

## **CLUSTER DEVELOPMENT PROGRAMME IN THE MSME SECTOR: EVIDENCE FROM WEST BENGAL**

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### **Abstract**

*MSME sector is well-regarded as the backbone of the country's manufacturing output is facing a stiff competition from large scale manufacturers as well as MNCs. In such circumstances, CDP is an important platform and one of the finest schemes for the MSMEs. The key objectives of this scheme are to enhance productivity and capacity building of the MSMEs. Also, strengthen enterprises to combat internal challenges and external threats of the today's competitive business climate. The purpose of this study is to evaluate the impact of CDP on select MSME clusters in West Bengal, using 8 selected clusters across the state of West Bengal as case study. In order to understand the study aim, the entire study has divided into four sections. It starts with introduction; overview of CDP in the MSME sector in West Bengal is discussed in next section, followed by examination of the impact of CDP on select MSME clusters in West Bengal and finally, concludes the study. The study is based on case study of the eight selected clusters in West Bengal which already have received soft interventions of CDP. A qualitative research approach of the data collection is adopted using a questionnaire comprising of 4 questions relating to soft interventions. Based on this sample comprises of 399 respondents, the results obtained that CDP has a positive effect on MSMEs. The findings can prove useful to the MSME department and its policy makers, new entrepreneurs, researchers, as well as government and academic institutions.*

**Keywords:** *MSME, interventions, clusters, academic*

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**Introduction**

The Micro, Small and Medium Enterprises (MSMEs) sector has evolved as a vibrant and lively sector of the economy. This sector contributes drastically to manufacturing output, employment and exports of the country. In terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of total exports of the country. As per the 4th All-India Census of MSMEs 2006-07, the number of enterprises is about 21.5 million. However, it has already been exceeded 26 million at the end of March, 2012 and these provide employment to in excess of 60 million persons. CII is expected to increase the share of MSME contribution to GDP significantly from the current 8 per cent to 15 per cent by 2020.

Despite its commendable contribution, this sector is facing with enormous challenges and threats. Access to bank finance is one of the key drawbacks. Apart from use of traditional technology, absence of raw material bank, backward and forward linkage programme have been considered as serious constraints. Besides, dominance of large domestic and foreign business houses make a horrible situation for this sector. In order to provide continuing support (through soft and hard interventions) to this sector, the concept of Cluster Development Programme (CDP) is relevant and appropriate.

A cluster is defined as a group of enterprise which exists within an identifiable geographical location, producing same or similar products or services, having a broader objective, facing common challenges and threats and interlinked with backward and forward integration. The purpose of the study is to examine whether cluster units have been benefitted from soft interventions or not.

**Problem Analysis**

One of the dangers in open economy, that it invites plenty of challenges for the unorganized sector especially in micro, small and medium enterprises

sector. Global giants come out with billions of dollars and hi-tech technology. The key concern is about how to protect them from large domestic and overseas corporate houses. In order to grow competitiveness and stimulate of the MSME sector, Govt. of India along with various national and international agencies have been taken series of initiatives. CDP is one of them.

CDP has macro effect on the MSME sector. Financial benefits of CDP initiatives can be perceived in a range of indicators like productivity, competitiveness, cost efficacy and growth prospects of the enterprises operating in the clusters. Alternatively, this study is likely to measure outcome derived from CDP and its impact on MSME sector. Henceforth, CDP initiatives supposed to have stronger relevance on MSME sector.

### **Objectives of the Study**

The research objectives of the study are as follows:

- (a) To overview of CDP in the MSME sector in West Bengal
- (b) To examine the impact of CDP on select MSME clusters in West Bengal

### **Database and Research Methodology**

#### **Data Base**

The study is both exploratory and empirical in nature. The explorative part of the study is based on the existing literature on the subject including books, journal articles, newspaper reports, reports of concerned committees and institutions and MSME guidelines, provision of statues, research based publications on MSME published in journals and international best practices etc. In order to find out data analysis and findings, primary data have been collected from concerned clusters through structure questionnaire which consist of four questions and served as many

as 500 respondents but only 399 respondents were fully completed and submitted.

### **Methodology**

In order to present and interpret data, simple percentage and cross tabulation has been used. For qualitative data, descriptive statistical tools and Chi-Square test have been used to examine the impact of cluster development programme (CDP) on select cluster units. Convenient sampling technique has been used. Finally, three hypotheses are tested for making valid conclusion regarding effectiveness of CDP on MSMEs under study. Most of the primary data have been collected during 2018-19 secession and SPSS software 19 has been used to analyze the data.

### **Hypotheses Formulated**

We have formulated three sets of hypotheses based on soft interventions for analyzing and examining of the cluster development programme and their impact on MSMEs.

#### **Hypothesis-1**

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|----------------------------------|--|
| Null Hypothesis ( $H_0$ )        | = <b>Awareness Creation</b> has no impact on confidence building of the beneficiaries        |
| Alternative Hypothesis ( $H_1$ ) | = <b>Awareness Creation</b> has an impact on <b>confidence building</b> of the beneficiaries |

#### **Hypothesis-2**

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|----------------------------------|---|
| Null Hypothesis ( $H_0$ )        | = <b>Confidence Building</b> has no effect on <b>capacity building</b> of the MSMEs     |
| Alternative Hypothesis ( $H_1$ ) | = <b>Confidence Building</b> has an effect on the <b>capacity building</b> of the MSMEs |

#### **Hypothesis-3**

- |                           |  |
|---------------------------|--|
| Null Hypothesis ( $H_0$ ) | = <b>Capacity Building</b> has no impact on <b>soft skill development</b> of the beneficiaries |
|---------------------------|--|

Alternative Hypothesis (H<sub>1</sub>) = **Capacity Building** has an impact on **soft skill development** of the beneficiaries

### **Cluster Development Programme (CDP)**

CDP is a holistic approach, debut in the MSME sector in October, 2007 by the MSME department, Government of India. Cluster project is implemented by the Special Purpose Vehicles (SPV). SPV comprise of the actual/ likely cluster beneficiaries/ enterprises organized and must have legally recognition, like co-operative society, registered society, trust, company etc. CDP can be measured through either soft interventions or hard interventions (Common Facility Centre, CFC) or combined approaches.

- (i) **Soft Interventions:** These include series of trust building measures viz. capacity building, market development activities, management development and technology up-gradation.
- (ii) **Hard Interventions:** These include gaining of capacity building of the beneficiary units generated from common facility centers (CFCs).

### **Purposes of the CDP**

- (i) To enhance the productivity and competitiveness of micro and small enterprises.
- (ii) To facilitate economies of scale in terms of deployment of resources.
- (iii) To built capacity of MSMEs through formation of SHGs, mutual credit guarantee funds, BDS development etc.

### **Steps in CDP**

- (i) Cluster Development Executive,
- (ii) Soft Interventions,
- (iii) Special Purpose Vehicle,
- (iv) Detailed Project Report,

- (v) Hard Interventions and
- (vi) CFC commissioned and testing.

### **Initiatives**

A set of initiatives has been identified for combating challenges and threats as well as promoting to this sector as follows:

- (i) Access to bank credit at nominal rate of interest as well as facilitating entry to capital markets through IPOs and Specialized exchanges for MSMEs
- (ii) Developing marketing for MSMEs and development of B2B portals
- (iii) Improving the skill level of work force through harmonization of training programme for soft Skill Development
- (iv) Building infrastructure for the MSME sector by ensuring common facility centres
- (v) Developing indigenous technology, facilitating technology transfer and creation of intellectual properties
- (vi) Developing global competitiveness of the small & medium enterprises

### **Cluster Development Programme in MSME Sector in West Bengal**

Cluster development programme in the MSME sector is going on with priority basis. Various agencies of concerned Central Government and Government of West Bengal are taken on holistic approaches of CDP for boosting up of MSMEs. The CDP initiative is formulated with the objective of strengthening the institutional framework, creating stronger backward and forward linkages and introduction of modern technology in order to enhance the productivity and competitiveness of the enterprises operating in the clusters. As per statistics , all DICs across the state have already been identified 92 clusters. But only 30 clusters are in various phases of interventions. Merely, 8 clusters have already been completed both soft interventions and hard interventions.

### **Selected MSME Clusters in the West Bengal**

One of the main objectives of the study is to assess the impact of soft interventions on cluster MSMEs. Therefore, clusters having received soft interventions were selected for the study. Accordingly, study has carried out in 8 clusters in West Bengal that have already been completed soft interventions as follows:

- Fan Cluster, Bansdroni, Kolkata.
- Honey processing, Malda
- Lead Acid Battery, Siliguri
- Plastic Processing, Dabgram, Jalpaiguri
- Re-rolling Mills, Jagatballavpur, Howrah
- Roofing Tiles, Murlu, Bankura
- Silver Filigree, Magrahat, South 24 Parganas
- Zari, Budge Budge, South 24 Parganas

### **Soft Interventions**

Soft Interventions are a series of trust building measures for the beneficiaries of a cluster. The following parameters have chosen for measuring effectiveness of CDP relating to soft interventions:

- (i) Awareness Creation through organizing seminars and meetings
- (ii) Confidence Building through training programmes
- (iii) Capacity Building through SPV formation
- (iv) Soft Interventions through soft skill development

### **Analysis of effectiveness of select MSME clusters in West Bengal**

This chapter deals with analyses of effectiveness of select MSME clusters in West Bengal. The study has focused only four core issues relating to soft interventions such as awareness creation, confidence building, capacity building) and soft skill development of the beneficiary units. The Study has

taken 399 beneficiaries units from eight clusters. Table 1 presents the brief profile of some selected clusters.

**Table 1: Brief Profile of the Eight (8) selected MSME Clusters in West Bengal**

Name of the Clusters	Status of Soft Interventions	SPV	District	No of Units	Sample Units	Cumulative Sample Units
Fan	Completed	Pvt. Ltd.	Kolkata	260	54	54
Honey Processing	Completed	Co-operative Society Ltd.	Malda	660	102	156
Lead Acid Storage	Completed	Pvt. Ltd.	Darjeeling	72	10	166
Plastic Processing	Completed	Co-operative Society Ltd.	Jalpaiguri	90	13	179
Re-Rolling Mills	Completed	Pvt. Ltd.	Howrah	175	27	206
Roofing Tiles	Completed	Co-operative Society Ltd.	Bankura	175	28	234
Silver Filigree	Completed	Co-operative Society Ltd.	South 24 Parganas	650	84	318
Zari	Completed	Co-operative Society Ltd.	South 24 Parganas	4500	81	<b>399</b>

Source: Compiled by the Researcher

### 1. Awareness Creation of the Beneficiaries

Awareness creation is the first and foremost step of soft interventions under CDP. Whether participating enterprises have been gaining awareness level through seminars and meetings or not is shown below in Table 2.

**Table 2: Organizing Seminars, Meetings Grow Awareness Creation**

	Frequency	Percent	Cumulative Percent
Agree	319	79.9	79.9
Neutral	67	16.8	96.7
Disagree	13	3.3	100.0
<b>Total</b>	<b>399</b>	<b>100.0</b>	

Source: Compiled by the Researcher

It appears from the above table that 79.9% of respondents agreed on enhancement of awareness creation through organizing seminars, meetings and workshops. Only 13 (i.e.3.3%) respondents opined that there is no relevance of seminars, meetings etc. on the awareness creation of the MSME units.

## 2. Confidence Building of the Beneficiaries

The training programme and exposure visits are two main pillars for enhancing the confidence level of the beneficiary units. Exposure visits to model clusters get free from many queries, doubts and uneasiness while training programme builds up efficient and productive manpower. Whether training programme and exposure visits improve the confidence level of the beneficiary units or not is shown below in Table 3.

**Table 3: Training Programme Enhance Confidence Building**

	Frequency	Percent	Cumulative Percent
Agree	358	89.7	89.7
Neutral	34	8.5	98.2
Disagree	7	1.8	100.0
<b>Total</b>	<b>399</b>	<b>100.0</b>	

*Source: Compiled by the Researcher*

As per respondent's statement, 89.7% of them are agreed and satisfied about augmentation of confidence building through training programme, while, 8.5% of the respondents are silent and remaining 1.8% is opposed the relevance of training programme.

The study is examining of relationship between two soft activities namely awareness creation and confidence building through chi-square test.

### **Relationship between Awareness Creation & Confidence Building**

#### **Chi-Square Test:**

**Hypothesis-1**

Null Hypothesis ( $H_0$ ) = **Awareness Creation** has no impact on **confidence building** of the beneficiaries

Alternative Hypothesis ( $H_1$ ) = **Awareness Creation** has an impact on **confidence building** of the beneficiaries

**Table 4 Cross tabulation: Organizing Seminars, Meetings Grow Awareness Creation \* Training Programme Enhance Confidence Building**

		Training Programme Enhance Confidence Building			Total
		Agree	Neutral	Disagree	
Organizing Seminars, Meetings Grow Awareness Creation	Agree	285	30	4	319
	Neutral	63	1	3	67
	Disagree	10	3	0	13
<b>Total</b>		<b>358</b>	<b>34</b>	<b>7</b>	<b>399</b>

Source: Compiled by the Researcher

It appears from the cross tabulation that 71.4% of respondents agreed on improvement of confidence building through training programme and exposure visits. It is one of the core issues of soft interventions under cluster development programme. Whether null hypothesis is accepted or rejected is tested with the help of Pearson Chi-Square Test which shown below in Table 5.

**Table 5: Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	11.305a	4	.023
Likelihood Ratio	11.736	4	.019
Linear-by-Linear Association	.239	1	.625
<i>N of Valid Cases</i>	399		

Source: Computed by the Researcher

The Pearson Chi-Square or P value of the test at 5% level of significance is 0.023 which is less than .05. So, null hypothesis is rejected and the

alternative hypothesis is accepted. Now, it can be concluded that there is an impact of awareness creation on confidence building of the beneficiary units.

### 3. Capacity Building of the Beneficiaries

Confidence building induces of the participating units mentally strong and leveraging to produce more output at low cost. Capacity building indicates to enhance the volume of production or services. Capacity building has been gaining momentum by SPV formation. Whether SPV formation can enhance capacity building or not is shown below in Table 6.

**Table 6: Capacity Building through SPV formation**

	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Agree	361	90.5	90.5
Neutral	35	8.8	99.2
Disagree	3	.8	100.0
<b>Total</b>	<b>399</b>	<b>100.0</b>	

*Source: Compiled by the Researcher*

90.5% of respondents believed that SPV plays a crucial role for encouraging capacity building among the beneficiary units. It is used as a tool to achieve a better and improve performance. Less than 1% of the total respondents articulated that capacity building of the MSME units has no relation with the SPV formation.

The correlation between confidence building and capacity building under soft interventions is measured through Chi-Square Test.

### **Relationship between Confidence Building & Capacity Building**

#### **Hypothesis-2**

Null Hypothesis (H<sub>0</sub>) = **Confidence Building** has no effect on **capacity building** of the MSMEs

Alternative Hypothesis ( $H_1$ ) = **Confidence Building** has an effect on the **capacity building** of the MSMEs

**Table 7 Cross tabulation: Training Programme enhance Confidence Building \* Capacity Building Through SPV formation**

		Capacity Building through SPV formation			Total
		Agree	Neutral	Disagree	
Training Programme enhance Confidence Building	Agree	326	30	2	358
	Neutral	29	5	0	34
	Disagree	6	0	1	7
<b>Total</b>		<b>361</b>	<b>35</b>	<b>3</b>	<b>399</b>

Source: Compiled by the Researcher

It appears from the cross tabulation that 81.7% of respondents agreed on enrichment of capacity building through SPV formation which is also one of the core issues of soft interventions under cluster development programme. Whether null hypothesis is accepted or rejected based on Chi-Square Test which is shown below in Table 8.

**Table 8: Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	19.660a	4	.001
Likelihood Ratio	7.259	4	.123
Linear-by-Linear Association	2.737	1	.098
N of Valid Cases	399		

Source: Computed by the Researcher

The Pearson Chi-Square or P value of the test at 5% level of significance is 0.001 which is less than .05. So null hypothesis is rejected and the alternative hypothesis is accepted. Now, it can be said that there is close relationship between confidence building and capacity building. That is confidence building can affect capacity building positively.

#### 4. Soft Skill Development is the key outcome of soft interventions

Every activity of soft interventions such as awareness creation, confidence building and capacity building contributes a lot towards soft skills development of the MSME units. There is a direct relationship between capacity building and soft skills development programme. Whether soft skills development is gaining from soft interventions or not based on opinion of the surveyed units which is shown below in Table 9.

**Table 9: Soft Skill Development is the Key Outcome from Soft Interventions**

	Frequency	Percent	Cumulative Percent
Agree	373	93.5	93.5
Neutral	25	6.2	99.7
Disagree	1	.3	100.0
<b>Total</b>	<b>399</b>	<b>100.0</b>	

*Source: Compiled by the Researcher*

It is needless to mention that all parameters of soft interventions such as awareness creation, confidence building and capacity building must have contribution to soft skills development. 93.5% of respondents given positive outlook towards increasing soft skills development through soft interventions. Only single respondent was negatively answered.

Is there any relationship between capacity building and soft skills development that is determined by the Chi-Square Test.

#### Relationship between Capacity Building & Soft Skill Development

##### Hypothesis-3

Null Hypothesis ( $H_0$ ) = **Capacity Building** has no impact on **soft skill development** of the beneficiaries

Alternative Hypothesis ( $H_1$ )= **Capacity Building** has an impact on **soft skill development** of the beneficiaries

**Table 10 Cross tabulation: Capacity Building through SPV formation \*  
Soft Skill Development is the Key Outcome from Soft Interventions**

		Soft Skill Development is the Key Outcome of Soft Interventions			Total
		Agree	Neutral	Disagre	
Capacity Building Through SPV formation	Agree	343	17	1	361
	Neutral	28	7	0	35
	Disagre	2	1	0	3
<b>Total</b>		<b>373</b>	<b>25</b>	<b>1</b>	<b>399</b>

*Source: Compiled by the Researcher*

It appears from the cross tabulation that roughly 86% of respondents agreed on improvement of capacity building through SPV formation. Therefore, capacity building is considered as one of the key parameters of soft interventions under cluster development programme. The strength of cross tabulation will justify through Chi-Square Test which is shown below in Table 11.

**Table 11: Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	16.548a	4	.002
Likelihood Ratio	11.145	4	.025
Linear-by-Linear Association	13.268	1	.000
N of Valid Cases	399		

*Source: Computed by the Researcher*

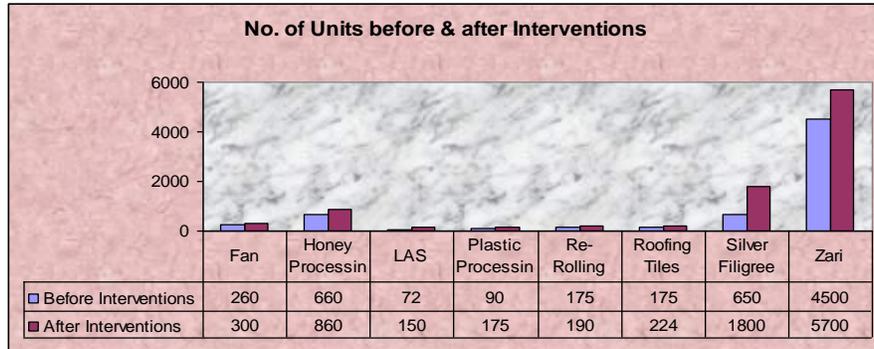
The Pearson Chi-Square or P value of the test at 5% level of significance is 0.002 which is less than .05. So, we reject the Null Hypothesis and accept the alternative hypothesis. Now it can be said that there is close relationship between capacity building and soft skill development. That is capacity building can affect soft skill development positively.

### **Comparative Study between before and after Interventions**

A comparative study is drawn between before and after interventions in order to determine the effectiveness of CDP. Accordingly, the study has

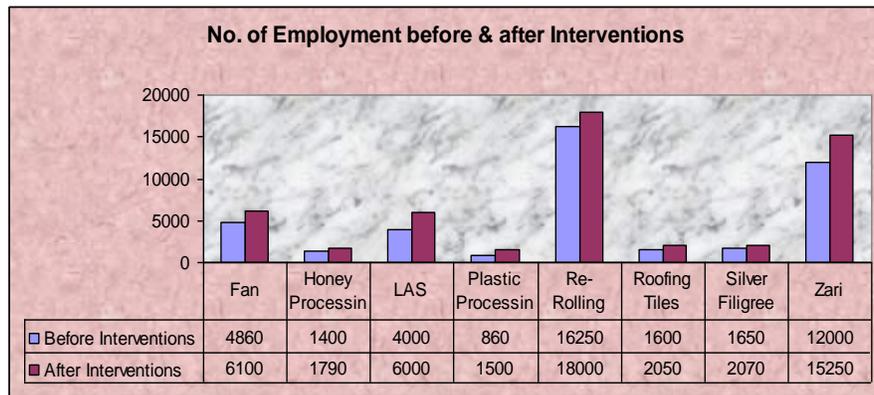
taken on two parameters viz. total units (shown in Exhibit 1) and employment generation (shown in Exhibit 2) of selected 8 clusters in West Bengal. Results are given below:

**Exhibit 1: Beneficiary units before joining and after joining CDP of the selected clusters in West Bengal**



Source: Directorate of M&SSE, West Bengal, 2014

**Exhibit 2: Employment before joining and after joining CDP of the selected clusters in West Bengal**



Source: Directorate of M&SSE, West Bengal, 2014

CDP is effective because of increasing number of MSME units as well as employment generation after completion of interventions. CDP is a strongest tool for helping this sector through soft skills development and

CFCs. It empowers the MSMEs in all parameters. Therefore, CDP is effective.

### **Conclusions**

MSMEs play a very significant role in terms of balanced and sustainable growth of the economy by way of employment generation, development of entrepreneurial skills and contribution to export earnings. Keeping in mind, the problems circulated in the sector, effectiveness of the CDP leads us to the definite conclusion, that the programme is very much satisfactory, and can be extremely effective for redress such concerns properly. It is found that soft interventions of CDP are highly successful and effective in the selected MSME clusters under study. Under soft interventions, the level of awareness building, confidence building and capacity building are grown up among the beneficiary units. These improve soft skill development to them. Moreover, secondary data are also strengthen the effectiveness of the programme as number of units and employment generation of the selected clusters in West Bengal are increased significantly after completion of interventions. Finally, one of the interesting conclusions can be inferences from the study that under CDP, CFC builds social capital in the society.

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