

# **APPROACH TO CLUSTERS IN ACP COUNTRIES**

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# NATURE AND OBJECTIVES

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## Objective

Overview of clusters and cluster development initiatives in **ACP countries**, with special reference to **Sub Saharan Africa**

## Based on

- ➔ Study on “Clusters and Enterprise Networks” carried out by Economisti Associati in 2005 for PRO€INVEST
- ➔ Operational experience in some transitional and developing countries (former Yugoslavia, East Africa)
- ➔ Review of recent literature and donors’ activities (e.g. World Bank study in 2008, McCormick’s book in 2007)

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# BASIC CONCEPTS

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## Origins

- ➔ The notion of cluster (actually, ‘industrial district’) can be traced back at least to the late **XIX century**, i.e. to Marshall’s observation that small firms grouped in certain localities could match the efficiency of large factories
- ➔ Clusters (again, ‘industrial districts’) played a major role in Italy’s industrial development and export growth in the **1970s**, and this was reflected in academic research work (e.g. Becattini)
- ➔ But the concept of cluster became really popular world wide in the **1990s**, following the publication of Michael Porter’s *The Competitive Advantage of Nations*

# BASIC CONCEPTS

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## Several definitions have been offered

- ➔ “A cluster is a group of firms concentrated in one geographic location and working in the same sector. Firms may or may not be actively collaborating” (IDS, 1997) (**emphasis on similarity and vicinity**)
- ➔ [An industrial district is] “a territorial agglomeration of small firms, normally specialized in one product or phase of production, held together by interpersonal relationships, by the common social culture of workers, entrepreneurs and politicians surrounded by an industrial atmosphere which facilitates the diffusion of innovation” (Bianchi, 1994) (**introduces SME, specialization, division of labor, and social capital**)

# BASIC CONCEPTS

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➔ “A cluster is a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities. ... They are present ... at several geographic levels (e.g., nations, states, metropolitan regions, cities).” (Porter, 2000) (**introduces explicitly institutions but the geographical dimension is largely lost**)

➔ “An industrial cluster is an agglomeration of companies, suppliers, service providers, and associated institutions in a particular field. ... Cluster definitions are not always geography-specific, especially for the more sophisticated industrial sectors. For example, in a region dominated by tourism it is fair to subsume a large part of cultural and entertainment industries as well as national or regional branding agencies” (World Bank, 2009) (**but then what is the difference with sector or *filière*?**)

# BASIC CONCEPTS

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## An operationally oriented definition

Clusters are geographical concentrations of firms, mostly SME, specialized in the production of certain goods or services functionally linked to a main production activity. The level of development depends upon the presence of shared values ('social capital') and the existence of supporting institutions

## Key aspects

- ➔ density and proximity (precondition, but not enough)
- ➔ SME (we don't refer to the Ruhr or Marghera as a "cluster")
- ➔ Specialization (otherwise no productive efficiency)
- ➔ Interaction (depends on the 'complexity' of the activity/sector)
- ➔ Social capital and institutions (crucial to facilitate interaction and innovation)

# BASIC CONCEPTS



## What are the benefits of clusters?



# BASIC CONCEPTS

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**A related concept is the one of ‘enterprise networks’**

Enterprise networks are small groupings of enterprises undertaking some type of joint action in order to address some common, specific problem

## **Key aspects**

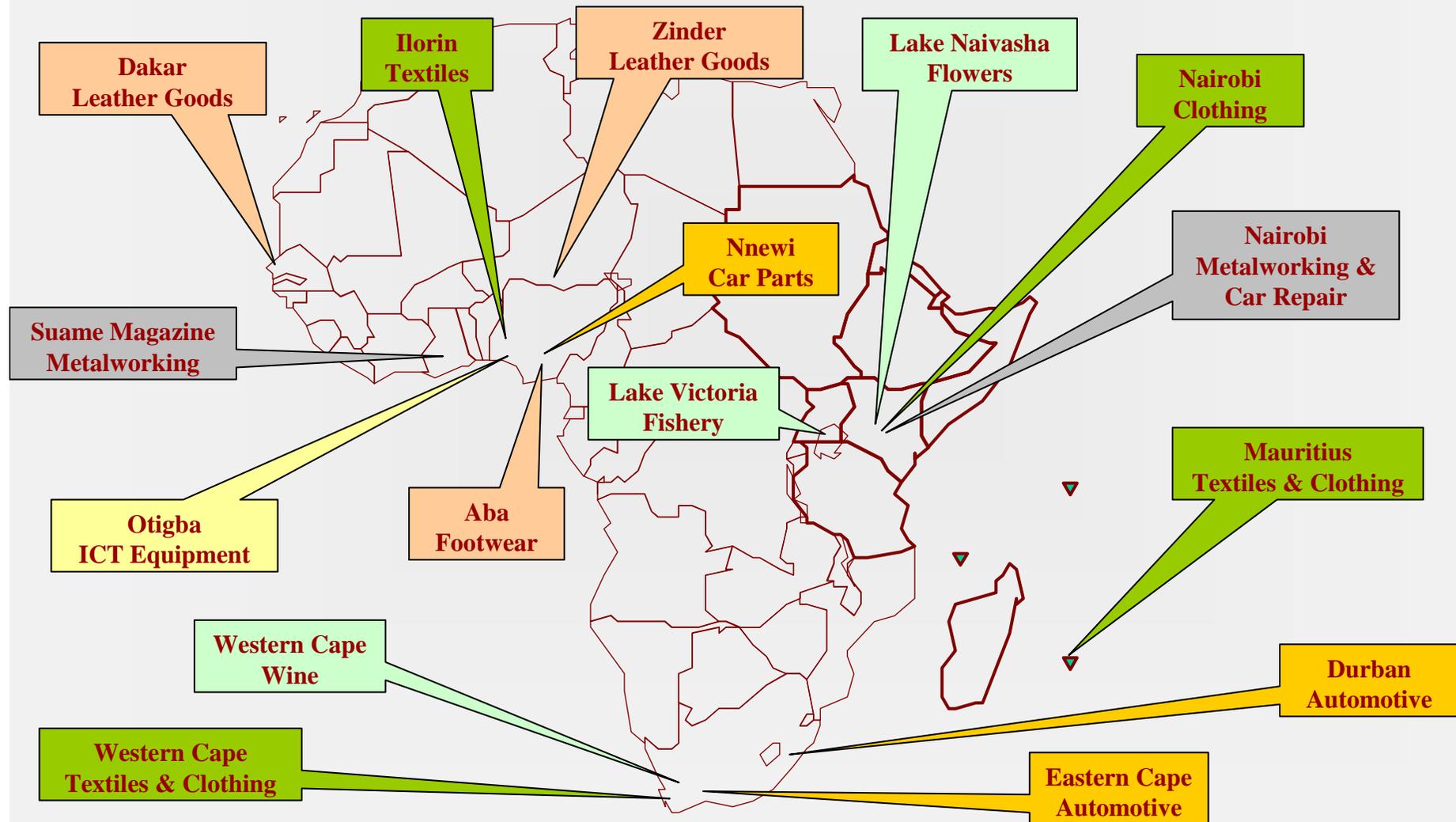
- ➔ are sometimes institutionalized but more often informal
- ➔ may be stable or temporary in nature
- ➔ common problems addressed tend to fall into four categories (i) marketing and commercialization; (ii) logistics; (iii) environmental and sanitary standards; (iv) production and product development (rare)
- ➔ may or may not evolve into clusters

# CLUSTERS IN AFRICA



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Overview of existing clusters (by no means exhaustive ...)



# CLUSTERS IN AFRICA

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## Some examples

### ➔ **Fishery/Fish Processing – Lake Victoria (Uganda & Kenya)**

- ✓ Some 30 modern processors buying from thousands of fishermen, plus service providers and public bodies. Collective action prompted by external threat (EU import ban due to sanitary considerations)

### ➔ **Otigba Computer Village – Lagos (Nigeria)**

- ✓ More than 5,000 firms engaged in the repair, assembly and sale of PC and peripherals. One of the most recent and fastest growing clusters

### ➔ **Metalworking – Nairobi (Kenya)**

- ✓ Some 5,000 artisans, mostly relying on manual technologies producing low quality goods. Limited ability to upgrade/introduce innovations, some collective action of a defensive nature

### ➔ **Textiles & Garments - Mauritius**

- ✓ About 400 modern firms. Some inter-firm linkages, but competition tends to prevail. Declining output due to Asian competition, with partial re-location in Madagascar

# CLUSTERS IN AFRICA

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## Performance

Most African clusters operate in an unstable environment, and this severely tests clusters' adaptive capabilities. In many cases, performance has been less than ideal

- ➔ Leatherworking and garments clusters were severely affected by **trade liberalization**, with decline in output, number of firms and, sometimes, quality. More advanced clusters (Eastern Cape, Mauritius) reacted comparatively better
- ➔ In the case of resource-intensive clusters (fish processing, cut flowers) **depletion of resources and/or pollution** are also major challenges
- ➔ Domestic policy also has a major impact. Especially in Nigeria (Ilorin, Aba), problems originated by external factors were magnified by **lack of security, corruption and poor infrastructure**

# CLUSTER SUPPORT INITIATIVES

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## Key elements

Clusters have become increasingly popular among **donors and IFI**, and over the last 15 years dozens of cluster development initiatives have been launched in developing countries

- ➔ Cluster initiatives typically include a blend of activities: facilitation services, hands-on support, study tours/‘twinning’ and, sometimes, provision of technical equipment
- ➔ Sometimes cluster development was regarded as a sort of panacea, with ‘**clustering**’ (a micro/meso concept) sometimes being equated to ‘**competitiveness**’ (which is primarily a macro concept), with disappointing results
- ➔ Also, in some cases, initiatives were aimed at ‘**creating clusters**’, despite Porter’s warning that “there should be some seeds of a cluster before cluster development efforts are justified”

# CLUSTER SUPPORT INITIATIVES

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## Donors and IFI programs

### ➔ UNIDO

- ✓ The pioneer in cluster development, starting in the mid 1990s. Several initiatives (but mostly in Asia and Latin America), targeted at pre existing agglomerations. Medium sized interventions (US\$ 1 million<)

### ➔ USAID

- ✓ 30 plus cluster and/or competitiveness initiatives (including some 10 African countries), often with important budgets (for US\$ 2-3 million up to 10 million). Now rethinking the approach

### ➔ World Bank Group

- ✓ Cluster initiatives mostly part of broader competitiveness enhancing projects (e.g. Tanzania US\$ 10 million), but also smaller, stand alone initiatives (e.g. training for metalworking clusters in Kenya and Ghana)

### ➔ Center for the Development of Enterprise

- ✓ Some interesting ante litteram initiatives (fishery on Lake Victoria, mise en reseau textile habillement in Madagascar), but needs more money

# CLUSTER SUPPORT INITIATIVES

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## Key Principles

- ➔ **‘Time is of essence’**: this is generally applicable, but even more important in cluster development, given its dynamic nature
- ➔ **Results-oriented approach**: cluster development is a long term process, but ‘quick wins’ are needed to set the process in motion and gain momentum
- ➔ **True ‘technical’ assistance**: entrepreneurship is not so scarce in developing countries, technical skills are
- ➔ **Technical assistance is not enough**: need to facilitate access to financing in a realistic manner (it is a big mistake to separate TA from provision of funding)
- ➔ **Select the right industries**: ICT is very fashionable, but often ill adapted to ACP countries. Better focus on ‘brick & mortar’

# QUESTIONS & ANSWERS

**THANK YOU**

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