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INDIA'S ASCENT:
FIVE OPPORTUNITIES FOR GROWTH AND TRANSFORMATION

AUGUST 2016

EXECUTIVE BRIEFING

MCKINSEY GLOBAL INSTITUTE

CELEBRATING 25 YEARS OF INSIGHT

25

MCKINSEY GLOBAL INSTITUTE

In the 25 years since its founding, the McKinsey Global Institute (MGI) has sought to develop a deeper understanding of the evolving global economy. As the business and economics research arm of McKinsey & Company, MGI aims to provide leaders in the commercial, public, and social sectors with the facts and insights on which to base management and policy decisions. The Lauder Institute at the University of Pennsylvania ranked MGI the world's number-one private-sector think tank in its 2015 Global Think Tank Index.

MGI research combines the disciplines of economics and management, employing the analytical tools of economics with the insights of business leaders. Our "micro-to-macro" methodology examines microeconomic industry trends to better understand the broad macroeconomic forces affecting business strategy and public policy. MGI's in-depth reports have covered more than 20 countries and 30 industries. Current research focuses on six themes: productivity and growth, natural resources, labour markets, the evolution of global financial markets, the economic impact of technology and innovation, and urbanisation. Recent reports have assessed the economic benefits of tackling gender inequality, the global consumers to watch, a new era of global competition, Chinese innovation, and digital globalisation.

MGI is led by Jacques Bughin, James Manyika, and Jonathan Woetzel, and chaired by Eric Labaye; all four are McKinsey & Company senior partners. Michael Chui, Susan Lund, Anu Madgavkar, and Jaana Remes serve as MGI partners. Project teams are led by the MGI partners and a group of senior fellows, and include consultants from McKinsey's offices around the world. These teams draw on McKinsey's global network of partners and industry and management experts. Members of the MGI Council, who co-lead projects and provide guidance, are Andres Cadena, Richard Dobbs, Katy George, Rajat Gupta, Eric Hazan, Acha Leke, Scott Nyquist, Gary Pinkus, Shirish Sankhe, Oliver Tonby, and Eckart Windhagen. In addition, leading economists, including Nobel laureates, act as research advisers.

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Noshir Kaka | Mumbai
Anu Madgavkar | Mumbai
Rajat Gupta | Mumbai
Shirish Sankhe | Mumbai
Jonathan Woetzel | Shanghai
Jacques Bughin | Brussels
Ashwin Hasyagar | Bengaluru
Shishir Gupta | Gurgaon

INDIA: A NATION ON THE MOVE

2ND
LARGEST MARKET, FOR NEW CONSUMING-CLASS HOUSEHOLDS 2015–25

69
CITIES, POPULATION > 1 MIL, 2025
- 54 IN 2012

77%
PROJECTED SHARE OF GDP GROWTH, 2012–25
- 49 URBAN CLUSTERS

90 MILLION
COLLEGE-EDUCATED WORKERS 2010–30

MILLION

680

- POPULATION BELOW MINIMUM ACCEPTABLE STANDARD OF LIVING, 2012

84

BILLIONAIRES, 2016

- COMBINED WORTH = $274 B, 4TH HIGHEST AFTER US, CHINA, GERMANY[1]

462

MILLION INTERNET USERS, 2016

1

UNIQUE IDENTITY

BILLION AADHAAR CARD HOLDERS, 2015

24%

WOMEN SHARE OF THE WORKFORCE

GLOBALLY 40%

$74

MILLION, COST OF MANGALYAAN MARS ORBITER MISSION

- HOLLYWOOD BLOCKBUSTER *GRAVITY* = $100 M

[1] Forbes, The World's Billionaires List

SOURCE: McKinsey Global Institute analysis

PREFACE

Twenty-five years ago, McKinsey & Company founded the McKinsey Global Institute (MGI) as its business and economics research arm. MGI has gained a reputation globally for distinctive knowledge and insights. That same year, McKinsey expanded into India, where we have built a deep advisory practice with more than 3,500 employees. In addition to serving leading organisations and contributing knowledge to inform national priorities, MGI has invested in wide-ranging research efforts focusing on India. We feel privileged to have been partners in India's economic growth and evolution for the past quarter century.

From our vantage point, India has an exciting future. In this briefing note, we look ahead to five game-changing opportunities for India and their implication for Indian businesses, multinational companies, and the government. We have built on the foundation of our recent India research, drawing on several reports: *From poverty to empowerment: India's imperative for jobs, growth, and effective basic services* (February 2014), which laid out a path for inclusive growth; *The power of parity: Advancing women's equality in India* (November 2015), which took a deep look at gender equality in India; *India's economic geography in 2025: States, clusters, and cities* (October 2014), in which we identified the high-potential markets of the future; and *India's technology opportunity: Transforming work, empowering people* (December 2014), which explored the impact of disruptive technologies on India over the next ten years.

Our hope is that this executive briefing helps business leaders and policy makers capture opportunities that will promote equitable growth and broad-based prosperity in India.

Over the years, we have received valuable input from advisers with deep expertise in India's economic and policy evolution, and we are indebted to them: R. Chandrashekhar, president of the National Association of Software and Services Companies (NASSCOM) and former secretary in the India Department of Telecommunications and Department of Information Technology; Subir Gokarn, executive director of the IMF; Rajesh Shukla, managing director and chief executive officer, People Research on India's Consumer Economy; Rakesh Mohan, management professor in the practice of international economics and finance, Yale School of Management, and senior fellow, Jackson Institute for Global Affairs at Yale; Subramaniam Ramadorai, chairman of the National Skill Development Corporation and National Skill Development Agency; and Usha Thorat, former deputy governor of the Reserve Bank of India, and chair of the Reserve Bank of India's External Advisory Committee for Small Finance Banks.

This effort was led by Noshir Kaka, managing director of McKinsey in India; Anu Madgavkar, an MGI partner in Mumbai; Rajat Gupta and Shirish Sankhe, McKinsey senior partners in Mumbai and members of the MGI Council; Jonathan Woetzel, an MGI director and McKinsey senior partner in Shanghai; and Jacques Bughin, an MGI director in Brussels; Ashwin Hasyagar, an MGI fellow in Bengaluru and Shishir Gupta, an urbanisation expert in Gurgaon, have led several MGI research projects in India on which this paper is based. In addition, we have benefited from the guidance of McKinsey senior partners and directors. We are also grateful to Adil Zainulbhai, former chairman of McKinsey in India and chairman of the Quality Council of India, for his valuable counsel. We thank MGI

partners Michael Chui, Susan Lund, and Jaana Remes and MGI senior fellows Tera Allas, Jan Mischke, Sree Ramaswamy, and Jeongmin Seong, whose research was a great benefit. Special thanks go to Mekala Krishnan for contributing to MGI's research on gender equality in India, and to Rishi Arora and Vritika Jain for providing extensive research support. For providing crucial support for this paper, we would like to thank Cuckoo Paul, senior editor, and Allan Gold, executive editor; Fatema Nulwala and Natasha Wig from the external relations team; Matt Cooke and Rebeca Robboy for external communication and media support at MGI; Therese Khoury of New Media; and Vineet Thakur for design support.

This report contributes to MGI's mission to help business and policy leaders understand the forces transforming the global economy, identify strategic locations, and prepare for the next wave of growth. As with all MGI research, this work is independent and has not been commissioned or sponsored in any way by any business, government, or other institution. While we are grateful for all the input we have received, the report is ours, including any errors. We welcome your comments on this research at **MGI@mckinsey.com**.

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August 2016

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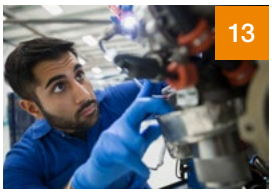


Make in India

Disruptive technology

Gender parity


सचदेवा
ब्रादर्स
TRIPLE
NUTRITION
Wrangler
Khushi
hero
R 9 BS 3358

INDIA 2016:
A NATION ON THE MOVE

India has long been a study in contrasts, but probably never as much as in recent years. The International Monetary Fund has projected India's GDP growth at a robust 7.4 percent for 2016–17, even as uncertainties cloud the outlook for global growth (Exhibit 1). Twenty five years after India embarked on its liberalisation programme, it offers attractive long-term potential, powered largely by a consuming class that we expect will more than triple, to 89 million households, by 2025.[1] This rapid growth is contributing to a major shift in the world's economic balance of power. Looking back, it took a thousand years for the world's economic centre of gravity to shift from Asia to Europe, but MGI studies show that this trend is reversing at a stunning speed.[2] The shift back—from the United States and Europe toward Asia—is expected to continue over the next decade, with India contributing significantly.

The challenge for Indian policy makers is to manage growth in such a way that it creates the basis for sustainable economic performance. India's transformation into a global economic force has yet to fully benefit all Indians. There is massive unmet need for basic services, such as water and sanitation, energy, and health care. Despite a strong entrepreneurial class, businesses in India have long been shackled by red tape. The government has begun to address many of these challenges. Efforts are under way to improve the investment climate—in 2015–16, India's ranking on the World Economic Forum's Global Competitiveness Report climbed to 55, from 71 a year earlier.[3] Officials are moving to improve government efficiency, using technology that can leapfrog traditional bottlenecks of a weak infrastructure. For instance, one billion Indian citizens are now registered under Aadhaar, the largest digital identity programme in the world and a potent platform to deliver direct benefits to the poor with minimum leakage.[4]

In this briefing note, we focus on five areas with the potential for deep and widespread economic impact. By no means is this a comprehensive assessment of India's prospects, but we believe these are among the most significant opportunities and are emblematic of broader change. Foreign and Indian businesses would do well to recognise these trends and understand their implications.

FROM POVERTY TO EMPOWERMENT: ACCEPTABLE LIVING STANDARDS FOR ALL INDIANS

India has been able to lift millions out of poverty in the past two decades. The trickle-down effect of economic liberalisation has improved the condition of many more. The official poverty ratio declined from 45 percent of the population in 1994 to 22 percent in 2012, but this statistic defines only the most dismal situations.[5] To achieve its full potential, the country will need to address deprivation using a new set of parameters that address quality of life and access to basic services. This is certainly within India's capacity, but it will require policy makers to promote an agenda that emphasises job creation, growth-oriented investment,

1 We define four broad income classes at the household level based on annual disposable income (at 2012 prices): globals (>1,700,000 rupees; >$110,000); consumers (INR 485,000–INR 1,700,000; $31,000–$110,000); aspirers (INR 180,000–INR 485,000; $11,000–$31,000); and strugglers (< INR 180,000; <$11,000). Globals and consumers together constitute the consuming class. Prices reflect a PPP conversion factor of $1 = INR 16 at 2012 prices

2 *Urban world: Cities and the rise of the consuming class,* McKinsey Global Institute, June 2012.

3 *The global competitiveness report 2015–2016,* World Economic Forum, September 2015.

4 "UIDAI generates a billion (100 crore) Aadhaars: A historic moment for India," Press Information Bureau, Government of India, April 4, 2016.

5 *From poverty to empowerment: India's imperative for jobs, growth, and effective basic services,* McKinsey Global Institute, February 2014.

farm-sector productivity, and innovative social programmes so that the benefits actually reach the people who need them. The private sector can have a substantial role in both job creation and providing effective basic services.

SUSTAINABLE URBANISATION: BUILDING INDIA'S GROWTH ENGINES

By 2025, MGI estimates that India will have 69 cities with a population of more than one million each. Economic growth will be concentrated around these cities, and the biggest infrastructure building will take place there. To achieve sustainable growth, these cities will have to be more livable places, offering clean air and water, reliable utilities, and green spaces. India's urban transformation represents a huge opportunity for domestic and international businesses that can provide capital, technology, and planning know-how as well as the goods and services the urban consumer demands.

MANUFACTURING FOR INDIA, IN INDIA

Although India's manufacturing sector has lagged behind China's, substantial opportunities to invest in value-creating businesses and create jobs will be available. India's appeal to potential investors will be more than just its low-cost labour. Manufacturers in India are innovating to build competitive businesses and tap the large and growing local market. Reforms and public investment in infrastructure could make it easier for all types of manufacturing businesses—foreign and Indian—to achieve scale and efficiency.

RIDING THE DIGITAL WAVE: HARNESSING TECHNOLOGY FOR INDIA'S GROWTH

Twelve powerful technologies can empower India, helping raise productivity, improving efficiency across major sectors of the economy, and radically altering the provision of services such as education and health care. These technologies could add economic value of $550 billion to $1 trillion a year in 2025, according to MGI, creating millions of well-paying, productive jobs (including positions for people with moderate levels of formal education) and helping bring a decent standard of living to millions of Indians.[6]

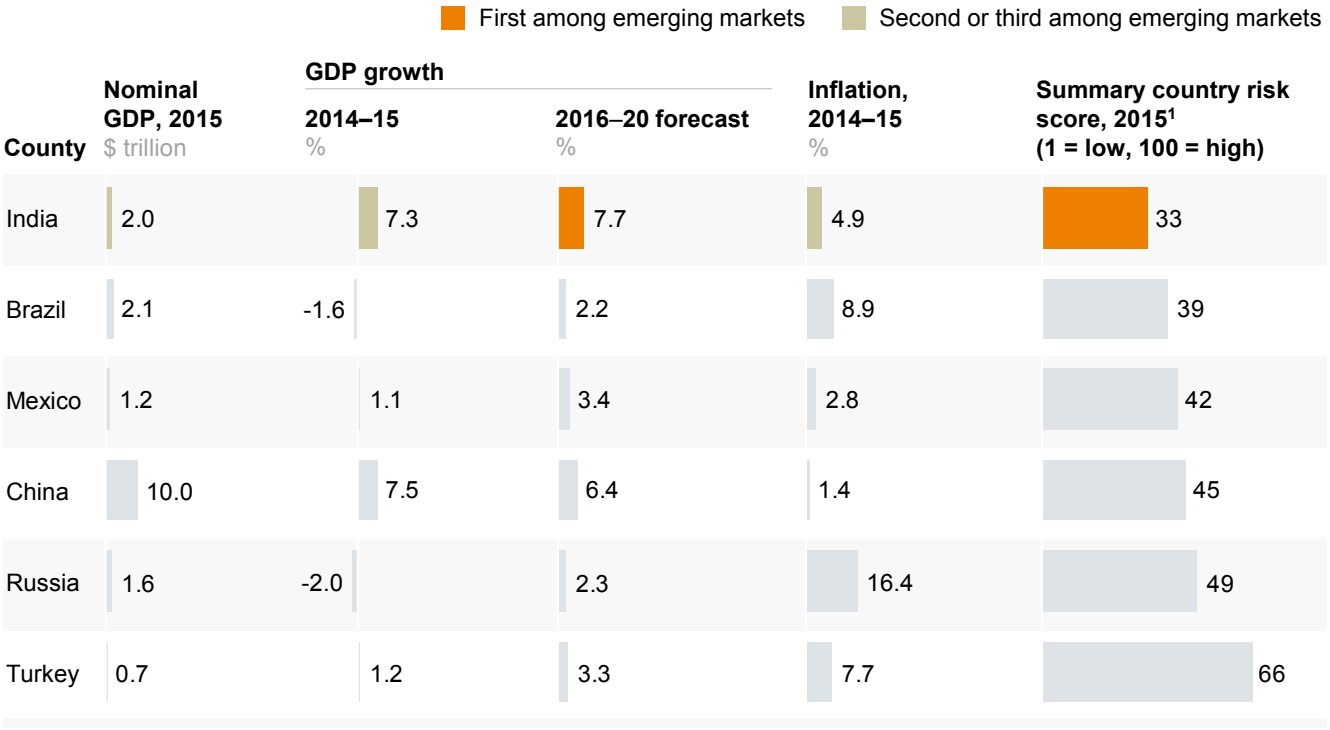
UNLOCKING THE POTENTIAL OF WOMEN: IF NOT NOW, WHEN?

Our research suggests that women contribute only 17 percent of India's GDP today and make up just 24 percent of the workforce, compared with 40 percent globally. Women represent one of the largest potential economic forces in India in the coming decade. If the country were to match the progress toward gender parity of the fastest-improving country in the region, we estimate that India could add $700 billion to its GDP in 2025. Movement toward closing the gender gap in education and in financial and digital inclusion is a signal of broader change, though there is scope for further progress.

[6] MGI's estimates of the economic value created are based on additional productivity; savings of time, cost, and energy; and the benefits that these technologies could generate, such as lives prolonged, carbon emissions avoided, and workers educated.

Exhibit 1

India compares favourably with most other emerging markets in terms of growth potential



County	Nominal GDP, 2015 $ trillion	GDP growth 2014–15 %	GDP growth 2016–20 forecast %	Inflation, 2014–15 %	Summary country risk score, 2015[1] (1 = low, 100 = high)
India	2.0	7.3	7.7	4.9	33
Brazil	2.1	-1.6	2.2	8.9	39
Mexico	1.2	1.1	3.4	2.8	42
China	10.0	7.5	6.4	1.4	45
Russia	1.6	-2.0	2.3	16.4	49
Turkey	0.7	1.2	3.3	7.7	66

1 Composite index (political, financial, and macro-economic).

SOURCE: The Economist Intelligence Unit; IHS; press search; McKinsey Global Institute analysis

Realising India's promise in these five areas, and more, will require national, state, and local leaders to adopt new approaches to governance and provision of services. These officials will also need new capabilities to meet citizens' aspirations. For businesses, India represents a sizeable market, but one that will require a granular strategy and a locally focused operating model. The rest of this briefing note explores the opportunities and implications in greater detail.

FROM POVERTY TO EMPOWERMENT: ACCEPTABLE LIVING STANDARDS FOR ALL INDIANS

Long considered an immutable fact of life in India, extreme poverty is in retreat. India's official poverty ratio declined from 45 percent of the population in 1994 to 22 percent, with some 270 million people below the poverty line, in 2012. This is an achievement to be celebrated—and yet the government's definition of poverty counts only those living in the most abject conditions. If India is to achieve its full potential, it must address not just acute poverty but also deprivation in terms of quality of life and access to basic services.

The McKinsey Global Institute (MGI) has created an analytical framework to define a minimum acceptable standard of living. The result is the Empowerment Line, a measure of income-based deprivation. The concept of the Empowerment Line poses an important question: what is the level of spending required for an individual to meet the necessities of human development? We estimate the cost of fulfilling eight basic household needs (food, energy, housing, drinking water, sanitation, health care, education, and social security) at a level sufficient to achieve a decent, if modest, standard of living rather than just bare subsistence.

In applying this metric for 2011–12, we found that 56 percent of India's population lacked the means to meet essential needs. By this measure, some 680 million Indians are deprived—more than 2.5 times the population of 270 million below the official poverty line. Hundreds of millions of Indians have exited extreme poverty, but their lives are still marked by a continuous struggle to achieve a modicum of dignity, comfort, and security. The Empowerment Gap, or the additional spending required to bring these 680 million people to the level of the Empowerment Line, equates to 4 percent of annual GDP.

Challenges

Merely increasing government subsidies can achieve only a fraction of this goal. Government spending is critical to ensure access to basic services, but simply channeling more money into the same programmes without addressing their operations and outcomes will result in very little. With the right set of measures to unlock investment for job growth, productivity, and efficiency across sectors of the economy, more than half a billion people could cross the threshold of consumption required for an economically empowered life by 2022. Achieving this level of poverty reduction requires action in four areas (Exhibit 2):

- About half the impact could come from creating 115 million non-agricultural jobs over the next decade to absorb the growing pool of workers and accelerate the shift toward

more modern industries. This contrasts with about 75 million jobs likely to be created in a business-as-usual scenario.

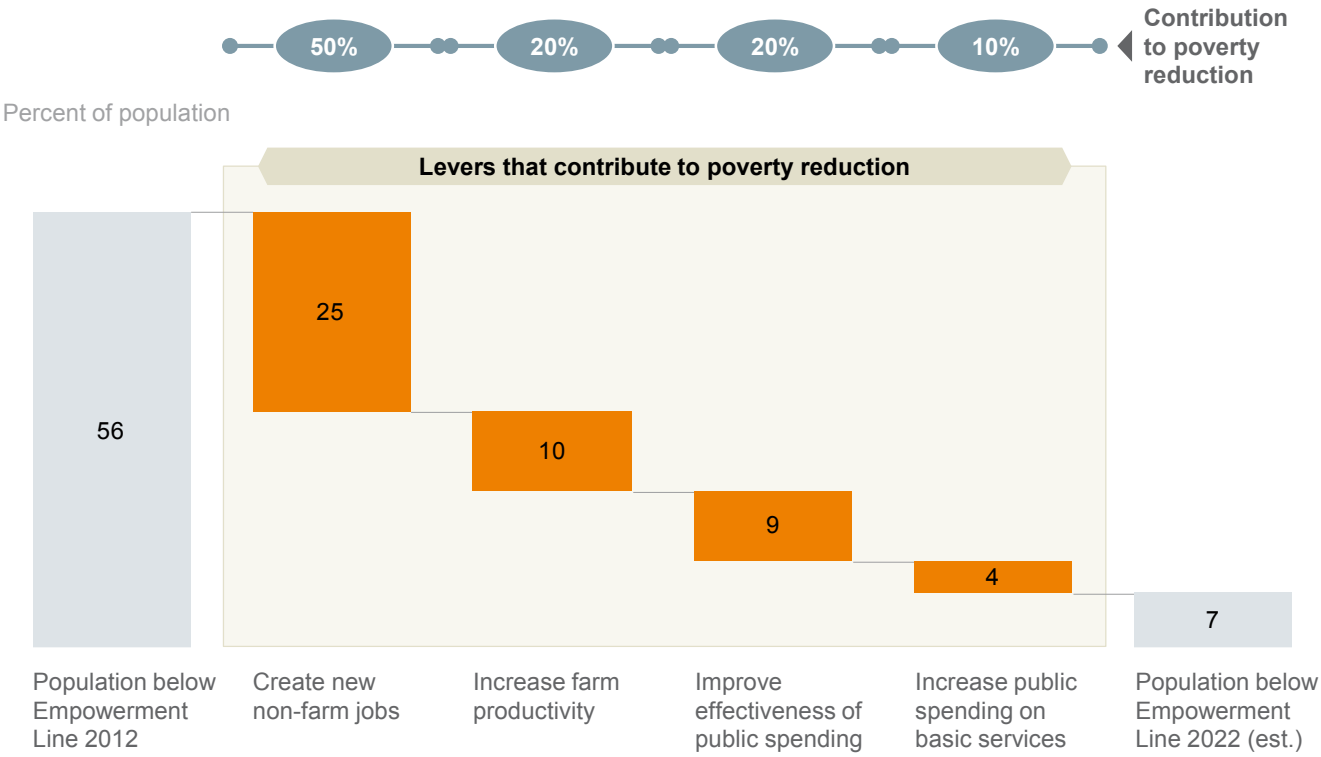
- About 20 percent of the impact could come from raising agricultural productivity from its historical growth of 2 percent a year to 5.5 percent a year, a level seen in comparable countries.

- About 20 percent of the impact could come from improving the outcomes — in the form of financial benefits or better nutrition, health and education—of public spending on basic services. The value of basic services that actually reached the poor was estimated at just 50 percent in 2011–12; that figure could climb to 75 percent in 2022, assuming all states achieve the effectiveness of the best-performing states.

- Less than 10 percent of the impact could come from raising spending. India should consider raising public spending on social services but could do so at a pace in line with GDP growth over ten years. Much of the increase would go to improve health care, sanitation, and drinking water, services that represent the largest gaps for people below the Empowerment Line.

Exhibit 2

Four levers to enable India's people to achieve a minimum acceptable standard of living



SOURCE: McKinsey Global Institute analysis

Achieving these goals is within India's grasp. But it will require policy makers at all levels of government to emphasise job creation, growth-oriented investment, farm-sector productivity, and innovative provision of social programmes so that the benefits reach the people who need them. While the policy direction and funding would fall to the central government, many of the specific initiatives can be implemented at the state level. The requirements are political will and a relentless focus on results.

New beginnings

The government has repurposed existing programmes and introduced many new ones that have the potential to spur job creation and improve basic services provision where it is needed most (Exhibit 3).

Exhibit 3

Focus of government initiatives since 2014

Objective	Key initiatives	Examples of government programmes
Creating new non-farm jobs	Improving infrastructure and logistics to support jobs	1 **Sagarmala** for port modernisation and coastline development
		2 **100 percent FDI** in high-speed trains, suburban corridors, and dedicated freight projects
		3 **Make in India and Industrial Corridors/Freight Corridors**
		4 **Smart Cities and AMRUT** to make cities livable and economically vibrant
		5 **UDAY (Ujwal Distribution companies (DISCOMs) Assurance Yojana)** financial turnaround and revival package for DISCOMS via improving efficiency, reducing cost, and enforcing discipline
	Removing land and labour-market barriers	6 **Enabling states (e.g., Rajasthan) to unlock land markets** (including land leasing policy)
		7 **Enabling states to reform labour markets** (e.g., Rajasthan) and **reducing power of labour inspectors**
	Removing barriers to allocation of capital and resources	8 **Bankruptcy Bill and Indradhanush** to improve flow of capital and recapitalise public sector banks
		9 **Auction-based allocation** of natural resources (e.g., coal)
		10 **National Infrastructure Investment Fund** with a corpus of INR 20,000 crore ($2.8 billion) for enhanced infrastructure funding
	Creating skills and entrepreneurship	11 **Skill India** to boost employability through vocational training
		12 **Startup India, Standup India, and MUDRA** to promote bank financing for startups and small entrepreneurs, offer incentives to boost entrepreneurship and job creation
	Easing adminis-trative burden and making India more investment-friendly	13 **Companies (Amendment) Act** to promote ease of doing business
		14 **Improvement in Ease of Doing Business Index** with business-friendly governance
		15 **Promotion of India as an investment destination** by PM and foreign offices
		16 **Goods and Services Tax (GST)** to streamline and simplify the national tax system
Increasing farm productivity	Farm productivity	1 **Pradhan Mantri Krishi Sinchai Yojana** to raise irrigation levels
		2 **Soil Health Card Scheme** to raise farm output levels by providing information to farmers
	Market access	3 **E-NAM** to create a digital national agricultural market
	Rationalised pricing	4 **Minimum Support Price** introduced for pulses to rationalise incentives for farm production
	Income protection	5 **Pradhan Mantri Fasal Bima Yojana** to reduce farmers' risk and secure incomes
		6 **MGNREGA** retained and amended to link with irrigation, animal husbandry, and roads programmes
Improving the effective-ness of public spending on basic services	Financial and digital inclusion	1 **Direct Benefits Transfer** (through the Jan Dhan–Aadhaar–mobile trinity) to promote direct transfers of financial benefits to beneficiaries' bank accounts
		2 **Digital India** to provide universal Internet access and digitisation of government and social services in all of India's towns and villages
	Food	3 **Digitisation of Fair Price Shops and the Public Distribution System** to reduce leakages in subsidised food and fuel distribution to beneficiaries
	Health, water, sanitation	4 **Swachh Bharat (Clean India),** a mass movement to drive up demand for and utlisiation of improved sanitation, water, and waste management
		5 **National Health Assurance Mission (Rashtriya Swasthya Bima Yojana)** expanded to 500 million people
	Energy	6 **Pradhan Mantri Ujjwala Yojana** and **GiveItUp** to provide poor rural families access to clean cooking fuels
		7 **Deen Dayal Upadhyaya Gram Jyoti Yojana** to implement 24/7 electricity in villages
	Housing	8 **Pradhan Mantri Awaas Yojana** (Housing for All by 2022)
	Education	9 **Beti Bachao and Beti Padhao Yojana** to promote girls' education
	Social security	10 **Atal Pension Yojana (APY)** to provide pensions to the unorganised sector
		11 **Pradhan Mantri Jeevan Jyoti Bima Yojana** and **Pradhan Mantri Suraksha Bima Yojana** to provide life insurance to the unorganised sector

SOURCE: McKinsey Global Institute analysis; Government websites

One shift that will enable faster job creation is higher public spending on infrastructure and transportation, particularly rail, roads, and ports. This could not only lead to improved competitiveness of private enterprises, but also create jobs directly. MGI's analysis suggests that some three-quarters of the incremental non-farm jobs that India requires must come from the industrial sector, with the construction sector alone offering the potential to create 50 million jobs in the coming decade.

In farm productivity, the national initiative Pradhan Mantri Krishi Sinchai Yojana aims to spend INR 50,000 crore ($7 billion) over five years to improve irrigation. Its projects will soon be monitored by government satellites and through apps on the geoportal website Bhuvan. The Mahatma Gandhi National Rural Employment Guarantee Act programme, started by an earlier government, has been retained and amended to better align with irrigation, animal husbandry, and road programmes aimed at raising rural farm incomes through greater productivity.

To improve access to basic services and stem leakage in public spending, one major initiative is the Direct Benefit Transfer programme, leveraging a national drive to extend unique identities and bank accounts to all Indians. The goal is to transfer financial benefits under social schemes programmes directly to beneficiaries' bank accounts rather than through intermediaries. The government's Swachh Bharat (Clean India) mission aims to improve sanitation and waste management through something akin to a social movement.

Empowerment and efficiency, not welfare payments and entitlement, have been the philosophy underlying many of these initiatives, but lasting results will require a relentless focus on execution and monitoring outcomes. India's population is demanding a better quality of life. By any measure, the challenge is huge and the numbers are daunting. But if aspirations for a minimum acceptable standard of living are met, the result could be a profound and historic step forward in India's economic and human development.

SUSTAINABLE URBANISATION: BUILDING INDIA'S GROWTH ENGINES

Mahatma Gandhi said India lives in its villages, but modern India is quickly urbanising. The pace is slower than in China but still dramatic: every year India adds urban population equivalent to three times the population of Los Angeles. In 2011, India was 31 percent urbanised, and MGI estimates that figure will be about 41 percent by 2030, when the country will have some 598 million urban residents. Four large states—Gujarat, Kerala, Maharashtra, and Tamil Nadu—will be more than 60 percent urbanised by then. Much of India's future economic growth is predicated on rising urbanisation, leading to growth in non-farm jobs and industrial- and service-sector output.[7]

Metropolitan cities with million-plus populations are India's engines of growth. With better infrastructure and services, such as public health care and quality education, these cities will be magnets for investment and job creation. About 77 percent of India's economic growth from 2012 to 2025 will come from 49 clusters of districts with metropolitan cities at their nucleus (Exhibit 4). And as India's cities grow, so do their hinterlands—clusters of semiurban and rural districts whose economies are linked to the expanding city nearby.

In the coming decades, Indian cities will resemble middle-income nations in terms of output (Exhibit 5). Mumbai's economy, for example, will be bigger in 2030 than that of Malaysia today, representing a mammoth market of $245 billion of consumption. The next four cities by market size (Delhi, Ahmedabad, Hyderabad, and Bengaluru) will each have annual consumption of $80 billion to $175 billion by 2030.[8] The 49 clusters around India's metropolitan cities will be thriving markets for discretionary, consumption-driven goods and services, such as motorcycles and televisions.

Challenges

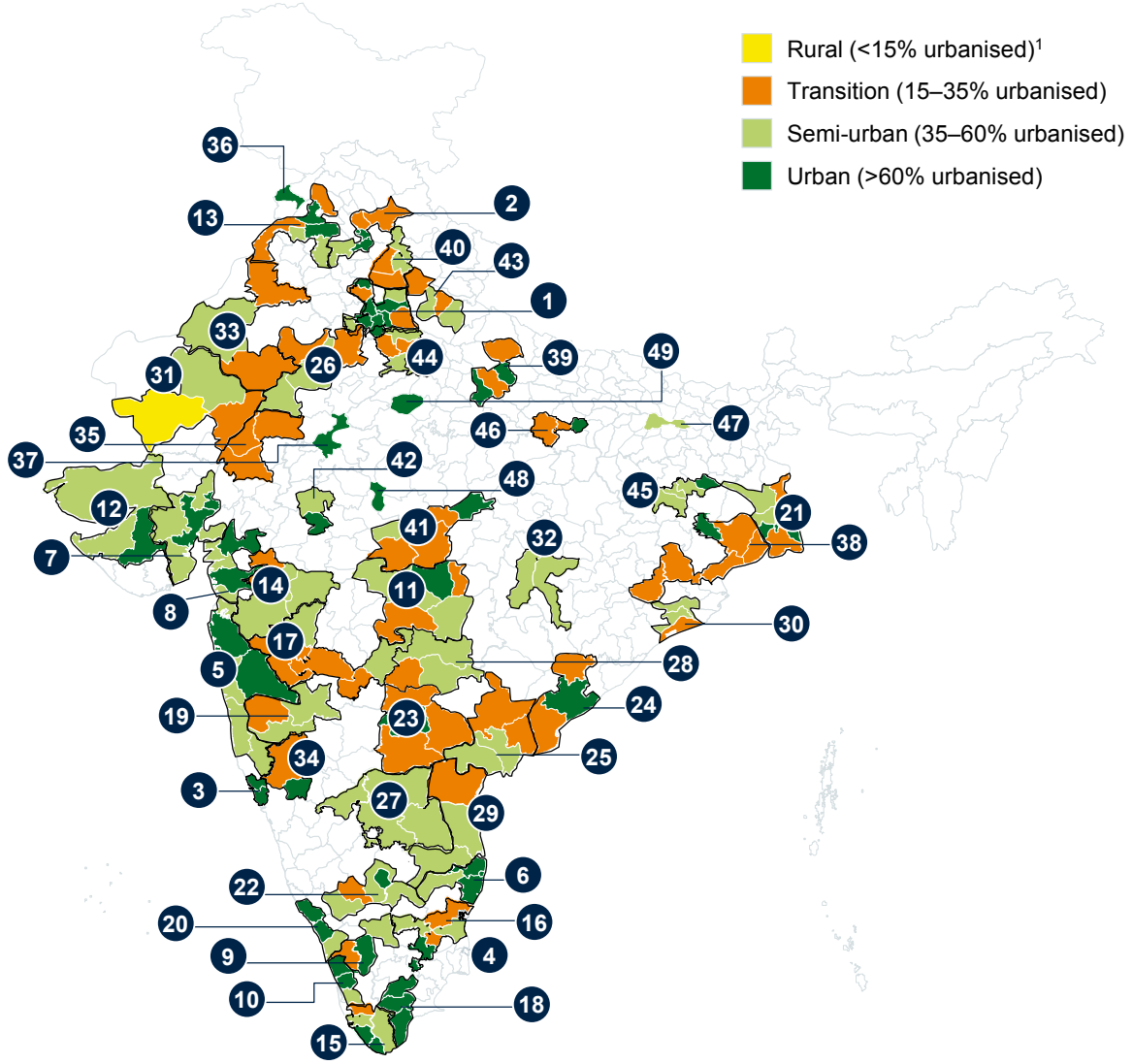
India's urban population is concentrated in its largest cities and in cities with fewer than half a million residents. Only 27 percent of the urban population lives in middle-tier cities (those with populations between 500,000 and four million). By contrast, nearly 50 percent of urban residents in China live in middle-tier cities. A large share of India's 115 million new non-farm jobs will be created in urban areas, but accommodating these new urban workers in India's existing megacities will prove exceptionally challenging and expensive, pointing to the need for a broader approach to urbanisation over the coming decades.

7 All state, cluster, and city-based estimates in this section are from *India's economic geography in 2025: States, clusters, and cities,* McKinsey & Company, October 2014.

8 *Urban world: The global consumers to watch,* McKinsey Global Institute, March 2016.

Exhibit 4

Forty-nine metropolitan clusters of districts will drive 77 percent of India's incremental GDP from 2012 to 2025



49 metropolitan clusters[2] across four types of states

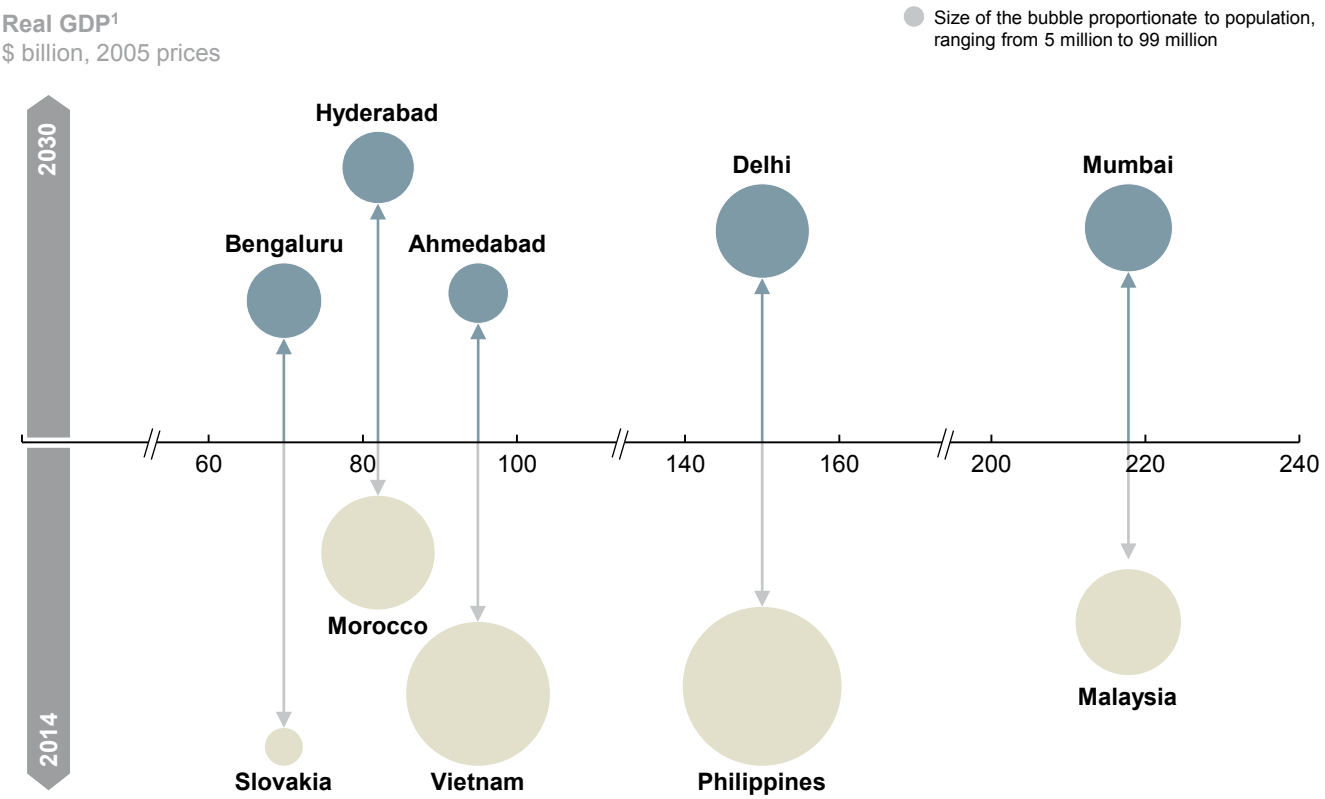
Very high performing[3]	High performing[3]	Performing[3]	Low performing[3]
1. Delhi	5. Mumbai/Pune	21. Kolkata	38. Jamshedpur
2. Chandigarh	6. Chennai	22. Bengaluru	39. Lucknow
3. Goa	7. Ahmedabad	23. Hyderabad	40. Saharanpur
4. Puducherry	8. Surat	24. Visakhapatnam	41. Jabalpur
	9. Coimbatore	25. Vijayawada	42. Indore
	10. Kochi	26. Jaipur	43. Bareilly
	11. Nagpur	27. Kadapa	44. Agra
	12. Rajkot	28. Adilabad	45. Ranchi
	13. Ludhiana	29. Nellore	46. Varanasi
	14. Nashik	30. Bhubaneswar	47. Patna
	15. Thiruvananthapuram	31. Jodhpur	48. Bhopal
	16. Tiruchirappalli	32. Raipur	49. Gwalior
	17. Aurangabad	33. Bikaner	
	18. Madurai	34. Hubli Dharwad	
	19. Solapur	35. Udaipur	
	20. Kozhikode	36. Amritsar	
		37. Kota	

1 Based on 2025 urbanisation rate.
2 Clusters of districts with a metropolitan city at the nucleus.
3 Classification of states based on per capita GDP in 2012 compared with India's average: very high performing = more than twice; high performing = between 1.2 and 2 times; performing = between 0.7 and 1.2 times; low performing = less than 0.7 times.

SOURCE: McKinsey Global Institute analysis

Exhibit 5

By 2030, India's top five cities will be economies comparable to middle-income countries today



1 Top five cities based on 2030 GDP values.

SOURCE: World Bank; McKinsey Global Institute analysis

Moreover, while urbanisation is facilitating the rise of the consuming class, it is not a panacea for India's poverty. Although less prone to extreme poverty, urban Indians are almost as likely as rural residents to fall into the vulnerable category. By MGI estimates, in 2012 some 44 percent of India's urban population, or 171 million people, lived below the Empowerment Line—a benchmark for a minimum acceptable standard of living, about 50 percent higher than the official poverty line. The urban vulnerable bear the burden of unaffordable housing and expensive health care.

India's cities are in dire need of better foundations. At 105 litres per capita daily, the availability of water is just half international benchmarks, and public transportation, sewage, and sanitation exhibit similar gaps. Maintaining air and water quality is fast becoming the biggest urban problem. Airborne particulate emissions are dangerously high: by World Health Organisation estimates, ten of the world's 20 most polluted cities are now in India.[9] Municipalities are struggling with mountains of waste and looking for new models to manage it effectively. For sustainable urban prosperity, India's cities will have to be more livable places, with clean air and water, reliable utilities, and green spaces. Comprehensive urban planning, efficient governance structures, and investment in infrastructure have provided answers elsewhere in the world, but India's cities are challenged on these core aspects.

9 Global urban ambient air pollution database, World Health Organisation, 2016.

New beginnings

Recognising the potential, but also the problems, of India's cities, the government has given urban programmes renewed attention. The Atal Mission for Rejuvenation and Urban Transformation aims to revitalise 500 towns and cities by financing water supply and sewage management projects, storm-water drains, parking spaces, and public transportation. Spending of INR 50,000 crore ($7 billion) by 2020 has been approved.

Pradhan Mantri Awas Yojana (Housing for All) has an ambitious goal of building 20 million affordable houses by 2022, focusing on slum rehabilitation through private developers, using funding models based on land value appreciation, and offering credit-linked subsidies.

India's Smart Cities Mission is the government's highest-profile programme, providing assistance to 100 cities for infrastructure modernisation. Of the 98 cities that submitted proposals in the first round of a competition to prioritise the best-prepared projects, of these 20 were chosen to receive initial funding. The cities have formed special-purpose vehicles with 50–50 shareholding from the state and city governments. The initiatives will be partly funded by the central government, while the special-purpose vehicles will account for the rest of the money. Forty more cities are scheduled to be added to the list next year, and the remainder in 2018. Some cities, such as Pune, in Maharashtra, have hired CEOs to lead their infrastructure makeovers.

The Urban Development Ministry's Bus Rapid Transport System and Metro Rail projects target 50 cities with investment of about INR 5 lakh crore ($74 billion). Private-sector and foreign players are also moving in. Amaravati, the green-field city that will be the capital of the state of Andhra Pradesh, is working with companies in Singapore to lay out its master plan. Mahindra World Cities in Tamil Nadu and Rajasthan, joint ventures of the private-sector group Mahindra and the respective state governments, are integrated urban centers near existing metropolitan regions with special economic zones, retailing, and infrastructure for health care and education.

MANUFACTURING FOR INDIA, IN INDIA

India is the world's ninth-largest manufacturing nation. The sector has doubled its contribution to the country's economy in the past 15 years. Yet India's manufacturing sector contributed only about 17 percent of GDP in 2014–15—a much lower share than in other large emerging economies.[10] The government's stated ambition is to raise manufacturing's contribution to 25 percent of GDP by 2022 and to create 100 million jobs in the coming decade.[11]

It has been clear for a while that India needs manufacturing: few other sectors have the same potential to help millions out of poverty. And it appears increasingly true that global manufacturing needs India, too: multinationals are looking to India for its growing market. Bangladesh, Cambodia, Vietnam, and other nearby countries have already moved ahead in capturing labour-intensive jobs created by China's move up the value chain. But cost is not the only factor in manufacturing location decisions, and "frugal" need not be India's only calling card. India's manufacturing competitiveness may evolve in other ways.

For example, manufacturing industries that locate near their markets and supply chains tend to create sticky investments, providing long-term employment. These industries include manufacturing of heavy goods such as automotive and specialty chemicals, as well as their suppliers. Their products are rapidly incorporating digital elements, opening up opportunities for electronics and software suppliers. Globally, these manufacturing industries make up two-thirds of value added and account for the majority of manufacturing employment. India's large consumer market makes it a naturally attractive location for them. With India's strong domestic IT capabilities, which are increasingly relevant in manufacturing, firms operating in the country can reach customers more effectively, streamline manufacturing processes, and create more efficient supply chains.

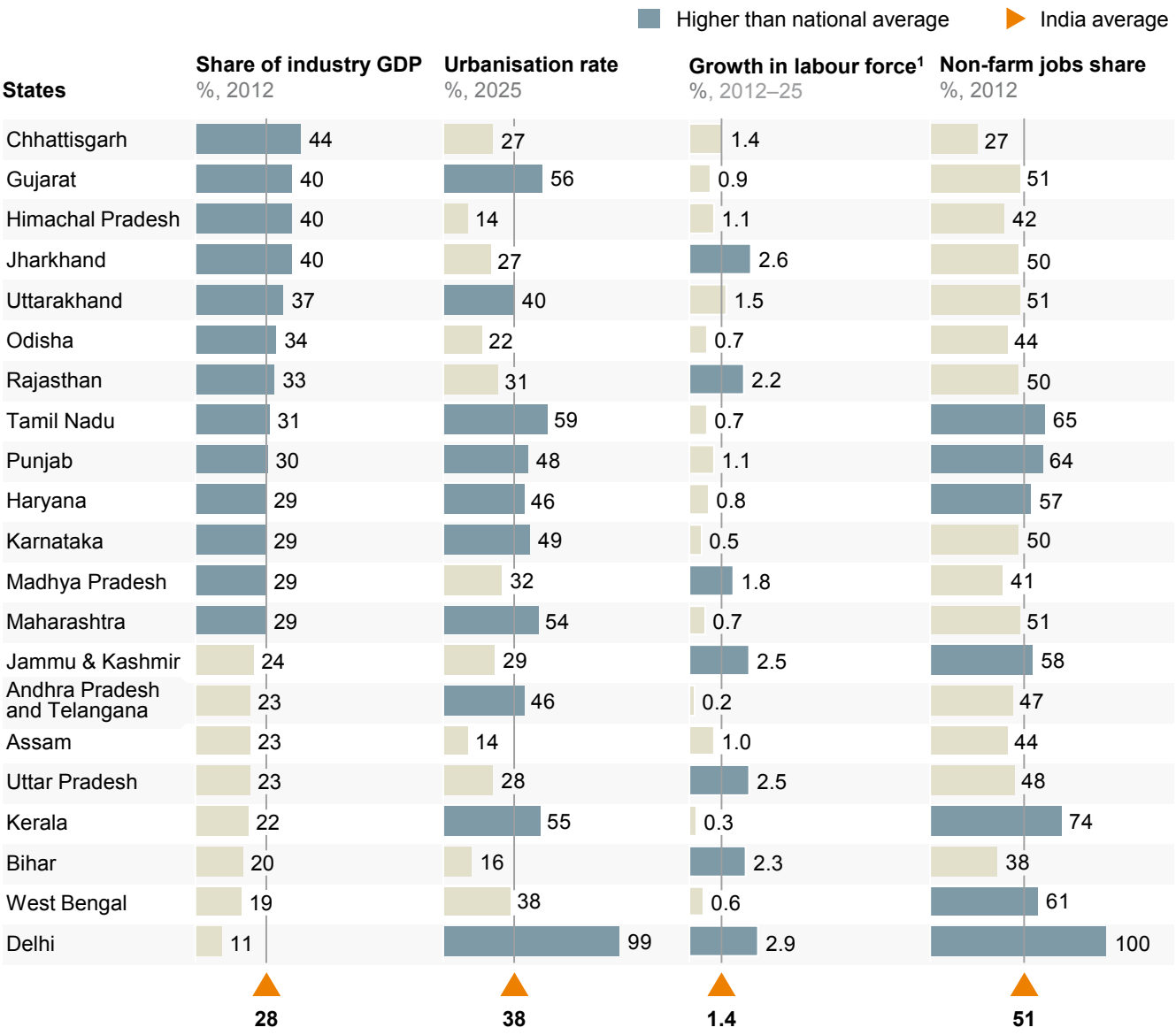
Challenges

India's manufacturing sector has produced world-class companies in diverse sectors such as auto and auto components, two-wheelers, and pharmaceuticals. Yet most manufacturing enterprises are subscale and have low productivity. According to a study by the Asian Development Bank, 84 percent of India's manufacturers employed fewer than 50 workers in 2009, compared with 70 percent in the Philippines, 65 percent in Indonesia, and 25 percent in China.[12] Across all sectors, India's largest companies (those with more than 200 employees) have about the same level of labour productivity as large enterprises

[10] Based on data from the Central Statistical Office.
[11] National Manufacturing Policy, Government of India.
[12] *Key indicators for Asia and the Pacific,* Asian Development Bank, 2009.

Exhibit 6

Some states are well positioned for manufacturing, while others are catching up



1 Projections based on constant labour-force participation rate and constant 2025 working-age population share from UN.

SOURCE: CSO; Census; NSSO 66th and 68th rounds; McKinsey Global Institute analysis

elsewhere in Asia, but the country's smallest enterprises are only 25 to 65 percent as productive as their small-scale peers elsewhere.

An array of barriers has limited the opportunities for businesses to scale up and become more competitive. Constraints include poor infrastructure for power and logistics, a high administrative burden on businesses, tax and product-market distortions, ineffective land and labour markets, and inadequate worker skills.

Some states have performed better than others because their conditions are more favourable to industrialisation (Exhibit 6). The government's Economic Survey of 2016 shows that the more developed and urbanised states of Andhra Pradesh, Delhi, Gujarat, Haryana, Karnataka, Maharashtra, and Tamil Nadu together attracted more than 70 percent of total foreign direct investment (FDI) to India during the past 15 years. But states rich in natural resources such as Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, and Odisha have lagged behind.

The global manufacturing business is not getting easier. With automation costs falling and digitisation taking hold in many industries, premature deindustrialisation is a risk. Many emerging economies, for instance in Latin America, are unable to generate mass employment in manufacturing. The cost of automation has already dropped in half relative to the cost of labour. As automation costs continue to fall, manufacturing may be unable to generate the millions of jobs today that it did a half century ago in Germany, Japan, and the United States.

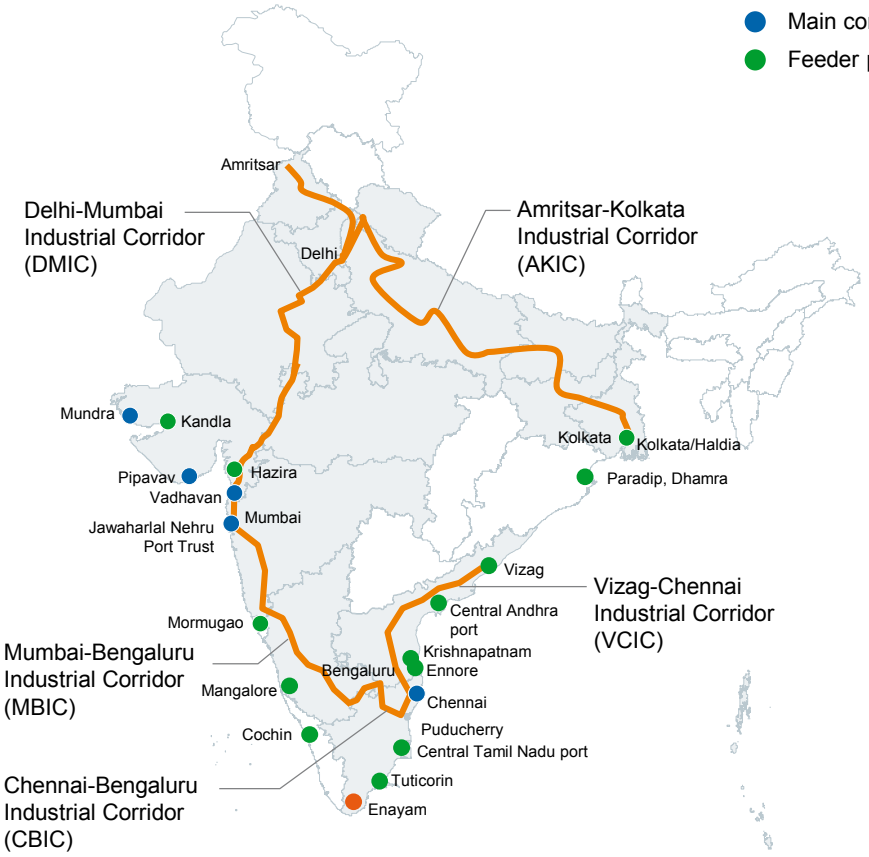
New beginnings

Prime Minister Narendra Modi has led the implementation of the government's Make in India initiative. The programme includes measures to make doing business in India easier, such as raising FDI ceilings in 15 sectors, including defence production, medical equipment manufacturing, food products, and single-brand retail. Automatic approvals have been extended for sectors like brownfield airport projects. India's FDI inflows have increased to $44 billion in 2015 as compared to $35 billion in 2014, according to the United Nations Conference for Trade and Development (UNCTAD), World Investment Report 2016. Efforts are under way to ease the red tape associated with entering and doing business in the Indian market.

Five industrial corridors, flanked by smart cities, are expected to spur India's industrialisation in the medium term (Exhibit 7). The biggest of these is the Delhi-Mumbai Industrial Corridor, partially funded by the Japanese government. It will pass through seven states with a

Exhibit 7

Major industrial corridors and port projects planned to support Make in India



39 of 97 proposed smart cities are located near industrial corridors

DMIC	AKIC
Jaipur	Newtown Kolkata
Surat	Amritsar
Ahmedabad	Jalandhar
Nashik	Ludhiana
Pune	NDMC (New Delhi Municipal Council)
Ujjain	Area
Indore	Lucknow
Gwalior	Bidhannagar
Navi Mumbai	Aligarh
Greater Mumbai	Durgapur
Ajmer	Allahabad
Faridabad	Moradabad
Aurangabad	Bareilly
Vadodara	Saharanpur
Ghaziabad	Varanasi
CBIC	Kanpur
Chennai	
Tirupati	**MBIC**
Vellore	Davanagere
	Belagavi
VCIC	Hubli Dharwad
Kakinada	Tumakuru
Visakhapatnam	

SOURCE: McKinsey Global Institute analysis

1,500 kilometers railroad and serve as a freight backbone. This is one of the world's biggest infrastructure projects, with an estimated investment of $90 billion. There are plans for four other corridors: Mumbai-Bengaluru, Amritsar-Kolkata, Chennai-Bengaluru, and Visakhapatanam-Chennai.

Sagarmala, a project to promote port-based industrialisation through 14 coastal economic zones, will enable better use of India's 7,500 kilometers of coastline and waterways to cut trade costs. Government estimates suggest that the programme could lead to annual logistics cost savings of nearly INR 35,000 crore ($5 billion), increase India's merchandise exports to $110 billion by 2025, and create 10 million new jobs.[13] The plan is to employ multimodal transport to reduce the cost of domestic cargo, minimise the time and cost of export-import cargo logistics, lower costs for bulk industries by locating them closer to the coast, and improve export competitiveness by locating discrete manufacturing clusters near ports.

Several new measures for the labour-intensive textile industry, including higher overtime hours for workers, aim to increase employment and boost exports. Most beneficiaries in this sector are likely to be women, who account for nearly 70 percent of the workforce in the garment industry.

Other government programmes focus on talent and quality. The Skill India mission aims to train more than 400 million people in different skills by 2022. The prime minister's one-year target for the project includes starting 5,000 more Industrial Training Institutes to increase their capacity from 1.85 million to 2.5 million students, and setting up 50 overseas employment skill training centres in regions from which workers have traditionally migrated in search of employment. A new skills certification body, along the lines of the Central Board of Secondary Education, is in the works, an attempt to encourage skills training beginning at the secondary school level.

In the corporate sphere, the Zero Defect Zero Effect (ZED) initiative of the Quality Council of India is introducing integrated certification systems to raise quality, productivity, and energy efficiency, and to mitigate pollution in manufacturing. Indian manufacturers are scaling up rapidly as well as moving up the value chain. Hero MotoCorp, India's largest motorcycle and scooter maker, has achieved global scale and set up manufacturing facilities internationally. The Tata Group and Mahindra & Mahindra, both major automakers, have expanded into the aerospace business. Tata is building helicopter fuselages for Sikorsky in Hyderabad and has entered half a dozen joint ventures with global aerospace companies to make spare parts and components. Mahindra Aerospace makes aircraft for general aviation and supplies aircraft spare parts and subassemblies from its factory near Bangalore.

[13] *Sagarmala: Building gateways of growth,* National Perspective Plan, Ministry of Shipping, Government of India, April 2016.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RIDING THE DIGITAL WAVE: HARNESSING TECHNOLOGY FOR INDIA'S GROWTH

Indian companies were key in the creation of an offshoring market for information technology (IT) services and have long been global players in the industry. The sector accounted for 26 percent of India's total merchandise exports in 2014–15 and has catalysed entrepreneurship in the country.[14] Nevertheless, most Indians have failed to reap the full benefit of the nation's technology expertise. The mobile revolution is a notable exception. In January 2016, the number of mobile phone users in India crossed the one billion mark on the back of affordable devices and some of the lowest call charges in the world.[15]

Now, a bigger technology revolution is emerging, one that will allow millions of Indians access to information, education, health care, and e-commerce. India already has the second-largest online population in the world (behind China), with an estimated 462 million Internet users by July 2016.[16] MGI has identified 12 technologies with similar explosive adoption potential, including digital technologies such as the mobile Internet, cloud technology, the automation of knowledge work, digital payments, and verifiable digital identity; technologies that will help control the physical world better, such as the Internet of Things, intelligent transportation and distribution systems, advanced geographical information systems, and next-generation genomics; and energy-related technologies, including advanced oil and gas exploration and recovery, renewable energy, and advanced energy storage. The digital technologies in particular are poised for explosive growth (Exhibit 8).

Combined, these technologies can increase the reach of basic services, raise productivity in manufacturing and farming, move goods and people more efficiently, and enhance access to clean water and stable power supplies. For instance, by MGI's estimates, remote health services using the mobile Internet for diagnostics and monitoring could improve health care for as many as 400 million Indians, and mobile payments could help some 300 million Indians gain access to banking services and credit. More than 50 cities in India could have better transportation and more efficient metering systems for electricity and water.

[14] Survey on computer software & information technology enabled services exports: 2014–15—data release," press release, Reserve Bank of India, December 8, 2015.

[15] "Highlights of telecom subscription data as on 31st October, 2015," press release, Telecom Regulatory Authority of India, December 2015.

[16] Internet and Mobile Association of India.

Exhibit 8

India is on the verge of a digital revolution

	2015	Potential in 2025
Internet access and smartphones	**~200 million** smartphone users **~350 million** internet subscribers (462 million by July 2016)	**700 million–900 million** smartphone users with mobile Internet access
Cloud computing	**~2 million** cloud computing users	**~20 million** cloud computing users (~50 percent of all small and medium enterprises)
Digital payments and digital identity	**1 billion** digital transactions **~1 percent** of addressable transactions linked to verifiable digital identity	**12 billion** digital transactions across 6 million small and medium-sized enterprise users **~100 percent** of addressable transactions linked to verifiable digital identity
Internet of Things	**<1 million** connected devices	**3 billion–10 billion** connected devices

SOURCE: McKinsey Global Institute analysis

The annual economic impact of such applications could be $550 billion to $1 trillion a year in 2025. That represents 20 to 30 percent of India's incremental economic growth from 2012 to 2025 and up to six times the current revenue of the IT services sector.[17]

Challenges

To capture the full potential of technology, India will need to bridge the urban-rural digital divide by addressing barriers such as limited telecom infrastructure, slow Internet speed, and low computer literacy. About 90 percent of the country has 2G mobile coverage, but most of it is not Internet-enabled. And although 3G coverage is rapidly expanding, quality remains low; dropped signals and peak overloads are common.

In a 2014 survey by the Internet and Mobile Association of India, 69 percent of respondents said they weren't aware of the Internet, and 33 percent said they lacked the digital literacy (defined as the ability to operate a computer) to get online.

With the rise of automation of knowledge work, the nature of work will change in a majority of occupations. MGI estimates that digitisation could lead to productivity improvements equivalent to the output of 19 million to 29 million workers in India in 2025. The overall impact on net job creation could be neutral to positive as technology opens new geographical markets and new segments of consumers. But potential jobs will be created only if employees are equipped to shift to higher-value-added work. The country's educational systems must be up to meeting this challenge.

[17] *India's technology opportunity: Transforming work, empowering people,* McKinsey Global Institute, December 2014.

India's technology services companies will also need to adapt. The global addressable market for them will likely expand to about $4 trillion by 2025, growing at an average annual rate of about 3.6 percent. However, half of the incremental growth will be funded by reductions in legacy IT spending, such as on infrastructure and traditional application development and maintenance.[18] Innovation and revenue productivity will become the new mantras for service providers.

New beginnings

The government has launched Digital India, an initiative to build a digital backbone of infrastructure and services. Bharat Net seeks to connect all of India's households, particularly rural ones, through broadband using public-private partnerships. Common Services Centers are being rolled out to provide computer access and e-government services in rural areas, and according to government data, about 100,000 are operational today, including some run by women's cooperatives. The modernisation of India Post is bringing digital payment services to some 155,000 post offices throughout India. Business process outsourcing facilities, such as call centers, are to be launched in smaller, rural towns.

Startup India is another government programme aimed at helping new companies get funding and cutting bureaucratic processes for registration, government approvals, and intellectual property rights filings. In January 2016, the prime minister announced that the government would raise INR 10,000 crore ($1.4 billion) for investment in venture funds intended to support a broad mix of Indian startups.

Meanwhile, India's entrepreneurs, backed by global and domestic venture capitalists, are using technology to bypass poor physical infrastructure. India is home to several unicorns (startups valued at $1 billion or more), including the e-commerce player Flipkart, the ride-hailing company Ola Cabs, and the mobile advertising platform InMobi.

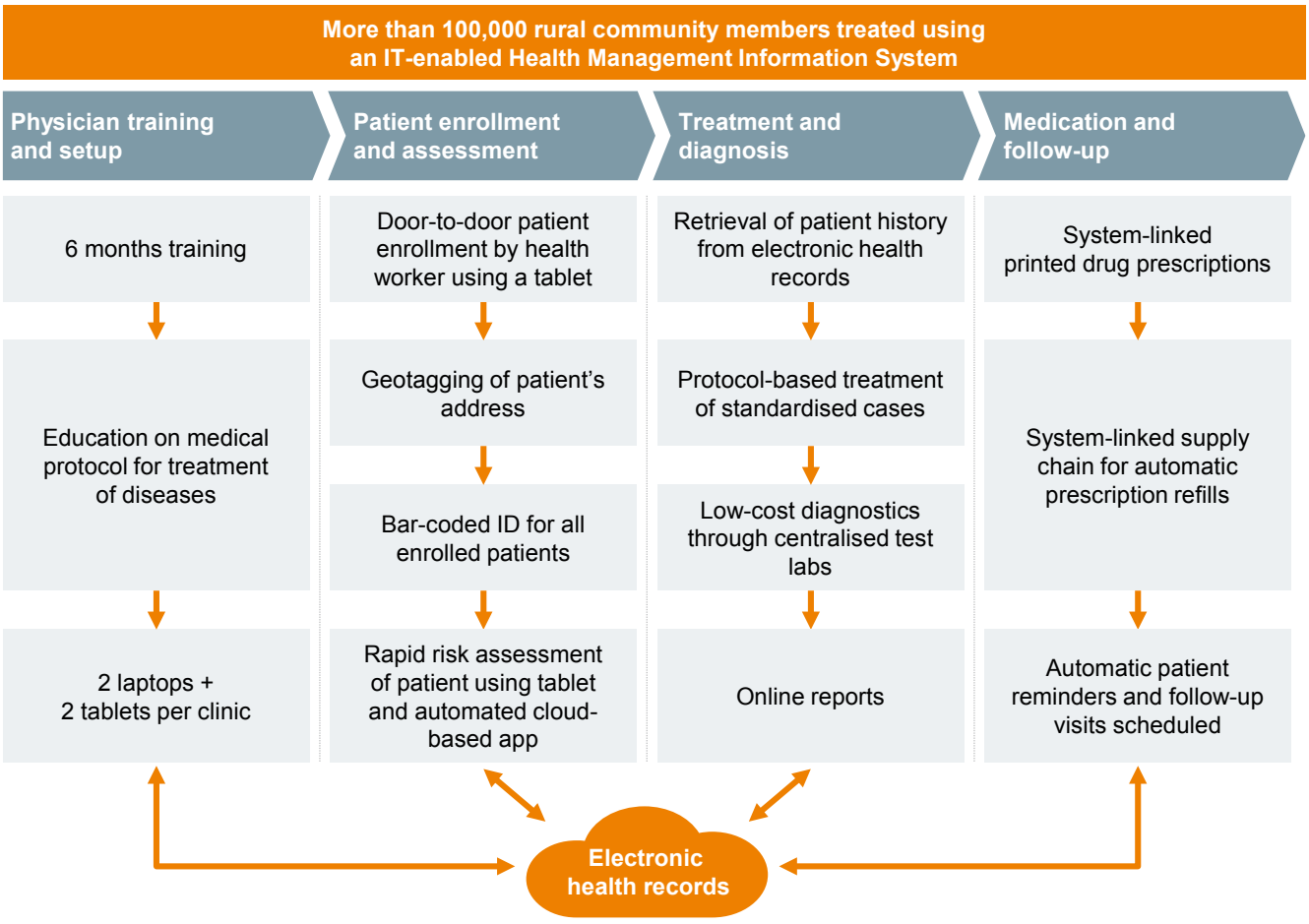
The Pradhan Mantri Jan Dhan Yojana programme for universal financial inclusion has led to the opening of more than 215 million electronic banking accounts since August 2015. The intention is to use these accounts in conjunction with the Aadhaar government identification programme (which covers one billion people) and one billion mobile phones—the so-called JAM (Jan Dhan–Aadhaar–mobile) trinity—to pay benefits directly to millions of Indians.

Technology is helping deliver primary and preventive health-care services in rural India, where local community medical workers are trained to use hand-held intelligent tablets (Exhibit 9). Meanwhile, Babajob, Merajob, Nanojobs, and other online job sites are connecting thousands of informal job seekers with employers, providing a valuable service at a cost of no more than a rupee a day.

[18] *NASSCOM perspective 2025: Shaping the digital revolution,* NASSCOM, October 2015.

Exhibit 9

Technology is enabling new services, such as remote health-care delivery in rural India



SOURCE: McKinsey Global Institute analysis

UNLOCKING THE POTENTIAL OF WOMEN: IF NOT NOW, WHEN?

Women are underrepresented in India's economy. MGI estimates that, at 17 percent, India's women have the lowest share of contribution to GDP in the world, lower than women in China (41 percent), Sub-Saharan Africa (39 percent), and Latin America (33 percent). Women in India make up just 24 percent of the workforce, compared with 40 percent globally.[19]

Closing gender gaps in education and expanding skills training could boost India's female labour force. The education gap between boys and girls has been virtually eliminated at the primary and secondary school levels and has been narrowing at higher levels. Girls' enrollment in secondary education was 62 percent in 2014, identical to that of boys, indicating no gender gap—but signalling a need to raise enrollment levels for both girls and boys. In tertiary education, female enrollment was 19.8 percent in 2012, while male enrollment was 22.3 percent.[20] Women with skills training in urban areas are more than twice as likely to be in the labour force as those without such training, and about twice as likely in rural areas.

In MGI's best-in-region scenario, in which all countries match the progress toward gender parity of the fastest-improving country in their region, the world could add $12 trillion to GDP in 2025. India could raise its GDP by $700 billion in 2025, the largest relative increase of the ten regions analysed by MGI. This translates into 1.4 percent a year of incremental GDP growth for India. Most of the increase would come from bringing 68 million more women into the economy over this period.

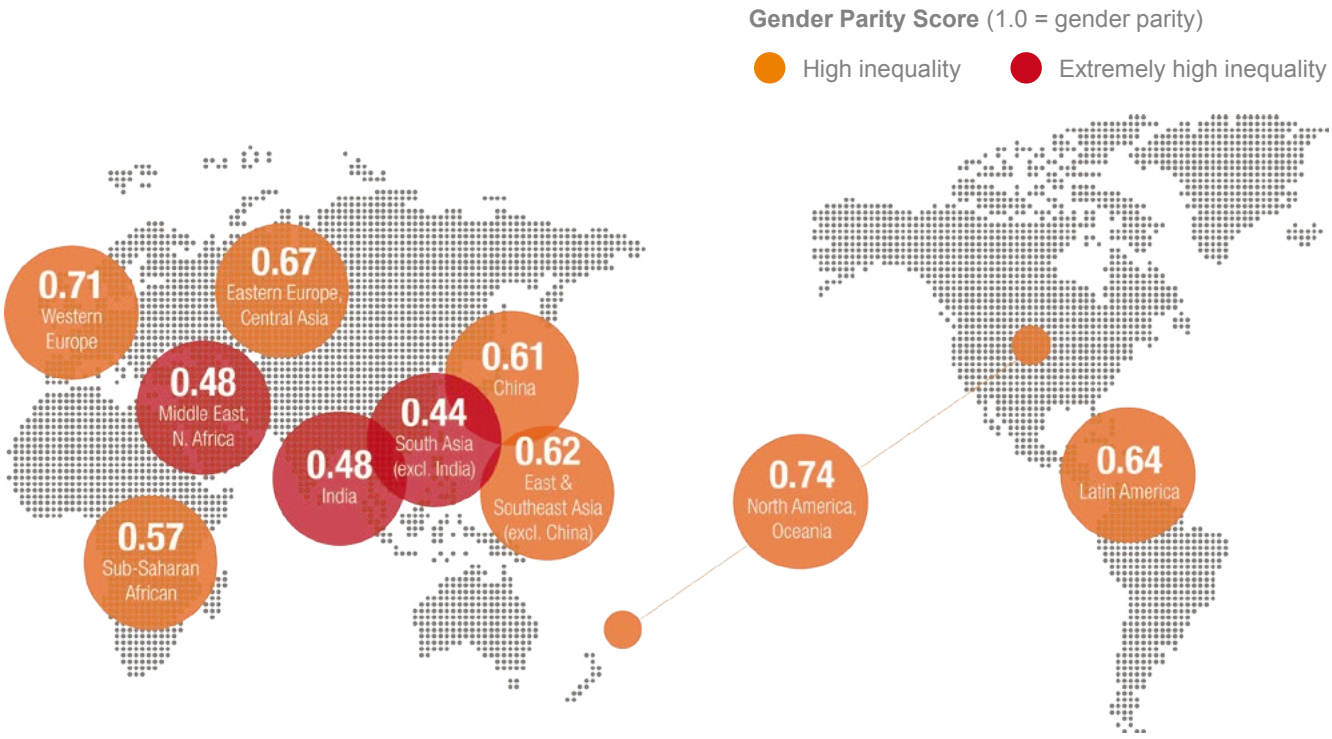
Challenges

For women to be equal participants in work, they will need to be equal partners in society. To understand the interplay, MGI mapped 15 gender equality indicators in work and society for 95 countries. The indicators fall into four categories, one pertaining to gender equality in work and the other three to gender equality in society (essential services and enablers of economic opportunity, legal protection and political voice, and physical security and autonomy). Using these, we calculate a Gender Parity Score, or GPS, a measure of where each country stands on a scale of 0.00 to 1.00. India's GPS is just 0.48, somewhat lower than warranted by its stage of economic development (Exhibit 10). Indian women do ten times the amount of unpaid care work that men do, compared with a global average of three times.

[19] *The power of parity: Advancing women's equality in India,* McKinsey Global Institute, November 2015.
[20] Based on data from Ministry of Human Resource Development, Government of India, 2012.

Exhibit 10

India's Gender Parity Score, 0.48, is amongst the lowest for any region in the world



SOURCE: McKinsey Global Institute analysis

We find wide variation in gender equality among India's 32 states (Exhibit 11). The top five states—Goa, Kerala, Meghalaya, Mizoram, and Sikkim—have gender parity levels comparable to those in Argentina, China, and Indonesia, while the bottom five states—Assam, Bihar, Jharkhand, Madhya Pradesh, and Uttar Pradesh—compare with Chad and Yemen. However, the top five states account for just 4 percent of India's female working-age population, while the bottom five represent 32 percent.

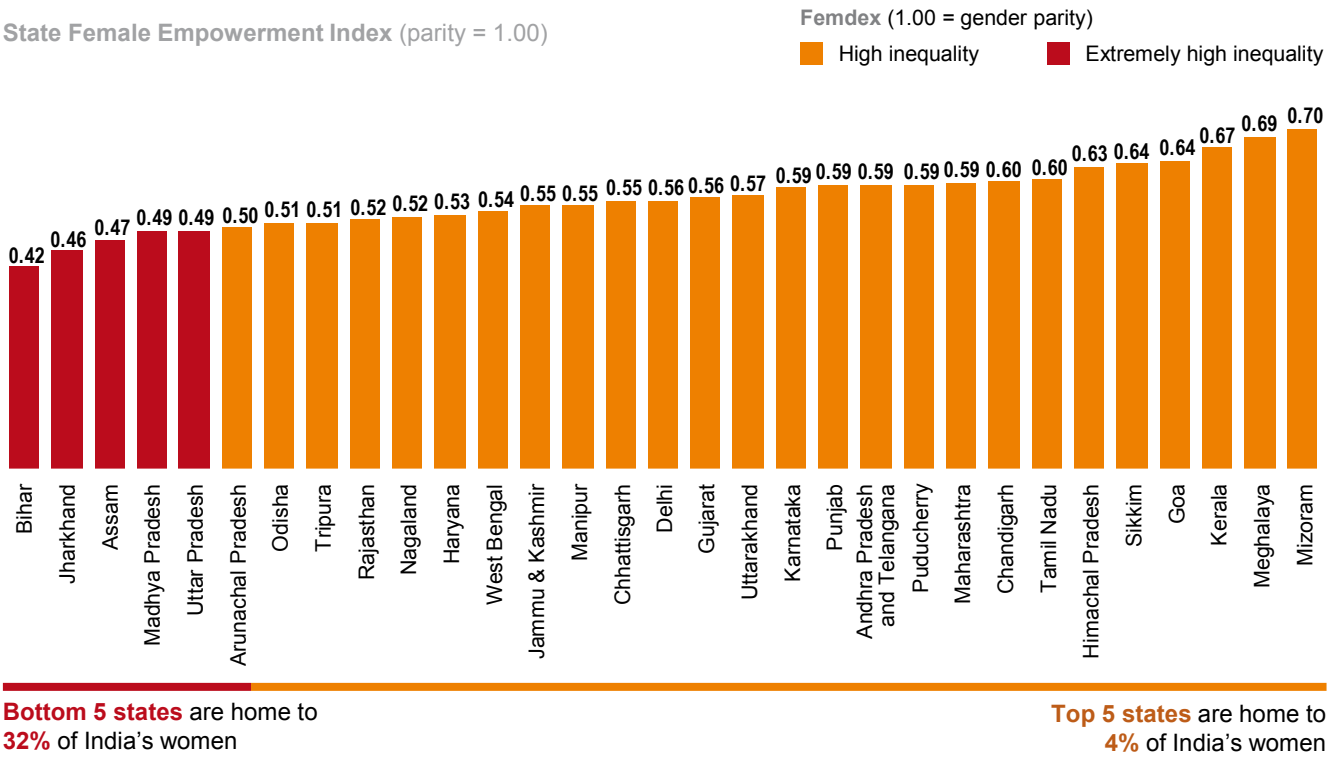
New beginnings

Despite the country's challenges, India's women aspire to participate and achieve more, and new approaches are proving effective in reaching them. India's larger private-sector companies are focusing on human resources policies and practices to promote gender diversity. One example is action by IT and business process outsourcing firms to provide safe transportation—physical escorts for women leaving work late, and tracking devices on vehicles to ensure that correct routes home are followed. These practices have yet to spread to small and medium-sized enterprises, or to women who work in small businesses that are part of larger companies' supply chains. Unilever's Project Shakti, which has trained more than 70,000 rural women to become distributors of personal care products in rural India, has both increased market penetration among target consumers and created livelihoods for women in the informal sector.

Innovative approaches are being used to address other gender issues, too. The Bell Bajao (Ring the Bell) campaign, launched in 2008 to increase awareness of domestic violence and the legal protections available, employs TV and radio content, celebrity endorsements, video vans, and street theatre to reach more than 200 million people. Today, urban and rural Indians alike are viewing #Sharetheload, an advertising series by Procter & Gamble that draws attention to the societal attitude that doing laundry is exclusively a woman's job.

Exhibit 11

Within India, states vary in gender parity



Bottom 5 states are home to **32%** of India's women

Top 5 states are home to **4%** of India's women

SOURCE: McKinsey Global Institute analysis

The government is attempting to bring about change in mindsets and behaviours. For instance, the prime minister's Beti Bachao, Beti Padhao movement is a campaign in 100 selected districts to prevent gender-biased sex-selective abortion and ensure the survival, education, and participation of the girl child. The government's economic programmes could also be used to empower women. Make in India could address sectors where women can find greater employment (and where India can build competitive advantage), such as garment manufacturing, electronics assembly, rural business process outsourcing, health-care services, and tourism. The Skill India programme could consider expanding training courses for women. For example, almost three-quarters of the vocational courses chosen by women relate to textiles and garments, computers, health care, and beauty services, but tourism services and manufacturing might also be relevant. Improving infrastructure for household water and sanitation under the Swachh Bharat (Clean India) mission will help ease the domestic chore burden of India's women. The MUDRA scheme for small enterprise loans could help female micro- and small entrepreneurs get access to credit and build financial literacy and entrepreneurship skills.


2016
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REALISING INDIA'S PROMISE

India is a strong and vibrant market full of entrepreneurial energy. Notwithstanding the blight of poor infrastructure and red tape, it is one of the fastest-growing large economies in the world. Technology is helping the country pull ahead by serving as a unifier and opening doors for citizens as well as for businesses. But companies operating in Indian markets will have to address the economy's complexities. India's government agencies too must ramp up their capabilities and become much more results-oriented if they are to meet the enormous challenges of translating a billion aspirations into reality.

FOUR PRINCIPLES FOR BUSINESS LEADERS TO WIN IN INDIA

Successful companies in India will approach the country with a tailored business model. India remains a study in contrasts. Its consumers are aspirational but also value-conscious. It is a complex market from a regulatory standpoint, yet one where empowered leaders in government can do much to enhance transparency and accelerate decision making. Its federal and increasingly decentralised structure can make policy unpredictable. Patient capital has the best chance of success. Businesses would do well to follow four approaches:

Customise the organisation and operating structure

For multinational businesses, building a leadership position in India requires being willing to radically change a company's organisation and operating structure from what works in the home market. India typically demands a lower cost structure, a more agile and empowered country management team, and a production and distribution model that adjusts to challenging infrastructure and operating conditions. One leader in the beverage industry, for example, introduced a third-party, entrepreneur-owned distribution system, deviating from its global business model of company-owned distribution. This approach improved reach and lowered costs, and it has become an operating model the company uses across Asia. Technology-based innovation can help develop products and services that the Indian consumer values. A consumer products multinational company, for instance, developed a laundry detergent that reduced water consumption and rinsing time by as much as 50 percent in response to water scarcity in many Indian cities.

Build business models to target local microsegments

Many companies still make business decisions at the national level. Those who compete in India will need to push past national averages and seek deeper, more granular market insights at the level of states, cities, or metropolitan clusters. Companies should price products and develop marketing strategies at the city or state level and offer features that local consumers value. For instance, in the automotive sector, a leading passenger vehicle company dissected its target market into more than 300 niche segments in rural India. The segments, based on geography and occupation, ranged from potato growers in West Bengal to blue pottery makers in Jaipur to painters in Madhubani. A customised strategy targeted each segment. The company's rural share of revenue increased almost eight times over a five-year period, even as total revenues grew about 16 times.

Win in Bharat

Meeting the aspirations of Bharat—shorthand for rural India, but also representing poorer urban India—is high on the nation's agenda. Those wanting to build successful businesses in India should understand the opportunities offered at the base of the pyramid. One major chemical company, for example, joined forces with the government to launch iodised salt.

The company gained valuable exposure and knowledge of rural consumer marketing, and its brand became more widely trusted because it was associated with the government's health and nutrition initiative. Companies would also do well to offer concrete ideas and pursue actions that can help India achieve broad-based growth—for example, by deepening rural supply chains to create new jobs and market access, or providing low-cost but efficient energy and communication technologies.

Invest for the long term

Short-term capitalism forces businesses to live in fear of a dip in quarterly earnings and market share, but success in India requires patience. In a nation that is changing rapidly, regulations and policies are often works in process. Strong joint ventures and alliances between local and global players can speed up access to markets and know-how. But business leaders—global as well as Indian CEOs—must be supportive and committed through up-and-down cycles.

FOUR PRINCIPLES FOR GOVERNMENT LEADERS TO ENCOURAGE CHANGE

A new generation of Indians is now unwilling to accept anything less than a decent standard of living for all. These Indians aspire to a nation where every citizen can fulfil his or her inherent right to basic dignity and economic opportunity. With sufficient political will, commitment to good governance, and innovative approaches to provision of services, government leaders can shape a future in which citizens can realise their potential. Four principles could lay the foundation for governance reform:

Create "change organisations" to execute large-scale transformation

Improving productivity across government requires thoughtful organisational changes. The skills required to draft a policy and those needed to execute it are different. Experience shows that few individuals excel at both. We argue for a formal separation of these roles. Governments could create agencies with very clear mandates to implement specific programmes, led by change agents with industry expertise, or indeed by high-performing civil servants. These agencies would be governed by a "tight-loose" management approach—that is, they would be held accountable for outcomes but could choose their own methods, operating models, and partnerships with external agents (as opposed to the "loose-tight" approach predominant today). The Unique Identification Authority of India is one example; a quasi-independent agency mandated to issue personal identification numbers to citizens, it has significant flexibility in running its operations.

Harness finance and HR functions to monitor outcomes

Like CEOs, political leaders require strong finance and human resources support to carry out change programmes and sustain improved performance. Creating a true finance function, analogous to a chief financial officer role, can promote performance measurement and improvement. Linking spending to results and tracking them would help public servants change their focus from process and procedures to achieving meaningful outcomes. One approach could be for every chief minister to set up a finance and implementation office to establish targets and milestones. The office would enable the leadership to monitor progress through weekly reports and daily interventions. Similarly, a human resources function can be created with the mandate of an explicitly results-oriented approach to appointments and promotions. This could help governments counter and change poor perceptions of the civil service and get more from the workforce.

Improve and integrate specific capabilities

To become more efficient, the government needs to build a range of functional capabilities. These include private-sector-style procurement and supply-chain expertise; deep technical skills for planning portfolios of infrastructure investments, and strong project management capabilities to ensure that large capital projects are completed on time and on budget; and training staff members to use digital technologies to automate and re-engineer processes,

manage big data and advanced analytics, and improve citizen interactions through digitisation of touchpoints, online access platforms, portals, and messaging and payment platforms. The government could acquire these capabilities through quality-oriented procurement policies and secondments from the private sector.

Make public information and service effectiveness more transparent

Raising public consciousness through transparency is a vital component of strengthening accountability in the government. India's massive digitisation effort should help get government data into shareable formats that are much more accessible to a broad user base. Greater government disclosure and more open data could enhance accountability through measures like creating public scorecards at the state, local authority, and specific desk or office levels. For example, state governments could publicise targets and offer quarterly performance progress reports within each priority area. Such approaches have helped some countries accelerate their efforts to improve rural water supply and schools.

•••

No single note can capture all the changes taking place in a nation clearly on the move, but we have presented a cross-section of some of the most significant opportunities with potential for deep and widespread economic impact. Foreign and Indian businesses would do well to shape their strategies with these trends in mind. The challenge for Indian policy makers is to help all stakeholders capitalise on these growth drivers. Purposeful actions can help accelerate the country's ascent to a global economic force from which all Indians benefit.

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McKinsey Global Institute
August 2016

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