

## Linking Entrepreneurship with Credit – The Role of Financial System\*

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Shri R.M. Malla, President- Entrepreneurship Development Institute of India (EDI), Members of the Governing Council, Director Dr. Dinesh Awasthi, invited dignitaries, faculty members, passing out students and their parents, members of the print and electronic media, ladies and gentlemen. It is, indeed, a pleasure to be here amongst graduating students and I am thankful to Shri Malla and the EDI for this opportunity, especially when it is an opportunity to return to my home state, Gujarat. A galaxy of speakers have addressed this forum in the past, this being the twelfth convocation. I am aware of my limitations to speak on an occasion such as this as I am neither an industry leader nor an academic. Nevertheless, I shall try to come up to your expectations.

2. Convocations are always special. They are special because they are simultaneously a conclusion and a commencement. Convocations logically conclude a formal learning exercise. They are hence a time for relief, a sense of fulfilment and a feeling of joy to the graduating students and to the faculty. They are, however, even more special, because they commence a lifelong informal learning as graduates step out into the University of the World – step out with dreams, hope and expectation into the *terra incognita* of life. In our days when we passed out, it was not a dream but a nightmare, because of the difficulty in getting employment. Now employment is available everywhere in the world. There are three types of employment. There are jobs with no work where one gets a salary without working. There are jobs where one can work for certain hours and get paid accordingly, and there are jobs where one can create and fulfil one's dreams, create employment for others, and that is self-

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employment or entrepreneurship. You belong to this class. It is a rare privilege to share this special day with the future businesses and social entrepreneurs of the country.

3. You pass out as alumni from a venerable institution. While the EDI commenced its capacity building initiatives in 1983, we must not forget that its genesis dates back to 1969. The late 1960s were a period when India undertook brave experiments to use credit as an instrument of development. In fact, entrepreneurship and credit are interrelated. The most important and perhaps the most significant amongst the public policy moves in this direction were the experiments to do away with guarantees and collateral and move from 'security-based lending' to 'purpose-based lending'. The entire development of entrepreneurship would not have been possible if this transition had not taken place.

4. The underlying thoughts in this policy intervention were that credit and finance were instruments of empowerment. By unfettering credit from security, those who were able and willing, creative and talented would not be constrained by lack of funds. The security for the funds lent would not be physical assets but the discounted value of cash flows that the enterprise would generate. This marked a decisive shift in methods of lending – it reoriented lending from a static to a dynamic concept. Moreover, it was centred around people – the living entrepreneur rather than on inanimate physical capital. My present organisation, Reserve Bank of India, plays a very significant role in this change.

5. Such a policy shift was rooted not only in equality of opportunity which is enshrined in the Indian constitution and the need to provide employment, but, most importantly, it was rooted in the belief that it is talent and not necessarily capital that can make the

difference; in the belief that resourcefulness and not merely resources matter. The key to India's development, thus, lay in unleashing the latent entrepreneurial potential of the country – the critical aim was to free those with talent and ideas from capital constraints. We had various problems but we were unleashed in the 1990s after a wait of 30 years.

6. Entrepreneurship and finance alone are not sufficient. Conducive conditions are needed for entrepreneurship to thrive. To create a nurturing ecosystem conducive to building business, a host of policy measures have been put in place by Central and State governments, the Reserve Bank, and other institutions. These include creating infrastructure – financial institutions to lend, institutions to assist with technical skills development, assistance with technological up-gradation, marketing, consulting, as well as capacity building in the form of entrepreneurship development programmes. I will be taking up some of these aspects which will be of help to you.

7. The purpose of capacity building was to draw out the latent talent and potential existing in society and provide the necessary guidance for it to flower when ideas meet with opportunity. It was hoped that entrepreneurship efforts would not only provide self-employment but the businesses would grow at a steady if not at a rapid pace. This would create further job-opportunities, spur growth and mitigate migration.

8. One of the early capacity building initiatives was the 'Technician Scheme' launched in 1969 by two state-level agencies of Gujarat which envisaged 100 per cent finance without collaterals. This initiative, over time, coalesced into the setting up of the EDI of India at Ahmedabad in 1983 as a joint effort of the IDBI, ICICI, IFCI and SBI. The EDI has since been spearheading entrepreneurship development efforts in India and, as an apex body, has played a critical role in India's economic development.

9. Today, it is heartening to see that the EDI is incubating talent not only for budding entrepreneurs who with their risk-taking abilities will change the economic landscape of the country, but also for those idealists with starry notions who wish to change the

country and the world and make a difference to the existence of others through its course in NGO management.

10. While the strategic aims for stimulating entrepreneurship have changed over time, the core purpose of inducing dynamism in the economy remains constant. When the EDI was set up, it was hoped that entrepreneurship would stimulate India's economic growth and provide employment. The entrepreneurship initiatives of today are helping sustain India's growth trajectory. And, as I see you, the entrepreneurs of the Class of 2011, I trust that entrepreneurship of tomorrow will surely pitch India for a leadership position through innovations and ideas. The EDI, thus, has its hands full for the next two decades for generating a new quality of entrepreneurial capital. I will briefly dwell on a few questions.

### Entrepreneurship: Does It Matter ?

11. First, *does entrepreneurship matter?* Schumpeter and, much later, Kirzner certainly thought it did. Indeed, economists often add entrepreneurship as the fourth factor of production to the traditional trinity of Land, Labour and Capital. They saw an entrepreneur as an innovator, risk-taker and arbitrageur who introduced new technology, competition and created new markets. More recently 'entrepreneurial capital' is a term that is increasingly being employed.

12. Empirical evidence on whether the level and rate of entrepreneurship are significant determinants of economic growth, productivity or employment, is mixed. However, the general consensus is that entrepreneurship matters not merely from its impact but also in the context of human development.

13. Entrepreneurship in India comes in four shades. First is entrepreneurship for survival. Typically, this involves promoting poverty alleviation and self-employment projects such as basic animal husbandry, petty business, *etc.* The finance vehicles for these are poverty alleviation schemes and, today, this form of entrepreneurship is the focus of micro-finance activities and banks in the rural areas.

14. Secondly, there is entrepreneurship that relies on internal business sense for local ventures. These

typically consist of employees with practical/technical skills striking out on their own such as producing ancillary items. These largely involve proven technologies and cater to established markets.

15. Thirdly, there is 'add-on' or 'lifestyle' entrepreneurship which consists of life-partners starting businesses on a part-time basis such as tailoring, catering, pickle-making, beauty parlours, day-care centres, *etc.* These are driven by various motives – most start with the need to augment domestic resources especially during times of job losses of partners. Others do it for non-monetary benefits associated with being their own bosses and setting their own schedules. At times, some of these activities succeed to an extent that they become primary activities.

16. Finally, there is entrepreneurship driven by ideas and innovation. Typically, these are start-ups that have a well-defined growth plan and exit strategy and rely for funding on venture capital or institutional finance. Typically, these involve new or relatively untried technologies and often untried promoters. These high-risk ventures, when they succeed, create breakthroughs and have the potential to create substantial wealth. The success stories are legendary and too many to enumerate. It is in this realm of break-through technologies and innovation, where India has lagged for 500 years while the Industrial Revolution took place in the West, that the future of Indian entrepreneurship lies if India is to fully tap its greatest resource – its talent pool. It is here that you will contribute by bringing in new ideas and utilising new technologies in the knowledge-based activities.

17. To sum up, entrepreneurship matters for both growth and for development. It matters not merely for employment generation, the development of backward regions, mitigating economic concentration, and for spurring innovation, but also to enhance the capabilities of society and enhance people's freedoms and choices. Looking ahead, it is the area of entrepreneurial innovation, specially in the knowledge industry that has the potential to pitch India into an economic leadership role, which then can make a difference to our development trajectory.

## Entrepreneurship and Finance

18. *What then is the role of finance?* While the entrepreneur brings in ideas, techniques, innovations and passion which go to constitute entrepreneurial capital, it needs to be backed by command over a real resource. This is provided by finance. Finance, thus, enables entrepreneurship to become the fourth factor of production.

19. India has, in many ways, pioneered the concept of dovetailing credit into the country's development endeavours. The original purposes were poverty alleviation and employment generation. The policy interventions were premised on providing credit to draw out the entrepreneurial spirit. This, it was hoped, would enable large sections to lift themselves out of the vicious circle of poverty, create employment, spur growth, and contain rural to urban migration.

20. Policy measures include the concept of priority sector lending which, through affirmative action, helps channelise credit to small and medium industries; collateral-free lending for loans up to ₹10 lakh; guidelines for faster processing of loan applications by banks; allowing composite loans for working capital and term loans; specialised Micro, Small and Medium Enterprises (MSME) branch in most districts; adoption of the cluster-centric approach; guidelines to expedite payments to MSME suppliers; collective forums to resolve issues relating to MSMEs including State-Level Inter-Institutional Committees (SLIICs) amongst others.

21. Today, institutions such as SIDBI, NABARD, EXIM Bank, Housing Finance Institutions (HFIs), and State Finance Corporations, the various commercial banks as well as venture capital providers and Micro Finance Institutions are a part of the financial infrastructure for providing finance to small entrepreneurs and to spur entrepreneurship.

22. These financial institutions have played a critical role in India's quest to draw out entrepreneurship. First, they have been instrumental in making available consultancy and advisory services to entrepreneurs at a reasonable cost by setting up a network of Technical Consultancy Organisations (TCOs). Second, they have helped spread the entrepreneurial culture across the

country and to weaker sections of the society by providing financial assistance to first-generation entrepreneurs. Third, their contribution to capacity building through entrepreneurship development programmes (EDPs) which are a precondition for lending to prospective entrepreneurs has been notable. Finally, they implement a host of government programmes such as the Prime Minister's Employment Generation Programme (PMEGP). These programmes not only provide incentives and subsidies but also impart technical skills, hand-holding support and assistance.

### Creating Conducive Ecosystems: Role of Government

23. Entrepreneurship and finance are not ends in themselves. They require a favourable ecosystem and here is where you have the role of government. Complementing finance, entrepreneurship needs a conducive ecosystem to thrive. *What is the support a budding entrepreneur can avail of?* First, the Central and state governments have created an extensive infrastructure at the Central, State and district levels to create an enabling ecosystem for entrepreneurship. The infrastructure ranges from providing technical consulting facilities and advisory services to incubating projects.

24. Many of these infrastructure initiatives go back a long way when a host of institutions were set up. Some of these were the Small Industries Development Organisation (SIDO) in 1954, the Small Industries Services Institutes now known as Micro, Small and Medium Enterprises Development Institutes (MSMEDIs), the District Industrial Centres (DICs), etc. These organisation had their own problems, but are now in a phase of reinventing themselves. For instance, SIDO is now an agency for advocacy, hand-holding and facilitation for the small industries sector providing a wide spectrum of services to the small industries sector.

25. Capacity building endeavours have been very considerable. These are organised not only by the national and state-level institutions such as the national entrepreneurship institutes at Ahmedabad, Noida, Hyderabad and Guwahati and MSMEDIs but also

by various Industrial Training and Vocational Training institutes through specialised courses supported by the Ministry of Medium, Small and Micro Enterprises (MSME).

26. Another facet of Government policy has been to create a culture of entrepreneurship. This has been attempted by including entrepreneurship into the education curriculum. Entrepreneurship Development Cells (EDC) have been set up across the country. This was followed by the Science & Technology Entrepreneur's Park (STEP) programme co-ordinated by the National Science and Technology Entrepreneurship Development Board (NSTEDB). The major objective of STEP is to forge linkages among academic and R&D institutions on the one hand and the industry on the other.

27. A range of critical support services and needed facilities to nurture and support start-up entrepreneurs are provided by Technology Business Incubation (TBI) Mechanisms.

28. Finally, there are hand-holding schemes such as the Rajiv Gandhi Udyami Mitra Yojana (RGUMY) which provide hand-holding support and assistance to the potential first generation entrepreneurs, who have completed EDP or Vocational Training programmes.

29. *Can entrepreneurs be created?* This question is cast in the mould of the nature vs. nurture debate. There are no answers. However, ingrained in the idea of EDCs, the STEP programme and Technology Business Incubation and MSME initiatives is the idea that by creating the right and conducive ecosystem and by education and capacity building, entrepreneurship talent latent in society can be drawn out, and, perhaps, this conducive ecosystem can also create new entrepreneurs.

### Inclusive Growth and Social Entrepreneurship

30. From the 1990s, India's growth rate has accelerated from the Hindu rate of growth of 3.5 per cent India has had much to celebrate over the past two decades on the economic front. It has become one of the world's fastest growing economies. Indian

companies have made their mark abroad and, indeed, many are transforming themselves into multinationals with a global presence. Most important, there is a new-found sense of confidence. Confidence reposed by the world in us and confidence by us in ourselves. There certainly is the feeling of 'Yes, we can!'. To sustain this momentum, it is important that the growth that we have seen is inclusive, people-centric and translates into overall development. It is important that this feeling and confidence permeates all sections of society and none are left out of the India growth story. Without this, we will not be able to sustain high growth.

31. While the growth story has been impressive, there are causes for concern on other dimensions. Issues of income distribution are important. We have a long way to go in addressing concerns of absolute poverty. In the context of human development, the country ranks 119 among 169 countries on the 2010 Human Development Index published annually by the United Nations Development Programme. We compare poorly on almost all indicators such as life expectancy, education and per capita income. We have issues of water, sanitation, power, infrastructure and environmental degradation. More importantly, there are issues of social and economic inequalities and multiple deprivations. All budding entrepreneurs have to face these challenges and find solutions.

32. With these concerns in view, Government of India has adopted the strategy of inclusive growth in the ongoing Eleventh Five Year Plan. This entails triggering a series of development process that ensures broad-based improvement in the quality of life of the people, especially the poor, and the underprivileged. A number of schemes seek to address issues of livelihood and seek to act as social security nets. To make these schemes and policy interventions effective, it is important that the common person in general and beneficiaries in particular have access to the banking sector to receive and make payments on their own account. As inclusive growth is not possible without financial inclusion, 'financial inclusion' has become a major policy plank. The Reserve Bank vision is that everyone in the country should have access to financial products and services but our immediate objective is that every village with a population exceeding 2,000 (and subsequently all villages) should be covered either

by a bank branch or through a business correspondent by 2012. The rationale behind this is that access to finance, along with fair and transparent products/services, is a source of empowerment and allows people to participate more effectively in the economic and social process. Our dream of inclusive growth will not be complete until we create millions of micro-entrepreneurs across the country.

33. In this context of inclusive development, the course in social entrepreneurship offered at the EDI assumes importance. While the term social entrepreneurship is new, the activity of building social capital is not. In the mid-19th century Raiffeisen innovated the credit unions and set in motion the co-operative movement; Vinobha Bhave led the Bhoodan Movement for pooling and redistributing land; closer to the present, social capital built by pioneers such as Ela Bhatt of SEWA, Kurien's Amul initiative or Mohammed Yunus's Gramin Bank have Charted new directions and have led the way.

34. India, today, is home to the largest number of NGOs in the world. A recent government study estimates the number of NGOs at 3.3 million. This is many times more than the number of primary schools and primary health centres in India. While we have the comfort of numbers, we do not have the comfort of commensurate results. We trust that some in our midst, who are stepping out to pursue a career in the social sector and become agents of social change, will not only fill in this deficit but will also pioneer new areas.

### **Of Profits and Ideals**

35. While much of social capital creation has been driven by idealism and the non-profit sector, a view that is fast gaining ground is there is profit while serving the bottom of the pyramid – and that creating access to essential services and products for under-served communities – rural or urban, below or above the poverty line, can be profitable. In fact we believe that commerce for the poor is more profitable than commerce for the rich. Our young entrepreneurs should not forget this cardinal rule.

36. While the idea is both innovative and has proved effective, we here tread a difficult area. Business entrepreneurship is easy to handle. Its immediate

results are easily quantifiable in wealth created and jobs generated. Social entrepreneurship is more difficult. Their efficacy can be gauged by changes in society. Social change and the creation of social capital are certainly commendable activities. However, any advocacy for social change and the nature of social capital created is rooted in values and one has to exercise due care and caution in imposing the values of one society on another.

### The Issue of Ethics

37. As you graduate from the EDI, *what is it that you should hold fast to?* First is the issue of values and ethics. The cries for values and ethics in business stem from what is alluded to as the 'crisis of confidence'. These concerns have exacerbated in the wake of unexpected corporate failures and high profile collapses both abroad and in India. I will not spend time on the global meltdown which is well known.

38. *What then are the qualities needed to make ethical decisions?* First, is the ability to recognise ethical issues; second, the ability to reason through the ethical consequences of decisions; third, the ability to deal with ambiguity; fourth, the ability to distinguish between ends and means; fifth, the courage to go by conviction rather than consequences; sixth and most important, cultivating the integrity to face ethical dilemmas that you will face in the course of your career head on and to resolve them. Here, we should remember that, as in sport, what is important is not winning, but playing a fair game. Playing a fair game, may lead to failures and lost battles, but will surely win you the war in the arena of life.

39. Schumpeter referred to the entrepreneur as '*Mann der Tat*' or a Man (person) of Action. The entrepreneur, he said, was someone who does not accept reality as it is. If there exists no demand for a good or service, the entrepreneur will create such a demand; s/he will make people want it. S/he acts decisively and does not feel the restrictions that block the actions of the other economic actors.

40. While you may strive to achieve the Schumpeterian ideal, I must caution that do whatever you have to do, bounded however, by ethical norms. These norms cannot be taught in a class-room; these will be learnt in the crucible of life. Pursue substance and not form. Remember, it is not compliance to set norms that matters, but what you feel deep down in your heart is fair and right; seeking, in Wallerstein's words, 'the good, the true and the beautiful'.

41. And now for the customary homilies. As you leave the portals of this institution, we trust you will be persons of action, with hopes, aspirations and dreams. Dream on, but take care not make dreams your master. Enjoy what you do and do it with passion. Ensure that the excitement, passion and romance in building a new organisation and creating something new is shared by all in your team. Take those you work with, along with you. Deal with failure as a guide and with triumph with humility. And most important, cultivate a sensitivity to the rights and vulnerabilities of others.

42. Where you are concerned, the EDI and the faculty have done their job. It is now for you to go out and find yourselves. Lastly, three pieces of advice, which I give to primary students and postgraduates alike, which you should remember is, first, 'be information literate', *i.e.* third generation literate. It is not enough to be a first generation literate, *i.e.* you know how to read and write, or to be second generation literate, *i.e.* to be computer literate, but to achieve information literacy. When transiting to a knowledge society and to be a successful entrepreneur, it is critical to be information literate. Second, you are passing out of EDI and have dreams. Many of you will be highly successful. But remember to 'avoid complacency' during good times. Downturn may come any time. Third, life is not easy; it is difficult, whether of an individual or an institution. Bad times may come, and sometimes, all bad things will come together. In such times, do not become desperate. Do not lose hope, but pray, 'wait and hope' because good times will return. I look forward to a challenging, prosperous, and enterprising career for all of you passing out today.