

**Lead Article 0005:
The Rural Economy: To piggy-back or to leap-frog?**

The rural economy in India is still virtually untouched by modern technology. It is a classical example of market failure: despite the existence of vast and real human needs, there is little actual demand; although a huge capacity exists to generate products, yet there is no supply.

This paradox is doubly intriguing in view of the abundance of disposable income that manifestly exists in rural areas and the range of goods and services that are visible in the national economy and in the media. The Government of India estimates that well over 50% of the national income comes from the countryside.

The roots of this malfunction of the market lie largely in two basic structural defects in the rural economy, both resulting directly from the present economic policies. In the absence of steady, year-round **jobs**, the disposable income is concentrated in a relatively small fraction of the population. Worse, what little the rest have is highly seasonal – further restricting the effective overall average purchasing power. Such a sub-critical market can neither produce locally nor does it attract distant suppliers. In the absence of efficient infrastructure for transport and communication, **information** is hard to come by and market options are not clearly or widely known. Even if something is available, somewhere, information on where and when and for how much, is not – in effect making it inaccessible. Without access, even a customer with a desire for something and a willingness to pay for it (i.e., expressing effective demand) has to go without.

Thus, all we need to activate the rural economy is access to two “simple” things: sustainable livelihoods and relevant information.

Over the past fifty years, our economic policies have been based on the premise that the rural economy will grow by piggy-backing on the growth of the urban/industrial economy. In other words, it will automatically benefit from the “trickle down” that results from overall national progress. The main thrust has been to invest primarily in industry – both heavy and light, but always big – and urban infrastructure, which are assumed to provide higher returns than investments in small, decentralised initiatives. The result is that there are more than twice as many poor people and less than half as many trees. The trickle down sounds good in theory but has not worked in practice.

How can the power of the marketplace be harnessed to raise the intersection of demand and supply to new levels and to achieve the central goals of sustainable development – eradication of poverty and regeneration of the natural resource base? For the first time, there appears to be a plausible solution: information technology and, particularly, the emerging possibilities offered by the Internet.

- ***There is no instrument more effective than Information Technology, and in particular the Internet, for bringing both jobs and information to the rural economy – and thus setting it to work.***

As explained in the editorial of the last issue, this truly transformative technology provides the first and best chance to bootstrap the village economy and leapfrog even the most remote and forgotten communities directly from the 19th century into the 21st.

The Development Alternatives Group has developed a fundamentally new marketing approach that can reinforce and transform the existing rural marketing systems and lead to a quantum jump in the

rate at which rural development can take place. This approach, named “TARahaat” after the all-purpose *haat* (pronounced “heart”, and meaning a village bazar or market-fair) that takes place periodically in every locality of India, comprises a commercially viable model for bringing relevant information, products and services via the Internet to the unserved rural market. The business model of TARahaat will be described in more detail in the next issue of the Development Alternatives Newsletter.

But in the present issue, we look a little more closely at the nature and characteristics of the rural economy which we seek to transform:

- *Activating higher levels of production and consumption in rural markets is urgently needed to build sustainable economies in developing nations that can be resilient to the vagaries of the global economy*

Poverty is a great drain on a nation’s economy. Indeed, widespread poverty is the single largest barrier, even greater than lack of knowledge, technology or financing, to competitiveness in the global market. And rapid eradication of poverty is the single most effective instrument for any nation to stand on its own feet and become an effective player, both as a producer and as a consumer, in this market.

During its fifty year history, independent India has doubled the number of people it has living in absolute poverty. Recent reports by the Government of India (National Sample Survey, April 2000) and the World Bank (World Poverty, to be published May 2000) show that during the period of liberalisation with its attendant emphasis on privatisation and globalisation, this trend has not improved. In fact, it appears to have got worse. Although the GNP growth rate has certainly gone up since the economic “reforms” began 1991, the number of people living below the poverty line has also risen – and, contrary to expectation, risen even more dramatically than during the earlier, “socialist” era. Apparently, the rural market is in some way insulated from the rest of the economy and the hoped-for “trickle down” is not working. Thoughtful analysts often refer to this as the phenomenon of two countries concurrently occupying the same space but at different phases in history: India (for the westernised rich) and Bharat for the rest. The tension, alienation and latent hostility that must pervade such an arrangement have not only grave human, social, environmental and political consequences, they lead to gross inefficiencies in the economic system.

Public subsidies, government handouts and poorly conceived “development schemes” cannot eradicate poverty. Only income-generating jobs can. The number one priority in India, or any other developing country, clearly is the large-scale creation of sustainable livelihoods – jobs that generate a living income, produce goods and services that at least meet the needs of local people, regenerate their environmental resource base and help rebuild the meaning and dignity in their lives. To close the unemployment gap by the year 2015, India needs to create some 15 million sustainable livelihoods each year.

Creation of sustainable livelihoods on the scale needed requires massive decentralised private sector initiative, producing goods and services for the local market: i.e., by “sustainable enterprises” all over the country. To be successful, sustainable enterprises need vital support systems: technology, marketing and management, and finance – all of which involve knowledge intensive resources. Such resources, easily accessible to urban and large industries, are simply not available in rural areas. This is the prime cause for the failure of the rural market.

Responsibility for this failure is difficult to pinpoint. Governments and NGOs accuse the corporate sector of being short sighted and narrowly profit-oriented; NGOs and business blame the

government for policies that are over-centralised, bureaucratic and dysfunctional; business and government complain that NGOs are too concerned with environment and not enough with development; and all of them are unhappy with the products of our education and research institutions. There is considerable reason in all these positions, but no one has been willing to initiate the changes needed. So, the poor get poorer, and the rural market stays where it was: complex, inertial and unaddressed.

Thus, despite its magnitude and potential for wealth creation – both for consumers and producers – the rural market has been completely neglected by the organised sector, private or public. A few technology-based products such as bicycles, water pumps, transistor radios, kerosene lanterns, soap have been available for some years, mostly owned by the rural rich. Recent additions include the occasional TV, motorcycle and tractor. But there is not much else.

Some of the reasons for this failure lie in the widespread perception that the urban market continues to be huge, unsaturated and forever expanding. Others lie in the perception in business that illiteracy, lack of purchasing power and general “backwardness” make this an unremunerative market. Neither of these perceptions is well founded, but both have acted as significant barriers to entry into this potentially lucrative market.

- *Societal issues such as governance, social services and access to resources are crucial in determining the well-being of people and, thus, the performance of the local economy*

In some aspects, the Third World village is not much different from the city. They both suffer today from the widespread scourges of growing population, pollution, waste accumulation, alienation and a wide range of generally unsustainable production systems and consumption patterns. Rampant unemployment and accelerating inflation; growing activity and depleting resources; stagnant and unmet needs – only the details are different. In the cities, the alienation is largely social, in the village, its causes lie more in the issues of unemployment and environmental destruction. No resource – forest, river or grassland – can be saved unless the local community has a sufficient sense of ownership to conserve it. As experience has shown all the way from the Soviet Union through South Asia to Africa, such a sense of ownership is difficult to cultivate in centralised systems of governance.

In a natural ecosystem, all niches are crucial to its survival and functioning – and each receives its due share of importance in the grand design that gives it viability and resilience. In the world of human beings, on the other hand, this is not necessarily so: politics, economics and, more recently, technology have all been appropriated by the privileged few and worked to create vast disparities in social standing and access to societal or natural resources. Decision systems that determine the direction of the whole economy are largely controlled by the rich and powerful for the benefit of the rich and powerful. The day-to-day reality of the poor rarely enters their calculations. Neither environmental quality nor social equity – nor, indeed, economic efficiency – can be achieved in such a system.

Genuine, participative democracy appears to be the prerequisite of truly sustainable development. But those who have the power to bring about democratic systems of governance have no desire to change a system in which they have usurped control over all resources and decision-making and from which they continue to benefit so much. Therefore, the only possible route to creating sustainable societies is to introduce genuine democracy and empower the people through a people’s movement. Such true empowerment can only result from and be nurtured by knowledge and awareness of the rights and responsibilities among all citizens. The Internet offers the means to create widespread diffusion of such knowledge and awareness.

- *Transforming the rural economy needs a whole new approach to delivery of information, goods and services based on environmentally sound technology, local enterprise and effective communication.*

Government programmes to accelerate development of mini enterprises through inappropriate subsidies schemes and the creation of livelihoods in rural areas by giving handouts have generally been based on ad hoc sector-based schemes aimed at particular niche segments. Their impact has been limited and, without fundamental change in policies and practices, is unlikely to reverse the growing gap between towns and the countryside within the foreseeable future.

Although aid (most of which is actually in the form of interest bearing loans) might be a tiny fraction of the national income in a country like India, it is often significant from the point of view of the donor. Even for the recipient, there should be concern over *how* it is used because of its extraordinary influence in determining economic priorities and development approaches. Further, there is growing apprehension over how *well* it is used, arising from renewed awareness in the global community of such issues as lack of transparency, lack of participation, lack of responsive (or responsible) governance and widespread corruption. All these issues have led donors, both bilateral and multilateral, to an increased emphasis on the need to strengthen the civil society and the private sector as actors in the development process.

How can the power of the marketplace be harnessed to raise the intersection of demand and supply to new levels and to achieve the central goals of sustainable development – eradication of poverty and regeneration of the natural resource base? The answer appears to lie in information technology, and particularly in the emerging possibilities offered by the Internet.

A new kind of partnership between businesses, government and civil society can generate synergies that could quickly catalyse a totally new type of economic development in rural areas. Such cooperative effort will need information flows that can only be managed by intensive use of Internet resources.

- *Despite the explosive growth of the Internet world-wide, the benefits of information technology have yet to reach the Third World village.*

The early focus of the e-economy in developing nations has, understandably, been almost entirely on the more developed and well-clustered urban markets. So it is in India. The infrastructure, connectivity and economies of scale available in these markets are widely seen to provide unlimited commercial opportunities for IT based services. And, indeed, the Internet community in India, which is expected to grow from the current 3 million users to 30 million by 2004, constitutes a huge market that could keep e-businesses of the conventional variety well occupied for years to come.

Common perceptions that characterise small towns and villages as having very dispersed markets, high resistance to change, low disposable income, and difficult living conditions continue to further discourage companies from investing or operating in rural areas.

For both these reasons, the villager has not so far been generally perceived as part of the IT revolution. The recent IDC report on "India Internet Usage and Commerce Market", for example, extols the middle class in India for their propensity to fuel global Internet growth but is silent on its prospects in the rural market.

- *The slow penetration of IT into the rural economy underlies the greatest threat today to global sustainable development; accelerating it may well be the most effective means for overcoming this threat.*

The major barrier to bringing about greater economic efficiency, social justice and environmental harmony – the prerequisites for a world of peace and security – is the growing information gap between the haves and have-nots. It is this gap that is already placing limits on the growth of jobs, of purchasing power and therefore of markets. It also reduces the ability of people to meet their basic needs and the capacity of communities to conserve their natural resources. Expansion of Internet services into new domains and virgin markets provides the most direct and viable means to overcome this barrier. Neglect of rural markets by the major IT players may well be the oversight of the century, not only for national development but also for vast new areas of business opportunities.

In fact, the number of potential users in the rural areas of India is comparable to that in the cities. Three times as many people live in villages and peri-urban areas as do in cities, and they have around 60% of the nation's income and a significant portion of its purchasing power. According to the National Council for Applied Economic Research (NCAER), more than 200 million people in rural India -- a number equal to that in the cities – are active participants in the modern economy. And this number grows by 10% every year. All of these are candidates, currently untargeted by any e-business, for early Internet connections.

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The rural market has its own logic. It cannot be judged by the standards or frames of reference derived from the performance of other markets. In their terms, it is a somewhat inexplicable paradox: vast latent demand, huge potential supply capacity, yet low level of transactions.

To break out of such an impasse in a reasonable time frame, it can no longer hope to ride piggy-back on the urban/industrial economy. It must now find its own fundamentals and strengths and leap-frog its way to standing on its own feet.
