

**SIZE, STRUCTURE AND ROLE OF UNORGANISED SERVICES IN  
INDIA: AN ASSESSMENT BASED ON RECENT NSS EVIDENCE**

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**MASTER OF PHILOSOPHY**

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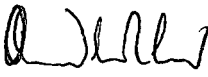
**DECLARATION**

This is to certify that the dissertation entitled "*Size, Structure and Role of Unorganised Services in India: An Assessment Based on Recent NSS Evidence*" submitted by me is in partial fulfillment of the requirement for the award of the degree of Master of Philosophy of Jawaharlal Nehru University. This dissertation has not been submitted for the award of any other degree in this University or any other University and is my own work.

  
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**CERTIFICATE**


We recommend that this dissertation be placed before the examiners for the evaluation.

  
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## Chapter I Introduction

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One of the striking features of the rapidly growing Indian economy is the strength of its tertiary sector. This sector is the largest contributor to the economy in terms of the value added. As of 2009-10, the services sector alone accounted for 55.2 percent of the Gross Domestic Product (GDP) at current prices. It also contributed to a quarter of the total employment and over one-third of the total exports. It is a fast growing sector which recorded a compound annual growth rate of 10 percent in 2009-10 and an export growth of 24.7 percent through the first half of 2010-11. (Economic Survey 2010-11)

India's output structure shows a high degree of tertiarisation at a level of per capita GDP which is classified by the World Bank as 'lower middle income'<sup>1</sup> while most other predominantly tertiary economies belong to 'upper middle income' and 'high income' groups. Besides this, the structural transformation of the Indian economy is considered to be unique for two main reasons. Firstly, the expansion of the service sector's output share began even before India had achieved a reasonable level of industrialisation. For this reason, the Indian case has often been termed as one of 'premature' tertiarisation. Secondly, although the service sector has been rising in prominence in terms of its share in national output, the share of the sector in national employment has not risen in the same proportion. As a result of this 'jobless' nature of growth in the services sector, the primary sector is still the largest employer of the Indian workforce, employing around 56 percent of the total workers in 2007-08.

The fact that India has managed to attain such high levels of growth rate driven by the growth in the services sector without having a well-developed manufacturing sector has made many economists question the traditional theories of economic growth and transition where manufacturing was called the prime 'engine of growth'. Basing their argument on India's success story, they challenge the notion that industrialisation is the only plausible route to rapid economic development. "Even though manufacturing continues to be a dominant driver of growth, recent developments suggest that we must include the service sector in the debate

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<sup>1</sup> The World Bank (WB) classifies economies according to their per capita incomes into: low income- \$995 or lesser; lower middle income-\$996 to \$3945; upper middle income-\$3946 to \$12195; and high income- \$12196 and more.



as well. Services are no longer exclusively an input for trade in goods but have become a "final export" for direct consumption." (Mishra, Lundstorm, & Anand, 2011)

### **Growth and Structural Change: An International Comparison**

Early growth economists like Fischer (1935, 1952), Clark (1940/1951, 1949) and Kuznets (1972) in their studies of economic growth have noted that growth in per capita income is inevitably associated with a process of structural transformation in the pattern of output and employment. The general structure of economic transition can be described as follows. In the initial stage, the economy is primarily agrarian, with agriculture accounting for the largest share in the Gross Domestic Product (GDP) as well as employment. With rising per capita incomes, the GDP and employment shares of the secondary sector begin to rise while that of agriculture declines. As the per capita income continues to rise, a stage arrives when it is the tertiary sector that begins to increase in its share in the national GDP. The industrial sector now begins to decline and the employment being released from agriculture increasingly gets absorbed by services.

Historically, today's Most Developed Countries (MDCs) of the world experienced this kind of generalised pattern of change in their economic structures. While there was a secular decline in the share of agriculture, and a secular rise in the share of services sector, the industrial sector followed a hump-shaped trajectory. Irrespective of the time when industrialisation began in these advanced countries, the 'de-industrialisation' in terms of decrease in the share of industry for all of them began at around the same time, in the middle of the twentieth century. Thus, in the case of the MDCs the employment and product structure of all these economies looks like a replica of each other, each of them having a miniscule share of agriculture, industry claiming about one-fourth and services around seventy per cent of the national product. (Papola, 2006)

Several factors have been put forth to explain the observed association between growth and the structural shift in output and employment towards the tertiary sector.

On the demand side, the operation of Engel's law leads to the inevitable shift from agriculture to manufacturing and then to services as per capita income rises. The structural changes taking place within manufacturing result in the outsourcing of services activities by expanding manufacturing firms. This is another factor that has been put forward as an explanation for the increased demand for services. This process is known as 'splintering' or

splicing of services from what was hitherto a part of the manufacturing process. The increase in services value added due to this phenomenon is more statistical involving a shift in the value added from manufacturing to services rather than causing a real rise in the overall economic output. With the growing role and influence of the government and rising needs of a growing population, the provision of public administration, social services and defence also grows in size. On the supply side, the inherently different productivities and rates of productivity growth are important sources of the association between economic growth and structural transformation of output and employment in favour of services.

While these factors explain the general pattern of structural transformation during the growth process it does not adequately explain why different countries may not have undergone this process in different time periods and under different technological contexts.

Although following a similar growth pattern, the significant difference between the MDCs and those countries that embarked on the growth trajectory later relates to the employment potential of industrialisation. The late industrialising countries have had easier access to high productivity, capital-intensive technology of the MDCs and hence the employment potential of the industrial sectors of the late developers has been much lower. This would not only imply that the shift in employment away from agriculture to non-agriculture becomes slower, but also that de-industrialisation and tertiarisation of employment can begin at lower levels of income than in the case of the MDCs. (Mazumdar, 2010)

We briefly compare the Indian case with two other late industrialising Asian economies-South Korea and Indonesia. While South Korea is a developed economy and a member of the Organisation for Economic Cooperation and Development (OECD), Indonesia is a developing economy and falls in the lower middle income group of countries like India.

Both these Asian economies, like India, embarked on the development process in the second half of the twentieth century only. These countries too experienced a growth in the size of the service sector at lower levels of per capita income than those suggested by the experience of the MDCs.

Table 1.1 shows the sectoral shares of the three countries in their respective GDP. While Indonesia does have a significant service sector, its growth has been slow compared to her secondary sector which continues to be the most prominent sector (49 percent in 2008); with a GDP share that is nearly twice that of India. The Indonesian service sector grew only by 6

percentage points in GDP share from 1965 to 2008, during which the Indian services grew from 38 to 54 percent of total GDP.

**Table 1.1: Primary, Secondary and Tertiary Sector Shares in GDP**

	India			Indonesia			South Korea		
	Agriculture	Industry	Services	Agriculture	Industry	Services	Agriculture	Industry	Services
1965	41	21	38	56	13	31	39	21	39
1970	42	21	37	45	19	36	29	26	45
1980	36	25	40	24	42	34	16	37	47
1990	29	27	44	19	39	41	9	42	49
2000	23	26	50	16	46	38	5	38	57
2008	17	28	54	15	49	37	3	36	61

*Source: World Bank Databank*

South Korea which has a higher level of per capita income has 61 percent of the GDP accounted for by the tertiary sector. Industry had a major role to play in the Korean economy as she embarked on the path of economic growth and development by implementing the export led industrialisation strategy. Although the industrial sector is no longer the major contributor, it had grown rapidly in the earlier stages of development before recording a fall in share over the last two decades. Indian industry on the other hand has been stagnating; its share going up only by 7 percentage points, from 21 to 28 percent of GDP between 1965 and 2008.

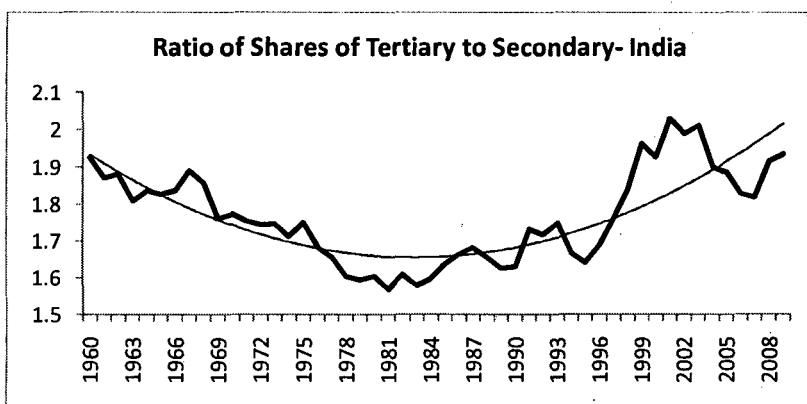
The difference in the growth pattern of output can be seen more clearly by comparing the ratio of output shares of tertiary to secondary sectors for the three economies. The Figures (1.1, 1.2 and 1.3) below trace the ratio and also show a fitted polygonal trend line of two degrees. The ratio would indicate the changes in the relative composition of the non-agricultural sector. The point where the U-shaped trend line bottoms out and begins to rise indicates that the period around which the tertiary sector's output share had begun to rise relative the share of the secondary sector. Thus it indicates an increasing services and reducing industrial component within the non-agricultural output.

The bottom of the 'U' in the case of India, that is, the rise in the contribution of the tertiary sector to GDP relative to that of the industrial sector began in the 1980s itself. The initial expansion in the eighties and the early nineties was due to the increasing importance of the public sector in the economy. Although the public sector itself was not undergoing de-industrialisation during this period, the share of services in the public sector's output was consistently greater than that in the economy's aggregate output. With the advent of neo-

liberal reforms and privatisation from the nineties, the reigns of growth were taken over by the private sector which made a decisive shift towards services and further reinforced the service dominated growth trajectory. (Mazumdar, 2010)

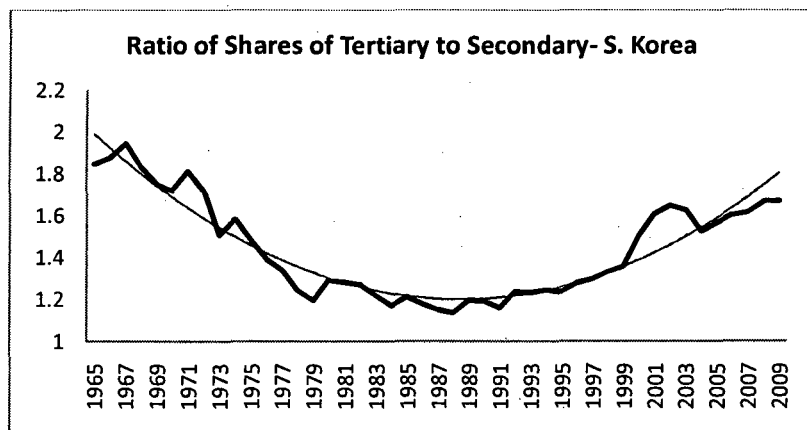
For South Korea on the other hand, services began contributing relatively more than industry to the national output only by 1990. This is in spite of the fact that latter has much higher per capita income. Indonesia's industrial sector continues to be the major contributor to the growth process as indicated by the graph, where the turning point is only around 1999.

**Figure 1.1: Ratio of Shares of Tertiary to Secondary- India**



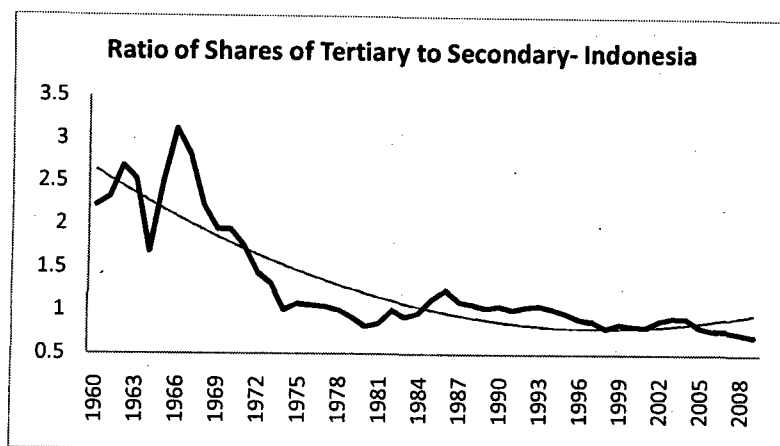
Source: World Bank Databank

**Figure 1.2: Ratio of Shares of Tertiary to Secondary- South Korea**



Source: World Bank Databank

**Figure 1.3: Ratio of Shares of Tertiary to Secondary- Indonesia**



*Source: World Bank Databank*

As mentioned earlier, the shift of labour from agriculture to non-agriculture for all these countries has been a slower process compared to the experience of the MDCs of the world. However, among the three Asian economies, the shift in India's labour force away from agriculture has been the slowest. Thus, in India, agriculture still employs the largest share - 56 percent of the total employed (as of 2007-08) although it accounts for the smallest share in value added. Industry and Services on the other hand employed 19 and 25 percent of the total workforce each.

### **Indian Tertiary Sector:**

India has had a larger services share in output than industry since the time of independence. From 1950 to the mid-1960s, the industrial sector had grown rapidly aided by the protectionist measures and import substitution policies of the government. Around the mid-1960s, India experienced industrial stagnation from which it never seemed to recover to touch the high growth rate levels achieved earlier. The recovery from this period of growth deceleration began only in 1980. This transition to a higher growth trajectory, which took place in the 1980s, has been associated with expansion of services. Since the liberalisation of the 1990s was not accompanied by a new dynamism in the commodity producing sectors of the economy, the growth of services proved to be crucial over this period as well.

As mentioned earlier, although the services growth has been dominating since the 1980s, the sector that has been leading this growth process has not remained the same. Till around the

early 1990s, it was the public sector that had led the growth of services after which it was the expansion of the private organised sector in the area of services that led the overall growth in the economy. It is reasonable to suppose that the shift in the leading sector would also show up as changes in the pattern of growth within the services sector. Therefore, it would be of interest to us to examine as to which subsectors within the tertiary sectors have been growing faster than the others and contributing more to the increase in the services GDP.

Even though the rapidly expanding services sector has led the Indian economy to record high over all growth rates, most of this growth has been 'jobless' in nature. Lack of adequate expansion of job opportunities, especially in the organised sector, in the face of a rapidly growing population would in turn imply that increasing numbers of people shall end up seeking refuge in the unorganised sector jobs. (Singh & Dasgupta, 2006) This has important implications for inclusive growth and hence requires government attention in the form of sound policy backing.

Hence, as a part of this dissertation, we plan to study the structure of growth of the services sector in terms of employment as well as value added. We wish to study this in terms of two types of classifications- that between the organised and the unorganised segments of the services sector and that between the modern and non-modern set of services.

While looking into the question of employment, we examine the share of the services workforce employed by the organised and the unorganised enterprises of the different services industries as well as the importance of each service industry in the entire organised and unorganised enterprise workforce. Further, we examine and compare the nature and quality of employment provided by the two segments. The study of employment characteristics of the organised and unorganised segments of services is carried out by rural and urban sectors. This brings out the sector-wise differences in the nature of employment provided as well as the differences in the prominence of the tertiary sector as an employer in the two sectors.

The study of the two segments, especially the unorganised segment is of interest because, not only does it provide employment to a major share of the total tertiary workforce but also, it accounts for a large share of the gross value added by the services sector to the national output.

The study of the services sector is carried out in three parts in this dissertation. In the first chapter, we study tertiary sector employment by analysing the 61<sup>st</sup> Round, Employment and Unemployment Survey (EUS), 2004-05 of the National Sample Survey Organisation (NSSO). The total tertiary workforce is divided into the organised and unorganised sector workforce by applying the definition of the 'unorganised sector' as proposed by the National Commission for Enterprises in the Unorganised Sector (NCEUS) Task Force's Report on Definitional and Statistical Issues related to the unorganised sector. Based on the workers' responses, we are able to examine the stark differences that exist between the two segments in terms of quality of work, earnings, eligibility to receive social security benefits etc. By comparing the unorganised sector's employment alongside the unorganised sector's contribution to GDP as estimated by the Sub-committee of the NCEUS Task Force, it is shown that besides employing a large share of the services workforce the unorganised sector also produces a large share of the total services output

In the second chapter, we study the characteristics of the enterprises which constitute the unorganised services sector. For this we use the data from NSSO Report no. 528 titled Service Sector in India (2006-07): Operational Characteristics of Enterprises and Report no. 529 titled Service Sector in India (2006-07): Economic Characteristics of Enterprises, of the 63<sup>rd</sup> Round of the NSSO. We use the data published in these reports to try and delineate the structure of the enterprises that constitute the unorganised sector in services.

In the third chapter, we divide the services industries into two categories - Modern and Non-modern. Modern services include all those knowledge intensive services and wholly government provided services which are expected to grow rapidly in the current economic scenario. In this era of neo-liberal economic policies which advocate greater liberalisation and push for globalisation, it is the 'modern' group of services that is conventionally expected to account for a rising share and lead the growth process. However, we wish to show that the 'non-modern' services account for an equally important share not just in terms of employment but in terms of contribution to GDP as well. This implies that the government cannot afford to ignore this group of services if India is meant to successfully proceed along the services led growth trajectory. The fourth chapter concludes with a summary of the important findings of the dissertation.

## Chapter II

# **Unorganised and Organised Service Sector Workforce**

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In this section, we use the data collected in the 61<sup>st</sup> Round, Employment and Unemployment Survey, 2004-05 of the NSSO to determine the share of employment that is provided by the unorganised services enterprises using the definition of the 'unorganised sector' which is based on that specified by the National Commission for Enterprises in the Unorganised Sector (NCEUS) Task Force's Report on Definitional and Statistical Issues related to the unorganised sector. Having done that, we proceed to examine the various characteristics of the organised and unorganised workforce as revealed by the data.

### **Unorganised and Informal:**

In India, the terms 'informal' and 'formal' had not been used in the official statistics or in the National Account Statistics (NAS) until the turn of the century. The terms used in the Indian NAS and by other official statistical agencies were 'organised' and 'unorganised'. However, what is deemed to be organised and what falls in the unorganised sector has differed even among different official data collecting agencies.

As per the Central Statistical Organisation (CSO) which publishes the NAS, the organised enterprises comprised of those enterprises for which statistics were regularly available from sources like budget documents, annual reports and surveys etc. while non-availability of regular information regarding production statistics has been the main criterion for classifying enterprises as 'unorganised'.

In the preparation of the national accounts, however, the application of this definition does not allow for uniform coverage across the different industry groups. This renders the comparison of the various characteristics and estimates of the organised and the unorganised sectors across different industries impossible even within the NAS itself. The government and public sector enterprises are considered as organised in almost all industries. In the case of manufacturing, all those units which were not registered and covered by the Annual Survey of Industries (ASI) were classified as unorganised. In the case of Hotels and restaurants, all units in public, corporate and co-operative sectors were considered as organised where as in the case of health services, only public sector facilities were deemed as organised for a long time. (In the latest revision, however, the corporate sector health



facilities have also been included in the organised sector.) Industry groups like Public Administration and Defence, Transport by Railway are considered to be wholly within the organised sector in the national accounts. (NCEUS Task Force, June 2008)

While the contribution of the organised sector of each industry in the NAS is determined through data collected from budget documents, annual reports and so on, the contribution of the unorganised sector is estimated through the 'labour input' method using employment data from the Directorate General of Employment and Training (DGET).

The DGET classifies all public sector establishments and private sector establishments in non-agriculture with 10 or more employees as organised. The size of the unorganised workforce is estimated by deducting the DGET estimates from the total workforce for each category for that year. The total workforce in turn is estimated for the base year by applying work force ratios from the Employment and Unemployment Surveys (EUSs) and scaling them up by the appropriate population census projections. For the subsequent years, the imputed growth rate between the category-wise work force estimates of consecutive quinquennial rounds is applied to arrive at the total work force for the year concerned. For national accounts purposes, the estimated labour input is multiplied by the value added per worker (VAPW) in the industry concerned to get the total value added for each year. The VAPW for the base year is taken from various enterprise surveys and then scaled as per relevant price and physical indicators of the economic activity to arrive at the VAPW for the industry for any particular year.

The main problem with the DGET data arises from the fact that under the Employment-Exchanges (compulsory Notification of Vacancies) Act, 1959, the filing of employment returns is obligatory only for the public sector enterprises and those private sector firms which employ 25 or more persons. For enterprises employing more than 9 and less than 25 persons, it is on a voluntary basis. "With little or no effort to pursue (much less prosecute and penalise) cases of non filing of returns even among the larger units (including public sector units), DGET employment is subject to the problem of non-responding units." (Sundaram, 2008) Thus the DGET figures do not guarantee complete coverage of all the units considered to be in the organised sector by it.

The NSSO's definition of organised and unorganised differs slightly from that adopted by the CSO. As far as the manufacturing sector is concerned, the definition remains the same- all units not covered by the ASI are classified as unorganised. On the other hand, the

unorganised section of the tertiary sector covers all units except those under the government, PSU enterprises and any services units that may have appeared in the latest ASI frame. This definition could end up including some enterprises which have very large GVAs or employ a really large workforce etc within the ambit of the unorganised services sector. For the purpose of this dissertation, the data used is mainly from various rounds of NSSO reports. The section below deals with the data problems that arise when trying to tackle the 'unorganised' part of the services sector.

### **Data Issues Regarding the Unorganised Service Sector:**

The tertiary sector of India is the largest contributor to its GDP. But the country's system of collection of statistical information regarding the same is very poor. In the case of the manufacturing sector, separate agencies ensure collection of reliable and comparable data on a fairly regular basis for both the organised as well as the unorganised segments of the sector. The ASI collects data annually from the organised manufacturing units which are registered under the sections 2m (i) and 2m (ii) of the Factories Act, 1948. That is, all enterprises which use electricity and employ 10 or more persons and all enterprises which do not use electricity but employ 20 or more workers. The unorganised manufacturing units have been covered separately on a quin-quennial basis since the first Economic Census (EC) that was conducted in 1977 by NSS surveys.<sup>1</sup> Both of these being enterprise surveys, the data and their classification are comparable.

For the services sector, however, there is no corresponding equivalent of an ASI which systematically collects annual time series data on the organised units belonging to the service sector. This sector is also characterised by the presence of a large number of unorganised enterprise units. Earlier, the only sources of statistical information for service sector enterprises of the unorganised sector were the Follow-Up Surveys of the periodically conducted Economic Census. However, it is argued that the estimates of Gross Value Added per worker based on these are often too low. Further the estimates of the number of workers in different subsectors also differ widely from those available from sources like EUSs of the NSSO and the decennial Population Census. (Service Sector Statistics, MoSPI)

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<sup>1</sup> The first integrated survey on the unorganized manufactures covering all three kinds of enterprises- Own Account, Non-directory and Directory enterprises was carried out only after the third EC was conducted in 1990. Prior to that the, following each EC, separate surveys were conducted by the NSS to cover different kinds of enterprises. (NSSO, 2001-02a)

Since the beginning of the last decade however, the NSSO has conducted two Unorganised Services Sector Surveys (USSS) so far- the 57<sup>th</sup> round in 2001-02 and the 63<sup>rd</sup> round in 2006-07. While they provide estimates for employment in the unorganised service sector units surveyed for at least these two years, we do not have separate employment estimates for the organised units collected at the enterprise level. The USS surveys, like other enterprise surveys, record employment in terms of 'full time' and 'part time' workers where the term 'worker' refers to the position rather than the individual employed.<sup>2</sup> Thus, the employment recorded by the enterprise surveys is effectively in terms of the number of 'jobs' or 'works' rather than 'workers'.

Our source for the total employment in the services sector are the large sample Employment-Unemployment Surveys carried out by the NSSO on a quin-quennial basis. These are household surveys and record employment using three different concepts- in terms of number of workers by Usual Principal and Subsidiary Status or Current Weekly Status and number of person days worked by Current Daily Status.

The differences in classification make the one-to-one correspondence between numbers of jobs in individual industries as per enterprise surveys and numbers of workers from the Employment-Unemployment surveys difficult. Hence, estimating the size of the organised service sector workforce by deducting the employment estimate as per the USSS from the EUS estimate of total work force is not feasible. Therefore, we shall look into the employment scenario in the services industry and within it, the share of organised and the unorganised, solely based on the EUS.

While handling the EUS, we are working with unit level data and this enables us to apply a definition of the unorganised sector that we deem to be most appropriate. Thus, we apply the definition of the unorganised sector which was proposed by the NCEUS Task Force after critically examining the various statistical and definitional issues pertaining to it. The task force defined the unorganised or informal sector as follows: "The unorganized sector consists of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers". (NCEUS Task Force, June 2008)

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<sup>2</sup> A 'part time' worker is one who works for less than or equal to half the normal working hours of the enterprise on a fairly regular basis whereas a 'full time' worker works for more than half the normal working hours of the enterprise on a fairly regular basis. (NSSO, 2006-07b)

The EUS gives data pertaining to employment but it does not collect any data on value added per worker or other operational and economic characteristics of the enterprises. Therefore, in order to look at the contribution of the unorganised service sector to the economy in terms of value added, we rely solely on the USSS which is an enterprise survey. While analysing the sector using the USSS, we use the data as published in the reports and not the unit level data and hence are constrained by the definition of unorganised services as used in the NSS reports.

On the whole, keeping in mind the differences in the definitions, we shall avoid using data from different sources for any comparison purposes. The only instance when we bring together data from separate sources is when we try to estimate the share contributed by the unorganised services to the total services value added. In this case, the total value added figures are taken from another source- the National Accounts Statistics. However, the fact that the definitions of organised and unorganised vary in NAS would not affect the results as we are only concerned with the total value added in each service category.

#### **Estimating Unorganised and Organised Sector Workforce using EUS:**

Starting from the 55<sup>th</sup> round of the NSS Employment and Unemployment Survey (EUS), the NSS began to collect data regarding certain variables such as the type of enterprise for which the individual works, number of workers employed in the enterprise of work, whether the enterprise uses electricity and so on. Information regarding these variables enables us to determine whether the particular individual being surveyed is employed by an organised or an unorganised sector enterprise. Probing questions regarding availability of social security schemes of different kinds, eligibility for paid leave, type of job contract under which worked, location of enterprises of work and so on are also helpful in assessing the quality of employment of individuals across sectors and industries. These could help further segregate those workers who form a part of the unorganised workforce albeit working for organised sector units.

The enterprises that constitute the organised sector in services would be - all Government and Public Sector Units (PSU), all Public and Private Limited Companies, Cooperatives/Trusts/Non-Profit Institutions (NPI) and finally other enterprises employing 10

workers or more and engaged in producing services.<sup>3</sup> While the first three kinds of organised enterprises have been covered as separate categories in the 61<sup>st</sup> round EUS, enterprises belonging to the last category need to be separately identified from the responses regarding the number of workers employed by the enterprise that the individual worked for.

By number of workers, we refer to the 'usual workers'. The NSS data on employment is based on the distinction between "principal" and "subsidiary" status of activity as well on whether the person is "usually" or otherwise engaged in the activity. The activity status on which a person spent relatively longer time (i.e. major time criterion) during the 365 days preceding the date of survey is considered as the principal usual activity status of the person. The activities pursued by a person are grouped into three broad categories: (a) working or employed (b) seeking or available for work (i.e. unemployed) and (c) not in the labour force. A "non-worker" (on the basis of the usual principal status) is someone whose major part of time in the preceding year was spent as either unemployed or not in the labour force. However, he or she could still be involved in some economic activity in a subsidiary capacity - when this is usually the case the person is referred to as a "subsidiary status worker". The two categories together - usual workers by both principal and subsidiary status - constitute "all usual workers".

With regard to the data collected about number of workers employed in various enterprises, 6.3 percent respondents working for the services sector 'did not know' and there were additional 2.4 percent cases of missing information. As per the 61<sup>st</sup> round EUS, 62 percent of the total service sector workforce works for proprietary enterprises under male ownership. Government or Public sector enterprises employ the next largest share of workers, placed at 18 percent. The information regarding the type of enterprise for which each individual of the workforce worked was missing for 2.2 percent service workers.

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<sup>3</sup> The Task Force on Definitional and Statistical Issues Relating to the Unorganised Sector defined the unorganised or informal sector as follows: "The unorganised sector consists of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers".

The National Committee for Enterprises in Unorganised Sector (NCEUS) accepted this definition along with the definition of informal employment i.e. Unorganised workers consist of those working in the unorganised sector or households, excluding regular workers with social security benefits provided by the employers and he workers in the formal sector without any employment and social security benefits provided by the employers. (NCEUS Task Force, June 2008)

The numbers as estimated from the survey are as follows. The total number of workers employed by Government/PSUs, Public/Private Limited companies and Cooperatives/Trusts/NPI sum up to 21.65 million. An additional 3.73 million workers worked for enterprises which employed 10 or more workers. The category 'Private households employing people' were excluded even if they employed 10 or more workers as it falls wholly under the unorganised sector. Thus number of people employed by the enterprises that constitute the formal or organised service sector stood at 25.4 million (UPSS) for 2004-05. The total service sector employment as per the survey being 95.38 million, the percentage employed in the organised segment works out to be 26.62 percent.

However, it should be kept in mind that the NSSO estimates of total population are generally known to be on the lower side of the census estimates of the total population and projections thereof. "This difference arises mainly due to the differences in coverage and methods adopted in NSS in comparison with the census operation. However, the ratios obtained from the survey are expected to be robust. This is why the estimates on employment-unemployment are presented as ratios." (EUS, 2004-05) Therefore, the ratios from the survey should be applied to the projected census population figures to get numbers closer to reality.

The census of 2001 estimated the total population to be 1034.9 million persons of whom 535.2 million were males and rest 499.7 million were females as on 1st July, 2001. The projected population estimates for 1<sup>st</sup> July, 2006 were a total population of 1117.7 million, 578.4 million males and 539.3 females.<sup>4</sup> After dividing the total population in each year into its constituent categories of rural male, rural female, urban male and urban female, the compound annual growth rates for each category was imputed.<sup>5</sup> These were then separately applied to get the population in each category and thereby the total population for 1<sup>st</sup> January, 2005- the midpoint of the Employment Unemployment Survey of 2004-05.

After adjusting for the census population, the total population working for Government/PSUs, Public/Private Limited companies and Cooperatives/Trusts/NPI sum up to 24.33 million. Number of workers working in units other than these but employing at least 10 workers would be 4.19 million (excluding private households employing people). Thus the

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<sup>4</sup> Figures taken from Table-22 of the Report of Technical Group on Population Projections- Population Projections for India and States 2001-2026, May 2006.

<sup>5</sup> Table 13 of the same report records the projected estimate of share of urban population for all the years 2001-26 which were used to arrive at the numbers.

total strength of those who worked for the organised service sector in 2004-05 adds up to 28.52 million. The first two columns in Table 2.1 below show the estimated number of workers in the organised sector as well as the total number of workers for each sector after adjusting for the census population projections.

The last two columns of the same table show the relative importance of each service industry in the total organised and the total unorganised sector workforce respectively. Accordingly, while 'Public administration and defence; Compulsory social security' (PAD, for short) and Education are the largest organised sector employers together employing a total of 56 percent, in the unorganised sector, the industry group 'Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles and Personal and Household Goods' (Trade, for short) singlehandedly accounts for over half the sector's employment.

**Table 2.1: Distribution of Organised and Unorganised Sector Enterprise Workers across the Industries of the Service Sector**

Industry	No. of workers in Organised Sector Enterprises	Total estimated no. of workers	(%) Organised	(%) Unorganised
Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles and Personal and Household Goods	1651845	41188216	5.8	50.3
Hotels and Restaurants	720311	5782066	2.5	6.4
Transport, Storage and Communications	4004778	17583050	14.0	17.3
Financial Intermediation	2104689	2855116	7.4	1.0
Real Estate, Renting and Business Activities	1214598	4254347	4.3	3.9
Public Administration and Defence; Compulsory Social Security	8046486	8252515	28.2	0.3
Education	7996093	11066514	28.0	3.9
Health and Social Work	1948191	3544203	6.8	2.0
Other Community, Social and Personal Service Activities	841310	8137618	2.9	9.3
Private household with employed persons	-	4523198	-	5.8
Extra Territorial Organisations and Bodies	435	3414	0.0	0.0
<b>All Services</b>	<b>28528736</b>	<b>107190258</b>	<b>100.0</b>	<b>100.0</b>

Source: Calculated from unit level data, Employment-Unemployment Survey, NSSO 61<sup>st</sup> round, 2004-05

### **Employment shares and Value Added shares by Unorganised Sector:**

We calculated the share of the unorganised sector in total employment using the numbers calculated above from the unit level data. The table below compares these industry wise employment shares with the share of their unorganised sector in the total Gross Value Added (GVA).

The share of the unorganised sector in the GVA has been taken from the report of the NCEUS (June 2008) which uses a 'modified method of apportioning' to arrive at the contribution of the unorganised sector to GDP. This method was different from the method followed by the CSO to arrive at the organised and unorganised components of GDP.

They first estimated the labour input for the formal and informal sectors using its informal sector definitions from the 61<sup>st</sup> Round EUS, 2004-05 for each of the tabulation categories in the National Accounts and adjusting it for the census population estimates and projections. The gross value added per worker (GVAPW) was estimated separately for the informal sector enterprises and others in each tabulation category using the NSS 57<sup>th</sup> Round Survey of the Unorganised Service Sector. The product of the employment estimates of the specific sectors with the corresponding GVAPW for each category gave the notional GVA estimated for each sector. The total GDP estimate of each activity category was then apportioned in the ratio of the notional GDP estimates of the informal sector to the notional total GDP of the category concerned. (NCEUS Task Force, June 2008)



**Table 2.2: Share of unorganised employment and GVA in total employment and GVA**

Industry	(%) Unorganised Employment	(%) Unorganised GVA
Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles and Personal and Household Goods	95.99	75.08
Hotels and Restaurants	87.54	50.80
Transport, Storage and Communications	77.22	44.45
Financial Intermediation	26.28	9.29
Real Estate, Renting and Business Activities	71.45	63.44
Public Administration and Defence; Compulsory Social Security	2.50	0.40
Education	27.75	12.33
Health and Social Work	45.03	23.19
Other Community, Social and Personal Service Activities	89.66	69.44
Private households with employed persons & Extra Territorial Organisations and Bodies	99.99	95.30
<b>Total</b>	<b>73.38</b>	<b>45.34</b>

*Source: Unorganised employment shares calculated from unit level data, Employment Unemployment Survey, NSSO 61<sup>st</sup> round, 2004-05. Unorganised GVA shares from Table 2 of Contribution of Unorganised Sector to GDP: Report of a Sub Committee of the NCEUS Task Force, NCEUS, 2008.*

The table shows that the unorganised sector not only employs 73 percent of the total employed persons of the economy but also accounts for 45 percent of the total services output that is produced. Wholesale and retail trade, Hotels and restaurants, Transport, storage and communications, and Other community, social and personal services are all sectors which recorded unorganised employment shares as well as unorganised GVA shares greater than the 'all services' average.

Real estate, renting and business activities recorded unorganised employment marginally lower than all services together, that is 1.9 percentage points lower. But the unorganised GVA share was well above the average. Education and Health & social work are two sectors that had shares of unorganised employment as well as GVA below the average.

Other than Public administration & defence, which is almost wholly organised for the obvious reason that it is provided by the government, only three sectors have unorganised shares less than 50 percent. These are, in order of the importance of the organised sector, Financial intermediation (26 percent), Education (27 percent) and Health & social work (45 percent).

percent). Together these three account for merely 16 percent of the total estimated service sector workers.

Thus unorganised sector of each industry added together accounts for as large as 45 percent of the total GVA of the Indian economy.

### **Characteristics of Organised and Unorganised Sector Employment:**

The following table (Table 2.3) shows the share of organised and unorganised for the different service industries for rural male, rural female, urban male and urban female categories. Most sub-sectors have similar organised unorganised break-up across the four categories.

In most industries, the rural sector has comparatively larger share of unorganised sector for both males and females uniformly. Education industry which is 72 percent organised is an exception as it has a larger organised sector in the rural areas for both males and females. Given our definition of the organised sector enterprises, this suggests that the rural sector tends to have more of government as well as larger non-proprietary institutions than in the urban sector. On the other hand urban areas seem to have more proprietary enterprises such as small unorganised coaching and tuition centres, yoga, dance, music classes and so on. These are that are often run by individuals with little or no hired labour and do not fall under the purview of any larger body/ institution.

Hotels and restaurants is another exception although it is largely unorganised (88 percent). In this sector, rural females have a slightly larger organised sector employment share than urban females.

On comparing males against females, both rural and urban females report a larger organised sector share than their male counterparts for the following main industries - Transport, storage and communications, Financial intermediation, Real estate, renting and business activities and Health and social work. However, together these industries account for less than 6 percent of the rural female workforce and less than 9 percent of the urban female workforce. Thus all the major industry groups where large shares of women are employed are also sectors with a large share of female employment in the unorganised sector.

In the Health and Social Work industry, the large share of the organised sector is probably a result of the effort of the government to modernise the health sector. The moves taken to

replace the traditional systems of paramedical personnel like 'dai' in the rural areas, and mid-wives with modern systems of health care provisioning seems to have acted as a push towards greater formalisation of this industry in general.

**Table 2.3: Category-wise share of organised and unorganised in each industry**

Industry	Rural Male		Rural Female		Urban Male		Urban Female	
	Org.	Unorg.	Org.	Unorg.	Org.	Unorg.	Org.	Unorg.
Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles and Personal and Household Goods	2.7	97.3	1.7	98.3	5.3	94.7	5.3	94.7
Hotels and Restaurants	7.9	92.1	7.4	92.6	18.2	81.8	6.2	93.8
Transport, Storage and Communications	15.6	84.4	32.6	67.4	28.7	71.3	54.3	45.7
Financial Intermediation	69.9	30.1	51.6	48.4	74.5	25.5	82.4	17.6
Real Estate, Renting and Business Activities	14.4	85.6	26.0	74.0	29.9	70.1	51.6	48.4
Public Administration and Defence; Compulsory Social Security	95.6	4.4	96.8	3.2	98.5	1.5	98.5	1.5
Education	74.8	25.2	72.4	27.6	73.5	26.5	67.3	32.7
Health and Social Work	40.1	59.9	68.2	31.8	51.3	48.7	70.7	29.3
Other Community, Social and Personal Service Activities	6.8	93.2	1.8	98.2	19.8	80.2	7.5	92.5
Private household with employed persons	-	100	-	100	-	100	-	100
Extra Territorial Organisations and Bodies	52.1	47.9	-	-	7.7	92.3	11.5	88.5
All Services	20.9	79.1	28.8	71.2	29.2	70.8	34.8	65.2

*Source: Calculated from unit level data, Employment-Unemployment Survey, NSSO 61<sup>st</sup> round, 2004-05*

Table 2.4 gives a picture of the distribution of the organised and unorganised sector workforce across the various industries for each category of the population. The largest organised sector employers for the rural males are Education (32 percent), Public administration and defence; Compulsory social security (30 percent), and Transport, storage and communications (16 percent). For the urban males, the top three organised sector employers remain the same though the order of importance is as follows: Public administration and defence (33 percent), Transport, storage and communications (18 percent) and Education (15 percent). For women, the major share of employment in the organised sector is provided by the Education industry in both rural (63 percent) and urban (45 percent) sectors.

The largest share of population in the unorganised sector is employed in the Retail & wholesale trade industry. This holds true for all categories except the urban females where 33 percent of them are employed by private households as maids, cooks, governesses etc.

**Table 2.4: Share of industries in organised and unorganised sector workforce by categories**

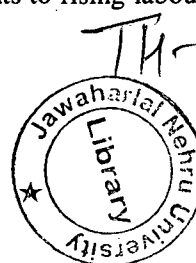
Industry	Rural Male		Rural Female		Urban Male		Urban Female	
	Org.	Unorg.	Org.	Unorg.	Org.	Unorg.	Org.	Unorg.
Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles and Personal and Household Goods	5.3	51.0	1.8	42.8	7.6	55.5	3.0	28.6
Hotels and Restaurants	1.8	5.6	1.8	9.2	3.5	6.6	0.9	7.2
Transport, Storage and Communications	15.9	22.7	2.7	2.3	17.6	18.1	4.3	1.9
Financial Intermediation	5.8	0.7	1.5	0.6	9.4	1.3	7.4	0.8
Real Estate, Renting and Business Activities	1.5	2.4	0.6	0.7	6.3	6.1	5.1	2.6
Public Administration and Defence; Compulsory Social Security	29.8	0.4	12.5	0.2	32.9	0.2	17.7	0.1
Education	31.9	2.8	63.3	9.8	14.6	2.2	45.2	11.7
Health and Social Work	4.9	1.9	14.9	2.8	4.3	1.7	14.8	3.3
Other Community, Social and Personal Service Activities	2.9	10.7	0.8	17.0	3.7	6.2	1.7	10.8
Private household with employed persons	-	1.8	-	14.6	-	2.1	-	32.9
Extra Territorial Organisations and Bodies	0.0	0.0	-	-	0.0	0.0	0.0	0.0
<b>All Services</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Calculated from unit level data, Employment-Unemployment Survey, NSSO 61<sup>st</sup> round, 2004-05

### Educational Status:

The Indian service sector's share in the national output has been increasing since the 1980s and in a more accelerated way since the 1990s. However the growth in the share of tertiary sector employment has not kept pace with the growth of tertiary sector value added. This is in contrast to the growth experience of the developed countries, where the tertiary sector is considered to be labour-intensive.

The fact that India's labour share employed in services has remained relatively flat even while its output has been increasing rapidly obviously points to rising labour productivity of



the Indian services sector. However, Gordon & Gupta (2004) point out that the rise in labour productivity has not been due to an increase in relative capital intensity. According to them, it could probably be attributed to the fact that most of the growth in output has been concentrated in subsectors which are more dependent on skilled labour than on unskilled labour or capital.

Countries like India are seen as capable of exploiting the 'knowledge revolution' if they adopt the appropriate policies. According to a World Bank study (2005:10) - India has, among other things, a critical mass of skilled, English-speaking knowledge workers, especially in the sciences. This implies that by building on her strengths, she can harness the knowledge revolution for better economic performance and welfare of her people.

However, the data from the EUS does not corroborate the presence of a large educated workforce. Far from it, only an estimated 21 percent of the total services workforce could boast of holding a qualification of 'diploma/certificate course, graduate and above'. The rest of the total services sector workforce (organised and unorganised combined) were distributed as follows- 17 percent were illiterate, 21 percent had either been 'literate without formal schooling or studied only up to primary' and 41 percent fell in the educational category of 'middle school to higher secondary'.

The distribution of the workers by the educational categories varied vastly between the organised and the unorganised sector. While only 5 percent of those employed by the organised enterprises are illiterate, up to 22 percent of the workers of the unorganised enterprises are illiterate. Similarly, 45 percent of those employed by organised sector fell in the 'diploma/certificate course, graduate and above' category. The corresponding share for the unorganised sector workers stood at only 12 percent.

Tables 2.5 and 2.6 below give us a picture of the distribution of educational qualifications of the workers falling in the organised and unorganised sector respectively. The educational qualifications have been grouped into four categories- illiterate (1), those who are literate but have no formal education or studied only up to primary (2), middle school to higher secondary (3) and lastly, those who have passed a diploma/certificate course or are graduate or postgraduate (4).

If we consider the educational qualification as a proxy indicator for skill, then a small share of skilled workers seem to be generating a relatively large share of the national output.

“The pickup in growth of output in the 1990s was strongest in Business services, Financial services and Communications followed by Community services<sup>6</sup> and Hotels & restaurants. Together, these activities account for the entire acceleration in services growth in the 1990s. The growth in other sub-sectors such as Public administration and defence, Real estate, Storage & transport and Personal services<sup>7</sup> was broadly similar to that in previous decades.” (Gordon & Gupta, 2004)

In the case of both the organised and the unorganised sector, the industries that have the larger proportions of workers falling in category 4 are- Financial intermediation (65 percent and 47 percent), Real estate, renting and business services (68 and 45 percent), Education (64 and 56 percent) and Health & social work (42 and 49 percent). The first and the second figures in each bracket correspond to share of the industry’s workforce holding the highest educational qualification in organised and unorganised sector respectively.

The last column of both the tables gives the share of the respective workforce employed by each industry. Thus Financial intermediation and Real estate, renting and business activities<sup>8</sup> employ only 7 and 4 percent of the entire organised services sector workforce respectively while accounting for a rising share of output. Similarly, Health and social work employs around 7 percent of the organised sector workforce as well. Education however is an exception as it does employ a reasonable share of the organised sector workers (28 percent).

Communications sector<sup>9</sup> alone employs 4 percent of the total organised workers and up to 35 percent of these are qualified as ‘diploma/certificate course, graduate and above’ while 56 percent had ‘middle school to higher secondary’ qualification.

The industries Financial intermediation, Real estate, renting and business services, Education and Health & Social Work together employed only 11 percent of the unorganised enterprise

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<sup>6</sup> Community services as defined in the paper, Gordon & Gupta (2004), include education, research, scientific, medical, health, religious and other community services.

<sup>7</sup> Personal services refer to the following services: Domestic, laundry, barber, beauty shops, tailoring, and others.

<sup>8</sup> On disaggregation, Business services alone employ 4.1 percent of the organized sector workforce and has 69 percent of the workforce in the highest educational qualification category.

<sup>9</sup> Obtained on disaggregation of the Transport, storage and communications industry group. The disaggregated data has not been shown in the tables.

workers. This is as expected since the unorganised sector has a much smaller share of workers falling in Category 4 of educational qualifications.

**Table 2.5: Educational Status of the Organised Sector Enterprise Workers**

Industry	Education groups				Total	(% Share*
	not literate	literate without formal schooling/up to primary	middle to higher secondary	diploma/certificate course, graduate and above		
Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles and Personal and Household Goods	9.4	17.0	44.4	29.2	100	(5.8)
Hotels and Restaurants	12.3	27.2	45.8	14.7	100	(2.5)
Transport, Storage and Communications	7.5	13.8	52.5	26.3	100	(14.0)
Financial Intermediation	0.5	3.7	31.0	64.8	100	(7.4)
Real Estate, Renting and Business Activities	0.9	5.3	25.4	68.3	100	(4.3)
Public Administration and Defence; Compulsory Social Security	6.6	12.1	47.5	33.8	100	(28.2)
Education	2.9	5.0	28.2	63.9	100	(28.0)
Health and Social Work	8.0	11.6	38.1	42.3	100	(6.8)
Other Community, Social and Personal Service Activities	9.0	26.1	38.0	27.0	100	(3.0)
Extra Territorial Organisations and Bodies	0.0	0.0	29.9	70.1	100	(0.002)
<b>All Services</b>	<b>5.5</b>	<b>10.5</b>	<b>39.5</b>	<b>44.6</b>	<b>100</b>	<b>(100)</b>

Source: Calculated from unit level data, Employment-Unemployment Survey, NSSO 61<sup>st</sup> round, 2004-05.

\*Figures, in brackets, in the last column show share of organised service sector workers employed in each industry.

**Table 2.6: Educational Status of the Unorganised Sector Enterprise Workers**

Industry	Education groups (%)				Total	Share (%)
	not literate	literate without formal schooling/up to primary	middle to higher secondary	diploma/certificate course, graduate and above		
Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles and Personal and Household Goods	18.2	25.2	46.1	10.5	100	(50.3)
Hotels and Restaurants	27.7	34.4	35.2	2.6	100	(6.4)
Transport, Storage and Communications	24.2	27.6	43.4	4.8	100	(17.3)
Financial Intermediation	1.4	5.3	46.6	46.8	100	(1.0)
Real Estate, Renting and Business Activities	4.9	13.7	37.0	44.5	100	(3.9)
Public Administration and Defence; Compulsory Social Security	6.2	19.4	52.7	21.8	100	(0.3)
Education	1.9	4.0	38.5	55.6	100	(3.9)
Health and Social Work	6.2	6.9	38.4	48.6	100	(2.0)
Other Community, Social and Personal Service Activities	35.9	27.4	32.4	4.3	100	(9.3)
Private household with employed persons	49.4	31.1	18.3	1.3	100	(5.8)
Extra Territorial Organisations and Bodies	33.5	4.7	61.8	0.0	100	(0.0)
<b>All Services</b>	<b>21.7</b>	<b>24.9</b>	<b>41.3</b>	<b>12.1</b>	<b>100</b>	<b>(100)</b>

Source: Calculated from unit level data, Employment-Unemployment Survey, NSSO 61<sup>st</sup> round, 2004-05.

Figures, in brackets, in the last column show share of unorganised service sector workers employed in each industry

Extra-territorial Organisations & Bodies too has 70 percent of its workforce in the educational category of 'diploma/graduate and above', but it accounts for a mere 0.002 percent of the organised sector workforce

The other major employer in the organised sector is Public Administration & Defence; Compulsory Social Security and 48 percent of its workers fall in the 'middle school to higher secondary' category while a smaller share of 34 percent have higher qualifications. Transport, storage and communications industry group accounts for 14 percent of the workforce and a major share of it falling in category 3 of qualifications (53 percent).

In contrast to the workers in the organised sector, the largest employer in the unorganised sector is the 'Wholesale & retail trade; Repair of motor-vehicles, motorcycles and personal



and household goods' (Trade, for short). Only 11 percent of workers of this industry were qualified as 'diploma/graduate and above'. Forty nine percent of the workers who work for private households employed as gardeners, maids, chowkidars etc. are illiterate and another 31 percent belong to the category 2 of education.

Thus a small share of workers who are skilled are concentrated in a few industries which account for only small share of total employment and most of them are in the organised sector. The unorganised sector on the other hand gets the residual share of workers.

#### Activity Status and Quality of Employment:

**Table 2.7: Distribution of workforce across activity status**

	Sex		Total
	Male	Female	
<b>Organised Services</b>			
Own account worker	2.7	0.9	2.3
Employer in household enterprise	0.5	0.0	0.4
Helper in household enterprise	0.6	0.7	0.6
Regular salaried/wage employee	91.6	94.6	92.2
Casual wage labour	4.6	3.8	4.4
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Unorganised Services</b>			
Own account worker	57.9	30.2	53.2
Employer in household enterprise	2.4	0.5	2.1
Helper in household enterprise	10.5	30.4	13.9
Regular salaried/wage employee	20.3	30.0	21.9
Casual wage labour	8.8	9.0	8.9
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>All Services</b>			
Own account worker	43.9	20.8	39.7
Employer in household enterprise	1.9	0.3	1.6
Helper in household enterprise	8.0	20.8	10.4
Regular salaried/wage employee	38.4	50.8	40.6
Casual wage labour	7.8	7.3	7.7
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Calculated from unit level data, Employment-Unemployment Survey, NSSO 61<sup>st</sup> round, 2004-05

As per the 61<sup>st</sup> Round EUS, 2004-05, the tertiary sector provides employment to nearly a quarter of the total number of employed people. However, as per our calculations, over 73 percent (Table 2.2) of these service workers are employed by the unorganised sector.

Male dominance is a striking characteristic of the unorganised sector as they hold the more lucrative positions in the workforce (Table 2.7). Majority of the males who work for the unorganised sector, that is, 60 percent work as owners of either Own Account Enterprises (58 percent) or Establishments (2 percent) which hire at least one hired worker. On the other hand, only 31 percent of women workers in the unorganised services workforce were owners of household enterprises. While only 10 percent of the men in the unorganised sector worked as helpers in household enterprises, as much as 30 percent of the women in the unorganised services worked, either full time or part time, as unpaid helpers

As shown in table 2.7 above, 52 percent of the entire services sector workforce is self-employed, and a majority of them is in the unorganised sector. Self employed as a category includes own account workers, owners of household enterprises and the unpaid helpers who work in the household enterprises. While only 3.3 percent of the organised sector is self employed, nearly 52 percent of the people working for the unorganised sector are engaged in household enterprises.

For any government that is interested in providing 'decent work' to its people, self employment as a means of earning a decent living becomes a tricky policy issue to handle. Where there is no distinction between the capitalist who exploits and the worker whose labour power gets exploited for the purpose of extraction of surplus value, division of the earnings of the self-employed into its constituent elements of wages and profits become impossible. Implementation of standards for such things as conditions of work, remuneration, provision of social security, benefits, employment security etc through rules and regulations becomes difficult to implement as well as to monitor.

**Table 2.8: Perceptions regarding remuneration among self employed service sector workers, 2004-05**

	Percentage finding their self-employment activity remunerative	Share of workers finding the respective monthly income bracket remunerative (%)*					
		0-1000	1001-1500	1501-2000	2001-2500	2501-3000	greater than 3000
Rural males	51.0	7.9	13.1	14.1	12.3	14.9	37.6
Rural females	51.2	24.0	23.0	17.4	10.5	10.9	14.2
<b>Rural persons</b>	<b>51.0</b>	<b>10.5</b>	<b>14.7</b>	<b>14.6</b>	<b>12.0</b>	<b>14.3</b>	<b>33.9</b>
Urban males	61.6	4.0	6.9	9.6	7.7	13.0	58.9
Urban females	56.0	17.9	20.4	14.6	8.7	10.8	27.6
<b>Urban persons</b>	<b>60.8</b>	<b>5.9</b>	<b>8.7</b>	<b>10.3</b>	<b>7.8</b>	<b>12.7</b>	<b>54.7</b>

*Source: Calculated from unit level data, Employment-Unemployment Survey, NSSO 61<sup>st</sup> round, 2004-05 \*-*

*Does not include cases where there was no response*

The 61<sup>st</sup> round EUS, 2004-05, in its schedule, questioned those respondents who were engaged in self-employment either on principal or subsidiary basis as to whether they perceived their current earnings from the activity to be remunerative enough. They also asked the respondents to specify an amount per month that they would consider as remunerative enough.

Table 2.8 above shows the percentage of all usual service workers (organised and unorganised sector combined) who were self-employed, either on principal or subsidiary basis, who find their earnings from the activity remunerative. It also shows the share of self employed workers who would find the particular monthly earnings brackets as remunerative enough for their work.

As large a share as 49 percent of the rural sector and 39 percent of the urban sector did not find their earnings from self-employment remunerative enough. Women in general had much lower expectations regarding their earnings, in both rural and urban sectors. Sixty five percent of rural women and 53 percent of the urban women considered an amount as low as INR 2000 per month to be economically acceptable. Even then, nearly half of the rural and 44 percent of the urban self-employed women did not find their activity to be remunerative enough. Even among urban males, who were the better off among all the four categories of workers, 38 percent were not satisfied with their earnings.

This suggests that a lot of the self employment is distress-driven rather than a demand led expansion of productive income opportunities due to greater liberalisation as suggested by the proponents of neo-liberal policies and reforms.

The majority, that is, greater than 90 percent, of both male and female workers in the organised sector work as regular wage or salaried employees. An additional 5 and 4 percent of male and female tertiary workers were also engaged in casual wage labour in public works or other types of works. Similarly, in the unorganised sector 29 percent males and 39 percent females were reported as working for wage employment.

Regular salaried/wage employment is generally associated with greater job security as well as better conditions of work including access to several social security benefits which are typically supposed to be provided by the employers.

In the survey, the respondents who reported either of the two activity statuses- regular salaried or casual wage labour- were further questioned about the nature of their job contract<sup>10</sup>, eligibility for paid leave, social security benefits<sup>11</sup> that they were eligible for and the mode of payment. Information was collected about three kinds of social security benefits- pension/ provident fund, gratuity and health care & maternity benefits.

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<sup>10</sup> The categories covered for the nature of job contract were- no written job contract; written job contract: for 1 year or less, more than 1 year to 3 years, more than 3 years.

<sup>11</sup> The categories covered for the kind of social security benefits were- eligible for: only PF/ pension (i.e., GPF, CPF, PPF, pension, etc.), only gratuity, only health care & maternity benefits, only PF/ pension and gratuity, only PF/ pension and health care & maternity benefits, only gratuity and health care & maternity benefits, PF/ pension, gratuity, health care & maternity benefits; and not eligible for any of above social security benefits.

**Table 2.9: Quality of wage employment across categories for organised and unorganised sectors**

<b>Organised Services Sector</b>				
	<b>Percentage share of wage employed workers (regular salaried or casual wage labour)*</b>			
	<b>Not eligible for paid leave</b>	<b>Not eligible for any social security benefits</b>	<b>No written job contract</b>	<b>Receiving regular monthly salary</b>
<b>Rural male</b>	22.8	30.9	35.1	92.7
<b>Rural female</b>	29.1	50.3	37.1	94.9
<b>Urban male</b>	19.3	24.3	35.4	95.6
<b>Urban female</b>	19.9	31.0	35.1	95.9
<b>All</b>	<b>21.3</b>	<b>29.4</b>	<b>35.4</b>	<b>94.7</b>
<b>Unorganised Services Sector</b>				
<b>Rural male</b>	88.4	95.7	95.1	57.4
<b>Rural female</b>	82.8	95.1	92.6	70.8
<b>Urban male</b>	83.6	94.3	93.4	74.2
<b>Urban female</b>	81.5	96.8	94.3	85.6
<b>All</b>	<b>85.0</b>	<b>95.2</b>	<b>94.1</b>	<b>69.6</b>

*Source: Calculated from unit level data, Employment-Unemployment Survey, NSSO 61<sup>st</sup> round, 2004-05. \*- Does not include cases where there was no response*

Table 2.9 above shows the details which give us an idea about the quality of wage employment for both organised and unorganised sectors. Stark differences show up in the comparison of the two sectors. In the organised sector 21 percent of the wage employees are not eligible for paid leave compared to 85 percent of the unorganised sector wage employees. A mere 5 percent of the unorganised wage employees are eligible for any sort of social security benefits and only 4 percent of the same work under conditions specified by a written job contract.

Women wage employees in the organised sector are distinctly worse off compared to male employees when it comes to getting paid leave, social security benefits of any sort and working under a formal contract in the rural sector and to a smaller extent in the urban sector. Social security benefits, especially maternity benefits, are a necessity when it comes to providing decent work to a woman.

Rural female wage employees of the unorganised sector were marginally better off compared to the corresponding section of rural males. While 71 percent of rural female wage employees

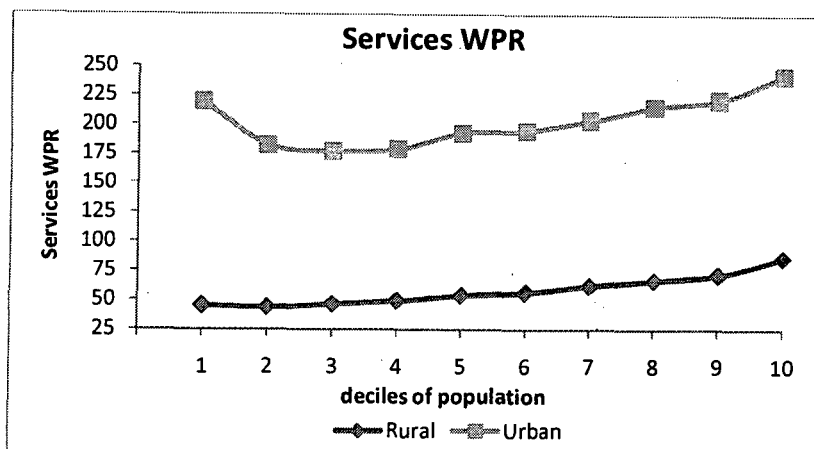
in the sector received regular wages on a monthly basis, only 57 percent of the rural males received monthly wages. Nearly 25 percent of the rural male wage employees of this sector were paid on a daily basis. This, in addition to the fact that a majority of them chooses to engage in self-employment suggests that, for the males in the rural unorganised services sector, self employment maybe a relatively better alternative. This is in spite of the fact that only 50 percent of them find earnings from it remunerative enough thus pointing out clearly to the absence of decent alternatives in the rural areas.

#### **Analysing by MPCE Classes:**

The NSSO in its Employment-Unemployment Survey collects data on the monthly per capita expenditure (MPCE) of various households surveyed. Using this information, it is possible to divide the population into different segments as per their monthly expenditure. Although the NSS also collects data on average daily incomes earned, the information yielded by the respondents on expenditure are deemed to be more reliable. Thus, household MPCE acts as a proxy measure for household welfare and 'how rich' or 'how poor' they are.

Seventy five percent of the total estimated population lives in the rural areas while 25 percent live in the urban areas as per the survey. As the MPCE levels are expected to vary widely between rural and urban sections of the populations, we analyse them separately. We first divide the entire rural and urban population separately into deciles as per the MPCE levels. Thus, each segment will consist of 10 percent of the total rural or urban population, as the case may be. We can then have a look at the proportion of the usual service sector workers in the total population for each decile. This gives us an idea about the importance of the tertiary sector as an employer for each decile, from the poorest ten percent to the richest ten percent of the population. Figure 2.1 plots the number of service sector workers in each decile per 1000 total members in that decile- the services worker population ratio.

**Figure 2.1: Services worker population ratio according to MPCE deciles**



*Source: Calculated from unit level data, Employment-Unemployment Survey, NSSO 61<sup>st</sup> round, 2004-05*

Agriculture and allied activities is the primary source of employment in the rural areas. Indian agriculture provided employment to 59 percent of the total usual workers as per the survey, most of which is concentrated in the rural sector. It can be seen in Figure 2.1 above that there is a higher share of services workers in each MPCE decile of the urban sector than in the rural sector.

In the rural areas, it is the agrarian sector which ends up acting as the sink that absorbs the residual labour force, often in the form of disguised employment or underemployment. Thus in the rural areas, the hierarchy is such that those who are engaged in the tertiary sector are better off than those who are less than productively employed in agriculture. In Figure 2.1 above, the proportion of population working in the service sector rises as we move from poorer to richer deciles of the rural sector.

In the urban sector on the other hand, there is no sizable agrarian sector and hence the low income, low productivity service industries end up playing the important role of absorbing the reserve army of labour and giving them some means of livelihood, however meagre. Thus services like small road side eating joints or mobile vendors, rickshaw pullers, those who work as maids, cooks and gardeners for private households and so on are the forms of distress employment to which urban poverty pushes people

Table 2.10 below shows the distribution of the services workforce across the MPCE deciles for the rural and the urban sector. Thus we get an idea as to whether the tertiary sector is

more important to the relatively better-off or to the poorer sections. Except for a slight fall in the second decile, the richer segments of the population account for a larger share of total rural service workers. In the urban sector on the other hand, the share of total services workers increased uniformly from the second lowest MPCE decile to the richest decile. However, the poorest ten percent of the population accounted for 10.8 percent of the urban service workers which was surpassed only by the richest two segments. Thus the service sector absorbs a large share of the workforce in the poorer rungs of the population as well, especially in the urban sector.

**Table 2.10: Distribution of the services workforce across MPCE deciles**

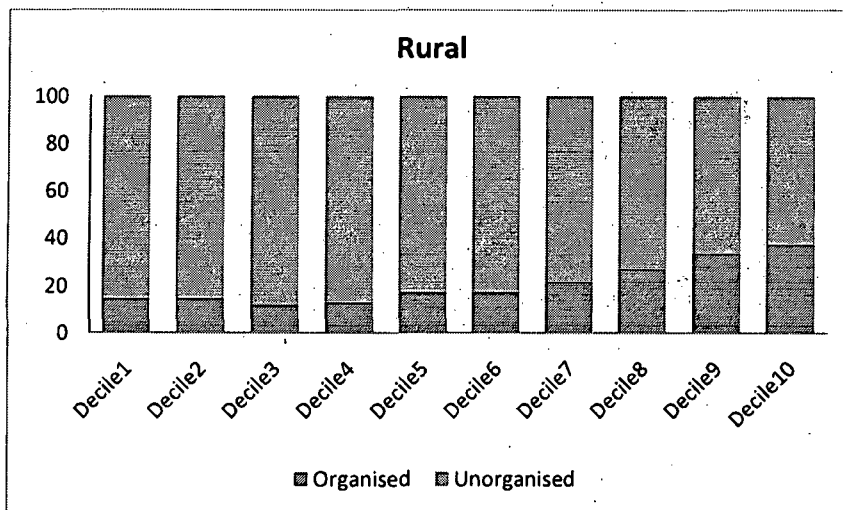
MPCE Deciles	Distribution of total service workers (%)	
	Rural	Urban
Decile 1	7.8	10.8
Decile 2	7.5	9.0
Decile 3	8.0	8.7
Decile 4	8.5	8.8
Decile 5	9.3	9.5
Decile 6	9.7	9.6
Decile 7	10.7	10.1
Decile 8	11.5	10.6
Decile 9	12.3	10.9
Decile 10	14.8	12.0
	<b>100</b>	<b>100</b>

*Source: Calculated from unit level data, Employment-Unemployment Survey, NSSO 61<sup>st</sup> round, 2004-05*

We can further examine the pattern of the breakup of the services workforce in each MPCE decile into organised and unorganised sector shares. As shown in the earlier sections, unorganised enterprise sectors employ far larger shares of lesser educated and skilled workers. In terms of quality of employment also the unorganised sector is associated with higher incidence of lack of facilities such as- various social security benefits, paid leave, absence of formal contracts and so on.

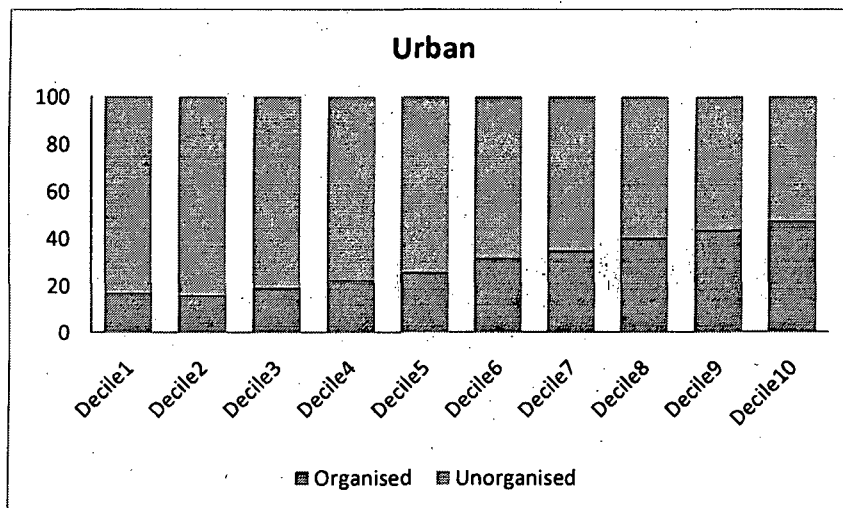


**Figure 2.2: Shares of organised and unorganised services sector according to MPCE deciles- Rural sector**



Source: Calculated from unit level data, Employment-Unemployment Survey, NSSO 61<sup>st</sup> round, 2004-05

**Figure 2.3: Shares of organised and unorganised services sector according to MPCE deciles- Urban sector**



Source: Calculated from unit level data, Employment-Unemployment Survey, NSSO 61<sup>st</sup> round, 2004-05

The two graphs above tell us to what share of the services worker population in each segment belongs to the organised sector and the unorganised sector. Figure 2.2 presents the rural picture and Figure 2.3 the urban. The share of organised sector in the total services of each segment rose more rapidly in the urban sector (18 percent to 48 percent) than the rural sector (14 percent to 38 percent) as we progress from first to the tenth MPCE decile.

Finally, Table 2.11 below shows us the distribution of the organised and the unorganised workforce across the MPCE deciles for both the sectors. In the rural areas, the share of both organised and unorganised services workforce increase as we go from first to the tenth decile. However, the distribution of the organised rural workforce is clearly skewed so that nearly 67 percent of it is employed in the four richest segments.

In the urban sector the difference in distribution of the organised and unorganised sector is even more evident. The lower five deciles of the population account for over half of the unorganised urban services workforce, whereas they account for only 30 percent of the organised urban services workforce.

**Table 2.11: Distribution of organised and unorganised workforce across MPCE deciles**

MPCE deciles	RURAL		URBAN	
	Organised	Unorganised	Organised	Unorganised
Decile 1	4.9	8.6	5.9	13.0
Decile 2	4.8	8.3	4.8	10.9
Decile 3	4.2	9.1	5.5	10.2
Decile 4	4.8	9.6	6.4	9.9
Decile 5	7.0	9.9	8.0	10.2
Decile 6	7.5	10.3	10.0	9.4
Decile 7	10.2	10.8	11.5	9.4
Decile 8	13.6	10.9	13.9	9.1
Decile 9	18.4	10.5	15.5	8.8
Decile 10	24.5	12.0	18.5	9.1
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Source: Calculated from unit level data, Employment-Unemployment Survey, NSSO 61<sup>st</sup> round, 2004-05*

This reaffirms the proposition that the low income, low productivity services in general and the unorganised sector in particular are important providers of employment and livelihood, especially in the urban sectors.

**Structure of Enterprises in the Unorganised Service Sector**

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In the earlier section, we examined the unorganised and the organised services workforce as estimated from the 61<sup>st</sup> Round Employment and Unemployment Survey. This survey, being based on workers' responses yields information on the nature and quality of employment provided by both the sectors from the workers' perspective.

Besides this, we are also interested in examining the nature and characteristics of the services sector in general and the unorganised part of the services sector in particular based on responses from the enterprises and enterprise owners/ employers. Since we have no separate survey that handles the organised services enterprises alone, the Service Sector Enterprise Survey ends up being our only source of information on the enterprise characteristics.

**The Service Sector Enterprise Survey**

The NSSO in its 63<sup>rd</sup> round, July 2006 to June 2007, conducted a sample survey of the service sector enterprises which fall outside the government and public sector. The results of this survey have been published in the form of two reports- Report no. 528 titled Service Sector in India (2006-07): Operational Characteristics of Enterprises and Report no. 529 titled Service Sector in India (2006-07): Economic Characteristics of Enterprises.<sup>1</sup>

The activities covered in the survey include- Hotels and Restaurants (H), Transportation, Storage and Communications (I), Financial Intermediation (J), Real Estate, Renting and Business Activities (K), Education (M), Health and Social Work (N), and Other Community, Social and Personal Services (O).<sup>2</sup> Public Administration and Defence; Compulsory Social Security (L) was not covered as in the NAS (National Account Statistics), it is considered to

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<sup>1</sup> This is the second survey of its kind. Prior to this, a similar survey was conducted in the 57<sup>th</sup> Round by the NSSO- Report nos. 482 and 483, 'Unorganised Service Sector in India 2001-02: Salient Features' and 'Unorganised Service Sector in India 2001-02: Characteristics of Enterprises'.

<sup>2</sup> The codes used in the NSS report numbers 528 and 529 are as follows. Hotels - H1, restaurants - H2, Hotels & restaurants - H; Storage and warehousing - I1, Mechanized road transport - I2, Non-mechanised motor transport, water transport and other related activities -I3, communication - I4, Transport, storage & communication - I; Non-banking financial intermediation except insurance and pension funding - J1, Insurance and pension funding and auxiliary activities - J2, Financial intermediation - J; Real estate, renting and business activities - K, Education - M, Health and social work - N, Other community, social and personal service activities - O.

be totally within the organised government sector. The Retail and Wholesale Trade (G), Production activities of private households and activities of private households as employers (P) and Extra-territorial organisations and bodies (Q) were also kept outside the purview of the survey.

Further, even under these broad activities, the following industries were not covered- Transport by rail, Air transport, Transport via pipeline; Real estate operations of self owned residential buildings, Monetary intermediation activities of central bank and other monetary institutions which involve obtaining of funds in the form of deposits; and activities of Trade unions, Religious organisations and Political organisations. These are all excluded either because they are largely organised in character or because getting accurate information and data regarding them is difficult.

The following units, under the activities covered, were excluded from the coverage of the survey-

- (i) All Government and Public Sector Enterprises.
- (ii) All government and government aided educational institutions (A government-aided educational institution meant an institution where entire salary of all the teaching and non-teaching staff was borne by the government).
- (iii) Among the service sector units registered under the Factories Act, 1948, units appearing in the latest Annual Survey of Industries (ASI) frame (i.e., ASI frame 2004-05).
- (iv) Enterprises which operated for less than 30 days (less than 15 days for seasonal enterprises) during last 365 days preceding the date of survey. (NSSO, 2006-07b)

While analysing the EUS, we had applied the NCEUS definition of the 'unorganised sector' as we were working with the unit level data. However, while analysing the unorganised services from the enterprise side, we are constrained by the definition of the unorganised services sector as specified in this particular survey. Thus, the unorganised services enterprises would not only include the small proprietary and partnership enterprises but also larger private enterprises which may employ a large number of workers or produce a large GVA etc. Moreover, it also excludes from coverage a very major employer of the unorganised sector- the Retail and wholesale trade industry. In this entire section, where we undertake an analysis based on the service sector survey, the term 'unorganised services sector' would refer to the sector as defined in the survey, unless mentioned otherwise.

Due to incompatibility of definitions of 'unorganised sector' between different statistical sources, we shall avoid comparison of the results derived from this survey with those from any other source as far as possible. The only instance where we shall bring together data from different sources with varying definitions of the 'unorganised sector' is while calculating the contribution of the unorganised sector GVA to the total GVA for each different service industry. The unorganised sector GVA is taken as estimated in the current survey while the corresponding total GVA for each industry is taken from the NAS. In this case, the variance in the definitions does not create any logical problem.

The survey estimated the presence of around 1.65 crore service sector enterprises providing employment to an estimated 3.35 crore persons in 2006-07 in the services industries covered by it.<sup>3</sup> Out of the total number of enterprises estimated by the survey, 60 percent were located in the rural sector and 40 percent in urban. The enterprises are divided into two kinds- Own Account Enterprises (OAEs) and Establishments. OAEs are those enterprises which are run on proprietary or partnership basis without employing any hired workers on a fairly regular basis. Establishments, on the other hand, are run with the help of at least one hired worker on a fairly regular basis<sup>4</sup>.

A 'worker' has been defined as one who participates either full time or part time in the activity of the enterprise. The 'worker' may serve in any capacity, primary or secondary. He/she may or may not get paid wages or salary in return for his/her contribution to the enterprise.

Based on the time spent by each worker in carrying out operations associated with the enterprise, they were classified into 'full time' and 'part time' workers. A 'part time worker' is one who works for less than or equal to half the normal working hours of the enterprise on a fairly regular basis while a 'full time worker' is one who works for more than half the normal working hours of the enterprise, again, on a fairly regular basis. (NSSO, 2006-07b) It should be kept in mind that each worker, as reported in the survey, refers to the position rather than the individual who is working.<sup>5</sup> Thus an enterprise will be reported as employing

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<sup>3</sup> For this entire section, all services refer to the services industries that have been covered in the survey.

<sup>4</sup> "Fairly regular basis" implies a major part of the period during which operations of an enterprise are carried out during the reference period.

<sup>5</sup> In the EUS, on the other hand, a 'worker' referred to an individual classified as working under any of usual principal or usual subsidiary status, current daily or current weekly status.

only one worker even if different people work at different times of the reference period, as long as they all work for the same position.

Majority of both rural and urban services enterprises, that is, around 85 percent of the enterprises in both sectors taken together were OAEs and remaining 15 percent were establishments. A few sub categories of services such as Hotels (H1) and Storage and warehousing (I1) have shares of establishment as high as 88 and 75 percent respectively (rural and urban combined), mainly due to the nature of their operations. But most of the other industry divisions are primarily populated with small scale OAEs. Urban areas have larger shares of establishments than rural, uniformly for all divisions.

**Table 3.1: Share of enterprise types and share of workers by enterprise type**

Sector	Enterprises (%)		Workers (%)	
	OAE	Establishment	OAE	Establishment
Rural	91	9	80	20
Urban	77	23	44	56
All India	85	15	63	37

*Source: Calculated from Statements 2 and 4 in NSS Report No-529*

As far as share of employment provided by the enterprises is concerned, 77 percent of enterprises which are OAEs employ only 44 percent of the total estimated unorganised services sector workers in urban India. In rural India on the other hand, 91 percent enterprises are OAEs which account for 80 percent of the workers as well. Urban establishments have an average number of workers per enterprise of 5.69 for all industries taken together whereas rural establishments correspondingly employ only 3.99 workers per enterprise on an average.

Being an enterprise survey, the data collected by the survey enables us to examine in detail various characteristics of the enterprises belonging to the different tertiary industries that have been under the coverage of the survey. The definition of the services sector under coverage in this survey is much broader than the definition we used in our earlier analysis. Thus, the enterprises covered are expected to be spread over a wide range of operational and economic characteristics that we shall examine in this section. For example, the activity category Hotels and restaurants (H) would include a small roadside tea shop in a village to a fully functioning private restaurant/guest house located in a posh area of a metropolitan city like Mumbai in the same category. This is unlike the case of manufacturing units where informal sector as per the NSSO constitutes those enterprises which are not registered under

the sections 2m(i) and 2m(ii) of the Factories Act, 1949. Thus it attempts at a division between the formal and informal roughly based on size as well as technology.

### **Types of Ownership:**

In terms of types of ownership, the enterprises covered fall under the following categories-proprietary enterprises owned by males or females, partnership enterprises between members of same or different households, cooperative society/ Self Help Groups (SHGs), public and private limited companies and others. Of the enterprises falling in the first two categories, only those employing less than ten total workers would correspond to our definition of 'unorganised enterprises' that we used for analysis in the earlier section.

Table 3.2 shows the distribution of enterprises across the various ownership types. All limited companies have been clubbed together with the 'others' as they accounted for only a small share of the enterprises covered.

**Table 3.2: Distribution of enterprises across types of ownership**

	<b>Proprietary &amp; Partnership</b>	<b>Co-operative society/ SHG</b>	<b>Others</b>
Rural OAE	88.0	11.7	0.2
Rural Establishment	90.4	4.7	4.8
<b>Rural All Enterprises</b>	<b>88.3</b>	<b>11.0</b>	<b>0.6</b>
Urban OAE	98.2	1.6	0.2
Urban Establishment	92.3	1.9	5.8
<b>Urban All Enterprises</b>	<b>96.8</b>	<b>1.7</b>	<b>1.4</b>
Combined OAE	91.8	8.0	0.2
Combined Establishment	91.5	2.9	5.5
<b>Combined All Enterprises</b>	<b>91.6</b>	<b>7.3</b>	<b>1.0</b>

*Source: Calculated from Table 9 in NSS Report No-528*

A smaller share of rural enterprises (88 percent) belonged to proprietary and partnership type of ownership compared to the urban sector (97 percent) due to the presence of a large number of Co-operative societies and SHGs in the rural sector. In terms of proprietary and partnership firms alone, the rural sector accounts for 58 percent and urban sector for 42 percent of the total such enterprises. Thus a subset of the proprietary and partnership enterprises (that is, 92 percent of the total estimated enterprises) would be eligible for inclusion in the 'unorganised sector' as per the definition adopted in the earlier section.

The share of the total proprietary and partnership firms belonging to different activity categories for rural, urban and combined sectors and by type of enterprise has been calculated and shown below in Table 3.3. This shows us the importance of each activity category in the different sectors. While the important industries in the rural areas are Other community, social and personal services (O), Non-mechanised motor transport, water transport and other related activities (I3), Mechanised road transport (I2) and Restaurants (H2), the urban activity categories in order of importance are - Other community, social and personal services (O), Communication (I4), H2 and Real estate rental and business activities (K).

Similarly smaller units (OAEs) are mostly concentrated in Sectors O, I3, I4 and I2 while establishments are mostly present in H2, K, I2, and N.

**Table 3.3: Distribution of Proprietary and Partnership enterprises across industries**

Activity category	Rural			Urban			Combined		
	OAE	Establishment	All	OAE	Establishment	All	OAE	Establishment	All
H1	0.0	0.8	0.1	0.1	3.1	0.7	0.1	2.2	0.4
H2	11.6	16.4	12.0	12.4	22.4	14.6	11.9	20.2	13.1
H	11.6	17.2	12.1	12.5	25.4	15.3	11.9	22.4	13.5
I1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.0
I2	10.7	30.5	12.5	13.9	6.2	12.2	11.9	15.1	12.4
I3	21.3	2.7	19.5	14.5	3.9	12.2	18.7	3.5	16.5
I4	11.5	4.7	10.8	16.9	7.1	14.8	13.6	6.3	12.5
I	43.4	38.0	42.9	45.4	17.3	39.2	44.1	24.9	41.4
J1	0.6	1.0	0.6	0.6	1.5	0.8	0.6	1.3	0.7
J2	1.3	0.7	1.2	1.9	1.4	1.8	1.5	1.1	1.5
J	1.9	1.7	1.9	2.6	2.9	2.7	2.1	2.5	2.2
K	5.9	11.2	6.4	11.3	18.2	12.8	8.0	15.7	9.1
M	4.7	12.3	5.4	6.7	10.5	7.6	5.5	11.1	6.3
N	7.3	9.4	7.5	4.6	13.2	6.5	6.3	11.8	7.1
O	25.2	10.3	23.8	17.0	12.4	16.0	22.0	11.6	20.5
All	100	100	100	100	100	100	100	100	100

Source: Calculated from Appendix Table 9 in NSS Report No-528

While analysing the unorganised services sector based on the survey, we do not use unit level data. Since we directly use the data as published in the report, we are constrained by the nature of definitions followed and the coverage of the survey. However, we can delineate the structure of the services sector as defined in the survey in order to get an idea of how backward or modern the set of firms comprising it are.



### **Directory and Non-directory Establishments:**

To begin with, we can examine the distribution of the enterprises across different size categories as per the number of workers they employ. By looking at the number of workers employed in the enterprises, they can be further divided into 'directory establishments' (DE) and 'non-directory establishments' (NDE). An NDE is one which employs one to five workers of which at least one is hired. A DE on the other hand employs more than five workers, either hired or unpaid household helpers or members. However, at least one of these workers must be a hired employee working for the enterprise on a fairly regular basis. It is clear from this definition that DEs and NDEs are types of establishments and separate from OAEs which are operated on the labour power of the owner alone and unpaid helpers or members of the household.<sup>6</sup>

The structure of unorganised services sector is heavily biased in favour of small and organisationally primitive units, that is, Own Account Enterprises, for all the broad service industry categories in the rural (91 percent) as well as the urban sector (77 percent). This can be seen from Table 3.4 below which shows the share of OAEs, NDEs and DEs in both sectors for each of the industries that were covered in the NSS survey.

Besides sub-categories Hotels (H1) and Storage & warehousing (I1) which together account for less than 0.5 percent of the total enterprises, all the other industries had a majority of their enterprises being run as OAEs. The bias towards smaller units is stronger in the rural sector, where the share of NDEs and DEs together is only 9 percent of total enterprises. In the urban sector the share of the larger units accounts for 23 percent of total enterprises.

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<sup>6</sup> Hired labour, if any, is used only temporarily and not employed on a regular basis.

**Table 3.4: Industry wise OAE, DE and NDE in rural and urban sector**

Activity category	Rural			Urban			(Rural + Urban)			(%)
	OAE	NDE	DE	OAE	NDE	DE	OAE	NDE	DE	Share*
H1	26.0	37.6	36.4	8.3	27.6	64.2	11.7	29.5	58.8	(0.4)
H2	87.3	9.1	3.6	66.2	17.3	16.5	77.4	13.0	9.7	(12.1)
H	<b>86.5</b>	<b>9.4</b>	<b>4.1</b>	<b>63.0</b>	<b>17.4</b>	<b>19.6</b>	<b>75.2</b>	<b>13.3</b>	<b>11.6</b>	<b>(12.5)</b>
I1	5.1	23.4	71.6	31.7	10.1	58.2	24.9	13.5	61.6	(0.0)
I2	77.4	19.7	2.9	88.7	5.6	5.7	82.1	13.8	4.1	(11.4)
I3	98.7	1.0	0.3	92.5	3.3	4.2	96.8	1.7	1.5	(15.1)
I4	96.0	3.8	0.2	89.2	7.2	3.6	92.6	5.5	1.9	(11.5)
I	<b>91.8</b>	<b>7.2</b>	<b>1.1</b>	<b>90.0</b>	<b>5.3</b>	<b>4.7</b>	<b>91.1</b>	<b>6.4</b>	<b>2.5</b>	<b>(38.0)</b>
J1	96.6	1.3	2.0	74.6	7.8	17.6	94.1	2.1	3.8	(7.8)
J2	94.8	5.1	0.1	80.0	5.0	15.0	87.0	5.0	8.0	(1.4)
J	<b>96.5</b>	<b>1.5</b>	<b>2.0</b>	<b>77.0</b>	<b>6.5</b>	<b>16.5</b>	<b>93.0</b>	<b>2.4</b>	<b>4.6</b>	<b>(9.2)</b>
K	<b>83.6</b>	<b>12.9</b>	<b>3.5</b>	<b>67.9</b>	<b>13.6</b>	<b>18.6</b>	<b>74.2</b>	<b>13.3</b>	<b>12.5</b>	<b>(8.5)</b>
M	<b>73.3</b>	<b>4.4</b>	<b>22.3</b>	<b>63.7</b>	<b>5.2</b>	<b>31.0</b>	<b>68.4</b>	<b>4.8</b>	<b>26.8</b>	<b>(6.3)</b>
N	<b>87.7</b>	<b>7.4</b>	<b>4.9</b>	<b>53.8</b>	<b>18.9</b>	<b>27.2</b>	<b>74.3</b>	<b>12.0</b>	<b>13.7</b>	<b>(6.6)</b>
O	<b>95.7</b>	<b>2.3</b>	<b>2.0</b>	<b>82.3</b>	<b>11.0</b>	<b>6.7</b>	<b>91.3</b>	<b>5.2</b>	<b>3.6</b>	<b>(18.9)</b>
All	<b>90.9</b>	<b>4.8</b>	<b>4.2</b>	<b>77.0</b>	<b>9.0</b>	<b>14.0</b>	<b>85.4</b>	<b>6.5</b>	<b>8.1</b>	<b>(100)</b>

Source: Calculated from Appendix Table 10 in NSS Report No-529. \*The figures in brackets in the last column show the share of total estimated number of enterprises (rural + urban) in each industry.

Similarly, Table 3.5 below shows the share of employment provided by the OAEs, NDEs and DEs of each activity category in the rural and the urban sector. The pattern of employment was similar to that of distribution of enterprises. In the rural sector, 80 percent of the employment was accounted for by OAEs and DEs and NDEs employed only the remaining 20 percent. In the urban sector OAEs employ only 44 percent of the workforce while the remaining 56 percent are employed by Establishments. The fact that DEs which account for 14 percent of the total urban enterprises employ 34 percent of the urban workforce implies that the urban DEs though lesser in number tend to be really large.

**Table 3.5: Industry wise share of employment in OAEs, NDEs and DEs in rural and urban sector**

Activity category	Rural			Urban			(Rural+Urban)			(%)
	OAE	NDE	DE	OAE	NDE	DE	OAE	NDE	DE	Share*
H1	10.3	45.6	44.1	2.4	29.3	68.3	3.3	31.3	65.4	(1.3)
H2	75.5	17.5	6.9	41.4	30.0	28.6	56.5	24.5	19.0	(14.0)
<b>H</b>	<b>73.9</b>	<b>18.2</b>	<b>7.9</b>	<b>36.3</b>	<b>30.0</b>	<b>33.7</b>	<b>52.0</b>	<b>25.1</b>	<b>23.0</b>	<b>(15.3)</b>
I1	0.9	24.4	74.8	5.4	14.0	80.6	4.4	16.4	79.2	(0.1)
I2	58.5	36.2	5.3	63.7	18.0	18.3	60.6	28.7	10.7	(8.1)
I3	96.6	2.7	0.7	71.3	12.6	16.1	87.5	6.3	6.2	(8.8)
I4	93.2	6.5	0.3	75.1	16.6	8.3	83.6	11.9	4.5	(7.9)
<b>I</b>	<b>82.8</b>	<b>15.0</b>	<b>2.2</b>	<b>70.2</b>	<b>15.9</b>	<b>14.0</b>	<b>77.3</b>	<b>15.4</b>	<b>7.3</b>	<b>(24.9)</b>
J1	95.8	1.7	2.5	59.1	12.6	28.2	91.5	2.9	5.6	(15.9)
J2	87.9	11.7	0.3	33.4	16.5	50.1	48.4	15.2	36.4	(1.3)
<b>J</b>	<b>95.6</b>	<b>1.9</b>	<b>2.5</b>	<b>50.5</b>	<b>14.0</b>	<b>35.5</b>	<b>88.2</b>	<b>3.9</b>	<b>7.9</b>	<b>(17.2)</b>
K	67.7	25.4	7.0	31.9	28.7	39.4	41.8	27.8	30.4	(9.2)
M	25.8	12.2	62.1	16.2	12.1	71.7	20.0	12.1	67.9	(11.6)
N	72.6	16.5	10.8	21.4	32.2	46.4	41.1	26.2	32.7	(6.5)
O	89.2	5.7	5.1	64.3	22.2	13.5	79.9	11.9	8.2	(15.2)
<b>All</b>	<b>80.3</b>	<b>10.5</b>	<b>9.2</b>	<b>43.7</b>	<b>22.0</b>	<b>34.3</b>	<b>63.5</b>	<b>15.8</b>	<b>20.7</b>	<b>(100)</b>

Source: Calculated from Appendix Table 10 in NSS Report No-529. \*The figures in brackets in the last column show the share of total estimated number of workers (rural + urban) in each industry.

#### Location of enterprises:

The location of the enterprises is generally also an indicator of how backward or modern an enterprise is. The degree to which the activities carried out by the enterprise are of an informal nature, the conditions of work, security of livelihood provided by the enterprise to its owner(s)/worker(s) etc can be determined to some extent by the location of an enterprise.

The enterprises can either be within the household premises or outside. Enterprises that are located outside are of two types- those with fixed premises and those without any fixed premises for conducting their economic activity. Mobile markets and street vendors are types of 'enterprises without fixed premises'. Enterprises which are located at fixed premises include those which have a permanent structure for carrying out their operations, those that have a regular place of operation but only a temporary structure/kiosk/stall and lastly, those that do not have any structure from where they carry out their economic activity, but have a regular place nonetheless.

Table 3.6 shows the distribution of 'all services'<sup>7</sup> OAEs and Establishments for the rural and urban sectors across the different types of location. It can be seen that the rural sector has a larger share of units (38 percent) located within the household premises compared to the urban sector (25 percent). Thus, the rural sector has more 'typically household' units, in the sense that they are even located within the household premises, of the two sectors.

Similarly, smaller units tend to have a higher probability of being household based. This is not surprising as OAEs in general have a smaller scale of operation and are largely run by the owner alone with the help of the members of the household. The share of total OAEs located within the household premises is 35 percent while only 15 percent of the total estimated establishments are located within the household premises.

If a permanent structure outside the household premises for carrying out the service activities can be considered as a minimum pre-requisite for classifying a unit as a modern unit in the unorganised services sector then more than half the urban and nearly three quarters of the rural enterprises fail to meet the criteria.

**Table 3.6: Location of the enterprises by rural and urban sector**

		Rural			Urban			Combine d All
		OAE	Establis hment	All	OAE	Establish ment	All	
A)	Within household premises	39.2	22.7	37.7	28.5	11.0	24.5	32.4
B)	Outside household premises:							
B.1)	<i>With fixed premises</i>							
a.	permanent structure	23.9	53.0	26.5	37.6	82.9	48.0	35.1
b.	temporary structure/kiosk/stall	2.6	1.4	2.5	3.5	1.9	3.1	2.8
c.	no structure	3.5	2.3	3.4	4.1	0.5	3.3	3.4
B.2)	<i>Without fixed premises</i>							
a.	mobile market	8.4	7.2	8.3	5.9	0.9	4.7	6.9
b.	street vendors etc.	22.4	13.4	21.6	20.3	2.8	16.3	19.5
<b>All</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Calculated from Appendix Table 15 in NSS Report No-528.

<sup>7</sup> 'All services' in the case of this entire section refers to the services industries and its parts that have been covered in the current survey of the service sector in the 63<sup>rd</sup> Round, NSSO.

### **Integration with the Formal Economy:**

Another way to assess the character of the enterprises that constitute the unorganised sector would be to look into the nature and degree of integration that they have with the formal economy. These inter-linkages can occur either through financial, input-output or marketing linkages. (Chandrasekhar, 2004)

The service sector survey collected data on the kinds of specific problems faced by the enterprises.<sup>8</sup> Therefore it is possible to get an idea about the share of enterprises which reported problems such as 'shortage of capital stock' or 'competition from larger units'.<sup>9</sup> These were the two main problems faced by the enterprises - 22 percent enterprises in each case. Nearly 60 percent of all enterprises in the unorganised sector faced some problem or the other. 'Competition from larger units' was a problem for a larger share of enterprises in the urban sector (26 percent) than in the rural sector (19 percent). Table 3.7 gives the percentage of enterprises reporting specific problems for rural and urban sectors as well as for both the enterprise types.

The presence of such problems as 'shortage of capital' or problems regarding 'marketing of products/services' makes inter-linkages through finance a real possibility. (Chandrasekhar, 2004) These indicate areas where the government needs to step in to assist the enterprises if they are to remain and act as viable options of sustaining a livelihood.

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<sup>8</sup> While collecting data, up to two main problems faced by the enterprises was recorded in the survey.

<sup>9</sup> The categories of problems that the enterprises faced were grouped into the following- non-availability of electricity connection, power cut, shortage of capital, marketing of products/ services, local problems/ harassment, competition from larger units, non-availability of labour/ labour problems, fuel not available or available at exorbitant prices, non recovery of service charges/ fees/ credit.

**Table 3.7: Percentage of enterprises reporting specific problems**

Type of problem faced	Rural			Urban			Combined		
	OAE	Establishment	All	OAE	Establishment	All	OAE	Establishment	All
No specific problem	42.6	35.5	42.0	43.4	45.8	43.9	42.9	41.9	42.8
Specific problem faced:									
Shortage of K	22.7	23.4	22.8	20.9	16.3	19.9	22.1	18.9	21.6
Marketing of products/services	14.6	12.6	14.4	11.1	9.0	10.6	13.4	10.3	12.9
Local problem/harassment	8.2	8.9	8.3	7.4	6.4	7.2	7.9	7.4	7.8
Competition from larger units	18.3	23	18.7	26.1	27.0	26.3	21.1	25.5	21.7
Non recovery of service charges	9.9	13.7	10.3	4.7	6.1	5.1	8.1	8.9	8.2
Others	10.5	17.5	11.2	10.6	15.4	11.8	10.6	16.2	11.4

Source: Statement 23, NSS Report No-528. \* 'others' is the residual category which include non-availability of electricity connection, problem of power cut, non-availability of labour/labour problems, fuel not available/very costly.

The next table gives an idea of the kind of assistance that is received by the various enterprises. Firstly, most of the enterprises, that is, 86 percent of the total estimated number; do not receive any form of assistance. The forms of assistance regarding which data was collected include- loans, subsidies, machinery/equipment, training, marketing, procurement of raw materials and others. While collecting data, up to two forms of assistance received by each enterprise was recorded. Of these, assistance received by the largest share of industries is in the form of loans which covered only 12 percent of total estimated enterprises, as can be seen from the Table 3.8 below. In spite of this, up to 22 percent of the total enterprises have reported 'shortage of capital' suggesting that gap exists between the demand and supply.

A larger share of rural enterprises gets loans than urban enterprises. This is a positive correlation with the fact that the Non-banking and financial intermediation other than pension and insurance sector (J1) has a larger presence in the rural areas- up to 12 percent of all rural enterprises compared to just 2 percent of urban enterprises- in the form of money lending from own source, by self-help groups, co-operative credit societies and others. It is observed that a larger share of establishments get assistance in the form of loans than OAEs even though a larger share of OAEs report shortage of capital as a major problem (table 3.7

above). This could be because larger units are in general associated with higher credit worthiness and greater ability to pay back loans. Thus smaller units are associated with lesser access to resources.

**Table 3.8: Percentage of enterprises receiving assistance by type of assistance received categorized by enterprise type and sector**

Type of assistance received	Rural			Urban			Combined		
	OAE	Establishment	All	OAE	Establishment	All	OAE	Establishment	All
Loan	13.5	23.6	14.4	7.6	15.4	9.4	11.4	18.5	12.4
Subsidy	0.8	0.7	0.8	0.2	0.3	0.2	0.6	0.4	0.5
Machinery/equipment	0.2	0.2	0.2	0.1	0.2	0.1	0.2	0.2	0.2
Training	1.1	2.2	1.2	0.4	0.3	0.4	0.8	1.0	0.8
Marketing	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Procurement of raw materials	0.2	0.4	0.2	0.2	0.4	0.3	0.2	0.4	0.2
Others	1.2	3.2	1.4	0.8	2.6	1.2	1.1	2.8	1.3
Percentage not receiving any assistance	84.7	71.0	83.5	91.0	81.7	88.9	87	77.7	85.7

Source: Statement 27, NSS Report No-528.

Another form of inter-linkage between the formal and the informal sectors is when some enterprises 'work on contract'. The unorganised sector consists of mainly small units. In many cases they are often found to be working as per orders from bigger units. In such cases certain conditions on the sale of product, mode of payment, supply of raw materials etc are put by the contractor or master unit. This kind of linkage had a strong presence in the unorganised manufacturing sector. As per the results of the 56<sup>th</sup> round NSS survey on the Unorganised Manufacturing Sector, 28 percent of rural and 38 percent of urban unorganised manufacturing enterprises had been found working on contract basis. The system was more prevalent in the Own Account Manufacturing Enterprises than Establishments, and especially so in the rural areas. (Chandrasekhar, 2004)

In the case of unorganised services enterprises however, only around 3 percent of all enterprises undertook such contractual work. Moreover, a larger share of establishments (4 percent) worked on contract basis than OAEs (2 percent). (NSSO, 2006-07b) On the other hand, a large share of total enterprises was also found reporting 'competition from larger units' as the main problem faced.

Many of the entrepreneurs and their enterprises which belong to the unorganised sector operate at small and even marginal levels. Hence the carrying out of 'mixed' or 'multiple' activities by the same entity is a commonly observed phenomenon and often a means of survival.

An enterprise is considered to have mixed activities if it carries out a number of activities (a mixture of NICs) simultaneously and the accounts for each activity (or NIC) are not separately available. Thus 'mixed activity' is defined with respect to the enterprise. For example, a bakery selling cold drinks as well, or a factory running a hospital on its premises etc. 'Multiple activities' on the other hand are defined with respect to the entrepreneur- it is the carrying out of more than one economic activity by the same entrepreneur within the reference year. Examples of an entrepreneur pursuing multiple activities would be a person who provides computer services during the day and takes tuitions in the evenings, a household servant making paper envelopes for sale and so on.

Entrepreneurs carrying out multiple activities were reported by a little less than half of the total partnership and proprietary enterprises in the rural areas (41 percent) and 18 percent of the total partnership and proprietary urban enterprises (Table 3.9). Sixty three percent of all such enterprises in the rural sector (whose owner/managing partner engages in multiple activities) report their major source of income as coming from outside the surveyed enterprise activity. In the urban sector, 71 percent of the enterprises reporting multiple activities do not consider the surveyed enterprise activity as the main source of income. This indicates that in majority of the cases of multiple activities, the income earned from these surveyed services enterprises were not remunerative enough and only large enough to be of a subsidiary or supplementary status.

**Table 3.9: Proprietary and partnership enterprises whose owners pursue multiple activities**

Sector	Owner pursuing multiple activity	Share of enterprises pursuing multiple activities where	
		Major income from surveyed source	Major income not coming from surveyed source
Rural	41.3	37.0	63.0
Urban	18.3	29.2	70.8
<b>Combined</b>	<b>31.6</b>	<b>35.1</b>	<b>64.9</b>

Source: Calculated from Appendix Table 30, NSS Report No-528



A smaller proportion of enterprises reported carrying out of mixed activities simultaneously within the same premises. Around 5 percent of all estimated enterprises reported mixed activities. Enterprises pursuing mixed activities were in a larger share in the urban areas (16 percent) than in the rural areas (3 percent). And as expected, the smaller units (OAEs) account for up to 82 percent of all enterprises which reported 'mixed activities'.

**Registration Status:**

While looking into the degree of backwardness of the enterprises constituting the services sector, the status of registration of various enterprises under different Acts or agencies is also an important indicator. The residual method of classifying the unorganised sector for services, as followed in the survey, groups together diverse and heterogeneous firms. Thus, both registered as well as unregistered enterprises belonging to various industries are a part of the unorganised services sector. This is unlike the unorganised segment on the manufacturing sector which consists of only those units that are not registered under the Factories Act, 1949, as per the NSSO.

The fact that an enterprise is registered under any such act or apex agency lends the enterprise legal recognition as well as some degree of protection. Besides giving credibility, the act of registration may also make an enterprise eligible for benefits from various schemes which the government introduces from time to time to promote specific industries. Similarly, in times of distress, enterprises of the same category can come together to assist each other or to give voice to the needs specific to their union to the State and so on.

The survey had collected data regarding registration of services enterprises under the following acts or agencies - Companies Act, Municipal/Corporation/Panchayat/Local bodies, Shops and Establishments Act, Sales Tax act, Indian Vessels Act/Merchant Shipping Act, RBI/NABARD/IRDI/SEBI, Bar Council, Chartered Accountants Act, NASSCOM, Directorate of Education/AICTE/NCTE, Medical Practitioners Act, Co-operative Societies Act, Societies Act, Indian Charitable Act, Cinematograph Act, Factories Act, 1948 and Others.

In general, the smaller units seem to be more likely to remain unregistered and hence outside the purview of any sort of legal body. The survey data shows that 63 percent of all estimated OAEs were not registered under any act or agency. The share of unregistered establishments

was smaller but still substantial at 35 percent of the total estimated establishments. Similarly, there seem to be more unregistered units in the rural as compared to the urban sector.

In table 3.10, all enterprises have been divided into categories by sector and enterprise type. The table reports the percentage of unregistered enterprises of each category present in each industry. Looking at it category wise, Other community, social and personal services (O) has the highest percentage of unregistered enterprises in all the categories. Education (M) has the largest percentage of unregistered rural and urban OAEs. Health and social work (N) has the largest rural-urban differential when it comes to registration of enterprises.

**Table 3.10: Share of enterprises not registered under any Act/Agency**

Activity Category	Rural OAE	Rural Establishment	Urban OAE	Urban Establishment	Combined OAE	Combined Establishment
H1	51.0	27.2	50.1	18.9	50.5	20.3
H2	83.5	61.1	82.7	49.1	83.1	52.6
<b>H</b>	<b>83.3</b>	<b>58.7</b>	<b>82.4</b>	<b>44.9</b>	<b>83.0</b>	<b>48.7</b>
I1	100.0	21.1	73.6	43.9	74.9	36.6
I2	12.9	9.5	9.6	6.7	11.4	8.8
I3	83.5	48.3	75.4	26.8	81.1	32.7
I4	47.8	35.4	46.2	28.8	47.0	30.6
<b>I</b>	<b>56.7</b>	<b>15.5</b>	<b>44.4</b>	<b>20.6</b>	<b>51.8</b>	<b>17.8</b>
J1	18.0	10.5	21.6	8.4	18.3	9.4
J2	26.8	29.9	27.5	8.4	27.2	12.5
<b>J</b>	<b>18.8</b>	<b>13.0</b>	<b>24.3</b>	<b>8.4</b>	<b>19.6</b>	<b>10.3</b>
K	69.6	61.5	55.6	34.2	61.9	41.2
M	97.5	29.4	94.1	29.4	95.9	29.4
N	60.4	46.6	24.6	9.2	50.1	20.0
O	96.1	76.0	87.8	57.9	93.6	63.9
<b>All</b>	<b>65.8</b>	<b>38.1</b>	<b>59.1</b>	<b>32.5</b>	<b>63.4</b>	<b>34.5</b>

Source: Calculated from Appendix Table 21 in NSS Report No-528

#### **Employment Characteristics of the Unorganised Service Sector Enterprises:**

Besides the operational characteristics of the services enterprises which help us identify the presence of a section of backward enterprises within the unorganised services sector, as defined in the survey, we are also interested in examining the nature of the workforce that the services sector provides employment to.

Besides being recorded as 'part time' and 'full time', workers can also be classified as working owners, hired workers and other workers or helpers. An owner who personally works in the proprietary or partnership enterprise on a fairly regular basis is called a 'working

owner'. A 'hired worker' is one who is hired directly or through an agency on payment and gets paid on a regular basis in cash or kind. Apprentices, paid or unpaid, as well as paid household workers, servants and resident workers of the enterprise are all treated as hired workers. Finally, 'other helpers/workers' include all those people belonging to the household of either the proprietor or the households of the partners, who work for the enterprise without receiving any regular wages or remuneration in return. All unpaid household workers who are associated with the activities of the enterprise during the reference month as well as persons working as exchange labourers in the enterprise without salary or wages are included in this category. (NSSO, 2006-07b)

Table 3.11 below gives the distribution of different types of male and female workers in each of the service industries that were surveyed. Fifty four percent of the total estimated workers were engaged in rural enterprises, while 46 percent worked in the urban sector. In the overall unorganised services sector as defined in the survey, only 29 percent were females while the rest were all males.

The more lucrative jobs were held by the men. Thus in each category of enterprise, there was a larger share of male working owners than females and male hired workers relative to females. Other workers which include the unpaid household or other workers was the only category where women were more than men.

**Table 3.11: Distribution of types of workers**

Type of enterprise by sector	working owners		hired workers		other workers		All
	Female	male	female	Male	female	Male	
Rural OAE	20.3	53.1	0.0	0.2	18.7	7.8	100
Rural Establishment	2.2	25.2	15.5	51.1	1.7	4.3	100
<b>Rural All Enterprise</b>	<b>16.7</b>	<b>47.6</b>	<b>3.1</b>	<b>10.3</b>	<b>15.3</b>	<b>7.1</b>	<b>100</b>
Urban OAE	12.3	68.6	0.0	0.3	7.9	10.9	100
Urban Establishment	1.9	17.7	21.0	54.7	1.1	3.6	100
<b>Urban All Enterprise</b>	<b>6.4</b>	<b>39.9</b>	<b>11.8</b>	<b>31.0</b>	<b>4.1</b>	<b>6.8</b>	<b>100</b>
Combined OAE	17.8	58.0	0.0	0.3	15.3	8.7	100
Combined Establishment	2.0	19.9	19.4	53.6	1.3	3.8	100
<b>Combined All Enterprise</b>	<b>12.0</b>	<b>44.1</b>	<b>7.1</b>	<b>19.8</b>	<b>10.2</b>	<b>6.9</b>	<b>100</b>

*Source: Calculated from Appendix Table 21 in NSS Report No-528*

### **Educational Qualification of Owners of Proprietary and Partnership Enterprises:**

In addition to the characteristics of the enterprises, certain characteristics of the entrepreneurs who own the partnership and proprietary units can also give us an indication whether the

enterprises themselves are of a backward nature. This is on the surmise that a more qualified individual would be more capable of setting up a modern unit that would make the carrying out of any activity in the enterprise a more remunerative option.

This is also suggested by the data when we tabulate the educational qualifications profile of the owners/managing partners of the proprietary and partnership firms by the types of enterprises. Larger shares of establishment owners tend to be more highly qualified. This is found not just in sectors like Education and Health & social work which would understandably need more qualified people, but also in sectors like Hotels and restaurants (H) and Transport, storage and communication (I). In sectors H and I, only 1.4 and 5.6 percent of the OAE owners belonged to highest educational category (4), compared to 14.6 and 23.1 percent of the establishment owners, respectively.

The table below shows the educational qualifications of the owners of the proprietary and partnership enterprises of the unorganised services sector covered in the survey. The educational qualifications have been grouped into four categories- illiterate (1), those who are literate but have no formal education and up to primary (2), middle school to higher secondary (3) and lastly, those who have passed a diploma/certificate course or are graduate or postgraduate (4).

As expected, the share of owners with higher education is larger in the urban areas. At the overall level, the share of illiterate owners is only 11 percent in urban India, 10 percent lower than the share of illiterate owners in rural India. Similarly, while only 11 percent of the rural enterprise owners belong to category 4, the same figure for the urban enterprise owners stands at 26 percent. Thus the urban sector has far more educated population of owner/managing partners.

Modern sectors like Financial intermediation (J), Real estate, renting and business activities (K), Education (M) and Health & social work (N) all have high shares of owners in category 4 and shares of the owners with the highest qualification in the urban sector exceeds the shares in the rural sector.

**Table 3.12: Educational qualification of owners of proprietary and partnership enterprises**

Activity Category	Rural				Urban			
	not literate	no formal schooling/up to primary	middle to higher secondary	diploma/certificate course, graduate and above	not literate	No formal schooling/up to primary	middle to higher secondary	diploma/certificate course, graduate and above
H1	5.0	23.3	53.0	18.7	1.6	5.3	47.0	46.0
H2	18.9	41.6	37.6	1.6	14.9	32.0	47.1	5.8
<b>H</b>	<b>18.8</b>	<b>41.4</b>	<b>37.7</b>	<b>1.8</b>	<b>14.3</b>	<b>30.8</b>	<b>47.2</b>	<b>7.6</b>
I1	0.0	10.7	27.5	61.8	0.0	15.5	32.7	51.3
I2	5.6	22.4	66.4	5.4	5.3	21.9	67.8	4.7
I3	46.5	42.4	10.4	0.3	43.0	36.6	15.7	4.1
I4	4.0	16.5	66.6	12.8	2.7	10.9	65.9	20.3
<b>I</b>	<b>23.9</b>	<b>29.9</b>	<b>40.9</b>	<b>5.0</b>	<b>16.1</b>	<b>22.4</b>	<b>50.9</b>	<b>10.5</b>
J1	3.9	22.7	54.0	18.5	0.2	5.8	57.5	36.1
J2	0.2	0.1	57.0	42.3	0.1	0.4	30.7	68.8
<b>J</b>	<b>1.4</b>	<b>7.5</b>	<b>56.0</b>	<b>34.4</b>	<b>0.1</b>	<b>2.2</b>	<b>39.2</b>	<b>58.4</b>
K	7.9	23.7	51.6	16.7	1.6	7.3	42.4	48.3
M	0.1	0.7	42.0	56.9	0.2	0.6	21.0	78.0
N	6.0	11.4	38.5	43.8	0.5	0.8	12.0	86.5
O	31.4	37.8	28.1	2.6	16.3	27.8	45.1	10.5
<b>All</b>	<b>21.0</b>	<b>29.4</b>	<b>38.3</b>	<b>11.0</b>	<b>11.3</b>	<b>19.1</b>	<b>43.1</b>	<b>26.2</b>

Source: Calculated from Appendix Table 13 in NSS Report No-528

Table 3.13 below shows the socio economic profile of the owners of the proprietary and partnership enterprises. The members of the schedules tribes are visibly worse off as they own the least percentage of proprietary/partnership firms in both rural and urban sectors, as well as OAEs and establishment types of enterprises. The percentage of ST owned firms is less in urban areas compared to the rural. While OBCs operate the largest share of OAEs and establishments in the rural sector, it is the non-backward castes (others) who own the most number of enterprises in the urban areas. At the combined (rural+urban) level, 42 percent of OAEs are owned by OBCs while 52 percent of establishments are owned by 'others'.

**Table 3.13: Distribution of enterprises by social group of owner**

		ST	SC	OBC	Others	n.r
Rural	OAE	4.9	20.7	42.4	31.9	0.2
	Establishment	6.1	8.3	46.1	39.1	0.3
	All	5	19.5	42.7	32.6	0.2
Urban	OAE	1.6	13.6	41.1	43.6	0.2
	Establishment	1.2	4.6	35.1	59.0	0.1
	All	1.5	11.6	39.8	47	0.2
(Rural+Urban)	OAE	3.6	17.9	41.9	36.4	0.2
	Establishment	3	5.9	39.1	51.7	0.2
	All	3.5	16.2	41.5	38.7	0.2

*Source: Calculated from Appendix Table 11 in NSS Report No-528*

### **A Closer Look at Some Sectors:**

In the following part, we analyse some of the activity categories individually to study their operational characteristics using the data published in the Service Sector Survey reports. These categories are - Transport sector (I2+I3), Financial intermediation (J) and Education (M). The Transport sector accounts for the largest share of total estimated enterprises while Financial intermediation is the single largest employer amongst all the industry groups of the services sector covered in the survey.

### **Transport Sector (I2+I3)**

The broad activity category 'I' includes Transport, Storage and Communications. With respect to the unorganised services sector, it accounts for the largest share of total enterprises (38 percent) and also employs the largest share of the estimated workforce (25 percent) among all sectors surveyed.

Within this, the sub-categories related to the transport sector alone are I2 and I3. They denote 'Mechanised road transport' and 'Non-mechanised motor transport, water transport and related activities' respectively. Mechanised road transport, falls under NIC class 6021 which represents scheduled passenger land transport such as by bus, tramways etc. (excluding railways), and sub-classes 60221 and 60231, which represent other non-scheduled passenger transport by motor vehicles and freight transport by motor vehicles.

I3 includes transport of passengers and/or goods inland, by means other than mechanised road transport. Activities of travel agencies and tour operators, activities of other transport agencies, supporting services incidental to transport such as packing, freighting, travel

agency, etc., were also covered under this sub category. The following activities were also covered: (i) hackney carriages, carriage by bullock-carts/ekka/tonga, etc. (ii) transport by animals like horses, elephants, mules, camels, etc., (iii) transport by men including rickshaw-pullers, cart-operators, etc., (iv) all kinds of water transport, (v) supporting services to land transport like toll booths, parking lots, traffic on highway bridges, etc., and (vi) supporting services to water transport like operation and maintenance of piers, docks, light houses, loading and discharging vessels, etc. A household renting out transport vehicles to others and not operating directly with hired or household labour to render service to others was not reckoned as conducting a transport activity. However, transport via pipeline and air transport were beyond the coverage of this survey. Thus, the activities covered in this survey as I3 fall under NIC codes 60222, 60232, 61, 6301, 6303, 6304 and 6309. (NSSO, 2001-02a)

Together, I2 and I3 account for the largest share of the total estimated enterprises (27 percent) which employs 17 percent of the total estimated workforce, in both rural and urban sectors taken together. The transport sector reported the largest shares of OAEs without any fixed premises- 74 percent and 75 percent of total OAEs in I2 and I3 respectively. Fifty eight percent of I2 establishments were also found to be operating without fixed premises. This is understandable since the activities of various non-scheduled transport modes like tonga, cycle rickshaws and even small motorised transport vehicles like auto rickshaws are less likely to have fixed premises of operation.

When it comes to registration status of the enterprises of the transport sector, I2 has the smallest share of unregistered enterprises in all the categories among all the activity categories. (Table 3.10 above) This is obvious because almost all motorised modes of transport like buses, taxis, auto rickshaws etc. need to be registered to get driving licenses which are mandatory by law. I3 on the other hand, being largely non-motorised transport had large shares of unregistered enterprises among OAEs (81 percent) and to a slightly lesser extent in the case of Establishments (33 percent).

We can have a more detailed look at this sector by dividing the enterprises according to whether they are engaged in passenger transport or freight transport by land. NIC 60231 and 60232 include freight transport by motorised vehicle and by means other than motor vehicles respectively. NIC 6021 and 60221 are scheduled and non-scheduled passenger land transport by motor vehicles while 60222 represents non-scheduled passenger land transport by means

other than motorised vehicles. Table 3.14 below shows the sector wise distribution of enterprises as per the above NIC classes and sub-classes.

**Table 3.14: Distribution of land transport enterprises by NIC**

NIC	Rural	Urban	Combined
60231	16.2	8.4	13.4
60232	25.3	14.0	21.3
6021+60221	28.5	49.6	36.0
60222	29.9	28.0	29.3
	100.0	100.0	100.0

*Source: Calculated from Appendix Table 35 in NSS Report No-529*

Taking both the sectors together, we see that a larger proportion of the transport sector enterprises are engaged in passenger transport (up to 65 percent). This suggests a high rate of movement of people be it in search of jobs and livelihood, or for higher education, or simply for the purposes of travelling.

A greater share of freight transport would indicate increased flow of goods and commodities across as well as within regions. This would therefore indicate certain dynamism in the commodities producing sectors of the economy in general. However, freight transport seems to be comparatively more prominent in the rural sector where 42 percent of the rural enterprises were engaged in it compared to 22 percent of the urban transport enterprises.

Another point to be noted is the prominence of non-motorised means of transport (including animal drawn vehicles) not only in the rural sector (55 percent) but also in a marked way in the case of urban freight transport (42 percent). This points to the dualism in the sector with the existence of traditional modes in tandem with modern modes of transport. These traditional modes are often means of refuge for the poor who fail to find better jobs elsewhere.

### **Financial Intermediation (J)**

The 63<sup>rd</sup> Round survey of the Unorganised Services Sector is the second such survey conducted by the NSSO, the earlier one having been conducted in 2001-02. However, it was for the first time that the Financial Intermediation (J) sector was included in the purview of such a survey.

The category J as covered by the survey has a larger presence in the rural sector accounting for 13 percent of the total estimated rural enterprises, as compared with just 4 percent in the



urban sector. This suggests that financial intermediation by institutions other than banks is widely prevalent in the rural areas where banks themselves are increasingly hesitant to lend. It is also the largest employer in the rural sector providing employment to 27 percent of the rural unorganised services workforce. In the urban sector, this sector absorbs around 6 percent of the urban unorganised services workforce.

The sector consists of two sub categories- Non-banking financial intermediation except insurance and pension funding (J1) and Insurance and pension funding and auxiliary activities (J2). J2 consists of NIC codes 66 and 67 which are Insurance and pension funding except social security and Activities auxiliary to financial intermediation respectively and its unorganised portion is fairly small in share. Hence J1 explains a major chunk of the broad category J in terms of number of enterprises as well as number of workers. J1 falls under the three digit NIC-04 class of 659 which consists of- money lending from own source (NIC code-65925), financial intermediation activity other than insurance and pension by Self Help Groups (SHG) (NIC code-65994), by co-operative credit societies (NIC code-65995), and finally, the rest of 659. (NSSO, 2006-07b)

The breakup of the enterprises belonging to J into its constituent NIC classes for rural, urban as well as both the sectors combined is given in Table 3.15 below. A major part of the total unorganised sector in this activity is located in the rural areas (82 percent) and 86 percent of these rural financial enterprises are SHGs. SHGs generally work in the informal financial sector for implementing special programmes and formulating development policies. These organizations receive funds from Indian financial institutions as also from abroad. The SHG-Bank Linkage Programme is one of the preferred and emerging models for purveying microfinance in the country and especially in the rural areas. SHGs that are credit-linked to banks work to bring the poor families within the fold of formal banking services.

As per the Economic Survey 2010-11, under the SHG-Bank Linkage Programme, as on 31 March 2010, 69.53 lakh SHGs held saving bank accounts with total savings of 6199 crore. Thus, about 97 million families were associated with banking agencies under the Programme.

'Money lending from own source' which one would have expected to be widely prevalent in the rural sector was reported by less than 1 percent of the total rural enterprises and up to 3 percent of the urban sector enterprises.

**Table 3.15: Distribution of financial intermediation enterprises by NIC**

NIC	Rural	Urban	Combined
65925	0.7	3.2	1.2
65994	85.5	29.3	75.5
65995	2.3	3.5	2.5
rest of 659	2.7	19.4	5.7
66	2.8	10.1	4.1
67	5.9	34.6	11.0
all	100.0	100.0	100.0
Share (%)	82.2	17.8	100.0

*Source: Calculated from Appendix Table 16 in NSS Report No-529*

On examination, sector J is found to employ 86 percent females in its workforce in the rural sector. In fact 47 percent of the workforce falls in the category female working owner. This is probably a result of the fact that most of the enterprises are SHGs that are largely run by women and also have many programmes and policies that are especially targeted towards women. As far as the urban workforce working for the sector is concerned, 45 percent are females.

In terms of registration status, J has reported the smallest share of unregistered enterprises (19 percent). Nearly 33 percent of total J enterprises are registered under the category Municipal/Corporation/Panchayat/Local bodies and 28 percent under the category of 'Others'. Enterprises engaged in Insurance and pension and auxiliary activities, that is J2, are largely registered under RBI/NABARD/IRDA/SEBI. The reason for the high rate of registration is primarily because it helps these various enterprises to access credit from formal sources like banks and other formal financial institutions. These enterprises show the active presence of credit and finance inter-linkages between the formal and informal sectors of the economy.

### **Education Sector (M)**

The unorganised sector accounts for 6 percent of the total estimated rural enterprises and 13 percent of the urban enterprises. This industry seems to show a tendency for the participation and setting up of large private institutions.

Among all other broad activity categories, Education seems to have the largest share of big units in the urban as well as rural sectors. Thirty one percent of urban enterprises belonging to M were DEs which employed 72 percent of the industry's urban workforce. Similarly 22 percent of industry M's rural enterprises were DEs employing 62 percent of the rural

education workforce. Besides this, both the rural and urban sectors have large shares of OAEs as well. (Table 3.4)

Eighty three percent of all OAE's belonging to M are situated within the household premises. These would include private coaching and tuition classes, dance, drama, art, yoga classes etc which were run without any hired labour. Establishments belonging to the same category of course had 87 percent located in fixed premises outside the households and a permanent structure to house their operations. This suggests that activity category Education in particular seems to consist of either small units run by just one owner or very large units with a high worker per enterprise value.

In terms of employment, M employs 15 percent of the total urban and 9 percent of the total rural workforce. Besides Financial intermediation (J), industry M employs a high share of female workers as well - up to 34 percent of its rural workforce and half of its urban workforce. However, most of the women employed were hired labour rather than owners, unlike in the financial sector.

#### **Gross Value Added by the Unorganised Sector:**

The 63<sup>rd</sup> Round Survey of the service sector enterprises was different from the earlier survey of the same kind in the 57<sup>th</sup> round on two counts. Firstly, the survey expanded its coverage to include the Financial Intermediation sector (J) for the first time. Secondly, the approach of this survey was slightly different from the earlier one as it used not only the 'area frame' of enterprises for survey but also a separate 'list frame' consisting of a few relatively large units which were meant to be surveyed on a complete enumeration basis. Due to the highly skewed nature of distribution of enterprises by either number of workers or GVA, the need was felt for better representation of the few large units in the service sector through such a frame.

It was found that the presence of a few units which had a really high GVA per worker, pushed the GVA per worker and GVA per enterprise figures in certain industries to really high levels. This was observed even during the 57<sup>th</sup> round survey of 2001-02. The report of the same mentions in the appendix – "Cases of relatively high value added per worker have been observed in some levels of disaggregation. Such cases have come particularly due to capturing of bigger enterprises at that particular level. Some such examples are: in Tripura, big non-mechanised road transport establishment in rural Tripura, big rural hospital in rural

Gujarat, mechanised road transport enterprise reporting high value addition in urban Arunachal Pradesh (sample count in this case is only 1), storage and warehousing establishment reporting high value addition in urban Kerala, etc. In general, the survey was able to capture more than 2000 enterprises having either more than 100 workers or reporting an annual value addition of more than 1 million rupees. Proportion of such enterprises was relatively high in storage and warehousing, hotels, education, and health activities.” (NSSO, 2001-02b)

Similarly, the 63<sup>rd</sup> round report mentions- “There is a very high degree of concentration of economic characteristics in the service sector, as is strikingly evident on comparison of aggregate GVA by list frame enterprises and that by area frame enterprises. In the estimated universe of service sector enterprises (1.65 crore) the list frame enterprises (there were 626 list frame enterprises, for which estimates are presented by imputing also contribution of eligible non-responding units) is an insignificant proportion with only 2% share in total workers. However, the GVA contribution of list frame enterprises is about 38% of estimated aggregated GVA of all such enterprises in the country.” (NSSO, 2006-07a)

Table 3.16 shows the contribution of OAEs and establishments to the rural and urban sector’s GVA for each activity category. With the exception of Hotels (H1) and Storage and warehousing (I1), it is found that the OAEs contribute a larger share than establishments in the rural sector and vice-versa in the urban sector. ‘Hotels’ which are defined as “enterprises which provide lodging facilities with or without arrangements for meals, prepared food and refreshments” as well as Storage and warehousing units primarily tend to be large scale due to the nature of their operations. Therefore OAEs in both these categories are lesser in number in both the sectors leading to uniformly larger contribution to GVA from the establishments.

**Table 3.16: Industry-wise contribution to GVA by enterprise type**

Activity Category	Rural		Urban	
	OAE	Establishment	OAE	Establishment
H1	4.5	95.5	0.3	99.7
H2	61.2	38.8	26.3	73.7
<b>H</b>	<b>57.9</b>	<b>42.1</b>	<b>14.3</b>	<b>85.7</b>
I1	0.2	99.8	2.3	97.7
I2	53.9	46.1	44.2	55.8
I3	94.1	5.9	19.0	81.0
I4	84.2	15.8	13.1	86.9
<b>I</b>	<b>68.2</b>	<b>31.8</b>	<b>24.1</b>	<b>75.9</b>
J1	57.8	42.2	14.3	85.7
J2	83.2	16.8	2.5	97.5
<b>J</b>	<b>63.4</b>	<b>36.6</b>	<b>6.8</b>	<b>93.2</b>
<b>K</b>	<b>68.9</b>	<b>31.1</b>	<b>5.6</b>	<b>94.4</b>
<b>M</b>	<b>13.5</b>	<b>86.5</b>	<b>5.7</b>	<b>94.3</b>
<b>N</b>	<b>60.1</b>	<b>39.9</b>	<b>10.1</b>	<b>89.9</b>
<b>O</b>	<b>84.2</b>	<b>15.8</b>	<b>33.0</b>	<b>67.0</b>
<b>All</b>	<b>60.8</b>	<b>39.2</b>	<b>11.0</b>	<b>89.0</b>

*Source: Calculated from Appendix Tables 14 and Statement 2 in NSS Report No-528*

The NSSO's definition of unorganised is the residual enterprises left after the deduction of all government and public sector enterprises, and other service sector units registered under the Factories Act, 1948 and appearing in the latest ASI frame of industries. Besides this, it excludes all government and government aided educational institutions. The table below shows the share of unorganised GVA estimated by the survey to the total GVA as estimated by the CSO.

The total GDP estimates are estimated on fiscal year basis that is, starting in April of one year to March of the next year. As the time period of the 63<sup>rd</sup> round survey is from July 2006 to June 2007 and the value added measured at the current prices, we compare it against GDP at current prices (1999-00 series) of fiscal year 2006-07. Hence there will be a certain degree of approximation to the extent caused by the mismatch of the time periods. Similarly, the percentage share of the unorganised sector's GVA in the total GVA for each sector surveyed in the Unorganised Service Sector Report for the year 2001-02 has also been calculated.

**Table 3.17: Share of estimated unorganised GVA in total GVA**

	Industry	2001-02	2006-07
		% Unorganised	% Unorganised
<b>1</b>	<b>Hotels &amp; Restaurants</b>	<b>48.60</b>	<b>47.55</b>
2.1	Storage	13.86	6.13
2.2	Transport by other means	19.59	16.27
2.3	Communications	6.31	14.24
<b>2</b>	<b>Transport, Storage and Communications</b>	<b>13.74</b>	<b>13.70</b>
<b>3</b>	<b>Banking &amp; Insurance</b>		<b>23.24</b>
<b>4</b>	<b>Real Estate, Ownership of Dwellings &amp; Business Activities</b>	<b>6.31</b>	<b>21.57</b>
5.1	Education	12.74	18.13
5.2	Health & Social Work	27.39	32.19
5.3	Other community, social and personal service activities	15.74	13.49
<b>5</b>	<b>Other Services</b>	<b>16.58</b>	<b>19.20</b>

*Source: Calculated using Appendix Tables 12 from NSS Report No-529 and Appendix Table-5 from NSS Report No-483. Total GDP at factor cost figures were taken from CSO.*

The various activity categories of the service sector surveys were aggregated to make it comparable with the industry categories by which the CSO reports GDP. While the industry groups Hotels & restaurants and Transport, storage & communications saw a marginal fall in the share of their contribution, Real estate, ownership of dwellings & business activities and Other services saw a rise. Twenty three percent of the total GDP from Banking & Insurance was contributed by the surveyed unorganised units in 2006-07. As the earlier report did not include financial intermediation in its coverage, comparison with 2001-02 is not possible.

It is interesting to note that all the modern services - Communications, Business activities, Education and Health – show an increase in the share of unorganised GVA in the total by 8, 15, 5 and 5 percent each. However given the dualism in the form of existence of a large share of backward units and a small share of large units reporting high GVA within the unorganised tertiary sector as specified in this survey, this increase is more likely to be due to the growth of a few larger enterprises rather than to the overall growth of the sector.

## Chapter IV

# Modern and Non-modern Services

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One of the main reasons for giving primacy to a commodity producing sector, especially manufacturing, over services as the leading sector of the growth process in the Kaldorian theory was the balance of payment consideration. The lack of a developed industrial sector would imply that satiation of the domestic economy's demand for commodities would be largely dependent on imports from other countries. Firstly, this would impact any country's strategic goal of self sufficiency. However, even if we ignore that, the earlier trait of non-tradability or limited tradability associated with services in general affected the ability of the nations to earn foreign exchange by way of services exports. Unless an economy earned enough foreign exchange, it could not satiate its demands for imports without incurring a huge current account deficit. Thus, having a well developed commodity producing sector was considered an imperative for development and international trade.

However, the technological advancement that has taken place, especially in Information and Communications Technology (ICT), has made most of these differences between services production and commodity production either disappear or at least narrow down noticeably. Greater use of technology, the use of internet etc. have enhanced the tradability of the products of services sector by speeding up processes, shortening distances, and enabling exchange of intangible goods such as information and knowledge.

In fact, economists increasingly emphasize the central role of knowledge, particularly R&D and other activities to promote science and technology, in a country's economic success. Knowledge intensive services and high technology manufactures have begun to play an increasingly important role in the global economy.

As per the Science and Engineering Indicators 2010, United States continues to be the world leader in the production and trade of both high technology manufactures as well as knowledge intensive services. However, the globalization of the world economy and the vigorous pursuit of national innovation policies by developing countries have led to the rise of new centres of production for these industries.

According to a World Bank study, "India has many of the key ingredients for making this transition (*to a knowledge economy*). It has a critical mass of skilled, English-speaking

knowledge workers, especially in the sciences. It has a well-functioning democracy. Its domestic market is one of the world's largest. It has a large and impressive Diaspora, creating valuable knowledge linkages and networks. The list goes on: macroeconomic stability, a dynamic private sector, institutions of a free market economy, a well-developed financial sector, and a broad and diversified science and technology (S&T) infrastructure. In addition, the development of the ICT sector in recent years has been remarkable. India has created profitable niches in information technology (IT) and is becoming a global provider of software services. Building on these strengths, India can harness the benefits of the knowledge revolution to improve its economic performance and boost the welfare of its people." (World Bank, 2005)

India has gained a brand identity in the world as a 'knowledge economy' mainly due to its IT and IT enabled Services (ITeS) sector. IT-ITeS industry which is a part of the Business services has four major components: IT services, business process outsourcing (BPO), engineering services and R&D, and software products. India is supposed to have created a niche market for herself in the area of IT and has become a global provider of software services. Total IT-ITeS exports have grown from US \$ 17.7 billion in 2004-05 to US \$ 49.7 billion in 2009-10 and an estimated US \$ 58.9 billion in 2010-11 registering a CAGR of 22.2 per cent from 2004-05 to 2010-11. (Economic Survey 2010-11; original source: NASSCOM)

'Communications services' are another area of the tertiary sector which has been gaining in prominence in the Indian economy. Most of the growth in the Indian telecommunications sector has been achieved since the early 90s when the sector was thrown open to the private and foreign market players in the process of liberalisation. Gordon & Gupta (2004) classify this sector as a 'fast-grower' as its growth since the 1990s has been above the trend rate of growth of the previous decades.

Thus a large number of domestic and international private sector entrants are now providing high quality services at low prices. "Fierce price competition has resulted in Indian mobile telephony becoming one of the cheapest in the world. This has been a boon, especially to the people in India's 600,000 rural villages, which have had no access to communication through traditional means, such as fixed lines. But now, from fishermen at sea and brokers ashore in Kerala to farmers in Punjab—people in industry and farming are embracing wireless technology for economic activity, to do business, and to increase their profit margins." (World Bank, 2005)

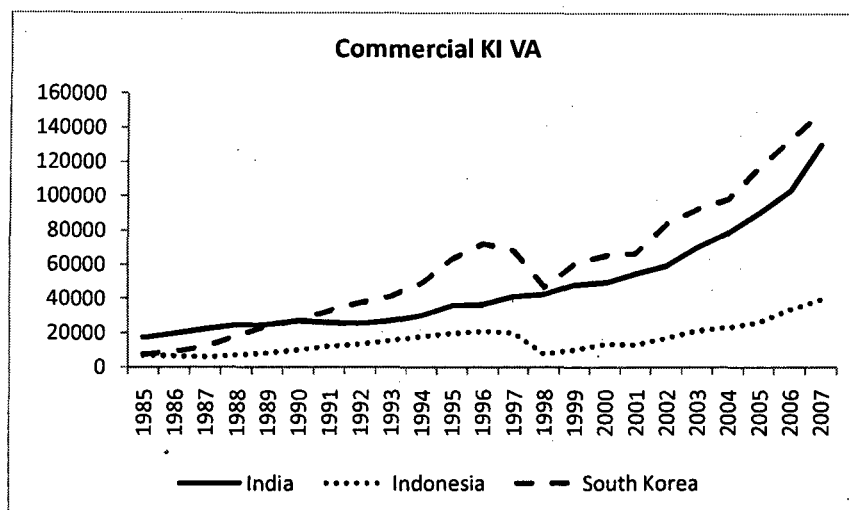


The financial liberalisation policies followed since 1991 has also resulted in the increase in importance of the Financial services sector. The burgeoning of this sector was also assisted by the stock market buoyancy that was experienced by the Indian markets, mainly led by speculation, especially in the 1990s. The greater financial integration among financial centres across the world due to globalisation has not just opened the economy up for large speculative inflows and outflows but also made the Indian economy far more sensitive to crisis of any sort in other parts of the world.

These three categories of services- Financial, Communications and Business are classified as the 'commercial' knowledge intensive (KI) services by the OECD as they are commercially tradable services with the use of high technology involved in their production as well as delivery. Education and Health services on the other hand are classified as public knowledge intensive services as they are generally government provided and location bound. (Science and Engineering Indicators 2010, National Science Board)

The National Science Board (NSB) comes out with a biannual publication called the Science and Engineering Indicators (S&E) which is essentially "a volume of record comprising the major high-quality quantitative data on the U.S. and international science and engineering enterprise." The sixth chapter of this volume titled 'Industry, Technology and the Global Market Place' contains proprietary datasets regarding the production and trade of 'knowledge intensive' services and 'technology intensive' manufactures developed by IHS Global Insight. We use their latest publication, Science and Engineering Indicators 2010, as our source for internationally comparable time series data for value added, trade, productivity etc. for the above mentioned services categories from 1985 to 2007. We can examine and compare the trends in these services, especially the commercial knowledge intensive services for the three Asian economies- South Korea, Indonesia and India.

**Figure 4.1: Trends of commercial knowledge intensive services value added**

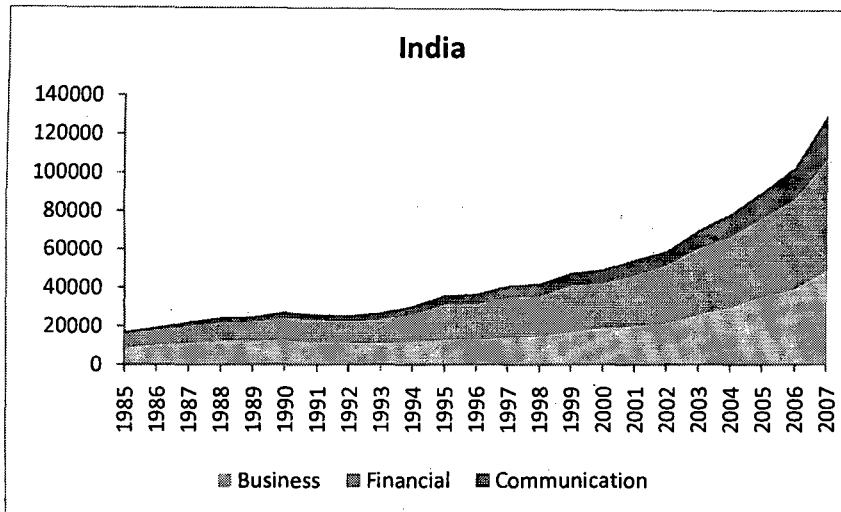


Source: *Science and Engineering Indicators 2010*

Figure 4.1 shows the trends in absolute value added of the commercial knowledge intensive services for the three countries from 1985 to 2007 in millions of current US dollars. During the 1980s when India had already started experiencing a rise in the share of services in GDP relative to that of industry, it also accounted for the highest value added in this sector among the three countries. However, South Korea overtook India in terms of total value added by the commercial KI services in 1990 itself and has remained above ever since. Around 1997, there was a fall in Korea's trend in services value added as fallout of the East Asian Crisis. None the less, it picked by the 2000s and has been rising ever since. The Indonesian trend line, though rising, has been below that of India since the beginning and the gap between the two countries widened in the late nineties during the period of the East Asian crisis. India, due to its relatively closed economic and financial regime, was insulated from the impact of the crisis as can be seen from its smoothly rising trend line.

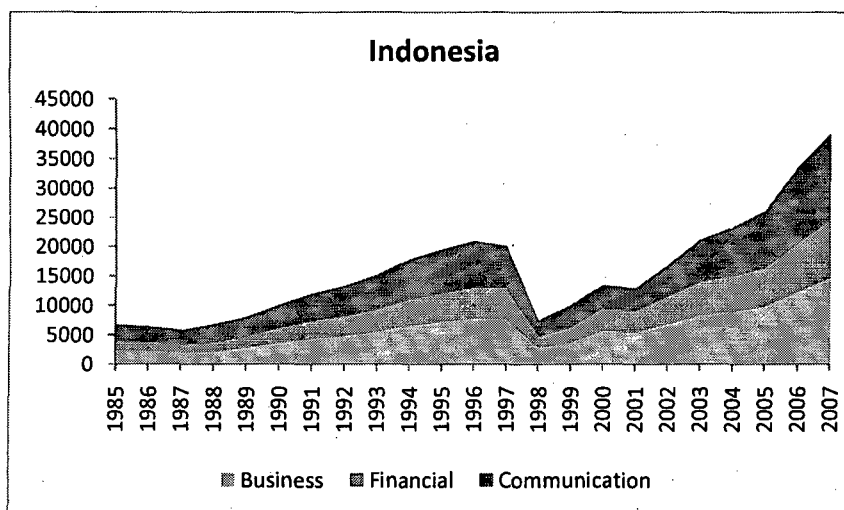
The breakup of the commercial KI services into value added in the financial, business and communication services for the three countries is depicted in the area graphs below. Communication services have had smaller shares in the case of both Korea and India while it is a major contributor for Indonesia. In the case of Korea, financial services have played a major role in its economy.

**Figure 4.2: Shares of Value Added of Commercial Knowledge Intensive Services - India**



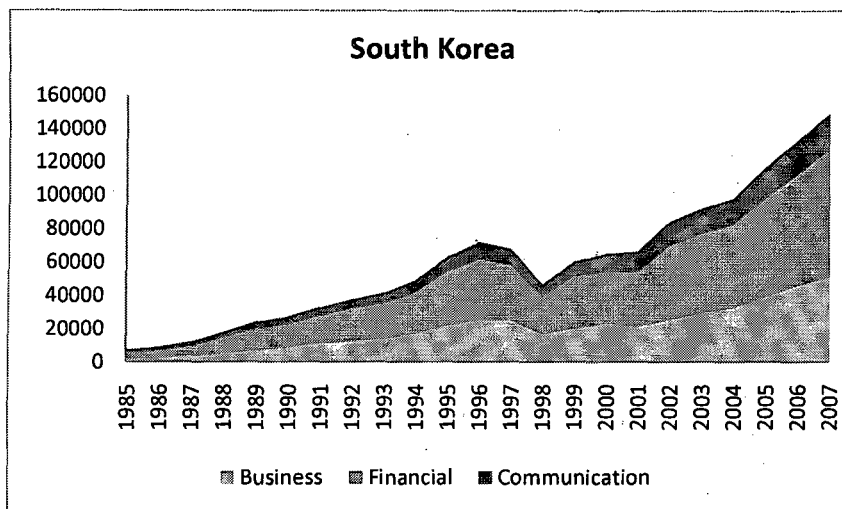
Source: Science and Engineering Indicators 2010

**Figure 4.3: Shares of Value Added of Commercial Knowledge Intensive Services - Indonesia**



Source: Science and Engineering Indicators 2010

**Figure 4.4: Shares of Value Added of Commercial Knowledge Intensive Services – South Korea**



Source: Science and Engineering Indicators 2010

The 'value added' of these commercial knowledge intensive industries for each country or region as a share of their respective GDPs is an indicator of the relative importance of these activities to the economy or region. The table below gives these shares for India, Indonesia and South Korea as well as for Asia-9. Asia-9 refers to the set of nine emerging economies of Asia - namely, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam.

In 1985, the shares of these services in all the three economies were around the same level of 8 percent and below the Asian average share. While the share of commercial KI services rose from 8 percent to 11 percent in a span of 15 years for India, it rose faster in Korea, from 8 percent to 14 percent over the same period. Indonesia's figure for share of value added had been closely following India's till around 1996 after which the share fell so that its overall increase was only from 8 to 9 percent over the fifteen years. (Table 4.1)

**Table 4.1: Commercial knowledge intensive services value added as share of GDP**

Year	Asia 9	India	Indonesia	South Korea
1985	9.2	7.7	7.9	8.0
1986	9.5	8.2	8.1	8.2
1987	9.9	8.2	7.8	8.8
1988	10.6	8.5	7.8	9.7
1989	11.8	8.6	8.0	10.5
1990	12.0	8.7	8.8	10.4
1991	12.6	9.9	9.5	10.8
1992	13.6	10.6	9.7	11.5
1993	13.6	9.9	9.7	11.5
1994	13.6	9.5	10.2	11.6
1995	13.9	10.2	9.7	12.3
1996	13.9	9.6	9.3	13.0
1997	14.6	10.1	9.4	13.2
1998	15.2	10.3	8.0	13.6
1999	14.9	10.7	7.2	13.6
2000	14.6	10.8	8.2	12.8
2001	15.2	11.5	8.2	13.8
2002	15.6	11.7	8.7	15.4
2003	15.3	11.7	9.1	15.2
2004	14.9	11.4	9.1	14.5
2005	14.7	11.3	9.1	14.8
2006	14.5	11.4	9.3	15.0
2007	13.8	11.1	9.1	14.2

*Source: Science and Engineering Indicators 2010*

On comparing the share of value added to GDP of the commercial knowledge intensive services for all the nine emerging economies of Asia, it is seen that Korea, Malaysia, Singapore and Taiwan, all have shares greater than or about the same as the average for Asia-9. India, Phillipines, Indonesia, Thailand and Vietnam fall below this average. Of these, Indonesia and Thailand had shown the shares similar to India and the Phillipines from the beginning of the period till around 1997, after which the shares of the former two countries experienced a fall. China and Hong Kong too record higher shares of commercial knowledge intensive services to GDP than India throughout.

Although there is all the hype about India being a 'knowledge economy' and a global provider of services such as these (especially in IT), she is still below the other developed countries of the region in terms of value added shares in GDP. The main reason for this is that India's presence in these sectors is more in the low-end side of these services unlike other developed economies. For example, India being one of the preferred destinations for

most of the outsourced activities, most of its expansion is in low-skill intensive segments of these KI services such as ITeS and BPOs. However, it is tougher for India to maintain the market shares in these sectors as many other similarly placed developing countries can also emerge as competitors resulting in a decline in the value added per employee. India's presence in the high end services on the other hand is smaller and needs to be strengthened if it is to reach the developed country levels of earnings from the KI services.

#### **Modern vs. Non-modern Services in India:**

We can divide the entire range of service industries into two broad groups- modern and non-modern. The modern services are essentially those services which are expected to grow at a high rate and account for an increasing share of the services value added, given the current economic scenario of neo liberal reforms, increased tradability of services due to advancement of technology, and rising demand resulting from a growing population. Modern services include the commercial and public 'knowledge intensive' services - Business services, Financial services, Communications services, Education and Health services. These services are supposed to be the back-bone of a 'knowledge economy'. The service categories, Public Administration & Defence and Transport by rail are also classified as a part of the 'modern services'. These two services are almost completely provided by the government and the demand for them is expected to increase with increasing population and increasing economic activity.

Table 4.2 shows the breakup of the various services industries into their organised and unorganised sector shares on the basis of employment as determined from the unit level data of the 61<sup>st</sup> round Employment and Unemployment Survey (EUS), 2004-05. As mentioned earlier, Public Administration and Defence as well as Transport by rail can be almost completely classified as organised as they are both provided by the government. Although the rest of the modern services are not totally organised, the table shows that they too have their respective size of the unorganised sector larger than the average 'all services' share of the organised sector. The sub sectors Communications and Business Services have been disaggregated from their respective broad groups of 'Transport, storage and communications' and 'Real estate, renting and business activities' and reported in Table 4.2 below.

**Table 4.2: Industry wise share of organised and unorganised sectors and distribution of organised and unorganised workforce across industries**

Activity Categories	Share of organised and unorganised sectors			Distribution of organised and unorganised workforce		
	Org.	Unorg.	Total	Org.	Unorg.	Total
Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles and Personal and Household Goods	4.0	96.0	100	5.8	38.4	31.6
Hotels and Restaurants	12.5	87.5	100	2.5	5.4	4.8
Transport by other means & Storage	13.1	86.9	100	6.7	11.9	10.8
<b>Transport by Rail</b>	<b>96.1</b>	<b>3.9</b>	<b>100</b>	<b>3.6</b>	<b>0.0</b>	<b>0.8</b>
<b>Communications</b>	<b>56.5</b>	<b>43.5</b>	<b>100</b>	<b>3.7</b>	<b>0.8</b>	<b>1.4</b>
<b>Financial Intermediation</b>	<b>73.7</b>	<b>26.3</b>	<b>100</b>	<b>7.4</b>	<b>2.7</b>	<b>3.7</b>
Real Estate & Renting	3.9	96.1	100	0.1	0.9	0.7
<b>Business Activities</b>	<b>35.8</b>	<b>64.2</b>	<b>100</b>	<b>4.1</b>	<b>2.0</b>	<b>2.4</b>
<b>Public Administration and Defence; Compulsory Social Security</b>	<b>97.5</b>	<b>2.5</b>	<b>100</b>	<b>28.2</b>	<b>7.7</b>	<b>12.0</b>
<b>Education</b>	<b>72.3</b>	<b>27.7</b>	<b>100</b>	<b>28.0</b>	<b>10.3</b>	<b>14.0</b>
<b>Health and Social Work</b>	<b>55.0</b>	<b>45.0</b>	<b>100</b>	<b>6.8</b>	<b>3.3</b>	<b>4.0</b>
Other Community, Social and Personal Service Activities	10.3	89.7	100	2.9	7.6	6.6
Private household with employed persons	-	100.0	100	0.0	4.2	3.3
Extra Territorial Organisations and Bodies	12.7	87.3	100	0.0	0.0	0.0
<b>All Services</b>	<b>26.6</b>	<b>73.4</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Calculated from unit level data, Employment-Unemployment Survey, NSSO 61<sup>st</sup> round, 2004-05

Non-modern services consist of the rest of the service industries. Lower level of technology intensity is involved in their production and delivery. These include services like Trade, Hotels & restaurants, Transport by other means, Real estate services etc. These services are conventionally expected to be the low productivity, low wages industries which are supposed to make up for a falling share in the total services value added. They are also expected to have larger unorganised sectors. This is validated by the data reported in the table above where all the non-modern services have more than 80 percent of their workers employed by the unorganised sector enterprises.<sup>1</sup>

<sup>1</sup> Here, by unorganized sector, we refer the NCEUS definition of the sector as used in the second chapter of this dissertation.

In countries like India, these services end up absorbing the residual labour force as they have lower levels of skill requirement. In terms of employment, the modern services employ 38 percent of the total tertiary workforce. Only Public administration & defence and Education are the labour intensive sectors employing 12 and 14 percent each of the total services workforce.

It is an established fact that the tertiary sector is the largest contributor to India's GDP. However, within this sector, we wish to determine the relative importance of the modern and non-modern services. Therefore, we further proceed to examine the modern services in terms of the value added and the share of these modern services in the country's total services value added.

For this purpose, we use the data on value added by the commercial KI services- Financial, Business, and Communication sectors as obtained from the S&E Indicators 2010 which gives the data in current values, in millions of US dollars (USD). Value added data for Education, Health, Public Administration and Defence, Transport by rail, total services GDP as well as total GDP for India were taken as reported in the National Account Statements (NAS) by the Central Statistical Organisation (CSO), MoSPI. The value added figures from this source was given in crores of Indian Rupees (INR) and was taken from the GDP at Factor Cost in current value (1999-00 series). The calendar year annual average exchange rates of INR vis-à-vis the USD were taken from the Handbook of Indian Statistics (HBIS), Reserve Bank of India (RBI). These were used to convert the value added figures from USD to INR.

Table 4.3 below shows the size of India's modern services as a percentage of the total services in terms of value added. As can be seen, in spite of consisting of some sectors which are conventionally considered to be the fastest growing segments of the services sector, they consistently account for a little less half of the total services output value. The average share of these services was 49 percent of the total services GDP over the time span 1985 to 2006 - starting from 46 percent in 1985, briefly touching 50 percent from 1999 to 2002, and down to 47 percent of the services value added in 2006.

Thus over a period of more than two decades, over 50 percent of the services GDP remains outside the modern sector. This implies that, for the Indian economy, the residual non-modern services still continue to explain a big chunk of the total value added of the tertiary sector.



**Table 4.3: Share of Modern Services in Total Services GDP- India**

Year	Modern Services	Services GDP	% of Serv. GDP
	(Current prices, INR Crore)		
1985	50427	108715	46.4
1986	58716	124010	47.3
1987	68684	142306	48.3
1988	80016	166373	48.1
1989	93960	193816	48.5
1990	109530	225773	48.5
1991	131101	264951	49.5
1992	148778	305861	48.6
1993	176808	358076	49.4
1994	200206	413363	48.4
1995	240933	494851	48.7
1996	273205	575062	47.5
1997	320880	660420	48.6
1998	382678	774349	49.4
1999	449771	887771	50.7
2000	482821	971315	49.7
2001	538285	1079577	49.9
2002	590026	1190881	49.5
2003	655487	1339916	48.9
2004	722435	1514201	47.7
2005	807200	1712796	47.1
2006	931356	1980032	47.0

Source: S&E Indicators-2010, and CSO, GoI.

Given that the tertiary sector of India has been growing rapidly, the fact that the modern services have not been able to increase their share considerably over these decades implies that modern services as a category have been growing at rates similar to (and not higher than) the rates of the group of non- modern services.

Conventionally, the non- modern services has been considered to be those that serve as a sink which absorbs the labour force while accounting for an increasingly smaller portion of the total value added. However, it is seen in the Indian scenario that in spite of having a growing modern services, the non modern services have retained their importance in the economy, not just in terms of employment but in terms of value added as well.

#### **Policy Considerations:**

On comparison, India does stand out as having tertiarised much earlier than the other two emerging Asian economies- South Korea and Indonesia; and unlike other countries, this

growth of the services sector has been achieved without having built up a strong industrial base. With the removal of trade barriers and opening up of the economy to more FDI, the number of foreign and multi-national companies setting up shop in India has increased. Many of these companies are in the services sector.

As globalisation leads to interlinking and widening of the international markets, profit seeking firms in the developed countries are forced to cut down production costs to retain their competitiveness. This leads to downsizing of operations and large scale outsourcing of activities to economies abundant in cheap labour. India, as one of the chosen destinations for these outsourced activities, has been a beneficiary of this process. All these factors make one expect the modern services to be a major contributor to the increase in GDP and a leading sector in the growth process.

However even after over a decade and half of the launch of a liberalised regime, non-modern services continued to explain over 50 percent of the services in terms of value added. Additionally, the non-modern services also provide for employment of 62 percent of the total tertiary workforce. This is an important point to be kept in mind by the Indian planners while designing their policies if India is to continue on the services led high growth trajectory.

Unjustified importance given to the constituents of the modern services group such as IT and ITeS sectors over other services can lead to skewed policy decisions. What are considered to be appropriate policy decisions for these services with regard to production, trade and labour need not be so for the other group of services. For example, the success of the IT sector which has grown largely on the basis of unregulated private initiative has led the proponents to use it as an argument against regulations. (Chandrasekhar, 2006)

However, the 62 percent of those employed by the non-modern services, a majority of whom are working for the unorganised sector, would not benefit from such a policy which could only worsen their conditions of work. Similarly, policies that might be beneficial for the big private players in the organised sector of the modern services group need not favour the smaller players in the unorganised sector of the same group or the non-modern services. This is important because even within each service sector, there is a great deal of heterogeneity in the kind of firms that constitute each sector. The structure of the domestic IT industry can again be used as an example where at the top is a small number of successful firms that are focusing on the export market for software and IT-enabled services while at the

bottom are large numbers of small assemblers who are constantly having their profit margins reduced due to the falling duties on imported systems and components.

Thus, while formulating policies adequate attention should be paid to the non- modern services which have kept up with the rest of the growing services even in times when the production of and trade in intangible commodities like information and knowledge are supposed to hold the key to economic success.

The tertiary sector is one of the most important sectors of the Indian economy. Firstly, it accounts for the largest share of the GDP among the three sectors. The share of services in GDP rose from 30.5 percent in 1950-51 to 55.2 percent in 2009-10 in terms of GDP at factor cost in current prices.

The services sector has also been an area which receives large FDI inflows. According to the Economic Survey 2010-11, the financial and non-financial services sector (a purely services category) was the largest recipient of FDI equity – a share of 21 percent of the cumulative FDI inflows from April 2000 to December 2010. In other sectors that attract FDI inflows like computer hardware and software, telecommunications etc., it is tougher to differentiate activities between goods and services.

Services play an important role as a foreign exchange earner for India. Services exports grew at the rate of 25.3 percent from 2004-05 to 2008-09 (compared to a 22.2 percent growth rate registered in manufacturing during the same period), slowed down in 2009-10 as a result of the global recession and recovered rapidly in the second half of 2010-11 with a growth rate of 27.4 percent.

Although India's output structure has undergone transformation to have a large services share and small agriculture share similar to that of developed countries, its employment structure has not undergone the same transformation. This is unlike the case of the developed countries where services account for the largest share of output as well as employment. In India, the majority of the workforce is still employed within agriculture (55.9 percent) while services accounted for only 25.4 percent in 2007-08.

In this dissertation, we studied the structure of the Indian services sector in terms of employment, value added and the structure of the enterprises constituting the sector. Although this sector is of so much prominence in the Indian context, the data on the sector is still very sparse and not systematically collected and hence needs to be collated from different inadequately comparable sources.

In the introduction, we compare India's growth trajectory with that of two other Asian economies to draw out the differences in India's pattern of growth. South Korea is a

developed Asian economy and member of the OECD which followed an export led industrialisation strategy to achieve its development goals. Indonesia on the other hand is a developing nation falling in the 'lower middle income' group as classified by the World Bank. In the case of South Korea, although the industrial sector is no longer the most prominent sector, it had played a crucial role in the 60s and the 70s. In the case of Indonesia, the secondary sector continues to be the largest contributor, though the services share is rising gradually.

In the second chapter of the dissertation, we use the unit level data of the EUS 2004-05 of the 61<sup>st</sup> round NSS to divide the workforce into those employed by the organised and unorganised sector enterprises. The unorganised or informal sector is defined as consisting of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis with less than ten total workers. (NCEUS Task Force, November 2008)

On applying the definition, a majority of the services workforce, that is 73 percent, was found to be working for the unorganised services sector. Besides employing such a large share of the workforce, the unorganised sector also contributes up to 45 percent of the total services output of the economy in 2004-05 as estimated by the Sub-committee of the NCEUS Task Force (2008). Thus, the unorganised sector is not just important contributor in terms of employment but also in terms of value added. Therefore the structure and character of the service sector employment in general and the unorganised services sector in particular is of interest to us. Besides this, segregating the workforce into the organised and unorganised sectors enables us to compare and examine the differences in the conditions of work and kind of employment provided by the two sectors. This can help in making policy decisions regarding the two sectors.

'Wholesale and retail trade; Repair of motor vehicles, motorcycles & personal and household goods' was the largest employer of the unorganised workforce. The categories Public administration & defence and Education were the largest organised sector employers. On analysing the sectoral workforce by the categories of rural male, rural female, urban male and urban female, it is observed that in general, the rural areas tend to have larger share of unorganised sector employment. Education was an exception in this case. Those categories where larger shares of women were employed, it was the unorganised sector that absorbed most of the female workers. The category, 'Private household with employed persons' was

considered to fall wholly within the unorganised sector and 33 percent of the urban females were employed under this category.

The data does not support the claim that India has a large educated tertiary sector workforce. Only 21 percent of the total services workforce falls in the group holding the qualification of 'diploma/certificate course, graduate and above'. As expected, the organised sector has a more educated workforce than the unorganised. While 22 percent of the unorganised workforce was recorded as illiterate, 5 percent of the organised workforce reported themselves as illiterate.

The small share of skilled and educated workers is concentrated in a few modern services industries like Financial intermediation, Business activities, Health & social work, Education and Communications which account for only a small share of total employment. Thus, the unorganised sector gets the less skilled residual labour force.

In terms of quality of work, workers in the unorganised services sector are worse off than those in the organised sector. A majority of the workers of the unorganised sector are self employed. In the Indian context, self-employment is more distress driven than the outcome of a demand led expansion of productive income opportunities. Nearly 49 percent of workers who are employed in the rural areas and 39 percent of self-employed workers of the urban sectors do not find their earnings remunerative enough. Even among those who are working for regular wages/salaries in the unorganised sector very few enjoy any benefits such as eligibility for paid leave, eligibility for social security benefits or working under a formal job contract.

Over 92 percent of the organised service sector workforce worked in regular wage/salaried jobs. Although associated with greater job security and benefits, 21 percent of the workers who were wage employed were not eligible for paid leave, 29 percent were ineligible for any social security benefit and 35 percent were working without a formal job contract. This suggests that even within the organised sector, there exist a number of workers who actually work under unorganised or informal conditions of work.

It is also observed that women are worse off than men when it comes to quality and conditions of work. In the organised sector, larger shares of women employees were not eligible for paid leave and/or social security benefits and did not work under a formal job contract. In the unorganised sector, men held the more lucrative positions as

owners/managing partners of OAEs and establishments while most of the women were employed as hired workers or unpaid workers.

It is seen that in the rural areas, agriculture acts as the sink that absorbs the residual labour force whereas in the urban areas, it is the low productivity tertiary services industries that play the crucial role of absorbing the reserve army of labour. The poorer deciles of the population account for a larger share of the unorganised workforce whereas the richer deciles account for a larger share of the organised workforce. This trend is especially evident in the urban sector.

In order to examine the characteristics of the enterprises that constitute the unorganised services sector, we use the data from the service sector enterprise survey of the 63<sup>rd</sup> Round of the NSS. In this survey, the unorganised services sector is defined such that it excludes all government or public sector enterprises as well as those service sector units which are registered under the Factories Act, 1948 and appear in the latest ASI frame of 2004-05.

The structure of the unorganised services sector is heavily biased in favour of small and primitive organisational units, that is OAEs for almost all activity categories and this tendency is stronger in the rural areas than in the urban areas. Similarly if, in terms of location of enterprises, a modern unit is characterised as one that has a permanent structure outside household premises to carry out its operations, only around half of the urban units and a quarter of the rural units would qualify as one. Instances of registration under any act or agency, which can be considered as another characteristic of a modern unit, are lesser among smaller units as compared to establishments. Similarly the rural sector has greater prevalence of unregistered enterprises.

Nearly 58 percent of the rural and 56 percent of the urban unorganised service sector enterprises report some problem or the other. The two main problems faced are shortage of capital and competition from larger units. Nearly 84 percent of all rural and 89 percent of the urban unorganised enterprises operate without receiving any assistance of any kind. It is seen that smaller share of enterprises receive assistance in the form of loans than those who report shortage of capital as a problem, showing that a demand supply gap exists. Smaller units are associated with lesser access to financial resources in general. Problems like these represent potential for formation of inter-linkages between the unorganised enterprises and the formal economy.

On examination of the structure of employment provided by the unorganised services enterprises, it is seen that the more remunerative jobs were held by the men. Thus, there were larger shares of male working owners and hired workers than females, whereas female workers accounted for a larger share than men only in the category of 'other/unpaid worker'.

A closer look at the transport sector that accounts for the largest share of total enterprises shows evidence of dualism within the sector as traditional modes of non-motorised transport such as animal drawn vehicles and cycle-rickshaws exist in large shares in tandem with modern motorised modes. This is true not just in the rural areas but also in the urban areas where the traditional modes are mostly jobs taken up as refuge.

The unorganised sector as defined by the service sector survey covers a wide range of enterprises in terms of operational and economic characteristics. Therefore it also includes cases of a few large private enterprises that report large gross value added figures, which push up the gross value added per enterprise and gross value added per worker figures to high values. However, this camouflages the dualism within this sector which consists of a large number of small backward units which do not have adequate access to resources or have a proper permanent structure for carrying out their operations etc. as well as a smaller number of larger units which report high values of output and more modern system of operation and organisation.

In the fourth chapter, we have a further look at the structure of the Indian tertiary sector in order to assess which services have been leading the growth process. We do this by dividing the services sector into 'modern' and 'non-modern' services. Business services, Financial services, Communication services, Education, Health, Public administration & defence and Transport by rail are the modern services. Given the increasing importance of intangibles like information and knowledge and the rising share of services in international trade, these knowledge intensive services which involve use of high technology in their production and delivery are expected to rise in prominence. On breaking up the workforce of each of these services into those in the organised and unorganised sectors, all of them are found to have larger shares of organised than the average 'all services' share. Conventionally, these services are expected to be the leading sectors.

The residual non-modern services are generally associated with lower levels of productivity and hence expected to act as the provider of employment to the reserve army of labour. It is seen that in the case of the Indian tertiary sector, the group of residual non-modern services



not only provide employment to 62 percent of the total workforce, but they have also retained their position as a contributor to the economy in terms of value added. This implies that the non-modern services have managed to keep pace with the modern services and both have contributed to the increase of services share in national output.

The growth of the tertiary sector in the Indian economy has been termed as 'jobless' in nature. This is because while accounting for the largest share in GDP, the services sector has failed to absorb a proportional share of labour from the primary sector. Of the 25 percent of the total workforce employed in services, a majority work for the unorganised sector. The importance of self-employment of an informal nature shows that the current macro policies seem to favour more capital intensive sectors which bring about growth in output without providing decent work.

Policies need to be formulated to push for a large scale expansion of jobs in the organised sector so that more and more workers from the unorganised sector can be absorbed into the organised sector. Simultaneously, steps should also be taken to ensure better conditions of work for those who are currently in the unorganised sector by providing basic social safety nets and job security.

Policies should be implemented to improve the quality of the labour force of India. Education and Health are two important policy areas in this regard. The size of the educated workforce being so small, improving the status of education among the workforce and children is a major area of concern. Health care benefits and specifically maternity health care provisions in the case of women are a crucial part of providing 'decent work' for women. A minimum level of social security should be an entitlement to all the workers backed by the law. This is especially important to those who are in the unorganised sector and are hence the most vulnerable.

In both organised and unorganised sectors, the women seem to be worse off than their male counterparts. Specially targeted policies should be implemented to improve the quality of work for women to encourage as well enable them to find remunerative jobs.

It should be kept in mind that the service sector as a whole covers a wide range of enterprises. Therefore, policies that favour the big private players may be inimical to the growth and development of the small scale enterprises of the unorganised sector.

The fact that non-modern services are also a major contributor to services value added should be kept in mind so that policy decisions are not skewed in favour of the modern services alone. The fact that most of the modern services have developed on the basis of unregulated markets and private enterprise does not mean that it is the right policy environment for the economy as a whole. The large share of unorganised workforce belonging to the non-modern services would be made worse off from such a move. Moreover, while the expansion of the modern services would provide employment to the educated sections, expansion of the non-modern services is necessary to provide decent work opportunities for those who are less educated, till such time as overall educational levels are raised. This should be combined with policy measures to ensure job security and quality.

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