

Indian Leather Development Programme
Guidelines for setting up of Leather Parks
XI Plan Period

1. Background

The sub scheme of leather parks under ILDP is being proposed during 11th Plan for addressing the infrastructure constraints being faced by leather industry in the country. The scheme would be assisting the industry in addressing the infrastructure needs of the entire sector in a holistic manner. This would enable the industry in improving its global competitiveness, apart from meeting the regulatory and trade related compliances. The scheme will cover the entire value chain of leather industry i.e. tannery, finished leather products, footwear components etc.

The strategy is to aggregate the demand of the industry in the form of clusters and develop need-based infrastructure for them through exclusive leather parks/complexes. The basic concept of a complex is to develop a particular industrial sector needing special and common infrastructure in one selected location and organize the planned growth of a group of industries. Complex is like well planned and built city. Development of leather industry in complexes has started gaining importance in European, Asian and Latin American Countries. Realizing that the infrastructure is the key to a globally competitive leather industry, the Department has laid emphasis on setting up of infrastructure for the growth of the leather sector in the 11th Plan Period. It proposes to establish atleast 6-7 parks during the 11th Five Year Plan period in the total outlay of Rs. 300 crore.

While prospects for Indian Leather Exports have brightened in view of declining production of leather goods in Western Europe, the export industry in India is not fully geared to meet the demand that could come in its way, as a result of serious capacity limitations. The industry has not been able to exploit the emerging market opportunities fully due to several constraints. One such major constraint is the inadequacy with respect to

infrastructure. Establishment of such parks will enable the provision of infrastructure in a more cost effective manner, help in addressing the environmental concerns more effectively, will ensure greater sustainability of the efforts finally resulting in positive impact on the competitiveness of Indian leather industry.

Considering the lower risk taking ability of the existing entrepreneurs domestic investment may not come in large quantities unless and otherwise government also participates in the investment venture in a big way. It is in this context that, the Scheme for Integrated Textile Parks was found to be ideal for replicating it in the Leather sector. The scheme could provide a major opportunity for raising the scale of production.

As the scheme would be demand driven and has to be initiated by the entrepreneurs interested in setting up the park, no fixed number of parks at specific location or the fixed fund is allocated for the scheme.

2. The Scheme

The scheme provides for a grant for the Greenfield Leather Park/complex subject to a ceiling of Rs. 40 crore per park. Leather Parks would include; Tanning Parks, Leather Product Parks and Machinery Parks to manufacture machineries used in the leather sector. There may be integrated parks housing both tanneries and the product units. In such cases the tannery units should be located in contiguous area at the outskirts and should not be scattered in the park. Parks housing tannery units should have a provision for setting up chrome recovery plant, Common Effluent Treatment Plant (CETP) and Reverse Osmosis (R.O). The tanneries being established in the leather parks would have to address all pollution and environmental concerns and all necessary clearance required would need to be obtained by the Special Purpose Vehicle (SPV).

The Scheme is co-terminus with the 11th Plan period. Its continuation into 12th Plan would be dependent upon the success in completion of all the sanctioned projects before the end of 11th Plan.

The Leather Parks may also be set up in the Special Economic Zones (SEZs), in which case the special provisions of SEZs would be applicable for them. In case these are set up outside SEZs, proposal may be pursued with the Ministry of Commerce & Industry to declare the Leather Park as SEZ, if it is so desired.

3. Objectives of the scheme

1. To provide the industry with infrastructure facilities for setting up their leather and leather products units. The scheme would facilitate leather units to meet international environmental and social standards.
2. To create additional capacities in tanning and leather product manufacturing sectors to meet the increasing demand for Indian leather products overseas and in domestic market.
3. To mobilize investment from the domestic entrepreneurs as well as the foreign investors into the leather manufacturing sector.
4. To create an integrated park consisting of component suppliers and product manufacturers so that, the supply chain for manufacturing improves.
5. To stimulate manufacturing activity in those areas of the country where despite the presence of raw material, there is no manufacturing activity as of now.
6. To create large number of employment opportunities for the semi-skilled and skilled persons in the semi-rural and urban areas.

4. Eligibility

The benefits under the scheme shall be available to a SPV formed by a group of entrepreneurs (minimum being 7 legally independent companies)

that are engaged in leather tanning manufacturing of leather & non-leather goods and components and other activities associated with leather industry, which intend to set up production units in the proposed park. The project specific Special Purpose Vehicle (SPV), promoted by such entrepreneurs for development and management of the proposed park, shall be the recipient of the assistance under the Scheme. The net worth of the entrepreneurs i.e his company (minimum being 7 legally independent companies) has to be atleast Rs. 1 crore and the combined net worth of the seven promoters forming SPV should be atleast Rs. 10 crore.

5. Scope of the Scheme

The Scheme targets industrial clusters/locations with high growth potential, which require strategic interventions by way of providing world-class infrastructure support. The project cost will cover common infrastructure and buildings for support activities, depending on the needs of the Leather Parks. There will be flexibility in setting up Leather Parks to suit the local requirements.

5.1 The project cost for the purpose of this scheme would cover the following elements of the proposed leather park.

(A) Land and land development cost

- **Land** – Each park should have an area of minimum 25 acres.
- **Land Development cost** - It would include compound wall, site development.

(B) Common Infrastructure

- **Physical and Environmental Infrastructure:** It would include internal as well as approach roads, drainage, water supply, sewerage, electricity supply including captive power plant, effluent collection, treatment & disposal including marine out fall, hazardous waste management facility, telecommunication lines, office & administrative building, conference room, workers hostel, crèche etc proposed to be developed for the Park.

- **Technology Infrastructure:** It would include a Common Facility Centre for certain production processes, R&D centre, a testing laboratory, design studio, training center etc. including machinery proposed to be developed within the park.
- **Marketing Infrastructure:** It would include warehousing, trade centre, display centre etc., proposed to be developed within the Park.

The Components of common infrastructure as mentioned above are only illustrative, and the project may cover any other need based activity that is vital for sustainability of the park.

(C) Capacity Building

It would include common marketing efforts, branding, technology sourcing, skill development, quality and environmental certification and standards and other common initiatives undertaken by the SPV aimed at improving the capacity of the units proposed to be located within the park, in particular and the leather industry, in general. The cost on this activity should be limited to the extent of 10 % of cost of common infrastructure as given at Para (B) above.

The items covered under each of the above Groups are illustrative only, and every Leather Park may be developed to suit the specific production and business requirements of members of Leather Park.

(D) Engineering and Construction Supervision as well as project development and execution Consultancy

The SPV if so desire can appoint a consultant to help in design and development of the project. It would include the cost of hiring engineering and construction supervision consultants engaged by the SPV, through a transparent process, for the purpose of undertaking detailed designing, engineering, bid management and construction supervision of the project as well as the cost of institution/experts engaged by SPV towards advisory, financing and other need based services for conceptualization, development and execution of the project. The cost on this activity should

be limited to the extent of 5 % of cost of infrastructure as given at Para (B) above.

The consultants appointed by the SPV should have the following qualifications

- He/They must have been engaged in atleast 1 projects of the same size , 2 projects of half of the size and atleast 3 projects of the 40% of the size of the project in the last 5 years
- He/They must have rich experience in civil and environmental engineering by qualification in case of engineering and design consultant

SPV should follow the principle of open tender for awarding all the contracts for the execution of the leather park scheme.

(E) Any other expenditure including pre-operative expenses, expenses for incorporation etc.

The total Project Cost for the purpose of this Scheme shall comprise the cost on account of components of Leather Park, as listed under Groups A, B, C, D and E above.

The total project cost shall be funded through Grant from the Ministry of Commerce & Industry, equity from Industry and Loan from Banks/ Financial Institutions.

Under the scheme the components of the project cost mentioned at B, C and D would be eligible for the GOI assistance @ 50% of the cost, subject to the maximum of Rs. 40 crore per Park.

6. Pattern of Assistance

The Government of India's (GOI) support to the SPV under the Scheme by way of Grant will be limited to Rs.40 crore per park as detailed above in para 5.

7. Implementation of the Scheme

Industry Associations/Groups of Entrepreneurs would be the main promoters of the Leather Parks. At each Leather Park, there would be a separate Special Purpose Vehicle (SPV) formed with the representatives of local Industry, Financial Institutions, State and Central Government. SPV shall invariably be a non-profit company registered under section 25 of the Companies Act

7.1 Special Purpose Vehicles

The entrepreneurs, who intend to set up the production units inside the park, would implement the scheme through the project specific SPV promoted by them. Such entrepreneurs shall hold atleast 51% of the equity of the SPV and the remaining may be held by any Government agency, financial institution/Bank, developer etc. SPV shall invariably be a non-profit company registered under section 25 of the Companies Act. There shall be one nominee each of the Central and State Government on the Board of Directors of the SPV. The SPV shall be staffed adequately with suitable professional in order to ensure that the project is executed smoothly.

These SPVs would be the focal points for implementation of the Scheme, playing the following role:

- SPV would conceptualize, formulate, achieve financial closure, implement and manage the infrastructure.
- SPV would procure land, cost of which could be built into the project cost.
- After developing the infrastructure, SPV would allocate sites to Industry for setting up units.
- SPV would mobilize funds, other than Government grants to execute the project
- SPV would also facilitate securing bank finance required for setting up units in Leather Park.

- SPV would obtain all necessary statutory clearances, including environmental clearances
- SPV would be responsible for maintaining the utilities and infrastructure created for Leather Park by collecting service and user charges.
- The SPV has to be so structured as to be self-sustaining with a positive revenue stream.
- SPV would appoint contractors/consultants in a fair and transparent manner and would follow the GOI instruction of open tendering for award of all contracts.
- In order to ensure timely completion of the project, SPV will obtain appropriate performance guarantee from consultants/contractors.

7.2 Project Management Consultant

Recognizing the fact that the projects of the proposed nature would require very extensive project management efforts , Government would engage the services of an agency that has proven experience in developing , financing and executing the industrial cluster infrastructure projects, as advisor in implementation of the scheme , from the stage of approval to commissioning of the project.

PMC would be appointed by competitive bidding and the Department would pay the fees to the PMC for its services.

PMC will discharge the following functions:

- Assist the Department in the implementation of the Leather Park scheme.
- Technical and Financial Appraisal of the projects DPR.
- Vetting the proposal including financial viability of the proposal.
- Help the Department in setting milestones for monitoring the project at the time of approval of the project itself.
- Devise suitable monitoring and evaluation mechanism for the projects under the scheme.

- Assisting the Government in periodical monitoring of the progress of the projects, and disbursement of funds to the SPVs and their utilization.
- Providing other need based advisory services to the Government in effective implementation of the scheme.
- Ensure timely completion of project(s) as fixed by the Department.

7.3 Role of State Government

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

- Providing all the requisite clearances, wherever needed, for setting up the LP and providing the necessary assistance for Power, Water and other utilities to the Leather Park
- Assist in identification and procurement of suitable land
- The State Government agencies like Infrastructure/Industry Development Corporations may also participate in the projects by way of subscribing to the equity of SPV or by providing grants
- Providing flexible and conducive labor environment and consider special facilities like exemption of stamp duty for the units located in the Leather Park
- Dovetailing of other related schemes for overall effectiveness and efficiency of the project
- Extending incentives available under related industrial promotional policies.

In order to facilitate proper coordination, State Governments would be requested to participate in the SPV.

8. Procedure for Application:

After the approval of the scheme, the guidelines of the scheme would be put on the website of the Department. Interested leather entrepreneurs can submit preliminary proposal under the scheme as detailed in the

guideline directly to the Department for approval. Department would approve the proposal on first come first serve basis.

9. Approval of the scheme:

There would be two-stage process for approval of the projects: In-principle approval and final approval.

9.1 In-principle approval: In-principle approval for a project will be accorded by the Department based on Preliminary Proposal submitted by the SPV/promoters covering the major features of the proposed project and location and availability of land. Such In-principle approval will be valid for a period of 6 months from the date of approval, and it is expected that the project would be ready for final approval within this period. In case final approval is not accorded to the project, within 6 months, the in-principle approval will automatically lapse, unless it is specifically extended by the Department. In-principle approval is not mandatory. If the SPV is ready with the DPR and in possession of land, the proposal can also be submitted by the SPV directly for the final approval.

A project will be submitted for the approval of the Empowered Committee/Steering Committee (depending on the cost of the project) only if the following conditions are met and the DPR for the project is submitted by the SPV.

- Availability of group of entrepreneurs willing to set up units in the park.
 - There shall be a minimum of 10 industrial units located in the leather park.
 - An industrial unit means a separate and distinct entity assessable to tax under the provisions of the Act having a separate Permanent Account Number (PAN).
 - No industrial unit along with the associated enterprise shall occupy more than 25% of the allocable area earmarked for production unit

- Establishment of project specific SPV.
- Execution of shareholders agreement and other related agreements between the SPV and the members.
- Procurement of requisite land by the SPV
- Preparation and submission of DPR by the SPV
 - The area allocated or to be allocated to production units shall not be less than fifty percent of the total allocable area.
 - The area allocated or to be allocated for Marketing infrastructure should not be more than 10 percent of the total allocable area.
 - Timelines for completion of the park should be clearly defined in the DPR clearly identifying targets to be achieved in a timeframe.
- Technical and financial appraisal of the project by PMC
- PMC vetting the proposal including financial viability of the proposal
- Establishment of project specific Trust and Retention Account (TRA), with a nationalized Bank, by the SPV.

10. Release of funds

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 in to that account.

The release of fund however, would be linked to the milestones/targets identified by the PMC at the time of vetting the proposal. Broadly the Government would release its share of assistance in 5 phases as per the following schedule:

15 % of the assistance, as advance, on final approval of the project and 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. 15% of the share of SPV) deposited by SPV in the TRA.

15% of the total GOI share after the utilization of the 1st installment and on producing the statement of project specific TRA reflecting the proportionate contribution (i.e. 15% of the share of SPV) deposited by SPV in the TRA and atleast proportionate expenditure has been made by the SPV out of its own fund. Utilization Certificate (UC) of the 1st Instalment shall be submitted by the SPV at the time of making claim for the 2nd Installment.

20% of the total GOI share after the utilization of the 2nd instalment and on producing the statement of project specific TRA reflecting the proportionate contribution (i.e. 20% of the share of SPV) deposited by SPV in the TRA and atleast proportionate expenditure has been made by the SPV out of its own fund. Utilization Certificate (UC) of the 2nd Instalment shall be submitted by the SPV at the time of making claim for the 3rd Instalment.

25% of the total GOI share after the utilization of the 3rd instalment 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 and atleast proportionate expenditure has been made by the SPV out of its own fund. Utilization Certificate (UC) of the 3rd Instalment shall be submitted by the SPV at the time of making claim for the 4th Instalment.

25% of the total GOI share will be released after successful completion of the project and after 50% of the units in Leather Parks start their production. The UC of the 4th Installment shall also be submitted by the SPV at the time of making claim for the final Installment.

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 (Specimen to be drawn).

Separate accounts shall be kept by SPV for the funds released by GOI, which shall be subject to audit by the Comptroller & Auditor General of India.

User charges would be fixed for various facilities and services by SPV.

There shall be 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.

11. Purchase of Land

Land for Leather Parks shall be purchased / arranged by the SPV.

The Registered value of land would be taken as part of the Industry's equity/share in the project.

The GOI grant shall not be used for procurement of land.

12. Project formulation

The project proposal shall be formulated by SPV after conducting a diagnostic study of the requirements of common facility and infrastructure in the specific location and based on demand and potentiality.

The **Detailed Project Reports** should cover the following points:

- Brief objectives and compatibility of the proposal with objectives
- Justification for the proposal and suitability of location, volume of existing activities and other schemes (State/Central/CSS) in the vicinity or at the same location.
- Present Status:
 - Availability of land & status of acquisitions
 - Availability of requisite clearances
 - Identification, agreement/MOU with beneficiary units
- Total cost of the project with break-up for major facilities.
- Base date and basis of estimating the cost
- Mode of funding & Phasing of expenditure i.e. contribution of various stakeholders (GOI, State Govt. & Other Agencies)
- Land requirement and its distribution (Facility-wise)

- Physical facilities being planned – capacities: backward & forward linkages
- Name of the Implementing & Managing Agency/SPV, brief indication on responsibilities/obligation (during implementation and future)
- Gestation period, activity chart (PERT/CPM), major milestones/targets and date of commencement of operation
- Quantification of benefits in terms of increase in production, employment, exports and investments
- Sustainability issues: Projected O&M expenditure & means of meeting the same
- Financial viability to the extent applicable:
 - Projected annual surplus, if any
 - Internal Rate of Return (IRR)
 - Percentage of occupancy to achieve viability
- A synopsis of the discussions held with various Stakeholders
- Master Plan of the area, mapping the components for which the assistance is being sought and as to how the other components are to be addressed
- Background about the implementing agency, and their experience in handling such projects
- Timelines for execution and completion of the project.

The above are intended to be indicative and not exhaustive

13. Project Monitoring and Evaluation

DIPP will periodically review the progress of the projects under the scheme. The PMC appointed by DIPP would devise a suitable monitoring and evaluation system and shall submit periodical reports / returns to DIPP.