Artisan Clusters – Some Policy Suggestions

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Wide presence of artisan clusters in developing countries

A cluster is defined as a geographic concentration (a city/town/few adjacent villages and their adjoining areas) of units (household/factory) producing near similar products and facing common opportunities and threats. An artisan cluster is defined as geographically concentrated (mostly in villages/townships) household units producing handicraft/handloom products. In a typical cluster, such producers often belong to a traditional community, producing the long-established products for generations. Indeed, many artisan clusters are centuries old.

Artisan clusters are widespread phenomena in many developing economies. It is estimated that India has around 3,500 such clusters producing a variety of items including basketry, mat weaving and cane articles, earthenware, folk paintings, glass, horn and bone, leather, jewelry, metal ware, musical instruments, pottery, sea shell crafts, woodwork, etc., with an estimated employment, according to the National Council of Applied Economic Research, of thirteen million people. There is a widespread presence of clusters in many South and East Asian countries such as Pakistan, Bangladesh, Nepal, Bhutan, Vietnam, etc. Pakistan has an especially strong presence of handicrafts clusters. It is estimated that there are around seventy important handicraft clusters spread over thirty-five destinations.

Table 1: Clusters in Pakistan

	Product	Major Places
1	Dresses and Clothings	Quetta, Abbottabad, Dasu, Khairpur, Gambat, Hyderabad, Faisalabad, Multan, Jacobabad
2	Carpets	Kharan, Kalat, Quetta, Muzaffarabad, Karachi, Mirpur Khas, Thatta
3	Wooden Items	Dera Ismail Khan, Muzaffarabad, Murree, Jampur

Source: Handicrafts of Pakistan:
www.summercollege.web.cern.ch/SummerCollege/handicft.html

In Bangladesh, an estimated one million persons are engaged in household level manufacturing units including weaving, bamboo and cane products, jute products, pottery, etc. Narsingdi, Baburht, Bajitpur, Bhairab, Tangail, Shajapur, Muradangar, Kumarkahali are some of the major weaving clusters. Some important handicraft clusters include bronze and brass utensils clusters of Chapainawabganj and Islampur, lac dye of Nawabganj, cane and bamboo mats and furniture of Sylhet, pottery and bamboo products of Comilla, coir products of Barisal, combs of Jessore, checkered carpets of Nawabganj, metal casting of Dhamrai, etc.

In Nepal, 43,000 cottage and small firms are concentrated in Kathmandu valley and in the Eastern Tarai areas. Carpet is one of the principal products. The carpet clusters are mainly located in the Kathmandu valley and in the Lalitpur and Bhalitpur districts, and employ around 1.6 million workers. Wool spinning clusters are found in the districts of Dhading, Kavre, Jhopa, Marang and Lyanja. Around 300,000 persons are employed in the handicrafts sector. Some of the important handicraft clusters include metal works in Patan, woodwork at Bangamatin in Lalitpur, stone work at Sundhara and Bhinsebaal, weaving cluster of Kathmandu valley, etc. [2]

Handloom and handicrafts cluster are also of prominence in Bhutan. Some of the handloom clusters include those of Bumthang, Pema Gatshel, Radi, Khaling, Khoma, etc. Some of the handicraft clusters include stone carvings and bamboo works of Wangdiphodrang, wood based industries in Thimpu, etc.[3]

In Vietnam, the Red River delta has over 18,000 (mostly handicraft) enterprises employing over 80,000 persons. The products include silk, textile, embroidery, carved wooden goods, ceramic, etc. The Bat Trang ceramic village in Hanoi is 1,000 years old, and 1,172 families produce fifty million assorted ceramic products every year. Van Phuc in Ha Tang province is known as the silk village.

Are Artisan Clusters on a Downslide?

Historically, these clusters were engaged in traditional activities meant for local use. Of these, many died a natural death due to the advent of machine-made products. Those which survived and/or excelled, did so not only because of craft values of the products but equally importantly by being aided by a business model – either due to continuity of local demand or to the presence of a local business hub, or at times even due to a local royalty taking interest in the product.

Box 1: Hand Block Printed Textiles (HBPT) Cluster of Jaipur, India (1997)

The HBPT cluster of Jaipur consists of around 150 units of hand block printers in the township of Sanganer, 125 block printing units in the village of Bagru and around 20 printing units and 50 exporters of this product in the city of Jaipur. During the early fifties, the industry was mainly in the form of mass consumption. The art of printing was a family tradition, with every member contributing in the process. There was a ready market created by the existing social practices and choices which were used for making typical garments to reflect the caste or any other social identity, e.g. his profession. As an art form it was patronized by the Royal families. In some cases the returns were much above the actual value of the labour and capital employed by the artisan. The returns included wages, profits as well as some rent element due to the excellence of the finished product.

However, with the passage of time, the local demand of handicraft products ceased to exist almost completely and was replaced by an urban clientele. The crafts persons soon got distanced from their regular clientele and became weak on customer feedback. They continued to produce but lost track of market needs. Fall in revenue led to fall in quality and created a negative spiral that was doomed to failure. The situation worsened when the new age science of design technology and fashion redefined each craft as per the demand of the current clientele. This was never the forte of the crafts persons. This further alienated the crafts persons. Thus from a situation when a crafts person used to design, produce and also market their products, they were reduced to a status when they became low cost producers, their asset being low cost labour. As a result, their returns were remuneration for their labour power and the profit element vanished from this class of entrepreneurs.

(Adapted from Tamal Sarkar, "Handicrafts and Cluster Development Approach: The Hand Block Printed Textiles Cluster of Jaipur," in Keshab Das (ed.), *Indian Industrial Clusters.* Ashgate, 2005, pp. 171-199

In India, the latest available estimates suggest a general decline in the employment intensity in handlooms from 6.74 million persons in 1987-88 to 6.55 million persons in 1995-96.[4] Similar situations are also getting reported from other south Asian countries too. According to the statistics for FY 2003, in Bangladesh, the growth of handicrafts sector was negative at -2.8 percent[5]. "…The condition of craftsmen in Bangladesh is not very encouraging. They are struggling for their existence with very limited resources including raw materials and land for their workshops. The handicraft sector in Bangladesh is in urgent need of financial assistance from government agencies, so that they can meet the requirements of international standards…..”[6] Production slump is also a predominant scenario in the handicrafts and handlooms sectors of Nepal.

Table 2

Production and Growth Rates of Textiles and Non-textiles Handicraft of Nepal (2001-2006)

	Growth Rate (%)					
Handicrafts	2001	2002	2003	2004	2005	2006
Textiles	-6	-71	-17	-5	12	0
Non-textiles	-50	-60	-6	1	11	1

Source: Website of Handicrafts Association of Nepal
(File Name: 1752457123_copy of Comparison Data)

A UNIDO report on the crafts sector of Pakistan also states that, “… the quality of craftsmanship is declining. The value chain has been infringed, and the traditional sense of handicrafts has disappeared. This sector is in dire need of development and promotion in order to revive the culture and art of Pakistan’s heritage, especially since promotion of handicrafts addresses several needs of the society….”. Interestingly, the Report points out that the major reasons for this decline is due to a great divide that has come up[7] between the producers and the current consumers, apart from other structural issues. These include non-viable commercial products, lack of skill development, high development costs , drops in local sales and exports, lack of knowledge in marketing and product design.

In an effort to survive, these “entrepreneurs” cut down on cost and sacrificed quality and, as a result, their type of products entered into “arm’s length relationship” - characterized by numerous buyers and sellers,[8] with a new brand of craft traders, now working purely on price signals and short-term relationships. The traders took advantage of the poor financial status of the artisans and reaped a good margin by basically providing single-point marketing and also, at times, exploitative credit and social insurance support to them. This further destabilized the position of the artisans as in the absence of “quality craft,” they started competing with machine- made products. During this continuous struggle for survival, they lost their craft brand. In the process their returns were reduced to a bare minimum and the learning cycle of yesteryears vanished.

Policy Response

The policy response to this challenge is a handholding model, wherein government and non-government organizations (GOs and NGOs) with purely capacity development specialties are engaged as development agents for creating groups of artisans, providing them with training for better product creation and giving them market linkage (through government outlets, fairs and also by training of self-marketing) to break the barriers, the "shackles of middlemen (neo-traders)" and ultimately uplifting them sustainably to a higher income level, thereby breaking the vicious cycle of "low cost, poor quality production and lower return." Such models conceive that business will be created in a step-by-step process wherein the artisans will be first trained in quality production techniques; they will then be given adequate funding for product creation and will be subsequently provided with market linkages.

However, there are various caveats. Firstly, such policy support was often targeted to create all-round performers – mini-Fordist ventures, wherein artisans were supposed to become excellent performers in raw material sourcing, product conceptualization, multi-stage processing and marketing. Often such support processes are done piecemeal; so, an artisan who gets training does not get credit, or gets training and credit, but does not get marketing support, or may get one time marketing support with no follow-up. It is only natural that supporting all artisans in every respect for continued handholding, which is otherwise technically warranted for transformation, will be extremely costly, time consuming and difficult to manage. In the absence of chain support, a continuous and natural learning process also eludes the artisans, who learn one-time and not through continuous interactions with buyers and suppliers, which used to be the case previously. Besides, these do not include the failure risks during support, which many such GOs and NGOs are not technically equipped to handle.

Typologies of Relationship in a Cluster

Technically, firms in a cluster can have four different typologies of partnership across the value chain. One, of course, is an "arm's length relationship,"[9] wherein numerous sellers sell their products to numerous buyers in a cluster. This is a case of perfect competition, and the relationship is purely price-based. Under such a system, there is no non-price linkage and, as a result, there is no process of learning. Thus, in a sense, they display the characteristics of an "informal sector" with respect to level of knowledge and also wages and profits. In many cases, the situation turns into either wages or profits, converting the artisans from entrepreneurs into wage-earners. Given low levels of knowledge and education, there is little incentive for long-run investment in this type of relationship.

At this juncture, the response of most policy frameworks can be broadly described as the creation of below optimum organizations, a race against the inevitable. This is not only because of the magnitude of the issue, but also because of the approach which tried to create subsidized governance structures attempting to benefit a less than optimum and inefficient public sector grant investment. The efficient private structure at this stage showed least interest because of the transaction cost involved in creating appropriate governance structures, which can match the demands of the private sector.

Contrast this with a "network based relationship," wherein firms are highly specialized and each one depends on another specialized firm to complete its product, and the final product assemblers depend on a set of highly specialized firms to produce various parts of an end product. This is often the situation in a highly developed cluster. Let us take the example of the ski boot cluster of Montebelluna, Italy.

Box 2: Ski Boot Cluster – A "Network based Relationship"

The Montebelluna ski boot cluster is spread out within a radius of 15 km around the town of Montebelluna. The 400 odd firms employs 9000 persons with a turnover of 1.5 billion euro and exporting 75 per cent of its produce. It is home to some famous brands and houses three leading boot producers - Tecnica, Nordica and Dolomite. The secret of this success is probably in the great ability of the Montebelluna industrial system to adapt to market dynamics and technological innovation. The continuous product diversification has deeply conditioned its physiognomy. The different type of businesses in the district has also had a determining role, as large companies with famous brands manage to successfully live alongside family businesses, small companies and craft workshops, which represent a rich induced activity made up of *specialized production units dedicated to joining, assembly and mounting, design, the production of laces, production machinery, and production of soles and uppers*. No less important, moreover, especially since the 1980s, has been production

delocalisation, which, developed with caution, has made it possible to outsource certain phases of product manufacture, in order to keep the final prices competitive, while leaving product design and engineering in Montebelluna.
Source: www.italtrade.com, Italian Institute for Foreign Trade

Undoubtedly, the challenge is to switch from "arm's length" to a "network-based" relationship, but at what cost. As explained above, a typical GO- and NGO-led model is high cost, inefficient and insufficient to accommodate the magnitude of the problem. Interestingly "cluster development approach,"[10] which promotes targeted joint actions by groups of stakeholders and provides a typical response to this "continuous development" challenge of artisans. This can be crafted by promoting either of the intermediary value chain relationships termed as "hierarchical" and "quasi-hierarchical," preferably the latter.

In a quasi-hierarchical relationship, one firm becomes a supplier to another firm. This keeps options open for multiple business relationship on both sides of this relationship. In an artisan cluster situation, promoting a quasi-hierarchical relationship poses a formidable challenge from various angles. First, the buyer firm in the chain is large or medium-sized and often physically situated outside the cluster, and hence looks for a single point professional supply mechanism. On the other hand, for the cluster level micro or artisan unit, it is also a challenge to identify and forge link with a comparatively large firm and meet its professional expectation.

However, once it is identified and expectations are met, this is a win-win situation for both. It also ensures a natural learning process in their mutual interest. While the buyer firm provides all vital market inputs with respect to quality and cost control, the group of supplier units also learns fast in order to continue the relationship. Thus, the process of learning is natural for the cluster, and the cost is subsumed in the production process itself. Moreover, once forged, this relationship by its knowledge transfer process creates the artisan clusters' capacity to upgrade themselves in the value chain process, assuming that there are higher rates of returns as one moves up the value chain. In most cases such upgrading is in the form of "product and process upgrade" to start with, followed by "functional upgrades" that can even lead to "inter-sectoral upgrades,"[11] and all this at no cost to development fund.

In this learning process, various forms of specialized entities are developed. Some evolve during the process of group formation, others actually mature during the learning process and emerge from the neo-learners' groups. This can lead to the promotion of network-based relationships that make up a fully mature cluster.

Box 3: Case study of Chanderi handloom: The First Step toward Maturity

Fab India is an established handicraft retail outlet with branches all over India. In July 2004, at the linkage support provided by the local Member of Parliament, after several rounds of discussion, the core buying team of Fab India visited Chanderi to explore the possibilities of bulk Purchase. After initial discussions and assessment of BVS, Fab India decided by to open its own office in Chanderi and also signed an MOU with BVS. The MOU with Fab India ensured BVS an order of Rs. 5 million in the first year with a likely increase of Rs. 2.5 million every year. BVS was given the responsibility of managing the production of its SHG and through them with other SHGs in the cluster. The CEO of BVS was entrusted with the responsibility of managing the entire business. Actual sales to Fab India are estimated at Rs 2.7 million in 2004 and Rs 4.24 million in 2005. The figure is likely to reach Rs 7 million in the year 2006. While the CEO of BVS was the chief manager to start with, soon a number of weavers rose from the ranks to deal directly with Fab India. The activities with Fab India trained the weavers in timely and quality production. It is estimated that from a figure of 98 per cent, contribution of Fab India to the total turnover of BVS will fall to 70 per cent during the period 2004-2006.

Source: UNIDO, "End of Project Report," unpublished.

Such value chain learning can lead to significant changes in earnings and may also benefit the smaller firms more than the large-sized firms. For example, BVS was made up of a number of self-help groups, each SHG having ten to twenty units. A microanalysis of the change in income level of these SHGs, comparing earning data for four months of the years 2004 and 2006, showed that the average wage rate per person increased by 50.36% from Rs 84.87 to Rs 127.62 during the period

Clusters / heads	**Average wage / mandays**	
	Year 04	Year 06
Saraswati Bunker	57.61	132.82
Bemishal Bunker	75.28	136.49
Indra	71.09	117.34
Dhaliya	75.58	130.45
Bharati Bunker	79.28	129.95
Chanderi Kala	148.90	144.98
Bhimrao Ambedkar	53.73	116.16
Jotiya fulla	52.01	107.36
Chandani Bunker	102.52	144.05
Khusnuma Bunker	86.78	135.05
Hind	89.66	122.48
Fashion Bunker	81.08	110.13
Tana Bana	129.77	131.64
SD	28.37	12.05
AVG	84.87	127.61
GROWTH		**50.36%**

In order to understand and analyze any trend between wage rate and size of the firm we assumed the equation below: [1]

Wt = C + a*DWt+ a1*SS + a2*MS+ a3*LS + U

Where,

W = per day wages (Monthly income/Total number of days Worked in Months)

DW = Total number of days Worked in Months

SS = Small size firm (Value ONE for firms which earned Rs 12,000 to Rs 17,000 as wages for Four Months and rest of the firm are ZERO)

MS = Medium size firm (Value ONE for firms which earned Rs 18,000 Rs to 44,000 as a wages for Four Months and rest of the firm are ZERO)

LS = Large size firm (Value ONE for firms which earned Rs 48,000 to Rs 65,000 as wages for Four Months and rest of the firm are ZERO)

[1] I am thankful to Ms Sukanya Banerjee, Research Coordinator, Foundation for MSME Clusters for working out this statistical section.

Empirically undertaking the regression analysis we get the equation as:

$$Wt = C + \underset{(18.4)}{3.93*DWt} + \underset{(2.28)}{8.5*SS} + \underset{(1.98)}{6.0*MS} + \underset{(0.83)}{3.8*LS} + Ut$$

Hence from the above equation we can conclude that the t-value of size dummies are significant for small and medium sized firms. The same for the large-size firms is not significant. Comparison of the size dummy co-efficients, which is 8.5 for small-size and 6.0 for medium-sized firms, suggests that smaller firms are earning more than large firms form this joint initiative, as they are probably more responsive to a change, whereas the larger ones, having other opportunities, are not. This shows that there is scope for benefiting the smallest units through this mechanism.

A slightly lower variant of such transformation is a hierarchical relationship. Going by the same logic of quasi-hierarchical relationships, here again the smaller firms become suppliers to the large firms, but this time as dedicated suppliers in this new relationship. Here, though learning takes place, as in the case of quasi-hierarchical relationship, the chance of maturing and becoming specialized supplier by continuing in the same framework does not become a reality. At some point, the new set of learners (group of artisan units) has to break free and create their own entity. Thus, the process of transition does not become as smooth as in the former case and succeeds only when the hierarchical transformation gives way to quasi-hierarchical relationship.

Role of Development Fund: Policy Options

There are a few bottlenecks to obstruct transition from an otherwise low-level equilibrium situation. First, the medium/large buyer firms, often outside the cluster, do not always have a natural interest in the promotion of a cluster. Second, and more importantly, during this growth process, there is always a possibility that the transition can involve those who are comparatively favourably endowed among the artisan communities. It is here that development funds have a crucial role to play. Development funds can play significant and specialized role in the following areas:

(a) Bridging gaps between large sourcing companies and local groups of artisans: During the process of building up hierarchical/quasi-hierarchical relationships, the highest level of hindrance comes in the grouping of artisans, ensuring timely and high quality products and, above all, the transformation of entrepreneurs into an 'antrepreneurs' – artisanal entrepreneurs, who in the absence of any returns in addition to labour power, lack traces of entrepreneurial qualities. This can be created by using the services of a *knowledgeable* "broker" whose primary objective is to create groups targeted towards doing business, and also guide them in becoming entrepreneurs with capacity to handle quality growth.

(b) Ensuring growth with equity: As in any market-driven growth process, here also resources have natural tendency for getting tagged with the most resourceful (maybe due to their efficiency) producers. As a result, among the poor and the poorest producers, the poorest producers do not naturally become a part of this process. It is here that development funds need to ensure their special inclusion with the support by specialized "network brokers" to start with, and also invest in their capability building process, such that the poorest naturally become a part of the process in the future.

Another issue of importance here is the typology of institutions which can implement such processes. In general, the policy depends heavily on GOs and NGOs in organizing such activities. However, such organizations do not have any comparative advantage other than organizing individual entrepreneurs. Here the involvement of private organizations which have experience in marketing or finance have advantages in coordinating the artisans and moving them towards entrepreneurship. As artisans are interested in profit and here they show greater faith in organizations whose prime motive is earning profit. Such organizations can be private corporate, banks and MFIs.

The policy needs to provide development gap fund to ensure the following:

1. Prepare artisans for group entrepreneurship;
2. Ensure inclusiveness - equity with growth;
3. Involve private corporate and specialized financial and banking institutions in implementing this process along with traditional non-profit organizations;
4. Involve a knowledgeable broker to steer the growth process from the beginning;
5. Continue to support creation of cluster specific support infrastructure

About the Authors

Dr. Tamal Sarkar has 15 years of experience in industrial development with special reference to MSMEs and holds a PhD in Economics of cluster development. He has specialised in cluster development and poverty alleviation. With extensive hands-on experience in developing MSME clusters, he lends a special strength to the team with strong research and training capacities.

Ms Sukanya Banerjee has completed her MA in Economics from Jawaharlal Nehru University. Thereafter she had worked with ICRIER (Indian Council for Research on International Economic Relations) and CII (Confederation of Indian Industries) where she had undertaken various research based assignments encompassing areas like WTO, Trade Facilitation and Retail. Presently she is coordinating research based assignments for the Foundation.

Endnotes:

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