CHAPTER - I

THE CONCEPTUAL FRAME-WORK OF RURAL NON-FARM ACTIVITIES
I. Introduction

The main objective of economic development is to exploit and harness the natural resources of the country to provide employment and income to all able bodied working population and to raise the standard of living. It is with this purpose planning was undertaken in our country. It is often believed that through rapid industrialization the burden on agriculture would be reduced and thus surplus population gets transferred to industrial sector, as a result the productivity in both agriculture and industrial sector would increase and thus increase the income of the people over the years. Kuznett suggested that the dominant agriculture sector would be receded into the backward and industrial sector would be in the front, absorbing much labour still later the tertiary sector gets prominence. In every developed economy agricultural sector occupies a tiny place and the service sector (tertiary) occupy major place. In USA only five per cent of population is engaged in agriculture about thirty five per cent in industry, while remaining fifty to sixty per cent in service sector.
II. The Conceptual Frame Work of Rural Non-Farm Activities:

The current widespread interest in rural non-farm employment among developed and developing countries is attributed relatively to its controversial base and structure. The aggregate base therefore needs to be defined. Rural non-farm activities lie on or between the boundaries of the usual rural-urban and agricultural and non-agricultural categories. These classifications inevitably involve a degree of arbitrariness in drawing a single dividing line on what is in fact a continuous spectrum of situations.

No simple system of classification can adequately explain the complex structure of spatial and sectoral inter-relationship that characterises the rural category. Yet some classification is required for analyzing the nature and growth of non-farm activities. Most rural non-farm activities are in small scale and highly dispersed enterprises, which are often missed by the censuses.

Conceptually, there have been some attempts to collate the quantitative information on the size and structure of the rural non-farm sector. However, there have been few systematic attempts to characterize or analyze its role in development process. In fact, a lot of conflicting evidence and controversies are found in the literature regarding the rural non-farm sector, they arise precisely because of the lack of clear definition and analytical framework characterizing its nature and place in the economic system.
Rural non-farm activities generally include village and small industries though their meaning varies between countries. The term industries includes small scale manufacturing activities as well as related repair services, rural non-farm activities relating to construction, transport, trade and services.

Rural non-farm sector comprises products or activities or enterprises run on more or less stable basis with an eye on surplus generation using primarily hired labour and the entrepreneur farm household engaged in non-farm activities.

International Labour Organization (ILO) mission recently focussed attention upon the concept of the informal sector, dependent on the wages and demand generated by the latter for its market and for supplies of input and thus not capable of independent growth. The destination was also drawn between the rural and urban informal sectors or sometimes referred to in the latter case as rural non-farm activities. Within the rural economy, again a distinction has been drawn between commercial non-farm activities, [some full, time other engaged in part time in addition to farming a sub-distinction] and activities yielding non-monetary household output [apart from agricultural output].

Rural non-farm sector, as some say includes both traditional and modern industries in rural areas. Within which there is a great diversity, some establishments are handicraft, household
industries and own account enterprises, others are factories some are operated informally with production intermingling. With household activities, others are organised as business enterprise some employ modern technology and others do not and some who work in rural industry do so as a secondary activity while others depend on it as their primary sources of income.

Generally speaking, rural industry is largely defined on the basis of the pre-conception of rural background, which has forward and backward linkages with agricultural, rural resources and rural residents. This is why this industry is often called rural based industry or agro-based industry. But conventional definition of rural industry is quite limited for example, those who are many types of manufacturing firms in rural areas which are necessarily related to agro-industry and rural residents. Rather they have a close linkage with urban and overseas markets. This means in short, rural industrialization is much more than industrial development in rural areas.

Unfortunately any discussion or analysis of the rural non-farm sector in developing countries is hampered by the absence of a close and consistent definitional framework. To some extent, this may be a reflection of the relative neglect of rural non-farm activities in the context of development planning. At the same time there are several conceptual difficulties in attempting to embrace
such a large, amorphous and complex field in any specific set of classifying occupation and employment status. Beyond this, there are practical difficulties in analyzing owing to the limitations of aggregate data from census returns and labour force surveys.

III. Characteristics of Rural Non-Farm Activities:

Rural non-farm sectors activities are not a homogenous sector. It is a heterogeneous sector having various sub-sectors, so it possesses various interesting characteristics.

1) Small Size:

Across the countries, the size of the rural non-farm enterprises is very small on the whole [Haggblade et al., 1989, pp. 1173-1201]. They are small in terms of employment, capital investment, cost of inputs, ownership of land, premises and tools as is found, for example in Keyna [Norcliff, 1983 p.981-84]. In comparison to formal sector, the rural non-farm sector uses more labour intensive methods.

2) Labour Productivity:

Rural non-farm sector comprises activities with a side range of labour productivities. There are mainly two groups of rural non-farm activities. (1) Low labour productive activities serving as a residential sources of employment and (ii) high labour productivity activities [Lanjaw and Lanjaw, 1995]. There is wide variation in
returns to labour in rural non-farm sector in Java (Indonesia), Uttar Pradesh (India), Thailand and Bangladesh. Labour productivity in non-farm activities in China found to have improved substantially due to industrial support.

3) Population Pressure:

The intensity of population in rural non-farm activities is associated with population pressure. For instance, it is found from the study of 36 Nigerian villages that involvement in rural non-farm activities by adults and children is common and intensity of this involvement is positively correlated with seriousness of population pressure.

4) Seasonality:

Many people in rural areas are seasonally employed. In slack season rural workers may not be able to find employment in agricultural sector. So even a low productivity occupation with low wage/income can be useful to raise and provide stable income over the years [Lanjouw and Lanjouw, 1995]. However the types of rural non-farm employment which are available on a seasonal basis are limited. Capital intensive rural non-farm activities are not likely to be undertaken seasonally because capital is under utilized during the agricultural peak season.
Most of the increase in rural non-farm sector is explained by the increase in proportion of casual rural non-farm sector workers and the casual agricultural labour report a much higher incidence of rural non-farm work a secondary or subsidiary capacity (Basant and Kumar, 1989) most of the seasonal fluctuations in rural non-farm employment can be explained by the change in employment structure of rural casual labours who shift back-fourth between farm and non-farm sector.

5) Scattered Space:

The sources of rural non-farm activities and employment are too scattered in space. This type of employment is available to workers in their own village, nearby villages.

6) Educational Attainment:

Education is regarded as a crucial input for employment in rural non-farm sector in India. Proportion of illiterate workers in rural non-farm sector is much less than that in agriculture [Chadha, 1993, p.296-327]. Educational attainment facilitates a shift from agricultural to rural non-farm sector since educational qualification is helpful to get rural non-farm sector jobs.

IV. Factors Determining Rural Non-Farm Activities:

Broadly factors affecting the nature and volume of rural non-farm activities are influenced by two main factors i.e., (i) the push
factors, due to increased demographic pressure resulting in over crowding in agriculture itself and (ii) the pull factors emanating mainly due to the linkage effects of agricultural growth. The following factors influences on rural non-farm activities.

1) **Degree of Urbanization** :

   Existence of urban centers nearby and higher percentage of population in urban areas influence greatly the activities undertaken in rural areas. The linkages as well as demonstration effects and migration could lead to occupational diversification in rural area. The percentage of population in urban area is significantly correlated with the degree of non-farm employment. It may also be inferred that male non-farm employment is more strongly related with urbanization than female non-farm employment.

2) **Literacy Attainment** :

   Literacy level will also positively influence the degree of non-farm employment. The literates are bound to search for newer and well-paid jobs outside the farm. Education and non-farm activities mutually reinforce each other in bringing about diversified development of the rural areas. The correlation coefficient between literates and degree of non-farm employment for category are also highly significant. The higher value of correlation between female
literacy rates and female rural non-farm employment suggest that educated women take up increasingly non-farm activities.

3) **Level of Regional Development**:

Development is accompanied by structural change and occupational diversification in the economy. The level of district per capita income and the percentage of district net domestic product originating in the non-farm activities are considered indicators of positive association with degree of rural non-farm employment. However, it may be noted that though nature of relationship is as expected in case of overall development the values are non-significant, but in case of non-farm development, the values are highly significant. This suggests that level of non-agricultural development in a region affects rural non-farm employment in a greater way.

4) **Commercialization of Agriculture**:

Agricultural modernization would influence rural non-farm employment into two ways. (a) Increased application of land saving inputs may lead to higher labour absorption within agriculture itself, thereby reducing the size of rural non-farm employment. (b) with extended adoption of labour saving inputs, there may be labour displacement and at the same time increased demand for non-agricultural services arises. For instance, in Karnataka
agricultural modernization seems to be labour absorbing. The percentage of gross cropped area under non-foodgrains has negative relationship with degree of non-farm employment. The cropping intensity and net irrigated areas as a ratio of net sown area though have positive association the values are non-significant. Thus agricultural modernization has absorbed more labour than displacing them.

5) Land-Man Ratio:

It is assumed that overcrowding in agriculture would increase the volume of non-farm activities. The land-man ratio measured in terms of gross cropped area per capita has negative correlation with the degree of non-farm employment confining our assumption but the values are low and non-significant.

6. Landlessness:

The higher the landlessness greater would be the demand for casual work and with declining land-man ratio the landlessness are likely to shift off the farm. It is expected to have a positive relationship with the degree of non-farm employment. However, the observed relationship is negative, this might be due to non-inclusion of subsidiary or secondary work in the analysis along with main work.
V. Theoretical Framework:

According to Prof. Arther Lewis\(^1\) there are two important sectors in every developing economy, one is subsistence sector and another is capitalist sector. The capitalist sector is that part of the economy which uses reproducible capital and pays capitalists for the use there of. It employs labour for wages in mines, factories and plantations for earning profits. The subsistence sector is that part of the economy which does not use reproducible capital. In this sector output per head is lower than in the capitalist sector. Generally developing economies are over populated relatively to capital and natural resources so that the marginal productivity of labour is negligible, zero or even negative. Since supply of labour is unlimited, new industries can be established or existing industries can be expanded without limited, at the current wage by drawing upon labour from the subsistence sector. The current wage is what labour can earn in subsistence sector i.e., the subsistence wage. The main sources from which workers would be coming for employment at the subsistence wage, as economic development proceeds are "the farmers, the casual labours, the petty traders, the retainers (domestic and commercial) and women in household". But capitalist sector also needs skilled workers. Lewis argues that skilled labour is only a "quasi bottleneck" a temporary bottleneck which can be removed by providing training facilities to unskilled workers.
Subsistence wage depends upon the minimum earnings required for subsistence. To be precise the wage level cannot be less than the average product of the workers in the subsistence sector. It may, however be higher than this, if the farmers are to pay rent or food costs more or if they feel that psychic dis-utilities of leaving home are large. Though, "earnings in the subsistence sector set a floor to wage in the capitalist sector," yet in practice capitalist wages are more than 30 per cent higher than subsistence wage, due to (a) substantial increase in the output of subsistence sector. Which by rising real income might induce workers to ask for a higher capitalist wage before offering themselves for employment. (b) if with the withdrawal of labour from the subsistence sector total product remains the same. The average product and hence the real income of those remaining behind will rise and the withdrawn workers might insist on a higher wage in the capitalist sector. (c) the high cost of living and some humanitarian consideration may be the employers to raise the real wage, or governments may encourage trade unions and support their wage bargaining efforts. The supply of labour is however, considered to be perfectly elastic at the existing capitalist wage. Capitalists aim at profit maximisation. It is they who save and automatically invest what they save. Since marginal productivity of labour in the capitalist sector is higher than the capitalist wage, this results in capitalists’ surplus. This surplus is reinvested in
new capital assets. Capital formation takes place and more people are employed from the subsistence sector. This process continues till the capital-labour ratio rises and the supply of labour becomes inelastic and the surplus labour disappears. So Prof. Lewis argued that economic development takes place when capital accumulates as a result of the withdrawal of the surplus labour from the subsistence sector to the capitalist sector.

Fei and Ranis explained the same idea what actually Lewis had developed. However, their theory is an improvement over Lewis theory. The theory relates to an under developed labour surplus economy in which the vast majority of the population is engaged in agriculture amidst widespread unemployment and high rate of population growth. The agrarian economy is stagnant. People are engaged in traditional agricultural pursuits. Non-agricultural pursuits exist but they are characterised by a modest use of capital. There is also an active and dynamic industrial sector. Development consists of the re-allocation of surplus agricultural workers whose contribution to output is zero or negligible to the industrial sector where they become productive at a wage equal to the industrial wage. According to Fei and Ranis the development of a labour surplus economy is in three phases: (1) the disguised unemployed workers who are not adding to agricultural output are transferred to the industrial sector at the constant institutional wage. (2) In the second phase agricultural works add to
agricultural output but less than the institutional wage they get. Such workers are also shifted to the industrial sector. If the migration of workers to the industrial sector continues, a point is eventually reached while farm workers produce output equals to the institutional wage. (3) The third phase which marks the end of the take off and the beginning of the self-sustained growth when farm workers produce more than the institutional wage they get. In this phase the surplus labour is exhausted and the agricultural sector becomes commercialised.

VI. Impetus for Non-Agricultural Growth:

In the mid 1970s John Mellor (1976)\textsuperscript{2} postulated that as a result of emerging green revolution technologies increasing agricultural productivity and incomes of farmers, a demand led growth of both the agricultural and non-agricultural sectors would take place. This would occur through multiple linkages of agriculture with the rural non-farm sector including both consumption and production linkages.

The consumption linkages operated through an increase in income of the rural farmers. This would result in an increase in demand for goods and services produced in nearby villages and towns. Agricultural wages were also expected to rise with increase in agricultural productivity so that the laboures would also have an increased demand for food and other non-food items. Production
linkages, both backward and forward would also emanate from the agricultural sector. Backward linkages from agriculture to non-agricultural sector was the demand from farmers for inputs produced in the non-farm sector, such as ploughs, engines and other tools, forward linkages reflected the need to process agricultural goods so that agro-processing industries, e.g. Rice milling, tobacco processing would develop. The growth of the non-farm sector would in turn stimulate the growth of agricultural productivity via investment of surplus back into agriculture. The "virtuous spiral" of demand-led growth would be set in motion both in the agricultural and non-agricultural sectors.

The agriculture-led growth of the non-farm sector was countered and the need to look for prime movers which operate from outside the agricultural sector was emphasised, while agricultural productivity did not matter some of the outside agriculture, identified in the literature, are urbanization, growth of rural infrastructure and more recently, public expenditure on rural development and poverty alleviation programmes.

A third explanation which has come to dominate the discussion on growth of the non-farm sector was postulated by Vaidhyanathan (1986). He suggested that when the absorptive capacity of agriculture and urban areas is limited, rural non-farm activities tend to act as a sponge for the surplus labour. This has
been termed the "residual sector" hypothesis and suggested a distress-induced growth of the non-farm sector.

VII. Categorization of the Non-Farm Sector:

Non-farm sector does not consist of a homogeneous set of activities in terms of income and productivity levels. Duality in non-farm sector has been pointed out by relatively early studies. Mukhopadhyaya and Lim (1985)\(^5\) suggested that the rural non-agricultural sector consist of two sub-sectors. Sector first is enterprises run on a more or less stable basis with an eye on surplus generation and growth, hiring labour and with a certain degree of technical sophistication. Sector second 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. According to them the difference in the two sub-sectors are discernible in terms of capital use and production relations rather than product categories. A third categories of "wage paid" employment sector characterised by low earnings and automised markets with respect to labour supply is also distinguished.

Rural industry has also been categorized based more on products in to three types. First the production of low quality and cheap variety of goods meeting certain consumption needs, using locally available raw materials and primitive techniques. Second,
agro-processing industries. Third transitional location of modern industry in rural areas, which leads to these areas being absorbed as urban centres.  

It is necessary to recognize the dichotomy in the rural non-farm sector while analysing its linkages with the farm sector because the growth pattern will be different in the various sub-sectors. The rural non-farm sector can be classified as consisting of formal and informal sub sectors. The informal sector is further divided into the modern and traditional sectors. The latter consisting of caste based artisan and service workers, of which particularly the former is expected to be adversely affected by agricultural development.

Another interesting categorization is based on the locations versus linkage approach to rural industrialisation. The definition of rural industry in the first approach is primarily based on location in rural areas. It helps as a safety valve to contain urban congestion. In the sectoral approach rural industry is viewed from the point of whether it generates sufficient linkages in the rural sector. Four categories of industry emerge; rural-located, rural-linked; rural-located, urban linked; urban-located, urban-linked; urban-located, rural linked. NABARD has given an exhaustive list of non-farm activities. (for details see Appendix)
VIII. Economic Development (Experience of under-developed countries): Case of India:

Influenced by such western theories the Indian Government also laid stress on rapid industrialization, right from the second plan and plan after plan industrial sector received Lion’s share in the investment programmes and resources allocation, unfortunately none of the expectations has come true. Industrialisation has not gone on desired level and burden on agriculture has not been substantially reduced.

Though, the contribution from agriculture, industry and service sectors have undergone changes considerably, the dependence of population on these sectors has been reduced only marginally.

**Table : 1.1 Sectoral Composition of Gross Domestic Product**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Percentage Distribution</th>
</tr>
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<tbody>
<tr>
<td>Agricultural</td>
<td>55.3</td>
</tr>
<tr>
<td>(Primary)</td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>16.1</td>
</tr>
<tr>
<td>(Secondary)</td>
<td></td>
</tr>
<tr>
<td>Service</td>
<td>28.6</td>
</tr>
<tr>
<td>(Tertiary)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
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</table>

Source : Compiled by CMIE, Basic Statistics of Indian Economy.
The table 1.1 clearly shows that, the contribution of agriculture to GDP has steadily declined from 55.3 per cent in the year 1950-51 to 29.4 per cent in 1990-91. On the other hand, industrial sector contribution to GDP gradually increased from 16.1 per cent to 29.4 per cent in the same period. The service sector also showed increasing trend during the period viz., from 28.6 per cent 41.2 per of GDP.

Table : 1.2 Occupational Distribution of Working Population

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<thead>
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</thead>
<tbody>
<tr>
<td>Primary</td>
<td>71.7</td>
<td>76.0</td>
<td>72.1</td>
<td>72.1</td>
<td>68.7</td>
<td>65.0</td>
</tr>
<tr>
<td>Secondary</td>
<td>12.6</td>
<td>10.5</td>
<td>10.7</td>
<td>11.2</td>
<td>13.5</td>
<td>15.0</td>
</tr>
<tr>
<td>Tertiary</td>
<td>15.7</td>
<td>13.5</td>
<td>17.2</td>
<td>16.7</td>
<td>17.8</td>
<td>20.0</td>
</tr>
</tbody>
</table>

Source : Compiled by CMIE Basic Statistics of Indian Economy.

Unfortunately the occupational structure of the Indian economy has not followed the same trend. There is heavy dependence on agriculture. More than two-third of the working population derives its subsistence from agriculture, non-agriculture sector is absorbing less than one-third of the total working population.

It is clear from the facts and figures that the development of the Indian economy over the five decades has not gone in the path
suggested by the western theories. The reasons for the failure are not far to seek.

Firstly, the pace of industrialization has been very slow, so that it has not created ample employment opportunities for growing labour force. The country itself being at low level equilibrium could not generate adequate surplus for investment in industrial programmes. Low income leads to low saving, low saving leads low investment, hence poor progress of industrial sector.

Secondly, in the early years of planning the country relied heavily on foreign assistance which naturally depended on political environment. The policy of non-alignment was very helpful on the practical plan. The creditor country expects that the debtor country should support or approve its political learning also otherwise aid would be stopped.

Thirdly, in the earlier plans stress was on heavy industries which were mostly capital intensive.

Fourthly, since heavy industries had a long gestation period some times need two to three decades, during this time they consumed lot of capital without creating employment opportunities on a large scale.

Fifthly, developing countries primary needed infrastructure facilities for industrial advancement. This again is capital requirement.
Agricultural sector too did not respond adequately (1) Though Green Revolution seemed to promise ample scope due to its technical neutrality to scale, it led to skewed distribution of income more over the years, it resulted in impoverishment of the poor and enrichment of the rich. (2) Land reforms were defective and not implemented seriously by the lawmakers, those were interested in obstructing it. (3) The emphasis on major and medium irrigation works did not help much as these were also time consuming projects. Over the years agriculture has shown resilience has fought drought and famines successfully has done away with inputs. But labour absorption has not been there.

Though from employment point of view neither industry nor agriculture could play major role. Even special programmes under “Garibi Hatao” have not contributed significantly among rural workforce.

The new economic reforms have not clearly spelt out any programme of employment generation. They emphasise productivity and growth, export competitiveness while neglecting the need for employment generation. Many studies undertaken four to five years after the initiation of new economic reforms have highlighted the jobless growth. New economic reforms have benefited high tech-industries and labour associated with it. Thus leaving the large ways unattended.

Thus, there is a need for chasing the exodus of rural population towards urban sector. The urban sector has not been
able to absorb its own urban unemployment. Under the circumstances the pressure to be on non-farm sector. Agriculture is already over burdened over the years, employment elasticity with respect to aggregate agricultural output has come down. As a part of long-term strategy of employment in rural areas non-farm activities have to be developed and encouraged.

**IX. Workforce in Non-Farm Sector-Statewise Estimates:**

Firstly the progress of non-farm employment has been quite uneven among individual states. For example, the states where non-farm employment for male workers expanded fast, especially during the 1970s and 1980s are Punjab, Haryana, Gujarat, Himachal Pradesh, Rajasthan and Tamil Nadu. The states witnessing a modest expansion are Karnataka, Maharashtra, Orissa and West Bengal. It has been an experience of a slow expansion in other states, most notably in Bihar, Kerala and Madhya Pradesh. In a fairly general way, the above pattern seems to suggest an intimate relationship between fast agricultural growth and high non-farm expansion. The non-farm expansion owes itself interalia to local demand and supply inter-linkings with agriculture which tend to grow stronger, as agricultural growth picks-up and rural urban space friction gets mitigated.

Secondly, towards the close of the 1980s the states stood at three levels of non-farm development again measured in terms of the proportionate size of rural non-farm workforce. The states which stood at a high level of non-farm development, say roughly
with 30.0 per cent or more of rural male workforce being absorbed by non-farm work were Kerala, Punjab, Rajasthan, Tamil Nadu, Jammu-Kashmir, Himachal Pradesh, Gujarat and Haryana. Those at an intermediate level of non-farm development, say with the rural male non-farm workforce ranging between 25 to 30 per cent were Andhra Pradesh, Maharashtra, Orissa and West Bengal. The rest roughly with a less than 25.0 per cent of non-farm workforce, may be taken to represent low level of non-farm development. The states falling in this group are Bihar, Assam, Karnataka, Madhya Pradesh and Uttar Pradesh. The last group possess a worrisome situation both because a very substantial proportion of India's rural population lives there and because these states are relatively more rural. In the first group, the two mountain states of Himachal Pradesh and Jammu and Kashmir are well-known for certain village crafts which in an accounting sense boosts up their states of non-farm development. One is not sure about the productivity and earnings of these village crafts, especially in comparison with modern small-scale industrial ventures. In any case, the rural economic base in these states is different than in other states of this group and a fast agricultural growth does not hold true in their case. In net terms, therefore, it seems that by and large it is partly through the process of fast agricultural growth that certain states could manage to push their non-farm development to relatively high levels. A point of crucial significance is that rural non-farm development does not seem to be influenced or supported by the general level of industrial
development in a state. Typical of the non-linkage syndrome are Maharashtra, West Bengal and Karnataka, admittedly agriculture in these states is not strongly either.

Table : 1.3 Non-Farm Employment for Rural Male and Female Workers

<table>
<thead>
<tr>
<th>States</th>
<th>Percentage of workers engaged in non-farm activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>21.4 19.7 24.5 25.9 24.4</td>
</tr>
<tr>
<td>Assam</td>
<td>18.5 14.5 20.3 23.5 21.8</td>
</tr>
<tr>
<td>Bihar</td>
<td>17.8 17.0 19.5 20.0 18.0</td>
</tr>
<tr>
<td>Gujarat</td>
<td>16.1 15.7 20.1 31.4 28.9</td>
</tr>
<tr>
<td>Haryana</td>
<td>19.9 22.9 27.5 29.1 39.1</td>
</tr>
<tr>
<td>Himachal Pradesh</td>
<td>18.9 22.6 24.1 31.3 34.2</td>
</tr>
<tr>
<td>Jammu and Kashmir</td>
<td>--- 25.0 32.5 36.9 38.7</td>
</tr>
<tr>
<td>Karnataka</td>
<td>14.8 16.9 17.6 20.4 21.2</td>
</tr>
<tr>
<td>Kerla</td>
<td>44.3 41.0 42.6 45.8 46.8</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>9.6 10.8 12.8 14.7 12.8</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>17.6 19.6 22.4 24.2 24.7</td>
</tr>
<tr>
<td>Orissa</td>
<td>18.4 15.5 22.5 25.1 21.3</td>
</tr>
<tr>
<td>Punjab</td>
<td>20.6 22.1 25.6 31.2 31.8</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>15.6 18.0 21.7 34.7 30.4</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>24.6 26.0 33.7 34.8 36.0</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>18.1 19.7 22.1 21.1 23.7</td>
</tr>
<tr>
<td>West Bengal</td>
<td>22.1 22.2 27.5 27.8 35.3</td>
</tr>
<tr>
<td>All India</td>
<td>16.7 19.5 23.5 25.5 26.0</td>
</tr>
</tbody>
</table>

Source : Quinquennial NSS Reports on Employment and Unemployment (various rounds)
Thirdly, the relative position of individual states did not change much till around the beginning of the 1980s. For example, the rank correlation coefficient between the 1972-73 level of non-farm development and its 1983 counterpart was as high as 0.92. The 80s brought about the real change, however, again, the correlation coefficient between the 1983 and 1987-88 states ranking come down to 0.72, during these years Gujarath and Rajasthan achieved exceptional ascendancy from 14th to 5th and from 12th to 3rd rank respectively, while West Bengal slipped down from 5th to 9th rank and so on. Over the longer time rank 1972-73 to 1987-88, the 1987-88, the 1987-88 position does not much resemble the one in 1972-73, the rank correlation coefficient is as low as 0.56.

But then came the phase of halting non-farm expansion. During the period 1987-88 to 1993-94, the proportion of rural male workers engaged in non-farm activities declined in varying degree in as many as seven states, it witnessed a sizable increase only in Haryana and West Bengal. In most other states it remained either constant or increased by a narrow margin. The most significant fact to note is that it is only in the post 1987-88 years that the proportion of such workers declined in many states, while each of the earlier sub-periods it increased again by varying proportions, in each and every states. The post-1987-88 slackness or decline thus marks a clear departure from the earlier trend of uninterrupted increase. The relative ranking of states did not change much however, only Haryana claimed to rank 2nd in 1993-
from its 8th rank in 1987-88, while West Bengal improved its position from 9th to 5th rank. In fact, the rank correlation coefficient between the ranking of 1987-88 and 1993-94 was as high as 0.87.12

Against this background the present work aims at identifying the non-farm activities which would be viable and ensure continuous employment or substantial income to the rural non-farm household. Being a diversified economy there is need for identifying the non-farm activities having strong background and forward linkages. In developing and encouraging non-farm activities, finance is an important factor. The Indian economic history clearly explains how agriculture and industries were starved of finance in the pre-independence period. Thanks to efforts of the government during the plan periods numerous measures are taken to encourage inflow of finance to agriculture, but at the same time it did not consider non-farm activities in rural areas. Hence, the present study examines the role of institutional finance in promoting rural non-farm activities.
References:


