CLUSTER APPROACHES TO AGROENTERPRISE DEVELOPMENT

Lessons from the Maharashtra grape cluster
Clusters widely reviewed

- Little research on agricultural cluster
- Reason:
  - Clusters = competitiveness & innovation
- Agriculture always clustered
  - Wheat, Rice, Fish
- Missing in clusters are linkages
Agriculture 21st Century Transforming

- Globalization
- Standardization
- High Value Production
- Growth in Demand
- Retail & Packaging Innovation
World Development Report

- High value products
  - Horticulture
  - Livestock
  - Floriculture
  - Organic produce
- 50% of exports
- Traditional tropical commodities
  - Coffee, Cocoa, Tea & Cotton
- 21% of exports
New Agriculture needs:

- New tools to:
- Innovate
- Become competitive
- One potential tool
- **Formation of a cluster**
Definition of Cluster

- Concentration of
  - Producers
  - Agribusinesses
  - Institutions
- Same sector
- Address common challenges
- Opportunities
Agricultural Clusters

Promote

- Vertical linkages
  - (inputs & raw materials)
- Horizontal linkages
  - (coops & consortia)
- Support relationships
  - (governments & uni & research inst)
- Enhance access to market information
Agricultural Clusters
Valuable to Small-scale Farmers & Agribusinesses

- Engage in productive agriculture
- Market orientated commodities
- Higher value-added production
Agricultural Clusters
Promotion of AC’s in Developing Countries not easy

• Small-scale firms
• Informal organization
  – Until large investments
• Weak internal linkages
• Less critical mass
  – Hampers investment & knowledge gathering
• Lower value niches
Characteristic of participants

- Low risk taking ability
- Low investment potential
Support of AC’s need concerted effort

- Multi & Bi-lateral agencies support AC’s
- IDB = $380 million
- Key differences in donor support
- WB & IDB = governments
- USAID, UNIDO & DFID = private sector
- Converging efforts between agencies
AC approach needs to overcome

- Market failures
- Government policy failures
- Systemic failures
- **One size fits all?**
- Look beyond public financing
- Increased policy involvement
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Initiatives should:

- Improve incentives
  - Producers & agribusinesses
- Provide core public good
- Enhance climate for private investment
- Build effective institutions
- Reduce environmental drag
- Support export strategy & Policy
Agricultural Clusters

Benefits of clusters

- Facilitate inter-firm cooperation
- Diffusion of innovation
- Efficient channeling of public support
- Increase Competitiveness
Agricultural Clusters
Challenges of AC’s

• Economies of scale
• Foreign competition
• Improved food safety standards
• New market driven products
• **Focus less on increasing**
  – Efficiency & Productivity
• **Focus more on**
  – Meeting consumer demand
Agricultural Clusters

Contribution

- Regional/Brand identity
- Links to tourism
Agricultural Clusters

Reason for formation

• Product
• Particular practice
  – organics
• Social or Ethnic group
  – Fair trade
Agricultural Clusters

Dangers

• Magnify environmental impact
  – Shrimps
  – Although mitigate impacts

• Magnify economic impact
  – Boom & bust

• Dynamism
  – Competition vs. Cooperation

• Balance of linkages
  – Internal vs. external innovation
Maharashtra Grape Cluster

India

- Top three in Vegetable & Fruit production
- 2.3% of world trade
- Smallholder dominated production
  - Food safety requirements
- Knowledge of feasibility of exports
- Processes involved in exporting
Evolution of Grape Cluster

- State grape growers association (1961)
- Technical advice (1970s)
  - Gibberellic acid
- Over-supply markets (1985)
- Investigate alternative markets
- Public infrastructure development
- National promotion authorities
Cluster Transition

- Export market identified (1991)
  - Improve quality
  - Cold storage
  - Upgrade value chain

- Mahagrape formed - PPP
  - Pre-cooling & storage
  - Brand Identity
  - International reputation
  - GLOBAL GAP
Maharashtra Grape Cluster

**Success Factors**

- Producers acting collectively
- Interaction along value chain
- Individual initiatives
- Coordination with institution
Maharashtra Grape Cluster

Value of grouping

• Economies of scale
• Facilitate investigation of new markets
• Coordinated research
Maharashtra Grape Cluster

Public Support

• State boards
  – Technical
  – Markets
• Monitoring
• Agri-export zones
• Credit system
Maharashtra Grape Cluster

Limitations

• Quality standards
  – Costly ($400,000)
  – Rejection rate
    • 80% (1992)
    • 10% (1995)
    • <1% (2001)

• Vertical linkages
  – Except R&D

• Profitability
  – Unit price below world average
Thank you