Empowerment Case Studies: UNIDO’s initiative in Nicaragua and India

Broadening SME Networking and Cluster development: UNIDO Initiatives – glimpses from Nicaragua and India

I. Abstract:

The rationale for broadening Small and Medium Enterprise (SME) networking in Nicaragua and launching the Cluster Development Programme in India was to assist SMEs to overcome the challenges of the new economy by fostering their collective efficiency. Treating firms or enterprises as parts of a larger system and recognizing their value addition to the business environment through joint action and collaborative work, strategies like cluster development and SME networking were initiated in India and Nicaragua respectively. The intent of such endeavors was to promote transfer of knowledge and to stimulate, encourage and facilitate the process of enterprise team building for achieving a better and more effective business environment. The strategies involved in such undertakings include: trust building and understanding of key issues of networks and clusters, involvement of support institutions, training and technical development, identifying and developing good market strategies and credit assistance through financial institutions.

II. Background:

The expectations of many governments regarding the strength of the small and medium enterprises (SMEs) in areas of poverty alleviation, employment opportunities and as triggers for boosting the economy cannot be undermined. This potential to influence the economy can be more pronounced if there is inter-firm cooperation and a shared vision that ties industries with similar and complementary operations into an unit (cluster). Collaborative and cooperative framework would increase the chances of enlarging the scope of business operations. Recognizing the importance of strong regional industry cluster groups and their role in fostering a new approach to economic development, the United Nations Industrial Development Organization (UNIDO), in partnership with the Government of Nicaragua, developed a strategy for strengthening small and medium enterprises in Nicaragua. In India, UNIDO intervened in the process of promoting Small Scale enterprise networking and cluster development. This case study documents two of the many cluster development initiatives – Ecohamaca: Handicraft Hammock Sector in Nicaragua and the Hand-Block Printed textile cluster of Jaipur, India.

The need for UNIDO intervention in India was felt after the results from a cluster diagnostic study identified the problem of “disarticulation (i.e. lack of linkages among the different cluster actors, absence of common initiatives and of a shared development vision)”¹. In the case of Nicaragua, the objective of such an intervention was local capacity building.

EcoHamaca is a network comprised of 11 small enterprises involved in the handicraft hammock production sector located in Masaya, 25 km south of the capital Managua. Each of these enterprises employs 15 people on average. Prior to the UNIDO intervention, the enterprises competed against each other in the local market and had no direct

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¹ Russo, Fabio, Strengthening Indian SME Clusters: UNIDO’s Experience, case study, July 1999
exporting experience. Being convinced of the need for joint action and collaboration to boost their ability in the export market, the producers accepted UNIDO’s support in March 1997. By August of that year, the group gained legal standing and all 11 members signed the constitution of the association.

The UNIDO networking project assisted the producers in pooling talent and resources to venture into the export market. It facilitated the process by enhancing the design, production and marketing capacity of the firms. Producers received assistance in standardizing their production that resulted in improved product quality and design, better pricing systems and attaining appropriate quantities for export. Realization of the need to implement eco-friendly technologies to penetrate profitable EU and USA markets, led to the transition from using cedar wood (which is near extinction) for poles to other exotic species (guassimo, alurel, maria). There has also been a shift in the use of dyes – from chemical to natural. The cooperative spirit is manifested in having chosen a brand name “Made in Masaya” which reflects their intention of promoting a local identity. The producers have successfully exported to destinations like Sweden, Finland, USA and Peru with an average export rate of more than 3,000 hammocks per month. The producers represented Nicaragua in the Iberoamerican Handicraft Trade Fair in Spain in November 1997. The Chilean enterprise located in Nicaragua has also approached the group to start exporting to South America. In order to meet the growing demand, the 11 producers have hired a manager who would be responsible for identifying more formal training schemes, and assisting in developing technical and financial capabilities, with cooperation from local SME support institutions, to strengthen their marketing and production abilities.

The Hand-Block Printed Textile Cluster of Jaipur, India was chosen as a pilot test under UNIDO cluster development program on the basis of its potential for large export, rural, semi-urban and urban location, and replicability (as there are approximately 2000 rural artisan based clusters in India). It started off with a plan to strengthen firms with common features and bring them together so that the isolation of small and medium enterprises (SMEs) is minimized by close linkages provided by the clustering initiative.

The hand-block and screen printing industry comprises of 550 firms and employs about 10,000 workers. Though export had picked up as a result of admiration for ethnic design, the producers (traditional artisans) based in Jaipur could not keep up with the overwhelming demand. As a result, locally based screen printers captured the market since screen printing is not time consuming. The screen printers not only gained in terms of lower production costs, and use of the same design by only substituting synthetic dyes for the vegetable dyes used in block printing but they also forced the block printers to lower their profit margins and expose themselves to exploitation.

UNIDO’s intervention followed the diagnostic study conducted in 1997 which acknowledged the fact that the capacity of the traditional artisans in the cluster are under-utilized due to lack of communication among the artisans and an active association, limited quality control capacity of the entrepreneurs, lack of design, marketing skills and access to credit. UNIDO recommended the need for cooperation and collaboration among enterprises and cooperative relations between

2 Russo, Clara and Gulati “Cluster Development and Promotion of Business Development Services (BDS): UNIDO’s experience in India”
public and private sectors to develop a coordinated industrial policy, identify and implement coherent actions and support entrepreneurship. In the case of the hand-block artisans, the plan was to revitalize the business cluster, provide greater access to international markets and to boost marketing and production capability of the firms.

The objective of such an initiative is capacity building of the under-achieving enterprises. The idea of either broadening SME network or cluster development is not to reduce the competitive spirit among the cluster actors but the emphasis lay on a shift in the manifestation of the competition (from firm level to cluster level). Through this shift in competition, the cluster actors can stand to gain by proper chanelization of this spirit to meet the cluster challenges through joint action.

Awareness and trust building initiatives were started in order to overcome lack of coordination, and skepticism on the part of the cluster actors to interact meaningfully and closely with other units involved in similar business activities. Awareness generation activities were designed to minimize the “fragmentation of knowledge” while the trust building component aimed at pulling the cluster actors out from traditional business practices of “operations in seclusion” and perching them on the platform for cooperative and sustainable modes of operation.

III. Impact/Results:

Support from external intervention has shown remarkable results by bringing together similar firms and tying them together to reap the fruits of mobilization, collective effort and solidarity.

By binding cluster actors who experience similar growth constraints, sensitizing them to the benefits of networking within a collaborative framework, and creating group leaders to act as facilitators and catalyst in the whole business process, the initiative has fostered growth of the under-achieving units.

Collaborative work has stimulated the development of new ideas, skills and competencies. Interdependence between cluster units has resulted in increasing the degree of specialization in terms of both product as well as the process. Due to the promotion of networking and focus on building linkages among small and medium enterprises, the businesses witnessed an increase in the production efficiency through the integration of inter-firm’s core competencies. In Nicaragua, more than US $300,000 worth of new investment have been achieved by participating enterprises and credit of more than US $100,000 has been obtained by enterprises to implement joint actions.3

UNIDO’s intervention in India has resulted in the revitalization of a dormant artisan association, Calico Printers Co-operative Society (CALICO). Its members increased from 26 artisans in 1997 to 120 by 1999 and a common showroom was created. In addition, an export consortium, Consortium of Textile Exportes (COTEX), has been formed. This initiative also witnessed creation of three women’s networks and four informal networks in Bagru, a village in Jaipur. By 1999, out of the 155 firms involved in hand-block cluster, 40 have expanded their capacity, 20

3 Nicaragua: Development of local production systems, based on SMEs, Project Basic Facts, UNIDO report
Empowerment Case Studies: UNIDO’s initiative in Nicaragua and India

(increased to 24 by 2001) gained exposure to the international market, and 25 firms showed improvement in design capabilities.

At the firm level, the additional estimated exports generated is worth Rs 45 million (little less than USD 1 million) which can be attributed to 15 exporting units. Through the introduction of new designs, new market linkages and diversification of products, revenue generated from domestic sales Rs 6.1 million (USD 120,000). Linkages with high-end domestic market was created by the introduction of 7 new places in the metros to the artisans. Mutual Credit Guarantee Scheme (MCGS) was introduced with the support of Small Industries Development Bank of India (SIDBI) which provided micro credit worth of Rs 1,500,000 to 65 artisans. Through other schemes, credit provision of Rs 1,255,000 has been established for 38 artisans. This intervention has helped develop linkages with technical institutes like National Institute of Design (NID), support Institutions like SIDBI and NABARD (National Bank for Agriculture and Rural Development) for technical and marketing training and local NGO, Indian Institute for Rural Development, to further the effectiveness of the cluster development initiative.

Cluster level impact demonstrates improvement in technology. Blocks with detachable handles and Dhabu pasting machine were developed. In terms of infrastructure development, booking amount was deposited with the State Infrastructure Development Agency by 43 artisans for purchase of 47 plots for the creation of “Shilpagram”, an ethnic industrial estate for artisans. This estate is estimated to cost approximately Rs 60 million.

In Nicaragua, twenty networks were created within two years by a team of seven consultants with assistance from short-term international consultants. The services of network brokers have also shown rising demands. The project has been able to promote initiatives within all the different government institutions at both local and national levels involved in small enterprise development with regard to technical interventions and policy formulation. Additionally, capacity building and promotion of sustainability efforts have resulted in the emergence of new private sector alliances at the local level. Thirty new business networks (incorporating a total of 480 enterprises) have been created.

Cluster development has assumed an important place in the national development strategy. Business networking is being considered as an indispensable ingredient in the SME development strategy for Nicaragua. The Government is increasingly using network promotion mechanisms in its approach to private sector support.

IV. Key Elements of Empowerment

Access to Information

By providing an information base through various platforms, the initiative has helped generate awareness among the principal players of the networks about the gains that can be derived from collaborative efforts. Knowledge pertaining to the benefits accrued from combining core

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4 Hand-Block printed Textile (HBPT) cluster of Jaipur: End of Project Report, UNIDO
5 Nicaragua: Development of local production systems based on SMEs, Project Basic Facts, UNIDO
competencies of each cluster unit and the ways of establishing interfirm linkages, is obtained through participation of and support from other institutions. For instance, small enterprises lacked management skills and capital, and were ignorant of new technologies which could be utilized to increase productivity, and to improve product quality in order to reduce or minimize their alienation from new markets. Acquisition of information regarding good business practices, development of better designs, enhancement of skills (through training programmes), principles of networking, knowledge about procurement of raw materials at competitive prices, has resulted in the emergence of changing business behavior. This is evident in the establishment of a strong operational framework to meet the competitive demands of the market.

**Inclusion and Participation**

Though the support organizations have acted as triggers to strengthen the network actors, the SMEs have been actively involved in broadening their business scope by pooling together their competencies in order to support each other to overcome market challenges. The shift in the paradigm from “isolation” to that of “interdependence” has enabled network and cluster actors to overcome traditional practices and manifest a sustainable, autonomous governance framework which can function independently with minimal or no external support. For instance, in case of the hand block printers of Jaipur, the cluster subsidies declined as it developed. The contribution by UNIDO declined from 50% in the first product fair in 1998 to 7% in the fair that was held a year after.

By encouraging network and cluster players for a collaborative action in the production system, it has created a sense of joint ownership. This has enabled them to take advantage of each unit’s expertise and hence has reduced exposure to market vulnerabilities.

By cooperating in the production process, firms have created a fertile ground for the exchange of ideas, collective learning and innovative actions. The artisans have participated in 19 fairs organized between 1998 and 2001. This has resulted in additional business worth Rs 6.1 million. Printers developed linkages with boutiques in the metros and are doing regular business. Even without UNIDO, support printers organized events independently which reflects a transition from dependence relationship into an independent operation.

**Accountability**

Accountability mechanisms played out at the unit level as well as at the cluster level. At the firm level, each unit was responsible for its own operations and strived for excellence. However, as a component of a cluster, each unit endeavored to offer competencies to enhance the cluster’s ability to penetrate the export market. The cluster on the other hand, took it upon itself to integrate the needs of each individual unit, and to identify the deficiencies of underachieving units and help them hone their skills. This ensured their ability to challenge their market vulnerability by working in a collaborative mode so that each according to its needs was able to integrate the learned skills and competencies to achieve greater access to market.
Taking on the responsibility of the entire process of product development and marketing was possible through the promotion of a culture of self-help among the networks or clusters actors. This was evident from joint participation in fairs and organization of stalls in fairs with shared costs. Accountability vis-à-vis the support institutions was seen in cooperation with the client entrepreneurs in issuing financial assistance, providing technical support and organizing training programs for technical advancement, and in up-grading the skills of the entrepreneurs.

**Local Organizational capacity**

Complementarity between groups of businesses/firms has resulted in enhancing business practices. The shift in business process paradigm, from “seclusion” to “integration” has enabled the units to attain an adequate degree of self sufficiency and self reliance. Collective efficiency has generated a potential in the clusters and SMEs to conquer markets which would have been difficult to reach in the capacity of secluded units.

Building effective linkages between producers, suppliers, service providers and financial support institutions fostered the revitalization of the SME associations. For instance, in the hand-block industry, prior to UNIDO’s intervention, there was no association of exporters representing hand printed textile products. Realizing the need for such a body to boost their marketability, few exporters formed a “Consortium of Textile Exporters (COTEX)”. This consortium serves as a platform that reduces the associated risks of venturing into new business opportunities through mechanisms like information dissemination, exchange of views, workshops and joint participation in fairs.

In Nicaragua, the producer group gained legal status in August 1997 and 11 members signed the constitution of the association. Owing to the increasing demands, the 11 producers have hired a general manager for the network, who will be responsible for identifying and organizing formal training schemes, and providing assistance in linking the group with various local SME support institutions in order to strengthen their marketing and production capabilities.

**V. Issues and Lessons**

The implementation of such an initiative faced initial setbacks due to the daunting task of building trust among network actors and instilling in them the rationale for embracing joint action. This was the result of the existence of cluster disarticulation or lack of linkages among cluster. Since behavioral changes take place at a very slow pace, there were problems associated with trying to break down suspicion and “barriers of secrecy,” and with encouraging SMEs to cooperate and work together. The initiative resolved this by opting for mechanisms like information dissemination regarding the competitive advantages that can be offered through collaboration, workshops and training to network brokers who would assist in gaining trust of the network players and leverage that to initiate the process of team activity.
Some lessons that can be drawn are listed below:

- Trust building is incremental because this process is not instantaneous. Firms which are skeptical about the outcome of such a business practice, start off with low risks and as trust builds up they shift to more complex interactions.
- Collaborative efforts can stimulate the development of new ideas, skills and competencies. Stronger inter-firm relations provide a platform for excellence through the integration of varied production techniques and capabilities.
- Clustering and networking of firms result in greater flexibility and faster adaptability to changing market demands. Clustering initiatives which aim at accelerating the “learning through collaboration” mode of operations, transforms existing passive clusters into active clustering.
- Cluster level competitiveness can be fostered through inter-firm cooperation and local governance. This form of cooperation is manifested in sharing of orders and subcontracting parts of production when individual units are not able to meet the client demands on time.
- Networking can be seen as a component in many of the business promotion initiatives aimed at reducing isolation of SMEs.
- A necessary prerequisite for successful implementation of such an initiative is education of the groups and key individuals on the needs of the clusters, the potential of the clusters and the gains that can be derived from such an interaction and coordination. Moreover, there have to be leaders who can drive the process ahead.
- Networks have the potential to hasten the learning process. This acceleration in the learning is promoted through the existence of “brokers” who are well connected within their community. As the result of their involvement trust building efforts becomes easier. However, since financial rewards associated with the role of a broker are not substantial, sustaining their commitment and motivation becomes a difficult task. This can be resolved by providing training, study tours and exposing them to successful examples.

The interventions have equipped the cluster actors and the networks with the necessary skills to initiate action without external assistance. In case of India, several self-help groups, consortia, local and state level support institutions are collaborating to help the cluster units identify their dynamic needs and discover means to overcome the barriers in order to sustain ongoing businesses. This initiative has also influenced countries like Guatemala, El Salvador and Senegal to adopt similar strategies that address the isolation of the SMEs and focuses on the concept of cooperation and mobilization of talent.

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