Chapter: (1)

INTRODUCTION.

1.1. INTRODUCTION:

The reduction of rural poverty is one of the most important goals of the developing countries as the majority of population lives in rural areas and its dependence on agriculture almost as an exclusive source of livelihood has been a matter of serious concern for the policy makers in the countries. The World Bank estimates more than 70 per cent of the world poor live in the rural areas. Various strategies have been formulated to address this concern, and among the major ones is rural employment creation. It is a well known fact that agriculture or farm sector has always been viewed as the core of economic growth of developing economies. It accounts for a large share of the GDP of these countries and it represents a major source of foreign exchange, supplies the bulk of basic food and provides subsistence and income to the large rural population. But this sector is now unable to provide additional job opportunity in the rural areas due to certain constraints. The notable constraints’ are the small size of the holdings, insufficient capital, inadequate farm infrastructure, defective farm marketing, poor prices of the farm products etc. It is therefore necessary to focus on broader spectrum of the rural economy, not just on agriculture but on alternative job avenues. The development of various non farm activities, as for example, offers great potential for creating additional rural jobs and hence for stimulating the further growth of rural economies.

The rural non farm economy is a very important part of rural Asia. It accounts for a large proportion of the total rural employment and total rural income. This will continue to increase over time. From the point of view of rural development, rural non farm enterprises provide important sources of employment and income to women as well as to the
poor small and landless farmers. Promoting this type of enterprises will therefore help to raise employment and income, especially of the poor. Moreover, it can improve the distribution of income in the rural areas (Onchan, Tongroj, 2004).

The contribution of income from agriculture in GDP declined from 50 percent to 30 per cent in 50 years since India got independence from the colonial rule. The growth of agriculture and allied sectors is still a critical factor in overall performance of the Indian economy. As per the 2010-11 advance estimates of CSO, the agriculture and allied sectors accounted for 14.2 per cent of the GDP at constant prices 2004-05 (Economic Survey of India 2010-11). The share of the rural population in the national total has declined about 83 per cent in 1951 to 68.84 per cent in 2011. Yet, the rural population has more than doubled from 300 million in 1951 to 833 million in 2011. Whereas, the share of the labour force in agriculture to total labour force marginally declined until the 1960s and showed only a meager descend since the beginning of 1970. The trend since the 1970s gave hopes of a sustained fall in the agricultural labour force and rural non farm employment as a solution to the problem of unemployment and poverty. The new economic policy of the government after 1991 has greater focus on market-oriented approach which has made positive impact on the growth of rural non farm sector. It may also be noted that for a country like India, agriculture and other land based activities, in the long run, even with the high and diversified rate of growth will not be able to ensure employment to the entire rural worker at adequate levels of income. Technological advancement coupled with institutional changes in agriculture sector will lead to further shrinking of employment potential and also conversion of a substantial number of those under employed in agriculture into openly unemployment seeking work elsewhere. Given the fact that some of them will be able to get employment in urban areas; still it is necessary that the rural economy gets diversified into non
farm activities to provide productive employment to rural labour force. This will also help in arresting migration from rural to urban areas.

In a developing economy like India, non farm sectors have a big role to play. There is ample scope for the development of non farm based activities on the basis of factor endowments available in the country. The development of non farm based activities will not only mobilise local resources but will also increase income and generate employment opportunities. The rural based non farm activities have great importance in an agrarian economy like India. The rural non farm sector in India is too diverse in respect of activities, unit size and geographic dispersal. Further, it does not consist of a homogeneous set of activities in terms of income and productivity levels. As per the Economic Census 2005, the total non agricultural establishments accounted for about 17.855 million in the country, whereas 19.83 million were situated in rural areas. Out of 19.83 million non farm establishments located in the rural area, 13.26 million (66.89 per cent) were own account establishments and remaining 6.56 million (33.11 per cent) were establishments with hired works. The data suggests that with the major share of non farm activities, the growing rural labour force can successfully be absorbed as rural non farm sector workers generating supplementary income for better economic growth of the rural community.

1.2. DEFINITION OF RURAL AREA:

Generally, we believe that rural areas are settled places outside towns and cities. They can have an agricultural character, though many rural areas based on some non farm activities and rural areas are less modern and open than urban areas. Here people are more attached to their traditions and beliefs. The definition of “Rural” in Asia is often any settlement with 5000 or fewer inhabitants. In Latin America, the cutoff point is often 2,000 to 2,500 inhabitants. There are also occasions when urban and rural areas are defined not only
by size, but also by kinds of activity – agricultural or industrial activities that are carried out in a settlement (Islam Nurul, 1997).

In India, the Census of Population defines an urban areas as follows: (1) its population should not exceed 5,000, (2) population density should not exceed 400 per square kilometer, (3) more than three fourths of the workers should be engaged in non agricultural activities and (4) other factors that might induce the Census authorities to declarer an area as urban even when the other three criteria have not designated as urban areas. These are primary market places with shops, go downs, hotel, and brick houses, as well as a number of governmental offices or establishments – easily accessible by roads, highways and railways-often containing more than 5,000 people. Thus census of India considered those areas as rural where the population is below 5000 and the density of population less then 400 per square kilometer. It further provides that in such areas at least 75 per cent of the males of the working population are engaged in agricultural pursuits.

Thus the definition of rural areas varies among developing regions and among countries within a developing region. In some counties, rural areas include rural towns, often defined as settlements with population of 200,000-250,000. The definition of an urban and rural area sometimes changes over time and across counties and continents; therefore inter temporal and inter country comparison of the relative magnitudes of, for example, the extent of the rural non farm sector becomes difficult. In most- but not all-discussions of the rural non farm sector, the economic activities in the so called small, rural towns are included. Again, the definition of a small, rural town varies widely among countries.
1.3. DEFINITION OF NON FARM ACTIVITIES:

It is very difficult to identify nonfarm activities in rural areas due to variations in definitions. The World Bank (1978) in its publication also mentioned the difficulties in presenting a clear cut classification of agricultural and non-agricultural activities or rural, urban categories due to lack of well established and consistent set of definition. Several research scholars have defined the term non farm sector from different points of view. So let us review some definitions as provided by the eminent scholars.

According to Kumar Monoj (2004), Rural Non Farm Sector takes in to account the activities carried on by the rural people. The term ‘non farm’ encompasses all the non-crop agricultural activities; it includes manufacturing activities, mining and quarrying, transport, trade and services in rural areas or we can say that ‘non farm’ refers to those activities that are not primary agriculture or forestry or fisheries. However, ‘non farm’ does include trade or processing of agricultural products (even if, in the case of micro-processing activities, they take place on the farm). Barrett and Reardon (2001) stress that this definition is sectoral, i.e. it follows the conventional used in national accounting systems where a distinction is made between primary production, secondary activities and tertiary activities. It does not matter, where the activity takes place, at what sale, or with what technology.

According to Mukhopadhyay, Gangopadhyay and Nayak (2008), 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 (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. They have used the first definition in their study. Ac-
According to them, the rural non farm activities include all economic activities, namely, household and non household manufacturing, handicrafts, processing, repairs, construction, mining and quarrying, transport, trade, communication, community and personal services etc. in the rural areas. Non farm activity includes all economic activities in rural areas except agriculture, hunting and fishing (Lanjou, 1999).

Saith (1992) argues, that there are several points of consideration when constructing a working definition of rural non farm activities:

i) Should the rural non farm sector include such auxiliary activities as fishing and aquaculture, animal husbandry and bee keeping? Bearing in mind that the strategic focus on the non farm sector derives from the limitations of agricultural land and productivity, such activities, which are not affected by agricultural constraints, should be included. This is confirmed by the emphasis on these activities in policy packages for the landless poor.

ii) The confusion over “off farm” and “non farm” activities should be avoided. Logically, the “off farm” category could include straightforward agricultural activities, such as income earned by peasants and workers as hired labour on farms owned by others. On the other hand, “non farm” work generally includes a non agricultural component. “Farm” needs to be understood unambiguously as referring to a set of economic activities, rather than to the location where any particular activity is executed. A distinction between “farm” and “agriculture” would also be appropriate, where the latter refers exclusively to crop cultivation while the former also includes the auxiliary agricultural activities, mentioned above. The correct category then is all “non agricultural “activities, irrespective of whether they are conducted on one’s own farm or elsewhere. For simplicity, we use “non farm” as a synonym to “non agricultural”. Non farm activities include both “on farm” and “off farm” activities.
iii) The rural industrial sector, or rural enterprises, constitutes one part of the rural non agriculture sector. The rural non agriculture sector also includes various services, household-based petty production activities and rural non agricultural labour, which in turn includes work on rural public works programs and creation of public infrastructure.

Davis (2003) notes that an ideal classification of the RNFS should capture some or all of the following distinctions:

i) Links to farming or the food chain: since agricultural linkages are often key determinants of the RNFS’s potential for employment and income generation.

ii) Market linkages: local markets or distant markets – since the latter have the scope to create employment and earnings independent of the rural economy.

iii) relative earning and scale effect: those which are sufficiently large, productive and capitalized to generate incomes above returns obtainable in agriculture, and those that offer marginal gains- since the capacity of the RNFS to foster growth depends on the former, while the latter can maintain the households above the poverty line.

Non farm activities are generally divided into two broad groups of occupations: high-labour-productivity that leads to high-income activity, and low labour-productivity activities that serve only as residual source of income (Lanjouw, 1999). The latter activities are common among the poor. But such employment may be very important from a social welfare perspective. If agriculture employment is not an option for certain subgroups of rural population, then rural non- agricultural employment opportunities, even if they are not highly remunerative, can make a real difference, especially for those households that do not possess farm land.

A formal definition of rural non farm sector has been put forwarded by Mahajan and Fisher (1997) as follows-
Rural non farm sector comprises all non agricultural activities, mining and quarrying, household and non household manufacturing, processing, repairs, construction, trade, transport and other services undertaking in village and rural towns up to 50000 population undertaken by enterprises varying in size from household own account enterprise all the way to factories.”

The study group on rural non farm sector constituted by NABARD in collaboration with Swiss Development Corporation has accepted the definition of Mahajan and Fisher. Similarly, Indian Institute Bank Management for the purpose of preparing a project report on rural non farm sector in Kamrup district of Assam has accepted the same definition. For the purpose of the present study this definition has been accepted with marginal modification regarding the size of the population.

1.4. COMPOSITION OF THE RURAL NON FARM SECTOR:

The rural non farm sectors have a highly heterogeneous collection of trading, agro processing, manufacturing, and commercial and service activities. Even within the same country, strong differences emerge regionally, as a result of differing natural resource endowments, labour supply, location, infrastructural investments and culture. The scale of individual rural non farm activities varies extremely, from part time self employment in household based cottage industries to large scale agro processing and warehouses facilities operated by large multinational firms. Often highly seasonal, rural non farm activity fluctuates with the availability of agricultural raw materials and in rhythm with household labour and financial flows between farm and non farm activities (Haggblade, Hazell and Reardon, 2007). Most of the studies undertaken on rural non farm sector bring out the heterogeneity in the non farm activity space. Employment and labour force surveys point to various types of ‘primary’, ‘secondary’ or ‘supplementary’ occupations in the non farm sector. These
activities are numerous and are undertaken with varied degree of intensity and time allocations (Panda, 2012).

**1.5. RURAL NON FARM ACTIVITIES IMPORTANT TO THE RURAL POOR:**

In many parts of the world, the majority of the poor people live in the rural areas and agriculture is their primary occupation. But 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 labour force. Even the Governments have been implementing a number of agricultural development programs during the last decades but the situation did not change significantly. The large numbers of rural economies are passing through the process of transformation with the introduction of agro-based industries and development of different types of service based activities along with modernizing the traditional agricultural sector. As a result, the significance of the non farm based activities has been increasing continuously in the rural economy.

Over the years, the importance of non-farm employment has been gaining increasing very vastly in the rural areas of almost the developing countries including India. Since the concentration of rural workforce in farm sector economies has been rapidly declining and its direct shift in non farm employment has empirically been visualized in these countries. However, still the workforce in rural areas of different geographical locations is largely confined in agriculture and related activities due to lesser extent of growth in the availability of employment opportunities in other economic activities. (Mehta, 2002)

Rural Non Farm employment plays its role in reducing poverty depends on the type of non farm occupations and wages in these occupations. The rural non farm employment has positive association with agricultural wage and degree of urbanization (Srivastav, 2001)
The rural non farm sector is increasingly playing an important role in the development of rural areas in Asia and Pacific region. The non farm sectors will need to become more and more a major provider of employment and income to many rural folks in these regions. The promotion of rural non farm employment also should be undertaken within the broader context of rural development. Many strategies and programs to promote rural non farm employment have been formulated in these countries (Onchan, ed, 2004). In Indian economy non farm sector also plays a significant role. It has potential and promise for generating employment and increased income in rural areas. Hence, NABARD has identified financing, development and promotion of non farm sector as one of its thrust areas.

Before the financial crisis that began in 1997, many developing countries had undergone significant structural changes and also achieve rapid economic growth. Thailand, Korea, Malaysia and the People’s Republic of China experienced annual growth rates of 5 to 9 percent over the entire period of 1965-96 (World Bank, 1998). The South Asian countries on Bangladesh, India, Nepal, Pakistan and Sri Lanka grew at rates ranging from 3 to 5 percent. With high growth rates, many Asian economies have been able to generate substantial increases in per capita income. In the process of economic development, structural changes in the economy have been occurred. This process of structural transformation creates an explosion in rural non farm activities. This is because as agriculture becomes more commercialized, the demand for new farm inputs such as seeds, fertilizer and farm machinery will increase. (Onchan, ed, 2004)

Increased employment in the non farm sector can be associated with either a stagnant or a progressive agricultural development. Sometimes non farm employment is a way out of unproductive agricultural development rather than a response to an expansion of
agriculture. For example, many workers in semi-arid zones of western India, where off-farm employment opportunities are limited, have migrated elsewhere or commute to urban areas to work. In this case, workers are being pushed into the non-farm sector, not pulled by dynamic rural non-farm opportunities (Islam, 1997).

Several scholars have studied the significance of the non-farm sector in Indian village context. Among them the notable studies have been made by Mehta (2002), Srivastav (2001) in Uttar Pradesh and Samal (1997) has made a detailed assessment of features of the RNFS.

Bhalla (1993) has identified Gujrat, Haryana, Jammu and Kashmir, Karnataka, Kerala, Maharashtra and Rajasthan as witnessing expanding non-farm employment between 1961 and 1980 Censuses. Chadha (1997) has found out significant expansion in male workers during the 1970s and 1980s in Punjab, Haryana, Gujrat, Himachal Pradesh, Rajasthan and Tamil Nadu, with modest growth in Orissa, Karnataka, West Bengal and Maharashtra.

Fisher Et al. (1997) found inter-state variation in the rural non-farm sector across the eight Indian states studied. The RNFS was found to be more developed in Punjab, Tamil Nadu and Gujrat, and less so in Assam, Orissa, Andhra Pradesh, Rajasthan and Uttar Pradesh. RNFS employment, particularly the tertiary sector, in Punjab was believed to be closely connected to agricultural development, whilst transformation of the rural economy in Gujrat was attributed to a rapid growth in rural manufacturing. Inter-state variation is reflected in the 1991 census, which records Kerala with the highest proportion of the rural workers engaged in non-farm activities at 43.9 per cent followed by West Bengal (26.5), Haryana (26.2) and Punjab (25.8). At the other end of the spectrum lie Bihar and MP with 11.7 and 10.7 per cent respectively.
Srivastava (1995) makes an assessment of non farm employment in MP based on an analysis of state wise secondary data and concluded that MP’s proportion of rural non farm workers is very low in comparison to other states. Shrivastava speculated that this may be due to low communication and urbanization, low literacy rates, limited transport and communication facilities, and lack of financing, in comparison to other states of India.

On the basis of above expositions, it seems that rural non farm sector plays a significant role in the rural based economy that it necessitate a fuller understanding of its status and role not only as it now is but as it may be developed in future.

1.6. RURAL NON FARM SECTOR – A SCALE CONCEPT:

The Census of India 1991 has categorized all workers into one of the following nine main categories:

1) Cultivators
2) Agricultural Labourer
3) Workers engaged in Livestock, forestry, fishing, plantation, orchards and allied activities.
4) Mining and quarrying
5) Manufacturing, processing, servicing and repairs
6) (a) In household industries and (b) other than household industries
7) Construction
8) Trade and Commerce
9) Other services

The categories from (4) to (9) are regarded as the rural non agricultural sector. However, categories (4) to (9) fall under rural non farm sector, which is set for the study. This definition party tallies with NABARD as it excludes allied activities from rural non
farm activities.

The spatial dimension leads to differences of opinions. The tightest definition would include only village, which are defined in Census of India, as habitants with a population of less than 5000 which are not notified as urban areas or cantonments and are below a specified density of population.

In terms of scale, the rural non farm sector can be put in the following categories, which are used by the Central Statistical organization (CSO):

1) Own account businesses, which are employing only the owner worker or his/her family members.
2) Non directory establishments, which are employing at least one and at most five workers, of whom at least one is hired worker.
3) Directory establishments, which are employing at least six workers, including at least one who is hired
4) Factories are manufacturing enterprises which employ at least ten workers if they use power or at least twenty workers if no power is used.

For the purpose of the present study, the above definition has been accepted with marginal modification regarding the size and scale of the business. Here we take only two type of rural non farm sector- own account business and non directory business (employing less than five hired workers)

Thus, rural non farm sector comprises of wide range of activities namely, mining and quarrying, household and non household manufacturing units, processing units, repairs, construction, trade, transport and other services, which are generally carried out by the family members or by an individual employing less than five hired workers, in the rural areas having population less than 5000.
1.7. OBJECTIVES OF THE STUDY:

The broad aim of the study is to focus on the growing significance of the rural non farm sector in the economy of Assam. The specific objectives of the study are:

(1) To analyze the growing role of the non farm sector in changing the occupational structure of rural Assam.

(2) To find out the contribution of non farm sector in the state domestic product.

(3) To find out the causes of the growth of rural non farm sector in the study area.

(4) To examine the importance of rural non farm sector in income and employment generation in the study area.

Besides the above objectives, the study proposes to pursue the research question whether growth of rural non farm sector in study area is caused by push factors or pull factors or by some other factors.
CHAPTER: (2)