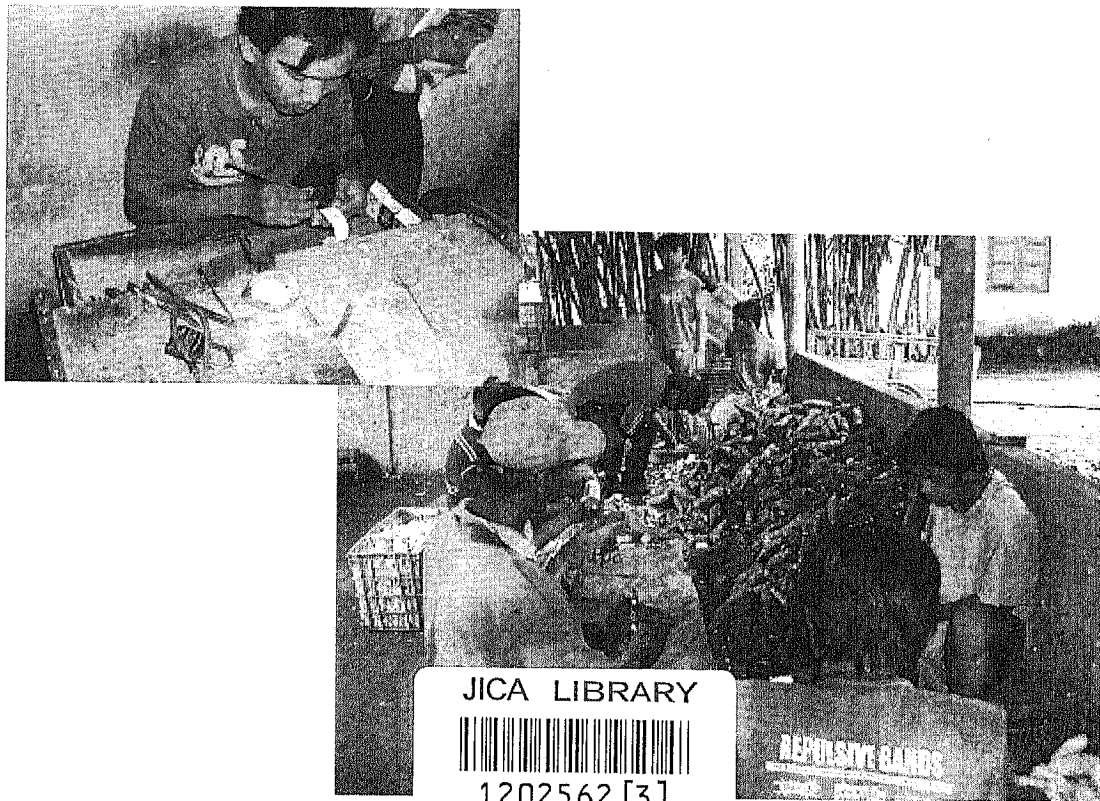




Japan International Cooperation Agency

CLUSTER DEVELOPMENT GUIDELINE AND INSTRUCTIONS



February 2011

UNICO INTERNATIONAL CORPORATION
KRI INTERNATIONAL CORPORATION

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Contents

| | |
|---|----|
| Glossary (Definition of terms) | 1 |
| Preface..... | 3 |
| Part I Concept, Objective and Target Users | 5 |
| 1. Objective and Target Users..... | 5 |
| 1.1 Objective of the Guideline..... | 5 |
| 1.2 Target Users..... | 5 |
| 2. Concept of the Guideline | 5 |
| 2.1 Concept of the Guideline..... | 5 |
| 2.2 Background of the Concept..... | 6 |
| 3. Objective and Benefit of Cluster Development..... | 6 |
| 4. Cluster Development Stakeholders..... | 7 |
| 4.1 Stakeholders of Cluster Development | 7 |
| 4.2 Correlation Structure of Cluster Development Stakeholders..... | 8 |
| 4.3 Roles of the Main Stakeholders of Cluster Development..... | 8 |
| 4.3.1 External Cluster Stakeholders..... | 8 |
| 4.3.2 Internal Cluster Stakeholders..... | 12 |
| 4.3.3 Facilitator..... | 12 |
| Part II Implementation of Clustering..... | 13 |
| 1. Outline of Cluster Development | 13 |
| 1.1 The Initial Step of the Cluster Development in Indonesia..... | 13 |
| 1.2 Implementing Cluster Projects..... | 13 |
| 2. Flowchart of Clustering | 14 |
| 2.1 STAGE 1: PREPARATION FOR TARGET CLUSTER DEVELOPMENT | 16 |
| 2.1.1 Step 1: Prioritize Target Cluster..... | 16 |
| 2.1.2 Step 2: Draft an Initiation Plan by Outlining Initial Cluster Conditions..... | 17 |
| 2.2 STAGE 2 : INITIATION TO ESTABLISH CLUSTER DEVELOPMENT FRAMEWORK | 18 |
| 2.2.1 Step 3: Perform Initiation..... | 18 |
| 2.2.2 Step 4: Establish Cluster Development Framework | 20 |

| | | |
|-------|---|----|
| 2.3 | STAGE 3 : IMPLEMENTATION OF ACTION PLAN | 21 |
| 2.3.1 | Step 5: Conduct Needs Assessment and Strategy Development..... | 21 |
| 2.3.2 | Step 6: Develop Action Plan and Implement PDCA Activity | 22 |
| 2.3.3 | Step 7: Expand and Strengthen the Network of Cluster Companies..... | 23 |



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Glossary (Definition of terms)

- **Action plan:** The plan for a set of continuous actions which have definite due dates, identify participants, and state the mission, intended outcomes, necessary activities and inputs.
- **Business Development Service (BDS):** The service which includes a wide range of supporting activities such as training, consulting, marketing, information service, and law and accounting service to promote market access, growth and productivity. The activity to promote business networks such as matching a firm with a technological institute is also included in this service category.
- **BDS facilitator:** The organization which supports the BDS providers in many ways such as developing new markets and building the provider's capacity. BDS facilitation is usually performed by institutions which may include NGOs, government agencies, business unions and others.
- **BDS provider:** The organization or the person which/who provides services directly and mainly to micro and small sized companies. In general, a BDS provider is an individual, a private or a public organization, an NGO, and a business union, among others.
- **Cluster companies:** The core companies and the companies in the supporting industries.
- **Cluster facilitator:** The mediator who is responsible for promoting the cluster development and motivating a cluster to take the initiative. A cluster facilitator has a broad network of contacts and tries to form linkages within a cluster or between/among clusters.
- **Cluster representing association:** The association which is operated under the initiative of business entities and is organized by representatives from the core industry and the supporting industries in cooperation with the supporting institutions including the governments. This association is the central body to decide development strategy and activities of the cluster.
- **Clustering:** The process that aims to achieve the following goals: 1) people-to-people contact, 2) consensus on key issues, 3) collaboration at multiple levels, and 4) community-wide involvement in the process of building new linkages among communities, businesses and governments¹
- **Comprehensive Economic Development Committee (CEDC):** The formal committee where various stakeholders including representatives from the private sector, administrative departments, industry and academic organizations discuss effective industrial development strategies and the draft budget allocation plan for the cluster development. CEDC belongs to the local government and is called FPESD or FEDEP in the Central Java Province.
- **Core companies:** The companies in the core industry.
- **Core industry:** The industry that is the primary constituent of a cluster.
- **Industrial cluster:** The geographic concentration of the inter-connected core companies, supporting industry companies, and associated institutions. An industrial cluster is referred to as a "cluster" in this guideline.
- **Initiation:** The set of start-up activities to motivate the cluster companies and other stakeholders to work jointly under the framework of the cluster.

¹ Quote from p. 12 of "A Manual for starting and developing local clusters in New Zealand," by Cluster Navigators Ltd.

- **Leading companies:** The companies that lead other business participants in a cluster in view of the company's scale of business and experience.
- **Networking:** The activity to develop an effective partnership or relationship among stakeholders of a cluster. More specifically, a coalition among cluster stakeholders such as the cluster companies, BDS providers, trade associations, universities, banks, technical institutions and public administrations.
- **PDCA:** PDCA means Plan(P), Do (D), Check(C) and Action(A). This is a methodology to implement management activities effectively and efficiently. "Plan" means developing a project design. "Do" means implementation of the project. "Check" means an evaluation of the progress and intermediate output of the project. "Action" means improvement of the project based on the evaluation of the intermediate output.
- **Project Design Matrix (PDM):** The logical framework of the project design in the form of a matrix that sets the goal, purpose, output, activities and inputs of the project. PDM also establishes performance indicators for project evaluation purpose.
- **Social capital:** The attitude, spirit and willingness of people to engage in collective activities. For example, cluster stakeholders can work actively if they share a vision and a mission for the development target of their own cluster.
- **Supporting industry:** The industry which supports the core industry. It includes parts suppliers and processors, sub-contractors, raw material suppliers, distributors, and buyers, among others.
- **Value chain:** Chain of business activities to create values including the various steps of the supply chain plus additional activities such as marketing, sales and services.

Preface

This guideline has been developed as an output of the "Study on Cooperation for Strengthening Clusters (Sentra) of Small and Medium Industries in the Republic of Indonesia", the Study hereinafter, to correspond to the practical need for effective cluster development.

From the middle of January 2009 to the end of February 2010, the JICA Study Team implemented cluster surveys and pilot projects to prepare recommendation for strengthening the cluster development framework in Indonesia. The Ministry of Industry has not been introduced any guidelines although JICA had submitted a cluster development guideline to the Ministry of Industry and Trade in 2004. While the previous one focuses on facilitation activities by cluster facilitator, this guideline does on administrative actions to be undertaken by both the state and local governments. It does so because the majority of clusters are in the embryo stage and they need assistance to start clustering.

The structure of this guideline has been developed based upon the notion that the guideline should provide the users with practical information and methodology about cluster development and it should be easy to use.

Part I presents concept, objective and target users of the guideline.

Part II shows the concrete procedure of cluster development and gives the important points needing attention. The guideline offers, in its main body text, the cluster development procedure in chronological order, from support for strengthening the network among stakeholders in the cluster in the embryo stage, to self-reliant implementation of development projects by the cluster on its own.

Other important contents of the guideline include practical tools and reference materials for clustering. The practical tools are put into Annexes, while the reference materials are attached in Appendixes. Information in these Annexes and Appendixes will be a helpful pilot lamp for cluster stakeholders to achieve sustainable cluster development.

In main document, you will see the following signs that indicate important annex numbers, appendix numbers and note numbers:



: Practical tool, attached in Annex.



: Reference material, attached in Appendix.



Note

Italic letters:

Important suggestions from the last JICA guideline provided as an output of the previous JICA Study (the last JICA guideline is entitled the “Cluster Development Guideline for Cluster Facilitator” developed under “JICA Study on Strengthening Capacity of SME Clusters in Indonesia, 2004”)

Part I Concept, Objective and Target Users

1. Objective and Target Users

1.1 Objective of the Guideline

The objective of this guideline is to provide the cluster stakeholders with steps, tools and countermeasures for building the framework by which they can collaborate with one another by their own initiative.”

At present, cluster development measures undertaken by the Ministry of Industry and the local governments in Indonesia are generally implemented on a government-led basis without sufficiently establishing cluster networks and motivation of the stakeholders. In the meantime, although private companies are supposed to be the main actors in the cluster development, they tend to participate in the government-led cluster activities passively. This causes inefficiency in the cluster development activities. Furthermore, this works against achievement of the objective of clustering.

In addition to these inhibiting factors, there is a high possibility that cluster activities could be abandoned once the governmental support vanishes, as the initiative of cluster companies is not well developed in the cluster activities.

1.2 Target Users

This guideline is prepared for the following users:

Central Government:

- Ministry of Industry
- SMOCSME (Office of State Minister for Cooperative and SME)
- BAPPENAS (National Development Planning Agency)

Local Government:

- Government officials of Provinces, Regencies and Cities especially:
 - Dinas cooperative, industry and commerce (Koperindag hereinafter)
 - Dinas industry and commerce (Disperindag hereinafter)
 - Officials who are engaging in cluster or industrial development

Others:

- Facilitators
- NGOs which are concerned with cluster development
- Others

2. Concept of the Guideline

2.1 Concept of the Guideline

The concept of this guideline is to focus on clustering of embryo stage clusters for the stakeholders to deepen their mutual collaboration for their own growth, while sharing the same vision and mission of the cluster development.

2.2 Background of the Concept

As indicated in the Preface, the majority of clusters are in the embryo stage and the government needs to conduct an initial action to induce cluster companies to start clustering. However, the importance of the action has not been recognized.

There are various cluster guidelines available in Indonesia. However, none of them reflects the actual conditions of Indonesia. This is because these guidelines offer the instructions on actions of clustering based on the lessons and cases in other countries. This finding was the starting point of developing this guideline beside the above recognition. In order to provide the more practical guideline to Indonesian officials and cluster stakeholders, the JICA Study Team carefully investigated the current cluster conditions in Indonesia and implemented pilot projects to obtain lessons that are useful to develop the new guideline specifically for Indonesia.

The results and lessons learned from the Study including the pilot projects indicate important suggestions to start cluster development in Indonesia and to set up the concept of this guideline. Here are these important suggestions.

1. There is no leader or cluster facilitator to start developing a cluster network by its own initiative, and hence, the local government needs to assign a cluster facilitator to start cluster development activities in the embryo stage cluster.
2. There are potential leaders in many regions. However, they lack understanding on the advantages of joint activities by cluster companies. Therefore, a cluster facilitator needs to nurture potential leaders as a competent cluster leader who can take the head of clustering.
3. In addition, there are few competent cluster facilitators in the country. Moreover, requirements for the work of facilitation are not well understood among local administrators.
4. Companies in most of the clusters in Indonesia are generally micro or small in size and owners of these companies are too busy to seriously ponder collaboration with other companies.
5. Most of the cluster stakeholders are not aware of advantages of joint work within the cluster in which they are located.
6. In addition, companies in the cluster tend to look upon collaboration as a hassle and want to work independently in a lighthearted fashion.
7. In other cases, there are not a few who believe that collaboration does not suit the nature of the Indonesian people.
8. Since labor specialization in the cluster is not developed, the clusters in Indonesia have yet to benefit much from the external economy effects.
9. Further, less development of vertical specialization in the cluster is likely to keep production costs higher than the case where vertical specialization is more developed.

3. Objective and Benefit of Cluster Development

Definition of cluster

This guideline defines the cluster as geographic concentration of the inter-connected core companies, supporting industry companies, and associated institutions.

Most clusters in Indonesia are characterized merely by regional concentration of companies in similar business fields. More precisely, the clusters in Indonesia hardly establish networks amongst the companies therein. Such industrial concentration is called "Sentra" in Indonesia. A

cluster and a “Sentra” are often regarded as the same in Indonesia, and hence, this guideline also uses the word cluster as a synonym of “Sentra.”

Objective of cluster development

Objective of cluster development is to develop the regional economies in an efficient manner by taking advantage of potentiality and comparative advantages that each region possesses.

Benefit of cluster development

The significant benefits from the cluster can be obtained through networking among the stakeholders.

The first benefit is lowering costs. For example, group purchasing by companies in a similar business field enables them to gain stronger bargaining power and thereby lower material cost. Clusters in Indonesia are made up mostly of microenterprises and small sized companies, which are typically weak in terms of capital and human resources. However, they can enhance their competitiveness if many of them collaborate with one another, or establish functioning networks among them.

The second benefit is diversification. As the competition continues, their business activities become diversified; for example, some decide to specialize in a part of the manufacturing process, some apply their technology to a new product to explore a new market, and some opt for concentrating on production by commissioning. Then, more various but related products and services become available in the cluster. In other words, the process brings about diversification in the cluster.

The third benefit is specialization. Improved efficiency through vertical and horizontal labor specialization and efforts for exploiting the new markets make it possible for the cluster to strengthen its external economy effects.

It should, however, be noted that if the companies in the cluster are not aware of those benefits that can be produced by collaboration among them, then amplification process of external economy effects in the cluster will soon reach its limitation.

4. Cluster Development Stakeholders

4.1 Stakeholders of Cluster Development

Stakeholders of the cluster development can be classified as follows:

(External cluster stakeholders)

1. Stakeholders from national and local governments
2. BDS providers such as research and technical support institutes, management consultants including Shindanshi, trading/industrial/sectoral associations, KADIN (chamber of commerce and industry) and NGOs, among others (national and local government can be BDS provider as well)

(Internal cluster stakeholders)

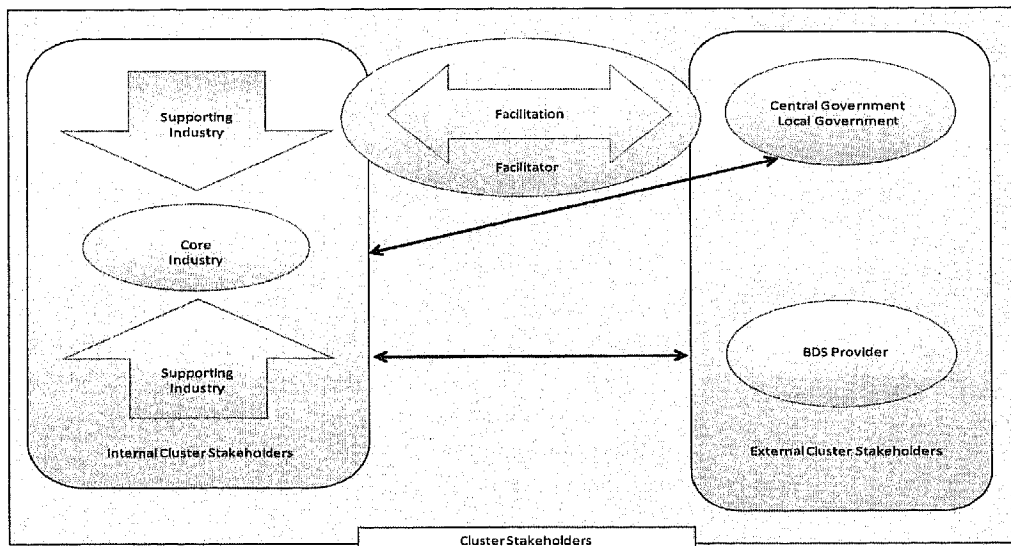
1. Cluster companies such as core companies, leading companies and companies in supporting industries

Note: A cluster facilitator is a main actor of cluster development. However, the position of the facilitator is different from that of other stakeholders because the facilitator’s mission is to facilitate cluster activities as an intermediary coordinator between the internal

clusterstakeholders and the external cluster stakeholders.

4.2 Correlation Structure of Cluster Development Stakeholders

The following drawing indicates the correlation structure of the cluster development stakeholders.



(Source: JICA Study Team)

Figure 4-1 Correlation Structure of Cluster Development Stakeholders

4.3 Roles of the Main Stakeholders of Cluster Development

4.3.1 External Cluster Stakeholders

(1) National and local government

1) Ministry of Industry

The most important role that the Ministry of Industry plays as the main competent authority in cluster development is to improve the environment by which local governments can perform efficient implementation of cluster development projects. In addition, the ministry provides legal support in order to produce the most effective results from the cluster development activities. Roles of the ministry in cluster development can be consolidated into the above two points.

More precisely, implementation of the following measures is practicable for the abovementioned two roles.

In order for the cluster development to become more efficient, the Ministry of Industry has roles in: (a) adopting the official cluster development guideline to be followed by cluster stakeholders across the country; (b) fostering capable facilitators; and (c) conducting training programs on project evaluation methods.

On the other hand, in order for the cluster development to become more effective, the ministry has roles in: (a) formulating the nationwide cluster support organization which covers multiple administrative boundaries; (b) providing advice for constituting the provincial-level support organizations for cluster development; and (c) develop a clear investment priority plan by cross-sectoral standpoint among relating ministries.

2) Other central government agencies

a. SMOCSME

SMOCSME is another key administrative stakeholder in cluster development, though it does not have any direct programs to support clustering. However, SMOCSME can support clustering indirectly by, for instance, providing institutional finance for cooperatives to reinforce financial access of the member companies. In addition, SMOCSME can be a forceful co-player when the Ministry of Industry or BAPPENAS propounds formation of the nationwide cluster development committee by stakeholders across multiple administrative boundaries.

b. BAPPENAS

BAPPENAS is one of the key stakeholders in cluster development because it concerns national economic development across thesectoral boundaries. Especially, BAPPENAS can play a significant role in establishing and calling for thenationwide cluster support organization.

c. BKPM (Investment Coordinating Board)

BKPM is the sole agent that has capability and network to lure foreign investors into Indonesia. BKPM is able to implement effective promotion activities to encourage investors who can contribute to cluster development.

d. Other ministries

Other ministries can support cluster development activities by participating in the cluster-related meetings and delivering constructive opinions at these meetings. Moreover, they can support cluster development through providing incentives which are under jurisdiction of the respective ministries.

3) Provincial government

The provincial governments are at the top of administrative hierarchy in relation to cluster development under the decentralized administration system.

There are eight roles that the provincial governments need to play in cluster development as follows:

- a Development of the framework for cluster development across administrative boundaries within a province: Support (facilitate) a coalition among the cities/regencies where a cluster is located.
- b Select the clusters that the province should develop on a priority basis and coordinate supporting roles with administrative bodies in the cities/regencies that have direct jurisdiction over cluster development.
- c Establish a committee which takes charge of cluster development in the whole province and the budget plans for it, and instruct the city/regency governments to establish a committee with equivalent functions and competences at the respective level. Then, facilitate a coalition with such committees at the city/regency level. (Note that the committee in the province should be established based upon decree(s) of the provincial government or the provincial governor and should be constituted by representatives from such organizations as related divisions of the provincial government, industrial associations, chambers of commerce and industry, banks, leading companies in the province, universities, and research institutes. Not only does the committee offer occasions for these various organizations to exchange information and opinions, but also its decisions should be treated equally to those made in administrative divisions in the provincial government. The guideline refers to this

committee as the provincial level “Comprehensive Economic Development Committee,” or provincial level “CEDC” for short).

(Following d to h indicates recommended assistance for further development of cluster and companies)

- d Carry out the projects that can be more effective for development of the target clusters and more efficient for the implementation when undertaken by the provincial government.
- e Establish an incubation center to encourage spin-off from the cluster companies and venture business as well. It is not remarkable for a successive incubation center to build new networking between companies in the center.
- f Inaugurate incubation fund to promote venture business or spin-off business.
- g Allocating R & D and the physical infrastructure to strengthen innovation of cluster companies. It includes development of training program with the local polytechnic.
- h Attract new investment to reinforce value chain network with a help of BKPM (Provincial investment coordinating board). New investment includes a buyer or broker liaison office.

4) Regency and City government

The city/regency government has direct jurisdiction over implementation of the cluster development activities. The city/regency government therefore carries direct responsibilities for support in cluster development. The main roles of the city/regency government in cluster development are summarized below.

- a Select the clusters that the city/regency should develop on a priority basis.
- b Perform the initiation for the clusters in the embryo stage (where cluster network is still not developed), or provide support for network development (Note that the city/regent government should undertake the tasks to dispatch the cluster facilitator who collects the data for cluster mapping, facilitates constitution of the cluster development organization, and promote sharing of the vision and missions among the cluster stakeholders).
- c Establish a regency or city government level CEDC which takes charge of cluster development in the whole city/regency and the budget plans for it (Note that functions of the committee is the same as that in the province).

(2) BDS providers

BDS providers bring to the clusters expertise that can provide practical support including consultation to promote both individual cluster companies and cluster activities. BDS providers are one of the main actors in clustering and are able to compensate for any shortfall whereby a given cluster is unable to manage affairs on its own. Therefore, fields of expertise of the BDS providers encompass all the relevant business activities such as production technology and company management, including legal issues. For example the following organizations are the typical BDS providers.

1) Industrial associations and chambers of commerce and industry (KADIN, KADINDA)

Roles of these organizations – which represent the private sector – in cluster development can be consolidated into the following three points.

- a Provide cluster companies with information about markets, technology and other necessary factors.
- b Assist in networking in the cluster.

- c Participate in CEDC at provincial/city/regency levels to represent the respective industries and the private organizations.

2) NGOs

There are NGOs which are engaged in cluster development and microenterprise/SME promotion for the purpose of regional welfare improvement. Besides, some of these NGOs possess a good deal of experience in cluster facilitation activities. An important point here is that these experienced NGOs have already established their own methodologies for initiation which are performed for the cluster in the embryo stage. Success in the initiation is an important decisive factor for efficiency and effectiveness of the cluster development activities. It follows from this that those experienced NGOs are expected to proactively share their information and to expand the scope of their operations.

3) Academic institutions

Academic institutions are expected to be technical consultants and leaders for innovation of the regional industry.

Their missions include not only developing human resources in the region where they are located but also offering their expertise for the regional development.

In addition, they are expected to provide information for regional industries facing difficulties in production expansion, quality improvement, new market development, business innovation, and new product development.

4) Others

Other BDS providers include the following experts and organizations

1. Management support

- Lawyer
- Management consultant including Shindanshi
- Marketing consultant
- Human resource development specialist
- Accounting consultant, licensed tax accountant
- Bank and financial consultant
- Industrial designer

2. Production support

- Specific technology specialist such as HACCP consultant
- ISO consultant
- TQC specialist
- IT specialist
- Testing and inspection institute
- Research and development institute



Note: In the local context of Indonesia, SMOCSME once supported the establishment of a BDS provider named "BDS". It should be noted that such establishment of "BDS" has been causing some confusion among local government officials and cluster companies in the country; it was observed that many of them recognize this "BDS" as the only business development service (BDS) provider in Indonesia while the reality is that the cluster companies can ask for support from a wide range of BDS providers in addition to the "BDS" supported by SMOCSME.

4.3.2 Internal Cluster Stakeholders

(1) Core companies

Core companies are the final beneficiaries of the cluster development activities. However, any efforts to boost the economy of a cluster will not become effective without aggressive participation of the companies in the cluster activities. In this regard, the companies should participate in seminars, workshops, meetings, trainings, and other activities proactively to enhance their awareness and motivation to join the cluster development activities.

(2) Leading companies

Leading companies lead other business participants in the cluster in view of the company's scale of business and experience. They serve as the leader of the development of the whole cluster. The leading companies are also expected to provide information to other cluster companies in terms of market information, technical information, quality standards and et cetera. In most cases, the leading company is one of the core companies in the cluster. However, a trader can also be the leading company. This is because a trader can develop a stronger supply chain to improve market accessibility of the core companies.

(3) Supporting industry

Supporting industry serves the core industry by providing quality goods and services. The core industry and supporting industry are interdependent; the evolution of one side is necessary for the growth of the other. Thus, improving their business, especially in QCD (Quality, Cost and Delivery), contributes to the development of the core industry.

4.3.3 Facilitator

A facilitator is one of the key actors in cluster activity to build relationships between the internal cluster stakeholders and the external cluster stakeholders and to promote joint working consciousness among these cluster stakeholders. A facilitator facilitates various services stated below:

1. In initiation stage (mainly acting as a cluster facilitator):
 - Identify initial conditions of a cluster
 - Support network development among the internal and external cluster stakeholders
 - Increase motivation of the internal and external stakeholders to participate in cluster activities
 - Facilitate communication with supporting organizations including governmental entities
 - Implement the initial cluster mapping of the internal cluster stakeholders to identify their individual roles
 - Help establish a cluster representing association
2. Establishment of the cluster representing association (both functions as a BDS facilitator and a cluster facilitator):
 - Draft a development strategy jointly with cluster stakeholders
 - Hire BDS providers upon request from the cluster representing association
 - Help clustering as an advisory member of the cluster representing association

Part II Implementation of Clustering

1. Outline of Cluster Development

1.1 The Initial Step of the Cluster Development in Indonesia

As stated in Part I, the majority of clusters in Indonesia is categorized as being in the embryo stage in view of networks among the stakeholders. The cluster development activity cannot start without networks of stakeholders. Therefore, first to do for them is to build cluster networks. Only after that, they can form a strategic alliance or conduct a cluster project. The success in such activities will strengthen the networks, and clusters with robust networks contribute to the regional economies.

There are two important steps to develop an embryo stage cluster into that with networks among the internal stakeholders.

Selection of priority clusters and assignment of a facilitator

Cluster development should be started by dispatching the cluster facilitator to the cluster where initiation is necessary. Because, there is no definite cluster leader who will start developing cluster network. In doing so, the provincial/city/regency governments are to dispatch the cluster facilitator to the cluster in order of the priority that each government has set for development. The cluster facilitator can be assigned from the public officials who have expertise in cluster facilitation.

Promotion of understanding to the cluster network

The cluster facilitator who will perform initiation needs cluster stakeholders to acknowledge the importance of developing a network in the cluster. Also, the cluster facilitator needs to make the cluster stakeholders understand the importance of holding the same vision and mission.

1.2 Implementing Cluster Projects

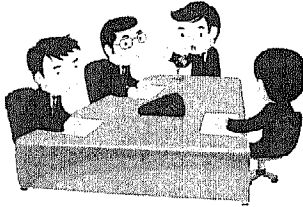
There are two aspects to a cluster project; one is achieving the goal and the other is strengthening cluster networks through its implementation.

At the very beginning of cluster development activities, a series of small successes is necessary to negate the skepticism about their effectiveness which not a few stakeholders have. A key to project success is a deep commitment from them, so cluster projects at the stage need to include activities to inspire it such as sharing information among them. Also, a success itself will motivate them. Cluster facilitators can help them to make the projects more efficient and effective as well as monitor and evaluate the progress for improvement.

2. Flowchart of Clustering

Part II of this guideline introduces the methodologies of the following three stages:

- 1) Preparation for target cluster development; 2) Initiation and establishment of cluster development framework; and 3) Implementation of action plan.



Stage 1
Preparation for target cluster development

Step 1
Prioritize target cluster

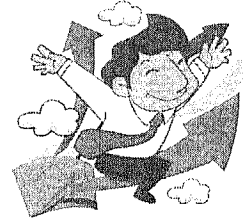
Step 2
Draft an initiation plan by outlining initial cluster conditions



Stage 2
Initiation to establish cluster development framework

Step 3
Perform initiation

Step 4
Establish cluster development framework

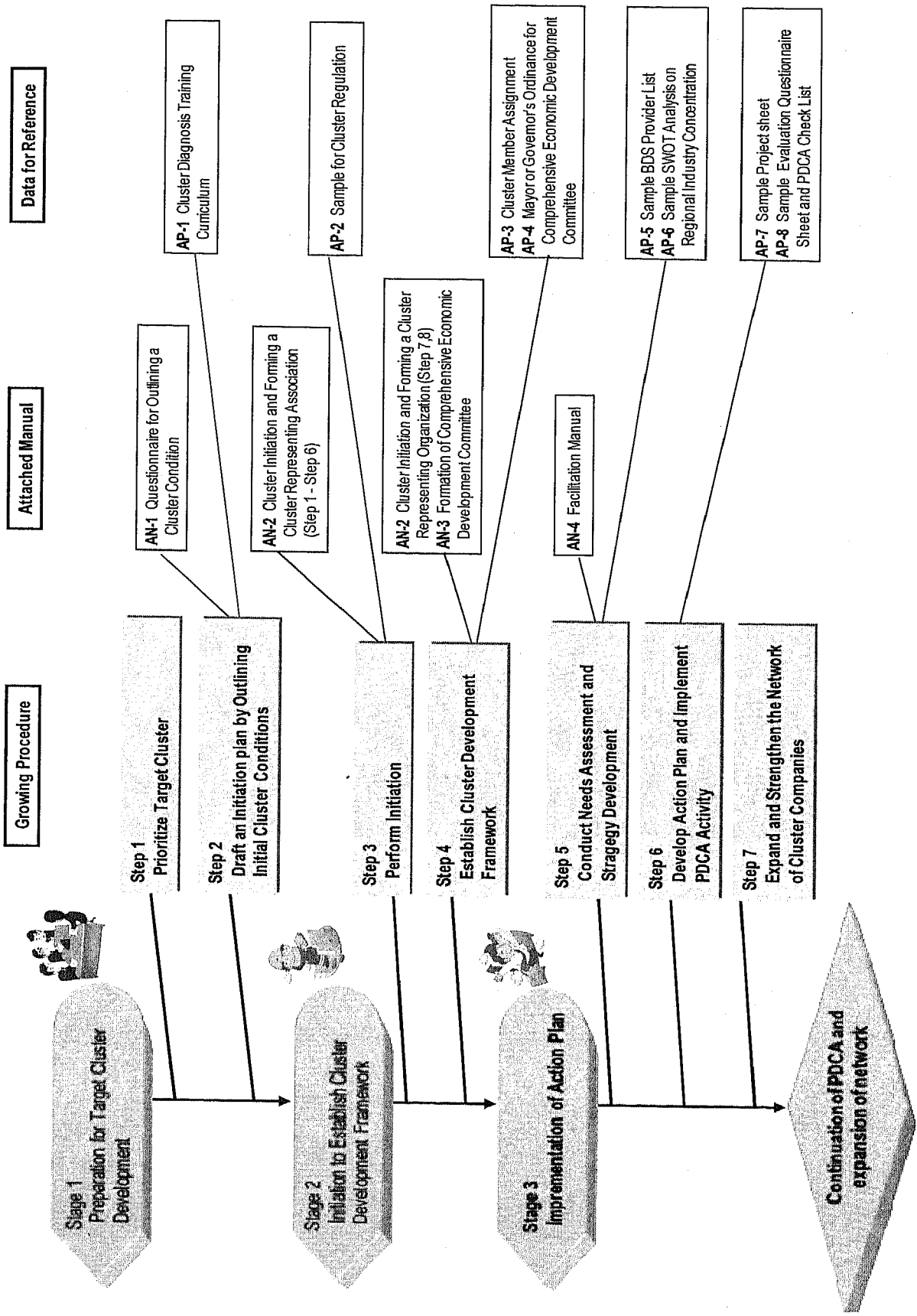


Stage 3
Implementation of action plan

Step 5
Conduct needs assessment and strategy development

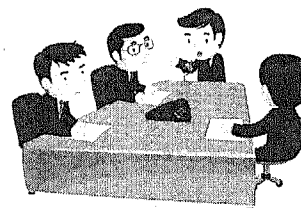
Step 6
Develop action plan and implement PDCA activity

Step 7
Expand and strengthen the network of cluster companies



2.1 STAGE 1: PREPARATION FOR TARGET CLUSTER DEVELOPMENT

This stage consists of the two steps. First, the provincial, regency and city governments select priority clusters. Second, surveyors evaluate initial cluster conditions and draft initiation plans.



2.1.1 Step 1: Prioritize Target Cluster

Most provinces, regencies and cities have already prioritized industries to be promoted in their development strategies. Budgets are provisioned for promotional measures for these prioritized industries. Budget can be allocated to promote those industries through the cluster approach, which is one of the industrial promotion measures. Hence, they are major candidates of target clusters. Selection of the target clusters should be based on such criteria as degree of concentration of core companies, size of labor force, amount of total sales, existence of the supporting industries and marketability.

The number of such target clusters corresponds to the amount of allocated budget and the number of persons who can work on the clustering.

Details of this Step are presented below.

Government officials headed by Koperindag (Disperindag) hold a joint meeting with representatives from other divisions of the government to decide the target clusters where support for clustering will be extended. BAPPEDA can coordinate sectoral interests of different Dinas because it is in a neutral position in terms of industrial sectors.

- (1) Objective: To select the priority clusters and the number of target clusters where clustering activities are actively supported by provinces, regencies and cities in the first year.
- (2) Output:
 - 1) Priority order of promoting clusters
 - 2) The number of target clusters where clustering activities are actively supported in the first year
 - 3) Nomination of a surveyor who will evaluate initial conditions of the target clusters and draft an initiation plan in Step 2
- (3) Activity:
 - 1) Hold a meeting among Dinases to decide secretariat to administrate clustering
 - 2) Select priority clusters
 - 3) Decide the number of target clusters where clustering activities are actively supported in the first year
 - 4) Select a surveyor to evaluate the initial cluster conditions
- (4) Responsible body: Koperindag or Disperindag, or any governmental division which can take the initiative in cluster development activities



Note: Provincial scale clusters which span a wide area covering many regencies and cities in the province shall be administrated by the provincial government. Regency level clusters or city level clusters where the boundaries are limited within the regency or the city shall be administrated by the respective governments.

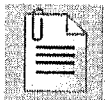
- (5) Key members: Every Dinas, BAPPEDA
- (6) Assisting members: KADIN, industrial associations, universities

2.1.2 Step 2: Draft an Initiation Plan by Outlining Initial Cluster Conditions

- (1) Objective: To draft an initiation plan by identifying initial conditions of the target clusters
- (2) Output:
 - 1) Outline of the target clusters
 - 2) A plan and budget for initiation
- (3) Activity:
 - 1) Dispatch a surveyor to each target cluster
 - 2) Hold a meeting attended by the potent stakeholders to collect basic information of the target cluster and exchange opinions
 - 3) Implement the simplified cluster analysis by hearing from the meeting attendees and by using a questionnaire sheet
 - 4) Draft an initiation plan including target output during the activity.
 - 5) Submit the drafted plan to the provincial and regency/city level CEDC, if already established
 - 6) Assign a cluster facilitator who will implement initiation
- (4) Responsible body: Koperindag or Disperindag, or any governmental division which can take the initiative in cluster development activities
- (5) Key members: A surveyor
- (6) Assisting members: BAPPEDA, cooperatives and cluster companies



There is indispensable information to be collected for outlining the cluster conditions. See **“Questionnaire for Outlining Cluster Conditions”** attached as the ANNEX-1.

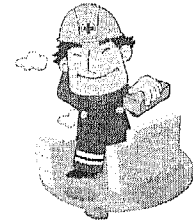


In order to improve capability to diagnose competitiveness of the regional industry, it is recommended to implement the “Cluster diagnosis training.” See **Appendix-1** for the **“Cluster Diagnosis Training Curriculum”**.



Note: The surveyor should possess capability to evaluate market competitiveness of the target cluster.

2.2 STAGE2:INITIATION TO ESTABLISHCLUSTER DEVELOPMENT FRAMEWORK



This stage performs initiation to establish cluster development framework.

If the survey for the initial conditions in Stage 1 concluded that the target cluster already had established a sufficient network, then the initiation thereafter would not be necessary. In that case, the facilitation activities should focus on strengthening and further expanding the network and on supporting implementation of activities for the cluster development.



Note: In the embroidery cluster in the Bukittinggi City, West Sumatra where the JICA Study Team conducted a pilot project, cluster development activities are ongoing based upon the top-down approach of the Ministry of Industry. In this cluster, there exists a Focus Group Discussion as the organization that represents the cluster. However, the private sector, which is supposed to be the main actor in the cluster activities, participates in these government-led organization activities not by its own initiatives, but rather in a position to extend cooperation to the government. This has been lessening effects on the cluster activities. Furthermore, there is a high possibility that the cluster activities would be abandoned once the government stops its support to the cluster. For a cluster like this, it is more practicable to further strengthen the cluster network and to build awareness of the value of collaborative work through actually implementing the projects, not by the initiation. In Bukittinggi, the JICA Study Team assigned a cluster facilitator to promote motivation of the private sector and thereby change the existing organization to a more private-sector-led organization. At the same time, the JICA Study Team implemented actions to promote awareness of the value of collaborative work as well.

2.2.1 Step 3: Perform Initiation

- (1) Objective: To encourage cluster stakeholders to start joint working by sharing the same vision and mission for the cluster development, and to complement weakness that each core company has in terms of competitiveness
- (2) Output:
 - 1) A cluster vision and mission
 - 2) acting cluster board members for establishment of a cluster representing association
 - 3) a draft article of association of the cluster representing association
- (3) Activity (See ANNEX-2 for **Cluster Initiation and Forming a Cluster Representing Association**):
 - 1) Prepare the detailed initiation schedule based on the drafted initiation plan developed in Step 2
 - 2) Hold an initial meeting attended by the key stakeholders with help of Koperindag or Disperindag
 - 3) Divide cluster companies into small groups by their residing location in the cluster
 - 4) Hold the group-based meetings to select the group leaders and communicate closely with them to promote their motivation for collaboration work in the cluster

- 5) Open plenary meetings where the selected group leaders draft a cluster vision and mission with help of the cluster facilitator and the related government agencies
- 6) Select the acting cluster board members from the group leaders that draft an article of association to establish a cluster representing association (See **Appendix-2 for Sample for Cluster Regulation**)

The cluster facilitators to implement initiation are expected to be:

- Familiar with the target site and the target sector
- Based in an area easily accessible
- Native to the region where the target cluster is located



Note: Sharing the same vision and mission among cluster stakeholders is one of the most important objectives in this Step.

- (4) Responsible body: Koperindag or Disperindag
- (5) Key members: A cluster facilitator, cluster companies, cooperatives, KADIN, industrial associations.
- (6) Assisting members: BAPPEDA, other Dinas.



Note: Step 3 is an indispensable and significant baseline activity to generate cluster initiative. Regional economic development is unlikely to be accelerated without stakeholders' belief in the cluster approach. The cluster facilitator is required to motivate cluster stakeholders by utilizing his/her communication capability to the fullest extent. The facilitator needs to explain how the approach of clustering is effective for regional economic development by presenting practical and relevant examples.



Learning from the previous JICA study: *Pilot projects (in the previous JICA study), at the very beginning, officially established a working group so that some stakeholders may fully understand what they and other supporters can really do for the clusters. Most BDS providers and public supporting institutions which joined the working group from the beginning just attended the meetings and did not generate ideas that could give influence onto action programs. Generally speaking, the Study Team was able to find more influential supporters later than those initially selected, as the action programs of the cluster became more concrete.*



Note: Motivation of cluster stakeholders for undertaking the collaboration works becomes higher as the number of meetings and communication with a capable cluster facilitator becomes frequent.

2.2.2 Step4: Establish Cluster Development Framework

- (1) Objective: To establish a cluster development framework by involving both public and private cluster stakeholders
- (2) Output: 1) A cluster representing association (See Step 7 and 8 of ANNEX-2)
2) A Comprehensive Economic Development Committee (CEDC)(See ANNEX-3 for **Formation of Comprehensive Economic Development Committee**)



Note: After Step 5 and 6 of ANNEX-2, the vision and mission of the cluster becomes clear. It is recommended to start developing a Comprehensive Economic Development Committee to accelerate cluster development. This committee is very helpful to promote clusters though it is not a direct action of clustering.

- (3) Activities for output 1:
 - 1) Hold a plenary cluster meeting coordinated by the acting cluster board membersto decide the formal cluster board members
 - 2) Select cluster leaders from attendees of the meeting either by voting or recommendation (See **Cluster Member Assignment in Appendix-3**)
 - 3) Confirm an article of association of the cluster representing association
 - 4) Announcethe formalestablishment of thecluster representing association
 - 5) Make an annual clustering plan
 - 6) Develop a budget plan for implementation of the annual clustering plan

Activities for output 2:

- 1) Open a stakeholder meeting to set up a preparatory committee to establish a CEDC
 - 2) Study concept of theCEDC to confirm its objectives and strategies
 - 3) Hold a meeting to draft the basic framework of the CEDC and develop draft regulation of it
 - 4) Decide on the secretariat office and administration members of the CEDC
 - 5) Prepare a regular meeting schedule and anorganization chart of the CEDC
 - 6) Prepare a request letter to the local government office to issue the order for establishment of the CEDC
 - 7) Enact regulation of the CEDC and announce establishment of it(See sample of Mayor or **Governor's Ordinance for the Comprehensive Economic Development Committee and other Regulations in Appendix-4**)
- (4) Responsible body:
 - Output 1: Acting cluster board members, a cluster facilitator
 - Output 2: Koperindag or Disperindag, BAPPEDA
 - (5) Key members:
 - Affiliates of the cluster representing association: Cluster companies, cooperatives, industrial associations, KADIN
 - Affiliates of the CEDC: Cooperatives, industrial associations, KADIN, public institutions, universities, banks, a cluster representing association

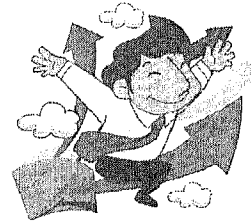


Note: The cluster representing association is recommended to obtain the corporate status in the future because the association may be able to obtain a subsidy from the government in such a case. Also, the association would be able to embark on

commercial activity after obtaining the corporate status.

2.3 STAGE 3: IMPLEMENTATION OF ACTION PLAN

The base works to start cluster development activities have completed by the Stage 2. At this Stage, the cluster is ready to implement specific actions to benefit from collaborative activities among its stakeholders.



2.3.1 Step 5: Conduct Needs Assessment and Strategy Development

- (1) Objective: To identify development disincentives and comparative advantages of the cluster to prepare for development of the action plan



Note: Economic development activities of the cluster would become better if implemented with assistance of a cluster facilitator in view of the effectiveness and efficiency. A cluster facilitator is a specialist who can coordinate various BDS providers to accelerate cluster development.

- (2) Output: A short list of priority actions, accessible BDS provider list, cluster mapping, business climates of the cluster.
- (3) Activity:
 - 1) Open cluster diagnosis workshops to identify the conditions and business climates of the cluster
 - 2) Conduct a SWOT analysis and apply results of the analysis to create development strategies of the cluster
 - 3) Enumerate as many themes as possible that will be effective to promote development of the cluster (long list of actions)
 - 4) Shortlist the theme of action plans which need to be implemented immediately, from those listed in Activity 3) (short list of priority actions)
 - 5) Disseminate the short list of themes to all the cluster stakeholders for information sharing
- (4) Responsible body: A cluster representing association and a cluster facilitator
- (5) Key members: Cluster companies, BDS providers, banks
- (6) Assisting members: Koperindag or Disperindag, cooperatives, KADIN



Note: In order to achieve maximum success in the action plan, the cluster conditions should be identified thoroughly by utilizing knowledge and experience of BDS providers. Especially, it is recommended to invite Shindanshis, universities, and banks to perform a cluster diagnosis.



See ANNEX-4 for Facilitation Manual.



Note: According to the previous JICA study, *the cluster facilitator needs to highlight the bottom-up or participatory approach to SMEs and other stakeholders. Their*

consensus should be fairly taken, and be raised as subject of their own discussion. The facilitator should only facilitate and not judge or discard opinions, and instead allow stakeholders to decide to take them up or not.

The facilitator should ensure that each action will constitute a realistic implementation plan, addressing the following matters:

- *Why will an action be done and what will be changed or achieved?*
- *What outputs will be assumed?*
- *Who will be responsible?*
- *When will it be undertaken?*
- *Will the outside supporter be required?*
- *Who can the supporter be?*
- *What role of local government will be expected?*
- *How much will be necessary?*
- *How will the outcome be monitored and reported?*



See “**ANNEX-4 for Facilitation Manual**” developed by JICA Study Team.



See “**Sample of BDS Provider List**” in **Appendix-5**.



See “**Sample SWOT Analysis on Regional Industry Concentration**” in **Appendix-6**.

2.3.2 Step 6: Develop Action Plan and Implement PDCA Activity

- (1) Objective: To promote economic development of the cluster in terms of improvement of raw materials, improvement of production, improvement of market access, promotion of human resources and improvement of financial condition.
- (2) Output: An action plan, Project Design Matrix (PDM) of each action or equivalent format like log-frame
- (3) Activity
 - 1) Select priority theme of each action from the short list developed in Step 5
 - 2) Develop an action that sets a goal, objective, output, inputs, implementation schedule and implementing agencies for each selected theme.
 - 3) Develop a PDM for each action based upon Activity 2) and evaluation methods and performance indicators based upon the PDM
 - 4) Disseminate information about the each action to cluster stakeholders
 - 5) Start actions and conduct mid-term evaluation
 - 6) Evaluate mid-term progress and performance of the each action and discuss improvement plans
 - 7) Implement the actions based on results of the mid-term evaluation
 - 8) Disseminate information regarding the outputs of the each action to cluster stakeholders and record them for reference to plan and implement similar actions in the future.
- (4) Responsible body: A cluster representing association, a cluster facilitator

- (5) Key members: Cluster companies, BDS providers, a Comprehensive Economic Development Committee (if already established)
- (6) Assisting members: Koperindag or Disperindag, other Dinas, cooperatives, KADIN, banks

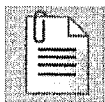


Note: Important suggestions from the previous JICA study: *Strengthening linkages with supporting institutions/BDS providers are vital to ensure that cluster SMEs make up for lack of resources and knowledge required for the strategic program. Public institutions will be better candidates to satisfy the specific technical needs in the most of cases because SMEs are hardly able to pay fees in commercial basis. The local government and SMEs are not usually informed on where better supporting resources can be sourced. The facilitator should persistently consult with various stakeholders to obtain relevant information on supporting institutions/BDS providers and identify those appropriate and capable, considering what SMEs specifically expected.*

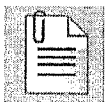


Note: According to the lessons from the previous JICA study, *the cluster facilitator needs to ensure that action plans of short-term nature are undertaken first. The results of such actions will quickly emerge, serving to sustain the interests of the participants. The following derivatives can also be expected during the course of the program as the valuable inputs to the design of the subsequent strategic program:*

- *Identity of the cluster*
- *Market/technical information obtained*
- *New or improved practices attempted and learned*
- *Supporting resources encountered*



See "Sample Project Sheet" in Appendix-7.



See "Sample Evaluation Questionnaire Sheet and PDCA Checklist" in Appendix- 8.



Note: In carrying out an action plan, cluster stakeholders are recommended to prepare PDMs with the help of governmental participants. PDMs will be effective to evaluate performance of the action plans. Also, it is highly recommended to implement the mid-term evaluation to improve the action plans thereafter.

2.3.3 Step 7: Expand and Strengthen the Network of Cluster Companies

- (1) Objective: To enlarge the scale of local economies and to improve value chain linkages
- (2) Output: Increase in the number of cluster companies that participate in the cluster representing association, and expansion of the network of cluster companies
- (3) Activity:

- 1) Review cluster mapping data to identify bottle neck of value chain in the cluster
 - 2) Collect information of the target companies in the cluster or within the accessible distance
 - 3) Prepare newsletters of the cluster representing association to introduce progress of the action plan and other cluster activities and distribute to all the cluster companies (even to those which are not a member of the cluster representing association)
 - 4) Solicit the cluster companies which are not currently a member of the cluster representing association to participate in it
 - 5) Introduce cluster activities through mass media
 - 6) Engage in enlightenment activities to attract interests of non cluster companies such as training, cross-industry meetings, seminars, study tours, etc.
- (4) Responsible body: A cluster representing association
 - (5) Key members: Cluster companies
 - (6) Assisting members: Koperindag or Disperindag, cooperatives, industrial associations, mass media



Note: Learning by own experience allows cluster stakeholdersto be more proactive in participating in the cluster activities. In this regard, visits to other clusters and markets will provide them with the opportunity to recognize the benefit of clustering. In both the pilot projects in the Bukittinggi embroidery cluster and the Sumedangnilam cluster, the JICA Study Team arranged study tours to the competing clustersto motivate the stakeholders' awareness on sharing the common vision and mission as the cluster participants.

ANNEX-1 Questionnaire for outlining cluster conditions

Questionnaire for outlining cluster condition:

Objective:

- Identification of target market and competitiveness of the cluster
- Identification of development potentiality
- Identification of importance of the cluster in regional level or national level
- Providing basic information to prepare an initiation activity plan and budget estimation

| | | | |
|--------|--|--------------------------|--|
| Base 1 | Geographic distance | <input type="checkbox"/> | within 2.5 km radius and within 30 minutes of traveling |
| | | <input type="checkbox"/> | within 2.5 km radius and within 1 hour of traveling |
| | | <input type="checkbox"/> | within 2.5 km radius and within 2 hours of traveling |
| | | <input type="checkbox"/> | within 5 km radius and within 2 hours of traveling |
| | | <input type="checkbox"/> | Within 5 km radius and over 2 hours of traveling |
| Base 2 | Number of core companies | <input type="checkbox"/> | More than 200 companies |
| | | <input type="checkbox"/> | Over 100, within 200 companies |
| | | <input type="checkbox"/> | Over 50, within 100 companies |
| | | <input type="checkbox"/> | Over 15, within 50 companies |
| | | <input type="checkbox"/> | Within 15 companies |
| Base 3 | Subsector/ market | <input type="checkbox"/> | There is a big market domestic and overseas and growing industry with high possibility for innovation |
| | | <input type="checkbox"/> | Moderately growing industry having a stable local market |
| | | <input type="checkbox"/> | Industry with stable local market and having possibility to exploit oversea demand through aggressive marketing |
| | | <input type="checkbox"/> | Industry with stable local market but without potential to expand overseas |
| | | <input type="checkbox"/> | Stagnant, conventional industry with limited regional market |
| Base 4 | Existence of comparative advantage raw materials | <input type="checkbox"/> | High quality and cheap raw materials can be obtained regionally |
| | | <input type="checkbox"/> | High quality and cheap raw materials can be obtained regionally but only seasonally and in limited quantity |
| | | <input type="checkbox"/> | High quality raw materials are available regionally and freely |
| | | <input type="checkbox"/> | Cheap raw materials are available regionally and freely |
| | | <input type="checkbox"/> | Cheap raw materials are available regionally and freely but only seasonally and in limited quantity |
| Base 5 | Local particular resources | <input type="checkbox"/> | Special, traditional resources are available abundantly and is well known locally and overseas |
| | | <input type="checkbox"/> | Special, traditional resources are available abundantly and is well known locally |
| | | <input type="checkbox"/> | Special, traditional resources are available abundantly and is relatively well known locally |
| | | <input type="checkbox"/> | Special resources are relatively available |
| | | <input type="checkbox"/> | Special resources are not available locally |
| Base 6 | R&D institutes | <input type="checkbox"/> | There are more than 5 R&D institutes within one hour of traveling and industry-public-academy alliance has been formed in the past |
| | | <input type="checkbox"/> | There are more than 2 R&D institutes within 1 hour of traveling. And, industry-public-academy alliance is eagerly done. |
| | | <input type="checkbox"/> | There are universities, institutes and/or technical high school within 1 hour of traveling. Industry-Public-Academic joint effort has started discussion. |
| | | <input type="checkbox"/> | There are UPT and a technical high school within 1 hour of traveling. Industry-Public-Academic joint effort has just started in low technology field. |
| | | <input type="checkbox"/> | There are UPT and a technical high school within 1 hour of traveling. Industry-Public-Academic joint working has not started yet. |
| Base 7 | Network promotion agents | <input type="checkbox"/> | There is a facilitator assigned by Disperindag and clustering activity is aggressively done. A project supported by the national government is being conducted and committee meetings have been held regularly. A network among the facilitator, BDS providers and cluster members has developed. Cluster development is assured by the regulation and promotion measure has been devised. Tangible outcomes are observed. |
| | | <input type="checkbox"/> | There is a facilitator assigned by Disperindag and clustering activity is aggressively done. A project supported by the national government is being conducted and committee meetings have been held regularly. A network among the facilitator, BDS providers and cluster members has developed. Cluster development measures have just started. |

ANNEX-2: Cluster initiation and forming a cluster representing association



Initiation work to form industrial cluster organization

1. The Form of Industrial Cluster

Industrial cluster is an agglomeration of industrial firms having business network among companies based on the value chain relations.

Unfortunately, majority of clusters; sentra in Indonesia, does not have such business network relation to accelerate their development through joint activity within the cluster. Therefore, it is highly requested to local administrator to start initiation to form an industrial cluster because the most cluster's main actors in the country are not aware of the importance of forming industrial cluster.

Again, industrial cluster is an association of businesses on the basis of value chain consisting mainly of core businesses, supporting industries, market distributors, technical institutes, financing agents, business associations, government and et cetera. And, clusters are operated in cluster's own initiative under the management of cluster representing association.

Initiation stage ends with Step 6 and, a new activity will start from the Step 7.

The following approach has been designed on the basis of lessons learnt at JICA's pilot projects and experiences of two facilitator agents: PUPUK and RDC.

Step 1:

First discussion between a facilitator and cluster stakeholders

Initiation starts from holding a kickoff meeting with cluster stakeholders and facilitator. The first meeting should have presence of such potent stakeholders as industrial association, cooperative, big company, bank, Kadin, universities, Dinas and core business companies.

The meeting starts from seminar or dialogue to make participants understand about necessity to develop a network among core businesses and stakeholders for boosting economy of the region. Important points to be transferred by the facilitator are:

1. Why clustering is effective for development of regional economy
2. Why clustering is effective to increase profit of each firms

ANNEX-2: Cluster initiation and forming a cluster representing association

3. Success story in Indonesia

4. General outline of cluster activity

These are the indispensable topics to be transferred to participants to lure and motivate their awareness for clustering activity. But do not forget that the discussion is just a starting point and the number of participant shares just a little among whole cluster stakeholders.

According to the JICA's pilot project's lessons learnt, initiation activity is better to hold in a small group because each participant can take part in the discussion to express his / her expectations freely.

Step 2:

Determine each small group leader through small group meeting

After the initial stakeholder discussion with potent members and regional meeting with small group members, the facilitator select a key member among each small group. Generally, these key persons are the leaders of the region or are the respected persons of the region. These persons can be an important coordinator in the region if they come to understand the meaning of clustering approach. These key persons will be a connecting channel to connect facilitator and regional stakeholders.

- Facilitator is better to enumerate all the participants into a cluster stakeholder list as initial information of cluster mapping.
- Name of participants, region, and core business should be recorded, at least.
- At the same time, it is better to request cooperative, industrial association, and other cluster relating organizations to develop a cluster map.

Step 3:

Discuss among the small groups and stakeholders

Facilitator shall hold a discussion meeting with each regional and small group leader to deepen understanding on clustering approach. It is true that this stage discussion could concrete base understanding of stakeholders in clustering approach. Leader of each small group will be able to take initiative of the discussion little by little from this stage.

Step 4:

Plan a focus group discussion (FGD)

This is a preparation stage to associate a cluster representing association; focus group discussion. Facilitator invites each small group leaders into a group discussion meeting to

ANNEX-2: Cluster initiation and forming a cluster representing association

discuss how to increase regional economic competitiveness. This discussion meeting shall be implemented in participatory approach to promote motivation of all the participants as an acting member of clustering. This is a initial activity to develop vision and mission among small group leaders.



Note: Participatory approach is a method to hold a meeting and to motivate participants as an aggressive central player of the meeting. PCM (project cycle management) and PACA (Participatory Appraisal of Competitive Advantage) is well known as participatory approach.

Step 5: FGD-1.

Goal: the understanding about local competitiveness and the foundation of industrial cluster also the arrangement of specific cluster theme.

Hold a plenary meeting inviting regional leaders, representative from potent stakeholders and government officials. Sometime, Step 4 and 5 can be combined in one time.

This meeting is important because a mission and a vision of the cluster will be drafted jointly with the local administrators. Because, governmental support is important to assure sustainable development and success of cluster's project.

First agenda is to confirm vision and mission of the cluster development as the regional target.

In this stage, second important agenda is to decide acting cluster representing members and procedure to associate a formal cluster representing organization.

The third important agenda is to draft a cluster rules including number of board member, appointment (chairman, vice chairman, head administrator, audit, accountant, protocol), their responsibility, remuneration, term of duty, membership eligibility and etc.



Note: At Step 5 and 6, vision and mission of the cluster becomes clear. It is recommended to start developing a cluster supporting committee to accelerate cluster development.

Step 6: FGD-2.

Goal: The formation of cluster strengthens supervised by working group of the cluster (Cluster representing organization).

Following the FGD-1, cluster stakeholders holds a plenary meeting to associate a

ANNEX-2: Cluster initiation and forming a cluster representing association

cluster representing organization. In this meeting, acting representatives will announce selection of board members and chairman of the cluster representing organization. Selection of board member will be done either recommendation or voting among stakeholders.

As the output of this FGD-2, formal members of cluster representing organization will announce erection of the cluster organization. After the announcement, agenda for the next meeting and opening date will be announced.

Initiation activity starts with identifying cluster stakeholders and promotes their awareness to work jointly and end with establishment of cluster representing organization.

ANNEX-2: Cluster initiation and forming a cluster representing association

2. Steps to associate a cluster representing association

Step 7:

Discussion within the cluster representing organization

Cluster representing organization has formed at the previous stage. The cluster activity from this stage will be continued with the initiative of the board members and assistance from facilitator.

Important meeting agenda to be discussed at the initial and second meeting:

- Modification and authorization of draft cluster rule prepared by the acting representatives (See ANNEX-3 of Article of Association)
- Prepare an activity schedule
- Budget planning and acquirement
- Drafting of information sharing among members
- Update cluster member list



Note: Cluster representing organization can choose regally formal position or informal position by applying corporate status. In case the organization obtains corporate status, it can start commercial activity as well. It is completely depending on each cluster which status to choose.

Meeting agenda to be discussed at the third meeting and thereafter

- Determination of geographical coverage of the cluster
- Confirm of map participant
- Database development
- Drafting action plan list for regional economic development

The participant map arranged on the previous FGD needs to be reviewed. However, this map is better to be renewed time to time based on the increase of stakeholders. The important aspect in this stage is the geographical coverage of the cluster and scope of economic development project for the cluster. The determined database is discussed its completeness and the achievement mechanism. We also need to evaluate the matrix of activity planning and discuss its progress.

ANNEX-2: Cluster initiation and forming a cluster representing association

Step 8:

Plenary meeting to enumerate action plan for economic development

Participant: the present organization member

1. Agenda: Innovative information; The sharpening of intervention agenda; competitiveness forum in regional level

This meeting is the large meeting presented by the cluster organization. The entire working group member that are representing small group explains their progress followed by the arranged supporting data. In this opportunity, they also discuss about the synchronization of intervention and synergy possibility among the cluster. The harmonization of intervention and other initiation relating to the cluster may suggest the necessity to build a collaborative forum for trans-cluster. In addition, it needs to grow the consciousness of increasing innovation capacity, both general innovation and innovation of specific cluster. The collaborative forum is arranged/ determined from the whole working group and if necessary, it can invite a new member considered who has a capability. This forum is called as “the competitiveness forum / council” and has members from regional institutions.

As the formation of the collaborative institution, the formation of the industrial cluster has not finished yet. Some of the people often consider that the eighth step is the last step for the initiating the industrial cluster. The progress, declination, and stagnancy of the industrial cluster vary depend on the activity of the working group (cluster representing organization). There are some guidelines to hold the activity of working group.

ANNEX-3 Formation of comprehensive economic development committee

Formation of comprehensive economic development committee

Comprehensive economic development committee can be the most strong supporting organization to clusters that are expecting to develop in own effort. In other word, this committee, FEDEP or FPESD in Central Java, is a facilitating body to enhance added value of clusters. The committee is a joint organization of various stakeholders headed by governmental organization to assure economic development of the region. One of the significant cartelistic of this organization is that the organization is a forum with commitment. This committee has a mission to stipulate synergetic and development programs for clusters and to facilitate policy formulation.

The committee consists of various stakeholders such as public administration beyond sectors, representative from industry, Kadin or Kadinda, Academic institutes, Research and Development Institutions, Bank.

In Central Java, activity of the committee is legalized by the order or decree of administrative leader or governor. Because, the commitment made by the committee covers wider industrial sectors beyond one governmental department.

Just like associating a cluster representing organization, we need initiator to start this activity, of course. Bappeda or Dinas is recommended to initiate the activity at the beginning stage.

There is no definite rule to organize the committee; however, here is a sample to follow.

Step 1: Organize Initial Stakeholder Meeting

Through this meeting each member exchange opinions to deepen own understanding in cluster development and its approach.

Initial actions to be done:

1. Seminar on “cluster approach”: speaker is better to be invited from experienced organization such as RDC (Resource Development Center in Central Java) or PUPUK, Bandung.
2. Exchange opinions amongst seminar attendants to share a mission of the committee
3. Enumerate important members to be invited to the following meeting.
4. Decide the schedule and agenda of the following meeting.

Step 2: Hold meetings to draft basic framework of the committee

The following agenda should be discussed and determined:

ANNEX-3 Formation of comprehensive economic development committee

1. Confirm the objective of the committee
2. Vote to decide working group members and acting leader to set up the formal committee.
3. Drafting a rules, commitment, activities and terms.
4. Drafting an agenda for the next meeting and roles of each working group member.

Step 3: Establish a formal committee

1. Presentation by acting leader to confirm objective and mission of establishing the committee
2. Decision of chairman and board members of the committee by voting.
3. Confirm and modify draft rules and et cetera which acting member prepared
4. Declaration of establishment of the formal committee

Step 4. Draft forum regulation to legalize its activity and commitment

At this moment, the committee has not authorized as administrative organization. The committee needs to be formalized by governor's decree or similar regulations. Objective to develop the regulation is to assure role and objective of clustering activity by substantive enactment. As the output of this activity, the administrative members who are relating to cluster development will obtain regulation to legalize committee decisions.

Main activity to be implemented:

1. Submission of the draft paper and request to the governor for approval and enactment
2. Subscription as the formal administrative organization



See Mayor or governor's ordinance for integrated economic development committee (FPESD in central Java) and of Annex-4

Step 5: Select priority cluster to be promoted

After the committee legalized, selection of priority cluster to be developed shall be decided by this committee. And these are the main activity to be done by the committee:

1. Selection of promising and priority clusters to be promoted advance
2. Development of cluster development strategy of the region
3. Appoint facilitator for initial survey to identify cluster conditions and allocation of budget for the facilitation work

The following activity by the committee shall be determined by each committee!

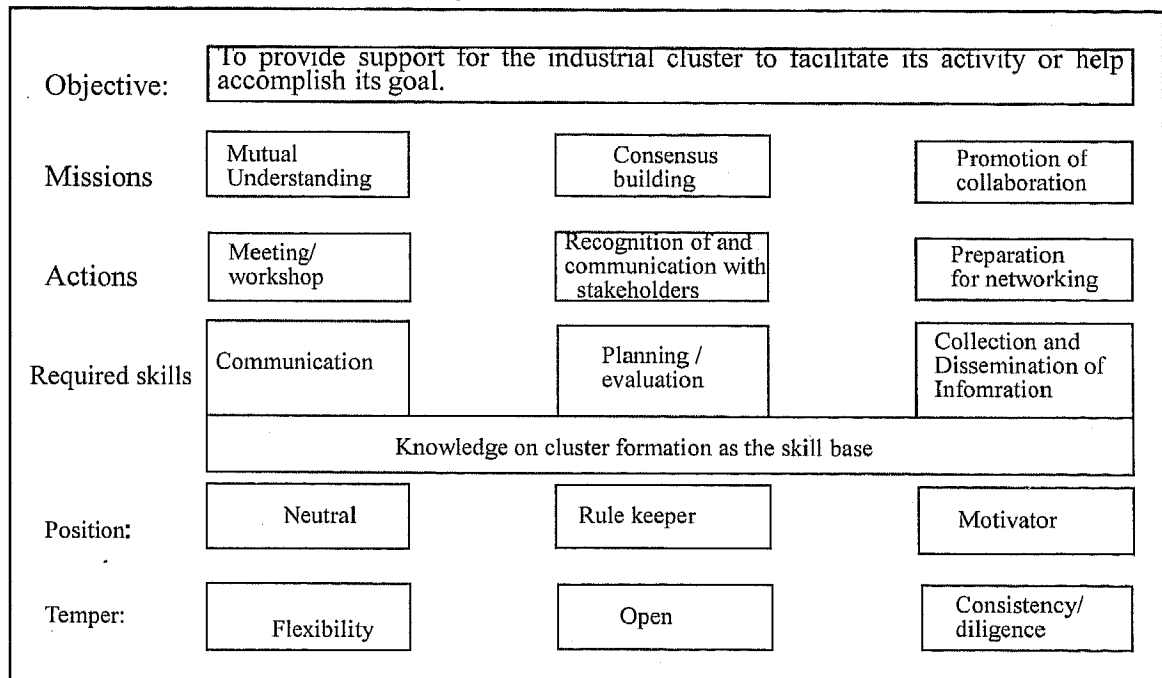
Cluster Facilitation Manual

1 What is the Facilitator and What does he do?

1.1 Definition and Goal

The following diagram presents a general outline of the cluster facilitation manual. Generally speaking, the primary objective of the facilitator is to improve competitiveness of an industrial cluster, thereby achieving growth of sales and employment. To accomplish such goal, the facilitator provides indirect support for the cluster to ensure smooth implementation of its activity.

Figure 1 Conceptual View of the Cluster Facilitator



Source: JICA Study Team

1.2 Mission of the facilitator

To help the industrial cluster to implement its activity or accomplish its goal, the facilitator generally assumes the following missions:

- Support relating to mutual understanding
- Support relating to consensus building
- Promotion of collaboration

Mutual understanding forms the foundation of social capital formation and is indispensable in cluster development. In practice, the facilitator is expected to take a lead in promoting mutual

understanding among cluster members by means of meeting and workshop. In particular, the facilitator is required to understand the circumstances facing each stakeholder, including his position and opinion, and to act as intermediary. In addition to the formal meeting, therefore, the facilitator needs to conduct activities that help strengthen relationship between individual stakeholders.

Importantly, the cluster's activities should be decided by its members in the form of consensus building, rather than by the government as done in the past. The facilitator is expected to set direction for discussion at a meeting or a workshop so as to encourage smooth consensus building. For this purpose, he needs to employ various techniques to promote effective discussion toward an agreement, rather than the mere exchange of opinions, including visual aids, body movement, and other techniques to manage the meeting. Also, efforts should be made to ensure productive discussion within a limited period of time.

The cluster's activities should be implemented under full commitment and participation of its members (and the organization representing them), rather than a public project that is planned and implemented by government according to its policy and logic. Ideally, they should be led by the cluster itself, not by the government. To this end, the facilitator should go beyond the role of the moderator or coordinator and promote collaborative efforts by cluster members. For instance, he needs to introduce activities that are conducive to collaborative initiatives and invite cluster members to participate in them.

Finally, the facilitator may be expected to act as a leader or a consultant. This means that a facilitator happens to be also a corporate leader or a consultant, and otherwise he is not required to assume an additional function that requires some qualification.

2 Cluster's Activities for Accomplishment of Its Goal and Mission

2.1 Meeting/Workshop

Meetings and workshops constitute a core element of the cluster's activity. They serve as an engine to deepen mutual understanding and build consensus among stakeholders. In this connection, the facilitator is expected to play an important role in setting direction for discussion by paying attention to the following points:

- To make the issues clear in the discussion process
- To encourage active participation by as many persons as possible
- To keep discussion in line with agreed agenda

Rules should be set at the outset of the meeting so that a particular person and his opinion cannot dominate discussion or may otherwise be excluded. Such rules may as well include the

following rules relating to brainstorming sessions:

- 1) To refrain from criticism, especially subjective judgment or negative comment on an idea offered by others
- 2) To embrace a new idea, no matter how absurd, outrageous or outlandish it looks or sounds
- 3) To gobble up a flood of ideas, i.e., the more, the better
- 4) To strive to refine, develop or incorporate ideas of others, i.e., to welcome improvement and combination

The facilitator may express his own opinion as a cluster member, but more importantly, he is expected to stimulate participants to express opinions and ideas freely by using various tools, such as a sheet of paper or a label to write an idea (which is also useful for assorting a number of ideas). Also, the facilitator should serve as a moderator to control the discussion process by asking a question to a person who is not actively participated in the discussion, summarizing discussion as well as opinions, and clarifying an opinion or an issue.

2.2 Recognition of and Communication with Key Stakeholders

Generally, recognition of key stakeholders and communication with them take place in the initial stage when the facilitator pay visit, for the purpose of identifying who could be a key person or a leader and understanding the relationship between stakeholders, including related issues.

In addition to information gathering in relation to stakeholders, direct communication is critical in building a good relationship with them. In particular, a facilitator who is not an insider (not representing a cluster member or stakeholder) should preferably gain confidence of stakeholders in the course of the initial dialogue. Even a facilitator who has established a good relationship with stakeholders should explain about the cluster and its intent the at the formation stage by visiting stakeholders and inviting them to the first meeting.

2.3 Preparation for Networking

Tasks required in the cluster formation process include communication with local governments (including requests) and the development of rules relating to committees and other organizations. While these tasks should be handled by respective organizations and their staffs, the facilitator is required to undertake some of them in the initial stage of cluster formation.

Networking of known stakeholders can be made by ordinary means of communication, whereas potential stakeholders with no contact or communication should be recruited by the facilitator, such as technical institutes and organizations, universities, potential investors, which may be

linked to the cluster.

3. Skills

For the facilitator to carry out the above cluster-related activities smoothly, the following skills are required.

3.1 Communication

Communication skills are essential in proper management of meetings and workshops and productive dialogues with individual stakeholders. In particular, good listening is the key to extraction of opinions and ideas. At the same time, the ability to ask questions that stimulate responses is important. Preparing a set of questions in advance is often appropriate and effective in coaxing interesting ideas.

Managing the meeting properly requires communication skills relating to problem solving. The facilitator should be capable of clarifying a problem and showing to participants what they can gain from solving it. Then, he should be able to help participants to come up with a solution by leading discussion in a constructive manner.

3.2 Planning and Evaluation

In the initial stage of cluster formation, members often do not have a clear idea about making a cluster development plan. Here the facilitator should act as a moderator and lead a participatory planning process. There are several methods for participatory planning, from which the facilitator can choose at his discretion. The important thing is to ensure that participants are actively involved in the planning process, while understanding what is going on and what they are doing. Although the participatory planning process does not warrant an agreement by all participants, active participation and understanding ensures cooperation in the later stages of cluster formation.

Then, it is important to learn how to evaluate any action taken on the basis of a plan. Again, the facilitator should ensure that cluster members understand what they are doing and share the evaluation results, regardless of which evaluation method he chooses. The facilitator should be able to serve as a guide in the evaluation process, while ensuring that the outcome of evaluation is used as the basis of improving the ensuing action.

3.3 Collection and dissemination of Information

As a tremendous amount of information is available on the Internet, the ability to select useful

information is becoming increasingly critical. In addition, information not published but owned by key personnel is often very useful and it takes good communication skills to obtain such information.

Information collected provides a value to someone when it is disseminated widely. Information collected from inside and outside sources can be published and made known by a variety of media, including meetings (presentation), newsletters, and Web site.

To collect useful information, knowledge on cluster formation is essential, including relevant theories, examples of cluster formation projects, and field proven formation steps. Also, the facilitator should obtain knowledge on various schemes relating to cluster development, which are offered by governments, banks and donors.

4. Facilitator's Position and Role

To promote the cluster's activities smoothly, the facilitator is expected to assume the following position and role.

4.1 Neutral Position

To accomplish the above goal and mission, the facilitator is required to serve as a catalyst in and out of the cluster, in addition to a promoter of the cluster's activities. The catalytic role entails a neutral position in relation to a variety of stakeholders who participate in the cluster's activities. Clearly, a person who tends to act for the interest of a specific industry or district cannot serve as a catalyst and thus as a facilitator. The facilitator needs to think for all and act for the interest of the entire cluster.

4.2 Rule Keeper

The cluster is generally managed according to its own rules and regulations. The facilitator should see to it that cluster members comply with such rules and are refrained from speech and behavior that can disturb with the cluster's activities, including those not set in the written rules. In this connection, he should consult with key personnel in the cluster and keep stakeholders and cluster members informed of relevant rules, especially those relating to the meeting.

4.3 Motivator

The cluster's activities are effectively driven when members think together and act together. In this conjunction, the facilitator should pay attention to transparency and fairness of the process and proposes actions that are conducive to the cluster's future development. A primary

example is a workshop on the area where the industrial cluster is highly advanced, or on new markets and technology. Also, the facilitator can motivate cluster members to participate in certain activities or set a specific goal or role model. Note that the facilitator should focus on assisting individual members in planning and implementing a specific activity or project.

5. Basic Quality Requirements for the Facilitator

In addition to in-depth knowledge and skills, the facilitator is expected to meet the following requirements.

5.1 Flexibility

Any cluster generally consists of a wide variety of stakeholders who have different interests and views. As the facilitator's primary role is to set a general direction for the cluster by taking into consideration diverse interests and views, he should be flexible enough to understand and accept different positions. He should also be flexible in using past cases and similar projects as reference. When past experience, especially success stories, is overly emphasized or weighed, the cluster may underestimate its true strength and thus fails to differentiate itself from other clusters. The facilitator's flexibility should therefore be used to create actions that can leverage resources and strengths of the cluster and its stakeholders. Finally, the facilitator should respond flexibly to any change in the PDCA cycle, including suspension or termination in the course of a specific action.

5.2 Openness

In Indonesia, it is often difficult to disseminate necessary information. This can prevent the cluster from conducting its activity in an efficient manner, thus deteriorating morale of cluster members. The facilitator is thus expected to disseminate information to as many members as possible in a timely manner. More precisely, he should collect and convey useful information to cluster members, regardless of whether he receives a request to do so.

5.3 Consistency and Diligence

The facilitator can win confidence of customer members by keeping consistent behavior, i.e., he must recognize and fulfill his role expected from his cluster. At the same time, he must be diligent in learning and collecting necessary information for his cluster. While he can rely on an expert to collect technology and other highly specialized information, he should be vigilant of information relating to his cluster.

6. Facilitator's Activity Steps

The facilitator's activities vary according to the cluster's development stage. The following list presents activity steps applicable to an industrial concentration that does not function as a cluster ("Sentra" in many cases).

Table AN5-1 Cluster Facilitator's Activity Steps

| | |
|--|---|
| 1 st Month | <p>Service contract as facilitator (Purpose, period, remuneration, activities expected, and sharing of fruits and costs)</p> <p>2. Recognition of key stakeholders (Interview surveys of related government agencies, associations, and organizations)</p> <p>3. Visit to key stakeholders (including needs assessment surveys of private enterprises)</p> |
| 3 rd Month | <p>4. Kickoff meeting for cluster stakeholders (Invitation to stakeholders)</p> <p>5. Cluster seminar (Identification of common issues, cluster goal and strategy, and formulation of a planning framework)</p> <p>6. Formation of a cluster organization (Development of vision and mission through participatory approach. Expecting output: internal organization, officers, rules)</p> |
| 5 th to 9 th month | <p>7. Meeting of the cluster organization (Details of cluster's activities, implementation method, and problem solving)</p> <p>8. Capacity building for cluster members (leader training and planning)</p> <p>9. Support for cluster's activities (communication and activity monitoring)</p> <p>10. Stakeholders' meeting (or FGD) (Activity report, evaluation, and future activity planning)</p> <p>11. End of facilitator's activity (Collection of opinions on future direction)</p> |

Source: JICA Study Team

ANNEX-4 Facilitation Manual

Note that the activity steps should serve as a general guideline and can vary according to actual conditions. For instance, when the cluster's activities are primarily undertaken by an outside organization, the facilitator may be responsible for communication with the organization and coordination of its activities. Furthermore, if there is a cluster organization (committee or FGD), the facilitator needs to ensure that activities are approved by and reported to the organization.

Training Program for Cluster Diagnosis

March, 2009

1. Objective

To develop human resources that will contribute to cluster development in Indonesia by enhancing trainees' technical and theoretical knowledge about the cluster and cluster diagnosis methods.

2. Target

SHINDANSHIs who have received SHINDANSHI education in the past 5-6 months, and Extension Officers (EO) who are currently involved in promotion activities for either SMEs, Sentras or clusters in their assignments.

3. Training schedule

- 1) Training duration: six (6) hours per day for four (4) days
- 2) Time allocation: 1st session: 9:00 hrs to 10:30 hrs (1.5 hours)
2nd session: 10:45 hrs to 12:00 hrs (11:30 on Friday) (0.75-1.25 hours)
3rd session: 13:30 hrs to 15:00 hrs (1.5 hours)
4th session: 15:15 hrs to 16:30 hrs (1.25 hours)

In addition to the above lecturing, two to three days site survey practice and report making and presentation will be implemented.

4. Curriculum

Refer to the following table:

Table 1 Curriculum for Training Program for Cluster Diagnosis

Day 1

| Session | Course Title | Content |
|-------------------------|--|--|
| 1 st Session | 1. Definition and Concepts of Cluster Approach - Its relation to industrial policy - | While a cluster can simply be defined as the regional concentration of the related industries, it also requested to link up with various business sectors to establish vertical specialization or in supply chain for the development of the product competitive in the region. In a cluster, there needs be an complementary relations amongst the companies that actually produce such the product, supporting industries, and business development service providers including universities, research institutes, SHINDANSHIs and EOs. This course introduces structure of the cluster, including the viewpoints of supply chain. |
| 2 nd Session | 2. Industrial Concentration and Promotion Policy (including cluster promotion seminar) | This course introduces collaboration measures of different industries by taking an example from the case in the Organization for Small & Medium Enterprises and Regional Innovation, Japan. The course presents an example of joint product development by a core company and its supporting industries, as well as the activities undertaken by a regional coordinator (or a facilitator in case of cluster promotion) in the collaboration measures. |
| 3 rd Session | 3. Business Development Service (BDS) Network (Presentation by trainees) | In this course, the trainees are requested to present 1) their understanding as to what BDS providers are and 2) their current assignments in the context of BDS providers. This is done in order for the Japanese trainers to grasp the level of comprehension of SHINDANSHIs about BDS providers. The trainees are also requested to identify problems that they are now facing in their current activities. |
| 4 th Session | 4. SWOT Analysis | SHINDANSHIs have already received training on SWOT analysis. In addition, some of the EOs may possess experience in performing the SWOT analysis in the past. However, their understanding of it seems not to reach a satisfactory level, as seen in the case where they identify the Weaknesses by simply pointing to negative expressions of the Strengths. Since the SWOT analysis is a very important tool for the cluster diagnosis, this course reviews the analysis in order |

Appendix-01(1) Cluster Diagnosis Training Curriculum

Reference No.: TU-200-A

| | |
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| | partly to share the common SWOT understandings among all the trainees. |
|--|--|

Day 2

| Session | Course Title | Content |
|-------------------------|--|--|
| 1 st Session | 5. Essential Points in Cluster Formation (Presentation by an MOI officer in charge of cluster development) | An MOI officer is requested to speak of policies and activities that the government is currently undertaking for the formation and development of clusters (or regional industrial concentrations) |
| 2 nd Session | 6. Overview of Cluster Diagnosis 7. Reciprocal relationship between members in the cluster | <p>This course gives an explanation about diagnosis items and diagnosis methodologies in the cluster diagnosis. According to the reference material, the cluster diagnosis is to “understand the value chain in the target cluster and to analyze problems and their causes in it.” This course interprets this definition as the supply chain or combined management resources of companies in the cluster whereby the course suggests a clear procedure for cluster observation and diagnosis.</p> <p>A cluster needs to bring in profits. For this, the cluster needs to clarify reciprocal relationship between members (which are different from one another in their business culture and practice), such as but not limited to, reciprocal obligation, responsibilities of each member, quality level/price/delivery time of companies in a transaction, and allocation of profits. This course explains such the reciprocal relationship in the cluster.</p> |
| 3 rd Session | 8. Preparing Cluster Diagnosis Sheet | In this course, the trainees are divided into some groups. Each group produces a questionnaire sheet which will be used in the interview surveys in the clusters to be conducted later in this training program. The questionnaire sheet should be prepared in accordance with characteristics of the target clusters. |
| 4 th Session | 9. Methods to Understand Industry Trends | <p>In this course, the trainees interview SHINDANSHIs to comprehend external conditions in the target cluster, followed by writing up around ten (10) of those, including the regional peculiarity, historical process of the cluster formation, and linkage with the regional economy, among others.</p> <p>In addition, the trainees identify structural issues in the cluster, such as, cluster-related association and</p> |

Appendix-01(1) Cluster Diagnosis Training Curriculum

Reference No.: TU-200-A

| | | |
|--|---|--|
| | 10. Characteristics of Regional Industrial Concentration and Analysis on it | <p>constitutional distribution of companies in the cluster. After making an actual observation in the target cluster, the trainees will again discuss these two subjects.</p> <p>This course provides an explanation about such things as linkages between raw materials and products manufactured in the cluster, capability of core companies, the level of industry-academia collaboration, and the level of governmental support (and necessity for it), among others.</p> |
|--|---|--|

Day 3

| Session | Course Title | Content |
|-------------------------|------------------------------|---|
| 1 st Session | 11. Problem Analysis Methods | Facilitators from the JICA Study Team introduce the Project Cycle Management methodologies. |
| 2 nd Session | Same as above | Same as above |
| 3 rd Session | Same as above | Same as above |
| 4 th Session | Same as above | Same as above |

Practical Training

| Day | Course Title | Content |
|-------|---|---|
| Day 1 | Interview Surveys for Companies in the Target Cluster and Facilitators. | Interviews with 2-3 companies/organizations per day for three (3) days. |
| Day 2 | Same as above | Same as above |
| Day 3 | Same as above | Same as above |

Day 4

| Session | Course Title | Content |
|-------------------------|--|---|
| 1 st Session | 12. Summation and Analysis of Results of Interview Surveys | <p>Summarization and presentation of interviewees' profiles.</p> <p>Analysis on industry trend</p> <p>Overall analysis on the surveyed cluster based on discussion with SHINDANSHIs.</p> <p>Cluster (or sentra) mapping</p> |
| 2 nd Session | 13. Summation and Analysis of Results of Interview Surveys (2) | SWOT analysis |

Appendix-01(1) Cluster Diagnosis Training Curriculum

Reference No.: TU-200-A

| | | |
|-------------------------|--|--|
| 3 rd Session | 14. Summation and Analysis of Results of Interview Surveys (3) | Summarization of problems in the surveyed companies/organizations. Identification of insufficient factors and necessary BDS providers Setting of the assumed goals that the target cluster is expected to achieve. |
| 4 th Session | 15. Summation and Analysis of Results of Interview Surveys (4) | Setting of action items for the surveyed companies/organizations, followed by devising the action plan draft. (This is followed by the setting and implementation of the actual action plan and monitoring on it in the framework of the current Study.) |

