



## An Understanding of the Rural Transition to Diversified Economic Activities in India

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### ABSTRACT

The primary source of income for India's rural communities is agriculture and allied activities. Therefore the majority of the people living in rural areas primarily rely on agricultural sector for their income. The agricultural sector alone cannot generate enough income to support rural households and given the fact that excessive population pressure results in subsequent addition of labour, neither can it generate new opportunities for productive employment. In this context, growth and development of potential non-farm activities in rural areas could be highly effective measure to address the emerging issues of poverty and unemployment of rural labour force. Non-farm sectors encompass a wide range of economic engagement beyond traditional farming. Diversification of economic activities being an integral part of the development economy, the transition to rural non-farm sector must be accorded the attention it deserves pertaining to employment generation and poverty alleviation in the development strategy of rural areas. This paper makes an attempt to analyze the nature of the transition from agriculture to non-farm activities along with understanding the causes of the transition and its impact on rural livelihoods.

### Keywords:

Agriculture, Diversification, Non-Farm sector, Livelihood, Transition.

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## **INTRODUCTION**

India with its vast rural landscape has traditionally been an agriculturally dominated economy. Most Indian rural residents depend on agriculture as their primary source of income, making it the foundation of the country's rural economy. However, frequent floods, soil degradation, volatile market conditions etc. have led to agricultural distress and owing to this, the agricultural sector by itself is unable to generate additional productive employment opportunities or support the rural households financially prompting the rural households to seek alternative income sources. As such in recent years, India's economic structure has seen a major transition. A critical aspect of this change is the occupational shift, i.e., diversification to secondary rural non-agriculture based activities which is a multifaceted phenomenon driven by the combination of agricultural distress along with economic, social, technological and policy-related factors. This transition reflects broader structural changes in the economy characterized by movement of labour, investment and also decline in the share of household income derived from agriculture. This reflects the growing importance of non-agricultural sectors in rural economies of the country. This study makes an attempt to investigate the dynamics of agricultural distress and the consequent shift towards diversified non-agricultural activities amongst the rural households.

## **LITERATURE REVIEW**

Davis (2003) broadly categorized the rural economy into agriculture or firm sector producing primary goods and non-agriculture or non-firm sector which includes other economic activities generating income for rural households. The transition from agriculture non-firm sector activity in rural areas or the diversification of economic outputs within these sectors is referred to as economic diversification of the rural economy, the linkage being established through production activities. In fact, the

production performance of the agricultural sector would lead to economic diversification through creation of demand and supply for the non-farm rural economy. But, what is also important in this transition is the creation of linkage for sustainability of consumption. This is shown with help of the following table.

Table: Growth Linkages: Agriculture to Non-Farm Sector

Linkage to Agriculture	Secondary Sectors (Construction and Manufacturing)	Tertiary Sectors (Trading and Services)
Production: Forward Linkages	Processing and Packaging Industries, Construction of Storage and Marketing Facilities	Transport and Trade
Production: Backward Linkages	Agricultural Tools and Equipment	Agricultural and Veterinary Services, Agrochemicals, Input Supply
Expenditure: Consumption	Household Items and Home Improvements	Domestic Services, Transport, Sale of Consumer Goods

Source: Start (2001)

Agricultural distress in India is characterized by low productivity, lack of infrastructure and market unpredictability (Sahu et al., 2021). Also the country faces challenges due to the geographical vulnerabilities, frequent floods and erosion. One of the major drivers of agricultural distress is the declining profitability of farming. Research like that conducted by Chand et al. (2017) shows that majority of the Indian farmers, who are small and marginal, encounter serious barriers to market access, credit and technology. These limitations result in low returns on investment, making agriculture an increasingly untenable source of livelihood. Rural diversification is the process of expanding the economic base of rural areas beyond agriculture. It is often driven by the need to mitigate risks associated with farming and to improve income stability (Ellis, 2000). Non-farm activities in rural India include a wide range of economic pursuits such as



handicrafts, retail trade and services. These activities offer alternative employment opportunities and play a crucial role in reducing dependence on agriculture (Barrett et al., 2001).

## **OBJECTIVES**

The main objective of this study is to analyze the transition from agricultural to non-agricultural activities in rural India. The study also aims to understand the nature of these non-agricultural activities and assess their impact on rural livelihoods.

## **METHODOLOGY**

The study is descriptive in nature based on secondary sources of information. To understand the trend in agricultural and non-agricultural employment, income sources and extent of diversification among the rural households, data from various government websites and different rounds of NSSO in India are used.

## **ANALYSIS AND DISCUSSION**

### **Agricultural Distress: Nature and Causes**

The term 'Agricultural Distress' describes the economic, environmental and political difficulties that farmers and rural communities encounter as a result of things like low crop yields, volatile agricultural product prices, high input costs, debt and restricted access to markets and infrastructure.

**Economic Pressure:** Agricultural distress in India is often attributed to a combination of economic pressures including declining profitability, rising costs and limited access to credits and markets, causing particularly the small and marginal farmers susceptible to these economic constraints. Chand et al. (2017) claim that inadequate price support mechanism; rising input costs and volatile commodity prices have all had a negative impact on profitability of agriculture. Significant regional disparities can be observed in the Minimum Support Price (MSP) reach, where data shows only 6 percent farmers benefitted from MSP in 2015-16 (Ministry of Agricultures and Farmers Welfare).



Moreover, the NSS 77th Round data shows that the average monthly income of an agricultural household in 2018-19 was only Rs. 10,218 with significant variations across states which has shown slight improvement from Rs. 6426 in the year 2012-13 as reflected by NSS 70th Round (Situation Assessment Survey of Agricultural Households, NSS 70th and 77th Round, Ministry of Statistics and Programme Implementation, National Statistical Office).

**Environmental and Climatic Factors:** Factors such as unpredictable monsoon patterns, frequent droughts, soil degradation etc. have further exacerbated agricultural distress. Singh et al. (2020) emphasizes that climate change has increased the frequency and intensity of extreme weather events leading to substantial crop losses and reduce agricultural productivity. These environmental challenges create additional risks for farmers, who often lack resources to invest in adaptive measures. According to the National Disaster Management Authority, the frequency of extreme weather events such as cyclones, floods and heat waves have increased by 2.4 times over the past decades. Also the Economic Survey of India 2017-18 noted that a 10 percent deficit in rainfall can lead to a 1.1 percent drop in agricultural output. Moreover, the Ministry of Agriculture reported that between 2014 and 2019, India faced severe drought conditions in at least one-third of its districts leading to significant crop losses and financial losses for farmers.

**Institutional Gaps and Policy Constraints:** Institutional gaps and policy constraints also play a crucial role in perpetuating agricultural distress. According to Deshpande and Singh (2020), many farmers lack the resources they need to address issues in agriculture because of insufficient irrigation infrastructure, restricted access to agricultural extension services and poor implementation of agricultural insurance programmes. Furthermore, the economies of scale in farming operations have been hampered by the fragmentation of land holdings and the absence of successful land reform legislation. The data from Ministry of Agriculture reveals that only about 49 percent of the total sown area in India is under assured irrigation. Furthermore, the Planning Commission of India 2011 report noted that various schemes for farmer



support are fragmented and often fail to reach the intended beneficiaries.

### **Trends and Pattern in Non-Farm Activities in India**

The rural non-farm economy in India has grown significantly over the past few decades providing alternative sources of income and employment for rural households. According to Lanjouw and Murgai (2009), non-farm activities now account for a substantial share of rural employment and household income. According to the NSSO data from Periodic Labour Force Survey (PLFS) 2019-20, non-farm employment in rural areas has been growing steadily and as of 2019-20, approximately, 50 percent of the rural workforce was engaged in non-farm activities, the figure rising from 30 percent in the early 2000s. This growth is driven by factors such as increasing rural-urban linkage, improved infrastructure and greater access to markets and services. Non-farm activities in rural India encompass a wide range of sectors including manufacturing, construction, trade and services. Bhalla (2005) notes that small scale manufacturing such as, agro-processing and handicrafts plays a significant role in rural economies by adding value to agricultural products and generating employment. The service sector including retail trade, transportation and financial services has also expanded providing diverse opportunities for rural households (Barrett et al., 2001). According to the NSSO 2017-18 Report, the service sector accounted for approximately 45 percent of non-farm employment in rural areas and the manufacturing sector grew by 40 percent between 2000 and 2018. There are significant regional variations in the extent and nature of non-farm activities in rural India. According to Haggblade et al. (2010), regions with better infrastructure and connectivity tend to have higher levels of non-farm employment compared to less developed regions. These regional disparities highlight the importance of targeted policies and investments to support non-farm activities in rural areas. There is also a rising female participation in the non-farm activities. The PLFS (2019-20) highlighted that female employment in rural non-farm sectors rose from 21 percent in 2005 to 31 percent in 2020.

### **Drivers of the Shift towards Non-Farm Activities**

Regarding the determinants or drivers of the shift towards rural non-farm activities, the



debate is primarily divided between push factors and pull factors, i.e., one study suggests that the shift to non-farm activities is mainly due to the distress in the agricultural sector (push factor) and the other finds the growth of the agricultural sector to be the main reason for the shift (pull factor).

**Push Factors:** The primary push factor driving the rural households towards non-farm activities is the economic distress associated with traditional farming. The incapacity of agriculture to offer profitable work opportunities to the expanding rural labour population is the cause of distress-push participation. Either growing population pressure or declining farm profits could be the cause, or both. According to the NSSO report on 'Situation Assessment of Agricultural Households' in the year 2019, the average monthly income of an agricultural household from farming activities was approximately Rs.3,140 which is significantly low considering the costs of living and farming inputs. As agricultural incomes become increasingly uncertain and inadequate, many households seek to diversify their livelihoods to ensure greater income stability and reduce vulnerability to shocks. Reardon (1999) argue that diversification into non-farm activities can serve as a great risk management strategy, providing a buffer against agricultural downturns.

**Pull Factors:** Several pull factors also encourage the shift towards non-farm activities. Improved infrastructure and connectivity have enhanced access to markets and services, facilitating the growth of non-farm enterprises (Haggblade et al., 2010). Improved road infrastructure has facilitated better access to urban markets enabling rural entrepreneurs to expand their customer base and accordingly increase sales. A study by the World Bank (2018) found that villages connected by all-weather roads saw a 12 percent increase in non-farm employment as compared to those without such connectivity. Similarly, the Rural Electrification Corporation reported in 2021 that electrification has enabled the establishment of over 50,000 new enterprises since 2015.

Also the importance of the factors like education and skill development in enabling rural households in transition from farm to non-farm activities cannot be denied. Improved access to education and targeted skill development programmes have



equipped rural individuals with the knowledge and skills required for non-farm employment (Lanjouw and Lanjouw, 2001). These programmes have been particularly important in empowering women and marginalized groups who may face barriers in entering the traditional agricultural roles.

### **Impact of Non-Farm Activities on Rural Livelihoods**

Indian agriculture is largely monsoon dependent leading to significant year-to-year variability in crop yields. Engagement in non-farm activities provide rural households with traditional and often more stable sources of income. Studies by Ellis (2000) indicate that households with diverse income streams are better able to manage risks and maintain a more consistent standard of living even in the face of agricultural uncertainties. The shift towards non-farm activities has been linked to significant reductions in rural poverty. Lanjouw and Lanjouw (2001) found that households engaged in non-farm employment tend to have higher income and lower poverty rates compared to those solely reliant on agriculture. This diversification contributes to broader economic development and improves the living standard in rural areas. The NSSO data (2018-19) indicated that the average monthly income for rural households engaged in non-farm activities (Rs. 11,813) was significantly higher than those dependent solely on agriculture (Rs. 7,748). Non-farm employment opportunities have also contributed to social and economic empowerment, particularly for women and marginalized communities. Non-farm activities can provide great economic independence and enhance the social status of individuals within their communities. Engagement in non-farm activities helps in challenging the traditional gender roles and reduces dependency on male family members which allows women to have a say in the financial decisions of the household which would enhance their social status. Other marginalized communities are also getting diverse economic opportunities which reduce their dependence on traditional low paying agricultural labourer jobs. This empowerment is crucial for achieving inclusive and sustainable development in rural areas (Reardon, 1999). To enhance the economic and the social standing of the marginalized communities, it is essential to address the existing barriers and to support



policies that facilitate their participation in non-farm activities.

### **Challenges and Constraints in Diversification towards Non-Farm Activities**

The diversification towards non-farm activities involving a transition from traditional agricultural practices is vital and critical for enhancing rural income, reducing poverty and uplifting socio-economic stability of the rural masses. Nevertheless, it faces several obstacles and limitations as discussed in the following:

**Limited Access to Finance and Capital:** One of the major challenges in promoting non-farm activities is the limited access to finance and capital. Rural households often face difficulties in obtaining credit which restricts their ability to invest in non-farm enterprises. The report of International Fund for Agricultural Development (2013) highlights the need for improved financial services and credit facilities to support the growth of non-farm activities in rural areas. Financial Institutions should develop more user-friendly loan processes to cater to the needs of rural entrepreneurs. In this context, the role of microfinance and self-help groups is very crucial.

**Lack of Skills and Education Required:** Skill mismatches and education gaps pose significant barriers to non-farm employment. Many rural workers lack the specific skills required for non-farm jobs which limits their ability to transition into these roles. The 2011 Census of India indicated that rural literacy rates in India are significantly lower (68.91 percent) as compared to urban areas (84.98 percent), impacting the ability of the rural workers to engage in such non-farm employment which requires higher levels of Education. There is a need to emphasize the importance of targeted skill development programmes and vocational trainings to equip the rural population with necessary skills for smooth transition into non-farm roles and enhance their employability.

**Infrastructural Gap and Lack of Market Access:** Inadequate infrastructure and limited market access are critical constraints on the growth of non-farm activities in rural areas. Poor connectivity and lack of basic infrastructure such as roads and electricity restrict the access of non-farm enterprises to large markets. There is a need for investment in rural infrastructure to facilitate the growth of non-farm activities and ensure their



sustainability.

## **CONCLUSION**

There has been a complex interplay of factors driving the shift from farm to non-farm activities in rural India. While agricultural distress remains a significant challenge, the diversification into non-farm activities helps mitigate risks associated with agricultural dependency providing a more stable income source and thus offers a promising pathway for improving household resilience along with reducing poverty. To support this transition, it is essential to address the constraints faced by the rural households including lack of skill development, limited access to finance and infrastructural bottlenecks. Moreover, some policy reforms are also required vis-à-vis providing targeted support services regarding market assistance and technical support which would enable wider participation in non-farm activities. By fostering a more resilient and diversified rural economy, sustainable development enhancing the wellbeing of rural communities can be ensured.

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