Extending the Production Linked Incentives List

Why in news?

Recently, the Union government proposes to extend Production Linked Incentives schemes to ten new sectors.

What is Production Linked Incentives (PLI) scheme?

- The scheme provides incentive of 4% to 6% on incremental sales the over base year for goods manufactured in India and which are covered under target segments.
- This incentive is available for a period of five years subsequent to the base year as defined for the eligible companies.
- The first set of PLI recipients are companies in the sectors like electronics, mobile phones and bulk drugs.

What are the advantages in the scheme?

- It will help in meeting multiple policy objectives like increasing export competitiveness, inducting local industry into the global supply chain and encouraging import substitution.
- It provides enhanced benefits to companies when compared to other benefits like income tax holidays or investment allowances.
- It is hoped that the scheme would contribute $520 billion in incremental output in five years.
- Hence centre has proposed to allocate Rs. 1.97 lakh crore for PLI scheme in 13 sectors.

What are the issues in the scheme?

- One, though the scheme has attracted investments of over Rs 11,000 crore in electronics and mobile phone manufacturing sector, the beneficiaries missed their first-year turnover targets.
- This is due to delay in land acquisitions, insufficient skilled workforce and demand issues post Covid.
- So they requested the government to adjust timelines for incentives without compromising on the five year target.
- The Centre must be cautious on these requests and if finds that new units take time to develop, incentives must be paid after the initial gestation

period.

- Two, there is demand that the scheme must to be extended to MSMEs in sectors like textiles and pharmaceuticals.
- But PLI scheme for telecom equipment includes MSMEs which are in the lower investment threshold of Rs 10 crore.
- Hence MSMEs will automatically get benefited from the trickle-down effect and extending the scheme to MSMEs will be counter-productive.
- Three, firms in fertilisers and power sector over-promise their delivery and report that they have diminishing returns in order to gain incentives.
- Hence the centre must be vigilant on these aspects and if these issues are addressed then the scheme will help in achieving the goal of India becoming home to globally competitive players.

Source: Business Line

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