



**P.K. Kunhalikutty**  
Minister for Industries,  
Social Welfare & IT  
Govt. of Kerala



## Message

I am happy to note that the Industries Department, Govt. of Kerala is bringing out a quarterly newsletter highlighting the developments and progress of each Industrial cluster in our state. Globalization and liberalization have made the survival of small-scale industrial units rather difficult. The Industrial Cluster Development programme aims to make them as competitive as possible. In both industrialized and developing countries, there is increasing evidence that clustering and networking can help SMEs boost their competitiveness. For example Lombardi region in Italy with geographical area around 23,000 sq.kilometers have established over 760,000 flourishing enterprises mostly SMEs. They have 32 successful entrepreneurs per sq.kilometer. This has been achieved through the concept of Industrial Cluster. Govt. of Kerala has already taken various successful initiatives for the Cluster development. As a result 53 clusters in various sectors have been identified and our officials act as catalysts for the development of each of the identified clusters. I hope that these activities and achievements will be put forth through the Cluster tidings- Kerala and that it will help to meet the specific needs of the cluster.

  
(P.K. Kunhalikutty)

## Kerala Cluster -The Beginning...

Over the last decade, awareness about the significance of industrial clusters and their role in promoting economic growth has been well recognized. As a result, emphasis on cluster and network development has increased both in developed and developing countries. Clusters are widely considered now as an effective platform to enlarge production base, trigger growth, alleviate poverty, and redress regional economic imbalance.

In India, the cluster development activities were started initially during the ninth five year plan period with the help of UNIDO .But unfortunately much exertion was not asserted by the state in this direction.



State Level Inauguration of Awareness Workshop on Industrial Cluster Development. Inaugurated by Shri. John Mathai, IAS, Principal Secretary (Industries), Government of Kerala. Also seen left to right: Shri V. Rajagopal, GM, K-bip, Shri. PH. Kurian, IAS, Director (Industries & Commerce), Smt. Anitha Das, IAS, National Expert, UNIDO, Shri. Gopalakrishnan, AGM, SBI, Shri. Xavier Thomas K., State President, KSSIA

Prior to preparation of the tenth plan document, the Department of Industries conducted a preliminary survey among the small scale industries working in the state concentrating on various sectors. The studies revealed that there are some common opportunities and threats existing in various sectors and that some common strategies are required to solve the problems. It came to be known that there was lack of knowledge fragmentation, lack of coordination and lack of information dissemination among fellow SSI units. With this information in hand the Dept. of Industries thought of introducing the scheme " Cluster Development Programme" (CDP) in the 10<sup>th</sup> five year plan in tune with the similar programme implemented by Govt. of India in the pattern of UNIDO. This Programme was discussed in detail and the planning board approved the scheme for implementation during the 10<sup>th</sup> five year plan .RS. 105 lakhs was also provided for the purpose under the plan head.

The main task of this programme was to initiate steps to build awareness and trust among the cluster members followed by dissemination of best practices within and  
(contd. on page 4)

## Why this Newsletter?



**PH Kurian IAS**  
Director  
Industries & Commerce

Kerala, God's own country located in the southern tip of India is blessed with unique natural resources as well as traditional and skilled manpower. Unfortunately our SMEs are not able to tap these easily due to ignorance in the field of technology, market trend, and sufficient fund creation. This has happened because of the isolation of SMEs in a particular sector and unhealthy competition. The State Government formulated an Industrial policy 2003, that gives stress on Industrial Cluster Development. Problems created by knowledge fragmentation and lack of coordination can be sorted out effectively through the cluster approach.

Industries Department has identified about 53 sectors for cluster development and has completed diagnostic study in 32 sectors. The uniqueness of the Kerala model is the creation of consortia at the initial stage of cluster development. During the last year, several consortia have evolved in Handloom, Rubber, Food, Cane, Leather, Garments etc. which focuses on establishment of Raw material bank, Marketing linkages or outlets, participation in fairs abroad and on brand creation.

State Government also formulated schemes to provide margin money, grant, marketing incentives etc. to the consortiums being setup by identified clusters of small scale industrial units.

This rapid growth in the industrial sector over the previous year was in fact much above expectation. Cluster tidings – Kerala aims at bringing forth the developments in the industrial scenario in which the clusters were instrumental as well as details about cluster approach.

P.H. Kurian IAS

## Evolution of Cluster Development Agents

The success of NRFPMC made the department realize the necessity and importance of the cluster approach in the other sectors particularly in the present context of globalisation & liberalisation and hence discussions were held with EDI and UNIDO. It was decided to provide advanced training and conduct exposure programmes for the officers of the department to take up the challenges faced by the SMEs.

Officials about 83 from Industries department were trained as Cluster Development Agents (CDAs) in the UNIDO pattern with the assistance of experts from EDI, Ahmadabad and UNIDO focal point. The trained CDAs identified and completed the diagnostic study of 32 clusters all over the state.

### Launch of Cluster related activities - An eagle's view-

Around 53 Clusters were identified for development in the state. They are :

<u>Sectors</u>	<u>Location</u>
Wood, Handicraft, Printing, Cane	Thiruvanthapuram
Clay, Wood, Food, Pencil	Kollam
Food, General engineering	Pathanamthitta
Bell metal, Stone metal	Alappuzha
Leather, Garments, Food	Kottayam
Garments, Bamboo	Idukki
Plywood, Food(3), Rubber, Light engineering, Elect & Electronics	Ernakulam
Plastic, Wood, Paint, Garments, Mineral water	
Diamond, Wood, Tiles	Thrissur
Re-threading M/Cs, Notebook	
Ethnic food, Bell metal, Agricultural implements	Palakkad
Rubber, Food, Wood, Garments	Malappuram
Ethnic food, Footwear, Jewellery	Kozhikode
Coffee powder, Curry powder Garments	Wayanad
Handloom, Garments, Plywood Printing press	Kannur
Handicraft, Garments	Kasaragod

Out of the above 53 clusters, diagnostic study in respect 32 clusters have been completed.

## Developed consortia

### K o t t a y a m R u b b e r



Mr. Sathyaraj N.  
Asst. Director  
CDA

The Rubber Cluster in Kottayam District is a typical SSI Cluster dominated by tiny and Small scale Industries numbering about 400 units producing low tech products such as tread rubber, rubberized coir mats, foot wear materials, rubber bands, foam rubber, tyre flaps, etc. Even though there are about 50,000 different rubber products in existence, no serious efforts to diversify into new or differentiated and branded products to attract buyers have been made till date. Very few of them have got better production facilities, are able to market their products through exporters. Expecting these, others cater mainly to local market and compete among themselves, which results in shifting their focus from quality to price. In short lack of technological intervention, quality and product diversification have been in inhibiting the growth of the industry.

In the year 2002, the DC (SSI), Govt. of India has adopted the Rubber Cluster at Kottayam for its project support under Cluster Development Programme. Subsequently CDA has been trained at EDI, Ahmedabad and diagnostic study has been conducted which brought out the weakness and strength of the Cluster and strategy was formulated for the development of the cluster by preparing an action plan involving all the cluster actors. Centering around this action plan under the guidance and support of DC(SSI), Dept. of Industries GOK and UNIDO, took several initiatives to improve the competitiveness of the Industry.

Some of the initiatives are:

#### ◆ Raw material bank for competitiveness

The establishment of perhaps the first professionally established legally constituted and largest sustainable consortium (NRFPMC) Pvt. Ltd. in India to facilitate commercial operations by rubber based small scale industries. Thirty eight member units largely manufacturing mats are benefiting in terms of cost reduction on the raw material purchase front from between 20-30%. The consortium is basically the commercial arm of the Changanassery "Rubber and Plastic Small Industries Association". This consortium (hard network) has succeeded in securing the financial assistance amounting to Rs. 60 lakhs from State Bank of Travancore for their raw material procurement with minimal Collateral Security (Mutual Credit Guarantee Fund mode)

#### ◆ CFC for Competitiveness

The consortium with the support of Industries Dept., Government of Kerala has secured a DC(SSI) grant of Rs. 2.4 crores for setting up of a Centralized Mixing Plant with an investment of about Rs. 3.5 crores. This facility is to correct prevailing line of misbalancing among member units in terms of mixing and molding. Enterprises that are currently operating at only about 30% press capacity may hence forth enhance productivity 3 times over. A cost reduction of about 5-8% in annual cost of production is also expected. Enterprises may also move towards manufactures of value added products as quality enhancement and standardisation is also facilitated.

◆ The Changanacherry Association has taken the lead in constituting a "Federation" of Kottayam Rubber Industry Associations. The Apex Federation brings together five specific associations in the cluster including Rubber Strap and Sheet Manufactures Association, Rubber Band Manufactures Association etc. This has enabled the creation of critical mass to pursue association led initiatives. The apex federation has arranged suppliers meet for sourcing quality chemicals and they are on the process of brand building proposal with the focus on origin based labeling of cluster products "Kottayam Rubber".

◆ The Associations has taken office space on lease basis and is utilizing the services of an NDA with part UNIDO support. Establishing MCGF like support for consortia of Rubber band manufacturing units (tiny units) is under progress, with Changanacherry Association willing to serve as implementing agency 'guaranteeing' obligations of rubber band consortium. The Rubber Board has agreed to transfer technology to manufacture bands from dry rubber. This would facilitate cost competitive manufacture. This is also first time in the Country where an association is acting as an implementing agency which indicates sustainability orientation.

◆ Networking meets have already been arranged with trade facilitation desks from Netherlands, South Korea and U.K.

◆ Supply chain management: The Changanacherry Association has secured grant from DC (SSI) to establish a Sub – Contracting Exchange. This will help to enhance backward and forward linkages in the rubber cluster. Proposal for setting up of a video Conferencing Centre along with the Sub-Contracting Exchange is also on anvil which will enhance the facilities for global sourcing and marketing.

◆ The Dept. of Polymer Science and Rubber Technology

- (CUSAT) has been entrusted with the task of surveying major Rubber Product Manufacturing Units in India with the support of DC(SSI) as part of bench marking study.
- ◆ One Programme on product lead diversification has been organised by the product development centre sports goods complex Meerut, with DC(SSI) support on sports goods option. Six programmes on quality improvement including ISO and SA 8000 options have been organised. Thirty Entrepreneurs have been trained on management and on the basic use of the computer and internet.
  - ◆ A Cluster Development Co-ordination Committee (CDCC) has been constituted and monitors implementations. The Committee also included Director Industries (GOK), Director (Rubber Board), Director (SISI), Head Department of Polymer Science (CUSAT), General Manager (K-BIP), Association and Consortia leaders.
  - ◆ The Associations in Kottayam have personally interacted with German ZDH representatives regarding the establishment of a market information centre. ZDH is likely to establish a business information centre at K-BIP as to serve a data warehouse on sourcing, international competitor information, market trends and customers.
  - ◆ The AICTE has sanctioned a project submitted by the Dept. of Polymer Science and Rubber Technology of Cochin University of Science and Technology under Industry Institute partnership scheme as part of Cluster Development activity. This will enhance the institutions linkages in the area of technical training and R&D support.
- The Changanacherry Association is sharing their experience and motivating similar units in Kottayam and other parts of the State to work on a Cluster Development mode as to enhance competitiveness in the emerging globalizations scenario. In fact they are also serving as competitive input suppliers to many other similar and smaller enterprises in the region. Their raw material bank and Sub-Contracting Exchange has opened its doors to share holders from other associations.
- All the above activities have been undertaken with the active corporation and involvement of all stakeholders, which is the ultimate success of Cluster Development approach.
- “Coming together is the beginning  
Staying together is progress  
And working together is success”
- The CDA behind this Cluster development is Mr. Sathyaraj.N, Asst. Director, CFSC, Changanacherry in Kottayam District.

**(Kerala Cluster - The Beginning contd. from page 1)**

audience of scarcely motivated SSI owners this was not possible in the initial stage, since no professional training was given to any of the departmental officers.

In the beginning two officials from the Dept.of Industries were sent to the Entrepreneurship Development Institute of India, Ahamadabad for training under CDP to interact among cluster members, cluster actors and cluster players. After training, these two officials started their work during the year 2001 at Ernakulam and Kottayam districts to develop the clusters in the rubber sector. As the financial institutions failed to interpret the concept of cluster in the right sense the project could not make any waves in the industrial sector.

Govt of India identified SISI , Trichur as the nodal agency for implementing the rubber cluster at Kottayam. But as the infrastructure available with SISI , Trichur was insufficient Director of Industries and commerce (DI&C) took up the matter with the DC(SSI) and hence the DIC, Kottayam was entrusted with the implementation of this cluster.

Constant association of the DI&C, departmental officials and Shri. N Sathyaraj-the trained CDA with the cluster members for a period of 14 months, resulted in the establishment of the first ever professional and legally constituted sustainable consortium in India by name Natural Rubber and Fiber Product Manufacturing Consortium Pvt Ltd (NRFPMC). This consortium became operational by the middle of 2003 with 50 SSI units as members. NRFPMC started a common raw material bank with support of The State Bank Of Travancore. Some of the other proactive steps initiated by the consortium are new product development, wide network arrangement for the export, establishment of cluster-to-cluster linkage, establishment of linkages with research institutions and establishment of Sub contract exchange.

## Kottayam Leather

Sri. Jose, CDA has identified the leather cluster for his diagnostic study. This cluster consists of 185 SSI units, engaged in the manufacturing of leather / rexine bags and other products. The cluster turn over is around Rs. 10 crores. Those units are facing several problems in the area of production and marketing such as,

- Lengthy operation cycle due to credit sales
- Non-availability of adequate working capital
- Poor marketing linkages
- Price war among SMEs



Inaugural Speech by Shri. P.H. Kurian, IAS, Director of Industries & Commerce.



Kottayam Leather Goods & Wears Consortium, inaugurated by Shri. P.H. Kurian, IAS, Director of Industries & Commerce.



Share Certificate issued to the members of Kottayam Leather Goods & Wears Consortium at the Inaugural function.

The core cluster actors have already registered one consortium as a private limited company under the name and style "Kottayam Leather Goods and Wears Consortium Pvt. Ltd.", for bulk purchase of raw materials, skill up-gradation and marketing. The consortium was inaugurated by Shri. P.H. Kurian IAS on 27th March 2004.

## Kalady Ricemill Products

About 60 modern ricemills are functioning in and around Kalady of Ernakulam District. A private limited company under the name & style as Kalady Rice Millers Consortium Pvt. Ltd was constituted by 33 of them. This pilot project is to set up a rice bran oil extraction unit. Rice bran is a bye-product of every unit in the cluster. The minimum output per unit is 2000Kg/day. The present sale rate varies from Rs. 7.50 to 9.00 per Kg. If the rice bran is fresh then only it gets the maximum sale rate. The oil content and quality will get lost if it is stored in lose. Oil extracted from fresh rice bran is used for edible purpose as well as for



Trust building meeting at Kalady Rice Mill Cluster, CDA Jayaprakash interacting with the cluster members (Top); Cluster members (Bottom)

pharmaceuticals use also. Now the cluster members are not getting the reasonable price for it due to the above reasons. Under these circumstances, the first project decided to implement rice bran oil extraction unit. The company has purchased 54.99 Ares of land, advance for Machinery has also been paid. Negotiation with bank is going on. The diagnostic study report is validated on 25.03.04.



Diagnostic study validation meeting & handing over the diagnostic study report to consortium patron Shri. George (top); Consortium members (bottom)

After this project they will setup a common effluent treatment plant, testing and R&D center, Common packing material production center, Power generation using husk etc. The initiatives to develop this cluster is taken by the GM, DIC Ernakulam and his supporting CDAs.

### Tread Rubber at Edappally in Ernakulam

A consortium was formed under the name as Millennium Tread Rubber Consortium Pvt.Ltd. The consortium has started importing certain items of RM for the member's use-raising fund from own sources.

### Cane and Bamboo products

Around 200 artisan units belongs to SC Community proving employment to nearly 1000 persons all belonging to the SC are engaged in the value added cane furniture and other products. This artisans units are facing common threats. Mr. E. Salahudeen and Mr. Sathya Kumar have conducted a detailed study and identified their problems.

They are:

- Acute financial difficulties due to non-availability of working capital from banks for want of collateral security.

- Exorbitant prices realized by the local traders for the sale of cane.
- Poor market linkages
- Non-awareness of market oriented production

An awareness camp was organised by the CDAs and discussed their problems in length. In this camp they have formed a demonstration consortium under the name and style of "Travancore Cane Bamboo Pvt. Ltd." for the procurement of raw materials from North-East states.



Awareness programme on Cluster Development in Cane Sector held at Chirayenkizhu, Trivandrum district. Inaugural speech by Addl. Director Shri. N.K. Mohanan. Shri. Anoop, Consultant in traditional sectors delivering a speech. From left - Shri. N.K. Mohanan, Addl. Director of Industries, Shri. Abdul Karim, GM, DIC Trivandrum, Shri. Santhosh, K-bip and CDA Sathya Kumar.

Another consortium for developing common market and mobilizing funds from central and state agencies is also in the anvil. It has also been decided to engage a consultant to work for the consortia for developing marketing linkages with various Government and other agencies.

### Perumbavoor Plywood

Plywood Manufacturers Cluster was organised and consortium was formed with 20 Plywood manufactures at Perumbavoor, Ernakulam with the continuous intervention and follow up by the trained CDA Shri. Jayaprakash stationed at Ernakulam. Proper linkages with the financial institutions and bulk sourcing of raw materials were established.

A proposal for setting up a Common Facility Service Centre to



Perumbavoor Plywood Cluster Trust Building Meeting; Shri. Prasannakumar, GM, DIC & Shri. Jaya Prakash, CDA, in Ernakulam district delivering their speeches (top); Cluster members (bottom)

provide machinery facility and required skill man power for the manufacture of face veneer and blue mixing was forwarded to Government of India for sanction. The CFSC will be functional with the financial assistance from the bank and the own fund raised by the members along with the Government of India assistance. It is expected to function during April 2004.

### Thrissur diamond limited company

There are about 300 units in Thrissur district polishing about 30,000 rough stones or 3750 Carats per day, which is worth about Rs.185 lacks. On an average, it takes three to four days to process a stone. Diagnostic study for Diamond cutting cluster at Thrissur completed and formed consortium for CFC, skill up gradation and marketing.

### Kannur Handloom & Garments

There are four consortia in handloom sector and three in garments sector. Chirakkal consortium, Kannur south consortium, Irinavu consortium and payyannur handloom consortiums are the registered consortia in handloom sector. They are planing to make innovative and trendy designs as well as new Marketing networks. On 07.01.04 they brought one expert from NIFT, Hyderabad for a presentation and there by made an MOU. IIM Kozikode has been entrusted with the work of Brand building

for handloom products.

Out of the three Garments consortia two are registered under charitable societies act and the other as private limited company. They have decided to procure fabrics in bulk from Surat and Bombay and also organized a mini trade fair in Kannur town hall.



Rice Mill Cluster, Kalady, Ernakulam; Meeting with various Cluster Actors. GM, DIC, Ernakulam delivering a speech regarding the cluster development activities in the district.

### Developing Consortia

#### Malappuram Rubber

A detailed diagnostic study have been conducted in rubber manufacturing units. Cluster members along with CDAs Conducted an exposure visit to the Kottayam rubber cluster. They got a chance to interact with Kottayam rubber cluster members and CDAs during the visit. So the Malappuram cluster members gained confidence in developing a consortium in their sector and decided to register it as a pvt. Ltd company. It is under progress.

#### Kozhikode Halva

Around 38 Halva manufacturing units are involved in the development of an Industrial Cluster. They decided to register it as a demonstration consortium. Proposed consortium members participated in a trade fair that was conducted by Panchayath and DIC. They have decided to set up a Mini Industrial Estate exclusively for the consortium members and a common effluent treatment plant. It will enable them to meet the hygiene practices in the process.

#### Gold ornaments manufacturing artisan cluster

Diagnostic study and trust building activity of this cluster have been completed. General Manger, DIC, Kozhikode had

presided over the meeting, around 50 artisans participated. They have decided to establish a CFC for manufacturing ornaments with various machineries.

### Shaping up a Cluster

For an industrial sector to be identified as a cluster, the concentration of similar such unit is the key factor. The units that show potentiality for cluster formation are subjected to an in-depth step-by-step analysis (diagnostic study). Major attention is focused on the following areas.

- ▶ The position of the product in the international, national and local scenario.
- ▶ Historical back ground of the product
- ▶ The details of manufacturing process
- ▶ Analysis of Business operations through the angle of Marketing, Production and Finance.
- ▶ Links with other SMEs and various Institutions

A careful study in these areas will enable the pin pointing of the major problems and threats faced by the concerned industrial units. Such a SWOT analysis helps in the development of the sector . Finally a vision is formulated and an action plan is devised for the realization of this vision.

### Maneuvers for setting up a Raw Material Bank

1. Identifying the inputs
2. Decipher the inputs required in common.
3. Compose a list of suppliers for the enlisted Raw Materials (RM)
4. Analyze the list and seek out Genuine suppliers
5. Enumerate the Optimum quantity of RM entailed
6. Beckon the selected suppliers to visit the cluster in need of their materials.
7. Negotiate an economically favorable deal.
8. Seek for Financial aid from relevant Institutions.

The setting up of RM bank is in most cases mediated by a consortium.

### Helping hand - Kerala Government

Kerala Government has always showed great enthusiasm in the hustle – bustle going on in the Industrial Sector. This is also evident in the schemes devised by the Government to assist the Cluster Development Activities. Some of them are enlisted.

The trained CDAs along with the Kerala Bureau of Industrial Promotion (K-BIP) is associated with the active implementation of each of the identified clusters.

18 officials of the department were trained in HACCP certification and a National Centre for HACCP Certification was set up at in K-BIP to operate in collaboration with the stakeholders in the Food chain for the application of HACCP based food safety system. The service of the trained officials can be utilized in the food clusters.

Process of setting up a chain of safe eating-places in prominent tourist centers with the help of food clusters is in the pipeline.

State Government formulated and is trying to implement a scheme to provide margin money @20% of margin subject to maximum of Rs. 5.00 lakhs to the cluster consortium and grant for meeting the expenditure related to the participation of consortium members in National and International events and for capacity building etc.

A marketing incentive scheme is being implemented by the government for the benefit of the clusters for setting up common marketing centers for marketing their products. Financial assistance to the turn of 10.00 lakhs will be provided as grant for fixed investment and Rs. 5.00 lakhs as margin money for working capital.

Technology Development Fund scheme is being formulated which can be made use of by small natural clusters for their technology Upgradation.

For instance links with the Cochin University of Science and Technology (technology Upgradation) have benefited the Rubber and Plywood Clusters very much. Now the Tile industry is also contemplating about tie-ups with the RRL.

An Industry Research Linkage scheme has been drawn up by the Government for establishing proper links with the Research Institutions and the Industries.

An Industry Research Linkage scheme has been drawn up by the Government for establishing proper links with the Research Institutions and the Industries.

Awareness programmes are often arranged for the benefit of cluster actors and stakeholders.