

### **III. Guidelines of the Mega Leather Footwear and Accessories Cluster Development Sub-Scheme of Indian Footwear and Leather Development Programme (IFLDP)**

#### **1. BACKGROUND**

1.1 The Leather and footwear 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 and footwear 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 Footwear and Accessories 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 Footwear and Accessories is to create world-class infrastructure and to integrate the production chain in a manner that caters to the business needs of the leather and footwear 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 Footwear and Accessories would help in creating additional employment opportunities, particularly for the weaker sections of society.

2.2 The Mega Leather Footwear and Accessories may host production units of all segments namely leather, footwear, footwear accessories & components, leather goods (including gloves), leather garments, saddlery & harness items.

#### **3. SCOPE OF THE SUB-SCHEME**

It is proposed to develop Mega Leather Footwear and Accessories in the States having large concentration of leather and footwear units as also States having potential for growth of the leather and footwear 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 along with availability of backward and forward linkages on those locations. Such clusters will have

world-class infrastructure and good connectivity with the Ports. The maximum time frame for complete establishment of each Mega Leather Footwear and Accessories shall be 5 years. The selection of the Mega Leather Footwear and Accessories should be done based on outcomes proposed and the proposal with the best outcomes should be approved. Preference shall be given for development of Brownfield clusters.

#### **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 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, Signage, 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-and-play facilities 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 Footwear and Leather sub-scheme shall comprise the cost on account of Land development, Infrastructure, Capacity Building and Engagement of Consultant by SPV. Govt assistance can be upto @70% of the project cost for North Eastern Areas or @ 50% of the Project Cost for other regions, subject to the limitations as follows, depending on the total land area of the MLFACD:

- |   |  |
|---|--|
| (a) MLFACD of area upto 60 acres land       | - Govt assistance limited to Rs 50 crore;  |
| (b) MLFACD of area upto 100 acres land      | - Govt assistance limited to Rs 70 crore;  |
| (c) MLFACD of area upto 150 acres land      | - Govt assistance limited to Rs.105 crore; |
| (d) MLFACD of area more than 151 acres-land | - Govt 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 Footwear and Accessories is planned, is conforming to industrial areas/zones of the city/town concerned in case such land is within the limits of that 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, Footwear and Accessories Cluster Development 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, 2013 engaged in leather and/or footwear 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 and/or footwear 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 Footwear and Accessories. 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 Footwear and Accessories Cluster Development scheme as per GoI Policy.

### **6.3 Land / shed allocation by SPVs**

(i) The Empowered Committee of DPIIT 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 Footwear and Accessories Cluster 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 and footwear, 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) **DPIIT 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 MLFACD 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:

- a. Identifying the locations for setting up the MLFACD based on a scientific assessment of the demand and potential of the area,
- b. Facilitating formation of SPV at each project level with the participation of local industry,

- c. The monitoring of the implementation of the Mega Leather Footwear and Accessories scheme,
- d. Technical & Financial appraisal of the proposal/DPR,
- e. Setting milestones for monitoring the project at the time of approval of the project itself,
- f. Devising suitable monitoring and evaluation mechanism for the projects under the scheme,
- g. Periodical monitoring of the progress of the projects,
- h. Providing other need based advisory services to the Government in effective implementation of the scheme, and
- i. 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:-

- a. Providing all the requisite clearances including environment clearance, wherever needed, for setting up the MLFACD and providing the necessary assistance for Power, Water and other utilities to the MLFACD.
- b. Assisting in identification and procurement of suitable land.
- c. Providing flexible and conducive labour environment and consider special facilities like exemption of stamp duty etc. for the units located in the MLFACD.
- d. Dovetailing of other related schemes for overall effectiveness and efficiency of the project.
- e. 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 MLFACD.

## 7.2 Approval process

7.2.1 Proposals for developing Mega Leather Footwear and Accessories cluster will be invited from all State/UTs by an open application process through a public notice for sending their applications within a given time frame.

7.2.2 The Department in consultation with PMU, will do a preliminary scrutiny of all the applications based on the indicators and marking scheme at **Appendix-A** of these guidelines.

7.2.3 The following steps would be required for approval of Mega Leather Footwear and Accessories Cluster Development:-

**7.2.4 Step-1:** In-principle approval under Mega Leather Footwear and Accessories (MLFACD)

- (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 final 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.

**7.2.5 Step-2:** Preparation of DPR under MLFACD

- (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.24(35)-PF.II-2012 dated 5<sup>th</sup> August 2016 as amended time to time.

**7.2.6 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:-

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

**7.2.7 Step-4:** 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 and/or footwear units in MLFAC 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 DPIIT supported by documents such as Utilization Certificate, Pre-Receipt Bill. Separate accounts shall be kept by SPV for the funds released by DPIIT, 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 DPIIT 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.

9.3 For the purpose of monitoring and verification of progress/proper utilisation of benefits, an appropriate system, including targets for physical verification by Group A/Class I officers will be set by the Empowered Committee.

9.4 Digital portal for beneficiaries in all sub-schemes enabling proper identification and monitoring of beneficiaries/benefits is being established.

9.5 Provision of these guidelines can be modified with the approval of Secretary, DPIIT.

**Appendix-A****Indicative Evaluation Criteria for Scrutiny and Marking Scheme**

| <b>S. No.</b> | <b>Marking Criteria</b>   | <b>Maximum Marks</b> |
|---------------|---|----------------------|
| 1             | Utility charges (rates) as per proposal submitted by State Govt. (the State quoting the lowest rate will be awarded full marks and others will be rated pro-rata):<br>i. Power (10)<br>ii. Water (7)<br>iii. Park maintenance charges (5)<br>iv. Warehouse Charges (3)  | 25                   |
| 2             | Policy incentives of state government applicable for Leather and Footwear Industry<br>i. Interest Subvention Scheme (6) — (the State quoting highest percentage of interest subvention for a period of 10 years from the date of operation of the park, shall be awarded highest marks and others shall be rated pro-rata)<br><br>ii. GST reimbursement, subsidy, incentive etc., against investment (6) - (the State quoting highest percentage of the reimbursement of investment, for a period of 10 years from the date of operation of the park, shall be awarded highest marks and others shall be rated pro-rata). | 12                   |
| 3             | Connectivity of the Park<br>i. Air Cargo /Airport within 50 km from site (4)<br>ii. National Highway within 25 km from site (4)<br>iii. Sea Port / In-land waterway/Dry port within 100 km from site (4)  | 12                   |
| 4             | Lease rate to be offered to individual units of Leather and Footwear to be set up in the park - the lease rent shall be compared based on the NPV of the upfront lease payment and/or periodic lease/maintenance charges per sq. meter, (the State quoting the lowest lease rent per sq. meter on NPV basis, shall be awarded full marks and others will be rated pro-rata).  | 10                   |
| 5             | Total area of the proposed park<br>States shall get 2.5 marks for every additional 50 acres of land over and above 100 acres minimum stipulated land  | 10                   |
| 6             | Uninterrupted 24*7 availability, with committed source and necessary infrastructure, of (Yes/No):<br>i. Power (4)<br>ii. Water supply (3)   | 7                    |
| 7             | Full exemption of Stamp Duty and Registration charges(Yes/No)   | 5                    |
| 8             | Latest Ease of Doing Business Ranking of the State -  | 5                    |

|    |   |            |
|----|---|------------|
|    | The marks shall be awarded based on the slabs of ranking:<br>i. Rank 1 to 5 = 5 Marks<br>ii. Rank 6 to 10 = 4 Marks<br>iii. Rank 11 to 15 = 3 Marks<br>iv. Rank 16 to 20 = 2 Marks<br>v. Rank 21 to 25 = 1 Mark<br>vi. Rank below 25 = 0 Mark |            |
| 9  | Availability of Technical Manpower in the State<br>i. No. of Leather/Footwear Technology/Training colleges > or = 1 Mark each up to (3)<br>ii. No. of specialized research institutes in Leather and Footwear sector > or = 1 (2)             | 5          |
| 10 | Presence of Institutes for technology transfer (Yes/No)   | 5          |
| 11 | Industrial Network<br>i. Accessories producers > or = 50 (2)<br>ii. Registered MSMEs > or = 1000 (2)  | 4          |
|    | <b>Total</b>  | <b>100</b> |

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