

Subject: Industrial Infrastructure Upgradation Scheme (IIUS).

Introduction

There has been a general slow down in industrial activity. The growth rate in the manufacturing sector fell from 14.1 % in 1995-96 to 2.8% in 2001-02. In fact, growth rate during 2001-02 was the lowest in last ten years and was reflected in considerable decline in sanctions and disbursements made by Financial Institutions and performance of industries. However, in the last two years there has been some improvements in manufacturing with the growth rate increasing to 6.0% in 2002-03 and 5.5% during April –June 2003-04. For a sustained economic growth there is a need to arrest this decline and accelerate the recovery.

Industrial development strategy adopted so far has relied upon fiscal incentives, investment subsidies, interest rate concessions and reliance 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 DIPP 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.

Objective

The objective of the IIUS scheme is to enhance international 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 globally 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:

I. Physical Infrastructure

- (i) transport
- (ii) road
- (iii) water
- (iv) common captive power generating units
- (v) transmission and distribution infrastructure
- (vi) back to back AC/DC conversion and DC/AC inversion facility for ensuring supply of stable frequency for good quality power
- (vii) Common fuel/gas supply system
- (viii) common effluent treatment plant
- (ix) solid waste management

II. Information and Communications Technology (ICT) Infrastructure

Provision of Broadband connectivity to all units –combination of fibre optic cables & wireless technologies like 802.11(a) or 802.11(b)

III. R&D Infrastructure

- (i) Pre-competitive collaborative research
- (ii) Basic product technology research
- (iii) Materials research
- (iv) Market research etc.

IV. Quality Certification & Benchmarking Centre

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. Common Facilities Centre

VI. Information dispersal/International Marketing Infrastructure

VII.

VII. ICT-induction & 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

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

Scheme

The proposed scheme is a Central Sector Scheme, with a provision of Rs. 675 crore in the Tenth Plan and initially 20-25 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 physical infrastructures as identified in the cluster. Priority will be given to develop clusters having small industry 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. For optimizing the benefits under the scheme, priority will be accorded for creating quality infrastructure, avoid overlap with the activities of area development schemes of other Ministries and to ensure convergence of various schemes. Composition of the APEX Committee is at Annexure-I.

Financial Assistance

Central assistance will be by way of one time grant-in-aid (not equity) to the Special Purpose Vehicle (SPV) formed by the cluster association for development of the infrastructure . The assistance will be restricted to 75% of the 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 15% of total project cost. Government 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 will be restricted to 3% of the project cost.

The release of funds shall be project specific and expenditure based. Funds would be released directly to the implementing agency on receipt of utilization certificate and actual physical progress. Funds will be kept in a separate account, which will be audited by a statutory authority.

Stakeholders

The stakeholders in the development of the cluster/ industrial location could be the Private Companies, Industrial Association, Premier R&D Institution, State Govt, Local Authority (optional), Govt. of India - mandatory .

Formulation of Project Proposal

The project proposal shall be formulated after diagnostic study including 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 where ever necessary for evolving a common strategy. A detailed and exhaustive project proposal supported by data, surveys, projections and feasibility on growth potential of the cluster / locations will be submitted to the Apex Committee .

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 diagnostic study

with 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 (physical, others), implementation schedule, structure of Special Purpose Vehicle (SPV), and ability of the individual units to contribute 15% of the project cost.

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

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 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.

Role of Financial Institutes (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.

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.

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 by Department of Industrial

Policy & Promotion, and in other case no contribution from Financial Institutions is forthcoming, the proposal will be appraised by Department of Industrial Policy & Promotion through an independent agency and funds will be released on pari-passu basis with contribution from the stake holders.

Project Monitoring and Evaluation

Department of Industrial Policy & Promotion 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.

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

Revenue generation mechanism for sustainability of assets

Guidelines for up front service charges

Contribution from stake holders

% sharing by individual 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.