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BBA | Semester III | UK3DSCMGT202

Entrepreneurship and Start-up Ecosystem

Course Code: UK3DSCMGT202 • Module 4 Notes

Module 4: Government Schemes and Institutional Support Ecosystem

Course: Entrepreneurship and Start-up Ecosystem (UK3DSCMGT202) • Semester III • BBA FYUGP Kerala University

1. Flagship Government Initiatives for Startups in India

To transform India into a global powerhouse of innovation and enterprise, the Government of India launched the landmark **Startup India Initiative** on January 16, 2016, administered by the Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry. The initiative introduced comprehensive structural reforms across three central pillars: Simplification and Handholding, Funding Support and Incentives, and Industry-Academia Partnership and Incubation.

Statutory Startup Recognition Criteria by DPIIT

An entity is recognized as a DPIIT Startup if: (1) It is incorporated as a Private Limited Company, Registered Partnership, or Limited Liability Partnership (LLP); (2) Period of existence is not more than 10 years from the date of incorporation; (3) Annual turnover has not exceeded Rs. 100 Crores for any financial year since incorporation; and (4) The entity is working towards innovation, development or improvement of products, processes or services, or has a scalable business model with high employment potential.

Key Flagship Support Schemes

- **Startup India Seed Fund Scheme (SISFS):** Provides financial assistance to DPIIT-recognized startups for proof of concept, prototype development, product trials, market entry, and commercialization through approved university and corporate incubators across India, distributing grants up to Rs. 20 Lakhs and debt-convertible debentures up to Rs. 50 Lakhs.
- **ASPIRE Scheme:** *A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship*, launched by the Ministry of MSME to set up a network of Livelihood Business Incubators (LBIs) and Technology Business Incubators (TBIs) across agro-rural districts to foster agro-processing ventures.
- **SAMRIDDHI Scheme:** Administered by the Ministry of Electronics and Information Technology (MeitY), providing selected tech startups with customer connects, investor access, international market expansion, and matched funding up to Rs. 40 Lakhs.
- **Pradhan Mantri MUDRA Yojana (PMMY):** Provides collateral-free institutional micro-credit to non-corporate, non-farm small/micro enterprises across three loan tiers:
  - *Shishu:* Loans up to Rs. 50,000 (for fledgling home-based startups).
  - *Kishore:* Loans above Rs. 50,000 and up to Rs. 5 Lakhs (for purchasing equipment).
  - *Tarun:* Loans above Rs. 5 Lakhs and up to Rs. 10 Lakhs (for expanding working capital).

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- **Atal Innovation Mission (AIM):** NITI Aayog's flagship initiative establishing *Atal Tinkering Labs (ATLs)* in schools and world-class *Atal Incubation Centres (AICs)* in universities, granting up to Rs. 10 Crores to build state-of-the-art incubation labs.
- **Self Employment and Talent Utilization (SETU):** A techno-financial techno-incubation facility supporting tech startups and self-employment activities in technical fields.

2. Institutional Support Framework for Small Business Enterprises

Industrialization is supported through a coordinated, multi-tiered institutional network operating across central, state, and district jurisdictions.

District Industries Centres (DICs)

Established under the Industrial Policy Statement of 1977, **District Industries Centres (DICs)** operate as the single-window institutional agency at the grassroots district level. The DIC provides all necessary services and facilities to rural, cottage, and small-scale entrepreneurs under a single roof: issuing Udyam registrations, identifying viable industrial projects, preparing feasibility studies, recommending loan applications to commercial banks, procuring scarce industrial raw materials, allotting industrial estate plots, and administering state subsidy disbursals.

State-Level Industrial Support Agencies

- **State Financial Corporations (SFCs):** Established under the State Financial Corporations Act 1951 (e.g., Kerala Financial Corporation KFC), providing medium and long-term debt financing, term loans, equipment leasing, and working capital credit to small and medium enterprises.
- **State Industrial Development Corporations (SIDCs / IDCs):** Wholly owned state government undertakings (e.g., Kerala State Industrial Development Corporation KSIDC) focused on promoting medium and large industries, developing specialized industrial growth centres, acquiring land, and extending equity participation.
- **Small Scale Industries Development Corporations (SSIDCs):** State undertakings (e.g., SIDCO) that develop infrastructural estates, construct industrial sheds, distribute scarce raw materials, and organize marketing exhibitions for small producers.

National Specialized Support Institutions

National Institution	Establishment Mandate	Primary Operational Functions
Small Industries Development Bank of India (SIDBI)	Apex financial institution established in 1990 under an Act of Parliament.	Refinancing commercial banks and SFCs for SME loans; managing the Fund of Funds for Startups (FFS); direct project financing; credit guarantee schemes.

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National Institution	Establishment Mandate	Primary Operational Functions
National Small Industries Corporation (NSIC)	Established in 1955 by the Government of India as a Mini Ratna enterprise.	Single Point Registration Scheme (SPRS) for government tenders; raw material assistance; consortia marketing; machinery procurement on hire-purchase.
Khadi and Village Industries Commission (KVIC)	Statutory body established in 1956 under an Act of Parliament.	Promoting, developing, and organizing rural village and khadi industries; executing the Prime Minister's Employment Generation Programme (PMEGP).
Technical Consultancy Organisations (TCOs)	Jointly promoted by all-India financial institutions (IDBI, ICICI, IFCI) and state banks.	Providing low-cost technical consultancy, preparing bankable Detailed Project Reports, conducting market potential surveys, and executing EDPs.

3. In-Depth Operational Architecture of Flagship Government Schemes

To support entrepreneurs across every developmental milestone—from initial ideation through mature commercial manufacturing—the Government of India administers a specialized array of funding and capability-building schemes:

1. Startup India Seed Fund Scheme (SISFS) Operational Mechanics

Announced with a corpus of Rs. 945 Crores, SISFS is administered by DPIIT to bridge the critical pre-seed funding gap. Startups cannot apply directly to the central ministry; rather, funding is channeled through a decentralized network of approved incubators across India:

- **Grants up to Rs. 20 Lakhs:** Awarded for proof of concept validation, prototype development, and product testing, disbursed in milestone-based tranches.
- **Debt / Convertible Debentures up to Rs. 50 Lakhs:** Extended for commercialization, market entry, and operational scaling, structured at subsidized interest rates (not exceeding prevailing repo rate) with up to 12 months moratorium.
- **Eligibility Benchmarks:** DPIIT-recognized startup incorporated not more than 2 years prior; must demonstrate innovative technology or business model; must have received no more than Rs. 10 Lakhs in prior monetary aid from other central schemes.

2. Pradhan Mantri MUDRA Yojana (PMMY) Architecture

Launched in 2015 under the Micro Units Development and Refinance Agency (MUDRA), PMMY provides collateral-free institutional credit to non-corporate, non-farm micro and small enterprises. Credit is disbursed through commercial banks, RRBs, Small Finance Banks, and NBFCs across three defined lifecycle stages:

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Loan Category	Permissible Credit Limit	Target Beneficiary Profile
MUDRA Shishu	Loans up to Rs. 50,000	Early-stage home-based entrepreneurs, street vendors, small artisans, and first-time shop owners needing immediate seed equipment.
MUDRA Kishore	Loans from Rs. 50,001 to Rs. 5,00,000	Established micro-enterprises purchasing light machinery, computers, delivery two-wheelers, or raw material inventories.
MUDRA Tarun	Loans from Rs. 5,00,01 to Rs. 10,00,000 (expanded to Rs. 20 Lakhs for proven borrowers)	Growth-stage small enterprises expanding manufacturing capacity, modernizing technology, and scaling distribution networks.

3. Prime Minister's Employment Generation Programme (PMEGP)

Administered by the Ministry of MSME with KVIC as the national nodal agency, PMEGP is a credit-linked subsidy program designed to generate continuous wage and self-employment in rural and urban areas:

- **Maximum Project Cost:** Up to Rs. 50 Lakhs for manufacturing sector projects; up to Rs. 20 Lakhs for service sector projects.
- **Beneficiary Contribution:** 10% of project cost for General Category; 5% for Special Categories (SC, ST, OBC, Women, Ex-servicemen, Differently Abled).
- **Margin Money (Government Subsidy):**
  - *In Urban Areas:* 15% for General Category; 25% for Special Categories.
  - *In Rural Areas:* 25% for General Category; **35% for Special Categories**.

4. Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

Jointly established by the Ministry of MSME and SIDBI, CGTMSE operates as a game-changing credit risk-sharing platform. Commercial banks are historically hesitant to lend to new ventures lacking immovable property collateral. Under CGTMSE, banks extend **collateral-free term loans and working capital credit up to Rs. 5 Crores**. In the event of enterprise default, CGTMSE reimburses the lending bank up to 75% to 85% of the defaulted loan quantum, unlocking massive institutional credit for property-poor first-generation entrepreneurs.

5. Additional Specialized Schemes in the Curriculum

- **MSME Multiplier Grants Scheme:** Promoted by MeitY, encouraging collaborative R&D between industry and premier academic institutions, providing matched grants up to Rs. 2 Crores per project to commercialize academic innovations.
- **Single Point Registration Scheme (SPRS):** Administered by NSIC; MSMEs registered under SPRS are exempt from paying Earnest Money Deposits (EMD) on government tenders, receive tender documents free of cost, and benefit from 25% mandatory public procurement quotas from MSMEs.

- **Modified Special Incentive Package Scheme (M-SIPS):** Administered by the Ministry of Electronics and Information Technology to promote large-scale electronics hardware manufacturing, providing 20% to 25% capital expenditure subsidies.
- **SETU (Self Employment and Talent Utilization):** A techno-financial incubation and acceleration program supported by NITI Aayog to support technical startups in digital and manufacturing domains.
- **ASPIRE Scheme:** Setting up Livelihood Business Incubators (LBIs) and Technology Business Incubators (TBIs) across rural agro-districts to nurture agro-processing enterprises.
- **SAMRIDDHI Scheme:** MeitY's accelerator program scaling software startups with bridge capital, corporate market access, and international demo days.

4. Institutional Profiles: State and Grassroots Architecture

To fully grasp industrial facilitation, students must examine the operational structure and services rendered by state-level and specialized national agencies:

District Industries Centres (DICs): Grassroots Single-Window Delivery

District Industries Centres operate in every district across India, headed by a General Manager assisted by specialized Functional Managers overseeing Credit, Village Industries, Raw Materials, and Marketing. Core operational services include:

1. Issuing Udyam Registration and formal statutory MSME acknowledgement certificates.
2. Conducting district-level industrial potential surveys identifying locally viable manufacturing opportunities.
3. Evaluating and recommending PMEGP loan dossiers to partner commercial banks.
4. Allotting industrial plots and standard sheds in Mini-Industrial Estates (MIEs) and Development Plots.
5. Procuring and distributing controlled industrial raw materials (iron, paraffin wax, coal) to small units.
6. Administering state industrial subsidies: investment subsidies, interest rate subventions, and power tariff exemptions.

State Financial Corporations (SFCs): Case Study of Kerala Financial Corporation (KFC)

Established under the State Financial Corporations Act 1951, SFCs act as the premier regional development banks. In Kerala, **Kerala Financial Corporation (KFC)** plays a pioneering role:

- **Long-Term Project Financing:** Extending term debt up to Rs. 20 Crores for setting up manufacturing plants, tourist resorts, hospitals, and educational infrastructure.
- **KFC Startup Kerala Scheme:** Extending soft loans up to Rs. 1 Crore without collateral security for innovative tech ventures possessing proof-of-concept certification from the Kerala Startup Mission (KSUM).

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- **Modernization and Equipment Finance:** Providing fast-track equipment refinancing for MSMEs modernizing production machinery.

State Industrial Development Corporations (SIDCs): Case Study of KSIDC

The **Kerala State Industrial Development Corporation (KSIDC)** acts as the premier promotional agency for medium and large-scale industrialization in Kerala. KSIDC acts as an equity investor, providing seed funding to tech startups, developing specialized biotechnology and life-sciences parks, and operating the single-window clearance board (K-SWIFT) streamlining industrial permits.

Technical Consultancy Organisations (TCOs): Case Study of KITCO

Technical Consultancy Organisations were established nationwide by all-India financial institutions (IDBI, ICICI, IFCI) in collaboration with state governments. In Kerala, **Kerala Industrial and Technical Consultancy Organisation (KITCO)** was established in 1972 as the first TCO in India. KITCO prepares Detailed Project Reports, conducts environmental impact assessments (EIA), designs architectural blueprints, and provides comprehensive project management consultancy (PMC) from concept to commercial commissioning.

National Small Industries Corporation (NSIC) and SIDBI Functions

NSIC: Provides raw material assistance by procuring steel, aluminum, and polymers in bulk and distributing them to MSMEs at wholesale prices; organizes national and international trade expos; and operates technical training centres for vocational upskilling.

SIDBI: Operates as the apex refinancing agency for micro and small enterprises; manages the Government's Rs. 10,000 Crore *Fund of Funds for Startups (FFS)* which commits risk capital to SEBI-registered Alternative Investment Funds (AIFs); and runs digital credit portals (e.g., psbloansin59minutes.com) enabling algorithmic in-principle loan approvals.

5. Khadi and Village Industries Commission (KVIC) and Rural Industrialization

The **Khadi and Village Industries Commission (KVIC)** is a statutory body established by an Act of Parliament (Khadi and Village Industries Commission Act of 1956). Operating under the administrative control of the Ministry of MSME, KVIC is charged with the planning, promotion, organization, and implementation of programs for the development of khadi and other village industries in rural areas in coordination with other agencies engaged in rural development.

Broad Objectives of KVIC

- **The Social Objective:** Providing continuous employment to rural artisans and agricultural laborers during non-harvest seasons.
- **The Economic Objective:** Producing saleable consumer articles using indigenous raw materials, building local self-reliance.

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- **The Wider Objective:** Creating self-reliant rural communities and building strong rural community spirit.

Flagship KVIC Initiatives and Rural Technologies

- **Honey Mission (Sweet Revolution):** Distributing bee boxes, honey extractors, and beekeeping training to rural youth and tribal farmers to supplement agricultural income and boost crop pollination yields.
- **Solar Charkha Mission:** Transforming traditional manual khadi spinning through solar-powered charkhas, drastically multiplying daily yarn production and elevating rural women spinners' daily earnings.
- **Khadi Certification and Brand Protection:** Regulating the "Khadi India" brand identity, certifying authentic handspun khadi institutions, and operating premier Khadi Gramodyog Bhavans in major cities.

6. Mandatory Public Procurement Policy and TReDS Digital Platform

To eliminate marketing bottlenecks and financial liquidity crises facing small producers, the Government of India enacted two landmark policy interventions:

Public Procurement Policy for Micro and Small Enterprises (MSEs) Order 2012

Under this statutory mandate, all Central Ministries, Departments, and Central Public Sector Enterprises (CPSEs) must achieve a mandatory minimum annual procurement quota of **25% of their total annual purchases of goods and services from Micro and Small Enterprises**. Within this 25% quota, specific sub-targets are statutory reserved:

- **4% Earmarked for SC / ST MSEs:** Reserved for enterprises owned by Scheduled Caste or Scheduled Tribe entrepreneurs.
- **3% Earmarked for Women MSEs:** Reserved exclusively for micro and small enterprises owned by women entrepreneurs.
- **358 Reserved Product Items:** A statutory list of 358 items (including wooden furniture, handlooms, leather footwear, pickles, stationery) reserved exclusively for 100% procurement from the MSE sector.

Trade Receivables Discounting System (TReDS)

Delayed payments from large corporate buyers represent the primary cause of sickness in the MSME sector. Under Section 15 of the MSMED Act 2006, buyers must make payments within 45 days. To provide immediate liquidity, the Reserve Bank of India (RBI) authorized **TReDS**—an institutional electronic platform (operating via exchanges such as Invoicemart, M1xchange, and RXIL) where MSMEs auction their unpaid corporate invoices to commercial banks and financiers at competitive discount rates. The MSME receives immediate cash within 24 to 48 hours without recourse, while the financier collects directly from the corporate buyer upon invoice maturity.

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7. Case Study of State Innovation: Kerala Startup Mission (KSUM)

The **Kerala Startup Mission (KSUM)** operates as the nodal agency of the Government of Kerala for entrepreneurship development and incubation activities in the state. KSUM has earned national recognition for building one of India's most vibrant regional startup ecosystems:

- **Integrated Startup Complex (Kochi):** One of Asia's largest hardware and software innovation hubs, housing the *Maker Village* (India's largest electronic hardware incubator) and biotechnology labs.
- **Idea Grant and Productization Support:** Disbursing equity-free innovation grants up to Rs. 15 Lakhs to university student innovators and early-stage founders to build working prototypes.
- **International Exposure Scheme:** Sponsoring promising Kerala startups to attend global tech conferences (such as Silicon Valley immersion programs, London Tech Week, and GITEX Dubai) to pitch to international venture funds.
- **Direct Government Procurement Scheme:** Empowering Kerala government departments to directly procure software and innovative hardware solutions up to Rs. 50 Lakhs from KSUM-registered startups without mandatory public tendering.

8. Tax Incentives, Fiscal Holidays, and Angel Tax Reforms

To incentivize domestic risk capital investment and preserve working capital during the fragile initial years of startup operations, the Income Tax Act 1961 incorporates targeted fiscal concessions for DPIIT-recognized eligible startups:

- **Section 80-IAC Tax Holiday:** Eligible startups incorporated between April 1, 2016, and March 31, 2025, are granted a **100% tax deduction of profits and gains for three consecutive financial years** out of their first ten years from incorporation, subject to certification by the Inter-Ministerial Board (IMB).
- **Abolition of the "Angel Tax" (Section 56(2)(viib)):** Historically, when an unlisted startup issued shares to domestic investors at a premium exceeding fair market value (FMV), the excess premium was taxed as "Income from Other Sources" at punitive corporate rates exceeding 30%. This "Angel Tax" triggered massive litigation and choked early-stage seed funding. In landmark fiscal reforms in the Union Budget 2024, the Government of India completely abolished Section 56(2)(viib), permanently liberating angel investments from tax scrutiny.
- **Capital Gains Tax Exemptions (Section 54EE and 54GB):** Section 54EE provides capital gains tax exemptions on long-term capital gains if invested in the central government's Fund of Funds for Startups (capped at Rs. 50 Lakhs). Section 54GB exempts capital gains arising from residential property sale if reinvested in equity shares of an eligible manufacturing startup.
- **Relaxation in Carry-Forward of Business Losses (Section 79):** Startups can carry forward and set off operational losses even if more than 51% of voting shareholding changes hands due to incoming venture capital financing, provided original promoters maintain continuity.

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9. Role of Small Scale Industries Development Corporations (SSIDCs)

Established as state government undertakings across all states in India, **Small Scale Industries Development Corporations (SSIDCs)** focus on physical infrastructure and operational logistics for small enterprises. In Kerala, **Kerala Small Industries Development Corporation (SIDCO)** executes vital support functions:

- **Development of Industrial Estates:** Acquiring land, developing physical roadways, water drainage networks, power sub-stations, and constructing standard factory sheds leased or sold on hire-purchase to small entrepreneurs.
- **Raw Material Depots:** SIDCO operates centralized distribution depots across districts, procuring controlled and scarce industrial raw materials (iron, steel, pig iron, paraffin wax, zinc, potassium chlorate) directly from central public sector manufacturers (SAIL, IOCL) and distributing them to registered MSMEs at controlled wholesale prices.
- **Production and Marketing Divisions:** Operating common facility service centres, tool rooms, testing laboratories, and marketing consortia that bid on government tenders on behalf of small producers.

10. Industrial Sickness in the MSME Sector and Rehabilitation Frameworks

Industrial sickness refers to a steady condition of financial, operational, and managerial deterioration where an industrial unit incurs continuous operational cash losses, eroding its net worth and resulting in chronic default on institutional debt obligations. Sickness paralyzes productive capital, triggers worker unemployment, and accumulates non-performing assets (NPAs) on bank balance sheets.

Etiology of Industrial Sickness: Internal Versus External Factors

- **Internal Factors (Within Management Control):** Incompetent founder leadership; poor financial planning and diversion of working capital funds for personal luxury; flawed product pricing; excessive overhead costs; lack of preventive machine maintenance; and toxic interpersonal co-founder disputes.
- **External Factors (Beyond Management Control):** Sudden macroeconomic demand recessions; severe localized raw material shortages or price shocks; chronic power cuts; delayed payments from government departments and large corporate clients; emergence of cheap foreign imports; and sudden technological obsolescence.

Rehabilitation and the Pre-Packaged Insolvency Resolution Process (PPIRP)

To rescue viable MSMEs before complete liquidation, Indian corporate jurisprudence introduced specialized rehabilitation mechanisms:

- **Debt Restructuring and One-Time Settlement (OTS):** Commercial banks restructure loan terms—converting unpaid interest into funded interest term loans (FITL), extending loan repayment tenures, reducing interest rates, and granting additional working capital margins.

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- **Pre-Packaged Insolvency Resolution Process (PPIRP):** Introduced under Chapter III-A of the Insolvency and Bankruptcy Code (IBC) in 2021 specifically for MSMEs with debt defaults up to Rs. 1 Crore. Unlike standard corporate insolvency which strips existing promoters of management control, PPIRP provides a faster (120-day timeline), cost-effective mechanism where the existing MSME promoter retains operational control of the enterprise while negotiating a pre-agreed restructuring plan with financial creditors, avoiding the disruptive stigma of liquidation.

11. State Industrial Policy and Special Economic Zones (SEZs)

To attract global direct investment and stimulate manufacturing export clusters, governments establish **Special Economic Zones (SEZs)** governed by the Special Economic Zones Act 2005. SEZs operate as duty-free extraterritorial enclaves for trade and tariff purposes, providing entrepreneurs with world-class physical infrastructure, single-window administrative clearances, exemption from customs duties on capital goods imports, and 100% income tax deductions on export profits for the initial five years of commercial operation.

State-Level Investment Promotion Agencies (IPAs)

Across Indian states, specialized Investment Promotion Agencies (such as Guidance Tamil Nadu, Industrial Extension Bureau iNDEXTb Gujarat, and KSIDC Kerala) operate dedicated investor facilitation cells. They manage digital single-window clearance portals (e.g., K-SWIFT in Kerala), guaranteeing deemed statutory approvals within 30 days for low-risk micro and small enterprises, drastically reducing regulatory delays and eliminating bureaucratic compliance friction.

12. Credit Rating Schemes for Micro and Small Enterprises

To assist small enterprises in building verifiable financial credit profiles and obtaining lower interest rates from commercial banks, the Ministry of MSME launched the **Performance and Credit Rating Scheme**, administered by NSIC in partnership with accredited domestic credit rating agencies (CRISIL, ICRA, CARE, SMERA). Under this scheme, the Ministry provides a 75% reimbursement subsidy on credit rating evaluation fees, enabling small firms to access lower interest rates, secure supplier credit, and establish institutional credibility.

13. Export Promotion Councils and Market Access Support

To assist small manufacturers in competing in global export markets, the Ministry of Commerce and Industry established specialized **Export Promotion Councils (EPCs)** (e.g., EEPC for engineering goods, CLE for leather, APEDA for agricultural products, and TEXPROCIL for textiles). Under the *Market Access Initiative (MAI)* and *Market Development Assistance (MDA)* schemes, the government subsidizes up to 75% of travel airfare, stall exhibition rental fees, and product sample freight costs for small entrepreneurs participating in international commercial trade fairs in Europe, North America, and East Asia, facilitating direct export orders.

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14. Cluster Development Approach and MSE-CDP Scheme

To overcome the scale limitations of isolated small factories, the Ministry of MSME champions the **Micro and Small Enterprises - Cluster Development Programme (MSE-CDP)**. Under this strategy, geographically concentrated clusters of enterprises manufacturing similar products (e.g., leather goods cluster in Agra, knitwear cluster in Tirupur, brassware in Moradabad, coir cluster in Alappuzha) are provided with subsidized financial support up to Rs. 30 Crores to establish shared **Common Facility Centres (CFCs)**.

These CFCs house expensive, advanced industrial technologies that no individual small unit could afford independently—such as modern testing laboratories, computer-aided design (CAD) studios, tool rooms, effluent treatment plants (ETPs), and raw material storage depots. Sharing these collective facilities lowers per-unit operating costs, upgrades technical quality to international export standards, and elevates the collective bargaining power of the entire industrial cluster.

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