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Structural Transformation Beyond the Farm: Pathways to Inclusive Rural Growth

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Abstract:
India's rural economy is undergoing a gradual but incomplete structural transformation. While agricultural productivity gains and schemes such as Vikasit Bharat Guarantee for Rozgar and Ajeevika Mission (Gramin) VB-G RAM G (MGNREGA)have contributed to poverty reduction, a large share of the rural workforce remains dependent on low-productivity farming. This article argues that truly inclusive rural growth in India requires deliberate structural shifts beyond the farm—centered on the expansion and upgrading of the rural non-farm economy (RNFE) and its linkages with secondary towns and agro-value chains. Drawing on dual-economy theory, farm–nonfarm linkage models, and India-specific evidence, the analysis shows that non-farm activities already account for a substantial and rising share of rural incomes and employment, particularly in construction, trade, and services. Pathways through the RNFE and secondary towns have proven more inclusive than exclusive reliance on mega-city migration. The article examines distributional patterns, gender dimensions, and regional variations within India, and outlines policy priorities aligned with existing programmes such as Vikasit Bharat Guarantee for Rozgar and Ajeevika Mission (Gramin) VB-G RAM G (MGNREGA), rural infrastructure missions, skill development, digital inclusion, and secondary agriculture. Moving beyond a narrow farm-centric approach is essential for achieving Viksit Bharat and broad-based rural prosperity.

Keywords: structural transformation, rural non-farm economy, inclusive growth, VB-G RAM G, secondary towns, India

Introduction

India remains a predominantly rural country, with a large share of its population and workforce still residing in villages. Structural transformation—the secular decline in agriculture's share of output and employment—has progressed, yet the shift of labour out of agriculture has been slower than the decline in agriculture's GDP share. As a result, a significant portion of the rural workforce continues to depend on low-productivity farming, while the rural non-farm economy (RNFE) has emerged as an increasingly important source of income and employment.

Classic development theory posits that rising agricultural productivity releases labour and generates demand linkages that fuel non-agricultural growth (Lewis, 1954; Johnston & Mellor, 1961; Timmer, 2009). In the Indian context, the Green Revolution and subsequent agricultural growth delivered substantial poverty reduction, particularly in the north-western states. However, contemporary challenges—declining average farm size, climate risks, limited formal manufacturing absorption, and persistent landlessness—mean that agricultural growth alone cannot absorb the growing rural labour force or ensure inclusive outcomes.

Evidence indicates that rural households in India are increasingly diversifying into non-farm activities. Construction has become a major employer, alongside trade, transport, and services. Village-level studies and national surveys document a shift from pure agricultural households toward mixed and non-farm households. Experimental evidence on improved implementation of Vikasit Bharat Guarantee for Rozgar and Ajeevika Mission (Gramin) VB-G RAM G (MGNREGA) further reveals important general-equilibrium effects on private wages, employment, and non-agricultural enterprise growth (Muralidharan et al., 2023).

This article examines structural transformation beyond the farm in the Indian context. It argues that inclusive rural growth requires the deliberate expansion and productivity upgrading of the RNFE, closely linked to agriculture and secondary towns, rather than exclusive reliance on mega-city migration.

Methodology

This article uses a mixed-methods approach combining theoretical synthesis, secondary data analysis, and review of experimental evidence. The theoretical framework draws on dual-economy models and farm–nonfarm linkage theory. Empirical analysis synthesises data from NSSO Employment–Unemployment Surveys and the Periodic Labour Force Survey (PLFS) covering the early 1990s to 2025–26. Key indicators include sectoral employment shares, worker population ratios, and employment status. Supplementary evidence comes from the randomised experimental study of improved MGNREGA implementation by Muralidharan, Niehaus and Sukhtankar (2023). Long-term village studies such as Palanpur and comparative work on secondary towns provide micro-level insights. Distributional, gender, and regional patterns are examined through disaggregated PLFS data. Policy implications are mapped onto existing Indian programmes. The analysis is largely interpretive outside the cited experimental findings. Limitations include reliance on secondary sources and evolving PLFS methodology….

Framework Theoretical

Empirical Evidence from India National and village-level data confirm the growing importance of the RNFE in India. According to PLFS and earlier NSS data synthesised in recent analyses, the share of rural workers in non-farm activities nearly doubled from 21.6% in 1993–94 to around 40–42% by the late 2010s, reaching approximately 40.2% in 2023–24 (with some pandemic-related fluctuations). Farm-sector employment correspondingly declined from 78.4% to about 59.8% over the same long period.

More recent PLFS quarterly estimates show continued movement out of agriculture. In April–June 2026, the share of rural workers (aged 15+) engaged in agriculture stood at 52.9%, down from 55.8% in the preceding quarter (January–March 2026). The secondary sector (including manufacturing, construction, mining and quarrying) rose to 24.4% from 22.6%, while the tertiary sector increased to 22.7% from 21.7%. Regular wage/salaried employment in rural areas also edged up (to around 16.1%). Overall, agriculture's national employment share has declined toward the low-to-mid 40% range in annual PLFS estimates for recent years, even as it remains dominant in rural areas.

Construction has emerged as the single largest source of rural non-farm employment in many regions, with its share rising substantially over decades (from roughly 2–3% in the early 1990s to over 12% in recent estimates). Trade, transport, and services also contribute significantly. Unincorporated non-agricultural establishments and employment have shown strong recent growth, particularly in rural areas, underscoring the dynamism of the informal RNFE.

Poverty-reduction pathways highlight the inclusive potential of rural and secondary-town opportunities. Longitudinal and cross-sectional evidence indicates that transitions into the RNFE and smaller urban centres have enabled a substantial share of poverty exits, often more accessibly than migration to large metropolitan cities (Christiaensen& Todo, 2014; related Indian analyses using night-lights data). Experimental evidence from improved VB-G RAM G (MGNREGA) implementation shows that the reform raised beneficiary households' earnings by approximately 14% and reduced poverty by about 26%. Importantly, 86% of income gains came from non-programme (private-sector) earnings, driven by higher real wages and employment; non-agricultural enterprise counts and employment also expanded rapidly, consistent with local demand multipliers supporting structural change (Muralidharan, Niehaus &Sukhtankar, 2023).

Village studies, such as the long-term research on Palanpur in Uttar Pradesh, illustrate both the poverty-reducing potential of non-farm diversification and the associated rise in inequality when higher-return opportunities are unevenly accessed. Early agricultural intensification reduced poverty with relatively stable inequality; later non-farm expansion further reduced poverty but increased income disparities. Counterfactual analysis suggests that the absence of non-farm diversification would have produced even greater inequality and slower poverty reduction.

Gender and social dimensions remain critical. Women's workforce participation in rural areas has shown complex trends, including periods of increased entry into agriculture (often as unpaid or low-paid family labour) alongside limited gains in quality non-farm employment. Access to better non-farm jobs is often constrained by education, mobility, and social norms. Landless and Scheduled Caste/Scheduled Tribe households depend more heavily on casual non-farm wage work, which can be precarious.

Regional variation is pronounced. States with stronger agricultural foundations, better infrastructure, and proximity to urban centres (parts of Punjab, Haryana, western Uttar Pradesh, and southern states) have seen more dynamic RNFE growth. Poorer and more remote regions lag, reinforcing the need for spatially differentiated strategies.

Overall, Indian evidence supports the argument that agricultural growth remains foundational but insufficient. Inclusive structural transformation requires concurrent expansion of productive non-farm opportunities within rural areas and secondary towns.

Policy Implications for India

India already possesses a range of programmes that can be leveraged for inclusive rural structural transformation. Policy priorities include the following.

First, strengthen farm–nonfarm and rural–urban linkages through infrastructure. Continued investment in rural roads (e.g., Pradhan Mantri Gram Sadak Yojana), electrification, digital connectivity, storage, and logistics amplifies multipliers. Territorial and secondary-town development strategies can create accessible growth poles and reduce pressure on mega-cities.

Second, enhance the quality and productivity of RNFE employment. Skill development initiatives (Skill India, rural livelihood missions) should be aligned with emerging opportunities in agro-processing, construction, logistics, tourism, and digital services. Upgrading informal enterprises and supporting formalisation pathways can improve earnings and security.

Third, maximise the transformative potential of public employment and social protection. Vikasit Bharat Guarantee for Rozgar and Ajeevika Mission (Gramin) VB-G RAM G (MGNREGA) can continue to serve dual roles—providing a safety net and generating local demand that stimulates private non-farm activity—especially when implementation quality is high and convergence with asset-creating works is strengthened.

Fourth, promote secondary agriculture and agro-value chains. Recommendations of the Dalwai Committee on Doubling Farmers' Income emphasise secondary agriculture (processing, value addition) as a key route to employment and income growth. Farmer Producer Organisations (FPOs), food processing clusters, and market linkages can expand higher-productivity non-farm opportunities closely tied to farming.

Fifth, deepen financial and digital inclusion. Expansion of formal credit, insurance, and digital platforms (building on JAM trinity and UPI) reduces constraints for small enterprises and women entrepreneurs. Digital tools can also improve market access and information for rural producers and workers.

Sixth, address asset rights and social inclusion. Secure land rights, gender-equitable property rights, and targeted support for landless and marginalised groups improve both farm productivity and the ability to invest in or access non-farm activities. Gender-sensitive design of skill, credit, and enterprise programmes is essential.

Seventh, ensure policy coherence and spatial targeting. Agricultural, rural development, skill, and urban policies must be better coordinated. Lagging regions require priority investments in connectivity, human capital, and local economic development to prevent widening spatial disparities.

Conclusion

India's rural transformation will remain incomplete and insufficiently inclusive if policy continues to focus predominantly on farm productivity alone. Structural shifts beyond the farm—through a more dynamic, higher-productivity rural non-farm economy linked to secondary towns and agro-value chains—are essential for absorbing labour, diversifying livelihoods, and ensuring that growth reaches the landless, women, and lagging regions.

Indian evidence from national surveys, village studies, and experimental research demonstrates both the potential and the challenges of this pathway. Existing programmes provide a strong foundation, but their design and implementation must more explicitly prioritise the quality of non-farm employment, local multipliers, and inclusion of disadvantaged groups.

Achieving Viksit Bharat requires a rural economy in which rising agricultural productivity is complemented by expanding productive opportunities beyond the farm. Policymakers who adopt this broader structural perspective are better placed to deliver rural growth that is both rapid and widely shared.

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