contribute to plode as incomes rise. The argument done. Instead, operators must be as- *Ahmedabad. Email:*
re no losers here. that that the private sector would not signed a minimum numbers of ser- *morris@iimahd.ernet.in*

# A mixed model for clusters

## And distinct types of capital for them, too

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INFRASTRUCTURE in a cluster can be broadly classified into two types: generic (roads, rail, telecommunications); and strategic (like a common facility centre or pollution control plant). The latter is a function of the nature of the industry as well as its maturity. Let us assume that a cluster has in place its generic infrastructure. Having said that, the creation of strategic infrastructure is a critical issue, which can propel a cluster in an optimal growth path.

In general, firms in a cluster enjoy the benefits of passive cooperation arising out of natural benefits of co-existence, namely agglomeration, specialisation and knowledge spillovers. However, what really makes a difference is the rarely seen phenomenon of active cooperation, wherein a group of firms come together to jointly pursue most often a common business agenda, which can also include the creation of strategic infrastructure. What really propels a group of firms to jointly pursue strategic infrastructure, which is often of a public nature? Is critical infrastructure necessarily public? What should be its management structure? How does one optimally promote the creation of such critical infrastructure?

It is difficult to imagine a group of private units promoting critical infrastructure meant for the welfare of the entire cluster. Hence, invariably, any strategic infrastructure will necessarily have some private element. But there can be a class of critical infrastructure with higher private interest and in an extreme case it can be a common production unit for a group of firms. In contrast, in an extreme public form it can be, say, a pollution control unit for the entire cluster.

Whatever be the character of infrastructure, it is made up of two distinct types of capital: superior capital, consisting of an embodiment of trust, often a legal entity of a group of firms in a cluster also known as 'soft inputs'; and inferior capital, consisting of machinery, land, technology, and the like, also known as 'hard inputs'. It is important to realise that inferior capital is of no relevance and is in fact counter productive in the absence of superior capital that is expected to manage it.

Superior capital takes time to be created, has no standard DPR (detailed project report) and is invisible. Thus, it is no surprise that often cluster development initiatives prefer to sideline this process front terming it as soft inputs. They place more faith on hard inputs and try to put this in place by quickly passing on the responsibility to a local legal entity that has applied for support for the creation of such infrastructure. But it is not only this legal organisation but also the process of its creation (when it is a new one), its current composition and the suitability of the organisation vis-à-vis its proposed infrastructure that is also equally relevant.

Thus, it is important that developmental schemes recognise the spirit of infrastructure creation and support with equal vigour the creation of superior capital or soft inputs. It is but natural that such superior capital was missing in a cluster where the proposed infrastructure product is now slated to come up, else similar proposals or efforts would have taken place earlier. Once the hard inputs are in place, bypassing the creation of intergroup trust and assuming that it will happen naturally is a dream that has low probability of realisation. Incidentally, this trust building process is costly and since it does not have any tangible contribution of firms in this process, it is a rarity and the role of a development agency will be higher.

Again, it is not necessary that such infrastructure should always be a social good and will necessarily have the possibility of benefiting all possible firms of a cluster - an open infrastructure. Often, such products can be for restricted private use for a handful of firms and may be equally important for the growth of the firms and the cluster. Such infrastructure, like a common sales room or a common processing house, can be only for limited use as the participating firms may not be willing to involve the entire cluster as its beneficiary—a closed infrastructure.

This will also happen because of the fact that a cluster often consists of multiple value chains and firms belonging to a different value chain will have need for different infrastructure, at times for infrastructure even outside the geographical boundary of a cluster. Thus a group of exporters in an Indian pharmaceutical cluster may look for a warehouse in Brazil, whereas a group of local sellers of leather goods cluster may like to create a common showroom in the nearest metro city. It is important that development agencies recognise the importance of such varied infrastructure needs and support their creation, although through a differential support scheme.

Based on all this, it is also important to carry out a holistic evaluation of feasibility of common infrastructure that takes care not only of DPR and banking feasibility, but also gives equal if not higher importance to its management structure and roles and responsibilities of the managing firms. There will also be need for investing in a development fund for the creation of superior capital and recognising the importance of creating multiple closed infrastructure, too. One also needs to act fast and be proactive in supporting particularly less enlightened clusters lest they lose interest, as entrepreneurs are quick to calculate opportunity cost and can decide best what is in his or her business interest the latter being often misjudged as lack of interest on the part of the entrepreneurs by development agencies.

*The writer works for the Foundation for MSME Clusters. These are his personal views*

FINANCIAL EXPRESS 30 JANUARY 2007