



Chapter 2

Understanding Rurbanomics

"If the rural youth had a choice to improve their lives in the villages, many would have stayed back in the rural areas".

- Tay Kheng Soon.

Chapter 2: Understanding Rubanomics

“While humanity shares one planet, it is a planet in which there are two worlds, the world of the rich and the world of the poor.” –Raanan Weitz

Introduction

Development is often seen as urbanisation. Even the critics of capitalism in the west are doggedly urbanist. In the footsteps of such aesthetic thinkers such as John Ruskin and William Morris, western intellectual tradition focused almost exclusively on the city as the crucible of history and civilisation (Soon, Behold the Countryside: The Urban/Rural Divide, 2008).

Though India is essentially a rural country, rural is defined as a human settlement “which is not urban”. For the purpose of definition, Registrar of General and Census Commissioner, Ministry of Home Affairs, India defines

all areas **not** categorised as urban areas as rural. (For definition of “Urban Area”, see Chapter 1).

Though urbanisation has enhanced productivity and increased the material well-being of the urbanites, there are “non-economic costs”. The competitive pressure to succeed financially takes its toll; the ability to relax, to enjoy the simple pleasures of country stroll and see a crimson sunset is rapidly disappearing with the onslaught of economic progress and environmental decay (Todaro, 2000). Congestion, pollution and crime are attendant evils of urbanisation (Brueckner, 2013). But the romance of rural living and the economic compulsion of rural areas as sources of input cannot be dispensed with and this results, at best, in rural areas being maintained as picturesque subsidised landscapes or as industrialised farms. Urban and rural areas are seen as two distinct spaces with rural areas soon giving way to urban areas (See **Table 1**).

Table 1: Urbanisation Trends in India

Census Year	Urban Population (in millions)	Urban population as a percentage of total population	Annual Exponential Urban Growth Rate (%)
1961	78.94	17.97	-
1971	109.11	19.91	3.23
1981	159.46	23.34	3.79
1991	217.18	25.72	3.09
2001	286.12	27.86	2.75
2011	377.10	31.16	2.76

Source: (Bhagat, 2011)

The annual growth of urbanisation peaked to 3.79% in the decade between 1971 & 1981 but dropped in the subsequent decades between 1981 & 1991 and 1991 & 2001 to 3.09% & 2.75%, respectively. The last decade between 2001 and 2011 saw a slightly increased exponential growth rate of 2.76%. Rural population in India, which comprised of 72.18% of the total population of 1.029 billion in the year 2001, was *reduced* to 68.85% of 1.211 billion in the year 2011. By the same token, the urban population, which comprised of 27.86% of India’s

total population of 1.029 billion in the year 2001, was *increased* to 31.16% of 1.211 billion in the year 2011.

The rapid growth in urban population is due to the following three factors: natural growth of population, rural to urban migration and reclassification of rural areas as urban areas in the course of time. In the decade the between 1991 and 2001, decomposition of urban growth indicated that 59.4% of the increase in population was due to natural growth, 21% due to net migration and 19.2% was due to reclassification of rural areas as urban

areas (Mitra & Murayama, 2008). So, in the last decade the increase in urbanisation was majorly due to natural growth (59.4%), secondly by migration (21%) and thirdly by reclassification of rural area as urban area (19.2%). This is contrary to the popular belief that increase in urbanisation is due to migration but the rural to urban migration takes importance in the context of urban poverty, urban slums and informal sector employment. In other words, much of the urban ills are attributed to rural spills.

According to 2001 census, only 10.6% of the population in the rural area was in the productive age of thirty plus (30 to 44 years). In comparison, 21.3% of the population in the urban area was in the productive age. Large percentage (41.0%) of rural population was in the dependent age-group (children in the age group of 0 to 14 years), whereas in the urban area this group constituted only 30.7%. Senior (60 to 74 years) and aged people are in relatively larger percentage in rural areas as compared to the urban areas. This skewed demographic pattern is certainly not conducive to either to the village economy or the national economy and is a direct result of people in the productive age being drawn away from the rural area to the urban areas. One of the major reasons for this rural to urban migration is the migration of young rural people in search of livelihood and the attraction of the urban area as a magnet for jobs, however low paying and distressing it may be.

One of the major arguments in favour of urbanisation is that urban sector constitutes 58% of the Gross Domestic Product (2012) and service sector contributes 58% of GDP and urban areas are seen as most suitable for both production and consumption of services. Rural economy is essentially seen as agro-based economy which contributes only 14% to the GDP (Ministry of Finance, Government of India, 2013).

The cities are seen as engines of growth, places of opportunities and the countryside is increasingly seen as unproductive and sanctuary of the old. There is a perceptible dichotomy between the towns and the countryside.

Is it possible to break-away from this dichotomy between the towns and the countryside? This work of people like Howard gives inspiration about breaking this dichotomy.

In the words of Howard (1902), "For the countryside, the beauty of nature, fresh air, sunshine, and the fruits of the earth were the magnets pulling people to land. Cities attracted people to them due to the opportunities for employment, hopes of advancement, social enrichment, higher wages and cultural activities. There can be third magnet –Garden Cities - that combined the energetic and active town life, with all the beauty and delight of the country without the negatives of either town or country" (Clark, 2003).

Very centralised and concentrated development in high density areas of the urban is never good for the country and hence decentralisation is desirable. This is where rural development takes a very important role. Rubanomics is the concept analysed in this book as a way of addressing this issue. The concept of Rubanomics will be discussed in the following paragraphs.

What is Rubanomics?

It is beneficial to begin the discussion with the understanding of the basic concepts of economics. An economy is a system of production, distribution and consumption of economic goods (G. Tyler Miller, 1994) and economics is the study of how societies use scarce resources to produce valuable commodities and distribute them among different people (Samuelson & Nordhaus, 2005). As an extension of the definition of economics, rural and urban economics may be defined as follows. Rural economics is the study of rural economy and urban economics is the study of urban economy. It is interesting to note that rural economy takes place in contexts of "other than economic" relationships such as kinship, cohort, neighbourhood (Marini & Mooney) and in the Indian context, caste (Chaudhary, 2009).

Rubanomics is the study of the behaviour of Rubans and understanding how a balance can be struck between the aspirations of the Rubans and the fulfilment of those aspirations, by creating opportunities for the Rubans, to help the Rubans attain prosperity. This can be done by giving proper training to the Rubans to make them better employable, making them comfortable with technology, replicating rural innovations which are a success, better awareness of risks and hedging of the risks and building of networks to facilitate sharing of

ideas and information. The objective is to integrate the aspirations of the Rubans with the concept of Rubanisation without disturbing the purpose of Rubanisation, i.e., attaining economic, social and cultural sustainability.

Genesis of the Rubanomics Theory

We have been witness to many powerful theories stressing the need for creating an inclusive environment for success of any nation. The genesis of Rubanomics encompasses these three powerful concepts ad depicted in **Figure 2**.

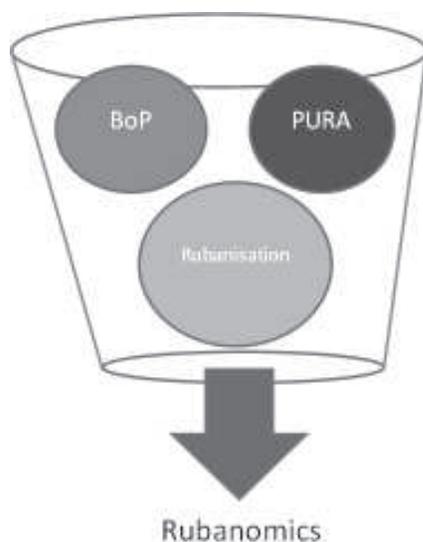


Figure 2 Core Concepts of Rubanomics

Source: HHH

- a. *Fortune at the Bottom of the Pyramid (BoP) concept by Late Dr C K Prahalad* wherein he highlighted that the fortune is at the bottom of the pyramid which in economics is the largest, but poorest socio-economic group. In global terms, this is the four million people who live on less than US \$ 2.5 per day (Prahalad C K, 2010).
- b. *PURA concept by our erstwhile President Dr Abdul Kalam* where he proposes that urban infrastructure and services be provided in rural hubs to create economic opportunities outside of cities- physical connectivity by providing roads, electronic connectivity by providing communication network and knowledge connectivity by establishing

professional and technical institutions will have to be done in an integrated way so that economic connectivity will emanate (A.P.J. Abdul Kalam, 2011).

- c. *Rubanization concept by Prof Tay Kheng Soon from National University of Singapore* where he presents his belief that the continued consideration of the rural and the urban as two distinct realms is unsustainable in terms of social justice, cultural justice and environmental justice (Soon, Rubanisation, 2013).

At Head Held High, Rubanomics is defined as “The structure of unleashing the power of talent, entrepreneurial spirit and aspirations and information/ technology to drive economic growth in the new rural”. It gives direction to mesh rural and urban opportunities by engaging the power of talent and technology, to drive the engine of economic growth.

The Rubanomics Framework

To operationalise the framework of Rubanomics, the 3 “As” framework that focuses on creating programmes and platforms that bring together all the stakeholders in the ecosystem is proposed. This would drive growth and transform rural markets, thereby creating fortune at the bottom of the pyramid in the rural markets. The three “As” are:

- Creating “Awareness” about the products in the minds of the customers,
- Providing “Access” to the goods and service and very importantly, making goods and services within the reach of the consumers in terms of both price and physical access and
- Generating “Acceptability” of the products with the intended consumers.

Creating awareness is the starting point and awareness generates aspiration and access to the product. Since there is a possibility of many options available to satisfy the need, it is necessary to provide quality products at reasonable sacrifices (in terms of money and effort) from the customers, and this will lead to acceptability. The above framework is illustrated in Figure 3 and further explained in the subsequent paragraphs.

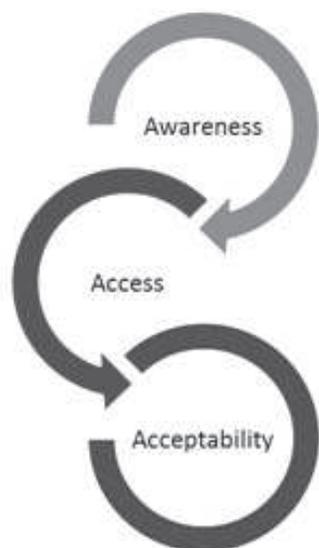


Figure 3: Framework for putting Rubanomics to work
Source: HHH

Awareness

The clear focus here would be to bridge the gaps in education, opportunities as well as perceptions. Few issues that are encountered in these markets include:

- a. Last-mile service delivery issues faced by large and small firms – as they believe that they do not have access to talent in the villages.
- b. Talent in the villages does not meet with opportunities, as there are no “formal” interfaces for them to network and explore opportunities.
- c. Penetration of services – Agri, Financial, Health, Consumer and Education are very low.
- d. Several ideas on rural innovation do not see the light of the day, as there is no commercialization layer with a network of entrepreneurs

Initiatives like the Village Entrepreneurship Forum (VEF) helps build awareness among the key stakeholders by:

- a. Providing a pathways for large businesses to reach rural talent
- b. Empowering talent in the villages to deliver services – in an entrepreneurial model
- c. Enabling local job creation by engaging rural entrepreneurs

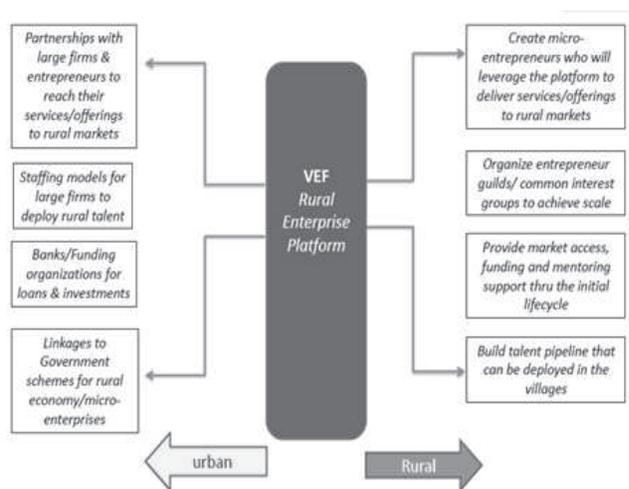


Figure 4: Village Enterprise Forum, Source: HHH

The pilot project in Gadag by HHH has already tasted success. A few of the highlights are:

- a. Entrepreneurial thinking sessions conducted for all HHH trainees; 12 trainees went through the full program
- b. 3 Entrepreneurs identified; business mentoring started
- c. 4 companies (Video Volunteers, Barefoot Power, etc.) partnered with to work on quasi-entrepreneur models with HHH trainees
- d. VEF Gadag Secretariat being established with two people
- e. Partnership with Hatch, an incubator initiated

Access:

The urban markets face a serious lack of skilled manpower that hinders the growth of knowledge and services industries whereas the rural areas lack infrastructure and skills to train the abundant manpower which hinders the growth of the rural economy. Training Platforms custom made for Rubans like MagicWand from HHH will transform unskilled rural youth into talent workers in record times, ready to be deployed into the services sector. The program impacts that entire spectrum of skills in the rural economy (right from school students to post graduates) – driving growth of the village economy.

The initiative has already created some success stories:

- a. 360 village youth trained – in Koppal, Gadag and Hindupur. 100% jobs created in the batches at Gadag & Hindupur –with a retention rate of 60%
- b. 100 youth currently in training in Gadag & Hindupur

Acceptability

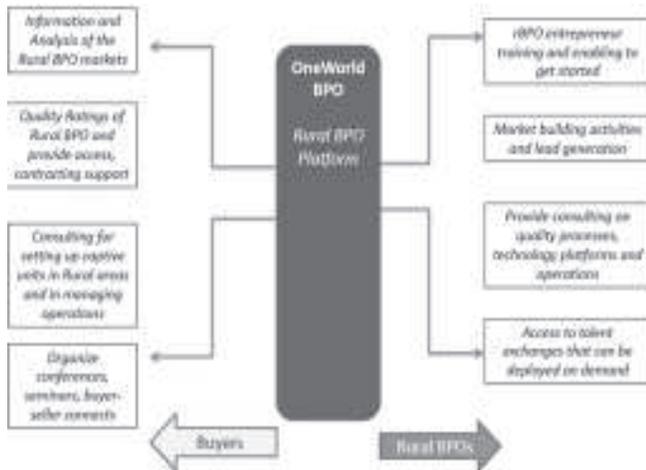


Figure 5: Connectivity between buyers of services and Rural BPOs,

Source: HHH

Providing skills and networking opportunities do not suffice if it doesn't ultimately percolate as job creation. Traditionally rural population have found jobs in the manufacturing and construction sectors alone. However, they can be a boon to the booming BPO Services sector too. According to NSDC, by the year 2022, approximately 3.8 million additional jobs will be created in the BPO sector in India (Exports & Domestic). Rising costs, higher attrition and war for talent are the challenges for the BPO growth story and Rural BPOs are touted to offer advantages to counter this. However, they have not been a success so far due to perception of "risks" over riding cost benefits they have to offer. Platforms like HHH's VillServe that offers the Rural BPO owners with lead generation, clients and account management consulting services, process, quality standards and technology to deliver projects, access to talent pool and reliable infrastructure can put these rural BPOs on par with the urban BPOs delivering same quality of output at a much higher cost arbitrage.

From the experience of HHH, rural BPOs can be centres of excellence! A case in point is the services being offered to Genpact through a rural BPO in Kanakagiri,

manned by school drop-outs since Jan 2011. The BPO has managed to achieve 100% success rates in delivering quality output consistently as per the client's performance dashboards.

What Rubanomics is not?

Rural Marketing, as is being understood and taught today, is not Rubanomics. The focus of rural marketing is about selling the products produced in the cities to the rural consumers, especially the creamy layer. On the contrary, Rubanomics, while not rejecting the concept of corporates selling profitably to rural consumers, will also focus on how the products produced in the rural areas are sold in cities. It focuses on ways of creating income for the Rubans so that his / her needs can be converted into demand. Demand is want for a particular product backed by the capacity to pay (Philip Kotler, 2006). Thus, Rubanomics is about two way flows of money and goods and services and not one way flow of finished goods from cities and money from rural to the urban.

In fact, Rubanomics will be about removing the distinction between rural and urban. Not by converting rural areas into miserable places called cities but into Ruban settlement!

Rubanomics and India

With over 70% of India's population in rural India, it is imperative that businesses and governments clearly understand Rubanomics and its impact on the global economies at large. With "Bharat" shining, "India" will shine! - For India's Economy to be strong Rural India needs to grow - Our villages need to grow in tandem with cities and standard of life has to improve there for inclusive growth to happen. India will grow only when rural India marches hand in hand with cities in the coming decades. This will be a silent revolution that will happen, but will happen faster if it is focused upon taking the entire country on its back of progress, it can enable compounded growths and also insulate economy from global meltdown as the rural populations have been untouched by credit cards and mortgages as known in the West which have been the root cause of the global meltdown. The slowdown experienced by India across sectors like manufacturing, retail, financial services etc.

is an urban phenomenon and such impacts can be offset by clear focus on rural markets that offer tremendous potential from a purchasing power perspective. Consider the following interesting facts:

- a. 12.2% of the world's consumers live in India. Rural households form 72% of the total households.
- b. Total income in rural India (about 43% of total national income) increased from around US\$220 billion in 2004-2005 to around US\$425 billion by 2010-2011, a CAGR of 12%.
- c. The purchasing power of rural India is more than half for fast moving consumer goods [US\$17 billion].The durables and automobile sectors contribute US\$2.5 billion each, and agri-inputs (including tractors) about US\$1 billion.
- d. Some 42 million rural households use banking services against 27 million urban households.
- e. 60% of India's annual consumption of gold and gold jewellery is from rural and semi-urban areas.
- f. All this and more clearly present a strong case for businesses and governments to focus on understanding the economics and business models to target these new rural-urban. And the beauty of this concept is such that it can be replicated to Ruban markets across the globe. Head Held High has taken the onus to be the torch bearer for Rubanomics.