Cluster Development Scheme of Min of MSME, GOI

'A cluster is a concentration of manufacturing industry units located within a clearly demarcated geographical area with the land use notified as such by the state government'.

Under the process of cluster development, first and the foremost activity, is to conduct a Diagnostic Study by the experienced agency. The main objective of these Diagnostic Study Reports (DSRs) is to map all the business processes of the cluster units to find out the strength, weaknesses, opportunities and threats (SWOT) of the cluster and to suggest action plan for enhancing the competitiveness of the cluster units to ensure their sustainable growth in terms of turnover, employment generation, exports, technological upgradation, quality up-gradation, energy efficiency, brand building etc. It may be observed that good DSR is a very important document which brings out the emergent needs of the cluster and provides a road map for development of the cluster.

It is necessary to form an SPV prior to setting up of and running the CFC. An SPV is a clear legal entity (Cooperative Society, Registered Society, Trust or a Company) with evidence of prior experience of positive collaboration among its members. The SPV should have a character of inclusiveness wherein provision for enrolling new members to enable prospective entrepreneurs in the cluster to utilise the facility should be provided. In addition to the contributing members of the SPV, the organizers should obtain written commitments from ‘users’ of the proposed facilities so that its benefits can be further enlarged. Bylaws of SPV should have provisions for CDE/ CDA and one State Govt official as members of the SPV.

There should be a minimum of 20 MSE cluster units serving as members of the Special Purpose Vehicle (SPV). There is no ceiling on the maximum number of members. In special cases, where considerations of investments, technology or small size of the cluster warrant lesser number of units, a minimum of 10 MSE units may be considered for the SPV.

The share of the cluster beneficiaries should be as high as possible but not less than 10 per cent of the total cost of CFC. State Government contribution will be considered as gap funding. All the participating units should be independent in terms of their financial stakes and management. No single unit will hold more than 10 per cent in the equity capital (or equivalent capital contribution) of the SPV.

Cost of Project and Govt of India Assistance:

- Diagnostic Study - Maximum cost Rs. 2.50 lakhs.
- Detailed Project Report- Maximum cost Rs. 5.00 lakhs.
- Soft interventions - Maximum cost of project Rs. 25.00 lakh, with GoI contribution of 75% (90% for Special Category States and for clusters with more than 50% women/micro/village/SC/ST units).
- Hard interventions i.e setting up of CFCs – maximum eligible project cost of Rs. 15.00 crore with GoI contribution of 70% (90% for Special Category States and for clusters with more than 50% women/micro/village/SC/ST units) .
- Infrastructure Development in the new/existing industrial estates/areas. Maximum eligible project cost Rs.10.00 crore, with GoI contribution of 60% (80% for Special Category States and for clusters with more than 50% women/micro/SC/ST units).

The CFC with cost higher than Rs 15.00 crore may also be considered under MSE-CDP. However, the GoI grant will be calculated with project cost ceiling of Rs 15.00 crore.

Implementation Agencies:

Activity	Implementing Agency
✓ Diagnostic study ✓ Soft Interventions ✓ Setting up of CFC	➢ Offices of the Ministry of MSME ➢ Offices of State Governments ➢ National and international institutions engaged in development of the MSE sector. ➢ Any other institution/agency approved by the Ministry of MSME
✓ Infrastructure Development projects	➢ State/UT Governments through an appropriate state government agency with a good track record in implementing such projects.

Online Application under MSE-CDP:- In the 28th meeting of steering committee of ME-CDP held on 06/09/2011, it was decided that for all the proposals under MSE-CDP, only online application will be submitted to the Office of DC (MSME) to ensure transparency. Accordingly it has been decided that the applications for various interventions will be accepted online only w.e.f. 01/04/2012. The applicant has to fill up online application on http://cluster.dcmsme.gov.in/**.**

The details of steps/procedure for submission of online proposal have been provided in the portal itself.

Project Approval: The proposals under the scheme will be considered for approval by the Steering Committee of the MSE-CDP. Constitution of the Steering Committee will be:
i. Secretary (MSME) - Chairman
ii. AS&DC(MSME)
iii. AS&FA
iv. Adviser (VSE), Planning Commission
v. Joint Secretary, Ministry of MSME
vi. Representative of SIDBI
vii. ADC/ JDC / Director – Incharge of the scheme – Member Secretary
viii. Representative(s) of concerned Industry Association(s)
ix. Special invitees (financial institutions, programme management service provider, Representative of appraisal agency etc.)

12.1 Proposals for DSR, DPR and Soft Interventions will be approved in one stage only.

12.2 Hard interventions (CFC) and infrastructure development projects will be approved in two stages: In-principle approval and final approval.

12.2.**1 In-principle approval:** All the proposals should be sent to the office of DC (MSME) through concerned state government. However, institutions of the Ministry of MSME may send proposals for soft interventions/ DSR/DPR directly to the Office of DC (MSME). In case of infrastructure development projects/DPR thereof, State government will submit the proposal to the office of DC (MSME). Office of DC (MSME) may take assistance of Project Management Service Providers (PMS) for examining of the proposals before considering them for approval. In-principle approval shall be valid for a period of 6 months, and before that it is expected that the project would be ready for final approval. In case, final proposal is not received in 6 months, it will automatically lapse, unless it is specifically extended by the steering committee.

12.2.2 **Final Approval:** The projects which have been accorded in-principle approval, shall be accorded final approval on fulfillment of following conditions:

i Common Facility Center (CFC)
a Formation of SPV and Trust building. Role and functions of the SPV should be defined.
b Land procured and registered in the name of SPV
c Submission of appraised Detailed Project Report (DPR).
d Details of the share holding of the SPV
e Project Specific account in Schedule A bank

ii Infrastructure Development Projects
a Submission of appraised DPR with approved layout plan.
b Confirmation of availability of suitable land of the requisite size endowed with infrastructural facilities like water, electricity, communication etc. The land should be in possession in the name of the Implementing Agency (IA) with Clear Title and complying with Zoning regulations and non-agricultural conversion etc
c Constitution of State Level Committee to coordinate and monitor the progress of implementation of the Projects

Special Purpose Vehicle (SPV)

Units are required to form a cluster in the form of a Special Purpose Vehicle (SPV).Various forms of this SPV have been considered for their advantages and disadvantages.A comparative analysis has been presented below:

Advantages & Disadvantages of the three forms of SPVs

Option	Advantages	Disadvantages
1.Cooperative Structure	➢ Lesser statutory requirement, such as Registrar of Companies (RoC) formalities. ➢ Simple exit route procedure	➢ For registration, minimum 7members are required & maximum no limit of members members' ➢ SPV in the form of Cooperative Society is being explored to large extent.
2.Limited company	➢ All outsiders (such as Creditors, Investors, Banker, Stakeholder and Govt. etc.) have more confidence in limited Company. ➢ In case of Private Ltd. Company, some Section of the Companies Act, 1956are exempted. ➢ Easy finance from outside.	➢ More statutory compliance ➢ Increase in costs of compliance ➢ Complicated exit route procedures ➢ Formation of the Company is also time consuming and expensive in comparison to other forms
3.Trust	➢ Lesser statutory requirement ➢ Simple exit route procedure	➢ Perceived lesser confidence by outside party in comparison to limited company