

SIGNIFICANCE OF NON-FARM RURAL SECTOR FOR THE DEVELOPMENT OF RURAL AREAS

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ABSTRACT

In India, greater part of population depends on primary sector and engaged in farm activities. It is a universally accepted fact that the agricultural sector is, by itself, incapable of creating additional opportunities of gainful employment in the wake of increasing population. So, pressure on land should be reduced by giving priority to non-farm activities. Then, they play crucial role in reducing unemployment, poverty and enhances development activities in rural areas. The significance of the non-farm sector is even more pronounced in the agriculturally backward and low productivity regions. This paper is focussed on to study the significance of non-farm rural sector in the overall development of rural areas.

Keywords: Agricultural sector, Growth and development, Non-farm activities, Non-farm sector.

Introduction

The Indian economy developed at an amazing rate in the most recent decade and demographic pressure also slowed. Rural Non- farm employment can play a potentially significant role in reducing rural poverty and numerous studies indicate the importance of non-farm enterprise to rural incomes. The level and growth in urbanization is expected to have a positive effect on the level of non-farm employment in rural areas. In numerous zones, agriculture alone cannot provide sufficient livelihood opportunities. Migration is impossible for everybody. The farm and non-farm sectors are the two components of the rural economy and have been changing in structure through diversification of activities.

Rural Development: Rural development is the process of improving the quality of life and economic well-being of people living in rural areas and isolated areas. Rural development aims at finding the ways to improve the rural lives with participation of the rural people themselves so as to meet the required need of the rural area.

Non Farm Sector: There are two alternative approaches to define rural-non-farm activities (Saith, 1992). The first is the locative approach in which the primary criterion is that a Rural Non-Farm activity is performed in a location which falls within a designated rural area. The second is based on the linkage approach where an industrial enterprise generates significant development linkages with the rural areas. Rural-Non-Farm-Sector (RNFS) includes all economic activities *viz.*, household and non-household manufacturing, handicrafts, processing, repairs, construction, mining and quarrying, transport, trade, communication, community and personal services etc. in rural areas. The rural non-farm economy (RNFE) may be characterized as including all those activities associated with waged work or self-employment in income generating activities (including income in-kind) that are not agricultural but which generate income (including remittances etc.) in rural areas. In some contexts rural non-farm activities are also essential sources of local economic growth (e.g. tourism, mining, timber processing, fish business, etc). The promotion of diversification of activities may be an important component of poverty alleviation in rural areas. The rural non-farm economy can't be considered homogenous; rather it is described by its heterogeneity, incorporating self-employment, micro-, small- or medium-sized enterprises (MSMEs) and trade activities.

Literature Review

Association between urban growth and the rural non-farm sector is stronger if the urban center is a small town than if it is a large city (Lanjouw and Murgai, 2010).

Byerlee, Diao and Jackson review 12 country case studies and use bivariate analysis to compare agricultural growth per worker across countries. They show that the countries with the highest agricultural growth per worker experienced the greatest rate of rural poverty reduction (Byerlee, Diao, and Jackson 2009).

According to the 2004 NCAER-University of Maryland India Human Development Survey, nearly one-half (48%) of the income of the average rural household comes from nonfarm earnings (Dubey, 2008).

The situation is especially disconcerting in the rural sector. Employment in rural sector, which is associated mostly with agriculture, has stagnated during the 90s (Jha, 2006).

Productivity growth can catalyze a wide range of direct and indirect effects that mediate the pathways to poverty alleviation (Thirtle et al., 2003).

A study of Vietnam found that the lowest level of poverty in rural areas is among households whose income stems solely from off-farm self employment. (Van de Walle, 2000).

A longitudinal study of Palanpur, a village in north India, documents that the distributional impact of non-agricultural employment opportunities has shifted from equalizing to disequalizing over time. (Lanjouw and Stern, 1998).

Social status (proxied by caste) in rural Gujarat, after controlling for education and other personal characteristics, exercises an important, independent, influence on access to high-productivity non-agricultural occupations. (Unni 1997).

Basant (1994) finds, in a survey of rural employment in the Indian State of Gujarat, that 25% of rural male non-agricultural workers commuted to urban areas for work.

Objectives of the Study

1. The main objective of this study is to explore the significance of non-farm rural sector in the development of rural areas.
2. To find out the challenges faced by the rural non-farm sector in India.
3. To study the programmes and policies of Government of India.

Research Methodology

This current study has been exploratory in nature where pertinent information has been gathered from various secondary sources of data, such as, journals, books, websites, Government of India reports, etc.

Significance of Non-Farm Sector

In India too, the small-scale sector, including traditional village industries, contributes nearly two-thirds of organized sector employment. After a period of sustained expansion in the 1980s, however, growth in output and employment in this sector has fallen significantly. During the 1990's, India witnessed a decline in the share of rural nonfarm manufacturing in national GDP.

Non-farm employment is important to small and marginal farmers, as well as for the landless, which cannot derive sufficient income in the agricultural sector. They also find the NFE to be an important safety net to rural households in times of agricultural distress. They estimate marginal and landless households to spend between 20 and 50 percent of their working days on non-farm activities. The growth of the real per capital non-agricultural output can have a significant impact in reducing rural poverty if growth exceeds its usual trend.

The importance of the rural non – farm sector in poverty alleviation and promotion of livelihoods is being increasingly recognized, with its share of less than 30 per cent in GDP, agriculture has to bear the burden of more than 60 percent of the workers. Migration to urban areas is not a solution as towns and cities have their own problems of demographic pressures.

To increase wages in agriculture and to shift workers to more productive areas, promotion of the rural non – farm sector is advocated. An increase in rural non – farm employment is one of the main factors responsible for the reduction in poverty in the 1980s.

The importance of the NFS activities in rural areas stems from the basic characteristics of the Indian Economy. The available data reveal that the number of persons engaged in non-farm activities has been gradually increasing over the years which could be attributed to the growing population, land scarcity, increasing number of female labour participation and the low rate of labour transfer to industries in the organized sector.

It needs to be noted that with about one-third contribution to employment and over 60 percent in GDP, the non-farm sector is now an important segment of the rural economy of India. And it has shown significant dynamism, in so far as its growth, both in terms of employment and output has been not only faster than in agriculture but also faster than in urban areas. As a result, its share in rural employment increased from 19 percent in 1980 to 27 percent in 2004-05. It further increased to 32 percent in 2009-10.

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Changes in Rural Employment Structure (%)

Sector	1983	1993-94	2004-05	2009-10
Agriculture	81	78	73	68
Non-agriculture	19	22	27	32

Source: NSS Reports: Employment and Unemployment situations in India.

Informal Sector Enterprises among workers engaged in AGEGC and Non-Agricultural Sectors

Category of Workers	61st round (2004-05)	66 th round (2009-10)	68 th round (2011-12)
	Rural		
Male	79.2	74.2	76.2
Female	86.4	74.4	72.7
Person	81.6	74.2	75.2
	Urban		
Male	73.9	68.5	70.4
Female	65.4	61.6	63.6
Person	72.2	67.3	69.1
	Rural+Urban		
Male	76.7	71.5	73.4
Female	79.7	69.8	69.2
Person	77.5	71.1	72.4

AGEGC and non-agriculture sectors: Industry groups/ divisions 014, 016, 017, 02-99 of NIC-2008.

Source: NSS Report No. 557(68/10/2)

NSS 68th round results show that a high proportion of AGEGC and non-agriculture sector workers, in both the rural and urban areas, work in the informal sector. The above table suggests that, among workers in the AGEGC and non-agriculture sectors, about 72 per cent were employed in the informal sector.

Handlooms

Handlooms from a part of India’s heritage and exemplify the richness and artistry of the weavers. The handloom industry is the largest direct and indirect employer (more than 3.0 million weavers and 12.4 million other persons) among traditional industries.

Dairy Sector

Dairy sector is important not only as the producer of highly nutritious food products, but also for the sustenance of poor farmers and over all prosperity of the farming community.

India is the largest producer of milk in the world. Several measures have been initiated by the Government to increase the productivity of milk animals, which has resulted in increasing the

milk production significantly from the level of 102.6 million tonnes at the end of the Tenth Plan (2006-07) to 127.9 million tonnes at the end of the Eleventh Plan (2011-12). The Annual growth rate for production of milk is about 5% in 2011-12 compared to 2010-11.

MILK PRODUCTION IN INDIA

YEAR	MILK PRODUCTION(in million tonnes)
1950-51	17.0
1960-61	20.0
1970-71	22.0
1980-81	31.6
1990-91	53.9
2000-01	80.6
2010-11	121.8
2011-12	127.9
2012-13	132.4
2013-14	137.7

Source: Department of Animal Husbandry, Dairying & Fisheries; Economic survey 2014-15

The milk production of India has gone to 17.0 million tonnes in 1950-51 to 137.7 million in 2013-14. It is the big progressive stage achieves by Indian non farm sector. This dairy farming has given a new identity for non-farm sector to rural development in India. So therefore we can say that this is the great transformation in rural non-farm sector.

Shoe-maker, Carpenter, Potter, and Blacksmith

These are ancient activities of Indian rural non-farm sector. Generally the shoo-making activity was very significant for rural people, because that time the shoe making within the medium of leather, therefore the production cost was very low. In the present day situation, this production system going to vanishing, on the grounds that the new innovation created of fibre shoo. Carpenter has something secure situation contrasted to this activity, as well as potter and blacksmith activities conflict something with modern technology, but their new version boost them to being develop and transformation of rural non-farm sector.

Fish Business

Fish business is generally stabled in coastline of Indian sea, and it is also contained in non-farm sector. In 1950-51, India's fish production was just 752 thousand tonnes and it reached to 3836 thousand tonnes in 1990. It further increased to 9040 thousand tonnes in 2012-13.

FISH PRODUCTION IN INDIA

YEAR	PRODUCTION(in thousand tonnes)
1950-51	752
1960-61	1160
1970-71	1756
1980-81	2442
1990-91	3836
2000-01	5656
2010-11	8400
2011-12	8700
2012-13	9040

Source: Department of Animal Husbandry, Dairying & Fisheries; Economic survey 2014-15

Poultry Business

Poultry Development has been a household activity in India. However, scientific poultry production in India gained momentum during the last four decades due to concerted efforts of the Government of India through policies, institution and focused research and the initiatives taken by the private sector.

The poultry sector has emerged from entirely unorganised farming practice to commercial production system. Poultry sector is providing direct or indirect employment to people, and is also a potent tool for subsidiary income generation for many landless and marginal farmers. It also provides nutritional security especially to the rural poor.

Rural non-farm activities are social and economic stabilisers. They are contributing to the community in the following ways:

- 1. Link between community and government:** The authorities can utilise the rural non-farm sector's links for collecting information on the community and also used to broaden community participation.
- 2. Stimulate local economies:** Commercial banks and regional rural banks are offering small loans to the rural non-farm sector so that the people engaged in non-farm activities can purchase assets and also rebuild their asset base. This can help in reviving the livelihoods of the people who are engaged in this sector but also stimulated domestic and village economies. The recovery of one leads to the recovery of others.
- 3. Livelihood opportunities for the marginalised:** It also offered opportunities to marginalised groups including women, unskilled youth, handicapped persons, migrants, indigenous people, and minorities to kick start their lives after a natural disaster, achieve some independence, and reduce their poverty levels.
- 4. Alternative source of income:** Rural non-farm sector works as an alternative source of income for rural people.

Government Programmes and Policies

- 1. MGNREGA:** The MGNREGA was initiated with the objective of "enhancing livelihood security in rural areas by providing at least 100 days of guaranteed wage employment in a financial year, to every household whose adult members volunteer to do unskilled manual work". Another aim of MGNREGA is to create durable assets (such as roads, canals, ponds, wells). Employment is to be provided within 5 km of an applicant's residence, and minimum wages are to be paid. If work is not provided within 15 days of applying, applicants are entitled to an unemployment allowance.

Thus, employment under MGNREGA is a legal entitlement. Apart from providing economic security and creating rural assets, NREGA can help in protecting the environment, empowering rural women, reducing rural-urban migration and fostering social equity, among others.

2. Various schemes under The Khadi and Village Industries Commission (KVIC):

The Khadi and Village Industries Commission is a statutory body formed by the Government of India, under the Act of Parliament, “Khadi and Village Industries Commission Act of 1956”. It is an apex organization under the Ministry of Micro, Small and Medium Enterprises, with regard to khadi and village industries within India. Schemes under KVIC are follows:

- **Prime Ministers Employment Generation Program (PMEGP):** The Prime Minister's Employment Generation Programme (PMEGP) is the result of the merger of two schemes - Prime Minister's Rojgar Yojana (PMRY) and The Rural Employment Generation Programme (REGP). Under the scheme, the beneficiary is required to invest his/her own contribution of 10 per cent of the project cost. In case of Schedule Castes/Schedule Tribes and beneficiaries from other weaker sections, the beneficiary's contribution is 5 per cent of the project cost. The remaining 90 and 95% as of the project cost, as the case may be, is granted by banks specified under the scheme. The Beneficiaries under the scheme are refunded a certain amount of the loan (25% for general, 35% for weaker sections in rural areas) which is credited after three years from the date that the loan was extended.
- **Interest Subsidy Eligibility Certification Scheme (ISEC):** The Interest Subsidy Eligibility Certificate (ISEC) Scheme is the major source of funding for the Khadi programme. Under this scheme, loans are provided by the banks to the members to meet their working/fixed capital requirements. These loans are provided at a concessional interest rate of 4% p.a. The difference between the actual interest rate and the concessional rate is borne by the commission

under the 'grants' head of its budget. Only those members who are producing Khadi or Polyvastra (a type of Khadi) are eligible for this scheme.

- **Rebate Scheme:** The rebate on sales of Khadi and Khadi products is made available by the Government so as to make the price of Khadi and Khadi products competitive with other textiles. Normal rebate (10 per cent) all through the year and an additional special rebate (10 per cent) for 108 days in a year are given to the customers.
- 3. Setting up of rural focal points:** Rural focal points were set up to support and sustain rural industry in a cluster like approach. Under the focal points strategy, common infrastructural facilities are created for a cluster of villages at an identified central point location. A focal point is supposed to serve as a central growth point hosting village level agro-service facilities, a primary agricultural co-operative society, a market yard for sale and purchase of food grains and a number of agricultural processing industries, etc.
 - 4. Promotion of handloom industry and handicrafts in villages:** Many programmes are initiated for the development of handicrafts in the rural as well as in the urban areas. The main thrust of these programmes is to develop new designs for the products, expansion of the market and the provision of training facilities for those who are involved in the manufacturing of these products. Under this scheme, bamboo work, doll making, clay modelling, carpets, ivory laid work, fancy leather, artistic furniture, etc. are promoted. Other schemes for the promotion of handicrafts including the organization of study tour of master craftsmen, supply of improved tools and equipment, and provision of raw materials are also initiated in the different regions of the country.
 - 5. Development of sericulture:** Another important measure initiated by the government for promoting non-farm employment is related to the development of sericulture in rural areas. Basically, this step has been taken to provide gainful employment to rural households at their doorsteps. This profession is adopted by the poorest and mostly

landless rural households. Promotional measures include the supply of disease-free silk sheds, increased cultivation of mulberries and introduction of new techniques.

- 6. Integrated Rural Development Programme (IRDP) and SGSY:** It was started throughout the country in 1980. The main objective of IRDP was to assist below poverty line (BPL) households in setting up self employment ventures in order to get out of the poverty. Under this programme, the main economic activities encouraged were the dairy, stitching, mule carts, shop keeping, carpentry, black-smithery, etc. The programme continued for the next 19 years (up to March 1999), and since April 01, 1999 it was merged with a new scheme, namely, Swaran Jyanti Gram Swarozgar Yojna (SGSY). The new scheme focused on small groups of beneficiaries instead of approaching the households below the poverty line individually. Under the scheme, persons below the poverty line are encouraged to form self help groups for creating self employment ventures.

Challenges Faced by the Rural Non-farm Sector in India

- 1. Small firm size:** The rural poor either rely on earnings from self-employment in small scale, often scattered across large areas. Also, asymmetry in power and information between small and large firms raise oligopolistic abuse of market power.
- 2. Diversity across rural India:** India is a very diverse in terms of culture, religion and language. Not only geographically, but in terms of availability of natural resources, asset distribution, economic policies, demographics, credit policies and educational systems amongst others. Hence, it becomes extremely difficult to implement one single policy that will serve the needs of India.
- 3. Role of women and social groups:** There is a large gap between the policies and implementation regarding gender inequality. Despite of the existence of gender inequality, very little is actually done at grass root level for gender mainstreaming. Regularly women are excluded from the decision making roles in the community level committees and are not even informed about them; making them vulnerable.

This gender based exclusion can be further exacerbated by caste, creed and religion. This disparity must be addressed so every member of the community can contribute to the growth of rural non-farm sector. There has been an increase in the participation of women's activities, which is creating a positive impact and is changing the thinking patterns.

4. **Lack of co-ordination among public and private sector:** Despite financial significance of rural non farm economy, it remains an institutional orphan – unclaimed by any single government authority but influenced by many. On the other hand, private firms work in their own interest of making large profits by exploiting resources. This absence of coordination between the private and public sector makes it exceptionally hard to implement policies. Therefore, the growth of rural non-farm economy is very slow.
5. **Lack of infrastructure:** Absence of infrastructure and high rate of illiteracy and lower skills will hinder the growth of rural nonfarm sector. The expansion of roads, transport, communication and buildings will offer non-farm occupations to individuals but will give means to survive in the future. The rural enterprises can promptly acquire materials and market them in the urban centres to earn profits.

Suggestions

The rural nonfarm economy has become too enormous for policy makers to disregard. In place for the rural non-farm economy to develop it is imperative that the policy makers concentrate on alleviating poverty and strengthen both rural supply and demand side policies. The following areas should be considered for policy changes:

1. **Investments in productive activities and infrastructure:** The rural non farm economy must be developing robustly. The growth in non farm economy will require investments in productive activities and infrastructure. For the development of rural non farm sector, it is inescapable to develop good road transport. This will open up numerous avenues for both marketing of goods and services produced by rural

enterprises and procurement of raw materials. Road network give will a chain of forward and regressive linkages and will encourage advancement.

2. **Up gradation of traditional methods of production:** Upgrading and redesigning the traditional techniques of production that is utilized by the rural population will decrease the reliance on climate and natural resources, and would enhance the efficiency of rural enterprises and agriculture. Improvement in the quality of goods will boost sales.
3. **Provide employment opportunities:** The government must provide employment opportunities in the rural areas; and ensure that the posts are filled by rural populations.
4. **Workshops and training programs:** The government must ensure that training programs and workshops are held periodically to develop new skills and abilities to lessen the reliance on agricultural activities.
5. **Improvement in education standards:** There should be a greater focus on improving educational standards in rural areas which can help the people in understanding the modern techniques and methods of operations.
6. **Better business environment:** The government should make efforts in developing an environment that can help small enterprise to grow and flourish.
7. **Easy Availability of credit:** The government should make arrangements and provide loans to needy persons who are engaged in non-farm activities in rural areas for expand their operations.

Conclusions

The rural non-farm sector has traditionally been viewed as a low-productivity sector which produces low quality goods. Rural Non- farm activities may absorb surplus labour in rural

areas, help farm- based households spread risks, offer more remunerative activities to supplement or replace agricultural income, offer income potential during the agricultural offseason and provide a means to cope or survive when farming falls. The basic purpose of the government measures for the development and growth of rural industries, handloom and handicrafts in rural areas has been to modernize the production structure and improve the designs of the products to enable them to face the competition from factory produced items. So the policies must aim to improve the assets held by the poor or increase their productivity. Due to its relative importance, development of the rural non-farm sector should receive close attention in the coming years.

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