



Clusters as an Instrument for Promoting Local Economic Development

BY

TAMAL SARKAR

CLUSTER DEVELOPMENT PROGRAMME, NEW DELHI



Significant Presence of Clusters in Developed and Developing Countries

1. **Italy:** 200 clusters, e.g. knitwear cluster of Prato
2. **India:** 3500 artisanal clusters and 400 SME clusters, e.g. knitwear cluster of Tirupur
3. **Pakistan:** Over 50 clusters - surgical instrument cluster of Sialkot
4. **Brazil:** Shoe cluster of Sinos Valley



What is a Cluster of Micro or SME Unit?

1. Produces a **product** & concentrated in a **place**
2. Consists of **principal** & a range of **support stakeholders including local government**
3. Includes all **relevant local as well as non-local stakeholders** based on the value chain
4. Principal stakeholders face **common opportunities** and **threats**
5. Stakeholders have a **business relationship** and enjoy **natural external economies**
6. Mostly lacks **proactive joint action**

CDP works towards inducing a phenomenon of proactive joint action by pursuing sectoral targets by networks of stakeholders



Principles of Cluster Development Programme (CDP)

- Joint action breaks “desirables into riskable steps”
- Lack of social capital (local linkages) debars joint action
- Social capital is best embodied in local intermediaries
- Hence, CDP is driven by intermediaries
- The route is competitive cooperation
- Catalysed by an external agency – cluster development agent (CDA)



Characteristics of a Joint Action

- **Desired** by all participating stakeholders in a joint activity
- **Beyond** the capacity of each stakeholder
- Strengthens **profitability** of stakeholders
- Targeted output is **achievable** and also achievable later by participating stakeholders (sustainable)
- Targeted output is **shareable** among stakeholders



Kota cluster: LED with and around Select Small Enterprises

- **Non-cluster enterprises from Kota** like farmers, other artisans, etc. **were not involved**
- **Non-business support institutions at Kota** like village/district bodies, **were selectively and strategically involved**
- **Cluster related business support institutions at Kota** like 2 non-functional associations of weavers and master weavers, local handlooms institute, banks, etc. **were fully involved**
- **Cluster related stakeholders outside Kota** like buyers, service providers, support institutions **were also extensively involved**



CDP Step 1: Diagnostic Study (DS)– CDA is the prime mover

SED issues

- 1500 weavers and master weavers with a total turnover of Rs 3.3 million
- Pressure point: marketing
- Other issues: low quality & productivity, lack of consumer awareness
- No specialised service provider
- No technical institution of relevance
- No active financial institution
- A sectoral vision

LED issues

- Understand stakeholders' problems through **participatory approach** of all stakeholders
- **Trust creation** of CDA with stakeholders & among them too
- Identification of **appropriate stakeholders** for activity initiation
- Emerged a **felt need for active NGO/association at Kota**



Kota cluster: Vision Statement

“Revive the rich cultural heritage of the cluster by offering its unique high value added fabric to exporters, niche retail stores, etc. and create a consumer awareness of its product by the year 2005”



CDP Step 2: Trust Building (TB) – Functional and Multilateral – CDA is the Prime Mover

SED issues

- **Exposure to new ideas**
 - Jaipur (marketing centre)
 - Chanderi (good cluster)
 - Tilonia (barefoot institute)
- **Understood various sectoral dynamics:** e.g. Master weavers – the ‘so-called middlemen’ were important
- **Demonstrated need of support stakeholders** through few marketing (pressure point) activities/interactions
- **20% contribution by stakeholders**

LED issues

- **Numerous informal meetings** to initiate joint action
- **Created networks** of master weavers followed by networks of weavers
- Identify & implant NGOs
- **Explain intervention strategy to support institutions** (including local government) who may not yet be tuned to this approach, **for their future involvement**



CDP Step 3: Action Plan (AP) – Both CDA and Stakeholders are Active

SED issues

- Creation of new marketing channel
- Technological interventions
- Design and product development
- Protection and promotion

LED issues

- Discuss, collate short run and parts of long run activities and **create action plan for and along with each network and association**
- **Keep the local government informed** of developments to start with and **involve them** in action plan for **later years**

Flexible – 70% planned & 30% unplanned during implementation



CDP Step 3: Implementation – Both CDA & Stakeholders are Active

SED issues

- Networks linked to buyers outside cluster
- New designs created by designers-cum-buyers
- Special BSMs organised
- Back-end support created for timely delivery
- Local govt. Involved in supporting macro issues like gi, ctm, resource centre
- 15 institutions and service providers linked
- 50% of total cost (developmental & working) by units

Led issues

- **Cluster level forum:** KDHF created, with business agenda – GI, CTM, resource centre
- Business need creates 40 **smaller networks** - 11 **federated** (KWWO)
- **Local Government created** mega cluster forum for future handholding
- **Local government institute to take up 6 more clusters** and training provided
- Addressing of Social Issues
- Regular cluster level **monitoring** took care **of missing links**



Output of around 100 formal and numerous informal activities (July 2002 – October 2004)

Firm Level

- 250 – 300 weavers & master weavers: additional sales of 15% (from Rs. 10 million per annum to Rs. 13.7 million in 2 years)
- 6 dyers benefited through new utensils and higher rates for improved dyeing

Cluster Level

- 5 new bulk buyers, 5 BDS providers and 5 support institutions
- 48 business networks, KDHF, KWVO and an NGO with business goals

Policy Level

- A State Government Institute to take up 6 more clusters for development

Sustainability Indicators

- Out of a total development expenditure of USD 21000: donor (45%), support institutions through existing schemes (30%), cluster (25%)
- Working capital expenditure – 100% by cluster
- Sustainability index moved from 5.4% to 46% and needs improvement

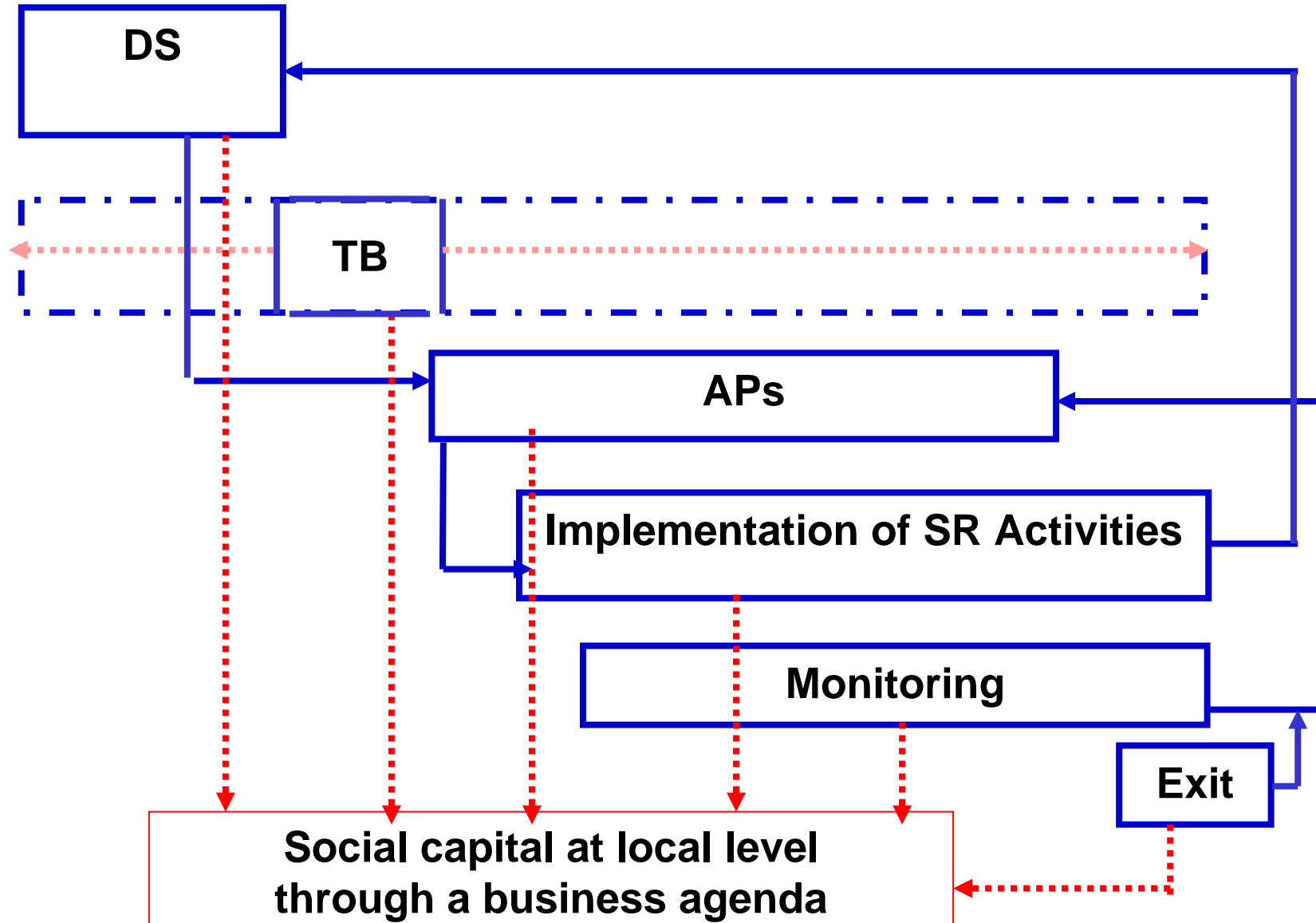


CDP - Exit Strategy

- Put in place full time paid employees for mega networks - KDHF & KWWO
- Widespread usage of BDS and new business linkages
- Organise linkage support for mega activities – GI, CTM, resource center
- Strengthen implementation capacity of cluster level programme by local government institute
- Strengthen the mega cluster level forum created by local government



Steps of Cluster Development Approach (3 to 4 years)





Major Lessons

- CDP is a **process approach that implants social capital** in local intermediaries (LED) through a series of developmental joint actions that have business prospects
- Social capital is created not in isolation but mostly **as a market phenomenon** suitable for a sector – each reinforcing the other
- Market phenomenon **moves best with pressure point**
- Here **activity sequencing, utilising comparative advantage of intermediaries for up-scaling and role of CDA are critical**
- **Flexible and non-schematic support system** help to **attend typical cluster needs**
- **Comparatively costly if stakeholders are resource poor**