

ROLE OF RURAL NON-FARM SECTOR IN RURAL DEVELOPMENT OF INDIA

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This paper precisely analyses the concept of Rural Non-farm sector, its importance, present scenario and problems faced by this sector and suggest policy implications to strengthen its role in rural development of India.

The non-agricultural activities in rural areas are called Rural Non-farm sector (RNFS). The RNFS is defined as the sector which includes all economic activities in rural areas except agriculture, livestock, fishing and hunting. It is not a homogeneous sector, it may include,

- (i) activities taken by farm households as independent producers in their homes;
- (ii) the sub-contracting of work to farm families by urban based firms,
- (iii) non-farm activities in villages and rural town entrepreneurs and
- (iv) commuting between rural residents and urban non-farm jobs. (Lanjouw and Lanjouw)

Thus, RNFS includes a wide range of economic activities whose composition may vary from country to country. THE RNFS comprises non-agricultural activities, mining and quarrying, household and non-household manufacturing, processing, repairs, construction, trade and hoteling, transport and communication, community, personal and other services in rural areas.

However, RNFS concept has certain limitations

- A. The definition of rural settlement on the basis of size of population varies.
- B. The figures of RNFS refer only to primary employment but primary employment

status underestimates the actual percentage of labour hour engaged in RNFS in slack season of agriculture.

- C. There is possibility that RNFS enterprises may be missed by survey since they are very small and dispersed.

The dichotomy in RNFS should be recognised when analysing RNFS and its linkage with farm sector. Rural Non-Farm sector can be classified into informal and formal sector. Informal RNFS further classified into modern and traditional RNFS.

The modern RNFS further categorised into modern establishment and modern non-establishment sector. Similarly, Traditional RNFS classified into Artisans (viz. carpenter, cobbler, black smith & potter etc.) and Service workers (viz. barber, washermen, sweeper of etc.) on the basis of caste. In this classification the agricultural development may have an adverse effect on traditional RNFS, specially on artisans. Traditional service workers may not be adversely affected because Jajmani System is more likely to be replaced by market mechanism.

The RNFS possesses following various characteristics:

- I. The size of RNFS enterprises is very small across the countries.
- II. It comprises activities with a wide range of labour productivities that mainly grouped in two categories;
 - a. low labour productivity serving as a residual source of employment and
 - b. high labour productivities.

- III. The intensity of participation in RNFS activities is associated with population pressure.
 - IV. A low-wage employment outside agriculture is taken up by the involuntarily unemployed agricultural labourer.
 - V. V Males have comparative advantage over the females in RNFS activities as they travel away from home easily and earn a higher wage-rate.
 - VI. It is not clear that inequality in distribution of income increases or decreased due to participation in RNFS activities.
 - VII. The seasonality of employment in RNFS activities is found often and these may be grouped into two categories;
 - a. those competing with agriculture for labour and run parallel to agriculture cycle and
 - b. those are complementary to agriculture and are taken up during agricultural slack period and linked to agriculture through market demand.
 - VIII. RNFS income may stabilize income by spreading risk through diversification.
- RNFS can lower unemployment by absorbing growing labour force in rural areas.
 - Reduce rural-urban migration and thereby contribute in easing urban congestion and lowering pressures on scarce urban infrastructure facilities.
 - It employ women and produce seasonal employment or residual employment for those left out of agriculture and for the poor who cannot find sustenance in agriculture since they are small land holders or landless.
 - Use more appropriate technology, particularly in small scale rural manufacturing and thus generate greater income from available productive inputs.
 - Improve household securing through diversification.
 - It contribute to national economic growth.
 - It provide commonly consumed goods at lower prices which are mostly demanded by the poor.
 - It is more helpful in equitable distribution of income since redistribution of income through tax-transfer mechanism is politically and administratively difficult in developing countries like India.

IMPORTANCE

The Planning authority of India have been taken resolution in Third Five Year Plan that it is one of the primary objects of the five-year plans to ensure fuller opportunities of work and better living to all sections of the rural community and in particular, to assist agricultural labourers and backward classes to come up to the level of the rest'. Thus, it is argued that in a situation of rural work force growing faster than the employment potential of agriculture, RNFS has positive role to play in promoting growth and welfare of rural economy due to following reasons:

About 69 percent population lives in rural areas and many of these people depend on farm sector for their livelihood as it is only means of subsistence. The under employment ratio for rural and urban areas were 41.8 percent and 25.4 percent respectively, the same ratio for males and females were 26.2 percent and 53.7 percent respectively.

The following table-1 shows the overall picture of rural labour force in India.

Table-1**The share of labour force, Average annual change and growth rate in rural sector**

Sector / Sex	Percentage shares of labour force by sector & sex percent			Average annual change (percentage point)			Average annual growth rates (percent/year)		
	1983	1993-94	2004 - 05	1983-94	1993-94 to 2004-05	1983-2004-05	1983 to 1993-94	1993-94 to 2004-05	1983to 2004-05
Rural									
Male	50.5	50.0	47.6	-0.05	-0.22	-0.14	1.95	1.43	1.68
Female	29.4	27.5	26.8	-0.18	-0.06	-0.12	1.38	1.66	1.52
Total Persons	79.9	77.5	74.4	-0.23	-0.29	-0.26	1.74	1.51	1.62

Source: NCEUS (2009) Government of India, New Delhi, p. 44

About 80 percent of the labour force belonged to rural areas in 1983. However, it reduced to 77.5 percent in 1993-94 and further to 74.4 percent in 2004-05. The average annual decrease was about 0.26 percentage points for the whole period. Despite that, the annual growth rate of urban labour force during the 1983-2004-05 has been significantly higher at 3.12 percent as compared to 1.62 percent in the case of rural labour force. This is primarily because of the large size of rural labour force and low base of urban population. The share of rural

males in 1983 was 50.5 percent, it declined to 47.6 percent in 2004-05. The share of rural females also declined during the period from 29.4 percent to 26.8 percent. It means the average annual growth rate of the labour force in rural areas has declined for males while it has increased for females between the two periods.

Similarly table 2 shows non-farm employment and annual growth rates by sector and sex in rural areas.

Table-2**Non-Farm Employment by sector, sex and growth rates for the mid-points of NSS Rounds**

Sector / Sex	Total Non-Farm Employment			Non-farm Employment as a % of Total workers			Annual exponential growth rates of non-farm employment		
	1983	1993-94	1999 - 2000	1983	1993-94	1999-2000	1983 to 1993 - 94	1993-94 to 1999 - 2000	Difference
Rural									
Male	34075317	48811526	56795720	22.2	26	28.6	3.42	2.52	-0.90
Female	11035097	14454553	15432219	12.2	13.8	14.6	2.57	1.09	-1.48
Total Persons	45110415	63266080	72227939	34.4	39.8	43.2	3.22	2.21	-1.01

Source: Government of India, Ministry of Statistics and Programme Implementation (Various years)

It may be noted that the growth rate of non-farm employment in rural areas was below that in urban areas during the 1980s and the gap widened during

1993-2000. The decline in growth rate of non-farm employment for females is significant for rural areas as compared to the male counterpart. Therefore, we

can say that, the declining process of sectoral diversification has adversely affected the more vulnerable sections of population, such as rural and female populations, much more than the others.

Table 3 presents a comparative account of employment trends for major industrial categories.

This table shows the annual compound growth rate (ACGR) of employment (on the basis of current daily status CDS) in the rural sectors during the 1983-94 and 1994-2000.

Table-3

A comparative account of growth in employment and income for selected industries during 1980s and 90s.

Industries	ACGR in Employment				ACGR in Income		Employment Elasticity	
	1983-94		1994-2000		1983-94	1994-2000	1983-94	1994-2000
	Rural	Urban	Rural	Urban				
Agriculture	1.13	2.33	0.06	-1.58	1.22	1.24	0.95	0.01
Mining & Quarrying	1.47	1.47	0.27	-1.56	2.61	2.21	0.56	-0.04
Manufacturing	0.89	0.85	0.85	1.32	2.52	3.10	0.34	0.35
Utilities	0.41	0.67	-0.08	-1.22	3.51	2.92	0.16	-0.26
Construction	1.03	3.11	2.28	2.61	2.1	2.67	0.82	0.89
Trade, Hotels Restaurants	1.67	1.88	1.22	4.31	2.36	3.81	0.76	0.82
Transport, Storage Communication	1.16	1.01	2.93	1.92	2.57	3.89	0.43	0.59
Finance, Insurance, Real Estate, Business Services	1.18	1.62	1.90	2.72	4.18	3.48	0.36	0.73
Community, Social & Personal Services	0.66	1.93	-0.63	-2.40	2.40	3.37	0.59	-0.47
Non-agriculture	1.03	1.57	0.91	1.24	2.7	3.39	0.48	0.32
Total	1.11	1.64	0.26	0.99	2.19	2.79	0.54	0.16

Note: These estimates have been worked out with the current daily status (CDS) figures of employment from the NSSO and income figures from the CSO, New Delhi.

The annual compound growth rate of employment in the non-agricultural sector, unlike for agriculture, has been positive and significant during the 90s; this has true for both rural and urban sectors. The ACGR of employment is less than the previous period in the non-agricultural sector during 1994-2000. The non-agricultural industrial categories

where employment growth during the 90s was positive and also higher than the previous period were manufacturing, construction, trade, transport and business services. This trend in employment growth was slightly different at the level of rural and urban sector. It is clear from the above table that the base of these industrial categories in rural sector was very low.

The following table 4 presents the share of different industries in rural employment during the period of 1983 to 1999-2000. It shows that, the

share of agriculture in rural employment has declined by 2percent at the aggregate level. In the non-agriculture employment categories, manufacturing is the most important and accounts for more than 7 percent of rural employment in the country. The share of the mining in rural employment has increased at the aggregate level whereas the share of utilities in rural employment and its share has decreased.

Construction and trade industry are important for the growth of rural employment and

have shown increasing trend during the period. Services in rural employment are grouped into two categories i.e. community, social and personal (CSP) services, which largely fall under the public sector; while finance, insurance, real estate and business (FIREB) services are under the private sector. The share of CSP services in rural development has declined in the country but the share of FIREB services in rural employment has increased marginally at the aggregate level.

Table-4

Changing Proportion of Industries in Total Rural Employment in India (Percent)

Industries	1983	1999-2000
Agriculture	77.55	75.89
Mining & Quarrying	0.62	0.67
Manufacturing	7.17	7.37
Utilities	0.22	0.18
Construction	2.63	3.42
Trade && Hotels	3.9	5.07
Transport	1.44	2.1
FIREB Services	0.3	0.39
CSP Services	6.17	4.92

Source: Percent figures calculated from Employment (CDS) data published by NSSO.

The rural enterprises can be grouped into two categories- Informal and Formal enterprises. The number of enterprises under informal category was

higher than formal enterprises. The following table 5 shows the distribution of enterprises by economic activity and type.

Table-5

Distribution of Enterprises by economic activity and type in 1998 and 2005 (Total figures in million and sector-wise break-up in percent)

Category	Enterprises		
	All	Informal	Formal
Rural Total	25.54 (17.71)	22.25 (15.44)	3.29 (2.27)
Rural Economy	100 (100)	87.11 (87.19)	12.89 (12.81)
Agriculture	22.36 (18.08)	21.59 (17.80)	0.77 (0.27)
Industry	21.28 (21.11)	19.90 (19.99)	1.38 (1.12)
Service	56.37 (60.81)	45.62 (49.39)	10.75 (11.42)

Source: Economic Census 1998 and 2005

Note: Computed as per NCUES definition of informal sector as proprietary and partnership enterprises with less than 10 workers. All others are classified as formal sector. Total figures in million and sector-wise break-up in percent in parentheses.

The above table shows that the total number of rural enterprises has increased from 17.71 million in 1998 to 25.54 million in 2005. These figures were 15.44 million to 22.25 million for informal enterprises and 2.27 million to 3.29 million for formal enterprises during 1998 and 2005. The percentage of rural informal enterprises was 87.19 percent in 1998, slightly decreased to 87.11 percent in 2005. The percentage of rural formal enterprises marginally increased from 12.81 percent in 1998 to 12.89 percent in 2005. The percentage of service sector has decreased for all enterprises as well as informal enterprises but, increased for formal enterprises during 1998 to 2005. However, these percentage have increased for both agriculture and industry sector during the same period.

PROBLEMS

It is well established that the farm sector is full of uncertainty and faces many problems besides, rural sector remains neglected. This may lead to disturbances in different parts of the country in the forms of Naxalite activities, farmer suicide etc.

So, increasing size of RNFS due to push and pull factors can lead rural development but this sector also faces many severe problems as summarise below:

- The availability of raw materials for RNFS activities have been posing a most serious constraints in the productivity and development of various activities, especially production process of which is primarily based on locally available raw materials.
- RNFS is facing inadequate credit facility. Banks and other financial institutions have shown an extreme unwillingness to finance non-farm rural sector activities as the risk of non-recovery is very high. NABARD figures shows that advances by commercial banks to the small-scale industries sector rose by 100 percent but only 4.5 percent of the share went to petty producers and advances from Regional Rural Banks to this

sector accounted for only 8 percent of total lending between 1985 to 1990.

- A high proportion of entrepreneurs of RNFS have been expecting to achieve at least some extent of increase in the size of production in their concerned units but they are not able to do so due to many constraints.
- Entrepreneurs of RNFS are lacking in terms of technical knowledge to develop new or additional designs of products and additional goods in production system. So diversification is limited in RNFS production.
- Lack of demand for the products manufactured in RNFS outside local villages and neighboring urban areas has been considered as a serious problem in their expansion and development. This is because, large proportion of goods and items produced by household traditional artisans are utilitarian rather than luxury goods. The most common problem reported by food processing units are marketing and securing raw materials.
- Most of the RNFS units are using indigenous backward technology that resulted in low productivity and low quality of the products.
- The lack of infrastructural facilities resulted in low productivity and poverty in rural areas especially in backward states.
- The enterprises working under RNFS are unaware about government policies and programmes due to illiteracy and lack of publicity.

POLICY IMPLICATIONS

It is important to emphasized on both sector- urban and rural for balance development of the country. So, due attention to the rural development is necessary. It should not be limited only to the farm sector but more attention is to be paid to the development of the Rural non-farm sector.

Therefore, a few important suggestions for development of RNFS should need immediate attention.

- *The overall expansion of the farm sector activities helps to reduce poverty levels by providing employment outside agriculture at a higher remuneration. A shift of labour force out of agriculture into the rural non-agricultural sector can only happen if our growth strategy generates high growth in labour intensive manufacturing and in productive services sectors.
- Proper infra-structural development in rural areas increased non-farm activities such as public investment in school, training centers, health clinics, roads, irrigation system, power and other social and economic infrastructure can provide a major boost to local construction and related activities.
- The diversification in productive activities may introduce more products and designs in the productive system. Industries and some of the service activities that have high employment potential and linked with other productive sectors should be encouraged to bring about sectoral diversification by creating jobs at higher levels of productivity.
- The marketing problem of RNFS could be solved through establishing cooperative sale centers, government purchase centers and organizing exhibitions frequently.
- The government should provide subsidy on the purchase of raw materials and give rebate on the sale of produce. In this regard government raw material supply centers should be established to ensure proper supply of raw materials in time. The government can also establish a raw material banks to different product groups of rural industries.

Therefore, the agriculture and allied activities which have been forming the economic base and the prime source of employment and livelihood of rural

households for past several centuries have been believed would not be in a position to retain its dominating role in creating additional employment opportunities and income for rural households. So, it is need of the hour, to diversify rural economic system through developing long term planning approach towards the expansion of various non-farm activities. An expanding rural non-farm sector would impact agricultural wages positively by lightening the rural wage worker market. Poor and socially backward workers also have access to it as it is not a land-based activity. However, RNFS is low productive and of residual nature, it is still beneficial to the poor, it acts as a safety-net and prevent further accentuation of poverty. From a gender point of view, home based activities preferred by female workers, but steps need to be taken to ensure decent conditions of work, remunerative incomes and upgradation of skill and scale expansions.

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