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Make PLI truly performance-linked: Why India's most efficient industrial policy needs sharper design

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Synopsis
India's PLI scheme has driven investment, output and exports at low fiscal cost by rewarding performance. With simpler design and sharper focus, it can become a core pillar of India's manufacturing strategy.

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When India launched the [production-linked incentive] (PLI) scheme in 2020, it was staring at a once-in-a-generation pandemic shock. PLI was launched to convert this crisis into an opportunity with an ambitious allocation of ₹2 lakh cr.

PLI has become one of India's most cost-effective industrial policy interventions. Across 14 schemes and over 800 approved applications, companies have reported over ₹2 lakh cr in actual investment, translating into nearly ₹19 lakh cr of cumulative production and sales, with around 8 lakh direct and indirect jobs created.

Exports linked to these schemes have increased by more than ₹8 lakh cr. Against this scale, GoI has disbursed just under ₹24,000 cr in incentives. Every rupee of PLI incentive has leveraged an average of ₹8-9 of private investment. Few industrial policy tools - domestically or globally - can demonstrate this level of fiscal efficiency.

A key reason of this success lies in its design. Unlike traditional capital subsidies, PLI is output-oriented and follows a pay-for-performance model. Firms receive incentives only after achieving incremental production or sales. By contrast, many capital subsidy regimes often imply effective subsidy rates of 15-30% of project cost, once land rebates, tax exemptions, power subsidies and interest subvention are accounted for. These subsidies are frequently front-loaded, difficult to claw back, and prone to locking in inefficient capacity.

PLI flips this logic. GoI's exposure rises only when firms perform. If production does not materialise, incentives are simply not paid.

Best demonstration of PLI's success is in electronics, particularly mobile phones. In 2019, India's role in global iPhone production was marginal. By offering predictable, scale-linked incentives tied to output, PLI altered the economics of manufacturing in India - not just for Apple but also for its contract manufacturers and component suppliers. Today, India produces well over $14 bn worth of iPhones annually, exports are rising rapidly, and the country has moved from the periphery to being a strategic manufacturing base in Apple's global supply chain.

Pharma, telecom and networking equipment, food processing, white goods, automobiles and auto components have all seen meaningful capacity creation and output expansion under PLI.

Critics point out, correctly, that PLI outcomes are uneven across sectors. Schemes such as IT hardware 2.0, speciality steel and advanced chemistry cell batteries have seen slower-than-expected progress on production or employment. But seen in context, even in these sectors, investments have materialised and capacity has been created.

Second, many of these are capital-intensive, strategic sectors aimed at long-term supply-chain resilience and import substitution rather than job creation. What matters is that incentives are not paid where outcomes fall short. From a taxpayer's perspective, this is a feature, not a flaw.

There is, however, one criticism of PLI that deserves more attention: complexity of scheme design and burden of compliance. Several firms have flagged that multiple year-wise targets, product-wise thresholds and growth benchmarks make schemes difficult to navigate. Documentation required to prove incremental production, domestic value addition and eligibility is extensive, often involving audits, certifications and repeated clarifications.

As a result, claim processing can take months, in some cases, years, diluting the signalling value of the incentive. This is not a conceptual flaw in PLI but an implementation challenge. One that is fixable.

The case, therefore, is not to retreat from PLI but to make it bolder and bigger, and a core part of the national manufacturing mission. But a few refinements will make it sharper and more attractive:

Export focus In apparel, footwear, furniture, toys, food processing and electronics components, job creation per-rupee invested is far higher, along with some of the strategic sectors like battery, solar and drones. Rather than spreading itself thin across many sectors, PLIs should focus sharply on these.

Simplify schemes Have fewer year- wise targets and greater **reliance** on automatic verification using **GST** and customs data. Predictability matters more to investors than marginally higher incentive rates.

Policy design Explicitly distinguish between strategic capacity-building PLIs and employment-led PLIs, rather than forcing all sectors into a single evaluative framework.

With targeted refinements, PLI can expand from a successful experiment into a core pillar of manufacturing and export strategy for the next decade.