

# **COMPREHENSIVE HANDICRAFTS CLUSTER DEVELOPMENT SCHEME (CHCDS)**

## **1. INTRODUCTION**

1.1 Mega cluster approach is a Drive to scale up the infrastructural and production chain at Handicrafts clusters which have remained unorganized and have not kept pace with the modernization and development that have been taking place so far. Consequently, there has not been any addition of fresh impetus of development and optimum realization of output in the handicrafts sector, which is not only the backbone of long traditional heritage and cultural linkages. The prospects of this sector lie in infrastructural Upgradation, modernization of the machinery and product diversification. Innovative manufacturing as well as designing know-how, furthered by brand building of the native products hold the key to creating a niche market for the products manufactured by the clusters. The proposed programme is expected to support the Upgradation of infrastructural facilities coupled with market linkages and product diversification.

## **2. COMPREHENSIVE HANDICRAFTS CLUSTER DEVELOPMENT SCHEME – A CENTRAL SECTOR SCHEME**

2.1 Keeping in view the fact that the export value realization of Handicrafts products is quite high, integrated infrastructure development has been the policy focus in recent times. The multiplicity in production in tiny units along with geographical wide spread base has resulted into higher level of levies marring the competitiveness in international market. Thus, addressing the problem of infrastructure bottlenecks by suggesting continuation of the sector specific infrastructure schemes has been the focus of attention. It is in this background it is proposed to launch a new Comprehensive Handicrafts Cluster Development scheme (CHCDS) - Growth foci for spatial development in rural mosaic towards spiral percolation through partnership. The objective is to maintain "social equilibrium" through raising the living standards of millions of poor artisans located in far flung areas of the country as well as employment generation. There has been a paradigm shift vis-à-vis this largely household industry and efforts are now being made to tap its potential with an integrated approach while appreciating the very factors that differentiate the sector from large, medium or even the small scale industry.

- 2.2 The cluster-based approach is increasingly being recognized as one of the strategies for cost effective, inclusive, sustainable and integrated development of Micro, Small and Medium Enterprises (MSMEs), the world over. Recognizing this, several Ministries of Central Government and the State Governments have launched sector specific cluster based schemes.
- 2.3 Handicrafts clusters are located in clearly identifiable geographical locations (clusters) that specialize in specific products, with close linkages and inter dependence amongst the key players in the cluster.
- 2.4 The current need is to have an umbrella cluster development program that drives the development program in an integrated and holistic manner.
- 2.5 In fact these cluster shall inter alia, comprise –
- 2.5.1 Common facility centers;
  - 2.5.2 CAD Centres;
  - 2.5.3 Communication Network;
  - 2.5.4 Design Banks;
  - 2.5.5 Establishment of Resource Centers for major crafts;
  - 2.5.6 Building Marketing Infrastructure;
  - 2.5.7 Creation of Raw Material Banks.
- 2.6 These components shall help in sorting out the challenges faced by the Handicrafts sector which are complex and numerous. Therefore, the need of the hour is to broadband and scale up these segments of the handicrafts industry in an integrated manner with significantly higher levels of funding.
- 2.7 All existing schemes of the Development Commissioner (Handicrafts) as well as other complementary schemes available in other ministries can be integrated into the proposed comprehensive cluster development program with a strong and proactive capacity building and technical assistance.
- 2.8 It is proposed to scale up infrastructure and production facility of large clusters with artisans more than 20000 in a cluster with geographical area such as a district, by adopting two as mega clusters i.e Moradabad (Uttar Pradesh) and Narasapur (Andhra Pradesh), for which comprehensive development plans would be drawn up and implemented by way of dovetailing various schemes on a PPP basis.

### **3. OBJECTIVES AND STRATEGY**

3.1 The objective is to develop these two clusters with world-class infrastructure. The guiding principle behind the design of clusters would be to create world-class infrastructure that caters to the business needs of the local artisans & SMEs to boost production and export. In brief, the main objective of setting up these clusters is to assist the artisans & entrepreneurs to set up world-class units with modern infrastructure, latest technology, and adequate training and HRD inputs,

coupled with market linkages and production diversification. SPV is designed in such a way, which will have Standard Models of units of SSI and SME with infrastructure that is customized to give a competitive edge and these centres have greater potential to become globally competitive.

3.2 The broad objectives of the proposed program are as follows:

3.2.1 To enhance the competitiveness of selected two clusters in terms of increased market share and ensuring increased productivity by higher unit value realization of the products.

3.2.2 To ensure effective integration of scattered artisans, building their grass roots enterprises and linking them to SMEs in the sector to build critical mass for customized interventions and ensure economies of scale in operations. This will build a supply system that is geared to responding to large-scale orders, adhering to quality and product standardization, which are pre-requisites of global markets.

3.2.3 To generate additional livelihood opportunities to the people through specific intervention in segmental sub sector industry and increase the incomes to the artisans/craftsmen already engaged in this sector.

3.2.4 To provide requisite support/ linkages in terms of adequate infrastructure, technology, product diversification, design development, raw material banks, marketing & promotion, social security and other components that are vital for sustainability of artisans/craftsmen engaged in the Handicrafts sector.

3.3 The core elements of the strategy for the proposed program are given below:

- 3.3.1 Convergence of the resources available under various ongoing schemes of the Central Government.
- 3.3.2 Public Private Partnership (PPP) model in the form of collaboration between the Central/State Governments, beneficiary artisans & their groups, financially creditworthy & commercially linked marketing enterprises and the financial Institutions.
- 3.3.3 Proactive and strong technical and program management assistance for capacity building, designing of the interventions and their implementation, through a competent professional agency.

#### 4. **Targeted Clusters**

- 4.1 Two clusters i.e Moradabad (Uttar Pradesh) and Narasapur (Andhra Pradesh) with more than 20000 artisans have been identified for scaling up infrastructure and production base.

#### 5. **Scope of the Cluster**

- 5.1 To stand up to the global competition, the local industry has to rise to emerging realities. Small Handicrafts units and poor artisans are unable to undertake the requisite initiatives on their own due to inadequate funds, non-availability of proper infrastructure and common amenities, like Computer Aided Design centre, Communication network and Trade & Marketing facilities, etc. Similarly, cost affecting factors like Electricity and maintenance charges of age old machines are expensive so far as individual units are concerned. Hence, to overcome the prevailing bottlenecks, it is necessary to form a Public Private Partnership (PPP) model to build clusters, self-sufficient with State-of-Art infrastructure facilities required to match the changing industry needs.

#### 6. **Project Components**

- 6.1 The coverage of the proposed project will be need based of the given cluster and would include the components that are necessary for meeting the objectives as stated above. Detailed list of the components that will be addressed through the proposed project are discussed below:
  - 6.1.1 **Technology Upgradation**: Modernization/ Upgradation of tools and machineries, processing and other methods of manufacturing. To assist entrepreneurs/ exporters to modernize/set up world class

facility/ units with latest technology, which helps to compete in the growing competitive world market, there shall be a support from Government by way of one time grant in the ratio of 30:70, wherein Government share shall be 30% with a maximum assistance of Rs. 60 lakhs per unit. This would facilitate flow of latest technology.

- 6.1.2 **Product Diversification**: Upgrading and diversifying the present product range to meet the needs of contemporary market requirements through design development, quality improvement, etc.
- 6.1.3 **Raw Material Bank**: Establishment of Raw Material Bank for continuous availability of Quality & Graded Raw material.
- 6.1.4 **Common Facility centre (CFC)**: CFC will comprise State of the art machines which normally an individual can not buy on his own. Such facility would be open to individual artisans and SME's. This facility would provide access to High tech facility at reasonable price as user has to pay only operating expenses.
- 6.1.5 **Resource centre**: Establishment of Resource centre as one point information centre in a chosen craft. Such facility would act as an arsenal in the hands of artisans. They can approach the resource centre for any problem in a particular craft.
- 6.1.6 **Market Development**: Targeted efforts to enhance the share of the cluster products in domestic as well as export markets through brand promotion, exhibitions, buyer seller meets, retail space, warehouses, E-Commerce, etc.
- 6.1.7 **Forward & Backward Linkages**: Provision of need based infrastructure in the form of Handicrafts parks, common facility centres, testing labs, design studios, R&D, TQM, etc.
- 6.1.8 **Human Resource & Skill Development**: Provision of Training, Recruitment Center and consultancy. Upgrading and imparting need based technical skills so as to improve quality and productivity, apart from coverage under entrepreneurship development programs and other soft skills. An SPV of Artisans' Federations shall be eligible for executing this component.
- 6.1.9 **Social Security**: Covering the artisans in the cluster under various social security schemes, such as group insurance, small savings, financial institutions, etc. Civic amenities with in the Handicrafts Park

- 6.1.10 **Physical Infrastructure**: Land development, roads connectivity, water treatment & supply, power supply, housing-cum-work sheds and other common buildings, Tele-communication network, sewerage, Effluent Treatment Plant & Solid Waste Management, etc. (Civic amenities mentioned above will be restricted to Handicrafts park).
- 6.1.11 **Export & Marketing**: Provision of Clearing facility, Customs office and Trade Center, Exhibition hall, etc.
- 6.1.12 **Margin Money for Working Capital**: Margin money for working capital for the artisans is an essential input as it provides a sufficient leverage to the artisans to complete one cycle of production-cum-marketing in a period of about 3 months. Provision of margin money @ Rs.4000/- per artisan of the federation may be kept (in line with the ongoing AHVY Scheme)

## **7. Features of the Proposed interventions in the clusters**

### **7.1 Core Infrastructure:**

- 7.1.1 Road connectivity
- 7.1.2 Power Supply
- 7.1.3 Water supply
- 7.1.4 Water Reservoir with water harvesting facility
- 7.1.5 Drainage & Sewage line
- 7.1.6 Streetlights
- 7.1.7 Secured compound wall & wire fence
- 7.1.8 Solid waste disposal plant/Effluent Treatment Plant
- 7.1.9 Transportation facility
- 7.1.10 Parking bay.
- 7.1.11 Civic Amenities as mentioned above would be restricted within the Handicrafts complex or where common facility under the project is created and cost to be included in the project cost.

### **7.2 Common Facilities:**

- 7.2.1 Common facility centre;
- 7.2.2 Warehouse;
- 7.2.3 Trade/Display Center;
- 7.2.4 Exhibition Hall;
- 7.2.5 Convention Center;
- 7.2.6 Information Centre.

### **7.3 H R Development Facilities & Training Centre:**

- 7.3.1 Recruitment Centre;
- 7.3.2 Workflow Training Centre;
- 7.3.3 Class room with LLD Project (For Classroom Training);
- 7.3.4 Library;
- 7.3.5 Recreation Centre;
- 7.3.6 Faculty Room;
- 7.3.7 Crèche & Canteen;
- 7.3.8 Labour Restroom;
- 7.3.9 Management Consultancy Centre.

#### **7.4 Common Facilities for Industrial Section:**

- 7.4.1 Communication Network (including broadband service);
- 7.4.2 Administrative Building;

#### **7.5 R & D Infrastructure:**

- 7.5.1 Product Design & Development Support Centre;
- 7.5.2 Testing Laboratory;
- 7.5.3 Quality Benchmark Centre [following TQM Technique];
- 7.5.4 Material Research;
- 7.5.5 Basic Product Technology Research;
- 7.5.6 Pre-competitive Collaborative Research;
- 7.5.7 Market Research.

#### **7.6 Other Eligible Area - The eligible areas of assistance in each cluster will also include:**

- 7.6.1 CAD Centres;
- 7.6.2 Communication Network
- 7.6.3 Design Banks
- 7.6.4 Training Centres
- 6.6.5 Building Marketing Infrastructure

#### **7.7. Any other facility to enhance production related activity as required by the cluster and approved by the committee.**

### **8. Funding and Timeframe**

- 8.1. The budget of each cluster would be 70 crores in terms of Ministry of Textiles share, however, it is estimated that at least Rs. 90 crores will be required for comprehensive development of each mega cluster. Thus overall funds needed for each of the proposed

project will be mobilized by dovetailing of grant funds available under various schemes of the Central and State Governments. Some of these schemes that can be leveraged are illustrated as below:

- 8.1.1. Scheme for Integrated Textile Parks (SITP) & Technology Upgradation Fund Scheme (TUFS) of the Ministry of Textiles;
  - 8.1.2. Schemes available under Development Commissioner (Handlooms)/ Development Commissioner (Handicrafts)/ Powerloom Sector;
  - 8.1.3. Schemes available under Ministry of Rural Development, such as, Swarnjayanti Gram Swarozgar Yojana (SGSY);
  - 8.1.4. Schemes available under Ministry of Urban Development and Poverty Alleviation;
  - 8.1.5. Schemes of Ministry of Commerce, such as, MDA, MAI, etc.;
  - 8.1.6. Schemes under Ministry of MSME.
  - 8.1.7. Schemes of Ministry of Tourism, such as scheme for rural tourism.
  - 8.1.8. Schemes of Ministry of Panchayati Raj.
  - 8.1.9. Industrial Infrastructure Upgradation scheme of Department of Industrial Policy & Promotion.
  - 8.1.10. Schemes of the State Governments for development of handloom, handicraft and power loom industry.
- 8.2. While this sharing is largely valid at the overall project level, the respective shares of the stakeholders may vary from component to component depending upon the nature of interventions.
- 8.3. The project would be implemented over a period of 4 years. The DPR would clearly provide year wise phasing with respect to interventions and requirements of funds
- 8.4. It is to state that there will be broadly three categories of funding for various project components. First could be a project in which specific scheme of Govt. of India exists, for Example: in case the SPV wants to develop integrated Handicrafts cluster, which is covered under the scheme of SITP of Ministry of Textiles, then SPV can take funding from SITP scheme. Similarly, for physical infrastructure covered under Industrial Infrastructure Upgradation Scheme [IIUS], funding can be taken by SPV from the scheme of IIUS of Department of Industrial Policy & Promotion as per the scheme parameters.
- 8.5. Second type of intervention could be those specific interventions, which are required for growth of the Handicrafts cluster and are covered as a part

of scheme of the Office of the Development Commissioner [Handicrafts]. Such projects could be setting up of marketing hubs in metros/sourcing hubs in clusters, warehousing facility in the clusters, design bank, resource centre, raw material bank for the craft, common facility centre, etc. For these interventions, the SPV shall be made eligible under relevant scheme of the Office of the Development Commissioner [HC] to obtain grants under relevant scheme components.

- 8.6 Third type of intervention relate to missing gaps, not covered under the scheme of Central or State Government, for instance, the SPV may want to undertake certain activities which are critical for the development of clusters and are commercial projects. Such requirements would be met from the main grant of Rs.70 crore per cluster after necessary approval from PAMC under Comprehensive Handicrafts Craft Development Scheme.
- 8.7 Thus, SPV will get funding from various Govt. agencies as per the scheme parameters in addition to the Grant of Rs.70 crores from this scheme, which shall be utilized for meeting the critical gaps. For example: A Common facility needs to be established in a cluster with an expenditure of Rs.100 lakhs. AHVY scheme of O/o DC(H) has a provision to fund up to Rs.60 lakhs as grant. The SPV can utilize this provision and avail grant up to Rs 60 Lakhs from AHVY scheme and rest from this Comprehensive Handicrafts Craft Development Scheme.

## **9. Funding pattern**

### **9.1 Establishment of Baseline data:**

9.1.1. Funds to the tune of 3% (max.) of project cost shall be earmarked for establishing baseline data / DPR against which performance can be compared at the end of the project.

9.2. Funds in the pattern as in table below would be released in 3 installments

- i) 1st installment of 40% as advance on SPV acquiring land.
- ii) 2nd installment of another 40% on utilization of 2/3 of first installment.
- iii) Balance as 3<sup>rd</sup> and final installment as reimbursement.

Sl. No	Activity	GOI share	Financial limit of GOI in Rs.	SPV share
1	Soft skills such as skill development Training, Product Development workshop, etc.	I year – 100% II year - 90% III year – 75% IV year – 75%	Rs 10 crores/ project	Nil 10% 25% 25%
2	Common production related Infrastructure which are artisan centric such as CFC, Work shed, etc	100%	Rs 20 crores/ project	Land and recurring expenditure
3	Other commercial infrastructure – such Gas pipe line, etc	75%	Rs 20 crores/ project	25% and recurring expenditure
4	Facility Centers for Exporters/entrepreneurs	30%	Rs. 2 crores/ facility centre/Entrepreneur	70%

## **10. Project Management Cost**

10.1 The Project Management Fee will be paid to the Cluster Management & Technical Agency (CMTA) for managing the activities of the cluster. CMTA will be selected for both the clusters through competitive bidding process.

## **11. Eligible Agencies**

11.1 The Implementing Agency (IA), which will be a Special Purpose Vehicle (SPV), shall be a legal entity, preferably a Company with the participation of related stakeholders, particularly the leading manufacturers, suppliers, buyers, and artisan federations/SHGs. The SPV shall be selected preferably through open competitive bidding process. However, selection of SPV would mainly depend on the project profile, activities required to be intervened and on various other parameters, therefore selection of such

suitable SPV after seeking formal approval of PAMC. As Handicrafts sector is highly unorganized, the procedure for selection of SPV in special cases shall be kept open for PAMC/Government.

## **12. Implementation Methodology & Framework**

12.1. A project of this nature, which is need based, multi stakeholder driven, holistic and outcome oriented, would require institutional structure and processes that are capable and conducive to achieving the objectives of the program. The following will be the methodology and process through which the project would be implemented: -

12.1.1 Undertaking a detailed diagnostic study of the cluster in order to identify the needs, gaps and also developing base line reference data.

12.1.2 Preparation of a Detailed Project Report (DPR) covering technical, financial, institutional and implementation aspects, based on the diagnostic study. This DPR would clearly establish the expected outcomes of each of the interventions, which are measurable.

12.1.3 Validation of the findings of the diagnostic study and the DPR by the key stakeholders of the cluster including representative associations / federations of the artisans, support institutions, service providers, State Government and Central Government agencies.

12.1.4 Establishment of Special Purpose Vehicle (SPV) at cluster level with representation of key stake holders.

12.1.5 Approval of the DPR by PAMC under Ministry of Textiles.

12.1.6 Procurement of land, wherever needed for any of the interventions of the DPR, by the SPV

12.1.7 Implementation of the interventions as per the phasing mentioned in the DPR.

12.1.8 Monitoring and evaluation of the implementation of the interventions against the outcomes defined in the DPR.

## **13. Implementation Structure**

13.1 Considering the challenges and the complexities of the proposed program, the following implementation structure is envisaged:

13.2 **Project Approval and Monitoring Committee (PAMC)**

13.2.1 The Detailed Project Report (DPR) shall be considered and approved by the Project Approval and Monitoring Committee

(PAMC). The PAMC shall accord further approvals only after the comprehensive DPRs are in place. The implementation of the various projects should also be reviewed periodically by the PAMC. The composition of the PAMC would be:

Secretary (Textiles)	Chairman
Advisor (Industry), Planning Commission	Member
Additional Secretary & FA, M/o Textiles	Member
Joint Secretary (PF-II), D/o Expenditure	Member
Development Commissioner (Handicrafts)	Member
Joint Secretary(Mega Cluster), M/o Textiles	Member
Joint Secretary of Schemes of the concerned Ministries/Departments	Member
District Magistrate or Deputy Commissioner of Moradabad / Narasapur	Member
Secretary of the Dept. dealing with Handicrafts in the state	Member
Economic Advisor, Ministry of Textiles	Member
Director (Mega Cluster), M/o Textiles	Member
Additional Development Commissioner (Handicrafts)	Member Secretary

### **13.3 Cluster Advisory Group (CAG):**

13.3.1 As the Handicrafts clusters are very diverse and involve several organizations of the Government and Non-Government, an advisory group would be set up at the cluster level with the representation of all such organizations and other key stakeholders to guide and support the SPV.

### **13.4 Cluster Management and Technical Agency (CMTA):**

13.4.1 The nature of the proposed project warrants proactive technical and managerial assistance on "concept" to "commissioning" basis. In view of limitations of the Government agencies in playing a catalytic role as envisaged, the services of a professional agency will be utilized by the Ministry of Textiles as CMTA for each of the clusters.

13.4.2 Such agency shall have proven capability in terms of technical, managerial, financial, infrastructure and capacity building expertise that are required to design and execute cluster oriented interventions.

13.4.3 CMTA, apart from assisting the Ministry of Textiles in designing and monitoring of the project, will proactively work with the cluster

stakeholders and the SPV in implementation of the interventions. The illustrative list of responsibilities of such CMTA are given below:

- 13.4.3.1 Conducting diagnostic study.
- 13.4.3.2 Preparing DPR.
- 13.4.3.3 Sensitizing and mobilizing the stakeholders to be part of the proposed project.
- 13.4.3.4 Establishment and structuring of the SPV.
- 13.4.3.5 Assisting the Ministry / SPV in releasing / mobilizing funds for the project. Such mobilization would involve preparation of proposals under relevant schemes of the Government apart from tying up loans from the banks.
- 13.4.3.6. Assisting the SPV in obtaining requisite statutory approvals / clearances.
- 13.4.3.7. Assisting the SPV in identification and engagement of service providers / consultants for various services related to specific Handicrafts technology, processing, designing, skill development, marketing, engineering, financing etc, for implementation / execution of the interventions outlined in the DPR.
- 13.4.3.7. Providing interfacing support and linkages between the SPV and various other stakeholders, particularly the Government organizations, buyers and financial institutions.
- 13.4.3.8. Providing periodical progress reports to the Ministry of Textiles with respect to achievements of the stated outcomes.

#### **14. Special Purpose Vehicle (SPV):**

- 14.1 A multi stakeholder cluster level legal entity, registered under societies act or Companies Act will be set up for each of the clusters. It will be the recipient of grant support from the Ministry of Textiles and other agencies.
- 14.2 Such SPV shall be responsible for ownership, execution and management of the interventions / facilities created under the project.
- 14.3 The majority of the equity of such SPV shall be with the artisans/ craftsmen/Entrepreneur of the cluster and / or their associations / cooperatives / federations/ SHGs. The remaining stake will be held by strategic investors such as buyers, large scale production units, banks, financial institutions, State Government agencies, etc. However, the individual stake of the aforesaid agencies shall not exceed 26%.
- 14.4 There shall be a provision to setup more than one SPV in a cluster

for speedy & effective implementation of the programmes. For example: at Narasapur cluster, considering vast geographical spread of artisans and requirement of skill up gradation of large number of artisans, there could be four SPV's. SPV-1 may focus on infrastructure related developments, SPV-2 to focus on Design, Technological & HRD needs, SPV-3 may look into the domestic marketing needs and SP-4 to address the export potential of the cluster. However, all the four SPV's shall have better co-ordination among them, while implementing the project to avoid overlapping of activities.

- 14.5 SPV would be responsible for maintaining the utilities and infrastructure created by collecting service and user charges to recover cost and future expansion.

## **15. Monitoring of expenditure on infrastructure projects**

- 15.1 Given the magnitude of funds allocated for infrastructure development, it is imperative that expenditure under this head be monitored more rigorously. Accordingly, suitable formats will be prescribed for monitoring purposes. The data will be consolidated by the Implementing authority and sent to the Central Government on a quarterly basis.

## **16. Deliverables/Advantages of the proposed Clusters**

### **16.1 Social:**

- 16.1.1. Employment Generation;
- 16.1.2. Better living standards for the existing artisans.

### **16.2 Economic:**

- 16.2.1 Foreign Exchange earnings by export;
- 16.2.2 Substantial Increase in quality and value added Production;
- 16.2.3 Increase in the business of small entrepreneurs;
- 16.2.4 Savings in cost by manufacturers in the cluster due to better infrastructure and Government induced benefits;
- 16.2.5 Revenue generation to local bodies and State & Central Governments;
- 16.2.6 Growth of industry in an organized form.

