Managing Transformation of Rural India Through Rural Non-Farm Economy

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Abstract

Over the last three decades, economy has undergone a structural transformation as the share of rural non-farm sector (RNFS) is increasing in a country like India where 68% of people live in rural areas contributing 56 % of India's income, 64% of expenditure, and 33% of savings. A significant proportion of salaried (39%) and non-agricultural self-employed households (46%) are located in rural areas.RNFS also provides forward and backward linkage to the urban economy by way of supplying agricultural produces, food, vegetables, dairy products and semi-skilled & skilled manpower. Despite various policies, programmes, schemes, and strategies for rural development since the initiation of planned approach in 1951, rural India is still deprived of the socio-economic well-being as revealed by the latest Social, Economic and Caste Census, 2011 (SECC) and other studies. The factors responsible for the growth of Rural Non-Farm Economy (RNFE) are; lower productivity of farms, sluggish growth rate of agriculture, shrinking farm size, increasing cultivation cost, rapid pace of urbanisation, squeezing boundaries of rural-urban divide, increased wage rates in non-farm sector, accelerated pace of rural non-farm employment, and spiraling share of non-farm GDP. The present paper is a review paper attempting to examine and analyse the present status of Rural Non-Farm Economy (RNFE) and propose the strategies for managing this transformation for achieving rural inclusive development.

Keywords: Rural Non-Farm Economy, Rural Non-Farm Sector, Rural Development, Inclusive Development, Structural Transformation

Introduction

Rural economy has witnessed a structural transformation during the last thirty years as studies reveal a significantly growing contribution of non-agriculture sector in India. The rural Non-Farm Sector (RNFS) contributes about two-third of the rural Net Domestic Product (NDP) while agriculture contributes about one-third of the rural NDP (Papola, 2013). The recent data released by the government on Social, Economic and Caste Census, 2011 (SECC) reveal a gloomy picture of social, economic and deprivation condition of Rural India with major revelations that out of 17.91crore rural households (73% of total households in the country), 30% still depend on cultivation for their livelihood, 51.1.% earn their livelihood as manual casual labours (MCL), about 74.5% of the households have a monthly income (of their highest earning member) less than Rs. 5,000, 17.18% gets between Rs. 5,000 and Rs. 10,000 and those 8.29% earn more than Rs 10,000. As far as ownership of land is concerned, 44% of the rural households own land while 56% are landless and 40% of the rural land is un-irrigated. These data are based on parameters of deprivation such as; ownership of assets, occupation, education, disability, religion, SC/ST status, name of caste/tribe, employment, income and source of income, housing, possession of consumer durables and non-durables, and land owned. Though these are preliminary projections based on some districts and are being debated by the experts and economists on the issue of their authenticity and validity, theoutcomes about rural India draws a clear line that still the non-farm economy in rural India is very crucial and needs to be fully explored. The trends emerged from these estimates are sufficient to prove that the share of farm income is going down with the passage of time and non-farm economy has become an important component of rural GDP. The factors responsible for the growth of Rural Non-Farm Economy (RNFE) are many including; lower productivity of farms, shrinking farm size, increasing cultivation cost, rapid pace of urbanisation, squeezing boundaries of rural-urban divide, increased wage rates in non-farm sector, accelerated pace of rural non-farm employment, and spiraling share of non-farm GDP. The increasing importance of rural non-farm economy (RNFE) has attracted the attention of policy makers and in-spite

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of consistent focus on rural development programmes for rural sector growth by the previous governments, the potential of this economy segment is yet to be explored and poses a big question *"How this transformation of rural economy with massive potential of RNFE can be managed for inclusive development of rural India?"*

Objectives and Methodology

In view of the above the present paper is authored with the following objectives:

- To examine the characteristics, current status and growth potential of rural non-farm economy (RNFE) of India in terms of income, employment, consumption and expenditure
- To outline the factors responsible for the growth of rural non-farm economy (RNFE) in India
- To highlight rural development programmes and schemes related to rural non-farm economy (RNFE)
- To discuss various issues and challenges in managing the rural non-farm economy (RNFE) and propose a suitable model of rural development

This is a review paper based on the critical analysis of vast literature, empirical findings, research reports, working papers and studies available in the domain of RNFE of India.The paper throws some propositions after discussion and analysis of the various dimensions of rural non-farm economy. The data compiled for this paper are secondary in nature extracted from extensive review of literature available including reports of national and international organisations, government publications, working papers, research papers, research studies of established private research organisations and data available in public domain.

Rural Non-Farm Economy (RNFE): Meaning, Features and Dimensions

Before discussing the features, importance, potential, scope and other dimensions of the Rural Non-Farm Economy (RNFE), it would be desirable to outreach the meaning of RNFE as evidenced in array of literature. Lanjouw & Lanjouw (1995) defined the rural non-farm sector as incorporating all economic activities in rural areas, except agriculture, livestock, fishing and hunting. Hossain (2004) classified RNFE in three categories ; (a) *Manual based activities*, such as self-employment in cottage industries, mechanics, wage employment in rural business enterprises, transport operations, and construction based,(b) *Human capital based occupations*, such as salaried service in public and private sector institutions, teachers, religious leaders, lawyers, village doctors, and various types of personal services (barbers, laundry services, midwives, etc), and (c) *Physical and human capital intensive activities*, such as agro-processing, shop-keeping, peddling, petty trading, medium and large scale trading, and contractor services. Economic Census (2005) has identified 17 non-farm activities including mining and quarrying, manufacturing, electricity, gas, water supply, construction, maintenance and repair, wholesale and retail trade, hotels and restaurants, transport and storage, financial intermediation, health and social work etc.The rural non-farm employment includes both non-farm wage employment and non-farm self-employment (excluding agricultural wage employment) and it connotes a highly diverse collection of activities-including trading, agro-processing, manufacturing, construction and commercial and service activities. Mahajan & Gupta (2011) have put-agro food processing, dairy and poultry, handicraft, non-traditional rural enterprises, warehousing and transport, wholesale and retail trading, business services, social services, and recreational services-in the rural non-farm economy sector. Haggbled, Peter and Thomas (2007) defined rural non-farm economy that includes a highly heterogeneous collection of trading, agro-processing, manufacturing, commercial, and service activities. The scale of individual rural nonfarm businesses likewise varies enormously, from part-time self-employment inhouse hold-based cottage industries to large-scale agroprocessing and warehousing facilities operated by large multinational firms.

Pal & Biswas (2008) categorised the rural economy into two sub-sectors-farm sector and non-farm sector. Farm activities include agriculture (crop production), plantation, animal husbandry (milk, meat,egg etc.), forestry & logging and fishing, whereas the non-farm sector includes all other activities like agro-processing industries, wholesale and retail trading, storage and communication, transport and education, health industries and other service related activities.

Rural non-farm activities include manufacturing (agro processing); switching from cash crop farming to commodity trading or taking up some non-agricultural job to support themselves financially (Davis, 2006).

Haggblade *et al.* (2007) characterised the rural non-farm economy as highly seasonal, rural non-farm activity fluctuates with the availability of agricultural raw materials and in rhythm with household labor and financial flows between farm and non-farm activities.

"Non-farm" encompasses all non-crop agricultural activities, including manufacturing activities, electricity, gas, construction, mining and quarrying, transportation and services in rural areas. Over 42 % of rural households draw their income from non-farm sources, particularly traditional services (27%) (Shukla, 2014). Borkar (2013) has included other non-farm activities such as handicrafts, handlooms, metal works, wood works, shoe-maker, blacksmith, carpenter, potter, washer man, barber, idol-dresser, goldsmith, etc.

Growth Potentialof Rural Non-Farm Economy (RNFE)

Rural non-farm economy accounts for 35% to 50% of rural income across the developing world. Huggblade *et al.* (2007) proved that rural non-farm economy (RNFE) can contribute significantly to economic growth, directly because of its size and its responsiveness to growing agricultural, urban, and export markets, and indirectly through provision of financing, processing, and marketing services that stimulate and accelerate agricultural growth.

In India, rural economy has undergone a structural transformation during the last two decades during which a massive shift of rural farm economy to rural non-farm economy (RNFE) is apparent. NSSO data reveal that a large section of villagers has moved away from farm jobs over the past two decades and the share of farm workers in the rural workforce declined from 77% in 1993-94 to 73% in 2004-05, and further declined to 64% in 2011-12. The growth in non-farm jobs accelerated between 2004-05 and 2011-12 largely because of a massive construction boom, which generated new jobs for unskilled labourers. The National Sample Survey (NSS) 68th round (2011-12) shows a diversity of employment in rural areas: 64% of the rural workforce is engaged in agriculture and allied activities (usual status of employment), but 50% of the total manufacturing employment and 44% of the total services employment in the country is in rural areas (Sidhwani, 2014). Chatterjee, Murgai and Rama (2015) found in their study that during 1993-94 to 2004-05, rural non-farm employment grew about four times faster than farm employment and since 2004-05, diversification to the non-farm sector picked up the pace alongside rapid decline in poverty during 2004-05 to 2011-12 period.

Empirical evidences prove that the share of rural non-farm workers in total rural workers is increasing year by year (Abraham, 2009; Bhalla, 2002; Bhaumik, 2002; Chadha, 2002; Chadha & Sahu 2002; Jatav 2010; Kashyap & Mehta, 2007; Srivastav and Dubey, 2002). Binswinger and Mkhize (2012) opined that the rural non-farm sector will continue to grow faster than agriculture, provide more income opportunities than agriculture, and produce an increased range of services and products, using progressively more modern technology. Chand and Srivastava (2014) found the rural labour market in India is undergoing a significant change away from agriculture towards non-farm sectors. The share of agriculture in total rural employment has declined by 10.47% (11.30% for male and 6.80% for female) between 1993-94 and 2009-10.Jatav and Sen (2013) observed in their study that the rural non-farm sector has become much more dynamic than the farming sector, both in terms of GDP growth and employment generation. Between 1983 and 2004, rural non-farm GDP has grown at a rate of 7.1%, more than a percentage point faster than non-farm GDP, and 4.5 percentage points faster than agricultural GDP (Table 1). This faster growth of the non-farm sector started in the decade from 1983 to 1993. In the period 1993- 2004, non-agricultural employment growth in rural areas accelerated

Table 1: Trends in Rural Non Form Employment (Annualised Rates of Growth Percentage)

Year	*Non-Farm Employment*	*GDPN*	*Rural Non-Farm GDP*	*Agriculture GDP*
1983-2004	3.3	5.8	7.1	2.6
1983-93	3.5	5.2	6.4	2.9
1993-2004	4.8	6.0	7.2	1.8

Source: Himanshu, Lanjouw, Mukhopadhyay and Murgai (2011)

Note: GDP at factor cost at 1993-94 prices. GDPN is non-farm GDP in the country, agriculture GDP is GDP originating in agriculture, forestry, and fishing, and non-farm GDP is definedas a residual

Table 2: Percentage of Rural Workers Usually Employed in the Non-Farm Sector (All-India)

Year	Male	Percentage increase(Male)	Female	Percentage increase (Female)	Person	Percentage increase (Persons)
1983	22.2	---	12.2	---	18.4	---
1993-94	25.9	3.7	13.8	1.6	21.6	3.2
1999-2000	28.6	2.7	14.6	0.8	23.7	2.1
2004-05	33.4	4.8	16.7	2.1	27.3	3.6
2009-10	37.2	3.8	20.6	3.9	32.1	4.8

Source: Unit-level data from various quinquennial rounds of NSS on Employment and Unemployment Situation in India (Jatav & Sen, 2013)

from 3.5% to 4.8%. During the 1980s; four out of ten rural jobs were in the non-farm sector, now it is six out of ten. Given the large size of the rural labour force, these numbers mean that the rural non-farm sector has emerged as the largest source of new jobs in the Indian economy.

Jatav and Sen (2013) observed a rise in rural non-farm workers employed in non-farm sector over the year which was 18.4% in 1983 and shot up to 32.1% in 2009-10 (Table 2). Mehrotra, Parida, Sinha and Gandhi (2014) observed in their findings that during the five-year period, 2004-05 to 2009-10, about 23.7 million of India's agricultural workforce abandoned agriculture, amounting to nearly 10% of the total workforce in agriculture. On the other hand, non-agricultural employment grew by 25 million, which is how total employment grew by only 1.1 million. Between 2009-10 and 2011-12, non-agricultural employment increased sharply – a 27 million increase in absolute terms, while at the same time the numbers in agriculture fell by 13 million in a matter of two years.

Drivers of Rural Non-Farm Economy (RNFE)

The above discussion testifies that rural non-farm economy (RNFE) has witnessed a positive swing as during the last two and half decades, the employment opportunities in Rural Non-Farm Sector (RNFS) have increased substantially and the agricultural workforce has shifted to non-farm activities. Empirical evidences are available to find out the causes of this transformational shift. Relatively higher wage rates and better conditions to work are factors which boost up RNFE. Dasgupta and Sudarshan (2011); GoI (2010); Rustagi (2005) and Sundaram (2001) found that the rural non-farm workers are better off compared to the agricultural workers in terms of getting wage rates.

Jatavand Sen (2013) outlined two reasons for this shift-growth induced and distress driven factors. Growth induced factors cause buoyancy in the wage rates, while the distress driven factors tend to have dampening effect on the wage rates of the same sector. Further, the indicators of growth induced factors are; levels of urbanisation (urban spillover effect), average size of rural land in cultivation, orchard and plantations and rural irrigation ratio. On the other side, the indicators of distress driven push factors are; percentage of rural households having no land for cultivation, population pressure on cultivated land in rural areas, rural dependency ratio, and rural usual unemployment rates. Chand & Srivastava (2014) empirically concluded that the changes in the rural labour market are driven by several interrelated factors like the pattern of economic growth, wage rate, worker productivity, education, government programmes (MGNREGS), and socio-cultural factors.

The real wages in rural areas also grew significantly during 1994-2012 (Table 3) and after 2004-05, the domestic demand for a number of consumer goods has grown sharply, with a rise in the size of the middle class, as well as the emergence of a new non-poor. In view of the changing rural labour force dynamics, Mehrotra *et al.* (2014) estimate that the number of non-agricultural jobs that will need to grow is at least 10 million per annum (or 50 million in five years). Reddy (2014) observed that during the last four decades the structural transformation of Indian economy has created a leverage in non-agricultural sector. The share of agriculture sector in GDP has gone down to one third in 2011-12 as compared to the share in 1972-73 while the share of non-agriculture in GDP shot up to about 86%. Also, the share of employment and labour productivity in non-agriculture has become doubled and trebled respectively (Table 4).

Table 3: Trends of Rural Real Wages by Occupation in India (1994-2012)

Occupation	*Real Daily Wage Rates (in Rs. At 2001-02 prices)*					
	1993-94	*1999-2000*	*2004-05*	*2007-08*	*2009-10*	*2011-12*
Professional and Administration	91.62	167.81	193.95	182.63	211.42	227.34
Clerical jobs	99.73	142.11	158.10	173.29	198.36	191.36
Sales and services	16.91	70.32	69.25	87.93	102.51	107.18
Agriculture and allied	15.08	34.14	39.79	51.10	56.44	73.11
Crafts and trade workers	24.26	54.47	56.69	79.84	79.51	92.31
Plant & Machine operators	43.26	85.06	92.25	97.99	96.78	107.39
Total	22.45	50.83	59.38	64.62	70.24	86.07

Source: Mehrotra *et al*. (2014)

Panda (2012) observed in his findings that both pull and push factors are responsible for the growth of RNFE and development factors like the role of agriculture, credit access, urbanisation and infrastructure are critical. Tarique (2014) found that the growth of RNFE has failed to make any impact on improving employment and removing poverty it has a positive correlation with the social indicators like literacy and is able to improve the accessibility of rural people to education and health facilities by improving their income to some extent. Sharma (2012) observed that during the last four decades, there was more than 30 percentage point decline in the share of agriculture in GDP, while the decline in the share of agriculture in employment was less than 20 percentage points resulting in the marginal increase in labour productivity in agriculture, while for non-agricultural workers, it has increased rapidly. Moreover, the gap between agriculture and non-agriculture GDP has increased significantly in the post-reforms period leading to an increasing disparity between rural and urban areas. ICSD (2013) outlined some factors such as; natural resources, quality of government, local physical infrastructure, proximity to urban centres, ethnicity, gender and cultural aspects are responsible for the growth of RNFE.

Bhalla and Hazell (2003) found that the expansion of rural non-farm sector in India has resulted in an increase

Table 4: Structural Transformation of Indian Economy (1972-2012)

	1972-73	*1983-83*	*1993-94*	*2011-12*
Share in gross domestic product --Agricultural and allied activities	41.1	35.5	28.4	14.1
Non-agriculture	58.9	64.5	71.6	85.9
Total	100	100	100	100
Share of employment -- Agricultural and allied activities	73.9	68.6	64.8	48.9
Non-agriculture	26.1	31.4	35.2	51.1
Total	100	100	100	100
Labour productivity (Rs/annum)* --- Agricultural and allied activities	5,323	6,076	6,653	10,968
Non-agriculture	21,599	24,120	30,880	63,941
Total	9,571	11,742	15,181	38,037
Ratio of non-agriculture to agriculture productivity	4.06	3.97	4.64	5.83

Source: Reddy (2014)

*Computed from the per capita net national product (NNP) at factor cost (2004-05 prices).

Table 5: Industry-wise Composition of Rural Workers (In percentage)

NSSO years		1987-88	1993-94	1999-00	2004-05	2009-10	2011-12
Agriculture & Allied	Male	74.6	74.1	71.4	66.5	62.8	59.4
	Female	84.7	86.2	85.4	83.3	79.4	75
	Person	78.3	78.4	76.3	72.7	67.9	64
Mining & Quarrying	Male	0.7	0.7	0.6	0.6	0.8	0.54
	Female	0.4	0.4	0.3	0.3	0.3	0.3
	Person	0.6	0.6	0.5	0.5	0.6	0.5
Manufacturing	Male	7.4	7	7.3	7.9	7	8.13
	Female	6.9	7	7.6	8.4	7.5	9.79
	Person	7.2	7	7.4	8.1	7.2	8.64
Utilities	Male	0.3	0.3	0.2	0.2	0.2	0.31
	Female	---	0.2	0	0	0	0.07
	Person	0.2	0.2	0.2	0.2	0.2	0.23
Construction	Male	3.7	3.2	4.5	6.8	11.3	13
	Female	2.7	0.9	1.1	1.5	5.2	6.6
	Person	3.3	2.4	3.3	4.9	9.4	11.05
Trade, Hotels etc.	Male	5.1	5.5	6.8	8.3	8.2	8
	Female	2.1	2.1	2	2.5	2.8	3
	Person	4	4.3	5.1	6.1	6.4	6.5
Transport & Communication	Male	2.0	2.2	3.2	3.8	4.1	4.2
	Female	0.1	0.1	1	0.2	0.2	0.2
	Person	1.3	1.4	2.1	2.5	2.9	3
Other services	Male	6.2	7	6.1	5.9	5.5	6.4
	Female	3.0	3.4	3.7	3.9	4.6	5.2
	Person	5.1	5.7	5.2	5.0	5.4	6

Source:NSSO surveys of Employment & Unemployment Situations (various rounds)& Key Indicators of Employment and Unemployment in India, 2011-12

in productivity in agriculture also. Not only realwages in agriculture have increased, but the wages in non-agricultural occupations are now significant higher than in agriculture.

Reddy (2014) found a 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.

Vaidyanathan (1986) emphasized that there is a significant and positive relation between rural unemployment rate and the incidence of non-agricultural employment and this association is much stronger than in the case of all other explanatory variables on which he estimated an importance of rural nonagricultural employment in total employment in rural India. Binswanger & Mkhize (2012) observed that it is the rural non-farm sector that has emerged as the major source of rural and economy-wide employment growth, with rural non-farm self-employment and incomes growing especially fast. As a consequence, despite the growing labor productivity differential between the agricultural and the non-agricultural sector, urban and rural poverty rates have converged, and urban-rural per capita income and consumption differentials have not widened.

Policies, Progammes, Schemes and Strategies for Promoting RNFE

Various studies have proved that there is a positive correlation between agriculture growth and growth of RNFE. Similarly, wage rates, governments programme like MGNREGS, diversification, urbanisation, infrastructure development, education, higher rates of returns in RNFS and socio-economic factors have an influence on RNFE.

Since independence, the government adopted various policies, programmes, schemes, and strategies for rural development. Saxena (2003) described various government schemes for the promotion of rural non-farm economy for creating entrepreneurship through subsidised loans (IRDP, SGSY, PMRY), schemes to provide skills (TRYSEM, ITIs), and the schemes to strengthen the gender component (DWCRA, RMK). Many of these self-employment schemes have now been merged as SGSY, which is the latest *avatar* of IRDP. Then there are schemes to provide wage-employment (JRY, EAS, Food for Work, SJRY) on rural works programmes to achieve the twin objectives of creation of rural infrastructure and generation of additional income for the rural poor, particularly during the agricultural lean season. A glimpse of the rural development programmes to promote RNFE launched during recent years is presented in table 6.

Table6: Rural Development Programmes for the promotion of RNFE sector

Name of Programme (Year of launch)	*Description and Objectives of the Programme*	*Budgetary allocation in 2015-16 (Rs.Crore)*
Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA) (2005)	Through this scheme the government aims to enhance livelihood security of every household in rural areas by providing at least hundred days of guaranteed wage employment in a financial year. It has been contributing to livelihood security, financial inclusion, inclusive growth, women's empowerment, natural resources regeneration and sustainable development. Considering its successful impact, it received highest fund among all the rural development programmes in the current financial year	34,699
Deen Dayal Upadhyaya Gram Jyoti Yojana (2014)	The programme was launched in order to bring development in rural areas. It focuses on feeder separation (rural households & agricultural) and strengthening of subtransmission& distribution infrastructure including metering at all levels in rural areas. This will help in providing round the clock power to rural households and adequate power to agricultural consumers.	15,000
Deen Dayal Upadhyaya Grameen Koushal Yojana (2014)	DDU-GKY is a Placement Linked Skill Development scheme for rural poor youth. The skilling programme for rural youth has now been refocused and re -prioritised to build the capacity of rural poor youth to address the needs of global skill requirements	1,500
Aajeevika	Aajeevika aims at creating efficient and effective institutional platforms of the ruralpoor enabling them to increase household income through sustainable livelihoodenhancements and improved access to financial services. It believes in harnessing theinnate capabilities of the poor and complements them with information, knowledge,skills, tools, finance and collectivisation to participate in the growing economy of thecountry	2,505
Rural Housing	Considering that housing is one of the basic requirements for the survival of human beings and ownership of a house provides significant economic and social security, rural housing is one of the basic components of rural development. The programme has contributed to rural development by means of providing the rural poor with social security, economic security and better living conditions ever since	14,200
Pradhan Mantri Gram Sadak Yojana (2014)	It provides road connectivity in rural areas of the country. The programme aims to sustainable and inclusive growth of rural India through all-weather road access to rural eligible habitations. The programme has successfully worked for rural development by increased availability of local transport resulting to better health and educational facilities, enhancing employment opportunity and better marketing facilities.	14,291

Name of Programme (Year of launch)	Description and Objectives of the Programme	Budgetary allocation in 2015-16 (Rs.Crore)
Village Entrepreneurship Programme (2014)	Accepting that promoting entrepreneurship and start-ups remains a challenge,Government has launched this programme. It is an initiative where rural youth would take up local entrepreneurship ventures with the help of assistance from the Government. The programme aims to provide credit enhancement facility for young start-up entrepreneurs from scheduled castes who aspire to be part of the neo-middle class	200
National Social Assistance Programme	NSAP represents a significant step towards the fulfillment of the Directive Principles of State Policy enshrined in the Constitution of India which enjoin upon the State to undertake within its means a number of welfare measures. These are intended to secure for the citizens adequate means of livelihood, raise the standard of living, improve public health, provide free and compulsory education for children etc.	9,082
Rural Drinking Water and Sanitation	The programme for rural drinking water and sanitation aims to provide safe drinking water and proper sanitation facilities to all habitations of rural India. It has been successfully contributing to development of health, infrastructure and social condition ever since its initiation and will, expectantly, continue to do the same for the sake ofrural development.	6000
Rural Infrastructure Development Fund (1994-95)	The main aim of the fund is to provide the state government and state-ownedcorporations with fund to help them complete the on-going projects. RIDF thusworks successfully to help the state government and other agencies in bringing ruraldevelopment and is thus a vital programme of the sector	12000

Source: Ministry of Rural Development, GOI & Union Budget 2015-16, Ministry of Finance, GOI

There have been sufficient budgetary allocations to the rural sector in every five year plan since 1951. Binswanger & Mkhize (2012) examined that before the beginning of the 11th Plan, public expenditures for the 13 flagship programs for agriculture, rural development and social development have been increasing rapidly, and now amount to Rs 1,86,539 crore, or approximately 37 billion US dollars. Two thirds of the expenditures are in programs that are only operating in rural areas. The rural component of the social programs will also take the lion's share of these expenditures. The rural component of all programs,therefore, must reach or exceed 85% of the total expenditures, or about 158,000 crore, which is nearly 17% of agricultural GDP. As per the data of earlier Planning Commission (2012), the Gross Budgetary support to the Ministry of Rural Development during Twelfth Five Year Plan (2012-17) for different schemes of rural development is Rs. 4,43,261 crore. Out of this, about 85 percent is for the flagship programmers implemented by the Department of Rural Development, that is, Mahatma Gandhi National Rural Employment Guarantee Act (Rs. 1,65,500 crore), Indira Awas Yojana (Rs. 59,585 crore), Pradhan Mantri, Gram Sadak Yojana (Rs. 1,24,013 crore), and National Rural Livelihood Mission (Rs. 29,006 crore).

Just after the initiation of economic reforms in 1991, rural economy has witnessed paradigmatic transformation. Chatterjee *et al*. (2015) observe that India's pace of transformation has picked up since the mid- 2000s. Rural areas are becoming urban, individuals and households are migrating from rural to urban areas, and an increasing number of those staying behind are moving out of agriculture. Thus, the governance model for developing the RNFE is dependent on two things-the stage of rural development and pattern of diversification (Start, 2001).

The definition of 'rural' has also undergone refinement during the recent past and the term 'rural' is no longer synonymous of agriculture or food production. Rural includes many small towns and intermediate cities, rural people include much more than male farmers, and so on.New Delhi Declaration on the Rural Transformation of Emerging Economies (2010) brought out an agenda based on the three pillars:

- Heavy investments are needed for inclusive, sustainable and diversified rural development to occur
- The need for the right governance systems, institutions and policy processes
- Improving the efficiency and effectiveness of public policy and programmes

Issues and Challenges in Managing RNFE

There are various issues and challenges before the rural Non-Farm Sector (RNFS) which are operational, political, and socio-economic. No model for rural development can be successful and effective without considering these concerns before adoption. It is empirically proved that the RNFE has resulted in the jobs particularly for the women which are casual and in unorganised sector (Nazneen, 2010; World Bank, 2008; Kabeer, 2007). Bhalla (2006) found that that the rural non-farm sector was providing unacceptably low quality employment to increasingly large numbers of people and labour productivity growth has been negative. Based on the in-depth literature survey of RNFE in India, the following are some of the key issues and challenges which need to be considered before formulating and implementing a governance model of reforms in RNFE:

- The employment in RNF sector is due to pull or distress factors i.e. as a last resort rural people adopt non-farm jobs.
- The jobs created in non-farm sector are of low skills, unskilled or in construction where the wage rates are not defined and dependent on the contractors' wishes.
- Women workers are more vulnerable than the male because they are less skilled, less educated and lower paid.
- Blurring of boundaries for rural-urban areas called as gradation.
- The growth of RNFE is correlated to productivity in agricultural sector which leads to increased income of the farmers resulting in more consumption of non-food items pressurizing the famers to adopt non-farm jobs.
- Poverty alleviation approach/Livelihood approach vs. Entrepreneurship development approach

Conclusion

From the above discussion, an impression can be made that world-wide the rural economies are undergoing transformation as the growth RNFE has occurred drastically over the last three decades or so. Now rural sector should not to be seen from the angle of livelihood only but vast economy lying parallel has sufficient scope because of increasing phenomenon of the rural-urban divide (gradation). For transforming the rural economies the imperatives such as; reducing poverty and inequalities, ensuring food security, creating jobs, and self-sufficiency in rural areas (including small towns and intermediate cities) through rural economic diversification simultaneously making the rural labour market more perfect, meeting climate change and environmental challenges by utilizing the natural resources like water and land through promotion of renewable energy sources, establishing linkage between towns and intermediate cities with rural hinterlands, managing rural-urban migration, providing basic services like education, housing, health, water, electricity, transport, communication etc., developing land reforms with a view to strike a balance social equity, economic growth and environmental sustainability, promoting a strong financial system with banks and insurance for social schemes such as; pension, cash transfer, employment guarantee and subsidies to the vulnerable sections of people, encouraging research and innovation in rural development research and making fullest use of ICT are desired. Skill India, Make in India, and Digital India programmes should also be implemented in the spirit of developing the rural India with a view to include and promote entrepreneurial opportunities lying in RNFE.But managing this transformation is full of challenges as it requires support of strong governance and institutional reforms.

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