Upscaling cluster development for poverty reduction in Orissa, India

The challenge

The state of Orissa, located on the Eastern coast of India, has recently shown a remarkable economic turnaround. While historically lagging behind the rest of the country, from 2000 onward the economy has grown faster than all-India, with industrial growth rate rising at around 20 percent annually and three million people lifted out of poverty between 2000 and 2006[1].

Despite this economic acceleration, **Orissa remains the second poorest state of India**. About 48% (17 millions) of it population lives below the poverty line and a large group of scheduled tribes, living in isolated areas, has minimal access to basic infrastructure and services. Literacy levels and educational attainments are low and below the national average, while the incidence of diseases is high particularly in rural areas. Moreover, poverty rates show significant variation according to region, social group or gender[2].

Thus **broad-based economic growth** is required. As a large share of the poor find employment in economic activities organized in well-defined geographical clusters, policy initiatives that support the development of such clusters can significantly contribute to the state's economic growth while improving the livelihood of the poor.

The answer

In this framework, **UNIDO**, with funding of DfID (the UK Department for International Development), implemented a **cluster development initiative** over the period 2005 to 2008. The UNIDO programme aimed at transferring to the government of Orissa the knowledge, skills and tools necessary to implement and monitor cluster development projects in sectors blighted by a high incidence of poverty.

To this end, UNIDO adopted a **two-pronged strategy**.

On the one hand, it provided **direct assistance to 4 pilot clusters** – one each in the sectors of Handloom, Handicraft, Noon Timber Forest Products (NTFP) and Small Scale

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Industries (SSI). These sectors were selected for they display among the highest poverty rates in terms of lack of income and access to resources but also of risk, social exclusion, disempowerment, financial illiteracy and gender inequality.

The assistance provided to the pilot clusters was designed according to the UNIDO methodology and based on the lessons learned from a previous project implemented in the handloom cluster of Chanderi, India, where poverty reduction concerns had been mainstreamed into the approach[3].

Overall, emphasis was placed on the development of business linkages and linkages with support institutions to improve the cluster production and marketing capacity. At the same time, UNIDO focused on enhancing the human capital of the cluster addressing, for instance, health and education issues, in order to increase the capacity of the poor to participate in the economic activity on fair terms.

On the other hand, UNIDO **assisted the government of Orissa**, particularly the Departments of Handicrafts and Cottage Industries, Handlooms and Industry, **to take full ownership of the approach**.

From the outset of the initiative, the government officers were exposed to the activities and achievements recorded in the pilot clusters, and received capacity building and policy advice, which enabled them

to replicate cluster development projects across the state.

By this means, the government officers could identify how to improve enterprise development, as well as gaps or margins for better coordination between the activities run by organizations involved in planning and implementation. Emphasis was placed on disseminating the principles specific to the UNIDO approach among the officers and integrating them in the work of the Departments.

In order to upgrade the implementation capacity of state institutions and create a policy framework supportive of cluster development, UNIDO worked along the following main lines:

1. Capacity building of government officers and handholding of field staff in project implementation within selected clusters;
2. Establishment and strengthening of an institutional framework for cluster development;
3. Policy formulation and review of existing schemes;
4. Networking with institutional partners.

Under the first pillar, workshops and seminars were organized to **generate awareness among all levels of officers and train field staff** in the cluster development methodology and relevant tools, such as diagnostic studies, action plans and monitoring system.

Meanwhile, the government Departments were supported in the selection of clusters where

the approach could be replicated. As project implementation started, the personnel deputed to work in the clusters received constant handholding and support by UNIDO experts in their day-to-day activity, while the commitment of the government officers was regularly nurtured through exposure visits to the clusters. Additionally, UNIDO identified business school located in the capital city and assisted the **development of curricula** for government officers and field level staff. This ensured that the training efforts continued beyond the life span of the project.

The second component of the approach aimed at **establishing a focal point** within each of the assisted Departments that could coordinate and supervise the work of field level staff, monitor the projects and report to senior level staff. Thus, so-called cluster cells were created within the relevant Departments and, at a later stage, they turned into independent Societies that took responsibility of project implementation.

As cluster development initiatives also need to be backed by an **enabling policy framework** that suggests procedures for implementation,

defines responsibilities and identifies funds for implementation, UNIDO promoted the review of existing policy schemes or the drafting of new policy resolutions endorsing the principles of the cluster development approach. Moreover, the government officers were supported to **mobilize funds**, while **monitoring tools and procedures** were formulated and disseminated in the Departments.

Finally, the forth component focused on identifying institutions that could support business development in the assisted clusters. UNIDO staff organized awareness building events for representatives of business service providers (e.g. marketing, design), training institutes, NGOs and development organizations. They, then, facilitated the development of joint programmes or **partnerships between the government Departments and selected institutions** in order to improve the range and quality of services extended to the clusters.

Main achievements

The UNIDO project in the state of Orissa has produced significant changes at the institutional level and it has **strengthened the capacity of the government Departments** to design, implement and monitor cluster development projects.

Additionally, UNIDO has built on existing policies and initiatives, strengthening synergies among them and enhancing their effectiveness.

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Summary of results:

- At date, the cluster cells or societies have turned into main drivers of the approach, also in charge of promoting new policy resolutions and mobilizing funds.

- New budget lines have been created by each Department and an increasing share of funds is mobilized and allocated to project implementation.

- A large pool of trained personnel is assigned to run cluster development initiatives. Field level staff is permanently engaged in activity implementation in collaboration with local NGOs, which implies the formulation of diagnostic study and action plans, handholding of cluster actors and regular reporting to government authorities.

- Middle and high-level officers regularly review the projects, suggest improvements and provide feedback. To do so, they count on a number of tools and institutionalized procedures (e.g. training tools, monitoring schemes and practices, cluster databases, Terms of References).

- The potential loss of competences due to personnel rotation is prevented by the activity of the business school that is conducting training and orientation

programmes for all level of staff involved in cluster development, besides providing technical support to the government and support institutions.

- Finally, each Department has adopted policy schemes making reference to the principles of the UNIDO approach (e.g. exposure visits, assistance to self-help-groups, cost-sharing practices, participatory diagnostic and action planning).

As a result, an **increasing number of clusters, 150 by 2008, have received assistance** by the government of Orissa based on the UNIDO methodology, wherein the adoption of an explicit focus on poverty will trigger a process of equitable and inclusive economic growth.

1 WB (2008). Orissa has transformed itself from a seriously lagging state to a state in transition. At: http://www.worldbank.org.in/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/INDIAEXTN/0,,contentMDK:21773108~menuPK:295589~pagePK:2865066~piPK:2865079~theSitePK:295584,00.html
2 DfID (2005). Partnership for Development. DfID Country Plan in India. State Plan for Orissa 2004-2008.
3 To read more on cluster development in a high poverty context, see our case study on the Chanderi cluster.