



PLI Scheme for Solar Modules

For Prelims: PLI scheme for Solar Modules

For Mains: PLI scheme and its Significance, Issues with the PLI scheme

Why in News?

Recently, The Union Cabinet has cleared Production Linked incentive (PLI) of Rs 19,500 crore to incentivise **manufacturing of domestic solar cell modules.**

- This is a follow-up to the RS ,500-crore tranche that was cleared in November 2020, aiming at reducing the **industry's reliance on China-made panels.**
- With the second tranche of the PLI scheme the government is hoping that about 65GW per annum manufacturing capacity of fully and partially integrated, solar PV modules would be installed in the country.

What is the Significance?

- This would bring in a **direct investment of around Rs 94,000 crore**, directly employ about 1,95,000 and indirectly around 7,80,000 persons. It would save India close to Rs. 1.37 trillion in imports.
- With these schemes we expect to have 70-80 GW of capacity which would take care of our domestic requirements as well as exports.
- The PLI benefits coupled with State incentives under the industrial policies of the State government, concessional/ deferral duty schemes in customs will help **in improving the IRR (Internal Rate of Return) of the project and make Indian-manufactured** solar PV modules competitive in the market.

What is the PLI Scheme?

- **About:**
 - The PLI scheme was conceived **to scale up domestic manufacturing capability**, accompanied by higher import substitution and employment generation.
 - The government has set **aside Rs 1.97 lakh crore under the PLI schemes for various sectors** and an additional allocation of Rs 19,500 crore was made towards PLI for solar PV modules in **Budget 2022-23.**
 - Launched in March 2020, the scheme initially **targeted three industries:**
 - Mobile and allied Component Manufacturing
 - Electrical Component Manufacturing and
 - Medical Devices
- **Incentives Under the Scheme:**
 - The incentives, calculated on the **basis of incremental sales, range from as low as 1% for the electronics and technology products to as high as 20%** for the manufacturing of critical key starting drugs and certain drug intermediaries.

- In some sectors such as advanced chemistry cell batteries, textile products and the drone industry, the **incentive to be given will be calculated on the basis of sales, performance and local value addition done over the period of five years.**
- **Sectors for which the PLI Scheme has been Announced:**
 - So far, the government has announced PLI schemes for 14 sectors including [automobile and auto components](#), [electronics and IT hardware](#), [telecom](#), [pharmaceuticals](#), [solar modules](#), [metals and mining](#), [textiles and apparel](#), **white goods, drones, and advanced chemistry cell batteries.**
- **Objectives:**
 - The Government introduced this scheme to **reduce India's dependence on China and other foreign countries.**
 - It supports the labor-intensive sectors and aims to increase the employment ratio in India.
 - This scheme works to reduce the import bills and **boost domestic production.**
 - However, PLI Yojana invites foreign companies to set up their units in India and encourages domestic enterprises to expand their production units.

What are the Challenges Facing the PLI Scheme?

- **No Common Set of Parameters:**
 - There was no common set of parameters to understand the value addition by companies that have received or are likely to receive incentives under the PLI scheme.
 - At present, different ministries monitor the value addition of their respective PLI schemes and there is no way to compare two different schemes.
 - Also, there are various deliverables such as the number of jobs created, the rise in exports and quality improvement and there is no centralised database to gauge all these.
- **Target for Companies for Incentives too Steep:**
 - Departments and ministries which interact with companies operating in their sector also face certain specific issues.
 - For instance, at times, the target for companies to qualify for incentives is too steep.
- **Domestic Companies Relied on One or Two Supply Chains:**
 - Until 2021, only 3-4 companies managed to achieve the incremental sales targets to qualify for the PLI scheme from the fourteen companies that had been approved.
 - Unlike global companies, most domestic companies relied on one or two supply chains which have been severely disrupted and due to no fault of their own, these companies won't qualify for the incentive.

Way Forward

- If the demand is stagnant, there is less investment since there is a **cost of capital as well as cost of holding inventory** involved, therefore investment needs to go beyond the PLI related to manufacturing **to address challenges in terms of demand.**
- There is a need to look at all sectors when providing incentives, and not just manufacturing.

UPSC Civil Services Examination Previous Year Question (PVQ)

Q. To what factors can be the recent dramatic fall in equipment costs and tariff of solar energy be attributed? What implications does the trend have for thermal power producers and related industry? **(2015)**

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