

TOWARDS INCREASING OFF-FARM INCOME OPPORTUNITIES FOR FARMERS

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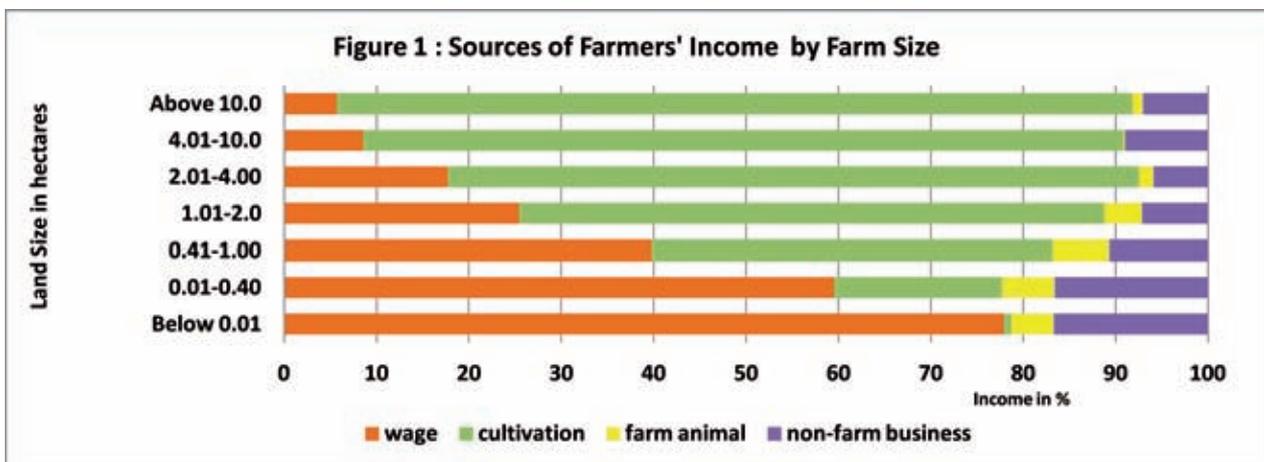
Small land holders dominate Indian agriculture, and need off-farm income for survival. Analysis shows that for sufficient off-farm income opportunities, growth in agriculture, manufacturing, or tourism is important as it triggers growth in other sectors of the rural economy. After weighing various options, the study finally concludes that spatially distributed, linkage-based manufacturing is important for off-farm income opportunities in large parts of the country.

CONTEXT

Over 84 per cent of agricultural holdings in India are of less than two hectares; most of such holdings are not viable on their own. An average farmer earns over half the household income from off-farm sources (National Sample Survey, Situation Assessment of Farmers, NSS 2005). The off-farm income of farmers includes earnings from wages in either agriculture or

non-agriculture activity and also salary/earnings from non-farm business. Despite the multiple engagements of an average farmer and the growing importance of off-farm sources in the household income of a farmer, more than one-third of the rural poor are actually farmers (NSS Results on Employment NSSO 2011).

Farmers looking for sufficient off-farm income opportunities for their sustenance often leave their land under certain arrangements, and at times migrate to other regions for a livelihood. This is evident in the sharp decline in the share of the male work force in agriculture in the recent decade. The effect of such shifts in the work force on the productivity of agriculture often escapes our imagination. There are more chances of farmers leaving their land under sub-optimal arrangements in the current regime of land market in states. Marginal and small farmers together account for around half the operated area under agriculture, and higher productivity on these



Source: Author's computation based on NSS Report No. 497

farms is important for the growth of agriculture in the country. Off-farm income opportunities are important not only for an average farmer's subsistence but also for the growth of agriculture in the country.

OFF-FARM INCOME OPPORTUNITIES AND RURAL NON-FARM SECTOR (RNFS)

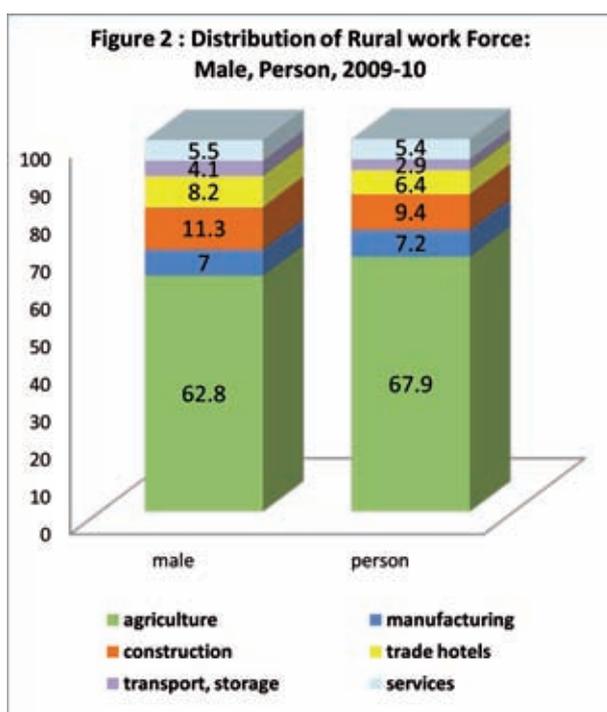
Sustained growth in off-farm income opportunities for farmers warrants the growth of non-agriculture employment in the rural vicinity. However, growth in the RNFS has been moderate. Seasonal and disguised unemployment in the rural sector remains high despite dropping in 2009-10 after the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS). This is particularly high for women, as over a third of women considered employed on the basis of the usual status are actually unemployed on the basis of current daily status. The casualisation of rural work force is on the rise, and the casual workers are more vulnerable to different kinds of economic exigencies/shocks. Despite these depressing trends in the quality of employment, rural wages of unskilled casual workers increased after

2004-05. The above increase in the rural wage is largely perceived as an effect of the MGNREGS.

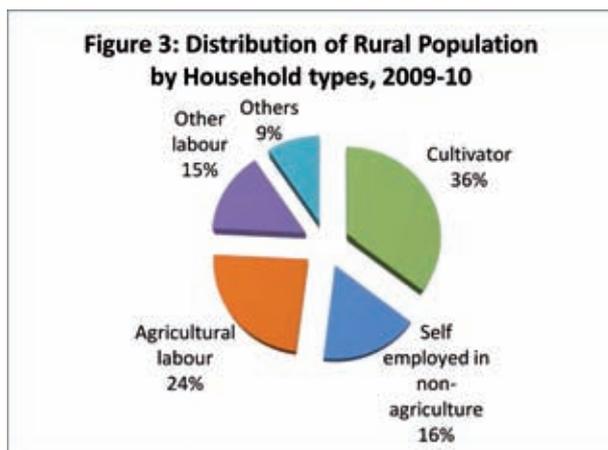
Manufacturing has traditionally been the most important of all non-agricultural industries in rural sector. But the most recent quinquennial survey results on employment indicate that construction—not manufacturing—is the largest employer of the rural workforce after agriculture. Employment in construction encourages further casualisation. The service sector has driven growth in the Indian economy in the recent decade, but modern services such as telecom, finance, and insurance have largely bypassed the rural sector. Among rural services, trade is an important source of employment, but trade—especially retail trade—is emerging as the new 'residual sector' of rural India. Employment and poverty, therefore, coexists in large parts of rural India. The reduction of poverty requires productive employment in the rural sector.

RURAL TRANSFORMATION AND MANUFACTURING

Productive employment in the rural sector—if self-sustained—is referred to as rural transformation. The analysis of information from primary and secondary sources in the selected districts (see table) suggests that rural transformation requires growth of productive employment in agriculture, manufacturing, or tourism. Adequate growth in any of these sectors would generate the second round of growth in the other sectors of the rural economy: utilities, construction, trade, and services. The extent of linkages of these sectors with the other sectors of the economy will determine the intensity of the second round of growth. This linkage is constrained by leakages from the rural economy (rural income spent in purchasing goods produced in urban centres), which have increased with the extension of roads and other factors. The intensity of the second round of growth also increases with injections into the rural economy (income entering into the rural stream), such as rural tourism. The remittances received by village households from their migrant family members, transfer payments are some other sources of injections into rural economy.



Source: NSS Report No. 537



Source: NSS Report No. 537

Although agriculture has better distributional impact in the rural economy than the other determinants of rural transformation, its contribution to the growth of the RNFS is decreasing. The kind of growth of agriculture in the post-trade liberalisation period (after 1992) has weakened the linkage between agriculture and the rural economy. Several studies indicate that a significant part of the growth of agriculture after 1992 is due to price. Price-induced growth has weaker linkages with the rural economy than with technology-induced growth. Growth in agriculture induced by fruits, vegetables or milk, which is often associated with infrastructure and urbanisation, is encouraging spatial and personal inequity in a region. The leakage in an economy increases as inequity in income increases.

Historically, manufacturing has been the largest employer of the rural workforce after agriculture. The share of manufacturing in rural workforce declined in 2009–10 after stagnating for around a decade. Real wages for casual workers in manufacturing, which decreased after 1999–2000, increased only in the post-MGNREGS phase. The above increase in real wages may not be construed as an effective mean of rural transformation since the real wage will fall with the tinkering of the MGNREGS. The real wage in an industry is influenced by the productivity of labour in the medium-to-long run. The productivity of labour in rural manufacturing is, however, low. The bulk of rural manufacturing is in the unorganised sector, and the NSS survey of unorganised manufacturing shows that the productivity of labour—or gross

value added (GVA) per worker—in the rural sector is significantly lower than its urban counterpart in all categories of unorganised manufacturing enterprises: own account (OAME), directory (DME) and non-directory (NDME). Nevertheless, an average annual income of INR 11,300 (in 2005–06 prices) for a person engaged in OAME is too inadequate for the ‘decent livelihood’ of an average rural household (see box).

Box: Gross Value Added (GVA) per worker in Unorganised Manufacturing (in 000’ Rs), 2005-06

<i>Enterprises</i>	<i>Rural</i>	<i>Urban</i>	<i>All</i>
OAME	10.4	16.3	11.3
NDME	26.9	43.4	36.5
DME	41.9	65.3	55.1
All	16.2	38.2	24.0

Source: NSS Report No. 526

In certain pockets of the country, tourism has shown the potential of inducing rural transformation. Remittances also support rural transformation to a limited extent, but this has its own sets of limitations in the current land market regime. Therefore, a manufacturing-led rural transformation is important for large parts of the country.

DECENTRALISED MANUFACTURING FOR OFF-FARM INCOME

India had a rich legacy of adequately distributed small and village industries primarily to address demand for consumer goods. Many of these perished with the onslaught of scale-intensive modern industries; yet, the rural vicinity has an advantage in the production of agriculture-based organic manufacturing (organic manufacturing refers to NIC14-NIC22, NIC is National Industries Classification, 1998). Interestingly, different studies also suggest a relatively higher growth of organic manufacturing in the country. But now there is growing evidence of manufacturing shifting away from the rural sector (CSO Enterprise Survey). In the light of the burgeoning gap between

Table: Districts in State chosen for Analysing Rural Non Farm Employment (RNFE) in India

States	High RNFE Districts	Low RNFE Districts
Andhra Pradesh	Nizamabad	East Godavari
Assam	Kamrup	Jorhat
Bihar	Bhagalpur	Kishanganj
Gujarat	Baroda	Mehsana
Haryana	Gurgaon	Jind
Himachal Pradesh	Shimla	Kullu
Karnataka	Dakshin Kannada	Raichur
Madhya Pradesh	Damoh	Jhabua
Maharashtra	Satara	Wasim
Punjab	Ludhiana	Bhatinda
Tamil Nadu	Kanniyakumari	Perambalur
Uttar Pradesh	Muzaffarnagar	Kannauj
West Bengal	Jalpaiguri	Bankura

Note: From each of the selected states, two districts representing high and low RNFE concentrations were chosen.

rural and urban infrastructure facilities, such industries are increasingly concentrating around urban centres—with little influence on the off-farm income opportunities of farmers in the rural vicinity.

As spatially distributed, linkage-based manufacturing triggers the growth of productive employment in other industries of the rural sector, its role becomes all the more important. Interestingly, there is a renewed interest in India to increase the share of manufacturing in the national economy, but its role in the rural economy is not duly appreciated. The National Manufacturing Policy (NMP) aims to increase the share of manufacturing from 16 per cent to 25 per cent, and suggests clustering and aggregation—among other things—to promote rural manufacturing. The NMP proposes national investment and manufacturing zones (NIMZ)—SEZ-like industrial townships of a minimum size of 5,000 hectares. However, there cannot be many NIMZs that size, and such big-ticket policy changes and

investment in a few industrial enclaves would not affect the off-farm income opportunities of farmers in large parts of the country.

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