E A S Sarma
Former Secretary to Government of India

To

Shri G C Murmu
Comptroller & Auditor General of India (CAG)

Dear Shri Murmu,

The government has recently launched a Production Linked Incentive (PLI) scheme committing Rs 1.97 lakh crores over the next five years, from FY 2021–22. In Niti Ayog's words, "*It seeks to bring size and scale to India's manufacturing capabilities and exports in key sectors, while creating and nurturing global champions. The scheme incentivizes increasingly enhanced production for a limited number of eligible anchor entities, in the key sectors, within a limited timeframe. The scheme is expected to generate an incremental production of USD 520 billion over its predefined timeline of five years, making it one of the biggest timebound support initiatives of the government to boost growth in the manufacturing sector*".

In short, the PLI scheme provides outright subsidies to private entities, with the release of subsidies linked to prescribed production levels, conforming to specific timeframes and a rough indication of the employment opportunities that a beneficiary company will generate. While release of subsidy amounts could be delayed, if a beneficiary company fails to achieve the prescribed production levels, the scheme provides no penalties for a beneficiary failing to generate the assured level of employment or manufacturing items which are non-competitive in terms of price and quality.

Moreover, to assume that investment flows are exclusively dependent on subsidy assistance is far too simplistic a premise to justify appropriation of substantial public funds to fill the pockets of private promoters of industry. People-friendly investments will flow in on their own, if there is corruption-free, rule-based good governance, high quality utility services, coupled with adequate availability of human resources and a strong indigenous R&D base. Providing subsidies without fulfilling these essential inputs will lead to investments that hurt the public interest. India needs investments that can generate commodities and services which households in the low-income brackets can afford to access, not luxury items beyond their reach.

While employment generation is stated as an ostensible objective of the PLI scheme, not all the 14 sectors chosen for implementing the scheme are employment-intensive. It is also a matter of serious concern that several companies that benefit from the PLI scheme, with a few exceptions, are known to have profiteered at the cost of the public, especially during the ill-fated Covid times. Some of them are known to have an abysmally sordid track record of human rights violations, environmental degradation and political corruption.

Against this background, both the public and the Parliament would like to be apprised of whether giving subsidies to promoters of industries is a prudent measure at all, whether, in view of the tight fiscal situation in which the Centre is presently placed, it would be prudent for the Centre to reduce budgetary allocations for such crucial sectors as food security, rural employment (MGNREGA), schemes meant for promoting social justice, R&D investments and so on, so as to be able to divert scarce public funds to private industry by way of outright subsidies. These are matters of utmost public concern that your office, as an authority created under the Constitution, should audit comprehensively and place its findings before the Parliament for the latter's consideration.

In particular, I wish to bring to your attention the PLI Scheme launched by the Union Ministry of Electronics and Information Technology (MEITY) in April 2020 vide Notification No W-18/30/2019-IPHW-MeitY dated 1-4-2020 announcing subsidies upto 25% of the project cost for electronic items including semiconductor wafers and integrated chips. Even at that time, there were public concerns at subsidising private companies to such an extent.

In December, 2021, the Union Cabinet approved an outlay of Rs 76,000 Crores for MEITY's PLI subsidies (*https://www.business-standard.com/article/pti-stories/cabinet-approves-rs-76-000-cr-pli-scheme-for-semiconductor-manufacturing-121121500772_1.html*).

On 13-9-2022, the Vedanta Group announced its intent to set up a semiconductor wafers fabrication plant, in collaboration with Foxconn company, in the State of Gujarat, promising a total investment of Rs 1,54,000 crore with an employment generation potential of one lakh persons. Accordingly, the Vedanta Group soon signed MOUs with the Gujarat Government. The Gujarat government immediately committed huge tax concessions, sizeable extent of land at a concessional price and so on.

Strangely, MEITY alkso quickly responded and introduced a Modified Scheme for setting up Semiconductor Fabs in India vide its communication W-38/21/2022-IPHW dated 4-10-2022, sharply enhancing the extent of subsidisation of the project cost to 50% and even adding a questionable clause to relax an earlier condition that the PLI benefit should go at least to two applicants (for the sake of competition), to allow MEITY to consider even one applicant, creating scope for a private company, heavily subsidised by the government, without any domestic competition and without any export obligation, becoming a monopoly manufacturer of fabs, making downstream production units highly non-competitive.

It is equally strange that, as a result of such an abrupt relaxation, almost the entire PLI allocation for MEITY would go to the Vedanta-Foxconn, if that group is finally selected as the beneficiary.

The timing of this amendment vis-a-vis the date of announcement by the Vedanta Group of its intent to set up a fab plant in Gujarat, leads one to the inevitable inference that the amendment vide W-38/21/2022-IPHW dated 4-10-2022 was carefully tailor-made to provide a whopping Rs 72,000 Crores of subsidy to that group, as and when the Empowered Committee for PLI considers and approves it as a beneficiary.

It is ironic that, on the one side, the Centre should undersell its CPSEs and their valuable assets and, on the other side, subsidise profit earning private companies to the extent of 50% of their project cost! The government could as well have taken over control of a private company with that kind of public expenditure. I cannot see any difference between a CPSE owned by the government by holding a dominant equity share in it and a profit-earning private company whose only project is subsidised to the extent of 50% by the government!

I have expressed these concerns in a letter dated 21-11-2022 addressed to the Finance Minister, under intimation to you. You may also access that letter readily at https://countercurrents.org/2022/11/pli-subsidies-how-prudent-are-they-subsidies-for-big-businesses/?swcfpc=1.

In my letter to the Finance Minister, I referred to a project similar to the one being set up now by the Vedanta-Foxconn groups in Gujarat, being set up by Foxconn in Wisconsin State (USA), launched in 2017. The company promised the Wisconsin State that it would invest $10 billion and

provide 13,000 jobs, with an average per employee salary of $53,875 over a timeframe of 6 years. In return for this, like in India, the Wisconsin State authorities committed huge subsidies. The only difference between the project of Vedanta-Foxconn in India and the one in the Foxconn project in the USA is that the Wisconsin government thought it necessary to formulate a Bill for a discussion at the State legislature, whereas, in our case, such commitments involving public funds are routinely made without a discussion in the Parliament.

In the case of the Foxconn project in Wisconsin, unlike the project in Gujarat, the State Legislative Fiscal Bureau made a comprehensive evaluation of the fiscal implications of the project for the next 25 years and placed its report, including its finding that the project would not break even till the end of that timeframe (https://www.documentcloud.org/documents/3935827-Wisconsin-Legislative-Fiscal-Bureau-Memo-on.html), before the Wisconsin legislature for a meaningful discussion. Political expediency in the case of Wisconsin, perhaps similar to the one in our case, compelled the State authorities to ignore the Bureau's findings and allowed huge fiscal commitments to go through. According to recent reports, the Wisconsin fab project is yet to take off (https://www.ft.com/content/7b9b10f0-7b55-4c53-a6fe-5d76833851ba). We can learn valuable lessons from it.

It is ironic that neither the Gujat government nor the Centre thought it necessary to analyse the fiscal implications of the Vedanta-Foxconn project vis-a-vis the benefits assured. It is unfortunate that the Centre on its part should make such a huge subsidy commitment unilaterally to a private entity, that too in such a highly non-transparent manner, keeping the Parliament and the public in the dark.

The Central government seems to give an impression to the public that it is facing a tight fiscal situation, in order to justify reduced budgetary allocations for important sectors such as food security, rural employment (MGNREGA), health and so on and also to justify privatisation of the CPSEs. There are even reports (https://www.business-standard.com/article/economy-policy/govt-may-end-pmgkay-in-dec-as-fiscal-foodgrain-considerations-bite-122112201167_1.html) that the Centre would end the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY), its premier food securuty scheme, by the end of 2022 (as soon as elections in Gujarat and HP are over?), ostensibly in view of a severe fiscal constraint. On the other hand, in the name of the PLI Scheme, the same government has taken the extraordinary step of subsidising private promoters of industry without any semblance of hesitation. This is in addition to more than Rs 1 lakh crores of tax concessions conceded year after year for private companies, dilution of the laws and regulations that require them to comply with environmental norms and safeguards for adivasis and other disadvantaged

communities. Clearly, the Centre's priorities stand distorted in favour of big businesses.

There are also far reaching Constitutional implications of the Centre extending multiple concessions to big businesses. As pointed out in my letter dated 21-11-2022 to the Finance Minister (cited above), MGNREGA is a Constitutional obligation (Article 21) to be fulfilled at any cost, whereas corporate concessions do not have any legal justification. On the other hand, corporate subsidies violate the Directive Principles {"***minimising income inequalities***" [Article 38(2)] and "***minimising concentration of wealth***" [Article 39(c)]}. Any responsible government, instead of eroding the welfare of low-income households on the dubious ground of a fiscal constraint, would tax the corporates and generate the resources needed for welfare schemes such as the MGNREGA.

It is against the above background that the office of the CAG has the Constitutional obligation to audit the PLI scheme in general and the PLI bonanza being offered to the Vedanta-Foxconn promoters in particular, so that it may place the audit findings before the Parliament for a meaningful discussion and for safeguarding the interests of the public.

Considering the pioneering role played by your predecessors in the past on informing the Parliament and the public at large of improprieties in coal and spectrum auctions, that shook the conscience of the nation, I have no doubt that your office, ably supported by its highly professional team of officers, will conduct an urgent, special performance audit of the PLI scheme and help the Parliament to discuss and guide the executive.

I sincerely believe that this matter, having such far reaching fiscal and public interest implications, deserves urgent attention of the CAG and action without any delay whatsoever.

Regards,

Yours sincerely,

E A S Sarma

Visakhapatnam

23-11-2022