

Financing Development

Catalytic Public Investment for Export-Led Inclusive Growth in
Kerala

C. Veeramani

Centre for Development Studies

*Vision 2031: International Conference on Development and Democracy
February 16, 2026, Thiruvananthapuram*

Kerala's Opportunity, Constraint and Imperative

Opportunities

- Highly skilled workforce ready for global markets
- Care economy opportunity: trained workforce can serve global aging markets
- Vizhinjam Seaport: Strategically positioned near one of the world's busiest maritime trade corridors (Asia–Europe)

Imperative

- ✓ Scale up investment to unlock potential
- ✓ Connectivity, power and urban infrastructure

Constraint

- Not lack of ideas – lack of fiscal space

The Export-Led Opportunity

- Kerala's economy has always been globally connected—from ancient spice trade to modern remittances.
 - Migration, tourism, IT, plantation, marine products — all linked to external demand
- The next phase leverages this heritage for systematic export-led growth.

Strategic Location

- ✓ Positioned on Asia-Europe maritime corridor
- ✓ Vizhinjam deep-sea port operational

Human Capital

- ✓ Skilled, English-speaking workforce
- ✓ Diaspora networks reduce transaction costs

Foundation to Build On

- ✓ Literacy, governance capacity, social capital
- ✓ Livable cities can attract talent with investment

Growth and job creation are directly tied to access to larger markets and global integration.

Five Strategic Growth Pathways

Each pathway creates direct and indirect employment



Port-Led Development

Logistics, manufacturing & agro-processing through GVC participation



GCCs, IT, AI & EdTech

Knowledge economy leveraging skilled workforce



Cities as Growth Hubs

Livable cities attracts talent and investment



Care Economy & Medical

Elder care, nursing, medical tourism, Ayurveda



Responsible Tourism

Sustainable tourism leveraging heritage and natural beauty

The Financing Framework

Way Forward: Targeted Public Capital → Large Private Multiplier

Public Finance Must

- De-risk private investment in growth sectors
- Coordinate infrastructure and ecosystem development
- Unlock profitable sectors through catalytic investment
- Address market failures

Private Capital Must

- Scale investments in profit-making opportunities
- Create employment and economic linkages
- Drive innovation and productivity growth
- Generate sustainable revenue streams

Borrow for Assets • Create Revenue-Generating Infrastructure • Leverage Land as Capital

How to Finance: Three Key Mechanisms

Land Leasing Model

Lease land (don't sell) for industrial zones and IT parks to create long-term revenue streams. Government retains asset ownership.

Example: IT parks on lease model recover capital costs through rentals

SPVs & PPPs

Create Special Purpose Vehicles for port-linked zones and infrastructure. Public-private partnerships with revenue-sharing align incentives.

Example: Port industrial zones with ring-fenced project financing

Municipal Bonds & Pooled Funds

Urban local bodies access capital markets through bonds backed by property tax, user charges, and land lease income.

Example: Pooled urban infrastructure funds allowing multiple ULBs to access markets together

Port-Led Development

Why Ports Create Growth

- Market Access: Firms cluster near ports to access export markets
- **Supply Chains: Input-output linkages create local supplier networks**
- Agglomeration: Productivity gains from clustering of firms
- **Land Value: Infrastructure investment increases property values**
- Knowledge Spillovers: Technology and skills transfer across firms

The Virtuous Cycle

Port Infrastructure → Attracts Firms → Creates Jobs → Tax Revenue ↑ → Land Values ↑ → Funds More Infrastructure

Core-Periphery Strategy

Core: Kochi, Vizhinjam, Calicut attract industries

Periphery: Hinterland districts connect through supply chains

Strengthen hinterland connectivity so that peripheries benefit from port-led growth

Port-led Development: Financing Mechanism

Public Role (De-risking)

- Core port infrastructure (completed)
- Trunk connectivity: road/rail/digital
- Regulatory clarity & fast-track clearances
- Land aggregation for industrial zones
- Quality testing & certification facilities
- Integrated logistics park infrastructure

Private Opportunity (Profit-Making)

- Logistics parks & warehousing
- Cold chain networks
- Export processing units
- Cruise tourism infrastructure
- Container freight stations
- Agri-processing & value addition

Financing Mechanisms

- ❖ Land leasing model (not sale): Long-term revenue stream for government
- ❖ SPVs for port-linked industrial zones: Ring-fenced project financing
- ❖ Revenue-sharing PPP structures

Knowledge Economy: GCCs, IT, AI & EdTech

India hosts 1,500+ Global Capability Centers (45% of global total) — Kerala can capture a meaningful share

Public Investment Priorities

- High-quality urban infrastructure and reliable power
- Skilling ecosystem: AI, data science, cloud computing
- Plug-and-play office infrastructure
- University-industry innovation hubs

Private Investment Opportunities

- GCC establishment by multinational corporations
- AI and digital product startups
- Universities, research institutions, EdTech & training companies
- Global consulting and services hubs

Financing Mechanisms

- ❖ Public-funded IT parks on lease model: Capital cost recovered through rentals
- ❖ Venture co-investment funds: State + private VC for startups
- ❖ University-industry innovation hubs: Shared R&D infrastructure

Cities as Growth Hubs

Cities drive 65-75% of GDP with 35% of population — livable cities attracts talent and firms

Public Role

- Waste, drainage & flood management systems
- Transit corridors: metro, BRT, water transport
- Parks, walkability, quality public spaces

Private Investment & Value Capture

- Higher land values from infrastructure investment
- Commercial and office development
- Rental income streams from properties
- Increased services and manufacturing investment

Financing: Land Value Capture • Municipal Bonds • Pooled Urban Infrastructure Funds

Learning from Global Success

Country/Institution	Distinctive Feature	Key Lessons
Tamil Nadu / TNUDF	100% loan recovery through professional management and public-private pooled fund model	Subnational credit discipline is feasible
Netherlands/ BNG	Municipal + state co-ownership provides very low-cost capital with near-zero default rates	Municipal co-ownership + market borrowing lowers cost
South Africa / DBSA	Lending combined with strong technical assistance	Finance must be paired with project preparation & capacity support
Philippines / MDFO	Revolving municipal fund	Start with a public revolving fund to build credit discipline, then graduate municipalities toward market borrowing
Indonesia / RIDF	State-owned financial intermediary with market-based pricing	A professionally governed state intermediary can crowd in external and multilateral capital

Local Governments & Economic Development

- **Global Experience: Empowered cities attract firms**
- **China's Experience**
 - **Jurisdictional competition** drove rapid **industrialization**.
 - **Incentives aligned**: local officials' promotions linked to **economic growth outcomes**.
 - **Example**: A Chinese municipal government backed a private automaker's **acquisition of Volvo**.
 - **Fiscal power**: Local governments control **~60% of total public expenditure (vs. <10% in India)**.

Local Governments & Economic Development

- **India's Context**

- **Urban Local Bodies (ULBs)** lack a clear **mandate or resources** for economic development.
- Focus remains on **service delivery and implementation of schemes**, not **enterprise promotion**.

- **The Way Forward**

- Empower ULBs to champion entrepreneurship, SMEs, and local innovation.
- **Greater autonomy** in taxation, regulation, and incentives.
- Reward **efficiency, innovation, and performance-based outcomes**.

Why Kerala Can Lead This Transformation



Strong Foundation

Decentralization already embedded in governance structure



Proven Capacity

State has successfully implemented large infrastructure projects



Social Capital

High literacy and civic engagement support institutional innovation



Global Networks

Diaspora provides capital, expertise, and market connections



Political Will

Vision 2031 demonstrates commitment to long-term transformation



Timing is Right

Vizhinjam operational, GCC expansion wave, global care economy growth

The Path Forward

By strategically deploying public capital to de-risk private investment, leveraging land assets, and empowering local governments, Kerala can catalyze export-led inclusive growth.

The foundation is ready. The opportunity is now.
**Vision 2031: Make Kerala a Model for Subnational
Development Finance**

Thank you