units.

### **9.2.3 Functions of SPV**

Each SPV will undertake such tasks/measures as it thinks fit for the development, growth, operation and management of the NIMZ. These tasks/measures will include:

1. Master planning of the Zone.

2. Preparation of a strategy for development of the Zone and an action plan for self regulation to serve the purpose of the policy. These shall be submitted to the Board of Approval.
3. Selection of Developer/Co-developers for the development and maintenance of infrastructure internal to the NIMZ;
4. Formulation of rules and procedures for development, operation, regulation and management of the NIMZ;
5. Enforcement of the above rules and Master Plan;
6. Obtaining prior environmental clearance under the provisions of EIA Notification 2006, if the area is more than 500 ha and the clearances under the Air and Water Act as applicable to an individual unit, which clearances would be expedited/facilitated by SPV.
7. Working out an arrangement with the State Government regarding revenue streams including levy of user or service charges or fees or rent for the use of infrastructure/properties in the NIMZ and creation of specific mechanisms for specialized services. As far as possible, land to manufacturing industry will be provided on land cost plus development charge basis with the option of payment in installments. Workers' housing will be provided at reasonable rates with cross subsidization from high end residential/commercial areas, if necessary.
8. Promotion of investment, both foreign and domestic, into the NIMZ;
9. Implementation of Resettlement & Rehabilitation package;
10. Any other function as may be decided mutually between state government and other stakeholders.

### **9.3. Developer**

SPV can take up the work of development on its own through various agencies/contractors or take up the development in partnership with a developer who shall be selected through a transparent process. Development can be in stages.

### **9.4. State Government:**

#### **9.4.1 Water Requirement**

In keeping with the overall master plan, the SPV will work out the requirement of water both for industrial and housing activities. The state government, as far as possible, will allocate surface water from sources from which it would be viable to draw water for the NIMZ. The NIMZ would be enabled to have/own facilities for tapping/extraction, treatment and distribution of water. There should be a long term agreement with SPV on water rate payable on raw water linked to WPI or any other suitable index.

**9.4.2 Power connectivity-** The generation, transmission and distribution of electricity in NIMZ will be facilitated as follows:

- i. State Government will facilitate the creation of captive power plants by Private Players (including the SPV of the NIMZ) with full authority for generation, transmission and distribution. The units will also be allowed to seek open access as per the regulations of the State Electricity Regulatory Commission;
- ii. The SPV or its agent, for the NIMZ shall be deemed to have license to supply electricity and develop the distribution network for the same and shall be deemed to be a licensee under section 14 of Electricity Act, 2003;
- iii. The SPV or its agent will have an option to purchase electricity for NIMZ from any State Electricity Company/Corporation or any other generator of electricity including Central PSU.

#### **9.4.3 Infrastructure linkages -**

The State Government, applying for NIMZ, will ensure that after notifying the area, all physical infrastructure and utilities linkages under its jurisdiction are provided within one year from the date of notification failing which the NIMZ may be denotified.

**9.4.4 Any other functions** as mentioned in specific sections of this policy.

**9.5. Central Government:** The Department of Industrial Policy and Promotion will act as the nodal agency for the central government in matters pertaining to the NIMZs.

The application for setting-up of NIMZ will be forwarded by the state to the DIPP for approval. DIPP will constitute a Board of Approval, which will consider all applications for establishment of NIMZs and approve such proposals as are found feasible. Each NIMZ will be notified separately by DIPP.

In case an amendment is required to the concept and design of the project, as encapsulated in the preliminary project report submitted by the State Government, the same will be considered by the Board of Approval.

#### **9.5.1 Role:**

- i. The Central Government will bear the cost of master planning for the NIMZ;
- ii. The Central Government will improve/provide external physical infrastructure linkages to the NIMZs including Rail, Road (National Highways), Ports, Airports, and Telecom, in a time bound manner. This infrastructure will be created/upgraded through Public Private Partnerships to the extent possible. Viability Gap Funding through existing schemes will be provided. Wherever necessary, requisite budgetary provisions for creation of these linkages will also be made;
- iii. The Central Government through its institutions and schemes will provide institutional infrastructure for productivity, quality (testing facilities etc.) and design capabilities, encouraging innovation and skill development within the NIMZ;
- iv. The Central Government will undertake, along with the State Government concerned, the promotion of domestic as well as global investments in NIMZs;
- v. Any other role as mentioned in specific sections of this policy.

## **9.6. Funding of internal infrastructure in an NIMZ**

Infrastructure development in an NIMZ would require large investments which cannot be drawn solely from public financing. Such projects have long gestation periods and substantial lead time before income streams commence. While latent demand may exist for the zone, its actual materialization will take place only when the infrastructure projects have been implemented and technical tie-ups have been made. It is envisaged that the infrastructure development of the zone will in a large number of cases be undertaken by private developers. Given the afore-stated nature of this activity, there is a need to provide appropriate financial support/incentives to the developers.

### **9.6.1 For this purpose:**

- i) Viability Gap Funding (VGF): Under the Ministry of Finance 'Scheme for Support to Public Private Partnerships in Infrastructure' in the form of capital grant at the stage of project construction will be given as per the VGF guidelines. The total Viability Gap Funding under this scheme shall not exceed twenty percent of the total project cost. Additionally, the State Government or its agencies may also provide funding out of their budget as may be feasible.
- ii) Long term soft loans from multilateral financial institutions: Soft loans from multilateral institutions will be explored for funding infrastructure development in NIMZ. Assistance would be provided for negotiating non-sovereign multilateral loans by providing back-to-back support, if necessary.
- iii) External Commercial Borrowings: The developers of NIMZs will be allowed to raise ECBs for developing the internal infrastructure of the NIMZs.

## **10. TRADE POLICY**

**10.1** Trade policy impacts significantly on the domestic production level and profile. The import and export regime, whether tariffs or export promotion measures constitute important policy instruments which shape a country's production profile. With increasing globalization and international engagement, it is critical that these policy instruments be aligned carefully so that domestic manufacturing is not adversely impacted.

**10.2** Trade policy is no longer restricted to border measures. International trade rules now encompass measures which are more internal to an economy than just border measures, for example, public/government procurement. Government procurement can be a significant domestic policy instrument by which industry can be seeded/supported through local value addition requirements. This policy proposes government procurement as a significant instrument. As such it needs to be ensured that the available flexibilities are not diluted at this juncture when the attempt is to strengthen the manufacturing sector.

**10.3** The policy will take active measures to protect export of products and services from India from border taxes or other border measures that may be imposed by partner countries on the grounds of protection of environment including those related to GHG emissions reduction.

**10.4** NMCC will be authorized to examine and make recommendations on duty structures and other measures to the extent that they impact the manufacturing sector in order to ensure that changes therein do not adversely affect the manufacturing sector.

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