Chapter I

Introduction

1.1. Background

It has now become a well-recognized fact that the income from the agricultural sector alone cannot support growing rural populations across the world. The pace of employment expansion in the farm sector in most of the developing countries has not been in consonance with the population growth in general. In most agrarian economies, unemployment is concealed and takes the form of underemployment. Traditional development theory for labour surplus developing countries relies on the philosophy that the large-scale manufacturing sector can serve as an engine of economic growth. According to the traditional development theory like the Lewis model, as economic development takes place, the large-scale manufacturing sector (LSMS) assumes more and more significance. So labour has to be transferred from the agriculture sector to the large-scale manufacturing sector. In this set up, the LSMS is portrayed as an employment generating sector.

However, in reality, it is found that the Lewis mechanism failed to operate in most of the developing countries. For example, only 2.1 per cent of the increased labour force in India was absorbed in the LSMS during the period of 1960-61 to 1984-85. The data available from some other Asian countries also confirm this pattern. To say the least, the performance of the LSMS has been very poor in terms of employment generation in most of the developing countries. In addition, other problems like the high pressure on urban infrastructure, urban congestion etc. have been created due to migration of the rural people to the urban areas. Such a situation prompted the development planners to suggest creation of alternative employment generation programs within the rural areas, especially in the non-farm sector. Recent empirical evidences suggest that the rural non-farm sector indeed generates significant amounts of employment and income in many developing countries, though in varying degrees. To be more specific, the non-farm sector has been found to capture a significant share of the total rural income in Africa, Latin America and Asia during the 1990s.

Since early 1970s, a large number of studies have examined the role of the non-agricultural or non-farm economic activities for rural development. It has been reported that
most of the rural communities in the developing countries derive income from multiple sources. According to the FAO (1998) estimates, 32 per cent of income for the rural poor in Asia is derived from the rural non-farm activities (RNFAs). Thus, the scholars recommend for expansion of these activities for reduction of rural poverty and unemployment in the developing countries of Asia, as elsewhere. It is also observed that the rural non-farm activities could help to ease out the problem of urban congestion and reducing the pressures on limited urban infrastructures. Above all, the expansion of such activities may not only reduce rural poverty but also influence income distribution inequality apart from strengthening the inter-sectoral (industry-agriculture) linkages.

1.2. Definition of the Rural Non-Farm Sector

The concept of the rural non-farm sector needs to be clarified first. The rural non-farm activities may be defined in a number of different ways. In one of the background papers for the *World Development Report* 1995, Lanjouw and Lanjouw (1995) defined the rural non-farm sector (RNFS) as the sector that incorporated all economic activities in rural areas, except agriculture, livestock, fishing and hunting. Following Lanjouw and Lanjouw, many Indian scholars adopted the common convention of including the animal husbandry, hunting and trapping, forestry and logging, fishing etc. in agriculture and, accordingly, all other economic activities in rural areas as falling within the purview of the RNFS (see Chadha, 1993). The RNFS would then include activities like handicrafts, mining and quarrying, household and non-household manufacturing, processing, repairs, construction, trade, transport and communication, and community and personal services in rural areas.

However, Saith (1992) points out that the RNFS needs to be defined in a broader framework. This is necessary in order to capture all aspects of rural diversification. Accordingly, auxiliary activities like fishing and aquaculture, the dairying and animal husbandry, poultry rearing and bee keeping may be included in the RNFS sector. It is due to the fact that the strategic focus on the non-farm sector derives from the limitations placed by the agricultural land (and productivity) and hence such activities which tend to bypass this agricultural constraint seem worth including. The rural non-farm economy (RNFE), therefore, includes a highly heterogeneous collection of rural economic activities outside of agriculture. It includes self-employment, wage employment, full-time, part-time, formal, informal, seasonal, and episodic non-farm production. It should be noted that the non-farm
activity might take place at home, in factories, or by itinerant traders. It includes small and large-scale activities of widely varying technological sophistication. The rural non-farm economy is defined to exclude primary agriculture, forestry, fisheries, but to include trade and processing of these products, in addition to other goods and services, as secondary and tertiary sector activities. Thus, the rural non-farm sector can broadly be defined as the sector which includes not only activities outside farming, such as trade, transportation, construction, household and small-scale manufacturing, and services of various kinds, but also covers income earned by the rural residents who commute to the urban areas or abroad.

1.3 The Perspective

India and China, the largest developing countries in the world, dominate the rural non-farm economy of the world in terms of scale, diversity, technological sophistication and dynamism. However, there is distinction between them in terms of policy formulation and also in terms of the pace of growth of the non-farm sector, though they started their journey towards the expansion of the non-farm activities from almost the same point of time (1950s) with predominance of the agricultural sector.

Since the time of the independence, India’s small and cottage industries including handloom items, pottery, matches, and the products of sericulture were given protection through a system of direct licensing, production controls in large manufacturers, differential taxation and direct subsidies. After the initiation of the green revolution technology in Indian agriculture, the substantial increase in the rural demand for the non-farm goods and services generated demand-led growth of the rural non-farm activities. Besides, under the Industrial Policy Resolution of 1980, domestic protection through the licensing of the small-scale units and external protection through the imposition of quantitative quotas on imports, coupled with cheap credit, investment subsidy, and infrastructure provision increased the share of the rural non-farm sector, both in terms of output and employment, substantially during the 1980s. However, the initiation of economic reforms in 1991 adversely affected the share of the rural non-farm manufacturing sector in national GDP during the 1990s probably due to the inefficiency to face the newly emerging competitive environment. The reason behind such inefficiencies is the lack of physical and social infrastructure as well as lack of education and skills-formation.
As against above picture, China experienced more rapid growth of the rural non-farm employment than India during the 1990s as China's Town and Village Enterprises (TVEs) have become internationally more competitive compared to India's rural non-farm enterprises. This became possible due to fewer price and quota protections for the non-farm sectors in China. Thus, it is the difference in the nature of policy formulation which can be treated as responsible for such difference in the pace of growth of the rural non-farm sectors which is very much important in the context of formulation of rural development policies and the promotion of rural transformation process in India.

1.4 Central Focus of the Study

In this backdrop, our present study seeks to analyze the nature and extent of the non-farm activities and to examine the role of such activities in reducing the incidence of rural poverty and the degree of income inequality in West Bengal. Although poverty in West Bengal has been declining all through past three decades, the pace of poverty reduction has been slower in the period between 1999-00 to 2004-2005 than in the previous two decades. Incidentally, rural West Bengal experienced the highest decline in poverty among all the states during 1983-1988. The annual percentage point decline was 3.3 during this period. However, during 1987-2005, the headcount ratio for rural West Bengal declined at an annual rate 1.19 percentage points. Even though this is considerably smaller than the rate of decline in the previous period, it turned out to be the second highest rate of decline among all the major Indian states since most of the states fared rather poorly in the later period. The impressive decline in rural poverty in West Bengal during the period of 1983 to 1988 coincided with an equally impressive growth in agricultural output. However, such impressive decline in rural poverty has been flattened afterwards which might be explained in terms of fall in agricultural growth rate. Herein lays the aptness of illuminating the role of the rural non-farm sector to bring about a steady fall in rural poverty, an issue that is still a relatively under-researched component in the context of West Bengal.

In this study, we begin our analysis by examining the trends of male and female work-force participation rates in rural West Bengal as well as her 15 districts in the pre-reform and post-reform periods. Our focus here is to understand the employment scenario in rural West Bengal. Having understood the employment scenarios for the two periods, we move our discussion to more detailed analysis of the expansion of the rural non-farm
activities in West Bengal and her 15 districts. This part of our analysis helps to identify the districts which are steadily going ahead over others in terms of rural diversification from the point of view of employment. It appears from the existing literature that not much attempt has been made to understand the relationship between the growth of rural non-farm workers in West Bengal and the growth of agricultural and the rate of urbanization. In the context of West Bengal, the study by Chandrasekhar (1993) is widely referred as it demonstrated the absence of a clear relationship between agricultural growth and the RNFE. However, Chandrasekhar's study was based on the data for the pre-reform (pre-1991) period. Our present study extends the analysis to the post-reform period. We examine, by using the district-level secondary data, if there is any relationship between the growth of rural non-farm workers and agricultural performance in West Bengal both in the pre-reform and post-reform periods. We also examine the relationship between the growth rate of rural non-farm workers and the rate of urbanization in West Bengal. Besides, an attempt has been made to identify some other factors responsible for the growth of rural non-farm activities in this state.

However, the secondary data have their own limitations. Apart from being highly aggregative, the secondary data do not allow us to obtain any idea about the degree and patterns of involvement of various categories of households in the non-farm sector. Thus, to obtain some idea about the rural households’ participation in the non-farm activities, we have carried out detailed field survey, covering 400 households, in eight villages, from the Murshidabad district of West Bengal. The detailed field data collected by us help to seek concrete answers to a number of issues some of which are: What is the nature of participation of various categories of households in the non-farm activities? What are the motivations for rural households to be engaged in the non-farm activities? What determines the rural households’ access to the non-farm activities in general and high-return non-farm activities in particular? Does participation in the non-farm sector reduce poverty for the rural households? Does this reduce inequality in the distribution of rural incomes? Of course, some other scholars have looked upon some of these issues in the context of other areas. However, our attempt has been to examine these and other issues in the context of West Bengal and provide an up-to-date picture regarding the pattern and trend of the rural non-farm activities, by combining analyses of both the macro (secondary) and micro (field-level) data. Hopefully, the present study would provide necessary insights to understand
how far the expansion of the rural non-farm activities might help to reduce rural poverty and promote future development of the rural economy in the state.

1.4 The Specific Objectives of the Study

The motivation for our study is the conspicuous lack of knowledge relating to how to design and implement operationally feasible programs that speed up the diversification process and remove constraints and improve the livelihoods of poor people significantly. There have been very few attempts in West Bengal to assess the significance of the rural non-farm sector in terms of employment/income generation and also the impact of such employment/income on rural poverty and inequality. We shall analyze and, hopefully, contribute to the current understanding of the specific poverty impacts of diversification, while emphasizing those principles that carry the most direct and practical application in informing the design and implementation of diversification programs.

The specific objectives of this study are the following:

(1) To examine the extent of employment and income generation through the non-farm activities in rural West Bengal.

(2) To understand the factors (‘demand-pull’ and/or ‘distress-push’), which are responsible for the emergence of the non-farm activities in rural areas.

(3) To examine the relation between the agricultural growth and rural non-farm activities in West Bengal.

(4) To examine the relation between the rate of urbanization and the growth of the rural non-farm activities West Bengal.

(5) To look into the various types of non-farm activities pursued by the rural households and understanding their employment and earnings implications.

(6) To identify the main determinants of the rural households’ access to the non-farm employment / income opportunities of various types?

(7) To identify the factors determining the individual worker’s choice between farming and non-farming activities.

(8) To understand the heterogeneity of rural non-farm activities in terms of employment and earnings intensities by disaggregating the sector into different sub-sectors.

(9) To bring out the impact of the non-farm incomes on poverty status of the rural households.
(10) To identify some important determinants of poverty status of the rural households.
(11) To examine the role of the non-farm sector in reducing the income inequality among the rural households.
(12) To devise appropriate policies to promote poverty-reducing non-farm activities in rural areas.

1.5 Plan of the Study

The present study runs into eight chapters. The first chapter briefly introduces the nature of the study and its objectives. In this introductory chapter, the need for focusing on the rural non-farm activities as an alternative rural development strategy has been briefly clarified. It also attempted to set an acceptable definition for the rural non-farm sector despite its highly heterogeneous characteristic. Finally, the chapter outlined the specific objectives and plan of our study and the rationale of such a study in the context of rural West Bengal.

Chapter II presents a brief literature review covering the major issues relating to the rural non-farm sector. It chronicles the different perspectives for examining the rural non-farm sector commonly used in the existing literature and their developmental role. It also provides a comparative study of the evolution of the rural non-farm activities in Asian, African and Latin American countries. Moreover, the chapter summarizes some important region-specific empirical findings. It also traces out the evolution of the rural non-farm sector in India since the independence and analyzes the role of the Indian Industrial Policies at the different phases of development of rural industries.

Chapter III presents the data base and provides an idea about the field survey methodology and area chosen for our field investigations. The chapter also provides some basic information about our survey areas.

Chapter IV traces out the historical perspectives and evolution of the non-farm activities in our survey district (i.e., Murshidabad). It also highlights the present situation and potentiality of the district for promotion of the non-farm sector.

Chapter V provides an aggregative view of the rural non-farm activities (employment) and their role in poverty alleviation in the context of West Bengal. The chapter provides some idea about the prevailing employment scenario in rural West Bengal and highlights the pattern and trend of non-farm activities in West Bengal in comparison to
the national scenario. The chapter also analyzes the impacts of agricultural growth and urbanization on the expansion of the rural non-farm employment using district level data on West Bengal. The role of other factors in the expansion of the non-farm activities has also been explored in this chapter. The inter-district variations in the shares of workers engaged in the non-farm activities have also been looked into in this chapter.

Chapter VI moves the discussion to the household-level to develop a better understanding about the rural non-farm activities. It examines the extent and pattern of dependence of the rural households on diversified non-farm activities in terms of employment as well as earnings and identifies some important determinants of the households’ access to the non-farm employment/earnings on the basis of primary field survey. The chapter also examines the extent and nature of the non-farm employment at the level of individual workers, and identifies the factors responsible for the variations in the workers’ participation in the rural non-farm activities. In addition, this chapter analyzes the sector-wise distribution of rural workers under different modes of employment and attempts to identify the factors responsible for the workers’ choice between different modes of employment.

Chapter VII examines the role of the non-farm activities in reducing the incidence and intensity of absolute rural poverty and inequality in our survey areas. The chapter also identifies some household-level characteristics responsible for determining the poverty status of the rural households. The inequality implication of the non-farm incomes has also been examined in this chapter. Moreover, the chapter attempts to examine the contributions of some household-level socio-economic characteristics to the non-farm income inequality in our study regions.

The final Chapter VIII provides the summary of the main findings emerging from our study. This chapter also presents some policy suggestions for future promotion of the rural non-farm sector in West Bengal.