Report of the Committee on A Comprehensive Review of Kerala Infrastructure Investment Fund Board

October, 2026

GCPT 3/2129/2026/S-8.

Letter of Transmittal

October 13, 2026

To,

The Additional Chief Secretary,
Finance Department,
Government of Keralam,
Thiruvananthapuram.

Dear Shri. Jyothilal,

We herewith submit the Report of the Committee on A Comprehensive Review of Kerala Infrastructure Investment Fund Board (KIIFB).

Yours faithfully,

Sudha Pillai
Chairperson

Shyam Srinivasan
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Nilesh Vikamsey
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Foreword

On behalf of the Committee for Restructuring of Kerala Infrastructure Investment Fund Board (KIIFB), it is both my duty and my privilege to place on record our gratitude to the Government of Keralam for entrusting us with this important task. Although the task was challenging, the Committee found the exercise both engaging and intellectually rewarding. The mandate provided an opportunity to examine the institutional, financial and organisational aspects of KIIFB in considerable depth and proved, in many respects, a valuable learning experience for the Committee.

The Committee places on record its sincere gratitude to all those who extended their cooperation and support during the course of its work. In particular, the Committee would like to thank the Additional Chief Secretary (Finance) and his team, the officials of the Finance Department and KIIFB, Accountant General, Keralam and Secretaries of various government departments. The Committee gratefully acknowledges the guidance and support received from Mr. K.M. Chandrasekhar, Vice Chairperson of Kerala State Planning Board. Prof. D. Narayana, Chief Economic Advisor to the Vice Chairperson, greatly assisted in our understanding of the magnitude of the fiscal and administrative issues confronting the State and Prof. M Parameswaran, Centre for Development Studies, put in enormous work to facilitate the discussions and document the views of the Committee. The Committee places on record its sincere appreciation for their invaluable contribution.

The Committee trusts that this report and its recommendations will contribute to strengthening infrastructure financing and improving the fiscal health of Keralam.



Sudha Pillai

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CHAPTER I

Mandate and Approach of the Committee

Vide G.O.(P) No.80/2026/FIN, dated 13.07.2026, the Government of Keralam constituted a Committee to undertake a comprehensive review of the institutional, financial, governance and operational framework of the Kerala Infrastructure Investment Fund Board (KIIFB), with a view to assessing its functioning, financial sustainability and institutional effectiveness, so that an appropriate institutional framework for meeting the State's infrastructure financing requirements in a fiscally sustainable and accountable manner can be put in place.

1.1 The Committee had the following mandate:

The Committee has the following Terms of Reference:

1. To examine the objectives, mandate and role envisaged for the Kerala Infrastructure Investment Fund Board (KIIFB) under the original project prepared by the Kerala State Planning Board with the assistance of SBI Capital Markets Ltd. (SBI Caps), as approved by the Council of Ministers.
2. To review the changes and deviations, if any, made subsequently to the original project, institutional framework and operational mandate approved by the Government, and assess their implications.
3. To examine the resource mobilisation strategy adopted by KIIFB, including various borrowing instruments, and assess whether the borrowings were aligned with the objective of financing financially sustainable projects.
4. To review the cost of borrowings, including borrowings through Masala Bonds and other market instruments, and assess whether the borrowing strategy resulted in avoidable financial costs or losses, including on account of parking borrowed funds in lower-yielding deposits or investments.
5. To examine whether the mobilisation of resources by KIIFB complied with applicable Constitutional, legal, financial and audit requirements, including the propriety of assigning or diverting State revenues directly to KIIFB otherwise than through the Consolidated Fund of the State, and to identify any irregularities or systemic deficiencies, if any.

6. To examine whether the utilisation of KIIFB funds has been directed towards addressing critical infrastructure gaps, and whether the allocation of resources has been equitable across districts and sectors based on developmental priorities.
7. To identify expenditures, transactions or financial practices of KIIFB that, in the opinion of the Committee, warrant detailed examination from the audit, financial management or governance perspective.
8. To examine the role exercised by the Finance Department and the State Planning Board in the appraisal, approval, monitoring and oversight of KIIFB's inflows and outflows, including compliance with statutory and policy requirements such as allocations under the Scheduled Caste Sub Plan (SCSP) and Tribal Sub Plan (TSP), wherever applicable.
9. To examine the relevance and sustainability of the continued functioning of KIIFB in the context of the Government of India's policy and regulatory framework governing off-budget borrowings by State Governments, and to recommend an appropriate future institutional framework.
10. To review the organisational structure, governance framework and human resource policies of KIIFB, including the processes adopted for recruitment and appointment of officers and staff, identify any improprieties or systemic deficiencies, and recommend measures for restructuring the Organisation, redeployment of its institutional capacities within Government, and the future course of action regarding subsidiary or spin-off entities established by KIIFB.
11. To consider any other matter incidental or consequential to the above, or any other issue that the Committee considers relevant for strengthening the institutional, financial and governance framework relating to KIIFB.

1.2 Approach of the Committee

To meet its mandate the Committee attempted a comprehensive review of KIIFB. The review covered the KIIFB's institutional structure and mandate, its legal and governance framework, resource mobilisation and borrowing, utilisation of funds, project selection and implementation, financial management, organisational structure and human resources, and the role of Government departments in its functioning. Particular emphasis was placed on examining these aspects in relation to their conformity with Constitutional and governance requirements and established fiscal principles.

In examining KIIFB's financial operations, the Committee considered the sources and costs of funds, the terms and conditions associated with borrowing, the deployment of borrowed resources and the implications of KIIFB's financial commitments for the State Government. The Committee also examined the relationship between KIIFB's financial operations and the State's budgetary and fiscal framework.

The Committee examined the allocation and utilisation of KIIFB resources from the perspective of developmental priorities, including the distribution of expenditure across sectors and districts. It also considered the institutional processes through which projects were identified, appraised, approved and monitored.

The review of governance and institutional arrangements covered the respective roles of KIIFB's governing bodies as well as the role of the Finance Department and the State Planning Board. The Committee also examined the organisational structure and human resource arrangements, including recruitment, appointment and deployment of personnel.

The Committee drew upon records and information made available by the concerned Government departments, KIIFB and other relevant institutions. In accordance with the Government Order, the Committee also sourced research, analytical, technical and secretarial assistance from Government departments and external institutions and experts.

The Committee's assessment was guided by the need to distinguish between the original objectives of KIIFB, subsequent changes in its design and actual practices. The review therefore considers the extent to which the institutional and financial arrangements that evolved over time remained consistent with the objectives for which KIIFB was originally envisaged, and the implications of such changes for the State's finances, governance and development priorities.

1.3 Scope of the Review

The Committee’s approach to defining the scope of the review was guided by the need to consider KIIFB not merely as a financing mechanism but as an institution operating within the wider fiscal, administrative and developmental framework of the State. The scope of the review broadly corresponds to the eleven areas specified in the Terms of Reference and can be grouped into five interrelated dimensions:

1. Institutional structure and mandate - the original objectives and institutional design of KIIFB and subsequent changes to its mandate and framework and their implications.

2. Financial framework - resource mobilisation, borrowing instruments, cost of borrowing, deployment of funds, financial losses and the implications of KIIFB's financial commitments;
3. Legal, Constitutional and fiscal framework - compliance with applicable legal, constitutional, financial and audit requirements and the relationship between KIIFB and the State's budgetary and fiscal framework;
4. Developmental and governance dimensions - project selection and utilisation of funds, distribution of resources across sectors and districts, institutional oversight and the roles of the Finance Department and State Planning Board; and
5. Organisation and future institutional framework - KIIFB's organisational structure, human resources, subsidiaries and the appropriate institutional arrangements for the future.

1.4 Organisation of the Report

The report is organised into six chapters, including this Chapter. The contents of the remaining five chapters are outlined below.

Chapter II analyse the mandate of KIIFB, including its original objectives and institutional design and the subsequent changes in its mandate and framework and their implications.

Chapter III examines KIIFB's resource mobilisation and borrowing operations, including the instruments used for raising funds, the associated costs and their compliance with Constitutional and governance provisions and accepted fiscal principles.

Chapter IV examines KIIFB’s utilisation of funds, focusing on project selection, fund disbursement for infrastructure and land acquisition, the sectoral and spatial distribution of projects, and the share of revenue-generating projects. It also analyses departmental views on project selection and execution, compliance with statutory and policy requirements governing fund allocation, and the oversight exercised by the Finance Department and the Kerala State Planning Board. The chapter concludes with an analysis of KIIFB’s establishment expenditure.

Chapter V examines the organisational structure and human resource arrangements of KIIFB, including recruitment, appointments, deployment of personnel and the functioning of its organisational units and associated entities.

Chapter VI provides a summary of the findings of the Committee in the previous chapters and sets out the Committee's recommendations for restructuring, including measures relating to its borrowing, ongoing projects, liabilities, organisational arrangements and subsidiary entities.

CHAPTER II

KIIFB: Initial Project and 2016 Amendment

This chapter covers items 1 and 2 of the Terms of Reference (ToR) of the Committee.

1. To examine the objectives, mandate and role envisaged for the Kerala Infrastructure Investment Fund Board (KIIFB) under the original project prepared by the Kerala State Planning Board with the assistance of SBI Capital Markets Ltd (SBI Caps) as approved by the Council of Ministers.
2. To review the changes and deviations, if any, made subsequently to the original project, institutional framework and operational mandate approved by the Government and assess their implications.

The Chapter is organised as follows. Part one and Part two respectively addresses the items one and two of the Terms of Reference. The last part, Part three, presents the comments and observations of the Committee.

II (i) Terms of Reference - 1

The Kerala Infrastructure Investment Fund Board (KIIFB) first came into being in 1999 when an ordinance was promulgated on November 11, 1999. Later a bill was introduced in the Kerala Legislative Assembly and the ordinance was replaced by the Kerala Infrastructure Investment Fund Act 1999 (Act 4 of 2000).

The objectives, mandate and role as articulated in the Statement of Objects and Reasons when the ordinance was promulgated, read, inter alia as under:

> Infrastructure development is a *sine qua non* for economic progress. Infrastructure projects require massive capital expenditure. In the past these were met almost wholly from budgetary sources. However, the range of infrastructure projects now demanded in the State and the scale of investment that this calls for, the budget of a state can no longer accommodate the requirements. Most States have resorted to extra budgetary sources for financing infrastructure projects

KIIFB was thus established to raise extra budgetary resources for infrastructure financing. In 1999, KIIFB raised Rs 507 crore at an interest rate of 13.25 percent. Similarly, in 2003, it raised Rs 506 crore at an interest rate of 11.00 percent. These amounts could not be used for infrastructure financing as no project was found to be financially viable. By 2012 Government of Kerala was considering closing down KIIFB. Subsequently, however, in 2014, KIIFB was sought to be restructured as a "genuine infrastructure financier."

It was noted that while Kerala's record of investment in the social sector had brought rich dividends to the state, it lagged behind in infrastructure development. With a view to accelerating infrastructure investment a committee was set up under the chairmanship of Shri K. M. Chandrasekhar, Vice Chairman of the State Planning Board, to explore the measures to be taken to access the capital markets. Towards this end the State Planning Board appointed SBI Capital Markets Ltd to explore alternative avenues for mobilising financial resources for infrastructure development. The Concept Note prepared by the SBI Capital Markets Ltd (SBI Caps) suggested three horizons of financing.

(1) Immediate financing to pay for the contractors' arrears.

(2) Medium term to finance the development of infrastructure projects already identified by the Government of Kerala.

(3) Long term requirements. Here the objective was to put in place an institutional mechanism that could be deployed to finance any future infrastructure projects without being constrained by budgetary resources.

For long term financing of infrastructure projects, the Concept Note proposed the following:

(a) Recycling of capital: When the infrastructure projects matured, free cash flow (FCF) from viable projects could be expected and it would provide an opportunity to earn a return to investors. At this stage, the government could raise funds by offloading a part of its stake. This recycling of capital would ease the pressure of funding big infrastructure projects from the books of the government.

(b) Alternative Investment Fund (AIF)

(c) Infrastructure Investment Trust (InvIT)

(d) Infrastructure Development Fund (IDF)

The Concept Note proposed establishing Category I Alternative Investment Fund (AIF) under KIIFB once the portfolio of commercially viable projects had matured sufficiently to attract investors' interest.

The Concept Note pointed out that setting up of an Infrastructure Investment Trust (InvIT) needed a sponsor and the sponsor could be any Limited Liability Partnership or Company or body corporate. On the basis of the mapping exercise conducted, the Concept Note suggested that KSIDC could be the sponsor of InvIT.

With respect to Infrastructure Development Fund, the Concept Note noted that it could be created either in the mutual fund format or NBFC format and recommended the setting up of an IDF in mutual fund format. Based on the mapping exercise conducted, the Concept Note suggested KSIDC as the sponsor of IDF Mutual Fund format.

The Concept Note prepared by SBI Caps was examined by the Chandrasekhar Committee which submitted its report on the options to be pursued. Accordingly, Government of Kerala vide GO(P) No 583/2014/Fin. dated 29.12.2014 took the following decisions:

a. To introduce a Bill Discounting System for dealing with pending bills of contractors through IOUs for one year and to initiate all consequential procedures required for its introduction.
b. To issue General Obligations and Revenue Bonds for medium term requirements after carrying out all procedures required including amendments to the guidelines enabling Kerala Infrastructure Investment Fund Board and Kerala Road Fund Board to act as sponsors.
c. To initiate steps to raise funds to meet long term requirements through AIF category 1, InvIT and IDF and take consequential action to form necessary institutional framework.
d. To provide the seed capital required to set up these institutions.

Government of Kerala set up an Empowered Committee of the Council of Ministers with Finance Minister as Chairperson and Ministers for Planning, Industries, Railways, Power, Ports, and Public Works as members to take all decisions relating to its implementation. An Implementation Group headed by the Chief Secretary was also constituted. Further, the Government Order provided for administrative support from the Finance Department and also stipulated that a special unit be set up in the Finance Department to be headed by an officer of the rank of Joint Secretary. The Joint Secretary was expected to act as the Joint Fund Manager to assist Secretary Finance (Resources) who was the currently designated Fund Manager of KIIFB. A section with a Section Officer and two assistants was created under the KIIFB to provide administrative support. The Government Order also provided for equipping Kerala Road Fund Board (KRFB) and Kerala Infrastructure Investment Fund Board (KIIFB) to act as sponsors for setting up some of the fund mobilising institutions, mentioned above, for infrastructure investment.

In the Annual Budget of 2015-16, the Finance Minister earmarked Rs 2000 crore for seed capital to be used by KIIFB to raise additional funds through new structures such as AIF, InvIT,

IDF etc. From the above, it would seem that the objective, mandate and role envisaged for the KIIFB was that it would act as a market oriented financier of infrastructure.

II (ii) Item two of the Terms of Reference

Major changes and deviations made subsequently to the original project, institutional framework as approved by the Government and their implications:

In July 2016, the new Government in their revised budget speech for 2016-17 announced an anti-recession package. In the budget speech KIIFB was given a pivotal role for creating infrastructure, thereby stimulating the economy of the State through a massive hike in capital expenditure. The size of the package was Rs 20,000 crore. To finance this programme, Government proposed mobilising resources through several innovative mechanisms. Essentially, the plan envisioned raising long term funds from the capital market through Government backed agencies and special purpose entities. This, it was stated, was facilitated by the emergence of innovative institutions and changes in the regulatory framework of RBI and SEBI. Accordingly, Govt amended the KIIFB Act 1999 by an Ordinance which was subsequently replaced by the Kerala Infrastructure Investment Fund (Amendment) Act 2016.

In order to operationalise the amended law, Government of Kerala issued executive orders vide G.O. (MS) No 315/2016/Fin dated 8/8/2016 and GO (MS) 69/2018/Fin dated 24/02/2018. The Scheme under the Act was however formally notified only in 2021. The amendment in 2016 made many far-reaching changes from the original 2014 project at several levels.

- The institutional structure of the Board under the 2016 law was as follows:

(a)	Chief Minister	: Chairperson
(b)	Minister for Finance	: Vice-Chairperson
(c)	Vice-Chairman, State Planning Board	: Member
(d)	Chief Secretary	: Member
(e)	Secretary (Law)	: Member
(f)	Secretary (Finance)	: Member
(g)	Secretary (Finance-Resources)	: Member
(h)	Seven independent members who are experts, who have worked in an institution of national repute in one or more of the areas of Finance, Banking, Economics	: Members
(i)	Chief Executive Officer	: Member Secretary

The law provided that the Chairperson of the Board viz the Chief Minister, may, also invite other Ministers or Secretaries whose departments were concerned with projects under

consideration. An Executive Committee was set up under the law. This Committee was headed by the Finance Minister and comprised senior government officials, three independent Board members and the CEO. It exercised powers and functions delegated by the Board, with its decisions requiring at least two-thirds majority of members present and voting. The quorum for a meeting was to be five. The CEO of the Fund Board was the Secretary to the Committee. This was a major change in that the governance structure now provided for the highest level of governmental leadership, independent and external experts and established an Executive Committee for delegated decision making.

A new structure called Fund Trustee and Advisory Commission (FTAC) was also constituted. The FTAC comprised not less than three but not more than five members including a chairperson and the term was two years. The members of the FTAC were to be experts with proven experience at national or international levels in any of the fields of banking, finance regulation, financial markets, administration or economics. The CEO was the Secretary to the Fund Trustee and Advisory Commission as well. The FTAC was to act as the trustee of the fund and help to ensure that all investments of the fund served the intent and purpose of the Act and that there was no diversion of funds. No such fiduciary oversight was contemplated in the 2014 project.

- A second major deviation related to budgetary allocations for repayment obligations. Section 7 of the Amendment Act 2016 provided as under:

> *S(7) Budgetary allocation for repayment. (1)* From time to time, Government shall make provision in the Annual Budget to defray the expenses incurred for payment of annuity or other repayment obligations and to meet operational and administrative expenses of the Board.

The most important deviation related to the setting apart of a share of Motor Vehicle Tax as contribution to the Fund, reckoned on the basis of the Motor Vehicle Tax collected for the previous year, such share being ten percent in the first year and increased by ten percent each year up to fifty percent of the Motor Vehicle Tax in the fifth year. In addition, the Cess levied on petroleum products was also to be contributed to the Fund by the Government on the basis of the amount of Cess collected during the previous year. The transfer of funds required for the successive twelve months was to be completed in one or more instalments before the last working day of December of that year. The law did provide that the revenue realized by the Board from any project would be adjusted from the appropriation so made at the end of the

year and only the balance after defraying operational expenses needed to be provided as appropriation during the year.

The law further provided that Government may, after due appropriation by law passed by the State Legislature from time to time make grants, advances and loans to the Fund for the purposes of this Act on terms and conditions as determined by the Government.

Section 8 of the 1999 law was amended to vest powers in the Board to borrow and lend. This is seen to be in conformity with the original project of 2014. One important deviation is that KIIFB alone was made to act as sponsor for setting up infrastructure investment structures such as AIF, Inv IT, Mutual Funds and Infrastructure Development Fund (IDF).

This change in resources for the Fund represented a "recurring and significant drain" on Kerala's revenue receipts[1]. The amount transferred to the Fund stood at Rs 19404.52 crore as on 30.06.2026 for MVT share alone. Additionally, Rs. 5038.04 crore stood transferred from Cess on petroleum products as on 30.06.2026[2]. Additionally, Government contributed Rs.322.07 crore. Totally, the Government transferred Rs. 24764.64 crore to KIIFB.

- Definition of "Infrastructure" and "projects" represents another major departure from the 2014 project. Section 2 of the Amendment Act of 2016 provides the revised definitions. Relevant sub-sections are reproduced below:

> 2 (eb) “Infrastructure” means the assets or services in any one or more of the sectors specified in the Second Schedule
>
> 2 (f) "Infrastructure projects" include projects in the sectors specified in the Second Schedule and multipurpose projects comprising of (sic) one or more of the sectors specified therein.
>
> 2 (ib) "project" means an Infrastructure Project and includes both physical and Social Infrastructure projects.

Explanation to 2 (ib) states that as per this explanation "physical infrastructure projects means projects primarily intended for creation of tangible assets and “social infrastructure projects” meant intangible social assets such as schools, social services etc.

In short, KIIFB (Amendment) Act, 2016, the two Government Orders viz GO (Ms) No 315/2016/Fin dated 8/8/2016 as also GO (Ms) No 69/2018/Fin dated 24/2/2018 and the

[1] See: Kerala’s Fiscal Health: A Status Report, 2026, page 94
[2] The information sourced from the Finance Department.

Guidelines issued in 2021 represent significant changes and deviations from the original role and structure conceptualised in 2014.

Major changes in three areas - governance structure, fund mobilisation and expansion of jurisdiction - with regard to 23 items of infrastructure listed in Schedule 2 of the Amendment Act 2016 created a Board that was altogether a different entity. Of the three, changes in the governance structures were by way of elevating the governance structure of the KIIFB with the Chief Minister of the State chairing the KIIFB, Minister for Finance being designated as the Vice Chairperson and also the Chairman of the Executive Committee.

The 2014 project had provided for an Empowered Sub Committee of the Council of Ministers comprising Minister for Finance as Chairman and Ministers for Planning, Industries, Railways, Power, Ports and Public Works as members to take all decision relating to the implementation of the structure for mobilising infrastructure finance. The Amendment Act 2016 provided no role for these Ministers, though Vice Chairman of the SPB was designated as one of the members of the KIIFB Board.

The role of the Chief Secretary who headed the Implementation Group under the 2014 project was truncated. The CS was now a member of the Board. The Executive Committee was now chaired by the Minister for Finance.

The raising of resources by KIIFB and the transfer of a portion of MVT and Petrol Cess are certainly a major change and has had a big impact on the State Exchequer. Finally, the massive and unusual expansion in the scope of infrastructure, to include 23 items represent a departure from the original mandate and role of KIIFB.

As years went by the scope of deviations and departures became quite huge. At the present point of time KIIFB with its huge administrative structure, its complex relationship with administrative departments, the multiple roles vested in the CEO, its access to the resources of the State, its fund-raising track record are seen to have deviated from the mandate and role envisaged in 2014 in important ways. Additionally, it began deviating from the provisions of the Amendment Act 2016 as well.

II (iii) Implications of the Deviations

Deviations and changes from the role contemplated for KIIFB have impacted the State in multiple ways. Expansion of the definition of infrastructure to include as many as 23 items appears to have impacted the remit of various Government departments. Many departments

such as education, water supply, sanitation and local infrastructure suffered. Along with certain departments, certain regions of the State also did not get their due share.

Diversion of State revenue by way of appropriation of MV Tax and Cess on petroleum products took away a major revenue stream adversely affecting the 'flexibility' without providing the off-budget benefits originally envisaged[3]. The higher cost of raising funds, inefficient liability management and release of borrowed funds as grants has now resulted in a huge burden on the State.

Governance issues are equally stark - the designation of CEO KIIFB as an Ex-Officio Secretary to the Government without even a concomitant amendment to the Rules of Business created an ambiguous and confusing situation. The entire set up in KIIFB appeared to be cut off from the State Government. Furthermore, the lack of transparency in consultancy payments stuck out a mile. These implications for balanced fund allocation and regional development, fiscal management and governance are discussed in greater detail in the subsequent Chapters.

The 2014 project's long-term financing strategy depended on recycling capital through an AIF, InvIT or IDF once a portfolio of revenue-generating projects matured. KIIFB's actual borrowing has come entirely from conventional guaranteed debt - bank loans, institutional loans, bonds and the Masala Bond - with no AIF/InvIT/IDF structure ever used. This is an important deviation: KIIFB did not evolve along the path approved in 2014, it took a different one, and that different path is what produced the cost and risk findings of Chapter 3.

KIIFB was created because "the budget of a State can no longer accommodate" infrastructure financing. The 2016 Section 7 earmarking of Motor Vehicles Tax (rising to 50 per cent) and the whole of the petroleum cess is a fixed, escalating, statutory first charge that cannot be reprioritised in a difficult year. Chapter III (para 3.4) shows State transfers now meet 99.4 per cent of KIIFB's debt service - the mechanism designed to relieve the budget has instead created a new claim on it.

[3] See: Kerala's Fiscal Health: A Status Report, 2026, page 100

CHAPTER III

Resource Mobilisation by KIIFB

This Chapter addresses the following items in the Terms of Reference (ToR) of the Committee in full:

3. To examine the resource mobilisation strategy adopted by KIIFB, including various borrowing instruments, and assess whether the borrowings were aligned with the objective of financing financially sustainable projects.

4. To review the cost of borrowings, including borrowings through Masala Bonds and other market instruments, and assess whether the borrowing strategy resulted in avoidable financial costs or losses, including on account of parking borrowed funds in lower-yielding deposits or investments.

5. To examine whether the mobilisation of resources by KIIFB complied with applicable constitutional, legal, financial and audit requirements, including the propriety of assigning or diverting State revenues directly to KIIFB otherwise than through the Consolidated Fund of the State, and to identify any irregularities or systemic deficiencies, if any.

It also addresses, in part, the following TORs:

7. To identify expenditures, transactions or financial practices of KIIFB that, in the opinion of the Committee, warrant detailed examination from the audit, financial management or governance perspective.

9. To examine the relevance and sustainability of the continued functioning of KIIFB in the context of the Government of India's policy and regulatory framework governing off-budget borrowings by State Governments, and to recommend an appropriate future institutional framework.

Scope, structure and sources

This Chapter examines the resource mobilisation of KIIFB since the amendment of its Act in 2016. As noted in the previous Chapter, the amended Act permits KIIFB to receive budgetary allocations from the Government of Keralam and to borrow from banks, financial institutions and the financial markets, in addition to earning internal revenue from assisted projects. The Chapter is organised into four Parts:

- Part I - the law under which KIIFB draws resources from the State Government, quantum of those transfers.
- Part II - the law under which KIIFB borrows from financial markets and financial institutions, the quantum and terms of such borrowing, and the question of prior Government sanction.

- Part III - the constitutional, legal and fiscal issues arising from such borrowing, including Masala Bonds, off-budget borrowing, cost of borrowing, negative interest spread and the revenue-generating-project promise of the Act.
- Part IV - the Committee's observations and comments.

Unless otherwise stated, financial data are as furnished by KIIFB and by the Finance Department, Government of Keralam, and are as on 30 June 2026. Statutory provisions are quoted from the Kerala Infrastructure Investment Fund Act, 1999 (Act 4 of 2000) as amended by the Kerala Infrastructure Investment Fund (Amendment) Act, 2016 (Act 15 of 2016). Audit findings are quoted from the Reports of the Comptroller and Auditor General of India on State Finances, and Finance Commission material from the published Reports of the Fifteenth and Sixteenth Finance Commissions.

Part I - Resource Mobilisation from the Government of Keralam

3.1 The statutory basis for transfers from the State

Section 3(2) of the KIIFB (Amendment) Act 2016, governs the transfer of funds from the State Government to the Fund. Section 3(2) reads as follows:

> 3(2) There shall be credited to the fund, -
> (a) the amounts released to the Board from the budget allocation under section 7;
> (b) the amount borrowed by the Board under section 8;
> (c) grants or loans or advances made by any institution;
> (d) any amount raised by the Board from other sources to augment the resources of the Board;
> (e) any other amount which, under the provisions of the scheme, shall be credited to the fund

The second, and the operative provision for present purposes, is Section 7 as substituted by the Amendment Act of 2016. It is reproduced in full:

> 7. Budgetary allocation for repayment. - (1) From time to time, Government shall make provision in the Annual Budget to defray the expenses incurred for payment of annuity or other repayment obligation incurred in lieu of section 8 and to meet operational and administrative expenses of the Board:
>
> Provided that Government shall set apart a share of the Motor Vehicle Taxes as contribution to the fund, reckoned on the basis of the Motor Vehicle Taxes collected for the previous year such share being ten per cent in the first year and increased by ten percent each year upto fifty per cent of the Motor Vehicle Tax in the fifth year:
>
> Provided further that in addition, the cess levied on petroleum products shall also be contributed to the Fund by the Government on the basis of the amount of cess collected during the previous year.

Three features of Section 7 deserve emphasis at the outset, because the whole of the later constitutional discussion in Part III turns on them.

- The section title is "Budgetary allocation for repayment". The section is, on its own terms, a provision for the State to fund the servicing of KIIFB's borrowings. It is not framed as a provision for capital investment by the State.
- The obligation is mandatory in form - "Government shall make provision" and "Government shall set apart a share". The State therefore binds itself by the statute to a continuing annual charge, the size of which is determined not by the State's fiscal capacity in a given year but by the debt KIIFB has contracted under Section 8.
- The revenue streams earmarked - Motor Vehicle Tax and the cess on petroleum products - are State tax revenues. Their assignment to a body outside the Consolidated Fund is examined in Part III against Articles 266 and 293 of the Constitution and against paragraph 12.22 of the Sixteenth Finance Commission Report.
- The Committee observed that the escrow mechanism appears to have served not merely as a mechanism for ensuring the immediate transfer of funds to KIIFB, but also as an indication that accounting itself was not correct. The arrangements are inconsistent with sound accounting principles and standards. A transfer of a portion of the Government's revenue to KIIFB should have been accounted for as a grant-in-aid and, consequently, as revenue expenditure. Instead, directly debiting Major Head 5475 - Capital Outlay on Other General Economic Services presented the transfer as capital expenditure by the Government, thereby overstating the State's capital expenditure in the Finance Accounts.

The third provision is Section 9, which, as amended, converts the Government's power to guarantee into a duty:

> 9. Guarantee by Government of loans. - (1) The Government shall guarantee the payment of the principal and interest of any fund proposed to be raised by the Board under section 8:
> Provided that the total of guarantee issued by the Government under this Act shall not exceed the limits set by the Kerala Ceiling on Government Guarantees Act, 2003 (30 of 2003) in force.

The contrast with the pre-2016 position is material. Section 9(1) as originally enacted read "*The Government may guarantee, in such manner as they think fit …"* and carried a proviso capping the aggregate guarantee at rupees one thousand crores (raised to two thousand crores by the Amendment Act of 2002). The 2016 amendment removed both the discretion and, in substance, the statutory ceiling on guarantees under this Act. Every rupee borrowed by KIIFB since 2016 has therefore been a guaranteed borrowing as a matter of statutory obligation, not of executive judgement exercised case by case.

3.2 Heads of Account

Pursuant to Section 7, the Government has been making budgetary provision under the following Heads of Account:

- 5475-00-115-98 - Share of Kerala Infrastructure Investment Fund Board (KIIFB) from Motor Vehicle Tax (Plan – Voted)
- 5475-00-115-97 - Share of Kerala Infrastructure Investment Fund Board (KIIFB) from Cess on Petrol and Diesel (Plan – Voted)
- 5475-00-115-96 - Assistance to Kerala Infrastructure Investment Fund Board (KIIFB) on Repayment and Redemption of Obligations

The Committee notes that the third Head - *"Assistance ... on Repayment and Redemption of Obligations"*- is, by its own nomenclature, an admission on the face of the State's accounts that the State is directly funding the redemption of KIIFB's debt. This is relevant to the distinction between a contingent liability and a direct liability discussed in Part III.

3.3 Quantum of transfers from the Government of Keralam

The amounts released by the Government to KIIFB under the above Heads are set out in Table 3.1

Table 3.1 Contribution from the Government of Keralam (Rs. in Crore)

Year	MVT	CESS	Additional Contribution from Govt	Total
2016-17	281.43	448.10		729.53
2017-18	621.45	421.19		1042.64
2018-19	1098.86	501.82		1600.68
2019-20	1650.00	550.00		2200.00
2020-21	1633.86	539.00		2172.86
2021-22	1568.08	500.00	322.07	2390.15
2022-23	2203.76	265.93		2469.69
2023-24	2636.25	594.00		3230.25
2024-25	3165.18	530.00		3695.18
2025-26	3317.49	526.60		3844.09
2026-27[#]	1228.16	161.41		1389.57
Total	19404.52	5038.05	322.07	24764.64

Note: Figures for 2026-27 are upto June 30, 2026. Source: Collected from the Finance Department, GoK.

3.4 What the State's transfers actually finance

The significance of Table 3.1 lies less in its total than in what that total is used for. Table 3.2 sets the State's transfers against KIIFB's debt service in the four years for which audited off-budget borrowing data are available.

Table 3.2 State transfers compared with KIIFB's debt service (Rs. in Crore)

Year	Principal repaid	Interest paid	Total debt service	Transfers from GoK
2021-22	307.42	739.66	1,047.08	2,390.14
2022-23	432.74	1,254.56	1,687.30	2,469.69
2023-24	3,505.02	1,639.64	5,144.66	3,314.27
2024-25	2,241.67	1,823.47	4,065.14	3,695.18
Total	**6,486.85**	**5,457.33**	**11,944.18**	**11,869.28**

Note: The total transfers from GoK reported in this table is Rs. 84.01 crore higher than that in Table 3.1 for the same period as this total also include a payment of Rs.84.01 crore from KINFRA to KIIFB.
Source: Report of the Comptroller and Auditor General of India on State Finances for 2024-25;

As per the data collected from CAG report, over these four years the Government of Keralam transferred Rs 11,869.28 crore to KIIFB while KIIFB's debt service was Rs 11,944.18 crore. The transfers therefore equalled 99.4 per cent of debt service. In other words, over the period for which comparable data exist, virtually the entire flow of State tax revenue into KIIFB was consumed by servicing KIIFB's own borrowings. None of it, in net terms, financed fresh infrastructure; the fresh infrastructure was financed by fresh borrowings by KIIFB.

The Committee regards this single ratio as the central fiscal fact about KIIFB's resource mobilisation, and returns to it in Part III when considering whether the State's liability in respect of KIIFB is, in the language of the Comptroller and Auditor General, in any sense "contingent".

Part II Borrowing from Financial Markets and Financial Institutions

3.5 The statutory basis for borrowing

The power to borrow is conferred by Section 8. In its original form, as enacted in 1999, the section read:

> 8. Power of the Board to borrow and lend. - (1) The Board may, from time to time, with the previous sanction of the Government subject to such conditions as the Government may, by general or special order determine, borrow any sum required for the purposes of this Act whether, by the issue of bonds or debentures or otherwise or by making arrangements with Banks or Institutions approved by the Government in that behalf.
>
> (2) Bonds or debentures issued by the Board under this section shall be issued, transferred, dealt with or redeemed in such manner as the Government, may, by general or special order, direct.
>
> (3) Subject to the provisions of this Act and such conditions and limitations as may be specified in the scheme, the Board may, out of its funds, grant loans and advances to any public sector undertakings or other undertakings for the time being in force in the State.

Section 8 was substituted by the Amendment Act of 2016. The substituted section retains the requirement of previous Government sanction and widens the permissible instruments to include

General Obligation Bonds, Revenue Obligation Bonds, Land Bonds and other appropriate instruments, and permits the raising of funds through arrangements with banks, multilateral funding agencies or other institutions approved by the Government in that behalf. It also empowers the Board to act as sponsor of modern infrastructure financing structures:

> … (3) The Board may act as the sponsor for setting up infrastructure investment structures, as are required for facilitating the mobilisation of resources for a project … [including an] Infrastructure Development Fund (IDF).
>
> (4) The Financial instruments and securities issued by the Board under this section shall be issued, transferred, dealt with or redeemed in such manner as decided by the Board subject to the directions of the Government.

The Committee draws attention to the change brought between the 1999 sub-section 8(1&2) and the 2016 sub-section 8(4). Under the original provision, the manner of issue, transfer, dealing and redemption of the Board's paper was to be as "the Government may, by general or special order, direct" - that is, the Government had to act, by an order, before the Board could act. Under the substituted provision, the same matters are "as decided by the Board subject to the directions of the Government" - that is, the Board acts, and the Government's role is reduced to a residual power of direction that need not be exercised at all. The initiative, in law, moved from the Government to the Board in 2016. This shift is directly relevant to the question of sanction considered at paragraph 3.12 below.

Two further provisions inserted in 2016 complete the picture. Section 8A permits delegation:

> 8A. Power of the Board to delegate - The Board may delegate to the Executive Committee or the Chief Executive Officer such powers and functions under this Act or scheme as it may consider necessary for the efficient administration of the fund, subject to such restrictions and conditions if any, as it may specify.

And Section 6D constitutes the Fund Trustee and Advisory Commission as trustee of the Fund:

> 6D. Functions of Fund Trustee and Advisory Commission.- (1) The Commission shall act as the trustee of the fund and help to ensure that all investments of the fund serve the purpose and intent of the Act and that there is no diversion …

3.6 Aggregate borrowing position

As on 30 June 2026 the position was as follows:

Table 3.3 Aggregate borrowing position as on 30th June 2026 (Rs. in Crore)

Particulars	Amount
Total sanctioned for borrowing	48559.69
Total availed	42193.45
Sanctioned but undrawn	6366.24
Repaid	10512.30
Outstanding as on 30 June 2026	**31,681.15**

Source: Details furnished by KIIFB.

The sources and methods through which KIIFB mobilises borrowed funds may be classified as: (i) loans from banks; (ii) borrowings from financial institutions; (iii) loans from the Kerala Non-Resident Keralites' Welfare Board; (iv) domestic bonds, including bonds issued to KSFE under the Pravasi Chitty arrangement; and (v) Rupee-denominated (Masala) bonds. Each is dealt with below; instrument-wise detail is at the Appendix to this Chapter.

3.7 Loans from banks

KIIFB has raised Rs 9,200 crore from commercial banks, of which Rs 6,083.22 crore was outstanding as on June 30, 2026.

Table 3.4 Loans taken from banks (as on June 30, 2026; Rs. in Crore)

Name of Bank	Amount raised	Outstanding
State Bank of India	1,000.00	343.57
Union Bank of India	750.00	303.12
Indian Bank	1,000.00	575.80
Canara Bank	950.00	730.00
Bank of Maharashtra	1,000.00	724.99
Bank of Baroda	2,000.00	1,289.06
Bank of India	700.00	525.00
ICICI Bank	200.00	50.00
Kotak Mahindra Bank	100.00	41.67
Indian Overseas Bank	1,500.00	1,500.00
Total	**9,200.00**	**6,083.22**

Source: Details furnished by KIIFB.

3.8 Borrowings from financial institutions

KIIFB has borrowed from six financial institutions, of which NABARD (under its NIDA window) is by a considerable margin the largest and, at 7.01 to 8.30 per cent per annum, across tranches, the cheapest.

Table 3.5 Borrowing from financial institutions (as on June 30, 2026; Rs. in Crore)

Financial institution	Sanctioned	Availed	Outstanding
NABARD	9,694.70	7,123.70	6,545.32
REC Ltd	5,389.23	4,746.32	2,704.02
Kerala Financial Corporation	2,000.00	2,000.00	903.37
Power Finance Corporation	991.33	870.72	870.72
HUDCO	4,836.00	3,880.00	3,357.12
Sagarmala Finance Corporation	2,975.71	1,000.00	1,000.00
Total	**25,886.97**	**19,620.74**	**15,380.55**

Source: Details furnished by KIIFB.

3.9 Deposits from Non-Resident Keralites

KIIFB draws on the savings of non-resident Keralites through two distinct channels. Both raise issues that go beyond the quantum involved.

3.9.1 The Pravasi Dividend Scheme (Kerala Non-Resident Keralites' Welfare Board)

Under the Pravasi Dividend Scheme, non-resident Keralites deposit a sum which is locked in for a specified period; the interest earned during and after the lock-in period funds a regular income for the subscriber on return to Keralam. The sums collected by the Kerala Non-Resident Keralites' Welfare Board are passed to KIIFB as a loan, on which KIIFB pays a cost of funds determined by reference to its Average Cost of Domestic Borrowing (ACDB). On the basis of the rate communicated by KIIFB, the Government of Keralam then fixes a further rate from the Government side so that the subscriber receives an assured annual return of 10 per cent. As per the notification G.O (Ms.) No.12/2019/NORKA dated 02.09.2019, the Government of Keralam has undertaken to make good any liability falling on the Welfare Board on account of the scheme.

Table 3.6 Money borrowed from the KNRK Welfare Board under Pravasi Dividend Scheme
(Rs. in Crore)

No.	Scheme	Amount raised	Interest rate (%)	Amount repaid
1	Scheme 1 (FY 2019-21)	181.16	9.00	–
2	Scheme 2 (FY 2021-22)	110.23	8.30	–
3	Scheme 3 (FY 2022-23)	22.58	8.30	–
4	Scheme 4 (FY 2023-24)	16.60	8.60	–
5	Scheme 5 (FY 2024-25)	0.17	8.80	0.62
6	Scheme 6 (FY 2025-26)	0.16	8.80	–
7	Scheme 7 (FY 2026-27)	Nil	8.93	–
Total		**330.90**		**0.62**

Source: Details furnished by KIIFB, as on 30.06.2026

The Committee makes four observations on this scheme.

1. The structure embeds a subsidy. KIIFB pays to the Welfare Board between 8.30 and 9.00 per cent; the subscriber is assured 10 per cent; the Government of Keralam bridges the gap. On the outstanding balance of Rs 330.28 crore the gap of roughly 1.0 to 1.7 percentage points represents an annual charge on the State of the order of about Rs 3 crore to Rs 6 crore. The amount is modest only on its face. Like KIIFB's other borrowings, the principal and interest on these funds fall in substance on the State, so the real burden is the whole of the principal and interest and not just the Rs 3 to 6 crore differential.
2. The effective cost to the State of these funds is therefore the assured 10 per cent, not the 1-1.7% subsidy or even 8.30 to 9.00 per cent that appears in KIIFB's books. On that basis it is the most expensive rupee borrowing that KIIFB has raised, costlier than the Masala Bond (9.723 per cent) and the domestic bonds (8.49 to 9.67 per cent).

3. Mobilisation has ceased. Schemes 5, 6 and 7 raised only negligible amount, yet rates continue to be notified annually. The Committee was not furnished with any review of the scheme's viability or any decision on its continuance.

4. The Government's undertaking to make good any liability of the Welfare Board is in substance, a second guarantee stacked on the statutory guarantee under Section 9.

3.9.2 Pravasi Chitty bonds issued to KSFE

Kerala State Financial Enterprises Ltd (KSFE), in association with KIIFB, offers a tailor-made chitty to non-residents, known as the Pravasi Chitty. The initial instalment is retained by KSFE as security, and prized subscribers may also deposit the prize money with KSFE. Depending on the investment type opted for by KSFE, KIIFB issues Security Bonds, Deposit Bonds, Corporate Papers and similar instruments to KSFE. Money deposited with KSFE by prized subscribers is placed as Deposit Bonds with KIIFB. These bonds are priced by reference to Government Treasury interest rates and with tenures ranging from three to six years. As of June 30, 2026, KIIFB had raised Rs. 2,241.85 crore through these instruments, of which Rs. 1,004.71 crore had been repaid. The outstanding amount as of June 30, 2026 was Rs. 1,237.14 crore. The legality of this chit-based mobilisation is examined separately at paragraph 3.13 below.

3.10 Domestic bonds

From 2023, KIIFB has issued listed, unsecured, rated, redeemable, taxable non-convertible debentures, structured as seven Separately Transferable Redeemable Principal Parts (STRPP) with a three-year moratorium and redemption from the fourth to the tenth year, listed on the Bombay Stock Exchange. The outstanding value of these bonds is Rs 8,649.97 crore.

Table 3.7 BSE-listed bonds issued (Rs. in Crore)

Series	Particulars	Amount	Year of issue	Listed on
NA	8.49% Green Bonds	300.02	2023-24	BSE
1	8.95% Domestic Bonds	1,499.96	2023-24	BSE
2	9.10% Domestic Bonds	849.94	2024-25	BSE
3	9.49% Domestic Bonds	1,000.02	2024-25	BSE
4	9.42% Domestic Bonds	1,500.03	2024-25	BSE
5	9.49% Domestic Bonds	499.94	2025-26	BSE
6	9.67% Domestic Bonds	1,500.03	2025-26	BSE
7	9.30% Domestic Bonds	1,500.03	2025-26	BSE
	Total	**8,649.97**		

Source: Details furnished by KIIFB. Note: NA means Series is not applicable.

Table 3.8 Year-wise maturity of bonds (Rs. in Crore)

Year	Principal to be redeemed
2026-27	75
2027-28	467.85
2028-29	914.28
2029-30	1,235.71
2030-31	1,235.71
2031-32	1,235.71
2032-33	1,235.71
2033-34	1,160.71
2034-35	767.86
2035-36	321.44
Total	**8,649.97**

Source: Details furnished by KIIFB.

The maturity profile shows a plateau of roughly Rs 1,236 crore a year falling due between 2029-30 and 2032-33 on the bond portfolio alone, before the repayments of bank and institutional loans is added. No consolidated plan covering the redemption of the bond portfolio alongside bank and institutional repayments was placed before the Committee by either KIIFB or the Finance Department, notwithstanding that the liability falls substantially on the State. The Committee considers this a matter that warrants attention, given the scale of the obligation involved.

3.11 Rupee-denominated (Masala) bonds

In 2019 KIIFB raised Rs 2,150 crore through rupee-denominated bonds, which were privately placed and subsequently listed on the London and Singapore Stock Exchanges. The coupon was 9.723 per cent on a five-year tenure. The bonds were fully redeemed on maturity, the principal of Rs 2,150 crore being repaid on 27 March 2024. Total interest (coupon) paid was Rs 1045.44 crore; fees and other expenses from 2018-19 to 2023-24 shown separately in Table 3.14 amount to Rs 29.73 crores.

Table 3.9 Interest payments on Masala Bonds (Rs. in Crore)

No.	Date	Amount paid	Cumulative
1	27-09-2019	104.73	104.73
2	27-03-2020	104.52	209.25
3	28-09-2020	104.52	313.77
4	26-03-2021	104.52	418.30
5	28-09-2021	104.52	522.82
6	28-03-2022	104.52	627.35
7	28-09-2022	104.52	731.87
8	28-03-2023	104.52	836.39
9	27-09-2023	104.52	940.92
10	27-03-2024	104.52	1,045.44
	Total	**1,045.44**	

Source: Details furnished by KIIFB.

The constitutional question raised by this issue, the cost comparison against the State's own borrowing, and KIIFB's claim that the issue lowered its subsequent domestic borrowing cost, are examined in Part III at paragraphs 3.18.1 and 3.21.

3.12 Was the prior sanction of the Government obtained, and by whom?

Section 8(1) permits the Board to borrow only "with the previous sanction of the Government subject to such conditions as the Government may, by general or special order determine". This is not a formality. It is the single statutory check standing between a body corporate with no independent revenue of its own and an unlimited capacity to create liabilities that Section 9 obliges the State to guarantee and Section 7 that obliges the State to service. The Committee therefore examined three questions.

3.12.1 Was sanction accorded at all?

KIIFB's position is that every borrowing was preceded by sanction. The Committee accepts that sanction orders exist for the borrowings; the totals of "amount sanctioned" and "amount availed" reported in the Appendix statement are themselves evidence that a sanctioning process was followed, and the gap between the two (Rs 6,366.24 crore undrawn as on 30 June 2026) indicates that sanction was granted for a ceiling and drawn against as required.

3.12.2 Did the sanction emanate from the Finance Department of the Government of Keralam?

This is the material question, and on it the record placed before the Committee is deficient. "Government" is defined in Section 2(e) of the Act as "the Government of Kerala". A sanction under Section 8(1) is therefore a sanction by the State Government, expressed through the department to which the business is allocated under the Rules of Business - in a matter of borrowing and guarantee, the Finance Department.

The Committee called for the sanction orders relating to the borrowings listed in the Appendix, together with the file notings recording the Finance Department's examination of each proposal. What was made available consisted substantially of approvals recorded within KIIFB - by the Board, its Executive Committee, or the finance wing of KIIFB acting under powers delegated pursuant to Section 8A. The Committee noted that only the first three guarantees, covering KIIFB borrowings of Rs. 18,246.73 crore, were sanctioned by the PU-B Wing of the Finance Department on 19.07.2018, 17.03.2021 and 02.11.2021, respectively. However, the guarantee deeds, fixing the tenure, rate of interest and other conditions of borrowing, related to these guarantees were not submitted to the Finance Department for approval. All subsequent guarantees were issued by the Finance–Infrastructure wing of KIIFB on the basis of an approval issued by a Deputy Secretary of the Finance Department without the approval of the Finance Secretary and Finance Minister or Council of Ministers. The Committee also noted that the Finance Department had no access to the files of the Finance–Infrastructure Wing of KIIFB.

The Committee also noticed a specific instance in which the Finance Department's decision not to provide guarantees for KIIFB borrowings during 2023-24, 2024-25 and 2025-26 was overruled. The Finance Department had declined to provide the guarantees on the ground that KIIFB's borrowings would reduce the State's borrowing space. This decision was subsequently overruled on the basis of the minutes of a meeting convened by the Chief Minister with the Finance Minister, Additional Chief Secretary (Finance) and CEO, KIIFB and GO was issued on this basis by the Finance (Infrastructure) wing of KIIFB[1]

[1] See: G.O.(P) No.33/2025/FIN, Dated 24-03-2025.

The Committee is of the view that such overruling of the Finance department's decision is inconsistent with the Rules of Business of the Government. Such a decision of the Finance department can be overruled only by the Council of Ministers, and the department is required to issue a Government Order in accordance with the Cabinet decision.

The Committee therefore records that no evidence was furnished to establish that the previous sanction required by Section 8(1) of KIIFB (Amendment) Act 2016 was, in each case, accorded by the Finance Department of the Government of Keralam as distinct from an authority within KIIFB. On the contrary, Finance Department's decisions on KIIFB's borrowings were overruled by adopting procedures that violate the Rules of Business of the State.

3.12.3 If sanction was accorded from within KIIFB, does that satisfy the spirit of Section 8?

It does not, and the Committee considers the point important enough to state plainly.

It may be said in answer that the composition of KIIFB makes the distinction artificial. The Board is chaired by the Chief Minister; the Finance Minister is a member; the Chief Secretary and the Secretaries dealing with Finance, Finance-Resources, Law are members; and the Chief Executive Officer is the Fund Manager. On that view the body that sanction is, in personnel and in authority, the same body that would sanction if the file moved to the Finance Department, and requiring a separate order is empty formalism.

The Committee does not accept that view, for four reasons.

- Identity of persons is not identity of capacity. An officer sitting as a member of a statutory Board exercises the Board's powers under the Act. The same officer in the Finance Department exercises the executive power of the State under the Rules of Business, subject to different records, different concurrences and different accountability to the Legislature. Section 8(1) deliberately distinguishes "the Board" from "the Government".
- The proposer cannot be the approver. The entire purpose of an external sanction is to interpose a decision-maker who does not own the proposal. Where the borrowing is proposed by KIIFB's management, appraised by KIIFB's finance wing, and sanctioned by KIIFB's Board or a delegatee of that Board under Section 8A, no independent mind has been applied at any stage. The safeguard becomes self-certification. This is a defect of design, and it is not cured by the good faith or seniority of the persons involved.
- The Fund Trustee and Advisory Commission does not fill the gap. Section 6D makes the Commission the trustee of the Fund, charged with ensuring that investments serve the purpose and intent of the Act and that there is no diversion. Its function is fidelity of application, certified half-yearly. It is not charged with, and does not perform, the Finance Department's function of assessing whether a proposed borrowing is the cheapest available, correctly timed, or consistent with the State's own fiscal position and borrowing calendar.
- The consequences fall outside KIIFB. Every borrowing sanctioned within KIIFB carries a mandatory State guarantee under Section 9, a mandatory State servicing obligation under Section 7, and - since 2021-22 - an automatic reduction of the State's own Net Borrowing Ceiling under the Government of India guidelines discussed at paragraph 3.17. The body

bearing these consequences is the State. A sanction regime in which the State's Finance Department is not demonstrably the sanctioning authority leaves the party that bears the risk out of the decision that creates it.

The Committee accordingly records that, on the material before it, the requirement of previous Government sanction under Section 8(1) of KIIFB (Amendment) Act 2016 has been observed in form and, so far as the record discloses, not in substance.

3.13 The legality of chit-based fund mobilisation

Money originating in chitties conducted by KSFE (Rs 1237.14 crore outstanding) is the largest source of KIIFB's funds drawn directly from individual subscribers. Because this is subscriber money rather than institutional money, and because the subscribers are non-residents, the Committee has examined its legality separately from its quantum.

3.13.1 The chitty itself is lawful

Chit funds fall within Entry 7 of List III of the Seventh Schedule and are regulated by the Chit Funds Act, 1982 (Central Act 40 of 1982). Section 2(b) defines a chit as follows:

> Chit' means a transaction whether called chit, chit fund, chitty, kuri or by any other name by or under which a person enters into an agreement with a specified number of persons that every one of them shall subscribe a certain sum of money (or a certain quantity of grain instead) by way of periodical instalments over a definite period and that each such subscriber shall, in his turn, as determined by lot or by auction or by tender or in such other manner as may be specified in the chit agreement, be entitled to the prize amount.

KSFE is a company wholly owned by the Government of Keralam and has conducted chitties as foreman since 1969. Every chit requires the previous sanction of the Registrar of Chits under Section 4 and the filing and registration of the chit agreement. Nothing in the Act prevents a State-owned company from acting as foreman.

3.13.2 Non-resident subscription is lawful

Non-residents are not barred from investing in the business of chit funds on a non-repatriation basis. Two conditions attach. First, the subscription must be brought in through normal banking channels, including through an account maintained with a bank in India. Second, the Registrar of Chits, or an officer authorised by the State Government in that behalf, must permit the particular chit fund to accept subscriptions from non-residents on a non-repatriation basis.

The Committee therefore does not doubt that the scheme is capable of being operated lawfully.

3.13.3 The real question is the onward deployment of chit moneys into KIIFB paper

The legality of the chitty does not settle the legality of what is done with the money collected under it. Section 14 of the Chit Funds Act restricts that use exhaustively:

> 14. Utilisation of funds.- (1) No person carrying on chit business shall utilise the moneys collected in respect of such business (other than commission or remuneration payable to such person or interest or penalty, if any, received from a defaulting subscriber), except for- (a) carrying on chit business; or (b) giving loans and advances to non-prized subscribers on the security of subscriptions paid by them; or (c) investing in trustee securities within the meaning of section 20 of the Indian Trusts Act, 1882 (2 of 1882); or (d) making deposits with approved banks mentioned in the chit agreement.

The list is closed. Subscribing to Security Bonds, Deposit Bonds or Corporate Papers issued by KIIFB is plainly not the carrying on of chit business, is not a loan to a non-prized subscriber, and is not a deposit with an approved bank - KIIFB is not a bank. The deployment can therefore be lawful only if KIIFB's instruments are "trustee securities within the meaning of section 20 of the Indian Trusts Act, 1882". Everything turns on that single gateway.

Section 20 of the Indian Trusts Act, as it stood before 2016, enumerated the permissible categories, and those categories included securities the interest on which is guaranteed by the Central Government or a State Government. Since Section 9 of the KIIF Act obliges the Government of Keralam to guarantee the payment of principal and interest on funds raised by the Board, a respectable argument could be made on that text that KIIFB's instruments qualified.

That text, however, no longer stands. The Indian Trusts (Amendment) Act, 2016 (Act 34 of 2016) substituted Section 20 in its entirety:

> 20. Investment of trust-money.- Where the trust-property consists of money and cannot be applied immediately or at an early date to the purposes of the trust, the trustee shall, subject to any direction contained in the instrument of trust, invest the money in any of the securities or class of securities expressly authorised by the instrument of trust or as specified by the Central Government, by notification in the Official Gazette …

The substituted section deletes the enumerated categories altogether. Eligibility now depends on a notification of the Central Government. KIIFB's issuances to KSFE began on 22 November 2018, after the substituting Act received assent on 26 July 2016. Two questions therefore arise which the Committee is not in a position to answer on the material before it:

- Which version of Section 20 of the Indian Trusts Act was in force on the dates of the successive placements? The Amendment Act of 2016 was to come into force on a date to be appointed by the Central Government by notification, and the Committee has not been shown the commencement notification or a statement of the position on each placement date.
- If the substituted section was in force, has the Central Government notified any class of securities that would include State-guaranteed bonds of a statutory body such as KIIFB? If it is not, the gateway in clause (c) of Section 14(1) may be narrower than the parties assumed, or may not be available at all.

3.13.4 The Committee's conclusion on legality

The Committee does not find that the arrangement is unlawful. It finds something less comfortable: that its legality rests entirely on one narrow statutory gateway, that the gateway was materially altered by Parliament two years before the placements began, and that no contemporaneous legal opinion, no Registrar's permission, and no record of any examination of Section 14 of the Chit Funds Act or of Section 20 of the Indian Trusts Act was placed before the Committee. A structure through which Rs 1,237.14 crore of ordinary subscribers' savings has been channelled into the unsecured paper of a single State entity ought to rest on a recorded legal foundation which the Committee has not been shown. The Secretary (Law) in discussion with the committee, expressed the view that investment of chit moneys in KIIFB bonds is within Section 20 of the Indian Trusts Act, 1882, and written advice to that extent is understood to exist. No contemporaneous legal examination was placed before the committee either by KIIFB or KSFE at the time of placements, but the Committee takes note of the Secretary's advice.

Separately from legality, the Committee records a question of prudence. Even on the assumption that every placement is lawful, the entire deployment of Pravasi Chitty moneys is with a single counterparty whose debt service is met as to 99.4 per cent by transfers from the State. The subscribers are protected by the State guarantee under Section 9, and the Committee does not suggest that their money is at risk. The Kerala Pravasi Chit Fund, placing the whole of its investible surplus with one related entity (KIIFB) with no counterparty diversification whatsoever and having no prudential investment policy or exposure limit, in the Committee's view, imprudent.

PART III - CONSTITUTIONAL, LEGAL AND FISCAL ISSUES

3.14 The constitutional framework

Four constitutional provisions bear on KIIFB's resource mobilisation.

- Article 266(1) requires that all revenues received by the Government of a State form one consolidated fund, the Consolidated Fund of the State. Article 266(3) provides that no moneys out of the Consolidated Fund shall be appropriated except in accordance with law and for the purposes and in the manner provided in the Constitution.
- Articles 202 to 204 require the annual financial statement to be laid before the Legislature and expenditure to be authorised by an Appropriation Act. Legislative control over the public purse operates through these provisions.
- Article 293(1) empowers a State to borrow within the territory of India upon the security of the Consolidated Fund of the State, within limits fixed by the State Legislature. Article 293(3) requires the consent of the Government of India for any such borrowing while any part of a loan from the Union remains outstanding.
- Entry 37 of List I of the Seventh Schedule places "foreign loans" exclusively within the legislative competence of the Union. A State has no power to raise a loan from outside India.

The questions that follow are whether the earmarking of Motor Vehicles Tax and petroleum cess to KIIFB otherwise than through the Consolidated Fund is consistent with Article 266; whether KIIFB's borrowing, serviced from State revenues, bypasses Article 293; and whether the Masala Bond issue encroached on Entry 37 of List I.

3.15 Off-budget borrowing: the position of the Comptroller and Auditor General

KIIFB was originally institutionalised as a borrowing mechanism outside the State budget for revenue-earning infrastructure investment. The 2016 amendment broadened the range of eligible projects to include the social sector, which by its nature generates no revenue for KIIFB. As shown at paragraph 3.20, the larger share of KIIFB's investment has gone to non-revenue-earning projects[2]. That necessitated a constant flow of resources from the State budget to KIIFB to repay and service its borrowing - not merely a guarantee of that borrowing.

The Comptroller and Auditor General of India, in the State Finances Audit Report of Keralam for the year ended 31 March 2019, held that KIIFB's borrowings are off-budget borrowings which bypass the limits set under Article 293. The relevant passage (pages 41-42) reads:

> The borrowings of the State Government are governed by Article 293(1) of the Constitution of India, the guiding principle of which is that the State Government is free to borrow money within the territory of India upon security of the Consolidated Fund of the State, and the limits on such borrowings can be regulated under Article 293(3) of the Constitution of India. The State Government is, therefore, required to furnish to GOI the financial statements showing the estimates of receipts and repayments of all sources of borrowings including Open Market Borrowings, other liabilities arising out of Public Account transfers etc, based on which the GOI gives the consent for raising loans and fixes the borrowing ceiling for the State Government. In respect of Kerala the limit fixed for 2018-19 was 3 per cent of the estimated GSDP.
>
> KIIFB's borrowings represent off-budget borrowings, which bypasses the limits set on Government borrowings under Article 293 of the Constitution of India. These borrowings are not taken into the disclosure statements in the budget documents or in the accounts. Hence such borrowings do not have legislative approval.

In the same Report the Comptroller and Auditor General drew the distinction, central to this Chapter, between a genuine contingent liability arising from a guarantee to a public sector undertaking and a direct liability dressed up as a guarantee (pages 42-43):

> A State may have a number of PSUs, ABs etc., who may also borrow from the market; repayments of these borrowings and interest thereon are a charge on the income of the concerned PSUs/ABs. However, depending on the financial health of the PSUs/ABs, such borrowings may sometimes have to be against Government guarantees. Such guarantees are obviously in the nature of contingent liabilities. It is for this reason that the relevant Acts of most States prescribe a maximum limit or extent to which Government guarantees may be given. In the case of Kerala, the Kerala Ceiling on Government Guarantee Act, 2003, amended w.e.f. April 2018, provides a limit of five per cent of GSDP. However, even in cases where Government guarantees are given, the basic presumption is that the PSU/AB would be able to repay the borrowed sum along with interest from its own sources of revenue. That is why it is not considered fully as the State's liabilities, but only a contingent liability, because the State would have to discharge the liability only in the contingency that the PSU/AB fails to discharge its debt obligation. It may be

[2] Also see paragraph 4.2.2 in Chapter 4

> noted that a guarantee can be treated as contingent liability only when the borrowing entity generates its own resources and is expected to repay the borrowings from such resources; only in the contingency of the borrowing entity failing to repay does it become the liability of the State as the guarantor. The meaning of the English word 'contingent' in this case is very clear, and brings into focus the nature of the liability.
>
> As a corollary, if the PSU/AB has no sources of income and has to depend on flow of funds from the State Government to meet its debt obligation, then such liability is obviously fully the liability of the State. In other words, if the resources of the PSU/AB are to come from revenue raised by the Government by way of taxes and cesses, raised on the tax-raising authority of the State, and the PSU/AB has no income of its own, then there is nothing contingent about the liability; the liability is tied up to the revenue resources of the State and is, therefore, a direct charge on the State revenues. It is obvious that there is nothing 'contingent' about a liability which has to be repaid in this manner.

The Committee has tested that reasoning against the figures. The test the Comptroller and Auditor General proposes is whether the borrowing entity generates its own resources and repays from them. Table 3.2 answers it: over 2021-22 to 2024-25, State transfers of Rs 11,869.28 crore met 99.4 per cent of KIIFB's debt service of Rs 11,944.18 crore. Table 3.14 below answers it a second way: over 2021-22 to 2023-24, repayments received by KIIFB from revenue-generating projects were Rs 745.39 crore against interest alone of Rs 3,633.86 crore - 20.5 per cent of interest, and 9.5 per cent of total debt service. On the Comptroller and Auditor General's own test, the liability is not contingent. The Committee concurs with that conclusion.

Accordingly, the Comptroller and Auditor General has reported all of KIIFB's borrowing as off-budget borrowing of the State. The latest available data are at Table 3.10.

Table 3.10 Off-budget borrowing by KIIFB as reported by the CAG (Rs. in crore)

Year	Opening balance	OBB during year	Principal repaid	Interest paid	Closing balance
2021-22	5,610.82	7,762.78	307.42	739.66	13,066.18
2022-23	13,066.18	5,109.24	432.74	1,254.56	17,742.68
2023-24	17,742.68	5,803.86	3,505.02	1,639.64	20,041.52
2024-25	20,041.52	8,089.92	2,241.67	1,823.47	25,889.77

Source: Report of the Comptroller and Auditor General of India on State Finances for the year 2024-25.

3.16 Finance Commission observations and the position of the Government of India

Both the Fifteenth and the Sixteenth Finance Commissions addressed off-budget borrowing. The Fifteenth Finance Commission observed, at paragraph 12.75:

> Detailed analysis revealed that there is a substantial portion of implicit contingent liabilities, outside the framework of standard guarantees that can eventually devolve heavily on the State Governments. We also found that the risk profile of these implicit liabilities is varied. The State-specific amounts are also very different relative to their budget size and GSDP. It is important to analyse the breadth of these liabilities. However, for the present, we recommend that governments at all tiers may observe strict discipline by resisting any further additions to the stock of off-budget transactions and contingent liabilities which is against the norms of

> fiscal transparency and detrimental to fiscal sustainability. One very important purpose of our recommendation for higher borrowing limit to the Union and State Governments is to foster transparency and to avoid build-up of non-transparent liabilities.

And in its Summary of Recommendations at paragraph 12.77:

> (iii) It is important that all committed expenditures and developmental expenditures are met from the augmented borrowing space recommended for the Union and the State Governments, without resort to off-budget or any non-transparent means of financing for any expenditures.

The Sixteenth Finance Commission went further, and its observations bear directly on the escrow arrangement through which KIIFB is funded:

> 12.17 Off-budget borrowings (OBBs), that is, borrowings not incurred directly by governments but by their entities and serviced by the government, have been a major source of fiscal risk. These borrowings do not appear transparently in the government's accounts. … the reporting of OBBs by States has not been transparent.
>
> 12.18 The Union Government has been incurring such liabilities, known as extra budgetary resources (EBR), for various purposes, including payment of subsidies, and the outstanding amount on this account is of the order of 0.46 per cent of GDP in 2023-24. However, the Union Government has discontinued this practice since 2022-23, and since the outstanding amount is small, it is not an imminent risk factor for overall fiscal stability. The Union Government should continue with the practice of full disclosure on these extra budget borrowings and ensure that further liabilities are directly contracted on the budget rather than off budget.
>
> 12.22 Off-budget borrowings pose a risk to fiscal stability, as it can become a vehicle for borrowing in excess of the prescribed limits. Some of the practices, such as not crediting government revenues to the consolidated fund but instead escrowing them directly, could also be unconstitutional under Article 266. We recommend that, building on the example set by the Union Government, States should completely discontinue this practice and bring all off-budget borrowings into their budgets.
>
> 12.35 Off-budget borrowings are another source of risk, which can be used to side-step the administration of borrowing limits under these provisions. It is essential that if States resort to OBB, they do so within the overall permitted limits set by the Union Government under Article 293(3). While approving borrowings for States under Article 293(3), the Union Government must take OBBs into account.

Paragraph 12.22 is the observation of most direct application to KIIFB. The practice the Sixteenth Finance Commission describes as possibly unconstitutional under Article 266 - not crediting government revenues to the Consolidated Fund but escrowing them directly - is precisely the mechanism by which Motor Vehicle Tax and petroleum cess reach KIIFB's lenders. The Committee notes that the Finance Commission expresses itself in terms of possibility ("could also be unconstitutional") rather than conclusion.

The Government of India, in the "Explanatory Memorandum as to the Action Taken on the Recommendations Made by the Sixteenth Finance Commission" laid before the Parliament, responded at paragraph 26:

> The Government accepts in-principle, the recommendation of the quantum (expressed as a per cent of GSDP) of net borrowing ceilings for the States. Other recommendations of the Commission including those related to Off-Budget Borrowings, amendment to State FRLs, Union Government Fiscal Deficit will be examined separately.

The Committee reads this as neither acceptance nor rejection of the off-budget borrowing recommendations, and therefore does not treat the Sixteenth Finance Commission's view on Article 266 as settled Union policy. The position under the Fifteenth Finance Commission, however, has already been given operational effect, as set out next.

3.17 KIIFB's borrowing is now treated as the State's own borrowing

Acting on the Fifteenth Finance Commission's recommendations, the Government of India decided to deduct amounts equivalent to a State's off-budget borrowing in a financial year from that State's permitted borrowing for the year. The policy was implemented through the Net Borrowing Ceiling guidelines for 2022-23 issued vide letter No. 40(2) PF-S/2022-23 dated 31 March 2022. Paragraph 8 of that letter reads:

> 8. Off-Budget Borrowings like borrowings by State Public Sector companies, SPVs and other equivalent instruments, where principal and/or interest are to be serviced out of the State Budgets, have the effect of bypassing the Net Borrowing Ceiling (NBC) of the State by routing loans outside State budget through Government owned or companies/statutory bodies despite being responsible for repayment of such loans. Such borrowings have impact on the Revenue Deficit and Fiscal deficit and thus have the effect of surpassing the targets set for fiscal indicators under State FRBM Act. Therefore, borrowings by State Public Sector companies/corporations, Special purpose vehicles (SPVs) and other equivalent instruments, where principal and/or interest are to be serviced out of the State Budgets and/or by assignment of taxes/cess or any other State's revenue, shall be considered as Borrowings made by the State itself for the purpose of issuing the consent under Article 293(3) of the Constitution of India. The aforesaid provisions shall be implemented since beginning of the FC-XV award period i.e. 2020-21. Therefore, any such off budget borrowing made by the State during the previous years i.e. 2020-21 and 2021-22 shall also be adjusted."

This is the decisive development for the whole of the KIIFB model. The words "and/or by assignment of taxes/cess or any other State's revenue" capture Section 7 of the KIIF Act exactly. With effect from the start of the Fifteenth Finance Commission period (2020-21), with deductions adjusted from 2022-23, KIIFB's borrowings are state borrowings for the purpose of Article 293(3). The amounts deducted from Keralam's borrowing space on this account are at Table 3.11.

Table 3.11 Deduction from the State's borrowing space on account of KIIFB's borrowing (Rs. in crore)

Year	Amount deducted for off-budget borrowing
2022-23	1,940.70
2023-24	5,835.16
2024-25	2,911.05
2025-26	7,155.72
2026-27	8,089.92
Total	**25,932.55**

Source: Furnished by the Department of Finance, Government of Keralam.

The consequence is that the original rationale for KIIFB has been extinguished. KIIFB was designed to raise capital for infrastructure without consuming the State's borrowing space under Article 293(3). Since 2021-22 it consumes that space rupee for rupee - Rs 25,932.55 crore to date - while doing so at a cost of borrowing that is, as shown next, consistently and substantially higher than what the State paid on its own open market borrowings. The Committee finds it difficult to identify any fiscal advantage that survives this change, and returns to the point under ToR 9 in Part IV.

3.18 Cost of borrowing

KIIFB has mobilised resources from a range of sources at rates that vary materially, both across sources and within a single year. Table 3.12 compares the weighted average cost of KIIFB's borrowing with that of the State's own open market borrowing. The Table also provides the spread of KIIFB's borrowings in each year.

Table 3.12 KIIFB's cost of borrowing compared with the State's open market borrowing

Year	KIIFB's				State OMB Weighted Average (in %)	Spread (in bps)
	Minimum interest Rate (in %)	Maximum Interest Rate (in %)	Weighted Average (in %)	Max – Min (in bps)		
2017-18	9.41	9.41	9.41	0	-	-
2018-19	7.59	9.72	9.59	213	8.31	128.07
2019-20	7.59	9.17	8.80	158	7.42	138.42
2020-21	7.59	9.17	7.96	158	6.94	101.79
2021-22	7.57	8.96	8.01	139	7.13	88.39
2022-23	7.57	8.96	8.53	139	7.68	85.25
2023-24	7.57	9.59	8.99	202	7.48	150.51
2024-25	7.58	9.74	9.01	216	7.22	179.42
2025-26	7.07	9.78	9.01	271	7.40	160.90

Notes: (1) Spread is the excess of KIIFB's weighted average interest rate over that of State OMB.
(2) Interest rate used are equivalent to semi-annual compounding rates.
Source: Computed using the data collected from KIIFB and State OMB date collected from Finance Department.

Table 3.13 Non-Interest Costs of Domestic Bond Issuance (in Rs Crores)

Particulars (fees inclusive of GST) /Year	2022-23	2023-24	2024-25	2025-26
Bonds Proceeds	-	2,411.64	3,003.49	3,234.84
Credit Rating Fees	0.24	0.73	0.23	0.51
Legal Fees	-	0.82	0.45	0.19
Professional Fees - Arranger / Merchant Banks, Trustee, RTA	-	27.01	62.29	68.49
Others - includes Regulatory, Listing and Corporate Action Fees - to BSE, NSDL, CDSL	-	0.23	0.1	0.38
Miscellaneous Expenses	-	0.08	0.13	0.09
Total Domestic Bond Expenses	0.24	28.88	63.19	69.66

Source: Details furnished by KIIFB

Table 3. 14 Non-interest Expense of Masala Bond (Figures in Rs. Crore)

Particulars (fees inclusive of GST)	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Bond Proceeds	2150					
Arranger / Banker	-	18.47	-	-	-	-
Legal	1.31	0.4	-	-	-	-
Audit & Compliance	-	0.01	-	-	-	-
Rating Fees	0.89	1.2	0.65	0.96	1.07	1.19
Trustee / Paying Agent / Calculation Agent	0.06	0.02	0.34	0.06	0.13	0.07
Travel / Roadshow Expenses	0.02	0.55	-	-	0.01	-
Others	0.22	2.11	0.01	0.0013	-	0.001
Total Masala Bond Expenses	2.5	22.75	0.99	1.02	1.21	1.26

Source: Details furnished by KIIFB

Three conclusions follow.

- KIIFB's cost of borrowing was higher than the State Government's borrowing cost in every year for which comparable information is available.
- The coupon understates the true cost. Beyond interest, KIIFB incurs placement fees, listing fees, bank charges, trustee and rating fees, and pays a guarantee commission to the State Government for the guarantee mandated by Section 9 of the KIIFB Act 2016. Table 3.13 presents the non-interest cost, excluding the guarantee fee, of domestic bond issuance. It reveals significant cost incurred by KIIFB for domestic bond issuance. As shown in Table 3.14, in the case of the Masala Bond private placement and listing costs on the London and Singapore Stock Exchanges were incurred in addition to the 9.723 per cent coupon. Addition of these non-interest cost of borrowing makes, costs of KIIFB's borrowing significantly higher than that of Government of Keralam's open market borrowing.
- On the outstanding portfolio of Rs 31,681.16 crore, a spread, even at a conservative estimate of 125 basis points over the State's own cost of funds, represents an avoidable annual charge of roughly Rs 396 crore. Since the borrowing is now counted as the State's own borrowing in any event, this premium buys nothing.

From the above it follows that KIIFB raising funds through bonds at rates, substantially above the State Government's borrowing rate, raises questions about the justification for KIIFB's borrowing arrangement.

3.18.1 The Masala Bond: cost and the claimed benefit

The Masala Bond was one of the most expensive borrowings that KIIFB raised. At 9.723 per cent against the State's weighted average open market borrowing cost of 8.31 per cent in 2018-19, the coupon carried a premium of 141 basis points. Over the five-year tenure, on Rs 2,150 crore, this amounts to approximately Rs 152 crore of additional interest - interest actually paid of Rs 1,045.44 crore against approximately Rs 893 crore had the same sum been raised at the State's own 2018-19 cost. To this add Rs. 29.73 crore, of other expenses of Masala bond presented in Table 3.14 Thus, the Masala Bond itself caused an excess cost of around Rs. 181.73 crore.

KIIFB has advanced in mitigation the argument that the international issue established a credit history and a pricing benchmark for a sub-sovereign issuer, which enabled it subsequently to raise domestic funds at lower cost. The Committee has examined that claim against the record and does not find it made out, for three reasons.

- The claim is not borne out by the subsequent pricing. If the Masala Bond had created a durable pricing benefit, KIIFB's spread over the State's cost of funds should have narrowed after 2019. It did not.
- KIIFB's domestic bond coupons rose rather than fell, from 8.49 per cent in July 2023 to 9.67 per cent in August 2025. The Committee accepts that the general interest rate environment changed over this period, which is why the comparison above is made against the State's own contemporaneous cost of funds rather than in absolute terms. On that like-for-like basis no improvement is visible.
- No contemporaneous record was produced showing that the benchmark benefit was evaluated and quantified either before the issue was decided upon or afterwards. A claimed strategic benefit that was never costed at the time of decision cannot be relied upon after the event to justify a 141basis point premium on interest rate and other expenses.

The Committee would add, in fairness, that the issue was a genuine first for a sub-sovereign Indian issuer, that it was made in a rupee-denominated form so that no exchange risk was assumed by KIIFB or the State, and that it was serviced and redeemed in full and on time. Those are not small things. But they do not establish that the premium paid was the cheapest way of achieving the objective.

3.18.2 Different instruments at different coupons in the same year

The most significant feature of Table 3.12 for audit purposes is not the spread over the State's cost but the spread within KIIFB's own borrowing in a single year. The spread is always higher than 100 basis points and it range from 139 basis points in 2021-22 and 2022-23 to 271 basis points in 2025-26. The instruments concerned were not separated by long intervals. In 2024-25, NABARD NIDA Tranche 4 was drawn at 7.25 per cent on 25 October 2024, and Domestic Bonds Series 4 were issued at 9.42 per cent on 30 December 2024 - a difference of 217 basis points within ten weeks.

There may be sound reasons for such differences. Concessional institutional lines such as NABARD NIDA carry sectoral eligibility conditions, disbursement linked to physical progress, and ceilings that cannot be exceeded; a bond issue may be the only instrument capable of delivering a large sum on a fixed date. If those were the reasons, they should have been evidenced in the records.

The Committee called for the appraisal notes recording why, in each year in which instruments of materially different cost were used, the more expensive instrument was preferred - that is, on a comparative evaluation of available sources with the headroom remaining on the cheaper lines, the reason the cheaper lines could not meet the requirement. No such evidence was furnished for any

year. The Committee therefore records that no evidence was placed before it to justify the preference of a higher coupon over a lower coupon available in the same year. In the absence of such record, the Committee is unable to satisfy itself that the borrowing was raised at the least cost consistent with requirement, and the excess cost must be regarded as avoidable within the meaning of ToR 4.

The Committee illustrates the order of magnitude. Had the Rs 2,500 crore raised through Domestic Bond Series 3 and 4 in 2024-25 been raised instead on terms comparable to the NABARD NIDA drawings of the same year, the annual interest saving would have been of the order of Rs 55 crore, and over the ten-year tenure of those bonds, substantially more. The Committee does not suggest that the entire sum could in fact have been raised from NABARD; it offers the figure to show what is at stake in the absence of a documented comparison.

3.18.3 Negative interest carry on unutilised borrowed funds

The information made available by the statutory auditor of KIIFB to the Committee shows that on several occasions borrowed funds remained unutilised for months, during which they were parked in deposits earning between 6.5 and 7.5 per cent while carrying a funding cost of between 8.5 and 9.7 per cent. The resulting negative spread of roughly 150 to 250 basis points is a direct and quantifiable loss. Illustratively, a pool of Rs 10,000 crore held for six months at a negative spread of 200 basis points costs Rs 100 crore.

In its note to the Committee, KIIFB explained that it was intended to build and maintain a minimum fund pool of Rs 10,000 crore before large projects were rolled out, and that a negative interest spread was therefore unavoidable. The Committee does not accept that this makes the loss unavoidable, for the reasons set out at paragraph 3.19.2. It records here only the consequence for cost: the negative carry is a recurring charge.

3.18.4 The escrow mechanism, the State’s ways and means position, and overdraft cost

There is a further cost, borne by the State rather than by KIIFB, which does not appear in any of the tables above. The Motor Vehicle Tax and Petroleum Cess earmarked under Section 7 do not reach KIIFB’s lenders as a single annual budgetary transfer. They are routed through an escrow arrangement under which sums are made available on a continuing, effectively daily, basis to service KIIFB’s debt. The State therefore parts with cash from its account with the Reserve Bank of India ahead of the point at which the corresponding expenditure would otherwise have fallen due, and must then replenish its balance.

Two consequences follow for the State's Ways and Means position. First, the daily cash outflow depresses the State's minimum balance with the Reserve Bank of India and increases the frequency and duration of recourse to Special Drawing Facility (SDF) and Ways and Means (W&M) Advances and, beyond those, to Overdraft (OD). Second, overdraft from the Reserve Bank of India is charged at a penal rate above the repo rate which could be repo rate +2% for overdraft up to 100% of W&M

limit and repo rate + 5% for beyond the W&M limit. Ways and Means Advances are charged at the repo rate for the first 90 days and at repo rate +1% beyond 90 days. Special Drawing Facility (SDF) is charged at even below repo rate. Every rupee of additional recourse caused by the escrow outflow therefore carries a cost that is additional to, and entirely separate from, the coupon KIIFB pays on the underlying borrowing. The State is, in effect, paying twice: once through the interest embedded in KIIFB's borrowing, and again through the carrying cost of the liquidity it surrenders to service that borrowing.

3.19 Alignment of borrowing with project spending, and the size of the fund pool

3.19.1 Alignment of borrowing with spending

ToR 3 requires the Committee to assess whether KIIFB's borrowings were aligned with the objective of financing financially sustainable projects. Two kinds of alignment are involved: alignment of purpose, which is dealt with at paragraph 3.20, and alignment of timing, which is dealt with here. A mismatch between the timing of borrowing and the timing of project expenditure produces either delayed implementation or unnecessary interest cost, and usually both.

The Committee observed that:

- Borrowed funds remained unutilised for months on several occasions, parked in deposits at 6.5 to 7.5 per cent against a funding cost of 8.5 to 9.7 per cent.
- KIIFB held Rs 6366.24 crore of sanctioned but undrawn facilities on 30 June 2026. This establishes that KIIFB is both able and willing to keep facilities in place without drawing them - which makes the parallel practice of drawing funds and parking them harder to explain, not easier.

3.19.2 Opportunity cost of KIIFB Reserves

As on June 30, 2026 KIIFB maintains a total fund of Rs. 9991.79 crore in its various accounts. Of this Rs. 4111.29 crore, in Treasury Deposits, is the Corpus Fund and Rs. 3007.33 crore is in the DSRA. The Corpus Fund is provided by the Government as grant, while the DSRA is funded through Section 7 transfers, which is replenished whenever required from the same source. Neither represents funds raised through KIIFB's borrowings. Under Section 3(5) of the KIIF Act, KIIFB cannot place its borrowed funds in the State Treasury. Details furnished by KIIFB show that yield of treasury deposit is zero and the reserves in DSRA provide a yield of 6.67 percent in a year.

These balances therefore do not constitute a borrowing cost or negative carry on KIIFB's borrowings. However, they represent an opportunity cost arising from the institutional framework of KIIFB. Instead of KIIFB, if the Government had undertaken the same infrastructure expenditure directly through its budget, a separate Corpus Fund and DSRA requirements associated with KIIFB would not have arisen. Thus, the associated opportunity cost is a consequence of financing of

infrastructure investment through KIIFB rather than directly by the Government. The Government is not incurring any financing cost for the corpus fund as it is kept in the Treasury and its yield is zero; it can use this money without any costs for its liquidity management. However, reserves in DSRA account involve a financing cost for the Government of Keralam as it is created using government transfers and kept outside the treasury with a yield less than the borrowing cost of the State. The Committee calculated this cost and it comes to Rs. 23 crore in a year.[3] This cost must be viewed as an additional costs of the decision to undertake infrastructure financing through a separate statutory financing institution, rather than as a cost arising from KIIFB's borrowing by itself.

The Committee makes the following observation. The amount held under lien to lenders is duplicative credit enhancement. Every KIIFB borrowing already carries an unconditional guarantee of principal and interest which Section 9 of the Act obliges the Government to give, and for which KIIFB pays a guarantee commission to the Government. In addition, over Rs 3,000 crore of cash under lien is to pay twice for the same protection. Further, this reserves also costs around Rs. 23 crore for the government in a year. The Committee was shown no record of KIIFB having sought a waiver or reduction of the debt service reserve requirement on the strength of the statutory guarantee, or of any lender having been asked to price the guarantee into the reserve requirement.

3.20 The revenue-generating project premise and compliance with Section 7

The entire architecture of the Act rests on a premise: that the Fund would invest in projects which generate revenue, that those revenues would service the Fund's borrowings, and that the State's contribution under Section 7 would meet the residual annuity, repayment and administrative obligations rather than the whole of them. If the premise holds, the State's guarantee under Section 9 is contingent and the arrangement is fiscally neutral. If it fails, the guarantee is nominal and the State is simply borrowing at one remove and at a higher price. Table 3.15 tests the premise.

Table 3.15 Extent of spending on revenue-generating projects (Rs. in crore)

Year	Fund borrowed (amount deducted by GoI)	Fund lent for revenue-generating projects	Repayments from revenue-generating projects
2021-22	7,762.78	2,654.77	154.63
2022-23	5,109.24	597.31	123.52
2023-24	5,803.86	430.35	467.24
Total	**18,675.88**	**3,682.43**	**745.39**

Source: Details furnished by the Finance Department, Government of Keralam.

The premise fails.

[3] The computation is based on the difference between the average OMB of Kerala Government during the five years from 2021-22 and the reported yield from DSRA account, (7.44-6.67) =0.77 percent rate of interest on Rs.3007.33 crore reserves.

- Only 19.72 per cent of the funds borrowed over the three years were lent for revenue-generating projects. More than four rupees in every five went to projects which, on KIIFB's own classification, generate no revenue for the Fund.
- The trend is adverse, not improving. Lending for revenue-generating projects fell from Rs 2,654.77 crore in 2021-22 to Rs 597.31 crore in 2022-23 and Rs 430.35 crore in 2023-24 — from 34.2 per cent of borrowing to 11.7 per cent and then 7.4 per cent.
- The revenue-generating projects do not service even the interest on the borrowing raised for them, let alone the whole portfolio. Repayments received from them over the three years were Rs 745.39 crore, against interest paid by KIIFB over the same three years of Rs 3,633.86 crore and total debt service of Rs 7,879.04 crore. Project revenues met 20.5 per cent of interest and 9.5 per cent of total debt service.

The Committee observes that this outcome was not accidental. It follows from the 2016 amendment itself, which extended the definition of infrastructure projects to the social sector - schools, hospitals, public buildings - which are, and were always going to be, non-revenue-generating for the Fund. The financing structure was retained from a statute designed for revenue-earning assets and applied to assets that could never earn revenue. The mismatch is structural.

On compliance with Section 7, the Committee records the following. The obligation that Section 7 casts on the Government - to make budgetary provision, to set apart the prescribed share of Motor Vehicles Tax and to contribute the petroleum cess - has been discharged; Table 3.1 shows Rs 24,764.64 crore transferred, and the Committee has found no year in which provision was not made. Compliance with Section 7 in that formal sense is not in question.

3.21 Masala Bonds and Entry 37 of List I

The Comptroller and Auditor General, in the State Finances Audit Report for the year ended 31 March 2019, took the view that the Masala Bond issue encroached on the exclusive legislative field of the Union. The passage (page 42) reads:

> Further, from Table 1.34 above, it is observed that the maximum amount of borrowings is done from Masala bonds, which are, by their very nature, external commercial borrowings. However, entry 37 of List I of the 7th Schedule of Constitution of India gives the powers of raising foreign loans only to the Central Government. The entire repayment is being done through Government's own revenue resources and therefore, such foreign borrowings are, for all practical purposes, borrowings of the State Government. Hence, they appear to be in violation of the provisions of the Indian Constitution and encroachment by the State on the powers of the Centre. The approval given by RBI to KIIFB to issue Masala bonds is also questionable because its permission has allowed the State Government to route its own foreign borrowings through KIIFB. If this model were to be followed by other States as well, then the external liabilities of the country would increase substantially, without the Central Government even knowing that such liabilities are being created. The purpose and intent of Entry 37 in List I would be defeated.

The contrary view, which the Committee records for completeness, rests on three propositions: that KIIFB is a body corporate with a legal personality distinct from the State and was the borrower in its own name; that the bonds were denominated in rupees, so that the State assumed no exchange risk and the transaction is not a "foreign loan" in the sense of a borrowing repayable in foreign currency; and that the issue was made under the External Commercial Borrowing framework with the specific approval of the Reserve Bank of India, the regulator designated by the Union for that purpose, for an amount of Rs 2,672.80 crore.

The Committee does not consider it necessary or appropriate to return a final finding on the constitutional question. It is a question of some difficulty, it has not been adjudicated, and the circumstances that gave rise to it no longer subsist: since the bonds were fully redeemed on 27 March 2024, no liability under them remains outstanding, and no further issue has been made. The Committee accordingly leaves the constitutional question where the Comptroller and Auditor General left it, noting that the borrowing has been repaid in full.

It does, however, record two points of continuing relevance. First, the structural objection the Comptroller and Auditor General identifies - that a route which allows States to create external liabilities outside the Union's knowledge would defeat the purpose of Entry 37 - is not answered by the fact that this particular issue was repaid. Second, the Committee sees no case for a further issue of this kind, both because of the unresolved constitutional question and because, as shown at paragraph 3.18.1, the instrument was one of the most expensive KIIFB has used and the claimed benchmark benefit is not established on the record.

PART IV - OBSERVATIONS AND COMMENTS

The Committee's observations follow from the analysis in Parts I to III and are stated here in summary form. The supporting reasoning is not repeated.

On resource mobilisation from the State (ToR 3, ToR 5)

1. The State transferred Rs 24,764.64 crore to KIIFB under Section 7 up to 30 June 2026. Over 2021-22 to 2024-25, transfers of Rs 11,869.28 crore met 99.4 per cent of KIIFB's debt service of Rs 11,944.18 crore. In net terms the State's transfers finance debt service, not infrastructure.
2. The 2016 amendment converted the Government's discretionary power to guarantee under Section 9 into an obligation, and removed the statutory ceiling that the 1999 and 2002 Acts had imposed. Every KIIFB borrowing since 2016 has been guaranteed as of statutory course rather than on a case-by-case assessment.

On borrowing and the requirement of Government sanction (ToR 3, ToR 5, ToR 7)

3. KIIFB had borrowed Rs 42,193.45 crore of Rs 48559.69 crore sanctioned, repaid Rs 10512.30 crore, and carried Rs 31,681.15 crore outstanding as on 30 June 2026.
4. No evidence was placed before the Committee to establish that the previous sanction required by Section 8(1) was accorded in each case by the Finance Department of the

Government of Keralam, as distinct from the Board, its Executive Committee, or KIIFB's own finance wing acting under delegation pursuant to Section 8A. Where the proposing authority is also the sanctioning authority, the statutory safeguard becomes self-certification. This does not uphold the spirit of Section 8, whatever the seniority of the persons involved, and the Fund Trustee and Advisory Commission under Section 6D does not fill the gap, its remit being fidelity of application rather than appraisal of borrowing terms.

5. The substitution of Section 8(2) of 1999 Act by Section 8(4) of 2016 Act shifted the initiative in issuing and redeeming the Board's instruments from the Government to the Board.

On cost of borrowing (ToR 4)

6. KIIFB's cost of borrowing exceeded the State's own open market borrowing cost in every year of comparison, by between 85 and 179 basis points, with the sole exception of the NABARD NIDA drawings of 2024-25. On the present outstanding portfolio, a spread of 125 basis points represents an avoidable charge of roughly Rs 396 crore a year.
7. Instruments of materially different cost were used within the same year - a range of 216 basis points in 2024-25, including borrowings at 7.25 per cent and a bond issue at 9.42 per cent ten weeks apart. No evidence was furnished, for any year, to explain why the more expensive instrument was preferred over the cheaper one then available.
8. Borrowed funds remained unutilised for months and were parked at 6.5 to 7.5 per cent against a funding cost of 8.5 to 9.7 per cent.
9. A further cost falls on the State and is nowhere recorded: the escrow mechanism surrenders cash on a continuing basis, depressing the State's balance with the Reserve Bank of India and increasing recourse to Ways and Means Advances and Overdraft, the latter at a penal rate. The Finance Department should quantify this and bring it into the reckoning of the true cost of the arrangement.
10. The Masala Bond, at 9.723 per cent per annum against the State's 8.31 per cent, cost approximately Rs 152 crore more in interest over its life than the same sum raised by the State would have cost, before placement and listing expenses. With placement and list cost of Rs. 29.73 crore, the excess cost of Masala bond is Rs. 181.73 crore. KIIFB's claim that the issue lowered its subsequent domestic borrowing cost is not established: the spread over the State's cost did not narrow after 2019, and no contemporaneous evaluation of the claimed benefit was produced.

On alignment of borrowing with spending and the fund pool (ToR 3, ToR 4, ToR 7)

11. The amount held under lien to lenders is duplicative credit enhancement. Every KIIFB borrowing already carries an unconditional guarantee of principal and interest which Section 9 of the Act obliges the Government to give, and for which KIIFB pays a guarantee commission to the Government. In addition, over Rs 3,000 crore of cash under lien is to

pay twice for the same protection and this has an opportunity cost of Rs. 23 crore to the Government in a year. The Committee was shown no record of KIIFB having sought a waiver or reduction of the debt service reserve requirement on the strength of the statutory guarantee, or of any lender having been asked to price the guarantee into the reserve requirement.

On constitutional and legal compliance (ToR 5, ToR 9)

12. The Comptroller and Auditor General has held that KIIFB's borrowings are off-budget borrowings bypassing Article 293, lacking legislative approval, and that a guarantee is contingent only where the borrowing entity repays from its own resources. Applying that test to the figures, KIIFB's liability is not contingent: project revenues met 20.5 per cent of interest and 9.5 per cent of debt service over 2021-22 to 2023-24. The Committee concurs.
13. The Fifteenth Finance Commission recommended that all tiers of government resist further additions to off-budget transactions. The Sixteenth Finance Commission observed at paragraph 12.22 that escrowing government revenues instead of crediting them to the Consolidated Fund "could also be unconstitutional under Article 266" and recommended that States discontinue the practice entirely. The Government of India has accepted the borrowing-ceiling recommendation in principle and has stated that the off-budget borrowing recommendations will be examined separately.
14. Under the Net Borrowing Ceiling guidelines of 31 March 2022, borrowings serviced out of State budgets or by assignment of taxes or cess are treated as the State's own borrowings for Article 293(3) consent. Rs 25,932.55 crore has been deducted from Keralam's borrowing space on this account. The original rationale for KIIFB - raising capital without consuming borrowing space - no longer exists, while the cost premium over State borrowing remains.
15. On the Masala Bond and Entry 37 of List I, the Committee does not return a final finding. The bonds were redeemed in full on 27 March 2024 with no liability outstanding. The Committee records the Comptroller and Auditor General's view, notes the contrary arguments, and recommends against any further issue of this kind.
16. The Committee observed that a systematic methodology that could have ensured adherence to the Kerala Fiscal Responsibility Act, 2003, was absent. KIIFB did not adopt a consistent accounting system that could have aligned with the government, to avoid discrepancies. No system of any medium-term framework was adhered to, as required under principles of financial prudence. Thus, institutional predictability vis-a-vis government liabilities did not follow any efficient pattern. The absence of alignment with periodical break-ups, like quarterly, half-yearly etc., blurred analytical integrity.

On the revenue-generating premise and mobilisation from non-residents (ToR 3, ToR 5, ToR 7)

17. Only 19.72 per cent of borrowing over 2021-22 to 2023-24 was lent for revenue-generating projects, and the proportion fell year on year from 34.2 to 7.4 per cent. Section 7 was drafted as a residual provision to meet a shortfall; it has become the primary source of repayment. The mismatch is structural, originating in the 2016 extension of the Act to social-sector projects that can never earn revenue for the Fund.

18. No evidence was placed before the Committee that a programme of revenue-generating projects was identified and taken up, on any material scale, during the years in which the State was funding KIIFB under Section 7, nor of any review or course correction addressing the widening gap. The Committee regards this as a systemic deficiency.

19. The Pravasi Dividend Scheme embeds an undisclosed State subsidy: KIIFB pays 8.30 to 9.00 per cent, the subscriber is assured 10 per cent, and the State bridges the difference and underwrites the Welfare Board's liability. The effective cost to the State is 10 per cent.

20. Chit fund based mobilisation of Rs 2241.85 crore through KSFE, the Committee does not find the arrangement unlawful, but finds that its legality rests on a single narrow gateway. Section 14 of the Chit Funds Act, 1982 permits chit moneys to be used only for chit business, loans to non-prized subscribers, deposits with approved banks, or investment in trustee securities within the meaning of Section 20 of the Indian Trusts Act, 1882. KIIFB's instruments can qualify only under the last of these. Section 20 of the Indian Trusts Act was substituted in its entirety by Act 34 of 2016, removing the enumerated categories (which had included State-guaranteed securities) and making eligibility depend on the trust instrument or a Central Government notification - two years before the placements began in November 2018. No contemporaneous legal opinion, no permission of the Registrar of Chits, and no record of any examination of these provisions was placed before the Committee by KIIFB or KSFE. The Secretary (Law) has since advised that the investment is within Section 20 of the Indian Trusts Act; the Committee takes note of the advice.

Appendix to Chapter III

Table 3A.1 Details of Fund Mobilisation by KIIFB (as on June 30, 2026)

Debt Type	Lender / Instrument	Date	Sanctioned (Rs cr)	Availed (Rs cr)	Repaid (Rs cr)	Outstanding (Rs cr)	Interest Rate (%)	Tenure
NABARD	NABARD- NIDA (Tranche 1)	24-03-2017	565.00	565.00	378.38	186.62	8.8% & 9%	12 Years including 2 years moratorium
Term Loan from Banks	State Bank of India	15-12-2018	1,000.00	1,000.00	656.43	343.57	9.35%	10 Years including 2 years moratorium
Term Loan from Banks	Indian Bank	19-12-2018	500.00	500.00	273.00	227.00	9.15%	12 Years including 2 years moratorium
Term Loan from Banks	Union Bank of India	29-12-2018	500.00	500.00	338.54	161.46	9.90%	10 Years including 2 years moratorium
Masala Bond	Masala Bond	29-03-2019	2,150.00	2,150.00	2,150.00	-	9.723%	5 years
Term Loan from Banks	Syndicate Bank (Canara I)	29-08-2019	200.00	200.00	95.00	105.00	8.95%	12 Years including 2 years moratorium
Term Loan from Banks	Corporation Bank (UBI)	26-12-2019	250.00	250.00	108.33	141.67	9.90%	12 Years including 2 years moratorium
Bonds to KSFE (Pravasi Chitty)	Bonds to KSFE Ltd	from 22/11/2018 onwards	2,241.85	2,241.85	1,004.71	1,237.14	Based on interest rates of Govt Treasury	Ranging from 3 years to 10 Years
Loan (Pravasi Dividend Scheme)	Pravasi Dividend Scheme	from December 2019 onwards	330.90	330.90	0.62	330.28	8.3%-9%	NA (Subject to conditions of the scheme)
NABARD	NABARD- NIDA (Tranche 2)	20-07-2020	1,061.73	800.00	200.00	600.00	7.95%	15 Years including 2 years moratorium
REC	REC Ltd- 1	08-06-2021 & 09-06-2021	2,268.27	2,056.83	2,042.30	14.53	8.80%	7 Years including 2 Year moratorium
Term Loan from Banks	Bank of Baroda (Tranche 1)	31-05-2021	750.00	750.00	281.25	468.75	9.00%	10 Years including 2 years moratorium
Term Loan from Banks	Indian Bank (Tranche 2)	30-06-2021	500.00	500.00	151.20	348.80	9.25%	12 Years including 2 years moratorium
Term Loan from Banks	Bank of Maharashtra	26-07-2021	1,000.00	1,000.00	275.01	724.99	9.10%	12 Years including 2 years moratorium
Term Loan from Banks	Bank of Baroda (Tranche 2)	29-06-2021	1,250.00	1,250.00	429.69	820.31	9.00%	10 Years including 2 years moratorium
Term Loan from Banks	Bank of India	29-09-2021	700.00	700.00	175.00	525.00	9.05%	12 Years including 2 years moratorium
Term Loan from Banks	Canara Bank II	30-11-2021	500.00	500.00	125.00	375.00	8.90%	12 Years including 2 years moratorium
HUDCO	HUDCO- 1	01-09-2021	500.00	500.00	96.15	403.85	8.90%	15 Years including 2 years moratorium
Term Loan from Banks	ICICI Bank Ltd	28-01-2022	300.00	200.00	150.00	50.00	8.55%	5 years including 1 year moratorium

Debt Type	Lender / Instrument	Date	Sanctioned (Rs cr)	Availed (Rs cr)	Repaid (Rs cr)	Outstanding (Rs cr)	Interest Rate (%)	Tenure
KFC	Kerala Financial Corporation -1	28-06-2022	1,000.00	1,000.00	1,000.00	-		7 years including 1 year moratorium
REC	REC Ltd- 2	03-11-2021	1,248.88	902.11	-	902.11	8.80%	7 years including 2 year moratorium
REC	REC Ltd- 3	08-12-2021	228.65	216.16	-	216.16	8.80%	7 years including 2 year moratorium
REC	REC Ltd- 4	26-07-2022	160.73	125.96	-	125.96	8.80%	7 years including 2 year moratorium
REC	REC Ltd- 5	26-07-2022 & 16-08-2022	807.19	769.75	-	769.75	8.80%	7 years including 2 year moratorium
Term Loan from Banks	Kotak Mahindra Bank Ltd	28-09-2022	100.00	100.00	58.33	41.67	8.75%	5 years including 2 year moratorium
HUDCO	HUDCO- 2	10-06-2022	2,000.00	1,650.00	269.22	1,380.78	8.90%	15 Years including 2 years moratorium
REC	REC Ltd- 6	13-01-2023	675.51	675.51	-	675.51	8.80%	7 years including 2 year moratorium
Bond	Green Domestic Bonds	03-07-2023	300.02	300.02	-	300.02	8.49%	10 year including 3 year moratorium & Redemption from 4th year to 10th year (7 sTRPPS)
Bond	Domestic Bonds- 1	22-12-2023	1,499.96	1,499.96	-	1,499.96	8.95%	10 year including 3 year moratorium & Redemption from 4th year to 10th year (7 sTRPPS)
Bond	Domestic Bonds- 2	26-03-2024	849.94	849.94	-	849.94	9.10%	10 year including 3 year moratorium & Redemption from 4th year to 10th year (7 sTRPPS)
PFC	PFC	27-03-2024	991.33	870.72	-	870.72	8.95%	17 Years including 2 years moratorium
HUDCO	HUDCO- 3	12-12-2023	850.00	800.00	91.08	708.92	9.25%	15 Years including 1 years moratorium
HUDCO	HUDCO- 4	06-08-2024	930.00	930.00	66.43	863.57	9.25%	15 Years including 1 years moratorium
NABARD	NABARD- NIDA (Tranche 3)	26-07-2024	1,008.12	955.06	-	955.06	7.01%	15 Years including 2 years moratorium
Bond	Domestic Bonds- 3	08-10-2024	1,000.02	1,000.02	-	1,000.02	9.49%	10 year including 3 year moratorium & Redemption from 4th year to 10th year (7 sTRPPS)

Debt Type	Lender / Instrument	Date	Sanctioned (Rs cr)	Availed (Rs cr)	Repaid (Rs cr)	Outstanding (Rs cr)	Interest Rate (%)	Tenure
NABARD	NABARD- NIDA (Tranche 4)	25-10-2024	3,174.36	2,684.53	-	2,684.53	7.25%	15 Years including 2 years moratorium
Bond	Domestic Bonds- 4	30-12-2024	1,500.03	1,500.03	-	1,500.03	9.42%	10 year including 3 year moratorium & Redemption from 4th year to 10th year (7 sTRPPS)
NABARD	NABARD- NIDA (Tranche 5)	11-12-2024	247.70	100.00	-	100.00	7.29%	15 Years including 2 years moratorium
Bond	Domestic Bonds- 5	25-03-2025	499.94	499.94	-	499.94	9.49%	10 year including 3 year moratorium & Redemption from 4th year to 10th year (7 sTRPPS)
KFC	Kerala Financial Corporation- 2	26-03-2025	500.00	500.00	96.63	403.37	9.55%	7 years including 1 year moratorium
Bond	Domestic Bonds- 6	08-08-2025	1,500.03	1,500.03	-	1,500.03	9.67%	10 year including 3 year moratorium & Redemption from 4th year to 10th year (7 sTRPPS)
NABARD	NABARD- NIDA (Tranche 6)	30-05-2025	1,808.71	979.50	-	979.50	8.30%	15 Years including 2 years moratorium
NABARD	NABARD- NIDA (Tranche 7)	30-05-2025	1,829.08	1,039.61	-	1,039.61	8.30%	15 Years including 2 years moratorium
Term Loan from Banks	Canara Bank III	26-09-2025	250.00	250.00	-	250.00	8.95%	12 Years including 2 years moratorium
KFC	Kerala Financial Corporation- 3	30-10-2025	500.00	500.00	-	500.00	9.30%	10 Years including 2 years moratorium
Term Loan from Banks	Indian Overseas Bank	04-11-2025	1,500.00	1,500.00	-	1,500.00	9.05%	12 Years including 2 years moratorium
Bond	Domestic Bonds- 7	21-01-2026	1,500.03	1,500.03	-	1,500.03	9.30%	10 year including 3 year moratorium & Redemption from 4th year to 10th year (7 sTRPPS)
Sagarmala	Sagarmala- Loan	14-02-2026	2,975.71	1,000.00	-	1,000.00	8.85%	15 Years including 2 years moratorium
HUDCO	HUDCO- 5	07-03-2026	556.00	-	-	-	9.05%	15 Years including 2 years moratorium
	TOTAL		**48,559.69**	**42,193.45**	**10,512.30**	**31,681.15**		

Note: Data as on 30 June 2026. Source: Furnished by KIIFB.

CHAPTER IV

Deployment and Utilisation of Funds

This chapter covers items 6, 7 and 8 of the Terms of Reference of the Committee as given below.

6. To examine whether the utilisation of KIIFB funds has been directed towards addressing critical infrastructure gaps, and whether the allocation of resources has been equitable across districts and sectors based on developmental priorities.
7. To identify expenditures, transactions or financial practices of KIIFB that, in the opinion of the Committee, warrant detailed examination from the audit, financial management or governance perspective.
8. To examine the role exercised by the Finance Department and the State Planning Board in the appraisal, approval, monitoring and oversight of KIIFB's inflows and outflows, including compliance with statutory and policy requirements such as allocations under the Scheduled Caste Sub Plan (SCSP) and Tribal Sub Plan (TSP), wherever applicable.

This chapter examines KIIFB's utilisation of funds. As discussed in Chapter 2, the KIIF Act was enacted to mobilise finances for infrastructure investment. The chapter has four parts. Part I describes the procedure for selecting and implementing KIIFB projects. Part II examines the volume of projects sanctioned, their district-wise and sector-wise distribution, and the share of revenue-generating projects; it also covers departmental views on project selection and implementation, compliance with statutory requirements, and oversight by the Finance Department and State Planning Board. Part III examines KIIFB's operating expenses, and Part IV presents the Committee's comments and observations.

PART I: Selection and Implementation of Projects

4.1 Selection and Financing of Projects

Section 6F of the KIIFB (Amendment) Act 2016 provides detailed provisions for project identification, prioritisation and implementation:

> **Project identification, prioritization and implementation. -**
>
> **(1)** On identifying or conceptualizing a project to be developed, managed and operated in the State, the Board, on its own accord or based on a study or survey caused to be conducted or based on inputs received from a third party, may seek the views of the public agency concerned thereon:

> **Provided that** if the public agency does not furnish its views within thirty days from the date of receipt of the said communication from the Board, it shall be deemed that the public agency has no view to offer.
>
> **(2)** Any Government Department may also identify or conceptualize a project to be developed, managed and operated in the State and send the proposal thereafter to the Board for its recommendation. The Board shall scrutinize, evaluate and where more than one such proposal is received, prioritize the same.
>
> **(3)** The Board, on receipt of the views of the public agency under sub-section (1) or proposal from any Government Department under sub-section (2), shall examine the project proposal with reference to the cost benefit analysis of the project including the socio-economic cost benefit and shall appraise the project proposal with sufficient details;

When the Kerala Infrastructure Investment Fund Board (KIIFB) was established in 1999, financing land acquisition was not part of its original mandate**.** The enabling provision for land acquisition was introduced through the 2016 amendment to the KIIFB Act, by inserting Section 3(ca), thereby expanding KIIFB's mandate to include financing land acquisition for infrastructure and other Government purposes. The relevant provision states:

> (ca) to finance or leverage investments and financial instruments relating to land acquisitions for infrastructure projects and other Government purposes;

While this amendment expanded KIIFB's financing mandate, projects undertaken under the expanded mandate would still need to satisfy the applicable statutory requirements relating to economic viability and financial prudence stipulated in Section 6F. Therefore, land acquisition projects also need to be evaluated in terms of their economic viability and cost-benefit considerations before approval.

To operationalise the KIIFB Act (Amendment) 2016, the Government of Keralam issued an executive order containing Guidelines for implementation of the Act in 2016[1] and it was amended in 2018[2]. On December 24, 2021 the Government of Keralam notified the Scheme of the Act. Selection, financing and implementation of projects by KIIFB involve a number of stages, listed below:

1. Selection of projects
2. Selection of Special Purpose Vehicle (SPV)
3. Preparation of Detailed Project Report (DPR)

[1] See G.O.(Ms) No.315/2016/Fin, dated 08.08.2016.
[2] See G.O.(Ms) No.69/2018/Fin, dated 24.02.2018.

4. Assessment of project by KIIFB.
5. Approval of Projects by KIIF Board.
6. Review and monitoring of projects.

Provisions related to each of these stages are presented below:

Selection of Projects: As per the guidelines published in 2016, projects that are eligible for KIIFB assistance are those:

> **Eligible Projects**
>
> 1. **Eligible Projects** shall be those projects which are identified in the Annual Budget.
> 2. **For projects identified in the Budget or Budget Announcements for inclusion under KIIFB financing**, the Administrative Department may issue the Administrative Sanction directly without further consultation with Finance Department, as specified below.
> 3. Projects which have not been taken up in the Budget may be taken up only in exceptional cases. In such cases, the Administrative Department may, after consultation with the Finance Department and with the approval of the Chief Minister, place such projects for consideration of the Council of Ministers.
> 4. Eligible projects as defined in the KIIFB (Amendment) Ordinance 2016 shall be of size of at least Rs. 100 cr. An eligible project can be a collection of smaller projects, which shall be not less than Rs. 10 cr. in size. For the purpose of reckoning of Rs. 10 cr., for sectors like Health, Education, Scheduled Castes/Tribes Developments the cluster of units can make up a unit of Rs. 10 cr. E.g. The project for converting more than one schools into centres of excellence can be clubbed to make up a unit of Rs. 10 cr.

The 2018 amendment to the guidelines retained these eligibility conditions. However, the scheme notified in 2021 revised them as follows:

> **3. Eligibility of projects for assistance. -- S**ubject to the provisions of section 3A of the Act, the following projects shall be eligible for seeking assistance from the fund, namely: -
>
> (a) Project of value exceeding one hundred crores implemented by a Public Agency;
>
> (b) Public-Private Partnership to which the provisions of the Act are made applicable, by a general or special order by the Government.

Section 3A of the KIIFB (Amended) Act is:

> **3A.** *Eligible projects*. - (1) Projects eligible for financial assistance from the Fund shall be the projects referred to the Board by the Government and approved by the Board.
>
> (2) Eligible projects shall be of a value exceeding ₹ 100,00,00,000 (Rupees One Hundred Crore) implemented by a public agency:
>
> **Provided that** for the purpose of assessing the value, projects not less than Rupees Ten Crore may be grouped into tranches, each of which has to satisfy the stipulation on the value specified in sub-section (2):
>
> **Provided further that** the Government may, by general or special order, apply the provisions of this Act to any public-private partnership project.
>
> **Provided also that** it shall not apply to any project undertaken by the Central Government or any public undertaking of the Central Government independently, except as a joint venture with the State Government.

On financial assistance to sanctioned projects, the Scheme notified in 2021 makes the following provisions.

> **4.** *Financial assistance and the mode of assistance.* - (1) Financial assistance from the Fund may be in the form of equity, grants or loans for investing in infrastructure projects in the State.
>
> (2) The quantum of loan, equity or grants shall be determined by the Board on the basis of each project;
>
> (3) In case the assistance provided in the form of loans, the terms and conditions of such loans shall be as specified in the repayment agreement entered between the Board and the public agency.

Selection of Special Purpose Vehicle (SPV): The Guidelines issued in both 2016 and 2018 stipulated that the Special Purpose Vehicle (SPV) for implementing the project shall be identified by the Administrative Department and declared in the Administrative Sanction for the project. Clause 4(b) of the 2016 Guidelines states:

> **b.** Based on the requirements of the project, the Department shall, either set up a new Special Purpose Vehicle (SPV) or utilise the services of an existing SPV for the purpose of implementing the project. The SPV will plan, appraise, approve, implement, manage, operate, monitor and evaluate the project entrusted to it. The SPV will be headed by a full-time CEO and will have nominees of the Government on it.

Preparation of the Detailed Project Report (DPR): Both the 2016 and 2018 Guidelines and the Scheme notified in 2021 stipulate that once the SPV has been identified and entrusted, it must prepare and submit a Detailed Project Report (DPR) on the project. The DPR is a comprehensive document containing detailed estimates and plans for specified aspects of the

project. The Clause 3 of the Guidelines notified in GO (Ms) No.69/2018/Fin dated 24.02.2018 gives specific guidelines to implement this through the preparation of DPR.

To quote clause 3:

> **3. Preparation of Detailed Project Report (DPR)**
>
> **3.1.** Detailed Project Report (DPR) shall be prepared by the SPV for all Projects identified for implementation by availing assistance (partly/fully) from KIIFB. Separate DPRs shall be prepared for Sub-Projects/Project components if sanctioned separately. The DPR shall be a comprehensive document containing a detailed estimate (sufficient for technical sanction purpose) including the details as specified below wherever relevant. Any specifically relevant additional information shall also be included in addition to the below listed details: -
>
> - Salient Features / Executive Summary
> - Requirement/Demand Analysis
> - Functional Design
> - Engineering Design
> - Value Engineering
> - Revenue Streams Evaluation
> - Financial Estimates & Cost Projection
> - Investment Criteria & Cost Benefit Analysis
> - Risk Assessment & Mitigation Plans
> - Environmental Aspects & Sustainability
> - Statutory Clearances & Mandatory Approvals
> - Work Breakdown Structure (WBS) & Implementation Schedule
> - Project Management Organization & Plan
> - Contract Management Methodology
> - Quality Management Plans
> - Operation & Maintenance Strategy

The Scheme notified in 2021, December 08 also retained the provisions related to the DPR preparation.

Assessment and Approval of the Project by KIIFB: KIIFB's Project Appraisal Division (PAD) examines project details and the DPR prepared by the SPV and, where necessary, visits the project site[3]. A Technical Appraisal Report (TAR) is issued seeking clarification, the SPV responds through a Compliance Report, and a Detailed Appraisal Report (DAR) is then placed before the Executive Committee or Board for approval and issue of a Financial Sanction Order. The Executive Committee is delegated the power to sanction non-revenue-generating projects costing up to Rs. 100 crore only; all revenue-generating projects are approved by the Board

[3] See Stage III and IV in 2016 Guidelines, See Clause 3 and 4 in 2018 Guidelines and Clause 8 in 2021 Scheme.

irrespective of estimated cost. As per KIIFB's response to the Committee, this is an iterative process rather than a single-stage acceptance or rejection.

For projects involving land acquisition, Clause 5 of the 2018 Guidelines allows the SPV to treat land acquisition as a sub-project so implementation can move faster. Clause 5 of the 2018 Guidelines states:

> **5.1.** On obtaining Administrative Sanction for the project, SPVs may take advance action for land acquisition proposed for the project by submitting the proposal as a separate sub-project and take immediate necessary action to obtain separate funding approval from KIIFB for the land acquisition, without awaiting completion of formalities for funding approval for the whole project. For this, a preliminary report shall be submitted to KIIFB for appraisal and obtaining approval of the Executive Committee/Board for in-principle funding approval. This report shall contain the exact requirement of land (location, area, estimated acquisition rates and survey numbers, where available) along with the project components.
>
> **5.2.** On approval of the land acquisition proposal by the Board/Executive Committee, in principle sanction for funding will be accorded by KIIFB, whereon the SPV shall commence the procedure for land acquisition.
>
> **5.3.** Subsequently, the funds for land acquisition as well as the administrative costs thereof will be released by KIIFB to the Revenue authority concerned after the SPV submits the online payment invoice and SPV's connected sanction proceedings in the Project Portal when the relevant demands are raised by the Revenue authority against the LA requisition submitted to the Revenue authority by the SPV. The payment occurrence shall also be appropriately mapped by the SPV as a payment-milestone in the online WBS to enable KIIFB to release the funds accordingly.

Review and Monitoring of the Project: Monitoring is carried out by the Inspection Authority constituted under Section 17A of the KIIF (Amended) 2016 Act, through a Technical Inspection Wing (TIW) and an Administrative Inspection Wing (AIW). Clause 7 of the 2016 Guidelines sets out the following provisions for monitoring project implementation.

> 1. The Executive Committee of KIIFB, chaired by Minister (Finance), will periodically review the progress of the project and oversee the release of funds.
> 2. The Executive Committee may appoint an Inspection Authority to examine the utilisation of funds.

Clauses 11.2 and 11.3 of the 2018 Guidelines set out the following provisions for monitoring projects.

11.2. Progress Monitoring & Review

Process in KIIFB Software:

11.2.1**.** Project implementation will be monitored through the online project monitoring system.

11.2.2. The SPV shall assess the progress & update the progress in the online platform on a bi-weekly basis.

11.2.3. The SPV shall also submit the quarterly report in the prescribed format to the Administrative Department and KIIFB.

11.3. The Inspection Authority in KIIFB will monitor the execution of the project at various stages and its variation from agreed scope, design, timelines, cost, quality, contract, etc.

Clause 12 of the Scheme notified in 2021 provides for an extensive monitoring of projects.

12. Monitoring Mechanism of Projects. - (1) All the projects considered for appraisal and financial sanction shall be monitored by Inspection Authority in accordance with powers of Inspection Authority as per section 17A of the Act.

(2) Inspection Authority shall look into the administrative and technical aspects of the projects by monitoring the implementation status, physical progress, quality of works, procedural aspects to be followed in public works and adherence to the standards and processes stipulated by the Board with a value for money perspective.

(3) Such inspection reports shall be presented to Chief Executive Officer or Executive Committee of the Board or the Board or the Government for taking appropriate decisions which shall include corrective actions to ensure that projects executed by the Special Purpose Vehicles meet all functional and technical requirements during the entire life span and the utilisation of financial resources are prudential. Non-performing Special Purpose Vehicle shall be identified and recommended for disqualification as a corrective measure.

(4) Special Purpose Vehicles shall comply with the corrective actions in technical and procedural aspects ordered by the Inspection authority after taking necessary approvals from the Competent Authority.

(5) Where the terms of the tripartite agreement has been violated in terms of breach in the quality standards, Board shall have the right to suspend the work and issue necessary instructions to Special Purpose Vehicle for the rectification of such works, and such directions shall be binding on the Special Purpose Vehicle. If any defects observed in quality of execution, then the matter shall be referred to Government for appropriate action against the Special Purpose Vehicle and alternate arrangements shall be made for the execution of the works.

For monitoring of projects, KIIFB has two wings: the Administrative Inspection Wing (AIW) and the Technical Inspection Wing (TIW). As per KIIFB's own presentation to the Committee, the AIW verifies contract documents to confirm the tender-acceptance procedure, inspects SPV offices and project sites, and reports deviations, irregularities or slackness to the SPV, the Administrative Department or the relevant KIIFB wing. The TIW handles quality management, technical support to SPVs, and internal process advisory, including design review, road safety audits and web-based project monitoring. KIIFB has also built a digital platform for this purpose: the Project and Finance Management System (PFMS), the Project Monitoring and Assessment System (PMAS), and, specifically for tracking delays and Extension of Time requests, the KIIFB Technical Inspection Monitoring System (KTIMS).

4.1.2. Financing mode of projects

As already noted, the purpose of the KIIFB Act is to mobilise financial resources for infrastructure development. However, neither the 2016 Amendment Act nor the 2016 Guidelines specify the financing structure - that is, whether the financing takes the form of loans or grants. Clause 14 of the 2018 Guidelines makes the following provision on repayment of financial assistance received from KIIFB.

> **14. Repayment Process**
>
> **14.1.** The repayment process shall be as per the DPR provisions and subject to the Tripartite Agreement.

The Scheme notified in 2021, however, is explicit on the financing mode. Clause 4 of the Scheme provides as follows.

> **4.** *Financial Assistance and the mode of assistance. -* (1) Financial assistance from the Fund may be in the form of equity, grants or loans for investing in infrastructure projects in the State.
>
> (2) The quantum of loan, equity or grants shall be determined by the Board on the basis of each project.
>
> (3) In case of the assistance provided in the form of loans, the terms and conditions of such loans shall be as specified in the repayment agreement entered between the Board and the public agency.

Part II: Funding of Projects

4.2 Funding for Infrastructure Projects

KIIFB funds infrastructure projects through two streams: (A) funding for infrastructure projects, and (B) funding for land acquisition for infrastructure projects, categorised as the land acquisition pool. The pool comprises projects for which KIIFB extends financial assistance exclusively for land acquisition, with the acquired land used for development later. Table 4.1 presents the number of projects and the amounts sanctioned and released in both categories.

Table 4.1 Total Number of Projects Approved and Money released (Rs in Crore)

	Category	Number of projects approved	Approved Amount	Released Amount
A	Infrastructure Projects	1233	77,151	30,924
B	Land Acquisition Pool	7	23,190	11,403
	Total	1240	100,341	42,327

Note: As on June 30, 2026. Source: Details furnished by KIIFB.

Table 4.1 shows that of the total Rs. 100,341 crore approved by KIIFB across both categories, only Rs. 42,327 crore, or about 42.2 per cent, had actually been released as on June 30, 2026. The pace of release is uneven between the two categories: for infrastructure projects (Category A), the released amount of Rs. 30,924 crore is about 40.1 per cent of the amount approved, while for the land acquisition pool (Category B) the figure is higher, at about 49.2 per cent. Some gap between sanctioned and released amounts is expected in a rolling, multi-year portfolio, since recently sanctioned projects will necessarily show lower drawal than older ones. However, the Committee was not furnished with a year-wise or vintage-wise break-up of sanctions that would allow this gap to be assessed as a matter of pace of implementation rather than scale of commitment alone.

Table 4.2 presents the district-wise distribution of outlay on infrastructure projects (Category A).

Table 4.2 District-wise Distribution of infrastructure projects outlay (Category A)
(Figures are as on June 30, 2026 and Rs. in Crore)

District	Outlay	Share (in%)
Thiruvananthapuram	10,819.75	14.02
Kollam	3,812.59	4.94
Pathanamthitta	1,515.34	1.96
Alappuzha	5,425.50	7.03
Kottayam	2,542.52	3.30
Idukki	1,441.32	1.87
Ernakulam	10,513.72	13.63
Thrissur	3,888.59	5.04
Palakkad	3,265.01	4.23
Malappuram	3,773.22	4.89
Kozhikode	6,326.89	8.20
Wayanad	2,261.39	2.93
Kannur	10,767.35	13.96
Kasargod	2,262.24	2.93
State-wide projects	7,554.30	9.79
Projects covering two or more districts jointly (11 combinations, aggregated)	981.11	1.26
Total outlay	77,150.87	100.00

Source: Details furnished by KIIFB.

Table 4.2 shows that Thiruvananthapuram, Kannur and Ernakulam together account for 41.6 per cent of approved infrastructure outlay. At the other end, Idukki, Pathanamthitta, Wayanad and Kasaragod together account for only 9.7 per cent of approved infrastructure project outlay. KIIFB has not placed any specific developmental rationale before the Committee for the observed concentration of infrastructure projects in three districts, so that the Committee would be able to assess the equity properties of the distribution as required by the Terms of Reference (ToR).

Table 4.3 District-wise Distribution of approved outlay in land acquisition pool.
(Category B)

(Figures are as on June 30, 2026 an Rs in Crore)

District	Approved Outlay	Share in total LA (in %)	Share in industry LA (in %)
Kottayam (Industries LA)	200.60	0.87	1.22
Ernakulam (Industries LA)	1,817.46	7.84	11.07
Kannur (Industries LA)	12,257.50	52.86	74.65
Palakkad (Industries LA)	1,844.00	7.95	11.23
Thiruvananthapuram (Industries LA)	301.17	1.30	1.83
Total Industrial LA	16420.73	70.81	100.00
LA for NHAI (State-wide)	6,769.01	29.19	
Total	23,189.74	100.00	

Source: Details furnished by KIIFB.

Table 4.3 presents the spatial distribution of approved outlay under the Land Acquisition Pool (Category B), which shows an even higher degree of concentration: Kannur alone accounts for 52.9 per cent of the total approved outlay. The concentration is particularly pronounced in land acquisition for industrial development, where Kannur accounts for 74.7 per cent of the total approved outlay. Given the extreme skewness in the land acquisition projects among districts, Paragraph 4.21 examines the policy steps and rationale behind the land acquisition projects.

Table 4.4. Department-wise distribution of approved and released funds
(Rs. in Crore. Figures are as on June 30, 2026)

Department		Approved		Released	
	No. of projects	Amount	% of total	Amount	% of total
PWD	535	40577.00	52.59	14990.00	48.47
Industries	2	208.00	0.27	10.00	0.03
Water Resources	107	7658.00	9.93	3865.00	12.50
Health & Family Welfare	118	7496.00	9.72	3186.00	10.30
Coastal Shipping & Inland Navigation	19	3488.00	4.52	269.00	0.87
General Education	158	3223.00	4.18	2374.00	7.68
Power	18	2916.00	3.78	1917.00	6.20
Information Technology	7	2536.00	3.29	913.00	2.95
Higher Education	70	2351.00	3.05	895.00	2.89
Sports & Youth Affairs	42	988.00	1.28	412.00	1.33
Local-self Government	30	849.00	1.10	237.00	0.77
Fisheries and Ports	27	653.00	0.85	363.00	1.17
Tourism	14	652.00	0.85	149.00	0.48
Forest	13	637.00	0.83	436.00	1.41
Transport	3	607.00	0.79	55.00	0.18
Culture	17	502.00	0.65	222.00	0.72
Planning & Economic Affairs	6	353.00	0.46	41.00	0.13
Science & Technology	5	319.00	0.41	11.00	0.04
Home	6	234.00	0.30	46.00	0.15
Ayush	3	206.00	0.27	179.00	0.58
SC/ST Development	10	182.00	0.24	87.00	0.28
Devaswom	2	139.00	0.18	94.00	0.30
Revenue	5	105.00	0.14	26.00	0.08
Labour & Skills	5	94.00	0.12	73.00	0.24
Registration	6	90.00	0.12	61.00	0.20
Animal Husbandry	2	33.00	0.04	0.00	0.00
Agriculture	1	21.00	0.03	13.00	0.04
Backward Classes Development	1	18.00	0.02	0.00	0.00
Cooperation	1	16.00	0.02	0.00	0.00
Total, infrastructure projects	**1233**	**77151.00**	100.00	**30924.00**	100.00
PWD (NHAI Land Acquisition)	1	6769.00		5581.00	
Industries (Land Acquisition Pool)	6	16421.00		5822.00	
Grand total (Infrastructure + Land Acquisition)	**1240**	**100341.00**		**42327.00**	

Source: Details furnished by KIIFB.

Table 4.4 presents the distribution of projects across departments. Public Works alone accounts for 52.6 per cent of approved infrastructure funds; together with Water Resources and Health and Family Welfare, the three largest departments account for 72.2 per cent, leaving the remaining twenty-six departments to share the rest. In terms of the released amount, PWD accounts for the highest share at 47.47 per cent; four departments - PWD, Water Resources, Health and Family Welfare, and General Education- together account for 78.95 per cent of the released amount.

A comparison of the approved and released share of funds in Table 4.4 also reveals an uneven pace of implementation across departments. The Public Works Department's share of the released amount (48.5 per cent) is somewhat lower than its share of the approved amount (52.6 per cent), suggesting its projects have, on average, drawn down funds slightly slower than the portfolio as a whole. By contrast, General Education's share nearly doubles between the approved amount (4.2 per cent) and the released amount (7.7 per cent), and Power's share rises similarly (3.8 per cent to 6.2 per cent), indicating comparatively faster absorption. The Committee considers that such divergences merit closer examination, since they may reflect differences in project readiness, land availability or departmental capacity that bear on how equitably and efficiently KIIFB resources were actually utilised, as distinct from how they were nominally allocated.

4.2.1 Land Acquisition Projects:

The Land Acquisition Pool comprises projects for which KIIFB extends financial assistance exclusively for land acquisition. As on September 15, 2026 KIIIFB has accorded sanction for seven land acquisition projects worth Rs. 23,190 crore. Table 4.5 provides the list of these projects. These are primarily linked to land acquisition for major infrastructure and industrial initiatives implemented by agencies such as KSIDC and KINFRA and includes industrial corridors, National Highway land acquisition, and other strategic development projects. Except for NH-66 land acquisition, where KIIFB played a more direct financing role, KIIFB functions primarily as a funding agency for the other projects. The financial assistance provided is generally recoverable from the implementing agencies over time, in accordance with the applicable financing arrangements.

Table 4.5 List of Land Acquisition Projects (Amount in Rs. Crore)

Project Name	SPV Name	Project Outlay	Amount Paid	Balance	Amount Repaid
Bio 360 Life Science Park - Phase II Land Acquisition- Trivandrum	KSIDC	301.17	301.17	0.00	84.02
Setting up of Petrochemical & Pharma Park	KINFRA	977.46	977.46	0.00	554.65
Development of Global CITY as part of KBIC-Land Acquisition	KINFRA	840.00	840.00	0.00	0.00
Development of Industrial Park by takeover of land From M/S Hindustan Newsprint Ltd	KINFRA	200.60	145.60	55.00	0.00
Kochi-Bengaluru Industrial Corridor Project-Land Acquisition	KINFRA	1,374.00	1,068.28	305.72	337.04
Development of Industrial infrastructure - Land Acquisition	KINFRA	12,727.50	2,489.12	10,238.38	425.36
National Highway Land Acquisition	PWD	6,769.01	5,580.74	1,188.27	0.00
Total		**23,189.74**	**11,402.37**	**11,787.37**	**1,386.64**

Source: Compiled by KIFFB. The figures are as on 15, September 2026.

When the Kerala Infrastructure Investment Fund Board (KIIFB) was established in 1999, financing land acquisition was not part of its original mandate**.** The enabling provision was introduced only through the 2016 amendment to the KIIF Act, by inserting Section 3(ca), thereby expanding KIIFB's mandate to include financing land acquisition for infrastructure and other Government purposes. The relevant provision states:

> (ca) to finance or leverage investments and financial instruments relating to land acquisitions for infrastructure projects and other Government purposes;

While this amendment expanded KIIFB's financing mandate, projects undertaken under the expanded mandate would still need to satisfy the applicable statutory requirements relating to economic viability and financial prudence as stipulated in Section 6F of the KIIF (Amendment) Act, 2016.

Land Acquisition for Industrial Infrastructure in Kannur and Palakkad

As shown in Table 4.5 the lion's share of KIIFB's land-acquisition commitments pertains to the project for "Development of Industrial Infrastructure - Land Acquisition at Kannur and

Palakkad." Given the scale of the financial commitment and the prolonged period over which the project has remained under implementation, the project merits closer examination from the perspectives of economic viability, financial sustainability, land utilisation and public interest.

The 33rd Board Meeting of KIIFB, held on 25 October 2018, accorded approval for financing the acquisition of approximately 5366 acres of land in Kannur and Palakkad districts, at an estimated cost of 12,727 crore. The agenda papers of the 33rd Board Meeting, specifically Agenda Item No. 18, however, raise an important issue warranting further scrutiny. The points for decision placed before the Board sought approval for the acquisition of 1,037 acres under Stage I, at an estimated cost of only Rs. 1,887.50 crore. The Board, however, proceeded to approve the acquisition of 5366 acres in Kannur and Palakkad districts at an estimated cost of 12,727 crore in four stages. The approval is to acquire 4896 acres in Kannur and 470 acres in Palakkad. The agenda papers further indicate that the proposal was driven by a concept note submitted by KINFRA, a careful reading of which does not give any indication about the origin of the project proposal, either to the Council of Ministers or to a budget announcement. A letter written by the Chief Executive Officer, KIIFB to the Managing Director, KINFRA (letter: No. APR-6/3590/2018/KIIFB, dated 07.12.2018) traces the origin of the project to the Revised Budget Speech 2016-17. To quote the Revised Budget Speech:

> 163. Besides, five massive multipurpose industrial zones will be started. For this, 1000 acres at Pattannor-Panayathuparambil, 900 acres at Thodupuzha, 700 acres at Mangada, 500 acres at Vizhinjam, 500 acres at Kasargodu will be acquired. Thus, a total of Rs. 5100 crore will be required for acquiring 5100 acres of land. In the current year an amount of Rs. 1000 crore is expected.

From the budget speech, it is very obvious that the "the multipurpose industrial zone" project includes land acquisition in five locations in five districts. Among these locations, with an acquisition plan of 1000 acres, the place "Pattannor-Panayathuparambil" only belongs to Kannur district. Therefore, we can no longer consider that the plan for acquiring 4896 acres in Kannur district is based on the project announced in the revised budget.

The changes in the choice of location also warrant examination. It is important to assess the economic and industrial rationale for undertaking large-scale land acquisition in Kannur, particularly when Kochi is a rapidly growing industrial and commercial centre and Thiruvananthapuram is emerging as a major development region in the context of the Vizhinjam International Seaport, where timely development of supporting land infrastructure is critical to realising its potential. Both Thodupuzha in Idukki and Vizhinjam in

Thiruvananthapuram were included in the project announced in the Budget but were missing in the subsequent land-acquisition projects approved by KIIFB.

This observation is not intended to question the development potential of Kannur. Rather, it raises the need to establish whether the final locations were selected on the basis of a comprehensive and comparative assessment of Keralam's potential industrial growth centres and their relative infrastructure requirements.

Minutes of the 33rd Board Meeting reveals that KIIFB approved the land acquisition in four-stages based on a Concept note submitted by the KINFRA, not on the basis of a Detailed Project Report (DPR) as required by the rule. The Concept Paper states that "The project envisages a mix of units in the following sectors:

I. Health care industry
II. Universities, Research facilities, Academics for higher level studies etc
III. MICE tourism, Logistics, Hotel and allied industries
IV. Other industrial hubs

However, the Concept note provides no explanation for how these activities were identified, nor does it indicate whether any systematic assessment was undertaken of the industrial potential, locational advantages, or suitability of the proposed activities at the selected sites. The Concept note therefore appears to have been prepared without the comprehensive assessment required under Section 6F of the KIIF (Amendment) 2016 Act and the 2018 Guidelines discussed above. Given the scale of the proposed financial commitment, the absence of such an appraisal is particularly significant.

Subsequent to the KIIFB Board decision, the KIIFB Chief Executive Officer addressed the Industries Department through Letter No. APR-6/3590/2018/KIIFB dated 07.12.2018. Pursuant to this communication, the Industries Department issued G.O. (Ms) No. 20/2019/ID dated 27.02.2019, according administrative sanction for the acquisition of approximately 5366 acres of land in Kannur and Palakkad districts at an estimated cost of Rs.12,727 crore**,** and designated KINFRA as the Special Purpose Vehicle (SPV) for implementation of the project. The Government Order specifically refers to the communication of the KIIFB CEO conveying the decision of the KIIFB Board read as 9th paper, indicating that the Board decision preceded the issuance of the Government sanction. Even though G.O was already issued for some of the land acquisition proposal (read as 1st to 8th paper), 2074 Acres of land (Kolari Iritti 1044 Acres,

Koodali, Pattannor, Thalassery 1030 Acres) were given administrative sanction based on the above said letter from KIIFB CEO.

The financial structure of the project also merits scrutiny. The Government Order provided for a compound interest rate of 9%, with a two-year moratorium, with the acquired land to be mortgaged to KIIFB. The mortgage was to be discharged upon remittance of the sale proceeds by the SPV in respect of individual parcels of land. The provision of permitting administrative overheads up to 15% also adds to the overall financial burden and warrants examination in the context of the project's viability and eventual cost.

The key issue is not merely whether KIIFB had the statutory authority to finance land acquisition, but whether the scale, location, timing and financing structure of this particular acquisition were adequately justified on economic and financial grounds.

The documents furnished by KIIFB include a Tripartite Agreement dated 13 August 2020 between KIIFB, KINFRA and the Government. According to information furnished by KINFRA, KIIFB has so far disbursed approximately Rs. 2,489 crore, resulting in the acquisition of nearly 1,000 acres of land in Kannur district. KIIFB has stated that the land acquisition was financed through a HUDCO loan, thereby creating a continuing interest burden. This raises a significant financial concern, particularly because the acquired land has not generated a corresponding revenue stream to service the borrowing cost or contribute meaningfully to repayment of the liability.

The latest information indicates that only 12.93 and 50 acres have been allocated respectively to the Higher Education Department and Science and IT Park Project. Consequently, the interest burden continues to accumulate while the acquired land remains largely underutilised. This points to a significant disconnect between land acquisition and actual industrial development. A substantial portion of the funds is understood to have been disbursed during 2021-22. Yet, several years later, there appears to be no commensurate level of industrial development, investment inflow or revenue generation from the acquired land.

The financial implications are therefore significant: KIIFB has incurred substantial borrowing costs for acquiring land that, to date, has generated limited tangible economic activity or financial returns.

Land acquisition under the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (LARR Act) may, depending on the applicable statutory provisions and circumstances, result in compensation significantly higher than

prevailing market values. Of particular concern is the fact that, despite the acquired land remaining unutilised for several years, Section 11(1) notifications reportedly remain in force in respect of approximately 3,829 acres of land, with an estimated value of Rs. 9,572.5 crore. Some of these notifications, originally issued in 2021, have reportedly been extended on multiple occasions**.** According to information available from KINFRA**,** Section 4(1) notifications relating to the Social Impact Assessment process were published during 2019-2021. Under the applicable provisions of the LARR Act, an additional amount linked to the statutory 12 percent annual increase may become payable from the date of publication of the relevant notification until the date of the award, subject to the precise applicability of the statutory provisions to each acquisition. Given the prolonged acquisition process, extending over approximately 7-8 years in some cases, the ultimate cost of acquisition could increase substantially. Based on the information presently available from KINFRA, the total acquisition cost is estimated to potentially rise to approximately Rs.15,000 crore. In view of the size of the investment, the continuing borrowing cost, the prolonged acquisition process and the limited visible commercial outcomes, the project merits a comprehensive technical, financial, economic and legal review**.**

4.2.2 Share of revenue-generating projects

KIIFB classifies a subset of its projects as revenue-generating. These are expected to service and repay their loans from the project's own assigned revenue stream, rather than from Section 7 transfers. The Appendix to this chapter lists the revenue-generating projects financed by KIIFB till September 15, 2026. The list shows these projects are mainly in Industrial Infrastructure, Information Technology, Power, Tourism, Transport and Commercial Infrastructure.

Data collected from KIIFB shows that as on September 15, 2026, KIIFB had sanctioned 44 revenue-generating projects worth Rs. 22,701.44 crore, disbursing Rs. 8,881.80 crore and receiving Rs. 4,198.32 crore in repayments from these projects. These figures show that revenue-generating projects account for 22.63 per cent of total approved project amounts and 20.98 per cent of total funds released - that is, only about one-fifth of KIIFB's project funding is classified as revenue-generating, with the remainder's repayment falling on budgetary transfers.

A closer look at the Appendix’s list of revenue-generating projects reveals that out of 44 projects, only 6 have made any repayment to KIIFB. However, this repayment needs a careful

scrutiny, as it is also possible that SPVs may have made the repayment using the budgetary transfers, instead of the revenue generated by the project. Only if the repayment was made out of the revenue generated by the project, should we consider the project as "revenue-generating" in its true sense. Otherwise, it is just a budget financed project where initial funding came from KIIFB and repayment to KIIFB was made using budgetary transfers. Therefore, the Committee examined the source of repayment of these six projects and found that repayments from three projects, namely (a) Transgrid 2.0, (b) First Building at Technocity, and (c) Petrochemical Park, Kochi came from the revenue generated by the projects, and hence they can be classified as revenue generating in a meaningful sense. These projects together made a repayment of Rs. 3351.90 crore. The repayments from the remaining three projects were made using the transfers from the government to the concerned SPV.

The majority of the revenue-generating projects are not, in fact, revenue-generating; moreover, by its own admission, KIIFB agrees that most of the funds it releases for other projects are not backed by a project-specific revenue stream and depend on future transfers under Section 7 of the KIIF Act for debt servicing. The fiscal implications of this reliance are discussed in the context of KIIFB's operating expenses in Part Three of this Chapter.

4.2.3 Departmental view on selection and implementation of projects

The Committee collected views of departments on selection and implementation of projects by KIIFB. Departments acknowledged certain operational advantages of the KIIFB framework. It provided access to substantial funding outside the constraints of the annual State budget, which was particularly useful for capital-intensive sectors such as roads and hospitals. It also enabled departments to undertake larger project packages rather than implementing works in smaller phases, provided some flexibility in project selection, and, in several cases, facilitated faster sanctioning than the conventional Plan and Finance Department procedures. The use of Special Purpose Vehicles (SPVs) also provided an alternative mechanism for project execution and helped overcome some of the limitations of conventional departmental implementation.

However, these operational advantages were accompanied by significant institutional concerns. Once projects entered the KIIFB framework, departments had limited control over the timing of fund availability, as disbursement was governed by KIIFB's procedures and cash flows rather than the departmental budget cycle. KIIFB's separate technical and financial appraisal procedures also reduced the scope for departmental intervention and, in some cases, contributed to cost escalation. Funds were tied to sanctioned projects, limiting the flexibility to

reallocate resources in response to changing priorities. There was also a significant decline in transparency in project selection. In the initial years, projects were selected primarily on the basis of the technical assessment of departments and their ranking of sectoral needs. In later years, however, project selection became less transparent and increasingly detached from departmental and sectoral priorities. Departments were consequently required, in several instances, to implement projects selected on grounds other than their assessed needs or sectoral priorities, while the basis on which KIIFB accorded priority to such projects was not transparent. Heavy reliance on KIIFB also reduced the incentive and need for departments to strengthen their own capabilities in project preparation, financial management and implementation, thereby creating institutional dependence on KIIFB.

The Committee considers that these longer-term institutional implications are more consequential than the immediate operational advantages of the KIIFB model. KIIFB operated largely outside the State's formal planning process, weakening the linkage between infrastructure investment and integrated sectoral planning and creating scope for project-by-project rather than system-wide decisions. The emphasis on individual projects also meant that wider requirements, such as integrated urban transport, multimodal connectivity and long-term project viability, did not always receive adequate attention. The State's institutional capabilities in alternative modes of infrastructure financing, particularly PPPs, were also not developed commensurately. Similarly, while SPVs were widely used for execution, there was no systematic effort to build durable capabilities within them or within the concerned departments. Thus, while KIIFB expanded access to capital and facilitated the implementation of infrastructure projects, its mode of operation also had implications for financial control, transparency in project prioritisation, departmental capabilities, planning integration and institutional capacity. These longer-term effects substantially qualify the significance of its immediate operational advantages.

4.2.4 Statutory and policy compliance

Following Article 46 of the Indian Constitution, Keralam's Five-Year Plans adopt measures to protect and promote the interests of Scheduled Castes (SCs) and Scheduled Tribes (STs), including Special Component Plans for these communities - respectively, the Scheduled Caste Sub Plan (SCSP) and the Tribal Sub Plan (TSP). These sub-plans require that resources be earmarked from the State plan outlay in proportion to the share of SCs and STs in the State population; accordingly, the prescribed shares of total plan outlay are 9.81 per cent for the

SCSP and 2.83 per cent for the TSP, together at least 12.64 per cent of total plan outlay. However, the Committee could find no statutory or policy provision requiring KIIFB-financed infrastructure investment to be allocated in proportions similar to those prescribed under the SCSP/TSP.

This paragraph, therefore, examines KIIFB's infrastructure spending on projects exclusively benefiting SC and ST communities, regardless of whether such spending is mandated by any statutory or policy provision. Table 4.4 shows that, as on June 30, 2026, KIIFB had approved ten projects for SC/ST development with an outlay of Rs. 182 crore - around 0.18 per cent of the total approved amount - of which only Rs. 87 crore had been released, which comes to around 0.21 per cent of the total released amount. A note from KIIFB on the nature of these projects shows that it has supported a number of infrastructure projects proposed by the SC/ST Development Department, specifically intended to strengthen educational, residential and vocational infrastructure for SC/ST students across Keralam. These include Industrial Training Institutes (ITIs), Model Residential Schools (MRS), Pre-Matric and Post-Matric Hostels, vocational training facilities, pre-examination training facilities and related infrastructure.

Placed against the statutory benchmark of 12.64 per cent of Plan outlay prescribed for the SCSP and TSP together, the finding that only 0.18 per cent of KIIFB's approved outlay and 0.21 per cent of the amount released was allocated to projects exclusively for SC/ST development is a matter of concern. Had KIIFB's infrastructure spending been subject to a binding allocation requirement comparable to that applicable under the SCSP/TSP, SC/ST development would have received a substantially larger share of KIIFB's resources than it actually received. This points to a gap in the statutory/policy architecture, particularly as KIIFB has increasingly become an important channel for financing the State's infrastructure investment outside the regular Plan process. Therefore, the Committee is of the view that, as KIIFB's role in infrastructure financing has expanded, the absence of an explicit and enforceable equity safeguard comparable to the SCSP/TSP mechanism constitutes a policy gap that warrants attention by the Finance Department and the State Planning Board.

4.2.5 Oversight by Department of Finance and Kerala State Planning Board

As noted in Chapter II, KIIFB's Board includes the Finance Minister as Vice-Chairperson, with Secretary (Finance) and Secretary (Finance-Resources) as members; similarly, the Executive Committee has the Finance Minister as Chairperson, with the same two Secretaries as members. This constitutes the first level of Finance Department oversight over KIIFB. However, KIIFB's day-to-day functioning carries financial implications that call for closer

oversight, and there have been instances where KIIFB's decisions departed from Finance Department norms. For instance, G.O.(Rt) No.5457/2025/Fin dated 27.06.2025, which revised price-escalation guidelines for KIIFB-funded projects, was issued without being vetted by the Finance Department. Following this and similar instances, the Finance Department has progressively centralised control over KIIFB's administrative files - first requiring that Government Orders issued by the Finance (Infrastructure) Department be vetted by the Finance Department, and later transferring all KIIFB-related files to the Finance (PU-B) Wing.

On the State Planning Board's oversight of KIIFB's activities, the Committee's assessment is that this was limited to the Vice-Chairman of the State Planning Board serving as a member of the KIIFB Board.

Part III: Operating Expenses of KIIFB

4.3 Operating Expense of KIIFB

The parts above discussed only the deployment of funds for project financing. This sub-part examines KIIFB's operating expenses, presented in Table 4.6.

Table 4.6 Operating Expense of KIIFB (Rs in Crore)

Year	Employee Cost	Finance Cost	Depreci-ation	Rent & Utility	Advt & Pro-motion	Other Ex-penses	**Total**
2015-16	-	-	0.03	0.12	-	0.12	**0.27**
2016-17	0.14	-	0.03	0.16	-	0.39	**0.72**
2017-18	1.63	5.51	0.28	0.8	1.78	6.18	**16.19**
2018-19	3.42	40.74	1.47	1.04	0.36	20.15	**67.19**
2019-20	4.6	401.12	11.82	1.25	25.33	22.25	**466.38**
2020-21	5.64	534.94	12.59	1.57	42.38	24.25	**621.36**
2021-22	7.27	914.47	11.81	2.28	9.08	29.44	**974.34**
2022-23	7.56	1,416.96	11	2.62	6.61	42.14	**1,486.89**
2023-24	7.84	1,834.64	9.89	2.5	28.88	75	**1,958.76**
2024-25	8.29	2,195.10	3.43	3	37.51	54.52	**2,301.85**
2025-26	7.11	2,854.84	3.46	3.21	21.16	51.67	**2,941.44**
Total	**53.49**	**10,198.34**	**65.82**	**18.56**	**173.09**	**326.11**	**10,835.40**

Source: Collected from KIIFB's audited accounts.

Table 4.6 shows that KIIFB's total operating expenditure rose from a negligible Rs. 0.27 crore in 2015-16 to Rs. 2,941.44 crore in 2025-26, broadly tracking the growth of its borrowing programme. Of the cumulative expenditure of Rs. 10,835.40 crore over this period, Finance Cost alone accounts for Rs. 10,198.34 crore, or about 94.1 per cent, while all other heads together - Employee Cost, Depreciation, Rent and Utility, Advertisement and Promotion, and Other Expenses - make up only about 5.9 per cent. This composition shows that what is

presented as KIIFB's operating expense is, in substance, overwhelmingly the cost of servicing the debt raised to fund its projects rather than the cost of running the organisation: the Rs. 10,198.34 crore paid out as Finance Cost equals about a fourth of the entire Rs. 42327.0 crore released for infrastructure projects and land acquisition to date (Table 4.5). The Committee is of the view that this scale of debt-servicing cost, and its trajectory as KIIFB's borrowings mature, has a direct bearing on the State's fiscal position and would warrant a detailed monitoring by the Finance Department.

The Committee, however, noted a serious discrepancy in expenditure for advertisement and promotion when it examined the Report of the 9th Audit Committee Meeting held on August 11, 2026. The Audit Committee noted the following, quoting from its report (page 3):

> The Committee discussed in detail the Auditor's qualified opinion on promotional expenses, particularly the concerns over SOP deviations - improper vendor selection, deficiencies in documentation, and lack of supporting invoices. It also took on record the Auditor's internal control recommendations, such as activity-wise budgeting, pre-approval of promotional plans, and mandatory end-use verification. After detailed deliberation, the Committee recommends the following measures on expenditure for publicity and promotional activities:
>
> i. Conduct a comprehensive audit of transactions relating to publicity and promotional activities, including Ente Keralam and CM with Me, involving Rs. 203.72 crore during FY 2025–26;
>
> ii. Comprehensively review existing policies and procedures for incurring expenditure on publicity and promotional activities;
>
> iii. Fix an annual prudential limit on publicity and advertising expenditure, linked to KIIFB's income. In this connection, the Committee notes the Independent Directors' observation at their meeting on March 24, 2026, that KIIFB should substantially scale down its publicity and promotional spending and align such expenses with the scope of its activities and mandate;
>
> iv. Promotional activities may, in future, be vested with the SPVs concerned, with a reasonable spending limit fixed and such expenses treated as part of project costs; and
>
> v. Until the comprehensive audit is complete, KIIFB shall put its proposals for publicity and promotional activities on hold.

The Committee notes that the amount under audit examination, Rs. 203.72 crore for FY 2025-26, is nearly ten times the Rs. 21.16 crore shown against Advertisement & Promotion for the same year in Table 4.6. This suggests that a significant part of KIIFB's publicity and

promotional spending, have been booked under other heads, as project or programme expenses, rather than under KIIFB's own administrative expense classification. The statutory auditors have qualified Rs. 79.98 crore promotional costs that were directly debited to projects. They have further observed that "Rs 6.14 crore spent on infra costs for 'CM with Me' program was directly debited to project costs" (paragraph 8). "Rs. 96 crore spent on infra costs for 'Ente Keralam' were debited to project costs." (paragraph 9).

Part IV: Observations and Comments

Based on the examination in the preceding parts of this Chapter, the Committee makes the following observations and comments on Items 6, 7 and 8 of its Terms of Reference.

On the equity and priority-orientation of fund allocation (Item 6)

1. Allocation of infrastructure outlay is heavily concentrated in a few districts, while several districts, including some of the State's more backward and hilly regions, receive a disproportionately small share; the pattern is even more pronounced in the land acquisition pool.
2. Sectoral allocation is similarly concentrated among a few large-spending departments, principally the Public Works Department, leaving the remaining departments to share a comparatively small residual pool.
3. The Committee could not identify a documented framework by which KIIFB or the Finance Department weighs developmental priorities or inter-district equity when approving projects; a project's entry into the KIIFB pipeline appears to depend substantially on the readiness of the sponsoring department and SPV rather than on an explicit equity criterion.
4. The share of projects focusing exclusively on SC/ST development in total allocation to projects is extremely low compared to SCSP and TSP allocation in State Plan.
5. Given the large expansion in the infrastructure spending by KIIFB, the absence of an explicit and enforceable equity safeguard comparable to the SCSP/TSP mechanism constitutes a policy gap that warrants attention by the Finance Department and the State Planning Board.
6. The Committee was not furnished with district-wise data on developmental indicators, such as backwardness indices or population shares, that would allow a more rigorous test of equity than the simple equal-share benchmark used in this Chapter. Such data, if maintained by the State Planning Board, should be used in future to assess KIIFB's allocations.

On expenditures and practices warranting detailed examination (Item 7)

7. Publicity and promotional expenditures are the clearest instance identified during the Committee's examination. KIIFB's own Audit Committee and Independent Directors have flagged SOP deviations, vendor-selection irregularities and documentation deficiencies in relation to Rs. 203.72 crore of such expenditure in 2025-26 alone; the Committee endorses the comprehensive audit already directed by the Audit Committee.
8. The apparent mismatch between this figure and the amount recorded against Advertisement & Promotion in KIIFB's own operating-expense accounts should be reconciled, as it bears on the completeness and classification of KIIFB's financial reporting more generally.
9. Finance Cost is now, by a wide margin, the dominant component of KIIFB's operating expenditure. The true measure of KIIFB's financial position therefore lies less in its administrative costs than in its debt-servicing burden, and the Committee recommends that this cost be tracked as a share of releases and of the State's own fiscal indicators.
10. The issuance of G.O.(Rt) No.5457/2025/Fin without prior vetting by the Finance Department is an instance of KIIFB issuing an order with financial implications outside the normal vetting channel. The Committee considers this warrants examination beyond the specific case, to establish whether it was an isolated lapse or a more systemic practice.
11. The very large, concentrated commitments in the land acquisition pool, particularly in Kannur district, and the wide gaps between amounts approved and released across the revenue-generating projects listed in the Appendix are both areas the Committee recommends for more detailed audit or financial examination.
12. Six projects, out of 44 projects, shown to have made repayments to KIIFB. However, a closer look at the repayments received from these projects revealed that only three made repayments from the revenue generated by the projects and the remaining three repayments were made using the budgetary transfers received by the respective SPVs from the Government. This suggests that the revenue generation classification of KIIFB’s projects is fiscally misleading. The correct data needs to be compiled and presented transparently.

On the oversight role of the Finance Department and the State Planning Board (Item 8)

13. The Finance Department's oversight of KIIFB is built into the institutional design, through its representation on the Board and the Executive Committee, but the evidence before the Committee suggests that this oversight hardly operated and even where it operated, it did so in a largely ex-post, reactive manner.

14. As far as the Committee could ascertain, the State Planning Board's oversight of KIIFB was limited to the ex-officio membership of its Vice-Chairman on the KIIFB Board. The Committee found no evidence of the State Planning Board exercising a substantive appraisal or screening role over project selection, including on consistency with Five-Year Plan priorities or SCSP/TSP-type equity considerations.

Appendix

Table 4A. 1 List of Revenue Generating Projects by KIIFB

(Rs in Crore, the figures are as on 15 September, 2026)

No	SPV	Sub Project Name	Approved Amount (Loan)	Disbursement	Repayment Received
1	KSFDC	Alagappanagar Theatre Complex	16.84	4.87	
2	KSFDC	Perambra Theatre Complex	14.27	0.00	
3	KSFDC	Kayamkulam Theatre Complex	18.95	6.96	
4	KSFDC	Payyanur Theatre Complex	16.11	6.68	
5	KSFDC	Tanur Theatre Complex	16.69	0.00	
6	KSFDC	Vaikkom Theatre Complex	22.07	11.04	
7	KSFDC	Payam Theatre Complex	7.14	0.00	
8	KSFDC	Kakkanad Theatre Complex	22.34	0.00	
9	KSFDC	Modernisation of Chitranjali Film City	67.17	14.44	
10	KINFRA	Land for Industrial Infra at Kannur & Palakkad and Land for Kochi Bangalore Industrial Corridor - Phase 1	12,727.50	2,489.12	425.36
11	KINFRA	Petrochemical Park, Kochi	977.46	977.47	554.65
12	KINFRA	Kochi-Bengaluru Industrial Corridor Project-Land Acquisition	1,374.00	1,068.28	337.04
13	KINFRA	DEVELOPMENT OF GIFT CITY as part of KBIC-Land Acquisition	840.00	840.00	
14	KCL	Setting up of Carbon Neutral Coffee Park at Wayanad	112.05	9.81	
15	KSDPL	Construction of Oncology Park	96.32	0.00	
16	KSIDC	Life Science Park Phase-II	301.17	301.17	84.02
17	KINFRA	Development of Industrial park by takeover of land from M/s Hindustan Newsprint Ltd	200.60	145.60	
18	KSITIL	Kochi Innovation Zone	251.13	120.04	
19	KSITIL	First Building at Technocity	100.00	77.04	97.06
20	KSITIL	Kerala Fibre Optic Network	1,061.73	715.91	
21	IIITMK	Construction of Executive International Hostel block for KUDSIT (DUK)	26.39	0.00	
22	IIITMK	Construction of Digital Science Park at Technopark Phase VI, Thiruvananthapuram,Kerala	238.52	0.00	
23	KSITIL	Construction of 5 Lakh sqft IT building for proposed IT park at Kannur	317.72	0.00	
24	IMPACT	Thiruvalla Abattoir	14.39	0.00	
25	IMPACT	Kannur DP Abattoir	11.07	0.00	
26	IMPACT	Punalur Municipality Abattoir	12.84	1.68	
27	IMPACT	Palakkad Municipality Abattoir	11.33	0.00	
28	IMPACT	Perinthalmanna Municipality Abattoir	10.26	0.00	
29	IMPACT	Attingal Municipality Abattoir	6.13	2.41	

No	SPV	Sub Project Name	Approved Amount (Loan)	Disbursement	Repayment Received
30	IMPACT	Kozhikkode Corporation Abattoir	14.70	0.00	
31	IMPACT	Kochi Corporation Abattoir	16.09	0.00	
32	IMPACT	Modern Abattoir in Thrissur	13.83	0.00	
33	IMPACT	Modernization of Market in Kottakkal Municipality	15.24	0.00	
34	IMPACT	Modernization in Kalady GP	12.87	0.00	
35	IMPACT	Modernisation of Markets at Wadakkancherry Municipality	19.31	0.00	
36	IMPACT	Modernization of Markets in Nedumangad Municipality	28.00	1.06	
37	IMPACT	Modernization of Market in Aluva Municipality	9.00	0.00	
38	IMPACT	Modernization of Market in Vatakara Municipality	15.63	0.00	
39	KSEBL	Nilaav Project	298.38	79.35	
40	KSITIL	Work Near Home Phase I	37.50	4.89	
41	KSITIL				
42	KSRTC	Procurement of Buses for KSRTC	360.91	46.22	
43	KTDC	3-Star beach resort at Muzhuppilangad	51.86	40.91	
44	KSEBL	Transgrid 2.0	2,915.93	1,916.87	2,700.19
Total			**22,701.44**	**8,881.80**	**4,198.32**

Source: Furnished by KIIFB. The figures are as on September 15, 2026

CHAPTER V

Organisation, Governance and Human Resources

This chapter covers item 10 of the Terms of Reference of the Committee which is reproduced below.

> 10. To review the organisational structure, governance framework and human resource policies of KIIFB, including the processes adopted for recruitment and appointment of officers and staff, identify any improprieties or systemic deficiencies, and recommend measures for restructuring the Organisation, redeployment of its institutional capacities within Government, and the future course of action regarding subsidiary or spin-off entities established by KIIFB.

The chapter also partly address item 7 of the Terms of Reference given below, as it covers establishment expenditure and pay determination of the staff.

> 7. To identify expenditures, transactions or financial practices of KIIFB that, in the opinion of the Committee, warrant detailed examination from the audit, financial management or governance perspective.

The statutory governance framework of KIIFB - including the composition of the Board, the Executive Committee, the Fund Trustee and Advisory Commission and the office of the Chief Executive Officer - has already been examined in Chapter II. This chapter takes that framework as given and examines the organisation structure below the Board level. The chapter specifically looks at the staff strength at different units within KIIFB, the way they were recruited or appointed and the issues with their pay determination and upgradation. In the penultimate paragraph, the chapter examines the subsidiaries and associate entities of KIIFB.

5.1 Governance and delegation below the Board

Section 10 of the Kerala Infrastructure Investment Fund Act as amended in 2016 governs the appointment of officers and staff at KIIFB. The section reads as follows:

> 10. *Appointment of officers and staff,* - (1) The Board, with the approval of Government creates such posts and appoint such number of officers and staff as it considers necessary to assist the Board in the discharge of its functions and duties under the Act.
>
> (2) There shall be a Chief Executive Officer (CEO) for the Board who shall be given the rank and status of a Secretary to the Government, appointed by the Government. The Chief Executive Officer shall be the Fund Manager of the Board.

(3) The Chief Executive Officer shall exercise the power of supervision and control over all the officers and staff of the Board.

(4) The method of appointment, salary and allowances and other conditions of service of the officers and the staff appointed as above shall be such, as may be specified, by the Government from time to time.

The organisational structure of KIIFB and the first set of forty posts were sanctioned by Government in G.O.(Ms) No.77/2017/Fin dated 14.02.2017[1].

Table 5.1 Posts sanctioned under G.O.(Ms) No.77/2017/Fin dated 14.02.2017

Division	Name of Post	Number of posts	Remarks
Finance and Administration	Joint Fund Manager	1	
	Deputy Fund Manager	1	
	Section Officer	1	
	Assistants	3	
	Office Attendant	1	Daily wage
	Sweeper cum Office Attendant	1	Daily wage
Institutional Finance Group	General Manager	1	
	Deputy General Manager	2	
	Assistant General Manager	2	
Project Appraisal Division	Executive Director	1	
	Chief General Manager	1	
	General Manager (Appraisal)	2	
	Project Managers	2	
	Assistant Project Managers	2	
	Project Assistants	6	
	Sweeper cum Office Attendant	2	Daily wage
Inspection Authority	Chief Project Examiner	1	
	Additional Secretary	1	
	Deputy or Under Secretary	2	
	Project Assistants	3	
	Executive Engineers	2	
	Assistant Engineers	2	
Total		**40**	

Source: G.O.(Ms) No.77/2017/Fin dated 14.02.2017

[1]G.O.(Ms) No.77/2017/Fin dated 14.02.2017. The same order also prescribes the rate of increment for employees of levels 1 and 2, and is referred to in General Condition 11 of the order dated 06.04.2023 discussed in Part seven of this chapter.

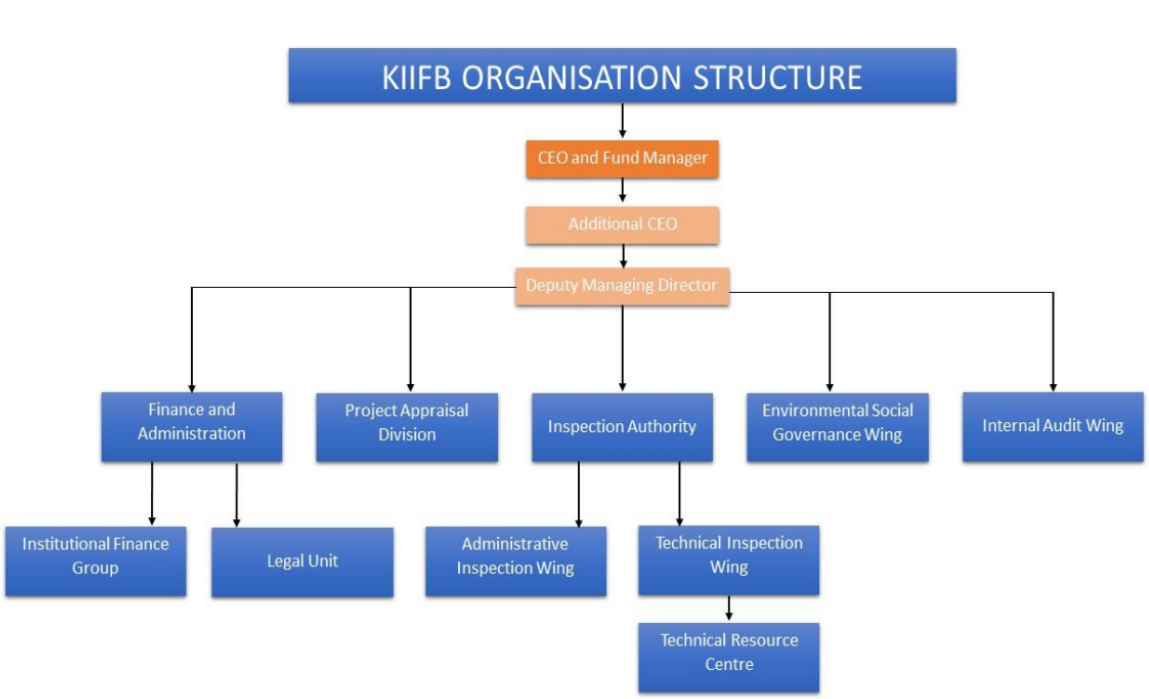


Figure 5.1 Organisational Structure of KIIFB

From about 2020 onwards the pattern changed. Positions were created in large numbers by resolutions of the Board and of its Executive Committee, and by orders issued by the Chief Executive Officer and the Joint Fund Manager. These actions resulted in the organisational structure presented in Figure 5.1, a staff strength given in Table 5.2 and different units described in the following paragraphs.

Table 5.2 Details of Employees in KIIFB

Employment Type	Number of Employees	Remarks
State Govt Employees	24	Drawing salary from FD
Direct Contract	31	Salary from KIIFB, Agreement with KIIFB
Manpower Outsourcing through CMD	152	Salary from CMD, Agreement with CMD
Technical Resource Centre	243	Salary from CMD, Project Based work allocation
On Call Resource Persons	11	Need basis assignment
Internship	15	Stipend from KIIFB
Daily Wages	13	Wages from KIIFB
Technical Committee H&FWD	9	Salary from CMD, Committee owned by H&FWD
Total	**498**	

Source: Compiled by KIIFB.

The Executive Committee in its 9th meeting held on 24.10.2018 approved the proposal for establishment of Technical Resource Centre (TRC) through Centre for Management Development (CMD) under the technical coordination of Technical Inspection Wing (TIW) to facilitate all technical requirements of SPV's (KIIFB Annual Report, 2025-26). The TRC provides technical services for DPR preparation and DPR support services, Design Basis Report (DBR) support, Work Breakdown Structure (WBS) support, quality assurance and advanced technology integration across SPVs Design Related Units (DRU). Table 5.3 presents the approved staff strength by cadre at the TRC.

Table 5.3 Approved Staff Strength of Technical Resource Centre (TRC)

No	Designation	Pay Range	Strength
1	Consultant	60,000-80,000	7
2	Technical Expert	30,000-50,000	74
3	Technical Assistant	25,000-30,000	27
4	Technical Assistant Trainee	20,000-25,000	22
5	Drafts man	20,000-25,000	4
6	Lab Technician	20,000-25,000	1
7	Project Associate	25,000-30,000	7
8	Driver/Helper	15,000-20,000	8
9	Resource Persons	2500 to 10000 per day	30
	Total		**180**

Source: Details furnished by KIIFB.

Similarly, KIIF Board in its 36th meeting held on 04.06.2019 has accorded approval for the establishment of Technical Support Unit (TSU) under Technical Resource Centre (TRC) with the staff pattern given in Table 5.4.

Table 5.4 Approved Staff Strength of Technical Support Unit

No.	Position	Pay Range	Total Strength
1	Technical Expert	30,000-50,000	40
2	Technical Assistant	25,000-30,000	12
3	Technical Assistant Trainee	25000	7
4	Draughtsman	20,000-25,000	15
5	Project Associate	25,000-30,000	6
	Total		**80**

Source: Details furnished by KIIFB.

KIIFB Board also set up a Resident Engineers unit in 2020[2] to improve the supervisory system. Table 5.5 give the details of the Resident Engineering Unit.

Table 5.5 Staff Strength and other details of Resident Engineering Unit

No.	Designation	Pay	Max. No. of Days	Strength
1	Sr. Resident Engineer	4000 per day	15	12
2	Resident Engineer	2500 per day	16	8
3	Jr. Resident Engineer	1500 per day	20	10
	Total			30

Source: Details furnished from KIIFB

[2] See the order PE-2/1727/2020/KIIFB Dated 21/12/2020

At present the employees in KIIFB can be broadly categorised into following categories:

1. **Government Officers:** Officials from Finance Department and other Government Departments are posted to KIIFB in cadre post as well as on deputation in accordance with Government decisions.
2. **Direct Contract Employees:** KIIFB engaged a limited number of professionals directly on contract in accordance with G.O.(Ms) No.77/2017/Fin dated 14.02.2017 and subsequent decisions of the KIIF Board. Matters relating to creation of such positions, appointments, continuation and remuneration are placed before the Board for approval. Recruitment to these positions was carried out through open advertisement in newspapers and the official website followed by a structured selection process based on qualifications, experience and suitability for the position.
3. **Manpower Support Personnel:** In addition to direct contractual appointments, KIIFB availed manpower support services through the Centre for Management Development (CMD) as per the terms of G.O.(Rt) No.5398/2021/Fin dated 10.08.2021 and subsequent approvals of the Board/Executive Committee.

The number of employees in KIIFB far exceeds the number sanctioned by the Government. The Committee notes that additional posts were created without the concurrence of the Government, as required by the Section 10(1) of the KIIFB (Amendment) 2016 Act. KIIFB is a statutory body whose recurring liabilities, including the cost of its establishment, are met from funds that are ultimately a charge on the Consolidated Fund of the State, whether through the assignment of Motor Vehicles Tax and Cess on Petroleum products under Section 7 of the Act or through budgetary assistance for repayment. An establishment of this size and having implications for State exchequer should not have been created merely by the resolutions of the Board that employed it.

5.2 Pay determination and the upgradation in 2023-24

The pay structure of KIIFB was comprehensively revised with effect from 01.04.2023. Information furnished by KIIFB shows that the annual additional costs of this pay revision is about Rs. 1.19 crore. The revision was approved by the Board at its 45th meeting held on 27.02.2023, administrative approval for this decision was given the by the Chief Executive Officer by an order dated 06.04.2023[3], and the Joint Fund Manager implemented it by an order dated 26.04.2023. The revision had three elements: a change of designation on completion of

[3]Order No. FA-6/2687/2023/KIIFB dated 06.04.2023, described in its subject line as "Pay level upgradation of contract employees working in KIIFB and TRC - Administrative Approval - Orders Issued".

four years of service, an upgradation of pay on completion of four years of service, and a revision of the base pay of employees at the junior levels. None of the three was referred to Government, although Section 10(1) of the KIIFB (Amendment) Act 2016 requires salary, allowances and other conditions of service to be as specified by Government.

5.3 Subsidiaries and Associated entities of KIIFB

KIIFB has established a wholly owned subsidiary, KIIFCON, and an associated company, Kerala Infrastructure Fund Management Limited (KIFML). This part presents the details of these two entities as collected from the various Annual Reports of KIIFB.

KIIFCON

The 42nd KIIF Board, held on 07.08.2021, approved the initiative of setting up a consultancy service in KIIFB. Accordingly, a functional organization for consultancy services was set up at KIIFB as 'KIIFB Consultancy Service Unit (K-CSU). Later, the 43rd KIIF Board approved the proposal for formation of a Company named KIIFCON Private Ltd under KIIFB. Vide G.O.(Ms)No.135/2022/FIN dated 01.08.2022 Government has accorded Administrative Sanction for the formation of KIIFCON Private Ltd, fully owned by KIIFB initially. KIIFCON Pvt Ltd, a subsidiary of KIIFB was incorporated on August 17, 2022 to take up the consultancy activities in the field of transportation, power, ports etc. (KIIFB Annual Report 2022-23, page 109). As per the Annual Report for the year 2025-26, KIIFCON, offers Consulting and Advisory Services, Design and Engineering services, Project and Contract Management, Quality Management services, Transaction Advisory Services, Environment Services to various sectors including Transportation, Buildings, Power, Energy etc. KIIFCON would offer comprehensive solutions to the Engineering Industry in Kerala and it concentrates in three different fields.

1. Project Development Services
2. Project Engineering Services
3. Project Execution Services

The Annual Report 2025-26 reports a list of 23 consultancy projects undertaken by KIIFCON and all of them, except two, are of either KIIFB infrastructure projects or projects of Kerala Government Departments.

Kerala Infrastructure Fund Management Limited (KIFML)

The 29th General Body meeting of KIIFB held on 31.05.2017, had approved a proposal for KIIFB to promote an Asset Management Company - Kerala Infrastructure Fund Management

Limited (KIFML), to act as the investment manager for the Infrastructure Fund Vehicles (IFV) being setup by KIIFB. KIFML was incorporated on November 13, 2018 with an Authorised Capital of Rs. 5 Crore and Paid-up Capital of Rs. 1.0 crore and the first board meeting of the Company was held on December 07, 2018 (see Annual Report 2018-19, page 50).

The company was established with the objective of creating professionally managed investment platforms capable of attracting long-term capital into Kerala, particularly in sectors where conventional financing mechanisms are inadequate. The company is promoted with the support of Government institutions and operates within the regulatory framework of the Securities and Exchange Board of India (SEBI). The company has the following equity partners:

Table 5.6 Share holding pattern of KIFML

No	Shareholder	Equity holding (in %)
1	KIIFB	42.69
2	CIAL	17
3	Geojit Financial Services Limited	9.90
4	HDFC Ltd	9.90
5	Federal Bank	5.61
6	KSIDC	5
7	South Indian Bank	3.8
8	Varanium Capital	3
9	Dhanlaxmi Bank	2.42
10	Kerala Financial Corporation	0.65

Source: Details furnished by KIIFB.

5.4 Observations and Comments

1. The Committee noted that beyond its original mandate of funding infrastructure projects, KIIFB has progressively expanded its functions to include project preparation, appraisal, monitoring and inspection. Over time, it has accumulated specialised technical capabilities to undertake these functions. Consequently, KIIFB evolved into a large and multifaceted organisation engaged not only in fund mobilisation, but also in project preparation, appraisal, monitoring and inspection.

2. The Committee observed that the number of employees in KIIFB far exceed the approved strength. The Committee also noted with concern that additional posts were created and appointments made on the basis of the resolutions of the Board and its Executive Committee and by orders issued by the Chief Executive Officer, without the concurrence of the Government as required under Section 10(1) of KIIFB (Amendment) 2016 Act.

3. KIIFB revised the pay of its employees with effect from 01.04.2023, involving an additional annual cost of about Rs. 1.19 crore. The Committee noted that the revision was implemented without the concurrence of the Government of Keralam, contrary to the requirement under Section 10(4) of the KIIFB (Amendment) Act, 2016.

4. The Committee opined that KIIFB is a statutory body whose recurring expenditure, including establishment costs, ultimately constitutes a burden on the Consolidated Fund of the State as Government of Keralam was ultimately bearing the responsibility of repaying the loans raised by KIIFB. The Committee is of the view that an establishment of this size and financial significance should not have been created solely by resolutions of the Board or its Executive Committee, whereby the Board effectively became both the proposer and the approver.

CHAPTER VI

Way Forward

In the previous chapters, the Committee examined various aspects of the functioning of KIIFB.

Chapter II examined in detail the deviations from the objectives, mandate and role originally envisaged for KIIFB in 2014, and the implications of these deviations. This chapter examined various sources and costs of fund mobilisation and their compliance with Constitutional provisions and fiscal norms. Chapter IV studied the utilisation of funds, focusing on the distribution of infrastructure investment across sectors and districts, the share of revenue-generating projects, the oversight exercised by the Finance Department and the State Planning Board, and the operating expenses of KIIFB. Chapter V examined the organisational structure of KIIFB, focusing on its staffing, deployment of employees across different units, recruitment practices, and compensation. It also examined how far KIIFB's human resource practices comply with Government rules. Based on the findings of the previous chapters, in this chapter the Committee presents the broader observations and conclusions of the functioning of KIIFB and then its recommendations.

The chapter is organised as follows:

Part I sets out the Constitutional and legal concerns and lists the instances in which the Rules of Business were not followed.

Part II examines the current and future fiscal and governance consequences of the working of KIIFB over the last ten years.

Part III, the last, presents the Committee's recommendations.

The Committee has taken into account the response of KIIFB dated 29 September 2026 to the points raised by the Committee. It recognises that KIIFB's lenders and investors hold executed contracts backed by the State's guarantee and that the State's obligations to them must be honoured, subject to the normal renegotiations possible. The recommendations in this Chapter are directed at future arrangements.

This chapter draws on all the Terms of Reference. It answers Terms of Reference 9 (relevance and sustainability of KIIFB and the future institutional framework) and 10 (restructuring, redeployment and the future of the subsidiaries) in Part III, and draws together the findings under Terms of Reference 1 to 8.

Part I: Departures from Constitutional Provisions and Rules of Business

In Chapter II, a mention was made of the changes and deviations that occurred in the objectives, mandate and role originally envisaged for KIIFB in 2014. This Part lists the instances in which the Constitution, the Rules of Business and fiscal laws were not followed or were put under strain. Their fiscal and governance consequences are discussed in Part II, and the recommendations in Part III take both into account.

Major changes were effected by the Kerala Infrastructure Investment Fund (Amendment) Act, 2016 (Act 15 of 2016), and by the Government Orders and the Scheme issued under it. Over the next few years many more deviations occurred. These aggravated the "fundamental flaws" that, in the words of Kerala's Fiscal Health: A Status Report (the White Paper, page 147), existed "ab initio" in the constitution of KIIFB. They adversely affected both the governance and the fiscal health of Keralam, without delivering on the original promise.

6.1 Constitutional and Fiscal-Law Concerns

1. Article 266(1) of the Constitution provides:

   > …all revenues received by the Government of a State, all loans raised by that Government by the issue of treasury bills, loans or ways and means advances and all moneys received by that Government in repayment of loans shall form one Consolidated Fund to be entitled "the Consolidated Fund of the State".

   Article 266(3) provides that no moneys out of the Consolidated Fund shall be appropriated except in accordance with law and in the manner provided in the Constitution, and Articles 202 to 204 require expenditure to be authorised by the Legislature (para 3.14).

   Under G.O.(P) No. 158/2018/Fin dated 05.10.2018, the Government decided to escrow, directly to KIIFB, a share of Motor Vehicles Tax rising to 50 per cent from the fifth year, and the entire Cess on Petroleum products. Section 7 as amended in 2016 does require the Government to make provision in the Annual Budget, and the transfers are budgeted under voted heads (para 3.2). But the escrow, as per the Government Order cited above, makes these revenues available to KIIFB directly, and the accounting treatment adopted raises concerns of its own (para 3.1). The Sixteenth Finance Commission has observed that escrowing government revenues instead of crediting them to the Consolidated Fund "could also be unconstitutional under Article 266" (16th Finance Commission Report, para 12.22).

In the view of the Committee, the Government order cited above prescribing the routing of these revenue streams directly to KIIFB is at odds with the scheme of Articles 266, 202 and 204 and raises a serious Constitutional question. The Sixteenth Finance Commission has put the point as a possibility, and the matter has not been adjudicated. The Committee also noted that the GO cited above is at variance with the original provision relating to escrow in the KIIFB (Amendment) Act 2016. The Committee therefore does not return a final finding on constitutionality.

2. Article 293(1) of the Constitution of India empowers a State to borrow within India on the security of its Consolidated Fund, within limits fixed by the State Legislature. The CAG reported (State Finances Audit Report for 2018-19) that KIIFB's borrowings are off-budget borrowings that bypass the limits on Government borrowing under Article 293, are not shown in the budget documents or the accounts, and therefore do not have legislative approval (para 3.15).
3. Article 293(3) of the Constitution of India requires a State Government to obtain the consent of the Union Government before raising any loan if the State already has outstanding liabilities to the Union Government. Since KIIFB's debt is serviced from assigned State tax revenues (Motor Vehicles Tax and Petroleum Cess), the Government of India, acting on the Fifteenth Finance Commission's recommendation, now treats such borrowings as the State's own for the purpose of consent under Article 293(3) (Net Borrowing Ceiling guidelines of 31 March 2022, para 3.17). The CAG also made the same point (para 3.15).
4. Entry 37 of the Union List (Seventh Schedule), Constitution of India, places "foreign loans" exclusively within the legislative competence of the Union. The CAG observed that the Masala Bond issue, being in substance an external commercial borrowing repaid from State revenues, appeared to violate this entry. The Committee has not returned a final finding, since the bonds were rupee-denominated, issued with the approval of the Reserve Bank of India and fully redeemed on 27 March 2024 (para 3.21).
5. Kerala Fiscal Responsibility Act 2003 Sections 4(2)(b) and 4(2)(c) prescribe limits on off-budget liabilities, transparent fiscal deficits, and provide a total debt-to-GSDP ceiling and a 3 percent fiscal deficit cap. Section 5 (2)(b) under Measures for Fiscal Transparency (Off-Budget Disclosure Mandates) requires the State Government to disclose in the budget all outstanding contractual liabilities, committed liabilities in major works, off-budget borrowings, and contingent liabilities created by way of

guarantees. CAG repeatedly noted that the off-budget shifting of infrastructure expenditure through KIIFB, resulted in the State underreporting its actual fiscal deficit and in exceeding the prescribed aggregate debt ceilings.

6.2 Departure from the Rules of Business

Article 166(3) of the Constitution provides:

> The Governor shall make rules for the more convenient transaction of the business of the Government of the State, and for the allocation among Ministers of the said business in so far as it is not business with respect to which the Governor is by or under this Constitution required to act in his discretion.

The relevant provisions of the Rules of Business of the Government of Keralam, made under this Article, are as follows.

> Rule 4. The business of the Government shall be transacted in the Department specified in the First Schedule and shall be classified and distributed between these departments as laid down therein.

Rule 5 states as under:

> Rule 5. The Governor shall on the advice of the Chief Minister, allot the business of the Government among the Ministers by assigning one or more departments to the charge of a Minister

Rule 8, which is relevant in this context states as under:

> Rule 8. Subject to the orders of the Chief Minister under Rule 14, all cases referred to in the second Schedule shall be brought before the council in accordance with the provisions of the Rules contained in Part II:
>
> Provided that no case in regard to which the Finance Department is required to be consulted under Rule 10 shall, save in exceptional circumstances under the directions of the Chief Minister be discussed by the Council unless the Finance Minister has an opportunity to consider it.

Rule 10 stipulates-

> Rule 10. (i) No department shall, without previous consultation with the Finance Department, authorise any orders (other than orders pursuant to any general delegations made by the Finance Department), which, either immediately or by their repercussions will affect the finances of the State or which, in particular, either: -
>
> (a) relate to the number of gradings or cadres of posts or the emoluments or other conditions of service or posts; or
>
> (b) involve any grant of land or assignment etc; or

(c) in any way involve relinquishment of revenue.

(ii) Subject to the general provisions of Rule 8, no proposal which requires the previous consultation of the Finance Department under sub rule (i) but in which Finance Department has not concurred and the Finance Minister has agreed with the Finance Department may be proceeded with unless a decision to that effect has been taken by the Council of Ministers.

Rule 11:

> All orders or instruments made or executed by or on behalf of the Government of the State shall be expressed to be made or executed in the name of the Governor.

Rule 12 of the Rules of Business prescribes as under:

> Rule 12. Every order or instruments of the Government of the State shall be signed by a Secretary, an Additional Secretary, a Joint Secretary, a Deputy Secretary, an Under Secretary or by such other officer as may be specially empowered in that behalf and such signature shall be deemed to be the proper authentication of such order or instrument

Rule 11 requires all orders and instruments to be expressed in the name of the Governor, and Rule 12 prescribes who may authenticate them. The Second Schedule to the Rules lists the cases that must be brought before the Council of Ministers [the entries relevant to guarantees, borrowing and the creation of posts to be cited].

Finally, a relevant rule for our consideration is Rule 60 which states as under:

> Rule 60. The Chief Secretary and the Secretary of the Department concerned are severally responsible for the careful observance of these rules and when either of them considers that there has been any material departure from them, he shall personally bring the matter to the notice of the Minister concerned.

Instances of departure:

The Committee found several instances in which the Rules of Business were not followed. Some are listed below, with their financial consequences where these can be stated.

1. Government order issued for guarantees that the Finance Department had declined: The Finance Department declined to provide additional guarantees for KIIFB's borrowings during 2023-24, 2024-25 and 2025-26, on the ground that they would reduce the State's borrowing space. This decision of Finance Department was overruled in a meeting chaired by the Chief Minister on 06.06.2023. No order followed for nearly two years. A Government order was then issued on 24.03.2025 (G.O.(P) No. 33/2025/FIN) by the Finance (Infrastructure) wing, which was headed by the CEO of KIIFB as ex-officio Secretary. Under Rule 10(ii), a decision of the Finance Department can be overruled

only by the Council of Ministers. No such decision was shown to the Committee (Chapter III, para 3.12.2).

(Rules of Business: 8 and 10(ii))

2. Overall issue of guarantee sanctions and guarantee deeds: The first three guarantees, covering borrowings of Rs 18,246.73 crore, were sanctioned by the PU-B Wing of the Finance Department, on 19.07.2018, 17.03.2021 and 02.11.2021. However, the guarantee deeds of these three guarantees fixing tenure, rate of interest and other conditions were not submitted to the Finance Department for approval. All later guarantees were issued by the Finance (Infrastructure) wing without the approval of the Finance Secretary, the Finance Minister or the Council of Ministers. No competent authority in the Finance Department had access to the files of Finance (Infrastructure) wing (Chapter III, para 3.12.2).

   (Rules of Business: 10(i), 10(ii), 12 and 60.)

3. Price-escalation guidelines: A Government order, G.O.(Rt) No. 5457/2025/Fin dated 27.06.2025, revising the price-escalation guidelines for KIIFB-funded projects, was issued without vetting by the Finance Department. The Finance Department then required that such orders be vetted, and later moved all KIIFB-related files to its PU-B Wing. This has been noted in Chapter IV para 4.2.5.

   (Rules of Business: 10(i)).

4. Land acquisition in Kannur and Palakkad: On 25 October 2018 the KIIFB Board approved the acquisition of about 5,366 acres at an estimated Rs 12,727 crore in four stages, on the basis of a concept note from KINFRA, although the agenda sought approval only for Stage I (1,037 acres, Rs 1,887.50 crore). The Industries Department then issued G.O.(Ms) No. 20/2019/ID dated 27.02.2019 on the strength of the KIIFB Chief Executive Officer's letter of 07.12.2018. The proposal can be traced only in part to the Revised Budget Speech 2016-17, which named one location in Kannur district (about 1,000 acres) among five, and not to any decision of the Council of Ministers for the locations approved. The Board acted on a concept note and not on a Detailed Project Report, and its approval preceded the Government's administrative sanction (Chapter IV, para 4.2.1). About Rs 2,489 crore has been disbursed for nearly 1,000 acres, and the total cost may now rise to about Rs 15,000 crore, as noted in chapter IV.

   (Rules of Business: 8 and 10.)

5. Appointment of CEO, KIIFB as Ex-Officio Secretary to Government, Department of Finance (Infrastructure): Until 13 June 2025 the post of CEO, KIIFB, in his capacity as ex-officio Secretary to Government in the Finance (Infrastructure) wing, was not among the officers authorised under Rule 12 of the Rules of Business to sign orders of Government. Orders issued under his signature before that date, including those at items 1 and 2 above, therefore lacked the authority that Rule 12 requires. As Chapter II notes, Section 10(2) of KIIFB (Amendment) Act 2016 gives the CEO only the rank and status of a Secretary to Government.

   (Rules of Business: 12)

6. Appointments of Staff in KIIFB: KIIFB now has 498 persons against the 40 posts sanctioned by the Government (G.O.(Ms) No. 77/2017/Fin), of whom 404 were engaged through the Centre for Management Development (Chapter V). Posts beyond the sanctioned forty were created on decisions of the Board, its Executive Committee and the CEO, and the extent of the approval of the Finance Department required under Rule 10(i)(a) has not been established. The salary bill of these employees ultimately constitutes a charge on the Consolidated Fund of the State.

   (Rules of Business: 10(i)).

7. Revision of Pay: The pay structure of KIIFB's staff was comprehensively revised with effect from 01.04.2023 with an annual additional financial burden of approximately Rs 1.19 crore. The decision was taken by the KIIF Board at its 45th meeting held on 27.02.2023, approved by the CEO on 06.04.2023 and implemented by the Joint Fund Manager on 26.04.2023. It was not referred to the Government for approval, although Section 10(4) of the KIIFB (Amendment) Act 2016 requires salary, allowances and other conditions of service to be as specified by the Government.

   (Rules of Business: 10(i)).

Rule 60 places on the Chief Secretary and the Secretary of the Department concerned an individual responsibility to bring any material departure from the Rules to the notice of the Minister. The Committee does not regard these instances as a question of individual conduct. It regards them as a failure of the checks the Rules provide, in an arrangement where the proposing authority and the approving authority were, in practice, the same.

Part II: Fiscal Impact and Governance Consequences of KIIFB: A Broad Overview

Chapters III and IV examined in detail the fund mobilisation and fund disbursal of KIIFB and the Committee identified several important issues with significant fiscal consequences. Some of them are listed below:

1. The Act was designed around revenue-earning projects. Only about 20.98 per cent of the funds released by KIIFB are for projects classified as "revenue-generating", and even this classification is apocryphal, since only three of the 44 such projects have so far been shown to repay from their own revenues (Chapter IV, para 4.2.2).
2. Section 7 of the KIIFB (Amendment) Act 2016 was meant to be a residual provision. It became the primary source of repayment: transfers from the State met 99.4 per cent of KIIFB's debt service over 2021-22 to 2024-25 (Chapter III, Table 3.2).
3. The Government's power to guarantee under Section 9 of the Act became a duty (Chapter III, para 3.1).
4. Section 8(4), inserted in 2016, moved the initiative in issuing and redeeming the Board's instruments from the Government ("as the Government may direct" in the 1999 Act) to the Board ("as decided by the Board subject to the directions of the Government"). The requirement of previous Government sanction for borrowing under Section 8(1) was retained, but was observed in form and, so far as the record discloses, not in substance. The Committee found no clear evidence of the Finance Department's sanction for individual borrowings. The shift in Section 8(4) is consistent with that pattern, but does not by itself explain it, since Section 8(1) continued to require previous sanction. (Chapter III paras 3.5 and 3.12).
5. The scope of the Act was widened to the social sector and to land acquisition, neither of which generates revenue for the Fund in the way the original design assumed (Chapter III, para 3.20, and Chapter IV, para 4.1).
6. Under the Government of India's Net Borrowing Ceiling guidelines of 31 March 2022, which apply from 2020-21, KIIFB's borrowing is counted as the State's own borrowing. Rs 25,932.55 crore has been deducted from Keralam's borrowing space on this account (Chapter III, Table 3.11). The original rationale of raising capital without using that space no longer holds.
7. KIIFB's cost of borrowing exceeded that of State's open market borrowing in every year of comparison, by 85 to 179 basis points since 2018-19 (Table 3.12). Applied to the outstanding debt of Rs 31,681.15 crore (as on June 30, 2026; see Table 3.3), that

range gives an indicative premium of about Rs 270 crore to Rs 570 crore a year (the Committee's own computation at 0.85 per cent and 1.79 per cent of Rs 31,681 crore). In Chapter III, para 3.18, the Committee noted that an average of these interest rates, 1.25 percent, would result in a premium of Rs. 396 crore in a year. This higher cost buys no extra borrowing space, since the borrowing is counted against the State's ceiling in any event.

8. As on September 29, 2026, the share of Motor Vehicles tax and Petroleum Cess transferred to KIIFB by the Government amounts to Rs. 26165.93. The amount so far deducted by the Government of India from the borrowing space of the State as off budget borrowing amounts to Rs. 25932.53 crore. Thus, the total receipts so far foregone by the State is Rs. 52098.46 crore. The borrowing raised by the KIIFB in 2025-26 was Rs. 9580 crore and this also needs to be added to Rs. 52098.46 crore. The total comes to Rs.61678.46 crore and this is the total loss in Government's receipts owing to the financing model of KIIFB. As of September 29, 2026, KIIFB had disbursed Rs. 42,753.82 crore for infrastructure investment and held a cash balance of Rs. 5,821 crore, together amounting to Rs. 48,574.82 crore. The Committee noted that, due to its financing model, the combined value of funds disbursed and cash held by KIIFB was actually lower than the total amount of loss to Government receipts by Rs. 13,103.64 crore. (Rs 13103.64 = Rs. 61678.46 – Rs. 42753.82 – Rs. 5821)

9. The above comparison can also be interpreted differently. Had the State undertaken infrastructure investment directly instead of routing it through KIIFB, it could have spent Rs. 61,678.46 crore, compared with the Rs. 48,574.82 crore disbursed or held as cash by KIIFB. Further, the prioritisation of such spending would have been subject to the deliberative process involving the Legislature and the Kerala State Planning Board, and the plan allocations for the Scheduled Castes and Scheduled Tribes would have applied. Thus, the diversion of infrastructure spending through KIIFB entails not only a substantial financial loss but also a significant welfare loss.

10. The Committee also notes the avoidable costs that can be measured directly from the record: (a) the premium over the State's own cost of borrowing, about Rs 910 crore over 2021-22 to 2024-25 on average yearly balances ; (b) the excess cost of the Masala Bond, Rs 181.73 crore (para 3.18.1); (c) the non-interest costs of domestic bond issuance, Rs 161.73 crore over 2023-24 to 2025-26 (Table 3.13); and (d) the opportunity cost of the debt service reserve, about Rs 23 crore a year (para 3.19.2). Together (a) to

(c) come to about Rs 1,250 crore. The negative carry on unutilised borrowings, the liquidity cost of the escrow to the State's Ways and Means position and the publicity expenditure under audit (Rs 203.72 crore in 2025-26) are in addition and have not been quantified in full.

11. The functioning of KIIFB has significant detrimental impact on the future fiscal trajectory of the State. KIIFB has so far created liabilities of Rs 32,198.33 crore (as on March 31, 2026) by way of debt, and a further Rs 22,883 crore will be needed for works that are ongoing, tendered or ready to be tendered. These do not include the land acquisition pool, for which the unpaid balance is Rs 11,787.37 crore (Chapter IV, Table 4.5) and for which compensation may also have to be paid if acquisition is dropped after notification under Section 11(1) of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013. The size of that liability would be determined by the courts.
12. Table 6.1 presents the amortisation schedule of the outstanding debt, which does not include the liability incurred through the Pravasi Dividend Scheme, where the outstanding liability as on March 31, 2026 was Rs.314.13 crore[1]. Repayment runs to 2041-42. The principal in the table is Rs 31,857.20 crore, which with interest of Rs 15,675.34 crore comes to Rs 47,532.54 crore. Table 6.2 shows the status of KIIFB's projects, and Table 6.3 the year-wise funds needed to complete them after selecting high-priority projects. Together, Tables 6.1 and 6.3 show that the Government of Keralam will need about Rs 70,415.54 crore in the coming years to service KIIFB's debt and complete the projects it initiated, excluding land acquisition. This will impose significant fiscal burden on the State in the coming years.

Table 6.1 KIIFB's Debt Servicing Schedule upto 2041-42 (Rs. in Crore)

Year	Principal	Interest	Total
2026-27	3,009.82	2,816.68	5,826.50
2027-28	3,502.91	2,548.57	6,051.48
2028-29	4,161.92	2,224.47	6,386.39
2029-30	3,651.88	1,843.89	5,495.77
2030-31	3,159.13	1,526.98	4,686.11

[1] Following explanation was given by KIIFB to the Committee for the omission of Pravasi Dividend Scheme from the calculation of amortisation schedule. "Preparing a maturity profile for the Pravasi Dividend Scheme requires an actuarial analysis, based on the age and survival of the beneficiaries and spouses, to estimate the timing of repayments. Until that is done, the balance is shown as outstanding with no scheduled redemption, and the total of scheduled repayments will be lower than the outstanding borrowings by this amount."

Year	Principal	Interest	Total
2031-32	2,820.81	1,245.46	4,066.27
2032-33	2,702.55	993.90	3,696.45
2033-34	2,505.72	753.65	3,259.37
2034-35	1,964.30	543.23	2,507.53
2035-36	1,383.02	385.99	1,769.01
2036-37	908.96	280.85	1,189.81
2037-38	825.62	205.13	1,030.75
2038-39	644.38	136.90	781.28
2039-40	434.28	85.18	519.46
2040-41	167.39	49.56	216.95
2041-42	14.51	34.90	49.41
Total	**31857.20**	**15675.34**	**47532.54**

Source: Furnished by KIIFB

Table 6.2 Status of KIIFB's Projects (Rs in Crore)

Category of projects	Amount required
Amount required for completing started projects	14737
Balance payments required for completed projects	1,400
Works tendered but Agreement not executed (after selecting priority projects only)	4,151
Works ready for tendering (after selecting priority projects)	2,595
Total Amount Required for Projects	**22,883**

Note: The table excludes the land acquisition projects.
Source: Furnished by KIIFB

Table 6.3 Year-wise distribution of funds required to complete KIIFB's projects (in Rs. Crore)

Year	Amount Required
2026-27	2,588
2027-28	5,000
2028-29	5,200
2029-30	5,400
2030-31	4,695
Total	**22,883**

Source: Furnished by KIIFB.

13. Table 6.3 shows that the Government will have to incur expenditure until 2030-31 to complete the projects initiated by KIIFB. This also implies that the outlay available for the State Plan would be reduced by a corresponding amount unless additional resources are found, thereby constraining expenditure on priorities identified through the State's deliberative planning process and limiting the resources available to marginalised sections of society.

14. In addition to the high fiscal and welfare costs of KIIFB noted above, the Committee also finds that the working of KIIFB over the last ten years has weakened the system of governance. During the debate on the Bill in 2016 in the State Legislature, several members expressed their concern about the structure of the proposed Board, stating that it would create a 'Super Cabinet'. One of the members stated that the doubt of the people was whether it would be an 'extra-Constitutional' entity. Some members felt that after a department gives administrative sanction, the programme would come before the (Executive) Committee. Then the final decision would be taken by the Board. So, the Department's powers ended up being transferred to KIIFB. Members also pointed out the manner in which KIIFB could erode the control of the departments through its project evaluation team. The expansion of the definition of infrastructure to include 23 items - mirroring the remit of Government departments in the Rules of Business - created a vastly expanded role for KIIFB.

15. The feedback received from the departments indicates that, on the whole, KIIFB's activities weakened the capabilities of Government departments. The departments also acknowledged some advantages, notably access to capital outside the annual budget, larger project packages and faster sanction. (Chapter IV, para 4.2.3). However, as we found this access to capital did not benefit the State. The departments also pointed some negative consequences, particularly stressing the following two points. (1) Heavy reliance on KIIFB pool for capital works eroded departments' own technical capabilities, and reduced their need and incentive to pursue funds through regular budgetary channels and other sources. (2) While Government of India and many other states developed expertise in Public-Private Partnerships, Kerala's dependence on KIIFB slowed the State's own efforts toward PPPs. Just as it will take several years for the Finance Department to discharge the accumulated financial liabilities, it may take some years for the other departments to recover their capability to do full justice to their remit.

16. The Committee concurs with the CAG that the liability for KIIFB's borrowing is not a contingent liability. KIIFB's own revenue from projects met only 20.5 per cent of its interest and 9.5 per cent of its debt service in 2021-22 to 2023-24, and State transfers met 99.4 per cent of its debt service. The liability is therefore a direct charge on State revenues, and the guarantee under Section 9 is, in substance, nominal and the liability is actual (Chapter III, para 3.15).

17. Equity in the use of funds was not built into the design. Approved infrastructure outlay is concentrated in three districts (Thiruvananthapuram, Kannur and Ernakulam, 41.6 per cent), and in the land acquisition pool Kannur alone accounts for 52.9 per cent. Taking both pools together, Kannur's approved outlay is Rs 23,024.85 crore (22.9 per cent of the total of Rs 100,341 crore). The Public Works Department accounts for 52.6 per cent of approved infrastructure outlay, and projects exclusively for Scheduled Castes and Scheduled Tribes for 0.18 per cent. No documented framework weighed developmental priorities or inter-district equity (Chapter IV, paras 4.2 and 4.2.4).

18. The structure carries costs beyond interest. Borrowed funds were left unutilised for months while carrying a funding cost above the deposit yield (para 3.18.3); a debt service reserve of over Rs 3,000 crore is held under lien although every borrowing already carries the State's guarantee (para 3.19.2); and the daily escrow of State revenues adds to the State's recourse to Ways and Means Advances and overdraft (para 3.18.4). Mobilisation through the Pravasi Dividend Scheme carries an assured return of 10 per cent, and the legal basis for investing chit fund money in KIIFB's bonds rests on a single statutory gateway (paras 3.9 and 3.13).

19. Expenditure and establishment were not adequately controlled. Publicity and promotional expenditure of Rs 203.72 crore in 2025-26 is under audit examination, against Rs 21.16 crore booked under that head (Chapter IV, para 4.3). KIIFB has 498 persons against forty sanctioned posts. Its subsidiary KIIFCON works almost wholly for KIIFB-funded and Government projects (Chapter V, para 5.3). The Finance Department's and the State Planning Board's oversight was limited and largely after the event (Chapter IV, para 4.2.5).

    The Committee is of the view that both financial and administrative recovery will need continued and consistent support of the Government.

The Committee does not question the value of some infrastructure that has been created. However, on account of the deviations from its mandate, the manner in which this infrastructure was funded and governed placed excessive burden on the Government of Keralam. The recommendations that follow are meant to restructure KIIFB comprehensively.

Part III: Recommendations of the Committee

The Committee makes the following recommendations for restructuring KIIFB:

Relevance and sustainability of KIIFB (Terms of Reference 9): The Committee finds no case for the continuation of KIIFB as a body that raises funds and finances projects. Its original rationale, raising capital without using the State's borrowing space, has been extinguished, since its borrowing is now counted against that space (para 3.17). It borrows at a cost above the State's own (Table 3.12). The premise of revenue-generating projects has not held (para 3.20), and its liabilities are in substance direct liabilities of the State (para 3.15). Its working has also departed from the Rules of Business (Part 1), and the Government of India's policy on off-budget borrowing leaves no room for it as a separate borrower. Accordingly, the Committee makes the following recommendations.

1. **Performance Audit of KIIFB**: CAG/AG Keralam may be requested conduct a Performance Audit of KIIFB under Section 14 (1) of the CAG's DPC Act 1971, for a period of ten years commencing from 2016-17 to 2025-26, at the earliest possible.
2. **Amendments to the Borrowing Provisions:** KIIFB shall henceforth not be permitted to raise funds through market borrowing. To give effect to this recommendation, Sections 8, 9 and other relevant provisions of the KIIFB (Amendment) Act, 2016, would be required to be omitted.
3. **Discharging of current liabilities**: Government shall make adequate provision in the Annual Budget for meeting the repayment obligations arising from the bonds/debentures/loans of KIIFB, as set out in Table 6.1. The payment shall be made to the post-amendment structure of KIIFB to comply with its debt repayment obligations.
4. **Existing Infrastructure Projects:** Infrastructure projects already initiated by KIIFB, subsequently prioritised by the Government, and at various stages of implementation may be completed by the respective departments with the support of implementing agencies. The funds required for completing these projects shall be provided as capital expenditure in the Annual Budget over the next five years, beginning in 2026-27, as set out in Table 6.3.
5. **Debt Restructuring of KIIFB:** The Government shall take all necessary steps to replace/swap KIIFB's existing high-cost debt with lower-cost liabilities, wherever feasible, to reduce its interest burden.

6. **Cancellation of Escrow order**: The order G.O.(P) No. 158/2018/Fin dated 05.10.2018, which provides for escrowing a share of revenue from Motor Vehicles Tax and Cess on Petroleum Products directly to the account of KIIFB, shall be cancelled once the Government of Keralam takes over the debt obligations of KIIFB.

7. **Reallocation and re-deployment of staff**: As KIIFB will no longer mobilise market funds or implement infrastructure projects, the staff engaged in these activities may be rationalised as follows. (1) The staff on direct contract or contract through CMD may be maintained till the expiry of their contract. (2) Staff engaged in project appraisal, (including ESG group) and monitoring may be absorbed by the Kerala State Planning Board for the preparation and implementation of 15th Five-Year Plan projects. (3) Finance (Infrastructure) wing of KIIFB may be made part of the Finance Department, as was earlier, and staff on deputation from other departments may be repatriated to their parent departments. (4) The pay scales and other incentives of residual KIIFB staff shall be relooked and rationalised. (5) Since CEO of KIIFB can no longer make appointments, Section 10 of the KIIFB (Amendment) Act 2016 would be required to be omitted.

8. **Relocation of KIFCON and KIFML:** KIFCON, the consulting subsidiary of KIIFB, may be brought under the Kerala State Planning Board for helping preparation of externally financed projects for local bodies. Similarly, The Kerala State Industrial Development Corporation (KSIDC) may take over KIIFB's shareholding in Kerala Infrastructure Fund Management Limited (KIFML), presently an associated company of KIIFB.