Getting To Know Clusters
Frequently Asked Questions

Foundation for MSME Clusters

GETTING TO KNOW CLUSTERS
FREQUENTLY ASKED QUSTIONS

Foundation for MSME Clusters

Authors
Mr. Mukesh Gulati
Dr. Tamal Sarkar

About the Foundation for MSME Clusters

The Foundation is a non-government and not-for-profit registered trust, conceived and founed in 2005 under the auspices of the Entrepreneurship Development Institute of India (EDII) and in technical collaboration with UNIDO Cluster Development Programm in India. The ' Foundation for MSME Clusters' will stimulate the creation and sharing of knowledge in the area of local economic development, particularly with regard to clusters not only in India but also other developing economics that aspire to integrate community led growth in their process of economic development.

The Foundation is steered by a Board of Trustee at the apex level, chaired by Prof Y.K. Alagh, former Vice Chancellor of Jawahar Lal Nehru University, former Union Minister of State in Science and Technology, an estimate scholar and policy maker. The Board comprises of institutional and individual members and its main role is to lay down the primary objectives of the foundation. The Foundation will have a professionally managed autonomous Executive Director to manage the operations.

The strategy for the Foundation during 2005-08 will be to collate the dispersed knowledge and act as a forum among different cluster implementing institutions, policy makers and researcher organisations in India and some developing economics. Simultaneously it intends to enter into a technical collaboration agreement with international institutions to seek international expertise and strengthen its executive directorate.

Contents

INTRODUCTION

Getting to Know Clusters

Cluster development is a relatively new art and science, born only around 1990's. Yet in this relatively short time, the subject has gained immense popularity among the policy makers as a very important tool for micro, small and medium enterprise development. The most significant reason for its ascendance across the globe is the principle of integrated local development in a cluster where the cluster is seen as a living organic system rather than a mere agglomeration of various enterprises. The web of inter-relationships among enterprises, institutions and service providers in clusters is now considered an important a resource as much or even more potent than finance, technology, knowledge and skills.

Historically the small enterprise policy in several economically developing countries including in India has viewed economic enterprises as isolated entities. Therefore the policy support systems have targeted direct subsidies to individual enterprises, provision of skills & other inputs and protecting them from the large enterprises. The research on clusters and regions, particularly in Italy during the mid-eighties however clearly reflected the advantages of focusing clusters with positive inter-relationships among their stakeholders. Yet developing clusters is not only a means to improve the competitiveness but also for alleviation of poverty, generation of sustainable employment, fostering innovation, infusing technology, enabling better credit flow and sustenance of environment issues more effectively and sustainably.

Cluster development has been undertaken in more than 50 countries across the world and at least 20 diverse independent initiatives are in progress or planning in India alone. Probably no other country in the world can boast of more than 6000 clusters that have been in existence for decades and centuries. While there has been an immense interest generated on the subject, the understanding of clusters and cluster development has led to confusions and contradictions. This publication is meant for an easy readership and quick understanding about the world of clusters and its methodology. The policy makers, support institutions, bankers,

infrastructure development agencies, service providers and cluster practitioners will all find the document a useful resource to plan and implement cluster based development.

This document contains 69 simple questions in 18 short sections allowing the reader to swift through the type of questions of his/her interest as per the sections in the table of contents. The sections begin with understanding of clusters, their typology and spread. Then the issues of whether clusters should be newly created and aspects of how cluster policy is different from conventional enterprise development are dealt with. Some of the terms like social capital, cluster mapping, cluster diagnosis, trust building, cluster action plan, networks and service providers help to give an in-depth insight into the methodology of cluster development.

It is sincerely hope that this document will help the reader advance quickly into the subject. This document is probably the only attempt to demystify the subject based on field work for around 10 years in India. It is certain that there will be many fresh insights from the readers with their vast experience on enterprise development will emerge. Sharing your ideas with your feedback at foundation@smeclusters.info will help everyoneus all keen to use, and spread the knowledge on this subject for the economic well being.

01   SECTION 01   **UNDERSTANDING CLUSTERS**

1. **What is a cluster of Micro, Small & Medium Enterprises (MSME)?**

A cluster of MSMEs is a concentration of economic enterprises, producing a typical product/service or a complementary range of products/services within a geographical area. The location of such enterprises can span over a few villages, a town or a city and its surrounding areas. Thus a cluster of MSMEs, hereafter referred to as "cluster", is identified by the 'product/service' the micro and small enterprises produce and the 'place' where the enterprises are located.

2. **Can you give some examples of clusters?**

Most of these MSME clusters have been in existence for years and are well known not only locally, but also nationally and at times internationally. Cotton hosiery (the product) cluster of Tirupur (the place), Knitwear cluster of Ludhiana, Brass products cluster of Moradabad and Information Technology cluster of Bangalore are a few such examples. In fact some of the micro enterprise based artisan clusters have been in existence for centuries, e.g. the hand block printed textile cluster of Jaipur, handloom cluster of Chanderi and brassware of cluster of Moradabad.

3. **What constitutes a cluster?**

A cluster consists of not only the economic enterprises that actually produce the product/service that defines the cluster but also the raw material providers, sub-contractors, buyers, exporters, machinery suppliers and the various support institutions, regulatory agencies, consultants, common facilities, transporters and all other service providers that facilitate the production directly and indirectly in the

cluster. Besides there are various interest groups such as business associations, self-help groups, cooperatives and NGOs that may promote business interests of various groups of enterprises in the cluster. All these entities are called cluster stakeholders.

4. **Can you explain with an example?**

Let us take an example of the Knitwear cluster of Ludhiana situated in north India. The main stakeholders of the knitwear cluster of Ludhiana are the exporter-manufacturers and domestic market focused manufacturers of knitwear products. Their support enterprises include spinners, dyers, machinery manufacturers, machinery import agents, accessory suppliers, yarn dealers and merchant buyers etc. The technical support institutions include the local knitwear college, women polytechnic and industrial training institutes. The financial support institutions include developmental and commercial banks that have a direct stake in the growth of the cluster. Besides there are various local industry associations of knitwear manufacturers, exporters, dyers and spinners that also form a part of the cluster. All these entities are the stakeholders of the knitwear cluster of Ludhiana.

5. **Does a cluster have to be a formally recognised entity?**

A cluster need not be and is generally not a formally recognised entity.

6. **What is not a cluster?**

A cluster does not represent a sector that may spread all over a state or a country. An industrial estate or an industrial park having multiple products is also not a cluster. A small group of enterprises doing some collective business is also not a cluster. A cooperative, which promotes cooperation among a number of enterprises under some norm, rule or a public scheme of assistance is also not called a cluster. A group of villages, town or city consisting of enterprises producing a diverse range of products or services is also not called a cluster.

7. **Are there any minimum benchmarks to define a cluster?**

There are no universal or even national benchmarks to define a cluster. However in India, United Nations Industrial Development Organisation (UNIDO) Cluster Development Programme has worked on some assumptions to estimate the number of MSME clusters. An industrial cluster is considered to be one that has 100 or more registered enterprises. As against this, even the presence of 50 handicraft enterprises is considered to be significant for a handicraft cluster. In case of a handloom cluster, there should at least be 500 handlooms in a given location.

02 SECTION 02   TYPE OF CLUSTERS

8. **How to distinguish between industrial and artisan clusters?**

An artisan cluster is characterized by the predominance of household based enterprises. Such enterprises use personal skills of the artisans to production, rather than electrically driven machinery. They are predominantly run by the family labour both in production and management of the enterprise. An industrial cluster may also have some household enterprises but is characterised by predominance of small and medium industrial enterprises with hired labourers. Artisan clusters may generally produce either handicraft or handloom products.

9. **Are there other ways to describe different types of clusters?**

Yes, the other categorisations are based on whether the clusters evolved in their origin by themselves naturally or were induced through special policy measures. Second, the clusters depending on their volume of business, geographical area of spread or employment generation may also be categorised small or large clusters. Third, depending on the mutual relationship among the producing enterprises in the cluster, they could be classified as vertical and horizontal clusters. Four, the clusters that have their primary markets abroad can be called as exporting clusters. Five,

those clusters that have demonstrated a high degree of vibrancy and high growth in the recent past are often referred to as dynamic clusters. There are several other ways to describe the clusters depending upon the purpose.

10. **What is the difference between natural and induced clusters?**

A natural cluster evolved in the past due to local availability of raw material, skill or market demand. Most of the clusters known in India are natural clusters. Such clusters may have been in existence for several decades and at times for centuries. On the other hand, MSMEs of similar kind can also come up at a location due to specific investment policy or public provision of specialised infrastructure. These public measures can lead to creation of new clusters and therefore referred to as induced clusters.

11. **How can we categorize small and large clusters?**

There is no publicly defined benchmark to designate a cluster either as large or small. However, in the Indian national context, UNIDO has categorised the industrial clusters into 5 categories depending on their likely volume of business and estimated number of employment generated. Such a categorisation has not known to be undertaken in case of artisan and service clusters so far.

12. **Does the size of a cluster determine its success?**

The size of a cluster attracts specialised labour, suppliers and institutions, thus positively influencing the productivity of MSMEs in the cluster. Yet, the size of a cluster is not the main determinant factor for its success. There are some global examples of successful clusters with a few enterprises. For example, in Austria, a successful wood cluster exists with less than a dozen enterprises. The ham cluster of San Daniele in Italy has less than 30 enterprises but commands around 15 per cent of world's export of ham. On the other hand, the successful clusters of knitwear in Prato (Italy) and cotton knitwear cluster in Tirupur (India) are both known to have around 9000 enterprises.

13. **What are vertical and horizontal clusters?**

A vertical cluster consists of one or a few large enterprises and a large number of other small supplier enterprises. On the other hand, a horizontal cluster consists of a large number of small & medium sized enterprises (often in hundreds) that may produce and market directly while competing with one another. The SMEs in horizontal clusters may however have other supplier firms in the same clusters.

03   SECTION 03   CLUSTER GROWTH STAGES

14. **Are the clusters known to follow any pattern of growth?**

Clusters are like any other organic entities and cluster academicians have patterned the cluster evolution into stages of birth, growth, maturity and decline. The time length of each stage however very much depends on the external factors and inner potential of the cluster.

15. **Are there any known factors that can be related to higher growth of a cluster?**

The size of a cluster, extent & nature of inter-firm rivalry, degree of cooperation, existence of specialised service providers, existence of representative institutional structure and linkages with demanding markets are known to be some of the significant influencing factors that can be related to the growth of a cluster.

16. **Are there databases of clusters readily accessible in the world?**

In most economically developing countries, such a compilation of cluster database is not available. However, in the last few years, but not before 1995, several countries and some institutions have begun the task of compiling the database. However due to lack of uniform

04

SECTION 04 PNHENOMENON OF CLUSTER SPREAD

parameters across different countries and even regions within the country, such databases are not readily comparable. Most of the cluster databases that are known to be available relate to economically developed countries only. One may refer to the website of an international forum of cluster practitioners 'The Competitiveness Institute', www.competitiveness.org for further links to access such databases.

17. **Can you give example of some of the countries that have compiled their database of clusters?**

Italy was probably the first country to develop their database of cluster, based on some nationally and regionally defined parameters. United States of America, Canada, Australia, New Zealand and several European countries have also drawn up their cluster databases. There is known to be a sizeable presence of clusters across more than 50 countries in the world. Among the newly industrialised countries and industrially developing countries also databases have been compiled. For example, Thailand has over 30 SME clusters while Pakistan has over 50 industrial clusters.

18. **Is there a cluster database available for India?**

Through a cluster development programme, UNIDO has in cooperation and with support from several Indian institutions, compiled a database of industrial clusters (388), micro-enterprise clusters (around 283),

05   SECTION 05   **CREATING CLUSTERS**

19. **Can new clusters be created?**

Yes, new clusters can be created with active policy support. However, given the complexity of a large number and type of stakeholders required for a cluster to function, creation of new clusters can be highly time consuming and resource intensive. More importantly it requires lot of private investment that takes place only in phases and through a complex organic growth mechanism. Most countries actively engaged in cluster development across the world have therefore focused on stimulating growth of existing clusters and avoided creation of new ones.

20. **If in a state there are a few existing clusters, what can be done on clusters?**

In several industrially less developed states, there may only be a few clusters as per existing databases. However there may be several artisan and micro-enterprise clusters in such states requiring special policy focus. Moreover industrially less developed regions also generally have locations with conglomeration of lesser number of enterprises than is required to qualify for defining them as clusters. Such locations can be termed as potential clusters. Active new enterprise development in such potential clusters can be one route for economic development in such locations. However, it may be clarified that cluster route is only one of the various available policy tools that can be employed for developing SMEs.

06

SECTION 06   CLUSTER POLICY

21. Why are clusters important for a policy maker?

Clusters can be a very significant component of a state or national economy. Based on the mapping of their contribution in Italy, USA and other countries, those countries have drawn extensive programs for cluster development. However, the picture about the contribution of clusters for India is not so clear. Yet, as per the estimates worked out by UNIDO cluster development programme, MSME clusters in India are estimated to generate 60 percent of the exports of the Indian manufacturing sector in 2005. The industrial clusters in India are estimated to generate employment for 75 lakhs (7.5 million) persons and contribute to an economic output of Rs. ????? crores (US$??? million) in the national economy. As per an estimated worked out by Entrepreneurship Development Institute of India (EDII), clusters in India constitute ???? % of all the SMEs. Moreover, some of the studies across the world as well as in India reflect that enterprises in clusters have a significantly higher productivity level compared to those that are not in the clusters. Therefore clusters can be significant tools to enhance their competitiveness, generate sustainable employment and alleviate poverty.

22. What is the difference between the sectoral policy and cluster policy?

Sectoral policy does not have a local geographical dimension. Moreover a sector encompasses several products as in case of engineering or textile sector, whereas a cluster may produce one specific product in a sector. While the sectoral policy lays down the broader framework for developing a sector as per national priorities, cluster policy should provide the flexibility to harness the potential in different clusters of the country based upon the local ground conditions in those locations. Both can mutually reinforce each other.

23. **How is cluster development different from local area economic development?**

Local area economic development generally targets all available economic activities in a given area. On the other hand, cluster development deals only with a subset of those economic activities that deal with the production of a particular complementary range of products or services and their related support enterprises/institutions.

07 SECTION 07   SOCIAL CAPITAL

24. **Quite often, a term social capital is used while discussing cluster development. What is this social capital?**

Social capital is a term to describe the complex sum total of various relationships that exist among the different stakeholders of the cluster. In simple terms, cluster literature describes it as the glue that binds the cluster positively. Differently, social capital can also be related to as the 'software' that governs what and how different cluster stakeholders do what they do. Post modern economists and inter-disciplinary students of local economic development now look at social capital just like any other form of capital such as financial capital and human capital in a cluster.

25. **Why social capital is considered so important for clusters?**

Some of the research studies carried out by the economists and the sociologists in the mid eighties of the twentieth century brought out the significant role of the social capital or web of relationships in the

growth of clusters in some parts of Italy. Most of the subsequent focus by policy makers and practitioners draws its inspiration from the Italian work then and subsequently undertaken.

26. **Has any specific work actually been undertaken using social capital as a significant determinant for cluster development?**

United Nations Industrial Development Organisation (UNIDO) through its Private Sector Development branch had instituted a cluster programme in the year 1993 in some of the economically developing countries. That programme has been conceptually based on the proposition that if social capital is significant determinant of success in clusters then economic growth could also be accelerated in under-achieving clusters by breaking isolation among local cluster actors that help to improve the social capital. This programme undertaken in more than 15 countries across the world has shown significantly positive results, with Indian experiences in the front. Besides, several of the other cluster initiatives in other countries have also focused attention on building inter-relationship among local cluster actors.

08 SECTION 08 CLUSTER DEVELOPMENT AND ITS GLOBAL SPREAD

27. **How can cluster development be induced? Are there specific instances to cite?**

Induced development of a cluster is a planned effort by an Implementing Agency (IA), either internal or external to the cluster, with the help of several local institutions to foster dynamism in an existing cluster and help it become more competitive.

28. **What are the other countries where cluster development has been taken up for SME development?**

Following is only a partial list of countries where attempts for inducing development in clusters have already been undertaken or are in progress:

A SELECT LIST OF COUNTRIES
WITH SOME FORM OF CLUSTERING INITITATIVE
Box 1: Select list of countries, which have taken some form of clustering initiative

Argentina	Australia	Belgium	Canada	Chile	Columbia
Costa Rica	Cambodia				
Denmark	Ethiopia	El Salvador	England	France	Finland
Germany					
Georgia	Guatemala	India	Ireland	Italy	Jordan
Mexico	Morocco	Mauritius	Netherlands	Nicaragua	Norway
			New Zealand	Pakistan	
Scotland	Slovenia	Singapore	Spain	Sweden	South Africa
Sri Lanka					
Trinidad	Wales	USA			

Source: (i) OECD (ii) Cluster Building: A tool-kit: A manual for starting and developing local clusters in New Zealand, 2001 (iii) UNIDO
However the methodology of cluster development varies.

09 **SECTION 09** **CLUSTER DEVELOPMENT METHODOLOGY**

29. **How is cluster development any different from policy support to foster development of individual enterprises in a cluster?**

Cluster development focuses on the cluster as an inter-connected system rather than a physical agglomeration of enterprises in a location. It therefore must encompass the entire economic value chain that the cluster is a part of and go beyond. It therefore understands and directs the efforts right from raw material provision to the delivery of goods & services that the cluster produces up to the level of final consumer. Different activities initiated, by an Implementing Agency (IA) to promote a cluster may involve raw material providers, machinery suppliers, various actors across the production value chain, marketers, exporters, indenting agents, transporters, specialized service providers and relevant

policy makers as also the related regulatory agencies. Viewing the cluster as an integrated production and social system rather than a collection of individual enterprises enables the cluster programme to identify the gaps in the cluster system that inhibit its growth. Cluster development therefore reaches out the development of individual enterprises by enabling the local system work more efficiently and effectively.

30. **Are some clusters more amenable to cluster development?**

Yes, some clusters are more amenable to cluster development initiatives than others. Such clusters have a critical mass of enterprises and institutions. Second, the cluster has a product range with better market prospects in the medium to long term. Third, clusters that have a history of positive collective action among its stakeholders are considered to be better off than the others. While, the lack of sufficient number of enterprises restricts joint initiatives, 'declining' market scope for the product may make the cluster existence itself vulnerable.

31. **What type of organisations can initiate cluster development?**

On the one hand, agencies/institutions that have preferably no direct commercial business interest in a cluster should initiate cluster development. Hence Government departments, technical and academic public support institutions can undertake cluster development. On the other hand, commercial banks and large enterprises that may have direct business interest in assisting a cluster comprising of its borrowing enterprises and subcontracting enterprises respectively may also under-take cluster development initiatives. However, business associations, chambers of commerce and NGOs can also initiate cluster development process. Most of the cluster development initiatives known to have been taken in India and elsewhere have come from the public institutions.

32. **What can be the possible roles of Government in promoting clusters?**

Governments can besides implementing cluster development initiatives through its offices, play useful role in:

(i) mapping clusters and their significance in the country or region,

(ii) ensuring setting up of conducive policies & schemes that encourage
local cluster level collective action

(iii) providing funding assistance to encourage commercial and private institutions take up cluster development

(iv) assist building suitable linkages of the clusters with such public and private institutions in the areas of finance, investments, infrastructure development and social development

(v) undertaking active initiative in plugging gaps that may encompass several clusters in a region or a country

33. **What is the role of support institutions in cluster development?**

Cluster development process can be greatly facilitated by the access of the stakeholder enterprises to support institutions in the area of technology, innovation, finance, training, research & development. The support institutions not only help in organization of various activities that the other cluster stakeholders may carry out but more importantly may bridge the gap between the local enterprises and cutting edge knowledge available elsewhere in the country. In some of the clusters, a support institution of the kind mentioned above may actually lead the cluster to a greater degree of dynamism depending on its ability to develop new knowledge and linkages with local stakeholders.

34. **Is it desirable to have the intervention of more than one supporting institutions in a given cluster?**

It is always desirable to have the presence of multiple support institutions since they may bring in a range of expertise and perspectives in their different areas of specialization. Moreover a positive competition to assist the cluster and be benefited by its growth may bring in an element of competition and therefore greater efficiency.

35. **Can you describe the implementation mechanism as per UNIDO framework of cluster development?**

It is often seen that entrepreneurs and institutions in close vicinity to one another in clusters do not often talk to each other. Each one considers other as their competitor resulting in negative competition based on lower prices and lower quality, trapping themselves in a vicious circle. Moreover, the external competition coming from outside the clusters is ignored. It takes concerted effort to identify meaningful areas of cooperation among local stakeholders where enterprises, institutions and service providers would be willing to work together for mutual growth and gain in their competitiveness. Such a role can be best performed by a person who invests time and resources in understanding the local socio-economic context and bring people of differing ideas and aspirations on a common table to resolve the specific issues and move ahead. Such a person who is trained to take up such a role is called Cluster Development Agent (CDA) as per UNIDO framework.

10 SECTION 10   CLUSTER DEVELOPMENT AGENT

36. **What is the relationship between a Cluster Development Agent (CDA) and the implementing agency (IA)?**

As per the UNIDO methodology the CDA is appointed by the implementing agency for a few years in the cluster to initiate the cluster development process either individually or with a small team.

37. **What is the role of a CDA while initiating cluster development?**

While initiating cluster development, the CDA first diagnoses the challenges & opportunities that a cluster may face at that time, builds trust with and among the key cluster stakeholders. He/She then coordinates the drawing up of the first cluster level action plan with the involvement of the cluster stakeholders. The CDA should then facilitate organization of various identified activities under the cluster action plan to be implemented by different cluster stakeholders. The process of implementation helps build not only greater mutual trust but also the local capacities in undertaking more strategic joint activities in future.

38. **Does the role of a CDA change in a given cluster over a given period of cluster development initiative?**

Yes, the role of a CDA changes according to the stages of development of the cluster. In the initial stage the involvement of a CDA in an under-developed cluster is to understand the challenges, build initial workable trust among a few cluster stakeholders and kick-start some pilot collective initiatives. As the stakeholders, not earlier used to taking up collective action, begin to identify and undertake collective action on their own, the CDA begins to provide strategic guidance to the stakeholders and withdraw from active initiation of collective activities. During the final stage of cluster development, when the cluster reaches the stage of further maturity, the CDA provides inputs to the stakeholders only when felt necessary. Finally the CDA withdraws from the cluster leaving further development to the local stakeholders.

39. **When should the CDA be appointed? Where should s/he be stationed?**

The CDA should be appointed before the diagnostic study so that s/he can be a part of the exercise right from the beginning. CDA should be posted in the cluster itself or at a place that is easily commutable from the cluster, almost on a daily basis.

40. **What are the attributes of a good CDA?**

CDA is a neutral facilitator having capacity in relation-ship building, conflict management, conflict resolution, business analysis, negotiation and communication. A CDA should at least be a graduate with a reasonable period of industry experience/understanding, especially micro and SMEs. A reasonable level of knowledge and exposure about the business sector of the cluster may be useful but need not be an essential attribute of the CDA.

41. **For how long should a CDA be expected to undertake the assignment?**

The presence of a CDA is required only till the cluster stakeholders begin to assume greater responsibility for joint action thus ensuring self-sustainability. Not only the activities should have been identified,

but also the implementers and sources of techno-commercial resource also clearly identified and linked. In fact it is one of the prime responsibilities of a CDA based on what the effectiveness of a CDA's output is measured in the cluster.

11 SECTION 11 MAPPING AND SELECTING CLUSTERS

42. What should be the first step for a country or state towards undertaking cluster development?

If there is a sizeable presence of clusters in a country or a state, it should first undertake the mapping of clusters to assess their significance to the economy. In the context of a developing country, mapping may be undertaken around 3 broad categories of clusters viz. SME industrial clusters, micro enterprise clusters such as handicraft or handloom type of clusters and service oriented clusters. Based on the mapping and priorities of the country or state, a final set of clusters can be selected by the agency for initiating the cluster development.

43. What are the possible parameters for selecting a few clusters from a list of available clusters?

Selection of a cluster is based on parameters such as:
(i)   Importance to the national or state economy in terms of employment, turnover, exports, etc.
(ii) Presence of similar clusters that would enable replicability
(iii) Concerns about socio-environmental aspects among certain clusters
(iv) Future prospects for the product(s) of the cluster
(v)   Likely success of the cluster initiative that may in-turn depend upon the pro-activity of stakeholders, and
(vi) Presence or complete absence of complementary efforts by other institutions

44. **As an Implementing agency (IA), should we need to take up any other consideration for selection of the clusters?**

The mandate and any special competence of the IA are important determinants in selection of the clusters. For example, Ministry of Textiles is likely to undertake textile clusters, a technology related institution may take up clusters with technology as significant factor for its development while an export oriented institution may focus only on those clusters that have a significant export potential. Socio economic considerations may dictate state agencies to select clusters that enable greater employment generation and/or poverty alleviation for instance.

12   SECTION 12   DIAGNOSTIC STUDY

45. **Studies are best avoidable. We believe in action. Moreover, we already know quite a lot about the clusters selected. Why is then a need for diagnostic study?**

Diagnostic study has a dual purpose. First, it helps identify the growth constraints of the cluster as a system and hence draw up a strategic direction for its growth. Second, the process of diagnostic study conduction provides an opportunity for the CDA to understand the key people, institutions, their inter-relationships, motivations for their likely involvement. The CDA through the process builds trust with the key stakeholders.

46. **Who should do the diagnostic study?**

Ideally it should be the designated CDA who should do the diagnostic study. The IA should avoid sub-letting the diagnostic study to an external agency in full and then get it implemented by a CDA drawn from elsewhere. By subletting the diagnostic study, the CDA will not only miss the direct inter-face with the local stakeholders that is essential for building initial trust with them but also not give the required confidence in the diagnosis carried out by others. However support from external experts/ agency(ies) with diverse perspectives can certainly provide inputs that could guide the CDA better.

47. **Is diagnostic study a one-time affair?**

Technically, diagnostic study is a one-time affair. However, the level of factual revelation by the stakeholders to the CDA depends upon the level of trust developed with the CDA and also on their belief of the delivering capacity of the IA. With the progress of cluster initiative, the trust level may increase and the capacity of the CDA to grasp the cluster issues in depth increases, new facts come into light. These are then reflected into the action plan and in that sense one may go beyond the diagnostic study to decide future course of action.

48. **What does a diagnostic study contain?**

A diagnostic study provides an overall picture of cluster covering
(i)   The Industrial scenario particularly with respect to the cluster product
(ii)   History of the cluster along with its turning points
(iii) Understanding of the production process and value chain
(iv) Key stakeholders involved and their business relationships and
(v)   Key challenges and opportunities that help to develop a possible direction for the cluster development

49. **Will a diagnostic study cover details of all the enterprises in the cluster?**

A diagnostic study cannot and need not cover all the enterprises in a cluster, considering that the focus is on the system as a whole rather than sum total of all the individual enterprises. Instead the study should cover all stakeholders through an appropriate sampling technique.

50. **Then how does the diagnostic study lead to the development requirements of the individual enterprises that have not been covered in the study?**

A diagnostic study covers a representative sample of the different type of enterprises to understand the key issues affecting the cluster system. The sampled enterprises are not necessarily taken up for specific cluster development initiatives. The study that includes support institutions, BDS providers and representative private sector associations help to work out the areas of common interest for collective action that ultimately reach out to individual enterprises.

51. **Must a diagnostic study contain a clear time bound action plan to be initiated?**

The diagnostic study may either contain a clear time bound implement-able action plan for an initial period of 6-12 months or may lead to its development after the conclusion of the diagnostic study. The study should however certainly contain a clear strategic direction.

52. **What is the step after conduction of a diagnostic study?**

Upon the conclusion of the diagnostic study, if the cluster stakeholders have not reposed their confidence on the CDA, then specific efforts need to be made by the CDA for building workable trust with the stakeholders. This process is called 'trust building'.

13 SECTION 13 TRUST BUILDING

53. **What does it take to build trust between a CDA and the cluster stakeholders? How much time it may take to build a working relationship?**

Trust building may take place due to the sheer tenacity of the CDA where the local stakeholders begin to accept the genuineness of the initiative, or by taking up some short-term pilot activities steered by the CDA that may lead to some positive results. Later, throughout the programme as various activities start getting implemented, trust building continues to gather mass, although informally, but definitely. Learning from some of the initiatives in the past by various institutions, the time period may be between a few days to 6 months, depending on the various factors.

54. **How does the trust building among the cluster stakeholders lead to better impact on their business?**

As greater trust is attained among various stakeholders, several problems can be solved or greater business opportunities could be harvested collectively through business-oriented joint action. Some of the examples may be joint participation in a fair translating into more orders, joint training for skill up-gradation, hiring of expert services for quality up-gradation possibly leading to lesser rejections & higher value addition.

14   SECTION 14   CLUSTER ACTION PLAN

55. **After the trust building phase, how is the cluster action plan made and by whom?**

There are two dimensions of cluster action plan. Firstly, it is a periodic (usually annual) action plan made by the CDA for the approval of its IA. This plan works out the details that the CDA would like to implement through the stakeholders in the cluster. The CDA gets all suggestions regarding this from the stakeholders. This may be termed as the cluster action plan for the IA. This action plan is either for the cluster wide development or partially commercial among select members of the groups.

Secondly, at an informal level, the various groups of stakeholders start creating their own business as well as developmental action plan for the cluster. The summation of all developmental activities by all stakeholders can also be termed as the cluster action plan. Here the CDA plays an important role in formulating the same, at least to start with. However, as the stakeholders mature, they start formulating their own action plan and gradually move towards a stakeholder driven cluster action plan.

56. **How flexible the action plan needs to be?**

Although the activities proposed in the action plan relate to the then realistic assessment of the situation in the cluster, depending on the locally perceived need and changing external factors, some of the proposed activities may have to be dropped while retaining the strategic thrust of the activities.

15 SECTION 15 **IMPLEMENTING CLUSTER ACTIVITIES**

57. **How does one initiate implementation of the various activities in the cluster?**

It is best to start with short run activities that are likely to give quicker results and help the stakeholders move towards more complex medium/long run activities. At least initially, the choice of activities should be the ones that are given high importance by the stakeholders, either in terms of problem solving or opportunity exploitation. Such issues may be called the pressure points of the cluster. However medium and long run activities should not be left for a later point of time when the mutual trust is higher and the local capacities have been built. Such long term initiatives may range from undertaking research & development for new technologies, linkage with more demanding markets, development of common infrastructure, common testing facility, joint production system and building up of local institutional capacities etc.

58. **While initiating a number of collective activities, some amount of external financial support may be required to be provided. How does the IA decide on the quantum and extent of support for different collective actions?**

A few guidelines have been developed that enable the CDA and his superiors decide on the external financial support. Some of these are elaborated here. First of all, greater is the wider public benefit

of a collective action that has the potential to reach out to most of the cluster, greater is the public support that can be justified. On the other hand, networks of a few enterprises taking collective action for their limited individual benefit can get lower public funding support. Second, public support for initial collective actions with higher risk perception also becomes eligible for greater public support. As more groups emerge to undertake similar collective action that the others have experienced fruits from, the extent of public support declines. Third, more disadvantaged groups for enterprises in terms of their lower capacity to pay for collective action may deserve greater public support compared to their better off counterparts in the cluster.

16   SECTION 16   NETWORKS AND CLUSTERS

59. **Can the joint action be taken among a few small enterprises, say 3-10 or must it be at a larger level of an industry association or a cooperative body?**

Smaller groups of enterprises are called networks and can take up a number of useful collective activities for building their competitiveness.

60. **What is the difference between a network and a cluster?**

A cluster may consist of several networks of local stakeholders and generally refers to a town or a group of villages engaged in same or omplementary range of business activities. A network is generally referred to as a group of micro and small enterprises usually 3-10 in number, who jointly undertake some mutually beneficial action. Numerous examples exist where a few enterprises may buy raw material together for price reduction, buy expert services hitherto un-affordable by individual enterprises, explore new markets, develop a range of new products etc.

61. **Networks undertaking collective action seem to be in conflict with or at least overlapping with what industry associations or cooperatives are supposed to do. Can you explain?**

Various forms of parallel cooperation may emerge and should ideally emerge in a cluster. Several networks and even several industry associations/ cooperatives may emerge in a cluster depending on their focus and scale in terms of number of participants. Competing networks in fact may be actively supported by the industry association(s) and cooperatives in a cluster.

17   SECTION 17   SERVICE PROVIDERS

62. **What should ideally be the role of local industry associations in clusters?**

Industry associations help to better articulate the common need and demand of the cluster. Second, they help to provide a good interface with the public institutions and policy on behalf of the MSMEs. Third, they undertake a variety of common development activities for the overall betterment of the cluster.

62. **What is the role of BDS providers in cluster development?**

In cluster development a wide range of business development services are required to enhance the performance and efficiency of micro, small and medium enterprises. Apart from providing these services, in the process, BDS providers also help to facilitate the strengthening of linkages among the enterprises.

63. **How to facilitate the interface between BDS providers and MSMEs as potential users of BDS?**

This is usually undertaken by building up a local database of BDS providers by the cluster based associations who also check on their reliability, most often by references. The associations also help to clearly articulate the requirements of the enterprises and then enable regular interactions between the BDS providers and potential users. The CDA acts as a facilitator in the entire process.

64. **What are the major services generally available with BDS providers?**

BDS providers can supply a wide range of financial as well as non-financial services. Non-financial services include areas such as labour and management training, extension, consultancy and counselling, marketing and information services, technology development and diffusion. Facilitating quality certifications and related training, mechanisms to improve business linkages through subcontracting, franchising and business cluster, etc are some more services that BDS providers can provide for.

65. **How can we build up the capacity of associations?**

Most of the MSME industry associations have been used to undertaking lobbying activities only, not venturing into undertaking other common development activities. Capacity building of association involves exposing the office bearers become aware and ready to undertake collective development action and assisting them in setting up a trained execution staff to carry on the implementation work. From a stage of no developmental activity to what has been described above, it may take between 2-3 years of constant guidance and support.

18

SECTION 18   MONITORING CLUSTER DEVELOPMENT

66. **Undertaking cluster development seems to be a process oriented approach. What are the ways to monitor cluster development?**

Regular interactions with the CDA, occasional interactions with important cluster stakeholders and occasional visits to the cluster are essential ways to monitor the process of cluster development by the implementing agency. On the other hand, other formal ways have been developed to monitor the progress through structured quarterly or half yearly reports. Tools have also been developed to review activities, budget and levels of sustainability to help guide the development work in the right direction.

67. **What are the essential features of a successful cluster development initiative?**

If by the end of an intervention, the local cluster actors are by themselves able to gauge the common challenges and opportunities they face and have built up capacities to respond to them in a coherent manner, the cluster development initiative may be classified as successful as per UNIDO methodology. This would essentially mean that the local governance structure of the cluster would become effective enough to also link itself with actors beyond the cluster to respond to the challenges.

68. **What are the different levels at which indicators can help to evaluate the success of cluster development?**

The success of cluster development programme needs to be looked at from
(a) Enterprise level indicators: like identification of new markets, creation of new marketing channels, additional investment made, cost reduction made possible, new enterprises created, number of quality certifications achieved, etc.

(b)   Cluster level indicators: new technology introduced, infrastructure developed, introduction of new Business Development Services (BDS) and also BDS providers and

(c)   Sustainability indicators: number of functioning of associations, number of networks created, number of support institutions linked, policy support generated etc.

69. **What are the future areas of work in cluster development in India?**

Some of the key areas of work that require policy attention are facilitation of infrastructure in clusters and strengthening of industry associations in the clusters along with their integration with regional, sectoral & national level associations. Twinning of clusters for mutual cooperation among them is another promising area of work. Fostering investments across clusters within the country and from abroad is another that holds a good potential.