

JAN-MAR 2008

Discover

Understanding BDS

Business Development Services refer to a wide range of services that assist MSMEs operate efficiently and achieve high growth. BDS originally concentrated on providing training, consulting, and other services that addressed the internal constraints faced by the enterprises.

More recently, the horizon has expanded to include marketing services and information resources that assist small businesses gain access to services usually enjoyed by larger corporates only. SME clusters in general face constraints in accessing these services. The deficiencies need to be addressed either by market building mechanisms or by specific interventions.

The major BDS basket constitute:

- Market access
- Input supply
- Technology and product development
- Training and technical assistance
- Infrastructure
- Policy advocacy
- Alternative financing mechanisms.

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# MSME BUDDS

BDS Bulletin: Small and Medium Enterprises Financing and Development Project (SMEFDP)

## Chairman's Message

Dear Readers,

The contribution of SME sector to India's economy and employment is well known but there are as yet certain issues affecting the competitiveness of this sector.

SIDBI with the support of Government of India and in association with The World Bank, DFID, KfW and GtZ is implementing a project on SME Financing and Development which attempts to strengthen institutional framework, policy advocacy and also credit absorption capacity of SME sector. The strengthening of Business Development Services (BDS) market in the select SME clusters is the cornerstone of the project.

We are pleased to release the inaugural issue of 'msmeBuDS', the BDS newsletter of SMEFDP. The newsletter serves as a platform for introducing to a larger audience the initiatives in BDS and becoming a harbinger for the development



of MSME sector. In this issue, the Project Management Division has endeavored to provide a glimpse of pilot projects undertaken in three clusters.

With warm wishes,



Rajender Mohan Malla  
Chairman and Managing Director  
SIDBI



Shri Rakesh Rewari, Deputy Managing Director, SIDBI launching the BDS market development initiative at Pune Cluster (From left to right: Shri Rajveer Singh, Managing Director, Apex Cluster Development Services, Mr Kjell Olsen, GtZ, Shri V. Prakash, Director, Central Food Technological Research Institute, Shri A. S. Bhal, Economic Advisor, DFID and Shri V. S. Rathore, Chief General Manager, SIDBI)

# spark

## Pioneering initiative – SMEFDP

Small Industries Development Bank of India (SIDBI) was established in 1990 as the principal financial institution for financing, promoting and developing the small scale sector. The gambit of SIDBI activities has been extended to cater to the needs of Micro, Small and Medium Enterprises (MSMEs).

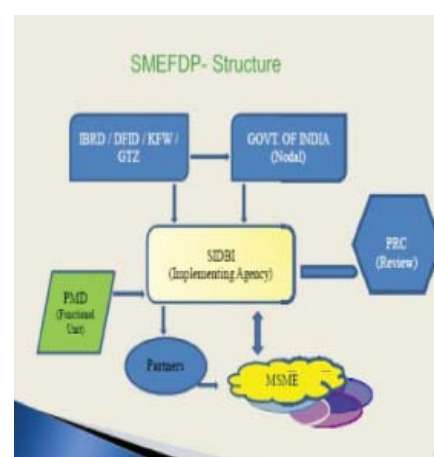
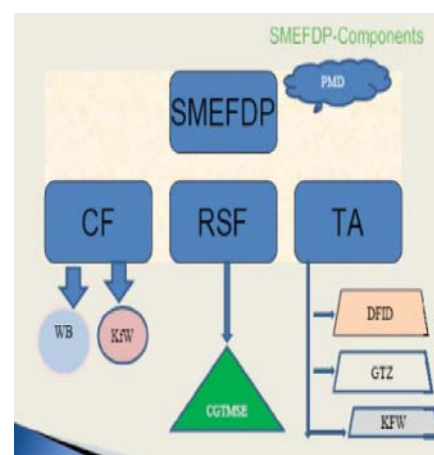
SIDBI has been undertaking a wide range of promotional activities for strengthening the MSME sector. In this endeavour, SIDBI is implementing a multi agency and multi activity flagship project – Small and Medium Enterprises Financing and Development Project (SMEFDP). The project has been designed to address both demand and supply side issues affecting SMEs in India. The project aims to catalyse growth and competitiveness of SMEs so as to increase their earnings and employment.

The project has been supported by Department for International Development (DFID), UK, The World Bank, KfW and GtZ (Germany). DFID is the key international partner providing GBP 20 million as Technical Assistance (TA) to this project.

The Technical Assistance component is supporting the following:

- Strengthening the policy/legal/regulatory framework
- Improving credit information on SMEs
- Building institutional capacity within the participating banks
- Providing BDS for SMEs
- Institutionalising support to Project Management Division
- Strengthening Monitoring and Evaluation (M&E) of the project

SIDBI has created a Project Management Division (PMD) to implement the project.



## Forthcoming...

Event	Organised by	Dates and Venue
National Workshop on MSME Cluster Development	MSME Ministry of MSME Government of India	January 28 - 29, 2008, New Delhi, India
Developing the Value Chain and Business Service Market: A Market Development Approach to pro-poor growth	International Training Centre, ILO	April 7, 2008 Distance Education Programme
Making Service Markets Work for Enterprise Competitiveness – Training Programme	The Springfield Centre for Business in Development	March 2 - 7, 2008, Phuket, Thailand

### Three major components

**Credit Facility:** primarily addresses the financing needs of SMEs and enables them to access longer-term funds required for capital formation and technological up-gradation.

**Risk Sharing Facility:** aims at accelerating commercial banks' financing to SMEs through the establishment of commercially viable, self-sustaining Risk Sharing Guarantee Company that will provide partial credit risk cover to banks for their SME portfolios.

**Technical Assistance:** is a cornerstone of the project and will help address the medium term policy, regulatory and institutional constraints that hamper the efficiency of the SME Credit markets.

# Path Ahead

## Approach to BDS

The cornerstone of SMEFDP is strengthening market led BDS under select clusters. The scheme is designed to facilitate access to various services by the SMEs. The project aims at intervention in about 25 clusters including a few clusters in underserved regions. These adopted clusters will evolve as 'Role Models' with strong demonstration effect and replication possibilities.

The approach concentrates on strengthening the capabilities of the BDS providers on the supply side and creating the need for these services from MSMEs on the demand side. The project also endeavours to strengthen both internal and external value chains of a cluster.

PMD, SIDBI has commenced pilot operations with intervention in following three clusters:

- Food Processing in Pune
- Coir in Alleppey
- Leather in Kanpur

Broad principles, for implementation

1. PMD, SIDBI will play a coordinating role
2. Implementing agencies acting as facilitators will be appointed

### Interventions:

#### Supply Side

1. Building the capacity of existing and potential BDS providers and financial institutions (lead banks) within each of the selected clusters and sub-sectors to serve the SME market more effectively
2. Facilitating networking between SME business associations and other BDS providers and similar associations in other countries
3. Developing linkage programmes between large corporations and SMEs, working through the major SME business associations so that they can develop business networking

#### Demand Side

4. Developing superior quality, affordable management training for local SMEs
5. Entrepreneurship training programmes to encourage new entrepreneurs
6. Providing SMEs with better access to technology

3. The facilitator while acting as a change agent will undertake activities like mapping of select clusters, development of business plan and project implementation leading to market based BDS development
4. In clusters which already have a presence of BDS providers the facilitator will work towards strengthening their activities and not attempt to replace them
5. In clusters where providers of BDS do not exist or there is a demand supply gap or market failure, the facilitator will work along with industry associations and informal bodies to scale up their activities to ensure sustainable market models. Further, facilitators will promote and handhold new BDS providers
6. The private public partnership arrangement will be explored in rolling out BDS in the clusters wherever possible.

PMD has strengthened the dedicated in house team and formulated implementation guidelines. PMD, SIDBI is well in line to launch the second phase by early 2008-09.

### Early Effective Inroads:

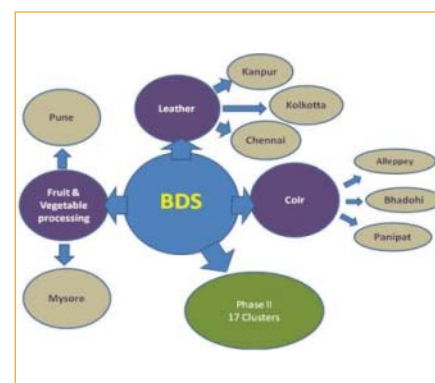
#### Quick Diagnostic Study (QDS)

Apart from continuous trust building exercises all agencies have concluded their QDS and have identified core issues for BDS market development. These issues are largely in the areas of production, technology, marketing, logistics and finance in the three clusters. The tools used for diagnostics included Focused Group Discussions, One-to-One meetings with key stakeholders, workshops, Value Chain Analysis (VCA), 'Who does-Who pays' matrix etc.

#### Cluster Coordination Committees

have been institutionalised in each cluster having representations from lead stakeholders, BDS providers (both public and private), government agencies and other important cluster actors. CCCs are taken into confidence for various activities in the cluster. On one hand this has proved beneficial in building trust between the facilitator and stakeholders and on the other it has provided information about "on the ground" issues pertaining to the cluster.

In order to strengthen linkages with SMEs, electronic database of close to 260 BDS providers has been created in the three clusters.



# Explore

## Cluster Profiles

### Fruit and Vegetable Processing Cluster, Pune

- An estimated 550 businesses including nearly 150 micro and small enterprises operate in the cluster
- The total investment in plant and machinery in the cluster is close to Rs 1.5 billion, single handedly accounting for half the total investment in the industry
- The combined estimated turnover of the cluster is Rs 8.6 billion
- Value chain mapping reveals that in processed food segment, raw material is a critical factor input comprising 30-40 per cent of total cost



Website: [www.punebds.com](http://www.punebds.com)

#### Major Areas of Intervention by Apex Cluster Development Services (ACDS)

##### Marketing:

- Enhance the reach of cluster from local market levels to national and international scale
- Facilitate linkages through business online portals
- Improve packaging standards

##### Technology:

- Sensitise on environmental issues such as hygiene, Food Security Act
- Backward supply linkages with machinery suppliers

##### Logistics:

- Develop upgraded cold storages
- Smoothen transportational issues

##### Quality Improvement:

- Impart training, build capacity of BDS providers and institutionalise referral systems
- Establish superior quality testing facilities

##### Finance:

- Develop customised products with the help of bankers including business plan formulation kits

#### NEED

The 'Who does – Who pays' matrix indicates the requirements of the cluster for BDS

- There is a need for the sensitising SMEs on new developments in the industry like the new Food Safety and Standards Act (FSSA) that will be implemented shortly and provide strategic services in areas like food technologists, product development etc.

#### Widely attended forums:

- Training programme for owners of cold storage
- Training programme to provide market linkage and to address finance related issues

### Coir Floor Covering Cluster at Alleppey

- Traditional coir products offerings mainly include – production of door mats and woven matting. New applications include geo-textiles, products combining coir and rubber, PVC mats and mix of coir and non-coir products such as jute, sisal and cotton
- The cluster sizing indicates presence of 10,000 units and the principle stakeholders include the spinners (normally women operators), weavers and exporters
- This is an employment intensive industry and the cluster engages 45,000 spinners and 35,000 weavers
- The sector continues to be an export centric industry. Touching Rs six billion in 2006, India's coir exports have, in value terms, recorded a year on year increase of 19 per cent
- Mats dominate India's coir product exports and are continuing to record impressive growth. Matting has seen

its share in the recent past decline

- The estimated domestic market is valued around Rs 11 billion and requires concerted efforts to obtain a strong foothold
- The cluster faces challenges of decline in coir quality, technology adoption and adaptation to domestic market demands. Value chain mapping of the cluster suggests that labour is a critical factor of production. In a typical handloom semi finished doormat, labour cost comprises nearly 45 per cent of market price
- Public agencies are playing a greater role in the development of the cluster with private agencies primarily focusing on limited transactional services.
- Negligible presence of BDS has been found in finance, market research, international market access, packaging etc.



Website: [www.alappuzhabds.com](http://www.alappuzhabds.com)

#### Recent Field Level Initiatives:

- Training conducted to strengthen the cadre of BDS providers
- Participation in India International Coir Fair (IICF) to explore business potential for SMEs and BDS providers
- Adoption of a village to strengthen supply chain in the cluster at micro enterprise level

#### Major Areas of Intervention by Cluster Pulse and OTF, USA

##### Input Quality:

- Improve the quality of coir fibre
- Link more than 9000 units in the cluster at this step in the value chain

##### Technological Adoption:

- Foster technological upgrada-

tion through introduction of new products and production technologies throughout the value chain

##### Market Access:

- Enable the cluster to tap the huge domestic market
- Forward integration
- New markets exploration

## Leather Cluster at Kanpur



Website: [www.kanpurbds.com](http://www.kanpurbds.com)

#### Recent programmes

- Workshop on best tanning practices organised for small tanners
- Visit to Chennai leather cluster to introduce Kanpur entrepreneurs to industry best practices followed there

- Kanpur is a prominent hub for leather and leather products made of buffalo skin
- There are about 1600 units in the cluster together posting an annual turnover of Rs 29 billion and exporting goods worth Rs 20.4 billion. The exports from this cluster constitute 17 per cent of the total leather exports from the country. Further, exports have doubled during the last six years
- The product range includes finished and semi finished leather, safety and fashion footwear, saddlery and harness items, open footwear and leather goods. Some units are now also making leather garments and gloves
- While a good number of public BDS providers do exist in the cluster, there is a need to create awareness and create a market mechanism for using such services

#### Major Areas of Intervention by IL&FS Cluster Development Initiative (ICDI)

##### Skilled Workers:

- Conduct training for employees to enhance skill sets

##### Sourcing Raw Material:

- Supply raw material for tanning industry
- Establish and upgrade warehouses

# Dialogue



**Name:** BDS in SME Clusters  
**Date:** June 27 – 29, 2007  
**Venue:** New Delhi  
**Aim:**

- Share international experiences
- Build capacity of various SME cluster development agencies
- Draw a road map for BDS intervention along with a Monitoring and Evaluation framework

### Prominent Speakers and Key Perspectives

Mr Prashant Rana, Swiss Contact, Indonesia  
Mr Jorg Meyer Stamer, PACA Specialist, Meso Partners, Germany  
Mr Mukesh Gulati and Mr Deepak Arora, Foundation for MSME Clusters

They deliberated upon the international best practices, their experiences and application of innovative tools like PACA (Participative Appraisal of Competitive Advantages)

**Name:** Launch of BDS in Food processing cluster  
**Date:** August 30, 2007  
**Venue:** Pune, Maharashtra  
**Action Plan: Five Pillars**

- Training
- Access to information
- Technology development and transfer
- Access to larger and more profitable markets
- Consultancy and counseling services



### Prominent Speakers

Chief Guest: Dr. V. Prakash, Director, Central Food and Technological Research Institute (CFTRI), Mysore  
Shri Rakesh Rewari, DMD, SIDBI

### Perspectives

- Need to ensure SMEs have access to technology and information
- Cluster approach followed
- SIDBI has followed an integrated approach by not only offering financial products but also by providing specialised services through its associate organisations like SMERA, CGTSI, ISTSL, SVCL etc.



**Name:** Launch of BDS in Coir cluster  
**Date:** July 6, 2007  
**Venue:** Alappuzha, Kerala  
**Implementation in three phases**

- Cluster mapping and business plan development
- Project implementation
- Learning and final

### Prominent Speakers

Chief Guest: Shri A.C. Jose, Chairman, Coir Board  
Shri Rakesh Rewari, DMD, SIDBI

### Plan: The cluster will require

- Capacity building of BDS providers
- Networking support and collaboration among BDS providers within India and outside
- Facilitation of business linkages between SME and larger corporation
- Developing entrepreneurship and managerial qualities for both start up and established enterprises
- Improving access and adopting new technologies among SMEs

We **invite** articles from **Indian** and **global** BDS practitioners. Please **email** us your **contributions** at **pmd\_ndho@sidbi.in**

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