

SHORT CLARIFICATORY NOTE FACILITATING SUBMISSION OF PROPOSALS
UNDER MSE CLUSTER DEVELOPMENT PROGRAMME (MSE-CDP)

I) Definition of a Cluster:

For the purposes of MSECDP, a cluster may be defined as a group of enterprises located within an identifiable and as far as practicable, contiguous area and producing same/similar products/services. The geographical bounds of a cluster may constitute a mohalla, village, block, etc. A combination of villages, towns or blocks and even a smaller district/union territory, if easily administered under the programme, may also qualify as a cluster.

The essential characteristics of enterprises in a cluster are as follows:

- (a) Commonality in the methods of production, quality control and testing, energy conservation, pollution control, etc.;
- (b) Same level of technology and marketing strategies/practices;
- (c) Presence of active channel for communication among the members of the cluster; and
- (d) Common challenges and opportunities.

Quite often, we receive Proposals/ Diagnostic Reports which mention the total number of artisan units in the cluster in the range of 3000-4000. While, this could really be the total number of members in that cluster, the numbers which really matter for cluster based interventions are smaller numbers that are located in a compact lot (in the identified area) so that our cluster becomes a pilot within the overall locality. Questions are often asked regarding the minimum economic size of a cluster for making Soft interventions in a cluster and if this is not clear, the Diagnostic Study and the subsequent Soft Interventions will be wrongly planned. While 100 members could ideally be the minimum number per cluster, depending on the density of population and other factors, even 200-300 could be a good target group for undertaking Diagnostic Study and the subsequent Soft Interventions in a cluster. However, in difficult and backward regions the target numbers could come down to 50 or less but it should not be too small as a lot of Government expenditure is made per cluster.

II) Selection of Clusters :

We have certain practical principles/ criteria in the selection of clusters (even though the first step is only a Diagnostic Study) for which we require the following information for each proposed cluster, viz:

- (a) The exact name of the village, mohalla or taluk or tehsil of the proposed cluster — so that each cluster has a distinctive local name;
- (b) The distance of the cluster from the nearest office of the implementing agency, in kilometers and the time required to reach the cluster (in hours) — remembering that whenever the cluster is more than 1 ½ hours (or maximum of two hours), the supervision by the CDE is bound to be poor and less intensive.

III) Intervention Officials:

(a) Cluster Development Executive (CDE)

An officer of the local DIC/ Development Institutes i.e. DIs (formerly known as SISI), may be selected as the CDE. If no such official can be found, an NGO or any other suitable organization / person may be identified to become the CDE, if he fulfills other conditions of distance and experience. CDEs must necessarily be trained in Cluster development either before taking up his job or within six months.

(b) MENTOR

Though it is not necessary, it would be good if a competent senior person (even a retired officer) could be chosen as Mentor for some specific clusters that are being proposed for intervention. NIMSME, Hyderabad and Entrepreneurship Development Institute of India (EDII), Ahmedabad are supervising and guiding the work of many clusters located hundreds of miles away from their Institutes. Their role is what we can term as “Mentors”. If a cluster is located far away from a DIC or DI, the best arrangement would be to select a locally available official or an NGO/person to act as CDE, while the DIC or DI or an Institute could always act as the “Mentor” – as his involvement is not on a day to day basis.

(c) MD/CEO of SPV

Before a Common Facility Centre (CFC) of a cluster comes up the beneficiaries and users need to come together to form a registered body, i.e. an Special Purpose

Vehicle (SPV) - which could very well be a Registered Society, Cooperative Society, Trust or Company. Without such a definite body, Government of India would be unable to transmit funds. The MD or CEO of the SPV is a full-time official employed by the SPV and he is to be the overall charge of the Hard Interventions and Infrastructure Development of the Cluster. It is clarified that both the CDEs MD/CEOs of SPVs can work simultaneously, both in cooperation with each other to deliver the Soft and Hard interventions. But on the whole, it is better for the CDE to withdraw after an SPV is formed, so that the MD/CEO of the SPV also becomes responsible for the ongoing Soft interventions.

(d) LOCAL ORGANISER

Emphasis should also be given on the critical role of another interventionist who is to physically operate in the grass-roots level in the cluster— whom we may call the Network Development Agent (NDA) or Local Organizer (LO). Such a person should normally be selected carefully from within the cluster, to act as a local link between the CDE and the cluster. After all, if the CDE is a government official (as in most cases), he cannot spare more than one or two days per week for cluster intervention, whereas the NDA/LO can negotiate and network with the units in the cluster almost all the time. His skill should lie in being able to explain the objectives and task of cluster development in the local language to the local units, so that they cooperate more among themselves, as also with the CDE.

Please Note

It is not necessary that all the levels of interventionists, the Mentor, the CDE, the SPV and the NDA should be present in all the clusters all the time, or be present right from the beginning. The CDE is essential from the start as no cluster development can move without him, while others can develop or emerge at subsequent stages.

IV) Diagnostic Study

The Cluster Development Programme (CDP) envisages a Diagnostic Study to be made for each identified Cluster to identify appropriate interventions and technologies as well as their providers and phases. The Diagnostic Study should keep in mind that Cluster Development aims at enhanced competitiveness, technology improvement, adoption of best manufacturing practices, marketing of products, employment generation etc.

Normally, when a Cluster is taken up for development by the Central Government (i.e. Development Institutes formerly known as SISIs) a provision of Rs. 50,000 is made for each such study — as our DIs have many in-house resources and their expenditure is borne from our funds. When the State Government or any agency proposes that a Cluster be taken up for intervention/ Diagnostic Study, a maximum of Rs. 2.5 lakh is permissible per Report. But it should be ensure that the Institute or Organisation which is to carry out this study has adequate experience, wherewithal and a ground level/technical knowledge of the Cluster, its products, its process and its problems. It is also felt that the National Level Institutes supported by the MSME Ministry like Nimsme at Hyderabad National Institute for Small Business Development (NISBUD)at Delhi, Indian Institute of Entrepreneurship (IIE) at Guwahati, Entrepreneurship Development Institute (EDI), Ahmedabad and other EDIs are competent to carry out these studies.

A check list of the six points are under preparation, which would clarify what exactly is required through a Diagnostic Study. Part of this is, of course, obvious: i.e. a definite action plan with timelines, schedules, costings, cost benefits, cost sharing and deliverables. Unless these are spelt out and Annual Action Plans drawn up, there is no meaning in having vague suggestions emanating from a Diagnostic Study. It is essential to have a study conducted by a technical expert who is well conversant with the trade/product of cluster without this suggestions carry little meaning. It has been observed, that many diagnostic study reports do not come out with definitive action plans – though it is a different matter whether all of them are accepted or not. It has also been observed that critical activities like environmental impact assessment (EIAs) are absolutely mandatory for certain products find no mention in the DSRs.

After the Diagnostic Study and Action Plan is presented, the national level Steering Committee has to decide whether to go ahead with other interventions in the Cluster namely Soft, Hard and Infrastructure.

V) Soft Interventions

In the past, assistance available for Soft interventions has varied in the range of Rs.25 – 35 lakh per Cluster depending upon the type. Currently we have an internal ceiling of Rs.10 lakh for Soft intervention under this Scheme, which we are trying to bring upwards. Clusters of women's enterprises are entitled up to 90% assistance for Soft interventions, while other Clusters may receive lesser percentages, depending on case to case.

While reviewing the progress of cluster development, it has been observed that in many of the cases, CDEs have restricted their activities to only Soft interventions for 2-3 years and thereafter closed the programme without ensuring the formation of democratic successor body in the form of an SPV, or at least an users association that could thereafter move for a proper Hard intervention or a Common Facility Centre. The attitude appears to be of carrying out a governmental programme in the name of Soft intervention, whereas the spirit of cluster development is democratic participation and organisation formation. While in the initial phase, cluster based interventions starts with Diagnostic Studies followed by Soft Interventions, the long term objective is to undertake Hard Interventions in form of setting up of common facility in the cluster, wherever feasible. Accordingly, one of the objectives of Soft Interventions should be to make cluster stakeholders realise the importance of common cluster based approach as an important strategy for making them globally competitive. It is our experience that this level of maturity in a cluster is achieved mainly when there is some kind of Hard intervention by the time Soft interventions are either over or under progress.

VI) Hard Interventions

These involve the creation of tangible “assets” like

- i. Setting up of Common Facility Centre (CFCs),
- ii. Mini Tool Rooms,
- iii. Design Centres,
- iv. Testing Facilities,
- v. Training Centre,
- vi. R&D Centres,
- vii. Common Raw Material Bank/Sales depot, etc.

There can also be other tangible assets that could be set up by the Clusters, as long as they are put to common use.

As mentioned, for Hard Interventions, it is necessary to form an Special Purpose Vehicle (SPV) prior to setting up of and running the proposed Common Facility Centre. When an SPV proposes Hard intervention, the Government of India commitments run into several lakh and often crosses crore of rupees. While the average range of Expenditure for Hard interventions under MSE-CDP so far is somewhere between Rs. 50 lakh to Rs. 260 lakh, the average expenditure comes out to approx. Rs.200 lakh. It is quite obvious that such a large amount should not be used for small groups of

beneficiaries and prior estimates should be made regarding the cost per beneficiary while submitting proposals for Hard interventions.

VII) Composition of SPV

While under the MSE-CDP guidelines, a minimum of 20 members is required to form an SPV, we normally insist on 50 active members to join the proposed SPV so as to diffuse and enlarge the benefits of the Common Facility Centre. The SPV could be constituted in the form of a Registered or a Co-operative Society, a Trust or even in the form of a Company. We have been surprised to note that even in the most backward region, MSME-DI and other agencies are insisting on formation of 'Companies', whereas a Registered Cooperative Societies could very well have been set-up to act as SPV.

In addition to the contributing members of the SPV, the organisers should obtain written commitments from as many 'users' of the proposed facility so that its benefits can be further enlarged. The SPV should have a democratic constitution with an inbuilt scope for increasing the membership in future. This will ensure that a 'coterie' does not run a government aided programme and the benefits of the scheme reaches out to the maximum number of entrepreneurs.

VIII) Assistance for Hard Interventions :

The Common Facility Centre that is set up by the SPV as a Hard intervention is entitled to the different levels of assistance (as a proportion of the total project cost) from the MSME Ministry i.e.

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| (i) | Quasi Commercial (QC) | up to 30% |
| (ii) | Quasi Developmental (QD) | up to 50% |
| (iii) | Developmental (DL) | up to 70% |
| (iv) | Clusters of Micro Enterprises (ME) | up to 80% |
| (v) | Clusters of Women's Enterprises (WE) | up to 90% |

This covers the cost of machinery, plant, equipment, laboratory, other tangible assets, pre-operative/ preliminary expenses, etc. The balance of the project cost, including the entire cost of land and building, would have to be contributed by the SPV or by the State government or the Local government or by some other agency.

IX) Infrastructure Assistance

This Ministry implemented the IID Scheme to provide developed sites with infrastructural facilities like power distribution network, water, telecommunications, drainage and pollution control facilities, roads, exhibition/display centres, raw materials, storage and marketing outlets, common service facilities and technological back-up services, etc. This scheme has been subsumed in the MSME-Cluster Development Programme. All the features of IID Scheme have been retained.

To create physical infrastructure in Clusters central grant upto 40% of the Project Cost, subject to a maximum of Rs.2 crore, is available. The Ministry of MSME is making efforts to enhance the quantum of grant.

Only one element of Infrastructure Assistance i.e. Display or Exhibition Centres (which could consist of show-rooms with attached stores) are entitled to a higher level of assistance in so far as Women's Clusters are concerned, i.e. 90%. This Display/Exhibition Centre could be built by the SPV of Women's Clusters within the Cluster, or near the Cluster, or even in adjoining markets of towns — as long as they exhibit and market the products manufactured by the Women's Clusters.

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