

**SIDBI Cluster Development Fund Scheme (SCDFS) -
Scheme Guidelines**

| | | |
|---|---------------------------------------|--|
| 1 | About Cluster Development fund | <p>The U K Sinha Committee, while recommending a more focused engagement of SIDBI with State Governments for MSME development and promotion, indicated "Use of Priority Sector Shortfall (PSS) funds to create a low cost lending window for State Governments for infrastructure projects in clusters, civil works for rehabilitation of existing industrial estates and setting up of new industrial estates. This would require RBI approval and could be structured on the lines of the Rural Infrastructure Development Fund (RIDF)."</p> <p>Pursuant to the recommendation made by the U K Sinha Committee and accepted by Gol, RBI formulated broad terms and conditions for setting up of a Cluster Development Fund (CDF) for the purpose of financing of state governments, etc., to create infrastructure towards development of MSME clusters.</p> |
| 2 | Objective of the Scheme | To support the State Governments/ State Government sponsored Organizations to create infrastructure towards development of MSME clusters. |
| 3 | Purpose of assistance | <p>a) Infrastructure projects in MSME Clusters [both greenfield (induced clusters) and brownfield (existing cluster)] including machinery / equipment financing.</p> <p>b) Civil works for rehabilitation of existing industrial estates and setting up of new industrial estates.</p> <p>Further, the financing under the scheme would be done for proposals falling under any of the following three categories (indicative):</p> <ol style="list-style-type: none"> 1. Industrial and Agri-allied sectors in the MSME eco-space. 2. Social sectors in and around MSME clusters 3. Connectivity (Roads/Bridges) to MSME Clusters <p>Indicative list of eligible activities is given at Annexure-I</p> |
| 4 | Type of assistance | Term loan |
| 5 | Quantum of loan | The borrowing done by State Governments under CDF will be in the range of 80% to 95% of project cost subject to state-wise exposure limit, if any. |



| | | <p>The loan eligibility as percentage to eligible project cost in respect of the three broad categories of activities eligible under the scheme are as under:</p> <table border="1"> <thead> <tr> <th>Activity Category</th> <th>Loan eligibility as a % of eligible Project Cost</th> </tr> </thead> <tbody> <tr> <td>Industrial and Agri-allied sectors in the MSME space</td> <td>95%</td> </tr> <tr> <td>Social sectors</td> <td>85%*</td> </tr> <tr> <td>Connectivity (Roads/Bridges)</td> <td>80%*</td> </tr> </tbody> </table> <p>*to be 90% for North East / Hilly States</p> | Activity Category | Loan eligibility as a % of eligible Project Cost | Industrial and Agri-allied sectors in the MSME space | 95% | Social sectors | 85%* | Connectivity (Roads/Bridges) | 80%* |
|--|--|--|-------------------|--|--|-----|----------------|------|------------------------------|------|
| Activity Category | Loan eligibility as a % of eligible Project Cost | | | | | | | | | |
| Industrial and Agri-allied sectors in the MSME space | 95% | | | | | | | | | |
| Social sectors | 85%* | | | | | | | | | |
| Connectivity (Roads/Bridges) | 80%* | | | | | | | | | |
| 6 | Eligibility criteria | <p>Proposals submitted to SIDBI should be technically feasible and economically viable with:</p> <ul style="list-style-type: none"> i. IRR >10% ii. Benefit Cost Ratio (BCR) >1 iii. Economic Rate of Return (ERR) >10% | | | | | | | | |
| 7 | Broad terms of sanction: | <p>(i) Processing Fee: Nil</p> <p>(ii) Rate of interest (ROI):</p> <p>The interest rates on loans under CDF would be decided by RBI from time to time. At present, the interest rate chargeable by SIDBI under CDF will be at a discount of 150 bps on the 'Bank Rate'.</p> <p>(iii) Repayment terms:</p> <ul style="list-style-type: none"> a) CDF loans shall be repaid by the State Government in accordance with the repayment schedule prescribed by SIDBI. b) At present, Loans are to be repaid in equal annual installments within seven years from the date of drawal, including a grace period (moratorium) of two years and eleven months. The first instalment of Principal Repayment will commence from 36th month from the date of drawal. The instalments falling due on any date after 10th during a month will be payable on the 10th day of the next month. c) The interest shall be paid on quarterly basis every year, including during grace period. The interest shall be paid | | | | | | | | |



| | | |
|---|---|---|
| | | <p>by the State Government on the 10th day of the month succeeding the quarter.</p> <p>d) Interest on the overdue interest amount is to be paid at the same rate as applicable to the principal amount.</p> <p>(iv) Documentation / Security:</p> <p>Loans sanctioned by SIDBI under CDF scheme will be secured by</p> <ol style="list-style-type: none"> i. Irrevocable letter of authority / mandate registered with the Reserve Bank of India / any Scheduled Commercial Bank, which is the principal Banker to the State Government for repayment of the principal and/or payment of interest to SIDBI. ii. Submission of Time Promissory Note (TPN) in prescribed format for each release of loan. iii. Execution of unconditional Guarantee from State Governments (additionally required for support to State Government sponsored organizations etc.) iv. Acceptance of terms and conditions of sanction in the duplicate copy of the sanction letter. <p>(v) Discharging of Time Promissory Notes (TPNs)</p> <ul style="list-style-type: none"> • After the State Government repays the principal and interest towards CDF loans, SIDBI would cancel the relevant TPNs and return the same to the respective State Government/s. |
| 8 | <p>Other important information:</p> <p>(i) Implementation of projects - Phasing</p> <p>Implementation of projects in phases may be permitted, if need be. Period of phasing may be decided on case to case basis.</p> <p>(ii) Appraisal of proposals [Cost of Project] -</p> <p>a) CDF funding is based on project-based lending which entails submission of Detailed Project Reports (DPRs) containing technical and financial parameters, drawings, maps, etc. submitted by the Implementing Departments / State Government. DPRs for the project proposals prioritised by State Government will have to be submitted to SIDBI. The DPRs should necessarily be submitted for all project proposals and should include BAR/PERT/CPM Chart.</p> <p>b) While firming up the cost estimates, care needs to be taken to ensure that the estimates are as per the latest Schedule of Rates (SoR) indexed to the current year/ market rates wherever applicable and feasible. Identifiable items of capital nature are only eligible for funding under CDF and the rest</p> | |



shall be treated as ineligible items, to be supported by the Govt. through budgetary sources (non-plan funds) and may be accounted towards Govt. contribution.

c) Preliminary & pre-operative expenses such as expenses incurred on project preparation, cost of technical surveys, etc., are allowed upto 0.5 % of the CDF loan eventually sanctioned, provided the same are outsourced.

d) Centage charges (as per rates fixed by State Government) are permitted, provided the works are executed by State-owned corporations and State-owned agencies.

e) "Contingencies" are permitted upto a maximum limit of 3% of civil works under the project.

(iii) Cost Escalation -

- State Governments are required to meet cost escalation, if any, out of own resources.
- However, if cost escalation arises for certain genuine reasons, beyond the control of State Governments, the same may be considered.
- The proposal for cost escalation needs to be forwarded within 2 years from the date of sanction to be eligible for consideration of additional loan.

(iv) Grounding of projects -

Time frame for grounding of projects is given below:

- Administrative Approval (AA) - Prior AA or AA within 1 month from the date of in-principle sanction.
- Technical Sanction (TS) - Prior TS or TS within 3 months from the date of sanction.
- Tendering- Within 6 months from the date of sanction.
- Issuance of work order - within 9 months from date of sanction.
- Grounding of project - within 12 months from the date of sanction.

Based on merits of each case, requests for granting extension of time beyond the stipulated period may be considered by SIDBI.

(v) Deletion/Withdrawal of projects -

- If the sanctioned projects are not grounded (i.e. work order not issued) within a period of 18 months from the date of sanction letter, the projects may be treated as deleted/withdrawn by SIDBI after obtaining approval from competent authority. However, this would be done as a last resort after exhausting all possible measures to ground the project/s.
- Further, requests for deletion/withdrawal of CDF projects may also be considered from the State governments due to various other reasons viz.,



| | |
|---|--|
| | <p>due to non-receipt of necessary clearances, lack of land availability, delay in issue of Administrative Approval (AA)/Technical Sanction (TS), etc.</p> <ul style="list-style-type: none"> ➤ Any outstanding including the mobilisation advance (initial advance released, subsequent disbursements to be on reimbursement basis) disbursed under the projects proposed for deletion/withdrawal, shall be recovered/adjusted. <p>(vi) Adjustment of Mobilisation advance –</p> <ul style="list-style-type: none"> ➤ Mobilisation Advance released shall be adjusted in from the eligible claims pertaining to the same project. The proportion of amount to be adjusted shall be slightly more than the proportion of advance. If the advance is 20% of CDF loan, the amount adjusted will be, say at least 25 % of eligible claim. The mode of adjustment/ recovery of outstanding advances in certain other situations are indicated in the following paragraphs. <p><u>(a) Non-Starter Projects</u></p> <ul style="list-style-type: none"> i. In case of Non-starter projects, outstanding advance may be adjusted against CDF claims under the same tranche for the same purpose / activity; ii. If (i) above is not possible, the outstanding advance may be adjusted against a claim under a different tranche, but preferably for the same purpose /activity. iii. If (i) and (ii) are not possible, the outstanding advance may be adjusted against any other eligible claim under CDF. <p><u>(b) Withdrawn Projects</u></p> <p>In case of withdrawn projects, outstanding advances/ loans, if any, shall be recovered / adjusted against other eligible CDF claims under the same tranche and purpose/activity. If adjustment against claims under the same tranche is not possible, the outstanding advance may be adjusted against eligible claims under other tranches.</p> |
| 9 | <p>Broad details of process flow</p> <ol style="list-style-type: none"> 1. Eligible projects prioritized by the State Governments would be submitted through their Finance Departments to SIDBI. 2. Pre-sanction visits to be carried out by SIDBI officials as per the requirement / the procedure as it evolves gradually. Detailed Appraisal note to be prepared at HO and the projects which are technically feasible and economically viable would be placed before Sanctioning Committee as per the DoP for consideration for sanction. 3. SIDBI to communicate in-principle sanction to the State Governments. Detailed sanction letters would be issued only after receipt of Administrative Approval for the projects sanctioned. 4. Disbursement guidelines are as given below: <ul style="list-style-type: none"> a) The drawal of funds under sanctioned projects would be considered on the basis of drawal application from the Finance Department (Nodal Dept) of the |



State Government/ authorised signatory of the Implementing Department (if project implementing department is authorised by Finance Dept) and after satisfactory completion of all the prescribed formalities.

- b) Disbursement under CDF would be on 'reimbursement basis', except for the initial 20% of the CDF loan given as 'mobilisation advance' (North Eastern States including Sikkim and Hillly States of J & K, Himachal Pradesh and Uttarakhand are eligible for 30% of loan as mobilisation advance). Mobilisation advance may be disbursed in one or two instalment/s as per the request/s received from the State Government, within one year from the date of sanction, on acceptance of the terms and conditions of sanction letter.
- c) The State Governments are required to provide, at the time of each drawal of loan under CDF, a certificate to the effect that each loan disbursed is within the limit under Article 293(1) of the Constitution together with an undertaking for compliance with the requirement thereof in full.
- d) Disbursement is to be made only after terms and conditions of sanction are accepted/complied with and after execution of the required documents.
- e) Each drawal would be treated as a separate loan for the purpose of accounting.

5. Monitoring of projects –

- a) State Governments need to monitor the projects. At the time of sanction, State Governments would be advised about requirement for submission of Quarterly Progress Reports (QPRs) / Project Completion Certificates (PCC) / Project Completion Reports (PCR) etc.
- b) Onsite / Offsite monitoring would be done by SIDBI officials also.



SIDBI Cluster Development Fund Scheme (SCDFS)
- ELIGIBLE CATEGORIES OF PROJECTS

The Fund is envisaged to support setting up, upgrading and renovation of MSME infrastructure in areas other than agriculture. Indicative list is as under:

I. Industrial and Agri-allied sectors in the MSME eco-space

1. Dedicated Urban / Sem-urban Industrial Estates (MSME Clusters) – Existing or new
2. Machinery and Equipment
3. Land Development / Drainage
4. Design Centre
5. Production Centre
6. Common Effluent Treatment Plant
7. Training Centre
8. R&D Centre
9. Raw Material Bank/Sales Depot
10. Product Display Centre, Marketing Hub
11. Information Centre
12. Value-chain gap filling common facilities
13. Cold chain infrastructure
14. Incubation centres for disseminating and deployment of govt. schemes of Central & State
15. Development of Market Yard, Godown, Warehouse, Urban Haat, Marketing Infrastructure
16. Testing and certifying laboratories / facilities
17. International Trade Centres
18. Infrastructure for Information Technology
19. Business development clinics to identify self-motivated MSMEs & coir cooperatives and support them on one to one basis to overcome their weaknesses
20. Renewable / sustainable energy systems (e.g. solar power) in Industrial Estates / Non-conventional sources of energy for common captive use
21. Power distribution
22. Any other need based infrastructural facilities in new industrial (multi-product) areas / estates or renovating existing industrial areas/estates/clusters.

II. Social Sector projects in and around MSME clusters

23. Drinking Water
24. Infrastructure for Education Institutions like ITIs, polytechnics, etc.
25. Public Health Institutions such as primary health centres
26. Solid Waste Management and Infrastructure works related with sanitation

III. Connectivity to MSME Clusters*

27. Roads
28. Bridges

**within and connecting to MSME Clusters*

