



Confederation of Indian Industry
125 Years - Since 1895

India's rural economy: Key to economic revival and sustainable and equitable growth

December 2020

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Preface

In the last few years rural consumption has been key to India's growth mainly driven by increased disposable income. With a focus on self-reliance in the Indian economy - 'AtmaNirbharta', rural India has emerged as a significant investment theme. Most recently, due to the pandemic, rural India has positioned itself to lead the demand resurgence. This has been possible due to technology adaptation and increased disposable income of the rural population. However, there still are several whitespaces for economic innovation.

The government has proposed various policies, incentives and interventions to drive consumption and investment in the key rural sectors. Policies such as Agriculture Export Policy will potentially increase India's agricultural export. The government has also set up livelihood and technology business incubators to develop rural Agri entrepreneurs. FMCG sector benefits from direct cash transfer subsidies to households. Jan Dhan Darsha (app by the Department of Finance) ensures that there is last-mile service access in unpenetrated geographies to micro-finance players. In rural areas, production-linked incentives for businesses help them set up manufacturing plants for consumer appliances. These initiatives and many others are expected to boost the growth of farm and non-farm incomes in rural India.

In this report, we venture further into sectors that are demonstrating trends and potential for opportunity and growth. We provide recommendations on how

the rural economy in India can be further strengthened with industry participation going hand in hand with the government interventions. The analysis of the four major sectors - Agriculture, Fast Moving Consumer Goods (FMCG), Consumer Durables and Banking have shaped the overarching theme of economic innovation as the bedrock for driving the revival process. Technology and infrastructure innovation in the agriculture sector can help farmers double their income. There is also an increased scope for high levels of innovative participation from FMCG firms in rural markets. With the larger rural population adopting institutionalized banking, India's banking sector is poised for holistic growth. The credit facilities so offered to provide the opportunity for business, marketing and distribution network strengthening for private sector hand in hand with rural entrepreneurs. The consumer durables market having immense potential is in need for consolidated and innovative strategies to promote their supply and consumption in rural India.

Backed by comprehensive research and consultations with multi-disciplinary senior members of KPMG in India, this paper estimates that growth, income, and consumption patterns of rural India hold the key to an AtmaNirbhar Bharat.

I take this opportunity to acknowledge CII for catalysing the dialogue for empowering the rural economy.

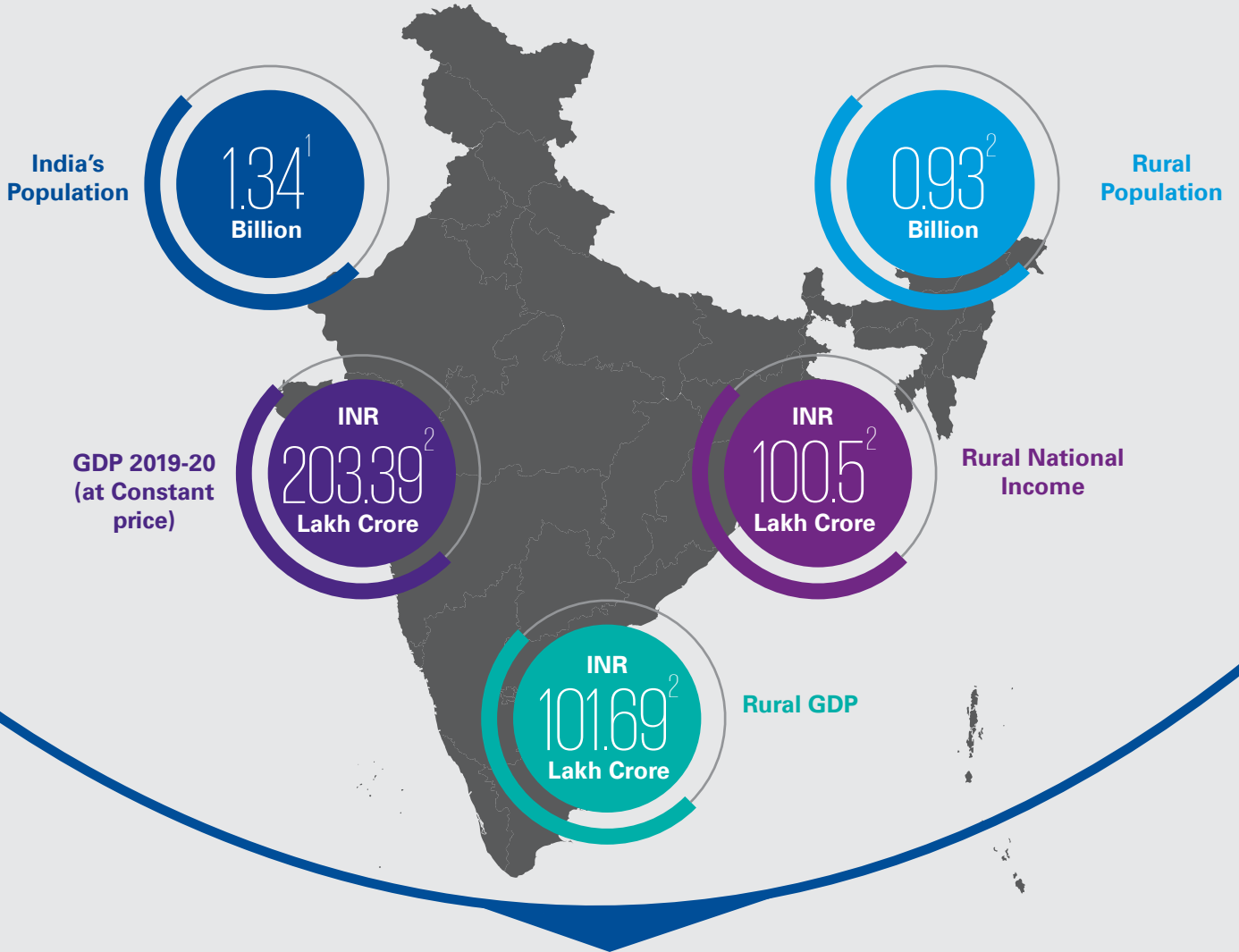


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Executive Summary

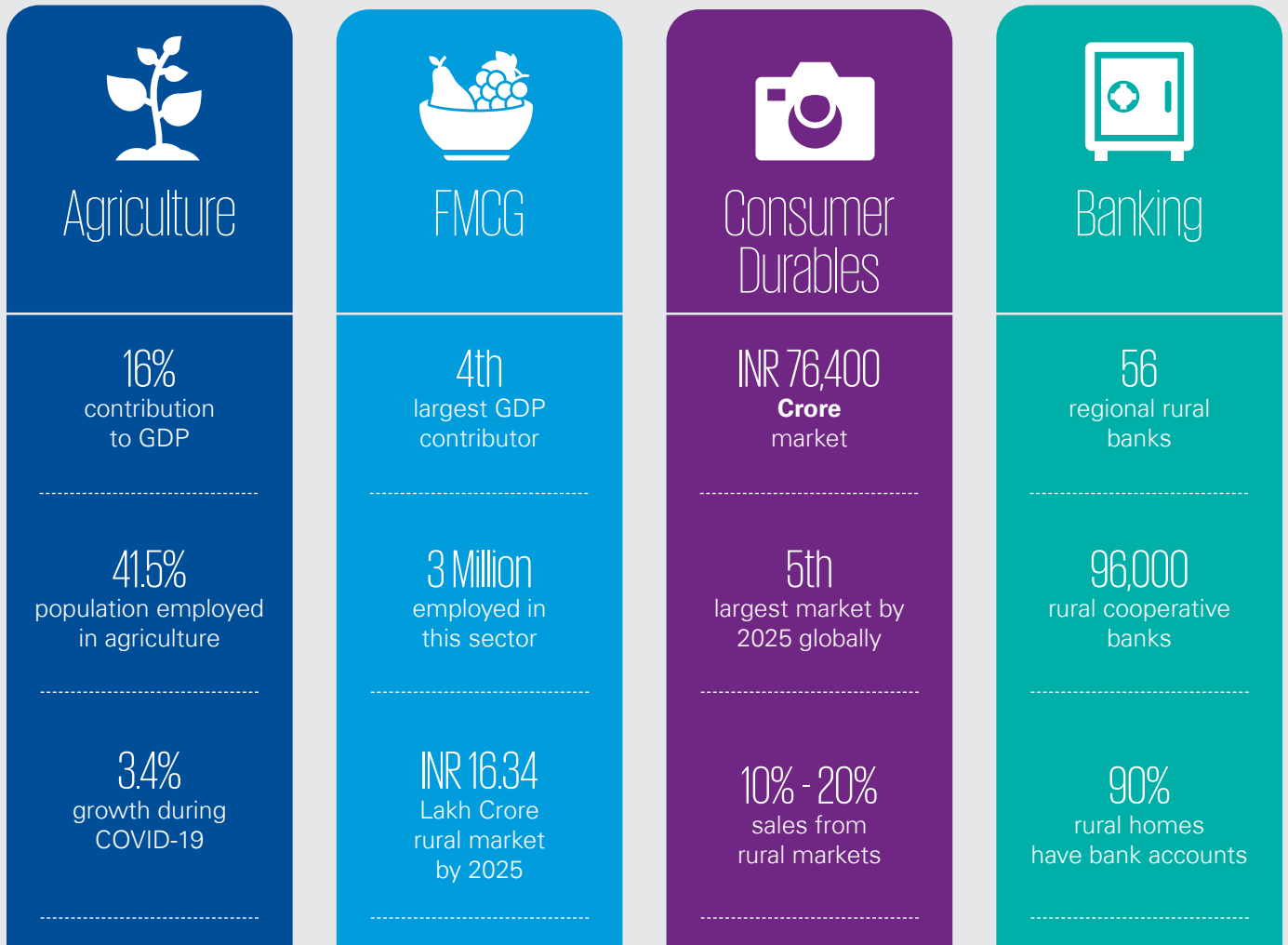


AtmaNirbhar Bharat

 Quantum Economic Jump	 Modern Infrastructure	 Technology Driven Systems	 Vibrant Demography	 Utilizing power of Demand and Supply
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INR 20 Lakh Crore Relief Package	Targeted at labourers, middle-class Indians, Cottage Industry, MSMEs, Industries and others	Focus on Land, Labor, Legislation, and Liquidity
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1. United Nations
2. KPMG in India Analysis



Driving resurgence of Indian economy through rural markets



Note: Detailed referencing has been provided in the subsequent sections

1.

Background



Over the last twenty years, India has been among the fastest growing economies in the world. The country is primarily a rural economy with 70 per cent of its population residing in rural areas.¹ While India is paving way for rapid urbanization, rural India to date remains the prime contributor to India's Gross Domestic Product (GDP) growth with a contribution of 46 per cent to National Income.²

Since 2000, India's rural per capita GDP has grown at a rate of 6.2 per cent.³ With majority of the country's population living in rural areas, the growth, income, and consumption patterns of rural India hold the key to boost demand, revive the economy, and sustain economic growth. The rural economy of India has continuously been supporting and contributing to the overall Indian economy. Further, there is empirical evidence to show that during slowdowns in the overall economy, the rural economy of India stayed resilient. The Indian economy is dominated by the agriculture sector, evidenced

by the fact that approximately 60 per cent of India's population is involved in Agriculture and Allied sectors.⁴ Recently, India has seen a gradual occupational shift in the rural regions from farm to non-farm employment and rural India has seen an increase in non-agriculture income. This is primarily attributed to below par agricultural yields in many years, seasonal unemployment, lack of modern agriculture practices, and increased awareness and education amongst rural youth. However, it is forecasted that by 2050, India will continue to be a prominent rural economy with approximately half of its population still residing in rural areas.²

Due to the COVID-19 pandemic, the Indian economy has shrunk by 23.9 per cent in the second quarter of FY2020-21, the worst decline recorded in the last 15 years since the nation has started compiling GDP statistics quarterly.⁵ Amongst world economies, India reported the steepest quarterly decline that was far worse than the two

1. Das, A., Raja, R., & Patnaik, N. M. (2020). Status, impact, and factor determining rural non-farm economy of India: A review. *Indian Journal of Economics and Development*, 16(2s), 68-76.

2. NITI Aayog. (2017). *Changing Structure of Rural Economy of India Implications for Employment and Growth*.

3. Time for Gramodaya: Rural economy has been resurgent, but, more needs to be done to help it soar. (2020, August). *Financial Express*

4. Indian Brand Equity Foundation. (2020, October 21). *Agriculture in India: Information About Indian Agriculture & Its Importance*.

5. COVID-19 Blow: India's GDP Shrinks a Record 23.9% in First Quarter of FY'21. (2020, August). *The Wire*.

countries severely affected by COVID-19 - United States (9.1 per cent decline) and Italy (17.7 per cent decline).⁶

Consumer expenditure and business investment are the two key drivers for growth. During the first quarter of 2020, consumer expenditure declined by 27 per cent, while business investments declined by 47 per cent. Subsequently, with the reduction in imports, India's net exports turned positive. During the second quarter of FY2020-21, government spending saw an increase of 16 per cent.⁷ Despite the increased spending, the economy did not counterbalance the decline due to other growth drivers. All major sectors of the Indian economy except for the agriculture sector, were significantly affected. Labor-intensive sectors including retail, real estate, transport, construction, and manufacturing were affected most significantly during the COVID-19 lockdown.

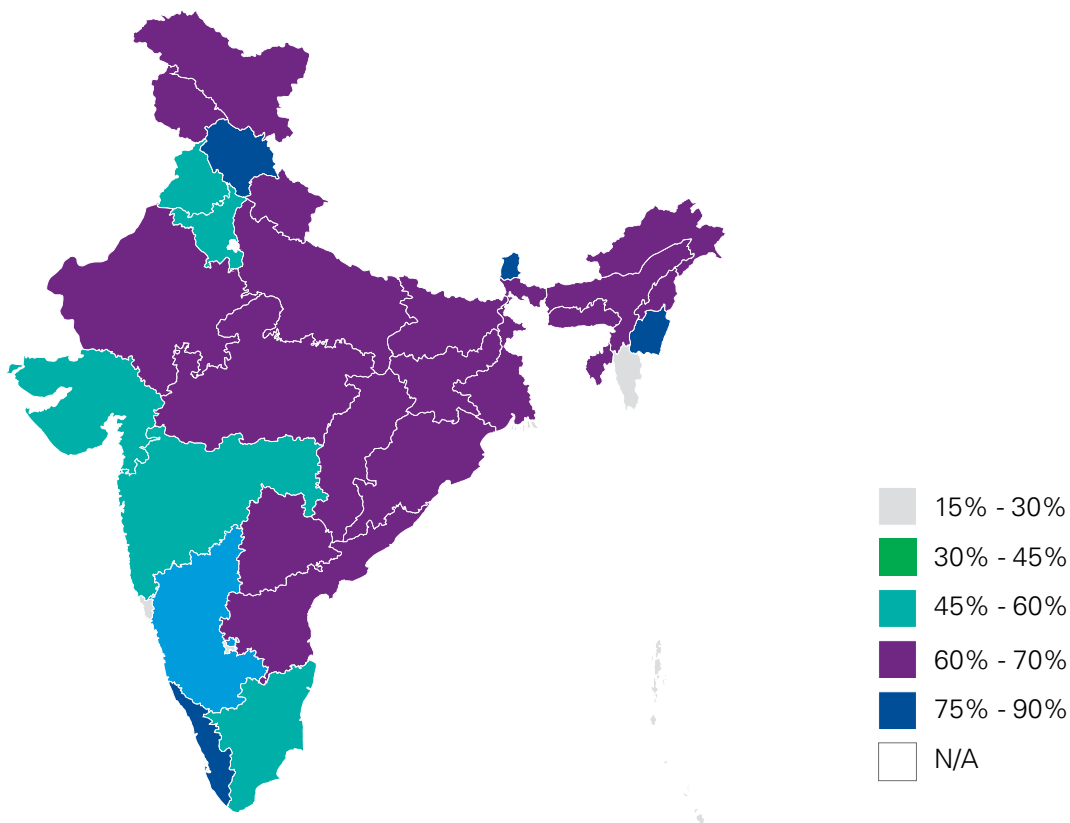
However, India's rural economy has shown unprecedented resilience emerging as a silver lining for the contracting Indian economy. In this period, the

Government of India recorded the highest number of jobs provided under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS). The economic recovery package under the PM Garib Kalyan Yojana has contributed significantly to the stability of the rural economy.

Based on initial indicators, the economic trends imply that consumption patterns in rural India will be spearheading India's economic recovery. Some of the companies that are ancillaries to the agriculture sector have seen their share prices more than double from the lows in March, outpacing growth in other sectors. Similarly, fast moving consumer good companies that are market leaders in small-ticket items have also seen similar trends in their share prices.

Such data points are encouraging signs that suggest rural India will play a pivotal role in the recovery of the Indian economy.

Figure 1: India's rural population



Source: Census 2011

6. COVID-19 Has Pushed the Indian Economy Into a Tailspin. But There's a Way Out. (2020). The Wire.

7. A 29% non-govt GDP fall is behind abysmal growth. (2020). Live Mint.

2.

Rural India as a driver of consumption



The markets in India's rural region are increasingly becoming powerful economic drivers. Many policymakers and businesses are excited by the exponential growth prospects presented by these markets. Companies that seek to become high-performing businesses cannot ignore the potential of India's rural markets. There is promising data that suggests that the rural markets are predominantly driven by the increasing purchasing power of the consumer, which is a key driver for growth across a variety of sectors. The confidence in India's rural economy is owing to:

1. Lower dependence of the rural population on farm income due

to a rise in remittance income from migrant rural population and increase of non-farm activities in rural areas

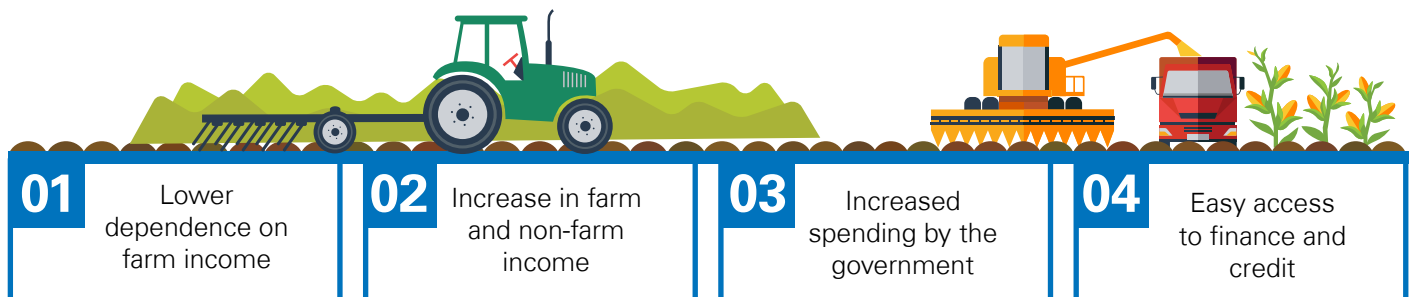
2. Increase in farm income thanks to a rise in government procurement prices, has increased the purchasing power of the rural population. In some preliminary calculations, it is estimated that the farm income will increase by approximately 9 per cent in 2020¹

3. Increased government spending in rural areas. In the last five years, the Ministry of Rural Development has seen a 10.5 per cent compounded annual growth in its budgetary allocation (MGNREGS accounting for half of the Ministry's

budget).² The country saw reduced unemployment and increased wages through MGNREGS where the increased its funding to INR 44,599 crore (2018-19) from INR 32,477 crore (2014-15).³

4. Easy access to finance and credit has increased the flow of money in rural households

From a business perspective, the resilience of India's rural economy backed by increased rural consumption has positioned rural India as a potential investment theme. Among the key sectors that are gathering traction within the rural areas include – Agriculture, Fast Moving Consumer Goods (FMCG), Consumer Durables and Banking.



1. Income of Indian farmers is rising, but that doesn't mean economy is out of the woods. (2020). The Print.






2. Increase in Employment under MGNREGA. (2020).

3. Ministry of Rural Development, Government of India

2.1. Government initiatives

The government has been focused on promoting the abovementioned sectors and has proposed forward-looking policies and interventions to drive consumption and investment. In the present context, India's contracting economic situation (due to COVID-19) called for urgent government interventions to curtail the damage and to keep the economy afloat while enabling people to secure their jobs. Most of these interventions provide a macro-economic solution focusing on emergency liquidity by central banks. These also include fiscal measures

such as broad tax-relief, wage/ income subsidies, unemployment benefits, option to defer payments, and equity investments by the government in non-performing companies. Following are a few government interventions targeted to promote business in sectors with direct correlation to the rural economy (these are not restricted to the most recent initiatives). The government has provided further impetus to job creation through AtmaNirbhar Bharat 3.0 stimulus package.

	Government interventions	Description
 Agriculture	<ul style="list-style-type: none"> • Agriculture Export Policy • Doubling Farmers Income by 2022 • Increase in Minimum Support Prices • Minimum fixed pension to small and marginal farmers • Food grains at zero cost under PM Garib Kalyan Yojana 	<ul style="list-style-type: none"> • Agriculture Export Policy aims to double exports by 2022 and reach INR 7.4 Lakh Crore in next few years • PM Garib Kalyan Yojana (part of AtmaNirbhar Bharat) aims to supply free food grains to migrants and poor
 FMCG	<ul style="list-style-type: none"> • FDI relaxation for single and multi brand retails • Transformation of logistics and warehousing facilities (due to GST) • Wi-Fi hotspots across 1,000 gram panchayats • Construction of roads under PM Gram Sadak Yojana 	<ul style="list-style-type: none"> • As a pilot, the government through its Digital Village program intends to provide free WiFi hotspots at more than 1,000 gram panchayats • PM Gram Sadak Yojana is a nationwide program to provide good all-weather road connectivity to unconnected villages
 Consumer durable	<ul style="list-style-type: none"> • FDI relaxation for single and multi brand retails • Amended incentives manufacture locally • Promote rural regions as investment destinations • Incentivise rural employment through policies 	<ul style="list-style-type: none"> • National Policy on Electronics promotes incentives that encourage rural development and increase rural employment • "Make in India" program aims to transform India into a global design and manufacturing hub.
 Banking	<ul style="list-style-type: none"> • Rural financial inclusion through Jan Dhan Yojana • Issuing Kisan Credit Cards • Linking SHGs with banks • Promotion cashless economy through Direct Benefit Transfer, PM-JDY, RuPay cards, etc. 	<ul style="list-style-type: none"> • PM Jan Dhan Yojana aims to expand affordable access to financial services • Kisan Credit Card aims to provide farmers with term loans for agricultural needs
 Rural development initiatives	<ul style="list-style-type: none"> • INR 40,000 Crore as stimulus for implementing MGNREGS • Rural and skilling initiative under Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY) • INR 50,000 Crore under Garib Kalyan Rojgar Abhiyaan in 116 districts of 6 states 	<ul style="list-style-type: none"> • MGNREGS provides guarantee to the 'right to work' • DDU-GKY aims to transform rural youth into economically relevant workforce • Garib Kalyan Rojgar Abhiyaan launched to tackle the impact of COVID on migrant workers

The labor and manufacturing reforms undertaken during these unprecedented times are expected to not only thrust the growth of farm and non-farm incomes in rural India but

also send positive signals to the world about the resilience of rural India in driving India's economic recovery.

3.

Sectoral Perspectives



41.5%

of India's population
is employed in the
agriculture sector

Source: Statista, Oct 2020

3.1. Agriculture

The agriculture sector forms the backbone of the Indian economy contributing to 16 per cent of India's GDP while employing 41.49 per cent of India's total workforce.¹ This sector also has a high correlation to the non-agriculture segment that drives demand for other sectors including retail, FMCG, and e-Commerce among others, which are dependent on the agriculture sector for inputs. The agriculture sector witnessed a decline in its share in Gross Value Added (from 18.2 per cent in FY15 to 16.5 in FY20) primarily due to the accelerated growth of non-agricultural sectors.²

However, during the COVID 19 pandemic, the agriculture sector was the only sector that recorded growth (3.4 per cent growth) while all other sectors saw a

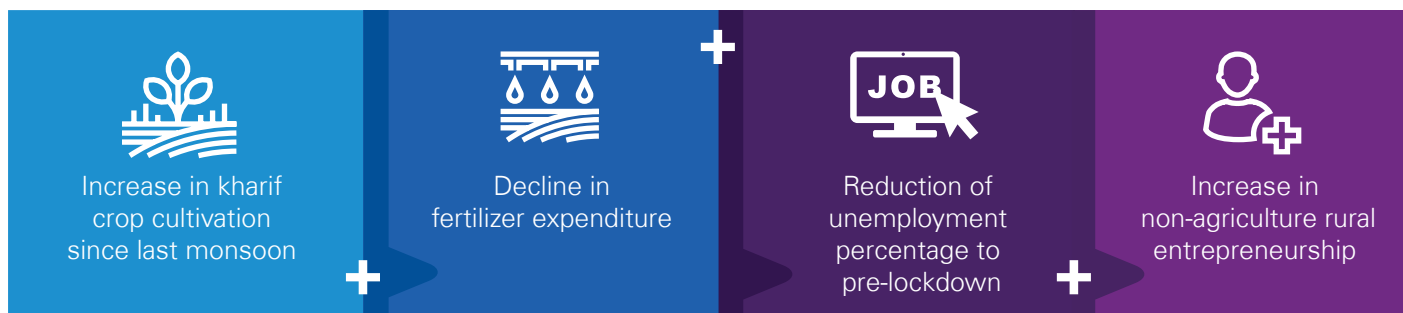
sharp decline taking the overall rate to negative 28 per cent.³ This was owing to the excellent monsoon season in FY 21 (highest monsoon levels recorded in the last 6 years), abundant water in irrigation reservoirs, larger sown area coverage for kharif crop, and effective implementation of MGNREGS along with other government welfare interventions. Subsequently, the rural unemployment rate has contracted faster than the urban unemployment rate due to government schemes such as MGNREGS. Similarly, the rural inflation rate was also lower, because the government provided food grains at no cost under PM Garib Kalyan Anna Yojana, leaving the rural population with a higher disposable income.

1. India: Distribution of the workforce across economic sectors from 2010 to 2020. (2020, October). Statista.

2. Agriculture Mechanization to Transform Indian Farming Into Commercial Farming, Says Economic Survey. (2020, January 31). [Press release]

3. Rebooting Economy XXVIII: Is India poised for agriculture-led economic turnaround? (2020, September). Business Today.

The trends continued through the COVID 19 lockdown period in which the rural population reported higher spending which is a direct function of the increased disposable income. In a survey conducted across seven states it was observed:⁴



1. The planned land kharfi crop cultivation increased by 7 per cent and kharif sowing area by 13.9 per cent.
2. As compared to 2019, agricultural households saw a 7 per cent decline in fertilizer expenditure. The survey also suggested that there was a decline of 19 per cent in agricultural borrowing which was not linked to the sowing acreage or fertilizer consumption.
3. Unemployment rates have reduced since lockdown was lifted
4. Rural entrepreneurs, in the non-agriculture sector, operating smaller ration stores and business resumed work due to less stringent adherence to lockdown regulations.

These pre- and post-COVID factors have been instrumental in increasing the disposable income and hence changing rural expenditure patterns that have provided in-roads for businesses that are looking to expand their presence in rural India.

Supply side interventions encouraging agricultural growth and rural incomes

As 58 per cent of the Indian population's livelihood is dependent on agriculture, this has been a sector for special focus from the government. It is anticipated that the sector will grow to INR 88.2 Lakh Crore by 2023 at a CAGR of 12.2 per cent.⁵

In the last half-decade, the government has launched forward-looking policies and initiatives that aim at doubling the income of farmers by 2022. These initiatives are targeted to increase the minimum support prices offered to farmers. For the same, the government plans to strengthen its existing initiatives including e-NAM (a unified online platform for agriculture commodities), PM AASHA Yojana (remunerative prices to farmers), and Gramin Agriculture Markets.

Subsequently, the government also released the Agriculture Export Policy in 2018 aimed at increasing agricultural exports from INR 210 Crore Mn to INR 420 Crore by 2022 and reach INR 700 Crore thereafter.⁶

On the investment side, the Government of India plans to attract new investment in the rural agriculture sector and enable the formation of 10,000 new Farmer Producer Organizations.⁷ We have already witnessed some major non-agriculture business step into the agriculture sector.

Hence it is important for farm and non-farm private sector players to recognize the potential of the agriculture sector in driving India's rural economy.

4. How did India's rural economy fare through the COVID-19 lockdown and the re-opening? (2020, September). World Bank Blogs

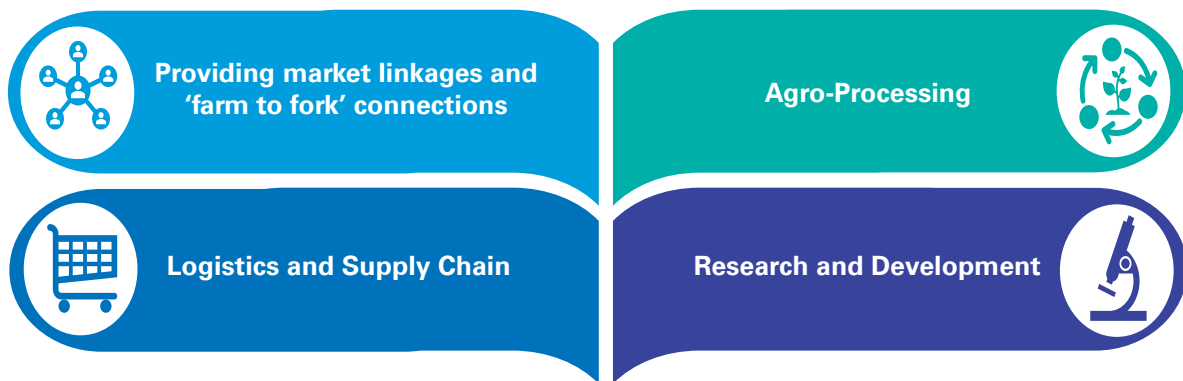
5. KPMG. (2019, July). India: Redefining its growth path, KPMG, August 2019.

6. KPMG in India. (2019, July). India: Redefining its growth path, KPMG, August 2019.

7. CCEA approves scheme for "Formation and Promotion of Farmer Producer Organizations (FPOs) " to form and promote 10,000 new FPOs. (2020, February 19).

Industry and the agriculture value chain

The growth in agriculture, combined with the facilitating interventions by government are expected to lead to greater demand for processing services, packaging, transportation and for finance, retail and other services. This provides the potential for industry to contribute across the value chain, such as in areas listed below:



1. Providing market linkages and 'farm to fork' connections: Indian farmers still lack adequate market linkages without the control of moneylenders and other middlemen. Private sector has the opportunity to contribute to the farm to fork concept. There have been recent instances of agricultural aggregators such as Agribol. Industry and farmers stand to benefit from the economies of scale in these models, which include provision of information on one platform with market linkages and services such as mechanization and agricultural inputs.

Agribol is a mobile interface that provides sustainable solutions for the agriculture ecosystem services ranging from technology, research, finance and marketing

2. Agro-processing: this sector has untapped potential as currently about 10 per cent of agri-produce is processed in the country. While entrepreneurship models may be promoted for processing in small village level industries and MSMEs, industry has the opportunity to enter into high end processing that requires intensive technology and capital.

3. Logistics and supplychain: an uninterrupted supply chain and cost-effective logistical arrangements are needed for smooth functioning and sustained growth of the rural agricultural economy. Private sector players are increasingly stepping into this space, especially with the use of technology and e-platforms.

Harvest Farmer Network was one such initiative that started during the COVID lockdown period in India. This is a social media platform that connects farmers to consumers across India. This platform is aimed at uninterrupted supply chain.

4. Research and Development (R&D): this area has traditionally been the domain of the public sector. However, if India is to meet the rising food requirements of a population that is set to grow by 273 Mn by 2050,⁸ private sector entities need to expand agricultural R&D and innovation. With progress in genomics, information technology, communications and logistics, the pace of agricultural R&D in areas such as plant genetics, hybrid seeds etc. is set to increase, offering a larger role for private sector.

The agricultural sector offers extensive potential for industry participation which will not only provide industry with opportunities for innovation, but also modernization and growth with public private partnership.

8. World Population Prospects 2019: Highlights. (2019, June). United Nations.

3.2. FMCG

The FMCG sector in India is the fourth largest contributor to the country's GDP, employing 3 million people. This sector primarily consists of three main segments- household and personal care, food and beverages and health care.⁸

In 2019, the urban FMCG market grew at 8 per cent while the rural FMCG market witnessed a growth of 5 per cent.⁹ Furthermore, the semi-urban and rural markets have grown at a rapid pace due to the increased penetration of the internet and mobile phones.

Growth of rural market for FMCG

The growth of the rural markets in India is a function of the country's rural population, higher aspirations of the rural population backed by increased spending capacity, and increased brand awareness arising from media exposure. Currently, approximately 70 per cent of the Indian population resides in rural regions.¹⁰ It is expected that India's population will grow by 273 million by 2050¹¹ of which 50 per cent population will reside in rural India.

In the last decade, India's rural FMCG market has recorded a constant CAGR of 11.3 per cent and has contributed to a 75 per cent growth in the FMCG sector. The FMCG sector

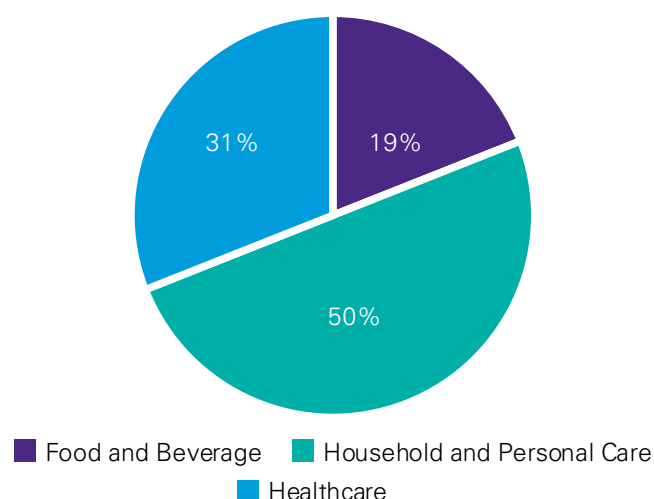
is expected to grow to INR 16.34 lakh crore by 2025,¹³ demonstrating potential for existing as well as new players to cater to the rural demand. Traditionally, it has been observed that 50 per cent¹⁴ of rural household income is spent on FMCG products. In terms of products, essential staple food items will continue to be the focus area for rural consumers.

Government interventions

Some of the government initiatives which have been instrumental in the sectoral growth include - 100 per cent approval of FDI in single-brand retail¹⁵ and 51 per cent FDI in multi-brand retail,¹⁶ lower tax regime for FMCG products, transformation of the logistics and warehousing facilities due to introduction of GST, installation of Wi-Fi hotspots across 1,000 gram panchayats,¹⁷ and construction of roads under PM-Gram Sadak Yojna.

With this increased connectivity and greater access to information through technology, the FMCG sector in rural India has also witnessed a drastic change in its consumer behaviour. According to a report by KPMG in India, there was a 35 per cent year-on-year growth in rural internet users while the smartphone penetration in rural India rose to 25 per cent in 2018 from 9 per cent in 2015.

Figure 2: Segment wise breakup of FMCG sector¹²



INR 16.34
Lakh Crore by 2025
Expected rural market size of FMCG sector

Source: Market size of FMCG across rural India from financial year 2009 to 2018, with an estimate for 2025. (2020). Statista.

9. FMCG Industry in India. (2020, October). Indian Brand Equity Foundation.

10. Census of India (2011)

11. World Population Prospects 2019-Highlights. (2019, June). UN Department of Economic and Social Affairs.

12. FMCG Industry in India. (2020, October). Indian Brand Equity Foundation

13. Market size of FMCG across rural India from financial year 2009 to 2018, with an estimate for 2025. (2020). Statista.

14. Decline in rural sales hits FMCG in 2019, revival likely by second half of 2020. (2019, December). The Economic Times.

15. FDI Policy further liberalized in key sectors. (2018, January). Press Information Bureau.

16. FDI in multi-brand retail. (2019, July). Press Information Bureau

17. Free WiFi hotspots at over 1,000 gram panchayats. (2017, January). The Economic Times.

Increased rural spend

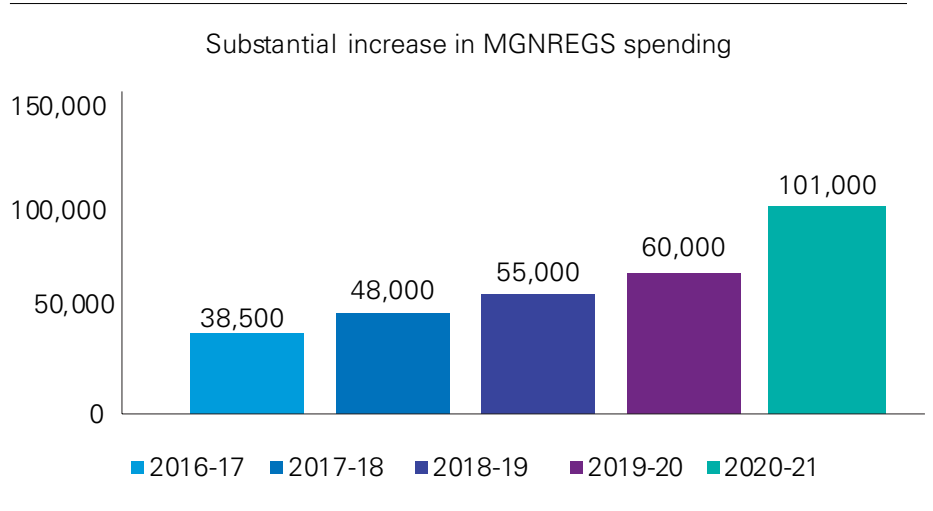
Rural markets have shown improved demand patterns owing to the excellent monsoon season in FY 21 (highest monsoon levels recorded in last 6 years) as well as higher levels of income from farm as well as non-farm activities, owing to increasing levels of Minimum Support Price (MSP)¹⁸ and higher levels of MGNREGS allocations,¹⁹ made by the Government of India for FY 2020-21.

With the aforementioned government initiatives, internet and technology penetration, and higher levels of disposable income expected in the current financial year, the rural markets present an opportunity for the FMCG sector, owing to changed consumer buying behaviour and the increasing trends of rural households to consume essential non-durables, including food and non-food items in the long run.

Rural India emerging as a positive market amid COVID-19 slowdown

Since the COVID-19 pandemic, an economic slowdown has been observed due to lockdown measures deployed across the country, resulting in supply chain breakdown and store closures in both urban as well as rural centres. Some of the emerging trends have been listed in the figure given below.

Figure 3: Analysis of budgetary allocation on MGNREGS spending²⁰



26%

Increase in average MSP for important crops between FY18 and FY21

Source: Farmer's Portal 2020



Rural FMCG sales grew at 3 times compared to all of India's growth for period ending Q2'2020



Health and Wellness products have seen an upswing in adoption in smaller SKUs



Increase in the number of first time e-Commerce shoppers

18. Farmer's Portal. (2020). Farmer's Portal.

19. Union Budget 2020 - 2021. (2020).

20. Ministry of Rural Development

However, the Rural FMCG markets grew 3 times,²¹ compared to all of India's growth in terms of sales value for the period of June 2020, driving growth in the sector.

Additionally, strong rural FMCG growth has been observed due to the trend of reverse migration observed during the lockdown period.

The industry also saw an increase in the number of first-time eCommerce shoppers while online sales account for only 3 per cent of the total FMCG sales. However, the eCommerce channels are set for wide adoption in rural areas that present a substantial opportunity for FMCG brands to promote sales of products beyond their existing traditional sales channels.

In terms of product categories, health and wellness products saw an upswing in adoption in smaller stock-keeping units. New product launches such as sanitisers and soaps have shown early signs of good demand amongst rural consumers.²²

These recent trends along with less stringent lockdown measures in rural India have driven FMCG sales faster than that in urban markets. Businesses that are looking to expand their footprint in the Indian FMCG market must strengthen their rural distribution network and find innovative approaches to cater to the changing demand trends of India's rural population.

Figure 4: Growth rate of FMCG sector



Source: South Asia Monitor



21. Rural India grows at 3X of urban India in FMCG. (2020, August). South Asia Monitor.

22. FMCG sales in fast lane in rural areas; hygiene, immunity products in demand. (2020, June). The Economic Times.

3.3. Consumer Durables

In 2019, the Indian consumer durable market was estimated at INR 76,400 crore. The sector is broadly split into two segments namely consumer durables (Brown Goods) which includes goods such as televisions personal computers, laptops, digital cameras, etc. and consumer electronics (White Goods) which includes products such as air conditioners, washing machines, and microwaves, etc.²³

Within the consumer durable industry, the applied and consumer electronics segment is expected to reach INR 1.48 Lakh crore by 2050, while electronics manufacturing is expected to add INR 11.5 Lakh crore as additional production between 2020 and 2025.²³

India is expected become one of the top five markets for consumer durables in the world by 2025.²⁴ The growth of the consumer durable market is driven by increasing disposable income, evolution of organized and online retail, and easy access to consumer financing and rural electrification initiatives by the government.

Government initiatives: The initiatives undertaken by the government have directly or indirectly promoted the rural demand for consumer durable products. The sector saw an increase in demand for

products such as refrigerators and consumer electronics as first-time purchase owing to the government investment in rural electrification. This also opened an enormous untapped and unexplored market potential for consumer durables.²⁵

Similarly, schemes such as Pradhan Mantri Awas Yojana – Gramin, that aimed at providing housing for the rural population, have resulted in more nuclear rural families with a demand for entry level product types across segments.

Rural markets have recently witnessed an increased demand for fully automatic washing machines, as more and more rural women are finding employment in the manufacturing industry

Under its “Make in India” program, the government is also incentivizing local companies to manufacture consumer durable products locally, which have increased employability and disposable incomes in rural regions and increased non-food expenditure. This buying propensity is backed by reduced price tags for consumer durables as companies are now manufacturing and sourcing locally.

1.48 lakh
crore by
2050 (INR)

Expected size of applied and consumer electronics segment, driven by increasing rural household demand

Source: IBEF, Oct 2020

23. Indian Consumer Durables Industry Analysis. (2020, October). India Brand Equity Foundation.

24. Indian Consumer Market. (2020). India Brand Equity Foundation.

25. Consumer Durable Market in India Sector Pack. (2018).

Demand drivers for consumer durables: Easy access to finance for the rural population has made their buying decisions inelastic to income levels. Increased penetration of internet and smartphones, along with growing traction of online lending platforms, buy now - pay later schemes, and easy monthly instalment schemes introduced by financial institutions have all contributed to demand in the consumer durables sector.

Resilience of consumer durable sector during COVID-19 The consumer durable sector has recorded the quickest recovery in the new COVID normal. While the urban population was forced into spending more time at home, there has been an increased spend on consumer appliances and electronics. A similar demand trend has been noticed in the semi-rural population. Some of the key trends that have been emerged, post resumption of supply chain services, are highlighted in the figure given below.



Rural India has once again emerged as a silver lining for business in this sector. Companies operating in the consumer durable sector must adapt to these developments and re-strategize to be better prepared for the surging rural demand.



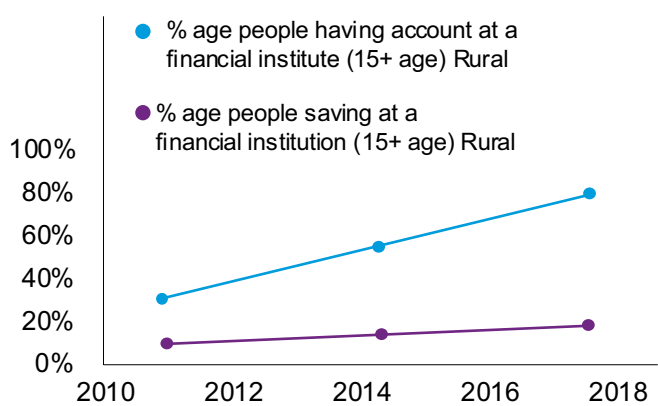
3.4. Banking

Access to financial markets which translates to financial inclusion is important to rural India. Similarly, access to credit and banking facilities helps increase consumer consumption, offers new business opportunities and improves prospects for economic growth. In the early nineties, India recognized that a large rural population was still dependent on informal credit sources, and hence, Self Help Groups (SHGs) and Micro-finance Institutions (MFIs) were encouraged. In 2014, however, Pradhan Mantri Jan Dhan Yojana (PMJDY) was launched under the National Mission for Financial Inclusion, which aimed at opening a bank account for each household in the country. PMJDY, Aadhar, and extensive mobile use (JAM trinity) together have and can further reshape the rural banking systems and offer opportunities for industry to invest in.

Government interventions in promoting rural banking and finance

The years 2010-15 focused on universal banking provision and tools to make banking safe and secure in rural areas. The years 2016-2018 brought banking to the doorstep in rural India with tools such as Direct Benefit Transfer (DBT). From 2019, the government has been focusing on increasing the reach and promoting a cashless economy through PMJDY, DBT, RuPay cards leading to better banking and financial inclusion for rural India. Linking of SHGs with banks and issuing Kisan Credit Cards (KCC) have improved the financial inclusion set-up in rural areas.

Figure 5: Trends in accounts and savings with rural financial institutions



Source: World Bank Global Financial Inclusion data 2020

Growth in banking services in rural India

The Jan Dhan scheme is gaining momentum with more than 350 million beneficiaries as of March 2020. The large-scale use of mobile phones eases the problem of access and lack of infrastructure redundant. Technology also can be used to improve the assessment of creditworthiness for households and informal businesses. Since 2014, the financial inclusion parameters for rural India are steadily increasing. The per centage of rural population above 15 years of age having an account at a financial institution has increased from 33 per cent in 2011 to 79 per cent in 2017.²⁵ Similarly, the rural citizens above 15 years of age and saving their money at a financial institution has increased from 11 per cent in 2011 to 18 per cent in 2017.²⁶

This growth trajectory has fuelled the demand for asset creation, lower term credits, credit for various agricultural and non-agricultural purposes and small business activities.

Private sector in rural banking

Despite the challenges of banking in rural areas (such as large geographical areas, smaller credit amounts, lack of collaterals) over the last few years, the market share of private and foreign banks is increasing in numbers. RBI's Annual Report 2018-19 shows that the share of private sector banks and foreign banks in the achievement of priority sector lending targets has increased from 41 per cent and 38 per cent in 2018 to 43 per cent and 44 per cent in 2019 respectively.²⁷ While public sector lenders have a growth rate of 0.5 per cent in 2018-19, private banks have expanded their network by 27 per cent.²⁷ This growth has been seen mainly in the following areas:

a. Non-Banking Financial Companies (NBFCs) - MFIs:

The microfinance sector continues to lead financing in rural areas. India has become one of the leading markets in the global microfinance industry with one of the highest number of borrowers growing at a rate

Recently, NABARD introduced Partial Credit Guarantee Programme for Non-Banking Financial Company (NBFC) - Micro Finance Institutions (MFIs) to ensure unhindered flow of credit in rural areas hit by the COVID-19 pandemic.

Source: NABARD, August 2020

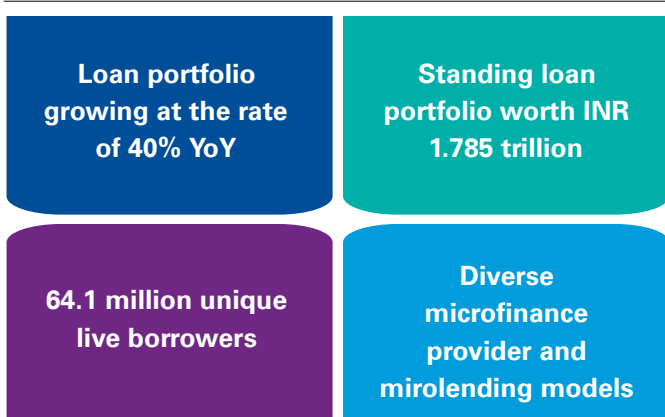
26. The Global Findex Database 2017. (2017)

27. RBI Annual Report 2018-19. (Aug 2019)

much higher than any other geography. Data released by Microfinance Institutions Network in 2019 shows that non-banking finance company-micro finance institutions, which focus on lending in rural India, account for the largest portion of the loan portfolio.²⁸

Recently, MFI's have registered higher profitability, as disbursement of loans has become easier due to linkages between payments transaction history and credit information. According to Small Industries Development Bank of India (SIDBI) and Equifax Microfinance Pulse report, 2019- Microfinance Institutions have the largest market share at 38 per cent followed by Banks (34 per cent), Small Finance Bank (17 per cent), and Non-banking Financial Companies (10 per cent).²⁹

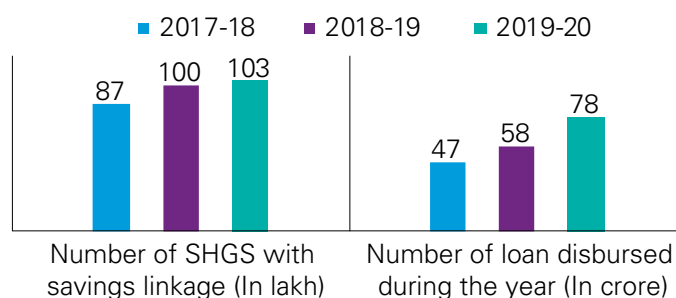
Figure 6: Micro-finance landscape in India



Source: SIDBI and Equifax Microfinance Pulse report, June 2019

b. Self Help Groups (SHGs): The Self-Help Group Bank Linkage Programme (SHG-BLP) enables provision of bank loans to poor strata without any collaterals. This programme has become the world's fastest growing microfinance platform. There are examples from the private sector to demonstrate the potential for creating banking intermediaries or micro distributors of products. These examples need to be replicated to improve distribution channels in rural areas.

Figure 7: Progress of SHG-BLP 2017-18 to 2019-20



Source: Status of Microfinance in India 2019-20, NABARD

- c. Promotion of a cashless economy and auxiliary services:** Due to initiatives around cashless economy, there has been a surge in cashless transaction in rural areas as well. This presents private players (which were till now serving the urban population) with an opportunity to expand its customer base into rural markets.
- d. Promoting rural entrepreneurship through core banking services:** Engaging in local markets as partners, developing a social network with local participants to use word-of-mouth advocacy and building partnerships with NGOs, MFIs and SHGs can help in the provision of core banking services but can also help in streamlining additional services such as BPOs, service centres etc.

This increase in financial inclusion can help a private business develop highly scalable models for customer acquisition and cross-selling.

28. SIDBI & Equifax Microfinance Pulse Report. (June 2019)

29. Small Industries Development Bank of India & Equifax Microfinance Pulse Report. (2019)

4.

Way Forward



While urban India has been the focus of analysis in recent times, there is a growing interest in rural India and the abundant potential it offers. Most recently due to the COVID-19 pandemic, technology adoption, massive reverse migration, along with the availability of higher disposable

income of the rural population, spurred by numerous government interventions, rural India has been re-positioned to lead the demand resurgence for the Indian economy.

An overview of recommendations proposed sector wise is depicted below and detailed recommendations follow.



Agriculture

- Use of technology
- Upgrade Agri-marketing infrastructure
- Build effective value chains
- Develop agriculture clusters



FMCG

- Increase penetration of e-Commerce in rural areas
- Transform rural distribution networks
- Promote rural consumerism
- Encourage rural entrepreneurship



Consumer Durables

- Replicate success of mobile phones
- Develop omni-channel strategy for e-Commerce
- Promote low ticket electronic items
- Enhance Production Linked Incentives for consumer durables



Banking

- Promote fintech in rural India
- Leverage women-led entrepreneurship channels
- Introduce product customisation for rural markets

4.1. Agriculture

The Indian agriculture sector is expected to gain further in the coming years momentum in coming years, given that India expects to achieve its goal of doubling farmers income by 2022. This can primarily be achieved with the following interventions:

- 1. Use of technology in agriculture:** Digital technologies including Artificial Intelligence, Internet of Things, Data Analytics, and Blockchain will be paramount in achieving the government's objectives of doubling farmers' income (by 2022).¹ These technologies will aid productivity, soil monitoring, predicting rainfalls, and weather, among others which will help achieve higher agricultural yield. This transformation will enable farmers to access need based - actionable - real time information that could significantly improve yield and in turn improve their livelihood. Incorporation of technology in agriculture will require active participation of the private sector, which has resources to research and develop these digital technologies. Subsequently, providing a plethora of business opportunities to private players in the rural agriculture market
- 2. Upgrade agri-marketing infrastructure:** While the government has set up an INR 2,000 crore Agri-Market Infrastructure Fund² to develop and upgrade infrastructure, the allocation of funds for effective implementation along with private partnerships will be crucial in determining the success of these efforts.
- 3. Building effective value chains:** There is a growing need to have a direct-to-consumer market infrastructure. Private organizations can make their business models more competitive and rewarding by circumventing the intermediaries at the first mile, companies can optimize time, reduce food remove waste, and realize higher value for the product. Procuring directly from the farmers will lead to an improved sourcing mechanism.
- 4. Need for agricultural clusters:** Post the Agriculture Export Policy 2018, there is a growing need for investment in agriculture clusters to strengthen backward linkages and introduce cost efficiencies. Projects of such scale require combined efforts of the public and private sector leveraging each other's competencies. These collaborations will not only be crucial in catering to the local demand but also in supporting India's export demand.



1. Ministry of Agriculture & Farmers Welfare, Government of India
 2. Press Information Bureau, February 2019.

4.2 FMCG

With rural FMCG sector acting as driver of growth in the economic revival journey, there is an increased scope for high levels of participation from FMCG firms in rural markets. There is potential to increase the share of rural markets to more than the existing 36 per cent of the entire FMCG market size.³ Some of the policy measures as well as private sector initiatives that can boost the sector, going forward are as follows:

1. FMCGs can target increased penetration of

e-Commerce in rural areas: Currently, it is forecasted that 11 per cent of the overall FMCG sales will be driven by e-Commerce segment. With 22.7 crore active internet users in rural areas, which is 10 per cent more than 20.5 crore users in urban areas,⁴ the potential for higher penetration of e-Commerce sales should be a key focus area for FMCG firms. This should include initiatives targeted towards push based marketing through vernacular messaging.

2. Transformation of rural distribution networks:

FMCG firms have undergone limited transformation in their overall distribution model, including in rural areas. There has been the rise of aggregator-based distribution models on a pan-India basis because of emergence of increasing varieties of product categories, stock keeping units to cater to the needs of the modern consumer. FMCG firms should focus on establishing increased

linkages with stockists and sub-stockists, engage with aggregators and rural distribution companies at district level. This will help reduce transaction period and cost, with increased direct coverage at village level.

3. Scope for increased market penetration for multiple FMCG brands and product categories:

Due to the current upswing in the rural FMCG markets, there is a wider scope for entry of more FMCG brands, especially the local brands, which operate in regional clusters. Additionally, with respect to adoption of new product categories, there has been an increased interest in health and wellness segment, including sanitisers, face masks etc. With an emerging rural market which is growing conscious about lifestyle and healthcare needs, there is a scope for enhancing the marketing strategy for further rural customer coverage.

4. Mentoring and promoting entrepreneurship for catering to local markets:

In line with the vision of AtmaNirbhar Bharat, entrepreneurship promotion and simultaneous capacity building activities offer an opportunity for industry to participate in the rural economy and cater to local markets through village level distributors and retailers. This may enable long-term self-sufficiency of the rural markets.



3. Indian FMCG Industry Analysis. (2020, August). India Brand Equity Foundation

4. Bharat Surfing More Than India, With Cheap Internet And Smartphones. (2020). NDTV

4.3. Consumer Durables

With the consumer durable market having immense potential of acting as driver of growth in rural areas, there is a need for consolidated strategies to promote their supply and consumption. Some of the policy measures as well as private sector initiatives that can boost the sector, going forward are provided below:

- 1. Replicating the success of mobile phones:** Similar to the wide adoption of smartphones/mobiles in rural India, there is a need to promote trading up across the consumer durables category. For example, fully automatic washing machines have to be promoted to rural households having access to semi-automatic washing machines, which may be at end of the product life cycle. Despite anticipated capital investment, trading up of products will result in a better lifestyle for rural households, along with greater energy and operational efficiency savings, resulting in higher net savings and net disposable income in the long run.
- 2. Omni-channel strategy for e-Commerce firms:** There has been limited uptake of online purchasing for consumer durables in rural areas because of lack of familiarity with online channels, along with the inability to access internet at continuous intervals.⁵ This

limitation may be overcome by industries establishing physical stores in smaller towns near rural clusters to present rural consumers an option to tangibly view the products. This could ensure wider uptake of consumer durables in the long run in rural households with access to mobile internet facilities.

- 3. Pushing low ticket electronic items:** Typically, rural household level consumption is driven by necessity, not on special occasion consumption.⁵ There is a need to promote low-priced household appliances in rural regions such as fans, sewing machines, LED Bulbs etc., which can have a faster adoption.
- 4. Consumer durables under Production Linked Incentive scheme:** In line with the vision of AtmaNirbhar India, Production Linked Incentive Scheme should cover a larger gambit of the consumer durables sector rather than just white goods. For white goods itself, this scheme can promote localisation of production, with average localisation across consumer products still at around 30-40 per cent in Indian electronics production market.⁶ This would benefit industry as well as rural consumers.



5. Accenture. (2015). From Touchpoints to Trustpoints: Winning over India's Aspiring Rural Consumers.

6. KPMG in India Analysis

4.4 Banking

With the increased financial traction in rural households and rural businesses there is an expectation of an increased demand in rural banking. With the larger rural population adopting institutionalized banking, India's banking sector is poised for holistic growth. The appended way forward will ensure the sustainability and scalability of the growth:

- 1. Fintech in rural markets** To enable large scale adoption of MFI in the banking sector, there is a need to introduce Fintech products in a regulatory environment. Many countries including India have proposed a sandbox framework in 2019 to provide fintech companies and financial institutions opportunities to test innovative solutions. Additionally, technology backed solutions and platforms can go a long way in sustainably improving our last-mile connectivity. These platforms can also be used to improve the financial literacy of rural populace. Low-cost banking services with seamless technology inclusion is the need of the hour in rural markets, which private sector can fulfil.
- 2. Investing in women led entrepreneurship channels** Promoting financial inclusion for women will encourage women entrepreneurship and development of cottage industries and other products. For private sector organizations this is an opportunity that translates into access to production and distribution channels, including through SHGs.
- 3. Curating specialized banking products for rural areas** Better banking and financial inclusion are not just about setting up a bank branch and loans. It should involve curating specific financial offering depending on different factors such as income levels, geographical conditions, health and market risk etc. Financial institutions should engage in local markets as partners, develop a social network with local participants to use word-of-mouth advocacy and build partnerships with NGOs, MFIs and SHGs. This can help in provision of core banking services but can also help in streamlining additional services such as BPOs, service centres etc.



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