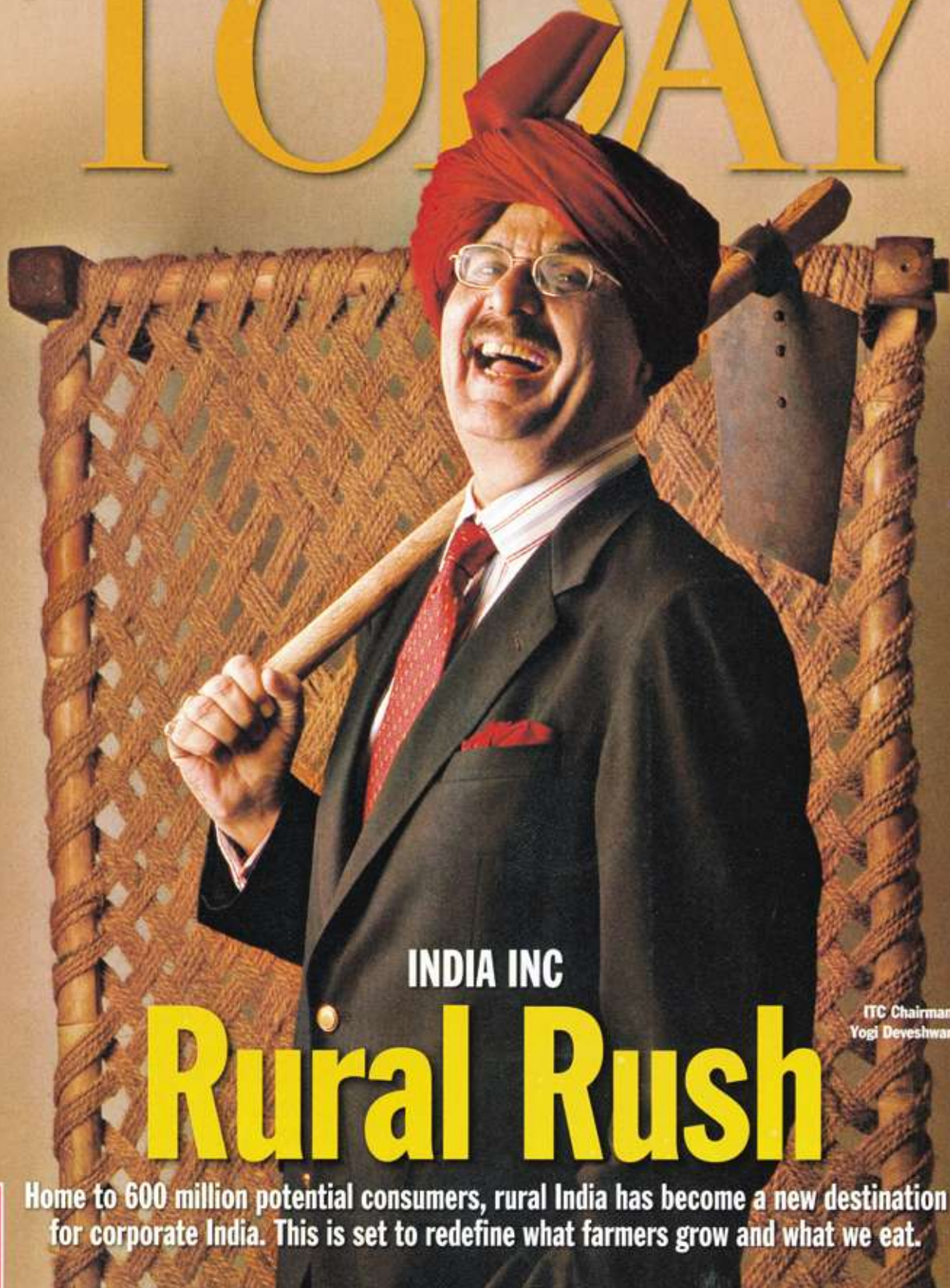


PLUS: TAJ IN TROUBLE • CRICKET LOSES HOME STEAM

INDIA TODAY



INDIA INC

Rural Rush

ITC Chairman
Yogi Deveshwar

Home to 600 million potential consumers, rural India has become a new destination for corporate India. This is set to redefine what farmers grow and what we eat.

2001-2002 IN PROGRESS: THE NEW YORK TIMES MAGAZINE

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cover story RURAL MARKETS

CALL OF THE COUNTRYSIDE

The Tatas, the Birlas, the Mahindras, the Mittals, ITC—corporate houses, big and small, are rushing to enter and expand rural businesses. This is set to change what we eat and what farmers grow.

■ By Rohit Saran

A shoe company sent two salesmen to Africa. They found most people in the Dark Continent walking barefoot. The first salesman reported to the company: "Stop all shipments, no one wears shoes here." The second salesman wrote back: "Double the shipment, nobody wears shoes here."

Corporate India is now waking up to this marketing folklore. For most of the past 50 years, companies looked at rural India from the point of view of the first salesman. But now they realise that the potential for business is closer to what the second salesman found once upon a time in Africa. Result: every corporate house worth its name is entering, expanding or rethinking rural business. Says Adi Godrej, chairman, Godrej Group: "Rural India is not sleeping any longer. We were."

Ask ITC Chairman Yogi Deveshwar, who, through his e-choupal initiative, is betting on rural India like nobody else does. "If India has to grow fast, 60 per cent of the country's private consumption that comes from villages has to grow fast. E-choupal is an attempt to achieve that," he says (see "To Boldly Go ..."). If that sounds ambitious, hear

out Sunil Mittal, chairman of Bharti Enterprises, who has jumped onto the rural bandwagon with FieldFresh Foods, a \$50 million venture with de Rothschilds of Europe. "India has emerged as the global hub of IT outsourcing. We can replicate the same momentum in agriculture and transform the country into a global food basket," says Mittal (see "The New Deals for Rural India").

So what has made farming suddenly so irresistible to India Inc.? In its sheer size, India's 600-million-strong village community is a market any private company would die to get into. But barriers to this market have been daunting. Forty-two per cent of India's villages have population of less than 500—too small for a company to venture into. The average size of an Indian farm is 1.5 hectares compared with 500 hectares in the US. Small farms generate



LURE OF RURAL INDIA

The Tradition Draw

- Largest arable land in the world.
- Large domestic consumption base.
- Attractive emerging export markets.
- Diverse climatic zones allow growing of a variety of crops through the year.

The Recent Triggers

- Steep rise in rural incomes in the 1990s
- Growing demand for processed food
- Compulsion to go beyond urban markets
- Government doubling its rural spending.
- New tax incentives for food exports.

THE PIED PIPER:
Deveshwar leads a
network of firms to
rural India

small incomes. So an average Indian farmer is not the consumer companies would drool over. Compounding the problem is the vast geographic dispersion and disparity. India has 6.4 lakh villages, most with abysmal physical infrastructure (power, roads, telecom), creaking social infrastructure (health, education) and underdeveloped institutions (banking, marketing).

Yet with the beginning of the 1990s, the fortunes of rural India have changed decisively. For the first time in more than 100 years, monsoons were normal in 11 out of 13 years. In a country where 60 per cent of the farming is rain-fed, that means a lot for farmers' prosperity. The price the government pays to buy grains from farmers rose more than 100 per cent in the 1990s—the highest in all decades. By tripling its spending on rural development between the 8th and the 10th Five-Year Plans—from around Rs 30,000 crore to about Rs 90,000 crore—the government opened the floodgates to rural India. Though only a small fraction of public money reaches the beneficiary, as long as that fraction is constant, the absolute flow of funds to rural areas would have tripled in the '90s. That will accelerate further with the UPA Government promising to double rural credit in three years.

Increased rural prosperity is showing up in income and consumption. FICCI estimates show that rural India's share in total consumption of FMCG (e.g. toothpaste, cream, food products) and consumer durables has exceeded urban India's share. According to NCAER, the percentage of very poor families in rural India (annual income Rs 16,000 or less) will fall from 61.4 in 1994-5 to just 20.2 in

2006-7. So while rural India isn't a land of milk and honey yet, things aren't as bad as the frequent news reports of farmers' suicide and protests suggest.

The pull for agri-business is coming from outside the farm sector too. The food habits of Indians, especially urban Indians, are changing faster than farmers can change farming (see "An Indian Diet Revolution"). A greater corporate participation in agriculture will ensure a better alignment of farming patterns

RURAL AWAKENING

Instances of companies entering or expanding into rural business:

ITC: e-choupal reaches 3.1 million farmers. Adding 30 new villages a day.

TATA: Tata Kisan Sansar spread over 14,000 villages in three states.

GODREJ: Acquired and merged HLL's agribusiness; entering rural retail.

MAHINDRA: Sells farm inputs and equipment through Shubhlabh. Present in corporate farming, rural financing.

BHARTI: Entering food processing and exports of fruits and vegetables.

PEPSI: Revolutionised horticulture in Punjab; entering citrus cultivation and seafood farming.

SHRIRAM: Setting up a chain of rural malls—10 already operational.

RELIANCE: Entered cropping and sale of medicinal and herbal plants.

with food consumption pattern. For instance, the French fries sold by McDonald's in India are imported because the kind of potato used in the fries isn't grown in India. Ditto for most packaged fruit juices which are all imported from abroad. These are small pointers to the huge opportunities companies see in the food business. Less than 1 per cent of the farm produce is processed (it is about 50 per cent in the US) while 25 per cent of fruits and vegetables grown in India (worth Rs 2,500 crore) rot in farms. The scope for agribusiness—from cultivation to processing to retail—is immense.

For brave hearts there is lots to cash in on the traditional strengths of Indian agriculture. India has the largest area under cultivation in the world, covering all the 14 agro-climatic zones. This means almost every kind of fruit, vegetable and foodgrain can be grown in the country. Though productivity is very low so is the cost of cultivation, making Indian farm produce globally competitive. Proof: wherever corporate farming has been experimented with in small measures, farm productivity has zoomed.

True, handicaps—legal, policy and poverty-induced—are many. In most states, it is illegal for companies to buy crop from farmers. Contract farming isn't legal too and processed food is still taxed heavily. But the biggest hindrance is the farmer's inability to invest in his productivity improvement. This is where private investment will make a big difference. By investing in the farmers' ability to grow more and grow better, companies will not only get better product for their agri-business but they will also help farmers get prosperous. This in the long run, will create a rising army of consumers for all products. "An enlightened self-interest is the key driver behind corporate India's rural rush," says Pradeep Kashyap, head of rural business and marketing consultancy MART. He is convinced that corporate India's current rural push is the biggest ever. "I see big investments and a bigger shift in mindsets," he says. The UPA Government's pro-rural rhetoric has helped too by giving companies already lured to agribusiness a psychological push. For instance, the Mittals' plunge into food exports was triggered by the incentives announced in this year's export-import policy.

S. Sivakumar, the brain behind ITC's e-choupal initiative, feels that it is only in developing countries like India that complementarity between social good and corporate good exists so perfectly. "You can really have your cake and eat it too," he says.

What follows are the select profiles of companies that have marched into rural India, some with giant strides, some with baby steps—but all riding on the hopes of a new rural revolution. ■

TO BOLDLY GO WHERE...

ITC's e-choupal initiative is changing the lives of farmers on a scale no other venture has ever done. The company is entering more than 30 new villages a day, every single day of the week, 365 days a year.

■ By Rohit Saran

Take a remote village. Go to the smallest farmer there. Educate him in the best farming techniques. Inform him of daily weather conditions and price movements in the market. Make available to him at his doorsteps the best possible seeds, pesticides and fertilisers at the most competitive prices. And when his crop is ready, help him find the best buyer. Sounds tedious? Imagine doing all of this in 30,000 villages across six states season after season, year after year. Doing it at no cost to the farmer and yet making money for yourself. Impossible, would be the most obvious verdict to such a proposal.

But that was not what Yogesh Chander Deveshwar, chairman of Rs 12,000 crore ITC, said when S. Sivakumar, chief executive of its agri-business, approached him with an equally ambitious idea in 2000. Knowing that he was asking for the moon, Sivakumar initially requested Rs 50 lakh to test the idea among soya farmers in Madhya Pradesh. Deveshwar granted him Rs 10 crore. The rest, as they say, is history. ITC's e-choupal network has already reached 3.1 million farmers, and is expanding into 30 new villages a day—making it corporate India's most ambitious rural initiative ever. Partnering ITC in the network are 37 companies, NGOs and state governments, together creating a new ecosystem for villages and establishing a direct link between what consumers eat and what farmers grow.

If you ask Deveshwar, the show has only just begun (see *interview*), but the initiative has already been termed path-breaking by *The New York Times*, *The Economist*, the Harvard Business School and the United Nations.

What exactly is the e-choupal and why is it revolutionary?

THE POWER OF 'e'

The e-choupal redefines *choupal*, the Hindi word for village square where elders meet to discuss matters of importance. The all-important letter in the word is "e". It stands for a computer with an Internet connection for farmers to gather around and interact not just among themselves but with people anywhere in the country and even beyond. It begins with ITC installing a computer with solar-charged batteries for power and a VSAT Internet connection in selected villages. The computer's functioning is freed from the notorious power and telecom facilities at the village level. A local farmer called *sanchalak* (conductor) operates the computer on behalf of ITC, but exclusively for farmers. The e-choupal offers farmers and the village community five distinct services: **Information:** Daily weather forecast, price of various crops, e-mails to farmers and ITC officials, news—all this in the local language and free of cost.

Knowledge: Farming methods specific to each crop and region, soil testing, expert advice—mostly sourced from agriculture universities—all for free.

Purchase: Farmers can buy seeds, fertilisers, pesticides and a host of other

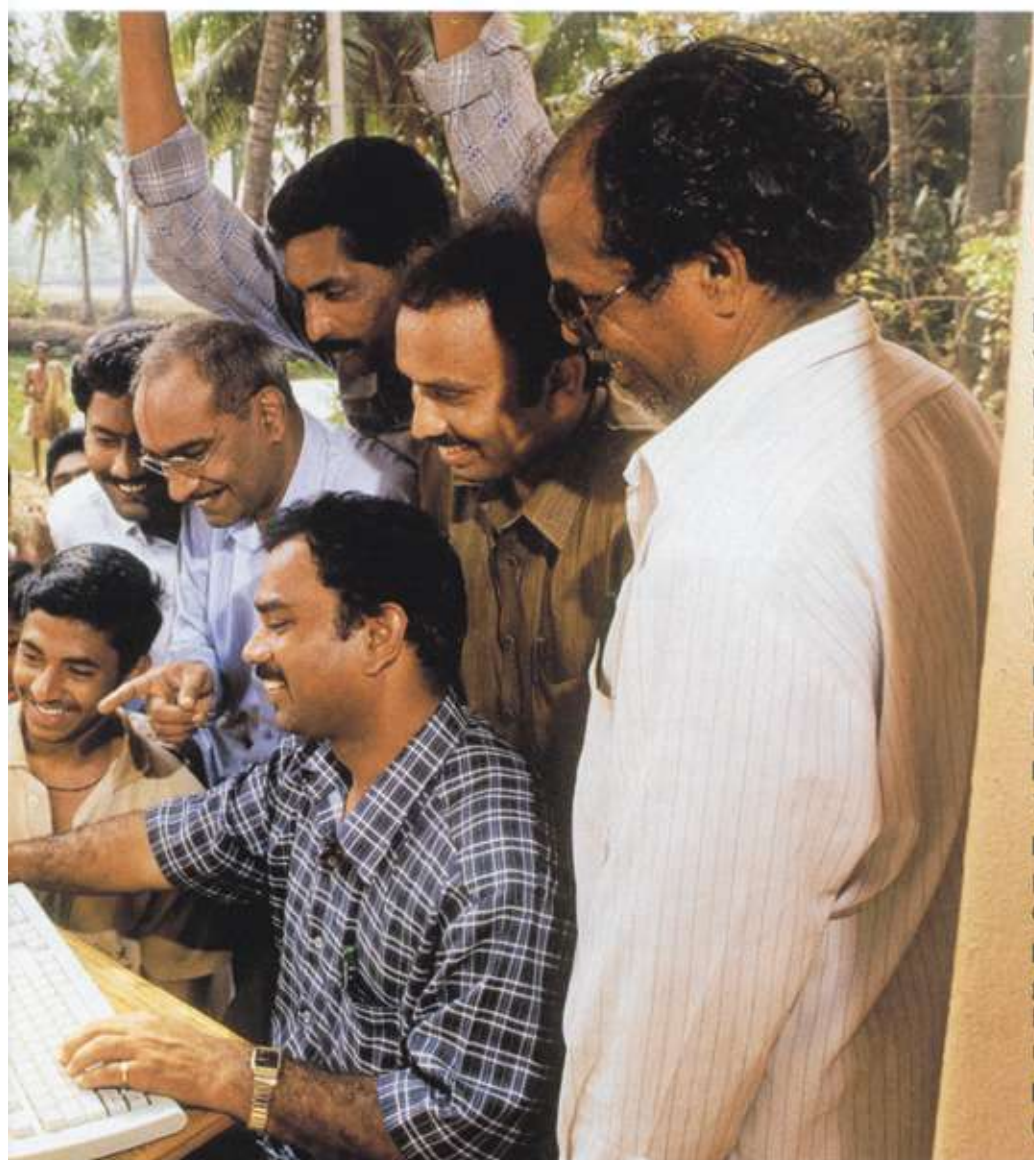


products and services ranging from cycles and tractors to insurance policies. Over 35 companies have become partners in the e-choupal to sell their products through the network.

Sales: Farmers can sell their crops to the ITC centres or the local market, after checking the prices on the Net.

Development work: NGOs working for cattle breed improvement and water harvesting, and women self-help groups are also reaching villages through e-choupal. In some states farmers can even access their land records online, sitting in their village. Access to health and education services through e-choupal begins next month.

"E-choupal is like a grand orchestra that brings together everybody who has a stake in rural India under one roof so



VILLAGE ONLINE:
Farmers gather
at an e-choupal in
Andhra Pradesh

ITC'S BOLD RURAL BET

It's achievement

- 5,050 choupals, 29,500 villages, 3.1 million farmers.
- using e-choupal to source a range of farm produce (food-grains, oilseeds, coffee, shrimps).
- Marketing a variety of goods and services through e-choupal (agri-inputs, consumer goods, insurance, market research).
- Transactions: \$100 m (2003)

It's ambition

- To reach 1,00,000 villages, 10 million farmers by 2010.
- Source a larger range of farm produce (spices, vegetables, cotton).
- Market a wider variety of goods and services (education, health, entertainment, e-governance)
- Transactions: \$2.5 billion (2010)

that each one's effort is maximised and harmonised," says Sivakumar. In many villages e-choupals have become the axis around which the local community revolves. Be it for accessing newspapers online in the mornings (many villagers have discontinued their newspaper subscriptions) or checking the supply of products they ordered on the Net, or watching movies on farming techniques in the evenings, farmers frequent e-choupal at all times of the day. Each e-choupal covers between five and six villages.

The sanchalak—called a pratinidhi in some states—is the most critical link in the e-choupal network. By choosing a farmer instead of parachuting an outsider to run e-choupals, the message ITC sends to the local community is

clear—the e-choupal is by the farmer and for the farmer even though it is fully paid for and maintained by ITC. In just 2-3 years, sanchalaks have become the agents of change. They are the farmers' pointmen for information, sales and purchase. "My status in the nearby villages has gone up," says Akhilesh Singh, a sanchalak in Karai Purva village of Hardoi district, Uttar Pradesh. "Farmers consult me on all critical decisions and I am the repository of their transactions through e-choupal." That is the intangible benefit.

There are tangible gains too. For every quintal of the produce sold to ITC from an e-choupal, the sanchalak gets Rs 5. In 2003-4, ITC distributed about Rs 3 crore to sanchalaks as commission. He also gets a commission on

every product or service farmers buy through e-choupal. This has turned sanchalaks into entrepreneurs. It is in his interest to maximise e-choupal transactions, which benefits ITC. But since he is from the village, he also has to earn the trust of villagers and is answerable for deals made through him.

Sanchalaks are required to take a public oath of serving their community without discrimination and sign a social contract to spend a part of the income they earn from e-choupal on community welfare. They have become so sought after that recommendations for their appointments are coming to ITC from local politicians and state ministers.

To manage the hub of 50-odd e-choupals, ITC appoints a sanyojak

From farm to firm to fork

Information Movies on the latest farm techniques, weather forecasts and expert advice on e-mail.

Purchase Internet access to buy seeds, fertilisers, consumer products and insurance policies.

Sales Farmers can sell their crop to ITC or at the local mandi after checking the daily rates online.

Development Water harvesting, online land records, health and education services on the anvil.

SANCHALAK (Conductor)
A village farmer operates the computer and earns commission on every sale and purchase through e-choupal.

E-CHOUPAL

Solar-powered computer with VSAT for Internet. Crop-specific web-sites available in local languages.

(coordinator) who is either a former mandi trader or a local dealer of ITC products. He is the link between ITC and the sanchalaks and also earns a commission on e-choupal deals.

By building this unique human organisation in which farmers, traders, companies, government agencies and NGOs compete and collaborate with each other, the ITC is—by design or by default—creating a new institution that is not a company, not a cooperative venture, not a government department but has some merits of all. It is this institutional innovation, created by what Deveshwar calls “a conspiracy of events”, that puts ITC ahead of other companies entering rural India.

EMPOWERING THE SMALLEST

Indian farmers typically buy at retail prices and sell their produce at wholesale prices, losing out on both ends of the deal. By virtually aggregating them, e-choupal brings the power of scale to the smallest of farmers. ITC ensures that there are at least two suppliers of

all products sold through the e-choupal. Farmers can pool their demand, compare prices and place orders on the Net. Bargain and choice—two key virtues of competition—are delivered to the farmers right on their doorstep.

When it is time to sell the produce, e-choupal helps the farmers by breaking the monopoly of local markets that are controlled by trade cartels. In most mandis, farmers are cheated at several stages—arbitrary pricing, underweighing, delayed payments. In Uttar Pradesh, farmers lose between 10 and 30 per cent of their income to such malpractices. ITC is setting up its own purchase centres in the six states covered by e-choupals. The farmers’ response has been overwhelming. In 2001-2, the company purchased 60,000 metric tonnes of crop through e-choupal. By 2003-4 the purchase increased to 2,10,000 tonnes and in four months of 2004-5, the company picked up 1,80,000 tonnes of farm produce.

For farmers it is a win-win situation. Sitting in their village, they can

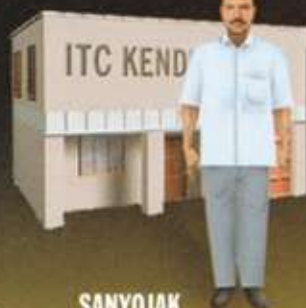
check the prevailing purchase price at the mandi and the ITC centre through e-choupal and sell wherever they wish to. ITC’s entry into crop purchase invariably means a rise in mandi rates too, benefiting even those farmers who

HOW E-CHOU PAL SAVES COSTS

Soya bean Trading		Mandi	e-choupal
Cost incurred by farmer (Rs/tonne)	Trolley freight	120	120
	Labour	50	nil
	Middlemen	150	nil
	Handling loss	50	nil
	Total	370	120
Cost incurred by processor (Rs/tonne)	Commission	100	50
	Gunny bags	75	75
	Freight to factory	120	nil
	Storage and handling	40	40
	Disbursement cost	Nil	50
Total		335	215
Total Chain		705	335

By shifting to e-choupal, farmers save 68% of the costs, and the processing company about 36%.

The e-choupal is making a new ecosystem in rural India with cheap, efficient, two-way channels between villages, companies, NGOs and the government



SANYOJAK
(Coordinator)

Coordinates a hub of e-choupals and earns commission on transactions. Monitors quality and payments.

COLLABORATORS

- Over 35 companies partner ITC to sell seeds, pesticides, fertilisers and farm equipment.
- A host of consumer-product manufacturers, finance and insurance companies use e-choupal to sell their goods.
- NGOs working for cattle breed improvement and social development join the e-choupal.
- Agriculture universities and government agencies like the Meteorological Department provide ITC with the latest information.

ITC sets up and runs e-choupals at the cost of Rs 3 lakh each. It purchases foodgrains, pulses and oilseeds, some of which are used in its brand of food products. The e-choupals currently cover UP, MP, Rajasthan, Maharashtra, Karnataka and Andhra Pradesh.

can't sell to ITC. In places where ITC rates aren't higher than the mandi rates, farmers are drawn to ITC centres because the company uses electronic weighing, better quality testing and ensures spot payment. "Farmers in my area have stopped going to mandis," says Virendra Pratap Singh, sanchalak of Malau e-choupal, off the Kanpur-Lucknow highway in Uttar Pradesh.

The farmers can't stop counting the benefits. Uma Kant Shukla has been growing corn for years. But his five-acre field in Malau had never produced more than six quintals of crop per acre. Last year Shukla reaped up to 12 quintals of corn per acre. Reason: for the first time in his 20 years of farming, he used high-yielding, branded seeds bought through e-choupal. Akhilesh of Karai Purva had a bigger windfall in 2004. His wheat crop nearly doubled and the income from sale almost tripled. "It was a result of better seeds, better herbicides and better sales prices—all achieved in a single year," says Akhilesh.

About 1,000 km away in the village

of Tallarevu in Kakinada, Andhra Pradesh, G.V. Ramana, a 30-year-old shrimp farmer logs on to the Internet to check the prices of shrimp in the local market. That helps Ramana decide which is the best time to sell. Rajesh, a soya bean farmer in Badi Mungawali village near Bhopal in Madhya Pradesh, goes a step further. He also checks the price movements of soya bean on the Chicago Board of Trade from his village and in his local language. That gives him and other cultivators an idea of the future prices of soya bean in the local market. Helped by e-choupal, Shukla, Akhilesh, Ramana and Rajesh are transiting from the world of low-knowledge, low-productivity, low-income farming to one of information-based, high-productivity, high-income agriculture.

FROM IMPERIAL TOBACCO TO INTERIOR KING

ITC is setting up six e-choupals a day at the cost of about Rs 3 lakh per installation (Rs 2 lakh for hardware

FARMER FEEDBACK

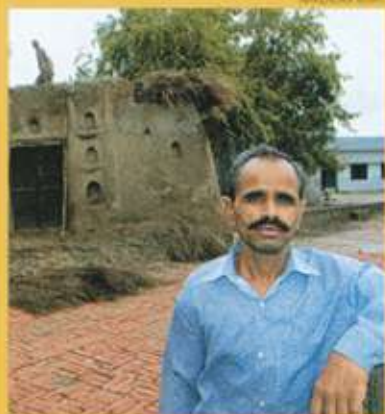


>> KHUSHI RAM

Karai Purva, UTTAR PRADESH

Till 2003, he had no say in determining the price of his wheat at the local market. This year, Ram sold his crop through e-choupal.

"While I got Rs 100 more per quintal by selling through e-choupal, I also saved Rs 30 which I used to cough up as various charges at the mandi."



>> UMA KANT SHUKLA

Malau, UTTAR PRADESH

Never used branded seeds as they were fake and costly. Assured of quality seeds, he bought them from e-choupal, with delightful results.

"The corn productivity of my farm this year almost doubled from 5-6 quintals per acre to nearly 12 quintals an acre."

cover story RURAL MARKETS

and Rs 1 lakh for pre-installation preparation). Since each e-choupal covers between five and six villages, the company is entering 30-36 new villages a day. About Rs 125 crore has so far been invested in e-choupal and the company is committed to spending Rs 1,000 crore on the initiative. It has also begun a chain of giant rural malls, with the first one already operational in Sehore on Indore-Bhopal highway.

So why is the 76-year-old ITC (once called the Imperial Tobacco Company and even now is one-third owned by British tobacco giant BAT) betting so big on rural India? Just eight years ago the company was under pressure to quit agri-business and forced to sell its edible oil brand Sundrop. The answer lay in a combination of coincidence, compulsion and courage. Though ITC still gets 80 per cent of its sales and earns 70 per cent of its profits from tobacco, that is set to change. Beginning 2000 the company has become aggressive on agri-business and has launched and acquired over a dozen products and brands.

The company's fast-expanding food division—with brands like Kitchens of

OTHER BENEFICIARIES



>> VIRENDRA P. SINGH Malau, UTTAR PRADESH

A farmer, Virendra became e-choupal sanchalak in 2003. The change he saw in farmers' outlook in the past two years he hadn't seen in a lifetime.

"It is a win-win situation for all the parties. Initiatives like the e-choupal will revive the farmers' interest in agriculture."

India, Aashirvaad, Sunfeast, Candyman and Mint-o—is one of e-choupal's big customers. Sourcing inputs directly from farmers (instead of agents) gives it a competitive edge over its rivals in quality and cost. E-choupal is also beginning to dictate the company's product portfolio. For instance, ITC launched the Aashirvaad brand atta because it wanted to enter Uttar Pradesh to buy wheat. Aashirvaad has become one of India's largest selling atta brands and the company is able to build a link right from farm to fork. Similarly, the company owns Wills Sport and other garment brands. It plans to enter cotton procurement which will help it forge linkages between fibre and fashion.

There is almost an endless scope for making money out of the e-choupal network which is expanding at a blistering speed. As a commercially viable way to reach 600 million villagers, it is emerging as a honey pot for companies whose distribution networks rarely reach small villages. As the owner of this unique road into rural India, ITC will charge a fee from every user company. Already ITC gets a com-

mission from 37 companies that sell their products through the e-choupal. These products range from tractors to soaps to hair oil. "We sell our products through the e-choupal. In the long term I think it will be a success," says Adi Godrej, chairman, the Godrej Group. By 2010 the turnover of the e-choupals is likely to log as much as the current turnover of ITC's tobacco division: over Rs 9,000 crore.

Not to be underestimated is the positive spin-off of doing business while simultaneously doing social good—so critical for a company in the business of tobacco which is globally under fire as a dirty business. ITC is now propounding a concept of "triple bottom line": measuring a company's performance on the use of economic capital, environment capital and social capital. But even though it is way ahead of others in the speed and spread of its e-choupal, the company needs to watch out for the big and the mighty of the corporate world that are rolling out their rural ventures, some of which have longer experience in agri-business than ITC has (see *"New Deal for Rural India"*). E-choupal's speed and spread have

OTHER BENEFICIARIES



>> G.S.V. SUBBARAJU
Shanthimul, ANDHRA PRADESH

Owner of a 20-acre shrimp farm in Kakinada, Subbaraju is a pratinidhi. Aqua-choupal has vastly improved prawn breeding in the area.

"Aqua-choupal has revolutionised shrimp farming here. Farmers now know the correct time and price to sell prawns in the village itself."

also created resentment among mandi functionaries in Madhya Pradesh who perceive ITC's participation as interference on their turf.

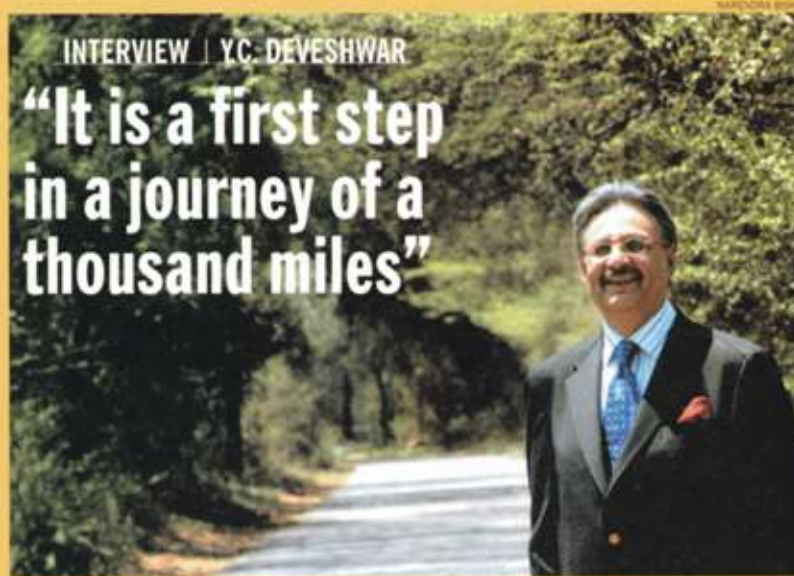
A NEW DEVELOPMENT MODEL

The true measure of the success of initiatives like e-choupal is not just how much it benefits ITC, but how much it can transform rural India. It has already proved that corporate and community interests can be aligned in a way that both are served better. In doing so, it is only proving correct the oldest theory of economics—what the father of economics Adam Smith called the "invisible hand". It states that the self-interest of each agent, if monitored and aligned well, automatically translates into a common good. There are lessons for the father of Indian economic reforms Prime Minister Manmohan Singh to pick up. His Government had come to power riding on rural India's yearning for change. Among Manmohan's first big promises was giving a new deal to rural India.

That doesn't mean asking Government for more money. The beauty of e-choupal is that it enriches villagers

INTERVIEW | YC. DEVESHWAR

"It is a first step in a journey of a thousand miles"



Once under pressure to get out of the food and agri-businesses, ITC Chairman Yogesh Chander Deveshwar is today earning accolades for initiating a revolution in the food business and farming practices. Despite having already reached 3.1 million farmers through e-choupal, Deveshwar says the show has only just begun. He spoke to INDIA TODAY about the e-choupal initiative and what it means to the Rs 12,000 crore ITC. Excerpts:

On the origin of e-choupal: If India has to grow fast, 60 per cent of the country's private consumption that comes from villages has to grow fast. The problem is that almost 85 per cent of villages have populations of less than 5,000 and they are geographically dispersed over a wide area. Most of India's 6,40,000 villages are caught in the vicious cycle of poor connectivity, low productivity, low income and low consumption. E-choupal is an attempt to break this. By creating a virtual cooperative of farmers on the one hand and a collaborative infrastructure of companies, NGOs and government institutions on the other, e-choupal attempts to deliver to the farmer the best quality information and inputs they require to raise crop output. To the companies it provides an efficient and inexpensive infrastructure to reach farmers. Farmers use the same channel to sell their produce. It is a low-cost, two-way fulfilment channel to villages.

On what is in it for ITC: If people in villages begin to spend more it will have a multiplier effect on industry, services—the whole economy. ITC's role is of orchestrating the players involved in the initiative. You don't do

these things only because you want to make money. You do them because you want to use your resources to transform the lives of people. Making money becomes an essential requirement to make the effort sustainable. E-choupal will prove that it is possible to service both corporate interests and community interests at the same time. Besides, it is one sure way to bridge the digital divide.

On the future of e-choupal: On an average, we are opening six e-choupals a day and are ready to put Rs 1,000 crore on this initiative. Mind you, it is not that ITC has become any less profitable. In fact, it has become a highly profitable company in recent years. E-choupals will become a major source of competitive advantage for us because with it we will be present in the entire value chain of our business—right from the farmer to the consumer. The possibilities of using e-choupal for the benefit of farmers and companies are immense. Before I leave ITC I want to see 100,000 villages getting served. From that scale, nobody will be able to undo it. It is a daunting task for a single company. We have taken one major step in the journey of a thousand miles.

without anybody—least of all the Government—subsidising them. That is because it delivers to farmers what they want and are ready and willing to pay. For instance, villagers of Malau are demanding five times more branded seeds this year than companies can supply, even though branded seeds are 10 times costlier. The explanation: for years farmers were sold counterfeit in the name of branded seeds by the local trader. That made them turn to cheaper, unbranded seeds. Ditto for pesticides and fertilisers. But now, with e-choupal guaranteeing the genuineness of the product, farmers are willing to pay extra for branded seeds that raise their farm productivity by up to 100 per cent. Lesson: farmers would prefer a paid and efficient product or service to free but inefficient product or service.

This puts a big question mark over the wisdom of doling out thousands of crores of rupees as subsidies to farmers. ITC's total investment in e-choupal so far is Rs 125 crore. The Government spends about Rs 50,000 crore every year on rural development, much of which leaks out of the porous delivery systems. If e-choupal, which too is a delivery system, is more efficient than the government's delivery systems it is because:

- The system is locally-run. The key person in e-choupal is sanchalak—a local villager. His prosperity is inter-linked with that of the fellow farmers—and of the companies like ITC.

- It encourages competition: Without competition even the best-conceived systems fail, like the public distribution system. E-choupal has competition from within (more than one company supply products) and outside (mandis).

- Power of scale: The bigger the scale, the more the transaction, less the cost and more the number of beneficiaries.

- Specialisation: E-choupal allows government institutions, NGOs, private companies and local middlemen to offer their expertise to villagers and yet be a part of the network.

- It allows continuous improvement based on experience and feedback from users of the network.

These simple thumb rules can transform India's notoriously poor public-welfare system forever.

with A. Rammohan Rao and Neeraj Mishra