

GUIDELINES OF THE MEGA LEATHER CLUSTER SUB-SCHEME OF INDIAN LEATHER DEVELOPMENT PROGRAMME

1. BACKGROUND

- 1.1 The Leather Industry holds a prominent place in the Indian economy. This sector is known for its consistency in high export earnings and is among the top ten foreign exchange earners for the country. It is an employment intensive industry, providing jobs to about 2.5 million people, mostly from the weaker sections of the society, with women holding more than about 30% share. The Indian leather industry is bestowed with an affluence of raw materials as India is endowed with 21% of the world's cattle & buffalo and 11% of the world's goat & sheep population.
- 1.2 The Indian leather industry is operating on low profit margins on account of fierce competition in the international market. Considering the low risk-taking capacity of the existing entrepreneurs, it may be difficult to attract investments in large quantities unless the government also participates in the creation of infrastructure in a big way. The concept of Mega Leather Clusters seeks to address the constraint of large infrastructure with integrated production chains in the country.

2. OBJECTIVES AND STRATEGY

- 2.1 The major objective of developing Mega Leather Clusters is to create world-class infrastructure and to integrate the production chain in a manner that caters to the business needs of the leather industry so as to cater to the domestic market and exports. In brief, these mega clusters will assist the entrepreneurs to set up world-class units with modern infrastructure, latest technology, and adequate training and Human Resource Development (HRD) inputs. The development of Mega Leather Clusters would help in creating additional employment opportunities, particularly for the weaker sections of society.
- 2.2 The Mega Leather Clusters may host production units of all segments namely footwear, footwear components, leather goods (including gloves), leather garments & saddlery & harness items.

3. SCOPE OF THE SUB-SCHEME

It is proposed to develop Mega Leather Clusters in the States having large concentration of leather units as also States having potential for growth of the leather sector in view of the labour advantage and raw material availability. The scheme will be demand driven and the exact locations will be identified on receipt of DPRs from the Industry with diagnostic study alongwith availability of backward and forward linkages on those locations. Such clusters will have world-class infrastructure and good connectivity with the Ports. The maximum timeframe for complete establishment of each Mega Leather Cluster shall be 5 years. The selection of the Mega Leather Cluster should be done based on outcomes proposed and the proposal with the best outcomes should be approved.

4. PROJECT COMPONENTS

4.1 The minimum common facilities to be mandatorily provided in the cluster as approved by the Empowered Committee.

4.2 LAND DEVELOPMENT COST

The cluster should have a minimum area of 25 acres (to be set up without tanneries) and 40 acres (to be set up with tanneries) and the land development cost will include secured compound wall, wire fence and site development.

4.3 INFRASTRUCTURE

a. **Core infrastructure:** Road Network, power supply including installation of Captive Power Plant, Water supply system, Water storage with rain harvesting facility, Storm Water Drainage and Sewage lines, Streetlights, Secured compound wall/wire fence, Solid waste disposal plant/ Common Effluent Treatment Plant, Signages, landscaping and entry-exit gate and parking facilities.

b. **Social Infrastructure:** Common Facility Centre which include Warehouse, Trade/ Display/ Exhibition/ Convention/ Information Centre, Design Centre, Craft Based Resources Centre, Hostel with Dormitory, Raw Material Bank and Additional Common Facilities like Communication Network (including broadband service), Administrative

Building, Fire Fighting Station, infrastructure to ensure better environment for differently abled. Provision for Post Office, Health Centre and Primary School may be made by resorting to dovetailing with other Government of India/State Government schemes

- c. **Production Infrastructure:** Ready-to-use Factory Sheds with plug-in facility for machinery/equipment.
- d. **HRD and Social Infrastructure:** Training Centres, Recruitment Centre, Workflow Training Centre, Classroom with LCD Projector, Library, Recreation Centre, Workers' Hostel, Faculty Room, Creche & Canteen, Labour Restroom and Management Consultancy Centre.
- e. **R&D Infrastructure:** Product Design & Development Support Centre, Testing Laboratory, Quality Benchmark Centre, Material Research, Basic Product Technology Research, Pre-competitive Collaborative Research and Market Research.
- f. **Export services related infrastructure:** Clearing Agents, Customs/ Central Excise/ Service Tax offices and DGFT liaison office.

4.4 CAPACITY BUILDING

Common marketing efforts, branding, technology sourcing, skill development, quality & environmental certification and exercise of best practices as per international standards & such other developmental initiatives can be undertaken, which are aimed at improving the capacity of the units in the clusters.

4.5 ENGAGEMENT OF CONSULTANT BY SPV

If it so desires, the SPV implementing the project can appoint consultants/contractors having experience of being engaged for setting up of at least three green-field infrastructure project of similar nature in past to help in the design and development of the project in a fair and transparent manner. The cost on this activity should be limited to the extent of 3% of the cost of infrastructure as given above and will be funded from within the project implementation cost.

4.6 OTHER EXPENDITURE

Any other expenditure shall mean pre-operative expenses on diagnostic study and statutory expenses for incorporation of the SPV.

5. PATTERN OF ASSISTANCE

5.1 The total Project Cost for the purpose of the Mega Leather Cluster sub-scheme shall comprise the cost on account of Land development, Infrastructure, Capacity Building and Engagement of Consultant by SPV. GoI assistance can be upto @ 50% of the Project Cost, subject to the limitations as follows, depending on the total land area of the MLC:

(a) MLC of 25-60 acres land (to be set up without tanneries) and 40-60 acres land (to be set up with tanneries)- GoI assistance limited to Rs 50 crore ;

(b) MLC of 61-100 acres land- GoI assistance limited to Rs 70 crore;

(c) MLC of 101-150 acres land- GoI assistance limited to Rs.105 crore;

(d) MLC of more than 151 acres land- GoI assistance limited to Rs 125 crore.

5.2 The SPV/industry will have to bring in the land for the project at its own cost. Preference would be given to those SPVs which are already in possession of the land whether at their own cost or through State Government. SPV would also ensure that the proposed land, where Mega Leather Cluster is planned, is conforming to industrial areas/zones of the city/town concerned in case such land is within the limits of those city/town.

5.3 Component wise amount of assistance could be decided from project to project by the Empowered Committee based on due appraisal of the project proposal received from concerned SPV.

6. IMPLEMENTATION METHODOLOGY

6.1 Special Purpose Vehicle

(i) Each Mega Leather Cluster project will be implemented by a Special Purpose Vehicle (SPV). The assistance would be provided to a SPV which should be a legal entity duly registered for this purpose. The SPV may be promoted by private companies registered under the Companies Act, 1956 engaged in leather industry value chain, industry organizations

registered under Societies Act, financial institutions, R&D institutions, State or Local governments or their agencies and units within the Leather Industry. The structure of SPV will be approved by the Empowered Committee at the time of in-principle approval for the project.

- (ii) The SPVs will also have as Director on their Boards, at least one representative each of the Central Government, State Government, Financial Institutions advancing credit to the SPV, owners of industrial plots, ready-to-use factory sheds, operator / maintainer of common facilities and also the Regional Chairman of CLE.

6.2 Role of Special Purpose Vehicles:

- (i) The SPV would be responsible for maintaining the utilities and infrastructure created for the Mega Leather Cluster. It would be empowered to collect service and user charges to recover costs and future expansion. It has to be so structured as to be self-sustaining with a positive revenue stream.
- (ii) The SPV shall be responsible for coordinating the implementation of each of the components of the project.
- (iii) The SPV should follow the transparent process for awarding all the contracts for the execution of the Mega Leather Clusters scheme as per Gol Policy.

6.3 Land / shed allocation by SPVs

- (i) The Empowered Committee of Department of Industrial Policy & Promotion shall prepare a common set of rules (in the nature of a template) for allocation of ready-to-use sheds and land in the Mega Leather Clusters in consultation with the stakeholders in order to have consistency and transparency in allotment. SPV shall allot land/sheds etc only to units engaged in the manufacture of leather, leather products or leather ware including components thereof within the framework of these rules.
- (ii) Within the framework of the above set of rules, the SPV will draft a

transparent & judicious policy for allocation of Industrial plots/ready to use factory sheds; and fixation of user charges for common facilities and services.

- (iii) SPV will also constitute a Standing Committee for the implementation of the above said policy. The Standing Committee constituted for the purpose should invariably include the representatives of Central Government, State Government and Financial Institutions and all the decisions should be taken through an open, transparent process.

6.4 Project Management Consultants (PMC)

(i) DIPP shall appoint a panel of professional agencies through a transparent technical bid process. The empanelled PMC shall be paid a fee subject to a ceiling of 1% of the GOI Assistance for each approved MLC separately and would be released corresponding to the release of installments to the SPVs. The amount to be paid to a PMC and schedule of payment to PMC engaged for a particular cluster project could be decided by Empowered Committee.

- (ii) PMC should not have any conflict of interest with the SPV in any form.

6.5 Role of the Project Management Consultant

The PMC will assist the Department in:

- Identifying the locations for setting up the MLCs based on a scientific assessment of the demand and potential of the area.
- Facilitating formation of SPV at each project level with the participation of local industry.
- The monitoring of the implementation of the Mega Leather Cluster scheme,
- Technical & Financial appraisal of the proposal/DPR
- Setting milestones for monitoring the project at the time of approval of the project itself,
- Devising suitable monitoring and evaluation mechanism for the projects

under the scheme,

- Periodical monitoring of the progress of the projects
- Providing other need based advisory services to the Government in effective implementation of the scheme and
- Ensuring timely completion of project(s) as determined by the Department.

6.6 **Role of State Government:**

The role of the State Government is envisaged in the following areas:-

(i) Providing all the requisite clearances including environment clearance, wherever needed, for setting up the MLC and providing the necessary assistance for Power, Water and other utilities to the MLC.

(ii) Assist in identification and procurement of suitable land.

(iii) Providing flexible and conducive labour environment and consider special facilities like exemption of stamp duty etc. for the units located in the MLC.

(iv) Dovetailing of other related schemes for overall effectiveness and efficiency of the project.

(v) The State Government may also participate in the SPV through the nomination of a representative on the Board of the SPV.

7. **APPROVAL PROCESS**

7.1 **Empowered Committee**

The Department will constitute an Empowered Committee having representative of all concerned Ministries and Departments and other stakeholders to approve projects of MLC.

7.2 **Approval process**

The following steps would be required for approval of Mega Leather Cluster:-

Step-1: In-principle approval under Mega Leather Cluster (MLC)

- (i) Preliminary Proposal (PP) will be submitted by the promoters
- (ii) PP will cover the major features of the proposed project including tentative scope of industries to be installed, allocation & availability of land, structure of SPV and means of finance including development potential etc.
- (iii) PP after appraisal by PMC would be considered for in-principle approval.

Note:

- (i) Such in-principle approval will be valid for a period of 6 months from the date of approval.
- (ii) In case, the DPR is not submitted within 6 months from the date of in-principle approval, the in-principle approval will automatically lapse, unless the Department specifically extends it.

Step-2: Preparation of DPR under MLC

- (i) DPR shall be formulated after conducting a diagnostic study of the requirements of common facility and infrastructure in the specific location based on demand and potentiality.
- (ii) The Generic Structure of the DPR will be as given in the guidelines of Department of Expenditure (PF-II Division) OM No.1(2)-PF.II/03 dated 7th May 2003.

Step-3: The DPR will be appraised by PMC. Before submission of the final DPR after incorporating the amendments, if any, suggested by PMC, the following conditions are required to be met:-

- Establishment & incorporation of project specific SPV
- Possession of requisite land by the SPV
- Execution of shareholders agreement and other related agreements between the SPV and the members
- Adherence to all the conditions prescribed for SPVs in these guidelines.

Step-4: (i) The final approval to the DPR will be given by the Empowered

Committee based on findings of the diagnostic study report and the DPR.

8. RELEASE OF FUNDS

(i) SPV shall maintain an exclusive project specific Trust and Retention Account (TRA) with any nationalized Bank, and the funds from the Government will be released into that account only through ECS. The release of funds however, would be linked to the milestones/targets identified at the time of approving the proposal. Broadly the Government would release its share of grant-in-aid in 4 phases as per the following schedule:

- (a) 25 % (1st installment), as advance, on final approval of the project after the financial closure of the project and award of contracts by the SPV and on producing the statement of project specific TRA reflecting the proportionate contribution (i.e. 25% of the share of SPV) deposited by SPV in the TRA.
 - (b) 30% (2nd installment) after submission of utilization of 2/3rd of the 1st installment and on producing the statement of project specific TRA reflecting the proportionate contribution (i.e. 25% of the share of SPV) deposited by SPV in the TRA.
 - (c) 30% (3rd installment) after submission of full utilization of first installment and utilization of 2/3rd of the 2nd installment and on producing the statement of project specific TRA reflecting the proportionate contribution (i.e. 30% of the share of SPV) deposited by SPV in the TRA and proof of proportionate expenditure made by the SPV out of its own fund.
 - (d) 15% (4th & final installment) will be released after successful completion of all the infrastructure of the project as per the approved DPR and after 25% of the leather units in MLC start their production and same is certified by the SPV and PMC and UC in respect of 2nd and 3rd installment are produced.
- (ii) The SPVs would forward their claims to DIPP supported by documents such as Utilization Certificate in the format of GFR 19A, Pre-Receipt Bill, Surety Bond Separate accounts shall be kept by SPV for the funds

released by DIPP, which shall be subject to audit by the Comptroller & Auditor General of India.

- (iii) The SPVs shall make full recovery of Operational & Maintenance (O&M) costs through user charges. The recovery by way of lease rentals shall accrue to the SPV for plough back for future expansion. No recurring grant would be paid by DIPP for establishment and O&M costs.
- (iv) In the event of an SPV withdrawing from executing a project before utilizing the Government assistance, then the SPV should immediately return the Government assistance together with the interest accrued thereon, if any. The Empowered Committee of the Department shall decide penal interest liable for any default or delay in execution of the Project.

9. PROJECT MONITORING AND EVALUATION

- 9.1 Apart from the monitoring by the PMC, the Department will periodically monitor and review the progress of the projects under the scheme through Steering Committee at least once every quarter.
- 9.2 The PMC appointed by the Department will devise a concurrent monitoring and evaluation system and shall submit periodical reports / returns to the Department.
