

**A PRAGMATIC STRATEGY FOR BANKS TO COUNTER RECESSION IS TO GARNER FUND AND ENCOURAGE ENTREPRENEURSHIP – FOCUS ON RETICULAR ACTIVITY TREND AND NOT BE CAULDRON FOR POLITICIANS AND BEUROCRATS.**

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**ABSTRACT**

*The present financial turmoil has shaken the confidence of both depositors and lenders all over the world. In fact lenders are more disturbed as all of a sudden they found that their most sophisticated instruments like derivatives that were yielding huge profit in the recent past now proving highly risky and almost leading them to bankruptcy. This fatal blow has shaken their confidence and despite induction of capital by the state and regulators to restore confidence and help them to come out from the turmoil almost unscathed; it is surprising to find them still groping in dark to come out of the tunnel which unfortunately self created by them out of sheer greed. An attempt has therefore been made in this paper to conceive a strategy that would help these institutions to come out of this grove and once again become vibrant and healthy institution to restore confidence of people and the market.*

*It is obvious that under economic recession almost all business barons and institutions adopt caution and wait and see policy initiatives of government and regulatory authorities; and banks are no exception to it. It is therefore not surprising that despite constant cajoling and even offering lollypops to banks by central banks and governments of both developing and developed countries of the world, banks are in general avoiding lending and lowering lending rates. In fact most of them including state owned banks could not be persuaded or even cajoled to liberalize interest rate and credit disbursement to big and medium sized corporate and in fact most of them rather preferred to hold their liquid assets in cash even at a cost instead of opening their doors to borrowers both corporate and individuals. This phenomenon is not happening only in INDIA but could be seen globally. In fact the present*

*global recession has shaken the confidence of all financial institutions and despite heavy doses of bailout offered by central banks and governments of countries, all over the world; these institutions are yet to restore their confidence to lend money in a big way and hence the story of depression and gloom still prevails in the financial markets all over the world.*

#### **PAY DUE ATTENTION TO SIGNALS FROM PASSIVE PART OF BRAIN**

It is however interesting to note that all these is happening as because we are foxed and overawed with the present financial tsunami and looking around with our eyes only and listening also only through our ears and ignoring signals from brains. In fact we are doing nothing today to change our thought process to break the traditional beliefs, attitudes and even patterns of thinking to breakaway from the grooves and allow our brains to change dramatically our perception and thinking which would create creativity and capacity to change and come out from the present depressing mindset and environment. In fact it has been proved that our brains are structured to enhance our intelligence, creativity and also to implement the same in real life. This change of mindset and taking important but highly risky decision is made by our brain by a process known as reticular activating trend (RAT). It is therefore a story of RAT that executives of banks have to listen to so that they may come out with innovative strategies and services that would help them to come out successfully from the present financial recession unscathed.

#### **DEVELOP CONVICTION AND CLARITY IN GOAL SETTING**

It is not just motivation, as it is fleeting. It is conviction and clarity of goal setting by the executives of banks that would help them achieve what may otherwise appear to be impossible to achieve. In fact there is an irresistible force within us that helps us to achieve what otherwise appears to be unachievable. In this regard it is worth quoting JOHN ASSARAF and MURRAY SMITH who in their recent book THE ANSWER has rightly said “ the UNITED STATES today is buried under a staggering mountain of debt—trillions of dollars’ worth. How this country ever is able to get out from under? There is one and only

one way that will ever happen: through the efforts of creative and passionate people building the business of their dreams.”

#### PAY DUE ATTENTION TO ECOLOGY AND ENVIRONMENT

Further it has been rightly observed in the above study that ‘the planet’s ecology is also facing some serious threats right now. How will we ever be able to solve our worldwide energy needs without ruining the planet in the process? There is one only one way: through the ingenuity and passion of entrepreneurs. This is exactly what is happening. China has shown the way by developing most economic energy source from sunshine. India is also going ahead in developing energy source from wind as well as sunshine. These all are evidences that if like to change and rewrite the strategy for the good of institution and society they can do it. It has been rightly observed that in 21<sup>st</sup> century it is the ‘individual man and woman passionately in pursuit of their business dreams will have a positive, transformative impact on everyone’s lives.

#### SUBJECT VISION TO FIVE TESTS

In fact creating a clear business vision would be the first critical strategy to transform and overcome recession. It is easier said than done. The key to this could be to subject your vision to following five tests:

1. Does it stir your soul?
2. Could you excel in performing the same?
3. Could you recondition your mind to think that it is achievable?
4. Could you perceive that it would generate money?
5. Could you regularly act on it without any immediate gain?

#### ACTIVATE INACTIVE BRAIN

It is therefore obvious that to create and adopt a new vision is not very simple and easy task. It requires activation of that part of brain which all of us think lying inactive. However it is

interesting to note that this part of the brain when activated leads to many innovations. For example THOMAS EDISON would deliberately put himself to sleep to solve some of the intractable problems that he encountered from time to time while working for his invention. This elaboration itself indicates the power of supposedly idle brains and its power of creating infinite possibility that could be available to every individual when the same is put to use. Furthermore this has happened with many other inventors in the past

#### STRATEGY OF RETAIL BANKING DURING ASIAN CRISIS

One wonders why this could not be put into practice by bank executives to encounter the challenge of recession. In fact during Asian crisis when banks were facing similar challenges some of them rose to the occasion and completely changed their strategy from corporate banking to retail banking. One of the illustrious example was the initiative taken by Siamese Bank in Bangkok. In fact this bank totally changed the culture by bringing some non banker (retail head of UNILEVER at Bangkok) to transform and adopt the culture of retail banking.

#### DEVELOPING AND FUNDING ENTREPRENEURS

In today's scenario it would be helpful if banks could once again change their strategy from retail banking to entrepreneurial development banking to sustain the economic growth through innovations; and sharing initial risks like venture capital institutions, of new enterprises developed in rural, semi-urban as well as in urban areas by unemployed youths. It is true that Indians are in general risk averse and look for employment opportunities rather than engaging in business and industry. However in recent years some change is visible particularly in urban and metropolitan areas. It may also be mentioned that some sections of Indian people have earned name and fame globally as entrepreneur of small retail business houses particularly in provisions, clothes, and gold and silver ornaments businesses. It is interesting to note that such entrepreneurs could be traced in most of the counties of the world as since time immemorial these people have migrated from India to set up their

trading businesses in various parts of the world. It would be further interesting to note that most of these people migrated from their villages and towns and stayed over there for generation. In fact even in agriculture like sugarcane etc Indian farmers have enriched many backward countries through their entrepreneurial skill. However it is equally true that India lagged in Schumpeterian model of entrepreneurship for quite some time and of late only this could be seen emerging in metropolitan and also in some developed parts of urban areas.

### GLUED TO FARMING

Most of the Indian villagers remained glued to farming only partly because the traditional farming was seasonal and provide enough time to laze away. It also needed no formal education. Moreover but for monsoon failure, the risk in farming was almost negligible and hence remained attractive for generations. However with the emergence of risks beside monsoon viz. seeds, attack of pesticide and volatility of prices of agricultural products farmers over the years developed a mindset of fatalist and cursed their fates for any calamities and sought doles, waiver and charity from governments and charitable institutions. It would not be wrong to say that successive governments and politicians even after independence followed a policy to keep farmers and artisans under their thumbs by making them dependent on their doles, grants and subsidies etc. as that helped them to build their vote banks. However it would be wrong to assume that villagers could not be transformed as entrepreneurs as they have been found developing many innovations even with primitive traditional knowledge for survival. It would be possible to develop an appropriate entrepreneurship model if rural youths are empowered with marketable skills.

### FORTUNE AT THE BOTTOM OF PYRAMID

Dr k Prahlad of Wharton in his famous book ‘The Fortune at the bottom of Pyramid’ has brought out how poor people in rural India could become employable by adopting new growth models suitable for generation of new employment opportunities and economic growth. In this regard he stressed that the role of multinational companies has to be re-

defined. He emphasized that the present trend of MNCs to cater for mature markets need to be changed and to extend the same even to poorly developed markets in villages and semi-urban areas by introducing some strategic changes like packaging and pricing. It would not be difficult as the recently developed supply chain management techniques empowers industries to reach easily and in cost-effective way to the remotest area of any place. Some initiative of this nature has already been taken by some consumer goods industries and no doubt these efforts have helped these industries to capture more space and also have helped villagers not only to earn and spend but also to produce and consume these along with people residing in urban and metropolitan towns. However these efforts have led to growth of market for MNCs but have not helped villagers to develop their latent potentiality of becoming full fledged entrepreneur as manufacturer of goods. It is true some of the villagers could develop some supply chain management and retail business in the process.

#### NEED CHANGE IN MINDSET IN FRAMING POLICY

It appears there is need for some paradigm change in our policy thinking as well as our mindset particularly of our politicians. In this regard our ex- President Kalam's vision of providing urban facilities in rural areas (PURA) is worth mentioning as this is possibly one such step that would help transforming agri-business potential through knowledge, institution and technology platform. It would therefore need to be multiplied to help spreading knowledge and technology to rural youth. It has to be borne in mind that technological innovations could also emerge in the laboratories of life as rightly pointed out by Dr. Mashelkar. Accordingly this has to be stressed in all efforts to rejuvenate rural youth and transform them as entrepreneurs.

#### FOCUS ON DISPARITY IN INVESTMENT IN RURAL AREAS

In fact investments made in rural areas though undertaken extensively and at times even massive amounts have been earmarked for various rural projects but all these generally have proven ineffective as most of these are in the form of subsidies, doles and waiver of loans

instead of investment in infrastructure development in rural areas. These also failed to generate effective delivery institutions and virtually generated highly corrupt institutions manned and fanned by politicians and rural elites. In fact the highly noticeable disparity in between rural and urban infrastructure like roads, transports, power and communication have created the hiatus in economic growth of rural and urban areas. Lack of infrastructure in rural areas have made private sector also hesitant to develop industries over there. It is true the scene is changing and some new industries are growing in villages or its outskirts. But essentially villages have remained agrarian with low and disguised unemployment. It is therefore high time for policy makers not to introduce employment opportunity plan like ROJGAR YOJNA (NREG) where unemployed rural youths are either given work of mud lifting or paid even when no work could be allotted to them. This would obviously make them lazy and some of them even come out to refuse digging mud and to carry the same for dumping at some allotted place. It is difficult to fathom out the type of mindset of politicians who actively advertise such projects and feel complacent and happy as if they have been doing great work for poor villagers. In fact it would not be wrong to state that ‘the program seemed well designed for bureaucrats and politicians to siphon off money’.

#### NEED TO CHANGE MINDSET OF POLICY MAKERS AND BANKERS

However if something has to be done for rural poor it would be necessary to change the mindset of policy makers and bureaucrats. In fact rural areas should not be considered as agricultural belts and rural youth should not be taken for granted as farmers and artisans only. In fact rural youth like all other youth should be considered as human resource and could be shaped like all other youths as entrepreneurs, innovators, professionals and managers. In fact many rural youth after getting some education have migrated to urban areas and have developed many new business and even industries. It is therefore natural question that would arise in the mind of any rational man what for these migrations should continue and why not such thing could not be done in rural areas. The answer is not very far to seek. It is the lack of infrastructure that has led to such migration of youth. It would therefore be necessary for government, enlightened institutions including banks and

individuals to come forward with projects both for modernizing agriculture and other sectors including service and manufacturing to provide opportunities to rural youths to work in these village projects and enterprises.

#### MODEL RECOMMENDED

In this regard it is worthwhile to keep in mind that there would be some lag in developing village entrepreneurs as there would be dearth of capital to develop village projects and enterprises but this could be dealt with by developing institutional entrepreneurship as is done to meet the capital needs of urban entrepreneurs by creating development banks. However in this strategy also there could be some difficulty as overall supply of individual entrepreneurs and managers with necessary education and aptitude might not be readily available. It would therefore be imperative that institutions under public private partnership model should be developed by banks to fund and organize ventures to provide services and to manufacture product. Such organizations should conceive projects for compact lands for farming and for clusters of artisans for manufacturing, trade and commerce. States in developing countries have assumed the role entrepreneurs. In some of the developing countries including India some efforts have been made to institutionalize development activities even in rural areas but these have not been specifically assigned the much needed role to act as catalyst for growth of individual entrepreneurs. In fact villagers could have been as good as city dwellers but for lack of infrastructure including education. It would therefore be necessary to hold the hands of villagers for some period and enable them to grow as entrepreneurs and managers without getting the shocks of market and monsoon or such other natural risks for some time as these have created fear psychosis in villagers for generations and obviously they need some time to get over such psychology and become an entrepreneur rather than remain as fatalist and dependent on doles alms and such other charities.

#### APPLICATION OF RECOMMENDED MODEL

In recent years some efforts have been made to hold hands of farmers and artisans by some micro financing institutions particularly in south. Pragati Bandhus in Karnataka is one such

model as these groups of marginal farmers named as Pragati Bandhus not only provided hassle free loans to farmers but also physically stayed with them to help them to prepare crop planning along with marketing and technology support. This obviously a better model than usual pattern followed by micro financing institutions to act as lender to farmers, however to achieve real success it is imperative that these institutions should shoulder the risk of farms and firms in rural areas run by rural farmers and artisans. The ultimate need is to enable them to get enough confidence and managerial and financial strength to become entrepreneurs on their own. Only with such transformation of rural people particularly youth who outnumber others could make India a developed country and decouple her from the present global meltdown.

## CONCLUSION

Banks in India should take this cue and adopt a strategy to not only funding entrepreneurs but also to groom unemployed youth to become entrepreneurs and employable. It is true most of rural youth prefer to go and work in cities as they find life in rural areas not conducive for growth as these places lack most of the essential infrastructure like roads, electricity etc. it would be an opportunity for banks and government to join hands with local youth in villages to build up institutions to create necessary infrastructure and groom and fund them to run any enterprise that could be developed over there. In recent years some banks have developed rural agriculture institutes but the need is to develop rural polytechnic schools and groom rural youth to become entrepreneurs either on their own or joining hands with others including banks and government. However special care should be taken to keep them away from political and bureaucrats' clutches.

## A LIVE CASE STUDY of CANADA-A SUCCESS STORY\*

\*(adapted from [www.tbs-sct.gc.ca](http://www.tbs-sct.gc.ca); [www.rural.gc.ca](http://www.rural.gc.ca); [www.google.com](http://www.google.com) )

### Business Development and Entrepreneurs

Small businesses are the source of nearly 80 per cent of new jobs in Western Canada. These are the employment engine of the region. In recognition of the importance of community-

based delivery of services and support to Small- and Medium-sized Enterprises (SME) development, western economic development (WD) program provided funding to third-party organizations including industry associations and those making up the Western Canada Business Service Network (WCBSN), which in turn deliver business services and support to entrepreneurs. This has obviously led to improved access to business information, training, business advisory services and capital for all western Canadians, including women and francophone entrepreneurs, and people located in rural communities.

#### Improve Business Productivity

It provided operating and loan funding to a number of other organizations that in turn delivered targeted loan programs, business advisory services and training for entrepreneurs. It improved business productivity by addressing the needs of SMEs and entrepreneurs through a number of service delivery mechanisms and partnerships including more than 100 offices. It engaged Community volunteers, who knew local issues and could identify business opportunities, mainly helped in achieving success in grooming entrepreneurs and their business enterprises in 2005-2006; this organization was stabilized through new, multi-year agreements providing operating support for member

#### Community Futures Development Corporations (CFDCs)

Furthermore CFDCs were floated as a national community economic development program implementation organization that would help people in rural communities respond to local needs. It has provided operating funding to the CFDCs since 1995 to enable them to provide local strategic economic planning services, business counseling and loans to small businesses in rural communities.

#### Women's Enterprise Initiatives (WEIs)

WEIs work to provide customized services to help women entrepreneurs face challenges and succeed. Operating from head offices located in Kelowna, Calgary, Saskatoon and

Winnipeg, the WEIs improve access to financing, education and training, business advice, loan aftercare, information, networking and mentoring for women entrepreneurs.

Francophone Economic Development Organizations (FEDOs):

FEDOs enhance the vitality of Official Language Minority Communities (OLMCs) in Western Canada and strengthen economic opportunities for francophone business. With head offices in Winnipeg, Regina, Edmonton and Vancouver, FEDOs provide enhanced services to francophone entrepreneurs, including training, business and community economic development, access to capital, information services, marketing advice, and networking.

Canada Business Services Centres (CBSCs):

The CBSCs provide a single, seamless gateway to information for businesses and maintain an extensive database of business and trade information from federal, provincial, municipal and non-government sources. Western Canada CBSCs are located in Vancouver, Edmonton, Saskatoon and Winnipeg and services are also available through a network of regional CBSC and Aboriginal service sites.

In addition to support through the WCBSN, WD has undertaken a number of initiatives to encourage SMEs and R&D organizations to be innovative in improving their productivity and competitiveness. These include lean manufacturing practices (identification of new trends, the development of innovative strategies and the implementation of new processes), technology and management training and academic and industry internships and exchanges.

Sub-Activity: Access to Capital

A 2004 Statistics Canada Survey on Financing of Small- and Medium-sized Enterprises found that 20 per cent of SMEs cited obtaining financing as an obstacle to business growth. Those more likely to experience difficulties in obtaining financing included innovative

businesses (40 per cent), young enterprises - defined as those that started operation in 2002 (34 per cent), exporters (29 per cent) and manufacturers (27 per cent).

Through work with financial institutions, members of the WCBSN and other organizations, WD has contributed to increased investment in targeted western Canadian firms. In particular, WD has responded with the development of two types of SME loan programs;

#### Evaluation

1. WD Loan and Investment Program (previously the Loan Investment Fund Program) at: <http://www.wd.gc.ca/rpts/audit/lifp/ic-eng.asp>.-source

The evaluation found that:

Only 16 per cent of Loan and Investment Program loan clients could have obtained financing from other sources;

82 per cent of the small business financing experts surveyed indicated that there are gaps in loan financing available to small-and medium-sized enterprises; and 64 per cent indicated that the Government of Canada should influence private sector financial institutions to do lending to eliminate the gaps; and

The Loan and Investment Program does not significantly duplicate other loan programs and services.

Loan loss agreements have been negotiated to leverage additional loan capital from credit unions for rural business lending by CFDCs in British Columbia. The urban micro-loan, Advice and Business Loans to Entrepreneurs with Disabilities loan (ABLED) and francophone (FEDO) agreements provide loans averaging \$14,000 to very small and start-up businesses...

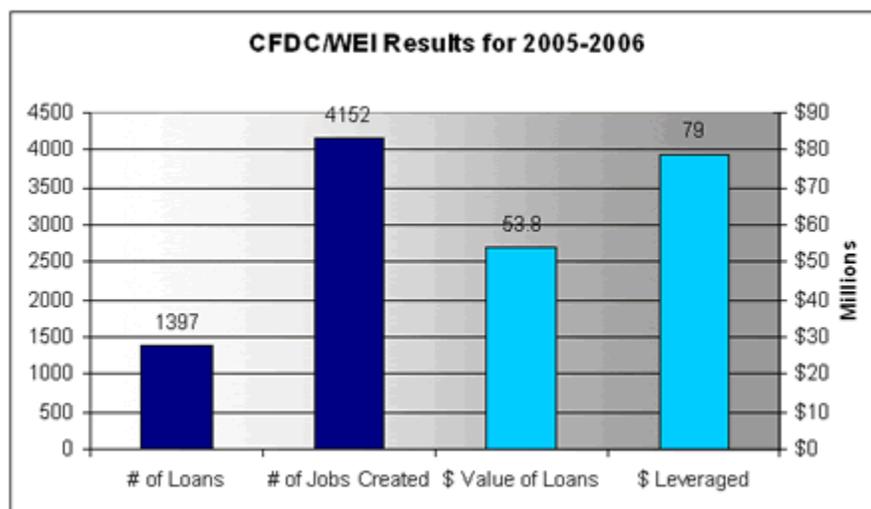
2. Developmental loans delivered by the Western Canada Business Service Network and Entrepreneurs with Disabilities Program (EDP) urban delivery agents

WD has provided WCBSN network members with funds to support repayable loans to SMEs in rural areas, and SMEs operated by women, francophone, young entrepreneurs or those with disabilities. WD's network members also provide SMEs with path finding services and referrals to alternative sources of financing.

Results for 2005-2006

An evaluation of the Entrepreneurs with Disabilities Program (EDP) and the Urban Entrepreneurs with Disabilities Initiative Fund (UEDI) undertaken in 2005 is available on WD's website at: <http://www.wd.gc.ca/rpts/audit/edp-uedi/default-eng.asp>. In the evaluation, Ference Weiker & Company estimated that "the average EDP and UEDI loan client generates 260,000 in revenues and 6 person years of employment over the first five-year period after they receive assistance that is attributable to the assistance that they received."

In 2005-2006, total external financing leveraged by FEDOs was estimated at \$2.3 million. The results for CFDCs in rural areas and WEIs serving women entrepreneurs are summarized below:



Total statistics above include: 68 loans to entrepreneurs with disabilities, totaling \$1.4 million and projected to create or maintain 156 jobs; 113 loans to youth, totaling \$2.3 million; and, 236 loans to Aboriginal clients, totaling \$7.18 million.

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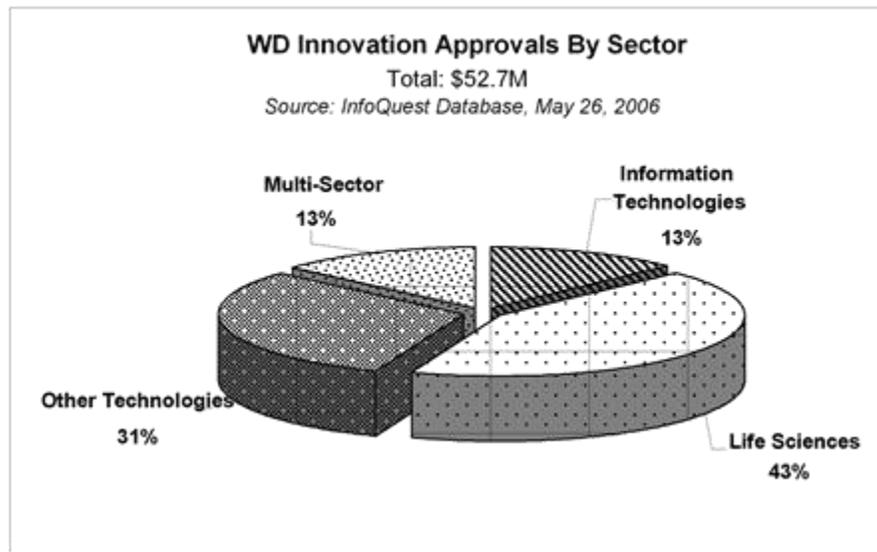
Program Activity: Innovation

, A innovation process that translates knowledge into new products and services is an important driver of long-term economic competitiveness and prosperity. WD investments in innovation are an important building block for creating a diversified economy in Western Canada. These investments support the emergence and growth of technology clusters in key sectors - such as environmental technologies, life sciences, information and communications technology (ICT) and value added resources and contribute to the development and commercialization of new technologies and technology based services and products in Western Canada.

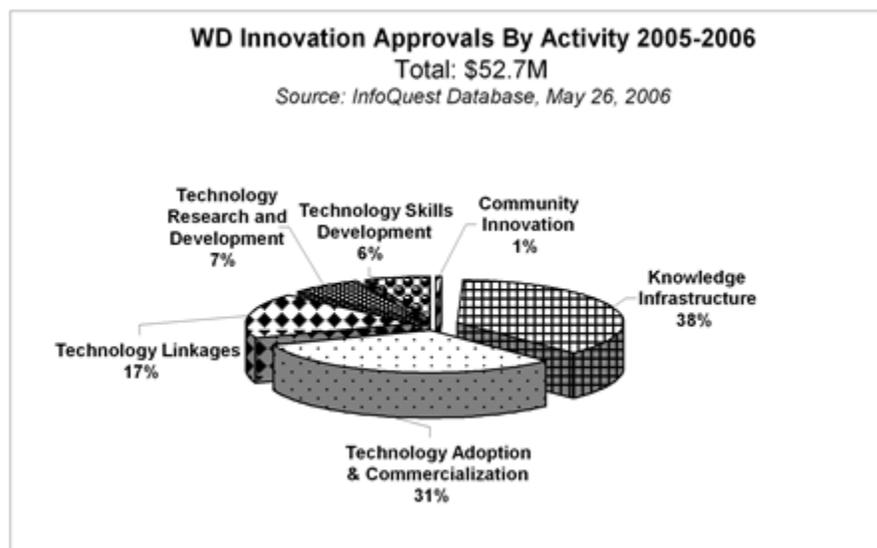
According to the cluster life-cycle model, most of the western technology clusters are in their earliest formative stages. Recognizing this, the majority of WD investments have been made in knowledge infrastructure and technology adoption and commercialization, which help set the foundation for clusters and future growth. As the clusters mature, investments will address gaps and opportunities and will be connected to markets and collaborative research opportunities with the United States through the ERI.

By strengthening the innovation system and enhancing technology clusters, resources such as highly qualified personnel (HQP), large anchor companies, venture capital, investments in R&D and knowledge infrastructure are drawn to and developed in the region. Firms in clusters are often active in export markets and international supply chains, and contribute to economic growth and diversification by reinvesting in new R&D activities and creating or retaining highly skilled jobs.

In 2005-2006, WD approved almost \$52.7 million to support the growth and development of technology clusters and the innovation system as a whole. The following graph illustrates this distribution:



WD works with many partners when developing and funding innovation projects. On average, the department contributes 33 per cent of the costs of an innovation project. For innovation projects approved in 2005-2006, WD support will leverage funding of \$146.4 million from other sources.



Sub-Activity: Technology Adoption and Commercialization

Technology commercialization ultimately occurs in industry. WD supports all phases along the technology commercialization continuum from support to organizations such as university technology transfer offices that identify, protect and license technologies to support that encourages technology adoption and adaptation.

Increasing investment and support for the commercialization of new technologies in Western Canada is a priority for WD. The department's work in this area has led to broad results including an increase in the number of technologies developed in research institutions that have commercialization potential, as demonstrated by intellectual property (IP) protection, licensed to an external user, or form the basis for a new company. The ultimate goal is to bring new products and services to the marketplace. In addition, WD's efforts have led to increased technologies adopted by existing firms.

#### Sub-Activity: Technology Linkages

Through its work in innovation, WD has increased connections and synergies among innovation system members through new partnerships/networks, collaboration, and conferences to exchange information and increase awareness.

#### Sub-Activity: Technology Research and Development

To support technology R&D, WD has invested in applied R&D leading to a new product or process that will have a near or mid-term commercial potential. This has resulted not only in applied R&D leading to technologies with commercialization potential, but also support for the operating or increased capacity of R&D centers and increased availability of skilled personnel

#### Sub-Activity: Community Innovation

Innovation at the community level can identify new opportunities and enhance the viability of traditional sectors. WD's support for community innovation in 2005-2006 resulted in planning studies used by communities as a tool for economic development, increased

capacity in communities based on the generation of new knowledge, and community businesses adopting new technologies.

**Sub-Activity: Technology Skills Development**

Under this sub-activity, WD supports projects that increase training, education and skill building in the new economy sectors. WD has contributed to several initiatives that increase the number of qualified individuals in the field and build linkages with industry.

**Sub-Activity: Knowledge Infrastructure Investments in knowledge**

Infrastructure provides the foundation for technology clusters. WD's investments in this area have resulted in increased physical assets for R&D and/or training and new investments to the field.

**CONCLUSION**

It is obvious therefore that the present lag in entrepreneurial development in rural areas in India could be overcome if institutional entrepreneurs under public private partnerships are formed. This would not only help in risk minimizing but also in risk sharing and that would help risk averse rural youth to undertake business and farming with more gusto and less fear. It would make them also real entrepreneurs after they start tasting success in their enterprises jointly managed with state partnership. In the process they would also be groomed as better managers under the enlightened and better educated executives drawn and recruited by the state.

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