

# Cluster Development for strengthening MSMEs

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# What are our challenges?

- Quality
- Cost
- Technology
- On time Delivery
- Market development
- Access to Finance
- Regulatory Pressures

Ever Increasing Competition

Sustainability

# Michel Porter

- Clusters are a striking feature of virtually every national, regional, state, and even metropolitan economy, especially in more economically advanced nations.
- Silicon Valley and Hollywood may be the world's best-known clusters.

# Michel Porter

Though in globalization, businesses have crossed regional boundaries and discovered new customers and suppliers), the competitive advantage of location could not be diminished.

Thus, enduring competitive advantages in a global economy lie increasingly in local things-knowledge, relationships, motivation- that distant rivals cannot match.

# Competitive Strategies

		Competitive Advantage	
		Lower Cost	Differentiation
Competitive Scope	Broad Target	<b>Cost Leadership</b>	<b>Differentiation</b>
	Narrow Target	<b>Cost Focus</b>	<b>Focused Differentiation</b>

# Porter's value chain

**Support activities**

Infrastructure

Human-resource management

Technology development

Procurement

**Primary activities**

Inbound logistics

Operations

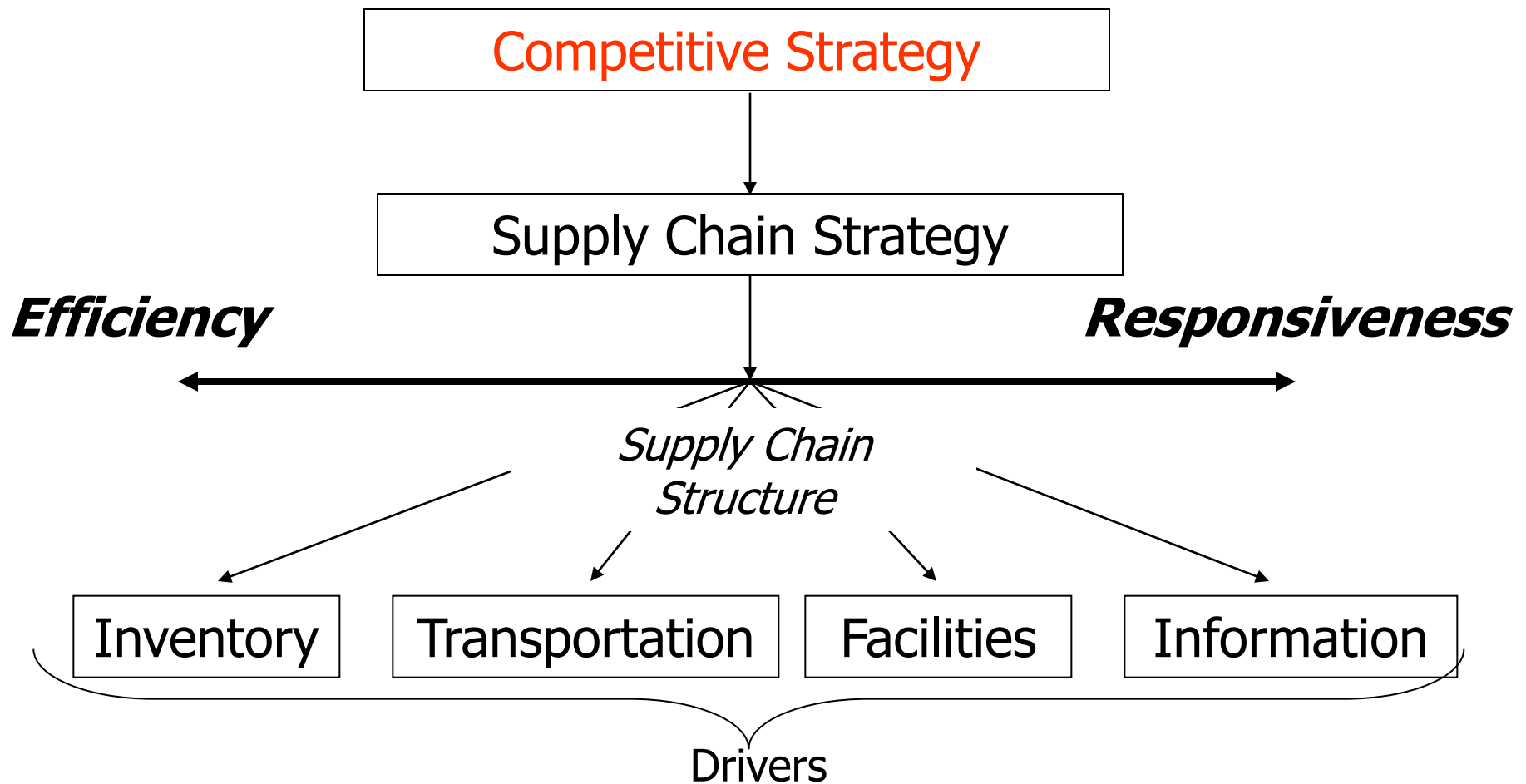
Outbound logistics

Marketing and sales

Service

Margin

# Drivers of Supply Chain Performance



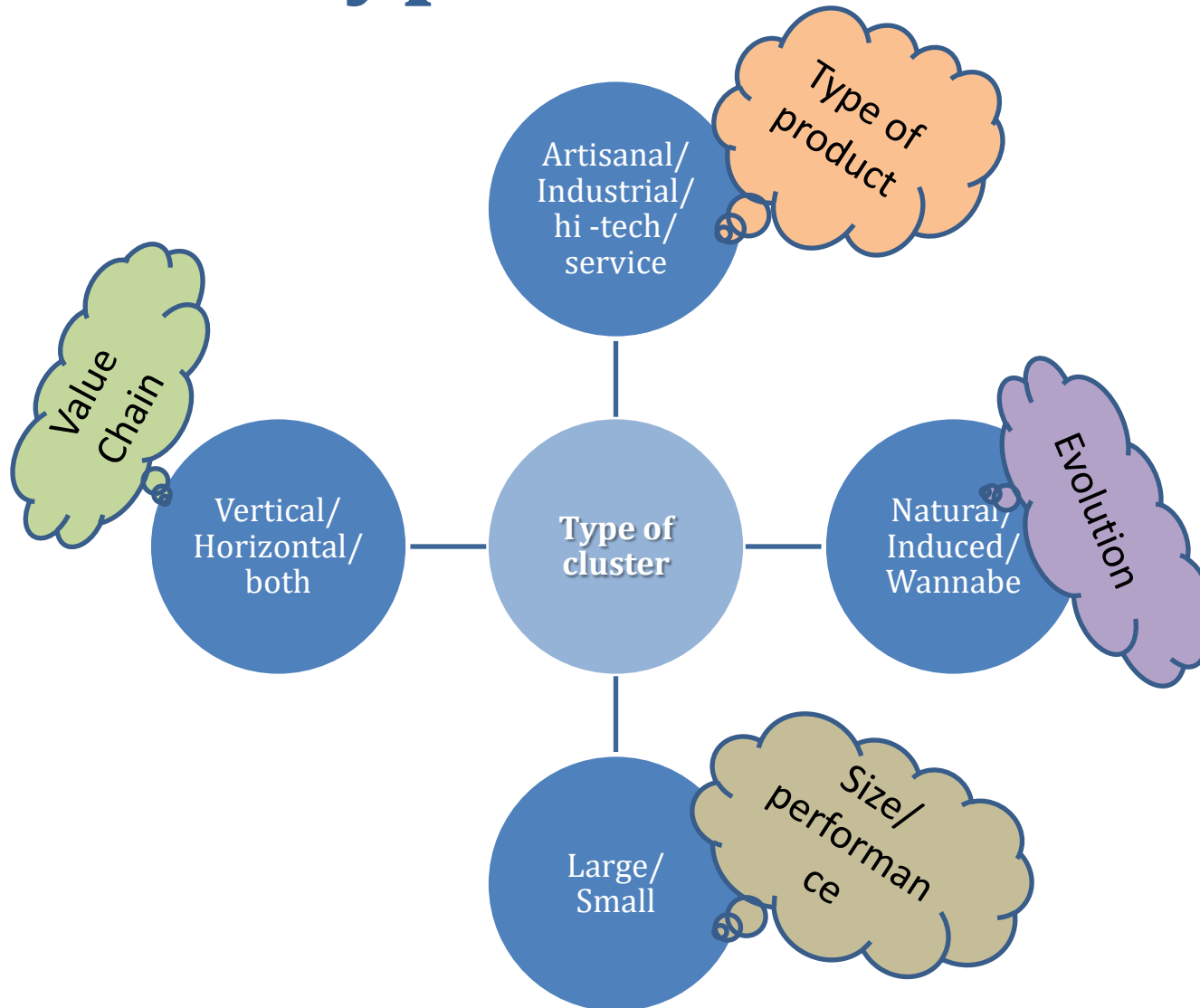
# THE CLUSTER CONCEPT

## What is a Cluster?

*A cluster is a sectoral and geographical concentration of small and medium enterprises (SMEs) producing same or similar range of products or services and thereby facing same or similar set of threats and opportunities.*

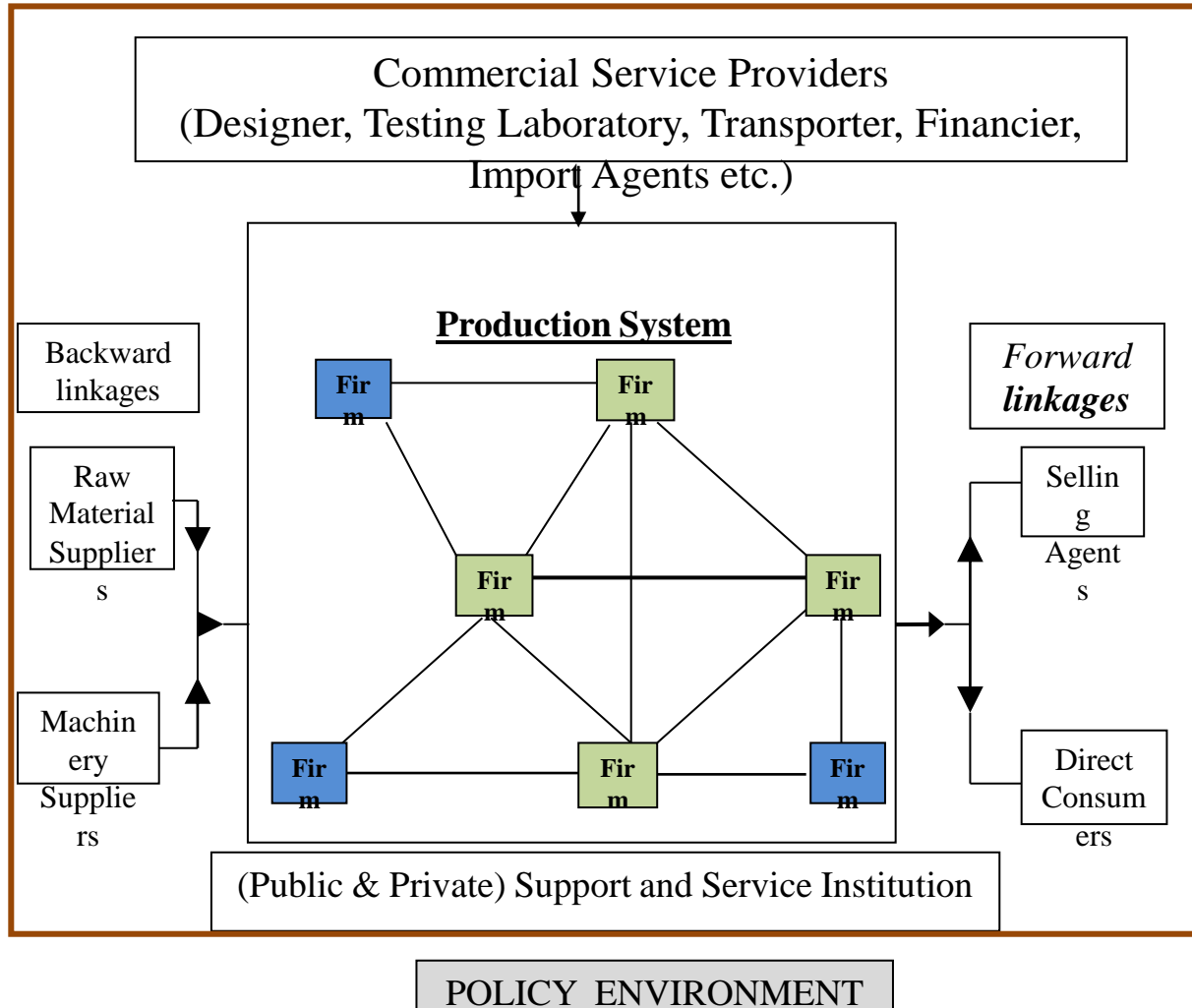


# Types of Cluster



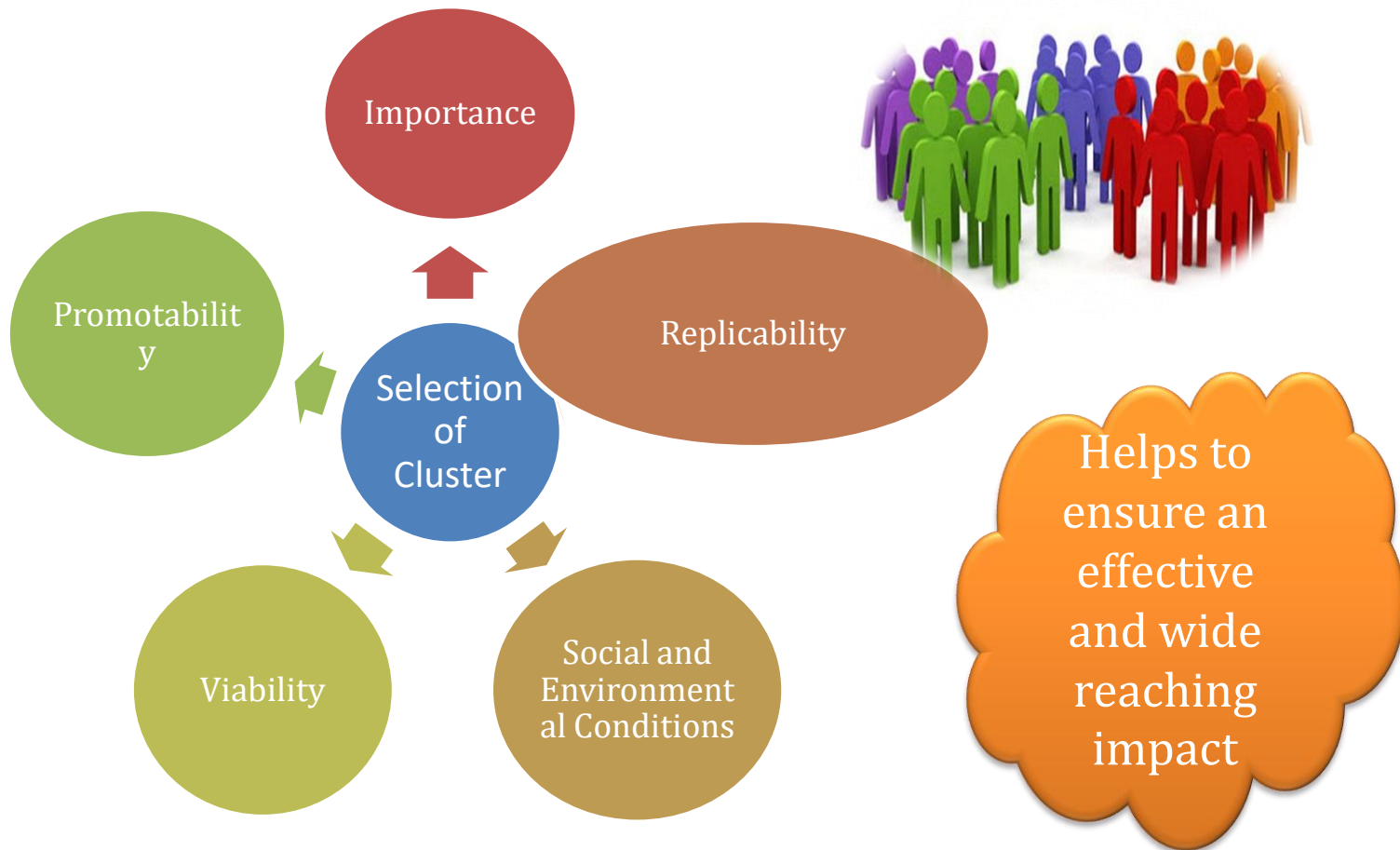
# Cluster - a System of Socio-Economic Cooperation

## SOCIO-ECONOMIC ENVIRONMENT



**Multiplicity of Relationships co-exist in a cluster**

# Selection of Clusters



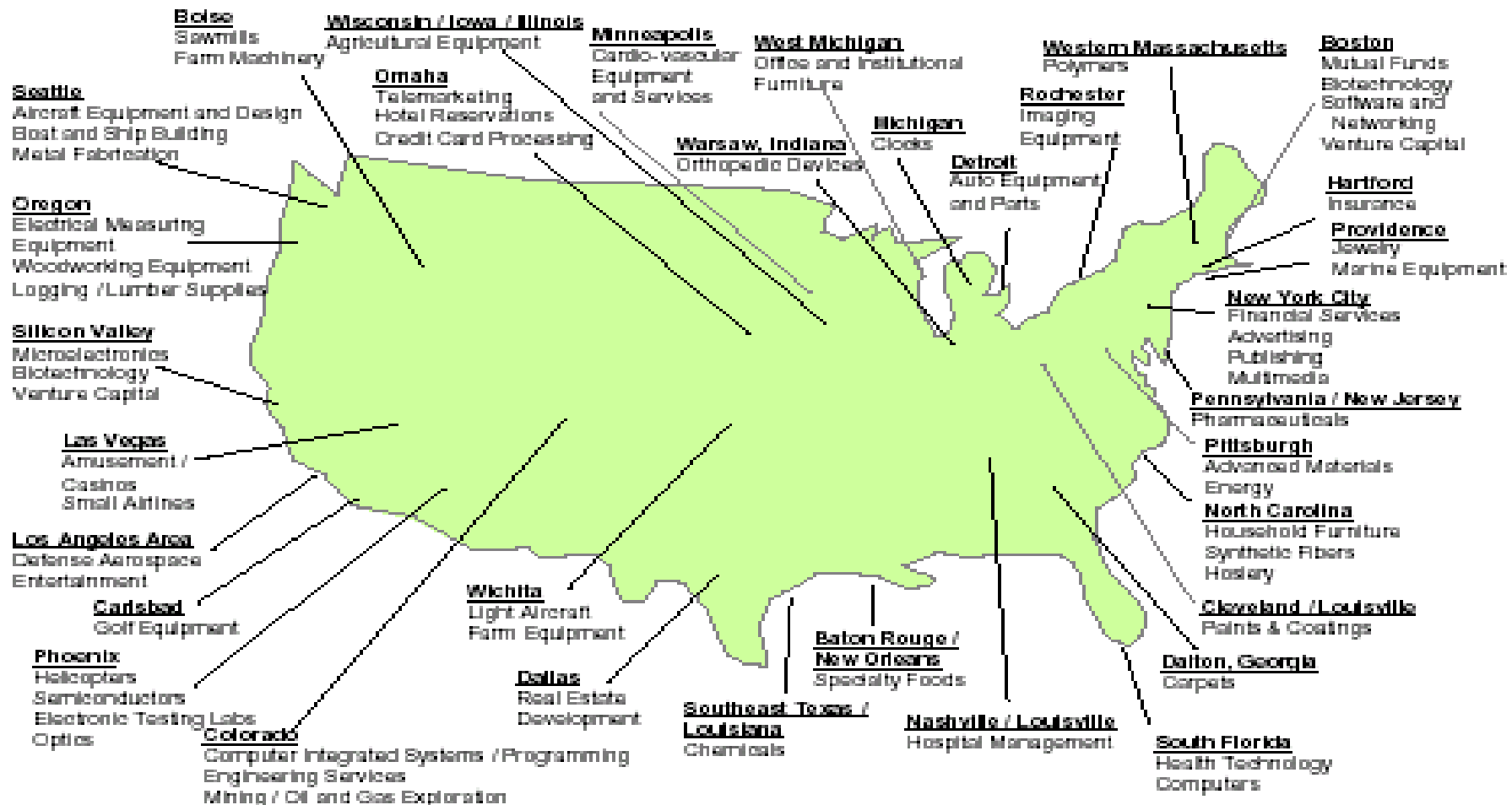
# Trust Building



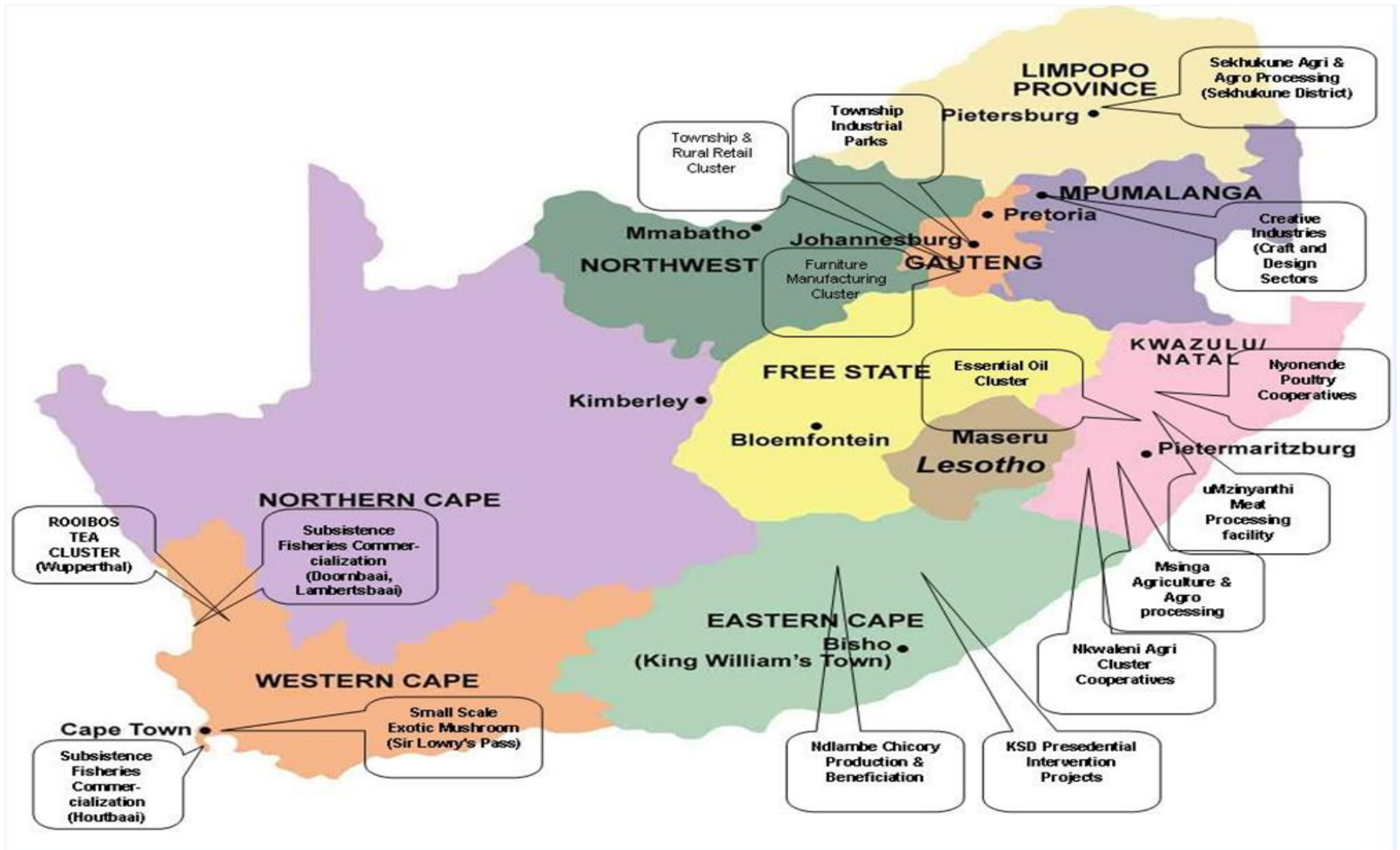
- An unwritten agreement
- To share all relevant information for an activity or objective
- Not absolute but functional
- Must give direct or indirect business gain
- At bilateral and multilateral level
- A process to create social capital

# Clusters in USA

## Main clusters in US



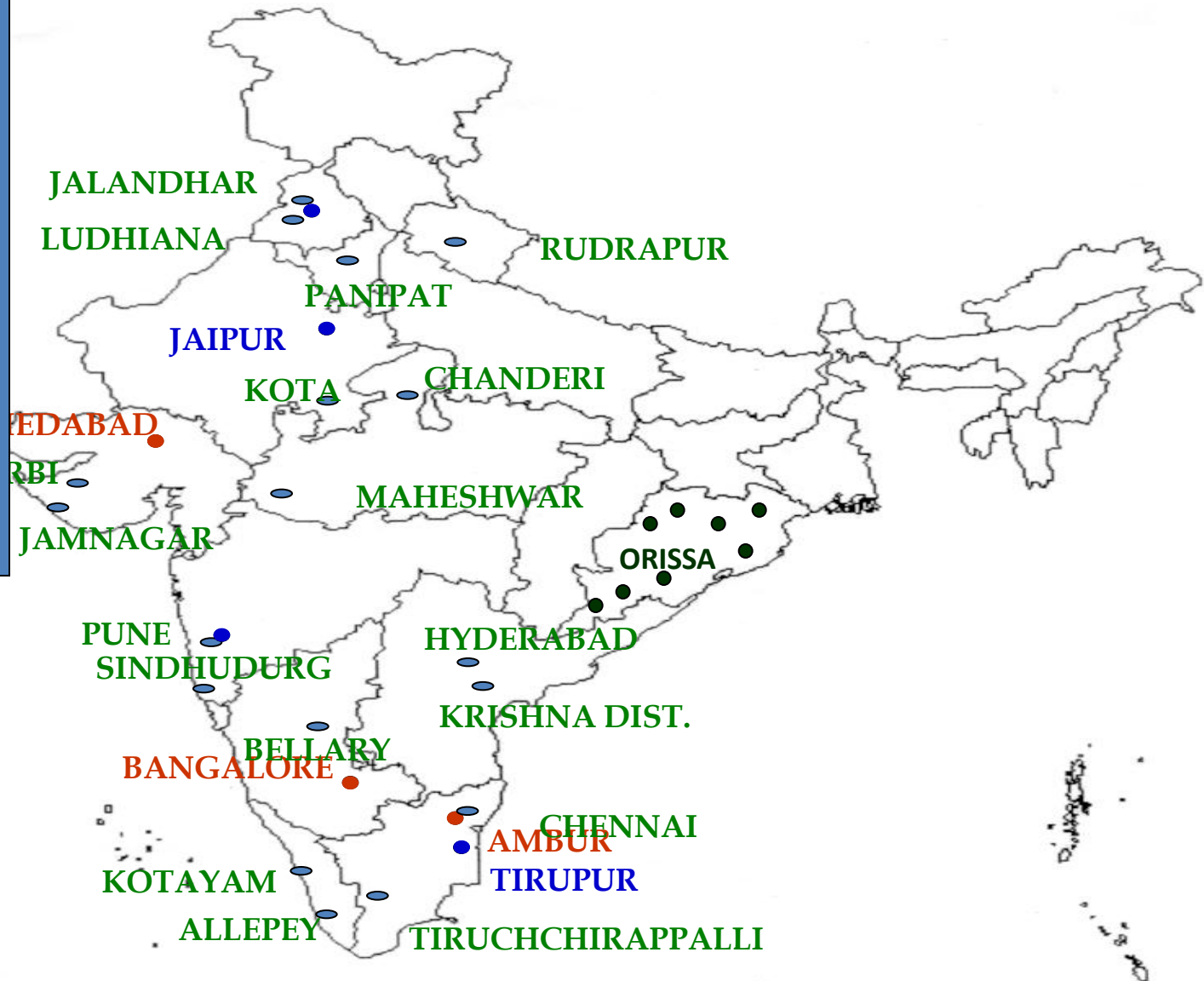
# Clusters in South Africa



# Significance of Clusters

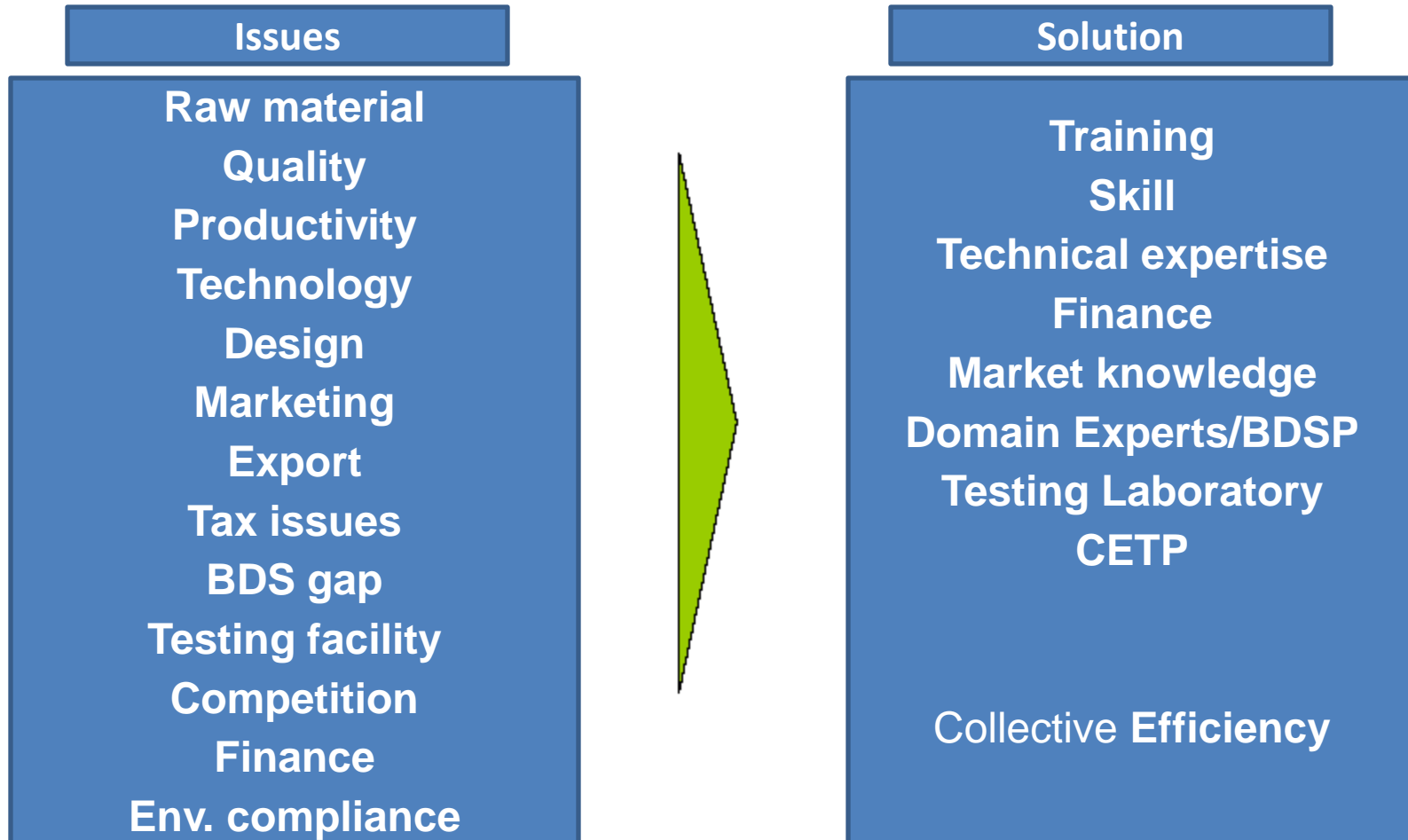
## Total No. of Clusters

- 388 Industrial
- 400 Handlooms
- 3000 Micro Enterprise
- 2800 Handicrafts



# CLUSTER DEVELOPMENT .....Why SMEs?

*SMEs struggle with a range of issues across their value chains, from finance to technology to marketing to export etc.- especially after globalisation*



**Local Economic Development**



# Moving from Passive to active Economies of Scale

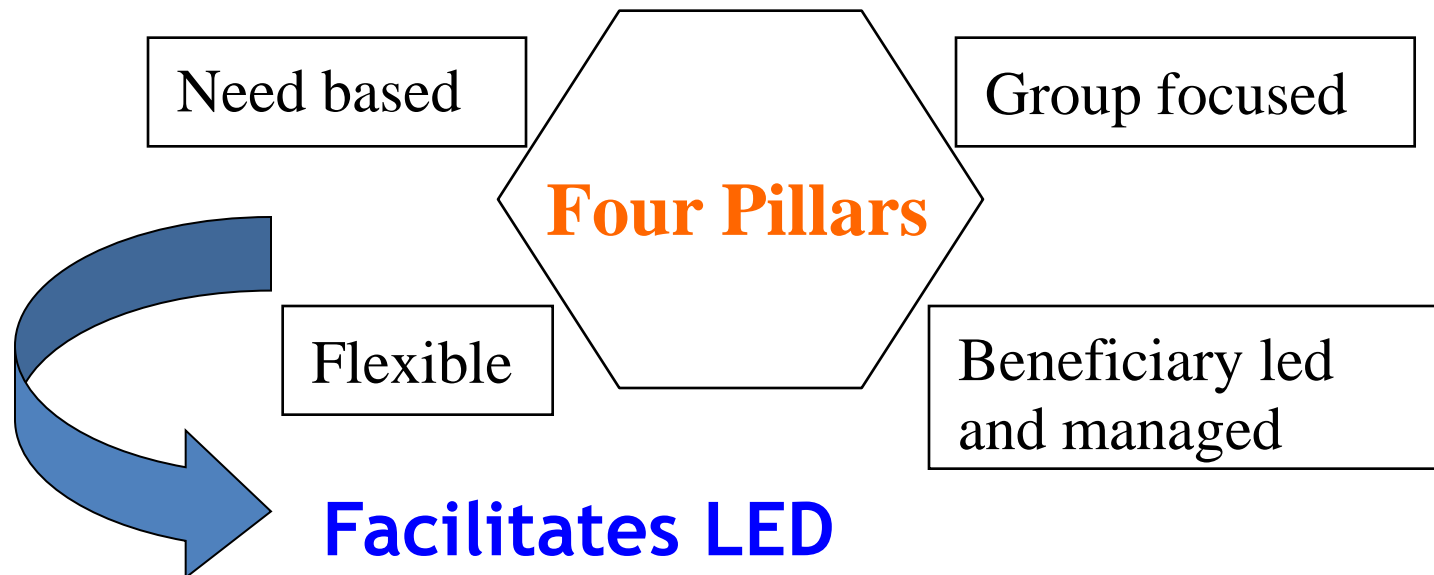
- **Passive Economies:** Sheer agglomeration of firms enables economic efficiencies
  - Attracts buyers, suppliers, labour
  - Policy attention and support
- **Active Economies:** Cooperation among different cluster actors enables
  - Exploitation of opportunities that individual firms cannot otherwise

# CLUSTER DEVELOPMENT APPROACH



**Contributes in**

*Improving overall performance and achieving collective efficiency of Enterprises*



# How CDP works

 Selection of a cluster

 Diagnostic study

- Analysis of business operation
- Industry structure analysis
- Value chain analysis
- Develop a cluster map
- Current institutional matrix
- SWOT Analysis

 Developing Cluster Vision

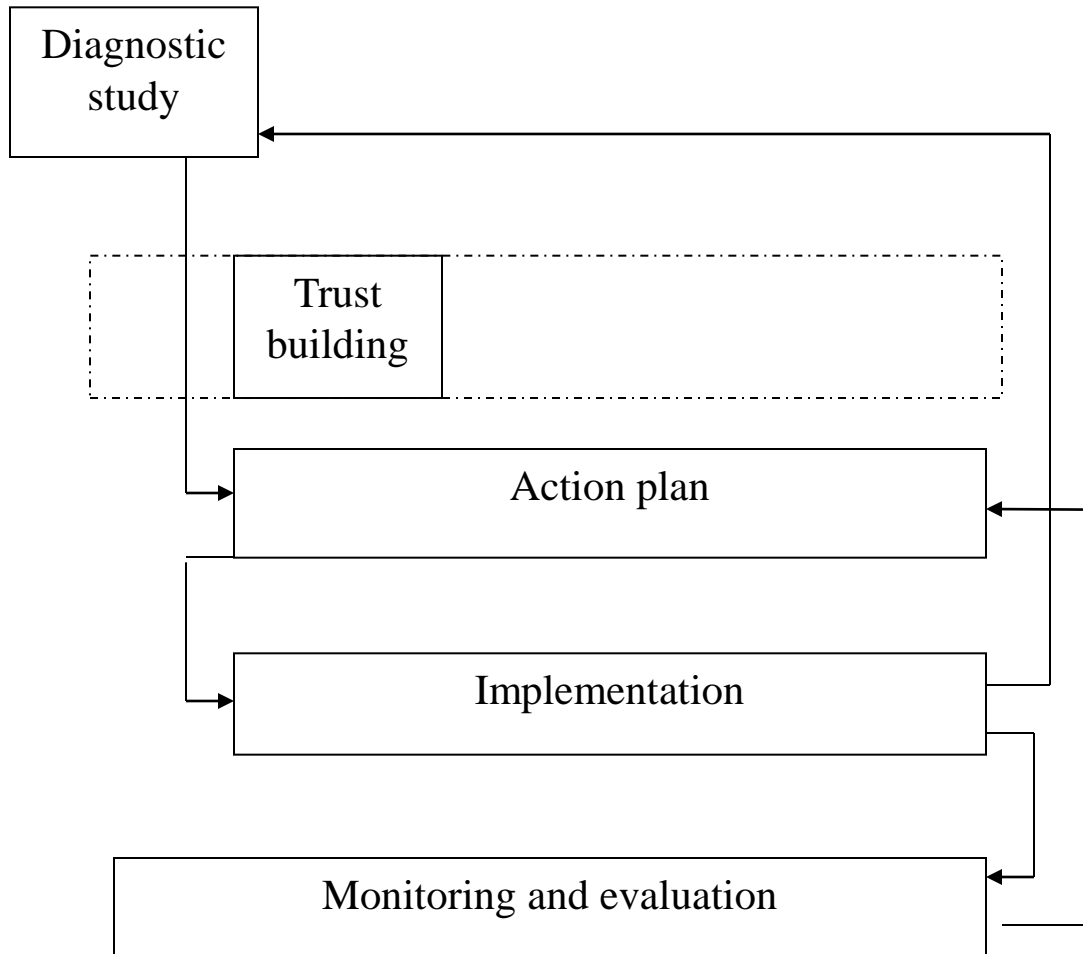
 Developing a comprehensive Strategy

 Action Plan

 Implementation

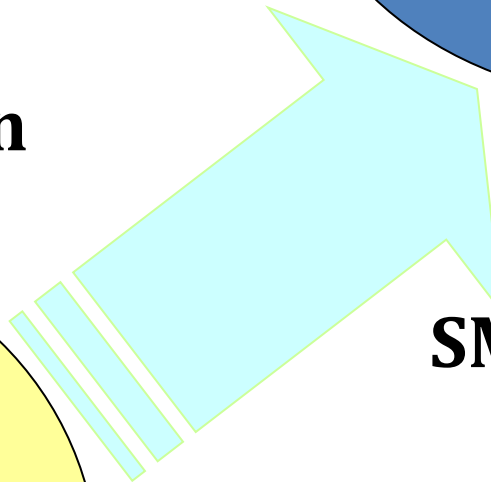
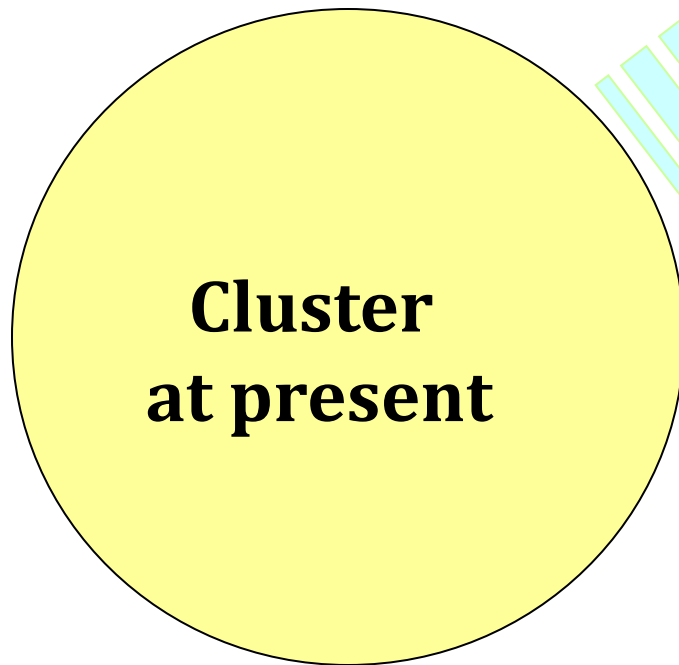
 Monitoring & Evaluation

# Cluster Development Programme: A Loop Approach



- **Holistic development**
- **3-5 years' time**
- **Pressure point/Low hanging fruit- as entry**
- **Full time CDA**
- **Intermediary led**
- **Role of BDS**

- 1. Vision**
- 2. Strategy**
- 3. Action Plan**



**SMEs Need to Work  
Collectively**

# Issues in Diagnostic Study & Strategy Adopted

## Issues

- Low level of technology development
- Limited network among cluster actors
- Scarce 'SS' of quality BDS
- Reducing export market
- Static industry association

## Strategy

- Technology upgradation
- Network formation
- BDS market is being developed
- Efforts to improve export performance
- Industry Ass. sensitised & strengthened

# Range of Possible Interventions

- **Exports:** Export consortia, Export Development
- **Technology:** Industry-Academia partnerships, technology up-gradation, Machinery suppliers - Industry partnerships.
- **Innovation:** Product/Process improvements, New application, yarns, New Designs.
- **Credit:** Accessing finance.
- **Cost reduction:** Purchase consortia, sharing production capacities, Common BDS provisioning, Common transportation
- **Environment compliance** etc.

# Expected Deliverables of a cluster initiative

- **Firm Level:** Increased productivity, cost reduction, product diversification, increased access to the market and better sales turnover, higher export – among the targeted firms.
- **Cluster Level:** increased capacity of industry associations serving the common needs, networks/consortiums for common business operations, common branding, Consortia Export, CFC in PPP mode, better industry and institutional linkages.
- **Policy/Institutional Level:** Sectoral policy changes, Institutional capacity building, Better regulatory regime.



# Ministry of MSME

- (a) Similarity or complementarity in the methods of production, quality control & testing, energy consumption, pollution control, etc.,
- (b) Similar level of technology & marketing strategies/practices,
- (c) Similar channels for communication among the members of the cluster,
- (d) Common market & skill needs and/or
- (e) Common challenges & opportunities that the cluster faces.

# Ministry of NSNE CD- (i) Common Facility Centres (CFCs):

- The Govt grant will be restricted to 70% of the cost of Project of maximum Rs.20.00 crore.
- Govt grant will be 90% for CFCs in NE & Hill States, Island territories, Aspirational Districts/L WE affected Districts, Clusters with more than 50% (a) micro/ village, (b) women owned, (c) SC/ST units.
- The cost of Project includes cost of Land (subject to maximum of 25% of Project Cost), building, pre-operative expenses, preliminary expenses, machinery & equipment, miscellaneous fixed assets, support infrastructure such as water supply, electricity and margin money for working capital.

# **Type of CFCs eligible for finance**

- Testing Facility,
- Design Centre,
- Production Centre,
- Effluent Treatment Plant,
- Training Centre,
- R&D Centre,
- Raw Material Bank/Sales Depot,
- Product Display Centre,
- Information Centre,

# Ministry of MSME CD- (ii)

## Infrastructure Development:

- The Gol grant will be restricted to 60% of the cost of Project (Rs.10.00crore for Industrial Estate & Rs.15 .00 crore for Flatted Factory Complex).
- Gol grant will be 80% for Projects in NE & Hilly States, Island territories, Aspirational Districts I LWE affected Districts, industrial areas / estates / Flatted Factory Complex with more than 50% (a) micro/ village, (b) women owned, (c) SC/ST units.
- For existing clusters, upgradation proposals will be based on actual requirements.

# What is included?

- Land, Water, Drainage, Hospital, Canteen

- **(iii) Marketing Hubs / Exhibition Centres by Associations:**The Govt grant will be restricted to 60% of the cost of Project of maximum Rs.10.00 crore for Product Specific Associations and 80% for Associations of Women Entrepreneurs. Remaining project cost is to be borne by SPV / State Government. The Govt contribution will be towards construction of building, furnishings, furniture, fittings, items of permanent display, miscellaneous assets like generators, etc.

- **(iv) Thematic Interventions:** The Gol grant will be restricted to 50% of total cost of maximum 5 Thematic Interventions not exceeding Rs.2.00 lakh for each in approved / completed CFC for activity mentioned below. As such the maximum Gol grant under this component for each CFC would be Rs.10.00lakh. Remaining cost would be borne by SPV / State Government.
  - (a) Training Programmes.
  - (b) Exposure Visits.
  - (c) Strengthening the Business Development Service (BDS) provision through a panel of service providers.
  - (d) Any other activity related to creating business eco-system in cluster mode.

- **(v) Support to State Innovative Cluster Development Programme:** A few State Governments have initiated State funded Cluster Development Programme to support soft and hard interventions in clusters with limited funding support. In order to strengthen this activity, this component would provide co-funding of the CFC projects of State Cluster development Programme on matching share basis. The Gol fund would be limited to State Government share or Rs.5.00 crore whichever is lower. The Gol assistance would be 90% of project cost not exceeding Rs.5.00 crore in respect of CFC projects in North East/Hilly States, Island territories, Aspirational Districts/L WE affected Districts, as well as for projects where beneficiaries are SC/ST/Women owned enterprises, as per the scheme guidelines of State Cluster Development Programme.



Thank You