

Modified Industrial Infrastructure Upgradation Scheme

1. Introduction

1.1 Industrial Infrastructure Upgradation Scheme (IIUS) was launched in 2003 as a Central Sector Scheme to enhance competitiveness of industry by providing quality infrastructure through public private partnership in selected functional clusters. Central assistance upto 75% of the project cost subject to a ceiling of Rs. 50 crore was given for each project. A total of 30 projects were sanctioned under IIUS -2003.

1.2 Based on the outcome of an independent evaluation and experiences gained during the implementation, the Scheme was recast in February, 2009 to make it more effective through increased focus on technological upgradation and provisions to avoid initial teething problems for new projects. 9 projects have been sanctioned under Recast IIUS -2009.

1.3 The Scheme had an allocation of Rs. 675 crore during the 10th Plan and Rs. 1050 crore for the 11th Plan. A total of 39 projects have been sanctioned with a total project cost of Rs. 2549 crore with central grant component of Rs. 1524 crore.

1.4 In 2011, the Recast IIUS was evaluated for its effectiveness and continuation in the 12th plan period by the National Productivity Council (NPC). The NPC which conducted the evaluation, found the Scheme to be effective in enhancing competitiveness of industry, improving the environment in industrial areas and employment generation in the traditional industry clusters. It was recommended to continue the Scheme in the 12th Five Year Plan period with suitable modifications to ensure timely completion of projects.

2. Objective

The key objective of the Modified IIUS is to enhance competitiveness of industry by providing quality infrastructure to catalyze and promote industrial growth, employment generation and technology upgradation.

3. Scope

3.1 Projects would be sanctioned to upgrade infrastructure in Industrial Estates/Parks/Areas and Greenfield projects could be supported in backward areas, including NER. However, priority would be given to upgrade infrastructure in existing clusters over greenfield clusters. The scheme will be demand driven. The scope will cover components that are need based and identified through a diagnostic study which is validated by stakeholders. An illustrative list of project components eligible for assistance is given below. Priority would be for those components that cannot be assisted under other available schemes of Government of India or funded from state resources:

Technical Infrastructure
Common Facility Centres (CFCs)
Research and Development - Product Development and Technical Demonstration Facility
CETP and other environment protection infrastructure
Training Infrastructure
Quality Certification and Benchmarking

Social Infrastructure
Social infrastructure like dormitories/hostels for working women
Physical Infrastructure
Solid Waste Management disposal/treatment
Water Supply
Roads
Captive Power Plant (the project relating to 'Captive Power Plant (CPP)' will only be considered for sanction as per the provisions of Electricity Rules 2005 and will not be considered unless fuel for the CPP is fully tied up).

3.2 Negative List of Projects that will not be considered under MIUS:

- Projects/Items covered under specifically under other Sector Specific Schemes like Leather, Textiles, Electronics & IT, Food Processing and relating to 'Heavy Industry such as Machine Tools, Textile Machinery, Process Plant Machinery, Earth Moving Machinery, Plastic Processing Machinery and Metallurgical Machinery'.
- Projects/Items relating to Explosives Industry.
- Cost of Land shall not be included in the project cost and central grant shall not be used for this purpose.

4. Fund allocation for the 12th Five Year Plan

An outlay of Rs.1030 crore has been allocated for the Scheme in the 12th Five Year Plan. Of this, Rs. 450 crore would be towards the committed expenditure for the projects sanctioned in the 10th and 11th Five Year Plan periods. The balance outlay of Rs.580 crore would be utilized for sanctioning new projects on first come first serve basis, limiting one project per state. A minimum of 10% of this outlay for new projects will be earmarked for projects in the NER and Sikkim.

5 Implementation Agency :

5.1 The Scheme was implemented through Special Purpose Vehicles (SPVs) in the PPP mode in the 10th and 11th Plan. However, this model has faced practical difficulties which led to enormous delay in implementation, cost escalation in case of majority of the projects, lack of project accountability and shortfalls in achievement of outcome. It was challenging for stakeholder industries to form a SPV due to internal conflict among industries. The SPVs faced difficulties in raising equity from its members as envisaged in the project; some SPVs defaulted in raising funds and in some cases, State Government/local bodies had to contribute funds to the extent of failed contributions from the Industries. Further, optional involvement of the State Governments in the scheme led to weak ownership of the project with reduced financial and mentoring support to the project.

5.1.1 Out of the 39 sanctioned projects, 18 projects have been completed. None of these projects was completed on time; the projects suffered a time over-run of 12 to 59 months, the average and median time over- run being 40 months and 43 months respectively.

5.1.2 21 projects are incomplete. Of these 15 projects were sanctioned prior to 31.5.2010 (for which the implementation period is over), with physical progress ranging between 98 % and 5 %.

5.1.3 On account of time over run, concomitant cost over runs have occurred. In some cases the scope of the projects has been reduced.

5.1.4 Some SPVs have changed project components at will and diverted grant sanctioned for specific project component to other items, without the approval of the sanctioning authority.

5.1.5 There is no structured mechanism in the present system to ensure accountability for such financial indiscipline.

5.2 Industry is a State subject. Promotion of the industrial infrastructure is the responsibility of the State Government. Accordingly, it is proposed to modify the IIUS Scheme for the XIIth Plan; it is proposed that under the revised IIUS, SIA would be the implementing agency, the proposals could be taken up under either of the following two options :

- (a) For funding of new or existing Industrial Estates/Parks/Areas, SIA would chose the site in consultation with the industry to assure that funds are not sought for Industrial Estates/Parks/Areas in place where industry does not find it viable.
- (b) For funding through SPV-led Clusters, the proposal is routed through the SIA-led implementation route.

The role of States in the Scheme has been re-defined for nominating the State Implementation Agency (SIA) such as State Industrial Development Corporations for execution of the project and sharing the project cost. It is expected that with this change, bottlenecks which delayed the projects in earlier versions of scheme would be overcome.

5.3 SIA will formulate the project interventions as well as implement and monitor the progress of the project. The SIA for each IIUS project could be the State Industrial Development Corporation (SIDC) or any equivalent state entity as identified and recommended by the respective State Government.

5.4 **Role of the State Implementing Agency**

5.4.1 The State Implementing Agency (SIA) will prepare Detailed Feasibility Reports (DFR) covering technical, financial, and institutional and implementation aspects, based on diagnostic studies undertaken. The agency would:

5.4.2 Submit a project proposal that should be in line with SIA's Annual Action Plan and should give details of other projects including utilization of industrial area plots in case of an existing industrial estate or park. SIA shall select the site in consultation with the industry and the scheme shall not permit creating industrial estates wherein it shall be convenient to do so due to availability of land or other reasons; rather a viable site should be selected.

5.4.3 Conceptualize, formulate, achieve financial closure, implement, operate and maintain the infrastructure;

5.4.4 Procure the land for the project, in case of a new industrial estate/park.

5.4.5 Mobilize funds from financial institutions and other sources (including beneficiary contributions) to finance the project; arrange additional funds, if required, to meet time and cost overruns.

5.4.6 Obtain all necessary statutory approvals/clearances including environmental and quality standards as applicable before implementation.

5.4.7 Decide on methodology of time-sharing, user charges and other operating parameters well in advance before implementation of each sub-project. It would be empowered to collect service and user charges to recover costs and future expansion. It will operate and maintain the utilities and infrastructure created. It has to be so structured as to be self-sustaining with a positive revenue stream.

5.4.8 Set up a separate Reserve Fund Account for O&M purposes and to create and maintain a reserve corpus on a project specific basis to be utilized for cash-flow management in case of revenue shortfalls for capital replacement or refurbishments.

5.4.9 Not obtain grant from any other agency for implementing the eligible activities mentioned in the sanction letter.

5.4.10 Utilize GOI grant only for the components mentioned in the sanctioned letter; any deviation from there would require prior approval of Government of India in writing.

5.4.11 Estimate cost for works as per the Schedule of Rates (SOR) of the State / Central Government. The SIA shall undertake all procurement of goods, equipment & services or any other item including works through a transparent and competitive procurement process as per Government of India Rules.

5.4.12 Sign an MOU with Government of India and the State Government concerned. The SIA shall also execute a bond/ undertaking for proper utilization of grant wherein, it shall undertake to abide by the conditions of the grant by the target dates, if any, specified therein; It shall not divert the grants and entrust execution of the scheme or work concerned to another institution(s) or organization, and shall also abide by any other condition specified in the approval letter and in the event of failing to comply with the conditions or committing breach of the bond/undertaking it shall be liable to refund to the President of India the entire amount of the grant with interest @ 10% per annum thereon.

5.4.13 Shall undertake audit of its accounts to the satisfaction of GOI, independent auditor and cooperate in the audit.

5.5. Who can apply?

5.5.1 State Implementation Agencies such as SIDCs can apply for funding under the Modified IIUS.

5.5.2 Eligibility Criterion: SIAs should have sufficient past experiences relating to execution of nature of projects proposed to be undertaken; past experience of SIA will be one of the major criteria for entrusting a project to the agency under the scheme.

5.6 Formulation of the Project Proposal

5.6.1 The project proposal shall be well conceptualised and formulated meticulously after conducting detailed survey and study of the identified industrial estates/areas and generating credible data for laying the foundation of the project proposal. The critical gaps in the infrastructure impinging upon the competitiveness of the industry should be clearly brought out in the proposal. Measurable outcomes such as expected enhancement in productivity and employment should be incorporated into the project proposal which would also be one of the main criteria for sanctioning the projects. The proposal must spell out outcomes envisaged and the indicators that would be positively impacted by the project. It should also suggest the mechanism for operation and maintenance of the infrastructure proposed to be created on sustained basis by levying user charges/fee etc.

5.6.2 The Detailed Feasibility Report (DFR) should include realistic cost estimate of construction, technical specifications and cost estimates for plant and machinery, detailed

master plan along with sectional drawings and building plan with legends, financial assumptions (user charge, capacity utilization) with benchmarks, projected financial statements (P&L, Balance Sheet, Cash Flow, etc) with financial indicators(DSCR, IRR, etc), This DFR would clearly establish the expected outcome of each of the interventions, which should be measurable along with a firm implementation schedule in the form of a PERT chart showing activity/component wise timelines.

5.6.3 For each component, the DFR shall include detailed analysis of Operation and Maintenance Expenditure and the financing strategy for the same.

5.6.4 Sustainability of infrastructure created will be a key evaluation parameter for assessing eligible project components.

5.6.5 DFR should also visualise creation of infrastructure for water conservation, such as rainwater harvesting and possible recycle and reuse of water after proper treatment. Efforts would also be made to tap the existing technology solutions available with national laboratories as well as other public funded R&D efforts enlisted in the Technology Portal/Technology Compendium in DST website. The Proposal may also include or identify an academic/research institution for getting benefits of academic-industry linkages.

5.6.6 The SIA may appoint and use services of a Project Management Consultant (PMC) to support SIA for preparation of project proposal as well as assistance in the execution for the approved projects.

5.6.7 Projects with beneficiary contribution shall be encouraged.

6 Approval Process

6.1 Two Stage approval system will be adopted:

- a. 'In-Principle' approval of the Project - Based on DFR
- b. 'Final Approval' - Based on fulfillment of certain pre-requisite criterion.

6.2 The DFR will be appraised based on parameters such as commitment of the SIA, location of the project, land details, financial strength, proposed project details and readiness for implementation. 'In-principle' approval will be given by an Apex Committee which will be valid for a period of six months from the date of issue. The composition of the Apex Committee chaired by the Secretary, Department of Industrial Policy & Promotion will be as per **Annexure-A**.

6.3 After the issue of notification of the MIUS, request for project proposal will be invited through advertisements in at least two newspapers. Suitable timeframe would be given for submission of project proposal inclusive of a detailed feasibility report (DFR) from the date of advertisement.

6.3 Final Approval of the Project

The project will be accorded final approval by the Apex Committee after achieving the following milestones:

6.3.1 Physical possession of the land

- Land should be procured and registered/ transferred in the name of the SIA; Physical possession of the land required for the project is to be ensured.

6.3.2 Financial Appraisal / Closure

- Allocation for the same should have been made in the SIA's budget
- Details/Commitment/Proof of Contributions from all the stakeholders

- Final Sanction letter should be provided for FIs contribution
- Appraisal Note from the Bank for DIPP's consideration, in case of debt financing. In case of self financing, appraisal note by the state/central financial agency

6.3.3 Detailed DPR

- Detailed specifications of machineries and equipments with cost estimates
- Technical compliance to scheme guidelines
- Firm implementation schedule
- Copies of all the Clearances required in the project

7. Funding Pattern

7.1 The central government will contribute upto 50% each of the project cost subject to a ceiling of Rs.50 Crore. The remaining contribution will be from the SIA, beneficiary industries and loan from financial institutions. The minimum contribution of the SIA will be 25% of the project cost. In case of North Eastern States, the central grant and the minimum contribution of the SIA will be 80% and 10% respectively.

7.2 Projects with minimum beneficiary industry contribution of 10% shall be given priority. Similarly States with a better track record of implementing IIUS in 10th & 11th FYPs will be given priority in sanction of new projects.

7.3 Central grant for Physical infrastructure will be upto 25% of the central grant subject to a ceiling to Rs.12.5 crore. 'CETP' component of the project would be considered subject to ceiling of assistance upto Rs. 15 crore/CETP (maximum Rs. 1.50 crore/MLD) and for ZLD treatment (Zero Discharge) maximum assistance upto Rs. 20 crore/CETP (Rs. 4.50 crore/MLD).

7.4 Central 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 Central Government under the scheme.

7.5 The central assistance will be a onetime grant-in-aid (not equity) and the contributions of other stakeholders must be in the form of cash and not in kind like the cost of land/existing building.

7.6 For strengthening the monitoring mechanism, expenditure towards administrative cost is raised to 5% of central grant so that appropriate system of concurrent evaluation can be set up in the DIPP through outsourcing and/ or engaging a Project Monitoring Agency (PMA) to undertake field visits and build up a strong web enabled reporting mechanism, with documentary and visual inputs. Upto 3% of central grant which is over and above the central grant sanctioned to IIUS projects would be met from IIUS Budget and will be used by the Department of Industrial Policy & Promotion for appraisal, monitoring and evaluation of the projects without reducing central assistance of 50% proposed to IIUS projects. The SIAs would be allowed to incur upto 2% of the central grant on their administrative expenses including preliminary and preoperative expenses, hiring of Project Management Consultants (PMCs). The SIAs will meet all expenses beyond the prescribed limit from their own resources.

7.7 In case of downward revision of project cost, the central government grant would be reduced proportionately.

7.8 Interest earned on central grant by the SIA to be treated as a part of the central grant.

7.9 Land and Land development cost, working capital and contingencies shall be excluded from the project cost.

7.10 Higher expenditure in the project cost due to time and cost-overruns have to be borne by the State Implementing Agency or other stakeholders.

8. Timeline for completion:

Implementation Schedule for the projects would be on the basis of size and nature of the project. In general, a time period of 2-3 years after the final approval to the project, would be considered adequate and approved timelines as approved by the 'Apex Committee' shall be adhered to strictly.

9. Role of the State Government

The role of the State Government is envisaged to be central to the facilitation of the scheme implementation. All project proposals received by DIPP have to be approved by the respective Board of SIA and the State Industries Department or any other concerned Department. The Scheme will give weightage to those proposals which could focus on development of backward areas and where the existing sector specific schemes have been unable to make inroads. As per paragraph 5.4.12 an agreement will be signed wherein role of the Government would be clearly spelt out for monitoring of projects and provide financial support to the designated SIA.

10. Release of Funds

10.1 The Government of India will release its grant in 3 installments.

10.2 The first installment of the matching central grant of 30% of the approved grant will be released after ensuring that SIA and the industry have already brought in 30% of their contribution in the Trust & Retention Account (TRA), opened on the basis of a tripartite agreement.

10.3 The second installment of matching central grant of 40% of the approved grant will be released after utilization of 22.5% of the project cost and ensuring that SIA along with other stakeholders have already brought in the 70% of their approved contribution in the Bank Account.

10.4 The 3rd installment of matching central grant of 30% of the approved grant will be released after receipt of utilization certificate for the 1st installment of GOI's grant and utilization of 52.5% of the project cost and ensuring that SIA along with other stakeholders have already brought in their entire approved contribution in the Bank Account.

11. Monitoring and Review

11.1 The Governing Board of the SIA shall monitor at least once a quarter, the progress of the project and send a Quarterly Progress Report (QPR) to DIPP, on the prescribed proforma under the signature of the CEO of SIA.

11.2 An appropriate system of concurrent evaluation will be set up in the DIPP through outsourcing and/ or engaging a Project Monitoring Agency (PMA) to undertake field visits and build up a strong web enabled reporting mechanism, with documentary and visual inputs.

11.3 DIPP shall appoint its nominee to the Governing Body of the SIA.

11.4 The Apex Committee shall monitor the progress of the projects annually.

12. Project Management Agency

12.1 The DIPP would engage an independent agency called Project Management Agency (PMA) which will inter alia carry out both technical and financial appraisal of the project. PMA will appraise the DFR and DPR submitted by SIA, in particular with respect to the technical feasibility, financial inability and optimal utilization of the resources to be

appended. The cost of engaging PMA shall be met from the funds earmarked separately for appraisal and monitoring of projects under administrative expenses.

12.2 The roles and responsibilities of PMA will be as follows :-

- Evaluation of the proposals submitted by the SIA to the DIPP for the In-Principle Approval.
- Evaluation of proposals for Final Approval.

12.3 PMA will not take up any consultation assignment with the project.

13 Project Management Consultant (PMC)

The SIA can engage a PMC depending upon its requirement; appointment of PMC would be optional for SIA and its necessity will differ from state to state.

14 Procurement of Goods and Services

14.1 All procurement of goods, equipment and services shall be done through an open, transparent and competitive process. Appropriate performance guarantee should be built in the agreement to ensure timely completion of the project.

14.2 Procurement policy must be as per Government's General Finance Rules (GFR).

15. Assets

15.1 The Assets acquired/created by the SIA out of government assistance shall not be disposed, encumbered or utilized for the purposes other than for which the funds have been released.

15.2 A register of permanent and semi-permanent assets acquired wholly or mainly out of the funds provided by Government of India should be maintained in the Form GFR 19.

15.3 SIA will fix appropriate user charges for various facilities and services provided by it to fully recover O&M cost and make the project sustainable.

15.4 In case of dissolution of SIA or cancellation of the project at any point of time, all the assets and any unutilized grant shall vest with the Government of India.

16. Recall of the Central Grant

Apex Committee retains the right to curtail/recall the central grant along with applicable penal interest in case of unsatisfactory use of the grant including compromise with the quality envisaged, or partial/incomplete implementation of the project.

COMPOSITION OF APEX COMMITTEE

Chairman

Secretary, Department of Industrial Policy and Promotion

Members

1. AS&FA in the Ministry of Commerce & Industry
2. Economic Adviser, DIPP
3. *Representative, Planning Commission
4. *Representative, Department of Science & Technology
5. *Representative, Department of Commerce
6. *Representative, Ministry of MSME
7. **Secretary, Industries, from the concerned State Government
8. **CEO of SIA and SPV/Industry Association
9. Representative from the concerned Financial Institution
10. GOI nominee in the Governing Body of the SIA

Member Secretary

Joint Secretary, DIPP

Special Invitees: PMA
PMCs

*Representatives shall not be below the rank of Joint Secretary.

**Secretary/CEO will attend in person. No representative shall be allowed to attend.