

RURAL INDIA – AN EMERGING POWERHOUSE

Harish Manwani - 2012



Hindustan Unilever Limited

Rural India – An Emerging Powerhouse

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Section One: Introduction

It is often said that there are two Indias – Bharat which exists in the villages and India which thrives in the urban areas. If our country has to have real progress and make its mark on the global stage, then these two Indias must converge. Prosperity will have to come to our villages, towns and cities.

We have made good progress in the last two decades. There is new hope and a new sense of energy that is driving rural India. As aspirations grow and consumption rises, rural hinterland is becoming the epicentre of our growth story.

But we must do more. Millions of people in rural India still live below the poverty line. There are a number of issues related to health, education and sanitation which need urgent attention. Agricultural growth is critical and needs to pick up. Our agricultural productivity is among the lowest in the world and even slight improvements in yields will have a significant impact on overall growth. And yet we must go beyond agriculture if we have to make a real impact on the millions who live in rural India.

As rural India rises, growth will bring its own challenges. It will put further pressure on our scarce resources. The explosion in rural consumption and growing competition for scarce resources demands that we embrace a new collaborative model of development. All stakeholders – government, NGOs, civil society and corporates – have a role in enabling

this growth while overcoming the attendant challenges. With the right kind of public-private partnerships we can address these challenges by finding innovative solutions and build on the opportunities.

Section Two: Progress in Rural India

Mahatma Gandhi often said that India lives in her villages. Two out of three Indians still live here. When Gandhiji made the remark, rural India was very different from what it is today.

We have seen a major transformation in the last 60 years. The Green Revolution propelled the food grains production from a mere 50 million tonnes to 245 million tonnes in 2010-11. GDP per agricultural worker is 75% higher in real terms. Today, as much as 40% of India's total consumption is accounted for by rural India.

By 2025, the Indian rural market is expected to grow more than ten fold to become a USD100 billion opportunity for retail spending.

What has caused this amazing transformation?

The key drivers are India's accelerated consumption-led growth, significant improvement in infrastructure & communication, and increased government spending on programmes for rural development. Rural incomes, which were dependent mostly on farm income, are now boosted by trading, agro-processing and ancillary industries. Rising procurement prices and increasing access to finance have also boosted rural incomes. Improvement in physical

infrastructure and the transformed communication network has significantly increased access to urban India. This is creating new industry in rural India, better employment opportunities and higher wages. It is also unleashing a much higher level of aspiration among the 800 million people living in rural India.

This is India's biggest opportunity as well as India's biggest responsibility. It can either drive India to become the biggest economic powerhouse or derail our growth story.

Section Three: The Challenges of Transforming Rural India

We have made considerable progress but significant challenges still remain.

a) Agriculture

While agricultural production has gone up, our agricultural productivity levels are amongst the lowest in the world. Small land holdings with limited mechanisation and limited access to affordable capital have contributed to low productivity levels.

With 12 million less hectares under wheat and rice, China manages to produce much more. Its fields give six tons of rice a hectare, three times India's yield. Its wheat fields are twice as productive.

b) Rural Employment and Employability

Another challenge we must confront is slowing agricultural

growth. The share of agriculture in real GDP has fallen from 30% in 1990-91 to 14.5% in 2011-12, while the number of people dependent on agriculture for their livelihoods has not come down proportionately. This clearly shows that the Indian growth story has not been inclusive for the millions who are dependent only on agriculture for their livelihood.

Inadequate opportunities for employment beyond agriculture and lack of employability have resulted in over-dependence on agriculture which is not able to support the rising aspirations of the vast majority living in rural India.

c) Human Development

India lags behind its contemporaries in health, nutrition and education. Our Human Development Index is lower than that of many developing countries.

Two million children under five years of age die – one every 15 seconds – each year in India, the highest anywhere in the world.

The situation in the field of education is also not good. A recent study suggested that there are lakhs of unfilled teacher vacancies in rural primary schools.

The 2011 India Census shows that only a small proportion of rural households have easy access to basic amenities like drinking water, electricity and sanitation.

If we have to reap the demographic dividend, we need to ensure that the people in rural India are literate, provided with health services and have access to basic amenities.

The Opportunity

And yet despite these seemingly insurmountable challenges there is an incredible opportunity. Consider that if only our agricultural growth can pick up to 4% as envisioned by the Planning Commission, the cascading impact that rural prosperity will have on the national economy could add up to an additional 2% to our national GDP growth and enable us to go for double digit growth.

The population of rural India is about 12% of the world population, which makes it bigger than the size of Europe. If the 800 million people living in rural India can be provided with the skills to be fully productive, this will unleash yet another force to create the emerging rural middle class that can transform India into the fastest growing economy in the world. It is not an impossible vision of rural India matching rural China in 10 years time. This could potentially create an incremental GDP of USD1.8 trillion, the size of the current Indian economy. The impact will be transformational not only for India but for the global economy.

Sustainable Growth

We need growth in our villages to improve standards of living. But growth is not without its consequences. If the masses of rural India were to consume like their urban counterparts, we would face even more pressure on our natural resources. Already, water is scarce and energy is expensive. Estimates tell us that by 2030, the supply of water in India will be half the demand for it.

The challenge is to decouple growth from the environmental footprint. We need to accelerate growth with a positive social impact in a manner that is economically and environmentally sustainable. The government and corporates must work together to adopt new models of growth which can act as a catalyst for rapid yet sustainable growth.

Section Four: Enablers of Rural Transformation

If rural India is to achieve consistent and sustainable growth, we need to harness the power of agriculture. We need to break the various bottlenecks that stifle agriculture growth. Market based approaches are essential to implement viable solutions.

The New Vision for Agriculture (NVA) articulated by the World Economic Forum is a very good example of how we can do this. The NVA is led by 17 global companies including Unilever. The New Vision for Agriculture envisions a global agriculture system that harnesses the power of markets and multi-stakeholder collaboration to feed the world, protect our planet and create prosperity.

It strives to harness the power of agriculture working with small farmers to drive food security, environmental sustainability and economic opportunity. It endeavors to increase production by 20% while decreasing emissions by 20% and reducing rural poverty by 20% every decade. These goals are intended to build on the Millennium Development Goals and other international targets by coordinating and

concentrating the efforts of agriculture players around the world through innovative public-private partnerships. This approach is very relevant for India, which relies on its small farmers for much of its agricultural production. India needs its own new vision for agriculture which is inclusive and sustainable.

But we also have to go beyond agriculture to realise this incredible opportunity. We have to leverage the power of people to realize the full potential of rural India. What the people in rural India lack are infrastructure, information, capital at reasonable rates of interest, and education and skills that will make them more employable. We need to make rural India more self reliant and less dependent on government subsidies.

There are some key enablers which will over time help build an ecosystem that can harness the real power of rural India, going much beyond agriculture.

1. Access to Urban India

A World Bank study of Jharkhand estimated that connection with an all-weather road increased income by about 15%, while connection with a wholesale market increased income by as much as 40%. Farmers received better prices for their products by accessing markets directly, cutting out middlemen, and reducing spoilage of perishable produce.

Rural India is being segmented into two parts. On the one hand, there are geographical clusters which are located

within 50km distance from a large city. The National Capital Region (NCR) is a good example; a single geographical entity has emerged from Meerut in UP to Faridabad in Haryana. There are 19 such clusters in the country and almost 150 million rural people live in the proximity of these clusters. These could be called R-Urban (Rural-Urban) clusters where levels of prosperity, health and education are much better. Access to urban services has led to significantly higher level of knowledge and new sources of livelihood. Rest of rural India has not been able to access urban India and to that extent has not progressed equally.

Creating another 50 R-Urban hubs where every village is within one hour of travel time to an urban centre would be transformational. This could ensure that more than 2/3rd of the rural population has easy access to urban India. These urban hubs will support rural areas and become the big markets of tomorrow.

2. Technology Adoption

Technology has the potential to dismantle social and cultural barriers to ensure not only quality of services but also equality of access to all. The Aadhaar scheme, a unique identification project, if deployed and leveraged successfully, has the potential to transform livelihoods, particularly for those residing in remote villages and those who would otherwise not be directly touched by economic development.

Digitisation is what could drive the biggest transformation in rural India. A Rs.20,000 crore scheme to build a national optic fibre network to connect panchayati raj institutions in association with the private sector is already underway. This will mean Gram Panchayats at the village level will be connected with the rest of the governmental system, opening up new avenues for delivery of services to people, including e-governance, e-education and e-medicine.

Mobile networks have already made access to the Internet possible across the length and breadth of rural India. Leveraging this for relevant and dynamic content like best practices, live market prices for farm produce or job postings would be transformational.

This will create the conditions to enable young people move into new jobs based in rural India, thus not only halting unplanned migration out of villages into cities but also getting some talent back into villages and kick-starting small scale enterprises (SSEs) in villages. Equally, agriculture growth would be stimulated with easy access to best practices and knowhow for driving productivity.

3. Financial Inclusion

Lack of access to capital is one of the most serious deterrents to development in rural India. Access to formal banking would not only eliminate unbearable debt for the poor but also bring capital investments into rural.

This would improve agricultural productivity and also help in building SSEs and other commercial ventures.

The Reserve Bank of India has already set targets for reaching more villages. However, we need to move much faster to bring the entire rural population within the coverage of formal banking and release them from the clutches of unscrupulous moneylenders.

Along with the government, the banks and corporates can play a synergistic role in realising this plan. Companies like HUL have a wider distribution network than any government agency. After all, our products reach almost every village in the country. And leveraging this high quality last-mile can help bring financial inclusion to every Indian.

4. Education & Health

The government over the last couple of decades has launched progressive and far-reaching policies, most recently the Right to Education Bill. State and local government bodies have also invested in building primary schools. While this has led to improved literacy, implementation of these programmes remains inconsistent across states.

There are three specific areas in which a difference can be made. First, rigorous accountability and sharing of best practices are critical to raise the quality of programme execution. Second, leveraging new technologies. E-learning can transform the access and

cost of education while improving the quality of teaching to the masses. And third, there are lessons to be learnt from some of the NGOs who have done great work in the area of education. Forming a network between NGOs and government can help to leverage best practices on a national scale.

The vision over the next 20 years should be to achieve universal health insurance coverage in rural India and the right to higher secondary school education for all.

5. Skill Building

Unemployment or under-employment is a critical issue in rural India. Punjab has among the highest levels of agricultural productivity but also has the highest level of drug abuse problem amongst the youth and the two are closely linked. With prosperity, young people seek jobs beyond farming. However, current educational programmes don't enable right skilling for roles that are available in an increasingly service oriented economy.

Appropriate skill building is a crucial need for the rural economy. Preparing young people for roles in the flourishing retail, BPO, hospitality and other service related industries will be very important. Just as the ITIs in the 60s & 70s built industrial skills and prepared young people for roles in the manufacturing industry, we now need to set up institutions that build similar skills to prepare our rural youth for manufacturing and service industries.

Rural India needs income generating opportunities. This is an area of collaboration and clearly a space in which industry could take the lead in not only setting up the right programmes but also providing opportunities for training and employment. Incentivising industry to invest in backward areas for catalysing development should remain high on the government agenda.

Together with a new vision for agriculture for India, these key enablers can create a virtuous cycle which will bring prosperity to rural India and also create huge economic value as hundreds of millions of people move up the income ladder to enjoy better standards of living.

However, we need to address the key challenge of sustainable growth, particularly as growing consumption brings pressure on scarce natural resources. We believe that the ability to do 'more with less' will be more relevant now than at any time in the past.

The growing competition for scarce resources demands that we embrace the mindset of producing more with less. Less water must grow more food. Lesser acreage must give more yield. And productivity must rise dramatically if we are to feed the growing population.

Section Five: HUL's Association with Rural India

Hindustan Unilever has a strong association with rural India. More than 40% of our products are consumed in the fast

growing markets of rural India. We have been pioneers in developing rural markets through affordable brands and an unparalleled distribution reach. Our distribution network directly reaches nearly 1.3 lakh villages and provides direct and indirect employment to thousands of people.

In November 2010, Unilever globally announced its Sustainable Living Plan. The Plan commits us to decouple our growth from our environmental footprint while at the same time increasing our positive social impact. The Plan will result in three significant outcomes by 2020: help more than a billion people to improve their health and well-being, halve the environmental footprint of our products, and allow us to source 100% of our agricultural raw materials sustainably.

Here in India, we are bringing alive the spirit of the Sustainable Living Plan to holistically contribute to the social, economic and environmental agenda with a significant impact on rural India.

Sustainable Sourcing

We are working with small holder tomato farmers in Karnataka, Punjab and Maharashtra to help them adopt sustainable agricultural practices. The programme focuses on improving soil fertility, water management and pest control. The use of drip irrigation has not only reduced water consumption and improved yields, but also reduced fertiliser and pesticide use. In 2011, 60% of tomatoes used in Kissan Ketchup in India were from sustainable sources.

We have initiated work to encourage the adoption of sustainable farming practices by our suppliers of tea, fruits and other vegetables both for India and other Unilever markets.

Enhancing Livelihoods

The Sustainable Living Plan is also about making a positive social impact. A great example of this is our Project Shakti, a unique win-win initiative that has created income generating opportunities for 45,000 rural impoverished women (Shakti Ammas) and has also helped to increase the rural distribution of the Company. Project Shakti is an excellent example of 'doing well by doing good'.

More recently, we are collaborating with the State Bank of India to bring financial inclusion to rural India. Our Shakti Ammas are acting as banking agents and providing basic financial services in villages where bank branches don't exist. This is currently a pilot in Karnataka and Maharashtra and will be scaled up across the country once the pilot meets its action standards.

Health & Well-Being

Hindustan Unilever is also leveraging innovation to address the whole area of safe drinking water, which is a big issue in rural India. The Pureit innovation addresses one of the biggest technological challenges – that of making safe drinking water available without the need for electricity or continuous tap water supply. The launch of Pureit sachet will help in a big way to make safe drinking water accessible and affordable to millions of consumers in India.

Lifebuoy has been at the forefront of a sustained direct-contact health education programme aiming to raise hygiene standards in Indian rural communities. Lifebuoy took handwashing messages to remote villages, reaching around 30 million people directly in 2010-11 alone. This has the potential to reach 150 million people.

For HUL, rural India is an integral part of its business model to deliver consistent and sustainable growth. We have always believed that what is good for India is good for HUL and without doubt progress in rural India is good for all of India and therefore good for HUL.

Section Six: Conclusion

Rural India is a powerhouse waiting to emerge. This is an incredible opportunity of potentially adding USD1.8 trillion to our economy, equal to the current GDP of India! The exciting vision has to be the convergence of rural Bharat with urban India. We have the opportunity to create a thriving rural middle class, even bigger than in urban India. We need to build a new generation of leaders and entrepreneurs from our villages who will help power the future of our nation.

In order to realise this vision, we need inclusive growth. A new vision for agriculture will uplift millions of small farmers. At the same time, we need to go beyond agriculture. We need a broad based strategy to provide rural India access to markets and technology, financial inclusion, and human capital development.

We need to create a new model of accelerated and yet sustainable growth. All stakeholders have a role to play in enabling this rural transformation. The Government must create the right environment and put key enablers in place, businesses must drive innovation and investment, and other stakeholders can bridge the gaps not addressed by the market.

Hindustan Unilever is excited with the opportunity to continue to serve the 800 million consumers in rural India and be a part of this great journey into the future.

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