

## **Integrated Handloom Cluster Development Programme** **Is it responding to the learning's from UNIDO Approach?**

### **Introduction**

The profound political and economic changes that have taken place over the last decade pose serious challenges for governments, private business, and the civil society. The conversion of command systems to more open markets and the restructuring of enterprises, with the consequent need to find employment outside big government and large corporations, have given rise to a tide of entrepreneurship.

Times change so rapidly and running a business is so complex these days that owner-managers can easily find things getting out of control if adequate planning and control are not undertaken and implemented. Competition seems to be getting tougher all the time. In most cases, small businesses find themselves competing with much larger companies - ones that know the benefits of long range planning and practice it. Yet, case studies have emerged from various parts of the world showing that clusters of small enterprises have broken into international markets. The best-known cases are the Italian industrial districts and similar cases come from other advanced countries. But perhaps the most interesting come from less developed countries. For example, Brazil is today a major shoe exporter. Pakistan is today one of the world's main exporters of surgical instruments.

Integrated Handloom Cluster Development Programme was taken up by the government of India in the backdrop of crisis in handloom sector, marked by suicides by handloom weavers, and subsequent advocacy by various individuals and institutions. It is also one positive programme of the government aimed to help in the development of handloom sector. Given the circumstances in which programme has been thought of, it is imperative that one should look at how this programme is being organized.

### **Cluster Development Programme**

The history of Cluster development programme can be traced to 1995 when UN Industrial Development Organisation to strengthen the competitive advantage of SSI clusters. From a UNIDO survey of the largest Indian clusters conducted in 1996 it emerges that the majority of them comprise small-scale enterprises which perform the entire production process in-house, and that subcontracting (to other small, medium or large-scale firms) is relatively less frequent. It is estimated that over 60% of the Indian manufacturing exports are generated by clusters (UNIDO, 1997).

The Abid Hussain 'Expert Committee on Small Enterprises' constituted by the Government of India in December 1995) explicitly endorsed cluster support initiatives. Subsequently, UNIDO was requested by government to promote pilot projects in selected clusters, and to help the Ministry formulate a national cluster development programme. The initial project had a proposed duration of four years but was later extended to seven years (1997-2002).

## **What is a cluster?**

Small-scale enterprises (SSEs) operating in the same or in related industrial sectors tend to cluster close to one another (Sengenberger, Loveman, and Piore, 1990). This tendency to bunch in well-defined areas, often called clusters or industrial districts, has been observed in different environments in both developed and developing countries, and in different historical periods (Sabel, 1989; Marshall, 1990; UNIDO, 1995). SSEs operating in such clusters derive a clear competitive advantage from:

- Proximity to sources of raw inputs
- Availability of suitably customised business development services (BDS)
- Abundance of clients attracted by the cluster tradition in that industry
- Presence of a skilled labour force

In India, numerous clusters have been found to operate in the machinery, textile, food processing and chemical sectors. The UNIDO Survey identified 350 SSE clusters. This figure does not include the craft-based clusters the total number of which is approximately 2,000.

## **Cluster Approach**

The cluster approach has been developed to address knowledge fragmentation, lack of coordination and joint action. It is based upon the realization that the lack of communication among the various cluster actors and their skepticism towards joint endeavors are deeply entrenched within traditional business practices and that the latter cannot be replaced without the investment of significant resources.

Traditional Indian clusters are characterized by environments where information does not flow easily and where the various actors are not accustomed to talking with each other. Entrepreneurs in Indian clusters rarely, if ever, meet each other, do not usually have ongoing relationships with Business Development Service (BDS) providers and are not accustomed to presenting articulated calls for actions to the local policy makers. These clusters are often characterized by extremely fragmented knowledge, latent conflicts, and an absence of discussion forums. The units in these clusters therefore have very poor perceptions about the feasibility of joint actions.

It emphasizes the three phases which each cluster project is expected to undergo over the lifetime of the UNIDO support initiative, namely:

1. Preparation of a diagnostic study and formulation of a cluster action plan
2. Implementation of pilot and strategic projects
3. The self-management phase

Activities or outcomes would include initiatives to build awareness and trust, dissemination of best practices, creation of suitable discussion forums and, ultimately, of a governance framework for the cluster as a whole. However, these are not only subject

to a high degree of uncertainty but are also largely indivisible and non-excludable (i.e. once provided, are available to all).

The cluster approach aims to achieve these outcomes by helping the various cluster actors to develop a consensus-based vision for the cluster as a whole and by strengthening their capacity to act upon such vision. The first component is aimed mainly at reducing the fragmentation of knowledge, but also provides an extremely valuable opportunity to draw attention to a common and often very innovative agenda, so that each cluster actor (and, above all, each SSE owner) has an opportunity to test the reliability and trustworthiness of its partners on “fresh” ground. The second component aims at enabling the various cluster actors to overcome traditional practices and put in place a sustainable, autonomous governance framework which is expected to keep dynamizing the local economy long after UNIDO will have withdrawn from the cluster.

A key tool for cluster development is the diagnostic study. This study gathers previously dispersed and fragmented knowledge about the economic and social conditions of the cluster and its development potential, as well as the state of inter-firm relationships and the existing institutional support mechanisms.

The elaboration of an action plan is meant as the initial step to the development of pilot projects where groups of are formed and specific initiatives are formulated and implemented. During this phase, cooperation starts bearing concrete results to the participating weavers. The initiatives are generally of a commercial and/or promotional nature (e.g. joint participation in fairs, joint purchase of raw materials, design of a collective catalogue). The idea is to generate visible results (although of a short-term nature) to engender optimism and trust. At the same time, the pilot projects consolidate willingness of the networks and associations to undertake long-term strategic initiatives around an increasingly shared vision for the cluster as a whole.

These projects generally entail an increase in the degree of specialization by process and/or product of the firms involved (e.g. restructuring or creation of common service facilities, new product lines, common brands). At this stage the involvement of both technical and financial institutions becomes essential and the initiatives are meant to contribute more directly to the creation of capacities at the cluster level. UNIDO therefore tried to ensure that the networks/associations supported by the projects can draw assistance from the available institutions. This task often implies upgrading the capacity of Business Development Service (BDS) providers or even initiating their establishment, especially in clusters characterized by a relatively weak support framework.

Finally, the intervention gives way to a self-management phase, as the networks/associations gain greater autonomy from CDP (cluster development programme) assistance and the capacity to undertake further joint activities independently. During this phase it can be tested if the earlier investment on vision- and capacity-building has delivered the expected results and if the cluster approach has won the endorsement of the various cluster actors. Self-management is not always easily achieved. Often the

networks/associations tend to lean on CDPs assistance for a longer time than initially envisaged. In order to avoid dependency the work plan established by the network members and the Focal Point must have a specific time frame. The cluster actors thus know from the beginning that they can count on assistance only for a limited period of time. As the various networks/associations develop, CDPs intervention shifts towards softer coordination, ensuring a progressive transfer of responsibilities to the cluster actors.

### **Handloom Cluster Development Programme**

The Working Group for the X Five Year Plan had proposed focus on cluster development in handloom sector. However, this was taken up only towards the end of the Tenth Five Year Plan. Finance Minister in his budget speech for the financial year 2005-06 stated that: "The Government proposes to adopt the cluster development approach for the production and marketing of handloom products. The Ministry of Textiles will take up 20 clusters in the first phase at a cost of Rs.40 crore, and the amount will be provided during the course of the year".

Accordingly 20 clusters were selected across India on the basis of their uniqueness of design and product, capacity to cater to a niche market as well as resilience to survive in a fiercely competitive environment. This scheme defined handloom cluster as a place where there is a large concentration of handlooms producing fabrics of niche varieties on Handlooms which are in demand in the market. These handlooms could be located in close proximity in two adjoining revenue sub-divisions within an administrative district or across two (mostly adjoining) districts.

The main objectives of this Scheme are:

1. To empower handloom weavers and build their capacity to meet the challenges of the market and global competition in a sustainable and self reliant manner;
2. To facilitate collectivization of handloom weavers and service providers for procurement, production, marketing and other support activities to promote sustainable growth and diversification;
3. To provide for common infrastructure and activities in a viable format in the cluster.
4. To provide for development of handloom clusters in an inclusive and holistic manner in an environment of empowered and participative decision making;
5. To encourage convergence of schematic assistance and support services from various schemes and programmes of various government and other agencies in the cluster to optimize resource utilization for betterment of the livelihood and quality of life of handloom weavers.

However, the scheme despite the above objectives limits its support to the following:

- o Assistance for setting up of Dyeing Unit, Common facility Centre, Quality Control Lab & Setting up of Showroom

- Organisation/participation in Exhibitions/Fairs
- Organisation/participation in Buyer-Seller Meets, including inviting retailers & Merchandisers etc.
- Assistance for publicity (printing of brochures, catalogues, documentation of samples etc.), Developing frequently asked questionnaires etc
- Assistance for declaring the Cluster as Legal entity, it's capacity building & networking, strengthening of local associations, backward – forward linkages, Brand Building etc.
- Assistance for organization of at least 20 workshops and seminars, demonstrations etc. in 3 years
- Market Research & Technical Consultancy- for studying the market & technical advice
- Engaging Designer for design input for diversification of products
- Institutional cost of implementing agency, including Enterprise up-gradation programme, cluster visits, development of consortium, personal counseling, intervention in the areas of occupational health/ergonomics etc.
- Operational Cost
- Fee for National Resource Agency for handloom cluster

The total budget for each cluster has been worked out to Rs.2 crores. The above programme of assistance presupposes that the objectives envisaged above would be achieved by organizing a few workshops/seminars, and engagement of a designer. As it is most of the Rs.2 crores to be invested per cluster would go to administration and consultancies. With complete dearth of trained capacity (with knowledge and skills related to each identified handloom product), and information on the particular products, this scheme intends to enable the empowerment of the weavers in the market.

UNIDO experience identifies diagnostic study as the key tool for cluster development. Majority of the diagnostic studies on the 20 clusters do not make the mark at all. Thus, the handloom cluster development programme is now balanced on diagnostic studies, which do not have either information or detailed analysis of the problems in the particular cluster. Most of the studies do not rise above the standards of administrative reports prepared by government functionaries. UNIDO further said that 'the diagnostic study also provides a valuable opportunity to enforce awareness about the approach and to promote trust among the cluster actors. Moreover, it helps to identify potential leaders from within the cluster and, more generally, suitable counterparts to assist implementation'. However, this did not happen in the IHCDP scheme. In many places, leaving alone the weavers, their representatives in various forms, were not aware of the process of the diagnostic study. Thus, this scheme has lost an opportunity.

UNIDO says the diagnostic phase ends with the preparation of a broad action plan for the cluster. This document offers a vision around which to gather the support and collaboration of the various cluster actors. The preparation of such a plan is the essential first step in developing long-term local capacities for responding to evolving economic and technical circumstances, rather than as a once-for-all prescription.

In IHCDP, the action plans developed from the diagnostic studies are mere one-page tables. These tables simply list activities and the budgets required. These action plans are nowhere near to offer a vision of development for each cluster.

The first draft of the cluster action plan, according to UNIDO, is a working document which must be revised as more information about the cluster is disclosed and on the basis of the results of the initial interventions. Nevertheless, it is expected that the information gained as a result of the diagnostic study and the joint preparation of the action plan (especially concerning the competitive position of the cluster in the national and international market) will suffice to identify the potentialities of the cluster as well as the key obstacles which prevent it from taking up the opportunities provided by the globalization of the Indian economy. As these obstacles are identified, a key task of the Focal Point is to help the partner institutions to prioritize them (both in terms of their importance and the capacity of the cluster actors to jointly tackle them) and to identify the initiatives which can overcome these obstacles including the utilization of existing BDS and the development of new ones.

However, such a process is not being followed in the IHCDP programme. As a result, the action plans developed for development in each cluster, end up merely doing the same as before. Ministry of Textiles, through Office of DCH, has been implementing certain schemes related to markets, designs and cooperatives. The action plans of each cluster simply repeat the same pattern of activities. Thus, no positive results are likely from this IHCDP. However, expenditure on the programmes is happening. None of the cluster development programme in 20 clusters is moving towards the envisaged objectives.

### **Expenditure and Activity analysis**

Two activities have been identified under ‘dissemination of information’, in this programme, namely awareness meetings and baseline survey. Among 17 clusters, whose action plans are available, except in Nadia and Trichy, awareness meetings were organized in all. One is not sure how many meetings were organized, what was the content of the meetings, participant levels and profile etc. However, the expenditure on awareness meetings varies from as low as Rs.20,000 to as high as Rs.2,00,000. Also, the expenditure on baseline survey varies from Rs.50,000 to Rs.2,00,000.

Under market linkages, six activities were identified, namely Export procedure training, Exposure visit, Buyers-Sellers Meet, Exhibitions outside cluster, Product catalogue development and study on handloom markets. All the clusters organized exhibitions. Majority of them did organize buyers-sellers meet, and product catalogue development. Such achievements show that Focal points are doing what they know and can do the best, and not activities that are required.

Under financial linkages, the only activity was meeting with bankers for finance. The expenditure on this single activity varies from as low as Rs.9,000 to as high as Rs.1,00,000. In some clusters, such meetings were held at all. Apart from the need for

such high expenditures on meetings with bankers, one need to question what purpose such meetings have.

Under product development, three kinds of activities were done – engaging designer, skill upgradation training and workshop on value addition. This activity presupposes that product development can happen only by appointing an external designer and paying them exorbitant contracts. Government was doing similar activities before through National Institute of Fashion Technology, with poor results. Training programmes are organized without any information or expertise development. It is unbelievable that without basic knowledge of the handloom product this programme found it necessary to organize skill upgradation programme for skilled weavers.

Under quality upgradation, two activities were taken up such as orientation workshop on dyes and workshop for dyers. Thus, this programme seems to believe that quality upgradation would happen through workshops. There are many issues which impinge on the quality of handloom products. This programme merely addresses the capacity issues. However, one is not sure what kind of information database on dyes and dyes procedures these workshops depend on, to pass onto their clientele weavers.

Total expenditure in all the clusters over a period of one year, by 31<sup>st</sup> March, 2007, was Rs.1.66 crores. However, expenditure varies in each cluster. Maximum expenditure of Rs.18 lakhs was in Imphal and the lowest expenditure of Rs.1 lakh in Nadia.

However, in many places, Focal points of respective clusters seem to have problems in expending the funds allocated. The expenditure is way below the action plans submitted by them. Many could not complete the activities they promised to do. Expenditure was haphazard. There is no uniformity. Expenditure on some activities was higher than necessary.

Though the entire programme was planned to enable the development of handloom weavers, most of the funds do not help in building physical assets, nor do they ‘touch’ the weavers. Most funds are spent on meetings and workshops, with obviously no definite outcomes.

It is known that women constitute more than 60 percent of the labour force in handloom sector. However, there is no specific focus on enabling participation of women in handloom cluster development programme.

## **Conclusion**

Here we are concerned with the ability of handloom sector to grow and to export. More precisely, the purpose is to present some conceptual and theoretical ideas which help to analyse and explain their success. The objective is more on of prompting debate. There is a need to build a bridge with mainstream economics which, with few exceptions, has ignored the connection between clustering and growth. Low wages have helped the

clusters in India, but increasing returns to scale and product differentiation are essential to explain their exports.

A failure of the IHCD programme, ensured by lack of application, shoddy procedures and improper studies, is likely to be seen as the failure of the handloom sector and not that of agencies which have taken up the implementation of the IHCDP. Thus, once again, handloom weavers are likely to be blamed for failures of the government. Policy makers, especially bureaucrats, from this failure would convince themselves that handloom weavers are rigid and not ready for change. They would opine that 'it is time that the government moved on from handloom to more modern textile mills'.

Design and implementation of IHCDP is probably meant to make this a failure, given the control of anti-handloom lobby in the Ministry of Textiles. There is also definite downsizing of the investment on this programme. For 20 clusters, government promised Rs.40 crores in 2005-06, and Rs.50 crores for an additional 100 clusters in 2006-07. This is one indication that the government is not interested in qualitative implementation of handloom cluster development programme.

The IHCD project's purpose can be to improve the image of Indian handlooms as a source of reliable producers of high-quality handloom products, an image which had been tarnished in recent years by a preponderance of imitations; threatening the handloom industry's capacity to respond to opportunities for growth. The project should address the critical question of how to preserve the heritage of traditional labour-intensive handloom techniques and its ethnic character, while demonstrating that high quality is not only to be found in antiques or in fine reproductions, but also in contemporary objects. Handloom products redefined as cultural products could open up perpetual possibilities for the private sector, including the rural families, women and young people for whom this industry has been an important source of employment.

Governments in Italy, Germany and Sweden have provided effective institutional support and institutional networks to guarantee the success of small-scale enterprises. Experience suggests that the services offered to such enterprises need to be accessible and provided in an integrated manner. In other words, the provision of the tools for improving productivity and quality cannot be isolated from the need for working capital. Secondly, promotion efforts must not be exclusive to the Central Government, but must also be made by State governments and local bodies, in a coordinated fashion.