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RESEARCH ARTICLE

Performance of Regional Rural Economy in India

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Abstract

The rural economy is a vital component of India's economic development, providing employment, livelihoods, food security and a significant consumer base. Although agriculture remains the foundation of rural economic activity, the rural economy has gradually diversified into livestock, fisheries, horticulture, manufacturing, construction, services, micro-enterprises and digital activities. However, rural economic performance varies considerably across regions due to differences in natural resources, irrigation, infrastructure, market access, human capital, financial inclusion and government policies. This paper examines the performance of India's regional rural economy with emphasis on agriculture and allied activities, rural income, employment, non-farm enterprises, financial inclusion and infrastructure. Recent evidence indicates improvement in rural economic conditions through agricultural resilience, rising household incomes, expanding institutional credit, infrastructure development and livelihood diversification. At the same time, fragmented landholdings, climate risks, low productivity, inadequate value addition and regional disparities continue to constrain rural development. The paper highlights the need for region-specific strategies, agricultural diversification, rural industries, digital connectivity, skill development and stronger market linkages to achieve inclusive and sustainable rural growth.

Keywords: Rural Economy, Regional Development, Agriculture, Rural Employment, Financial Inclusion, Rural MSMEs, Livelihood Diversification, India

1. Introduction

India's rural economy has traditionally been agriculture-oriented, but its structure has changed substantially over time. Rural households increasingly combine agriculture with livestock, fisheries, wage employment, small businesses, construction, manufacturing and services. Therefore, rural economic performance cannot be assessed only through agricultural production. Income, employment, productivity, infrastructure, financial access, entrepreneurship and household welfare are equally important indicators.

Agriculture and allied activities continue to have a major role in the Indian economy. According to the Economic Survey 2025–26, these activities account for 46.1% of India's workforce,

demonstrating their continuing importance to rural livelihoods. Livestock, fisheries and horticulture have also become increasingly significant sources of rural income.

Regional differences are an important feature of India's rural economy. Irrigated agricultural regions such as Punjab, Haryana and western Uttar Pradesh generally benefit from better irrigation and market infrastructure, while several rain-fed, eastern, central and tribal regions face greater constraints related to productivity, infrastructure and market access. Western and southern states have experienced greater diversification towards horticulture, dairy, manufacturing and services.

Thus, rural economic performance needs to be examined in terms of growth, employment, income generation, diversification, regional balance and resilience.

2. Objectives of the Study

The study aims to:

1. Examine the changing structure and performance of India's rural economy.
2. Analyse the contribution of agriculture and allied activities to rural livelihoods.
3. Examine rural income, employment and livelihood diversification.
4. Assess the role of financial inclusion and infrastructure.
5. Identify regional disparities and major challenges.
6. Suggest measures for strengthening sustainable rural development.

3. Research Methodology

The study is descriptive and analytical and is based on secondary data. Information has been drawn from government reports, the Economic Survey, NABARD publications and rural development sources. Agriculture, employment, household income, financial inclusion, rural enterprises, infrastructure and livelihood diversification are considered major indicators of rural economic performance. The analysis recognises the considerable regional diversity of rural India and therefore avoids treating rural areas as a homogeneous economic category.

4. Performance of the Regional Rural Economy

4.1 Agriculture and Allied Activities

Agriculture remains the principal foundation of rural India, but agricultural income is increasingly supplemented by livestock, dairy, fisheries, horticulture and other high-value activities. The Economic Survey 2025–26 highlights the resilience of Indian agriculture and the increasing

importance of allied activities.

Regional agricultural performance differs significantly. Irrigated areas with better roads, storage, institutional credit and market facilities generally achieve higher productivity. Rain-fed and remote areas remain more vulnerable to drought, irregular rainfall and market fluctuations. Allied activities provide small and marginal farmers with additional income and employment opportunities throughout the year.

4.2 Rural Income and Consumption

Rural household income is an important indicator of economic progress. NABARD's All India Rural Financial Inclusion Survey (NAFIS) 2021–22 reported that average monthly rural household income increased from ₹8,059 in 2016–17 to ₹12,698 in 2021–22, representing a 57.6% nominal increase. Rising rural incomes contribute to higher consumption and stimulate demand for consumer goods, transportation, telecommunications, construction and financial services.

However, income growth remains uneven. Small and marginal farmers, landless labourers and households in economically backward regions continue to face greater income insecurity.

4.3 Rural Employment

Employment diversification is another important feature of rural economic transformation. Although agriculture continues to employ a large proportion of the rural workforce, opportunities are increasingly emerging in construction, manufacturing, services, transport and self-employment.

The Economic Survey 2025–26 reports that rural unemployment declined from 3.3% in 2020–21 to 2.5% in 2023–24. The changing employment pattern indicates reduced dependence on agriculture alone and increasing opportunities in non-farm activities.

MGNREGS remains important as a source of employment and social protection, particularly during periods of agricultural stress. It also contributes to the creation of rural assets, including water conservation structures and community infrastructure. Future rural policies should increasingly promote productive and sustainable employment alongside wage-based support.

4.4 Rural Non-Farm Economy

The expansion of the rural non-farm economy represents a major structural change. Rural manufacturing, retail, transport, construction, food processing, handicrafts, tourism, repair services and digital activities increasingly contribute to household income.

NABARD's Annual Report 2024–25 identifies rural MSMEs as an important engine of inclusive growth and highlights entrepreneurship, marketing and branding as important components of

sustainable rural livelihoods.

Self-help groups, Farmer Producer Organisations, cooperatives and micro-enterprises have created additional opportunities, particularly for women and small producers. A stronger non-farm economy can generate local employment and reduce excessive dependence on migration.

4.5 Financial Inclusion

Financial inclusion has strengthened the capacity of rural households to save, invest and manage economic risks. Access to institutional credit, insurance, pensions, bank accounts and digital payments has expanded.

According to NAFIS 2021–22, the proportion of agricultural households obtaining loans exclusively from institutional sources increased from 60.5% in 2016–17 to 75.5% in 2021–22. At the same time, the share relying exclusively on non-institutional sources declined from 30.3% to 23.4%. The proportion of households with at least one insured member increased from 25.5% to 80.3%.

Despite this progress, access to affordable credit remains a concern for tenant farmers, informal workers, micro-enterprises and households in remote areas.

4.6 Rural Infrastructure

Infrastructure is a key determinant of rural economic performance. Roads, irrigation, electricity, telecommunications, warehouses, cold-storage facilities, schools and healthcare services influence productivity and household welfare.

Investment in rural infrastructure improves market connectivity, reduces transportation costs and facilitates the movement of agricultural and manufactured products. Digital infrastructure has further expanded opportunities through digital banking, e-commerce, online education and government services.

5. Regional Disparities

Rural economic performance varies substantially according to resource availability, climate, infrastructure and institutional capacity. Northern agricultural regions have historically benefited from irrigation and intensive cultivation. Western and southern regions have developed relatively diversified rural economies involving horticulture, dairy, food processing, manufacturing and services.

Eastern India has considerable potential in agriculture, fisheries and horticulture but continues to face infrastructure and productivity constraints in several areas. Central and tribal regions possess significant natural resources but may experience limitations in connectivity, human capital and

market access. Rain-fed regions remain particularly vulnerable to climate variability.

These differences demonstrate the importance of region-specific rural development strategies rather than a uniform policy approach.

6. Major Challenges

The rural economy continues to face several structural challenges. Small and fragmented landholdings restrict economies of scale and mechanisation. NABARD's NAFIS data indicate that the average landholding size declined from 1.08 hectares in 2016–17 to 0.74 hectare in 2021–22.

Climate change presents additional risks through droughts, floods, heat stress and irregular rainfall. Limited agricultural processing and storage also reduce opportunities for value addition. Regional inequalities in infrastructure, education and skills affect productivity and employment. Furthermore, limited employment opportunities for educated rural youth encourage migration towards urban centres. Although institutional finance has expanded, vulnerable groups continue to experience difficulties in accessing affordable formal credit.

7. Suggestions

The following measures can strengthen India's regional rural economy:

1. Promote diversification into horticulture, dairy, fisheries and other high-value activities.
2. Strengthen Farmer Producer Organisations to improve bargaining power and market access.
3. Expand rural agro-processing, storage and cold-chain infrastructure.
4. Support rural MSMEs through affordable credit, technology, skills and marketing.
5. Improve roads, irrigation, electricity, broadband and market infrastructure.
6. Expand financial services, insurance and digital payments among vulnerable households.
7. Align rural skill-development programmes with local employment opportunities.
8. Encourage women-led enterprises and strengthen self-help groups.
9. Promote climate-resilient agriculture, water conservation and sustainable farming.
10. Adopt region-specific development policies based on local resources and economic conditions.

8. Conclusion

India's regional rural economy has experienced considerable transformation. Agriculture continues

to provide the foundation of rural livelihoods, but livestock, fisheries, horticulture, manufacturing, MSMEs, construction, services and digital activities are increasingly contributing to income and employment. Improvements in household income, institutional credit, insurance, infrastructure and employment conditions indicate positive developments in rural economic performance.

Nevertheless, fragmented landholdings, climate risks, limited value addition, skill gaps, unequal infrastructure and regional disparities continue to restrict inclusive growth. The future of rural development therefore requires a shift from an agriculture-dominated approach towards a diversified rural economic strategy.

Agricultural diversification, rural enterprises, stronger FPOs, financial inclusion, digital connectivity, infrastructure development and skill enhancement can generate sustainable livelihood opportunities. Most importantly, policies should recognise regional differences and focus on locally appropriate solutions. A regionally balanced and inclusive rural economy will be essential for achieving sustainable economic development in India.

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