FIFTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE

ON

PUBLIC UNDERTAKINGS
(2023-26)

SIXTIETH REPORT

(Presented on 17th September, 2025)

SECRETARIAT OF THE KERALA LEGISLATURE

THIRUVANANTHAPURAM

2025

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On

KFC, KSIDC, KINFRA & SIDCO

(Based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2016)

CONTENTS

COMMITTEE ON PUBLIC UNDERTAKINGS
(2023-26)

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INTRODUCTION

I, the Chairperson, Committee on Public Undertakings (2023-26) having been authorised by the Committee to present the Report on its behalf, present this 60th Report on KFC, KSIDC, KINFRA, SIDCO based on the report of the Comptroller and Auditor General of India for the year ended 31st March, 2016 relating to the Public Sector Undertakings of the State of Kerala.

The aforesaid Report of the Comptroller and Auditor General of India was laid on the Table of the House on 23.05.2017. The consideration of the audit paragraphs included in this report and the examination of the departmental witness in connection thereto were made by the Committee on Public Undertakings (2021-2023) at its meeting held on 28.12.2021.

This Report was considered and approved by the Committee (2023-26) at its meeting held on 06.08.2025.

The Committee place on record its appreciation for the assistance rendered to them by the Accountant General (Audit), Kerala in the examination of the Audit paragraphs included in this Report.

The Committee wishes to express thanks to the officials of the Finance Department, Industries Department of the Secretariat, Kerala Financial Corporation (KFC), Kerala State Industrial Development Corporation Limited (KSIDC), Kerala Industrial Infrastructure Development Corporation (KINFRA) and Kerala Small Industries Development Corporation Limited (SIDCO), for placing the materials and information solicited in connection with the examination of the subject. The Committee also wishes to thank in particular the Secretaries to Government, Industries and Finance Department and the officials of Kerala Financial Corporation (KFC), Kerala State Industrial Development Corporation Limited (KSIDC), Kerala Industrial Infrastructure Development Corporation (KINFRA) and Kerala Small Industries Development Corporation Limited (SIDCO) who appeared for evidence and assisted the Committee by placing their views before the Committee.

E. CHANDRASEKHARAN,
Chairperson,
Committee on Public Undertakings.

Thiruvananthapuram,
17th September, 2025.

REPORT
on
KFC, KSIDC, KINFRA, SIDCO (2015-16)

2.1 Promotion and Development of Micro, Small and Medium Enterprises in Kerala

Executive Summary

Introduction

In Kerala, there were 2.57 lakh registered Micro, Small and Medium Enterprises (MSMEs) as of September 2015, with total investment of ₹17,986.46 crore and during 2014-15, MSMEs produced goods and services worth ₹ 7,119.75 crore, which accounted for 1.37 per cent of the Gross State Domestic Product. The total employment generated up to September 2015 was 13.19 lakh.

Implementation of policies and plans by Government of Kerala (GoK)

Measures outlined in the Industrial Policy, 2007 though not implemented were not included in the amended Policy (2015). Compared to neighbouring States, the industrial policy of Kerala fared poorly in terms of inclusion of specific provisions. Average utilisation of amounts allocated in the budgets of Directorate of Industries and Commerce (DI&C) for MSME development programmes was 70.43 per cent. Rehabilitation package as recommended by Government of India (GoI) was not implemented.

Promotion and Development programmes

Financial support

Kerala Financial Corporation (KFC) and Kerala State Industrial Development Corporation Limited (KSIDC) could provide finance to a very low number of MSMEs only. Rate of interest charged by KFC on loans to MSME sector was high when compared to other State Financial Corporations and commercial banks. Schemes for providing financial support to MSMEs such as Interest Subvention Scheme, Receivable Finance Scheme and Kerala State Entrepreneur Development Mission could not be implemented successfully. Only 6.48 per cent of new MSMEs availed of the Entrepreneur Support Scheme (ESS) of the DI&C due to exclusion of service sector and complex documentation required. There were irregularities in the implementation of the ESS as well.

I*nfrastructure Development*

Delay in completion of multi-storeyed industrial estates deprived MSMEs of much needed infrastructure. Progress achieved in establishing Common Facility Centres under Micro and Small Enterprises-Cluster Development Programme was negligible. Parks established by Kerala Industrial Infrastructure Development Corporation (KINFRA) remained unutilised. Actual utilisation of developed land in the Industrial Growth Centres established by KSIDC was only 41.25 per cent. Scheme for modernisation of infrastructure in Development Areas/ Development Plots under DI&C with assistance of GoI remained unimplemented. The quality of infrastructure provided in the industrial estates/ parks under Kerala Small Industries Development Corporation Limited was not satisfactory.

Facilitation Services

The Single Window Clearance scheme instituted for ensuring speedy issue of clearances required for establishing industrial units was not effective.

Marketing Support

Statutory provision regarding purchase of 20 per cent of requirements of goods/ services from MSMEs was not being complied with by the State PSUs/Departments/ Government agencies, etc. Effectiveness of the expenditure incurred out of Government funds for conducting/participating in fairs/exhibitions for marketing MSME products was not assessed.

Findings of beneficiary survey

Majority of MSMEs who participated in a beneficiary survey conducted by Audit reported that they were not aided by the Single Window mechanism for obtaining necessary clearances. They also responded that they were not provided technical assistance such as assistance in preparing project reports, training in skill development/ entrepreneurship, help in tiding over financial crisis, quality raw material or marketing assistance. The quality of infrastructure, especially roads and security in Industrial Parks/ Estates, etc., was also reported to be inadequate.

Introduction

2.1.1 According to the Micro, Small and Medium Enterprises, Development Act, 2006 (MSME Act), Micro, Small and Medium Enterprises (MSMEs) are classified as under:

Table 2.1: Criteria for classification of MSMEs.

Enterprise (Type)	Investment in Plant and Machinery/ Investment in Equipment	
	Manufacturing	Service
Micro	Up to ₹25 lakh	Up to ₹ 10 lakh
Small	Above ₹25 lakh up to ₹ 5 crore	Above ₹ 10 lakh up to ₹ 2 crore
Medium	Above ₹5 crore up to ₹ 10 crore	Above ₹ 2 crore up to ₹5 crore

In Kerala, there were 2.57 lakh registered MSMEs as of September 2015[1], all promoted by individual investors/firms in the private sector. Out of the total Small Scale Industries/MSMEs, 3.84 per cent were promoted by entrepreneurs belonging to Scheduled Castes, 0.72 per cent by Scheduled Tribes and 24.97 per cent by women entrepreneurs. The total investment in these 2.57 lakh MSMEs was ₹17,986.46 crore. During 2014-15, these MSMEs produced goods and services worth ₹ 7,119.75 crore which accounted for 1.37 per cent of the Gross State Domestic Product. The total employment generated up to September 2015 was 13.19 lakh (Source: Economic Review, 2016 published by State Planning Board, GoK).

Agencies involved in promotion of MSMEs in Kerala

2.1.2 Department of Industries, GoK formulates the industrial policy for promotion and development of MSMEs. Schemes and projects for promotion and development of MSMEs in the State are implemented by the Directorate of Industries & Commerce (DI&C) and Public Sector Undertakings (PSUs) set up with this objective.

One of the main objectives of the Kerala Industrial and Commercial Policy, 2015 was mobilising MSMEs, particularly in rural areas, to achieve employment generation and utilisation of local resources. Kerala State Industrial Development Corporation Limited (KSIDC), Kerala Small Industries Development Corporation Limited (SIDCO), Kerala Financial Corporation (KFC) and Kerala Industrial Infrastructure Development Corporation (KINFRA) played major roles in the promotion and development of medium and small scale industries in Kerala. While KFC and KSIDC were primarily concerned with providing financial support in the form of equity participation, term

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1 Figures as at 17 September 2015 have been taken since after September 2015, the filing of Entrepreneur's Memorandum II (EMII) by newly registered MSMEs has been abolished and Udyog Aadhar Memorandum (UAM) made mandatory for all (new and existing) MSMEs

loans, working capital loans, etc., KINFRA and SIDCO provided infrastructure and marketing support.

Other Government agencies involved in the promotion and development of MSMEs were Kerala Bureau of Industrial Promotion (KBIP), Kerala Academy for Skills Excellence, Kerala Institute for Entrepreneurship Development, etc., as detailed in **Appendix 3.**

Audit Objectives

2.1.3 The main objectives of the Performance Audit were to assess whether:

- policy for promotion and development of MSME sector in the State was implemented effectively;
- the activities of Government Departments/agencies and PSUs in financing, protecting and promoting the interest of MSMEs in the State were adequate, efficient and effective; and
- the MSMEs promoted/ assisted by the Government Departments/agencies and PSUs were functioning efficiently and contributing significantly to the economic and industrial development of the State.

Audit Criteria

2.1.4 The following criteria were adopted for the Performance Audit:

- State Industrial and Commercial Policy, 2007, amended in 2015;
- Micro, Small and Medium Enterprises Development Act, 2006 of Government of India (GoI);
- Guidelines issued by Central/ State Governments for various Schemes;
- Government Orders and Circulars;

- Memorandum and Articles of Association of the PSUs;
- Policies/ Plans/ Schemes formulated by PSUs;
- Best practices/ policies on MSMEs followed by other States;
- Norms of Reserve Bank of India on raising public finance by State Financial Corporations;
- Stores Purchase Manual of GoK; and
- Guidelines of Central Vigilance Commission.

Scope and Methodology

2.1.5 The Performance Audit was conducted to assess effectiveness of various activities, schemes and measures undertaken by GoK through its functional arms, the DI&C and four PSUs (KSIDC, KFC, KINFRA and SIDCO), for promotion and development of MSMEs in the State during the five year period from 2011-12 to 2015-16.

Four[2] out of fourteen District Industries Centres[3] (DICs) under the DI&C were selected through random sampling for detailed scrutiny. With respect to KFC, out of 5,268 units to whom loans were disbursed during 2011-12 to 2015-16, 1,054 (20 per cent) were selected on random basis for detailed review. In the case of SIDCO, 8 (out of 14) Industrial Estates (IE) and 6 (out of 36) Mini Industrial Estates were selected for joint inspection. Three out of ten Industrial Parks developed by KINFRA and all three Industrial Growth Centres promoted by KSIDC were inspected jointly.

2 Kottayam, Pathanamthitta, Palakkad and Kozhikode.

3 DIC s are the functional units of the DI&C and operate at district level to promote and develop industrial units.

A beneficiary survey amongst MSMEs located in IEs/ Industrial Parks of GoK/ PSUs was conducted using the questionnaire method for evaluating the effectiveness of the Government's initiatives in promotion and development of MSMEs.

The Performance Audit commenced with an Entry Meeting held on 9 May 2016 which was attended by Additional Secretary, Industries Department, GoK and the Managing Director, SIDCO. KFC was represented by Deputy General Manager, KSIDC by Deputy Manager and KINFRA by Manager (Technical).

The findings of the Performance Audit were issued to GoK and the PSUs in October 2016. Audit findings were also discussed with Special Secretary, Industries Department, GoK and Senior Management of the PSUs in an Exit Conference held on 8 November 2016.

Reply of GoK to the audit findings was received in March 2017. Views expressed by them have been duly considered while finalising the Report.

Audit Findings

2.1.6 The number of MSMEs registered annually in the country increased from 2.82 lakh in 2011-12 to 4.25 lakh in 2014-15, rate of growth in registration being 50.71 per cent. In Kerala, number of MSMEs registered had increased from 0.11 lakh in 2011-12 to 0.15 lakh in 2014-15 with a rate of growth of 36.36 per cent. As per the fourth All India Census (2006-07[4]) on MSMEs, 26 per cent of registered MSMEs in Kerala had either closed down or were non-traceable. This was mainly due to ineffective implementation of policy on the part of GoK and absence of financial, infrastructural and marketing assistance as discussed in succeeding paragraphs.

4 Published in May 2011 by the Ministry of MSME, GoI.

Implementation of policies and plans by Government of Kerala

2.1.7 The primary responsibility for promotion and development of MSMEs rests with the State Governments. GoI, through various initiatives, supplements efforts of the State Governments in encouraging entrepreneurship and employment generation. GoK is responsible for formulating appropriate policies and plans for the promotion and development of MSMEs in the State.

We noticed lapses in implementation of policies and plans on the part of GoK in this regard as discussed below.

Non-implementation of initiatives outlined in GoK's Industrial Policy

2.1.7.1 With a view to achieving rapid strides in industrialisation and to make Kerala a favoured destination for manufacturing, GoK suggested a slew of measures in its Industrial and Commercial Policy, 2007. The Industrial policy also contained many initiatives for the development of MSME sector. The status of implementation of these initiatives is tabulated in Table 2.2.

Table 2.2: Status of implementation of State Industrial Policy

Sl.No.	**Objectives**	**Status of implementation**
1	Strengthening the DICs for enterprise development in MSMEs.	Partially implemented by providing infrastructure to DICs.
2	Promoting MSMEs by using the funds from the decentralised plan devolved to the Local Self Government Institutions.	Not implemented
3	Utilising unused land of Local Self Government Institutions.	Not implemented
4	Supporting SSI Units giving price preference, exemption from EMD/ Security Deposit with	implemented

	specific conditions.	
5	Providing all help and support to entrepreneurs who seek financial assistance from banks and other financial agencies.	Partially implemented by introducing Kerala State Entrepreneur Development Mission through KFC.
6	Mobilising MSMEs particularly in rural areas to achieve employment generation and utilisation of local resources.	No specific scheme drawn up or implemented.

As can be seen from Table 2.2 above, the State Government only partially implemented the steps outlined in its Industrial Policy for promotion and development of MSMEs. The Industrial Policy was amended and re-notified in 2015, the significant new measures included for promoting MSMEs being the following:

- Promoting “Made in Kerala” as an umbrella brand for all sectors.
- Upgradation of infrastructure in industrial areas and facilitating “exit” for industrial units located in such areas.
- Setting up an MSME Equity Participation Fund for encouraging start-ups in KSIDC and KFC.
- Facilitation of skilled workers through Employability Centres.

We observed that the measures outlined in the Industrial and Commercial Policy, 2007 though not implemented were not included in the amended Policy. No alternate measures were proposed.

GoK replied (March 2017) that the model scheme drafted by the DI&C for utilising the land available with LSGIs was under consideration.

Non-implementation of Central Schemes for MSMEs

2.1.7.2 Industrial and Commercial Policy, 2007 of GoK envisaged development of a system to monitor proper and timely implementation of Central Schemes and to tap maximum Central assistance for the development of industries and commerce in the State.

Recognising the importance of MSMEs to the overall economic development of the country, GoI introduced many schemes for development of MSME sector to be implemented by the State Governments/State Government Organisations. These schemes included International Co-operation, Assistance to Training Institutions, Marketing Assistance, Micro & Small Enterprises Cluster Development Programme (MSE-CDP), Building Awareness on Intellectual Property Rights, Technology and Quality Upgradation Support to MSMEs, Capital Goods Scheme, etc., as detailed in **Appendix 4.** Development Commissioner (DC), MSME, GoI informed GoK of all Central Schemes. Awareness campaigns/workshops for Central Schemes were also organised by the DC, MSME.

We observed that other than MSE-CDP, the DI&C, which was primarily responsible for promotion and development of MSMEs, had not implemented any of the above schemes as GoK had not put in place a system for monitoring the implementation of Central Schemes for MSMSEs in the State. Further, no proposals were put up by the DI&C to GoK in respect of the schemes. Thus, MSMEs in the State were deprived of the opportunity provided by GoI for their development.

GoK while accepting (March 2017) the audit findings, assured that a nodal agency for tapping assistance under Central Schemes and monitoring their implementation was being designated.

Industrial policy for promotion and development of MSMEs of GoK vis-a-vis other States

2.1.7.3 We compared the provisions in the industrial policy of the State for promotion and development of MSMEs with those of neighbouring States of Tamil Nadu and Karnataka. The findings are tabulated in **Appendix 5.**

It can be seen from **Appendix 5** that the industrial policies of Tamil Nadu and Karnataka contained provisions on reservation of land and financial and marketing assistance for the development of MSME sector. Compared to this, the industrial policy of Kerala fared poorly in terms of inclusion of specific provisions. The impact of this was borne out by the comparatively low rate of increase in the number of new MSMEs registered as depicted in **Table 2.3.**

Table2.3: Details of average annual increase in MSMEs

State	Average annual increase in number of new MSMEs registered from 2010-11 to 2014-15 (per cent)
Kerala	8.08
Tamil Nadu	25.42
Karnataka	11.80
All India	15.60

GoK replied (March 2017) that the overall growth in number of MSMEs registered from 2011-12 to 2014-15 was quite significant. The fact, however, remains that the growth rate of MSMEs in the State was low when compared to neighbouring States and the national average.

Non-utilisation of budget allocation for schemes for promotion and development of MSMEs

2.1.7.4 The details of budget allocation and actual utilisation of funds by DI&C in case of plan schemes is indicated in Table 2.4.

Table2.4: Details of budget allocation and utilisation of funds(₹in crore)

	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Budget allocation	43.96	59.30	63.94	80.17	112.87	360.24
Actual utilisation of funds	31.74	50.71	51.51	45.97	73.79	253.72
Surrender	12.22	8.59	12.43	34.20	39.08	106.52
Percentage of utilisation	72.20	85.51	80.56	57.34	65.38	70.43

Source: Annual Budget and Finance Accounts

It can be observed that out of ₹ 360.24 crore allocated in the budgets from 2011-12 to 2015-16, utilisation was only ₹ 253.72 crore (70.43 per cent). Surrender of funds ranged from ₹ 8.59 crore (2012-13) to ₹ 39.08 crore (2015-16). Maximum underutilisation was in respect of schemes/ programmes shown in *Table 2.5*.

Table 2.5: Scheme wise underutilisation of funds during 2011-12 to 2015-16

(₹ in crore)

Scheme	Budget allocation	Utilisation	Percentage of utilisation
Improving infrastructure in existing Development Area/ Development Plots	6.65	3.44	51.73
Construction of multi-storeyed Industrial Estate	79.30	32.50	40.98
Seed Fund to youth	11.00	0	0
Start-up subsidy for creation of employment opportunities	4.00	0	0
Employment generation in traditional sector	10.00	2.00	20.00

Source: Annual Budget and Finance Accounts of GoK

We also observed that out of ₹79.30 crore provided against the scheme ‘Construction of multi-storeyed Industrial Estates’, released amount of ₹32.50 crore was shown as expenditure in the statements furnished by the DI&C to GoK. However, ₹10 crore released (February 2013) for Multi-storeyed IE at Kochuveli and ₹7.50 crore released (February 2014) for Multi-storeyed IE at Puthussery to SIDCO remained unutilised. Thus, incorrect statement was given to GoK in respect of ₹17.50 crore.

GoK accepted (March 2017) the audit findings and stated that the Department/ Organisations had been advised to be careful while reporting the expenditure. The reply was not acceptable as corrective action had not been taken.

Non-commencement of rehabilitation package

2.1.7.5 A Task Force constituted under the chairmanship of the Principal Secretary to the then Prime Minister to address the issues of the MSME sector had recommended (January 2010) that State Governments should establish a rehabilitation cell at the district level, in the DICs, to examine the viability of sick units in coordination with banks and implement rehabilitation packages in a time bound manner. The rehabilitation package should comprise, besides additional lending by banks, of relief and concessions in statutory dues by the State Governments/autonomous bodies, Power Supply Company, etc.

We observed that implementation of a rehabilitation package was especially necessary in the State since as per the latest (2006-07) MSME Census, Kerala, with 21.02 per cent sick MSMEs topped the Indian States. Yet, GoK had not implemented the above recommendations so far (August 2016). Findings of the beneficiary survey conducted as part of the Performance Audit revealed that even though 48 per cent of the units surveyed faced financial crisis at one time or the other, GoK did not provide any financial help to them to tide over the crisis.

GoK assured (March 2017) that the matter would be considered while formulating industrial policy for the MSME sector.

Recommendation No. 1: Industrial policy of the State should be revamped with specific schemes and provisions for development of MSME sector, taking cue from the neighbouring States. Central assistance for MSME Sector schemes should be tapped to the maximum.

Promotion and Development programmes

2.1.8 Growth of MSMEs is dependent on availability of cheap finance, better Technology and Infrastructure, Marketing & Procurement support and Skill Development & Training. Role played by GoK and its agencies in making these available is discussed below.

Financial support

2.1.9 Cheap finance is a crucial input for promoting growth of MSME sector, in view of its limited access to alternative sources of finance. According to the Economic Census 2005[5], about 66.16 per cent of MSMEs in Kerala were set up with their own finance, about 8.22 per cent by availing loans from public and private institutions and a meagre 0.60 per cent with the subsidy received from GoK. The Industrial and Commercial Policy 2007 of GoK did not, however, include any specific scheme for providing financial support to MSMEs.

In Kerala, KFC, KSIDC and DI&C were the major agencies financing MSME sector. We noticed negligible share of GoK and its agencies in financing MSMEs, improper implementation of financing schemes, etc., as discussed below.

Share of agencies of GoK in financing MSMEs

2.1.9.1 As per Kerala Enterprise Development Report 2016 prepared by the Institute of Small Enterprises and Development[6] on behalf of DI&C, 92.03 per cent of the MSMEs

5 Published by Ministry of Statistics and Programme Implementation , GOI in June 2006.
6 A Non-Governmental Organisation based in Ernakulam, Kerala.

in Kerala had not availed any loans from any institution as of March 2016. Among those that have availed loans, 73.89 per cent depended on banks for loans while the balance was accounted for by Co-operatives (10.67 per cent), private money lenders (5.75 per cent) and others[7] (9.69 per cent).

Of all MSMEs that availed loans, percentage of MSMEs that availed loans from KFC and KSIDC was 0.80 and 0.40 respectively. Details of MSMEs registered in Kerala from 2011-12 to 2015-16 and the financial assistance provided by KFC to MSMEs for the period from 2011-12 to 2015-16 is indicated in Table 2.6.

Table 2.6: Details of funding of MSME by KFC

Year	Annual Registration of MSMEs	Assistance by KFC[8]	Percentage of assistance by KFC
	(Number)		
2011-12	11,071	462	4.17
2012-13	13,551	309	2.28
2013-14	14,997	864	5.76
2014-15	15,455	1,241	8.03
2015-16 up to September 2015	7,705	1,414	18.35

Source: Annual Reports of KFC and Economic Review, GoK.

Percentage of MSME units set up with the financial assistance of KFC during the period 2011-12 to 2015-16 ranged from 2.28 per cent to 18.35 per cent.

We noticed deficiencies in the implementation of financing schemes for MSMEs as discussed below:

- According to the Statement of Objects of the State Financial Corporations Act, 1951, KFC will confine their activities to financing medium and small scale

7 Government departments (2.32 per cent), Kudumbasree (2.13 per cent), Local Self Government Institutions (1.23 per cent), NGOs (1.18 per cent), KFC (0.8 per cent), KSIDC (0.40 per cent), Kerala State Development Corporation for Scheduled Caste and Scheduled Tribes Limited (0.24 per cent), NBFC (0.24 per cent) and others (1.15 per cent).
8 Includes assistance to existing and newly registered MSMEs.

industrial units. The scanty number of MSMEs financed by KFC during the five years ended 31 March 2015 indicates that KFC had failed to fulfil its mandate and MSMEs had been deprived of any substantial capital or financial support from KFC.

We observed that KFC had not carried out any study on the source of financing for MSME units in the State or to assess the requirements of the MSME sector for financing at reasonable cost. Such an analysis would have enabled the Corporation to evolve suitable financial products to fulfil the mandate for which it was established.

- One of the reasons for the reluctance of MSMEs to avail finance from KFC was the high rate of interest (14.50 per cent) charged by KFC on loans. This rate was in fact, the highest among 11 State Financial Corporations (SFCs)[9] in the country. The rate charged by KFC (14.50 per cent) for loans to MSMEs was also significantly higher when compared to that charged by commercial banks[10] .

The need for finance at affordable rates was highlighted by the stakeholders whose feedback was collected before formulating the Industrial policy. The suggestion was, however, not incorporated in the Industrial Policy, 2007/2015 or subsequent schemes except in Kerala State Entrepreneur Development Mission (KSEDM).

- As per MSME Act, 2006, the maximum investment limit by a manufacturing organisation in the MSME sector is ₹10 crore. As per the provisions of SFC Act, 1951, KFC is authorised to provide financial assistance to units with individual investment up to ₹10 crore only.

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9 Andhra Pradesh State Financial Corporation (13 per cent), Rajasthan State Financial Corporation (12 per cent), West Bengal State Financial Corporation (12.75 per cent), Karnataka State Financial Corporation (8 per cent), Tamil Nadu Industrial Investment Corporation (13.50 per cent), Maharashtra State Financial Corporation (13 per cent), Madhya Pradesh State Financial Corporation (12.75 per cent), Delhi State Financial Corporation (12.75 per cent), Orissa State Financial Corporation (13.50 per cent) and Assam State Financial Corporation (13 per cent).

10 Interest rate in per cent as on 31/3/2016 is given in brackets - State Bank of Travancore (12.35 to 13.85), Union Bank of India (12.15 to 14.15), Federal Bank (12.12 to 13.62), Canara Bank (12.35 to 15.35).

During 2011-12 to 2015-16, the total amount of loan disbursed by KFC was ₹4,163.46 crore (5,268 loanees). We observed that out of the above, around 30 per cent (₹1,248.01 crore) was given to non-MSMEs. Further, ₹833.91 crore were distributed to 119 loanees with individual investment above ₹10 crore against the provisions of the SFC Act, 1951. The assisted industrial units were not MSMEs.

- Reserve Bank of India (RBI) granted (December 2012) in-principle approval for accepting public deposits by KFC. In order to comply with the guidelines of RBI for raising public deposits, KFC should not have more than 4 per cent gross non-performing assets (NPA) on the gross loans and advances as per its latest audited balance sheet. Since the gross NPA of KFC was 19.72 per cent as on 29 February 2016, KFC did not satisfy the above criterion and could not, therefore, accept public deposits.

KFC had distributed ₹1,796.31 crore to the "Restaurant and Shopping Complex" (1,972 loanees) sector during 2011-12 to 2015-16 without adequate collateralisation. We observed that 32.75 per cent of the NPA amount related to units belonging to the Hotel sector which was affected adversely by closure of bar hotels by GoK in 2015. Since the collateral security furnished by these units was later found to be of negligible realisable value, the BoD of KFC decided (December 2015) to extend special package for clearance of their loan dues. Pre- dominance of a particular sector in the sanction of loans and non- ensuring adequate security at the time of loan disbursement led to the huge NPA percentage and subsequent ineligibility to accept public deposits. Compared to KFC's weighted average cost of borrowing of 10.31 per cent and 9.72 per cent respectively during 2014-15 and 2015-16, the standard rate of interest for term deposits (3 to 5 years' maturity) was 7.63 per cent only for the above period. Thus, the MSME sector lost the opportunity of obtaining finance at lower cost from KFC.

GoK stated (March 2017) that the interest rates charged by KFC depended on its borrowing costs. It was also stated that KFC is adhering to the provisions of the SFC Act. The reply was not tenable as it did not address the specific issues pointed out by Audit.

Implementation of State schemes for financing MSMEs

2.1.9.2 The schemes implemented by the State Government/ PSUs for providing financial support by way of loans/subsidy to MSMEs are given in *Table 2.7.*

Table 2.7: Schemes for providing financial support to MSMEs

Scheme	Agency	Budget outlay for the scheme	Sanctioned amount (₹ in crore)	Number of MSMEs benefitted
KSEDM	KFC	Not Available	190.46	1,714
Interest Subvention Scheme	KFC	The financial commitment of the scheme was ₹300 crore for the two years 2013-14 and 2014-15.	6.64	8
Receivable Finance Scheme	KFC	Nil	Nil	Nil
Entrepreneur Support Scheme	DI&C	₹121.04 crore	114.56	3,352

Issues noticed in implementation of these financing schemes are discussed below:

Interest subvention scheme

2.1.9.3 Interest subvention scheme was introduced in 2013-14 to provide technological and financial support to youths from project report to production. Assistance was available in areas such as food processing, information technology, apparels, handicrafts, presentation articles, agro processing, fish processing and packaging based on innovative technologies developed by research institutions functioning under the auspices of Central and State Government in Kerala. Under the scheme, MSMEs were eligible for rebate on interest at the rate of 3 per cent for loans up to ₹1 crore and 2 per cent for loans above ₹1 crore. KFC was selected as the implementing agency. KFC proposed (January 2014) to disburse ₹300 crore during 2013-14 under the scheme. GoK provided ₹10.14 crore to KFC for implementing the scheme. As at 31 March 2016, KFC had disbursed a sum of ₹3.60 crore to eight MSMEs against the sanctioned amount of ₹6.64 crore.

We observed that no targets were fixed in respect of the number of units to be covered under the scheme. As a result, eight MSMEs engaged in one particular activity, viz., neera[11] extraction from coconut trees, only were extended the benefit of the scheme.

GoK replied (March 2017) that KFC could sanction loans under the scheme to only those units that had utilised technology developed by approved research institutions.

Implementation of Kerala State Entrepreneur Development Mission (KSEDM)

2.1.9.4 GoK introduced (December 2011) KSEDM with an outlay of ₹25 crore for the financial year 2011-12. KFC was the nodal agency for implementing KSEDM as well. KSEDM aimed at generating one lakh job opportunities and building entrepreneurship culture among the youth of the State by setting up 10,000 enterprises over five years. After selection of groups/ industries, entrepreneurship training was to be organised in collaboration with various training institutes like Entrepreneurship Development Institute, KITCO Limited[12] , Rural Self Employment Training Institutes (set up by NABARD) and Centre for Management Development. Upon successful completion of training, groups/ individuals would be eligible for interest free loans up to 90 per cent of the total project cost subject to the ceiling of ₹20 lakh. Interest on the loans would be borne by the Government.

We noticed that:

11A non-alcoholic, nutritious drink manufactured from the immature inflorescence of coconut tree.
12 Foremerly Kerala Industrial and Technical Consultancy Organisation Limited.

- As of March 2016, achievement against the scheme was poor as only 1,714 units were financed out of the targeted 10,000 units. Direct employment generated was 8,500 [13] against the target of 1 lakh employment opportunities.
- We also noticed that out of 1,714 financed units, 363 units (sanctioned ₹48.87 crore and disbursed ₹11.93 crore) were yet to commence commercial operation (March 2016).
- Interest burden incurred by KFC on loan disbursed to MSMEs under KSEDM up to 31 March 2016 was ₹24.70 crore. An amount of ₹15 crore only was received from GoK.
- A review of the arrear statement prepared by KFC revealed that as on 31 March 2016, 143 units had defaulted in repayment of loan amounting to ₹1.94 crore.
- According to Annexure III of the project report of KSEDM, stone crusher units were ineligible for loan assistance under the scheme. Further, as per the guidelines issued by the GoK for sanction of subsidy under the Entrepreneur Support Scheme, Metal Crushers including Granite Manufacturing units were ineligible for any financial assistance/ loan/ exemption/ subsidy from the State Government. Review of the KSEDM database revealed that ₹1.94 crore was disbursed to 19 units under the category ‘stone crushing, non-metallic mineral products’, which was irregular.

GoK stated (March 2017) that the response to the scheme was encouraging as demonstrated by the fact that 1,714 units availed of its benefits after it was introduced. The reply is not acceptable since the actual achievement was only 17 per cent of the target. Further, the assisted units included ineligible units as well.

13 2012-13: 681, 2013-14: 1735, 2014-15: 2706, 2015-16: 3378.

Implementation of Receivable Finance Scheme

2.1.9.5 Board of Directors (BoD) of KFC approved (March 2014) introduction of a Receivable Finance Scheme intended to discount the bills of MSMEs supplying material to Public Sector Undertakings/ Government bodies. The scheme envisaged a maximum repayment period of 180 days and margin of 15 per cent. The scheme was intended to finance only sale of finished goods of MSMEs.

We observed that even though KFC had approached PSUs in the State for enrolling them in the scheme, the PSUs failed to respond due to which the scheme could not be implemented. We further observed that except Kerala Minerals and Metals Limited (KMML), none of the major PSUs in the State had complied with the statutory provision that the dues/ overdues to MSMEs for goods/ services supplied should be separately disclosed in the Annual Financial Statements.

GoK replied (March 2017) that the scheme did not take off because of lack of interest by the PSUs. It was also assured by the Government that PSUs were being advised to disclose the details regarding dues to MSMEs as required. The reply is not acceptable since GoK could have ensured the participation of PSUs under its administrative control in the scheme which was intended to benefit MSMEs in the State.

Implementation of Entrepreneur Support Scheme by DI&C

2.1.9.6 Besides KFC, DI&C was also financing nine[14] schemes of GoK since 1980 for the promotion and development of Small Scale Industries/ MSMEs. Replacing all the above schemes, a new scheme called Entrepreneur Support Scheme (ESS) was implemented from 1 April 2012 to provide one time investment subsidy up to ₹0.30

14 Scheme for payment of grant under Women's Industries Programme (1980), Scheme for providing Margin Money Loan to SSI Units (1993), Scheme for providing Margin Money Loan to SSI Units promoted by Non-resident Keralites (1995), Scheme for providing State Investment Subsidy (2000), Scheme for subsidy under Technology Development Fund (2003), Scheme for reimbursement of One Time Guarantee Fee and Annual Service Fee remitted under CGTMSE (2011), Self Employment Scheme for Educated (2011), Women Industries Scheme (2011), Scheme for providing Turnover Subsidy to Micro, Small and Medium Enterprises engaged in the manufacture of Fruit and Vegetable based products (2011).

crore to MSMEs. Though DI&C was the implementing agency of ESS through its fourteen DICs, KFC and KSIDC could also recommend MSMEs financed by them for grant of ESS.

During the period 2012-13 to 2015-16, DI&C and the DICs disbursed assistance of ₹114.56 crore under ESS to 3,352 MSMEs. We reviewed the implementation of ESS in three[15] DICs and noticed that:

- Out of 51,708 MSMEs units registered in the State from 2012-13 to 2014-15, only 6.48 per cent availed financial assistance under ESS. The low percentage of utilisation of the scheme was primarily due to the fact that the scheme excluded from its purview MSMEs belonging to the service sector which constituted around 36 per cent of all MSMEs registered in the State during the period 2011-12 to 2015-16. During the Exit Conference, GoK stated that the complex documentation required for availing the scheme was one of the factors that led to low percentage of utilisation and that the same would be rectified as part of the 'Ease of doing business' initiative.

In its reply, GoK stated (March 2017) that a separate scheme for providing assistance to MSME units in the service sector was being formulated. It was also stated that the application filing was since made online to simplify the process.

- According to the Guidelines of ESS, entitlement under ESS shall be limited to ₹30 lakh per applicant, to be availed once. The upper limit of ₹30 lakh shall be enhanced by 5 per cent per annum during the period of operation of the scheme to address the escalation of costs. As such, the subsidy payable during 2012-13 to 2015-16 ranged between ₹30 lakh and ₹34.73 lakh[16] .

15 Palakkad, Pathanamthitta and Kozhikode.

16 ₹30 lakh increased by 5 per cent during 2013-14 (₹31.50 lakh), 2014-15 (₹33.08 lakh) and 2015-16 (₹34.73 lakh).

We, however, observed that while sanctioning the subsidy under ESS in the three test checked districts, the district centres had limited the maximum subsidy to ₹30 lakh even during 2013-14 to 2015-16. As a result of non-revision of maximum limit, there was short payment of ₹0.71 crore to 17 eligible MSMEs.

DI&C replied (September 2016) that maximum limit was not enhanced due to budgetary constraints and limited number of applicants for assistance. The reply was not tenable as the enhancement of the maximum limit was mandatory as per the Guidelines of ESS and non-enhancement had the effect of depriving MSMEs of full quantum of eligible assistance. Further, the actual utilisation of budget allotment to DI&C was only 72.20 per cent during the period 2012-13 to 2015-16.

- M/s Agritex, Kanjikode, a partnership firm promoted by Sri. Kuriakose Philip and others, submitted an application for grant of investment support under ESS on 9 July 2013 claiming a total investment of ₹1.33 crore. The General Manager, DIC Palakkad recommended (October 2013) not to process the application due to the following reasons:

i. the Partnership Deed produced by the firm mentioned that the firm was operating from SIDCO Industrial Park, Angamaly, but there was no mention of the factory at Kanjikode in the deed, and

ii. the investment said to have been made in plant and machinery was made well before the firm had obtained the land and building.

The District Level Committee (DLC), however, delegated (November 2013) a sub-committee to re-verify the matter. Based on the report of the sub-committee, the DLC decided to sanction investment support amounting to ₹30 lakh. The amount was disbursed on 20 March 2014.

We observed that since the responsible officers of the DIC had already submitted their report pointing out that the machinery had no markings to prove the date of manufacture, decision of the DLC to send another team of officers to conduct physical verification of the plant and machinery was irregular and amounted to extending undue favour to the firm. It was also not clear how on a subsequent visit by the sub-committee, the markings had inexplicably appeared. The defects pointed out by the DIC such as the bank loan having been drawn much before the land allotment, the fact of bills having been issued prior to 19 January 2012, the age of the machinery, etc., were not explained by the sub-committee.

Thus, sanction and disbursement of subsidy to M/s Agritex was irregular and inadmissible and the members of the DLC did not exercise due diligence in carrying out the duty entrusted to them.

GoK in its reply (March 2017) stated that the matter was being inquired into and assured that suitable remedial action would be taken on the basis of the inquiry.

- The ESS Guidelines issued by GoK specified that MSMEs engaged in manufacturing activities shall alone be eligible for ESS assistance. We conducted a joint inspection (24 August 2016) along with Industrial Extension Officer (DIC, Kozhikode) in the premises of industrial units and noticed that subsidy of ₹0.40 crore was paid to four non-manufacturing units which were functioning on job-work basis.

Recommendation No. 2: Financing schemes need to be implemented more effectively and efficiently to reach out to more MSMEs. The ESS and the KSEDM need to be strengthened to provide assistance to all eligible MSMEs.

Infrastructure Development

2.1.10 As per the Industrial and Commercial Policy 2007, availability of infrastructure facilities, such as roads, built up space, power, water, security, etc., has been identified as one of the factors affecting growth of MSME sector. Creation of new infrastructure and strengthening of existing infrastructure was, therefore, necessary for the growth of the MSME sector in Kerala. DI&C, SIDCO, KINFRA and KSIDC were tasked with the creation of infrastructure in Kerala. These agencies implemented plan schemes of GoK and schemes sanctioned by GoI under Additional/ Special Central Assistance and Cluster Development Programme. We examined the implementation of these schemes and noticed delays and improper execution as discussed in the succeeding paragraphs.

Construction of multi-storeyed industrial estates

2.1.10.1 In order to overcome the shortage of land required for industrial units, a scheme for constructing multi-storeyed industrial estates which would provide built up space to industrial units is being implemented by the DI&C. Details of sanctioned projects and status of their implementation are summarised in Table 2.8.

Table 2.8: Status of implementation of multi-storeyed industrial estates as on 31 March 2016

Sl. No.	Location	Area/ Units	Estimated cost (₹crore)	Date of sanction	Target date of completion	Actual expenditure (₹ in crore)	Current status	Delay as of March 2016
1	Edayar, Ernakulam.	85 Cents/ 15 Units	4.50	17/02/2010	October 2011	6.50	Completed (January 2016)	4 years 4 months
2	Puzhakkalpadam, Thrissur	75,000 sq.ft/ 50 Units	15.00	19/07/2010	July 2015	10.00	Work in progress	8 months
3	Kochuveli, Thiruvananthapuram	40,000 sq.ft	10.00	18/10/2012	February 2015	Nil	Not Commenced	1 year and 1 month

4	Puthussery, Palakkad.	33,000 sq.ft/22 Units	7.50	25/07/2012	January 2015	Nil	Not Commenced	1 year and 3 months
5	Manjeri, Malappuram	60 Cents/45 Units	3.00	23/07/2012	August 2014	1.95	Work in progress	1 year and 7 months

As evident from the above *Table*, only one out of the five projects was completed and that too with a delay of four years and four months. The delay in completion in respect of the four incomplete projects ranged from one year and two months to four years. The DI&C had neither ascertained the reasons for the delay in completion of the projects nor taken action to speed up the execution. We observed the following:

- There was extra expenditure of ₹2 crore due to extra works directly attributable to the delay in execution of Edayar, Ernakulam project. Even though the scheme was proposed to be implemented utilising Additional Central Assistance from Government of India, the entire expenditure was met by GoK. The reason for non-availing of Additional Central Assistance was not on record.
- Project initiation for Kochuveli project was done on the basis of the order of the Hon'ble High Court to resume possession of 141.545 cents of land out of 270.325 cents allotted to a defunct company on hire purchase basis and to issue title for remaining 128.78 cents in favour of the official liquidator. Though the project was initiated and ₹10 crore released (February 2013) to SIDCO, the implementing agency, the DI&C did not take up the possession of the land as permitted by the Court but filed an appeal demanding release of the entire land which was pending. This resulted in blocking up of funds.

In reply, the GoK stated (March 2017) that the litigation had since been cleared and the entire land was in the possession of the DI&C. It was also stated that the work had been re-allotted to another agency. The fact remains that releasing of funds without ensuring the availability of land had resulted in blocking up of funds.

- We further observed that 636 MSMEs were waiting for allotment of land/ sheds in 14 Districts as of 31 March 2016. Thus, delay in completion of multi-storeyed industrial estates affected the functioning of these MSMEs.

GoK (March 2017) admitted that the operational problems in SIDCO, to whom all the above works were assigned, had affected the execution of the works. It was also stated that in all cases where SIDCO had not started the work, other agencies had been assigned the work.

Implementation of Cluster Development Programme

2.1.10.2 Ministry of MSME, GoI has adopted cluster development approach as a key strategy for enhancing productivity and competitiveness as well as capacity building of Micro and Small Enterprises (MSEs) and their clusters[17] in the country. In October 2007, the erstwhile ‘Small Industries Cluster Development Programme’ was renamed as ‘Micro and Small Enterprises – Cluster Development Programme (MSE-CDP)’. Integrated Infrastructural Development Scheme was also subsumed in MSE-CDP for providing developed sites to new enterprises and upgradation of existing industrial infrastructure.

GoI sanctioned (July 2010-October 2015) seven MSE-CDPs to Kerala. Kerala Bureau of Industrial Promotion (KBIP), an autonomous body under the Industries Department, GoK was the implementing agency of the Programme. As per the guidelines of the scheme, the projects were to be completed within two years of sanction. 70 per cent of the project cost would be financed through grant of GoI, minimum 10 per cent of the

17 Collectives of MSMEs with similar nature of activities and sharing common infrastructure facilities and technology.

project cost by the beneficiary MSMEs and balance by GoK. Details of implementation of the Programme in the State are tabulated in Table 2.9.

Table 2.9: Status of implementation of MSE-CDP

(Amount in ₹ crore)

Sl. No	Name of project under MSE-CDP	Month of sanction	Sanct-ioned cost	Contribution			Expenditure till date (March 2016)	Status as on 31 March 2016
				GoI	GoK	Consortium		
1	Wood Processing Cluster, Kollam	January 2011	2.60	1.82	0.52	0.26	1.67	Not completed
2	Furniture Cluster, Kannur	August 2012	11.65	8.12	2.35	1.18	3.86	
3	North Malabar Offset Printers Cluster, Kannur	May 2013	12.22	8.55	2.44	1.22	Nil	
4	Zamorins Furniture Cluster, Kozhikode	March[18] 2014	14.35	9.00	2.87	2.47	Nil	
5	Pala Ethnic Food Cluster, Kottayam	July 2010	3.98	2.78	0.80	0.40	Nil	
6	Furniture Cluster, Chevoor, Thrissur	October 2015	14.45	10.02	2.89	1.54	Nil	
7	Agriculture Implements Cluster, Shornur, Palakkad	September 2013	5.37	3.67	1.07	0.63	Nil	
	Total		64.62	43.96	12.94	7.70	5.53	

We noticed that:

- Against the total sanctioned project cost of ₹64.62 crore for seven Common Facility Centres (CFC), MSE-CDP the total financial progress achieved was 8.56 per cent (₹5.53 crore) only up to March 2016.

18Revised approval. Original approval was in September 2013.

- In case of Agriculture Implements Cluster, Shornur, the contribution of ₹1.07 crore released to KBIP by GoK was refunded (March 2016) since the project did not take off due to interim stay on its implementation granted by the Hon’ble High Court of Kerala in December 2014. Stay Order was granted in a Writ Petition filed by Kerala Forging Products Manufacturers Association alleging that the DIC Palakkad had changed the original proposal i.e., to revive a defunct CFC owned by the Palakkad Municipality was ignored, and a new diagnostic study commissioned by KBIP was used as the basis for setting up a new CFC without utilising the existing one. We observed that KBIP or GoK did not get the stay vacated or furnish replies to the allegations raised in the petition so far (June 2016).

GoK stated (March 2017) that the projects at serial numbers 5 and 7 had since been cancelled by GoI. It was also stated that the delay in completion of the projects was because they were dependent on contribution by the beneficiaries. GoK also assured that the projects were being regularly monitored by the DI&C. The reply is not acceptable since two projects were cancelled by GoI due to delays, resulting in loss of Central Assistance to the tune of ₹6.45 crore. Further, the contention of GoK that completion of the project was dependent on contribution by the beneficiaries was not acceptable because the beneficiary share was only 10 per cent of the sanctioned cost.

Establishment of infrastructure by PSUs for MSMEs

2.1.10.3 KINFRA, KSIDC and SIDCO are engaged in creation of infrastructure for the promotion of industries in Kerala. These PSUs have, accordingly, been developing Industrial Parks/ Townships/ Zones, Industrial Growth Centres and Industrial Estates respectively. The details of the Industrial Estates/ Parks, etc., maintained by the above PSUs as at 31 March 2016 are given in Table 2.10.

Table 2.10: Details of Industrial Estates/ Parks, etc., maintained by PSUs

Sl. No.	Agency	Industrial Parks/ Estates, etc. (Number)	Area acquired	Allottable area	Area Allotted	Units established (Number)
			(Acre)			
1	SIDCO	60	324.28	262.63	253.33	1,367
2	KSIDC	7	1,305.81	973.78	575.64	83
3	KINFRA	21	1,804.17	1,489.36	884.24	638
Total		88	3,434.26	2,725.77	1,713.21	2,088

Allotment of area in Industrial Estates/ Parks, etc., maintained by the PSUs was only 62.85 per cent of the total allottable area. We reviewed the activities of these PSUs on promotion of MSMEs and findings are reported below.

- According to the Project Implementation Manual of GoI, implementation of projects should be preceded by feasibility studies to ensure that the project was conceptually sound in terms of economic benefits as well as financial returns.

KINFRA decided (July 2010) to establish rural apparel parks in different panchayaths of the State to promote small/micro/medium garment industries, thereby creating employment in rural areas. For this purpose, GoK allotted (November 2010) 2.02 acres of land on 30 year-lease to KINFRA to set up a rural apparel park at Rajakumari, Idukki. The rural apparel park with an estimated cost of ₹4.99 crore aimed to provide employment to 1,200 rural women. The work was completed in January 2012 at a total cost of ₹7.35 crore including additional work. The space in the park was, however, not hired by entrepreneurs till date (January 2017).

We observed that the management had failed to identify takers for the Park due to the remoteness of the location and logistic costs. Thus, the primary purpose for which the land was allotted i.e., employment generation was not fulfilled as the feasibility of the park was not adequately ascertained.

GoK stated (March 2017) that the facility was set up in Idukki as the locality was a catchment area where apparel units sourced labour. However, units could not be established so far and KINFRA was continuing their efforts for utilisation of the building. The fact, however, remains that the entire facility is lying unutilised and KINFRA/ GoK should have identified prospective entrepreneurs for the project before committing resources to it.

- KINFRA set up (June 2006) an Agro Food Business Incubation Centre at KINFRA Food Processing Park, Kakkancherry with technical consultancy from Defence Food Research Laboratory (DFRL) at a cost of ₹0.79 crore. The facilities at the centre included production line for retort packing[19] for ready-to-eat foods and convenience foods. As the Food Business Incubation Centre was set up with the help of DFRL, DFRL engaged FICCI[20] for technology transfer to the operating agency. FICCI demanded ₹0.03 crore as onetime fee and annual royalty of two per cent on net domestic sales or five per cent on the net export sales.

The operating agency, Inkal Ventures Private Limited (Inkal) informed (August 2015) KINFRA its inability to operate the Business Incubation Centre as they failed to identify entrepreneurs willing to utilise the Business Incubation Centre.

We observed that the project report submitted in September 2002 did not contain any record relating to feasibility studies to determine the viability of the project. The Food Business Incubation Centre constructed during June 2006 at a cost of ₹0.79 crore has remained idle for the past 10 years.

19 Retort packing is a type of food packaging made from a laminate of flexible plastic and metal foils.
20 The Federation of Indian Chambers of Commerce and Industry.

KINFRA in their reply (November 2016) admitted that it had not conducted any feasibility study since the concept of food incubation parks was an emerging technology. KINFRA further stated that the prospective investors had backed out due to the global economic recession and the project had not taken off due to the poor marketing efforts by the selected operating agency. KINFRA also assured that all efforts were being made to ensure the viability of the project.

GoK endorsed (March 2017) KINFRA's views and further stated that since the Business Incubation Centre dealt with emerging technology, developing sufficient business to sustain its operations would require time.

- KINFRA Food Processing Park, Adoor envisaged allotment of developed land to 16 units. Effluent Treatment Plant (ETP) of 225 m^3/day capacity was necessary to neutralise effluents emitted by these units. Individual units were to perform preliminary treatment and KINFRA was to conduct secondary treatment of the effluents in the park. KINFRA awarded (May 2012) the work of 'Design, Supply, Construction, Erection and Commissioning of ETP including operation and maintenance of the plant for three years to Aqua Designs India Private Limited, Chennai at a lump sum contract value of ₹1.99 crore. The scheduled completion time was six months (December 2012).

Due to delay in cutting and removing trees, the site could be handed over to the contractor only on 10 September 2012. Further, clearance from Kerala State Pollution Control Board (KSPCB) was not obtained to establish the plant. Hence, time extension was granted up to November 2013. The work is yet to be completed (November 2016) due to labour problems and defaults on the part of the contractor.

GoK in its reply (March 2017) stated that the work was still progressing and the delays after the extension period were due to labour issues and defaults on the part of contractor. Further, none of the MSME units was affected on account of the non-commissioning of the ETP facility. The reply is not acceptable since one unit is still to get the clearance from KSPCB and two units had installed ETP at their own cost to get the clearance.

- KSIDC developed three Industrial Growth Centres (IGCs) at Kinalur (Kozhikode District), Baliyavelichom (Kannur District) and Cherthala (Alappuzha District) at a total cost of ₹138.25 crore, using the funds provided under the erstwhile Industrial Growth Centre Scheme of the GoI (₹28.27 crore) and grants from GoK (₹109.98 crore). The details of land acquired and allotment of land to units were as given in Table 2.11.

Table 2.11: Details of allotment of land in IGCs

IGC	Land acquired	Land allottable (a)	Land allotted (b)	Balance unallotted land (a-b)	No. of Units
	(Acre)				
Kozhikode	310.72	256.17	101.64	154.53	65
Cherthala	278.79	224.72	161.12	63.60	43
Kannur	250.00	218.00	59.76	158.24	42
Total	839.51	698.89	322.52	376.37	150

It can be seen from the above Table that out of 698.89 acres of land available in the IGCs, the extent of land actually utilised was only 322.52 acres, i.e., 46.15 per cent. Considering the fact that non- availability of land is the primary constraint hindering industrial development in Kerala, the inability of KSIDC to attract industrial units to the IGCs was inexplicable.

- As per the provisions of the Licence Agreement executed between KSIDC and the allottees, allottees should complete the construction of building and commence commercial operation within two years or extension thereof.

Otherwise, KSIDC would revoke the Licence Agreement and resume the allotted land.

We noticed that out of the 150 units that have been allotted land in the three IGCs, 37 units which were allotted 34.22 acres of land failed to commence commercial production within two years. The delay ranged from 10 months to 7 years. KSIDC, however, had not evicted these allottees so far (December 2016). Thus, the actual utilisation of developed land in the IGCs was only 41.25 per cent (288.30 out of 698.89 acres).

Transfer of allotted land

2.1.10.4 Outright Purchase Rules (1996) of SIDCO provided (Rule 16 (b)) for transfer of shed/ land after remitting the difference between the current fair value and value already remitted to SIDCO. SIDCO relaxed (November 2009) the rule by allowing transfer without remitting the differential amount. This relaxation paved way for large scale transfer of land/ shed as mentioned in the Audit Report of the Comptroller & Auditor General of India (PSUs-Kerala-2011-12)[21] . Despite the above having been brought to the notice of SIDCO/GoK/ Legislative Assembly, we observed that during the period 2011-12 to 2015-16, 12.50 acres of land (83 cases) in nine Industrial Estates of SIDCO were allowed to be transferred to third parties. The assessable value of the land so transferred was ₹15.30 crore as worked out by us based on the latest value reported by the Revenue Department.

We also observed that:

- in two cases (land value: ₹0.10 crore) irregular transfer effected by the original allottee was regularised by SIDCO and in two other cases (land value: ₹0.20 crore), transfer was allowed by the original allottees after being served eviction

21Paragraph 4.4.

notice for keeping the units inactive, which was in violation of SIDCO's own rules.

- During joint inspection of nine Industrial Estates, six Mini Industrial Estates (MIE) and two Industrial parks of SIDCO, we further noticed that 37 units which were allotted land/sheds in the IEs/ MIEs/ IPs were not functioning/ had not started functioning. SIDCO had not taken effective steps to evict the non-functional units and allot the land/sheds to new applicants.

GoK stated (March 2017) that action was underway for evicting idling units.

Modernisation of existing infrastructure

2.1.10.5. Modernisation of existing infrastructure was necessary for the enhancement of overall competitiveness of the industries in the industrial estates by bridging critical physical infrastructure gaps. Details of Development Areas (DAs)/ Industrial Development Plots (DPs), Industrial Growth centres and industrial estates under the control of various agencies of GoK were as given in Table 2.12.

Table 2.12: Details of DA/ DP/ Mini Industrial Estates

Agency of GoK	No. of DA/ DP/ MIEs	Land Area (acres)		No. of Industrial units
		Acquired	Allotted	
DI&C	126	2,515.45	1,995.00	2,881
KSIDC	7	1,305.81	575.64	83
SIDCO	60	324.28	253.33	1,367
KINFRA	21	1,804.172	884.243	638
Total	214	5,949.712	3,708.213	4,969

We noticed following deficiencies in the modernisation process:

- The DI&C directed (May-November 2012) KBIP to prepare and submit Detailed Project Reports (DPR) for the modernisation of the DAs and DPs including construction of compound walls, maintenance/repairing/re-tarring of all internal roads, construction of drainage, providing water supply and street lights, etc. Accordingly, KBIP prepared DPR for modernisation of DAs at Veli (Thiruvananthapuram) Kanjikode (Palakkad) and DP at Poovanthuruthu (Kottayam). DPR was submitted to GoK for matching contribution and thereafter, to GoI for consideration and approval under MSE-CDP scheme. KBIP submitted (November 2013) another proposal for preparing DPRs for the remaining 35 DA/ DPs at a total cost of ₹1.05 crore (₹3 lakh per DA/ DP).

GoK sanctioned (February 2014) ₹18 lakh for the DPR preparation of six DA/ DPs (₹3 lakh per DA/DP). So far, DPRs for 9 DA/ DPs have been prepared as per which the total project cost would be ₹88.35 crore and in principle approval for three DPRs (total project cost- ₹30 crore) received from Ministry of MSME. Remaining DPRs were under consideration of Ministry of MSME.

GoK had earmarked an amount of ₹5 crore as token provision for up-gradation and modernisation of existing DA/ DPs under DI&C for the year 2014-15. No amount, however, was utilised so far (June 2016).

Promotion of start-ups

2.1.11 Kerala Technology Start-up Policy, 2014 envisaged to make Kerala the number one destination in India for start-ups, attract ₹5,000 crore into the incubation and start-up eco systems in Kerala and establish at least 10 technology business incubators/ accelerators in each of the different sectors in the State. As per the policy, the State Government was to set up technology incubation facilities in all the industrial parks and SME clusters. All the incentives available to MSMEs would be made available to start-ups also.

We, however, observed that technology incubation facilities had not been provided in any of the Industrial Parks/ Areas under DI&C, SIDCO, KINFRA and KSIDC. None of the start-ups that had come up in the two Start-up Villages established by Kerala Start-up Mission, availed of financial assistance under schemes for MSMEs such as ESS or KSEDM.

Recommendation No. 3: Development of infrastructure schemes should be completed in time to bridge gaps in the available developed land/ space. Modernisation of existing parks/ industrial estates should be undertaken immediately as many of them are in dilapidated condition. Infrastructure scheme should be taken up only after conducting feasibility studies.

Marketing Support

2.1.12 MSMEs face several constraints in marketing and Government agencies are expected to play the role of a facilitator to help the MSME sector in this area. Issues noticed in marketing assistance provided by GoK are discussed in the following paragraphs.

Public Procurement Policy for MSMEs

2.1.12.1 GoK adopted (September 2013) Public Procurement Policy for MSMEs notified by GoI and made it mandatory on the part of State PSUs/ Departments/ Government agencies, etc., to set an annual goal of procuring minimum 20 per cent of their annual value of goods or services from MSMEs working within the State, in a period of two years with effect from 2013-14. From April 2015, overall procurement goal of 20 per cent was made mandatory. The Stores Purchase Manual (SPM) of the State Government was also amended to incorporate the above condition.

We observed that compliance with the Public Procurement Policy was not being monitored by the DI&C, which was the Nodal Agency for implementation of the Policy. Quantum of purchase made by State PSUs/ Departments/ Government agencies, etc., from MSMEs was not available with the DI&C. Therefore, we collected information from 15 PSUs/ Autonomous Bodies/ Departments of GoK and noticed that statutory provision regarding purchase of 20 per cent of requirement from MSMEs was not being complied with by any State PSUs/ Departments/ Government agencies, etc.

We also noticed that GoK, while adopting the Public Procurement Policy 2012 did not include provision on publication of annual requirement of material in advance which would have been of immense use to the MSMEs in the State for planning their production/ marketing strategy.

GoK replied (March 2017) that State PSUs/Departments/Government agencies had since been directed to follow the guidelines for procurement from MSMEs as laid down in the SPM. It was also assured that the DI&C had since been instructed to effectively monitor the implementation of public procurement policy.

Organisation of exhibitions and fairs for the promotion of MSMEs

2.1.12.2 KBIP entrusted with the task of conceiving and implementing promotional activities for the MSMEs in the State, was to organise promotional events of the DI&C. This included Business to Business Meets, Workshops, Seminars, Training Programmes, holding proactive discussions with entrepreneurs and organising facilitation meetings for them with the policy makers of the State.

A review of the exhibitions and fairs organised by KBIP for the promotion of MSMEs during the period 2011-12 to 2015-16 revealed the following:

During the period 2011-12 to 2015-16, KBIP organised/ participated in 43 exhibitions/ fairs incurring expenditure of ₹5.59 crore. The events ranged from Dubai Shopping Festival to Kerala Bamboo Fest. The primary objective behind organising/ participating in industrial exhibitions/ fairs was to benefit MSME units by enabling them to improve their market, acquiring new technology, etc.

We observed that KBIP had not put in place a system for verifying the benefits accruing from such participation. In the absence of quantitative details, the effectiveness of the expenditure incurred out of Government funds for the above activities could not be assessed.

Since GoK, through KBIP, was bearing substantial portion of the expenditure incurred for participating in/ organising the fairs/ exhibitions, a transparent procedure was needed for selecting the MSMEs for participating in the events. We, however, observed that the selection of participants was being done in an arbitrary manner without any criteria.

We also observed that the contracts for event management in respect of the events organised directly by KBIP and for setting up stalls/ display, etc., in respect of events organised by other agencies were being awarded without observing the provisions of the Stores Purchase Manual of the State Government. The contracts for works costing ₹3.63 crore were awarded on the basis of limited quotations instead of competitive tenders.

GoK in its reply (March 2017) assured that the effectiveness of facilitating the participation of MSMEs in exhibitions/fairs would be assessed through obtaining feedback.

Marketing Support to MSMEs by SIDCO

2.1.12.3 One of the primary objectives of SIDCO was to provide assistance to SSI/MSME units to market their products. In order to achieve this objective, GoK permitted the Government Departments/PSUs/other Government agencies to procure their requirements directly from SIDCO without observing the procedure prescribed in the Stores Purchase Manual/Rules of GoK. The Marketing Division of SIDCO, in turn, empanelled 846 MSMEs for procuring products on behalf of Government Departments/ PSUs/ other Government agencies.

We observed that:

- Stores Purchase Manual/Rules of GoK, applicable to SIDCO, required procurement of products from the MSMEs in a transparent manner, according equal opportunity to all sellers.

A review of the purchases effected by SIDCO during 2011-12 to 2015-16 revealed that out of the 64,145 Purchase Orders (PO) issued, 26,090 POs i.e., 40.67 per cent were placed on 50 firms representing 5.91 per cent of the total empanelled MSMEs. Similarly, out of the total order value of ₹477.94 crore, these 50 firms bagged orders worth ₹200.39 crore (41.93 per cent of the total purchase). Purchase orders were issued to these 50 firms without inviting tenders from among empanelled MSMEs.

- As per the conditions prescribed by SIDCO, only manufacturing units were eligible for registration under marketing support scheme.

We, however, observed that 23 out of the above 50 firms were not manufacturers of the products supplied by them as evidenced by cross verification of the records at the Commercial Taxes Department, GoK. Details of the top five firms are given in Table 2.13.

Table 2.13: Details of procurement of SIDCO from five firms

Sl. No.	Name of firm	Location (Products)	No. of Orders	Amount (₹crore)
1	M S Communications	Karunagappally (Electrical Goods, Recharge Coupons for mobile phones)	313	11.55
2	Vishnu Steel& Wood Industries	Kollam (Mattress, Furniture, Pillows)	1,619	10.40
3	Sonet Enterprises	Kalpetta (Hearing Aids, Furniture)	332	8.77
4	Pranavam Agencies	Kollam (Furniture, Computer Systems)	1,864	8.76
5	Steel Vin Industries	Thrissur (Furniture, Weighing Machines)	2,010	7.16
	Total		**6,138**	**46.64**

- SIDCO issued all POs on the basis of quotations irrespective of the purchase value and tendering process was not followed. As such, the benefit of the Government Order conferring special status on SIDCO for supply of goods and services to Government Departments/ PSUs, etc., was passed on only to a few MSMEs.

GoK accepted (March 2017) the audit observations and stated that the procedures were by-passed due to the challenges faced by SIDCO in terms of management capabilities and availability of staff. It was also assured that corrective measures had since been initiated.

Recommendation No. 4: GoK may put in place an efficient mechanism for providing marketing support to eligible MSMEs through strict enforcement of Public Procurement Policy.

Facilitation Services

Clearances under Single Window Scheme

2.1.13 For speedy issue of various licences, clearances and certificates required for setting up of industrial undertakings in the State, Kerala Industrial Single Window Clearance Boards and Industrial Township Area Development Act, 1999 (SWCB Act) was enacted. As per the provisions of the Act, for setting up small scale industrial undertakings with capital investment of more than ₹2 lakh in each district of the State, GoK constituted District Single Window Clearance Boards (DSWCB) in each district. The Collector of the district was the Chairman of the DSWCB while the General Manager, DIC was the Convener. The DSWCB also included representatives from all departments/ agencies involved in issuing clearances/ permits for establishment/ operation of industrial units.

We examined applications received under the Single Window Clearance (SWC) Scheme in Palakkad, Pathanamthitta and Kozhikode districts and observed that out of 252 applications processed during the period 2011-12 to 2015-16 by the three DSWCBs, only 16 were cleared within the stipulated period of 60 days. In respect of processing the remaining 236 applications, there was delay up to 1 year in 178 cases, 1 to 3 years in 47 cases and above 3 years in 11 cases. We noticed that the inordinate delays were mainly due to:

i. Local Self Government Institutions (LSGIs) not issuing the requisite consents (consent to establish, building permit, etc.) in time, even for units located in industrial areas.

ii. DSWCBs meeting infrequently, resulting in piling up of applications. The number of meetings held by the three DSWCBs during the period from 2011-12 to 2015-16 was as given in Table 2.14.

Table 2.14: Details of meetings held by three DSWCBs

District	***No. of meetings held***					
	2011-12	***2012-13***	***2013-14***	***2014-15***	***2015-16***	***Total***
Palakkad	***3***	***3***	***5***	***3***	***5***	***19***
Pathanamthitta	***2***	***3***	***2***	***2***	***0***	***9***
Kozhikode	***1***	***3***	***3***	***4***	***3***	***14***

iii. The DSWCBs not exercising the authority conferred on them by the SWCB Act, 1999 to issue deemed clearances if the agencies concerned were unduly delaying their consent.

The DI&C stated in its reply (September 2016) that the delays in issue of clearances under Single Window Scheme were mainly due to the delay on the part of KSPCB[22] which insisted that the application should be uploaded directly in their Website. Similarly, the officials of DIC who conducted preliminary appraisal of applications lacked knowledge of rules of other Departments. Obtaining clearance from the Fire & Rescue Services Department was a complicated process and consumed a lot of time, even for Units which posed no fire hazard. The Town Planning Department accepted applications attested by the LSGIs only. LSGIs took a lot of time to process applications as the Secretaries were not exercising the powers delegated to them and all applications were referred to the LSGI Boards which meet infrequently.

22 Kerala State Pollution Control Board

GoK in its reply (March 2017) assured that the Single Window Scheme was being reviewed and rules were being amended to ensure that statutory clearances are given in a time bound and transparent manner.

Performance of MSMEs in the State

2.1.14 Monitoring the functioning of MSMEs by collecting and compiling data on actual quantity of goods/services produced, profit/loss, financial health, etc., was essential for assessing the performance of the sector and providing assistance/initiating remedial measures. GoK and its agencies such as DI&C, KSIDC, KINFRA, SIDCO, etc., did not, however, put in place a system for collecting, compiling and analysing data on the functioning of MSMEs in the State except in case of units availing assistance under specific schemes. In the absence of this, GoK was making policy decisions on the basis of MSME Census conducted by GoI in 2006-07.

We, however, examined performance of MSMEs in parks developed by KINFRA and noticed the following issues:

- The KINFRA Integrated Industrial Textile Park (KIITP), Kanjikode, Palakkad was established by KINFRA on 100 acres of land at a cost of ₹30 crore. 89 industrial units were allotted plots in the Park from 2011 onwards. As per the schedule of the projects, the units coming up in the Park were to be allotted power by January 2012. Power was, however, made available to the units only by September 2013. The delay in providing power was due to refusal of Kerala State Electricity Board Limited (KSEBL) to supply power to Kinesco Power and Utilities Limited (Kinesco), a joint venture set up by KINFRA and National Thermal Power Corporation Limited.

We observed that out of the 89 units that had been allotted plots in the Park, 28 Units with a total projected investment of ₹66.32 crore and employment potential for 1,047 persons, could not commence activities and had, therefore, abandoned the projects. Even the units that had commenced production did so using DG sets till KSEBL agreed to supply power and had to incur heavy losses on that account.

The failure of the above units to commence business was directly due to KSEBL's refusal to supply power to Kinesco at the same rate at which it was supplying power to other licensees in the State. This was violative of GoK's policy that MSME units should be promoted.

GoK stated (March 2017) that the issues had since been resolved and power is now being supplied to the units located in the Park by KSEBL/Kinesco. The fact, however, remains that 28 units could not commence activities as envisaged due to the failure of GoK in coordinating the activities of various Departments/agencies under it.

Findings of beneficiary survey

2.1.15 We conducted a survey of 194 MSMEs[23] in the State to assess how they rated the various facilities provided by Government/Government agencies to promote and develop MSMEs in the State. The responses obtained were analysed and the major findings are given below:

- 64 per cent of the respondents were not aided by the Single Window mechanism set up by the State Government for commencement/ registration of new units.
- Technical assistance such as assistance in preparing project report, etc., was not provided by the State Government to 54 per cent of the units.

23Chosen at random from the units located at IEs/MIEs of SIDCO, DAs/DPs of DI&C and IGCs of KSIDC.

- Training in skill development/entrepreneurship was not provided by the State Government in the case of 65 per cent of the MSMEs.
- While 48 per cent of the units surveyed faced financial crisis at one time or the other, the State Government did not provide any financial help to them to tide over the crisis.
- Government did not provide quality raw material to 51 per cent of the units.
- Marketing assistance was not provided to 80 per cent of the MSMEs.
- Financial assistance was not provided to 53 per cent of the units.
- The rating of infrastructure provided in the industrial areas developed and maintained by Government/Government agencies was as shown in Table 2.15.

Table 2.15: Rating of infrastructure provided in the industrial areas

Facility	Rating (Percentage of MSMEs)			
	Inadequate	Satisfactory	Good	Did not respond
Built up space	31	38	5	26
Power	35	50	4	11
Water	40	40	6	14
Roads	56	21	11	12
Security	55	27	6	12

As can be observed from the above, majority of the respondents were not satisfied with the infrastructure provided in case of roads and security arrangements.

SIDCO stated (December 2016) that it was not in a position to undertake maintenance of infrastructure in its IEs, etc., due to lack of funding by GoK.

GoK, in its reply (March 2017) assured that SIDCO would initiate action to improve the infrastructure in the Ies/Ips/MIEs.

Conclusion

- The industrial policy of the State Government with regard to promotion and development of MSMEs contained only general objectives and specific schemes were not included in the policy to achieve the major objectives.
- The growth in number of new MSMEs was lower than the neighbouring States and the all India average.
- Government schemes for development of industrial infrastructure were not implemented optimally resulting in poor quality of infrastructure in industrial areas.
- The Kerala Financial Corporation, which is the only agency under the Government of Kerala providing finance to MSMEs failed in substantially fulfilling its mandate.
- The MSMEs were not provided adequate marketing support.

[Audit Paragraph 2.1 (2.1.1 to 2.1.15) contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2016.]

Notes furnished by Government on Audit paragraph is given in Appendix II

Discussion and Findings of the Committee
Kerala Financial Corporation Limited

Audit Para. 2.1.2

Agencies involved in promotion of MSMEs in Kerala

No Comments

Audit Para. 2.1.5

Scope and Methodology

No Comments

Audit Para. 2.1.7.1

Non-implementation of initiatives outlined in GoK's Industrial Policy

(No Comments)

Audit Para 2.1.9.1.

1. Share of Agencies of GoK in financing MSMEs

The Committee noted that as per Kerala Enterprise Development Report 2016 prepared by the Institute of Small Enterprises and Development on behalf of DI&C, 92.03% of MSMEs in Kerala had not availed any loans from any institution as of March 2016. Among those who availed loans, 73.89% depended on banks for loans while the balance was accounted for by Co-operatives (10.67%), private money lenders (5.75%) and others 9.69%. At this juncture, the Committee observed that Kerala Financial Corporation (KFC) and Kerala State Industrial Development Corporation Limited (KSIDC) are the major agencies financing MSMEs and during the audit period of all MSMEs that availed loans, only 0.80 percentage of MSMEs availed loans from KFC. Percentage of MSME units setup with financial assistance of KFC during the period 2011-12 to 2015-16 ranged from 2.28% to 18.35%. The

Committee demanded an explanation for the failure of KFC to fulfil its mandates and financing scanty number of MSMEs and sought explanation on the high interest rates during the audit period. The Managing Director of Kerala Financial Corporation replied that during the audit period KFC followed PLR (Prime Lending rate) based system and then lending rate interest was 14.5%. To a query of the committee the witness replied that KFC borrowed loans from banks @9.10% interest during that period. The witness added that during the last five years interest rate was lowered due to change to base rate to based system and in 2018 interest was 9.5% and in 2021-8%. Due to decrease in interest rate more industrial units availed loans and KFC sanctioned 2811 loans in 2019 and 4200 in 2020. Now KFC formulated schemes with startup mission for funding MSMEs in the Industrial Estates.

The Committee noticed that during the audit period very few industrial units availed loan from KFC since the repayment of loan was difficult for them owing to interest rate of 14.5 % and hence they were forced to depend on other sources for funds. The Committee criticised that the very purpose of establishment of KFC, i.e., financing medium and small scale industrial units, was defeated by this act and opined that the act was not justifiable. The Committee also found that the interest rate of KFC was higher than State Financial Corporations of other states. The Committee expressed its strong discontent in the action of KFC by lending money at such high interest rate and wanted the Corporation to evolve suitable funding mechanism to MSMEs and to fulfil the mandate for which it was established.

Observations / Recommendations

1. The Committee inferred from the audit paragraph that among the MSMEs registered in the state only 0.8% were financed by KFC and KSIDC, the PSUs formed for the development and growth of industries in the state. The source of

finance for these PSUs was bank loan taken at an interest of 9.10% and refinancing the MSMEs at 14.5%. This high rate of interest prevented the MSMEs to take loan from KFC. The Committee understands that resorting to bank loans as source of funds of these institutions was the main reason for high rate of interest charged from MSMEs. Hence the Committee recommends that the source of financing the MSMEs either directly or through KFC/KSIDC at very affordable rates should be seriously looked into and the action taken in this regard should be furnished to the Committee without delay.

2. Rate of interest charged by KFC

The witness admitted that during the audit period the interest rate charged was high but now it was lowered to 8%. The Committee noticed that as per the Goverment policy, the interest rates were lowered and recovery procedures were stayed and enquired about NPA rate during audit period. The witness replied that NPA rate was also high at that time but now KFC has been able to bring down the NPA rate below 4% .

The Committee commented that KFC, an organisation setup for the promotion of MSME, had not assisted them in any way .

To a query of the Committee about receiving investment, the witness informed that RBI permitted only ₹100 crores as investment due to the high NPA rate at that time. The witness informed that the major source of funds of the Corporation were borrowed from commercial banks at 7% now and in turn lend to MSMEs at 8% interest. The witness added that now the NPA rate was below 4% , the issue of raising the deposit could be taken up before RBI and also that funds are mobilised by issuing bonds.

The Committee observed that if KFC offer fair interest rate, it can offer better assistance to MSMEs.

Observations / Recommendations

2. The Committee observes that during audit period, many of the MSMEs that had taken loans from KFC defaulted on payments due to high interest rates and this led to an increase in KFC's NPA. It also understands that the NPA has been reduced below 4% after 2021. Hence the Committee recommends that necessary steps must be taken to increase the investment limit that KFC can accept, as the Gross NPA of KFC is less than 4%.

3. Disbursement of loanees with investment above ₹10 crores

The Committee sought explanation regarding the loans disbursed by KFC during the period from 2011-12 to 2015-16 to 119 loanees with individual investment of above ₹10 crore violating the provisions of the SFC Act, 1951. The officer concerned replied that KFC was adhering to the provisions of the SFC Act and the majority of the loans disbursed by the Corporation were for the hotel industry and metal crusher units which comes under MSME scheme and added that provisions of the SFC Act permits the Corporation to extend the loan facilities to companies having networth up to ₹ 20 crores and manufacturing industries having investment from ₹5 crore to ₹10 crore which comes under the medium sector classification. The majority of the loans disbursed by the Corporation were to the loanees having investment below ₹10 crore. The Committee asked for the clarification of the provision to disburse loans to industries with investment above ₹10 crores and the witness was not in a position to clarify the Section of the Act. The Committee directed to submit a detailed report regarding the Section of the Act which authorise KFC to do so.

Observations / Recommendations

3. The Committee observes that there is lack of clarity regarding granting loans to MSMEs with an investment up to ₹20 crore. Hence the Committee recommends to furnish a detailed report regarding the section of the SFC Act by which loans above ₹10 crore have been disbursed.

Increase of NPA in Hotel sector and non-accepting of public deposits

The Committee asked about the measures taken to recover the amount. The witness replied that KFC conducted three Adalats offering liberal settlements and there was good response, which helped to bring down the NPA value from 19.72% to 3.75%. The Committee directed that KFC should submit a comprehensive report stating the steps taken to reduce NPA rate from 19.72% to 3.75%.

The Committee asked whether KFC had any scheme which helps loss making MSMEs. The witness replied that KFC did not have such schemes at present and a new scheme would be considered in the upcoming board meeting. The witness added that those MSMEs which availed loan at higher rates in 2018 are now given opportunity to change their interest rates to 8% and many had made use of this option.

Observations / Recommendations

4. The Committee understands that KFC had conducted many Adalats to settle defaulted loans and thereby bringing down the NPA value. Hence the Committee recommends that KFC should submit a comprehensive report regarding the steps taken to bring down NPA rate from 19.72% to 3.75%.

5. The Committee observes that restructuring and interest funding facilities are being provided to help loss-making MSMEs, and new schemes are being devised to help MSMEs. Therefore, the Committee recommends that a detailed report regarding the new scheme designed to help MSMEs should be furnished.

6. The Committee noticed that during the period from 2011-12 to 2015-16 the hotels and metal crushers having individual partners with investment above ₹10 crore were financed by KFC which were working in the non- MSME sector as per the guidelines. The officials informed that as per the SFC Act,1951 the manufacturing firms having investment above ₹10 crore are eligible to take assistance from KFC but could not point out the exact clause explaining the same. Hence it is asked to furnish a detailed report whether hotels and metal crushers came under MSME sector and whether they were eligible for financial assistance from KFC without any collateral security and the loss sustained by the Corporation while settling the loans in Special Adalats relaxing the interest rate. The Committee also wanted to know at what level the decision was taken to finance the hotels and metal crushers.

Audit Para 2.1.9.3

Interest Subvention Scheme

To the query of the Committee regarding the reason for not giving subsidy to the units other than neera projects under interest subvention scheme, the witness replied that projects involved in food processing were given subsidy under Entrepreneur Support Scheme and eligible application had been received only from Neera projects. The witness informed that the Neera project units were located at Kollam, Malappuram, Palakkad, Kozhikkode and Alappuzha. The witness also informed that out of the eight Neera units which got financial support, four units were functioning profitably and hence remaining units had been classified as substandard category and given a revival package for improvement.

Audit para 2.1.9.4

Implementation of Kerala State Entrepreneur Development Mission (KSEDM)

The Committee noticed that as of March 2016, acheivement against the scheme of KSEDM was poor as only 1714 units were financed out of the targeted 10,000 units. Direct employment generated was 8500 against the target of 1 lakh employment opportunities. The arrear statement prepared by KFC as on 31-03-2016 revealed that 143 units had defaulted in repayment of loan amounting to ₹1.94 crore. The witness informed that as per KSEDM scheme loans were disbursed through banks as well as KFC which was the nodal agency of the scheme. During the period from 2011 to 2017, KFC was able to provide loans to 1757 units and employment to 10,000 people. Units under this scheme have started functioning with in one year and repayment period ends in 2022. They were small scale units and had done regular repayments and some units had cleared the loan and joined under new scheme.

The Committee sought explanation regarding the loan assistance given to stone crusher units under KSEDM Scheme, which was against the Annexure III of the project report of KSEDM. The witness informed that scheme code of hollow bricks units was wrongly classified as crusher unit and it is now corrected. KSEDM had not given loan to crusher unit under the subsidy scheme and this scheme does not exist now.

The Senior Deputy Accountant General informed that if the reply had been given at the time of preparation of the audit report, it could have been verified.

The Committee observed that during audit period the scheme code of hollowbricks in the guideline of KSEDM was incorrectly classified as crusher unit. Hence the Committee directed to submit a detailed report on it.

Observations / Recommendations

7. The Committee noticed that loan assistance for stone crusher units under KSEDM scheme was against the project report of that scheme. The Committee understands that during audit period, the scheme code of hollowbricks units in the guideline of KSEDM was incorrectly classified as crusher unit. So the Committee recommends to give a detailed report regarding this.

Audit Para 2.1.9.5

Implementation of Receivable Finance Scheme

The Committee enquired the reason for non-implementation of receivable finance scheme and asked whether it was a survival technique for KFC at the time of financial crisis. The witness replied that the scheme was intended to mitigate the problems of those MSME units who supplied finished goods to PSUs/Government bodies and who were not receiving the payment on time. To improve the cash flows, KFC would discount the bills received by them from PSUs/Government bodies. Though KFC had approached PSUs in the state for enrolling them in the scheme, none of them responded positively and thus the scheme could not be implemented. Now the scheme had been revised and new units were approaching KFC when interest rates were lowered.

Kerala State Industrial Development Corporation Limited (KSIDC)

Audit Para 2.1

Promotion and Development of Micro, Small and Medium Entrprises in Kerala

The Committee criticised the Industries Department for furnishing vague replies instead of replying to individual paras and which were not directly related to audit observation. The Committee expressed its strong displeasure for furnishing such an evasive reply.

Audit Para 2.1.7.1

Non-implementation of initiatives outlined in GoK's Industrial Policy

To the Committee's query about non-implementation of equity participation fund for encouraging startups, the witness responded that KSIDC started seed funding during 2015-16 and was given ₹622 lakh to 31 startups. KSIDC organised the first meeting of YES (Young Entrepreneurs Summit) on September 2014. Equity participation was related to venture capital and Government allocation was provided mainly for the growth of startup mission. For KSIDC, 2015-16 was the best performing year and is still continuing with equity participation scheme. He added that proper allocation has been given for this.

To a query of the Committee whether any financial assistance was being given to the IT sector, the Chief Financial Officer replied that it was given to non-IT sector like medical devices related to life science and bio sciences. KSIDC provided finanacial assistance for startup units in the Bio Innovation zone in Cochin.

The Committee expressed its displeasure on late submission of reply and opined that this was a serious lapse on the part of the Department for not giving proper reply to audit observations and directed to furnish a detailed report on the reason for such lapse.

Observations / recommendations

8. The Committee strongly criticized the Industries Department for furnishing an evasive reply which is not specific to the audit objection. The Committee also criticised the officials of KSIDC for not submitting a detailed report describing the areas to which financial assistance was given by the Corporation. So the Committee recommends to furnish a detailed report about the lapses in preparing the report.

Audit Para No. 2.1.9.1

Share of Agencies of Government of Kerala in financing MSMEs

The Committee noted the audit objection that as per Kerala Enterprise Development Report 2016 prepared by the Institute of Small Enterprises and Development on behalf of DI&C, 92.03% of MSMEs in Kerala had not availed any loan from any institution as of March 2016. Of all MSMEs that availed loans, percentage of MSMEs that availed loan from KFC and KSIDC was 0.80 and 0.40 respectively. The Committee sought an explanantion in this regard. The Chief Financial Officer replied that the audit shows the total loans of MSMEs in Kerala during 2015-16. Compared to other banks, KSIDC, a small organisation having only a capital of ₹300 crore had sanctioned ₹92.78 crores to 53 industries during 2015-16. The pretax revenue was ₹50 crore and net profit was ₹41.33 crore. KSIDC has three roles viz investment promotion and facilitation, infrastructure development and industrial financing and it is concentrating on development financing. KSIDC got only ₹40 crore as plan allocation during the period and it had done development activities worth ₹66.17 crore. The witness added that 2015-16 was the best performing year of KSIDC.

Special schemes had been in operation for the last 3 years even in the Covid situation. Relating to a query about interest rates, the witness replied that interest rate is 7% for special schemes and for others 8.75%. KSIDC borrows from the bank at 7.5% interest and spends 1.25% for administrative overhead and the staff cost is always 13-14%. The witness added that KSIDC disbursed ₹ 152 crore till Decemebr in the current financial year. He added that KSIDC had a substantial jump in financing side.

The Committee enquired about number of employees and their salaries. The officer concerned replied that there are a total of 43 employees, of which the finance wing holds less number of staffs and most of them assist in the implementation of Government schemes such as investment promotion and facilitation and added that KSIDC is responsible for 85-90% development financing in Kerala.

The Committee blamed the officials for not sending the reply earlier and opined that the reply provided was vague. The witness admitted the fault and as directed by the Committee assured that the matter shall be enquired and a detailed report would be submitted.

Observations / Recommendations

9. The Committee observes that KSIDC is financing most of the start-ups in Kerala and they are focusing on development financing and was amazed that this salient point was not mentioned in the reply furnished to the Committee. So the Committee recommends to submit a detailed report regarding the same.

2.1.10.3

Establishment of Infrastructure by PSUs for MSMEs

The Committee sought explanation regarding the reason for non-utilisation of lands in three Industrial Growth Centres (IGC) at Kinalur (Kozhikode), Baliavelichom (Kannur) and Cherthala (Alappuzha) since it was observed that out of 698.89 acres of land available in the IGCs, the extent of land actually utilised was only 322.52 acres ie 46.15%. The witness replied that allotment was given for ₹74 crores to start footwear industry in IGC Kinalur, where there was no special infrastructure. But due to lack of electricity they could not start operation and KSIDC could not give further allotment. He added that the same situation happened in other two places also. It was decided to build a substation in collaboration with KSEB but it took a long time to implement the scheme. At present KSIDC had its own substations in IGC Kinalur and Kozhikode. There was a new scheme of paying 20% interest free lease premium for five years till 31-12-2021 under the Government's Covid Consolation Scheme. As per the decision taken in the meeting convened by the Government, the MSMEs in Kinalur was given extended time for payment of lease premium with interest and hence no eviction process is needed there.

The witness added that land at IGC Cherthala, was not distributed for lease since an application for the megafood park scheme to be set up in the said area was pending before Central Government. Now the megafood park scheme had been approved and entire land allotment was completed.

On the basis of above discussion, the Committee recommended that detailed report should be submitted stating the present status of IGCs in Kinalur, Cherthala and Kannur.

Observations / Recommendations

10. The Committee observes that though industrial parks were constructed at Baliavelichom and Kinalur, the allotted units could not start functioning properly and KSIDC could not make allotment to more units due to lack of infrastructure. The Committee recommends to furnish a detailed report on the current status of Kinalur, Cherthala and Kannur Industrial Growth Centers. The Committee also recommends that while selecting land for Industrial Growth Centres in future detailed study should be carried out regarding the infrastructure.

Audit Para 2.1.11

Promotion of start-ups

The Committee wanted to know whether technology incubation facilities has been provided in any of the industrial parks of KSIDC.The witness replied that KSIDC had no budget allocation for starting Technology related incubation. The witness also stated that three IT related incubation facilities were started in Infopark on rental basis at Angamaly, Kakkanad and U.Lcyberpark.

Audit Para 2.1.14

Performance of MSMEs in the State.

The Committee noted that monitoring the functioning of MSMEs by collecting and compiling data on actual quantity of goods/services produced, profit/loss, financial health etc was essential for assessing the performance of the sector and providing assistance/ initiating remedial measure. The Committee wanted an explanation in this regard. The witness replied that KSIDC has created a database of its own and maintaining it properly. A survey in this regard had been conducted by the Director of

Industries and Commerce. The Committee sought a report on the performance of MSMEs.

Observations / Recommendations

11. The Committee recommends that a detailed report on the functioning of MSMEs under KSIDC should be submitted.

<u>Kerala Industrial Infrastructure Development Corporation (KINFRA)</u>

Audit Para 2.1.10.3

Establishment of Inftastructure by PSUs for MSMEs

1. Rural Apparel Park, Rajakumari, Idukki

The Committee inquired as to why the units were not hired until March 2017, although work on the apparel park at Rajakumari was completed in 2012. The officer concerned replied that when the construction was completed, KINFRA conducted a series of marketing efforts to rent out the whole space in the apparel park and M/s Cotton Blossoms, a leading garment manufacturing company was alloted 60,000 square feet of land in 2017. However, after four years this unit was closed down raising issues related to the minimum wage policy afer intimating the government. The site then became idle and after a further marketing effort, 8200 square feet was allotted to two garment units and requirement of 20,000 square feet were placed in the DELAC (District Land Development Committee). The remaining space was expected to be alloted within three to four months. The witness added that currently, sanction for construction work, including apparel park is obtained only after conducting feasibility study.

The Committee commented that the management had failed to identify takers for the park as the location is remote. Hence the Committee observed that this was due to lack of feasibility study before the implementation of the project.

Observations / recommendations

12. The Committee observes that the construction of the industrial park at Rajakumari was completed in 2012 but remained idle for five years till 2017. The Committee opines that the reasons for idling of the Industrial Park was that, before conceiving such a project proper feasibility study should have been conducted and also to ensure **the presence of the potential investors.** ***Hence the Committee recommends to submit a detailed report on the current status of the Industrial Park.***

2. **Food Business Incubation Centre**

Food Processing Park, Kakkancherry

The Committee sought explanation regarding the current situation of the food processing unit at Kakkancherry. The witness responded that the entire area of the food processing park in Kakkancherry had been allotted by 2020 and rent was being paid accurately.

To the query of the Committee regarding the reason for non allocation of food processing park from 2006 to 2020, the witness admitted that due to lack of marketing effort it could not be developed as a brand. The food industry has now well developed compared to post covid season.

The Committee opined that the food processing park at Kakkancherry built by KINFRA at a cost of ₹0.79 crore lying idle for 14 years was a serious lapse and should be investigated. The Committee recommeded to conduct a detailed enquiry on it and directed to furnish a detailed report on it.

Observations / Recommendations

13. The Committee observes that the entire area of the Kakkancheri Food Processing Park built at a cost of ₹0.79 crore was idle from 2006 to 2020 and it is a serious lapse. Hence the Committee recommends to conduct an enquiry regarding this and furnish a report including the officials responsible for the idling of the park.

3. Food Processing Park, Adoor

The Committee inquired about the current status of the effluent treatment plant at Adoor food processing park. The Managing Director replied that ETP work started in 2013 but was interrupted due to various reasons. KINFRA re-tendered the work without any financial loss to the Government and completed ETP system in 2011. All the units have treatment plant of their own, so every unit in the park is functioning without any problem.

Observations / Recommendations

14. The Committee observes that there was an inordinate delay in the installation of ETP prior to the opening of the industrial parks. Hence the Committee recommends that, in future feasibility study should be carried out on the infrastructure required for the projects.

Audit Para 2.1.11

Promotion of start-ups

The Committee wanted to know whether technology incubation facilities had been provided in any of the industrial parks of KINFRA. The witness replied that the

Kerala Startup Mission was doing things related to the incubation centre. The Startup mission had been provided with land for the construction of an incubation centre at the park in Kalamassery.

After discussion, the Committee recommended that a detailed report should be submitted stating the focus area of KINFRA.

Observations / Recommendations

15. The Committee observes that technology incubation centres are not provided in any of the industrial parks, viewing taking them seriously, the Committee recommends that a report be given on focus area of KINFRA.

Audit Para 2.1.14

Performance of MSMEs in the State.

KINFRA Integrated Industrial Textile Park, Palakkad-issue of Power supply

The Committee enquired about the audit objection regarding the delay in providing power in KINFRA Integrated Industrial Textile Park(KIITP), Kanjikode, Palakkad. The officer concerned replied that dispute with KSEB and KINESCO Power and Utilities Limited had been resolved and power connection was provided to 27 units operating in the park. KINFRA and KINESCO hold meetings with KSEBL every month and resolve all issues related to power. The reply was approved by the Committee.

Kerala Small Industries Development Corporation Limited(SIDCO)

Audit Para 2.1.7.4.

Non- utilisation of budget allocation for schemes for promotion and development of MSMEs & 2.1.10.1.

The Committee sought an explanation for non-utilisation of ₹10 crore for the construction of multistoreyed industrial estate at Kochuveli and ₹7.50 crore for multistoreyed industrial estate at Puthussery. The officer concerned replied that the work in Kochuveli has been completed by utilising the full amount in 2018-19. Revised estimate of ₹8.62 crore had been prepared and sent to Government by DIC regarding the work at Puthusseri. The work could be proceeded only after getting approval of the government.

The Committee directed to furnish a detailed report regarding the present status of work in Puthussery.

Observations / Recommendations

16. The Committee observes that though the construction of Kochuveli Industrial Estate has been completed, there was a delay in utilizing the budget allocation in time. Hence the Committee recommends to give a clear report on the fund utilization and delay in the implementation of the project.

17. The Committee observes that ₹7.50 crore was sanctioned in February 2014 for the development of Puthussery Industrial Estate but it was not utilized and currently a revised estimate of ₹ 8.62 crore has been submitted to the government for approval. Therefore, the Committee recommends to furnish a clear detailed report on the current status of Puthussery Industrial Park.

Audit Para 2.1.10.4

Transfer of Allotted land

The Committee noted that during the period from 2011-12 to 2015-16, 12.50 acres of land (83 cases) worth ₹15.30 crore in nine industrial estates of SIDCO were allowed to be transferred to third parties. In two cases (land value ₹10 crore) irregular transfer effected by the original allottee was regularised by SIDCO and in two other cases (land value ₹0.20 crore), transfer was allowed by the original allottees after being served eviction notice for keeping the units inactive, which was in violation of SIDCO's own rules. To the query of the Committee regarding irregular transfer of allotted land, the witness replied that land transfer could be possible only after paying the differential lease premium and this problem exists in SIDCO, KINFRA and KSIDC. This problem could be solved only when the government introduces unified land policy. Since the land transfer took place seven years ago, it was not possible to identify the party responsible for the financial liability and a letter had been sent to Government in this regard.

The Committeee observed that despite repeated references to this in the previous Audit reports of C &AG, SIDCO continued the same procedure and a loss of over ₹18 crore was incurred as a result. Hence the Committee recommended that a detailed report should be given in this regard including the party responsible for the financial liability.

The Committee enquired the audit objection regarding the eviction of 37 non-functional units in the Industrial Estates/Mini Industrial Estates/Industrial Parks and allotment of the land/shed to new applicants. The officer concerned replied that SIDCO had evicted non-functional units and allotted the evicted sheds to new applicants except the units under litigation.

Observations / Recommendations

18. The Committee observes that 12.50 acres of land worth ₹15.30 crore in nine industrial Estates of SIDCO were allowed to be transferred to third parties and in two cases irregular transfer effected by the original allottee was regularised by SIDCO . The Committee notes that in two other cases, transfer was allowed by the original allottees after being served eviction notice for keeping the units inactive which was in violation of SIDCO's own rules. The Committee observes that despite C&AG's remarks on this issue in previous years, SIDCO handled it very lightly and had incurred a loss of ₹18 crores. Therefore, the Committee recommends that the officer responsible for the financial loss should be identified and a detailed report should be submitted.

19. The Committee observes that out of 37 idle units under SIDCO, except those under litigation have been allotted to new applicants. Therefore, the Committee recommends that a report regarding the units under litigation in industrial parks of SIDCO should be furnished.

Audit Para 2.1.11.

Promotion of start-ups

The Committee demanded to know whether technology incubation facilities had been provided in any of the industrial park of SIDCO. The witness replied that technology incubation facilities were not provided in industrial park of SIDCO.

Audit Para 2.1.12.3

Promotion of start-ups

Marketing Support to MSMEs by SIDCO

The Committee sought explanation regarding procurement of products from the MSMEs without following Stores Purchase Manual and in violation of the conditions prescribed by SIDCO for registration under marketing support scheme. The witness accepted the fault and informed that remedial measures had been taken now.

The Committee recommended that a detailed report should be submitted regarding the corrective measures taken for equal opportunity to MSMEs in purchase and to exclude non-manufacturing units from the purview of assistance under marketing support scheme.

Observations / Recommendations

20. The Committee observes that the procurement process of SIDCO during the period 2011-12 to 2015-16 has violated SPM norms and its primary mandate of helping small/MSME enterprises to market their products. Hence the Committee recommends that a detailed report regarding the remedial measures taken to ensure equal opportunity to MSMEs in purchase and to exclude non-manufacturing from the purview of assistance under marketing support scheme.

Audit Para 2.1.14

Performance of MSMEs in the State.

The Committee noted that monitoring the functioning of MSMEs by collecting and compiling data on actual quantity of goods/services produced, profit/loss, financial health, etc. was essential for assessing the performance of the sector and providing assistance/ initiating remedial measure. The Committee demanded an explanation in this regard and enquired the current financial position of SIDCO. The Managing Director, SIDCO informed that SIDCO caters to only MSME units and some of the MSME sheds/units were closed but a lot of revival packages were going on. The witness added that SIDCO, which was operating at a loss, currently has 368 employees and has been able to grow its business in last four months and has now reached operating profit.

General Recommendations

21. The Committee observed that during the audit period from 2011-12 to 2015-16 the industrial policy 2007 and other schemes and projects for the development of industries especially MSMEs did not become fruitful and 80% of the small traders did not get any assistance from industrial institutions like KFC, DI&C, KSIDC and KINFRA plans/schemes for central assistance to MSMEs also went in-vain. Assistance for the preparation of project reports, technical know-how for implementation, financial assistance for conversion, marketing of the products and training for skill development were not imparted to MSMEs. Hence the Committee recommends that all institutions under Industries Department should be structurally revamped based on the recommendations of an expert Committee so as to cater to the needs of the entrepreneurs/MSME.

22. The Committee also wanted the details of MSMEs that are working on profit, MSMEs that need technology upgradation, restructuring and financial assistance, details of land deserted by MSMEs and whether the projects were started or not. All the details should be compiled district wise and institution wise.

23. The Committee also noticed that the Department is not taking earnest efforts and initiative in regulating, monitoring and co-ordinating the works of different institutions like KSIDC, SIDCO, KFC, DI&C, KINFRA etc. and as such the industrial programmes and policies of Government is not always met with success. Hence the Committee strongly recommends to take urgent measures in monitoring, regulating and coordinating the efforts of all institutions and to report to the Committee.

E.CHANDRASEKHARAN,
Chairperson,
Committee on Public Undertakings.

Thiruvananthapuram,
17th September 2025.

APPENDIX-I
SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl No.	Para No.	Department Concerned	Conclusions/Recommendations
(1)	(2)	(3)	(4)
1	1	Finance	***The Committee inferred from the audit paragraph that among the MSMEs registered in the state only 0.8% were financed by KFC and KSIDC, the PSUs formed for the development and growth of industries in the state. The source of finance for these PSUs was bank loan taken at an interest of 9.10% and refinancing the MSMEs at 14.5%. This high rate of interest prevented the MSMEs to take loan from KFC. The Committee understands that resorting to bank loans as source of funds of these institutions was the main reason for high rate of interest charged from MSMEs. Hence the Committee recommends that the source of financing the MSMEs either directly or through KFC/KSIDC at very affordable rates should be seriously looked into and the action taken in this regard should be furnished to the Committee without delay.***
2	2	Finance	***The Committee observes that during audit period, many of the MSMEs that had taken loans from KFC defaulted on payments due to high interest rates and this led to an increase in KFC's NPA. It also understands that the NPA has been reduced below 4% after 2021. Hence the Committee recommends that necessary steps must be taken to increase the investment limit that KFC can accept, as the Gross NPA of KFC is less than 4%.***
3	3	Finance	***The Committee observes that there is lack of clarity regarding granting loans to MSMEs with an investment up to ₹20 crore. Hence the Committee recommends to furnish a detailed report regarding the section of the SFC Act by which loans above ₹10 crore have been disbursed.***
4	4	Finance	***The Committee understands that KFC had conducted many Adalats to settle defaulted loans and thereby bringing down the NPA value. Hence the Committee recommends that KFC should***

			submit a comprehensive report regarding the steps taken to bring down NPA rate from 19.72% to 3.75%.
5	5	Finance	***The Committee observes that restructuring and interest funding facilities are being provided to help loss-making MSMEs, and new schemes are being devised to help MSMEs. Therefore, the Committee recommends that a detailed report regarding the new scheme designed to help MSMEs should be furnished.***
6	6	Finance	***The Committee noticed that during the period from 2011-12 to 2015-16 the hotels and metal crushers having individual partners with investment above ₹10 crore were financed by KFC which were working in the non- MSME sector as per the guidelines. The officials informed that as per the SFC Act,1951 the manufacturing firms having investment above ₹10 crore are eligible to take assistance from KFC but could not point out the exact clause explaining the same. Hence it is asked to furnish a detailed report whether hotels and metal crushers came under MSME sector and whether they were eligible for financial assistance from KFC without any collateral security and the loss sustained by the Corporation while settling the loans in Special Adalats relaxing the interest rate. The Committee also wanted to know at what level the decision was taken to finance the hotels and metal crushers.***
7	7	Finance	***The Committee noticed that loan assistance for stone crusher units under KSEDM scheme was against the project report of that scheme. The Committee understands that during audit period, the scheme code of hollowbricks units in the guideline of KSEDM was incorrectly classified as crusher unit. So the Committee recommends to give a detailed report regarding this.***
8	8	Industries	***The Committee strongly criticized the Industries Department for furnishing an evasive reply which is not specific to the audit objection. The Committee also criticised the officials of KSIDC***

			for not submitting a detailed report describing the areas to which financial assistance was given by the Corporation. So the Committee recommends to furnish a detailed report about the lapses in preparing the report.
9	9	Industries	***The Committee observes that KSIDC is financing most of the start-ups in Kerala and they are focusing on development financing and was amazed that this salient point was not mentioned in the reply furnished to the Committee. So the Committee recommends to submit a detailed report regarding the same.***
10	10	Industries	***The Committee observes that though industrial parks were constructed at Baliavelichom and Kinalur, the allotted units could not start functioning properly and KSIDC could not make allotment to more units due to lack of infrastructure. The Committee recommends to furnish a detailed report on the current status of Kinalur, Cherthala and Kannur Industrial Growth Centers. The Committee also recommends that while selecting land for Industrial Growth Centres in future detailed study should be carried out regarding the infrastructure.***
11	11	Industries	***The Committee recommends that a detailed report on the functioning of MSMEs under KSIDC should be submitted.***
12	12	Industries	***The Committee observes that the construction of the industrial park at Rajakumari was completed in 2012 but remained idle for five years till 2017. The Committee opines that the reasons for idling of the Industrial Park was that, before conceiving such a project proper feasibility study should have been conducted and also to ensure*** **the presence of the potential investors.** ***Hence the Committee recommends to submit a detailed report on the current***

			status of the Industrial Park.
13	13	Industries	***The Committee observes that the entire area of the Kakkancheri Food Processing Park built at a cost of ₹0.79 crore was idle from 2006 to 2020 and it is a serious lapse. Hence the Committee recommends to conduct an enquiry regarding this and furnish a report including the officials responsible for the idling of the park.***
14	14	Industries	***The Committee observes that there was an inordinate delay in the installation of ETP prior to the opening of the industrial parks. Hence the Committee recommends that, in future feasibility study should be carried out on the infrastructure required for the projects.***
15	15	Industries	***The Committee observes that technology incubation centres are not provided in any of the industrial parks, viewing taking them seriously, the Committee recommends that a report be given on focus area of KINFRA.***
16	16	Industries	***The Committee observes that though the construction of Kochuveli Industrial Estate has been completed, there was a delay in utilizing the budget allocation in time. Hence the Committee recommends to give a clear report on the fund utilization and delay in the implementation of the project.***
17	17	Industries	***The Committee observes that ₹7.50 crore was sanctioned in February 2014 for the development of Puthussery Industrial Estate but it was not utilized and currently a revised estimate of ₹ 8.62 crore has been submitted to the government for approval.***

			Therefore, the Committee recommends to furnish a clear detailed report on the current status of Puthussery Industrial Park.
18	18	Industries	***The Committee observes that 12.50 acres of land worth ₹15.30 crore in nine industrial Estates of SIDCO were allowed to be transferred to third parties and in two cases irregular transfer effected by the original allottee was regularised by SIDCO . The Committee notes that in two other cases, transfer was allowed by the original allottees after being served eviction notice for keeping the units inactive which was in violation of SIDCO's own rules. The Committee observes that despite C&AG's remarks on this issue in previous years, SIDCO handled it very lightly and had incurred a loss of ₹18 crores. Therefore, the Committee recommends that the officer responsible for the financial loss should be identified and a detailed report should be submitted.***
19	19	Industries	***The Committee observes that out of 37 idle units under SIDCO, except those under litigation have been allotted to new applicants. Therefore, the Committee recommends that a report regarding the units under litigation in industrial parks of SIDCO should be furnished.***
20	20	Industries	***The Committee observes that the procurement process of SIDCO during the period 2011-12 to 2015-16 has violated SPM norms and its primary mandate of helping small/MSME enterprises to market their products. Hence the Committee recommends that a detailed report regarding the remedial measures taken to ensure equal opportunity to MSMEs in purchase and to exclude non-manufacturing from the purview of assistance under marketing support scheme.***
21	21	Finance & Industries	***The Committee observed that during the audit period from 2011-12 to 2015-16 the industrial policy 2007 and other schemes and projects for the development of industries especially MSMEs did not become fruitful and 80% of the small traders did not get any assistance from industrial institutions like KFC, DI&C, KSIDC***

			and KINFRA plans/schemes for central assistance to MSMEs also went in-vain. Assistance for the preparation of project reports, technical know-how for implementation, financial assistance for conversion, marketing of the products and training for skill development were not imparted to MSMEs. Hence the Committee recommends that all institutions under Industries Department should be structurally revamped based on the recommendations of an expert Committee so as to cater to the needs of the entrepreneurs/MSME.
22	22	Finance & Industries	***The Committee also wanted the details of MSMEs that are working on profit, MSMEs that need technology upgradation, restructuring and financial assistance, details of land deserted by MSMEs and whether the projects were started or not. All the details should be compiled district wise and institution wise.***
23	23	Finance & Industries	***The Committee also noticed that the Department is not taking earnest efforts and initiative in regulating, monitoring and co-ordinating the works of different institutions like KSIDC, SIDCO, KFC, DI&C, KINFRA etc. and as such the industrial programmes and policies of Government is not always met with success. Hence the Committee strongly recommends to take urgent measures in monitoring, regulating and coordinating the efforts of all institutions and to report to the Committee.***

GOVERNMENT OF KERALA

FINANCE (PU-A) DEPARTMENT

ACTION TAKEN REPORT REGARDING THE AUDIT REPORT OF C&AG ON KERALA FINANCIAL CORPORATION FOR THE YEAR ENDED 31st MARCH 2016

Para No.	Subject	Reply
2.1.2	Agencies involved in promotion of MSMEs in Kerala	Noted
2.1.5	Scope and Methodology	Noted
2.1.7.1	Non-implementation of initiatives outlined in GoK's Industrial Policy	Noted
2.1.9.1	Share of Agencies of GoK in financing MSMES	**1. Deficiencies noted in the implementation of financing schemes for MSMEs:** Funding of units other than MSMES The Corporation is adhering to the provisions of the SFC Act with the available resources. Unlike other states, ours is a tourism led economy supported by IT, IT enabled services and other service sector related activities. Manufacturing activities have not grown in a big way mainly due to shortage of land and constructed space, lack of storage space, transportation bottlenecks, pollution related issues, waste disposal issue, lack of entrepreneurial spirit, inability to take technology development risks and difficulty in getting skilled manpower. The pattern of the loan portfolio of the Corporation for the last three years is as follows:

For the Financial year ended 31.03.2014 (Rs. In lakhs)

Industry Description	Outstanding		
	No of units	Amount	%
CRE	645	41253.55	22.91%
SERVICE SECTOR	1083	75701.64	42.05%
MANUFACTURING AND OTHERS	2083	63082.07	35.04%
Total	**3811**	**180037.26**	**100.00%**

For the Financial year ended 31.03.2015 (Rs. in lakhs)

Industry Description	Outstanding		
	No of units	Amount	%
CRE	665	47675.54	23.39%
SERVICE SECTOR	1032	72893.85	35.76%
MANUFACTURING AND OTHERS	2801	83248.93	40.84%
Total	**4498**	**203818.32**	**100.00%**

For the Financial year ended 31.03.2016 (Rs. in lakhs)

Industry Description	Outstanding		
	No of units	Amount	%
CRE	728	57669.66	24.03%
SERVICE SECTOR	1328	87668.07	36.53%
MANUFACTURING AND OTHERS	3208	94681.47	39.45%
Total	5264	240019.2	100.00%

The above data shows that out of the total portfolio of the Corporation, more than 75% of the advances are to manufacturing and service sector. The refinance limit from SIDBI has been significantly reduced year after year. Thus the Corporation has to borrow from commercial banks on the basis of the strength of the financial statements. Thus to ensure profitability and financial strength, the Corporation has to lend a minor portion to sectors other than manufacturing and service as well.

		2. Rate of interest charged by KFC: The interst rate shown in the report is 14.50%, which is actually the benchmark prime lending rate (Gross rate) of the Corporation. As per the loan policy, the rate of interest charged by the Corporation to the manufacturing sector is 10.50% and service sector is 11.00% after all the eligible rebates. When the rate is compared with other rates shown in the report it can be seen that the rates of the Corporation are best and affordable than the rates of the commercial banks and the rates are lower than majority of the other State Financial Corporations mentioned therein. Moreover many of the SFCs shown in the table are deferent or having limited loan portfolio compared to KFC. The major source of funds of the Corporation is borrowing from commercial banks (approximately 1250 Crores) which are currently in the interest range of 9% to 10%. It can be observed from the above that, the borrowing cost is high and when the administrative cost also to be factored, the current lending rate of the Corporation is justifiable. **3. Disbursement to loanees with investment above Rs.10 Crores :** The provisions of the SFC Act, permit the Corporation to extend loan facilities to companies having networth up to Rs.30 crores and to finance companies up to Rs.20 Crores. The majority of the loans disbursed by the Corporation are to the loanees having investment below Rs.10 Crores. In FY 2014-15 financial assistance of Rs.947.45 Crores was sanctioned

to 1311 units out of which 1099 units comprising of Rs.741.78 Crores are in the micro segment. Similarly in FY 2015-16 out of the sanctions amounting to Rs 1026 Crores to 1420 units, 1337 units were in micro segment and the amount sanctioned to these units was Rs 960 Crore. Borrowing from commercial banks and issuing of non SLR bonds are the main source of fund for the Corporation for on lending. The commercial banks provide loans on the basis of the reported profitability and financial strength of the Corporation. Similar is the case with borrowings from debt market by issue of non SLR bonds. Thus financing to investments more than 10 crores is also considered to improve profitability and assets quality of the loan portfolio.

Increase of NPA in Hotel sector and non- accepting of public deposits :

The increase of NPA was an industry scenario due to the general recessionary trends and it affected all the Banks and financial institutions in the country. The Gross NPA of the Corporation was 7.85% as on 31.03.2015 and 10.57% as on 31.03.2016, which was beyond the limit of 4% prescribed by RBI for raising public deposits.

The Government of Kerala policy change cancelling the bar license to 3 star and 4 star category hotels is also a reason for the rise in NPA of the corporation. Stop memos issued to metal crushes and units in tourism related areas like Munnar and Thekkadi, citing environmental issues also affected the asset quality of the loan portfolio. Hence, the

		acceptance of deposits was temporarily postponed till the improvement of asset quality of the Corporation. However it needs to be noted that the permission to accept deposit is only for Rs.100 Crores and it is only one of the resource mobilization activities available. The main source of resource mobilization is LoC from banks and issue of non- SLR bonds. The Corporation will still be able to mobilize low cost resources by issuing non-SLR bonds if the NPA of the Corporation is below 10%. The main criteria for support of a project would be its viability and bankability, rather than security. However, in order to comply with the prudential norms prescribed by RBI, Corporation ensured adequate security coverage for every loan account where as primary security is not adequate enough to meet the security requirements, collateral security would be insisted upon. The calculation of security for a loan would be based on the concept of overall security coverage. While sanctioning loan it is ensured that the minimum requirement of overall asset coverage (considering value of primary asset also) is as per loan policy.
2.1.9.3	**Interest subvention scheme**	Interest subvention scheme was announced in the budget speech 2013-14 of Government and implemented vide GO (Rt) No.51/14/Fin. Dated 02.01.2014 to provide technological and financial support to youths who wanted to start prospective Enterprises, in area such as food processing, information technology, apparels, handicrafts, presentation articles, agr

		processing, fish processing and packaging based on the innovative technologies, developed by research institution functioning under the auspices of Central and State Government undertaking in Kerala, KFC was selected as the implementing agency. Under the scheme, Corporation has received applications with the recommendation of Coconut Development board for Neera projects and these units were financed under this scheme. One of the main eligibility criteria for availing the benefits under the scheme as per GO is that the units should use innovative technologies developed by research institutions functioning under the auspices of Central and State Government institutions. Hence other than Neera units none of the other units had their technology approved by research institutions functioning under the auspices of Central and State Government under takings in Kerala. Hence KFC could sanction loan under interest subvention scheme only to 8 units amounting to Rs.1378.55 lakhs.
2.1.9.4	**Implementation of Kerala State Entrepreneur Development Mission (KSEDM)**	KSEDM (Kerala State Entreprnuer Development Mission) was officially launched in January 2012 by Government of Kerala with KFC as nodal agency. The maximum eligible loan amount under this scheme is Rs.20 lakhs with a repayment period of 5 years. The Mission aims at a radical social transformation through which young entrepreneurs will be supported in setting up new enterprises and there by contributing to the development of this State as employment providers.

		The number of entrepreneurs who applied for the scheme was above 25000, out of which 11033 units were selected based on the entreprenial aptitude of the persons who applied for the interview. In the initial phase, the persons who applied for the scheme thought that they could easily avail as interest free amount of Rs.20 lakhs. However only genuine promoters with entrepreneurship skills and aptitude were selected. Further screening and compulsory training resulted in further drop in numbers. 1085 units comprising of 2509 promoters opted out of the scheme before training. 966 units comprising of 2227 promoters opted out immediately after completed the training. Further 908 units comprising of 1903 promoters did not submit project report and loan application and out of 1757 units sanctioned only 1414 units comprising of 3135 promoters started the commercial operations. The scheme cannot be classified as a failure or one with poor response. The scheme being the first of its kind in our country has resulted in many youngsters from Kerala thinking about entrepreneurship in a serious manner and choosing it as their career. A lot of innovative projects in the areas of Information Technology, Engineering, Food Processing, Fashion Designing, Apparels, Agro based units, Medical services, Foot wear were set up in the scheme. The mission has also enabled a number of women entrepreneurs to set up new business of their own. The Mission has resulted in large number of enterprises being created in districts of Thiruvananthapuram, Malappuram,Ernakulam, Idukki and Kozhikkode. Nearly 60 percent of

		the total numbers created in the State are in these districts. 379 of the enterprises financed under the Mission are in the IT sector. Large number of entrepreneurial ventures in technology parks in the State, Technopark (Thiruvananthapuram), Start up village (Enakulam) and NIT (Kozhikode) were struggling to proceed with their entrepreneurial dreams because of the reluctance of financial institutions and banks to fund these high risk ventures. The Mission has been a boom to these enterprises, which have stabilized operations with the funds provided under it. About 25 enterprises have been funded in Technopark, 15 in Startup village and 12 in NIT. Because of the selection process and training given, the success rate of KSEDM cases are very high and the Non Performing Asset is low compared to the Banking standards (NPA percentage of 5%). KSEDM Scheme has also broken the general feeling that most startups fail. Infact with proper support and handholding such units are capable of scaling up their operations to reach a much wider market and capitalize on their efforts in developing new products and services. It is due to the wrong product code given in the KSEDM data base for the cases sanctioned for the manufacture of cement blocks, hollow blocks. No unit has been sanctioned loan under the category ' stone crushing, non-metallic mineral products.'

2.1.9.5	**Implementation of Receivable finance scheme**	The scheme was intended to mitigate the problems of MSME enterprises who supplied finished goods to PSUs/Government bodies and who were not receiving the payments on time. To improve their cash flows KFC would discount the bills received by them from PSUs/Government bodies. The upper loan limit of finance was fixed Rs.5 crores, with a repayment period of 180 days and margin of 15 to 25%. The scheme was formulated based on a similar scheme successfully implemented by Tamil Nadu Industrial Investment Corporation. In this regard KFC had discussions with Consumer fed and also signed MOU with them. However they backed out later as they did not have the funds even to settle their long pending bills raised by their clients. Though KFC approached other PSU's in the state none of them responded positively and the scheme could not be implemented as envisaged.
	Conclusion	The Corporation has been very active in supporting start-ups and first generation MSME entrepreneurs in the state and supporting the manufacturing sector and service sector of the state. The temporary setback in the functioning of the Corporation was mainly as a result of change in excise policy which severely affected the tourism sector. However with the change in the policy now, Corporation is expected to do well, going forward.

As on 31.03.2017,the sector wise Classification of Loans & advances is as below

Sl No	Sector	As on 31.03.2017			As on 31.03.2016		
		No	Amount	%	No.	Amount	%
1	CRE	713	60987.80	24.65	728	57669.66	24.03
2	Hotel	1032	74789.73	30.23	1006	75778.96	31.57
3	Hospitals	401	10521.62	4.25	322	11889.11	4.95
4	Manufacturing sector & other	3351	101112.30	40.87	3208	94681.47	39.45
	Total	5497	247411.45		5264	240,019.20	

G. ANIL KUMAR
Joint Secretary
Finance Department
Govt Secretariat
Thiruvananthapuram

559/F2/2017/ID

GOVERNMENT OF KERALA
INDUSTRIES (F) DEPARTMENT

Statement of Remedial Measures Taken on the observations contained in the C&AG Report on Public Sector Undertakings for the year ended on 31/03/2016 (Kerala Small Industries Development Corporation Limited (SIDCO)

Sl. No.	Para No.	Observations of the Audit	Remedial Measures Taken
1	2.1.7.4	We also observed that out of Rs. 79.30 crore provided against the scheme construction of multistoreyed Industrial Estate released amount of Rs. 32.50 crore was shown as expenditure in the statements furnished by the DI&C to G.K. However Rs. 10 crore released (February 2013) for Multistoreyed IE at Kochuveli and Rs. 7.50 crore released (February 2014) for Multistoreyed IE at Pudussery to SIDCO remained unutilised. Thus, incorrect statement was given to GoK in respect of Rs. 17.50 crore. GoK accepted (March (2017) the audit findings and stated that the Department/organisations had been advised to be careful while reporting the expenditure. The reply was not aceptable as corrective actions had not been taken.	As per the Government Order G.O(Rt) No. 1568/2012/ID dated 18.10.2012 Government accorded Administrative Sanction for the Construction of Multistoried Industrial Gala at Kochuveli, Thiruvananthapuram and released an amount of Rs.1000 lakhs for the purpose. The plan and estimate submitted by SIDCO was approved and accepted and the project was entrusted with SIDCO as deposit work. But due to some legal procedures arose in the liquidation of M/s Travancore Sulphates, Industries Department could not take possession of the land earmarked for this project. The amount was then deposited in the joint account of SIDCO and the Director of Industries & Commerce. This amount was shown as expenditure in the statements furnished to Government. Due to the delay in the execution of work Administrative Sanction was accorded for the construction of Multistoreyed Industrial Estate at

			through the land taken back from M/s. Okay Agencies. SIDCO accordingly submitted the proposal for approach road with an estimated cost of 25 lakhs. The delay in the commencement of work was due to the site conditions. The site where piling was to be done was waterlogged and draining was difficult. Delay also occurred due to the changes in the alignment and consequent changes in the plan of the buildings. Since SIDCO could not start the proposed work within the stipulated timeframe Government as per G.O.(Rt) No. 710/17/ID dated 18/05/2017 entrusted the work to another agency, ie, HLL. As per letter dated 19/09/2017 , the Managing Director, SIDCO requested Government to re-allot the work to them on account of the fact that the existing engineering wing of SIDCO is competent to carry out the proposed work and the same will be completed without delay after preparing an appropirate plan and proposal for the same. Based on the recommendation of Director of Industries & Commerce, the Government as per G.O. (Rt) No. 1608/17/ID dated 24/11/2017 re-allotted the work for the construction of the Multistoreyed Industrial Estate of Pudussery to SIDCO. The work was awarded to HLL. But as per G.O. (Ms) No. 1608/2017/ID dated 24.11.2017, Government has accorded sanction to implement the project

			through SIDCO. Accordingly SIDCO submitted a revised plan on 17.01.2018 which has been approved on 15.02.2018. **Construction of Multistoried Industrial gala at Kochuveli, Thiruvananthapuram.** As per the Government Order GO(Rt) No. 1568/2012/ID dated 18.10.2012 Government accorded Administrative Sanction for the Construction of Multistoried Industrial Gala at Kochuveli, Thiruvananthapuram and released an amount of Rs.1000 lakhs for the purpose. This project is to be setup in an extent of 141.545 cents of land which was resumed from M/s Travancore Sulphates Limited. The plan and estimate submitted by SIDCO was approved and accepted and the project was entrusted with SIDCO as deposit work. But due to some legal procedures arosed from the liquidation of M/s Travancore Sulphates, Industries Department could not take possession of the land earmarked for this project. Now the legal procedures have been completed and the Department has taken possession of the land. Vide Order GO(Rt) No. 431/2017/ID dated 22.03.2017 the work was entrusted to HLL . But the amount of Rs. 10 crores deposited in the Special TSB Account of Director of Industries and Commerce was taken back by the Government during the end of the

			financial year 2017-2018. **<u>Construction of Multistoried industrial gala, Manjeri.</u>** Administration Sanction was accorded for an amount of Rs 3 crore for the construction of Multistoried Gala at Manjeri and Rs. 46 lakhs has already been released to SIDCO for the same. The 1st phase, which included the Structural and Constructional works has been completed . When the 2nd part bill was scrutinized it was found that it was not satisfactory and deviation has occurred from the approved plan and estimate. The contractor filed a case before the Hon'ble High Court for not receiving the bill amount. Chief Techinical Examiner was directed to enquire irregularities occurred from the approved plan. .The report of Chief Techinical Examiner has been received and necessary directions have been issued to SIDCO to comply with the observations of Chief Techinical Examiner.
3	2.1.10.4	**Transfer of allotted land :** We also observed that in two cases (land value : 0.10 crore) irregular transfer effected by the original allottee was regularised by SIDCO and in two other cases (land value : Rs. 0.20 crore) transfer was	Since 2011 SIDCO have evicted 29 sheds from their IEs/MIEs/IPs because of the non-functioning of industrial units and have taken further steps for alloting the evicted sheds to new applicants. Clause 16(b) of the Allotment Rules of 1996 (Outright Sale) followed by SIDCO allows the entrepreneur to transfer of

		allowed by the original allottees after being served eviction notice for keeping the units inactive, which was in violation of SIDCOs own rules. During joint inspection of nine industrial estates, six Mini Industrial Estates (MIEs) and two Industrial Parks of SIDCO, we further noticed that 37 units which were allotted land/sheds in the IEs/MIEs/IPs were not functioning had not started functioning. SIDCO had not taken effective steps to evict the non-functional units and allot the land/sheds to new applicants.	land/shed to another industrialists/entrepreneurs for starting the MSME Units. But after making such transfer the matter should be intimated to SIDCO. Now SIDCO have constituted a Committee for monitoring transfer & allotment of land. Based on the recommendations of the Board of Directors of SIDCO the Managing Director has authority to approve the transfer of allotted land under SIDCO.

Action Taken Statement on the Report of the C&AG of India on Public Sector Undertakings for the Year ended on 31st March 2016 pertaining to KINFRA and FIT

Para No.	Audit Observation	Reply
2.1.10.3	see below	see below

Para No.: 2.1.10.3

Audit Observation

2.1.10.3 Establishment of Infrastructure by PSUs for MSMEs

KINFRA, KSIDC and SIDCO are engaged in creation of infrastructure for the promotion of industries in Kerala. These PSUs have, accordingly, been developing Industrial Parks/Townships/Zones, Industrial Growth Centres and Industrial Estates respectively. The details of the Industrial Estates/Parks, etc., maintained by the above PSUs as at 31 March 2016 are given in Table 2.10.

Table 2.10:Details of Industiral Estates/Parks etc. maintained by PSUs

Sl. No	Agency	Industrial Parks/ Estates, etc. (No)	Area acquired (Acre)	Allottable area (Acre)	Area allotted (Acre)	Units established (Number)
1	SIDCO	60	324.28	262.63	253.33	1,367
2	KSIDC	7	1,305.81	973.78	575.64	83
3	KINFRA	21	1,804.17	1,489.36	884.24	638
	Total	**88**	**3434.26**	**2,725.77**	**1,713.21**	**2,088**

Allotment of area in Industrial Estates/Parks etc. maintained by the PSUs was only 62.85 percent of the total allotable area. We reviewed the activities of these PSUs on promotion MSMEs and findings are reported below.

* According to the Project Implementation Mannual of GoI,implementation of Projects should be preceeded by feasibility studies to ensure that the project was conceptually sound in terms of economic benefits as well as financial returns.

Reply

2.1.10.3 Establishment of Infrastructure by PSUs for MSMEs

Rural Apparel Park, Rajakumari, Idukki

As announced by the State Government in the Budget 2010-11 that Rural Apparel Parks will be set up in various parts of Kerala through KINFRA, KINFRA has identified 2.0175 acres of land in Rajakumari in Idukki District. Subsequently, the land was transferred to KINFRA and KINFRA has set up a Rural Apparel Park with a total built up area of 60000 sq.ft. In the year. The construction work was completed. For marketing of this Rural Apparel Park, KINFRA initiated various discussions/meetings with prospective entrepreneurs and also published in local dailies as well as in the website inviting entrepreneurs to set up their facility in the building.

Further to this, KINFRA also held discussions with District Industries Centre, Idukki to identify prospective entrepreneurs from SME Sector.

KINFRA has received enquiries from two prospective entrepreneurs for the entire utilisation of this building.

M/s Cotton Blooms a leading Garment Manufacturing Company has submitted application for setting up their Garment Manufacturing unit in 60000 sq.ft built up space inthe Rural Apparel Park, Rajakumari. The 79th Land Allotment Committee

KINFRA decided (July 2010) to establish rural apparel parks in different panchayaths of the State to promote small/micro/medium garment industries, thereby creating employment in rural areas. For this purspose, GoK allotted (November 2010) 2.02 acresl of land on 30 year-lease to KINFRA to set up a rural apparel park at Rajakumari, Idukki. The rural apparel park with an estimated cost of ₹4.99 crore aimed to provide employment to 1,200 rural women. The work was completed in January 2012 at a total cost of ₹7.35 crore including additional work. The space in the park was, however, not hired by entrepreneurs till date (January 2017)

We observed that the management had failed to identify takers for the Park due to the remoteness of the location and logistic costs. Thus, the primary purpose for which the land was alloted i.e., employment generation was not fullfilled as the feasibility of the park was not adequately ascertained.
GoK stated (March 2017) that the facility was set up in Idukki as the locality was a catchment area where apparel units sourced labour. However, units could not be established so far and KINFRA was continuing their efforts for utilisation of the building. The fact, however, remains that the entire facility is lying unutilised and KINFRA/GoK should have identified prospective entrepreneurs for the project before committing resources to it.

* KINFRA set up (June 2006) an Agro Food Business Incubation Centre at KINFRA Food Processing Park, Kakkancherry with technical consultancy from Defence Food Research Laboratory (DFRL) at a cost of ₹0.79 crore. The facilities at the centre included production line for retort packing for ready -to-eat foods and convenience foods. As the Food Business Incubation Centre was set up with the help of DFRL, DFRL engaged FICCI for technology transfer to the operating agency. FICCI demanded ₹0.03 crore as onetime fee and annual royalty of two percent on net domestic sales or five percent on the net export sales.

meeting held on 5/4/2017 allotted 60000 sq.ft. Built up space to M/s Cotton Blossom for setting up a unit for manufacturing readymade garments. They are in the process of signing the required agreement.

Food Business Incubation Centre -KINFRA Food Processing Park, Kakkancherry

KINFRA set up an Agro Food Business Incubation Centre at KINFRA Food Processing Park, Kakkancherry with technical consultancy from Defence Food Research Laboratory (DFRL), Government of India.

Technical Know-how and Feasibility

The Incubation Centre is meant to support entrepreneurs who want to start a venture in food processing for the first time and those who want to innovate products. Hence in the food processing sector, incubation Centre does not operate strictly on the same business model as normal commercial activities. This is becasue incubation centre caters to new and emerging technologies with yet-to-be-tapped market potential.

In order to ensure that only appropriate facilities for incubation activity are set up and to ensure proper technical know-how for commercial technologies (with established feasibility), KINFRA had utilized the services of a national level reputed institution in the Government sector namely M/s Defence Food Research Laboratory (DFRL), under Defence Research Development Organization (DRDO), Ministry of Defence, Govt. of India. The DFRL was engaged as Technical Consultant (from concept stage, designing up to trial commissoning) to utilize their technical expertise in implementing the Food

The operating agency, Inkal Ventures Private Limited (Inkal) informed (August 2015) KINFRA its inability to operate the Business Incubation Centre as they failed to identify entrepreneurs willing to utilise the Business Incubation Centre.

We observed that the project report submitted in September 2002 did not contain any record relating to feasibility studies to determine the viability of the project. The Food Business Incubation Centre constructed during June 2006 at a cost of ₹0.79 crore has remained idle for the past 10 years.

KINFRA in their reply (November 2016) admitted that it had not conducted any feasibility study since the concept of food incubation parks was an emerging technology. KINFRA further stated that the prospective investors had backed out due to the global economic recession and the project had not taken off due to the poor marketing efforts by the selected operating agency. KINFRA also assured that all efforts were being made to ensure the viability of the project.
GoK endorsed (March 2017) KINFRA's views and further stated that since the Business Incubation Centre dealt with emerging technology, developing sufficient business to sustain its operations would require time.

* KINFRA Food Processing Park, Adoor envisaged allotment of developed land to 16 units. Effluent Treatment Plant (ETP) of 225 m^3/day capacity was necessary to neutralize effluents emitted by these units. Individual units were to perform preliminary treatment and KINFRA was to conduct secondary treatment of the effluents in the park.

KINFRA awarded (May 2012) the work of Design, Supply,Construction, Erection and Commissioning of ETP including operation and maintenance of the plant for three years to Aqua Designs India Private Limited, Chennai at a lump sum contract value of ₹1.99 crore. The scheduled completion time was six months (December 2012).

Business Incubation Centre. Apart from providing technical advice to KINFRA, DFRL's services have been made available to Operating Agencies also for availing commercial technologies developed by DFRL.
The concept of Agro Food Business incubation Centre deals with an emerging technology. DFRL has the track record of developing such technology commercially. Hence a separate feasibility study has not been carried out by KINFRA.

Delay in operation of the facility

Since incubation Centre deal with emerging technologies, developing sufficient business to sustain its operations would require time and sustained efforts. In the initial stages of its operations, the worldwide economic recession during 2008-2009 period created a negative impact, as the prospective investors backed out from venturing into new technology areas, thus affecting the plans for successfully running the facility.

Enquiries have been received by the operating agency at the Food Business Incubation Centre, Potential customers have also visited the facility and expressed interest to make use of its facility. But such opportunities have not been converted by the selected operating agency into production of the facility. It is felt that this was mainly due to the inability of the operating agency in properly marketing the facility and lack of a proper focus for promoting incubation activities by the operating agency KINFRA had helped the selected operating agency by facilitating discussions with DFRL and their associated agencies to make the unit operational.

Due to delay in cutting and removing trees, the site could be handed over to the contractor only on 10 September 2012. Further, clearance from Kerala State Pollution Control Board (KSPCB) was not obtained to establish the plant. Hence, time extension was granted up to November 2013. The work is yet to be completed (November 2016) due to labour problems and defaults on the part of the contractor.

GoK in its reply (March 2017) stated that the work was still progressing and the delays after the extension period were due to labour issues and defaults on the part of contractor. Further, none of the MSME units was affected on account of the non-commissioning of the ETP facility. The reply is not acceptable since one unit is still to get the clearance from KSPCB and two units had installed ETP at their own cost to get the clearance.

* KSIDC developed three Industrial Growth Centres (IGCs) at Kinalur (Kozhikode District), Baliyavelichom (Kannur District) and Cherthala (Alappuzha District) at a total cost of₹138.25 crore, using the funds provided under the erstwhile Industrial Growth Centre Scheme of the GoI (₹28.27 crore) and grants from GoK (₹109.98 crore). The details of land acquired and allotment of land to units were as given in Table

2.11.Table 2.11:Details of allotment of land in IGCs

IGC	Land acquired	Land allottable (a)	Land allotted (b)	Balance unallotted land (a-b)	No.of Units
	(Acre)				
Kozhikode	310.72	256.17	101.64	154.53	65
Cherthala	278.79	224.72	161.12	63.60	43
Kannur	250.00	218.00	59.76	158.24	42
Total	**839.51**	**698.89**	**322.52**	**376.37**	**150**

Since the food processing sector is opening out in a big way, with bigger competition due to arrival of new players, research and development is being accorded a lot of significance and product innovation is expected to get a major thrust. In view of this, the need for an incubation Centre assumes significance and more players will come forward to invest in reseach and development and product innovation. Such units will benefit from Food Incubation Centre.
onsidering the above factors, KINFRA is taking all efforts to market the Agro Food Business Incubation Centre in consultation with varoùs State holders from the industry. With the emergin trend of incubators in the State across various sectors, KINFRA will continue the efforts to make this facility a viable proposition.

	It can be seen from the above Table that out of 698.89 acres of land available in the IGCS, the extent of land actually utilised was only 322.52 acres, i.e., 46.15 per cent. Considering the fact that non-availability of land is the primary constraint hindering industrial development in Kerala, the inability of KSIDC to attract industrial units to the IGCs was inexplicable. * As per the provisions of the Licence Agremment executed between KSIDC and the allottes, allottees should complete the construction of building and commence commercial operation within two years or extension thereof. Otherwise, KSIDC would revoke the Licence Agreement and resume the allotted land. We noticed that out of the 150 units that have been allotted land in the three IGCs, 37 units which were alloted 34.22 acres of land failed to commence commercial production within two years. The delay ranged from 10 months to 7 years. KSIDC, however, had not evicted these allottees so far (December 2016). Thus, the actual utilisation of developed land in the IGCs was only 41.25 per cent (288.30 out of 698.89 acres)	
2.1.14.	**<u>Performance of MSMEs in the State</u>** 2.1.14 Monitoring the functioning of MSMEs by collecting and compiling data on actual quantity of goods/ services produced, profit/loss, financial health, etc., was essential for assessing the performance of the sector and providing assistance/initiating remedial measures. GoK and its agencies such as DI&C, KSIDC, KINFRA, SIDCO, etc., did not, however, put in place a system for collecting, compiling and analysing data on the functioning of MSMEs in the State except in case of units availing assistance under specific schemes. In the absence of this, GoK was making policy decisions on the basis of MSME Census conducted by GoI in 2006-07.	**<u>2.1.14. Performance of MSMEs in the State</u>** **1. Construction of effluent treatment plant at KINFRA Food Processing Park, Adoor - Delay in completion** The work of "Design, Supply, Construction, Erection and Commissioning of Effluent Treatment Plant (Phase 1) of 225 m^3 per day capacity, at KINFRA Industrial Park, Adoor" was awarded to M/s Aqua Designs India (P) Ltd., Chennai, for an amount of ₹1,98,82,500/- including charges for operation & maintenance for three years. The extended period of completion expired on 31.11.2013.

We, however, examined performance of MSMEs in parks developed by KINFRA and noticed the following issues. * The KINFRA Integrated Industrial Textile Park (KIITP), Kanjikode, Palakkad was established by KINFRA on 100 acres of land at a cost of ₹30 crore. 89 industrial units were alloted plots in the Park from 2011 onwards. As per the schedule of the projects, the units coming up in the Park were to be allotted power by January 2012. Power was, however, made available to the units only by September 2013. The delay in providing power was due to refusal of Kerala State Electricity Board Limited (KSEBL) to supply power to KINESCO Power and Utilities Limited (KINESCO), a joint venture set up by KINFRA and National Thermal Power Corporation Limited. We observed that out of the 89 units that had been allotted plots in the Park, 28 Units with a total projected investment of ₹66.32 crore and employment potential for 1,047 persons, could not commence activities and had, therefore, abandoned the projects. Even the units that had commenced production did so using DG sets till KSEBL agreed to supply power and had to incur heavy losses on that account. The failure of the above units to commence business was directly due to KSEBL's refusal to supply power to KINESCO at the same rate at which it was supplying power to other licensees in the State. This was violative of GoK's policy that MSME units should be promoted. GoK Stated (March 2017) that the issues had since been resolved and power is now being supplied to the units located in the Park by KSEBL/KINESCO. The fact, however, remains that 28 units could not commence activities as envisaged due to the failure of GoK in coordinating the activities of various Departments/agencies under it.	The work is still progressing and the delays after the extension period was mainly due to labour issues and defaults on the part of contractor and the work is executed under penalty. In this context it may be noted that the completion of the work has no bearing on the units in operations in the Park; one unit in operation in the Park has their own arrangements for effluent disposal. The other units requiring effluent treatment are still under construction and installation. Now civil works are almost completed and mechanical erection is in progress. The works are expected to be completed by November 2017 and commissioning is expected by December 2017. Even though there is delay on the part of the contractor which will be dealt with under the terms of the contractor, the delay has not affected the industrial units within the Park. In this context it may be noted that none of the MSME units in KINFRA Park, Adoor was affected on account of the non-commissioning of the ETP facility. **2. KINFRA integrated Industrial & Textile Park, Palakkad-Issue of power supply** The delay in supplying power to the units in the Park on account of disputes between KSEB and KINESCO Power Utilities on the rates payable by KINESCO. The power to the existing units has since been provided by KSEB as per the tariff fixed by KSERC and APTEL. Now KINESCO is the licensee for the power distribution in KINFRA Park, Palakkad and supplying power to the new entrepreneurs. Currently 30 Industrial Units agreed to switch over to KINESCO. As on date there is no issue regarding the supply of power at KINFRA integrated Industrial & Textile Park, Palakkad.

GOVERNMENT OF KERALA

INDUSTRIES (J) DEPARTMENT

STATEMENT OF ACTION TAKEN ON THE RECOMMENDATIONS CONTAINED IN THE AUDIT REPORT NO. 4 OF THE COMPTROLLER AND AUDITER GENERAL OF INDIA ON PUBLIC SECTOR UNDERTAKINGS FOR THE YEAR ENDED 31ST MARCH 2016-RELATING TO KERALA STATE INDUSTRIAL DEVELOPMENT CORPORATION LTD

Title of Paragraph	Recommendations	Action Taken
2.1 Promotion and Development of Micro, Small and Medium Enterprises in Kerala.	1) Industrial policy of the State should be revamped with specific schemes and provisions for development of MSME sector,taking cue from the neighbouring States. Central assistance for MSMESector schemes should be tapped to the maximum. 2) Financing schemes need to be implemented more effectively and efficiently to reach out to more MSMEs. The ESS and the KSEDM need to be strengthened to provide assistance to all eligible MSMEs. 3) Development of infrastructure schemes should be completed in time to bridge gaps in the available developed land/ space.Modernisation of existing parks/ industrial estates should be undertaken immediately as many of them are in dilapidated condition. Infrastructure scheme should be taken up only after conducting feasibility studies.	KSIDC has developed three Industrial Growth Centres (IGCs) at Kinalur (Kozhikode District), Valiyavelicham (Kannur District) and Cherthala (Alappuzha District), by providing basic infrastructures like road, drainage system, power, water supply system, rain water collection etc., required for the industrial units. Based on the requirements / demands of various industries, the basic infrastructure required for the IGCs was developed in different phases, considering the higher extent of land (839.51 acres) acquired. The status of the above IGCs are given below. **IGC Kannur** • Out of the total land, 50 acres was earmarked for SME/SSI units, 40 acres for Apparel Park, 25 acres for Rubber Park, 32 acres for common facilities and 92 acres for general/large scale. • Basic infrastructures like road, streetlight, power etc., were developed in the IGC. • Further the 50 acres in the SSI park was developed by providing additional internal roads and water supply network and allotted to various units. • But the major issue in the allotment of land / attracting new unit was the shortage in power supply.

	4) GoK may put in place an efficient mechanism for providing marketing support to eligible MSMEs through strict enforcement of Public Procurement Policy	• It may be noted that the shortage was resolved by the commissioning of 110 1KV substation in IGC by March 2018. • The remaining developed land is being allotted based on demand/requirement, further land will be developed for allotment. **<u>IGC Kozhikode</u>** • Out of the total land, 150 acres of land was initially developed as Phase I by developing basic infrastructures like road, water supply system, power etc. • The major factor hindering the implementation of the units in the allotted land was the shortage of power. • It may be noted that the shortage was resolved by the commissioning of 110 KV substation in IGC by November 2017. • Many of the units have already started commercial production in the allotted land and the remaining units are in various stages of implementation. • The remaining developed land/plots are being allotted and also steps have been taken for developing the remaining land earmarked as Phase II. **<u>IGC Cherthala</u>** • The total land area acquired for Industrial Growth Centre at Cherthala is 278.79 acres. Out of the total land, 161.12 acres has been allotted to industrial units and institutions till December 2016. • KSIDC had further utilized 63.25 acres of land at IGC Cherthala for

development of common infrastructure (17.18 acres) ,Rehabilitation purpose of evictees (19.57 acres), Standard Design Factory Building, CFC, Deep Freezer Ware House Buildings(11.50 acres) and divested 15 acres for National Power Training Institute. Hence the total land utilized during December 2016 is 224.37 acres.

- C of the balance 54 acres available during December 2016, 42 acres are in undeveloped condition. (KSIDC had sought budgetary support from GoK for developing this balance land with basic infrastructure facilities such as roads, storm water drain, and power and water distribution network).

- The present lease tenure at IGC Cherthala is 30 years. As per the provisions in the License Agreement, the unit has to complete the project and start commercial operation within 2 years. However due to absence of proper access to the plot and pending completion of common effluent treatment plant implementation works of a few units were delayed.

Further KSIDC is constantly monitoring the implementation of the units by the allottee within the time period provided. However in cases of delay in implementation due to justifiable reasons, KSIDC has renewed the licence as per the following clause in the licence agreement.

"If the Licensee has for justifiable reasons not completed the construction of building during the period of the Licence, then on application by the Licensee the Licensor may at it's sole discretion grant an extension of the Licence period without affecting the total period of the Licence and Lease, viz., 30(Thirty) years.

In other cases, KSIDC has already resumed/cancelled the land allotments after issuing prior show cause notices for the delay in implementation.

		Seed fund scheme of KSIDC primarily aims at supporting scientific, technological and innovative projects promoted by YOUNG ENTREPRENUERS which are commercially viable. Innovative ventures are given seed fund by way of soft loan or equity share capital at 90% of the project cost or Rs.25 lakhs whichever is lower. The scheme has been operational since 2015-16. The assisted companies are those which are into health services, agriculture, web & application development, e-commerce platforms, Engineering, Ayurveda, financial services, media, advertising, educational services, food processing, human resource training, biotechnology, freight services, defence-technology. The seed fund assisted companies of KSIDC has an estimated employment generation of 1000 numbers. With the objective of providing adequate infrastructure facility is prospective, young entrepreneurs /innovators, KSIDC has set up two incubators Kerala - one at Geo Infopark, Kakkanad, Kochi with 124 work stations and the other at UI Cyberpark, Kozhikode with 82 work stations.

K.Radhakrishnan
Additional Secretary
Industries Department
Government of Kerala

ACTION TAKEN REPORT ON PERFORMANCE AUDIT REPORT OF CAG ENDED ON 31.03.2016			
Sl. No.	Audit Para No.	Audit Para	Action Taken Report
1	2.1.6	Registration of MSMEs	Annual Registration of MSMEs (EM Part II) increased from about 9000 units in 2010-2011 to 15,500 units by 2016-17, which indicates an increase of 72.02% over a period of 7 years. It also needs to be emphasised that although Kerala figures at 13 in rank viz a viz population, the State is ranked at 7 in terms of number of MSMEs. The growth of MSMEs sector in Kerala in relation to its Geographic size and population compares well with the neighbouring States. Various initiatives were taken in line with the industrial policy for promotion and development of MSMEs in the State. Business incubation centres were set up in all DICs for networking with various support institutions in MSMEs sector and to provide guidance and hand holding service to existing and new entrepreneurs. A new scheme has been launched to develop MSMEs with the support of LSGD such as industrial infrastructure for setting up of MSMEs, incubation centres etc. The industrial infrastructure development is proposed to be implemented in 50:50 cost sharing basis. For development of MSMEs in rural areas by utilising local resources cluster development approach is being taken up. In the current year 28 new clusters have been identified.
2	2.1.7.2	Non implementation of Central Schemes for MSMEs	As part of the department's Industrial Policy a Committee has been proposed to constitute a cell with Director of Industries and Commerce as chairman for effectively tapping assistances under central schemes and for monitoring their implementation. Schemes such as Digital MSME scheme, Credit Linked Capital Subsidy Scheme, National Manufacturing Competitiveness Programme, Marketing Assistances Scheme, Lean Manufacturing Scheme etc under MSME Ministry are being promoted in an aggressive manner through all DICs. Awareness workshops are being held in all districts to create awareness. The Business Incubation Centers in DICs are equipped to provide information and the assistances to the entrepreneurs.
3	2.1.7.3	Industrial Policy for promotion and department of MSMEs for Government of Kerala	A new Industrial Policy is being formulated for an integrated economic development of the state by creating employment opportunities and by making the State an investor friendly State without compromising the ecological sensitivities of the State. The prime objective of the policy is to ensure timely clearances and simplification of procedure for setting up of enterprises. Ease of Doing Business has been accorded top most priority. Industrial Infrastructure will be developed and strengthening will be given due focus. The entrepreneurial culture will be promoted through academic institutions. Industry institutional linkage will be promoted. With these steps it is expected that

			there will be a significant growth in the MSME Sector as compared to the neighbouring States.
4	2.1.7.4	Non utilisation of budget allocation for scheme for promotion and development of MSMEs	The funds provided for the development of Infrastructure in existing Development Area/Development Plots was on 70:30 cost sharing basis during the period 2011-2012 to 2015-2016. The funds provided for the scheme could be fully utilized only when the matching contribution of 30% from the beneficiary association is deposited by them in the joint account. The utilization was 51.73% during this period on account of not getting the matching contribution from beneficiary association. Realising the difficulty of beneficiary association in raising the beneficiary contribution and understanding the urgency for addressing the infrastructural bottle necks, the scheme for improving Infrastructure in existing Development Area/Development Plots is now being done with 100% Government funding. In 2016-2017 the amount provided for this proposes was Rs. 25 Crores and it was fully utilized. As regards the construction of Multi Storied Industrial Estates, the works were entrusted with SIDCO as deposit work. There were technical issues on the part of SIDCO to start the project at Puthussery on time. The delay in the execution of Kochuveli project was on account of not getting the land in the possession of District Industries Centre due to legal issues. From 2016-2017, the department have brought in agencies such as KITCO and HLL who are better equipped to handle such major projects. Now the new projects in the following locations at a total cost of Rs. 100.29 Crores have been entrusted with HLL and KITCO. Kochuveli Phase I & II, Thiruvananthapuram - HLL Punnapra Alappuzha - KITCO Puthussery, Palakkad - HLL Shornur, Palakkad - HLL Puzhakkal Padam Phase II, Thrissur - KITCO
5	2.1.7.5	Non commencement of rehabilitation package	The rehabilitation of sick units in the State is being accorded highest priority in accordance with RBI guidelines in this regard. Though the fiscal incentives for sick units are not provided, a mechanism to rehabilitate such units such as facilitating rescheduling of loans, marketing support, technical support and other hand holding services are being provided at the district level at the District Industries Centre. The sickness percentage among the MSME units in the State is on decline as evidenced by the following facts. Out of 3235 units assistance under PMEGP during 2008-2013 only 268 units were found to have closed down based on a third party Audit. Further based on an in-house study by the directorate, out of 3600 units, availed assistance under Entrepreneur Support Scheme only 2 % were found to have closed down. This reflects the overall health of MSME sector in the State. The incubation centres in District Industries Centres are providing counselling support to MSME units. The General Manager, District Industries Centres and technical officers of the department are part of the stressed asset revival programme of nationalized banks. There is a special drive to identify incipient sickness among MSME unit for timely intervention.

6	2.1.9.6	Implementation of ESS by District Industries Centres.	The reported case in respect of irregular sanction and disbursement of subsidy to M/s. Agritex is being enquired into. Appropriate action will be taken on the basis of enquiry. The 4 enterprises mentioned in the reports are units engaged in digital printing which are purely manufacturing activity. Digital Printing is not included in the negative list as per ESS guidelines and it was also clarified from MSME DI, Ministry of MSME before giving assistance to the units under ESS.
7	2.1.10	Infrastructure development.	The delay in the execution of multi storied industrial estates as given in the table 2.8 was due to the operational problems of Small Industries Development Corporation. The civil works of Puzhakkal padam project has been completed and entire space has been allotted. The Pudussery and Kochuveli projects have already been entrusted with HLL. All the new projects have been entrusted with KITCO and HLL.
8	2.1.10.2	Implementation of Cluster development programme.	The Cluster developments Programme by Government of India stipulate that the beneficiaries should have a key role in the formation and remaining of the cluster consortium. The cluster programme is all about Capacity building of the small cluster units engaged in similar activities so that there could be a common facility centre equipped with costlier machinery raw material bank for common sourcing and supply of raw material, common marketing etc. The funding pattern for the setting up of CFCs in such clusters is 70:20:10 by Central Government, State Government and SPV respectively. As per the MSE - CDP guideline the beneficiary contribution of 10% should be deposited and expended first. Only after expending this, the state contribution of 20% could be spent. Only after spending and after submission of UC for the State contribution, the Government of India would release its first instalment of 70%. Thus in a cluster if the beneficiaries' share of 10% of the sanctioned cost is not provided the project will not move forward. In the reported cases, in respect of Pala Ethnic Cluster, Kottayam the beneficiary SPV (M/s Omax Foods Pvt. Ltd.) had not completed their initial initiatives in time. However Government of India have extended the time limit in many times, the SPV could not fulfil their initial milestones. No State or Central share has been spent for the project. Without completing the beneficiary Projects in time State or Central funds could not be pumped for the cluster. With reference to vacating the stay order in the case of Shornur Agriculture Implements Cluster, Government had submitted the facts and figures about the case before the Court. Vacating of stay has to be ordered only by the Hon'ble High Court. The General Manager, District Industries Centre has submitted the statement of facts in the case of WP(C) No 34185/2014 in this regard on behalf of the Government of Kerala in time.
9	2.1.10.5	Modernisation of existing infrastructure	Proposals for up gradation of Industrial Infrastructure at Puvanthuruth, Kottayam and Edayar, Ernakulam have been given final approval by Government of India. The total project cost for DP Puvanthuruth is Rs. 10 Crores and that of Edayar, Ernakulam is Rs. 9.83 Crores. These projects are implemented on 60:40 cost share of basis. The

			40% share for the above two projects have already been provided. The projects will be implemented in the current year after identifying appropriate implementing agencies. The remaining 7 proposals as below are under the consideration of Ministry of MSME. DA-Kochuveli NIDA-Kanjikode DA-Aroor DP-Varavoor DP-Athani DP-Kattippara DP-Anathapuram
10	2.1.12.1	Public procurement policy	The annual requirements of material for purchase by various State PSUs/Departments/Government agencies that can be sourced from MSMEs are being prepared. Once the data is compiled the same will be forwarded to Government to ensure that purchase of various items required by PSUs from MSMEs. Buyer seller meets are being held regularly with the support of MSME - DI to ensure that the PSUs inform their requirements well on time so that MSMEs can plan their production programme accordingly.
11	2.1.12.2	Organisation of exhibitions and fairs for the promotion of MSMEs.	An effective feed back mechanism has already been put in place through District Industries Centres in respect of fairs such as B2B Meet, Agro & Food Processing Exhibition, Machinery Expo etc. The selection of MSMEs in the State for participation in National & International Exhibitions is undertaken by publishing the information in the official website of Department of Industries & Commerce www.keralaindustry.org . Also the respective District Industries Centres in each District of the State are intimated regarding the event for giving a wide publicity among the MSMEs. Apart from that, K-BIP also will directly mail the information to the MSMEs who earlier participated in the various events organised by K-BIP. K-BIP has not denied participation for any Unit who has shown interest for participation. The works related to venue arrangements with regard to major Events like Kerala Business to Business Meets, Kerala Bamboo Fests, Malappuram Crafts Mela etc. were undertaken through inviting Expression of Interests (EoIs) from the Agencies by releasing advertisements in newspapers. Further, the Agencies who have submitted the EoIs were invited for a presentation before the Selection Committee which will cover the details of the Agency with documentary proof, previous experience of the Agency including similar Events organised successfully with documentary proof and schedule of works mentioned in the Bill of Quantities. The short listed Agencies have to submit the financial bid for the individual items with the total cost as per the Bill of Quantities in sealed covers. The Selection Committee will open the financial bids of technically qualified Agencies selected by the Committee and the lowest bidder will be awarded the work. The selection is being done on a transparent manner by the Committee chaired by the Director (Industries & Commerce). The feed backs from

			the participants to ascertain the effectiveness of participation is also being obtained from the participating MSMEs.
12	2.1.13	Clearances under Single Window Scheme.	The single window scheme is being implemented though the Single Window Clearance Board at the district level of which General Manager, District Industries Centre is the Convenor. The meetings are being held regularly and now the pendency of the applications in various districts is being monitored in the monthly plan review conference at the Directorate. A new act called Industrial Investment Promotion and Facilitation Act, is already came into effect, empowering the single window clearance system.

K. RADHAKRISHNAN
Joint Secretary to Govt,
Industries Department.

Appendix 3

Statement showing details of entities involved in promotion and development of MSMEs in Kerala
(Referred to in Paragraph 2.1.2)

Sl. No.	Name of agency	Objectives and functions relating to MSMEs	Schemes/ Major activities
1	Directorate of Industries and Commerce (DI&C)	Implementing agency of Micro, Small and Medium Enterprise related policy decisions of the Industries Department of Government of Kerala.	• State/ Central Plan Schemes for promotion and development of MSMEs. • Administers 126 Development Areas/Plots set up in 2515.45 acres through 14 District Industries Centres. • ESS for providing financial support to MSMEs. • Single Window Clearance Schemes for industrial Units
2	Kerala Financial Corporation (KFC)	Lending to industries and supporting sustained industrial growth of the State with special attention to MSMEs.	• Kerala State Entrepreneur Development Mission (KSEDM) for providing financial support to MSMEs. • Receivable Finance Scheme.
3	Kerala Small Industries Development Corporation Limited (SIDCO)	Providing infrastructure facilities such as land, work shed, water, distribution of scarce raw material etc. to the Small Scale Sector of the State through industrial estates and industrial parks	• Administration of 60 Industrial Estates/ Mini Industrial Estates/ Industrial Parks. • Marketing support to MSMEs • Supply of raw material to MSMEs
4	Kerala State Industrial Development Corporation Limited (KSIDC)	Promoting, stimulating, financing and facilitating the development of large and medium scale industries in Kerala.	• Promotion of industrial projects, financing of projects, establishment of growth centers
5	Kerala Industrial Infrastructure Development Corporation (KINFRA)	Accelerating the industrial development of the State by providing infrastructure facilities to industries especially in backward regions of the State.	• 638 MSME units are functioning in 21 Industrial Parks (including three food processing parks) developed by KINFRA.
6	Kerala Bureau of Industrial Promotion (KBIP)	Promoting the potential business opportunities of the State to the entrepreneurs and to highlight the business climate prevailing in Kerala.	• Conducting/ participating in business meets, trade fairs, etc. • Industrial Cluster Development

Appendix 4

Statement showing list of Central schemes for promotion and development of MSMEs
(Referred to in Paragraph 2.1.7.2)

Sl. No.	Scheme	Sanctioning Department/Agency	Objective	Designated Implementing Agency	Nature of Central Assistance
1	International Cooperation	Ministry of MSME	Deputation of MSME business delegations to other countries for exploring new areas of technology infusion/ up-gradation, facilitating joint ventures, improving markets for MSME products, foreign collaborations, etc., Participation by Indian MSMEs in international exhibitions, trade fairs and buyer-seller meets in foreign countries, etc.	State/Central Government Organisations	95 *per cent* of airfare and space rent for entrepreneurs.
2	Assistance to Training Institutions	Ministry of MSME	Provision of capital grant to training institutions for creation/strengthening of infrastructure and support for conducting entrepreneurship development and skill development training programmes.	State/Union territory Government training institutions	Maximum ₹150 lakh for strengthening infrastructure on matching basis. ₹50 per hour per trainee for entrepreneurship development and skill development programmes.
3	Marketing Assistance	Ministry of MSME	Providing assistance for organising exhibitions abroad and participation in international exhibitions/trade fairs, co-sponsoring of exhibitions organised by other organisations/industry associations/agencies, organising buyer-seller meets, intensive campaigns and marketing promotion events.	MSMEs, Industry Associations and other organisations related to MSME sector.	95 *per cent* of airfare and space rent for entrepreneurs.
4	Micro & Small Enterprises Cluster Development Programme (MSE-CDP)	Ministry of MSME	1.To support sustainability and growth of MSEs by addressing common issues such as improvement of technology, skills and quality, market access and access to capital, to build the capacity of MSEs for common supportive action through the formation of self help groups, consortia, up-gradation of associations, *etc*. 2. To create/upgrade infrastructural facilities in	Industrial Associations, Consortia, Clusters	Diagnostic Study- ₹2.50 lakh Soft Interventions - ₹25 lakh Setting up of CFCs - ₹15 crore Infrastructure development in new/existing industrial estates - ₹10 crore

Sl. No.	Scheme	Sanctioning Department/Agency	Objective	Designated Implementing Agency	Nature of Central Assistance
			the new/existing industrial areas/clusters of MSMEs. 3.To set up Common Facility Centres for testing, training, raw material depot, effluent treatment, complementing production processes, *etc*.		
5	Building Awareness on Intellectual Property Rights	Ministry of MSME	To enhance awareness among the MSMEs about the Intellectual Property Rights, to make measures for protecting their ideas and business strategies.	Quasi-Government or Government aided bodies	₹1 lakh per awareness programme, ₹2.5 lakh per pilot study, ₹6 lakh per short term training programme and ₹45 lakh per long term training programme, ₹65 lakh each for establishing IPFCs etc.
6	Technology and Quality Upgradation Support to MSMEs	Ministry of MSME	To advocate the use of energy efficient technologies (EETs) in manufacturing units so as to reduce the cost of production and adopt clean development mechanism.	State Government Agencies, Expert Organisations etc.	₹75,000 to ₹1.5 lakh as funding support for awareness programmes, 75 *per cent* of actual expenditure for cluster level energy audit and preparation of model DPR, 25 *per cent* of cost as subsidy and balance as loan from SIDBI etc. for implementing EETs.
7	Capital Goods Scheme	Ministry of Heavy Industries and Public Enterprises	Setting up common engineering facility centre, integrated industrial infrastructure facilities for machine tool industry, etc.	MSMEs, State Government, etc.	Grant-in-aid of maximum ₹48.96 crore for two Common Engineering Facility Centres.

Appendix 5

Statement showing comparison of Industrial Policy of GoK *vis-a-vis* Tamil Nadu and Karnataka on MSME sector

(Referred to in Paragraph 2.1.7.3)

Particulars	Tamil Nadu[1]	Karnataka	Kerala
Land	There are clear cut guidelines regarding procedure for allotment of sheds/ plots to women entrepreneurs (30 *per cent*) Ex-service men (10 *per cent*) and for SC/ST(10 *per cent*)	Karnataka Industrial Area Development Board to earmark minimum 20 *per cent* of allottable land in their industrial area for MSMEs. Out of the 20 *per cent* land/shed reserved, 75 *per cent* was reserved to land/shed for micro and small and 25 *per cent* to medium enterprises. Karnataka State Small Industries Development Corporation Ltd. also has to procure land on its own for developing industrial estates exclusively for MSME	No reservation for MSMEs in respect of industrial land.
Financial Support	• Subsidy schemes for MSMEs established in industrially backward blocks and agro based enterprises set up in all the blocks in the State • Special capital subsidy for thrust sector enterprises set up in the State. • Provides a special capital subsidy of 15 *per cent* on the eligible plant and machinery subject to a maximum of ₹30 lakh to the thrust sector enterprises set up anywhere in the state 1. Generation subsidy - the Government extends generation subsidy at 25 *per cent* of the cost of the generation of power subject to a maximum of ₹5 lakh. - Back ended interest subsidy provided	• Venture Capital Fund will be created to support start-up in MSME • Credit Linked Subsidy and special targets to FIS • Connecting with PMEGP • Commercial and RRBs to lend loan to rural artisans • Angel funding schemes to encourage first generation entrepreneurs • Targeted approach in PMEGP	1)The Department of Industries would provide all help and support to entrepreneurs who seek financial assistance from banks and other financial agencies. 2) One time subsidy of 15 to 25 *per cent* on capital investment limited to maximum of ₹30 lakh for new MSMEs. 3) Interest subsidy under KSEDM.

[1] **Source: Industrial Policy documents of the respective States.**

Particulars	Tamil Nadu[1]	Karnataka	Kerala
	@3 *per cent*, subject to a maximum of ₹10 lakh for a period of 5 years to MSME- manufacturing enterprises for the loan up to ₹100 lakh for Technology upgradation/ modernisation 2. Credit Guarantee Fund Trust Scheme (CGFTS) 3. Value Added Tax Reimbursement subsidy - all MSMEs entitled to a 100 *per cent* subsidy on the VAT paid by them for the first 6 years from date of commencement of production 4. Low Tension power Tariff subsidy- all MSMEs are eligible for sanction of 20 *per cent* of the total electricity charges for the first 3 years 5. Rehabilitation of sick MSMEs. 6. Credit flow to MSMEs 7. New entrepreneurs – cum – enterprise development Scheme - ₹100 crore allocated to this scheme to invite youth to become new generation entrepreneurs. Selected beneficiaries will be assisted to avail term loan from banks/ The Tamil Nadu Industrial Investment Corporation Limited (TIIC) with a capital subsidy @25 *per cent* of project cost.		
Marketing Support	• Allowing waiver of Earnest Money Deposit for participation in tenders, • Grant of 50 *per cent* of hall rent for	- An online system will be developed for matchmaking of collaboration/vendor opportunities for MSMEs	Waiver of EMD and 15 *per cent* price preference to MSEs in Government/PSU purchases.

Particulars	Tamil Nadu[1]	Karnataka	Kerala
	participation in exhibitions within the State and also in other States by MSME Associations • Extending support for marketing under a common banner or brand name. Marketing assistance scheme- marketing through Tamil Nadu Small Industries Corporation Limited (TANSI) on 3 *per cent* commission	- Assistance to participate in international trade fair - Goods manufactured by MSME will be allowed 15 *per cent* preference over other products - Common branding and promotion shall be encouraged - Online service to track and resolve grievances regarding delayed payment to MSME	
Procedural reforms	District enterprise development consultative committee- single window Clearance - Pollution control board has also been brought under DI&C	- State evolved a mechanism to reduce inspection of MSME by various line departments and give thrust on self certification - All the regulatory approvals/ clearance required - for the MSME projects approved by DLSWC will be provided within a prescribed time limit - Value chain cluster development - 100 clusters in different sectors will be set up during the policy period at the rate of 20 cluster per year - The programme manager shall be an agency with diversified expertise in infrastructure development - The responsibility of programme manager would be to act as a catalyst between government and industrial stake holders ▪ Project structuring for optimisation of benefits ▪ Project appraisal for financing and other social requirement - Institute co-ordination with various agencies involved	Single Window Scheme for clearances