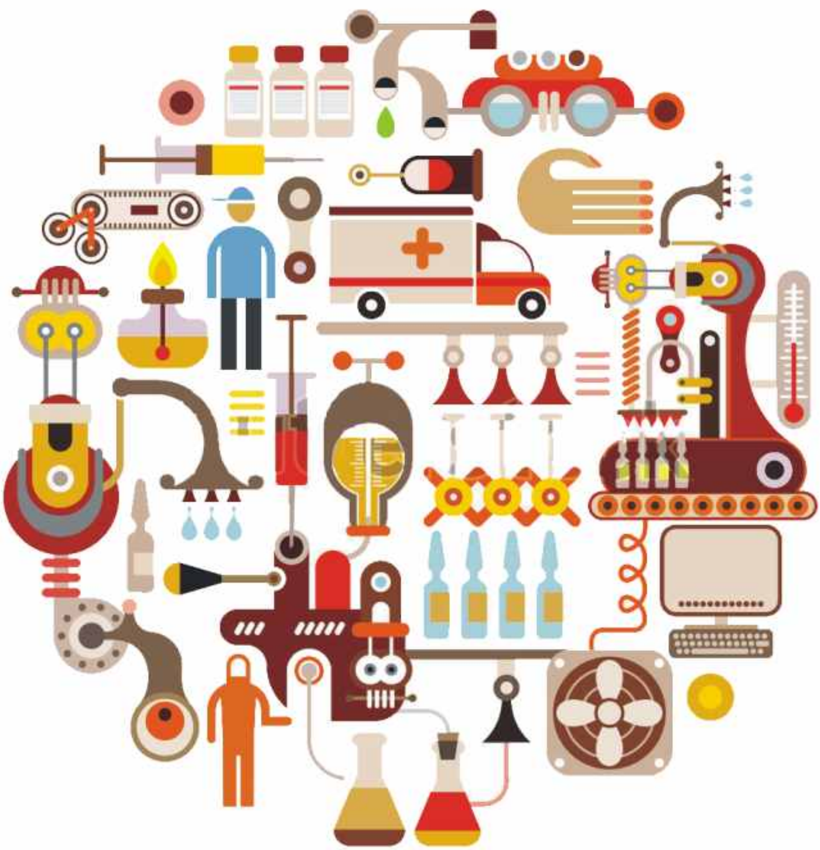

MANUFACTURING

M A N D A T E

कारखाना लगाओ, रोज़गार बढ़ाओ

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Introduction

Today, Indian manufacturing sector is close to the size of $ 250 billion. The sector employs around 48.5 million people accounting for 11% of our total employment and has a share of 15.3% in the GDP. The National Manufacturing Policy targets creation of 100 million additional jobs in the sector by 2025. Creating jobs in manufacturing is imperative. However, this certainly looks impossible under current policy framework when our employment elasticity in manufacturing is also negative i.e. -0.31 (employment elasticity is the ratio of employment growth to growth in value added). With a negative employment elasticity, any additional jobs are ruled out even if the sector grows at double digit. This negative elasticity has resulted in loss of five million jobs in manufacturing from 2004-05 to 2009-10. This may be because of several reasons like faster increase in real wages driven by shortage of skilled workforce and unskilled casual workers, increased use of capital intensive technologies due to constraints in existing labour legislations coupled with global slowdown.

So, at this juncture, it is essential to ensure that manufacturing sector's employment elasticity is restored to a positive figure which means the focus should be on employment and skill related policies, regulations and initiatives to create jobs. But, manufacturing sector also needs to be provided with a conducive environment so that investment in the sector is attractive.

In the current scenario, to expect manufacturing to grow at 14% (as targeted) on a long term basis may not be feasible. Also, to expect an employment elasticity of 0.76 (as was the case between 1999-00 to 2004-05) would not be feasible given our current economic and political compulsions and constraints. Given the scaling down of the GDP growth targets for next five years, a 10% manufacturing growth on a long term basis looks more realistic, though difficult with an employment elasticity of 0.6 (assuming that there would be some active labour market policies). With this growth, we can achieve a size of $950 billion by 2025 for our manufacturing sector and create close to additional 67 million jobs in manufacturing directly which will ensure that manufacturing employs around 115 million people by 2025. This, of course would be much short of the targeted additional employment of 100 million by 2025 in manufacturing.

Below we have suggested some critical measures for the short and long term, to stimulate growth and job creation in manufacturing on a sustainable basis keeping above mentioned targets in mind. We feel that some of these are doable in the short to medium term as it would not require any amendment in Act to implement. For the long term, this mandate suggests a few changes in our policy framework and Acts to achieve these targets.

1. Macro-economic Environment & Measures

The key measures required on the macro-economic policy front to boost manufacturing are:

a) Aligning Policies and Goals with Manufacturing sector's targets

- There should be a unified and integrated approach to policies which are directly related to manufacturing like exchange rate, monetary policy, skill development and technology policy. These policies directly impinge upon manufacturing sector and need to be aligned with the objectives of manufacturing policy and plan in the medium to long term at least.

- For developing competitive manufacturing capabilities, it is important to learn and apply technologies faster than other countries. However, so far India has not been able to achieve much success in this. Hence, it is important that our science and technology strategic roadmap and its manufacturing competitiveness strategy are inextricably linked, coordinated and also adequately funded.

b) Easing of monetary policy required to boost investments

- There has been some easing of monetary policy since last year however, there has not been a commensurate decline in the lending rates. So, either the banks cut their lending rates or repo rate is further brought down to have a deeper cut in lending rates. Additionally, a cut in CRR can also be considered for immediate effect.

c) Bring down subsidies and prune non-productive government expenditure

- Keeping fiscal deficit under control is of utmost importance to improve investors' confidence in the economy and thereby attract large scale FDI and investments in the manufacturing sector. The food subsidy alone is expected to cost the exchequer around Rs 1.25 lakh crores annually.

- To curtail unsustainable fiscal deficit, revenue deficit needs to be brought down to zero, which can be met by cutting down subsidies and curtailing unproductive expenditure on the number of Centrally Sponsored Schemes (CSS). An outlay-outcome approach can be followed for identifying unnecessary and unproductive schemes.

d) Take measures to bring stability in rupee

- The steep fall in rupee against dollar in recent months has been a major worry as import bill has surged unprecedently leading to widening of current account deficit and raising concerns of higher inflation.

- To shore up rupee in the short term, government could consider issuance of rupee bonds to NRIs.

- FII flows need to be targeted towards longer term rupee instruments so as to minimize the risk of 'reversal' of capital. Hence, there is an urgent need to strengthen the domestic financial institutions and make capital markets more deep and efficient to attract long-term investments and reduce the risk of volatility in capital flows. Stronger capital flows would help in supporting the current account deficit and ease the pressure on the rupee.

2. Taxation and Indian Manufacturing

- Indian manufacturing sector continues to bear high level of tax incidence when compared with competing countries. Domestic Industry continues to suffer from cost disadvantages on account of higher local taxes such as VAT, Octroi, Entry Tax as also due to higher cost of financing and inadequate infrastructure.

- It deserves a minimal level of protection to compete with imported goods. There is a substantial gap between bound and actual tariffs which can be used in case of those sectors which have decelerated in the last one year at least. In the last ten years, we have brought down our basic custom duties in consumer goods, intermediate and capital goods significantly, whereas our bound rates of duty haven't changed thereby leaving lot of water between the actual rate and bound rate. This gives us legitimate flexibility to provide minimal level of protection to sectors where duties have come down significantly and imports have been rising. Our weighted average basic custom duty on consumer goods have come down from 42.9% in 2004-05 and 24.4% in 2007-08 to just 12.5% now. Similarly, the weighted average basic custom duty on capital goods has fallen from 16.3% to 5.6% for the same period.

- Scope of the provision of investment allowance for new plant and machinery announced in the Budget needs to be expanded. The minimum threshold of investment of Rs 100 crores is significantly high and would deprive smaller investors an opportunity to take advantage of this facility. The threshold for minimum investments needs to be reduced from Rs. 100 crores to Rs. 10 crores to encourage investments by smaller investors also. Further, the period for which the allowance is available should be increased from 2 years to 5 years as projects need longer gestation period.

- GST's implementation will make manufacturing sector competitive. It needs to subsume all indirect taxes and implemented with sense of urgency and priority as the Government has been trying to do with certain Bills/Acts and Ordinances.

- The manufacturing sector is also impacted by inverted duty structure in custom tariff which discourages domestic value addition in number of sectors and we continue to rely on imports in many of these sectors. Instances of such duty inversions have been particularly found as per recent FICCI's survey in ten broad sectors like Cement, Capital Goods, Chemicals, Aluminium, Copper, Electronics, Paper, Steel, Textiles and Tyres. Some of these duty inversions are on MFN basis and some due to FTAs.

- The Indian tax laws have been breeding protracted litigation between the tax department (i.e. the Government) and the taxpayers. A measure often deployed by the Government to settle an issue in its favour is the amendment of provisions with retrospective effect. These amendments override a law settled by judicial precedence or a legitimate argument of the taxpayer supported either by an interpretation of law or by any decision of the court. Retrospective amendments in the tax laws have lead to deterioration of India's image as an investment destination and adversely impacted the business climate in our country. Government should avoid retrospective amendments in law to override a benefit available to the taxpayer and retrospective amendments should be made in rarest of rare cases as suggested in Shome Committee report on indirect transfer of assets. This will help in creating a conducive business climate and reviving flow of investments in India.

- The transfer pricing litigation in India is on a rising trend. The release of draft safe harbour rules by the Government is a step in the right direction to reduce transfer pricing litigation. It is, however, observed that the recommendations of the Rangachary Committee have not been fully accepted which is likely to dilute the achievement of objectives of these rules, when implemented.

- The current approach of the Government is to focus on maximizing revenue collections. Tax officials function under extreme pressure to deliver unrealistic revenue targets resulting in aggressive actions of field officers and their superiors. There is a need to evaluate the tax administration system as a whole to improve taxpayers' services. Measures need to be put in place to bridge the trust deficit between taxpayers and the tax administration. The Government needs to adopt a more consultative approach in designing tax policies to promote transparency. FICCI has made several suggestions in a discussion paper titled "Dispute Resolution in Tax Matters" published recently which could expedite the dispute resolution in a fair and transparent manner.

- The process of investigations into existence of dumping and corresponding imposition of anti-dumping duties and also safeguard mechanism needs to be expedited to provide timely relief to the domestic industry.

3. Labour Legislations & Workers' Housing Scheme/Policy

- Since manufacturing has to bear a major proportion of job creation in times to come it is important that an enabling policy framework for attracting skilled, semi-skilled or unskilled workers in the sector is provided. NSDC estimates that there would be a skill gap of around 90 million in next ten years. The largest gap will be in manufacturing sectors like textiles (50 million) food processing and auto (8-10 million).

- Currently, there are around 50 central and state level acts each of which govern labour and related matters in the country (such as Factories Act, 1948; Minimum Wages Act, 1948; Contract Labour (Regulation and Abolition) Act, 1970; The Payment of Wages Act, 1936; The Payment of Gratuity Act, 1972; Employees' State Insurance Act, 1948; Provident Funds Act, 1952 to name a few). These laws need to be reviewed and rationalised keeping in mind the target of job creation.

- In terms of specific recommendations, unless our laws are amended to ensure employment generation it would not be possible to achieve our targets. We suggest:

  A. Weekly, daily and quarterly working hour restrictions could be aligned with international best practices e.g. 10-12 hours subject to overall existing weekly and quarterly caps. This could be done at least for export sector.

B. Similarly, under Section 25 M of Industrial Disputes Act of 1947 which covers the provisions regarding prohibition of lay-offs, there are long drawn bureaucratic processes to be followed which poses significant challenge for manufacturing units to adjust its operations according to economic constraints. Here we suggest the following:

   a) Lay-off with reason (reasons to be exhaustively defined to prevent any foul play)- No obligation on employer and the problem to be resolved in labour court, if need be

   b) Lay-off without reason- Employer to provide standardised benefits to employee linked to his tenure with the firm

- Eventually, there should be only four sets of labour laws as follows:

  (i) Laws governing terms and conditions of employment, which may consolidate:

     A. Industrial Employment (Standing Orders) Act, 1946

     B. Industrial Disputes Act, 1947

     C. Trade Unions Act, 1926

  (ii) Laws governing wages, which may consolidate: (a) Minimum Wages Act, (b) Payment of Wages Act, and, (c) Bonus Act.

(iii) Laws governing welfare which may consolidate:

a) Factories Act, 1948

b) Maternity Benefits Act, 1961

c) Employee's Compensation Act, 1952 and

d) Contract Labour (Regulation & Abolition) Act, 1970

(iv) Laws governing social security, which may consolidate: (a) Employees Provident Funds Act, (b) Employees State Insurance Act, and (c) Payment of Gratuity Act.

- There has been tremendous pressure from trade unions that the system of contract labour should be completely abolished. But, looking into the economic trend and acute competition in domestic and international market, industry has no other option rather than deploying contract workers. We recommend the following measures to address the contract labour issue:

a) Central Contract Labour Board (CCLB) and State Contract Labour Boards be constituted to implement, administer, register, refer, monitor and manage the Contract Labourers in center and states.

b) Contractors be treated as a separate establishment: A provision be laid down in the Act underlying certain eligibility criteria to be fulfilled by the contractors before obtaining a license from the licensing officer. Upon obtaining the license, contractors be treated as separate establishment and fully accountable as Principal Employer for any type of compliance/liability.

c) A single point collection of social security contributions from the industry and mechanism of full compliance of all statutory requirements

d) Biometric enabled smart cards bearing the skills rate (if possessed), work experience, signature, fingerprints and photograph be issued to the contract workers to make them avail various social security benefits, receive cash benefits and employment benefits.

e) Payment of additional 4.81% contribution as gratuity to be paid by industry in addition to EPF and ESI contributions to contract labour.

f) Skills level be considered during wage fixation- At entry level, a contract worker and a regular worker should be entitled to similar wages and benefits, but should not be the same for a skilled & experience regular worker. A systematic mechanism be developed to assess the skills of the contract labour by involving the employment exchanges of the respective regions.

- There should be a single Labour Authority dealing with all aspects of labour at the state as well as the central level.

- Workers' Housing is now a critical component of successful working of a manufacturing organisation. Accommodation problem of industrial workers needs to be addressed as the industry now faces a tremendous shortage of workers, both skilled and unskilled. Currently, there is a huge supply gap of home/shelter for seasonal/migrant workers also. As a result, they live in unhygienic conditions and that too at a high cost. Unfortunately, there is no established policy either at the Centre or State to address this issue for manufacturing sector. To ensure provision of hygienic and low cost homes to workers including seasonal and migrant workers following are the suggestions:

  a) The biggest impediment in providing affordable housing is availability of land in the vicinity of industrial area and that too at a reasonable and affordable price. For this-

     ✓ Compulsory allocation of at least 20% land (of industrial belt) in or around an industrial area/industrial estate for low cost housing

     ✓ Deferred/long term payment plan towards cost of land in case the land is allotted by government or its representative agency.

     ✓ In case land is purchased directly by the project proponent, then fast track change of land use to housing.

     ✓ The land registration charges for affordable housing to be 20% of the charges as levied in other cases.

b) Within NIMZ (National Investment and Manufacturing Zones) certain minimum area to be earmarked for workers/LIG (Low Income Group) housing.

c) Total time taken in the project right from the purchase of land till completion also plays a vital role in the overheads and cost. Faster grant of government approval can help in speedy delivery of housing at a reduced cost. Fast track pollution clearances and building approvals for such low cost housing may also help in reduction of this time frame for implementation.

d) Government or its authorized agencies shall provide low rental accommodation to the seasonal /migrant workers. The accommodation shall include roof and a shelter with basic minimum amenities of washroom, water and electricity. The accommodation suitable for thousand people shall be on shared basis wherein 4 persons share a common room in a dormitory with all basic amenities. For these, appropriate PPP model and Viability Gap Funding could be considered both at centre and state level.

e) In case the low rental accommodation is provided by non government company, then cost/rentals need to be decided by project proponent and public / government agency jointly.

4. Feedstock, Raw Materials & Electricity for Manufacturing

- To meet their needs of reliable power supply, many manufacturing units have set up coal-based captive plants based on fuel linkages provided by CIL and its subsidiaries. Today, the biggest supply side bottleneck for manufacturing emerges from the non-compliance of these linkages by CIL either completely or falling short of the Annual Contracted Quantity (ACQ) as per the signed contracts. There have been inordinate delays in securing coal linkages. So much so that delays in such linkages are resulting in cancellation or revocation of other clearances which are time bound (like ground water clearance, environmental clearance etc) for the projects.

- Our inability to mine coal adequately has resulted in coal imports of $15 billion in 2012-13. There is an immediate need to bring in private participation in coal sector to ensure greater competition, infusion of advanced technology, greater mechanisation, a rational market based price discovery. Restructuring of Coal India Limited including greater autonomy to CIL's subsidiaries is the need of the hour.

- Mining lease granted is usually for duration shorter than the duration in which mine can be worked to exhaustion according to the mine plan. Similarly, Forest Clearance is given for a period of the lease. This requires project proponent to seek

Forest Clearance each time the mine lease is renewed. Government (Ministry of Mines) should grant mine lease for the entire duration for which the mine can be operated according to the mining plan and Forest clearance should be coterminous with the mining lease so that project proponent does not have to pay Net Present Value again on renewal of lease.

- Some of the draft legislations/policies propose to make acquisition of land in Schedule Areas only as a last resort. Most of the minerals required by manufacturing sector fall under these areas. Such a policy will make us more dependent on imported minerals which will have severe implications on our current account deficit. More importantly, as a result of these policies such backward areas will never get the benefit of economic development.

- Erratic supply of power is major issue in most States. As a result, manufacturers are relying on their captive sources for which the cost per unit is as high as Rs 15-17 per unit due to high fuel prices. Wherever, Discoms are not able to supply regular power due to high marginal cost of procurement, they could enter into discussions with the industry associations in clusters to look at ways of providing reliable and assured power on immediate and short term basis. Further, in the long run following steps would be required:

  ✓ Distribution network along with metering need to be strengthened to be able to supply reliable and quality power.

- ✓ Manufacturing sector should also be treated as a 'Priority Sector' deserving attention for securing adequate and competitive power supply. It should not be treated as a 'milch cow' as at present for cross subsidising power supply to other sectors.

- ✓ 'Duty to serve' by state utilities/distribution companies should be enforced by Regulators and industry watchdogs so that power supply is not interrupted just because state utilities/distribution companies are suffering cash losses (on account of unmetered power supply to farmers or so called low end households).

- ✓ If 'Duty to serve' mandate of Electricity Code is enforced, state utilities/distribution companies will be forced to source adequate quantum of power for them instead of present practice of load shedding and leaving these industrial customers to depend upon high cost diesel engine based power.

- States should also permit an Open Access Policy for power purchase both inter-state and intra-state using State grid network through third party sale and by paying necessary wheeling and cross-subsidy charges (in case of renewable energy project wheeling charges could be waived/exempted).

- States should also not create impediments for industrial units and enterprises to avail facility of purchase of power through power exchanges.

- To ensure a sustainable, robust and cost effective manufacturing base for the solar manufacturing industry in the country, a five point agenda is recommended (by FICCI Solar Energy Task Force Report on Securing the Supply Chain for Solar in India) :

  a) Capex support for solar manufacturing through low cost funding, Viability Gap Funding etc

  b) Support development of integrated Solar manufacturing hubs to create a cohesive ecosystem for solar related manufacturing. Central and State governments should provide capital subsidy/tax exemptions for development of common Infrastructure in such integrated Solar manufacturing hubs.

  c) Concessional power to energy intensive segments of Solar manufacturing.

  d) There is an urgent need to rationalize taxes and duties on the solar thermal and solar photovoltaic value chain to make Indian solar manufacturing industry competitive and to bring down cost of solar power in particular the inverted duty structure.

  e) Promotion of cluster R&D for improvements in cell efficiencies in solar PV value chain and local alternatives development for solar thermal value chain should be facilitated for near-term commercial applications.

5. Land for manufacturing

- There are two aspects to land for industrial development. One is the price or availability of land and the other is the process of acquisition. Land prices across the country are a cause for concern. Here, we suggest:

  ✓ The system of land allotment should be made totally transparent and e-based

  ✓ States need to increase the Floor Area Ratio for optimal utilization of existing industrial land. Centre can seek such higher Floor Area Ratio at least in their centrally sponsored/supported parks and clusters.

  ✓ Ensure smooth land conversion process and time bound land use change notifications

  ✓ Provide time bound permission for purchase of land

  ✓ Follow a transparent land pricing mechanism - An independent body can design pricing mechanism and evaluate land value as is the case currently in a few States.

  ✓ Notify existing State Industrial Development Corporation Estates as clusters or NIMZs with SPVs and provide support for developing infrastructure as per National Manufacturing Policy.

- ✓ Centre should pass directives for building flatted factories over existing industrial estates at least in urban areas for MSMEs and provision for private players to build the same by facilitating them with resources such as electricity and water.

- ✓ Post directives from the Center, State should take up infrastructural and administrative responsibilities to build such flatted factories along with the provisions for basic resources such as water and electricity.

- ✓ The land which is unused for industrial purpose for five years should be returned to State government or go in its land bank. But one needs to define clearly what is 'unused' and it should not be the case that project is stuck pending clearance from Government department and is taken back.

- Industry is very much in favour of fair compensation for land owners but at the same time we need to ensure that land is available to industry at competitive rates, timely and with certainty. The Land Bill in its current form needs a relook if the Government is serious about not just supporting manufacturing but also for ensuring balanced regional and socio-economic development.

- Any legislation should enable Government to assist manufacturing industry especially the large projects in acquiring land. The Land Bill in its current form rules out acquisition of land for manufacturing industry.

- The legislation should also not lead to uncertainty and reduce flexibility for operations through mechanisms of private leasing of the land for the industry. There have been some recent amendments in the Land Bill to include leasing provision. The Land Bill in its current form provides for retrospective application. Any legislation should be applicable on prospective basis to retain investors' confidence.

- Time taken to acquire even a minimum area as per the prescribed thresholds will be no less than four to five years according to current Land Bill. This would make it further difficult for the industry to implement their projects on timely basis.

- Land prices which are already inflated will further increase due to high market value of land to be determined as per Bill's provisions and R&R for private purchase of land.

- There are learnings to draw from international examples, such as Japan and South Korea, where land was acquired by the state, supported by a price determination process based on negotiations and appraisals. Appraisals were done through more than one independent appraiser. Further, both parties, the seller and the buyer, were involved adequately and had access to recourse in case of disagreements. Time-bound processes were put in place to escalate and resolve cases where disagreements occurred. In addition to a well defined pricing mechanism, these countries also explored other creative avenues to boost their land banks, including using up all idle and waste land in the country as well as encouraging

6. Industrial Corridors and Clusters

- Moratorium on consideration of new/expansion projects for environmental clearance located in critically polluted areas/industrial clusters identified by CPCB- MoEF was imposed up to 31.08.10. Since the SPCBs/PCCs had not been able to finalize action plans within the prescribed limit, the moratorium was extended upto 31 October 2010. Subsequently, action plans were received by CPCB in 25 industrial clusters by March 31, 2012, so the moratorium on them was lifted, but for the remaining 18 clusters, the moratorium was extended till further notice and till date no further notice has come from the Ministry. Due to moratorium imposed by the Ministry, some sectors have been badly hit. One of the most important amongst them is iron and steel sector. Companies that are complying with all environmental regulations or going beyond mere compliance are also being subject to moratorium due to their location in Critically Polluted Areas (CPAs). Hence, Environmental Clearance should be granted to new/expansion projects in such clusters with no increase in pollution load.

- Accelerate the development of Amritsar-Delhi-Kolkata Industrial corridor and make it time-bound as this region is densely populated and is also rich in minerals and resources which would ensure faster development of manufacturing activity along with the industrial corridor. Similarly, Chennai-Bengaluru Industrial Corridor, the Bengaluru-Mumbai Industrial

Corridor and Delhi-Mumbai Industrial Corridor can be the game changer in terms of stimulating economic activity in the country and need to be expedited.

- Implementation of NIMZs as per the National Manufacturing Policy needs to be expedited and Government should consider upgrading of existing industrial clusters into such NIMZs which would ensure faster development of such zones in the country.

7. Ease of Doing Business

- India continues to be placed very low in various global surveys in terms of ease of doing business. For instance, obtaining construction permit is a time consuming process in India. We are ranked poorly as per Doing Business 2013, in which India ranks 182 out of 185 economies in terms of number of procedures and time taken to get the construction permits. In India, 34 procedures are involved as compared to 8 in Thailand, Colombia and Spain; 6 in Hong Kong and New Zealand for construction permits. And, it takes 196 days to get construction permits in India as compared to 26 in Singapore; 27 in USA; 43 in Bahrain and 46 in UAE.

- So far efforts have been hardly successful to rationalise more than seventy laws and rules which a manufacturing unit has to comply with, because different Government departments are not willing to shed or reinvent their roles. As explained in detail in FICCI and Bain & Company's Empowering India Report, states have considerable power to create change by ensuring procedural improvements and effective implementation of reforms, while the Centre has a significant role to play in the formulation of policy-level reforms. This is even more pronounced in areas like labour and environment related compliances where the states have very little room for manoeuvre and primarily function as enforcing agencies.

- Globally, countries have instituted a Regulatory Impact Analysis system to assess the quality and utility of any legislation over time. Mexico launched "The Agreement for Deregulation of Business Activity" in 1995 wherein it resulted in 95% of their regulations reviewed and revised with an estimated 40% reduction in either their scope or mandate (source: Planning Commission).

- In India no such institutionalised mechanism is there. Cabinet Committee on Investments' one of the mandates is to review procedures followed by Ministries/Departments to grant or refuse approvals and clearances. The Committee would be well placed to institutionalise Regulatory Impact Analysis system for assessing the existing business related legislations for legal and economic justification. In many areas, legislations could just be consolidated into a few Acts/Rules to make the process of clearance simple for the investors. The Committee should devise a roadmap for streamlining and also cutting existing rules and procedures for manufacturing sector.

- Today, the biggest challenge is that institutions which execute single window clearance system both at the centre and State are not sufficiently empowered to provide such one-stop shop services to investors. It is imperative that such a function is backed by a law/Act to make it effective with in-built provisions for time bound and deemed clearances. Following principles should be adhered to while rationalising the procedures:

  a) The entire process of clearances by Central and State authorities should be web-enabled including environment and forest clearances.

b) Both Centre and State should have timelines defined in respect of all clearances. In case, the decision is not taken with in specified timeline, the clearance should be deemed' to have been given on expiry of timeline.

c) A Combined Application Form and a Common Register to be developed as far as practical. Submission of multiple returns to different departments to be replaced by one simplified Monthly/ Quarterly return wherever feasible.

d) Introduce third party inspection and self certification in various laws

e) Delegate powers at the regional and district level for clearances

- So far, the above principles for simplification of procedures were identified for NIMZs only. We suggest States should implement these in industrial estates and existing clusters to begin with, which can then later be adopted at the wider State level.

Labour

- Labour laws in India needs to be holistically reviewed and amended keeping in view industry's requirements to give a boost to the economy by creating more number of gainful and productive employment opportunities. Suggestions related to specific amendments in labour laws have been explained earlier in this mandate under agenda item three (Labour Legislation & Workers' Housing Scheme/Policy).

- We need to rationalise the whole system of compliance under these laws. A number of registers/records are required to be maintained and monthly/quarterly/yearly returns are required to be filed with various authorities. Fees and dues are also payable under various acts. The stipulation of maintaining separate registers under each Act for related subjects imposes a heavy burden on the project as well as regulatory authorities and needs to be reviewed. There is a need to consolidate these compliances under two or three forms only.

Environment & Forest Clearances

- Though Environment Clearance legislation in India is firmly in place for the past two decades, yet various industrial sectors are facing major bottlenecks in the process of getting clearances. Some of the problems being faced are:

  a) Linking of grant of Environmental Clearance to Forest Clearance which was hitherto parallel activity has further delayed implementation of new projects.

  b) The government is also asking for fixed price off-take agreement in the case of gas and coal based project MoUs as part of the environment clearance process. This is impractical as such MoUs are of long term nature and cannot be based on fixed price. This requirement should not be there in the environment clearance process.

  c) A 5% CSR obligation is being mandated in some cases during the environment clearance process with CSR obligation to be met for the project impact area. This percentage is over and above the 2% CSR under the new

Companies Bill. This is not practical as in most cases the CSR amount cannot be fully utilized for the project area and also makes 5% a very onerous obligation for the project proponents. One way to arrive at the CSR mandate should be on the basis of suggestions made during public hearing for the project and based on needs of the local community, and should not be a fixed percentage.

d) Availability of land for compensatory afforestation is a major hurdle in early clearance of Forest Proposals. The policy of land allotment for compensatory afforestation is not uniform across states. Some states have land banks while in some states acquisition/purchase of land is a tough challenge.

e) There is only one Forest Appraisal Committee (FAC) which meets only once in a month and is presided over by the DG, Forests. FAC should meet at least twice a month (preferably on fixed dates) and in the absence of DG Forests, the ADG Forests should be authorized to preside over the meeting and take decisions. The project proponents do not get to know in time about the scheduled FAC meeting and its agenda in time. Agenda for the FAC meeting should be put up on the website 15 days before the meeting, so that the project developer can appear before the FAC to represent its proposal in person with sufficient lead time.

f) Process of diversion of forest land is prescribed to be completed within 90 days in some States but in many cases it takes many months just to identify degraded forest land

g) There are delays in land inspection for compensatory afforestation (Integral part of Forest Clearance)

h) There are delays in Forest vegetation survey by Forest Department

i) Delays in Public Hearing

- All this because there are no defined timelines and in some cases where there are timelines there is no statutory provision to enforce it. The Government needs to institute some universal practices for good governance with respect to Forest Clearances in the country.

8. Infrastructure

- The key to success in global market would be to ensure seamless movement of goods across country and for exports. The logistic cost in India is comparatively very high vis-a-vis developed and other emerging countries.

- India's transport network is plagued by inefficiencies resulting from poor infrastructure, high transportation & cargo handling costs, use of outdated equipments/technology etc. Despite substantial investments for infrastructure development in the last few years, the network of road & highways, railways and inland waterways is still insufficient as freight movement has increased manifold. Also, in spite of significant improvements in performance measures such as average turnaround time and pre-berthing time over the past decade, India's performance still lags behind other ports worldwide.

- There is substantial scope to expand effective transportation capacity by improving multimodal connectivity and port efficiency through improving road and rail connections, construction of container terminals/ berths, deepening of channels to improve draft etc. The expansion, redevelopment and upgradation of ports are critical along with similar development of infrastructure in the rail and roads sector to provide an overall improvement in the transport of freight and passenger traffic across the country.

- Learning from the past, India should pursue a transport infrastructure strategy that maximizes cost efficiency, reduces losses for users and enhances energy efficiency. This will need India to build its transport infrastructure in a manner that creates an integrated network across modes and prioritises critical infrastructure requirements.

- Globally at the time of crises, countries have provided significant amount and proportion of their stimulus for infrastructure spending to help their economy and manufacturing sector revive. Also, it is a known and proven fact that by promoting infrastructure development, the demand for manufacturing sector is also stimulated. Hence, we need to look at options to fast track implementation of infrastructure projects and more importantly attract much more private investors in the sector to ensure that at least 50% of the targeted $ 1 trillion amount required for infrastructure development in twelfth five year plan comes through. For this we need to rethink the model for supporting PPP projects.

- Not all the infrastructure projects are conducive to the BOT (Toll) model where private investor recovers its cost and profit through levy of user charges. In many cases like rural (also in some urban) roads, rural infrastructure like storage facilities, urban infrastructure like water, sewerage system etc. countries have followed a model which is called 'Annuity Model' where private investors recover their cost in a series of semi-annual payments from the Government over the concession period. This reduces the burden on the fiscal deficit also.

- To further facilitate long term funding for infrastructure projects, credit ratings of SPV could be enhanced so that they can raise the required amount from the market. Also, there is need to streamline institutional mechanism for further easing the availability of funding. Some other measures relating to increased funding for infrastructure projects are:

    ✓ Developing deep corporate bond market

    ✓ Encouraging participation by pension funds and insurance companies

    ✓ Stimulating Private Equity (PE) investments in infrastructure sector

- Government should ensure that infrastructure projects should be awarded only after a sufficient amount of land has been physically acquired.

- The contractual mechanisms should ensure the Government agencies' continued commitment toward land acquisition, even after awarding of the project.

- Government should consider setting up a single quasi-judicial regulatory authority for all infrastructure projects for a speedy dispute resolution. This regulatory body can be assigned statutory powers to resolve disputes between authorities and private developers. It will make the dispute resolution process more effective, accelerate project execution and reduce cost.

- A mechanism should be developed for time-bound review of Model Concession Agreements (MCAs) and incorporating best practices from international PPP experiences. It should also incorporate lessons learnt while implementing PPP projects in the country. There is also need to make provisions for optimal allocation of risks, authority and accountability for ensuring successful delivery of projects. The concession agreement should ensure unambiguous distribution of responsibility, costs and risks between public and private sector.

9. Free Trade Agreements & International Trade

- India today is second in Asia in terms of its engagement in FTAs after Singapore. India currently has a total of 34 FTAs with 13 in effect. While these FTAs are supposed to provide mutually beneficial results, but experience so far has not been very healthy particularly with regard to manufacturing sector. Hence, it calls for review of existing FTAs and till the time assessment is done Government should have a moratorium on further FTAs.

- Indian market is getting flooded with lot of sub-standard products from different countries. This is because we have not laid down clear mandatory standards for most of our products.

- In order to address this issue, it is important to strengthen the domestic regulatory regime by upgrading existing regulations or creating new technical regulations, standards and ensuring conformity of imports to assessment procedures. Further, domestic industry could also be prepared for such standards by adopting suitable support measures and incentives. Such border measures would be critical for sustaining our manufacturing growth.

10. MSME

- Contribution of MSME Sector to the economy ranges from 8-9% of GDP, 36% of India's total exports and 45% of total manufacturing output. With 3.6 crore MSMEs operating in India, MSME sector employs 8 crore persons and has emerged as the largest employment generator after agriculture. Yet, in order to achieve 10% share as envisioned and enhance contribution in exports, manufacturing output or GDP, there is an urgent need to address the challenges faced and empower MSMEs to avail of new opportunities in global value chain.

- Globally, countries have supported their small and medium enterprises at the time of slowdown through increased coverage of credit guarantees. Currently, under the Government of India scheme of Credit Guarantee Fund Scheme for MSE, guarantee is provided for collateral free loan upto Rs one crore only for micro and small enterprises. This guarantee coverage could be extended to medium enterprises also subject to some higher limit (Rs five crore).

- Once MSMEs graduates to large size, it could continue to receive priority sector lending and other benefits for at least three years to ensure seamless growth and transition. This could be considered for a period of next five years to stimulate manufacturing activity in MSME sector.

11. Stimulating Demand

- Fast tracking decision making related to large projects would help improve the efficiency of capital usage in the economy. FICCI believes that clearing of all stuck projects would create demand for manufacturing and could add 1 per cent to GDP of the country and help us achieve GDP growth of above 6%.

- Government could consider moratorium on loan repayment for delayed projects due to pending clearances which are being considered under Project Monitoring Group assisting Cabinet Committee on Investments.

- Simultaneous financial closures of multiple projects will allow the industry to commit significantly high capital and manpower to manufacturing activity, than is otherwise possible. The increased order volume resulting from multiple financial closures and bunching of orders justifies this investment, resulting in creation of manufacturing jobs.

- Having longer engagement cycle through bulk tendering and repeat jobs encourages investment in manufacturing assets and even training. Bulk tendering at periodic intervals provides assurance of a continuity of orders, and keeps the volume of orders at a level which justifies increased capacity creation, consequently it gives a fillip to jobs in manufacturing.

Government Procurement

- Currently, it is estimated that government procurement market is around 30% of India's GDP which if leveraged can really help the country in creating domestic supply chain in manufacturing especially in areas like electronics, capital goods e.t.c. India needs to improve its manufacturing capabilities, without which it cannot achieve its goal of a faster growth in employment through more rapid growth of its manufacturing sector. Manufacturing capabilities are, in essence, the application of technologies for conversion of materials and production of complex products which cannot be built with continuous reliance on imports. Preferential market for domestic manufacturers in Government Procurement is well within our international obligations. Other countries have applied such measures to promote and protect their domestic manufacturing and employment.

- The current Government Procurement policy of MSME Ministry provides for mandatory sourcing of minimum 20% by Government departments from both manufacturing and services MSMEs. This should be changed to mandatory sourcing of at least 20% for MSME in manufacturing in addition to sourcing from service sector MSME.

- In addition, we need to have policies for various sectors (like electronics, defence etc) where government procurement can be leveraged to promote domestic manufacturing.

Defence

- The 'Look Within' approach towards defence procurement will enhance indigenisation in defence production thus giving a boost to domestic manufacturing. Categorisation of Programmes in the priority of 'Buy Indian', 'Buy & Make' (Indian) and 'Make' category will boost domestic R&D and manufacturing thereby creating jobs in the country. The objective of creating Substantive Self Reliance as enunciated in the Defence Production Policy 2011 and mirrored in Defence Procurement Policy 2013 needs to be implemented in letter and spirit by MoD and with specific timelines.

- 20% procurement from MSMEs for Defence procurement by MoD / DPSU/ DRDO - Defence is a tierised industry where MSMEs are the repositories of niche technologies. Integration of these units in the defence value chain will not only strengthen Indian defence industrial base but also help them integrate in the supply chain of foreign OEMs given India's expertise in frugal engineering

12. Skill Development

- As mentioned earlier, our policies have to be oriented towards creating jobs in manufacturing. Following measures will go a long way to encourage manufacturers to undertake skill development activities and bridge the widening skill gap in the sector:

  a) The NSDC affiliated private skill development institutions were included in the negative list of service tax in 2011-12. However, this provision was removed in 2012-13. This benefit must be reversed to encourage the nascent private sector skill development industry.

  b) Central Board of Direct Taxes (CBDT) has announced guidelines for Skill Development Companies. The recent notification of CBDT which has approved weighted deduction for Skill Development under section 35CCD is a welcome step to encourage participation in skill development. However, following are the areas of concern with regard to these guidelines from manufacturing perspective:

     o As the skill development project has to be undertaken by an eligible company and the project is undertaken in separate facilities in a training institute, it excludes corporates that are conducting in house training in facilities that are not approved by NCVT (National Council for Vocational Training) or SCVT (State Council for Vocational Training).

- o Further, as the definition of "company" provided in the guidelines does not include "companies engaged in skill development" stand alone skill development providers are not eligible for the above deduction. This means that only company programs conducted in training institutes become eligible.

- o More importantly, the definition of "training institutes" excludes the NSDC training partners, SSC certified institute and any private institution conducting training for the sector not certified by the NCVT or SCVT.

- o This provision clearly excludes up-skilling from its ambit. In the context of manufacturing continuous up-skilling becomes important. The provision can be devised in a manner that the expenses for up-skilling of employees once in 2 years or so should be allowed

c) Include a minimum percentage of certified skilled work force in the tendering process of every manpower intensive project and increase the minimum percentage every year by a reasonable margin based on the life of the project.

d) Mechanisms should be created to provide public funding to encourage both public and private universities/higher education institutions with potential to become world class. Both public and private sector universities should compete for public funds allocated for research, scholarships and grants to foster healthy competition in the sector.

e) The Ministry of Human Resource Development, Government of India, in 2010 had initiated "The Universities for Research and Innovation Bill" to provide for establishment and incorporation of universities for "Research and Innovation" which would be at the fore front of making India global knowledge hub and set benchmarks for excellence. The Bill which provides for setting up of 14 universities for research and innovation both in the private sector and public sector is yet to be passed despite several stakeholders consultation. Passage of the Bill needs to be expedited to provide competitive edge to our manufacturing and other sectors.

f) Need for an effective industry–academia connect in higher educational institutions: Lack of appropriate Industry-academia linkages and engagements have been identified as one of the critical reasons for the lack of quality of graduates in the country. FICCI has initiated setting up of National Knowledge Functional Hub (NKFH), a hub and spoke model to facilitate quality graduates from Tier II and Tier III Engineering colleges, which needs to be brought into our mainstream policy domain.

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