Liberalisation to Liberation

Fifty years after Independence is a good time to take stock of the past and a good time to set goals for the future. India is now in the midst of transition - we have moved from an isolated, slow growing economy to one that is growing faster and beginning to integrate with the global economy. The transition began with liberalisation, but it remains incomplete. Liberalisation has benefited only a fraction of India, the organised economy and urban Indians. It has yet to reach the largest part of our population, 600 million rural Indians and India's poor. However, should not all Indians get liberation -- the opportunity to live in conditions of dignity, with real freedom from want.

This breakthrough from liberalisation to liberation will only be achieved when we realise this vision for the masses.

Why should this concern us at Hindustan Lever? It concerns us because the future of Hindustan Lever is closely linked to the future of India and all its people. Indeed, the corporate purpose of Unilever, reflected in the mission of Hindustan Lever, is to meet the everyday needs of people everywhere. In this, we anticipate the aspirations of our consumers and customers and respond creatively and competitively with branded products and services which raise the quality of life. There is no other organisation in India which has closer links with the homes and hearths of Indians, no matter where they live and what they earn. Through the skillful synthesis of local knowledge and international linkages, Hindustan Lever has for over seven decades touched the lives of people everywhere, meeting their daily and essential needs in household care, personal care, basic foods and beverages.

Our depth and width of consumer understanding gives us an unmatched insight into the aspirations of all sections of society. The company uses this knowledge, combined with a wide range of economic and demographic data, to construct scenarios of the India that will emerge five, ten and twenty years from now. These scenarios guide the company's strategies, but beyond this, they have the power to capture the imagination and provide a vision that can inspire and motivate us all.

LIBERATION : A BETTER FUTURE FOR ALL

I would like to share one of these scenarios with you. This scenario is both exciting and realistic; it takes into account the political and economic realities of India and importantly is one that we believe is achievable.

Let us imagine what everyday life could be for an Indian in 2010. The great majority will be literate and have a job, income will have increased for every citizen. In urban India, two out of three families will earn close to Rs 10,000 a month; a huge advance considering that in 1994 only one in 16 families earned this much. Discretionary spending will rise sharply, since basic needs will have been ensured. Education and employment will raise aspiration levels and consumers will demand the right to choose from several alternatives, in every aspect of their lives. This is especially marked in the younger generation, born in liberalised India and exposed by media, especially television, to very different influences from their parents. In urban India, one in two families will have a washing machine, every family a pressure cooker and almost every family a refrigerator. Families will be able to afford not just labour-saving appliances but also entertainment; three out of four families will now watch their favourite programmes on their own colour TV.

Education and health care will be more accessible, resulting in a female literacy rate above 70 per cent, compared to 46 percent today and there will be healthier mothers and babies. The rural Indian will also be better off. Girls will no longer be forced to stay at home to care for siblings and do housework -- enrolment in primary schools for both boys and girls will be almost universal. Rural incomes will have risen: one in three families will earn about Rs 5,000 a month, whereas in 1994 only one in eight families did. Refrigerators will make an appearance in some rural homes, with around one in ten families owning one. One in three rural families will own a pressure cooker and one in five a colour TV.

The seeds for the revival of Indian agriculture, sown in the final years of this century, will have now sent up healthy shoots. Agricultural productivity will increase, providing more on-farm jobs in sowing, transplanting, weeding, irrigation, application of fertilisers and pesticides. Agri-businesses in food processing, dairy farming, horticulture and aquaculture will grow, providing more job options for rural dwellers. Retailing will make inroads into rural India - shops selling a wide range of consumer goods will become a fairly common sight in most villages.

Rural and urban India will be better connected through roads, transport and telecommunications. Indians will have begun to think that the India-Bharat divide can actually disappear.

FROM VISION TO REALITY

Is this just utopia? At first sight yes; but it isn't and shouldn't be.

All this can be achieved by sustaining a growth rate of 8 per cent every year till 2010. The income and consumption figures outlined have actually been based on projections by the National Council for Applied Economic Research using an 8 per cent growth rate. Normally, 8 per cent growth in itself is not engaging to the common man. Articulating its impact as a scenario makes it not only engaging but also exciting. What makes it even more exciting is that we are already sustaining growth rates of 6 per cent for the last three years -- the rewards of getting to 8 per cent must inspire us to make this albeit difficult leap a practical possibility.

What is needed is political will, pragmatic policies and a determined mind-set that says we can. In this, we must not underestimate the positive role of government and political leadership. Furthermore, economic growth alone will not be sufficient; government will need to initiate positive interventions to bring about a fundamental shift in perspective and priorities in some critical areas.

Across the broad canvas of economic development, there will inevitably be many things that need to be done. Many of these areas, such as infrastructure and exports, are widely discussed. However, I would like to focus on just three areas which I believe do not get adequate attention but which will make great impact and where we need significant changes in approach -- these are in social development, in how we view agriculture and in making efficient use of available capital.

SOCIAL DEVELOPMENT: FROM PRIVILEGE TO EQUALITY

To compete in the global economy, India will have to invest heavily in enhancing the capabilities of its people. To understand why this is necessary, we only need to look to our neighbours, the high performing Asian economies. A large part of their success is based on their emphasis on building human capital.

At the 1995 Social Summit in Copenhagen, the Managing Director of the World Bank, Sven Sandstrom, said, ' "Social investment is not only good for human well-being. It is good economics." How is this? The human capital model in growth theories shows that a rise in the level of education brings a rise in the efficiency of all factors of production. Educated people use capital more efficiently, so it becomes more productive. They are more likely to think up new and better forms of production. Co-workers learn from the skills and innovation of educated people, thus also becoming more productive. Education is thus critical to building a modern, market-based economy and raising living standards.To enhance its human capabilities, India must provide its people with, at the very least, adequate nutrition, better health care, and more and better schooling for children.

Much of this can be achieved by targeting existing spending on education and health to the areas which achieve the highest return: Primary Education and Basic Health Services.

India has been doing the reverse. We have always stressed higher education at the cost of basic education and vocational training. Between 1950 and 1994, the number of primary schools has trebled while the number of universities has grown seven-fold. This overemphasis on higher education and degrees has created disdain for vocational training. Not surprisingly, India has a small section of highly skilled professionals and technicians and a vast, unskilled workforce. The many intervening layers of skilled and semi-skilled professionals and workers to be found in developed economies are missing. The fierce competition for resources in India means that education is likely to remain constrained by limited resources. We must therefore use what we have well. To see what this can achieve, let's look at the example of Indonesia, a large, rural Asian country that has made great progress in literacy and reducing the gender gap.

When it started its educational reforms in the early 70s, Indonesia had a GDP of $610 per head, a predominantly rural population, a high level of illiteracy and little education for girls. It spent around 2.3 per cent of its GDP on education, however, it devoted 90 per cent of this to primary education. Indonesia embarked on a school building drive; abolished school fees and by 1987 had enrolled 91 per cent of its children in school. Today it has 84 per cent literacy and the gender gap has vanished. Indonesia is a prime example of limited resources used well.

Another good example to follow can be found right here in India, in Kerala. Unlike other states, Kerala has focused its spending on primary education and adult literacy. As a result, it has almost doubled its enrollment in primary schools and halved its drop-out rates in both primary and middle school. At 90 per cent, Kerala's literacy rate, is the highest among all Indian states.

India, spends around 4.4 per cent of its GDP on education, a higher proportion than Indonesia. However, unlike Indonesia, only around 45 per cent of this amount is allocated to primary education. The shortages and problems in the Indian education system, that we are all aware of, could be significantly corrected through a greater priority on primary education.

In health too, India has overinvested in the tertiary sector at the cost of basic services. As a result, the poor and the rural do not have access to basic healthcare. To correct this situation, we need to reorient our health spending -- from specialised care towards basic and outpatient healthcare and towards public, occupational and environmental health services. Preventive healthcare needs to be emphasised over curative services, thus reducing India's massive disease burden. Health education and preventive services for women and babies are essential to improve their overall health and help their families avoid unnecessary medical expenditure. Above all, the healthcare system must be made responsive to people's needs.

Much of this can be achieved by targeting spending to basic healthcare and introducing market mechanisms to prevent health subsidies going to the urban rich (who benefit from the large public hospitals in India's big cities) rather than the rural poor.

AGRICULTURE: FROM SUBSISTENCE TO GROWTH DRIVER

The second major shift must occur in our approach to agriculture. Unlike industry which has established organisations to argue its case, the voice of agriculture is fragmented. Currently, agriculture is often seen as an inefficient, problem ridden producer of food and ot as a positive driver of economic growth. This must change. Only when agriculture becomes an equal partner with industry in the growth crusade, will real development take place.

Agriculture a driver of growth? Let's take a fresh look at the potential of India's agriculture. India is the world's second largest food producer and has a degree of competitive advantage in food production that it has in few other areas. Our unsurpassed natural advantages - a rich diversity of climates and topography and a huge land area - have made us a leading producer in the world of many foods: sugar, tea, milk, fruit and vegetables. Agricultural production and food processing account for 30 per cent of India's GDP and employ more than 70 per cent of its workforce. Developments in this sector have a far reaching impact throughout the economy and are vital if we are to provide higher incomes and liberation for the millions of Indians who work in agriculture.

Indian agriculture today is shackled by many problems. First, it suffers from low yields. Our yields are currently 40 per cent of the world's best even in produce like milk, fruit and vegetables where we are the world's largest producer. The consequence of low yields can be clearly seen by comparing India with China -- India has 60 per cent more arable land but produces 40 per cent less output. Second, India wastes more food than it can afford to or needs to -- more fruit and vegetables are lost in India than are consumed in the UK; around 40 per cent of the total production of fruit and vegetables is wasted. Finally, it has more intermediaries between the farmer and the consumer than any other country in the world -- India has six to seven compared to two to three in the USA. This leads to price mark-ups of as much as 30-50 per cent.

The combined impact of these problems is to hold back investment and development in agriculture. India's challenge is to transform agriculture into a virtuous cycle of high efficiency, high investment and high yield. This can be done only through an approach very different from the one we have taken till now: an integrated approach to agriculture, procurement and food processing. This approach was highlighted in a March 1997 McKinsey study for the Confederation of Indian Industry titled "Food & Agriculture Integrated Development Action" (FAIDA).

The development of an integrated food chain will require investment by large players, often working with government. These players will invest in the upstream elements of the food chain: agriculture and procurement. They will give Indian farmers access to high yielding seeds and plant breeds. In addition they will provide fertilisers, pesticides and other inputs to raise yields. They will help develop storage and transport infrastructure, ensuring that farm produce is stored properly and transported to the markets and customers in good time. They will add value to farm produce by processing the surplus. This will ensure that the farmer's increased yields find a market.

It goes without saying that achieving all this will require heavy investment. The FAIDA study showed that, over the next ten years, agriculture will need investment of the order of Rs 1,40,000 crore. The government has in the past set up several developmental financial institutions (such as for exports and infrastructure). The time may well be opportune to consider a Food Chain Development Bank, which could then obtain concessional funding from international financial bodies. The effort in mobilising and deploying the required investment is immense, however, within the context of India it has got to be effort worth taking. Success will transform all of rural India.

CAPITAL: FROM PATRONAGE TO PERFORMANCE

Whether it is building human capital or unshackling agriculture, capital is the enabler - everything hinges on finding the right amount of capital and importantly, using this capital efficiently.

To grow by 8 per cent till 2010, we need an investment rate of 33 per cent every year, a sharp increase from our current rate of 27 per cent. Some of this gap can be bridged by foreign investment, the balance will have to be met by an increase in our domestic savings rate. There is much debate on how much foreign investment the country can and should attract and how to increase savings.

I would like to make a different point: we need to focus as much on putting our capital to more productive use as on increasing our investment rate. Here we can learn a lesson from the USA. It has higher capital productivity than any other country, leading to higher financial returns, which have compensated for its lower savings and investment rates by generating more capital income.

How do we improve capital productivity? By rewarding performance -- by allocating capital on the basis of merit and productivity, not patronage. We will need to set up systems to ensure that this becomes a part of the way in which we use capital. Successful economies have consciously built these systems. Japan and Korea, for instance, developed strong institutional capability for project design, appraisal and monitoring. This allowed them to ensure that available credit went to projects that were creditworthy and viable. Funds were then efficiently utilised for the purpose for which they were allocated.

In India, capital has not always been allocated on the basis of performance but on political and non-economic considerations. This is beginning to change, but must go further. When capital is allocated on the basis of performance, companies and national and state governments will compete by enhancing their performance. They will direct their spending to the area in which it will do the most good, whether this is primary education, providing farmers with quality inputs or building steel plants. Indeed, if we can significantly improve our capital productivity, this would also have the consequence of bringing down the 33 per cent investment rate required to achieve the 8 per cent economic growth target.

Technology will play an important role in ensuring the highest possible levels of capital productivity. The drive for improving capital productivity will also require solutions which are tailor-made for India. In Hindustan Lever, by developing innovative business systems and technologies relevant to Indian conditions, we have achieved levels of capital productivity which give us competitive advantage when benchmarked both nationally and globally.

The future for business in India will be full of opportunities. The ability to exploit these opportunities will require insightful consumer understanding, developing innovative products with relevant technology and using capital resources efficiently.

HINDUSTAN LEVER: A FUTURE OF OPPORTUNITY

When the exciting vision that I have articulated earlier is translated to reality, it will have significant implications for our company. India 2010 will provide immense opportunities for Hindustan Lever. We know this because we have modelled and developed a scenario for the Indian market and consumer in 2010. Let me describe it.

Per capita consumption of products in personal wash, fabric wash and beverages will increase to near global levels. For example, today an average Indian consumes 460 grams of toilet soap a year compared to 1100 grams in Brazil; an average Indian consumes 640 grams of tea a year, compared to 950 grams in Pakistan -- and the list goes on. This means that our traditional products will continue to grow steadily. More importantly, by 2010 we will have also built substantial businesses in the new categories that we are focusing on - the demand for ice cream will increase three fold as will household care products; demand for culinary products and hair care will increase six fold, while a nascent category like skin care could grow to eight times its current size.

Not only will markets grow, but the changing profile of the consumer will have a profound impact on market structure. Education, employment and media will make the Indian consumer more discerning and demanding. Health, hygiene and convenience will emerge as strong needs. Combined with this, higher discretionary incomes will allow consumers to graduate to products of better quality which deliver higher order benefits. These trends will create scope for value added products in foods, personal care and household care.

All of this is good news for our company, which is uniquely positioned to take advantage of this exciting opportunity; it will provide an incomparable portfolio of products to meet the everyday needs of all consumer segments. We can serve the needs of affluent consumers with some of the best brands in the world; equally we are strong in the mass market and are thus able to serve the needs of those who will have recently acquired the power to consume. Our extensive distribution network developed over the years, will enable us to reach consumers wherever they live.

In summary, the future of our company is bright and linked to the future of India.

BUSINESS AND GOVERNMENT : A PARTNERSHIP FOR GROWTH

Today there is a welcome consensus amongst most political parties on the need for economic development and even the means for achieving it. This consensus is sometimes misinterpreted as meaning that government has little role to play in the process. I strongly believe that nothing could be further from the truth -- government and political leadership have a critical role and can positively impact the pace of growth. Recent work by Jeffrey Sachs at the Harvard Institute for International Development (Emerging Asia 1997) has demonstrated that open economic policies and government institutional quality determine and strongly influence economic growth. Government institutional quality includes factors such as efficient public administration and good laws of contract and property. It can be derived from this work, based on an analysis across a wide range of countries, that open economic policies and high institutional quality have a positive impact of as much as 3 per cent on GDP growth. Increases in government saving can contribute to growth even above this.

While government itself has a major role to play in the process of economic growth, there is much advantage to be gained in many areas by government and business working together. There are many business organisations in the country which have, in their own operations, developed expertise and ideal business systems. There are several areas where Hindustan Lever has tried to develop models of best practice. Some examples of these are in our tea and tomato businesses. In tea, our 'bush-to-brand' strategy integrates consumer preferences, R&D, plant breeding and processing so that we can deliver the ideal cup of tea, consistently and at the lowest possible cost. In tomato, we have at Zahura in Punjab developed an integrated farmer-friendly supply chain which has increased yields per acre from 8 MT in 1991 to 20 MT, while acreage under tomato has gone up from 250 acres in 1991 to 3,000 acres now. However, as long as these models remain within the operations of one company, their overall impact on a national scale is limited. What is required is for business to come together and work with government in identifying areas of best practice and in spreading these widely across the country.

Another way in which business and government could work together would be on large projects for raising resource, ensuring implementation and effective operation. For example, a group of companies led with competence and capability and with government support could approach the World Bank for funding of a private sector programme to build the necessary infrastructure for an agricultural cold-chain. This would benefit the companies involved, farmers and intermediaries and the country as a whole.

We are deeply committed to the idea of a genuine partnership between business and government. This is an initiative that we will actively support and try to progress.

CONCLUSION

On the basis of what India has achieved till today and its future potential, we can aspire for and attain a target of 8% economic growth. By sustaining this level of growth, it is possible to translate into reality a scenario where, within a time span of about 15 years, the quality of life for all Indians including the rural and the poor can be dramatically improved. In order to make this happen, a new mindset and priorities are necessary in certain key areas -- in social development towards primary education and basic healthcare, in agriculture towards the concept of an integrated food supply chain and in seeing that we use all available capital resources with the greatest productivity. The positive role that government can play in impacting the rate of growth and the value of business and government working together must be exploited to full advantage.

Hindustan Lever as an organisation is committed to doing whatever it can to catalyse the process of economic development in the country and spread its benefits. We realise that this will ultimately benefit our business because the future of Hindustan Lever is closely linked to the future of India and all of its people. Indeed, enlightened self-interest on the part of both business at large and government can be the basis of a strong, sustainable and mutually rewarding partnership. Through this partnership, business and government can bring together the skills and resources necessary to deliver a better quality of life for all Indians -- achieving the breakthrough from liberalisation for some to liberation for all.