Pro-Poor
Cluster Development
Methodology

forMSME Foundation Clusters
(FMC), New Delhi

FOUNDATION FOR MSME CLUSTERS

Abbreviations

1. **ABC:** Attitude Behaviour Change
2. **AOBO:** Analysis of Business Operations
3. **BDS:** Business Development Service Providers
4. **BVS:** Bunkar vikhas Sanstha
5. **BPL:** Below Poverty Line
6. **CDCG:** Cluster Development Coordination Group
7. **CSR:** Corporate Social Responsibility
8. **CDP: Cluster Development Programme**
9. **CFC: Common Facility Centre**
10. **COTEX:** Consortium of Textile Exporters
11. **CEO:** Chief Executive Officer
12. **CDA:** Cluster Development Agent
13. **C Weavers:** Contractual weavers
14. **CL :** Cluster Activities
15. **DC:** Development Commissioner
16. **DTDS**: Door to Door Sell
17. **EDII:** Entrepreneurship Development Institute of India
18. **E Weavers:** Entrepreneurial weavers
19. **FMC:** Foundation for MSME Cluster
20. **GOs:** Government Organizations
21. **HCR**: Head Count Ratio
22. **HSSP:** Hegdewar Smriti Swea Prakalp
23. **HBPT:** Hand Block Printed Textile
24. **HSVN**: Hast Shilpa VIkas Nigam
25. **IA:** Implementation Agency
26. **IKAT**: A typical weaving technique
27. **J & J:** Johnson and Johnson
28. **KVK:** Krishi Vigyan Kendra
29. **MSME:** Micro Small Medium Enterprises
30. **M& E:** Monitoring and Evaluation
31. **ME:** Micro Enterprises
32. **MOU:** Memorandum of Understanding
33. **M Weavers**: Master weavers
34. **NA**: Not applicable
35. **NIFT**: National Institute of Fashion Design
36. **NDAs**: Network Development Agent
37. **NMDFC**: National Minority Development Finance Corporation
38. **NGOs**: Non-government organizations
39. **PSC**: Project Steering Committee
40. **PIA**: Participatory Impact Assessment
41. **PPA:** Participatory Poverty Appraisal
42. **PRA:** Participatory Rural Appraisal
43. **PRAXIS**: An NGO

44. R & D: Research and Development

45. RRD: Rapid Research Design

46. RCN: Raw Cashew Nut

47. RCCI: Rajasthan Chamber of Commerce and Industry

48. SI: Support Institution

49. SHG: Self Help Group

50. SSI: Small Scale Industry/ **SSE:** Small scale enterprise

51. SEWA: Self Employed Women Association - an NGO

52. SC: Scheduled Caste

53. SWOT: Strength, Weakness, Opportunity, Threat

54. SIDBI: Small Industries Development Bank of India

55. SBBJ: State Bank of Bikaner and Jaipur

56. PSC: Project Steering Committee

57. SPV: Special Purpose Vehicle

58. TPACS: Talawade Primary Agricultural Co-operative Society

59. UF: Umbrella Forum

60. UNIDO: United Nations Industrial Development Organization

61. WW: Women Weaves

62. YTT: Yesterday-Today-Tomorrow

Contents

1. Pro-poor Cluster Development - A Prelude to Methodology

Cluster development, as a tool for promoting MSME clusters, is an established agenda[1] on the policy front. However, the understanding of its potential impact on poverty reduction[2] is a relatively new arena. In this context, it has been argued[3] that not all clusters are equally amenable in making an impact on poverty reduction.

Clusters can be broadly classified as (a) 'dormant'/'incipient'/ 'survival' clusters, those at an early stage of development, located where majority/significant percent of the population is poor and producing for local markets using simple technologies and (b) 'dynamic'/'matured'/'advanced mass production' clusters, which are more advanced in terms of technology and skills, often produce for global markets.

Although, it has been argued[4] that ".….while 'incipient' clusters are the obvious targets for direct poverty impacts, more 'mature' clusters can also have an impact on poverty concerns by generating employment and incomes for relatively low wage-workers and their households…". But, the latter being more indirect, 'rural' and 'informal urban' clusters, as opposed to mature SME clusters are often identified as the most potential clusters for impacting on poverty reduction through an "appropriate[5]" cluster development methodology. Such 'rural' and 'informal urban' clusters, where, a significant portion of the primary stakeholders are in 'poverty' are being defined here as poverty intensive clusters[6].

> Poverty intensive clusters mostly consist of rural and urban informal clusters where primary stakeholders are mostly in poverty.

Box 1.1: Handloom Cluster of Chanderi

Chanderi is a small township in the state of Madhya Pradesh, India. Handloom-based weaving in Chanderi is a centuries' old activity. The cluster is known for its ethnic handloom products also with high design value. In the year 2003, it had 11000 weavers working in 3000 looms. During a Participatory Poverty Appraisal (PPA)[7], the well-being analysis indicated that the "happier group" in the cluster were traders, large master weavers[8], etc. Small master weavers and independent weavers were included within the "happy" category. The "average" was those weavers who were lowly paid and led a vulnerable existence. In the "sad" category were daily workers or wage workers who had become dependent on traders or master weavers. The most vulnerable groups identified during the well-being analysis were those weavers who were unable to save for the next day. They were estimated to constitute 30-40% of the weaving community and were in need of livelihood improvements.

The estimated turnover of the cluster was around USD 2.6 million. This was marketed mostly by 50 traders through their private marketing channels and also through fairs and exhibitions and supportive purchase policy of the state government. But the designing capacity of the cluster could not keep pace with time. Even though in the past, designers have been hired by state government agencies, no modern day designer was constantly linked to the cluster. As a result, the cluster largely remained untouched by modern design and product development. It therefore got alienated from a typically design intensive rising upper-middle class market catered by high-value chains. Moreover the name of 'Chanderi' was constantly being misused by power-loom 'look alike', thereby cutting into the potential clientele of the cluster. These, along with trend decrease in support framework, further aggravated the situation leading to low and irregular wages and at times no-work situations for the poorest weavers.

Here, a second category of cluster that has the potential to mature into success by linking to appropriate value chains and/or by changing its product profile is a food processing cluster.

Box 1.2: Cashew and Processed Fruit Cluster of Sindhudurg[9]

The cashew and processed fruit cluster of Sindhudurg, in the state of Maharashtra in India abounds in horticultural produces including mangoes, cashew, garcenia indica (*kokum*), Indian gooseberry (*aonla*) and blackberry (*jamun*). The history of cashew processing units in Sindhudurg is almost a century old. Around 30 per cent of the cashew produced here is processed locally by 15 small scale enterprises units and around 150 micro enterprise (ME) units. They are mainly catering to the regional and national markets. However, the growth of other processed food units is a relatively recent phenomenon. 44 ME units and 160 self help group (SHG) units[10] are into the processing of mango, jamun, *kokum* and jack fruit. Most of these units are catering to the local and regional market.

Due to seasonal variations in climate and the limited spread of horticultural crops, many small and marginal farmers as well as landless families (who make up for more than 90 per cent of the agricultural labour) are involved in wage labour. It is estimated that the average family income of these small and marginal farmers both of whom are in farming (small plot owners or agricultural labourer) is in the range of Rs 15,000 (USD 350) to Rs 20,000 (USD 450) annually. This section of the population also constitutes the principal labour force of the local horticulture- processing industry. This is particularly relevant for the cashew-processing industries where 95 per cent of the workers are women, many being the principal earners in their families. Although earning by women started as a 'complementary' income, it is increasingly becoming an essential part of the family income. Group enterprises, such as those undertaken by SHGs, have provided them with some disposable income.

Accordingly, a PPA exercise[11] identified people engaged in low-pay work and/or labour-intensive livelihood options (e.g. wage workers, agriculture labourers, domestic workers, etc.) under the category of the poor, and they constitute mostly the landless labourers, and the small and marginal farmers. Here again, the BPL families are of particular relevance as their annual income is below the national minimum.

> Cluster development approach works through promotion of passive and active cooperation and the social capital created in this process.

According to the principles of traditional cluster development approach, this induced development process works through promotion of (a) passive external economies by generating conditions of interaction among stakeholders, (b) active external economies created through planned joint action by the stakeholders and (c) social capital created in this process that conditions the stakeholders to continuously take similar independent actions for development without the intervention (inducement) by an external agency.

Since most such cluster development programmes do not explicitly factor poverty concerns into their goals, and given a limited knowledge of global experience (theoretical as well as practical) of targeted pro-poor cluster development, a research study[12] was conducted to provide some start-up guidelines for creating special impact on poverty reduction through cluster development approach. The study provided the following guidelines:

- Target poverty: identify the poverty groups in the cluster and pay greater attention to their needs. This could imply addressing the specific constraints (such as credit, market linkages and training) of poor artisans and poor workers.
- Focus cluster-gains of the poor: identify key benefits for the poor and foster specifically those co-operative strategies that can help them the most.

> Cluster development approach for poverty alleviation must focus on the marginal groups and espically strengthen social provisions.

- Recognise cluster differences and ensure that marginal groups of workers and producers are not weakened as a result of such induced intervention.
- Promote special protection by using formal and informal interventions to strengthen social provisions on health, occupational hazards, vulnerability and risks.
- Use cluster mapping to identify key public and private stakeholders for pro-poor interventions.
- Emphasise labour standards and improved work practices as a pro-poor endeavour within corporate social responsibility.
- Use a sustainable learning approach in diagnostic and impact assessment to develop and improve pro-poor cluster programmes.

Accordingly, this 'modified' cluster development methodology was simultaneously developed during an action research project[13] in two clusters – the Handloom Cluster of Chanderi (Box 1.1) and the Cashew and Fruit Processing Cluster of Sindhudurg (Box 1.2). Given the low potential of survival, a cluster with falling market share was not selected. Subsequently, similar methodology was applied in 13 clusters in the State of Orissa[14]. These field-level applications suggested a number of modifications to the steps followed to implement the traditional cluster development methodology[15] which hovers around the following principles : (1) a demand-driven and flexible approach, (2) implemented through intermediaries; (3) promotion of competitive co-operation, wherein the units co-operate for certain activities and compete for others ; and, (4) promotion by an agency (non-stakeholder[16]) which moves out of the cluster by creating local capacity (social capital and governance) for continuous improvement.

For this purpose, the methodology for selection of poverty intensive clusters is presented as Chapter 2. Chapter 3 presents a modified diagnostic study[17] and also argues on its shortcomings in the context of poverty-intensive clusters. These shortcomings are then addressed in Chapter 4 through a well-known tool of participatory poverty assessment (PPA) in the context of a cluster. While the technicalities of trust-building and action-plan preparation did not undergo any major change, the range of capability-promoting activities did undergo changes. These issues were thereafter subsumed in the classical cluster development methodologies of trust building and action plan in Chapters 5 and 6 respectively. Chapters 7 and 8 deal with implementation techniques and monitoring and evaluation respectively. This publication, however, pre-supposes a previous familiarisation of the traditional UNIDO cluster development methodology (FMC: 2006).

2. Selection of "Poverty Intensive Clusters"

2.1 Need for selection

The concept of poverty for a cluster stake-holder encompasses a basket of mutually reinforcing challenges including (a) low income (leading to low levels of consumption) arising from lack of resources such as assets, market, technology, skill, productivity, etc., and (b) capability constraint including poor health, lack of education, gender bias, social exclusion, etc.; in short, all those that restrict an individual from "…the substantive freedom he or she enjoys to lead the kind of life he or she values…"[18].

Various approaches to poverty reduction (e.g. focussing on education, health, gender) are in practice to tackle multiple dimensions of poverty. However, attempting poverty-reduction through cluster development is a new concept. As mentioned earlier, it is not relevant for all clusters and as explained below, it is not suitable to target all dimensions of poverty. Hence, in view of (a) its methodological limitations, (b) scarcity of development resources and (c) multiple options available to a development agency for poverty reduction, there is a need for careful selection of clusters for application of this approach. Such a process of selection should necessarily target the following objectives.

2.1.1 Generate visible impact

> Cluster selected for implementation must generate visible impact, have high coverage and maximize learning.

Labour intensive clusters have a prominent presence in most developing economies. Examples of such clusters are handlooms (India), home-based apparel (Bangladesh), carpet (Nepal). In order to create a visible impact, it is advisable to include one or more labour intensive-clusters at least during the early stages of implementation.

2.1.2 Maximise scope for learning

While low income is often a cross cutting theme, a combination of the other dimensions of poverty is often present in a cluster. Hence, depending upon the resources available, a development agency should opt for enlarging the diversity of challenges, while necessarily including the income dimension, so as to maximise the scope for learning.

2.1.3 Maximise spill over effect

A poverty intensive cluster is normally situated in a local economy consisting of few villages or a block[19] or a semi-urban setting. While poverty might encompass an entire local economy, cluster-based development can only partially address the issue by working with the stakeholders of the cluster, in that local economy. Hence the choice of cluster, which has a higher spill-over effect on the local economy, should be given higher weight to create greater overall impact on the local economy.

2.2. Creation of country database

The process of creating a country database of *poverty-intensive clusters* is much more challenging as compared to *industrial clusters*, as the former generally (a) lack national visibility, (b) are hardly reflected in macro-economic information and (c) are, many a time, dormant, awaiting appropriate linkages to promote them as clusters. Not the least is the issue of defining a 'poor stakeholder' and

> Poverty is defined as "the persistent state of an individual (stakeholder) who has low income or is at risk, who has a low capability in terms of choices and who is excluded from participation in her/his society.

thereafter qualifying a cluster as poverty-intensive. For the purpose of this methodology, taking into consideration aspects of income, risk, and vulnerability, 'poverty' is defined as "the persistent state of an individual (stakeholder) who has low income or is at risk, who has a low capability in terms of choices and who is excluded from participation in her/his society. She/He has little access to resources (material, financial and institutional) and is unable to exert control over external factors".

Since poverty definitely has an income dimension, the initial selection may be done on this basis from secondary sources. To ensure further authenticity, one can cross-check these initial findings with the population census of a country, with respect to average income of key stakeholders. This can later be further verified by more objective evaluation during rapid analysis of the cluster prior to final selection (see section 2.4 below).

A useful rule of thumb is that clusters with high labour-intensity have greater propensity to be poverty-intensive clusters. For this reason, preliminary interactions with specialized ministries/departments (often created to address employment potential of these sectors) can be very fruitful.

In view of the scope for backward linkages, in principally agro based economies, food-processing is another good lead to identify poverty-intensive clusters. Concentration of fruit-based regions, where some processing is already underway can also be a source for identifying such clusters.

Box 2.1: Amla cluster of Pratapgarh, Uttar Pradesh, India

Pratapgarh is the largest producer of *Amla* (aonla – a fruit). Seventy per cent of amla produced in India comes from Pratapgarh alone. Around 800 families are producing *amla* in the district and around 400 families are engaged in *Amla* processing. There are around 50 small enterprises in the organized sector. *Amla* is a highly profitable cash crop. A major chunk of the produce is being supplied to major industrial houses in pharmaceutical industries. A bare 20 per cent of amla is locally processed with traditional skills to produce pickles, marmalades and sweets. However, it has major potential and can be converted locally with science & technology intervention to produce *chywanprash*[20], hair oil, vitamin C, concentrate and candy. This will result in value addition and thus help in poverty alleviation.

Source: Centre of Technology and Entrepreneurship Development, Sultanpur, Uttar Pradesh.

There are a number of agencies, which are engaged in various aspects of poverty reduction in many developing countries. These agencies are present both at the State and the Central level and include both governmental as well as private agencies supported by government/ donor agencies. Agencies specialised in education, health and other livelihood promotion initiatives such as micro-finance, farm and off-farm livelihood promotion, in view of their grass-root linkage, are useful sources of information for the presence of poverty intensive clusters.

> Agencies specialized in health, education, livelihood, microfinance, etc are useful sources of information on identifying poverty intensive clusters

2.3 Criterion for initial selection

A national database, thus created, should describe the following characteristics of a poverty-intensive cluster:

2.3.1 Product range

Ideally the product range of a cluster should be highly interrelated with respect to product development and marketing. Managing multi-product clusters having exclusive value chains (e.g. processed cashew, processed mango and ethnic food products) is a challenge.

2.3.2 Product life-cycle

Promoting joint action in clusters where the products have a dwindling future market, as they have lost their relevance in view of global innovation, can only create temporary respites for the cluster. As the situation will worsen naturally, despite co-operation among units, it will ultimately lead to collapse of social capital. If such a cluster is selected, it will need support for a total product shift, which will be a prerequisite, prior to promotion of social capital in the cluster.

2.3.2.1 Presence of principal stakeholders

Clusters, which do not have enough principal firms[21], will have very little potential for creation of networks and subsequent promotion of the principles of *competitive co-operation*, on which pivots a substantive portion of the methodology of cluster-development approach. Selection of such a cluster will require creation of enough units prior to creation of networks and promotion of the principles of competitive co-operation.

2.3.2.2 Spread of units

Cluster units should not be too widely spread. Here promotion of joint action becomes a costly process for the stakeholders themselves and often certain activities become economically unviable due to high transaction-costs.

Box 2.2: Cashew and Processed Fruit Cluster of Sindhudurg

Sindhudurg is the smallest district[22] of the State of Maharashtra[23], India. It has a population of 862,000 with 92 per cent living in 710 villages and 31 per cent being below poverty line (BPL). It has an area of about 5,000 square kilometres contained in 8 blocks, namely Devgarh, Kankauli, Kudal, Malvan, Savantvadi, Vengurla, Vaibhavadi and Dodamarg. Although, all the Small Scale Industry (SSI) units, 75 per cent of the micro enterprises and Self-Help Group (SHG) units are located in the four blocks of Kudal, Malvan, Savantvadi, Vengurla, yet the area covered by these 350 odd units is around 2000 sq. km. This often makes it difficult for inter-unit co-operation especially with respect to group formation, regular interaction, inter-group co-operation and joint actions like common purchase, common packaging, common marketing at certain identified levels, etc.

These do not imply that an agency should avoid selecting such clusters. The issue is that an agency needs to be aware of such additional tasks while selecting such clusters and accordingly adopt suitable measures to handle those issues. A truncated country table of poverty intensive clusters appears in table 2.1

Table 2.1 Truncated Poverty Cluster Table of India (some entries)

S. No.	Place	Nature of place	Area (Sq. km.)	Product type	Product range	Product marketability	No. of household units (HHUs)
1	Chanderi	Township	10	Handloom	Sari, fabric	High	3000 HHUs
2	Barpali	Rural – Semi-rural	180	Handloom	Ikat saris, suits, dress material etc.	High	870 HHUs
3	Puri-Konark	Urban & rural	300	Stone Carving	Statues, table tops, accessories, etc.	High	550 HHUs
4	Jhakarbahali	Rural	150	Bamboo craft	Baskets, table top accessories	High	300 HHs
5	Sindhudurg	Rural, Urban	2000	Fruit-based products	Processed fruit, cashew	High	15 SSIs, 200 MEs, 160 SHG units[24]

Using the above tools, a preliminary short list of clusters can be made. The short list will differ according to development priorities. A regional agency will concentrate on clusters in its geographic area. A sectoral/ functionally specialized agency will select similar clusters in different regions. An agency with no regional or sectoral bias can select a mix of clusters distributed over regions and products, if it has the capacity to handle more than one cluster, and if there is added value (in terms of cumulative development effects) in assisting a mix of clusters.

2.4 Formulation of final selection criteria

Final selection of cluster must consider scope for (a) marketing of product, (b) ease of creation of social capital and (c) likely support from other ongoing programmes.

The initial set of short-listed clusters is the base for final selection of cluster(s) to be picked up for implementation. A final selection has to make a comparative analysis of the importance of clusters in a local area and go beyond the income definition into the capability aspect of poverty. It also has to take into account, among other things, detailed product-characteristics and the consequent possibility of marketing, the scope and ease of creation of social capital and the likely support that a programme can derive from other on-going projects.

2.4.1 Nature of Cluster

Clusters with a larger number of micro-enterprises and household units (having mostly/only house-hold labour), low average income, stakeholders living mostly below the national poverty line, using local workforce, having strong linkages with other local livelihood sectors increase the likelihood that the development impact on the overall (local) economy will be maximum. Clusters with higher chances of environmental improvement will also be preferred as this can create visible impact on sustainable development. Not the least, clusters which have higher replicability potential, will be preferred as compared to a stand-alone cluster.

2.4.2 Possibilities for Joint Action

Lower the number of principal stakeholder units, the lower the possibility of joint actions. Higher the area of coverage of the cluster, the more difficult it will be to constitute regular joint actions. This becomes even more difficult in poverty stricken clusters, where the stakeholders are ill-equipped both monetarily as well as functionally to go for regular interaction across longer distances. Again, in some cases, the stakeholders – especially the family of the stakeholders - are engaged

Often, Joint action is challenged due to fewer stakeholders, higher spread and multiple livelihoods in poverty intensive clusters.

in multiple activities and the earnings of stakeholders from the cluster product are minimal. Such stakeholders do not get fully committed to the cause of joint action related to the cluster and the output of development efforts gets limited. Hence such clusters should preferably be avoided. Again, in most of such clusters, the principal forward linkage partners are situated outside the cluster. Here communication linkage and distance of such partners from the cluster becomes important as many a time the value addition is less and cost of transportation becomes a critical factor. Hence clusters which are situated closer to immediate forward linkage partners may be preferred, at least to start with.

2.4.3 Scope for Capability Promotion

While low income is a serious manifestation of poverty, poverty is also conditioned by capability. The capability vector consists of at least four critical elements – poor health, low literacy, gender bias and social discrimination. Health and literacy have cross-cutting objectively verifiable indicators. Higher the deprivation of the stakeholders in these areas, higher is the chance of impacting upon the poverty level of the cluster.

Apart from principal stakeholders one also needs to look into the health of workers and the owner-cum-worker stakeholders of the cluster. There is also a strong correlation of poverty with gender dimensions and socially backward classes and a general trend in poverty is that among the poor, the women are more into poverty as against men. The same is, in general, true for less privileged or socially backward communities.

"… (In) India …age-specific mortality rate for females consistently exceeds that of men….The main culprit would seem to be the comparative neglect of female health and nutrition, especially – but not exclusively - during childhood. There is indeed considerable evidence that female children are neglected in terms of health care, hospitalisation and even feeding…..Even though the Indian case has been studied more extensively than others….. Similar evidence of relative neglect of health can be found in the other countries as well…."[25]

"…The incidence of poverty among females tended to be marginally higher than males in both rural and urban areas. The percentage of females living in poor households was 37 (34) per cent in rural (urban) areas in 1993-94 and 27 (25) per cent in 1999-2000 and in contrast the percentage of male persons living in poverty was 36 (32) in rural (urban) areas in 1993-94 and 26 (23) per cent in 1999-2000…."….The poverty in India is not merely an economic but largely a social phenomenon….As compared to an HCR[26] of 16 per cent for the general category in 1999-2000, that for SC and ST categories, the HCR was 36.2 and 43.8 percent respectively…."[27]

One issue of special interest is that though "…women work for longer hours…yet their work gets less recognised because they are shown to participate less in the work force…". Such lesser visibility is even more rhetorical, especially in the context of a cluster, where women account for a high percentage of "dependent workers", i.e. workers with no direct access to earning. For example, in most of the handicraft and handloom clusters, women are equally skilful as men, perform near-similar activities and at times carry out some very critical part of the product. But the earning goes directly to their male members who do the business dealing at the end point of product delivery. This happens due to limited capability of women in understanding business deals, limited freedom of movement and lack of capability of leadership to promote more women to come to the forefront. Besides women also do more work as compared to men, who seldom do any household work. Thus higher presence of working women should be given higher weightage to the selection of a cluster.

2.4.4 Viability

Products with proven growth prospects have higher prospects for promoting a successful cluster development programme. Hence, as an implementing agency selection of such clusters may be preferred. Again, if the product range becomes too large, for example, selecting multi-food processing sector or if the product has a definite declining market prospect, programme implementation will face steeper hurdles.

2.4.5 Promotability

Promotability refers to the presence of institutions or associations, adequate business infrastructure and conducive policy framework. Presence of suitable institutions, truly open and representative structure of poor stakeholders, adequate business infrastructure and policy recognition of cluster based, demand driven and flexible development initiative is often a rarity. Higher the presence of such conditions, higher will be the chances of success in project implementation in that cluster.

Optimal use of resources is also promoted by exploiting synergies. For example, the effectiveness of a technical upgrading programme can be greatly enhanced if complemented with a marketing related programme. Isolated activities by different institutions at different periods of time tend to lead to poor results. Hence the presence of such programmes in the cluster may be given higher weightage for selection. At times, the cluster development programmes lack resources (human and financial) to handle capability issues. Here, presence and willingness of suitable existing support-stakeholders to help such a cause is of great value.

2.5 Information needed for cluster selection

Whether these criteria are met can be ascertained by using the following checklist.

Table 2.2: Primary data required for cluster selection

1.	**Nature of Cluster**
	• Number of SSE and ME units
	• Degree of local employment in those units
	• Number of household units
	• Number of below poverty line (BPL) household units (based on BPL estimate)
	• Average income of stakeholders
	• Linkages with other local livelihood sectors
	• Contribution to employment
	• Chances of environmental impact
	• Presence of similar clusters
2.	**Joint Action Possibility**
	• Area of coverage of the cluster
	• Chief livelihood of principal stakeholders
	• Distance from immediate forward linkage partner
	• Presence of support firms
	• Presence of service providers
3.	**Scope for Capability Promotion**
	• Health issues of stakeholder
	• Health issues of workers
	• Drudgery/hazards involved in production
	• Level of literacy
	• Presence of women labour in ME/SSI units
	• Presence of women stakeholders (in household units)
4.	**Viability**
	• Does the product have a future in current national/global settings?
	• How wide is the product range?
5.	**Promotability**
	• Presence of suitable technical institutions
	• Presence of truly open representative structure of poor stakeholders
	• Presence of adequate business infrastructure
	• Policy recognition of cluster-based development
6.	**Complementarity**
	• Potential for support from other development initiatives
	• Scope for value addition of a support project

This information can be collected through the following steps:
1) Get secondary data on the sector.
2) Organise broad write-up on the cluster and on-going support activities from an appropriate local agency or local-level knowledgeable persons.
3) Prepare a fact sheet on the line of table 2.2 and identify gaps.
4) Request the same agency to organize a few meetings with some principal stakeholders in the cluster.
5) Create a team of at least two persons, one of them being necessarily women.
6) The team should visit a few dissimilar households, ME and SSI units. Interact with the agency representative, if possible the person who interacts with the stakeholders of the cluster. Thereafter, meet the stakeholders in groups and, if possible, with men and women separately.
7) Share the programme objectives, findings and probable future actions with the cluster-stakeholders in a concluding discussion.

2.6 Final selection of clusters

Different values are given to each criterion on the basis of the information gathered. The scoring system for each criterion proposed below can be adapted to the nature of the cluster and the priorities of the implementing agency. However, it is recommended that highest weightage be given to viability, without which implementing the cluster principles will be difficult, if not impossible. The next important thing is the nature of a cluster, followed by the possibility of joint action and scope for capability promotion. The presence of promotability and complementarity are additional benefits, which the cluster-development process has to otherwise work upon and invest respectively.

Table 2.3: Final selection table

	Weight	Score			Weighted score		
		X	Y	Z	X	Y	Z
Nature of cluster	20	5	4	6	10	8	12
Possibility of joint action	20	4	8	5	8	16	10
Scope for capability promotion	15	6	4	6	9	6	9
Viability	25	2	8	4	5	20	10
Promotability	12	8	3	5	9.6	3.6	6
Complementarity	8	4	5	5	3.2	4	4
Total weighted score	100				44.8	57.6	51

Note: W => Weight; W. Score => Weighted Score; X, Y and Z are the three clusters. The scores vary from 1 to 10 and the total weight is 100.

As per table 2.3, cluster Y will be selected for intervention. Assuming that the organizational hierarchy of the implementing agency can be divided into top, middle and implementation levels, the following role matrix is suggested for the agency:

Table 2.4 Role matrix

	Top management	Middle management	Implementation level
Creation of macro guidelines			
Collection of secondary data			
Creation of country-cluster map and country-cluster table			
Initial selection of clusters			
Creating final selection criteria			
Collection of primary data			
Final selection			

3. Diagnostic Study

3.1 Purpose of a diagnostic study

Diagnostic study of a cluster documents its strengths and weakenesses, operating environment and steps required for sustainable development with poverty reduction. It needs to be regularly updated with operating experiences.

On selection of a cluster, the task of the implementing agency is to obtain a more in-depth picture to identify the following aspects of the cluster - strengths and weaknesses, the environment in which it operates and the steps to be undertaken for its sustainable development with poverty-reduction. Preliminary information regarding these aspects is obtained through a *diagnostic study* of the cluster. It is important to stress that in a complex socio-economic environment of a micro unit cluster, no one-off study can be expected to identify all relevant aspects. The diagnostic study provides a broad framework, which needs to be regularly fine-tuned and revised with the stakeholders and supplemented with specialised studies, on a need basis, at a later stage. In a nutshell, the objectives of a diagnostic study are to:

- Understand the socio-economic environment of the cluster
- Identify the most effective leverage points for intervention
- Provide a baseline for future monitoring and evaluation
- Build initial trust with and among the stakeholders

3.2 Who will do it?

Depending on the complexity of the cluster, the diagnostic study can be made by a small team or a single consultant. One of these consultants (if it is a team) should preferably be female. After completing the diagnosis, the consultant or the team (or at least its senior professional) can act as facilitator in drafting, validating with stakeholders, and initiating the implementation of the cluster action-plan. The Cluster Development Agent (CDA) should preferably be appointed before the diagnostic study, so that s/he can be a part of the exercise.

3.3 Steps in cluster diagnosis

Before introducing the research agenda that lies at the core of the diagnostic study, it may be useful to recall that a poverty-intensive cluster consists of household units, existing as well as potential, (the latter being important for further boosting employment and consequent income effect), micro enterprises (at times also SSI units), poor household units providing support service/product and also a range of other stakeholders. The steps can be summarized as follows:

1. Collect basic data about the cluster
2. Analyse the value-chains
3. Study a benchmark cluster
4. Conduct interviews with representative samples of the principal firms, association representatives; other support firms, local support institutions, local NGOs, critical value-chain partners – often situated outside the geographical domain of the cluster; etc.
5. Make an appraisal of the economic and social structure of the cluster based on the strengths and gaps in (a) business avenues and services available with the principal firms as well as the poor support firms; (b) capability dimension of stakeholders managing these firms; (c) social structure having an impact on the performance of the units and (d) the governance structures.
6. Combine these analytical steps in an overall diagnosis and summarize the challenges and opportunities faced by the principal stakeholders and also support firms managed by poor stakeholders.

7. Vision, strategy and initial action plan
8. On completion of the Diagnostic Study one should also draw up a cluster map that reflects the relationship dynamics of stakeholders with the principal firms.

3.3.1 Collect basic data about the cluster

Basic data about number, type and size of principal stakeholders , types of product made by the principal firms, the distribution of units among people with varying social and economic background, spread of units, percentage of women-managed /supported units, average income /earning, etc. can be based on the information collected during the cluster-selection phase. The parameters identified in Table 2.2 in Chapter 2 can now be used to explore detailed information on the cluster in more detail. Sources of information can be area surveys and censuses; district plan, district support agency report/plan, local bank reports, etc.

3.3.2 Analysis of value-chain

In the global market scenario, even those micro-unit based clusters which are producing traditional products face unrelenting pressure due to changes in technology, shifting value-chain and access to information and resources. For example, in traditional rural metal or clothing sectors, micro units producing for local markets are finding their markets swept away by changes in agricultural techniques, by customers moving upmarket as they become more prosperous, or by cheaper and/or superior incoming urban or imported products. For this reason, it is important that prior to extensive fieldwork, the diagnostic team should become familiar with the broad environment in which the cluster operates by identifying and analysing the value chains in which the principal firms

> In the global market scenario, even those micro-unit based clusters which are producing traditional products face unrelenting pressure due to changes in technology, shifting value-chain and access to information and resources.

and also poor stakeholder-driven support firms operate, and study the characteristics of and trends in the context of the following:

- Size, location and product requirements of local, regional, national and - if relevant - international markets.
- Marketing channels and rate of return.
- Size, location and strategies of the main competitors in the local/regional/national economy.
- Market shares by product.
- Technology used by product / producer (not so poor, poor, poorest) type.
- Supply conditions of other major inputs (e.g. skills, raw materials, components, energy).
- Any other significant features of the business related to capability/environmental sustainability issues, e.g. health /ergonomics /environment /conservation /social responsibility issues.

Sources of information can be surveys and censuses; agency documents, sectoral newspapers/magazines, speeches by agency chiefs, publications of national/International product associations/councils and the internet. This preliminary study (which should not exceed a week of full-time work) may be contracted out. It is crucial that the information gathered is as up-to-date as possible.

3.3.3 Study a benchmark cluster

While the idea is to collect data from the cluster, a prudent discussion that can bring out various latent insights desires a preliminary (if not thorough) understanding of the sector and levels of stakeholder co-operation prevalent in similar clusters. Hence apart from detailed sectoral data, it is also required to identify one/two performing clusters (of similar products) operating elsewhere under near comparable conditions and study relevant characteristics such as their size, product-range and methods of adding value to products, market-share by product-type, types of stakeholder, major markets, marketing channels, technologies used, strategies of lead firms. Here one should also take a preliminary stock of the various performing and lead agencies, association of stakeholders, NGOs and their areas of operation, major activities, etc. over the years and at present.

3.3.4 Selection of samples and setting up interviews

> The diagnostic study should start by interviewing an association of principal stakeholders or a local NGO having considerable influence or few knowledgeable persons.

After completing the preliminary analytical work, the field interviews must take place. It is crucial that representatives of *all* stakeholders are interviewed. Field practice suggests that majority of interviewees should be representatives of principal stakeholders (a suitable mixture of household units – existing and possible, micro units, SSI units, with a few interviewees representing workers of SSI units). Besides, forward linkage providers both within and especially outside the cluster, supplier firms – with special emphasis on locally-present poor support units, support institutions, associations and /or networks – functioning and closed should also be interviewed. In addition, policy makers and persons who know the cluster and the industry as a whole really well should also be interviewed. For a single individual, it is realistic to assume that three to four interviews can be carried out in a day.

Ideally the process should start with a meeting with an association of principal stakeholders. But in the very likely event of absence of the same, the process can start with a discussion with lead government organisations (GOs)/non-government organisations (NGOs) which have considerable influence, e.g. through support provided, in case of GOs or having strong presence in the cluster, because of its linkage with the principal stakeholders for their business promotion (e.g. through training /marketing /production), in the case of NGOs. This can provide general insight of different types of stakeholders and their performance. This information can complement information from secondary sources gathered in the first phase and help constitute a representative sample of firms. For a cluster spread over a larger region, such an exercise should be carried out for multiple NGOs in different parts of the region to get hold of an appropriate regional sample. Independent knowledgeable persons may also be interviewed too at this stage.

While there is a natural tendency to largely include the more dynamic enterprises as they may help to better identify ways forward for the cluster as a whole, the not so forward-looking and less expressive, yet needy poor/poorest stakeholders need to be given equal importance to understand their aspirations, typical problems with respect to income and capabilities. Again, emphasis should be given to cover proportional, if not equal, number of male and women stakeholders and workers.

Interview schedules should preferably mix stakeholder types, to facilitate cross-checking of information, and focus better in later interviews. One can even go for group interviews, especially for less expressive interviewees. The entire process should conclude by interviewing a few knowledgeable persons who can provide (a) insights on issues that have remained unanswered and (b) ideas about a vision and/or broad objectives to be pursued, a broad picture of which starts germinating within the mind of the interviewer (e.g. the CDA) by that time.

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The questionnaire should reflect the issues outlined both through the supply side issues (see sections 3.3.1, 3.3.2 and 3.3.3) as also the initial issues raised through the preliminary discussions with association/ knowledgeable persons.

The CDA and the team should keep in mind the following points when meeting stakeholders:
- The diagnostic study is not a formal survey.
- It is better to have in-depth discussions with relatively few enterprises and institutions, and cross-check issues, processes and insights than to obtain complete but mechanical responses from the maximum number of enterprises or the full range of institutions.
- Limiting the number of topics (only of high interest to the stakeholders) helps to have an insightful structured analysis.
- Topics should not necessarily be introduced in the order of the format, but rather as determined by the flow of discussion.
- The interview should not last more than 90 minutes. Experience indicates that most people dislike longer interviews.
- Each interview (discussion and findings) should be recorded in a visit report. However, it is important to concentrate on the interview rather than on making notes – the report should not be written during the interview!
- On the basis of business related information gathered from various stakeholders, an analysis of business operations (AOBO) should be worked out. A cluster map needs to be drawn up which summarizes the business relations among the different stakeholders, with respect to the principal stakeholders.
- On the basis of information related to social and capability related issues, a detailed analysis of social issues should also be worked out, at a later point of time (see chapter 4).
- Both the AOBO and social/capability related conclusions should be placed in the SWOT analysis of the cluster which impacts on poverty.

3.3.4.1 Interviewing principal stakeholders

The aim of interviewing principal stakeholders (household units, micro enterprises and SSI units) is to gain an in-depth impression of the actual business environment in which these units operate (which is often very different from what secondary sources may suggest), their main business functions, value chain setting and targets for further development of business-related services. Capability as well as the social status of the unit holders should also be understood. The following points should be kept in mind when interviewing these stakeholders:
- Concentrate on qualitative information. Attempts to collect detailed quantitative data distract the interviewer from the goal and alienate the interviewee.
- However, basic information should be acquired on employment and investment trends; percentage of sales (local /regional /national); amount of credit obtainable from supplier or bank and in what form; status of capability issues for the stakeholder and also that of his/her family, the latter being specially for household units; issues related to handling of labour with respect to ergonomic, health, social security issues, etc. for SSI / micro enterprise units, etc.
- The idea is to form an understanding of the cluster, based on information so revealed by the interviewees. Hence, questions may serve as "markers" for topics or lines of enquiry to be pursued in greater detail if this helps to provide better insights into the particular unit being interviewed.

- In view of the fact that the less privileged are less expressive, one can go for group discussion. This is especially applicable in the case of women folk, who are often the least expressive. If required, separate interviews of women stakeholders should be carried out by female interviewer, in person or in group.

> Since the less capable, especially women, are less expressive, one can go for group discussion. This should be done by a female coordinator, preferably in the absence of men.

3.3.4.2 Interviews with other enterprises /service providers

The commercial relationships of the principal stakeholders with other enterprises in the cluster, considered collectively, go a long way towards explaining the cluster's innovativeness, dynamism and growth (or lack thereof). The selection of these enterprises can take place on the basis of previous information about business links with principal stakeholders, references to linkages during interviews of the first few mix of principal stakeholder samples and secondary data of lack of certain key support stakeholders from the cluster.

In contrast with the interviewed principal firms, there is no need to get a full picture of the operations of this type of stakeholders – unless there are small enterprises among them, which were specially mentioned in the course of the interviews of the principal stakeholders because of their particular relations with one or more of principal stakeholders and micro units, and /or stakeholders managing these units are from the poor /poorest category.

The other typologies of enterprise to be interviewed include:
- Firms providing forward linkages, often situated outside the cluster.
- Traders / agents and exporters.
- Suppliers of inputs, equipment, technical and marketing services.
- Specialized BDS providers.
- Fellow-micro units not covered in the initial sample, which are found to be of particular importance.

The business interactions of these enterprises with the micro units will normally be very diverse. It is neither practicable nor necessary to specify separate interview formats for all of them. The team can apply these principles to interviews with the other types of enterprise.

As in the previous case, interactions with the principal stakeholders in the cluster should be the focus of discussions. There is no need for a full picture of their operations, apart from basic information giving a perspective on their relations with the principal stakeholders. The institutions to be included are:

- Local NGOs, GOs.
- Agencies providing serviced land, premises, common service facilities and advisory services; providers of utilities
- Financial institutions
- Associations of micro units
- Non-performing yet potential associations of units
- Promotional agencies
- Technological and training institutes, local universities etc.

As in the previous case, selection may be based on prior knowledge of links with the cluster or references made to the institutions by the one or more of the sampled micro units or cross-reference from these support-stakeholders.

When all this information has been collected, the draft appraisal of the cluster is prepared. This is the first attempt to single out the elements on which a consensual development vision for the cluster can be based. The focus is on the operations and typical enterprise strategies of the units and the nature and strength of business interactions within the cluster.

3.3.5.1 Enterprise strategy

The purpose here is to identify the operational and competitive strategies of the principal units, to understand how they manage their central business functions (production, marketing, finance, etc.) and what their strengths and weaknesses are. Innovative working-methods and procedures, if any, should be emphasized. These include:

- Improvement of products and processes
- Development of new markets and customers
- Specialization
- Upgrading labour-force skills
- Replacing, upgrading and adding equipment
- Tapping new financial resources

The same should be done separately for all types of units, especially the poverty intensive units. The pattern of outcomes is crucial to the design of the cluster action-plan.

3.3.5.2 Appraisal of support firms and support service providers

This appraisal will be based on interviews conducted with support institutions or private BDS providers, supplemented by comments by the principal stakeholders on the services provided by the institutions.

> Governance structures consists of stakeholder associations/consortiums, technical/financial institutions, local NGOs, etc. which play a pro-active role in the development of the business environment of the cluster.

The appraisal should cover the following questions:

- Which useful business function or services are provided by institutions and commercial providers; how do they complement each other

- How these services are organized; is there co-operation with the principal stakeholders
- What are the crucial weaknesses and gaps in these services – in terms of outreach, quality, cost, sustainability, or relevance – as perceived by the principal stakeholders in the cluster and /or the team

3.3.5.3 Assessment of the governance structures

During the field interviews but also after the appraisal has been drafted and cross-checked with the various cluster stakeholders, the team should pay particular attention to identifying whether any structure(s) exist on which governance capacity, in terms of an organized capacity of cluster stakeholders to jointly react to challenges, can be built.

Such governance structures consists of stakeholder associations/consortiums, technical/financial institutions, local NGOs, etc. which play a pro-active role in the development of the business environment of the cluster. Besides, there is close co-operation among these associations and institutions. The cluster also has various specialised service-providers with close linkage with firms, and associations/institutions.

In the absence or weakness of these, the diagnostic study must establish which type of governance system would be suitable, whether it would have the support of the key stakeholders, and which resources it would require.

3.3.5.4 Overall diagnosis

Having completed the different steps of information collection, the team prepares the overall diagnostic report on the cluster, with the following structure:

a) **Development context:** (1) A brief description of regional /national and (if relevant) international markets for the typical product(s) of the cluster and the trends in those markets. (2) A brief description of one benchmark cluster and lessons thereof.

b) **History and turning point**: Presents the evolution of the cluster over recent years. The capabilities of the cluster to grow, compete and innovate should also be highlighted. This part indicates the extent to which the cluster has been able to improve its products and processes, to enter new product markets and to broaden/deepen its production system.

c) **Description of the cluster:** A brief summary description of the cluster as a whole in terms of location, product markets, number and size of firms, employment, capability dimensions of principal stakeholders, etc.

d) **Analysis of social structure** that may hinder the process of development of the poor stakeholders.

e) **Organization:** Describes how the cluster is organized, focusing in particular on the features which might explain the evolution of competitiveness and innovation. Of particular importance are the following elements :
- Organization of the system of production and distribution, and in particular, the relationship between core producing firms, buyers and suppliers, and their co-operation in the improvement of products and processes.
- Description of the support system (marketing, technical and financial services). The role of intermediary institutions and associations in the organization of the cluster-support system can be described here, as well as the role of regulatory agencies.
- This relationship can be summarised into a cluster map (see section 3.4 below).

f) Social capital in action: Summarises the intensity of linkages, its institutionalisation, in particular with regard to the ability of stakeholders to respond to new challenges and opportunities through formulation of strategies and implementing joint activities to improve the organization of the marketing, production and other typical support systems of the cluster.

g) Analysis of business operations: This section should work out the challenges and opportunities faced by different types of principal firms with respect to various types of operational aspects of a firm. This should be mapped with respect to capability of those principal firms, relevant support firms, service providers and supportive governance structure.

3.3.6 The diagnosis can be summarized in a table showing the strengths and the weaknesses, the opportunities and the threats of the cluster. This is the SWOT analysis.

Table 3.1: Model for SWOT Analysis

	Current situation		Future	
	Strengths	**Weaknesses**	**Opportunities**	**Threats**
Markets				
Technology				
Inputs				
Innovation				
Skills				
Business environment				
Capability criteria (Health, literacy, gender, social strata)				

On the basis of the above, the diagnosis should conclude with:

3.3.7 Vision, strategy and activity suggestions : An outline of the vision, strategy and activity suggestions comes out of the study and opens a "growth window" for the future and motivates the clients – the cluster stakeholders – for further action.

Involvement of less privileged classes: At the end of the day, nothing should work more successfully than a forum of the less privileged, which should be the ultimate target of a programme.

The action-plan thus planned will also derive strength from a suitable vision statement that not only has targets related to competitiveness, but also relates the same to capability enhancement. The same is elucidated in Box 3.3 below:

Box 3.3: Vision Statement of the Handloom Cluster of Chanderi, India

The vision for the cluster was "Chanderi will mainly offer its unique, high-value added fabric among exporters and niche retail stores to suit the high-end domestic and international market by the year 2005. In the process, at least 250 poor weaver families will enhance their turnover by at least 20 percent." On the gender (capability) front, the vision was to see women weavers' capabilities, choices, mobility, participation and self-esteem as well as participation rate (especially in weaving and market related activities) increase in a substantial manner so that they can take control over their lives, both as individuals and as members of the community.

The suggestive action-plan (including broad groups and some activities) can be derived based on the SWOT analysis and chances of achievability of the same (the strength of various existing intermediaries), as understood by the study team.

Box 3.4 Diagnostic study checklist for CDAs

- Get acquainted with the interviewees**.**
- Interview length : around 60 to 90 minutes.
- Interview time : Non-working hours – afternoon/evening.
- Questions should preferably be qualitative, without a questionnaire.
- Collect as much secondary information as possible a priori so as to pose focussed questions.
- Start by interviewing an association or a local NGO/GO or a knowledgeable person from any stakeholder category who knows the cluster well.
- Go for group interviews of the poor and less expressive stakeholders.
- Involve a woman in the team, especially for ascertaining gender issues.
- Use information received during earlier interviews to further sharpen questions.
- Record the main results of the discussions *after* the interview.
- Interview a mix of stakeholders to facilitate cross-checking.
- Conclude the interviews with a discussion with someone (from any stakeholder category) who knows the cluster well.

3.4 Cluster map

The development of a cluster has multiple dimensions. As will be evident from the SWOT analysis of a cluster, it may include increasing turnover, establishing new markets, enhancing production efficiency, improving environmental conditions, etc. However, creation or improvement of linkages among stakeholders can be the key to progress on any front. For example, in order to establish new markets, competing firms may need to first agree to create a network and liaise with a range of other stakeholders like institutions, BDS providers, new suppliers, new customers, etc. These new linkages add to the social capital of the cluster and provide a governance structure, which, again, is the basis for undertaking new activities. These linkages can be presented in a cluster map. Such a cluster map can be current and also a projected or future cluster map. Details of the techniques of drawing a cluster map are available in MSME (2006)[28].

3.5 Special characteristics of a diagnostic study

> A cluster diagnosis has an "open" character. Immediately after it is completed, it must be validated through discussions with key stakeholders, especially the poor stakeholders, and the comments received should be suitably incorporated.

A cluster diagnosis has an "open" character. Immediately after it is completed, it must be validated through discussions with key stakeholders, especially the poor stakeholders, about the contents, the resulting vision and the suggested strategy, and the comments received should be suitably incorporated. At a later stage, specific issues that have been identified as being important for the cluster, such as value-chain analysis, marketing strategy, technology benchmarking, BDS profiling etc., may need in-depth studies. The need for these studies does not only emerge from the cluster vision and strategy : as the CDA develops a closer relationship with actors, it will become evident that there are still certain gaps in her / his understanding of the cluster which need to be investigated together with the stakeholders in question.

The study is obviously not an academic one. Its focus on critical issues is intended as a basis for a strategy and an implementable action plan. Hence there is an important role of the CDA. By being involved in the collection of data, opinions, etc., he or she gets a good feel for the cluster, which will help in developing a strategy for implementation (selection of leaders and implementers, etc.) and managing the cluster building project. Since the approach stresses the creation of linkages, the diagnosis covers all stakeholders who can bring new ideas and initiatives into the cluster, not just enterprises.

3.6 The diagnostic study and trust-building

The diagnostic study provides the CDA (and the study team) with a major opportunity to build trust with the cluster stakeholders. As this is the first formal interaction, the response of the stakeholders to the CDA will be to provide non-controversial data. The CDA should therefore not question too intensively to obtain information – it should be willingly revealed by the stakeholder. The objective at this stage is to make the stakeholder feel comfortable and to understand area(s) of major concern.

> The diagnostic study provides the CDA (and the study team) with a major opportunity to build trust with the cluster stakeholders.

At this stage, the CDA may also try to suggest possible solutions and seek the response of the stakeholder to these. This will create confidence between the stakeholder and the CDA.

3.7 Diagnostic Study is a first step

Diagnostic study is the first step in understanding the cluster. As the level of trust increases between the CDA and various cluster stakeholders, more 'correct' information flows in. As more and more real issues emerge, and leaders and followers for those issues get identified, the need for detailed studies emerges. The continuous interaction not only gives a better understanding of the value chain, which can now (say, after six months) be undertaken but also pinpoints exact needs for various detailed studies e.g. Marketing / technology /benchmark /BDS profiling etc. Based on this continuous flow of information, updating the diagnostic study is almost a continuous activity.

3.8 Participatory Poverty Assessment (PPA)

In particular, the diagnostic study needs to be strengthened by a more participatory process of understanding the poor and the dimensions of her/his poverty through a participatory poverty assessment (PPA) tool. Since the poor are less expressive to start with, the PPA of a cluster may be picked up a year after the process of intervention when trust-building with the cluster has improved significantly and the poor are more willing to speak out their view-points. The PPA tool helps define the poor and the poorest in the local context, identify the root causes, the dynamics that led to the current scenario, the way out and the possible means, etc. It also helps identify a target that needs to be achieved, if the cluster approach wants to make an impact on the broad project objective of poverty reduction. Chapter 4 deals in details on PPA.

4. Participatory Poverty Assessment (PPA)

4.1 Need for a New Tool

As discussed in Chapter 3, the Diagnostic Study identifies issues related to enhancing competitiveness of the cluster by unfolding its existing and likely strengths and weaknesses while benchmarking a range of (1) cluster stakeholders with the existing best practices and performances of the industry at the national / international levels and (2) organisational structures of cluster stakeholders with those of performing cluster(s). Broadly, the study tries to identify the steps required to best fit the range of cluster stakeholders with appropriate global value-chain by creating local capacity.

While the role of global-value chain is supremely important for a long run, sustainable strategy; for a *poverty intensive cluster*, there may be need for special support to a range of stakeholders, especially the poor and the poorest ones. However, at a stage, when trust-building within the cluster is yet to start[29], the Diagnostic Study gets maximum input from relatively knowledgeable and communicative stakeholders, who have a higher level of exposure, a higher capacity, and are better endowed to interact with the CDA. Hence, the objectives of the not so poor and the well-off sail strongly and the voice of the poor gets minimum voice.

> PPA does a diagnostics of the capability dimension of poverty, i.e. level of literacy, health, gender, social security, relative social status in the local setting, etc, in the cluster.

Again, in its framework of competitiveness, the Diagnostic Study refers to investment, turnover, quality and the required capacity-building measures. It at best speaks of income and its increase through higher rates of return. However, the income definition of poverty dismisses various other capability dimensions of poverty, i.e. level of literacy, health, gender, social security, relative social status in the local setting, etc. Capability enhancement in these fields will play a significant role to empower the poor and to ensure their access to endowments (natural and man-made), freedom on choice of labour, improved relationship with power centres as well as local service centres, etc. Clearly, the Diagnostic Study falls short of such objectives from the viewpoint of the poor and the poorest stakeholders.

4.2 Participatory Poverty Assessment (PPA) of a Cluster

Understanding the process of empowerment and capabilities of stakeholders at the local level is often an incomplete exercise when based on "macro" poverty data, e.g. percentage of people below poverty line (BPL) – male/female/socially deprived community, level of literacy (male/female/children), health status (male/female /children), etc. because of :

(a) *Lack of matching aggregation and current status*: Very often, this data is available at a macro level. Even where available in the highest disaggregated form, e.g. say a village, it may not fit in with the cluster, which consists of a few villages and often parts thereof. Moreover, macro disaggregated data are often dated.

(b) *Lack of dynamics in disaggregated macro data*: Data however disaggregated, does not reflect the causality of current status and the way out from the same. The causality and its proposed solutions / strategy are again a function of varied capabilities of different typology of stakeholders and can only be understood through communication. In view of the limited communication capabilities of most poor people, collection of cluster-based data through a pre-defined or written questionnaire format, even though specially meant for these issues, may fall short of such expectations.

Have you heard of	Survey Investigators (%)	Social Anthropologists (%)	Next day after cross checking (%)
Pills	12	63	97
Condoms	5	56	91
Vasectomy	16	45	95
Abortion	5	64	100

This (diversity) is caused by two prime factors : (i) the way the questions are formed in the questionnaire and (ii) the approach and attitude of the investigators conducting the study.

Source: "Participatory Research and PPA Modules – Proceedings of the Workshop Sessions. 1999. Pg. 22-3. PRAXIS, Patna

> PPA tries to picture poverty from the perspective of the poor and comes out with micro dimensions of poverty in the local context.

To address these issues, participatory poverty assessment (PPA) techniques were evolved in the early Nineteen Nineties through interactions among social scientists and stakeholders. PPA tries to picture poverty from the perspective of the poor and comes out with micro dimensions of poverty in the local context. It entails a two-way process to relate the poor with policies and other factors that affect them, while broadening knowledge available to implementers and policy makers. Besides, it also works out achievable objectives to reduce poverty as defined by the poor themselves and in line with their understanding, priorities and social obligations[30]. The entire process is carried out through discussion with groups of stakeholders[31].

4.3 Steps of PPA

A comprehensive PPA involves the following steps:

(a) Research design : PPA may be carried out for as wide an area as a country, e.g. PPA of Zambia[32] or down to an individual community, e.g. a typical ethnic population of a country/district, e.g. Tamil Population in Sri Lanka[33]. Since none of these populations can be adequately enumerated, there has to be an understanding of the macro background pattern with respect to, say, population density, ethnicity, livelihood options, access to basic services, gender composition, etc. This becomes the stepping stone for a purposive sampling to cover diversity.

(b) Team selection and training : PPA is convened by a team of experts, but they cannot be the only doers. Since PPA involves active participation of the community in the process, there is a need to involve local people for appropriate facilitation, e.g. encouraging people to speak and participate, skilfully silencing local influential personalities so that they do not bias the discussion, ask appropriate questions and seek clarifications, promote as well as manage debate over varying conclusions, noting down observations made by various typology of members, instant conversion of output from temporary medium, e.g. village/social map drawn by villagers on ground or card sorting done on a chart paper for

understanding access to institutions, etc. and daily report writing. Hence, experts need to train and involve appropriate local stakeholders in this exercise. Here one issue of interest is the attitude of the PPA facilitators, wherein at the least, the person has to have a belief in PPA – spirit and ethos of true participation of stakeholders[34].

(c) **Tools used :** Trained individuals, under the guidance of the PPA expert, carries out the PPA by using the following tools to evaluate the current status and dynamics of various poverty related capabilities and consequent index of empowerment of the concerned PPA subject.

Table 4.1: Tools of PPA

	Space (S)	Time (T)	Relationship (R)
1	Social map	Seasonal diagram /seasonality	Cause-Effect Diagram
2	Resource map	Trend analysis	Impact Diagram
3	Participatory modelling method	Historical Transect	Systems Diagrams
4	Mobility map	Time line/ Historical Profile	Network Diagrams
5	Services and Opportunities Map	Daily activity schedule/ daily routine	Process Diagram
6	Transect	Participatory Genealogy	Well-being Ranking/ Wealth Ranking/ Well-being Analysis
7	Participatory Census Method	Dream Map	Venn Diagram/Chapatti Diagram/ Institutional Diagram
8			Pairwise Ranking Method / Pairwise Matrix
9			Matrix Scoring/Ranking
10			Force Field Analysis
11			Pie Diagram
12			Spider Diagram/ Evaluation /Participation Wheel /Participatory Cob Web
13			Body Mapping

Source: PRAXIS Institute for Participatory Practices, PPA

(d) **Synthesis and Report writing:** The end report is structured around "… local perceptions of poverty, wealth and well-being ; seasonality issues in livelihood; perception of access to resources/services by social group, long run issues with respect to principal livelihood ; gender issues with respect to income, accessibility, freedom and capability ; role of community action in social infrastructure ; coping strategies ; strategies for poverty reduction ; major concerns and problems, policy issues and aspirations…."[35] Hence a PPA can become a useful monitoring and evaluation tool for understanding the impact on poverty due to the interventions that are carried out during the Project life-span.

4.4 PPA of a Cluster

Traditionally PPA is a multi-strata, multi-livelihood analysis of the population of a country /ethnic group / group facing similar threat, etc. Hence, as a natural corollary, the corresponding PPA process also covers a wide range of stakeholders and a varied set of problems as applicable to that heterogeneous population. In contrast, a cluster is defined by a dual dimension – a place and a product. Thus while a cluster is set within the limits of a village or a few villages and/or a township, at the same time it does not cover the entire population of those geographic settings. Hence, the coverage and sampling process, selection of facilitators and training methodology, objectives and choice of tools, preparation for and timing of PPA, reporting style, etc. need to be accordingly adopted while doing a PPA of a cluster.

Even as a city or a few villages need to be covered while conducting the PPA of a cluster, at the same time the PPA process need not cover the entire population of those geographic settings. The PPA for CDP needs to capture the micro dimensions of local poverty (income and empowerment related capabilities) for a range of poor and poorest primary stakeholders of the cluster. PPA can also be carried out for the poor and the poorest stakeholders providing backward linkages, as forward linkage providers are generally better off.

Here again, the poor and the poorest need to be stratified as per their position in value chain, social strata, gender and geographic diversity. Apart from unit holders, PPA also needs to be carried out for the labourers who are employed in the micro units, and are generally poor. The number of participants in each group discussion should not be less than 15 or more than 25. Again apart from doing PPA with a stakeholder of a particular gender, the PPA process also needs to be done for the opposite gender of that category of stakeholders, separately.

Box 4.2: PPA of Barpali cluster

The handloom cluster of Barpali, Orissa is spread over four villages – Barpali, Bandhpali, Jalpali and Baghbadi. The principal stakeholders consist of master weavers (M-Weavers) – who have enough capital to provide raw materials and wage support to 20 looms and also the financial cushion to market their products. They work in both silk and cotton. Besides, there are independent entrepreneurial weavers (E-Weavers) who manage their working capital and market their products directly. These are mostly cotton-based products. The third category of weavers is dependent on M-Weavers for working capital and marketing and is called contractual weavers (C-Weavers). The C-Weavers are mostly doing silk and are dominated by *costa mehars* (community), among whom the least endowed ones are *coolie mehars*, who are the poorest. This handloom product is also based on a critical backward linkage provided by, among others, poor *tie and dyers* – a typical handicraft technique.

Preliminary discussion also revealed that the M-weavers are non-poor, E-weavers are the poor and the poorest are the C-weavers. The C-weavers also constitute the maximum number of unskilled weavers. Thus the study decided not to go for detailed PPA with the M-weavers and go for in-depth study of the E-weavers and the C-weavers. Majority of the C-weavers were in Barpali and bulk of them constitute the *Costa Mehars*. This is primarily because the *Costa Mehars* work on silk and not IKAT and their market, unlike a significant market of IKAT in the local market, lies mostly outside the state, where the ordinary weavers do not have easy access. Thus the C-weavers of the *Costa Mehar* community of Barpali were picked up for PPA. Again Barpali is the place, where there are specialised tie and dye- doing women community. Thus the women tiers and dyers of Barpali were picked up for PPA. Baghbadi had significant number of E-weavers and the level of trust with the E-weavers was high due to a range of activities initiated there with them. Hence the male and female e-weavers of Baghbadi were picked up for PPA. Economically the most backward weavers are the '*Coolie Mehars*' and SC weavers. The number of '*Coolie Mehars*' has declined drastically and only a few such households are into weaving in the Barpali village. However, a sizeable number of weavers from the SC community are still into weaving and they are located in Jalpali. Hence the SC weavers of Jalpali were also picked up for PPA.

As mentioned earlier, the PPA exercise would require at least 3 facilitators to handle the exercise - that is, to encourage participation of poor stakeholder, silence process influencers, ask for clarifications, promote and manage debate, write case studies and the final report. In case the process is taken up simultaneously in several locations, that many multiples of stakeholders will also be required. Here it is important to have community representatives as support facilitators (to the chief trained facilitator) as they can continue to carry out such processes in the future and also spread the knowledge throughout the cluster. Such community representatives should ideally have the characteristics presented in Box 4.3 below. Some examples of community representatives are social worker, NGO representative, entrepreneur, elected representative, teacher of a school, etc. Keeping the gender dimension in view, at least one of the community representatives in a PPA team must be a woman.

**Box 4.3: Desired Characteristics of Community
Representatives as PPA moderators**

1. Capacity to get trained in PPA
2. Good listeners
3. Promote others to speak
4. Do not have a debatable track record in the cluster
5. Have ability to write report
6. Must know local dialect
7. Can be stakeholders
8. A graduate
9. Should not be a person who will put the poor stakeholders off
10. Given a choice they should be from among representatives of local NGOs

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Their training needs to cover (a) the attitudinal issue, (b) the basic tools of PPA, (c) various standard responsibilities, (d) data collection technique for case study and report-writing. This can be a two-day process designed to attain the following outcomes :

1. *Inculcating and transferring appropriate attitudes and behaviour* for improving the quality of programmatic interface with community in order to facilitate and enhance participation.
2. U*sing participatory methodology* to understand the issues / needs / voices of the people from their own perspective, and to help them plan, implement, monitor and evaluate their project interventions.

Details of a sample training programme appear in Annex 4.1[36]

4.4.3 Objectives and choice of tools

The objective of a PPA is to involve the stakeholders in a participatory decision- making exercise and through that process, understand the following :
(a) Identify the poor and the poorest.
(b) Understand their relative wealth-position in the local setting.
(c) Understand their perception of other local stakeholders.
(d) Understand their problems with respect to economic, social and gender issues.
(e) Identify mechanisms to address those problems.
(f) Identify relevant targets, signs of changes and potential changes related to (a) economic upliftment, (b) social impact, (c) impact on gender relations, and also efficacy of interventions in meeting the practical and strategic needs of the community.

PPA tries to picture poverty from the perspective of the poor and comes out with micro dimensions of poverty in the local context.

Accordingly, a PPA process may selectively apply the following tools :

Table 4.2: PPA Tools for Cluster Development Programme[37]

Space (S)	Time (T)	Relationship (R)
1. Social map	1. Daily Routine	1. Chapati diagram
2. Resource map	2. Time line	2. Cobweb diagram
3. Mobility map	3. Seasonal calendar	3. Force field analysis
	4. Changes / trends	4. Matrix scoring / ranking
	6. Yesterday-Today-Tomorrow (YTT)	5. Livelihood analysis
		6. Well-being analysis

These tools can produce the following outputs:
- Resource mapping (Tools : social mapping, time line)
  - Access/control of common property/infrastructure.
  - Inclusiveness of all poor, men and women.
  - Distribution, status, gender, skill.

- Well-being Analysis (Tools : Force-field analysis, matrix ranking)
  - Local yardsticks of poverty and vulnerability.
  - Categorisation of the poor.
  - Assessment of changes / trends in the incidence of poverty.
  - Coping strategies.

- Livelihood analysis (Tools : Seasonal calendar, Force Field, time line)
  - Different livelihoods.
  - Typologies within same livelihood.
  - Returns.
  - Drudgery.

- Access to institutions (Tools : *Chapati* diagram, force-field analysis)
  - Typology of institutions.
  - Issues with respect to acceptability, transparency, inclusiveness of poverty nodes.
  - Suggested coping strategies.

- Gender relations (Tools : Time line, cobweb, force-field analysis, matrix ranking)
  - Household level.
  - Community level.
  - Trend in relationship.
  - Suggested coping strategies.

- Changes – (Tools : Dream mapping, YTT, force-field analysis)
  - Definite changes.
  - Signs of change.
  - Potential change .

- Case studies to substantiate the above

4.4.4 Preparation, Site selection and Timing of PPA

As seen above, proper sampling of PPA requires a lot of primary data. It also requires understanding of the cluster by the CDA and also trust of the stakeholders in the CDA. In the absence of the same, the opening up of the poor and the poorest stakeholders in the process of discussion can be limited. Hence ideally, the PPA process should follow the formal trust-building phase after the diagnostic study. To maximise information from the PPA, the sampling process for PPA site and subject-selection should be done after review of secondary information regarding the current coverage as well as non-coverage of the project. This must include all the typologies of stakeholders who have developed trust and even those occasional parameters that have not yet been touched by the programme. In the latter case, the PPA can be the trust-building tool for the project with stakeholders as yet uncovered or untouched by the Project.

Again, given the variety of activities to be pursued simultaneously by the team during PPA, specific *blocks of duties* should be assigned by the CDA to the team members with respect to (a) encouraging participation of stakeholder and silencing process influencers, (b) asking for clarifications, promoting and managing debate, (c) transfer of output from local communication medium to modern medium, (d) interacting with the women participants and (e) case study and report writing.

Site-selection for the PPA exercise is also important. Not all sites are equally approachable to all sections of the community. Hence, the ideal venue for PPA has been found to be a village school or community centre. Religious or politically characterised places should be avoided.

The PPA should minimise impact on the working time of the stakeholders. Hence busy seasons, e.g. pre-festive season for handloom weavers or post-harvest season for food-processing units should be avoided. This does not imply that one should try to buy the stakeholders' time monetarily or otherwise by compensating them for their wage loss. An announcement in this regard will definitely be counter-productive as (a) in situations of poverty, this may open up a debate as to who will participate and what will be the ideal process of selection, (b) there will be plenty of such modes of discussion in the future and the stakeholders may expect compensation on those occasions too and the very purpose of a demand-driven approach, wherein there is expected contribution from the stakeholders may be defeated.

In contrast to the medium of communication used for standard discussion, such discussion forums will require easy modes of communication. Hence, there will emerge the requirement of materials like chalk, coloured powder, etc. for drawing on the ground (social map/ resource map) ; pebbles, lentils, etc. for ordinal evaluation ; cards of different shapes for implementing tools like *chapati* diagram ; round cards of different diameters (force field analysis) ; rectangular cards of three to four colours (well-being analysis) ; round-shaped cards and chart papers (social map / time line); daily routine – coloured chart papers and sketch pens etc.; various colours of sketch pen, drawing sheets, etc. for managing the children who will accompany their mothers by keeping them busy in creative drawing.

4.4.5 Output of PPA and Report Writing

In a PPA, the process is as important as the product. Thus, the observations made during the process by various categories of the poor are as important as the end results. Hence it is imperative to make daily notes of the results as well as observations and feelings of the participants who represent various categories of poor, identify missing links and fill them up during later discussions with other near similar groups. It is also important to note down case studies that arise out of discussions with participants and often referring to those case studies to explain the root cause of their feelings during discussions and debates as the PPA progresses. Thus the team must meet every day after the PPA and sum up the major findings and write out the case studies and feelings expressed during the process, else those will get lost by discussions that follow.

Training Module for Local PPA Facilitators

DAY 1: Session 1

- Formal welcome-note by Project representative
- Getting to know each other
- Sharing of expectations
- Finalization of the scope of the workshop and the training plan
- Discussion on administrative matters, if any
  o Necessary announcements
  o Formation of committees for sharing of responsibilities
  o Agreement on ground rules for the workshop
- Brief presentation about the project

Expected output - By the end of this session, the participants would have a clear idea about the purpose and scope of the workshop and a feeling of the nature of processes (joyful, participatory), which they would go through during the subsequent sessions.

DAY 1: Session 2

- Games on societal analysis
- Discussion on pointers of the games

Expected output – By the end of the second session on Day 1, the participants would have discussed the stratification within society and the forces operating for perpetuating the structural system.

DAY 1: Session 3

- Screening of animation film (7 minutes) – 'Whose Reality'
- Teasers on the subject of the film
- Determining the scope of participatory appraisal in the project context – "what do we want to know about the people we are working with?"

Expected outputs – By the end of this session, the participants would appreciate the importance of 'participation' in the context of a sustainable development project, and the practical steps required to bring about participation. The session would also seek to identify missing areas of knowledge about the people, in order that a participatory research framework could be evolved in the subsequent sessions to address the information gaps in a non-extractive and relevant manner.

DAY 1: Session 4

- Importance of ABC - Attitude Behaviour Change - Exercises and reflections
- Interactive discussions on relative advantages of participatory approaches (vis-à-vis conventional methods) in reaching out to the community and learning from them about their realities. Assessment of relative merits and demerits, in terms of scope for empowerment, participation, transparency, viability of follow-up-possibilities, quality/ relevance of information outcomes etc.
- Discussion on aspects of good facilitation, appropriate attitudes and behaviour, choice of appropriate tools, positive biases, optimal preparation, overcoming dominators, '*gate-keepers'*, ensuring synthesis and sharing.

> **Expected outputs –** In this session the participants would discuss the concept and role of 'a facilitator' and would have gone through soul-searching exercises aimed at self-assessment of their own attitudes and behaviour vis-à-vis the communities they work with.

Day 2: Session 1

- Discussions, including hands-on mock exercises on the workshop floor, regarding various participatory tools that can help in facilitating dialogue with the community (discussions to include diverse applications of the tools).
- Tools relating to inquiries about habitation, location of resources / infrastructure / assets, socio-spatial relationships and patterns about access to resources etc., e.g.
- Social Map, Resource Map, Mobility Map, Well-being clustering etc.

> **Expected output –** This being the first session dealing with tools, by the end of it the participants would have had the opportunity to discuss the logic underlying use of any particular tool, the logistical aspects of administering it and the scope of using it in diverse situations. The session would have also discussed various possible applications of any tools.

Day 2: Session 2

- Discussion on tools continued…
- Tools relating to assessment of changes over different scales of time, and effects of the various ways of using time on one's life, e.g. Time Line, Historical Transect, Seasonality Diagrams, Daily Activity Schedules etc.
- Tools relating to multi-parametric, analytical comparisons between options, e.g. Matrix ranking & scoring, Chapati diagrams etc.

Day 2: Session 3

- Discussion on tools continued…
- Tools facilitating direct evaluation of specific objects (e.g. institutions, service providing institutions etc.) on relevant criteria, e.g. Cobweb-analysis, and those enabling informed decision-making through systematic appraisal of various pros and cons of a contentious issue, e.g. Force-Field Analysis.
- Tools to assess the causal and consequential factors underlying any phenomenon, e.g. Flow diagrams.

> **Expected output –** By the end of the session, the participants would be able to distinguish the usage of various PPA tools from each other to meet information-needs of diverse nature, and would have had the opportunity to practice their application in mock classroom exercises. They would have also seen the outputs of earlier applications of various PPA tools in different contexts.

Day 2: Session 4

- Developing a Rapid-Research-Design for understanding people's perspectives about selected themes / issues (to be identified by participants) in line with project interests.
- Identification of subjects of exploration, and formulating an appropriate methodological framework for addressing the identified information needs
    - Formation of teams and developing Team Contract for the field-process.
    - Discussion on Dos and Don'ts during the fieldwork.

- Discussion on preparatory requirements for the fieldwork (e.g. materials) and expected outputs from the field.

Expected outputs – By the end of this session, the participants would have learnt to customize the application of various tools to develop a comprehensive research framework, and would have discussed the preparations required to carry out their subsequent field-research smoothly and successfully.

This is only a tentative outline. Participatory training workshops cannot be structured rigidly in advance, and the outline suggested is only an attempt to organize thoughts of the facilitators to identify probable processes that might help in achievement of workshop objectives. This design will be modified or reconstructed in consultation with the participants, on day one of the workshop.

5. Trust Building and Social Capital[38]

5.1 What makes a cluster work?

Enterprises can benefit from being located in close proximity to each other. Such positive effects can be called *passive external economies* because they accrue despite any planned efforts by the units. Such gains are a necessary but not sufficient condition for cluster growth. The benefits of clustering are outcome of explicit joint actions among stakeholders – the units in the cluster and a range of other entities playing a "supporting role", such as service providers, banks, government and non-governmental support institutions, associations, policy makers, retailers, wholesalers, inputs-providers, etc[39]. Targeted joint actions lead to what has been called *active external economies*. In such actions, the stakeholders break down ventures, which would be too risky for them individually, into small steps, which they can handle together and which minimize the risk of failure.

In an over-achiever cluster, stakeholders address challenges and opportunities by jointly agreeing on priorities, strategies and activities and implementing the same. Such co-operation is not all pervasive. In fact a strong element of competition constantly propels the stakeholders. Intense competition is often observed to control resources (natural, human and capital) and to access infrastructure (physical, administrative, information, science and technology). This secures efficiency in factor use and, most importantly, breeds specialization, which are essential for the shift to a high-growth path.

How can co-operation and competition be combined, how can the forces of competition be harnessed to ensure high growth throughout the cluster? This depends on the existence of development *trust* and *social capital*.

Trust in the present context is not an absolute concept. For the present purpose it is a level of understanding among stakeholders that facilitates a joint activity, ensuring that all relevant information for that joint activity is shared and that the best of efforts are made for achieving the objective of that joint activity. It could be called *functional trust*. The more complex an activity, the higher the level of involvement (sharing and dependence) of different stakeholders, and the higher the level of functional trust required among those stakeholders. The stock of all such relationships based on shared values and a culture of (local) belonging, enshrined in long-accepted practices and ways of behaviour but also underlying formal agreements or codes of association, is the *social capital* of a cluster.

It is obvious that the two are closely related. Trust is a key element in the creation of widely accepted business practices : without it, every contingency would have to be spelled out for every business transaction. Without shared values, people cannot be expected to trust each other.

5.2 How to build trust?

Trust here is a level of understanding among a group of stakeholders to share all information and organise together a joint activity. It is there fore functional and not absolute trust.	The process of building functional trust starts with formal or informal inter-actions and bears fruit in tangible improvements in inter-action. Discussions alone may not lead to any tangible results, but they certainly help to create the momentum. An external catalyst, the cluster development agent (CDA), who enjoys the trust of each cluster stakeholder, helps in the creation of trust among stakeholders.

Visits to better performing clusters can create a positive atmosphere and get rid of many doubts and inhibitions among stakeholders, as negative attitudes are often picked up through secondary sources and do not have a factual basis. New areas of co-operation can also evolve during such visits, from discussions and comparisons of performance.

When there is a total lack of motivation, innovative ways to build trust can be used, as shown in Box 5.1 below.

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Box 5.1: Strengthening co-operation among the block printers of Bagru

Since the introduction of screen printing (a mechanical method), hand-block printing of textiles in Bagru - a village belonging to the hand-block printing textile cluster of Jaipur - has faced severe problems, as screen-printing is twenty times faster and also cheaper. Many printers tried to survive by cutting costs and quality. As a result the level of business trust among many of them fell.

A diagnostic study showed that an attempt to co-operate had failed some twenty years before. No further move had been made since. The reluctance of the firms to participate even in an introductory meeting for a cluster project indicated that twenty years of bitter competition had made any business related trust-building difficult.

The cluster development agent (CDA)[40] shifted the focus of awareness building towards the sons of the artisans, who are block printers themselves. The CDA hoped that the younger generation might not suffer from the same mutual mistrust and that their superior education would equip them with a longer-term approach to business.

A series of meetings (one to one, groups, and small groups of like minded people) were conducted to identify the needs and priorities of these young artisans. This was a very time-consuming task without any tangible short-term result. But the meetings led to a keen shared interest in strengthening marketing skills, and the young artisans agreed to contribute to a suitable training course.

In conjunction with a local non-government organisation and with the support of the Small Industries Development Bank of India (SIDBI), a market-orientation training programme was organised in Bagru for 23 young artisans with an average age of 21. Besides classroom teaching on marketing promotion, quality testing, product development, advertising and distribution, the programme included a visit to Delhi (to showrooms and representatives of artisan support agencies) and Jaipur (to the larger block-printers and trading houses).

The young artisans were enthusiastic. They became more confident about their marketing skills. They also became interested in various existing artisan support schemes, of which they had been unaware. They were surprised about the profit margins showrooms earned from products bought at Bagru. The enthusiasm available in-house (literally) spread to the parents, who started to show up at the following meetings, now convinced by the sons of the ability of the CDA to deliver services that were important to them.

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Concrete activities are important to ensure that trust-building picks up momentum. They should ideally revolve around areas of prime business interest and lead to the realization of some short-term goals. New issues will emerge as these activities are implemented. The stakeholders will decide together which of these are important, and trust is created for handling the new issue together. Over a period, stakeholders gain trust to tackle broader objectives together.

Functional trust depends on the nature of the activity and is therefore needed at various levels for different joint activities, for example trust within a business network, between a network and a financial institution, between a network and a technical institution, between technical and financial institutions. If a CDA is involved in the creation of trust, then (s)he should also develop trust bilaterally with all cluster stakeholders. As always, trust building starts with discussions and it firms up with action. The social capital thus formed promotes further action and even higher levels of trust. The beginning of such action takes place with ideas brought in by the CDA. In line with the objectives as laid down in Chapter 1, promoting *poverty intensive clusters*, the CDA speaks of a dual target of income generation and capability enhancement. Since initially stakeholders tend to be well-off, male, and belong to relatively privileged communities, income-generating activities are natural areas for the CDA to start with. They are often hesitant to enter into complex capability-promoting areas as they are neither sure about the outcomes nor do they feel the need for the same. This is no disadvantage and the trust created through this process is transferable to promoting activities related to capability-enhancement of the less privileged, at a later stage of intervention.

Besides, the following tools can also promote trust of stakeholders :

1. **Workshops and discussion on capability enhancement** : This consists of (a) formal workshops by experts in the field of health, literacy, gender sensitiveness, leadership, etc. (b) conscious attempt for continuous discussion and follow-ups on such issues, so as to create an opinion regarding the importance of such inputs, and (c) definite output-targeting by providing such capability-inputs.

Box 5.2: Social Animators take Charge of Gender Action Plan

The challenge before promoting literacy in the handloom cluster of Chanderi, India was two fold – (a) **technica**l : what will be the optimum study material, and (b) **strategic**: how to promote the literacy drive in a cost effective manner and institutionalise the knowledge of teaching the illiterate in the local setting. The technical aspect of ideal study material was handled by expert organisations. While strategising for literacy promotion, it was felt that a team of educated local persons be created, preferably from the weavers' community, and they be given three inputs : (i) training in teaching methodology and tools by an expert organisation, (ii) on the job training through an SHG expert to make them aware about overall happenings in the cluster and (iii) a stipend to partly support their learning efforts. This group of five persons – two graduates from the local community and three graduates from Chanderi (non-weavers) were termed "social animators". They were also given various trainings and exposure within and outside Chanderi. Each social animator was allotted a group of SHGs to conduct monthly meetings and use the same platform to undertake dissemination of information. They also had daily meetings with SHG expert, CDA, Chairperson of Hamari *Duniya (the world of women)* to discuss the SHGs' problems, information strategy, conflicts, etc. These sharpened their skills and made them a part of the entire developmental agenda.

It may be mentioned here that capability-enhancement can be a relatively long-run outcome, as compared to income - and the programme through the above activities must create confidence of the stakeholders in its capacity to deliver such output – qualitatively as well as by organising funds for providing such input.

2. Pick up leaders during PPA : While PPA attempts to understand the capability dynamics of the cluster, the process-dynamics of PPA is a suitable occasion to identify the possible leaders in these areas.

5.3 Indicators of trust building

The emergence of trust in a cluster can be monitored. Several developments provide useful elements to judge the evolution of such a process, such as :

- *Creation or revival of focused networks /associations in the cluster.* This is an indicator that greater consensus is spreading in the cluster.
- *Increased level of participation* of networks/association members in decision- making.
- *Increased level of stakeholder commitment :* They not only prepare their own long-term vision and consequent action plans, but are willing to commit their own resources and explore additional sources of funding for common plans and activities.
- *Stronger co-operation among the stakeholders,* resulting in a free flow of information, participation in fairs, common purchases, training of manpower, joint marketing, etc. These forms of co-operation are a sign that long-term relationships begin to emerge.

The CDA should keep track of the development of trust. This can be recorded by way of a table containing the above elements in rows, and columns where a qualitative judgement of progress (or lack of it) is entered at certain intervals of time (e.g.: Level of participation - 1/1/2003: low, 1/6/2003: improving, 1/1 2004: high).

5.4 Breakdown of trust

Trust may break down due to wrong expectations which result from sub-optimal communication. This needs to be remedied immediately through open discussion. . Intermediary stakeholders who enjoy the trust of all parties should be involved in such a discussion. A good, continuous flow of information among stakeholders is very helpful in handling such contingencies.

> Trust may break down due to wrong expectations which result from sub-optimal communication. A good, continuous flow of information among stakeholders is very helpful in handling such contingencies.

5.5 Social Capital

> Social capital is similar to other forms of capital, its presence significantly increases the productivity of labour. It is accumulated over time. Each successfully solved problem or effort made increases the size of social capital.

Social capital is similar to other forms of capital, such as machinery (physical capital) and training (human capital), in the sense that its presence significantly increases the productivity of labour. Like other forms of capital, it is accumulated over time. The social capital accumulated during a long common history in performing clusters is the reason why stakeholders find it natural to disclose their problems and agree on a set of activities that can help solve those problems. Each successfully solved problem or effort made for the same increases the size of social capital which is available for further use in new activities.

An example : building on their social capital, a group of exporters can shift from a mindset focused on competition based on low quality in well-known markets to competing for a share of high-value products in a new market. The exporters can jointly identify and use the services of a designer for products for the targeted market, share a big stall at a fair and get a discount or a better location, develop a profile as a group to facilitate trust building with new buyers, etc. During the fair they will of course strongly compete with each other for orders through product differentiation. Thus, by creating linkages, sharing concerns, identifying a joint action route and competing, they enhance the competitiveness of the cluster and enlarge its share in exports.

5.6 How can social capital be activated?

In a cluster, the level of social capital can be enhanced by :
(a) Promoting forums for a dialogue among cluster stakeholders by re-activation of networks /associations.
(b) Encouraging cross-fertilization of ideas via the umbrella associations of the different cluster stakeholders.
(c) Disseminating awareness about the advantages of joint action through the cluster.
(d) Enabling cluster leaders to conceptualize and implement joint initiatives.

The creation of social capital is often not considered a priority area because the fruits of social capital are less visible than other forms of capital investment. In a performing cluster, sound infrastructure, new technologies and good support services are more visible than the focused joint actions that were often required to generate them. Therefore, this requires investments of resources (time, capital, manpower) and some well-tested techniques[41], to achieve the same.

5.7 Co-operation matrix

Co-operation matrix shows the strength of relationships (social capital) of various networks within themselves (members) and also with other networks, technical and financial institutions, wherever meaningful. Each cell in the matrix is assigned a value suitable to the strength of linkage between two stakeholders in the cluster. There is not necessarily a linkage between each stakeholder. For example, a network of small wood-carvers interested in joint marketing will have no reason to build linkage with a BDS provider in the field of energy. A network of dyers that aims to buy some typical dyes, might have no linkage with the above networks of wood-carvers.

Table 5.1 presents a hypothetical picture of the relationships of principal stakeholders in a cluster at a certain point in time in the programme. It is important to trace the developments of linkages in a cluster.

Table 5.1: Hypothetical co-operation matrix of a cluster

	NW 1	NW 2	NW 3	NW 4	UF	BDS	FI	TI
NW 1	1					0	1	0
NW 2	NA	1				0	1	0
NW 3	0	NA	1			0	2	0
NW 4	NA	0	0	3		1	2	2
UF	0	1	1	1	1	0	1	1

Key:
NW 1 – Informal network of 5 SHGs of 50 household units and doing joint marketing.
NW 2 - A co-operative society of household units.
NW 3 - An Association of large producers.
NW 4 - An NGO of artisans.
UF - An umbrella forum representing all stakeholders in the cluster.

BDS - Business Development Service-provider.
FI – Financial Institution.
TI – Technical Institution.
NA - not applicable.

Score values : 0 - no linkage and/or open conflict ; 1 - stakeholders barely know of each other, no impact on the cluster as a whole ; 2 - positive linkages and some history of mutual help, some impact on the cluster ; 3 - strong propensity to co-operate based on a supportive history ; 4 - excellent existing linkages with significant impact on the cluster as a whole.

It can be readily seen that the social capital of the cluster is low as the linkages are weak. This is usually also true for network linkages, where co-operation tends to be limited to specific areas.

6. Action-Plan

6.1 What is an action plan?

> An action plan is a set of demand device and supply included joint activities as well as promotion of activities related to passive cooperation.

The vision statement helps to identify the strategic objectives that need to be realized to upgrade an under performing cluster. The strategic objectives, in turn, suggest a range of activities (based on the strategy adopted) that are required to achieve each of those objectives. However, not all of theses activities are immediately (at a point of time) implementable. Not all require joint efforts too. The set of implementable joint activites (for a strategic objective) at any point of time depends on the level of trust that exists among all relevant stakeholders and also the level of maturity of each stakeholder for each activity. Thus each long-run objective gives birth to a short-run objectve (at a point of time), that consists of a few implementable joint activities. These short-run objectives along with the respective implementable joint actvities (with other necessary detailings) forms the action plan of a cluster.

Assume for a cluster, an objective is 'to create new market linkages'. There can be various activities to achieve this objective., e.g. participation in international fairs, training in marketing, understanding the need for proper marketing strategy through visits of successful marketing outlets, joint participation in local, national and international fairs, creation of new products, location of new channels of marketing, creation of a common brand, etc. In a highly developed cluster with high levels of trust, one can start with joint design-development and also target activities like joint participation in international fairs, promotion of common brands, etc. However, in an artisanal cluster with very low level of trust and absence of any common forum to do such joint marketing, one needs to target activities like understanding the need for proper marketing strategy through visits of successful marketing outlets, training in marketing, joint participation in local fairs, etc. and then go for an activity like joint design development. In no case can an activity like joint participation in an international fair be an activity in the action plan of such a cluster.

Thus, the *action plan* is based on (a) the strategic objectives to be realized to achieve the agreed vision and (b) the existing linkages in a cluster, which give an indication of the trust-levels.

It must be stressed that each joint activity in an action plan serves *at least* a dual purpose. The more overt one is the realization of the immediate objective spelled out for that activity in the action plan (for example, joint purchase of a dyeing machine by a network of weavers or providing a demonstration of the benefits of a new cashew cutter, etc.). The non-stated but equally important purpose of a joint activity is the creation of functional trust through the interaction that takes place among stakeholders during each phase of that activity. The linkages that get generated in the process add to the social capital of the cluster and enhance its capacity to implement more joint activities.

6.2 Duration of an action-plan

During the process of cluster-development, there will be other developments within and outside the cluster, and some of the objectives identified in the initial diagnostic study may be rescheduled or discarded as being not feasible. For this reason, it is unrealistic to expect a useful action-plan to span the entire duration of implementation (three to four years). Experience indicates that an action-plan should cover the activities that are expected to take place in one year. Hence, during the lifetime of the cluster development project, several action-plans may be needed.

6.3 Who prepares the action-plan?

In a fully-performing cluster, the cluster stakeholders can be expected to have developed capabilities for preparing an action-plan. A CDA may still help to facilitate the process of implementation, though the cluster stakeholders would retain leadership. Individual networks or groups in a cluster can also have their own action plans.

> In a performing cluster the stakeholders prepare the action plan. In a underachiever cluter, which includes most poverty intensive clusters the CDA prepares the action plan to start with.

But in an under-achieving (less performing) cluster (which majority of the micro unit based clusters are), the stakeholders usually do not have the governance structures allowing them to jointly prepare an action-plan. In such an environment, the CDA should initially take the lead, preparing a draft action-plan on the basis of dialogue with the stakeholdsers and seek their endorsement before finalising it. Since the process of cluster development is usually triggered by an external support (implementing) agency, the CDA should also ensure the submission of the plan to such an agency (to which it generally belongs) or to any monitoring agency, especially if the financial support of the latter is needed, before finalising the same. However, it is important that such cluster level action plans should be finalised at the local level, rather than finalising them through some high level central controlling unit, as this process may be time consuming, can undermine situational requirements and make the very top-down and flexible process meaningless.

It is imperative, then, that over a period of time, the CDA (a) builds up the capacity of intermediary stakeholders to identify shared objectives and draw up their own action plans, and (b) ensures that the network of stakeholders is capable of preparing its action plan after the CDA has left the cluster.

6.4 Action-plan document

A comprehensive *action-plan document* would consist of the following sections :

1) *Cluster status prior to intervention* : This section should provide a brief description of the product range, turnover of principal firms, size-distribution and institutionall set-up of the cluster prior to intervention. The product range, turnover and size- distribution guides the spread of an action plan, ensuring that it covers various categories of firms present in the cluster. The institutional set-up serves as a base-line data for (a) planning the introduction of new linkages and (b) assessing the social capital generated in a cluster. Besides, it must also highlight the status of various poverty issues of the cluster – income and non-income - and identify the poverty nodes and their intensity in the cluster. (This section should take about a page).

2) *Vision* : This section presents the vision of the cluster as envisaged by the implementing agency. It is a constant guide for the CDA regarding the overall long-term objective of all activities in the action-plan. The vision should speak not only of income or investment or profit related achievement, but should also relate as to how the same is going to influence the poor. Moreover there should also be a vision on the non-income poverty related aspects, especially with respect to gender, literacy and health aspects of the poverty nodes. (This section should take at most a couple of paragraphs).

3) *Major outcomes :* This section presents a summary of major outcomes achieved in the previous years of project implementation. Past achievements show how the project is making a difference; identified obstacles can be rectified in the current action-plan. This section is also very useful for roping in other support institutions, as past outcomes are often a better indicator of future outcomes than any list of proposed activities, no matter how detailed. The outcomes should specially reflect on as to how they are influencing the poor. (This section should take one to two pages).

4) *Description of past activities :* This section would contain a table of past activities with respect to output, co-ordinating institution, stakeholders involved and linkages developed in the process. This table throws light on the maturity level of an implementing organisation (network, BDS provider, or support institution), the likely partnerships that can be created among stakeholders for present or future activities and the effectiveness of past activities in terms of their expected outcomes. This section should provide vital clues with respect to the right choice of activity, implementing institution, and stakeholder-composition for the current year. (This section should take one to two pages).

5) *Over-all cluster development strategy and objectives for the current year :* A review of strategies adopted so far to achieve the broad objectives and the direction in which they have pushed the cluster helps in identifying the broad short-run objective(s) to be pursued during the year. An example is provided in Figure 9.1 (This section should take approximately one page).

Box 6.1
Cluster development framework – identified strategies
Jaipur handblock-printed textiles

Skills upgrading
- Technical training of trainers.
- Training in basic drawing and designing skills of artisans.
- Training of second-line managers in information technology.
- Training in product diversification.

Strengthening linkages
- Participation in international trade fairs.
- Organization of exhibition-cum-sales at national level.
- Showroom renovation and operation.
- Creation of directory of designers.
- Documentation and preservation of traditional art-forms.

Innovative product development
- Specialised skills-upgrading programme of the rural artisans.
- Specialized buyer-seller meetings to test results of skills-upgradation.
- Joint participation in trade fair/buyer-seller meet in Europe.

Institutional capacity-building of the cluster
- Creation of specialised consortia.
- Regular meetings of local associations.

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6) *Details of short-term objectives*: The realization of each short-term objective requires activities are detailed with respect to the resources required, sources of finance, implementation period, expected outcomes, responsibilities and time requirements of CDA and non-CDA implementers. (Each short-term objective should take about a page.)

The action-plan document allows systematic progress in the realization of the vision by :

- Reconfirming that vision.

- Evaluating the current mix of short-term objectives in terms of their joint conduciveness to the realization of the cluster vision.

- Identifying the current action-plan :

  - Short-term objectives that can be pursued, given the degree of social capital in the cluster.

  - Activities that can lead to the achievement of these short-term objectives.

  - The combination of stakeholder inputs, competences and resources required.

6.5 Characteristics of a good action-plan

A good action-plan would have the following characteristics :

- *Transparency* : The action-plan is not a secret document ; it should be shared with all stakeholders. Stakeholder feedback is important for developing an implementable action-plan. The sharing can take place through cluster-level workshops or informally during group-based activities. However, it is often advisable for the CDA to suppress information related to funds for the implementation, especially in seriously under-performing clusters, for the CDA might otherwise be pressured by the stakeholders to use funds to subsidize fully commerical activities - that is, those that have proved so successful as to be effectively self-sustainable without the need for project resources. Such activities should *not* be subsidized under the framework of a cluster development initiative.

- The action-plan should be as *realistic* as possible. An ambitious action-plan increases the chance of failures, which will reflect poorly on the CDA and will send a negative message to the cluster.

- *Consistent focus :* While preparing an action-plan, the CDA may often come under pressure to include activities which might not fit into the framework of the cluster programme. The CDA should avoid taking such actions on board.

- As the cluster matures, majority of the activities should be *demand-led*, but to stimulate action by the cluster, the CDA may need to include in the action-plan some activities for which demand may be low because cluster members overlook opportunities. The latter activities should ideally be informative or knowledge enhancing, since at an early stage stakeholders are unlikely to invest resources in them. Participation may be limited to a few (or even a single) stakeholder**.**

- A major category of issues where the CDA may have to take the initiative is related to *environmental and social needs*. Due to short-sightedness and entrenched routines, stakeholders often miss out on critical issues such as environmental pollution, minimum wages or child-labour, and may actively resist actions to address them. Even if a legal ban looms, stakeholders have been found to resist pollution control or minimum wage initatives, at least up to the point in time when the threat becomes imminent and manifest. Stakeholders only see the added burdens. The action-plan should therefore also include awareness-building activities for joint activities on these issues. During the initial trust-building phase, activities can be limited to dissemination of information on pollution-control, a visit to a cluster where pollution-control measures have been taken, etc. As trust levels increase, the business perspective can be introduced : e.g. stakeholders can be made aware that adherence to environmental and child-labour norms can open up new markets in Europe or North America.

- *Balance among enterprises* : The action-plan should accommodate (by size- distribution) all categories of principal firms in the cluster. Tensions among firms may otherwise arise and form an obstacle to trust-building. However, there should be special emphasis on including the poverty nodes.

- The action-plan should be *implemented by an intermediary organization* : Barring some preliminary activities, which can be implemented by a CDA, each activity is implemented by an intermediary organization like a network, institution, BDS provider or a specialized firm. The CDA should *at best* facilitate the implementation of the activity.

- *Achievement of multiple objectives*: Where possible, activities should be designed so that they help achieve multiple objectives. Encouraging participation of manufacturers from a cluster to attend a trade fair, for example, can have different purposes : it may demonstrate the scope for reducing marketing costs through common participation ; it may help eliminate middlemen through direct business contacts, and it may also serve as a trust-building exercise.

- *Spin-off activities*: The formation of small networks of SMEs to purchase raw material together to save costs may lead to spin-offs. One benefit could be a greater awareness of better purchase management and opportunities to increase efficiency.

- *Balance between short and long-term activities :* In the early phase of any cluster-development initiative, the bulk of activities should be result-oriented and of a short-term nature. It is important that cluster stakeholders see immediate results. These serve as encouragement for more complex activities which follow. In very weakly developed clusters, the focus should be on one or a few simple activities. For clusters with higher levels of trust, the action-plan may include complex activities from the very start. Long-term activities cannot generally be realised in the span of a single action-plan and therefore need to be broken down into a chain of realisable short-term activities in the action-plan.

- *Flexibility :* At the time of implementation, the CDA may see the need to change the composition of stakeholders or the resource contribution ; also, the cluster may not be ready for certain activities. Therefore, the plan should be flexible. Flexibility also means having the ability to launch a new activity not mentioned in the action-plan. Even after meticulous planning a sizable fraction of planned activities may be finally implemented and unplanned activities may need to be taken up. This happens because of (a) inadequate information, and (b) unexpected spin-offs from a current activity (new activities emerging out of a successfully implemented activity have a good chance of succeeding as the confidence of the cluster actors is obviously high).

- An action-plan should, above all, *consist of joint activities :* at least three stakeholders should either be involved in its implementation (e.g. as a source of expertise, funding or demand) and/or receive relevant benefits therefrom. An activity that benefits an individual stakeholder both in the short and long run should *not* be included in an action-plan. However, a few supply-driven activities based on the intuition of the CDA may also find a place in the action-plan, even if initially there are no interested stakeholders, for a very limited period of time (at best, one year).

6.6 Types of joint activity

The types of joint activities may include :
- *Trust-building activities* : These are activities with no other stated objective except that of eliminating conflicts (among stakeholders) which prevent joint activity. These may be extremely frequent in the early stages. As time progresses, the number of pure trust-building activities should, in principle, diminish. Trust-building activities can include visits to firms, lectures, workshops, social gatherings, etc.

- *Pilot activities*: The purpose of these is to test the co-operativeness of stakeholders through a limited activity. This may include demonstration of a new technology, recruitment of an expert, training, etc.

- *Other preparatory activities.* Proving the self-sustainability of an activity to the stakeholders can be a long process that requires sensitisation, testing and dissemination of results. Such activities qualify for inclusion in the action-plan.

- *Capacity building*: The cluster stakeholders must be enabled to implement activities with a minimum of external support, or without it. Capacity-building includes formation and/or strengthening of networks, associations or institutions, assisting /training of network development agents or network brokers, exposure visits etc.

- *Workshops and discussions on capability-enhancement* : This consists of (a) formal workshops by experts in the fields of health, literacy, gender sensitiveness, leadership, etc. ; (b) a conscious attempt for continuous discussion and follow-ups on such issues, so as to create an opinion regarding the importance of such inputs
- ; and, (c) definite output targeting by providing such capability inputs.

Box 6.2: Social Animators take Charge of Gender Action Plan

The challenge that was faced by the plan of promoting literacy in the handloom cluster of Chanderi, India, was two-fold - (a) **technical** : what will be the optimum study-material? ; and (b**) strategic** : how to promote the literacy-drive in a cost-effective manner and institutionalise the knowledge of teaching the illiterate in the local setting. The technical aspect of ideal study-material was handled by expert organisations. While strategising for literacy promotion, it was felt that a team of educated local persons be created, preferably from the weavers' community, and they be given three inputs : (a) training in teaching methodology and tools by an expert organisation, (b) on-the-job training through an SHG expert to make them aware about overall happenings in the cluster, and, (c) a stipend to partly support their learning efforts. This group of five persons – two graduates from the local community and three graduates from Chanderi (non-weavers) were termed "social animators". They were also given various trainings and exposure within and outside Chanderi. Each social animator was allotted a group of SHGs to conduct monthly meetings and use the same platform for dissemination of information. They also had a daily meeting with an SHG expert, CDA, Chairperson of a women organization - *Hamari Duniya (the World of Women)* to discuss the SHGs' problems, information strategy, conflicts, etc. These sharpened their skills and made them a part of the entire developmental agenda.

It may be mentioned here that capability-enhancement is a relatively long run outcome, as compared to aspects related to income and the programme, through the above activities, in its capacity to deliver such output, must create confidence in the stakeholders – qualitatively as well as by organising funds for providing such input.

Creation of appropriate forum for enhancing social capability – It will be difficult to raise forums specifically for capability enhancement. Hence one may develop income- generation forums and suitably guide them to provide capability-related services.

If similar forums already exist, one can strengthen those for this purpose.

used to feel shy to purchase the same from a medicine shop. There was also a problem with respect to the disposal of napkins in the village.

These issues were discussed with the local sanitary-napkin dealer, the SSE factory-owners and a marketing executive of Johnson and Johnson (J&J) - a sanitary napkin producer. A team of J&J evinced interest and indicated a willingness to supply low-cost sanitary-napkin products, train the women-workers and also advise the cashew-factory owners on providing the necessary support system. J&J deputed a lady consultant to gather all the facts. The consultant came twice and met a cross-section of stakeholders.

Thereafter, J&J agreed to provide the napkins at concessionary rates to its local dealer. As per agreement, the dealer would send the product to a designated lady in each factory. This lady would sell the product to the workers and send the money to the dealer. The factory-owner also provided a change- room and a separate dustbin in the factory for proper disposal. The J&J consultant and one social worker imparted complete training of the usage and disposal of napkins to the women workers.

At present three SSI owners are providing this service to women-workers in the factory. About 300 women cashew-workers are using the sanitary napkin. The discussion of this initiative is now percolating to the other SSI units through Association meetings. The same initiative has also been taken up by TPACCS for the 400 SHG women attached to it.

- *Regular activities*: These activities, which may have started as pilot activities that have proved sustainable, include participation in trade fairs, quality and skills upgradation, training, consultancy, sourcing international expertise, etc.

- Strategic initiatives: These are medium / long run activities such as brand-building ; creation of laboratories and establishment of product testing infrastructure ; information, design and R&D centres ; technology-development ; relocation to better areas ; policy changes, etc.

- *Monitoring and review* : These constantly guide the cluster to an optimum growth path by incorporating lessons learnt in action-plans. They include cluster-level review workshops, assessments by knowledgeable experts and evaluation programmes.

6.7 From short-term objectives to activities

The short-term objectives targeted in an action-plan are broken up into a list of activities, and each activity is further broken down into implementation time-frame, stakeholders and their contributions, expected output, etc. - as shown in Box 9.1.

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Box 6.6: Enhancing marketing linkages and reach of
Hand Block Printed Textile (HBPT) cluster of Jaipur (north India)

<u>Necessity</u> : The textile printers in Bagru, India, need better marketing. Efforts have already been made to provide exposure to national and international markets but the scope of these marketing efforts needs to be widened, the products must be advertised better and regular production of unconventional high-demand products must be undertaken.

<u>Expected outcome</u> : Creation of a retail outlet, product diversification, enhanced capacity-utilisation, product-promotion and better know-how of current international trade practices.

<u>Beneficiaries</u> : Printers and exporters.

<u>Responsibility for execution</u> : Calico Printers Co-operative Society (Calico), Consortium of Textile Exporters (COTEX), Self Help Groups (SHGs) of Bagru, Non-Government Organisations (NGOs) and Business Development Service (BDS) providers in design.

<u>Financial aspects (value in US$)</u> :

	Activities	Time period	Total	Imple-menting Agency	Network	Support institutions
1.1	Exclusive retail outlet	Q2-Q3	8,700	500	7,200	1,000(SIDBI/RCCI)
1.2	Exclusive fairs in major cities	Q1-Q4	12,000	1,700	6,300	4,000 DC(H)
1.3	Promotion of website	Q2-Q3	1,700	300	700	700 (SIDBI)
1.4	Participation in international fairs	Q1, Q4	11,000	2,300	7,000	1,700 (RCCI/SIDBI)
	Total	**Q1-Q4**	33,400	4,800	21,200	

Key : Q = quarter ; DC(H) : Development Commissioner, Handicrafts – a developmental agency of the Government of India ; SIDBI: Small Industries Development Bank of India – a developmental bank ; RCCI :Rajasthan Chamber of Commerce and Industry – the State (of Rajasthan, north India) level apex Chamber of Commerce

<u>Agency's functional responsibility</u> : To guide the cluster-actors in preparing a detailed action-plan for each activity, provide linkages with support institutions and monitor overall progress.
<u>Person days</u> : 50(agency) +265 (non-agency)

Each activity in the framework needs to be detailed further. An example for activity no.1.1 in Box 6.6 appears in Box 6.7.

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Box 6.7: Establishing an exclusive retail outlet

Necessity : Renovating (Phase I) the Calico Showroom will give the printers of Sanganer (a township near Jaipur, which is a part of the Jaipur hand block printed textiles (HBPT) cluster) a permanent marketing outlet.

Expected outcome : Joint effort for co-operative activities, permanent sales outlet for weaker printers, base for common initiatives.

Target beneficiary : All printers of Sanganer.

Executing responsibility : Calico Printers Co-operative Society Ltd. (Calico)

Venue : Sanganer, Jaipur.

Financial aspects (value in US$):

Item	Total	Responsibility
Renovation (phase 1) of showroom	700	Agency : 500, Calico : 200
Adverts, running costs, showroom stock	8,000	Agency : 500, SIDBI/RCCI (support institution) : 500, Calico : 7,000
Total	8,700	

Person-days : 10 (agency) + 15 (non-agency)

UNIDO's functional responsibility : Organize Calico, provide inputs and linkages with support institutions.

Calico : Co-ordinate with its members, draw up an action-plan, define the regulations and renovate the showroom**.**

7. Implementation

7.1 Introduction

Implementation refers to the operationalisation of the range of activities that leads to the realisation of the objectives enshrined in the "vision statement" of a cluster and, in the process, strengthens the governance mechanism of the cluster. The steps required to attain this objective include:

1. Implementation of annual action plans.
2. Up-scaling (expansion) of activities with or without the help of professionals.
3. Creation of a "governance mechanism".
4. Preparation and execution of an exit strategy for the CDA.

7.2 Short, medium and long-term objectives of implementation

Implementation of an action-plan requires the listing of a number of activities to be completed within a given time frame, subject to resource constraints. Each activity of an action-plan needs to have a clear short-term objective. Improving sales or the creation of linkages with buyers, for example, are the immediate objectives of organizing a fair.

In the medium term, such activities must lead to poverty-reduction through increased wage, employment and improved capability-creation of the poor and the poorest stakeholders and, among them, the marginalised groups and women. This should not enhance disparity and adversely affect the relative poverty in the local context.

The peculiarity of a cluster action-plan is that over and above the achievement of the stated objectives, each activity should lead to the creation of an efficient and lasting governance-mechanism: the cluster stakeholders must eventually be able to initiate and manage further development themselves. The CDA should keep this long-term objective clearly in view, especially because the cluster stakeholders often lose sight of it.

The intermediaries that are required to build governance capacities must therefore be involved at the earliest possible stage, and stakeholder empowerment must be a continuous process, through delegation of responsibilities, creation of governance support mechanisms wherever needed, appropriate sequencing of activities, and transparency in implementation.

> Intermediaries who are representatives of cluster governance must be involved in implementation and gradually given full charge to ensure sustainability. Such intermediaries must have significant representation of the poor and the poorest.

7.3 Implementing an Annual Action Plan

While implementing an Annual Action Plan, the CDA should adhere to the following broad guidelines:

7.3.1 Promoting and selecting the best intermediary for organising various joint activities

Each intermediary has particular characteristics and advantages. In the preparation of the Annual Action Plan, the CDA should bring these into the discussion with the beneficiaries of each activity so that they can jointly choose an appropriate intermediary. The possible intermediaries include both networks of primary stakeholders and support- stakeholders as given below:

7.3.1.1 Groups of household enterprises

In a village /semi-urban setting, there often exists better understanding and trust among small groups of households producing a particular product individually or jointly. This happens because of various past interactions, especially in cases where they are more concentrated and have higher interaction in a region within a village (e.g. a hamlet /semi-urban setting). There are natural barriers to communication, otherwise. A self-help group (SHG) in India is one such known semi-formal network[42] of households.

Such small groups are ideal launch pads for promotion of initial trust-building activities like thrift and credit, training, exposure visits, order-sharing and even joint production (not feasible otherwise) etc. They are also fertile grounds for spreading the message of co-operation throughout the cluster among all unexplored cohesive groups, which can take shape easily, based on the experiences of their predecessors.

7.3.1.2 Association of small groups

Small groups (as mentioned above) often do not have a legal entity and, therefore, have limited scope for higher levels of co-operation. At times their size also makes them non-viable when they go for commercial production. It is here that association of small groups (e.g. SHGs) can come together for higher levels of business co-operation, e.g. joint marketing, joint production, etc. A multitude of such associations, based on effective business models, is a healthy business scenario as compared to one large and all-encompassing association of all small groups which is both politically as well as economically volatile. The legal format of such associations can be a society, a co-operative, a producers' company, etc. The legal format of this organisation should match its business objective.

7.3.1.3 Association of micro/small enterprises

These are traditional business associations and are known for promoting broader activities like ensuring that firms understand the nature and purpose of an activity and are motivated for it, creating momentum for joint activity and co-ordinating its implementation, publicising the various contours of the programme among its members, etc.

7.3.1.4 Local Non-Government Organisations (NGOs)

The nature of NGOs was also found different between rural and urban-based clusters. Whereas city-based clusters are run professionally and can often pick up assignments, the village-level NGOs have long-term commitment for growth of a block (group of villages) and are very shy to pick up new roles of development. Here the trustees of an NGO are very influential and need to be taken into confidence before embarking on new roles.

7.3.1.5 Specialised NGOs, technical and financial institutions

These are NGOs which may or may not exist in the cluster and they specialise in capability-creation. Such NGOs may be guided to provide customised inputs of capability creation for the focussed group of stakeholders. Going by the same token, technical institutions should be engaged for training and financial institutions for financing of emerging and new business initiatives.

7.3.1.6 Specialised private sector intermediaries

They could be relied upon for business promotion activities (see box 7.1 below) and also for on-the-job training (see section 6.9 for further details).

Box 7.1: Private Sector Provides Crucial Market Link

Fab India is an established handicraft retail outlet with branches all over India. In July 2004 the core buying team of Fab India visited Chanderi to explore the possibilities of bulk purchase. After initial discussions and assessment of Bunkar Vikas Sanstha (BVS), Fab India decided to open its own office in Chanderi and also signed an MOU with BVS. The MOU with Fab India made possible for BVS an assured order of Rs. 5 million from Fab India in the first year with a likely increase of Rs. 2.5 million every year. BVS was given the responsibility of managing the production of its SHG and through them with other SHGs in the cluster. The CEO of BVS was entrusted with the responsibility of managing the entire show. Actual sales to Fab India are estimated at Rs 2.7 million in 2004 and Rs 4.24 million in 2005. The figure is likely to reach Rs 7 million in the year 2006.

7.3.2 Resource-mobilisation by stakeholders

For each demand-driven activity, there should be a substantial resource-contribution from the stakeholders. Otherwise, their involvement remains patchy and their determination may falter. If a demand-driven activity fails to generate enough resources from the stakeholders, the CDA should question its basic premises.

Resources include:
1. *Time, knowledge and financial contributions from the principal beneficiaries*: these include time required to formulate and implement activities ; identification of needs and solutions ; locating intermediaries ; knowledge related to cluster dynamics, and participation fees.
2. *Expertise and financial support from technical institutions*: advice on training, technical upgrading, project-preparation, etc.; in-kind contributions in the form of mainly available premises, equipment and staff for training courses. Such financial contributions increase the prospects for increased demand for their services.
3. *Time, expertise and financial contribution from associations/networks* : these include secretarial support ; identification of operational partners ; sharing of responsibilities; access to infrastructure owned by the association/network, and seed money for further mobilisation of funds.
4. *Contributions by the donor agency*: mobilization of finance on a cost-sharing basis.
5. *Time, knowledge and financial contribution from the implementing agency*: CDA is its key contribution. Further knowledge contributions may come in the form of expert technical support. Financial contributions may come in the form of seed money.

Whatever the source of support, the cluster stakeholders should be constantly reminded that:
1. The involvement of the implementing agency will not continue after the cluster development programme is over.
2. Preference is usually given to innovative initiatives rather than known and tested ones.
3. The greater the contribution of the cluster stakeholders, the greater their freedom to set objectives and implementation procedures.

The ground rules for supporting an activity by an implementing agency are as follows:

1. The greater the likelihood of short-term commercial gains for beneficiaries, the lower the support to be provided. On the other hand, the greater the risk and developmental content in an activity, the greater should be the support.

2. If an activity is carried out for the second or third time, support should be considerably reduced, as the risk of that activity stands reduced.

3. Within the same cluster, percentage of support should be greater for stakeholders with limited financial means.

4. Capacity-building activities are not likely to be financed by stakeholders, at least to start with. Hence there will be a need to organize support for a longer period for these activities. Very often, cluster-development programmes are not equipped to fund such activities. However, for creating an impact on poverty, there has to be scope for such support for the programme, else the programme must actively pursue for fund-sources to support such activities.

5. Activities generating benefits to a single beneficiary or having no cluster–wide indirect effect should not be supported. However, a firm may be helped to introduce a new technology for purposes of demonstration if this benefits the process of learning and possible replication in the cluster.

Box 7.2: Decreasing Support for Joint Action

In the artisan cluster of hand-block printed textiles at Jaipur (India), the contribution of the implementing agency (UNIDO) decreased for activities repeated over time and the proportion of support varied depending on the type of activity.

Table 7.1: HBPT cluster of Jaipur
UNIDO's contribution in total expenditure for selected events (%)

		1998			1999			2000		
		U	SI	CL	U	SI	CL	U	SI	CL
C	1st fair of printers at Jaipur	51	14	35						
M	Workshop of exporters	75	0	25						
D	1st cluster-level developmental workshop	33	67	0						
C	1st fair of printers at Delhi				15	31	54			
M	Exporters' training (visual merchandising)				35	48	17			
D	2nd cluster-level developmental workshop				21	79	0			
C	1st fair of printers at Delhi with an NGO							16	0	84
M	Training of exporters & printers (washing)							0	33	67
D	3rd cluster-level developmental workshop							5	95	0

Key : U – UNIDO ; SI - Support Institution ; CL - Cluster. *Activities* : Commercial (C), Developmental (D), Mixed (M - commercial and developmental).

7.3.3.1 Targeting the poor in sequence

Using scarce developmental resources through a user-driven process, the essence of the cluster development approach, is likely to respond to the demand of the most vocal and the most endowed stakeholders in the cluster. Since the poor and the poorest are not adequately empowered to express their needs, they can easily be marginalised from this process, and therefore from "traditional" cluster-development initiatives. Hence, there should be a conscious effort to target the 'poor' and the 'poorest', as defined by the PPA, and to include them deliberately in the identification of activities and monitoring of results. A phased approach is, however, strongly suggested, starting from the poor and gradually moving to the poorest among the poor. This is suggested primarily because the latter group is so close to sheer survival that any failure in project-activities, howsoever temporary, can seriously compromise their lives.

7.3.3.2 Creation of sound demonstrative model for successful upscaling

It will be difficult to cover the entire cluster during a short period (three years or less) of implementation. In fact, it is also not necessary as an intervention technique. It is both logistically sensitive and technically prudent to target a smaller group of stakeholders and instil the desired change in them as a model. The learning that emerges sets in the desired mood for change as the message spreads fast through the social fabric in the cluster. However, one may create different growth models to understand the varieties of potential for replication later in the cluster.

Box 7.3: Different models of business intervention to involve the poor

The following models were tested out by the UNIDO Project at the cashew and fruit-processing cluster of Sindhudurg, India :

(a) **Co-operative led SHG model** : Here, one village co-operative has been prompted to handhold SHGs by (i) training them through external sources, (ii) providing loans, (iii) providing work-place and infrastructure (often through loaning), and (iv) giving them marketing linkages in the form of quality assurance (certification) and marketing chains.

(b) **NGO led SHG model** : Here, an NGO, which is traditionally into training, has been promoted to work with SHG belonging to nearby villages by (i) giving them training, (ii) arranging loan through banks, (iii) giving marketing linkages

(c) **Educational Institution and SHG** : The institution has been promoted to work with SHGs in a few nearby villages. It has (i) given training, (ii) organised them into a federation, (iii) provided them access to loan and (iv) linked them to marketing.

(d) **ME-led SHG model** : Here, SHGs have done production by organising their own loan and production unit and the ME has ensured their marketing.

(e) **SHG of MEs** : Here a consultant has provided the MEs all support for growth by putting them into the framework of an SHG

7.3.3.3 Regular dissemination of information

It is essential to keep the intermediaries fully informed about the implementation of the activity-plan. This should lead to useful feedback in the form of suggestions that are crucial for continuous effectiveness of the programme. This practice also encourages mutual trust and understanding. Keeping people informed finally gives a sense of ownership and pride, and creates eagerness among cluster stakeholders to achieve success in the concerned activity. This process can be further strengthened through participatory monitoring and evaluation (see chapter 8 for further details).

In order to maximize the trust-building impact of the action plan, it is advisable to proceed according to the following step-by-step process:

1) Activities should concentrate on the creation of trust among stakeholders, which is to be achieved through formal and informal interactions.

2) To start with, priority should be given to workshops, training courses, short-duration events and networking. These activities, apart from transferring practical know-how and serving as instruments to strengthen business performance, increase interaction and help create the confidence needed by stakeholders to depend on each other for critically important medium to long run business activities. Workshops on capacity building initiatives, planning for infrastructure initiatives, should also be promoted at this stage, so as to create a mind set and mobilisation of desired resources for promotion of such activities in the near future. This is also the time for promotion of networks, which concretise with more serious activities at a slightly later stage. This is also the time for initiating broad understanding on long run activities.

3) With the trust thus attained, more focused and complex joint business-oriented activities such as linkage to new market/marketing channels, quality upgrading, cost reduction, raising finance, etc. can be introduced through the networks promoted, or even freshly created to suit the needs of typical new sets of objectives created by the initial activities.

4) Once the stakeholders start enjoying substantial benefits from these complex joint business activities, long-term activities initiated earlier, such as technological changes, infrastructure development, pollution control, etc. should be implemented with full vigour.

7.3.5   Stages of implementation

The process of implementation involves three broad stages:

Stage one: The CDA has most of the responsibility for implementation and the contributions of the implementing agency are larger that those of the cluster stakeholders. The CDA assists in formulating the cluster vision and drafting action plans, identifies cluster partners, enlists local support institutions, and undertakes capacity building.

Stage two: The cluster stakeholders gain greater trust in their capacities, are more willing to commit their own resources and increasingly learn to find co-funders and other support. The CDA begins to hand over responsibilities, especially at the activity level.

Stage three: The cluster intervention is effectively approaching its conclusion and the cluster is characterized by a stronger bonding among the cluster stakeholders. The cluster stakeholders contribute significantly to the funding of activities, and start selecting strategic objectives autonomously. Various private entities are also likely to start activities that promote business and non-business activities in the cluster. At the end, the process has become largely self-sustainable.

7.4 High-powered Network Development Agents (NDAs)

Unlike industrial clusters, where stakeholders often come up during the diagnostic with relatively clear demands, stakeholders in "poverty clusters" are often much weaker and need far greater support even to conceptualize a break from their daily routine but also to organize their progress towards growth. Here the NDAs at the ground level also need to be of high calibre as they are called to be thinkers and not simply doers. NDA should guide the stakeholders by (a) challenging the status quo, (b) preventing the escalation of conflict, (c) introducing appropriate systems, (d) nurturing new leaders and (e) preserving transparency.

7.5 Promotion of cluster level institutions of poverty groups

Promotion of successful institutions should never be seen as the ultimate goal of cluster development. In fact such institutions, when they become static, can defeat the very purpose of their creation. However, institutions can facilitate the emergence of entrepreneurial risk-taking in the cluster, and especially within the poverty nodes. It is important for the cluster development agent to keep in mind that , as and when an individual becomes capable enough to handle challenges on his or her own, they should be naturally allowed (through the rules of the institution) to leave the institution. Thus institutional platforms should therefore be seen more as a learning ground for the emergence of able entrepreneurs.

In order to keep such institutions accountable and open, there is need to keep change of leadership possible and to maintain transparency. For nurturing of new leaders, the cluster development agent ought to facilitate maximum participation of the members, by involving them in various responsible activities of the institution. At times, the creation of competing institutions with the same mandate can help such task.

7.6 Women empowerment[43]

In view of the general prevalence of gender bias in most clusters, special attention need to be given so that women members get enough freedom to speak out. Hence appropriate speaking atmosphere, e.g. no presence of senior male members or husbands, should be provided to the women. This does not imply that male members should be secluded from such initiatives. They should be properly informed regarding the activities, as it is done for any stakeholder activity in the cluster, which is known to all stakeholders in the cluster. Here, especially, such an open atmosphere will help the women to get more involved in their interested activities.

Women often have less free time than men, as they have domestic responsibilities and hence attending meetings may be a problem if they are set at times of the day when they are generally occupied. Hence discussions and venues for joint action should preferably be nearer to place of domicile.

One should also keep in mind that a similar act can affect men and women differently, e.g. technology, business opportunity, etc. This should be kept in mind while introducing new technology or new business opportunity, especially with respect to replacement of women labour say due to difficulties in operation. This does not imply that new technology should not be introduced. On the contrary such new technology should be introduced by making it also women friendly.

Box 7.4: Checklist - Are activities helpful to address women empowerment?

- Does the project (a) ensure equal/similar employment opportunities for women and men, both at staff and project management levels? (b) encourage women's participation, especially in non-traditional occupations?
- Are there mechanisms to ensure that project benefits are equally accessible to both sexes? What are the requirements for beneficiaries to be able to use the services offered by the project? Can women and men meet these requirements and protect their interests? Does the project provide mechanism to encourage the participation of women?
- Are consultation with and participation of relevant organizations and institutions happening?
- Are the organization's delivery channels accessible to men and women in terms of personnel, location and timing? Are they flexibility enough to adapt their structure and operations to meet the changing situation of women and men?

7.7 Importance of Marketing and Credit

Not surprisingly, **credit** has emerged as an important issue in rural clusters and for poor people that are effectively marginalized from formal credit markets and have to face very high rates in informal credit markets (local money lenders). The link between cluster development initiatives and micro-credit has been explored repeatedly and with much success in both pilot clusters[44]. It has been observed, however, that credit becomes a real bottleneck only during a time of business expansion or creation of new business. If micro-credit is used exclusively for consumption purposes, there is a serious risk of locking poor people in micro-debit, which can have devastating implications for their survival. The creation of sustainable business opportunities for the poor in the cluster (both in terms of linkages to viable markets and ability to produce suitable products) needs to be seen as a necessary precondition for infusion of micro-credit in a cluster.

Marketing has emerged as possibly the most critical issue in poverty clusters, well beyond what has been the case in "traditional" interventions in industrial clusters. An important lesson learned from field activities, is that the private sector, that is private enterprises with own business interest in products, and play a far better role generating business and trigger process improvements than most of the dedicated institutions available in India (e.g. public support institutions but also NGOs).

What is emerging is a tripartite division of labor wherein the implementing agency creates social capital through interactions, group formation, training in capacity building, etc.; the private sector providing a strong help to consolidate the social capital while working jointly towards profits and raising awareness to the need of production improvement; and finally the support institutions providing much needed resources for production upgrading.

A major challenge for the cluster development approach remains how to drive such private players into the process of cluster development. Limited experience has emerged in Chanderi, but clearly more needs to be done on this front.

7.8 Bulk off loading

A Cluster Development Programme traditionally supports associations, their NDAs and BDS providers who are the principal movers behind the action plans, which is prepared by the cluster stakeholders in conjunction with the CDA from the implementing agency. However, experience in the field proves that there is scope for further offloading of responsibilities to ensure that the outreach of the project in terms of poverty reduction is maximized, especially as trickle-down effects proved not to be particularly reliable. More specifically, the bulk of activities aimed specifically at poverty nodes (e.g. marketing, credit disbursement, linkage to microfinance unit, etc.) ought to be sub-contracted to specialized institutions. Moreover, field level experience shows that there is a good potential to involve NGOs, albeit of a sufficiently strong nature, in the process of group formation and social capital building. This task, which was traditionally considered as the core competence of the cluster development agent, appears however to require a serious investment in terms of capacity building at the institutional level.

7.9 Capacity building through business initiatives

Provision of training is a necessary but often not sufficient component of capacity building for the cluster stakeholders. Especially when the intervention is aimed at the most marginalized groups in the cluster, training in areas such as new areas of production or management practices, as frequently done in traditional cluster development initiatives, simply do not fit in the existing practices of the enterprises. Hence, the propensity to adopt such training, as a routine activity, is very limited or, alternatively, the scope for lowering

productivity of project resources is high. Experience shows that a great deal of effort needs to be spent to synchronize the knowledge base available with experts and the needs of the stakeholders. Often, this also implies longer interventions (see below), before the stakeholders can actually internalize the skills required to escape poverty. Such interventions work best through actual business development process that is when there is an actual process that shows training means higher earning.

Box 7.5: Fab India Promotes Dyeing Technique

In the handloom cluster of Chanderi, India; The first awareness workshop on dyeing[45] was organised in collaboration with the Government of Madhya Pradesh by the National Institute of Fashion design (NIFT) for all stakeholders. An instruction leaflet in Hindi was also distributed. A second workshop was organised on dying practices where 50 dyers/weavers/master weavers were provided training in dyeing and appropriate usage of related scientific instruments, to ensure a decrease in their rejection rates.

Yet, when Fab India gave the first bulk order of 10,000 meters of fabric (500 kgs of yarn) in four colours, availability of fast dyed and huge quantity of bulk yarn became an issue. The CEO of BVS went to Coimbatore along with a weaver to do bulk ordering of cotton yarn after proper dyeing. The identified vendor agreed to supply, though colour was not fully guaranteed. The delivery mechanism took almost 50 days and the dyed yarn was supplied at Guna, 100 kms. from Chanderi. These were high cost transaction problems. It was also found that the cost of dyeing was around Rs 800,000 and the cluster has the capacity to retain this income and gainfully employ 20 persons.

The cluster did not have any professional dyer per se. It only had those ad hoc dyers who were doing some silk dyeing. 4 such dyers were identified and with the support of Weavers Service Centre and National Handloom Development Corporation. They were first sent to Valsad for an intensive training in dyeing technique. Later they were given hands-on-training by a service provider while actually dyeing materials for Fab India. Later with the support of BVS, who sponsored the utensils and measuring instruments, 3 part time dyers started a dye house. The dye house dyes both for BVS and also takes up independent assignment.

7.10 Non-performance of networks

Networks have been created in the past, often as a tool to administer support schemes in a supply-driven manner. Often, therefore, a cluster development agent is confronted with the task of revitalizing cooperation among such stakeholders, which can be a much harder task than fostering cooperation among new stakeholders. In any case, the specificities of the task at hand are of crucial importance to drive the choice of the cluster development agent. Again a network aiming at joint production requires members with complementarities in product development/marketing and similar size/turnover. However, these features are not required for a thrift and credit network. Hence, the implementing agency should have a clear vision of purpose for creation of network and share the same with the stakeholders, prior to creation of networks.

7.11 Creating governance capacity

Realization of cluster vision requires a cluster-wide governance mechanism. The stakeholders must eventually be capable to identify joint activities, carry out implementation and subsequently up-scale them without a CDA. Sound governance:

- Is pro-active
- Has effective mechanisms for including all relevant stakeholders, especially the under-privileged and women in decision-making
- Has a long-term agenda
- Has a sound financial basis
- Is supported by effective and efficient institutions for various special activities

It must be stressed that capacity building in governance should eventually encompass the entire cluster; therefore the CDA must transfer governance expertise at all levels. Much of this can be done without formal teaching, through exposure to successful cases and through the direct involvement of stakeholders at all activity stages. Governance capacity building can be part of the following activities:

- Awareness-raising seminars of cluster entrepreneurs;
- Creation of networks;
- Establishment of linkages among local institutions;
- Dialogues between producers' and workers' associations;
- Introductory seminars on project financing for local policy makers;
- Workshops on the cluster vision;
- Presentations of best practice drawn from the experience of other clusters;
- Capability enhancement exercise of the under-privileged and women
- Study tours to successful clusters;
- Dialogue among all cluster stakeholders.

By ensuring that the greatest possible number of people, under-privileged and women (in the partner networks as well as in any other institution) are (co-) responsible for activities, especially those that place them in the most lucrative points of the value chain, direct exposure to the "technicalities" of cluster development will be maximized, and a pool of potential cluster leaders and managers with representation from the poor and the poorest may be created.

In addition, building governance will require linking up networks of stakeholders with pro-active support institutions, private sector intermediaries (e.g. in credit provision or marketing) and BDS providers who are sensitive to the business needs of the firms in the cluster. Ideally they should also be linked with cluster level institutions with full knowledge of cluster development and long-term coordination capacities.

The transformation of a cluster's governance framework can be visualized through current and future cluster maps, as discussed in Chapter 3 and also MSME: 2006. Cluster maps for Chanderi handloom Cluster (in India) - before and after cluster transformation appear as Annex 1 and 2 respectively. The improved governance structure of the cluster can be seen in the form of creation of new institutions and linkage with appropriate value chains in the 'cluster map after intervention'.

7.12 Funding issues

Especially in the Indian context and at the village level, the majority of support schemes are "tied" to pre-defined purpose that do not seem to be fully conducive to cluster development methodology. For this reason, it often proves much harder than in "industrial" clusters to bring local support agencies into a partnership to reduce poverty. This may also be a result of the more pronounced voicelessness of the poorer segments of the cluster (compared with the much more experienced entrepreneurs that are the average counterparts in traditional cluster development initiatives) and their more remote locations with respect to where decisions are taken. As it has happened in the past, this may call for renewed interventions at the policy level to re-orient existing support schemes (especially those that are most relevant for poor people).

Again many a times, there are ranges of activities that come up, especially the ones with respect to women empowerment, especially when PPA is conducted. These issues may include alcohol related abuse, unequal division of domestic responsibilities, gender biases - educational, laws of inheritance, etc., sexual and reproductive health problems, etc. Depending on the seriousness of such issues, the CDA needs to organise appropriate resource linkage for implementation and supporting of such activities.

7.13 Contribution to development fund

The traditional cluster development approach suggests a ratio of 2:1:1 towards development expenditure respectively by the stakeholders, implementing agency and support institutions. However for the clusters in the unorganised sector, an acceptable ratio may be 1:1:2 by stakeholders, implementing agency and support institutions, where the support institutions are tuned to such activities. The ratio may be 1:2:1, where the support institutions are either not tuned or do not have fund for supporting such activities. This ratio may get further tilted towards either the development agency or the support institutions, as lot of expenditure often takes place for promotion of networks of poor stakeholders by high-priced resource persons, in the absence of which, these stakeholders do not pick up the momentum.

7.14 Exit strategy of the CDA

Activities in a cluster tend to increase exponentially. In the unorganized cluster, this leads to enhanced expectation among the stakeholders as the programme reaches completion. Again, given the fact that these programmes do not necessarily start off with the poorest, as the programme matures, more and more poor people starts taking benefit. Hence short-duration cluster development programme (of duration 3 years or less), ought to involve a phased exit strategy, which calls for replacement agency to take care of development for some more time. Transfer of responsibilities needs to be strategized well in advance for a smooth exit.

Cluster Map of Chanderi *before* Intervention (2003)

CHANDERI CLUSTER MAP BEFORE INTERVENTION

Annexure-H

Raw material
Silk – Bangalore
Zari- Surat
Cotton- Coimbatore

Textile Training Institute for training & certification of Sarees

WEAVERS
Total Looms - 4000
Working Looms – 3650

Big Master Weavers-12
Small Master Weavers-44

Cooperative Societies-10

State Government

Loom Suppliers

National Market
• Traders - 90%
• DC-Handlooms, DC Handicrafts, Commissioner Handlooms MP Government -10%

Support Institutions
Financial: NCDC

Cluster Map of Chanderi *after* Intervention (2006)
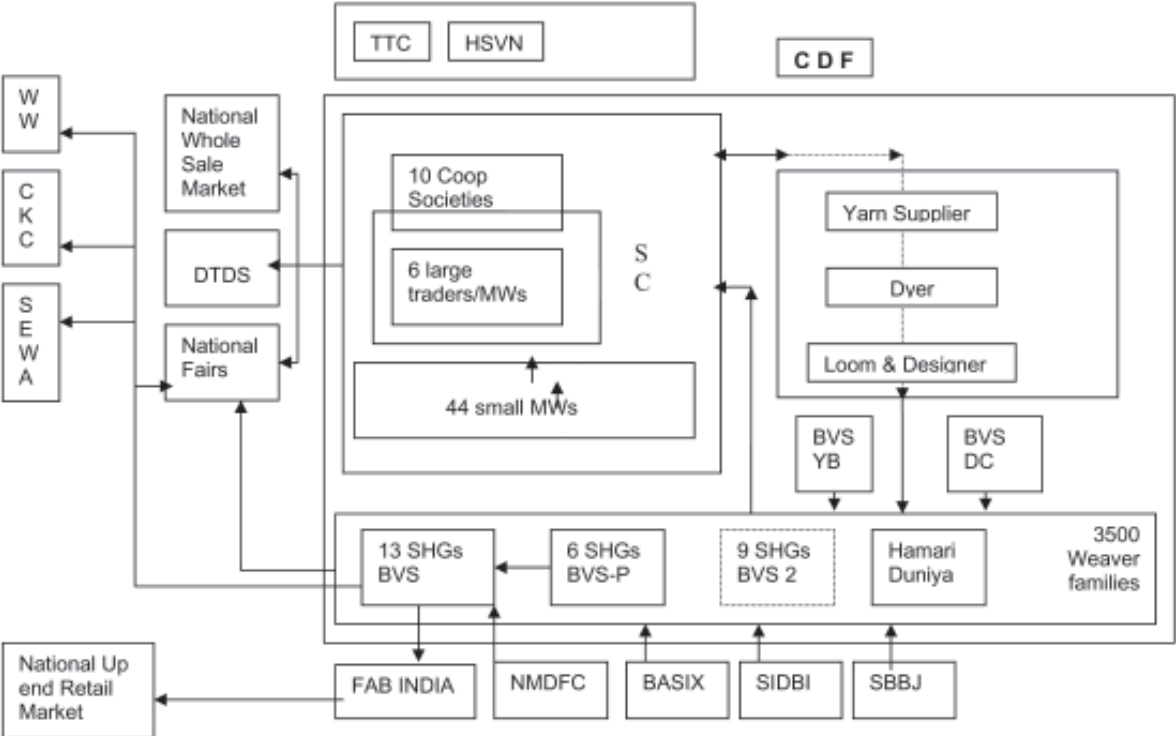
8.1 Introduction

Monitoring is an on-going (dynamic) process during a Project lifetime, wherein data is collected at pre-decided time intervals (generally in fractions of a year) and compared with corresponding targets as per annual action plan. Monitoring measures as to whether:

(1) The system that is implementing the action plan is efficient

(2) Activities are happening as per time schedule

(3) Degrees to which these activities are translating into anticipated outputs, e.g. steps taken for green technology, energy efficiency, promotion of adult literacy, gender sensitization, etc.,

(4) Whether these outputs are getting translated into key impact indicators of the project, e.g. income, employment, empowerment, especially of the poorest, etc.

(5) Whether planned budget is being appropriately utilized

While monitoring can take place on a continuous basis, formal monitoring involving the entire Project team – CDA, implementing agency and Project management agency should take place at least once every quarter. This event may be called the meeting of the Project Steering Committee (PSC).

Evaluation takes place both during the lifetime of the Project and also after the Project is concluded. It is a summary estimate of

(1) Efficiency: degree of achievements of outcomes as per Project document and the reach thereof

(2) Leveraging: degree of involvement of cluster stakeholders in owning up various Project level and follow-up activities

(3) Sustainability: likelihood of continuation of joint activities promoted by the Project

(4) Project fall out in terms of higher replication and/or policy level changes

Project evaluation can be done by Project team or preferably by an external evaluator. While the base data for such evaluation can be drawn from data compiled from formal Project monitoring exercises (see above), it can also be cross verified through stratified chain/random sampling. There will also be evaluation of various Project fall out and policy level impacts which can be verified by discussing with a range of policy level persons and similar or other industries/clusters that surround the cluster.

But many a time the voice of the poorest, underprivileged and women get ironed out by powerful projections of the not so poor. Hence a participatory monitoring and evaluation will be ideal to understand the status of the overall project objective in addition to the standard evaluation process.

In what follows, section 2 discusses the various quarterly monitoring tools, which can be aggregated to understand the impact both mid-way and at project conclusion. Section 3 discusses an indicative Project evaluation methodology for (a) understanding the sanctity of Project outcome and sustainability as well as (b) estimating Project fall out.

8.2 Monitoring Tools

8.2.1 Efficient system

Let us assume at this stage that the Project implementation will take place at the ground level by the cluster development agent (CDA) under the guidance of an implementing agency (IA) that will report to a Project Steering Committee (PSC) that consists of among others the Donor Agency. It is expected that the Project

should also create a Cluster Development Coordination Group[47] (CDCG) at the cluster level to ensure effective demand led Project implementation. For successful implementation, appropriately trained personnel spending adequate time and also appropriately remunerated as per scheme or contract issued to them are essential. These will ensure that the desired working structure is effective. Tables 8.1 and 8.2 ensure that efficient system in place.

Table 8.1: CDA Structure in Place (Quarter____, Year_____)
(To be Prepared by CDA and Validated by IA)

Sl. No.	Issues	Status	Yes/No
1	Did the CDA work for the cluster for at least 90% of the reporting period (assume 20 workdays per month)?	Yes/No	
2	Is the CDA formally trained in CDP methodology?	Yes/No	
3	Is the CDA working full time for the CDP?	Yes/No	
4	Is the CDA receiving her/his salary every month?	Yes/No	
5.	**Overall: CDA structure in place (See item 5 of guideline)**	**Score: Yes=1/No=0**	

Explanatory Notes (Table 8.1)

- CDA formally trained in CDP means that the CDA has been trained by a reputed agency of "promoting poverty alleviation through CDP"
- CDA working full time means that the CDA is not involved in any other professional activity apart from CDP.
- CDA receiving salary every month means CDA salary is not due for more than the current month when the quarterly report is being prepared.
- Activity as per Action Plan approved by PSC means that action plan which has been approved by the PSC at the beginning of the year
- If answer to any of the issues from serial number 1 to 4 in table 8.1 is in the negative, then the CDA structure is not in place and the answer to issue in serial number 5 in table 8.1 is in the negative. For an overall answer of 'yes', the answer to all the issues 1 to 4 will have to be yes.

Table 8.2: Structure is in Place (Quarter _____ , Year_____)
(To be Prepared by CDA and Validated by IA)

	Issue		
1	Is the IA representative formally trained in CDP?	Yes/No	
2	Has CDCG meeting been organized by IA for this quarter and Report available (unless postponed by any special request)	Yes/No	
3	Done follow-up of CDCG meeting for previous quarters and report submitted at CDCG meeting this quarter	Yes/No	
4	Supported CDA in annual plan preparation and implementation	Yes/No	
5	Provided linkage to CDA for various activities		
6	Supported CDA in filling up of monitoring tables		
7	**IA structure in place**	**Yes=1, No=0**	

Explanatory Notes (Table 8.2)

- Formally trained means that the IA representative has been trained by a reputed agency of "promoting poverty alleviation through CDP"
- Validated the diagnostic study (only for first quarter for year 1 or as soon as it is done) and action plan: Was present during the validation exercise and provided inputs for the same. Also provided inputs for the action plan.
- Provided linkage for activities.: Organized linkage with appropriate service provider, provided inputs for participation, created linkages with buyers, etc.
- Support CDA and IA in filling up of M&E tables: Gave inputs for preparation of all tables to be prepared by CDA
- If answer to any of the issues from serial number 1 to 6 in table 8.2 is in the negative, then the IA structure is not in place and the answer to issue in serial number 7 in table 8.2 is in the negative. For an overall answer of 'yes', the answer to all the issues 1 to 6 will have to be yes.

8.2.2 Activities Happening as Per Time Schedule

Monitoring of activities will ensure that all the activities are being implemented as per plan. Small deviations will give us lessons. Large deviation or non-performance will prompt timely corrections. However apart from the tabular representation the CDA should also highlight in a separate sheet the major problems faced during implementation. This should be discussed and appropriate feedback given. It is often seen that some activities are not getting implemented as those were wrongly conceptualised. Alternately there may be requirement for inclusion of unplanned activities. This should be approved during the PSC meeting and budget may be reallocated for that purpose. If the programme is further flexible, then additional budget may also be allocated.

Table 8.3: Activity Review (Quarter _____, Year_____)
(To be Prepared by CDA and Validated by IA)

	Activity as per Action Plan approved by PSC (at the beginning of year and during the course of the year)	Time Plan(Qtr.)	Activity Completed as per time plan (Yes/No)	(Yes=1/ No=0)
1.				
2.				
3				
..				
..				
	Total			
	Percentage of activities done as per time plan		A/B/C/D	
	Score: A/B = Score 1, C/D = Score 0			

Explanatory Notes (Table 8.3)

1. Time Plan (Qtr.): This is the time plan which has been mentioned in the SSC approved action plan for each activity. Note Quarter 1 (Q1) = April-June, Quarter 2 (Q2) = July-September, Quarter 3 (Q3) = October-December, Quarter 4 (Q4) = January-March.

2. Activity completed as per time plan: An activity is said to have been done as per time plan if the activity has been completed within the time limit as indicated against the activity in the action plan approved by SSC. Suppose an activity is slated to be completed by Q2 and in Q2 review, it is not done. So it gets a status 'No'. Suppose in Q3 review, it gets done, then it gets a status 'Yes'. The percentage of activities done will be calculated based on the possible activities that can be completed, by that quarter, as per Approved Action Plan.

3. Percentage of activities done as per time plan $=\dfrac{\text{Total number of activities completed}}{\text{Total number of activities that could have been completed as per time plan at the conclusion of the relevant quarter}}$

4. Grading of Activities: If percentage of activities done as per time plan is between 0-25%= Grade D, 26-50%= Grade C, 51-75%= Grade B and 76-100%= Grade A.

5. Score: If grade is A or B, give score '0' and if grade is C or D, give score '1'.

8.2.3 Degrees to which these activities are translating into anticipated outputs

Each activity will give outputs. Nature of activities and their importance as well as criticality vary over cluster. However, broadly, the activities are planned to target a range of critical outcomes including improved environmental conditions, promotion of strong labour union, enhanced welfare of workers, improved social environment and reduced corruption. The tools for attaining the same will be exposure, training, introduction of BDS, factory level implementation, creation of appropriate networks and capacity building, linkage to technical and financial institutions, promotion of livelihood avenues by creation of business for the firms or new employment opportunities by linking with formal business through appropriate training, creation of CFC, etc. While these will involve the firms, but will in turn impact the workers. While most of these poverty alleviation related capability promoting activities are considered to be short to medium run in nature, CFC and machinery procurement are medium to long run activities and need stepwise monitoring. Another area of importance is the degree to which other institutions are being integrated into the CDP. These parameters are captured in tables 8.4A, 8.4B and 8.4C respectively.

Table 8.4A: Output Review (Quarter _____ , Year _____)
(To be Prepared by CDA and Validated by IA)

Activities (for this quarter only)	**No. of firms/families benefited**	**Of which poverty intensive families**
Market promotion		
Exposure visit		
Training		
Networks created		
Technology developed/promoted		
BDS/BDS providers introduced		
Health/literacy/insurance/pension intervention		
Any other (please mention here)		
Total families benefited only in the quarter		
Total cumulative families benefited for all quarters		

Explanatory Notes (Table 8.4A)

- Beneficiary: These are direct beneficiaries, benefitted by participating in an event that was conducted by the CDP. It may well be the case that some of the entries (except for the last two rows) are not relevant for a cluster.
- Exposure to knowledge/practices: Includes visit for learning, participating in a workshop or seminar, etc which are new to the participating firms of the cluster and the cluster in general
- Training: Any formal capacity building exercise in the form of an event.
- Networks created: Creation of SGH, NGO, company of few non-related families or even joint companies (e.g. producers companies)
- BDS/BDS providers introduced: Service provider providing strategic services have been introduced or new services have been introduced in the cluster
- Technology developed/promoted: New technology developed or developed technology started being used
- Health/literacy/insurance/pension related intervention: Any formal event or action that promotes these issues
- Business promotion: Includes activities which can (directly) or does actually increases sell, e.g. like organising fairs, exhibitions, linkage with big buyers, exports, opening of showroom, new selling technique, advertisement, creation of new design, etc.
- Any other: Event not mentioned here can be included in this row.
- Total number of firms benefitted: No firm should be counted more than once while filling the columns of this row. For example, if a firm is covered both in training and market promotion, then count that family only once for the row "total number of firms benefitted".
- Total cumulative firms benefitted for all quarters: No firm should be counted more than once while filling the columns of this row. For example, if a firm is already counted in any event in any previous quarter, then count that firm only once for the row "total cumulative firms benefitted for all quarters".

Table 8.4B: Review of CFC and Machinery (Quarter _____, Year_____)
(To be Prepared by CDA and Validated by IA)

Usage of Machinery		Yes/No
Has machinery been identified?	Yes/No	
Has machinery supplier been identified?	Yes/No	
Has order been placed and machinery delivered?	Yes/No	
Are the beneficiaries using the machinery?	Yes/No	
Overall Status: New machinery in use	Score: Yes=1/No=0	Yes/No
Establishment of CFC		
Has the SPV been formed?	Yes/No	
Has the CFC been identified?	Yes/No	
Has project report been prepared?	Yes/No	
Has machinery, land and building for CFC been identified?	Yes/No	
Has bank loan (if any) cleared?	Yes/No	
Has contribution of stakeholders received?	Yes/No	
Has order for machinery placed and machinery delivered?	Yes/No	
Is the CFC working?	Yes/No	
Overall Status: New CFC in use	Score: Yes=1/No=0	

Explanatory Notes (Table 8.4B)

- Beneficiary using the machinery means that outputs have started from the machinery
- Project report means the document required for disbursing project fund
- CFC working means stakeholders have started making usage of CFC
- Overall status for usage of machinery: This table will show step-by-step improvement and areas for correction for putting the desired machinery in use. However, if answer to any of the issues is in the negative, then machinery is not in use and ineffective as of now and the overall status will be "No", with score '0'. If answer to all issues are 'Yes', then overall status will be 'Yes' and score will be '1'.
- Overall status for usage of CFC: This table will show step-by-step improvement and areas for correction for establishing the CFC. However, if answer to any of the issues is in the negative, then the CFC is not established and ineffective as of now and the overall status will be "No", with score '0'. If answer to all issues are 'Yes', then overall status will be 'Yes' and score will be '1'.

Table 8.4C: Degree of interaction with Technical and Financial Institutions
(Quarter _____, Year_____) (To be Prepared by CDA and Validated by IA)

Name of Institution	Type of Activities	
	Till Last Quarter	Additions in Current Quarter

1. Use Acronyms - A: Awareness Creation, T: Training, E: Exposure, F: Finance Support, TH: Technology, (Please add more)
2. Give no. of joint programmes/activities in parenthesis

8.2.4 Outcome

The outputs as indicated in section 2.3 should ultimately get translated into outcomes. Although the outcomes will benefit individual firms, but those will ultimately get translated into impacts in the form of changes in the lives of workers and their families, with special reference to women and SC/ST workers. The outcome indicators are detailed in table 8.5 below.

Table 8.5: Outcome Review (Quarter _____, Year_____)
(To be Prepared by CDA and Validated by IA)

Attributes (Outcome increase due to CDP **for this quarter only**)	Amounts/ Number where applicable	No of Families benefited	Of which SC/ST
Turnover (**Rupees Lakh**)			
Savings (**Rupees Lakh**)			
New Employment Created (No.)			
Average wage increase (Rupees)			
Average increase in number of days of work (for existing employment only)			
Loan disbursed (**Rupees Lakh**)			
Total number of families benefited	NA		
Cumulative families benefited for all quarters	NA		

Explanatory Notes (Table 8.5)

- **Turnover**: Increase in annual business value in rupees lakh due to the CDP
- **Savings**: Increase in annual savings in rupees lakh due to the CDP
- **New employment**: Created due to CDP(include full time and part time employment)

- **Average daily wage increase**: This is applicable for families already in employment. Suppose two persons in a family are in job. Due to the CDP, the monthly income for one increase by 210 Rs and that for another it increases by 90 Rs. Then the average daily wage increase will be = (Rs 210 + Rs 90)/30 = Rs 5. Since most of the wage earners are casual wage earners, we take the number of days as 30.
- **Beneficiary**: These are direct beneficiaries, benefitted by participating in an event that was conducted by the CDP. It may well be the case that some of the entries (except for the last two rows) are not relevant for a cluster. These beneficiaries will be firms and workers thereof.
- **Total number of firms and workers benefitted**: No firm should be counted twice. For example, if a family is covered both in turnover and savings, then count that family only once for the row "total number of families benefitted". The same is true for workers within. Hence the CDA has to keep full record of which firm and workers benefitted and how.
- **Total cumulative families benefitted for all quarters**: No firm already counted in any criterion in any previous quarter, should be counted twice. For example, if a firm is covered both in waste reduction and fair wages, then count that firm and worker only once for the row "total number of firms benefitted". The same is true for workers within each firm.

8.2.5 Budget is being appropriately utilized

This will look into the utilization of financial resources sanctioned and with special reference to degree of involvement of cluster stakeholders. These are explained in table 8.6A and 8.6B. Once can also think in terms of creating a cross tabulation of parameters in tables 8.6A and 8.6B. This will lead to interesting interpretation on the clusters' choice and preferences for activities and accordingly the degree of support may be altered.

Table 8.6A: Fund Usage (Quarter _____, Year_____)
(To be Prepared by CDA and Validated by IA)

	Activity	Expenditure in Activities (Rupees)			
		Cluster Stakeholders	Other Support Institutions	IA	Total
1	Improved Environmental Conditions				
2	Strong Labour Union				
3	Capability Conditions Improved				
4	Improved Social Environment				
	Total				

Table 8.6B: Fund Usage (Quarter _____, Year_____)
(To be Prepared by CDA and Validated by IA)

S. No	Activity	Expenditure in Activities (Rupees)			
		Cluster Stakeholders	Other SI	Implementing Agency	Total
1	Exposure to new knowledge/practices				
2	Training for usage of new knowledge				
3	Network created and trained				
4	BDS/BDS providers introduced				
5	New technology/machinery introduced				
6	Market promotion				
7	CFC				
8	Others				
	Total				

S.No	Fund Usage of NA	Value in Rupees Lakh
1	Fund sanctioned during the financial year	
2	Fund disbursement during the financial year	
3	Cumulative fund utilized for the year as on the end of the current quarter	

8.2.6 Sustainability

With regard to sustainability of efforts, it should show higher capacity in governance as described below:

- Cooperation among firms in the form of networks, joint activities, consortia, and associations;
- Cluster management/administration units that may have been created and thriving;
- New support institutions/private entities that have joined the cluster, or have been created in it
- Emergence of specialized support service providers (if missing before the intervention) and their active involvement in the development process.

Presence of these intermediaries in sufficient numbers and their capacity will vary over the period of intervention. Even at the conclusion of a programme of say 3-years duration by an implementing agency, these intermediaries might not mature fully.

To assess the preparedness of these intermediaries who will ensure self-governance in the cluster one can use a tool called the *sustainability index*. The sustainability index measures the degree of sustainability of operations by the cluster itself at any point of time. The sustainability index can be constructed at regular intervals during implementation.

As mentioned above, the intermediaries can be grouped into (a) networks/associations, (b) support institutions and service providers and (c) brokering institutions. In a demand driven methodology, the importance of networks/associations will be the maximum, as demand from their side will make the other intermediaries move. The support institutions and the service providers will have to address those need promptly to keep the momentum of business cooperation going. The brokering institutions will need to coordinate these mechanisms and create an atmosphere of smooth operations.

We can thus provide highest weight to networks/associations – 60 per cent, followed by support institutions and service providers – 30 per cent and brokering institutions – 10 per cent to demonstrate their importance in the sustainability index. In each group one can divide a total weight of 100 for that group among various group members as per their importance with respect to criticality and cluster coverage. A weighted value of each member of a group can be derived by assigning a weight pattern as given in annex 1. The sum total of weighted index of each group can then be further weighted by 60 per cent for the group of networks/ associations, 30 per cent for the group of support institutions and service providers and 10 per cent for the group of brokering institutions. The gross value of the sustainability index will indicate the preparedness of the cluster with respect to self-governance.

	Weight	Score		Weighted Score	
		Jun-03	Jun-06	Jun-03	Jun-06
Networks/Associations of stakeholders					
Association 1	30	3	4	5.4	7.2
Association 2	20	0	7	0	8.4
Association of networks	10	0	4	0	2.4
20 well functioning networks	10	0	7	0	4.2
20 not well functioning networks	10	0	3	0	1.8
40 Likely networks	20	0	0	0	0
Total	100			5.4	24
Support Institutions					
Government Training Centre	10	5	6	1.5	1.8
Quality up-gradation Institute	10	3	10	0.9	3
Fashion Technology Institute	10	2	2	0.6	0.6
Literacy Institute	10	0	5	0	1.5
Health Institute	10	0	5	0	1.5
Taxation Institute	5	0	4	0	0.6
Technology Promoting Institute	10	0	10	0	3
Big buyer of 10 networks	10	8	8	2.4	2.4
Likely institute	10	0	0	0	0
Likely Institutes	15	0	0	0	0
Total	100			5.4	14.4
Brokering Institutions					
Chanderi Development Foundation	50	0	3	0	1.5
Likely brokering institution	50	0	0	0	0
Total	100			0	1.5
Grand total				10.8	39.9

8.3. Instructions for Report Submission

8.3.1 Timeline

1. CDA should prepare tables 8.1, 8.3, 8.4A, 8.4B, 8.4C, 8.5, 8.6A, 8.6B, 8.6C and 8.7 and submit by 7th day of the end of the reporting period to IA.
2. IA after ratifying these tables and filling up table 8.2 should submit those to PSC within 14th day.
3. The PSC should meet and give its input within 21st day.

8.3.2 Cover Page of Report

Name of Cluster: _____

Name of CDA: _____

Name of IA: _____

Year and month of Programme Starting: _____

Report for the Period Ending: Quarter _____ Year _____

8.4 Evaluation Guideline

8.4.1 Aggregation

Aggregation of quarterly evaluation table and macro indicators will help in moving towards impact indicators. Such impact indicators can be broadly classified into (a) firm level, (b) cluster level and (c) institution level indicators. However sustainability index is a flow indicator and will be true at a point of time and needs to be freshly calculated for that particular point of time. A trend in sustainability index for the association, BDS and brokering institution, also brings out the micro problems of each category.

But many a time the voice of the poorest, underprivileged and women get ironed out by powerful projections of the not so poor. Hence a participatory monitoring and evaluation will be ideal to understand the status of the overall project objective.

8.4.2 Participatory Evaluation

In an effort to bench mark the relevance and understand the impact that the programme has been having in the lives of the poor, a participatory evaluation process by the community members can be carried out.

The entire process needs to be guided by an expert in PPA and coordinated by a cross-section of graduate local stakeholders who speak the local language. One of them must necessarily be a female for each team of evaluators. Here, stakeholders who received training in the participatory poverty assessment exercise carried out earlier should be given preference. Else the participants may be given a short one-day training module consisting of (a) purpose of the exercise, (b) theory and practice in handling some basic tools (see below) and (c) technique of maximising stakeholder (especially that of the poor and the poorest stakeholders') participation.

8.4.2.1 Voice of Participants

Here based on the coverage as well as non-coverage (captive sampling) of various types of principal and support stakeholders and also additionally policy level persons/institutes should be interviewed and a qualitative evaluation of the summary macro indicators as derived from adding the quarterly outputs and outcome indicators of the monitoring tables can be checked for consistency. Inclusion of case studies will also enrich such evaluations.

8.4.2.2 Participatory Evaluation

In an effort to bench mark the relevance and understand the impact that the programme has been having in the lives of the poor, a participatory evaluation process by the community members can be carried out.

8.4.2.3 Who will do the Participatory Impact Assessment (PIA)?

The entire process needs to be guided by an expert in PPA and coordinated by a cross-section of graduate local stakeholders who speak the local language. One of them must necessarily be a female for each team of evaluators. Here, stakeholders who received training in the participatory poverty assessment exercise carried out earlier should be given preference. Else the participants may be given a short one-day training module consisting of (a) purpose of the exercise, (b) theory and practice in handling some basic tools (see below) and (c) technique of maximising stakeholder (especially that of the poor and the poorest stakeholders') participation.

8.4.2.4 Preparation for PIA

- Secondary Information Review: Review of progress reports, specific interventions planned, Diagnostic Study, PPA and field level documents.
- Detailed consultations with the project team to incorporate their viewpoints on the issues and approach for the evaluation. This include exercises carried out with project team for:
- Sample Selection: Representatives of each typology of stakeholder identified during the first PPA as well as those discovered later, should be interviewed.
- Indicator (s) identification: The project team, which has been directly engaged in implementing the project, along with the evaluation team should collectively decide the indicators, which needs to be evaluated, in different location/target groups. Here, indicators made available by the first PPA (e.g. dream mapping) would also be integrated to enable comparison of the situation and the trends. A suggestive list of indicators may include the following:
  1. Training
  2. Information
  3. Credit linkages
  4. Income and management
  5. Health awareness
  6. Gender relations
  7. Education
  8. Other activities

8.3.2.3 Tools to be used

A participatory tool called Card Sorting may be used to denote the various changes that the stakeholders perceived due to the project inputs. Focused Group Discussions may be used to identify how theses changes happened and what were the causes. Sustainability issues can also be used to discuss with the communities by using card sorting. Cobweb/Evaluation wheel may be used to understand how much change the community perceived. Force Field Analysis may be used to understand the factors that were responsible for their present situation and their vulnerability. Individual experiences and change processes can also be captured through Case Studies. These are explained in the table 8.6 below.

Table 8.8: Analysis of Variables

Variables analysed	Tools	Explanation
Changes	Writing in cards and ranking the importance perceived	*Listing the changes that the community perceives as significant due to the project*The community stakeholders are asked to identify the changes that they perceive post the CDP
Extent of Change	Card sorting and ranking	Facilitating the community express as to the extent of change that they perceive through ranking the priorities that the community assigns to the cards
How it happened	Focused group discussion using the Cards that were made in the earlier exercise	Getting the community perspective about how the change happened through detailed and focused interaction using the cards that have already been made in the earlier exercise.
Can it be attributed to CDP	Continuing focused group discussion using the Cards that were made in the earlier exercise	
Sustainability	Focused group discussion	Understanding the sustainability of the fruit processing and marketing activities with relation to its potential to function on its own
How much change	Cob web / evaluation wheel	Helping the community articulate the overall impact across various inputs the project has had on the development of the community
Identification of factors responsible for situation (+ve and –ve influences on the programme)	Force field analysis	The community put forth the various factors and assess them for their overall +ve and –ve impacts that they perceive.
Annual employment / productivity analysis	Seasonality mapping	Mapping vulnerabilities and opportunities across the course of a year and learning from them
Mapping resources and social dynamics within a local economy	Social and resource mapping	Learning with the community about the resource availability and social controls within a location that are feasible for particular kinds of cultivation and fruit processing.

Source: Source: Participatory Evaluation Report of the Cashew and Fruit Processing Cluster of Sindhudurg, PRAXIS Institute for Participatory Practices, UNIDO CDP, New Delhi (2005)

Sustainability Index

1. Enterprises: 60%, to be sub-divided according to importance (criticality/coverage) among, e.g. consortia, self-help groups, associations, etc.
2. Support institutions/service provider: 30%, to be sub-divided according to importance (criticality/coverage) among, e.g. technical/financial institutions, BDS providers, etc
3. Brokering Units: 10%, to be sub-divided according to importance (criticality/coverage) among, e.g. coordination body, umbrella organization, etc.

Allocation of score for an intermediary in each group

1. Enterprises' Representatives

Score	Features
0	Not existing
1-2	Just established and/or dormant
3-4	Regular meetings being held; discussions on provisional agenda; limited commitment of funds by participants; office bearer selected
5 - 6	Short-term agenda endorsed by members; some activities started under near complete support of implementing agency (financial and/or technical); positive feedback form members that increasingly contribute financially; growing membership
7 - 8	Medium-term agenda endorsed by members; overall activities partially sustainable financially; capacity to network with support institutions/BDS providers without implementing agency support; target membership achieved
9 - 10	Full financial sustainability; complete endorsement of cluster development approach; long-term agenda endorsed by members; full networking capacities; participation in coordinated cluster-wide activities

2. Support/Service Providers

Score	Features
0	Not existing locally; totally detached from potential consumers
1 – 3	Provider created locally; preliminary discussions with potential customers coordinated by UNIDO
4 - 6	Pilot services along new format launched; significant funding support from implementing agency; feedback form users acknowledged as guide for further customisation of services
7 - 9	Pilot services turned into routine and increasingly sustainable commercially; autonomous networking for funds/expertise; new services launched on a regular basis
10	Fully endorses cluster development approach; high demand among customers, fully pro-active with other local support institutions; investment of own funds for cluster development, open to introduction of new services

3. *Brokering Institution*

Score	Features
0	Not existing
1 - 3	Preliminary interactions with CDA; limited interactions with cluster actors
4 - 6	Coordination of pilot activities under CDA guidance; linkage with sponsors through implementing agency; linkages with policy makers established
7 - 9	Autonomous dialogue with policy-makers and support institutions; legitimised with majority of cluster actors
10	Fully acknowledged as coordinating agent by most cluster actors; economically sustainable and own contribution to cluster development; long-term coordination capacities created; fully competent on cluster development methodology.

References

Amartya Sen, Chapter 4 (Pg 87,106), "Development as Freedom" (2000)

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Radhakrishna, R and Ray, Shovan, "Handbook of Poverty: Perspectives, Policies and Programmes" (2005), Pg 21

Sagarra, A, "Ensuring Poverty Reducing Effects of Cluster Development through a Gender Perspective", UNIDO, unpublished mimeo

UNIDO Project No. TF/IND/04/148

Zambia Poverty Assessment, World Bank Report No. 12985-ZA, in PRAXIS (1999)

Notes

[1] It is estimated that there are 24 schemes and programmes of cluster development in India.

[2] Some of the well-known and widely practiced tools for livelihood promotion that contribute significantly to poverty reduction are watershed development, promoting irrigated agriculture and other land-based interventions, interventions in animal husbandry, off-farm livelihoods, micro-finance, rights based approach, etc. (A Resource Book on Livelihood Promotion, Datta, S., et.al. BASI X and NEF, 2001)

[3] "Industrial Clusters and Poverty Reduction" (2004): Khalid Nadvi and Stephanie Barrientos, UNIDO (Vienna), Pg 9-10

[4] "Industrial Clusters and Poverty Reduction" (2004): Khalid Nadvi and Stephanie Barrientos, UNIDO (Vienna), Pg 25-26

[5] As opposed to the standard cluster-development methodology

[6] In this document

[7] Done as a part of UNIDO Project, US/GLO/02/059 (2002-2005)

[8] Master weavers are weavers with significantly above average skill and capital, as compared to general weavers in the cluster.

[9] Data derived as a part of UNIDO Project, US/GLO/02/059 (2002-2005)

[10] Number of existing SHGs in the cluster is much higher. However it is estimated that this is the number that have inclination or are doing fruit-processing.

[11] As a part of UNIDO Project, US/GLO/02/059 (2002-2005)

[12] "IDS Policy Briefing (Issue 21)" (May 2004), Khalid Nadvi and Stephanie Barrientos (Page 4)

[13] UNIDO Project US/GLO/02/059

[14] UNIDO Project No.TF/IND/04/148

[15] Making Clusters Work – A UNIDO Methodology: 2006, Foundation for MSME Clusters, New Delhi

[16] A person or an institution having business interest in the cluster product

[17] As appears in "Making Clusters Work – A UNIDO Methodology": 2006, Foundation for MSME Clusters, New Delhi

[18] Development as Freedom" (2000): Amartya Sen, Chapter 4 (pg 87)

[19] A district is made up of a few blocks.

[20] An ayurvedic paste used for rejuvenation and getting strength

[21] These are firms which produce the product by which the cluster is known, e.g. wood carvers in a wood carving cluster, irrespective of their size

[22] The State of Maharashtra is divided into seven divisions, which are themselves divided into several districts. Sindhudurg is one of the 5 districts of the Konkan division. Each district is further sub-divided into several blocks.

[23] It occupies only 1.65% of the total area of Maharashtra

[24] Each SHG unit is made up of investment of time, capital, labour of around 10 households

[25] "Development as Freedom" (2000). Page 106. Sen, Amartya

[26] Head Count Ratio

[27] "Handbook of Poverty: Perspectives, Policies and Programmes" (2005). Page 21. Radhakrishna, R & Ray, Shovan

[28] Making Clusters Work – A UNIDO Methodology: **2006**, Foundation for **MSME** Clusters, New Delhi

[29] As per UNIDO Methodology, diagnostic study precedes trust building phase and trust is built through activities over a period of time

[30] Participatory Research and PPA Modules – Proceedings of the Workshop Sessions,1999. PRAXIS, Patna

[31] At the level of implementation, PPA started using various tools like Rapid Rural Appraisals (RRA), Beneficiary Assessments (BA), Self-esteem Associated Strength, Resourcefulness, Action, Planning and Responsibility (SARAR) and Participatory Rural Appraisal (*PRA*). Of these, "…..(*PRA*) draws its strength from….active participatory research, agro-ecosystems analysis, applied anthropology, field research on farming systems and rapid rural appraisals (RRA)

[31] and attempts to overcome the biased nature of 'rural development tourism' and questionnaire surveys….."[31]. Over the years *PRA* started being used in multiple disciplines and in particular for conducting PPA of urban areas too. Soon *PRA* began to be termed as Participatory Reflection and Action (PRA). This tool of PRA may be adapted to the peculiarities of a cluster for an understanding of the poor, the poorest and the depth and dimensions of poverty in a cluster, in short a PPA of a cluster. For all practical purposes, in this methodology document we will use the term PPA to avoid any terminological confusion.

[32] Source: Zambia Poverty Assessment, World Bank Report No. 12985-ZA, in PRAXIS (1999)

[33] Conducted in 2006 by PRAXIS (Patna, India) on behalf of British Red Cross Society, Sri Lanka

[34] Page 5, Training Manual

[35] Page 37 the book with cover

[36] Adapted from the training programme developed by PRAXIS for the PRA of Orissa Clusters, under the UNIDO CDP of Orissa, August 2006, Bhubaneshwar

[37] For detailed techniques of using these tools see "Participatory Research and PPA Modules – Proceedings of the Workshop Sessions",1999. PRAXIS, Patna

[38] This chapter has been taken almost without change from the chapter of the book "Making Clusters Work – A UNIDO Methodology": 2006, Foundation for MSME Clusters, New Delhi, excepting for issues related to trust-building through apability enhancing efforts, a dimension unique for the poverty-intensive clusters.

[39] The different stakeholders will be discussed in the chapter on diagnostic study.

[40] CDA is an external agent who induces development in the cluster.

[41] See chapter on implementation.

[42] An SHG can open a bank account, but it is not a legal entity for doing joint business.

[43] Adapted from "Ensuring Poverty Reducing Effects of Cluster Development through a Gender Perspective, Sagarra, A; UNIDO, unpublished mimeo

[44] Chanderi and Sindhudurg

[45] Under this Programme U/GLO/02/059

[46] Some of the concept were they developed during a project that FMC did for KVIC

[47] Of cluster stakeholders

About the Foundation for MSME Clusters

The Foundation is a non-government and not-for-profit registered trust, conceived and founded 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 Cluster' 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 econimics 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 tinto a technical collaboration agreement with international institutions to seek international expertise and strengthen its executive directorate.

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