

Restarting India | Fiscal measures 2.4

16 May 2020

Measures announced in India's fight against COVID-19: 16 May 2020

Following the Prime Minister's announcement on 12 May 2020 of a special economic and comprehensive package of INR 20 trillion (~US\$ 267 billion)¹ (~ 10% of India's GDP) and the call for building a self-reliant India, the Finance Minister, in a press conference held on 16 May 2020, announced measures aimed at supporting the Energy, Resources, Industrial and Infrastructure sector.

This is the fourth tranche of the measures announced by the Finance Minister on 16 May 2020. We have summarised key features of these announcements below:

Policy reforms to fast-track investment and upgradation of industrial infrastructure

- **Purpose to be achieved:** To encourage 'Make in India'.
- **Key proposals:**
 - Fast track investment clearance through Empowered Group of Secretaries (EGoS).
 - Project Development Cell in each Ministry to prepare investible projects, coordinate with investors and Central/ state governments.
 - Ranking states on investment attractiveness, to compete for new investments.
 - Incentive schemes for promotion of new champion sectors will be launched in sectors such as solar PV manufacturing, advanced cell battery storage, etc.
 - Availability of industrial land/ land bank for promoting new investments and making information available on the Industrial Information System (IIS) with GIS mapping.
 - 3376 industrial parks/estates/SEZs in 5 lakh hectares mapped on IIS.
 - All industrial parks will be ranked in 2020-21.
- **Comment:**
 - Fast track investment clearance will promote investments into sectors.
 - Welcome news for industrial activity in India as land for industry identified and process of obtaining clearances eased. Also, if states are encouraged to compete for investments, the overall environment for business will improve.
 - The proposal to increase attractiveness of states will encourage healthy competition amongst the states.
 - The measures will create an investor-friendly climate.
 - The proposal also emphasises on production factor of land and infrastructure, which will increase attractiveness of India as a manufacturing hub.

¹ USD-INR rate considered as 1 USD = 75 INR

Coal sector reforms – End of Government Monopoly

- **Purpose to be achieved:** To make India a gas-based economy. Increase self-reliance in coal production and consequent reduction in imports. Encourage private participation.
- **Key proposals:**
 - Avenue opened for private sector participation for mining and exploration in the coal sector (until now, the sector was solely under the government). Coal Bed Methane (CBM) extraction rights to be auctioned from Coal India Limited.
 - Revenue sharing mechanism instead of fixed Rupee/tonne regime. Introduction of an Exploration-cum-Production regime for partially explored blocks.
 - Partially explored blocks shall be auctioned (earlier, only fully explored coal blocks were allowed).
 - Coal Gasification and Liquefaction to be incentivised and other steps, as part of Ease of Doing Business, to be introduced for the coal mining sector.
- **Comment:** Commercial mining of coal with revenue sharing is now permitted which can trigger the release of India's huge potential. The move is a bold step in the right direction and will boost transparency and operational efficiencies. The over 500 mining blocks shall substantially reduce coal prices in the domestic market.

Mining sector reforms

- **Purpose to be achieved:** To boost the mining sector in extraction of minerals through private investments. Provide ease of functioning. Increase efficiencies and reduce costs.
- **Key proposals:**
 - Introduction of a 'seamless composite Exploration-cum-Mining-cum-Production regime for ease of participation and to avoid difficulties due to operation of separate cycles.
 - 500 mining blocks to be offered through auction.
 - Joint auction of bauxite and coal minerals for the benefit of aluminium industry and reduction of costs.
 - Removal of distinction between captive and non-captive mines to allow transfer and sale of surplus minerals.
 - Rationalisation of stamp duty payable at the time of award of mining leases.
- **Comment:** The move will ensure seamless mining, production and exploration of minerals and provide great boost to operational efficiencies. Transfer of mining leases will foster competition in the market place.

Defence production

- **Purpose to be achieved:** To align defence sector with the motives of 'Make in India' and 'Self Reliance'. Manufacturing of arms, weapons, platforms, spares and other defence products indigenously will make India self-reliant in the defence sector. Another purpose is to attract foreign investments in defence manufacturing.

- **Key proposals:**

- FDI limit in defence manufacturing under automatic route raised from 49% to 74%, subject to clearances and approvals.
- Ban on import of notified weapons / platforms to promote 'Make in India'.
- Ordinance Factory Board shall be corporatised to bring in efficiencies and accountability.
- Measures introduced to make the Defence Procurement Process efficient with faster decision-making.

- **Comment:**

- Opening FDI in defence, coupled with 'Make in India' for arms, is a welcome move to spur the domestic defence business. It should encourage foreign manufacturers and investors to establish business in India and partner with Indian entrepreneurs / businesses, to participate in the multi-billion dollar Indian defence industry. It will also encourage transfer of defence technology to India.
- Enhanced FDI limit in defence manufacturing will also encourage OEMs to commit large investments. The policy shift will also incentivise OEMs to contemplate transferring proprietary know-how /technology to India, resulting in higher levels of technological expertise for the country and ultimately contributing towards the overall objective of 'self-reliance' and less dependence on defence imports.
- The revised FDI window under automatic route up to 74% will specifically promote collaborations in cases where domestic industry has not been particularly successful in developing the desired technology.
- Increase in FDI would also provide access to enhanced capital necessary for the sector to augment indigenous R&D capabilities. Local manufacturing capabilities will also ensure greater reliability of supplies in the event of war, instead of imports at exorbitant prices.

Aviation sector

- **Purpose to be achieved:** To make India a Maintenance-Repair-Overhaul (MRO) hub. Optimise airspace, fuel cost and time. Encourage private participation for operation and maintenance of airports. Welcome global engine manufacturers to set up engine repair facilities in India.

- **Key proposals:**

- Until now only 60% of the Indian air space was utilised. Restriction on space utilisation to be eased to optimise on space, cost and time.
- Avenues to be opened through public-private-partnership (PPP) basis for operation and maintenance of airports. Bid processes to commence shortly.
- Tax regime for MRO is being rationalised
- Additional investments are likely to happen by private players
- Global Engine Manufacturers to set up engine repair facilities in India

- **Comment:**

- Reform was already on the government agenda. Aviation sector to get a major boost with the proposal for hub status.
- Creating India as an MRO hub is a long-awaited move, as India is demographically and geographically well placed to take on this activity.

- If the MRO hub is implemented well, employment and high quality infrastructure building potential is large.

Power Sector

- **Purpose to be achieved:** To increase service efficiencies and transparency.
- **Key proposals:**
 - Distribution companies in Union Territories will be privatised.
 - Companies to ensure adequate power supply.
 - Load-shedding to be penalised.
- **Comment:**
 - Privatisation of power distribution companies (DISCOMS) in Union Territories is likely to bring in service efficiencies in the sector. Further, penalisation of load shedding DISCOMS will assure certainty of power supply to the manufacturing sector and bring relief to consumers.
 - Smart prepaid meters will improve working capital positions of DISCOMS. This will keep the power sector engine running, wherein DISCOMS will make timely payments to generation and transmission companies.
 - As announced earlier on 13 May 2020, funds equivalent to INR 900 billion (~ US\$ 12 billion) shall be infused into DISCOMS in tranches, through Power Finance Corporation and Rural Electrical Corporation, to acquire receivables owed to such DISCOMS.

Atomic energy related reforms

- **Purpose to be achieved:** To enhance medical treatment. To make India self-reliant in food preservation and build efficiencies.
- **Key proposals:**
 - Establishment of research reactors for production of medical isotopes.
 - PPP mode for facilities to use technologies for food preservation.
- **Comment:** Radiation technology for food processing will be a boon to India's agricultural sector. The shelf life of several food products including perishable goods such as vegetables and fruits, will substantially increase. This is of critical importance considering the huge opportunity for food preservation in India. The reform will also help India in emergency situations. Further, it will provide relief to farmers who can now store perishable products. Establishment of research reactors will also give a boost to medical treatment of cancer and other diseases.

Social infrastructure

- **Purpose to be achieved:** To address viability issues often faced by social infrastructure projects.
- **Key Proposals:**
 - Government to enhance quantum of Viability Gap Funding (VGF).
 - Projects to be proposed by Central Ministries/ State Government/ statutory entities.
 - Funding is increased from 20% to 30%.
- **Comment:** Support shall be increased by enhancing the Viability Gap Funding in this sector, which should encourage faster development of such infrastructure.

Space - Private sector to be a co-traveller

- **Purpose to be achieved:** To encourage private participation in space activities.
- **Key Proposals:**
 - Private players for satellites, launches and space-based services shall be encouraged by providing better regulatory environment.
 - Projects such as planetary exploration, outer space travel and ISRO facilities to be opened up for private sector participation.
 - Liberal geo-spatial data policies to be liberalised for providing remote sensing data to tech-entrepreneurs.
- **Comment:** India is a growing power in space exploration, with proven competencies. Allowing private sector to participate should encourage domestic innovation.

Source: [Press Release issued by Ministry of Finance dated 16 May 2020.](#)

The press release issued by the Ministry of Finance on 16 May 2020 is the fourth part of a series of measures announced by the Ministry of Finance.

The link to our alerts on the previously announced measures are as follows:

- [Government announces tax reliefs in first tranche of special economic, comprehensive package of INR 20,000 billion](#)
- [Measures announced in India's fight against COVID-19: 13 May 2020](#)
- [Measures announced in India's fight against COVID-19: 15 May 2020](#)



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