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Problems and prospects of rural non-farm employment in India

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Abstract

The RNFS in India is too diverse in respect of activities, unit size and geographic dispersal. Further, it does not consist of a homogenous set of activities in terms of income and productivity levels. The RNFS is classified into three major sub-sectors. The first sub-sector consists of enterprises that are run on more or less stable basis with target on the surplus generation and growth, employing labour with certain degree of technical sophistication. The second sub-sector consists of products or activities, which are often seasonal, run solely with the help of unpaid family labour, using primitive technology and catering mostly to the local market. These two sub-sectors can be differentiated in terms of capital use rather than product categories. The third sub-sector consists of paid workers characterized by low earnings and a disintegrated market with respect to labour supply. Though, sector has played a very significant role for generation of rural employment in the Asia and Pacific region, its contribution to the overall economy has greatly reduced in the recent past. Therefore, development of various non-farm-activities can effectively be exploited as a potent stimulator for further economic growth offering rural communities better employment prospects on a sustainable basis.

Keywords: RNFS, family, labour, agriculture, employment and economy

Introduction

Farm activity means agricultural activity and non-farm activity is used synonymously with non-agricultural activity. There are two alternative approaches to define rural-non-farm activities. The first is the locative approach in which the primary criterion is that a RNF 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. Rural-Non-Farm-Activities (RNFAs), thus, play an important role to provide supplementary employment to small and marginal farm households, reduce income inequalities and rural-urban migration. Though, agricultural sector has played a very significant role for generation of rural employment in the Asia and Pacific region, its contribution to the overall economy has greatly reduced in the recent past. Therefore, development of various non-farm-activities can effectively be exploited as a potent stimulator for further economic growth offering rural communities better employment prospects on a sustainable basis.

The RNFS in India is too diverse in respect of activities, unit size and geographic dispersal. Further, it does not consist of a homogenous set of activities in terms of income and productivity levels. The RNFS is classified into three major sub-sectors. The first sub-sector consists of enterprises that are run on more or less stable basis with target on the surplus generation and growth, employing labour with certain degree of technical sophistication. The second sub-sector consists of products or activities, which are often seasonal, run solely with the help of unpaid family labour, using primitive technology and catering mostly to the local market. These two sub-sectors can be differentiated in terms of capital use rather than product categories. The third sub-sector consists of paid workers characterized by low earnings and a disintegrated market with respect to labour supply.

The past experience of most of the developing countries including India shows that the design of their development policies have been premised on the conceptual framework that

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development as a process of structural transformation from being predominantly rural, agrarian and subsistence economies is becoming predominantly urban, industrial and capitalist economies. The changes in the workforce structure follow a symmetrical shift from agriculture to industry and then to services. Spatially, there will be a shift in production and employment from rural to increasingly urban locations.

Review of literature

Acharya and Mitra (2000) Draws on multiple rounds of National Sample Survey data (spanning the period 1984-1997), and also on two rounds of the Economic Census (corresponding to 1990 and 1998) and asks whether the positive non-farm employment trends of the 1980s have continued through the 1990s. They find little evidence of further expansion. At the all-rural India level they find that employment in the secondary and tertiary sectors grew from about 22 per cent of the workforce in 1983 to about 25 per cent by 1987-88. There was no further growth during the 1990s; the latest NSS survey for 1997 (a "thin" round) indicates an employment rate of about 24 per cent. The authors note considerable variation across states in the degree of occupational diversification (with states such as Kerala, Punjab, Haryana, Gujarat and Tamil Nadu clearly more diversified than others), but observe no clear evidence of growth in non-farm employment rates during the 1990s in any state other than Kerala.

NABARD (2001) conducted a study on Rural Non-Farm sector in Ludhiana and Sangrur districts of Punjab during 1999-00 covered PCARDBs, Commercial Banks, RRBs,

and State Cooperative Bank. The study revealed that total recurring employment created by the sample NFS activities was 507,830 man days with average potential of 25,883 man days per unit. Around 30 percent of the sample borrowers repaid their loans regularly.

Metha G.S (2002) ^[1] Examined to the structure, growth, development potentials and the kinds of problems existing in the properly functioning of various non-farm activities in the State of Uttaranchal (India). The study highlighted that nearly one-third of the non-farm activities were traditional by nature and were established over three generations ago. The family members of the non-farm households motivated 42 percent of the entrepreneurs for establishing non-farm activities. And around 23 percent of the entrepreneurs were motivated by their friends and relatives and remaining only 3.04 percent of the entrepreneurs have decided to establish concerned non-farm activities after motivating them by the Government. Non-farm activity was found to be a very profitable occupation in the rural areas. The margin of all non-farm activities together was estimated to be around 42 percent.

Methodology

The method used in this paper is descriptive-evaluative method. The study is mainly review based. It is purely supported by secondary source of data, i.e. books, journals, papers and articles and internet.

Result and Discussion

Table 1: Changes in the industrial distribution of gross domestic product in India (At 2004-05 prices) (%)

Sector/Industry	1972-73	1983-84	1993-94	2004-05	2011-12
Agricultural and Allied Activities	41.1	35.5	28.4	19.0	14.1
Primary Sector	41.1	35.5	28.4	19.0	14.1
Mining and quarrying	2.3	2.9	3.3	2.9	2.1
Manufacturing	13.3	14.18	14.6	15.3	15.7
Electricity, gas and water supply	1.1	1.6	2.2	2.1	1.9
Construction	7.6	6.6	6.6	7.7	7.9
Secondary Sector	24.4	25.8	26.8	27.9	27.5
Trade, hotels, and restaurants	10.5	11.8	12.6	16.1	16.9
Transport, storage and communication	4.0	5.6	5.5	8.4	10.6
Financing, real estate and business services	7.9	9.1	13.3	14.7	18.1
Community, social and personal services	12.1	12.2	13.5	13.8	12.8
Tertiary Sector	34.5	38.7	44.8	53.0	58.4
Non-agriculture	58.9	64.5	71.6	81.0	85.9
Total	100.0	100.0	100.0	100.0	100.0

Source: Institute for human development (2014). India labour and employment report 2014: Workers in the era of globalization, academic foundation, New Delhi

There has been growth and accelerated growth, particularly for the past three decades, and there has been considerable change in the production structure with the share of agriculture and allied activities declining from 41% in 1972-73 to 14% in 2011-12, though the share of secondary sector increased only marginally from 24 to 28%, with the tertiary sector increasing rapidly from 35 to 58%. But the changes in the workforce structure were not in tune with the changes in

the production structure. There was no proportionate shift in employment from agriculture, but only a decline from 74 to 49 percent. Almost half the workforce is in agriculture with only 14 percent of the share in the national product, and the tertiary sector with close to two-thirds of the output share, which accounts for only a little over one-fourth of the employment share.

Table 2: Changes in the employment (UPSS) structure of India: 1972-73 - 2011-12 (%)

Sector/Industry	1972-73	1983-84	1993-94	2004-05	2011-12
Agricultural and Allied Activities	73.9	68.6	64.8	58.5	48.9
Primary Sector	73.9	68.6	64.8	58.5	48.9
Mining and quarrying	0.4	0.6	0.7	0.6	0.5
Manufacturing	8.9	10.6	10.5	11.07	12.8

Electricity, gas and water supply	0.2	0.3	0.4	0.3	0.4
Construction	1.8	2.3	3.1	5.6	10.6
Secondary Sector	11.3	13.8	14.7	18.1	24.4
Trade, hotels, and restaurants	5.1	6.3	7.4	140.2	11.4
Transport, storage and communication	1.8	2.5	2.8	3.8	4.4
Financing, real estate and business services	0.5	0.7	0.9	1.5	2.6
Community, social and personal services	7.4	8.1	9.4	7.7	8.2
Tertiary Sector	14.8	17.6	20.5	23.4	26.7
Non-agriculture	26.1	31.4	35.2	41.5	51.1
Total	100	100	100	100	100

Figures for the years 1972-73 are taken from Papola *et al.*, (2013)

With the asymmetrical shifts in the structure of production and employment, the story of the Indian economic development presents certain intriguing structural characteristics (Papola 2013). The structural transformation of the Indian economy witnessed during the past few decades is often described as “distorted”, “stunted” or “asymmetrical” and features like this may provoke some to call India as the “world’s most incongruous society”.

Rural production and employment structures

As pointed out earlier, the Indian economy, from the point of view of the locus of the working population, is predominantly rural, and during the past few decades we notice considerable dynamism within the rural production

and employment structures. One of the significant changes in the rural production structure is the growing share of the non-farm sector, which increased from 37% in 1980-81 to 65% in 2009-10 and thus shows that in terms of value of production, rural is no longer merely agricultural. This provides much justification for the observation that “the old vision of rural economies purely focused on agriculture no longer fully reflects the reality”. The asymmetry noticed between the shifts in production structure and the employment structure in the overall Indian economic development persists in rural India as well. Within the rural employment structure, however, there has been considerable shift in favour of non-farm employment.

Table 3: Growth rates of rural employment (%)

	1983 to 1993-94	1993-94 to 2004-05	1999-2000 to 2009-10
Agriculture	1.37	0.69	-0.19
Non-Agriculture	3.23	3.64	4.03
Total	1.68	1.40	0.96
Sectors within Non-Agriculture			
Manufacturing	2.02	2.74	0.62
Construction	5.35	8.27	12.04
Trade/Hotels etc.	3.76	4.88	3.41
Transport/Communication	4.35	6.56	4.44
Financial Services - 6.13 5.20	-	6.13	5.20
Other Services	-	0.08	0.77

Source: NSSO Employment and unemployment surveys: 38th round (1983), 50th round (1993-94), 61st round (2004-05) and 66th round (2009-10)

The other segments of rural non-farm employment such as trade, hotels, transport, communications and financial services witnessed modest rates of growth ranging from 3 to 5 percent. But the cause for concern is the drastic decline in the rate of growth of employment in manufacturing, and community, social and other services to 0.62% and 0.77% per annum, respectively. As a result, between 1993-94 and 2009-10, the share of manufacturing in rural non-farm employment declined from 32% to 22% and that of the services mentioned above declined from 25% to 15%. From the point of view of quality of employment, manufacturing and services are the activities where there is more of regular employment. In the total rural employment, though regular employment constitutes only about 7%, substantial proportion (90% or 21.8 million) of regular rural employment is provided by non-construction – non-farm employment such as manufacturing and ‘other services’. The self-employment component of non-construction – non-farm employment – is substantially higher at about 54% and 58% in the case of rural male and female employment, respectively. Non construction – non-farm employment is considered to have better linkages and synergies with employment in both farm sector and urban activities.

Another noteworthy dimension of changes in the rural employment structure relates to the occupational shifts among different social groups. The SC workers depending on RNFE has increased significantly from 20% in 1993-94 to 36% in 2009-10, and the agriculture dependence of SCs has become less even compared to OBCs (67.9%) and “Others” (65.3%). However, in the case of STs the increase in RNFE is at a slower pace from 13% to 20%. Further, the share of construction in the total employment profile of SCs increased from 5.1% in 1993-94 to 15.8% in 2009-10, and in the case of all other social groups, construction constitutes a much lower share in their respective total employment profile. Self-employment is one of the biggest puzzles for analysis because of its range of activities from dire subsistence rag-picking or street-vending to practicing law or medicine or real estate brokering. Often questions are raised on whether non-farm self-employment is distress driven or driven by opportunities to improve earnings. Distress driven self-employment appears to be more among women going by the information that about 20 million women dropped out of self-employment in a matter of five years between 2004-05 and 2009-10. The drastic decline in female labour force participation during this period was

entirely due to the withdrawal of women from self-employment. In contrast, there is evidence locating the self-employment of rural men in the trajectory of agricultural to non-agricultural diversification, improved productivity and earnings.

Conclusions

Rural economy in India is undergoing a rapid structural transformation of which rural non-farm employment has a pivotal role. The study suggests that RNFE is emerging as one of the key drivers of rural development and transformation, contributing 65% to the rural Net Domestic Product in 2010. While agriculture experienced a net decline in production from 64% in 1980-81 to 35% in 2009-10, the share of non-farm sector in Net Domestic Product experienced a sharp increase to the tune of 36% in 1980-81 to 65% in 2009-10. Though there is growing share of rural non-farm employment (19% in 1980-81 to 31% in 2009-10), still, agriculture is the major employer of the rural workforce (68% in 2009-10). The shift in the share of rural non-farm employment especially from 1993-94 is quite substantial. Relatively higher growth in the non-farm sector, specially infrastructure and construction, coupled with improved transportation and communication, differential wage rates, improved literacy and Government programs are the drivers of change. Within non-farm sector, the foremost drivers of change have been construction, the share of which increased from about 4% in 1980-81 to 15% in 2009-10. On the contrary, the growth of employment in manufacturing and community services, which are segmented with a better quality of employment, reached very low levels leading to a serious cause of concern. There is growing evidence of rural-urban temporary migration, especially by male workers to relatively higher wage work with improved road connectivity. The absolute decline in labour force for both male and female labourers, have not only tightened the rural labour market, but also within the rural economy the substantial shift of labour from farm to non-farm sector contributes to scarcity of labour for farm work.

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