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UNIDO Approach: SME development based on clustering concept

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(adapted and revised from UNIDO materials)

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Guiding principles

- **SMEs can** play a key role in generating economic growth and equitable development in developing countries
- Potential is not met as a result of **SMEs' isolation**: not a problem of size
- **Networking** is an effective strategy to overcome isolation and it is easier and more sustainable in **clusters**



The importance of SME networking

- **By coordinating activities, firms can achieve **collective economies of scale** beyond the reach of individual small firms**
- **Inter-enterprise cooperation can also allow SMEs to **specialize** in their core business**
- **Joint work also allows enterprises to **learn** from each other, exchange ideas and experience**



SME networking easier in clusters

- **Cooperative relations and joint actions more likely if SMEs are close to each other and share certain business interests**
- **A cluster is a sectoral and geographical concentrations of enterprises faced with common opportunities and threats**
- **Evidence of performing dusters in OECD (Italy, Silicon Valley) and non-OECD countries (Brazil, India, Pakistan)**



UNIDO's approach

- **Agglomeration economies emerge spontaneously in the cluster and their benefits can be reaped by every enterprise**
- **By contrast, collective action require deliberate efforts by the interacting firms**

UNIDO facilitates joint actions by:

- **Strengthening trust based relationships between cluster stakeholders**
- **Creating mechanisms of coordination and joint action for the cluster and coalitions of stakeholders (governance)**



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Underperforming clusters **can be helped
revive their strengths
by enhancing their internal **collaboration**
and **governance capacities**
with the assistance of a **neutral and external**
broker**



A possible strategy - 1

- **Participatory approach to vision-building**
 - **Establishment of a dialogue and trust**
 - **The diagnostics study**
- **Capability-building based on shared targets**
 - **Identification of a vision for the cluster**
 - **Bridging gap between demand and supply**
 - **Building networks**

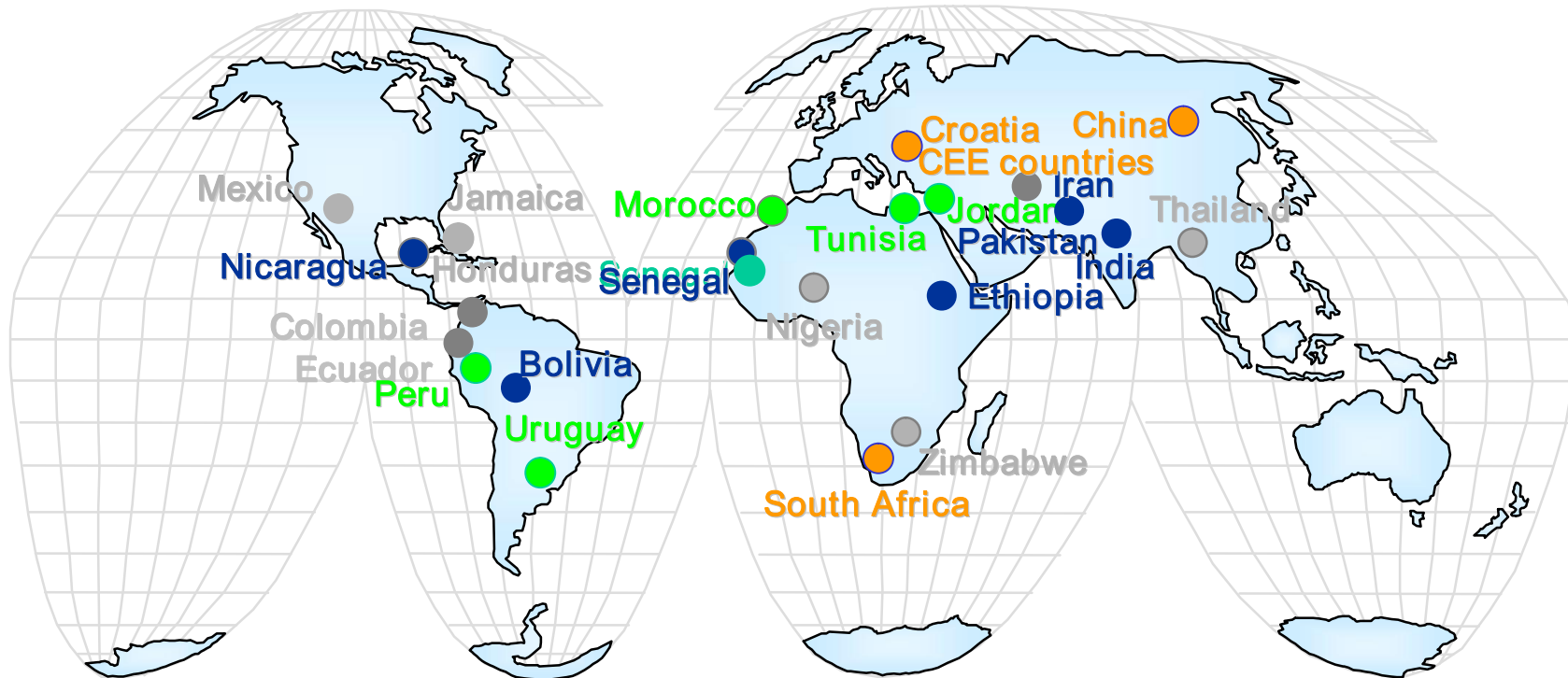


A possible strategy - 2

- **Sustainability of the cluster development process**
 - **Training programmes**
 - **Joint Learning workshops**
 - **Presentation of best practices**
 - **Study tours/visits to performing clusters**
 - **Ownership by stakeholders**



Participating countries





Examples



- **Senegal:** networks, associations, development of capabilities of local government (municipalities), mutual credit guarantee scheme



- **India:** 5 clusters, training of brokers and SME associations, re-focusing of BDS, partnerships with banks, NGOs and microfinance institutions – now homegrown cluster movement reaching hundreds of clusters with over 100 m USD budget allocation



- **Nicaragua:** networks, supplier development, clusters, value chain integration, SME policy, cluster-to-cluster cooperation



- **Ecuador:** sectoral technical assistance, networks, chambers and common service units, municipalities, vocational schools, participative LE planning, value chain integration



What UNIDO has learnt

➤ On the approach

- One-size does NOT fit all
- Poverty alleviation effects (at certain conditions)
- Integrator *par excellence*

➤ On what makes a project successful

- Its women and men
- Its capacity to look beyond cluster boundaries
- Staying on track
- Mediating short- and long-term

➤ On what slows a project down

- Wish lists or minimum common denominator?
- Process for process sake



Example: Cluster Development in Ludhiana

- **Assistance to knitwear cluster (97-01)**
- **Strengthening collaboration among firms**
- **Capacity-building of stakeholders and tech assistance (marketing, Q, training)**
- **Significant and tangible results (exports, investment, product differentiation, insertion in global value chains)**
- **Umbrella organization**



Areas where assistance is provided

- **Cluster *mapping*** – often together with national research institutions
- **Field-level *assistance*** to local stakeholders
- **Brokers' *training*** for NGOs & BDS providers
- **Provision of *advice*** to implementing agencies/local government



Additional Objectives that can be reached

- **Poverty** reduction, especially when working with artisan clusters in rural areas
- Addressing **geographical imbalances** especially when working in rural areas
- Insertion in **value chains** (regional/global)
- Responsive private sector capable of **PPP**
- Scope for **South-South** cooperation



Advantages of the approach

- Increased **reach** and **effectiveness** of assistance as a result of proximity and similarity of beneficiaries
- High **efficiency** as fixed costs of intervention can be divided over number of firms
- Enhanced **sustainability** as the approach is taken up by local stakeholders
- Strengthening local **governance** and increasing absorption capacities



Additional objectives: Clusters for pro-poor growth

What poor? How can the poor benefit?

- ❑ Entrepreneurs, workers, unemployed and trainees – gains in turnover/salary, employment creation/preservation, investment in productive activities**
- ❑ Farmers and inputs suppliers – value chain linkages, stable supply contracts**
- ❑ Consumers – affordable, better quality and increased variety of goods/services produced in the cluster**
- ❑ The local community – via investments in firms' CSR and as a spillover effects from investments in education, infrastructure and basic services (roads, electricity, water) and from increased tax revenues**



Example: Chanderi (India)

- **Selection: rural, low skill → handloom**
- **Process: inclusive, participatory, giving voice to marginalized groups**
- **Target: Women weavers**
- **Dimensions of poverty: income, health, empowerment, representation**
- **Poverty related outputs/outcomes:**
 - **Women's literacy programme and leadership courses**
 - **Access to health facilities and health education**
 - **600 weavers organised into 150 SHGs**
 - **Average wage rises by 10-15% 2004-06**
 - **Improved access to formal sector credit**
 - **290 families enrolled in health insurance schemes**
 - **2005, total turnover US\$ 200,000**



The “Cluster Movement in India is massive

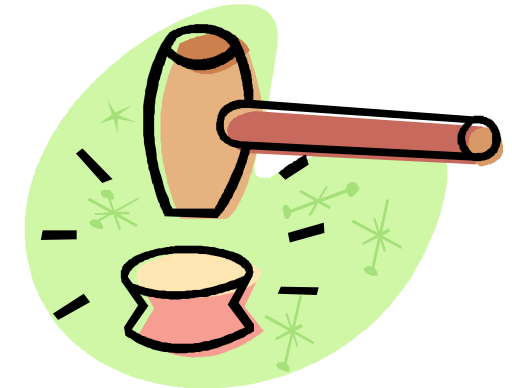
From 5 UNIDO cluster projects into...

- ❑ 24 schemes/programmes operational**
- ❑ 1350 clusters getting support to the tune of US\$ 179.5 million**
- ❑ 278 (388) are traditional manufacturing and 1060 (6000) are artisanal clusters**
- ❑ Development investment – 90% by Central Government**



From **India's** experience: Who Does What - Role of Central Government

- **Strengthen cluster information base**
- **Funding of cluster initiatives and their management**
- **Enable knowledge sharing across states**
- **Coordinate common programmes of technical assistance to clusters**
- **Ensure inter-linkages at Inter-Ministerial levels**
- **Undertake capacity building initiatives**





From **India's** experience: Who Does What - Role of State Governments

- **Provision of funding support**
- **Enable knowledge sharing within the state**
- **Draw state level policy framework on clusters**
- **Provide funding and policy support for capacity building**
- **Set up a separate cluster cell in the department and designate a nodal resource organisations**



From **India's** experience: Who Does What - Role of Private Sector



- **Strengthen MSME associations**
- **Large Companies: Undertake Partial/ Full Cluster Initiatives**
- **Provide Funding for Cluster Initiatives**
- **Manage Common Facilities for Common Good**
- **Integrate Social Development Agenda with Economic Development**



From **India's** experience: Who Does What - Role of Technical Institutions

- **Undertake joint research with cluster stakeholders**
 - **Machinery suppliers**
 - **Speciality input suppliers and**
 - **Major customers.**
- **Undertake skill development through**
 - **joint training curricula with industry & Govt. funding**

