

## **K C Chakrabarty: Microenterprise development – path to creating MNCs of tomorrow**

Keynote address by Dr K C Chakrabarty, Deputy Governor of the Reserve Bank of India, at the Citi Micro Entrepreneur Awards Ceremony, organised by Citi Bank, Mumbai, 5 December 2011.

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Mr. Pramit Jhaveri, CEO, Citi Bank, India, Dr Isher Judge Ahluwalia, Chairperson, ICRIER, Mr Haresh Shah, Chairman of Confederation for the promotion of Khadi and Village Industries, Mr Anami Roy, ex-DGP( Maharashtra) and Chairman Vandana Foundation, Ms Radhika Haribhakti, Chairperson, Swadhaar Fin Access, distinguished guests and winners, ladies and gentlemen. I am extremely happy to be here for the annual Citi Micro Entrepreneur Awards Ceremony. First of all, I would like to congratulate all the awardees who have come from various parts of the country. These awards recognize and celebrate the superior performance of the recipients. Coming as it does from an eminent jury, they fully deserve our wholesome applause and accolades. We hope their performance and achievement will serve as a beacon to others to emulate and perhaps even exceed.

I would also like to compliment the organizers of Citi Micro Entrepreneur Awards, i.e. Citi Bank especially Mr Pramit Jhaveri and other members of his team for recognizing and honouring exemplary micro entrepreneurs who have overcome all challenges to successfully build self-sustaining micro enterprises, creating employment and contributing meaningfully to the economic growth of the country. The conferring of these awards also entitles micro entrepreneurs an opportunity to receive training in business development in order to develop and grow in to “state of the art” micro enterprises. It is universally acknowledged that great opportunities open up if one is well trained and skilled. Entrepreneurs need not necessarily be born, but can be developed through well-conceived and well-directed activities. Spearheading entrepreneurship movement throughout the nation is the need of the hour and I compliment Citi Bank for their commendable initiative in providing support to skill and knowledge building of the micro enterprises. Moreover, today’s winners will serve as role models who could inspire and mentor future generations of entrepreneurs.

### **Importance of micro and small enterprises**

In a developing nation’s economy, it’s the small and micro enterprises which play a vital role. If India has to have a growth rate of 8–10 percent for the next couple of decades, it needs a strong micro and small sector and micro entrepreneurs need to be nurtured. They not only give employment to a large number of people but also support bigger industries by supplying raw material, basic goods, finished parts and components, etc. The felicitation of micro entrepreneurs today, is not to be mistaken as the ultimate goal of the enterprise. It is in fact, only the beginning of its process in achieving greater heights. A small enterprise today will be a big enterprise tomorrow, and might well become a multinational enterprise eventually, if given the support, among others, to build their skills and knowledge levels. In MSME sector, the failure rate may perhaps be relatively higher – the reasons for which range from delayed / inadequate availability of credit to non-availability of backward and forward support system. Despite the risk, financing of first time entrepreneurs is a must for financial inclusion and growth. Thus, the banks and other agencies should take pride while servicing the micro entrepreneurs as they are playing an instrumental role in the formation of MNCs of tomorrow. There is a need for sensitization of the bank’s staff towards the needs of small entrepreneurs. The banks should develop systems such that the field staff is regularly updated and is equipped to appraise the financial requirements of small enterprises. The banks may use the platform provided by the technical institutions and send their staff to such

institutions on a regular basis. Training is also required to be imparted to the branch managers and their loan officers for change in their mindset away from the perceived risk in financing micro and small enterprises.

### **Need for microenterprise development**

It is increasingly recognized that microenterprise development forms an essential element in the promotion of broad based, inclusive growth and improvement in the well-being of the poor by providing significant income – and employment-generating opportunities, and encouraging indigenous investment. Microenterprise development projects can serve four major objectives: (i) poverty reduction; (ii) the empowerment of women; (iii) employment generation; and (iv) enterprise development as an end in itself. Microenterprise development contributes to widening the pool of entrepreneurship available to the society. Thus, there is a need to strengthen the linkages between policy environment and entrepreneurship. The 21st century has been acknowledged worldwide as the “knowledge century” and “knowledge society” can play a greater role in taking India forward. In countries where the number of medium and large-scale enterprises is sparse, the importance of microenterprises as an incubator of new enterprises becomes even more important. In fact, development of microenterprises is a fertile source of entrepreneurship for the future, a sort of seedbed for the universe of enterprises.

We are a very young nation – just over 60 years since independence – setting out on a path of sustained economic growth, for decades to come. We already have over a billion fellow Indians. As per the National Commission on Population, the age-wise distribution of the population of India is going to change significantly in the coming years. By 2016, approximately 50 per cent of the total population will be in the age group of 15–25 years. Thus, there would be a tremendous increase in the number of youth entering the education and job market in the ensuing years, which will result in increase in demand for skill development. On an average, it is estimated that around 1.5 crore persons per annum would enter the employment market during the next 30 years. Each person, in this bold new generation, will be in the prime of his or her life, striving for a better tomorrow – creating, in the process, new growth opportunities, for budding entrepreneurs! This burst of entrepreneurship across the country, spanning rural, semi-urban and urban areas has to be nurtured and financed. It is only through growth of enterprises across all sizes that competition will be fostered. Thus, entrepreneur development should be seen as an investment for economic development and prosperity, since knowledge and information would be the principal driving force for economic growth in the coming years.

Much of the vast and growing population of the country forms part of the economy that lies in what is known as the unorganized sector. It is generally agreed that the unorganized sector, whether rural or urban, comprises small scale and microenterprises producing and distributing goods and services. These enterprises are generally independent, largely family owned, employ low levels of skills and technology, and are highly labor intensive. It is imperative that we nurture and develop microenterprises in view of their significant contribution to achieving equity as well as economic growth, and efforts to address gender and poverty reduction issues. With economic reforms in the country, and with the virtual removal of all trade barriers, the world is now our market – and our opportunity! The pursuit of these opportunities requires an indomitable spirit aimed at nurturing entrepreneurship.

In India, there is a dearth of skilled people in micro small enterprises, which demands entrepreneurship development programmes throughout the country for the growth of Indian economy. At present, there are various organizations at the national and State levels offering support to entrepreneurs in various ways. The Government of India and various State governments have been implementing a number of schemes and programmes over the years. A continuous effort from the society is also needed, where citizens are encouraged to

come up with their entrepreneurial initiatives. Going forward, we must develop an attitude that views innovation positively.

### **Lessons from emerging countries**

We should learn from the experience of Korea which has now become a leader of many globally important brands. However, barely forty years ago, Korea had no industry at all. The Japanese, who ruled Korea for decades, did not allow any. They also did not allow any higher education, so there were practically no educated people in Korea. By the end of the Korean War, South Korea had been destroyed. Today Korea is world-class in two dozen industries and the world's largest in ship building and other areas. Not far behind Korea is Taiwan, which like Korea was preindustrial in 1950. Today, Taiwan is a world leader in a number of high-tech areas, including microchips. Entrepreneurship and innovation are the key drivers of success in these two counties and turned them into world class manufacturers and industry leaders. The Koreans have set up small groups of their brightest people to systematically apply the discipline of innovation to identify and develop new businesses. Innovation requires us to systematically identify changes that have already occurred in the business – in demographics, in values, in technology or science – and then look at them as opportunities.

### **Four pitfalls to avoid**

Many new businesses start out with high promise but suddenly run into trouble after a year or two. There are four typical mistakes entrepreneurs make and all four are foreseeable and avoidable. Here, I draw extensively from what Peter F. Drucker has very rightly pointed in one of his books. He said that there are four typical mistakes entrepreneurs make. Firstly, majority of successful new inventions or products do not succeed in the market for which they were originally designed. To illustrate the point, I would like to tell you of a man by the name of John Wesley Hyatt who invented the roller bearing for the axles of railroad freight cars. The railroads, however, were not ready for radical change; and Mr. Hyatt went bankrupt. Then Alfred Sloan, the man who later built General Motors, asked his father to buy Hyatt's bankrupt business. Unlike Hyatt, Sloan was willing to broaden his vision of the product. It turned out that the roller bearing was ideal for the automobile, which was just coming to the market. In two years Sloan had a flourishing business; for twenty years Henry Ford was his biggest customer. Similarly, very few would know that Novocaine was invented by a German chemist, Alfred Einhorn for use as general anesthetic in major surgery but it was not found suitable and ultimately it was used successfully by dentists. In fact, Peter Drucker had said that majority of successful new inventions or products do not succeed in the market for which they were originally designed.

Secondly, entrepreneurs believe that profit is what matters most in a new enterprise. But profit is secondary. It is the cash flow that matters. A business that grows fast devours cash. Constant investments have to be made to just keep even.

Thirdly, when a business grows, the person who founded it gets too busy. Rapid growth puts an enormous strain on the business. It outgrows its production facilities and management facilities. The quality falls, customers do not pay and deliveries are missed. The best way avoid a crisis is to create a management team. Young entrepreneurs cannot pay to bring in a management team. So it is necessary to identify the core competencies of the people working with you. One may be good at marketing, the other, say in, customer service. They have to be utilized for their respective competencies to be able to deliver their optimum. This planning should take place well in advance.

Lastly, when the business is a success the entrepreneur needs to ask what the business needs at this stage and whether he is concentrating on the right things. While entrepreneurship starts by putting himself before business and questions that are at the

forefront is “What do I want to do?” or “What is my role?” , but when it succeeds the right questions to ask is “What does the business need?” and “Do I have these qualities?” As successful entrepreneurs, having gained experience and wisdom from past mistakes, going forward, it is necessary to ensure that the same mistakes are not repeated. First generation entrepreneurs can also take a lesson from the successful entrepreneurs to avoid committing the same mistakes.

### **Support from all stakeholders**

There are ample opportunities in small businesses in India and such opportunities will transform the country in the coming future. For such transformation to happen there needs to be support from all stakeholders, government, banks, corporate, regulators, civic society, etc. Technology universities may be set up and the government can tie up with the best in the world to help in research. We need to harness entrepreneurship and look at skill building. A scheme for utilizing NGOs to provide training services to tiny micro enterprises could be encouraged. Entrepreneurship development is important in view of its visible impact on wealth creation and employment generation. To facilitate and encourage this, skill building has been impressed upon by the Prime Minister’s Task Force for MSMEs. Enterprise Development Centres (EDC) should be set up by the Central / State Governments with incubators to provide training not just for setting up of new units but also to provide continuing education on different aspects like product design, packaging, technology upgradation, financial management and marketing. Entrepreneurship development is the key factor to fight against unemployment, poverty and to prepare ourselves for globalization in order to achieve overall economic progress.

### **Initiatives by government of India / Reserve Bank of India**

As the level of financial exclusion is very high in the sector, Government and Reserve Bank of India are taking the lead in facilitating access to finance by increasing the outreach of banking facilities to unbanked centers. Financial access is critical for MSMEs growth and development. With an objective of ensuring uniform progress in provision of banking services in all parts of the country, banks have been advised to draw up a roadmap to provide banking services through a banking outlet in every unbanked village having a population of over 2,000 by March 2012. Such banking services need not necessarily be extended through a brick and mortar branch but could be provided through any of the various forms of Information and Communication Technology (ICT)-based models, including Banking Correspondents (BCs). About 74,000 such unbanked villages have been identified and allotted to various banks through State Level Bankers Committees (SLBCs). As at the end of September 2011, as reported by the State Level Bankers’ Committees of various states / Union Territories, banking outlets have been opened in 42,079 villages across the various States in the country. This comprises of 1127 branches, 39,998 BCs and 954 other modes like rural ATM, mobile van etc.

Further, the Reserve Bank of India has also advised banks to roll out the Financial Inclusion Plans (FIP), encouraging multiple channels of lending and enhancing the scope of the Business Correspondent model, improving credit delivery procedures in micro and small enterprises (MSE) sectors and encouraging adoption of ICT solutions in villages with population less than 2000.

Both at the district and State level, Reserve Bank has advised the State Level Banker’s Committee meeting and the Lead banks to monitor initiatives for providing “credit plus” services by banks and State Governments. Given the importance of capacity building, Reserve Bank of India has impressed upon banks on the need for financial education to enable small and marginal borrowers to avail of the entire suite of financial products and services i.e., savings, remittance, insurance and pension from the banking sector, in addition

to credit. The banks have been advised to set up Financial Literacy cum Credit Counselling (FLCC) centres in all districts. As on March 2011, 252 FLCCs were set up in various states of the country. The Ministry of Rural Development (Government of India) embarked upon a major initiative to set up one Rural Self Employment Training *Institute* (RSETI) in each district of the country to provide training to the rural Below Poverty Line (BPL) persons and ensure wage employment / self-employment to them. Ministry of Rural Development would provide assistance to establishment of 200 RSETIs. Public Sector Banks have been advised by Reserve Bank of India to associate with the Scheme to ensure credit linkage to the people who are trained by the RSETIs.

The banks have also been advised the SLBC convenor banks, in consultation with State Governments, to formulate a scheme for utilising specified NGOs for providing training and other services to tiny micro enterprises, To leverage bank credit for inclusive growth bank's have been advised to develop linkages with such NGOs / Corporate houses operating in the area to ensure that the NGOs / Corporates provide the necessary "credit plus" services. In fact, success stories could be presented in DCC / SLBC meetings to serve as models that could be replicated.

Each SLBC has been advised to have a dedicated Financial Literacy Division to propagate the various instructions and use the local media to frequently interact with the Financial Literacy Division and take their help to reach out to the common persons.

To ensure enhanced credit flow to the sector, in terms of the recommendations of the Prime Minister's Task Force on Micro, Small and Medium Enterprises (MSMEs) (Chairman: Shri T.K.A. Nair, Principal Secretary, Government of India) constituted by the Government of India, banks were advised to achieve a 20 per cent year-on-year growth in credit to micro and small enterprises; the allocation of 60% of the MSE advances to the micro enterprises is to be achieved in stages viz. 50% in the year 2010–11, 55% in the year 2011–12 and 60% in the year 2012–13 and achieve a 10% annual growth in number of micro enterprise accounts. The Reserve Bank is closely monitoring the achievement of targets by banks on a quarterly basis.

Further, based on the recommendations of the Working Group (Chairman: Shri V.K. Sharma, Executive Director, RBI) constituted by the Reserve Bank of India to review the Credit Guarantee Scheme (CGS) of the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), the limit for collateral free loans to the MSE has been increased from the present level of Rs. 5 lakh to Rs.10 lakh and it has been made mandatory for banks.

On the issue of alternate sources of credit and infrastructure the PM's Task Force has examined the issues and has made several recommendations to address the bottlenecks. The implementation of the recommendations in a time bound manner is being monitored by the GOI. In terms of the recommendations of the Prime Minister's Task Force the proposal for setting up venture capital / risk capital Funds are being examined by the Government of India and a dedicated exchange for MSMEs would be

## **Conclusion**

Let me end by once again congratulating the recipients of this award function and wishing all of you all the very best. I hope that the award ceremony will inspire all to strive for excellence and thus contribute towards achieving greater heights in building a strong and prosperous India. I would also like to congratulate Citi Micro Entrepreneur Awards for saluting exemplary micro enterprises and wish them greater successes in days to come in identifying more and more such entrepreneurs throughout the length and breadth of our country.

Thank You.

**References:**

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