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Operational framework of KSIDC and the industrial development of Kerala

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Abstract

Building a resilient infrastructure, promoting inclusive and sustainable industrialisation and fostering industrial innovations are the major probing areas of any developing economy. Without proper and comprehensive infrastructure, industrialisation is not possible. Bestowed with well-structured policies and pioneering initiatives, world class infrastructure, extremely low operating costs, highly skilled manpower, well connected roads and rail networks, excellent communication networks and easy accessibility, Kerala presents an excellent investor-friendly environment and offers immense opportunities for industrial development now a days. Kerala has sufficient potential for much faster economic development through rapid industrialisation in the context of globalised world and knowledge society and the Government has evolved various strategies to initiate an element of dynamism in the growth process so as to make the State a leading industrial destination in India. It is in this context, the paper examines the economic imperative of the Kerala State Industrial Development Corporation (KSIDC) for the industrial development of Kerala in terms of its functions, operational performance, scope and significance in a more liberalised and much more dynamic industrial environment of the State.

Keywords: Kerala industry, industrial development, industrial infrastructure, industrial promotion, KSIDC

1. Introduction

The industrial sector is deemed as a major driver of economic growth. It is vital in stimulating the growth of the economy as it is closely interconnected with the primary and tertiary sectors through its forward and backward linkages. Though Kerala is traditionally backward in industrial development, the Government has come forward with many structured and well-defined policies and pioneering initiatives to transform Kerala into a vibrant entrepreneurial society with faster, inclusive and sustainable economic growth. The industrial policy initiatives in the State are designed in the backdrop of increasing multifaceted globalisation of production systems, especially, in terms of technology transfers and development of physical infrastructure for higher growth. In its march towards a hasty and progressive industrial development, some sort of customised and industry-specific policy measures that could endeavour in reaching its objectives through state-of-the-art industrial infrastructure, encouraging eco-friendly enterprises, strengthening the MSMEs, inculcating entrepreneurship development, enhancing skills, simplification of rules and procedures, etc. must be initiated with a clear cut vision, objectives, and strategy so as to transform the State into a world-class business hub.

1.1 The Economic Imperative of Industrial Infrastructure in Kerala

Infrastructure plays a catalytic role in the industrial development and performance of any economy. The process of economic growth is predominantly driven by entrepreneurship, industrial upgrading, continuous economic

diversification, growing trade relations and technological innovations. Sustainable development cannot be achieved simply by raising the levels of income or improving nutrition, education, and health. It requires higher levels of productivity and capabilities for the continuous technological upgrading and innovation for competitive industry ^[1]. Without sufficing infrastructure, industry and business cannot thrive and does not create the required technologies needed for inclusive and sustainable development. Without infrastructure, industrialisation will not happen; and without industrialisation, sustainable economic development will also not happen. Infrastructure is basically the base of an economy in which economic growth is built upon.

The link between infrastructure and industrial development is not a once for all affair. It is a continuous process and progress in industrial development has to be preceded, accompanied and followed by the progress in infrastructure. A robust economy needs a robust infrastructure. Being the *sin-qua-non* of economic development, its development is a necessity as the availability of adequate and efficient infrastructural set up not only promotes rapid industrialisation but also improves the quality of life of the people. Initiation of infrastructure projects creates demand for labour, land and other capital goods and open up opportunities for a plethora of economic activities by the creation of employment and generation of income in the economy. Simply, infrastructure has a two-way relationship with economic growth as infrastructure promotes

¹ United Nations Industrial Development Organisation (UNIDO) (2015). *Annual Report 2014*. Vienna: United Nations.

economic growth and economic growth brings about changes in infrastructure.

A fast-growing economy like India requires robust infrastructure for promoting its global competitive efficiency. As far as the regional economy of Kerala is concerned, particular emphasis must be given to the development of specialised infrastructure so as to boost the industrial efficiency of the region to cope up with global competition. Instead of spreading industry to all nooks and corners, the potential and prospective growth of identified sectors must be taken into account while providing necessary and supporting industrial infrastructure. Studies undertaken by the World Bank show that a 1% increase in investment in the stock of infrastructure leads to a corresponding 1% increase in the Gross Domestic Product (GDP) of the nation. The *World Development Report 1994: Infrastructure for Development* by the World Bank examines the link between infrastructure and development and puts infrastructure at the centre of development planning. It has put forward the following arguments regarding the benefits accruing from infrastructure and increased public investments:

1. Better infrastructure and overhead capital raise the productivity and lowers the production costs of other economic and social activities in the economy through its forward and backward linkages.
2. There exists a strong positive correlation between sound infrastructure facilities and economic growth and infrastructure is the centre of the development process of any economy.
3. Well-built and sound infrastructure increases the efficiency and competitiveness of the industrial sector of the economy and may be treated as an important factor in the global rating of an economy by multinational investors.
4. Adequate quantity and quality of infrastructure helps determine the country's success in diversifying production, expanding global trade, coping with population growth, reducing poverty and improving environmental conditions.
5. Rural infrastructure leads to agricultural expansion by increasing yields, farmers' access to markets and availability of institutional finance.
6. Well-designed and managed infrastructure can promote the environmental sustainability of human settlements and the careful implementation of infrastructure projects is necessary for achieving global environmental sustainability.

1.2 An Overview of Major Industrial Promotion Agencies in Kerala

The tempo of industrial activity of any economy owes much to the promotional activities of the Government. Industrial promotion agencies are the institutions formed for the purpose of initiating, promoting and developing industrial enterprises with the avowed objective of achieving faster socio-economic development through rapid and responsible industrialisation. They act as an interface between the Government and industrial entrepreneurs. In order to revitalise and to give a fillip to the industrial growth of the State, the industrial

promotion agencies offer multifaceted services including provision of developed land, ready to use infrastructure and amenities, provision of raw materials, technical assistance, single window clearance, financial assistance, feasibility studies, support services, and attractive incentives and opportunities for the high and sustained growth, expansion and diversification of the industrial sector of the State. The galaxy of major promotional agencies boosting Kerala's industrial development include: (i) The Department of Industries and Commerce, Government of Kerala, (ii) Kerala State Industrial Development Corporation (KSIDC), (iii) Kerala Industrial Infrastructure Development Corporation (KINFRA), (iv) Kerala Financial Corporation (KFC), (v) Kerala Bureau of Industrial Promotion (K-BIP) and (vi) Kerala Small Industries Development Corporation (KSIDCO). Here, the Department of Industries and Commerce, Government of Kerala is the functional arm of the government implementing various industrial activities and is responsible for registering, financing, sponsoring, promoting and advising the various industrial entities in the State for their growth and operational efficiency. It acts as a facilitator for sustained industrial development, creating and extending the infrastructure requirements for the development of industries and promoting entrepreneurship for the industrial sustainability of the micro, small and medium enterprises (MSME) as well as the traditional industrial sector of the State. The department is the controlling authority of the 14 District Industries Centres (DICs). The vision of the department is to transform the State into a vibrant entrepreneurial society with faster, inclusive, and sustainable economic growth. It aims at developing more enterprises by fortifying the skilled human capital and promoting investments, including domestic as well as foreign, in all the sectors to boost the total economic development of the State through employment and export-oriented business. Being an important functional entity of the Government, the department inculcates and synergises the positive aspects of industrialisation in the State.

1.3 Kerala Industry and the Operational Framework of KSIDC

Kerala State Industrial Development Corporation (KSIDC) is a wholly owned company of the Government of Kerala for the promotion and development of medium and large-scale industrial units in the State. Formed in 1961 with the objective of promoting, stimulating, financing and facilitating the development of large and medium scale industries in Kerala, KSIDC acts as a promotional agency involved in catalysing the development of physical and social infrastructure required for the constant growth of industry in the State. It offers professional guidance and support for the potential investors through a comprehensive set of services that include developing business ideas, identifying viable projects, providing financial assistance and assistance for project implementation.

As the nodal agency for foreign and domestic investments in Kerala, KSIDC provides extensive support for investors, besides processing various incentive schemes and facilitating constant interaction between the government and the industrial

sector. KSIDC is a 'one-stop-shop' and 'single point contact' for investments to the State. It acts as the 'brand ambassador' and spokesman of the State spreading its industrial ethos besides being an interface between Kerala and the outside world. As a facilitator and financier for industries, KSIDC offers all-inclusive assistance in the industrial promotion activities of the State. To encourage more and more self-start-ups and to attract young entrepreneurs for utilising the resources for industrialisation, KSIDC is ready to serve in the following key areas:

1. Identification of investment ideas.
2. Translating ideas into concrete proposals.
3. Feasibility study.
4. Project evaluation.
5. Financial Structuring.
6. Loan syndication.
7. Industrial and infrastructure development.
8. Development and administration of Growth Centres.
9. Assistance in the clearance formalities of the Central and State Governments.

KSIDC adapts its role in sustainable economic development, aims at a balanced promotion of industrial growth and also ensures the fruitful contribution of industry in social and economic development of the State. It is mandated to for the industrial and investment promotion in Kerala. It offers a comprehensive set of services encompassing support in developing business ideas and viable projects, assistance in conducting feasibility studies and providing various financial products tailor made for different types of investments. KSIDC provides anything and everything related to the industrialisation of the State and offers various opportunities for the Non-Resident Indians (NRIs) to invest in Kerala. The mandate is to create a conducive industrial environment with state-of-the-art infrastructure so as to facilitate rapid industrialisation with definite impact on the economic development of the State. The other major services provided by KSIDC to the prospective investors and entrepreneurs may be classified into four categories, namely: (a) investment promotion, (b) project finance, (c) single window clearance, (d) equipment purchase loans, (e) consultancy services and (f)

innovative practices.

a. Investment Promotion

KSIDC offers numerous financial assistance and support to medium and large-scale industries in the State including service sectors like tourism, star category hotels, resorts, hospitals, KSIDC aims to convert Kerala into a most favoured investment destination in the country by offering matchless and immense investment opportunities.

An Investment Facilitation Cell has been constituted in KSIDC, Thiruvananthapuram office, in line with the Invest India cell of DIPP, Govt. of India with the objective of guiding, assisting and hand holding investors during various phases of business life cycle. KSIDC acts as a support partner and will ensure clearances and approvals from various departments. It has a dedicated Investment Promotion team who will facilitate and hand hold investors from inception to commencing commercial operations. KSIDC will accelerate the investment options to: (i) make traditional industries competitive by modernisation, value addition and skill development, (ii) promote and support MSMEs as an ancillary to large scale industries as well as a self-sustaining entity, (iii) attract huge capital investment on mutually beneficial terms, (iv) tap the rich industrial potential of biotechnology and (v) accelerate growth in service sector and to make Kerala a major commercial hub.

b. Project Finance

KSIDC offers numerous financial assistance and support to medium and large-scale industries in the State including service sectors like tourism, star category hotels, resorts, hospitals, infrastructure projects, etc. and where the constitution of the assisted unit is in the nature of a public/private limited company. Normally, financial assistance is available for projects with an investment of Rs. 2 crore and above. The term loan assistance of KSIDC is limited upto a maximum of Rs. 35 crores in a project and it can go up further for a single project only with the prior permission of the State Government. The standard norms for the financial assistance of KSIDC may be given in Table 1.

Table 1: Norms for the Financial Assistance of KSIDC

Head/Category		Specifications
1	Debt Equity Ratio	(a) 1:1 up to 1.5:1 for new companies with minimum or no track record.
		(b) 1.5:1 up to 2:1 for the expansion of good assisted units and other good non-assisted units.
2	Term Loans	Up to Rs. 35 crores can be sanctioned. There will be no cap for term loans under direct financing. However, loans exceeding Rs. 35 crores is subject to approval by the State Government. The minimum amount for assistance is Rs. 1 crore except in the case of expansion proposals of assisted units, where the minimum limit would be Rs. 50 lakhs.
3	Short Term Loan	May be considered for assisted units on a selective basis.
4	Repayment	The repayment period is 6-8 years with a moratorium of 2-3 years, on a selective basis.
5	Interest Rate	The interest rate ranges from 11% to 13%. A reduction of maximum up to 1% will be granted at the end of every financial year by the reversal of the interest charged, provided there are no arrears of interest as on 31 st March of the relevant year. The reduction of interest shall be calculated on the outstanding principal amount only and there shall be no reversal of penal interest portion.
6	Working Capital Term Loan	May be considered for units with good performance track record. For determining good performance track record, the following parameters are used:
		(a) The company has made cash profits during the preceding five years.
		(b) The company has made net profits during the preceding three years.
	(c) There are no overdue to financial institutions or banks.	

	(d)	There has been turnover growth during the preceding three years.
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Source: <http://www.ksidc.org>.

The projects should be financially and technically viable with satisfactory indices like internal rate of return, debt service coverage ratio, payback period, etc. and the promoter directors should execute personal guarantees with KSIDC for the timely repayment of the financial assistance sought. KSIDC aims at promoting the competitiveness of Kerala industry by leveraging investments and promoting the establishment of exemplary infrastructure.

c. Single Window Clearance

Kerala is one among the first State in the Country to promulgate an Act for establishing a Single Window Clearance Mechanism in the State. The single window environment aims to expedite and simplify information flows between trade and Government and bring meaningful gains to all parties involved in trading and business activities. In order

to facilitate a hassle-free operation in the setting up of new industrial projects and with the aim of expediting the issue of various clearances, the Government of Kerala has introduced the 'single window clearance system' in the State. As per the system, a final clearance for all new projects, either approval or rejection, is to be given within a specified time period from the date of submission of application. This has been made a statutory requirement under the Kerala State Single Window Clearance Boards and Industrial Township Area Development Act, 1999. To cater this need, a State Level Board for aiding medium and large-scale industries, District Level Boards for the small-scale industrial undertakings and Industrial Area Boards for the clearance of projects being set up in the Industrial Areas of the State have been constituted. The three-tier system of single window clearance of the KSIDC is given in Table 2.

Table 2: The Single Window Clearance System of KSIDC

	Segment	Board	Chairman	Clearance Time
			Convener	
1	Medium and Large-Scale Projects	State Level Board	Chief Secretary of the State KSIDC	45 days
2	Small Scale Industrial Projects	District Level Boards	District Collector General Manager, DIC*	60 days
3	Projects in Industrial Areas/Parks	Industrial Area Boards	District Collector Authority of the Industrial Area	30 days

Source: <http://www.ksidc.org>. * DIC stands for the District Industries Centre.

Single Window Mechanism of the State provides one entrance, either physical or electronic, for the submission and handling of all data, documents related to processing and issuing of licenses and renewals as well. The Single Window Mechanism is aimed at providing initial, final clearances and renewals for all activities in connection with setting up, establishment and running of a business in the State.

d. Equipment Purchase Loan

The equipment purchase loan scheme of the KSIDC has been devised and taken from the Industrial Development Bank of India (IDBI). The scheme provides loans to the existing clients who have shown sufficient growth and creditworthiness to purchase items of plant and machinery required for improving the capacity utilisation and production efficiency of their industrial ventures. The debt-equity ratio for the loan is very liberal, as financing will be provided up to 77.5% of the invoice value of the equipment. The balance 22.5% of the invoice value is the minimum margin required to be invested by the promoter. A repayment period of up to six years is allowed and the security is the exclusive charge on the machinery and the continuing charge on the fixed assets of the company.

e. Consultancy Services

KSIDC offers a consultancy division called 'KSIDC Consulting Service' so as to provide project consulting services across various sectors in the State in the present

dynamic environment. It will capitalise on KSIDC's expertise gained over the last 50 years by associating with numerous and remarkable industrial projects in the State. The consultancy offers total project management services such as identifying opportunities for new business, expansion and diversification, market survey, project report preparation, technology tie-ups, turnkey project management services and project escort services. KSIDC's experts will be available on call for the division to deliver quality services, mitigate project risk and provide a single point of accountability for the projects.

f. Innovative Practices

KSIDC is at present involved in certain innovative initiatives such as seed funding, business incubation and mentoring for prospective startups and innovative and promising entrepreneurs. Seed funding is provided to innovative ventures or potential startups promoted by young entrepreneurs, subject to a maximum of Rs. 25 lakh per venture or 90% of the initial cost of the project, whichever is lower. It has sanctioned seed funds to more than 100 innovative startups so far. KSIDC attempts to bring incubated startups, co-working ventures, industry mentors, eminent academics and researchers together so as to offer continuous interaction between theory and practice. As part of building a unique ecosystem for continuous interaction among the stakeholders, KSIDC conducts mentoring sessions on diverse topics of interest where the incubated startups or seed funded companies are

nurtured by renowned mentors of national/international standards which enable them equip to serve global markets.

1.4 Conclusion

The Government focuses on the creation and maintenance of industrial infrastructure at par with global standards so as to augment the process of its hasty and sustainable industrial development. In the process, it can be observed that KSIDC has over 5 decades of proven track record of industrial promotion and attracting a commendable volume of investments in the industrial landscape of the State. Over the years KSIDC has metamorphosed into the 'one-stop-shop' for any investment in Kerala and the 'single point contact' for investors for the setting up of diverse industrial ventures in the State. The corporation has so far promoted more than 750 projects in Kerala which include pioneering organisations such as Cochin International Airport Limited, KELTRON, Hindustan Latex Limited, Kerala Minerals and Metals Limited, Regional Cancer Centre, Kerala State Drugs and Pharmaceuticals Limited, Cochin Stock Exchange Limited, Kerala High Speed Rail Corporation Limited, Malabar Cements Limited, Tata Tea Limited and much more. At present, Government of Kerala has entrusted the KSIDC for developing and managing 'Industrial Growth Centres' in various locations of the State specifically as per the scheme announced by the Central Government. As a nodal agency for foreign and domestic investments in Kerala, KSIDC facilitates clearances, approvals and processes various incentive schemes for starting new business ventures and acts as a spokesman of the State spreading its industrial ethos besides being an interface between the Government and the Industry.

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