

## WEST BENGAL FORUM ON BUSINESS PARTNERSHIPS FOR SUSTAINABLE DEVELOPMENT

### SMALL, MEDIUM & MICRO ENTERPRISES INITIATIVE Brainstorming Session

The Golden Park, Kolkata, October 15, 2004

## FINAL REPORT

### 1. INTRODUCTION

CSM's **Small, Medium and Micro Enterprises Initiative** facilitated a **Brainstorming Session** under the banner of the **West Bengal Forum On Business Partnerships For Sustainable Development**, formed in 2002 by the Centre for Social Markets, a U.K and Kolkata-based non-profit organization committed to promoting responsible entrepreneurship and sustainable development.

**The West Bengal Forum's three-fold goals are to:**

- Raise awareness of current initiatives regarding business and sustainable development;
- Promote information exchange, networking and mutual learning for greater impact;
- Provide a lasting forum for co-ordination, partnership development and promotion of best practice in West Bengal.

The Forum's members comprise a select group of West Bengal-based businesses, civil society organizations, government and multilateral agencies active on all three dimensions of sustainable development: economic development, environmental stewardship and social justice.

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The **Small, Medium and Micro Enterprises (SME) Initiative** was proposed as a direct follow-on to **CSM's 3<sup>rd</sup> Annual Conference on Corporate Citizenship: Focus on Small, Medium and Micro Enterprises (SMEs)**, held in Kolkata from 28-29 November 2003. This international conference deliberated on the role of SMEs in achieving sustainable development through corporate responsibility interventions and strategies. An allied objective was to explore how they could be involved in the global effort to deliver on the **Millennium Development Goals**.

A full background to the SME initiative is provided in the BRIEFING NOTE circulated prior to the Brainstorming Session. Both the Briefing Note and a Summary of CSM's 3<sup>rd</sup> Annual Conference can be downloaded from CSM's website: <http://www.csmworld.org>

The **SME initiative** started with a Brainstorming Session on 15 Oct 2004. The following were present:

- Nandini Basu, Deputy Secretary, Indian Chamber of Commerce;
- D K Ghosh, President, Talbanda Bodai Industries Association – an industrial cluster;
- A G Nispat Desai, Deputy General Manager, Small Industries Development Bank of India (SIDBI);
- Hiranmay Ganguly, Secretary, Federation of Small and Medium Industries (FOSMI)
- B G Roy, Regional Director, Indo-German Chamber of Commerce (IGCC)
- Ms Charulata Banerjee, Senior Programme Officer, CINI-ASHA (the urban arm of Child in Need Institute),
- Mr Arup Das, Consultant
- Mr Amitava Sanyal, Deputy General Manager, Haldia Petrochemicals Ltd (a large corporate)

- Mr Susanta Chandra of Kitchen Appliances Private Ltd.
- CSM – Ms Malini Mehra
- CSM – Mr Randiv Mehra
- CSM – Dr Tapati Ghosh
- CSM – Ms Dhruba Das Gupta (report)
- CSM – Mr Kaushik Nandi
- CSM – Ms Mahasweta Sadhu

CSM proposed to take part of this agenda forward for action under the aegis of the West Bengal Forum. There was a need for greater SME participation in the Forum, simply because SMEs by virtue of being the largest industrial employers in West Bengal, are positioned to make a substantial contribution to sustainable development through corporate responsibility functions. The Brainstorming Session helped identify corporate responsibility (CR) issues that led to identification of a three-point proposal for the Forum to work with. The narrative below summarises the proceedings and the CR issues identified, puts forward the proposals for the Forum and then gives the action points to take the initiative forward.

## **2. MEETING REPORT**

The session drew participants from various backgrounds. There was, therefore a large variety of perspectives on the table.

According to current definition, a micro unit is one that has plant and machinery worth Rs 1 lakh, for a tiny unit the limit is Rs 25 lakh, for a small unit it is Rs 1 crore and for a medium unit the limit is more than Rs 1 crore.

From a practitioner's perspective, Mr Ghosh said it has been found out that statistically, out of every 10 failures among SMEs, 50% were due to lack of orders, 30% due to lack of finance, 10% due to management problems and 10% due to labour and other issues. There was a general understanding that this was an accurate reflection of the state of play in the SME sector in West Bengal today. Moving on to corporate responsibility issues, there were some key issues and a host of related issues identified at the brainstorming session. These were:

- A) Lack of information about up-to-date technology, available finance, marketing opportunities etc.
- B) Lack of access to finance, as well as information about existing schemes
- C) Bureaucratic hurdles – poor communication between government departments leading to harassment of entrepreneurs
- D) Poor housekeeping practices – both financial and otherwise.
- E) Related issues – marketing initiatives, awareness raising

## **3. CHALLENGES AND ISSUES IDENTIFIED**

**A) Lack of information:** This was thought to be one of the most inhibiting factors standing in the way of development. Ms Basu pointed out that in the context of the World Trade Organisation (WTO) regime, SMEs needed to be competitive in order to survive. For that, keeping abreast of new technologies is a must, facilitated by a continuous information flow. Once technology is available, it can be used to increase efficiency and also to manage operations in a cost-effective manner. Mr Desai spoke of the Technology Bureau for Small Enterprises (TBSE), set up with the initiative of SIDBI under the Asia Pacific Centre for Technology Transfer, and also the existence of the Credit Guarantee Fund Trust Scheme for Small Industries (CGTSI), under which the Government guarantees up to 75% of a maximum limit of Rs 25 lakh given as loan to an SSI unit, mainly a start-up enterprise. Banks and financiers wishing to avail of the Fund will have to become members of CGTSI, like SIDBI is a member. But CSM as

initiator of the Forum notes that not enough information has been disseminated about CGTSI in West Bengal.

The present situation is that Small, Medium and Micro Enterprises (SMMEs) are constrained by poor knowledge of product demand side by side with lack of order of available product, lack of availability of credit at reasonable cost for buying new technology, lack of expertise in upgrading skills as well as technology and inadequate knowledge of the changing laws of the land. Knowledge sharing on all these issues would help to address an important developmental lacuna.

Two proposals emerged from this discussion. One was suggested by Ms Charulata Banerjee of CINI-ASHA that the Forum emerge as a bigger multi-stakeholder platform, with more stakeholders being engaged in the debate viz from the Government, from other SMEs, from civil society and so on.

The other proposal was from Ms Nandini Basu of ICC who suggested that the SME Initiative of the Forum should serve as a knowledge-sharing platform. This will directly address the problem of lack of information flow.

**B) Lack of finance:** There were two contrasting perspectives on finance. As a banker, Mr Nispat Desai observed that availability of finance is not a problem and that bankers and financiers compete with each other in looking out for good entrepreneurs to provide finance at competitive rates. But on the other hand, CSM's experience as an organiser of the 3<sup>rd</sup> Annual Conference on Corporate Citizenship: Focus on SMEs clarified that sustainable finance was a less understood aspect of sustainability. Mr D K Ghosh corroborated this by saying that sometimes when a small entrepreneur has an accidental money block (e.g to procure for a sudden large order), bankers do not often help him out. The problem is compounded because large corporates inordinately delay their payments to SMEs, and if the money is blocked and there is one large order following the heels of a just executed order, then timely procurement for this next order is not possible. This may lead to cancellation of the pending order.

Mr Desai, drawing upon his experience, agreed that this situation often took place, but said that to get out of this, SIDBI, the lead financial institution for small industries, has put in place the Receivable Bill Discounting Scheme, whereby SIDBI can make direct payment to the small enterprise in his bank account, instead of the SSI having to wait for the large corporate to pay. But there are two problems in this. One, the SSI unit does not want to pay for this service and two, often the small unit owners invest their entire money into the business, without keeping any buffer – in situation of extreme urgency, such a unit owner will suffer. So good financial management is as important a problem as lack of availability of credit.

**C) Bureaucratic hurdles:** This was observed by both Mr Ghosh and Mr Sushanto Chandra of Kitchen Appliances – one from an SME industry association, and the other from a medium enterprise. For Mr Ghosh, it was especially acute, because after 10 years of smooth functioning and contribution to the development and upliftment of the quality of life in Talbanda, the very existence of the 100 odd units of the industry association was in jeopardy because of new Government rules which had not been clearly explained and communicated to them. According to a new Government circular, their land had to be converted to industrial land and a land conversion certificate obtained by them from the government, and they were also lacking in environmental compliance. The hurdle was that satellite imagery of the area that was taken showed that the land was a wetland, whereas it was actually water-logging that showed up. But against a deadline of eight weeks, 10 months had passed, and no certificate could be obtained; there are eight to nine departments involved. The West Bengal Small Industries Development Corporation (WBSIDC) knew of the entire matter, but was unable to play an enabling role.

Speaking from the perspective of a neutral observer, CSM Founder and Director Ms Malini Mehra observed that if there is a perception that the Government is working against the interests of SMEs, then there was a need for clarity on the issues, and all parties concerned needed to sit across the table and resolve the issue through appropriate means. One way to do this was to have an Entrepreneurs Charter, where the Government gave a clear commitment that they would clarify what new technological yardstick was being used and what was needed in terms of compliance. Then entrepreneurs could see what

means of compliance were available, and act accordingly. At issue was the concept of joined-up governance, and the Forum could play an important role to take an actionable agenda forward.

**D) Good housekeeping:** This is a must for better efficiency in most SMEs – in terms of resource utilisation, savings, finance management, procurement and so on. All participants at the session stressed on the need to promote better housekeeping techniques. There was also an observation by Ms Basu about the need for the Government to provide incentives for small units that show good housekeeping, in terms of interest subsidy or tax subsidy. This would encourage sustainable business practices among SMEs. This way the Government can act as an enabler. While Mr Desai begged to differ on the issue of providing subsidy and recommended better financial management instead, Mr Roy of Indo German Chamber of Commerce, on the sidelines of the session, pointed out that in Germany SMEs were very powerful because of the impetus the Government gave to them.

To CSM as the initiator of the West Bengal Forum, the issue of Government providing incentives according to the state of the sector appears to be a reasonable position. The world over, the trend seems to be that a complete withdrawal of the Government from business is detrimental in a corporate responsibility context. However, any government intervention must be well-informed and well coordinated.

**E) Related issues:** It emerged that SMEs can also have a market promotion function because of their locational linkages. Amitava Sanyal of HPL said since SMEs are located in semi-urban or rural areas they can help promote products found in their areas. This will serve as a backward linkage for the small unit and a forward linkage and a good marketing outlet for the rural sector. He drew from examples of ITC's e-choupal, which had benefits for both ITC and the farmers, and Hindustan Lever's Project Shakti, which worked through Self Help Groups (SHGs) especially ones formed by women, and brought benefits to both the women and the large corporate.

This brings the related issue of better awareness promotion through rural education (also mentioned by Mr Sanyal), as well as a better multi-stakeholder interface facilitated by the Forum in the district centres, proposed by Mr Arup Das, consultant.

A very important issue that emerged from all the deliberations was the need for a strong mentoring programme for the SMEs in West Bengal. This was felt to be especially helpful in addressing a lot of problems facing SMEs.

#### **4. PROPOSALS AND AGENDA FORWARD**

There were three proposals for the Forum:

- The Forum can bring together all concerned stakeholders to promote dialogue for better governance
- It can take the multi-stakeholder interface to the district centres
- It should serve as a knowledge sharing platform by facilitating mentoring programmes for the Small, Medium and Micro Enterprises in West Bengal

In the light of the above deliberations at the brainstorming session, a three-point agenda was thought appropriate. These would be:

- Identification of more stakeholders for inclusion into the Forum. This would mean a first interaction with Government Departments of SSI, Industry and also with West Bengal Small Industries Development Corporation (WBSIDC). Also, more SMMEs, especially in industrial clusters, would have to be identified
- Organise a set of mentoring lectures covering various aspects of SME functioning
- Work to prepare dossiers on these subjects – for information dissemination. This could have a carry-forward effect of linking up between SMMEs in Bengal and those outside the state, or even outside the country

## **5. NEXT STEPS**

The now final report of the brainstorming session of the SME Initiative will be used to evolve an outreach strategy that will raise awareness about issues debated at the meeting. The targeted audience will be the small industries ministry in West Bengal, the chambers of commerce, SME entrepreneurs with special emphasis on women entrepreneurs, large corporates, financial institutions and experts.

### **For further information, contact:**

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