

Subject: Industrial Infrastructure Upgradation Scheme (IIUS).

Introduction

Industrial development strategy adopted so far has relied upon fiscal incentives, investment subsidies, interest rate concessions and on public sector industries. However, these strategic measures had their own limitations in terms of providing facilities for competitive environment in the industrial sector. Studies carried out by Department of Industrial Policy & Promotion on global competitiveness for some selected sectors of the Indian industry has shown that amongst others, the factor inhibiting growth and competitiveness of industries is inadequate industrial infrastructure. The delivered quality of infrastructure service is low and erratic. Upgradation of industrial infrastructure has been under consideration of the government for some time. The Government notified the Industrial Infrastructure Upgradation Scheme (IIUS) of the Ministry of Commerce & Industry, in December, 2003.

Objective

The objective of the IIUS scheme is to enhance competitiveness of the domestic industry by providing quality infrastructure through public-private partnership approach in selected functional clusters/locations which have greater potential to become competitive. The improvements in performance will be secured in selected competitiveness indicators to be developed in consultation with each industrial group.

Scope

The proposed scheme aims to select industrial clusters/locations with high growth potential which require strategic interventions in providing the *following illustration list for common facilities:*

I. *Infrastructure for common facilities:*

- (i) Common Fuel/Gas Supply System
- (ii) Common Effluent Treatment Plant
- (iii) Hazardous and solid waste management facilities
- (iv). Power Transmission and Distribution Infrastructure; back to back AC/DC conversion and DC/AC inversion facility for ensuring supply of stable frequency for good quality power
- (iv). *Common facilities for quality control, testing and calibration;*
- (v). *Design Centre;*
- (vi). *Skill upgradation or capacity building centre for workers;*
- (vii). *Such facilities as identified based on the needs of industry;*
- (viii). *Road Network improvement*
- (ix). *Water Supply augmentation*

II. Information and Communications Technology (ICT)Infrastructure

- i). Provision of Broadband connectivity –combination of fibre optic cables & wireless technologies like 802.11(a) or 802.11(b).
- ii). *Provision of market intelligence/knowledge Centre/Resource Centre related to industrial Cluster.*

III. R&D Infrastructure

- (i) Pre-competitive collaborative research
- (ii) Basic product technology research
- (iii) Materials research
- (iv) Applied research for Product & Process Development, etc.

IV. Quality Certification & Benchmarking Centre

- (i). Improvement of soft skills in Quality Control/Total Quality Management (TQM) technologies and handholding of firms to achieve certificate, benchmarking them vis-à-vis international standards.

V. Information Dispersal/International Marketing Infrastructure.

VI. Infrastructure for process re-engineering & management consultancy service centre

- (i) Induction of Enterprise Resource Planning (ERP) /Enterprise Resource Management (ERM)
- (ii) Supply Chain Management (SCM)
- (iii) Customer Relationship Management (CRM)-in manufacturing process
- (iv) Application of Computer Aided Design (CAD)/Computer Aided Manufacturing (CAM) - virtual manufacturing environment
- (v) *Upgradation and strengthening of Industrial Training Institutes (ITI's).*

VIII. Any other physical infrastructure identified by cluster and approved by the Apex Committee.

IX. Following activities are not considered to be eligible for grant under the Scheme.

- a) Any recurring expenditure*
- b) Land*
- c) Land Development*
- d) Boundary Wall,*
- e) Recreation Hall*
- f) Guest House*
- g) Cafeteria*
- h) Post Office*
- i) Bank*
- j) Exhibition Hall*
- k) Raw Material Bank*
- l) Storage hall*
- m) Park*
- n) Plantation*
- o) Landscaping*
- p) Street Lighting*
- q) Captive Power Plant*
- r) Truck Terminus*
- s) Bus Terminus*
- t) Transport Equipment*
- u) Material Handing Equipment*
- v) Contingency*
- w) Pre-operative expenditure*
- x) Activities considered viable for running on commercial basis.*

Scheme

The proposed scheme is a Central Sector Scheme, with a provision of Rs. 675 crore in the Tenth Plan and initially 40-45 clusters/locations will be taken up for development. Clusters/Industrial locations identified for the development will be based on diagnostic study with emphasis on providing infrastructures for common facilities as identified in the cluster. Priority will be given to develop clusters having small scale industry (SSI) concentration. The scheme is a public-private partnership initiative as it recognizes the importance of the role of private sector participation in infrastructure development based on local needs i.e. user driven with the support of the Government.

The criteria for selection of eligible activities in a cluster/location, based on a detailed diagnostic study and detailed project report, will be decided by the APEX Committee keeping in view the level of identified gaps, financial requirements and contribution from user industry/stake holders. *Financial viability and sustainability of project would be an important indicator* for optimizing the benefits under the scheme, priority will be accorded for creating quality infrastructure. It would avoid duplication of the activities of other development schemes of other Ministries and ensure convergence of various schemes.

Financial Assistance

Central assistance will be in the form of one time grant-in-aid (not equity) to the Special Purpose Vehicle (SPV) formed by the cluster association for development of the project. The assistance will be restricted to 75% of the eligible project cost subject to a ceiling of Rs. 50 crore. The remaining 25% will be financed by other stake holders of the respective cluster/location with a minimum industry contribution of 25% of total eligible project cost. *Out of this 25%, 10% may be raised as loan from the financial institution, but 15% has to be user industries contribution.* **Government**

of India (GOI) funding will be confined only to creation of durable assets and activities relating to productivity enhancement and no recurring expenditure will be funded by Government under the scheme.

Administrative Expenses:

Administrative expenses will be restricted to 3% of the GOI's contribution. Out of this, 1% will be utilized to meet expenses incurred on project preparation, appraisal of the project, project monitoring and evaluation by a independent agency, etc. These charges will be paid directly by the GOI. The remaining 2% may be utilized by the Special Purpose Vehicle which shall be incurred by or under the directions of the Government. Any expenditure over and above this 2% shall be made from the other resources of the SPV and not from the eligible project cost.

The following items of expenditure can be covered under the Administrative Expenses:

- i) Expenses incurred towards development of project, appraisal of the project proposal, monitoring as well as evaluation of the scheme by a professional independent agency;*
- ii) Website designing/hosting;*
- iii) Appointment of Chief Executive of the SPV;*
- iv) Best practices (transfer) within/outside the country;*
- v) Cluster networking within or outside the country and;*
- vi) Any other incidental expenses as approved by Government of India;*

The release of funds shall be project specific and expenditure based. Funds would be released directly to the implementing agency in three equal installments. 1st Installment will be released at the time of sanction of fund and subsequent installments will be released on receipt of utilization certificate and actual physical progress.

The SPV shall create a Project Account (Trust & Retention Account) with a Trustee Bank and provide the details to GOI. All the releases from Government of India, Contributions from the user industry, Term Loans, if any, and assistance from the State Government would be deposited in this 'No Lien' account which will be audited by a statutory authority. The deposits from the project account shall be utilized only for authorized expenditure for the approved projects components.

The SPV shall provide the Government with the details of the Project Account along with Trustee Manager details before disbursement of the 1st installment of Central Grant.

The grant sanctioned by the Government shall be utilized only for the sanctioned activities. Any deviation there from shall require prior approval of the Government of India.

No expenditure from this account would be allowed till the deposit of matching contribution of user industry is deposited in 'Non-Lien' account.

Stakeholders

The stakeholders in the development of the cluster/ industrial location could be the User Industry, Industry Association, Premier R&D Institution, State Govt, Local Authority and the Govt. of India.

Formulation of Project Proposal/*Detailed Project Report*

The *Project Proposal* should be initiated by the concerned local industrial associations highlighting the required interventions to be made under the Scheme. The *Detailed project Report (DPR)* project shall **include** requirement of common facilities and infrastructure in the specific location. The implementing agency should actively involve support institutions like R&D institutions, financial institutions as well as local-bodies wherever **possible and** necessary for evolving a common strategy. *A DPR supported by data, surveys, projections and feasibility on growth potential of the cluster / locations shall be prepared. It should have the revenue generation model for each component/cost centre and also for the overall project. User charges as finalized by the user industry should be realistic and be arrived by consensus. DPR thus prepared should be recommended by the State Government.*

Selection of Clusters/Industrial locations

Selection of Clusters/Industrial locations to be taken up for the development will be decided and approved by the APEX Committee based on *Detailed Project Report* with the emphasis on providing physical infrastructures as identified for the cluster. The qualifying criteria for the selection of clusters will be decided on the basis of number of units, persons employed (direct and indirect), value of output, value of export/export potential, comparative advantages (bench marking), economies of scale and growth potential, past track record of industry/association, nature of critical gaps in infrastructure, implementation schedule, structure of Special Purpose Vehicle (SPV), and ability of the individual units to contribute 15% of the project cost. *Financial viability and sustainability* would be also a deciding factor for approval of project.

The cluster/industry association will submit the proposal giving complete details as per prescribed Performa in Annexure-I.

Scrutiny and approval of Project proposals.

The project proposals should be exhaustive giving complete details in the prescribed Performa as above. All aspects related to projects *including financial viability and sustainability* should be supported by data, surveys, feasibility, detailed project report and projections for future etc. The cluster/industrial association will also be required to give a presentation on the project proposal before the APEX Committee. The APEX Committee shall scrutinise and approve the projects for development.

The Composition of Apex Committee is at Annexure – II.

Role of Financial Institutions (FI's):

FI's will play an important role during the implementation of the scheme e.g.

i) Project Structuring - assist the Department in working out the commercial scope ,evaluation of risks associated with project through proper risk allocation and mitigation mechanism, preparation of financial model including banking capital structure and cash flow projections under various sensitivities for each identified projects.

ii) Implementation-evaluation of the option of project implementation format such as development by a Special Purpose Vehicle (SPV), Drafting the Memorandum and Articles of Association of the SPV, determining the capital structure of the SPV etc.

iii) Leverage of Funds: identify various sources of finance to fund the projects identified for the development, return on investment and risks etc. and ,

iv) Monitoring and Evaluation - assist the Department in devising a monitoring and evaluation mechanism to carry out an independent evaluation of the project against a set of benchmarked parameters.

Implementation

The development of the cluster will be through a Special Purpose Vehicle (SPV) which will carry out the business of developing, operating and maintaining the infrastructure facility created in the industrial locations. SPV will be a Corporate Body/Association registered under Companies/Societies Act. *Management of SPV should be generally with industry association /user industry.* This arrangement will also ensure the creation of useful assets and sustainability of assets created through an appropriate revenue generation mechanism. The structure of SPV will be approved by the APEX Committee.

Structure of the Special Purpose Vehicle

The stakeholders in the development of the cluster/ industrial location could be the Industrial/Trade Association, Premier R&D Institution. State Govts, Local Authority and GOI would be generally play a role of facilitator.

Two officers of GOI shall be appointed on the Board as nominee Director of the Special Purpose Vehicle. Similarly, nominee(s) of the concerned State Government shall also be appointed as nominee Directors on the Board. GOI shall have the powers to alter the composition of the Board of Directors/Managing Committee of the Special Purpose Vehicle and effect a change in the management of the SPV or issue such directions as may be necessary, in case it is felt that the implementation of the project or operation of the SPV is not satisfactory or in case of disputes amongst the Board Members. The Articles and Memorandum of the Special Purpose Vehicle shall reflect the same accordingly.

Project Appraisal

Two models regarding appraisal of the project are envisaged; in case Financial Institutions are contributing to the cost of the project then the appraisal done by the Financial Institutions can be accepted, and in other case where no contribution from Financial Institutions is forthcoming, the proposal will be appraised by **DIPP** through an independent **Financial Institution** and funds will be released on pari-passu basis with contribution from the stake holders.

Project Monitoring and Evaluation

DIPP will periodically review the progress of the scheme , carry out mid course corrections if required , take steps to ensure achievements of the objectives in the scheme and carry out an independent monitoring and evaluation of the scheme for its continuance in the Eleventh Plan.

Role of the State Government in Monitoring the Implementation:

- i. *All expenditures incurred by the SPV shall have to be verified and countersigned either by the Secretary/Commissioner, Department of Industry of the respective State Government or District Commissioner/Magistrate of the respective District in which the SPV is located.*
- ii. Secretary/Commissioner of Industries of the concerned State Government shall supervise and monitor the implementation of the project.

Requirements to be fulfilled by the special purpose vehicles:-

A) General:

i) Immediately on sanction of the project by the Apex Committee, The SPV shall execute a bond (proforma available at Annexure III) for proper utilization of grant wherein, it shall undertake that:-

- (a) It shall abide by the conditions of the grant by the target dates, if any, specified therein,
- (b) It shall not divert the grants and entrust execution of the scheme or work concerned to another institution(s) or organization, and
- (c) It shall abide by any other condition specified in this approval letter and in the event of failing to comply with the conditions or committing breach of the bond it shall be liable to refund to the President of India the entire amount of the grant with interest at 6% per annum thereon.

- i) The SPV shall nominate Two officers of Government of India as directors on the Board of Directors of the Special Purpose Vehicle. Details of these nominees shall be provided by DIPP. Similarly, nominee(s) of the concerned State Government shall also be appointed as directors on the Board of Directors of the Special Purpose Vehicle.
- ii) The SPV shall have an independent Managing Director and independent Finance Director, who would also be on the Board of Directors
- iii) The SPV shall have Resource person(s) appointed for Technology, Best management practices and Information & Communication Technology (ICT) as approved by the DIPP
- iv) The SPV shall set up a separate Reserve Fund Account for O&M purposes and to create and maintain a reserve corpus on a project specific or combined

basis to be utilized for cash-flow management in case of revenue shortfalls for capital replacement or refurbishments.

- v) The SPV shall decide on methodology of time-sharing, user charges and other operating parameters well in advance before implementation of each sub-project.

B) Cost Estimates:

- i) Before incurring any expenditure the detailed estimates and drawings for all components, with due certification from a Chartered Engineer, should be submitted to DIPP for approval.
- ii) The cost estimates for various components under the scheme should satisfy the following requirements:
 - a) The cost estimates for roads and construction of buildings, should be as per the Schedule of Rates (SOR) of the State Government.
 - b) For all other components of the project, the cost estimates should be as approved by the DIPP or any other agency designated by the DIPP.

C. Release /Utilisation

- i. GOI's disbursement may be effected to a 'No-Lien' account with proportionate contribution from promoters deposited in the 'No-Lien' account. The deposits in the 'No-Lien' account may be utilised only for authorised expenditure for the approved sub-projects.
- ii. The contribution by the promoters would be brought in on pro-rata basis. The sub-projects may be taken up in a sequence such that the amount

already brought in together with the proportionate grant would be sufficient to complete the respective sub-projects.

- iii. The SPV shall provide DIPP with the details of the Project Account (Trust and Retention Account) along with the Trustee Manager details before disbursement of 1st instalment of Central Grant into this account within two days from receipt of this letter.
- iv. The grant sanctioned by GoI would be utilized only for the sub-projects mentioned in this letter. Any deviation there from would require the approval of Government of India in writing.
- v. The SPV shall not obtain grant from any other agency for implementing the eligible activities mentioned in this letter.
- vi. The SPV shall furnish a utilization certificate for amounts released through this sanction before the next release of funds. The release of next instalment shall also be dependent upon the contribution made by the promoters.
- vii. Managing Director, the SPV would be the Drawing and Disbursing Officer for the release of the amounts under this sanction.
- viii. The SPV shall submit performance-cum-achievement report before applying for the next instalment as grant.
- ix. The SPV shall maintain separate account of the grants-in-aid received from the Government.

- x. The SPV shall arrange additional funds, if any required, to meet time and cost overruns.
- xi. The SPV shall seek compliance with statutory approvals and clearances as applicable before implementation.
- xii. The SPV shall undertake all procurement of goods, equipment & services or any other item through a transparent and competitive procurement process as per State/ Government of India norms.
- xiii. The SPV shall undertake audit of its accounts to the satisfaction of GOI, independent auditor and cooperate in the audit.
- xiv. The SPV shall complete process for transfer of the roads and Right of Way as per proposal to Govt. of India for this project.

D. Assets

- i. The assets acquired out of Government assistance should not be without the prior sanction of the Government be disposed of, encumbered or utilised for the purpose other than for which the funds have been released.
- ii. A register of permanent and semi-permanent assets acquired wholly or mainly out of the funds be maintained on the basis of Form GFR –19.
- iii. A return of such assets acquired during a financial year should be furnished in the Form-GFR-19.

Constitution of Apex Committee

Secretary, Deptt. of Industrial Policy and Promotion.	Chairman
AS&FA in the Ministry of Commerce & Industry	-Member
Economic Advisor, DIP &P	-do-
Representative, Planning Commission	-do-
Representative, Ministry of Science & Technology	-do-
Representative, Department of Commerce	-do-
Representative, Department of Heavy Industry	-do-
Representative, Ministry of Small Scale Industries	-do-
Representative, Ministry of Textiles	-do-
Representative, Ministry of Food Processing Industries	-do-
Representative, Ministry of Information and Technology	-do-
Representative, Ministry of Power	-do-
Representative, Ministry of Chemicals & Petrochemicals	-do-
Representative, Ministry of Surface Transport	-do-
Representative, Financial Institutions	-do-
Secretary, Industries, State Government of the cluster concerned	-do-
Representative, SPV of Industrial Cluster/Industrial Association	-do-
Respective R&D Institution associated with the project	-do-
Joint Secretary, IPP	Member Secretary

Proforma

Details to be submitted for selection of Cluster/Location

- 1. Name and Location of cluster**
- 2. Nature of products**
- 3. Number and size of units**
- 4. Scale of investment**
- 5. Information relating to output during the last 3 years**

Details	Present Level	Expected after proposed intervention
Production		
Sales Domestic Export(customs figure)		

6. Whether diagnostic study /Bench mark survey conducted

Main findings (in brief)

7. Information relating to identification of gaps

Critical gaps identified

Physical infrastructure

Others

Gaps to be filled through the IIUS (with details)

8. Central assistance sought

Break up of fund requirement for proposed activities

9. Gaps ,if any, to be filled through assistance from schemes of other Ministries(give details)

10. Information relating to implementation schedule

Bar chart of activities

Year wise phasing of expenditure

11. Information relating to Special Purpose vehicle (SPV)

Registered under Company Act /Society Act

Article of Association

Agreement with stake holders

Guidelines for up-front service charges

Contribution from stake holders

Mechanism and methodology for involving all the units including small and tiny units.

12. Whether leverage of funds through FI's envisaged

13. Completion period

14. Monitorable targets

15. Employment

Present Level

Expected after proposed intervention

16. Number of Beneficiaries.

17. Revenue Generation Model for component wise for overall projects:

