

## Welcome Message

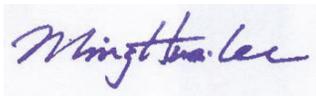
It is my great pleasure to welcome all esteemed participants to the 18<sup>th</sup> Asia Pacific Tourism Association Conference. We have chosen Taipei, the landmark city of Taiwan, as venue for this grand feast of tourism academics with the belief that this venue and all its attractions, coupled with our exciting itinerary, will make your stay with us a most memorable one.

The Asia Pacific Tourism Association enjoys a growing international reputation and great success with numerous conferences in the Tourism industry. With the addition of the vast experience and dedication of Taiwan Hospitality and Tourism College as this year's co-host, we are confident of making the 18<sup>th</sup> edition of the APTA Conference an unprecedented success.

In preparation for this year's conference, we received more submissions than ever before from industry and academia in more than 20 countries; undoubtedly a result of the APTA's expanding range of influence. This growing popularity has resulted in a significant loading increase for every branch of the organizing committee to whom I express my gratitude for their hard work and dedication.

I would like to express my sincere appreciation to keynote speakers Professor Kaye Chon, Professor Nigel Hemmington, Professor Cihan Cobanoglu and Dean Alister Mathieson for their invaluable academic contributions to this conference. I also would like to thank our numerous public and private sponsors from a wide range of government, commercial and academic fields. It is only with your generous support that this conference is possible.

I hope you all enjoy your stay in Taiwan. I am confident of a mutually successful conference and hold great expectations that this year's APTA Conference will open a new chapter in the development of tourism and set the benchmark for ones in the future.



Ming-Huei Lee, Ph.D.  
Chairman of Conference  
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## **EMPOWERMENT AT THE BOTTOM OF THE PYRAMID: POVERTY REDUCTION THROUGH RURAL TOURISM**

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### **ABSTRACT**

This is exploratory research, showing on one hand the potentialities of the tourism sector, especially with regards to leisure, and on the other, the evolution of the venture capital (VC) sector, which shows similar potentialities. This research proposes a pro-poor development strategy based on rural tourism by linking the potentialities of these two factors. The paper is an exploration of the issues associated with the VC industry, and the strategies to be developed based on secondary data from the industry. The findings imply that the historical development of tourism and the VC industry has witnessed ups and downs in line with global developments, and that there is potential for combining these two catalysts and coming up with a rejuvenating strategy for transforming the economy, in particular the rural community through promotion and development of rural tourism concepts, by capitalizing on the dynamics of VC. On a pragmatic level, the paper highlights the opportunities and threats pertinent to stakeholders. It focuses on the benefits of developing rural tourism activities using the dynamics of VC financing to attain sustainable development in the years to come. If the model proposed proves to be viable and successful, then the prevailing global problem of rural poverty may be reduced, benefitting the society at large, which in turn leads to empowerment at the bottom of the pyramid. The paper offers valuable inputs for venture capitalists, the tourism business community, NGOs, governments, and other stakeholder groups.

Keywords: Dynamics of venture capital, rural tourism, sustainable development, developing countries, poverty alleviation.

"India is the cradle of the human race, the birthplace of human speech, the mother of history, the grandmother of legend, and the great grand mother of tradition. Our most valuable and most astrictive materials in the history of man are treasured up in India only!"

Mark Twain (American humorist, satirist, lecturer, and writer, 1835-1910)

"If I were asked under what sky the human mind has most fully developed some of its choicest gifts, has most deeply pondered on the greatest problems of life, and has found solutions, I should point to India."

Max Mueller (German philologist, Orientalist, and Indologist, 1823-1900)

"India conquered and dominated China culturally for 20 centuries without ever having to send a single soldier across her border!"

Hu Shih, former Ambassador of China to USA

(Chinese philosopher and essayist, 1891-1962)

## INTRODUCTION

There are many world-famous quotes about India by people from different disciplines, and several have been reproduced here to give an insight into the rich and varied cultural and traditional heritage that India has. This heritage has meant that, over the centuries, India has been targeted by other countries in attempts (some of which have been successful) to capture and exploit its vast reservoir of resources.

Thus, as a nation India has great potentiality, however the urban population's mindset molded during British rule needs to be revamped and rural villages must be given more focused facilities to enable them to develop and join the mainstream Indian social network. Rural villages in India have many unique traditions and features, for example the idea of *Aathiti Devo Bhava* (serving a guest is equal to serving god); cultural heritage and traditional art forms; well-conserved natural environments; traditional herbal medicines and organically cultivated food; and local crafts and cottage industries. Hence, Indian rural villages are considered as the true repositories of Indian culture and heritage, thus needing a delicate touch so that their notable characteristics remain intact (AFF & Co., 2001a, p. 8 and 2001b, p. 7). However, it is important that rural people are not treated as mere "puppets"; rather, the focus should be on the formation of cooperatives with sufficient representation from the rural population, with emphasis placed on the population retaining their role as primary service providers and maintaining sufficient control.

In India, from 1901-2011, the rural population declined; from 89% of the population to 69%, with a CAGR of only 14%, compared to an urban population increase; from 11% to 31%, with a CAGR of 31% (GOI, 2011, p. 41). However, the rural market still constitutes almost 72% of Indian consumers; hence, this population is targeted by business entities (domestic as well as international) with a focus on marketing a miniaturized product range which is intended to empower the rural population – or the "bottom of the pyramid" (BOP) – to enjoy the benefits of globalization (Prahalad, 2005, p. 4). Nevertheless, the potential of the rural market has not yet been fully exploited due to the low purchasing power of the BOP, and this basic problem needs to be tackled in coming years. A straightforward way to achieve this is to help the BOP to become self-employed, which in turn improves their purchasing power and leads to overall economic development. Thus, a suitable model for this must be identified, that can be interwoven with the fabric of rural customs and traditions without harming it. Models developed on this subject to date focus mainly on areas including micro-financing, healthcare, education (Martin and Osberg, 2007, p. 29), infrastructure, low-cost electrical appliances, farming (Mair and Schoen, 2007, p. 55), and insurance (Subhash and Bhat, 2007, p. 65); each of these has aimed to empower the rural population in different ways. The most prominent form of rural empowerment is in the area of micro-financing, which enables rural entrepreneurs to take initiatives in starting small-scale (mostly run/managed at home by women) businesses. Thus, these models broadly deal with social enterprise (Mort et al., 2003, p. 78), which focuses on developing the BOP and helping it to achieve economic transformation.

This paper tries to identify an alternative way of improving the purchasing power of the BOP by facilitating self-employment. Two developmental concepts are integrated here; rural tourism and social venture capital. Tourism and VC financing have their own inherent capacity for generating economic transformation; hence, if they are combined a multiplier effect can be seen. A balanced mixture of social VC and rural tourism leads to the sustainable development of the BOP. However, to attain success, a proper marketing strategy needs to be developed to make use of modern technological developments (online advertising/marketing/etc). Thus, this paper explores an otherwise unexplored area; i.e. the role of social VC (micro-VC) in promoting rural tourism.

## **BACKGROUND**

The travel and tourism industry contains a great potential for jobs, as well as service to customers, a gateway to economic progress at national and local levels, and prospects for greater dignity and a better life for people across the world. In recent years, the travel and tourism industry has had to contend with a series of challenges including terrorism, SARS, and economic turbulence; these have led to significant changes in travel and tourism demand. At the same time, international events have accelerated fundamental changes in market behaviour and travel patterns which have emerged over the past decade (WTTC, 2003, p. 1). In the present globalized economy, the potentiality of this industry must be recognized and proactive steps taken to capture the market. Thus, by focusing on rural tourism, rural poverty can be reduced and the economic wellbeing of the rural population maximized, without affecting cultural heritage. However, success depends on the growth and development of appropriate rural tourism products/services, and also ideal locations in the host countries/regions.

One of the most sought-after tourism product/service in the globalized world is rural tourism; in some countries, for example Canada, this has been termed “aboriginal tourism”, and marketed extensively to attract a special category of European tourists (CTC, 2008, p. 1). Extensive research has been carried out in Canada regarding the potentiality of aboriginal tourism, and financial and other infrastructural assistance has been provided to aboriginal people. Like Canada, India has many aboriginal communities living in remote rural villages, who practice traditional performing arts, herbal medicine, handicrafts, food preparation, etc. As pointed out by Piplani (2001, p. 3), The Festival of India, held in the USA in 1985, was the beginning of marketing rural tourism products/services abroad. Subsequently, many such festivals were organized in other countries, including France, Russia (then USSR), and Germany. This was the beginning of an image-building exercise that promoted India as a tourist destination.

Over the last 23 years (1985-2008), India has gradually gained prominence in the global travel and tourism arena, however more must be done to reap the full benefits of rural tourism. For instance, the rich cultural and religious heritage and varied natural attractions of India’s villages must be properly identified and tapped as tourism products/services, in order to enable rural development. In recognition of this, the Indian government has already devised various schemes for developing rural villages, including (a) Pradhan Mantri Gram Sadak Yojana (PMGSY), whereby all-weather roads have been constructed to connect villages with a population of more than 1,000 to main roads to increase rural connectivity; (b) Swarnjayanti Gram Swarozgar Yojana (SGSY), a credit-cum-subsidy programme whereby assistance is given to poor, rural families living below the poverty line to take up individual or group activities, including so-called self-help groups for self-employment; (c) Pradhan Mantri Gramodaya Yojana

(PMGY), whereby rural drinking water and rural sanitation is prioritized. The Ministry of Rural Development is proactively engaged in the effective implementation of these programmes, which also promote rural tourism with the active involvement of the Panchayati Raj Institutions, NGOs, SHGs, and other community-level institutions (Maharia, 2001, p. 1).

The Ministry of Tourism provides some figures on the Indian tourism scenario in relation to India's Asia Pacific partners, as well as the world as a whole. In terms of global international tourist arrivals, India's share in 1996 was only 0.40% (2.53% of the Asia Pacific region); this increased to 0.56% (2.76% of the Asia Pacific region) by 2007. However, India's CAGR over the last 12 years (1996-2007) comes to almost 7.12; this is much higher than the world's (3.92) and the Asia Pacific region's (6.96) CAGR. This clearly indicates India's growth potential as an international tourist destination. Likewise, the share of the total global revenue generated from international tourism in India during 1996 was only 0.65% (3.34% of the Asia Pacific region), which almost doubled to 1.25% (5.68% of the Asia Pacific region) by 2007. In terms of the CAGR, India has 13.16, compared to only 6.11 for the world and 7.84 for the Asia Pacific region (MT, 2008, p. 15). This indicates the ability of international tourism to generate revenue in a manifold way; with future reinvestment in promotion and development of the Indian tourism industry.

Secondly, the benefits of VC financing can be seen in many advanced countries (including India) in the form of large-scale industrial development, increased employment opportunities, higher turnover, governmental revenue generation, increasing investments in research and development, and manifold increases in the export of goods and services (Subhash, 2007c, p. 95). These benefits are technically known as the "economic impacts" of VC. Thus, VC financing has an inherent potential to transform the economy. VC can also be used as a means of solving some of the social problems prevailing around the world, such as sustainable economic development (O'Rourke and Malthouse, 2002, p. 3; Randjelovic, 2001, p. 20; Randjelovic et al., 2002, p. 35; Randjelovic et al., 2003, p. 241); minimizing transnational terrorist activities (Subhash, 2011); improving corporate governance (Berghe and Levrau, 2002, p. 125; Mebarek, 2003, p. 10; Hochberg, 2003; Sullivan, 2004, p. 25; Yoshikawa et al., 2004, p. 831; Acharya and Kehoe, 2008, 9; Subhash, 2009, p. 113) and rural marketing (Subhash, 2008a, p. 156). Hence, this paper considers the multifaceted role of VC in finding a solution to the additional social problem of rural poverty. Globally, especially in Middle Eastern regions, the significance of VC in tourism and hospitality has been identified and considered as one of the most viable financial sources for assisting and promoting business enterprises in the tourism and hospitality sector (Subhash et al., 2010, p. 5; 2011, p. 126; and 2011a, p. 10).

Thus, the required impetus for the overall development of rural tourism in India is not currently visible. There may be various reasons for this, but limited finances can be considered one of the most crucial elements which hinders developmental policies. Hence the importance of VC financing, which is considered superior to other forms of traditional financing, mainly because of the value additions venture capitalists provide along with financial assistance, as well as the multifaceted role of VC in maximizing wealth (Subhash, 2007b, p. 15). Though the concept of VC has long been in existence, its basic characteristic remains the same even in the present globalized scenario; i.e. assisting new businesses with no visible/tangible asset as collateral security, but with high future growth potentiality. Over the years, the concept of VC has evolved into social VC, which is useful in promoting rural tourism. Using the wealth generating/adding capability of VC and combining it with the multiplier effect of the job-

creating ability of the tourism and hospitality industry, rural poverty reduction becomes an easy task. Since the main focus of the present paper is on the financial prerequisites for developing rural tourism in remote villages, the subsequent sections will consider some insights on the dynamics of VC, as well as the present global scenario, with a focus on the Indian VC industry. Finally the paper attempts to integrate social entrepreneurship with social VC for the promotion of rural tourism, whereby rural poverty reduction becomes a reality in the near future.

**DYNAMICS OF VENTURE CAPITAL**

An overview of the changing pattern of VC financing and development of global VC financing activities is given in Figure 1. The concept of VC is a dynamic one. In its initial form – “classical/ancient” VC – finance was provided by wealthy individuals/monarchs to explorers who wished to explore uncharted territory, with inherent high-risk/-return/-uncertainty elements. Following the agricultural and industrial revolutions, “neo-classical” VC played a role in business ideas with high-risk/-return. In 1946, the concept evolved into “modern” VC, which focused mainly on high-risk/-return/-technology categories of business ideas in their early stages. From 1990-2000, the focus shifted towards low-risk/medium-return/non-high tech categories of industries (service sector) in their later stages; here it became known as “private equity” (i.e. later-stage investments, while VC was confined to early-stage investments). The present scenario (2001 onwards) is completely different, as the concept has evolved into yet another form; i.e. “social” VC, the aim of which is to help build financially sustainable and scalable organizations that deliver affordable critical goods and services to improve the lives of the poor, which in turn facilitates social change and returns capital for future investments. In the coming years, this may evolve into something similar to “micro” VC financing (Subhash et al, 2011, p. 127).

Though VC has a long history, most of the available literature deals with only the modern concept, with many studies carried out on the various aspects of VC financing in different countries. The number of studies conducted throughout the second quarter of 2008 alone totals almost over 200, with the majority of studies focusing on the European (49%) and North American (35%) VC industry (Subhash, 2007a, p 15). The extensive research conducted from 1974-2008 clearly indicates the global significance of VC financing among research scholars and professionals/practitioners.

Since the modern concept of VC originated in the US in 1946, most early research was conducted in the US. Research carried out during 1964-1974 (Dominguez, 1974, p. 15) found that though VC firms have different types of monopolistic competition with free entry into the industry (with firms having product differentiation), due to economic conditions during the ’70s there was little scope for the VC industry to develop fully. But from 1964-2008, the VC industry survived and spread globally. Bruno and Tyebjee (1985, p. 68), speaking during the early ’80s when scientific research on VC began, commented on “the success of start-up companies whose very existence, let alone their meteoric growth, would not have been possible without the infusion of VC”. In an earlier work, this duo proposed an investment model for venture capitalists (VCs) (Tyebjee and Bruno, 1984, p. 1058); this is still used. It involves the following concepts: deal origination, deal screening, deal evaluation, deal structuring, and post-investment activities.

Figure 1: Overview of the changing pattern of venture capital financing

#	Period	Main economic activities/events	Clustering regions	Dynamics of
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			/countries	venture capital
1	3500-2000 BCE to 1600 AD	Early civilizations began: Sumerian/Ancient Egyptian/Indus/Minoan/Neolithic. At a later stage, explorations started.	Middle East (3500-2500 BC)/Egypt (2800-2160 BC)/India (2500 BC)/Greece (2000 BC)/Central America (2600 BC) Emergence of European and Western supremacy.	Classical/ancient VC (for exploring un-chartered territory).
2	1600-1700	Agricultural revolution.	Mostly Europe (mainly Britain), also America and Japan.	Neo-classical VC (for high-risk/high-return business ideas).
3	1700-1900	Industrial Revolution/Mass colonization of Asia, Africa, and Middle East.	Mostly Europe, also America, Japan.	
4	1914-1960s	Power struggle in Europe led to WWI, and later WWII.	Mostly Europe, America, Japan. Russia became a socialist economic power.	Modern VC (for high-risk/high-return/high-technology businesses in their early stages).
5	1960-1990	New economic order/end of colonization/oil became vital/unrest around the world/Middle Eastern problems.	North America, Europe, Asia Pacific, Middle East and Africa, Central and South America.	
6	1990-2000	ICE Age/more focused developments around the world in information, communication and entertainment industries.	North America, Europe, Asia Pacific, Middle East and Africa, Central and South America.	Private equity (for later stage investments, and VC for early stage). Service sector became more prominent.
7	2001 onwards	Economic recession in many parts of the world/unrest and terrorism on the rise/countries struggling to stabilize their economy.	North America, Europe, Asia Pacific, Middle East and Africa, Central and South America. Countries in Middle Eastern region gaining more prominence in terms of fund availability/countries like Brazil, Russia, India and China show high growth potential for VC investments (“BRIC”	Social VC and micro-VC (helping to build financially sustainable and scalable organizations that deliver affordable critical goods/services that improve the lives of the poor). Islamic

		opportunities).	VC in Middle East
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Source: Subhash, 2008a.

Growth in scientific research on VC arose from the exponential rate of return achieved by venture-backed firms during the '70s and early '80s. Presently, over 90 countries across five regions around the globe use VC financing (Subhash, 2009, p. 115). This is mainly because of the inherent capability of VC to generate wealth to: 1) the promoters – who nurture the business idea; 2) the VCs – who offer lifeblood to the idea in the form of financial and non-financial support; and 3) the economy at large – the setting for the other two stakeholders.

The global scenario observed from 1998-2007 demonstrates the changing nature of VC (GPE, 2008, p. 8). For instance, the following figures from 2001-2003 demonstrate the impact of 9/11 on the global VC industry. The overall decrease in finances raised during 2000-2001 was 32%; this rose to 48% during 2001-2002, but fell to 5% during 2002-2003. Investment amounts then decreased to almost 46% during 2000-2001, and 16% during 2001-2002. Except for 2003 when the utilization rate was 133%, from 1998-2007 the utilization rate remained around 67% on average, which indicates the under-utilization of VC funds globally. In almost all regions the situation was similar, but in the Asia Pacific region the investment climate now seems to be picking up more than in other regions. For instance, the utilization rate of the Asia Pacific region from 2001 onwards is above 100%, averaging almost 138% during the last ten years. This clearly indicates the growth potentiality of this region in comparison to North America and Europe. Of the total global VC activity (both raised and invested), North America holds almost 64% of the amount raised and 48% of that invested. The second and third positions are held by Europe (25% raised, 30% invested) and Asia Pacific (9% raised, 18% invested). Thus, these three regions together have almost 98% of the amount raised and 96% of that invested. The Middle East Africa, and Central and South America, also demonstrate potential future growth prospects (taking the remaining 2% raised and 4% invested) (Subhash, 2006, p. 78; 2007, p. 15; and 2009, p. 114).

In India in 1964 the modern concept of VC emerged. In spite of the idea that governmental involvement may adversely affect the regional VC environment, the Indian VC industry reached a commendable position globally (third in terms of the amount invested after the US and the UK; first in terms of the CAGR during 2007), despite governmental interventions. Later-stage investment is preferred in India (almost 90% of investments), and the preferred industry is the service sector (almost 54% of investments) (GPE, 2008, p. 9); this is similar to the global trend. The present global financial crisis may lead to further shifts in the growth potential of the Indian VC industry, as new opportunities arise in Brazil, Russia, and China (technically known as BRIC opportunities) (GPE, 2008, p. 10).

As seen in Figure 1, VC has evolved over the years, but the basic characteristics remain the same – i.e. high risk, high return with no tangible assets, but high growth potential. The evolution of VC from classical to social and micro-VC highlights the changing mentality of VC fund providers in terms of supporting the underprivileged rural population to take initiative in developing their own small and medium businesses. This is a direct result of the entrepreneurial climate in which the evolution has occurred. Understanding the two emerging concepts – social entrepreneurship and social VC – is of great importance to the under-developed and developing countries, if they are to benefit the underprivileged rural population. Subsequent sections of this

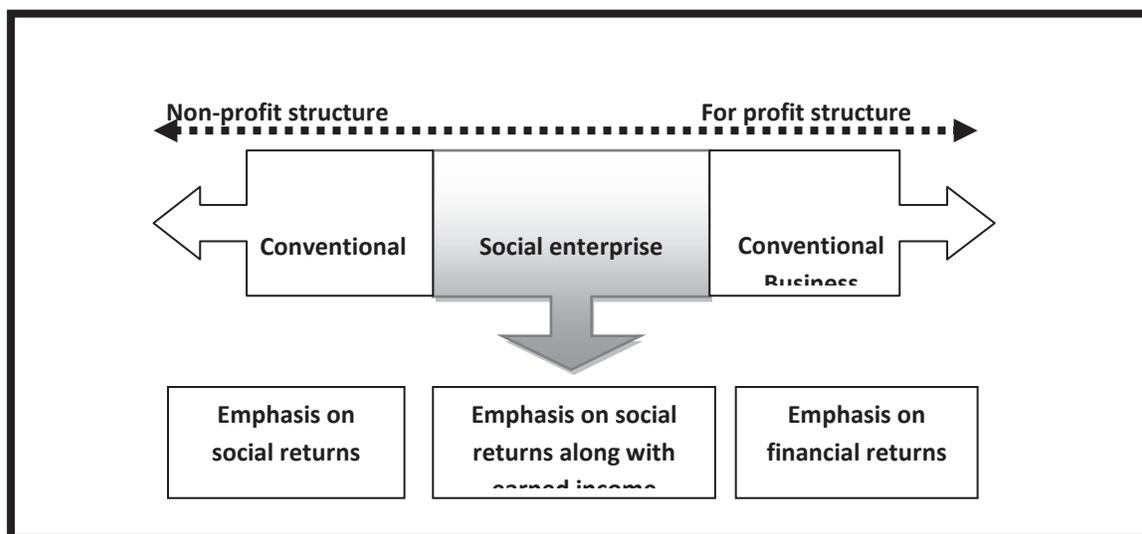
paper seek to highlight the financial prerequisites for developing rural tourism programmes to uplift the living conditions of the rural population and allow them to enjoy the benefits of globalization.

**SOCIAL ENTREPRENEURSHIP AND SOCIAL VENTURE CAPITAL – AN OVERVIEW**

Social entrepreneurship is an emerging field that offers opportunities to young professionals to create societal/economic value on a sustainable basis. Unfortunately, most management students/professionals view social entrepreneurship as a “by charity for charity” venture, and not as a self-sustainable and viable entrepreneurial activity (D’Souza, 2008, p. 5). This section aims to provide insights into the conceptual knowledge of social entrepreneurship and social VC.

The terms “social entrepreneur” and “social entrepreneurship” were first used in literature on social change in the 1960s and 1970s, and became widespread during the 1980s and 1990s (SE, 2008). Figure 2 demonstrates the demarcating line between social entrepreneurship and conventional business, as well as conventional non-profit entities, which focus mainly on social returns, with funding primarily from donations, grants, etc., as well as earned income. In contrast, conventional business entities focus on financial returns (profits), with strong emphasis on social responsibility and intentions to improve their public image, which leads to increases in future turnover/profit. Social enterprises arise where for-profit and not-for-profit entities overlap. They can be considered hybrid business entities, with a focus on social improvement along with self-sufficiency, which implies sufficient earned revenue (profit) that can be ploughed back into social transformation without depending on grants and donations. All social entrepreneurial entities generate both social and economic value, and are organized by their degrees of activity; i.e. their motive, accountability, and use of the income generated (Collaco, 2008, p 4).

Figure 2 Social entrepreneurship and other forms of business entities



Source: ‘The Funding Gap’ by Michael Chertok, Jeff hamaoui, and Eliot Jamison, Stansford School of Business.

Globally, many organizations have supported social entrepreneurship by providing various categories of assistance to rural communities through “community entrepreneurs” for local development (Johannisson and Nilsson, 1989, p. 5) in areas including micro-financing, healthcare, education, infrastructural facilities, low-cost electrical appliances, farming, and insurance; which then empower the rural population. As finance is critical for any type of economic activity, the most prominent form of rural empowerment is that of micro-financing, which enables rural entrepreneurs to take initiative in starting small-scale businesses. Thus, it is important to identify a new model wherein social VC (and more specifically micro-VC financing) promotes rural tourism.

Many social entrepreneurs around the world have discussed the idea of providing social VC for economic transformation in rural areas of under-developed and developing countries (BOP, 2008, p. 1; SVC, 2008a, p. 1; Glasner, 2008, p. 1; Tiku, 2008, p.1; Brown, 2008, p. 3). Social VC is a form of investment that provides capital to businesses deemed socially and environmentally responsible, and intends to provide attractive returns to investors and market-based solutions to social and environmental issues (SVC, 2008b, p. 1). Though not specific rural economic transformation, many social VC funds focus on rural developmental issues. Social venture capitalists (SVCs) are also often willing to consider unusual business models. An example of this is the Acumen Fund (a non-profit venture philanthropy fund that invests in social enterprises addressing poverty in South Asia and Africa); this is one of the top 45 social entrepreneurs at present (Collaco, 2008, p 10). One of the social entrepreneurial investment success stories of the Acumen Fund in India is that of AyurVAID Hospitals (equity investment of Rs.4.5 crores), which focuses on offering affordable healthcare services to low-income communities, enhancing both the quality and the accessibility of medical care available through its AyurVAID Seva programme (AyurVAID, 2008, p. 1). This example demonstrates the changing attitude of SVCs towards assisting socially responsible, economically viable businesses, as well as those with a potential to solve social problems (issues considered as opportunities). Though AyurVAID deals with healthcare, a similarly viable business proposal could be devised for promoting rural tourism, which attracts SVCs. There is also great potential for promoting health tourism, especially integrating complementary alternative medicines (CAM, where Ayurveda is prominent) and modern medicines (MM), which many countries (including India) are currently trying to capitalize on (Subhash et al., 2008a, p. 3; and 2010, p. 57). Rural herbal medicines can also be used.

Though few SVCs have ventured into micro-VC financing, much needs to be done to promote the concept. In a global context, micro-financial institutions (MFIs) are the only institutions which seem to be unaffected by the financial crisis (with virtually zero default in loan repayment), unlike most big financial institutions (Aiyar, 2008, p. 10). A good example of an MFI is SKS Microfinance Pvt. Ltd., started in 1998 and now one of the fastest-growing MFIs in the world, with 200% annual growth rate, ranking 44th globally and seventh in India in terms of scale, efficiency, risk, and return, and with a mission “to empower the poor to become economically self-reliant by providing financial services in a sustainable manner” (Undakoti, 2008, p. 9). SKS currently has 1,259 micro-finance branches in 16 states across India, having provided over 896 million US\$ (Rs.3,876 crores), and has provided 405 million US\$ (Rs.1,754 crores) in loans to 2,709,137 women in poor regions of India. SKS aims to reach eight million members by 2010; since inception it has achieved nearly a 170% growth in membership, with a

99% on-time repayment rate. Business activities given financial assistance include small-scale agriculture-related activities, livestock, services and production. SKS also offers its members interest-free loans for emergencies, and life insurance (SKS, 2008, p. 1).

Most MFIs have problems meeting the increased demand of rural borrowers with bigger business ideas. The inadequacy of the loan amount sanctioned (ranging from Rs.2,000 to Rs.20,000 only) needs to be tackled by the new model of micro social VC financing, with the amount increased to around Rs.50,000 to Rs.2,00,000. Thus, success lies in developing a social VC institution catering to potential rural entrepreneurs involved in rural tourism developmental activities.

### **A NEW MODEL OF MICRO VENTURE CAPITAL FINANCING FOR PROMOTING RURAL TOURISM**

Though MFIs remain unaffected by the financial crisis, with virtually zero loan default and high expected growth rate in the coming years, the status of the BOP (poor borrowers: i.e. upper poor, very poor, ultra poor) is currently “object of pity”. This needs to be transformed via the development and implementation of the new financing model into “object of envy” (Aiyar, 2008, p. 10). Presently, the BOP constitutes 72% of the Indian population; this “evil” was once considered to hinder economic development. However, conditions are slowly changing and in the present scenario, because of the BOP’s improved standards of living and increasing purchasing power, the “evil” has become the “angel” for overall economic development (Subhash, 2008a, p. 160). The immense BOP populations in Brazil, Russia, India and China are being targeted by manufacturers around the world to make the development equation balance – i.e. to match supply with demand – and this trend is also growing in African and Middle Eastern regions. In turn, this increased market potentiality, especially in India, is being targeted by VCs around the world (Raut, 2008, p. 15). Hence, a new working model is needed: to reap the benefits of BOP business fully, the existing limitations of MFIs (inadequate loan amount) must be overcome, and rural entrepreneurs encouraged to take up economically viable business ideas in line with developing rural tourism activities in remote villages with high growth potential in terms of attracting rural tourism customers, both domestic and international (AFF & Co., 2001a, p. 3; and 2001b, p. 5).

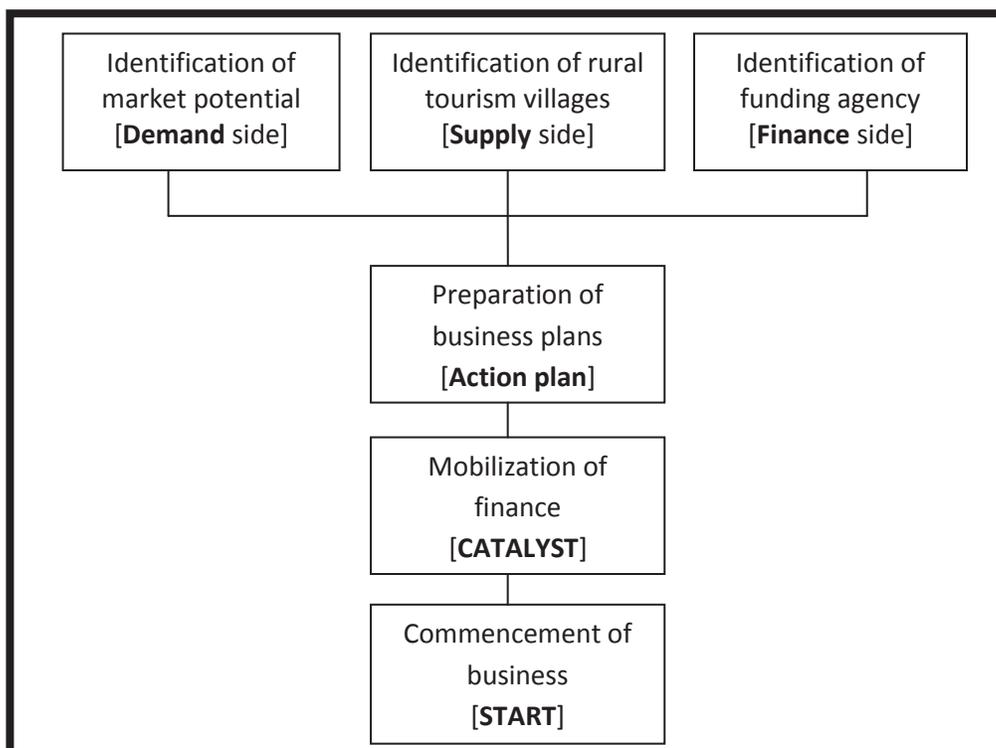
The model adopted by SKS, outlined above, was based on the approach pioneered by Grameen Bank (Wikipedia, 2011, p. 1), which focuses on providing small loans (micro credit) to entrepreneurs (mostly rural women) to get their entrepreneurial idea off the ground without any guarantee – i.e. based on trust. A slight modification has been made in the SKS model, where instead of focusing on individuals, assistance is provided to five-member groups of women, and each group is the ultimate guarantor of each of its members. These groups become the social collateral, making the group work efficiently and repaying dues on daily basis.

A similar model with minor modifications can be adopted for promoting entrepreneurial talents for developing rural tourism with the help of micro-VC financing. This paper identifies a six-stage model; 1) identify market potential (demand for rural tourism); 2) identify growth/development potential (supply of rural tourism); 3) identify finance source (social VC or micro-VC); 4) prepare business plan (blueprint/detailed project report); 5) mobilize finance (submission of plan, mutual discussion, finalization); 6) begin business operations (launching of various rural tourism products/services). Thus, development of rural tourism can be considered

an innovative way of providing livelihood to underdeveloped rural areas, whereby poverty eradication becomes a reality in the near future.

The overview shown in Figure 3 provides an idea of how rural tourism can be promoted with the help of social/micro-VC financing. To begin with, the *demand side* of rural tourism must be considered in depth. Since it is a well-established fact that the present travel and tourism statistics indicate an increasing trend in European and Western tourists towards heritage or village tourism, which is mainly situated in rural areas, this market potential must be strengthened using focused action plans and targeted promotional plans to make the product/service known to potential clientele, both domestic and international. Here, modern marketing mediums play a crucial role. In terms of the *supply side* of rural tourism, emphasis must be placed on identifying those villages where the rural tourism products/services are available, by providing basic infrastructural facilities to such areas. In addition, the growth potential of the rural village as a tourism hub must be evaluated, along with the sustainability of related products and services. To ensure a controlled environment is maintained, plans must be made well in advance with regards to whether financial assistance is given to individuals or collectives, whether female entrepreneurs are given higher priority, whether it is advisable to form rural committees or associations with full authority to take collective decisions, rather than making them silent spectators, and finally what type of entrepreneurial training is required to equip the rural entrepreneurs to maintain the area’s cultural heritage. These needs must be considered based on the demand potential discussed above, and the financial aspects outlined below.

Figure 3: Model for micro venture capital financing for promoting rural tourism



Source: Author’s own compilation

Once the demand and supply sides have been thoroughly evaluated and action plans prepared, the *finance side* must be considered. This is where SVCs and the micro-VC concept come into play. As discussed above, thus far SVCs have assisted with socially viable business ideas developed by either an individual or group, and the amount provided has generally not been small or medium. These social enterprises in turn provide micro-financing to rural entrepreneurs in starting up micro business units with a capital outlay of Rs.2,000 to Rs.20,000 only. It is necessary to develop an alternative agency specifically intended to act as an intermediary between the SVCs and the rural entrepreneurs. This agency can be considered a special purpose vehicle and funded either by government or private players in the form of micro-VC funding, where financial assistance of between Rs.50,000 and Rs.2,00,000 is provided (the ceiling may be modified according to changing scenarios at later stages). This agency would operate under a hybrid of micro-financing and social VC financing, hence the term “micro-VC financing”, which provides more financial assistance than MFIs but less than SVCs, though SVCs provide the funding.

Formation of such an agency with the backing of the demand and supply prerequisites would lead to development and growth of successful rural tourism activities in the identified rural villages, but care should be taken in countries like India; here, targeted rural tourism marketing began in 1985, with “The Festival of India in the USA”, however it has been unable to make a real impact in rural areas. According to Transparency International (TI, 2007, p. 1), the corruption index in India is 3.5 (in the range of 10 to 0 – highly clean to highly corrupt) with a ranking of 72 (along with China, Mexico, Morocco, Peru, and Surinam), indicating high degrees of corruption which results in perpetuating poverty, especially in rural areas. Positions of power are often considered means of amassing wealth instead of serving the common people and the nation’s overall development. This has also occurred in the tourism industry, specifically rural tourism in the present scenario, where rural people are used as “puppets” that perform for middlemen in return for petty monetary payments, and the benefits are siphoned away by the political entrepreneurs and their followers. Thus, though concentrated effort is needed to promote rural tourism with the help of micro-VC financing, proper care should be taken to minimize the involvement of political entrepreneurs, where possible, in any major decision-making.

This hybrid financing agency can follow the modified version of SKS’s and Grameen Bank’s models. Rural villages should be selected for finance based on their rural tourism potential; i.e. the demand-supply evaluation. Rural committees or associations with male and female participants from the identified/short-listed rural villages can then be formed. The selected individuals or groups should be given proper training, and can then be given financial assistance based on the business plan submitted. The business plan is a blueprint/action plan for the proposed business idea set forth by the individual or group identified by the rural village committee or association. The plan should clearly indicate the business potential and growth prospects. In addition, the employment opportunities for rural people, as well as rural environmental sustainability, must be evaluated, and future expansion plans specified. Successful business plans will then be given financial assistance by the agency, and this acts as a catalyst for reducing rural poverty through development of rural tourism activities. Once funding is provided, the business activity commences, provided all the required infrastructural facilities are already being taken care of by the respective governmental agencies.

## CONCLUSION

This paper discussed the fact that the rural village population in India is almost 72%, and that the present changing scenario of improved living conditions, as well as increasing purchasing power, has transformed the “evil” to an “angel” for the overall economic development of the country. The crucial consideration here is how to empower the rural population. The need for a new developmental model was highlighted, whereby the status of the rural population (poor borrowers) are no longer “objects of pity” but rather “objects of envy”, which will help them become self-employed and thus improve their purchasing power, leading to overall economic development. The model must be effectively interwoven with rural customs and traditions, without harming rural cultural heritage. As the tourism industry has great potential for economic transformation, it can be used for developing rural tourism products/services. One of the most crucial elements here is finance, which is provided to the rural population in the form of micro-financing for starting small-scale businesses. A hybrid financing model, “micro-VC financing”, can be developed, combining micro-financing and social VC financing aspects to cater to the needs of starting businesses that promote rural tourism. However, the golden rule for success of such business ventures must be: “*of the rural people, by the rural people, for the rural people*”; otherwise the rural population become mere “puppets” in the hands of political entrepreneurs who will try to maximize wealth for their political enterprises. Thus, development of rural tourism with the help of micro-VC financing can be considered an innovative way of providing livelihoods to underdeveloped rural areas – i.e. “empowerment at the bottom of the pyramid”. Once the fruits of these developmental activities start emerging from these rural areas, the idea proposed in C.K. Prahalad’s (2005, p. 3) *The Fortune at the Bottom of the Pyramid* may become a reality.

#### ENDNOTE

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