



“शिक्षा मानव को बन्धनों से मुक्त करती है और आज के युग में तो यह लोकतन्त्र की भावना का आधार भी है। जन्म तथा अन्य कारणों से उत्पन्न जाति एवं वर्गगत विषमताओं को दूर करते हुए मनुष्य को इन सबसे ऊपर उठाती है।”

— इन्दिरा गाँधी



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“Education is a liberating force, and in our age it is also a democratising force, cutting across the barriers of caste and class, smoothing out inequalities imposed by birth and other circumstances.”

— Indira Gandhi

Block

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BLOCK 5 ROLE OF PUBLIC, PRIVATE AND SERVICE SECTORS IN DEVELOPMENT

The role of public, private and service sectors in development is more felt and experienced than read in books and materials as course material. In India, public-sector undertaking (PSU) is a term used for a **government-owned corporation** (company in the public sector). The term is used to refer to companies in which the government (either the Union Government or state or territorial governments, or both) owned a majority (51 percent or more) of the company equity consisting of defense, police, taxation, railways, roads and bridges, postal services. The private sectors contribution is more felt in the realm of service sectors. These include couriers, hotels, taxi, air transport, banking, education, tourism and communications like the telecom services.

Unit 1, **Role of Public Sector in Development**, focuses on various issues relating to contribution of various public sector organizations in development. The spectrum of public sector covers a wide range of industries and products such as steel, coal, copper, zinc, drugs fertilizer, consumer goods like textiles, hotel services etc. The role of Public Sector is seen in big ventures like the railways, and air transport services, but now private sectors have also entered into the fields of public sectors.

Unit 2, **Role of Private/Corporate Sector in Development**, describes the roles of various private sectors in promoting economic growth and reducing poverty in developing countries by building private enterprises, membership organizations representing them, and competitive markets that are stronger and more inclusive. The last 15 years witnessed a phenomenal rise of the growth of private sector in India.

Unit 3, **Role of Service Sector**, the basic characteristic of this sector is the production of services instead of end products. Services (also known as “intangible goods”) include attention, advice, experience, and discussion. The service sector includes retails, banks, hotels, real estate, education, health, social work, transport, computer services, recreation, media, communications, electricity, gas and water supply.

Unit 4, **Role of Unorganized Sector in Development**, this sector is a huge sector in the developing countries and in India more than 90 per cent of the workforce is employed in the unorganized sector. The person employed in the unorganized sector is devoid of the service security and social security. The quality of living of the people working in the unorganized sector is poor as compared to those who are working in the organized public and private sector. Therefore any discussion on the role of various sectors in the economy cannot marginalize the role of unorganized sector to economic development particularly in India. This unit deals in detail the role and challenges of unorganized sector in India.

UNIT 1 ROLE OF PUBLIC SECTOR IN DEVELOPMENT

Structure

- 1.1 Introduction
- 1.2 Public Sector: Concept and Significance
- 1.3 Need of the Public Sector
- 1.4 Contribution of Public Sector to Development
- 1.5 Problems of Public Sector
- 1.6 Measures to Improve Performance of the Public Sector
- 1.7 Decline of State Role and Emergence of Free Market
- 1.8 Let Us Sum Up
- 1.9 References and Selected Readings
- 1.10 Check Your Progress – Possible Answers

1.1 INTRODUCTION

The public sector is that sector which is controlled by national, state or provincial, and local governments. In the United States, the public sector encompasses universal, critical services such as national defense, homeland security, police protection, fire fighting, urban planning, corrections, taxation, and various social programs. In India, it consists of defense, police, taxation, railways, roads and bridges, postal services. The Industrial policy resolution- 1956 classified industries into three categories. The first category comprises of industries included in schedule of the resolution and to remain exclusively under the domain of the government. These included *inter alia*, railways, air transport, arms and ammunition, iron and steel and atomic energy. The spectrum of public sector covers a wide range of industries and products such as steel, coal, copper, zinc, drugs fertilizer, consumer goods like food production, packaged goods, clothing, automobiles and electronics.

After studying this unit you should be able to:

- explain the concept, need and significance of public sector
- examine the role of Public Sector
- discuss the contribution of Public sector to development
- list out the problems of public sector in India
- describe the measures to improve the performance of the public sector
- discuss the decline in the role of the state and emergence of free market

1.2 PUBLIC SECTOR: CONCEPT AND SIGNIFICANCE

1.2.1 Meaning of Public Sector

The Public Sector is referred to as the state sector. It is a part of the state that deals with either production, delivery and allocation of goods and services by

and for the government (or for its citizens), whether national, regional or local/municipal. Examples of public sector activities ranges from delivering social security, administering urban planning and organizing national defenses, etc.. The part of the economy concerned with providing basic government services. The composition of the public sector varies by country, but in most countries the public sector includes such services as the police, military, public roads, public transit, primary education and healthcare for the poor. The public sector might provide services that non-payer cannot be excluded from (such as street lighting), services which benefit all of society rather than just the individual who uses the service (such as public education), and services that encourage equal opportunity.

In 1991, when the government decided to shift to a liberalized economy with greater reliance upon market forces, a larger role for the private sector was envisaged. Since then the policy thrust has been on reforms such as reduction in the scope of industrial licensing, reforms in the Monopolies and Restrictive Trade Practices (MRTP) Act, reduction of areas reserved exclusively for public sector, disinvestment of equity of selected public sector enterprises (PSEs).

Central Public Sector Enterprises (CPSEs) were classified into two categories - strategic and non-strategic. Strategic CPSEs were identified in the areas of:

- Arms & Ammunition and the allied items of defense equipments, defense air-crafts and warships
- Atomic Energy (except in the areas related to the operation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries).
- Railway transport

All other public sector enterprises were considered as non-strategic. Industrial licensing by the Central Government has been almost abolished except for a few hazardous and environmentally sensitive industries.

The industries reserved for the public sector and where private companies cannot enter are:

- Atomic energy.
- The substances specified in the scheduled to the notification of the Government of India in the Department of Atomic Energy number S.O.212(E), dated the 15th March, 1995.
- Railway transport.

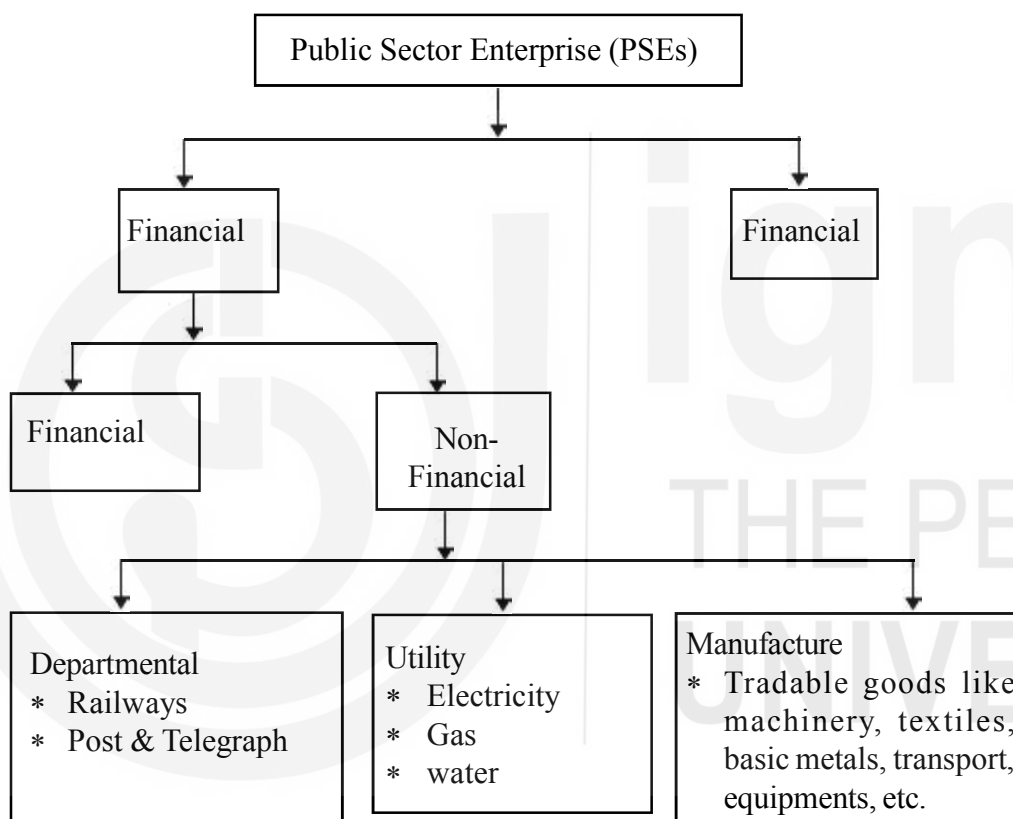
In India, public-sector undertaking (PSU) is a term used for a **government-owned corporation** (company in the public sector). The term is used to refer to companies in which the government (either the Union Government or state or territorial governments, or both) owned a majority (51 percent or more) of the company equity. GOCs can be fully owned or partially owned by Government. As a definitional issue, it is difficult to determine categorically what level of state ownership would qualify an entity to be considered as “state-owned”, since governments can also own regular stock, without implying any special interference. They are mainly in the sectors of defense and power. These include inter alia:

- Balmer Lawrie

- Mazagon Dock Limited
- National Thermal Power Corporation
- Hindustan Aeronautics Limited
- Bharat Electronics Limited
- Hindustan Machine Tools and many other like:

SAIL, BHEL, LIC, ONGC, SBI, UTI, Oil India, GIC, Shipping Corp. DTC, FCI, Fertilizer Corp, Coal India Ltd, Cotton Corp. Cement Corp, BSNL, Airport Authority, Heavy Engg. Corp. NALCO, HPCL, Hindustan Paper, Hindustan Copper, National Jute Corp, Hindustan Cables, IREDA, NIC, National Seed Corp. The grouping of Public Sector enterprises is given in the following chart below.

Public Sector Enterprises in India



Source: J. Flexi Raj, *Indian Economy, Economic Ideas, Development and Financial Reforms*, Deep and Deep Publications, New Delhi-2008.

1.3 NEED OF THE PUBLIC SECTOR

The scope of the public sector and state sector are often the biggest distinction regarding the economic positions of socialist, liberal and libertarian political philosophy. In general, socialists favor a large state sector consisting of state projects and enterprises, at least in the *commanding heights* or fundamental sectors of the economy. Social democrats tend to favor a medium-sized public sector that is limited to the provision of universal programs and public services. Economic libertarians and monarchists favor a small public sector with the state being relegated to protecting property rights, creating and enforcing laws and settling disputes, a “night watchman state”.

Public sector has played an important role in the industrial development of India. Before independence there were a few public sector enterprises in India such as Railways, the Posts and Telegraphs, the Port Trusts, the Ordinance Factories, and All India Radio etc. In the early years of independence, capital was scarce and the entrepreneurial resource was not strong enough. Therefore, the 1956 Industrial Policy Resolution gave primacy to the role of the State which was directly responsible for industrial development. The public sector provided the required thrust to the economy and developed and nurtured the human resources. During this era public sector enterprises came to be known as the commanding heights of the Indian economy. According to Prof. Tendulkar, the distinct reference for the public sector in this strategy can be traced to the following reasons.

First, the concentration of economic power that would result from the uncontrolled operation of the market forces can be reduced through the extension in the public ownership of means of production.

Secondly, private investors may demand a higher risk premium for investment in certain industries than would be socially justified. Offshore drilling of oil is one example in this connection.

Thirdly, the scale of investment efforts in certain heavy industries may be beyond the capital-raising capacity of the private sector e.g., steel mills, heavy electrical machinery.

Fourthly, the public sector, through the appropriate price policy for its output will generate investible surpluses for further investment in the economy.

Fifthly, by production as well as distribution of certain universal intermediate inputs like coal, steel, electricity, etc., the State will be able to control the composition of private economic activity in a socially desirable direction.

Finally, the public sector would assume the role of a model employer and its employment and wage policies would have a moderating influence on the corresponding policies in the private sector.

Analyzing these reasons, one finds that public sector was expected to fulfill varied and sometimes conflicting objectives. The generation of investible surplus was bound to conflict with subsidies involved in keeping the prices of certain universal intermediates at low levels as well as the public sector's role as model employer.

1.4 CONTRIBUTION OF PUBLIC SECTOR TO DEVELOPMENT

The public sector has been playing a vital role in the economic development of the country. In fact the public sector has come to occupy such an important place in our economy that on its effective performance depends largely on the achievement of the country's economic and social goals. Public sector is considered a powerful engine of economic development and an important instrument of self-reliance. The main contributions of public enterprises to the country's economy maybe described as follows:

i) Strong Industrial Base

Public sector has significantly contributed to the GDP at factor cost. The share of industrial sector (comprising of manufacturing, construction, electricity, gas, water supply has steadily increased during the planning decades. The government has strengthened the industrial base considerably by placing due emphasis on setting up of industries like iron and steel, heavy engineering, coal, heavy electrical machinery, petroleum, chemical, natural gas, chemicals, drugs fertilizers etc. Because of low profitability potential, these industries do not find favour with private entrepreneurs in India. The total investment by public sector has increased from 29 crores to 1171844 crores after independence as illustrated in the table-1.

Table 1 Investment in PSUs

Year	No of Units	Total Investment(Rs Crores)
1951	5	29
1961	47	950
1980	179	18,150
1990	244	99,330
2001	242	274,198
2004	242	349,209
2015-2016	244	1171844

Source: Government of India, Public Enterprise Survey, 2015-16

Table 2: No. of Operating Public Sector Enterprises

Year	No. of Operating Enterprises
2004-05	227
2005-06	226
2006-07	217
2007-08	214
2008-09	213
2009-10	217
2010-11	220
2011-12	225
2012-13	230
2013-14	234
2015-2016	244

Source: Public Enterprises Survey 2015-16, Vol. 1

ii) Capital Formation

The public sector fosters a powerful process of capital formation. It can collect the savings and make them investment in the productive channels. It

is evident from Indian case. During two decades of our planning about 54% of total investment of India was done by the public sector. Rest was done by the private sector. Of course now the share of investment of public sector is falling after liberalization. It has become now about 30% in the ninth plan. The nationalized bank, SBI, IDBI, Industrial finance corporation, State Finance Corporation, LIC, UTI, etc have played an important role in collecting savings and mobilization of resources. Yet the share of public sector in gross domestic capital formation (GDCF) has remained very significant.

iii) Development of Infrastructure

The infrastructure is the backbone of an economy. The public sector plays the vital role in the process of infrastructural development. The public authority adopts the strategy to make sufficient expansion of irrigation facilities and power and energy, without which agricultural development is not possible. Without road, railways, and electricity no industrial development can be thought of. Public sector has developed the road, rail, air and sea transport system. The expansion has become manifold only due to the public sector. The public sector does not contribute much to the infrastructural development of the country.

iv) Fillings of Gaps

At the time of independence, there existed serious gaps in the industrial structure of the country, particularly in the fields of heavy industries such as steel heavy, machine tools, exploration and refining of oil, heavy Electrical and equipment, chemicals and fertilizers, defense equipment, etc. Public sector has helped to fill up these gaps. The basic infrastructure required for rapid industrialization has been built up, through the production of strategic capital goods. The public sector has considerably widened the industrial base of the country. The table-3 below shows the performance of central public sector enterprises in India

Table 3: Performance of Central Public sector Enterprises

	1999	2005	2008	2015-16
Running enterprises	232	226	214	244
Capital employed	302,947	585,484	763,127	1938795
Turnover	389,199	837,295	1081,925	1854667

Source: Misra and Puri (2009) *Indian Economy*, Himalaya Pub. Mumbai and Public Enterprises Survey 2015-16, Vol. 1

v) Employment

As on 31.3.2016, the 320 CPSEs employed over 12.34 lakh people (excluding contract workers). Around 30% of the manpower of CPSEs belongs to managerial and supervisory cadres. Total number of employees in CPSEs is declining every year since 2006-07 except during 2011-12, on other hand per capita emoluments has been increasing. The per capita emolument was 3,25,869 per annum in 2006-07 and has increased to 10,39,732 per annum in year 2015-16. The details of employment in CPSEs and per capita emoluments are shown in Table 4.

Table 4: Public and Private Sector Employment (in Lakhs) in India

Year	Employees (in lakh) (Excluding contract workers)	Total Emoluments (Rs. in crore)	Percapita Emoluments
2006-2007	16.14	52586	325869
2007-2008	15.65	64306	410898
2008-2009	15.33	83045	541716
2009-2010	14.90	87792	589210
2010-2011	14.40	98402	683347
2011-2012	14.50	105648	728606
2012-2013	14.02	116363	830263
2013-2014	13.49	122322	906665
2014-2015	12.91	127387	986598
2015-2016	12.34	128263	1039732

Source: *Public Enterprises Survey 2015-16, Vol. 1*

vi) Balanced Regional Development

Public sector undertakings have located their plants in backward and untrodden parts of the country. These areas lacked basic industrial and civic facilities like electricity, water supply, township and manpower. Public enterprises have developed these facilities thereby bringing about complete transformation in the socioeconomic life of the people in these regions. Steel plants of Bhilai, Rourkela and Durgapur; fertilizer factory at Sindri, Machine Tool plants in Rajasthan, Precision Instruments plants in Kerala and Rajasthan, etc. are a few examples of the development of backward regions by the public sector.

vii) Contribution to Public Exchequer

In recent years, the public sector has made increasing contributions to the public sector in the form of dividend, corporate taxes, excise and customs duty, etc. Due to increase in contribution of all the components to Central Exchequer, the total contribution of CPSEs to the Central Exchequer during the year 2015-16, has increased from 2,00,593 crore in 2014-15 to 2,78,075 crore in 2015-16 showing an increase of 38.63%.

Table 5: Contributions of Public Enterprises to Central Exchequer

Plan	Total Contribution	Average
Sixth Plan(1980-85)	27,570	5510
Seventh(1985-90)	69,410	13,880
Eighth Plan(1992-97)	133,780	26,760
Ninth Plan(1997-2002)	269,110	53,822
2002-2004	170,891	85,445
Twelve Plan (2012-2017)	278075	

Source: *Government of India, Public Enterprise Survey, 2003-04*

viii) Foreign Exchange Earnings

Public sector has contributed a great deal in improving the balance of payments position of the country. The public enterprises have saved valuable foreign exchange through import substitution. Hindustan Steel Ltd., the Bharat Electronics Ltd., the Hindustan Machine Tools, etc are exporting a large percentage of their output and earning foreign exchange.

ix) Development of Ancillary industries

In order to encourage the development of small scale and medium-sized industries in the country, the Government of India has launched a national programme. Public sector has contributed to this programme by fostering the growth of ancillary industries and satellite plants. Such plants have been established around the major public sector undertakings. There is a strong base of ancillary industries at several centers such as the Bokaro Industrial Complex, the Bhilai Steel Plant, The Rourkela Steel Complex, the Heavy Engineering Corporation at Ranchi, Hindustan Machine Tools at Bangalore, and the units of Bharat Heavy Electrical at Bhopal, Hyderabad and Hardwar.

x) Research and Development

As most of the public enterprises are engaged in high technology and heavy industries, they have undertaken research and development programmes in a big way. Public sector has laid strong and wide base for self-reliance in the field of technical know-how, maintenance and repair of sophisticated industrial plants, machinery and equipment in the country. Through the development of technological skill, public enterprises have reduced dependence on foreign knowhow. With the help of the technological capability, public sector undertakings have successfully competed in the international market and they have secured turnkey projects in several countries of the world.

xi) Community Development

Several public sector undertakings have developed townships to provide all the civic amenities to their employees. These townships consist of houses, etc. Public enterprises have constructed roads and other infrastructural facility to link these townships to other parts of the country. Such townships have been very helpful in improving community life.

xii) Social Justice

Public enterprises have contributed towards the achievement of constitutional objectives. They have been helpful in reducing the concentration of economic power in private hands, in curbing anti-social monopolies, in accelerating public control over the national economy and in bringing about a socialistic pattern of society. Public sector helps in ensuring inclusive process of development.

In addition to the foregoing, the public sector has played an important role in the achievement of constitutional goals like reducing concentration of economic power in private hands, increasing public control over the national economy, creating a socialistic pattern of society, etc. With all its linkages the public sector has made solid contributions to national self-reliance.

Note: a) Write your answer in about 50 words.

b) Check your progress with possible answers given at the end of the unit.

1) D

1) Define public sector and examine its features.

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2) Give the list of industries reserved for the public sector in India.

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3) How does public sector contribute to Central Exchequer?

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4) Explain how investment under public sector has expanded.

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1.5 PROBLEMS OF PUBLIC SECTOR

Despite their impressive role, Public enterprises in India suffer from several problems and shortcomings. Some of these are described below:

i) **Poor Project Planning:** Investment decisions in many public enterprises not based upon proper evaluation of demand and supply, cost benefit analysis

and technical feasibility. Lack of a precise criterion and flaws in planning have caused undue delays and inflated costs in the commissioning of projects. Sometimes, projects are launched without clear-cut objectives and serious thought. Many projects in the public sector have not been finished according to the time schedule. Barauni Refinery was commissioned two years behind schedule and the Tromby fertilizer plant was delayed by three years thereby causing an increase of Rs. 13 crores in the original cost estimates.

- ii) **Over-capitalization:** Due to inefficient financial planning, lack of effective financial control and easy availability of money from the government, several public enterprises suffer from over-capitalization. The Administrative Reforms Commission found that Hindustan Aeronautics, Heavy Engineering Corporation and Indian Drugs and Pharmaceuticals Ltd. Were over-capitalized. Such over-capitalization resulted in high capital-output ratio and a wastage of scarce capital resources.
- iii) **Excessive Overheads:** Public enterprises incur heavy expenditure on social overheads like townships, schools, hospitals, etc. In many cases such establishment expenditure amounted to 10 percent of the total project cost. Recurring expenditure is required for the maintenance of such overhead and welfare facilities. Hindustan Steel alone incurred an outlay of Rs. 78.2 crore on townships. Such amenities may be desirable but the expenditure on them should not be unreasonably high.
- iv) **Overstaffing:** Manpower planning is not effective due to which several public enterprises like Bhilai Steel have excess manpower. Recruitment is not based on sound labour projections. On the other hand, posts of Chief Executives remain unfilled for years despite the availability of required personnel. As many as 26 public sector units were top[less on January 1, 1987.
- v) **Under-utilization of Capacity:** One serious problem of the public sector has been low utilization of installed capacity. In the absence of definite targets of production, effective production planning and control, proper assessment of future needs, adequate supply of power and industrial peace, many industrial peace, many undertakings have failed to make full use of their fixed assets. Under utilization of Installed capacity is another reason for low level of profitability in public sector enterprises. The average capacity utilization in more than 50 per cent of the public enterprises has been less than 75 per cent.

Capacity Utilization

Capacity utilization in these reports has been measured based on the installed/rated capacity. Wherever installed/rated capacity is not available for various reasons, the assessment of the management vis-à-vis capacity utilization in the enterprises has been accepted. In the case of multiple product units, capacity utilization has been worked out with reference to major products. The detailed enterprises-wise statement, indicating the unit-wise capacity utilization for major products during the last three years is given in the section. The table above discusses enterprise-wise rated capacity and extent of utilization of some of the CPSEs under the various cognate groups.

- vi) Lack of a Proper Price Policy:** There is no clear cut price policy for public enterprises and the Government has not laid down guidelines for the rate of return to be earned by different undertakings. Public enterprises are expected to achieve various socioeconomic objectives and in the absence of a clear directive, pricing decisions are not always based on rational analysis. In addition to dogmatic price policy, there is lack of cost-consciousness, quality consciousness, and effective control on waste and efficiency.
- vii) Inefficient Management:** The management of public enterprises in our country leaves much to be desired. Managerial efficiency and effectiveness have been low due to inept management, uninspiring leadership, too much centralization, frequent transfers and lack of personal stake. Civil servants who are deputed to manage the enterprises often lack proper training and use bureaucratic practices. Political interference in day-to-day affairs, rigid bureaucratic control and ineffective delegation of authority hamper initiative, flexibility and quick decisions. Motivations and morale of both executives and workers are low due to the lack of appropriate incentives.
- viii) Unsatisfactory industrial Relations:** In several public enterprises relations between management and labour are far from cordial. There has been serious and frequent labour trouble in Durgapur Steel Plant, Bharat Heavy Electricals, Bhopal, and in Bangalore-based undertakings. Millions of mandays and output worth crores of rupees have been lost due to strikes and gheraos. Wage disparities have been the main cause of labour trouble in the public sector. The percentage increase in the per cent emoluments of public sector employees had been higher than the percentage increase in consumer price index.
- ix) Lack of Coordination:** Various public enterprises are dependent on one another as the output of one enterprise is the input of another. For instance, the efficient functioning of power and steel plants depends on the production and transportation of coal which in turn is dependent upon supplies of heavy equipment machinery. Despite such interdependence, materials management and research has not been achieved. Coordination in the production programmes of different enterprises at various stages would help to reduce excess stocks and shortages of vital inputs.

To sum up, the public sector of India encounters the following problems:

- 1) Inefficient Management
- 2) Faulty Controls
- 3) Excess Manpower
- 4) Capacity underutilization
- 5) Over capitalization
- 6) Price Policy
- 7) Delay in Project completion
- 8) Mounting Losses
- 9) Political Factors

1.6 MEASURES TO IMPROVE PERFORMANCE OF THE PUBIC SECTOR

1.6.1 Public Sector Policy

The measures to strengthen public sector was spell out in industrial policy resolution, 1991. The industrial policy, 1991 which envisages steps for strengthening public sector in India is narrated below.

The public sector has been central to our philosophy of development. In the pursuit of our development objectives, public ownership and control in critical sector of the economy has played an important role in preventing the concentration of economic power, reducing regional disparities and ensuring that planned development serves the common good.

The Industrial Policy Resolution of 1956 gave the public sector a strategic role in the economy. Massive investments have been made over the past four decades to build a public sector which has a commanding role in the economy. Today key sectors of the economy are dominated by mature public enterprises that have successfully expanded production, opened up new areas of technology and built up a reserve of technical competence in a number of areas.

After the initial exuberance of the public sector entering new areas of industrial and technical competence, a number of problems have begun to manifest themselves in many of the public enterprises. Serious problems are observed in the insufficient growth in productivity, poor project management, over-manning, lack of continuous technological up gradation, and inadequate attention to R&D and human resource development. In addition, public enterprises have shown a very low rate of return on the capital invested. This has inhibited their ability to re-generate themselves in terms of new investments as well as in technology development. The result is that many of the public enterprises have become a burden rather than being an asset to the Government. The original concept of the public sector has also undergone considerable dilution. The most striking example is the takeover of sick units from the private sector. This category of public sector units accounts for almost one third of the total losses of central public enterprises. Another category of public enterprises, which does not fit into the original idea of the public sector being at the commanding heights of the economy, is the plethora of public enterprises which are in the consumer goods and services sectors.

It is time therefore that the Government adopt a new approach to public enterprises. There must be a greater commitment to the support of public enterprises which are essential for the operation of the industrial economy. Measures must be taken to make these enterprises more growth oriented and technically dynamic. Units which may be faltering at present but are potentially viable must be restructured and given a new lease of life. The priority areas for growth of public enterprises in the future will be the following.

- Essential infrastructure goods and services.
- Exploration and exploitation of oil and mineral resources.
- Technology development and building of manufacturing capabilities in areas

which are crucial in the long term development of the economy and where private sector investment is inadequate.

- Manufacture of products where strategic considerations predominate such as defense equipment.

At the same time the public sector will not be barred from entering areas not specifically reserved for it.

In view of these considerations, Government will review the existing portfolio of public investments with greater realism. This review will be in respect of industries based on low technology, small scale and non-strategic areas, inefficient and unproductive areas, areas with low or nil social considerations or public purpose, and areas where the private sector has developed sufficient expertise and resources.

Government will strengthen those public enterprises which fall in the reserved areas of operation or are in high priority areas or are generating good or reasonable profits. Such enterprises will be provided a much greater degree of management autonomy through the system of memoranda of understanding. Competition will also be induced in these areas by inviting private sector participation. In the case of selected enterprises, part of Government holdings in the equity share capital of these enterprises will be disinvested in order to provide further market discipline to the performance of public enterprises. There are a large number of chronically sick public enterprises incurring heavy losses, operating in a competitive market and serve little or no public purpose. These need to be attended to. The country must be proud of the public sector that it owns and it must operate in the public interest.

1.6.2 Steps to Strengthen Public Sector

- i) Portfolio of public sector investments will be reviewed with a view to focus the public sector on strategic, high-tech and essential infrastructure. Whereas some reservation for the public sector is being retained there would be no bar for areas of exclusivity to be opened up to the private sector selectively. Similarly the public sector will also be allowed entry in areas not reserved for it.
- ii) Public enterprises which are chronically sick and which are unlikely to be turned around will, for the formulation of revival/rehabilitation schemes, be referred to the Board for Industrial and Financial Reconstruction (BIFR), or other similar high level institutions created for the purpose. A social security mechanism will be created to protect the interests of workers likely to be affected by such rehabilitation packages.
- iii) In order to raise resources and encourage wider public participation, a part of the government's shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers.
- iv) Boards of public sector companies would be made more professional and given greater powers.
- v) There will be a greater thrust on performance improvement through the Memoranda of understanding (MOU) systems through which managements

would be granted greater autonomy and will be held accountable. Technical expertise on the part of the Government would be upgraded to make the MOU negotiations and implementation more effective.

- vi) To facilitate a fuller discussion on performance, the MOU signed between Government and the public enterprise would be placed in Parliament. While focusing on major management issues, this would also help place matters on day to day operations of public enterprises in their correct perspective.

1.7 DECLINE OF STATE ROLE AND EMERGENCE OF FREE MARKET

After adopting the policy of open market, Government of India dismantled its development strategies and very enthusiastically overhauled its entire economic system with denationalization, delicensing, devaluation, and disinvestment. Now the pendulum of economic growth in India is swinging from over commitment of public sector to over enthusiasm of the private sector. Policy of open market has now become the global phenomenon. This model has very substantial core of truth, which spreads the message of over optimism of instant change. It essentially relates to the external sector and modern industrial-urban sector. This policy advocates for Liberalization, Privatization and Globalization (LPG) of the economy. This world wide movement owes its origin to several factors:(1) the external debt crisis (2) excessive fiscal profligacy and unmanageable foreign exchange deficit,(3) disenchantment with the system of central planning, corruption and inefficiency,(4) rise of Reaganism and Thatcherism,(5) The collapse of socialist regimes in Eastern Europe and (6) spectacular growth of East and southeast Asian countries

And Indian economy has the experience of two decades in this development paradigm.

Table 6: Annual growth rate of National Income and Per Capita Income

Plan	National Income %	Per-Capita Income%
First	3.6	1.8
Second	4.1	2
Third	2.5	0.2
Fourth	3.3	1
Fifth	5	2.7
Sixth	5.4	3.2
Seventh	5.8	3.6
Eighth	6.7	4.6
Ninth	5.5	3.5
Tenth	7.8	6.1
Eleventh	7.9	6.5
Twelfth	5	3.7

Source: *Public Enterprises Survey 2015-16, Vol. 1*

The role of public sector has been steadily decreasing in both industrial sector and service sector almost in every country of the world. In India the role of private sector has increased in the service sector like education, health, insurance and banking. The post liberalization period has marked a distinct upturn of the growth trajectory. The stagnation of the economy seemed to have been over by mid seventies.

Table 6 shows annual growth rate of income from first five year plan (3.6%) to twelfth five year plan (5%)., growth rates have improved and were impressive in comparison to the pre-reforms period. The Per capita income has progressed from 1.8 percent to 3.7 percent.

The agricultural sector that lagged behind is now growing and contributes 15.79 percent of GDP. The growth rate in the industrial sector and service sector has become very impressive. The table 7 shows that the share of agriculture in GDP has increased from 2011 to 2014 from 14.37% to 15.79 %. Where as the share of industry is 24.77 percent of the GDP while service sector contributes 59.93 percent for the same.

Table 7: Contributions to GDP Growth in India

Sectors	Contribution to GDP growth (%)		Share in Real GDP (%)
	2011-12	2013-14	
Agriculture	14.37	15.79	6.1
Industry	26.13	24.77	29.02
Services	54.91	59.93	53.66

Source: Government of India, Public Enterprise Survey, 2015-16

Liberalization regime has provoked widespread restructuring and consolidation of Indian Industry. The private sector is vigorously restructuring itself to correct past inefficiencies of pre reforms era and promote competitiveness.

But unfortunately a large part of the economy particularly the agricultural sector still remains unorganized and backward. This vast unorganized sector can not be integrated automatically with the mainstream of market-led economy. The problems and constraints associated with the agricultural sector have not improved under the new reforms regime. The root of this incompatibility lies in the growing urban bias and rural neglect.

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your progress with possible answers given at the end of the unit.

1) Explain how over capitalization has affected the public sector.

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2) How public sector suffers from poor project planning?

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3) What are the shares of agriculture and industry in the GDP?

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4) Discuss how service sector is growing rapidly under free market regime.

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1.8 LET US SUM UP

In this unit we dealt with the definition and significance of public sector in the process of economic development. We examined the role and performance of public sector in India. We analyzed the significance of public sector units in industrial sector and service sector. We analyzed the problems and constraints of public enterprises of India. We also analyzed the declining trend of public sector due to the emergence of free market in India.

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1.10 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress 1

Answer 1: Public Sector is referred to as the state sector. It is a part of the state that deals with either the production, delivery and allocation of goods and services. Public sector activity ranges from delivering social security, administering urban planning and organizing national defenses. The composition of the public sector varies by country, but in most countries the public sector includes such services as the police, military, public roads, public transit, primary education and healthcare for the poor.

Answer2: The List of industries reserved for the public sector in India is as follows

- Atomic energy.
- The substances specified in the scheduled to the notification of the Government of India
- Railway transport.

Answer3: The public sector in India contributes to Central Exchequer very significantly. Public sector has made increasing contributions to the public sector in the form of dividend, corporate taxes, excise and customs duty, etc. The total contribution from the public enterprises to the Exchequer increased from Rs. 11,074 crores in 1982-83 to Rs. 23, 972 crores in 1986-87.

Answer4: The share of industrial sector (comprising of manufacturing, construction, electricity, gas, water supply) has steadily increased during the planning decades. The government has strengthened the industrial base considerably by placing due emphasis on setting up of industries like iron and steel, heavy engineering, coal, heavy electrical machinery, petroleum, chemical, natural gas, chemicals, drugs fertilizers etc. Because of low profitability potential, these industries do not find favour with private entrepreneurs in India. The total investment by public sector has increased from 29 crores to 349209 crores after independence.

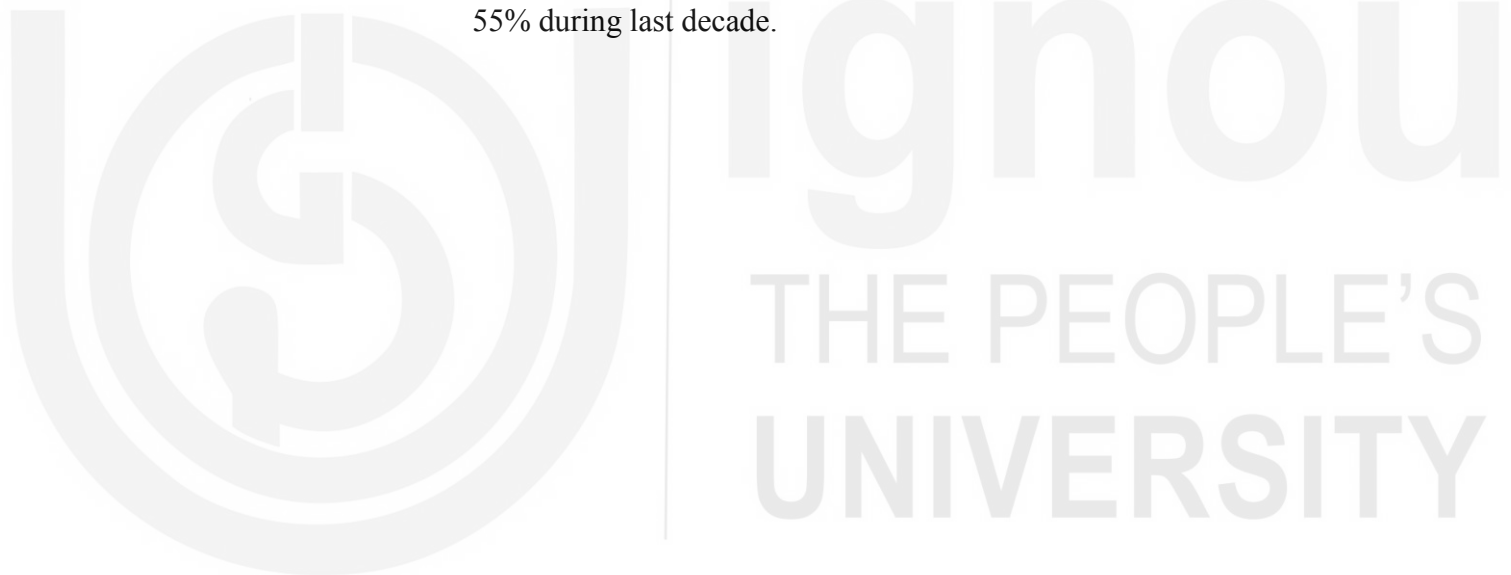
Check Your Progress 2

Answer1: The over capitalization has really affected the public sector of India. The Administrative Reforms Commission found that Hindustan Aeronautics, Heavy Engineering Corporation and Indian Drugs and Pharmaceuticals Ltd. Were over-capitalized. Such over-capitalization resulted in high capital-output ratio and wastage of scarce capital resources.

Answer2: The public sector suffer from poor project planning investment decisions in many public enterprises are not based upon proper evaluation of demand and supply, cost benefit analysis and technical feasibility. Lack of a precise criterion and flaws in planning have caused undue delays and inflated costs in the commissioning of projects. Many projects in the public sector have not been finished according to the time schedule.

Answer3: The post liberalization period has marked a distinct upturn of the growth trajectory. The stagnation of the economy seemed to have been over by mid seventies. The share of agriculture in GDP has been steadily decreasing after economic reforms. It has decreased from 28% to 19% from 1994 to 2004. Where as the share of industry has remained at the same level of 26% of GDP of India

Answer4: The growth rate of Indian economy has improved very impressively in comparison to the pre-reforms period. The service sector's growth is 7.5 during that period. The private corporate sector in India has responded favourably to economic reforms with large investments. The overall post reforms growth rate of output has been robust at an average of 6.8 percent. The share of service sector in the GDP has significantly increased to about 55% during last decade.



UNIT 2 ROLE OF PRIVATE/CORPORATE SECTOR IN DEVELOPMENT

Structure

- 2.1 Introduction
- 2.2 Private Sector: Concept and Significance
- 2.3 Corporate Sector and Foreign Direct Investment
- 2.4 Role of Private Sector in Development
- 2.5 Problems of Private Sector
- 2.6 Corporate Governance
- 2.7 Corporate Social Responsibility
- 2.8 Public-Private Partnership
- 2.9 Let Us Sum Up
- 2.10 References and Selected Readings
- 2.11 Check Your Progress – Possible Answers

2.1 INTRODUCTION

In economics, the private sector is that part of the economy which is run by private individuals or groups, usually as a means of enterprise for profit, and is not controlled by the state. By contrast, enterprises that are part of the state are part of the public sector and non-profit organizations are regarded as part of the voluntary sector. A variety of legal structures exist for private sector business organizations, depending on the jurisdiction in which they have their legal domicile.

Private sector enterprises are characterized by ownership and management in the hands of private individuals and are guided by personal initiatives and profit motive.

Private Sector Development is a strategy for promoting economic growth and reducing poverty in developing countries by building private enterprises, membership organizations representing them, and competitive markets that are stronger and more inclusive.

After studying this unit you should be able to:

- explain private sector in policy framework
- examine significance of corporate sector in India
- point out the contribution of FDI to economic growth
- explain the role of private sector in development
- explain the problems of private sector
- define corporate governance
- describe corporate social responsibility and public-private partnership

2.2 PRIVATE SECTOR: CONCEPT AND SIGNIFICANCE

India has a mixed economy in which both private sector and public sector are allowed to operate. In 1948 industrial resolution divided the industries into three categories: i) Three industries in which state was given exclusive monopoly ii) six industries, where the state has the exclusive right to setup new units but the existing private units were allowed to operate, iii) eighteen industries where regulations and direction are necessary and iv) all other industries not included in the above three categories, where private sector was allowed the freedom to operate. The 1956 industrial policy divided all industries into three categories. i) seventeen industries (schedule –A) whose future development was to be the exclusive responsibility of the state ii) twelve industries (schedule B) where the state would increasingly establish new units but the private sector would not be denied to set up their units. iii) all other industries (not listed in schedule A or B) where the private sector was given full freedom to operate. However the private sector had to operate with the provisions of industries Act, 1951 and other relevant legislations of the government. The 1956 industrial policy stated that, “industrial undertakings in the private sector have necessarily to fit into the framework of the social and economic policy of the state and will be subject to the control and regulations in terms of the industries development and regulation Act and other relevant legislations. The government of India has duly emphasized the mutual coexistence and mutual dependence and cooperation of private and public sector. Therefore private sector had the space to expand its business activities. it took full advantages of the loopholes and exceptions in the legislations. Its elbow room allowed by 1956 policy expanded in different business activities, even in areas exclusively reserved for the state sector. The working of the industries development and regulation acts was full of flaws as the licensing committee worked in a very haphazard and ad hoc manner. The “licensing raj” was adverse for industrial development. Therefore new industrial policy of 1991 abolished the licensing system and ushered in new era liberalization, where the role of the public sector was diluted. Doors of foreign investment considerably opened and numerous incentives and initiatives granted to the private sector to expand its business activities. The 1991 policy was welcomed with unbridled enthusiasm by the private sector. It encouraged the private units with lower tax, less red-tapism, less government interference. It created more space for the private sector. It opened the doors to multinational companies and raised the competition from abroad as tariffs were reduced substantially. Many domestic producers suffered from shrinking market share due to their low quality and price. The corporate world expanded significantly. Many new entrants got the space in the market.

The private sector plays the following dominant role in Indian economy

- 1) It has an extensive modern industrial sector
- 2) It has become the powerful driver of development
- 3) It has led to the growth of Small scale industries
- 4) It has huge employment and investment potential
- 5) It plays significant role in health and education sector

2.2.1 Significance of Corporate Sector in India

The phenomenal growth of private sector of India can be attributed to political will, financial reforms, usage of more advanced technology, young and large English speaking working class. The 7-8 % of annual GDP growth rate India is the one of the highest growth rate in the world. The last 15 years witnessed a phenomenal rise of the growth of private sector in India. The opening up of Indian economy has led to free inflow of foreign direct investment (FDI) along with modern cutting edge technology, which propelled India's economic growth. Market changed as soon as the markets were opened for investments. This saw the rise of the Indian private companies which prioritized customer's need and speedy service. This further fueled competition amongst same industry players and even in government organizations. Further, the government of India also divested some of its enterprises to ensure smooth operation of these companies which was otherwise were loss making. It also went further and forged joint venture private Indian companies, especially in sectors like, telecommunication, petroleum, housing and infrastructure. This inculcated healthy competition and benefited the end consumers, since the cost of service or products come down substantially.

The private sector companies are decreasing their price bands to remain alive in the competition. Further, the big private Indian companies are offering mouth watering benefits in the form of gifts, rebates and even holding lucky draws to stay ahead in the race of 'market supremacy'. Gone are the days when 'brand loyalty, accounted for big customer base. Today, general Indian customers are trendy, flexible and are extremely flexible with their choice. Steady growth of private sector has sent a sense of urgency and insecurity amongst main market players. Defensive methods of protection of Brands against competitors are becoming popular. Legal instruments like patents, trademarks, industrial designs and copyrights filing has increased many fold and so is counter claim and litigation. Further, Mergers and Acquisitions, collaborations and licensing has become a popular amongst private Indian companies.

The best thing that has happened to the overall Indian market with the growth of private sector is that it has helped to shed bureaucracy and lengthy official process and supplemented it by customer eccentric service, good work ethics, professionalism and transparency of accounts.

Some positive effects of the growth of private sector in India are as follows:

- Manufacturing registered 11.9% growth
- The passenger vehicles sector grew by 11.61% during April-May 2007
- Electricity, gas & water supply performed well and recorded an impressive growth rate of 8.3%
- Construction growth rate rose to 10.7%
- Trade, hotels, transport and communication registered a growth rate of 12%
- Financing, insurance, real estate and business services recorded an impressive growth rate of at 11% during the 1st quarter of this fiscal
- Exports grew by 18.11% during the 1st quarter of 2007-2008 and the imports shoot up by 34.30% during the same period

- The food sector is estimated to be of US\$ 200 billion and it is expected to grow to \$310 billion by 2015
- Merchandise Exports recorded strong growth

2.3 CORPORATE SECTOR AND FOREIGN DIRECT INVESTMENT

After independence the attitude towards foreign capital was one of fear and suspicion. It was due to colonial exploitation of raw materials and draining away of resources from our country. But after 1991, we invited FDI (foreign Direct Investment) was given importance with the following arguments:

- 1) It makes improvement in balance of payment position of the country
- 2) It helps in greater harnessing of natural resources and mineral wealth
- 3) It promotes basic infrastructure for economic development
- 4) It helps in filling up the technological gap
- 5) It can sustain a high level of investment with high risk

We have adopted following approaches to attract FDI in India.

- improving domestic infrastructure
- providing targeted fiscal incentives ,(tax concessions, specific subsidies etc)
- promoting local skills development to meet investor needs and expectations;
- establishing broad-reaching FDI promotion agencies
- improving the regulatory environment and decreasing red-tapism
- engaging in international governing arrangements

The FDI has not gone to all sectors of India. The top eight sectors which have attracted FDI in India are as follows:

- a) Automotive components
- b) Financial services (banking and non banking)
- c) Electric Power plants
- d) Coal Washeries
- e) Coal –bed methane explorations and recovery
- f) Telecommunication equipments and service
- g) Hospitality industry
- h) Food processing industry

But the flow of FDI is prohibited by Government of India in the following sectors:

- 1) Retail Trading
- 2) Lottery business
- 3) Gambling and betting
- 4) Nidhi company
- 5) Trading in transferable development rights

6) Sector/ activity not opened to private investment.

Private sector has played a very dominant role in the process of economic growth. The GDP and per capita GDP have increased steadily after economic reforms adopted in nineties. It is observed from the following table-2 that the NNP of India has achieved a growth rate of 8.8% and per capita income has registered a forth rate of 7.2% during 2004-09. Before the introduction of economic reforms in the 1990's, FDI inflows were concentrated in the manufacturing activities in India, which was due to the import substituting industrialization programmes that encouraged the tariff-jumping investments to capture the protected domestic market. However, the trends clearly changed towards an increase in FDI in the territory sector that encompassed mainly the services' activities. The following Table 1 presents the Major Sector- wise FDI Inflows in India.

Table 1

MAJOR SECTOR- WISE FDI INFLOWS IN INDIA *[amount in US \$ million]*

No	Sectors	YEAR													TOTAL	CGR
		2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13 (p)		
1	Services sector	266 (6.60)	209 (3.41)	326 (6.47)	269 (6.22)	469 (7.75)	581 (6.48)	4664 (20.43)	6615 (18.93)	6138 (14.66)	4353 (11.53)	3296 (9.46)	5216 (11.20)	4833 (13.11)	37235 (12.83)	37.99
2	Construction sector	200 (6.45)	804 (13.12)	537 (10.66)	472 (10.92)	562 (9.29)	691 (7.71)	3983 (17.46)	3743 (10.74)	2028 (4.84)	2862 (7.58)	1663 (4.76)	3141 (6.75)	1332 (3.61)	22080 (7.61)	18.41
3	Telecommunication sector	78 (1.94)	813 (13.26)	223 (4.43)	116 (2.68)	129 (2.13)	680 (7.39)	478 (2.09)	1261 (3.61)	2558 (6.11)	2554 (6.77)	1665 (4.78)	1997 (4.29)	304 (0.82)	12856 (4.43)	22.26
4	Computer Hardware & Software Sector	406 (10.08)	468 (7.63)	397 (7.88)	366 (8.48)	602 (9.95)	770 (8.39)	2614 (11.45)	1410 (4.05)	1677 (4.00)	919 (2.43)	780 (2.24)	796 (1.70)	486 (1.32)	11691 (4.03)	6.72
5	Drugs & Pharmaceutical sector	12 (0.30)	21 (0.34)	29 (0.58)	69 (1.60)	92 (1.52)	72 (0.80)	205 (0.90)	2350 (6.74)	2130 (5.08)	774 (2.05)	209 (0.60)	3232 (6.95)	1123 (3.05)	10318 (3.56)	52.96
6	Chemical sector	37 (0.93)	46 (0.75)	62 (1.23)	20 (0.46)	78 (1.29)	406 (4.53)	205 (0.90)	229 (0.66)	749 (1.79)	362 (0.96)	2354 (6.75)	4041 (8.68)	202 (0.79)	8881 (3.05)	40.49
7	Automobile sector	90 (2.23)	152 (2.48)	146 (2.90)	198 (4.38)	271 (4.48)	268 (2.99)	376 (1.65)	675 (1.94)	1152 (2.75)	1208 (3.20)	1299 (3.73)	923 (1.99)	1537 (4.17)	8295 (2.86)	27.38
8	Power sector	84 (2.08)	88 (1.44)	178 (3.54)	183 (4.23)	166 (2.34)	129 (1.44)	157 (0.69)	967 (2.78)	985 (2.36)	1437 (3.81)	1272 (3.65)	1652 (3.54)	536 (1.46)	7834 (2.71)	28.27
9	Metallurgical sector	17 (0.42)	18 (0.29)	27 (0.54)	32 (0.74)	192 (3.17)	153 (1.72)	173 (0.76)	1177 (3.38)	961 (2.30)	407 (1.08)	1098 (3.15)	1786 (3.84)	1466 (3.98)	7507 (2.59)	53.11
10	Petroleum & Natural Gas sector	81 (2.01)	83 (1.36)	145 (2.88)	161 (3.73)	156 (2.58)	110 (1.23)	89 (0.39)	1427 (4.10)	412 (0.98)	1272 (3.37)	556 (1.60)	332 (0.72)	558 (1.51)	5302 (1.86)	20.92
	FDI inflows in other Sectors	2908 (66.96)	3428 (55.92)	2965 (58.89)	2436 (56.36)	3334 (55.10)	5101 (56.92)	9880 (43.28)	14989 (43.02)	23083 (55.13)	21591 (57.22)	20653 (59.28)	23140 (50.34)	24393 (66.18)	157999 (54.47)	25.99
	Total FDI inflows in India	4029 (100)	6130 (100)	5035 (100)	4322 (100)	6051 (100)	8961 (100)	22826 (100)	34843 (100)	41873 (100)	37745 (100)	34847 (100)	46556 (100)	36860 (100)	290078 (100)	26.61

Source: www.dipp.nic.com

Note: Figures in parentheses denote major sector's share in the total FDI inflows in India. P-Provincial

Table 2: Average annual growth rates in India

Period	Growth of NNP	Growth rate of Percapita income
1951-81	3.4	1.2
1981-96	5.5	3.3
1997-03	5.8	3.9
2004-09	8.8	7.2

Source: Government of India, Economic Survey, different years

The service sector has improved impressively during the 9th and 10th plan. But 11th plan is emphasizing more on industry. It aims to achieve 9% growth rate through the strong growth of 10.13% in industrial sector. It is shown in table -3 below.

Table 3: Sectoral Growth rates

Plan period	Agriculture	Industry	Services	Total
9 th Plan(1997-01)	2.44	4.29	7.87	5.52
10 th plan(2002- 06	2.13	8.90	9.28	7.59
11 th Plan(2007-12	4.0	10.13	9.11	9.0

Source: Planning Commission (2007) Eleventh Five Year Plan (2007-12, Vol.1. 0

The structure of Indian economy has significantly changed after the privatization movement in India. The dominant of agriculture in terms of its contribution to the national GDP has declined from 35% to 17% from 1984 to 2009. The private entrepreneurs of India are dominating in the service sector, which has become the main driver of economic growth today. But reliance on agriculture still remains far greater than in some other third world countries such as Indonesia, China, Mexico, Brazil and Korea.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your progress with possible answers given at the end of the unit.

1) What are the major dominant roles played by the private sector in the Indian Economy?

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2) Mention any five positive effects of the growth of private sector in India?

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3) Name the top eight sectors which have attracted FDI in India?

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2.4 ROLE OF PRIVATE SECTOR IN DEVELOPMENT

i) Private Sector and Poverty Alleviation

It is argued that private sector by providing employment and producing large scale consumer goods and services helps the economy in poverty reduction. Brainard and La Fleur in their article 'The Private Sector in the Fight Against Global Poverty' highlighted that by generating jobs, serving the underserved, promoting innovation and spurring productivity, indigenous private sector development can raise the living standards and promote opportunities.

ii) Private Sector and Employment

The private sector has supplemented and complemented government endeavour in providing employment and thereby helping in solving the problem of unemployment in the country. Although there are complains of exploitation, yet it has provided livelihood to a large section of unemployed who otherwise could not find a place in public sector. The investment in private sector is growing day by day and so also is the employment.

During 2000-2011, workforce employed in Central Government, State Government, Quasi Government- State and Local Bodies declined by a Compound Annual Growth rate (CAGR) of -2.77%,-0.28%,-2.04% and -0.96% respectively, whereas workforce employed in Quasi Government-Central, Act Estts. (Private which is Falling within the preview of Act) and Non Act. Estts. (Private which is not falling within the preview of Act) grew by a CAGR of 0.49%, 2.91% and 2.25% respectively. Maximum growth of workforce employed in terms of CAGR was observed for Act Estts. sector (2.91%) and maximum decrement in terms of CAGR was observed for Central Government sector (-2.77%). At the end of financial year 2010-11, a total of 2.8999 Cr work force was employed in the organized sector which includes both public and private sector. While, public sector (Central Government, State Govt, Quasi Government and Local Bodies) had 61% of the total workforce and private sector (Act Estts. and Non Act. Estts.) had 39% of the total workforce employed.

Table 5: Employment in Private sector of India (in lakhs)

Year	Private sector	Public sector	Total	% of Private sector
1971	67	111	178	38
1981	74	155	229	32
1991	77	190	267	29
2001	87	191	278	31
2007	93	180	273	35

Source: compiled from Economic Survey of Government of India, different years

iii) Private Sector and Infrastructure

The participation of the private sector of Indian economy is desired by the government of India for infrastructural development including specific sectors

like power, development of highways and so on. The contribution of public sector in these sectors has been arrested due to the shift of the attention of the Indian government to issues like population increase, industrial growth. The main reasons behind the low contribution of the private sector in infrastructural development activities are that:

- The small and medium scale companies in the private sector of Indian economy suffer from lack of finances to welcome the idea of extending their business to other states or diversify their product range.
- The private sector of Indian economy also suffer from the absence of appropriate regulatory structure, to guide the private sector and this speaks for its unorganized framework
- The unorganized framework of the private sector is interrupting the proper management of this sector resulting in the slowdown of its development.

iv) Private Sector and Agriculture

Agriculture and allied sector is the dominant primary sector completely managed by private sector and contributes more than 30 percent of the domestic GNP. It also provides employment to nearly 67 percent of the working population. Now a days the corporate sector is also playing important role in the promotion of agriculture through contract farming. The private sector like Tata Chemicals, Mahindra and Mahindra Reliance etc are found involved in the contract farming programme in Punjab being sponsored by Punjab Agro Foodgrain Corporation. They are providing employment to the local people for promotional activities. From this point of view it can be said that the private sector is dominant in the case of agriculture and allied occupations.

v) Private Sector and Trading

The private sector is playing important role in retail and wholesale trading. This sector is enjoying almost monopoly status. The government is seen to be least suited to render these services. Although, they sometimes try to create artificial shortage by hoarding, yet their role in wholesale and retail trade cannot be underemphasized.

vi) Private Sector and Education

India's improved education system most particularly the higher education system is often cited as one of the main contributors to the economic rise of India. Much of the progress in education has been credited to various private institutions. The private education market in India is estimated to be worth \$40 billion in 2008 and will increase to \$68 billion by 2012. However, India continues to face stern challenges. Private enterprise in education became even more important when the Indian economy went through liberalization and we realized the existence of professional opportunities in fashion design, computers, media, jewellery design, travel and tourism, hotel management, bioinformatics, private security, management, insurance, etc. During the eighties and nineties private institutions seriously considered entering into the educational fold to tap the huge demand for newer courses and created an entirely new educational vista for Indian students.

Some of the advantages of education developed through private sector are as follows:

- i) Despite the higher cost of education at private institutions, there is enthusiasm among potential students because traditional colleges and universities offering highly subsidized education are not always in a position for proactively updating facilities, infrastructure or curricula.
- ii) Public sector institutions were able to offer limited seats and hence entry was highly competitive. Privately funded or corporate funded educational institutions thus came to be viewed as a viable option by students keen to get education in the desired field when they wanted it.
- iii) The entry of private sector in education has been on the basis of a realistic recognition of the needs and interests of the population. It has added new dimensions and alternatives for the education-hungry population.
- iv) Private educational enterprises offer greater variety of educational choices that match the greater variety of educational needs and interests inherent in a radically expanded and more heterogeneous student population. They provide alternate or non-conventional educational avenues.
- v) Not just variety but modernity in course content appeals to the students craving direct relationship between the job market and formal education. Short-term, part-time, placement-oriented courses have a niche opportunity successfully catered by private institutions.
- vi) Private sector involvement has undoubtedly helped to raise the general level and variety of educational opportunities. It has helped many students to tap rapidly emerging and evolving local as well as global career opportunities.
- vii) There is scope for public-private partnership in education for more effective utilization and management of funds invested in premier government institutions and upgradation of technologies to deliver newer programmes and improved quality of service.

vii) Private Sector and Health

For the last five decades, the government has systematically nurtured the private health sector. This unwritten policy of the government runs parallel to the neglect, and now gradual, withdrawal of the state from the responsibility of people's health. Such a consistent support and encouragement to the private health sector are very important reasons for the failure to provide universal basic health care to all people of the country.

Today there are approximately 11,25,000 practitioners of different systems registered with various medical councils in the country. Of them, only 125,000 are in government service (including those in central health services, the armed forces, railways, state insurance etc). That leaves about a million doctors floating around in the private sector, not to mention tens of thousands of additional unqualified and unregistered medical practitioners. About 60 % of all practitioners are concentrated in cities. Similarly, 84 % of hospital beds are today located in urban areas, whereas 75 % of the population still

resides in villages. This selective concentration of health care providers is a major concern to be addressed. The State offers subsidies, loans, tax waivers and other benefits for the setting up of private practice, hospitals, diagnostic centres and pharmaceuticals. Thus, with such support the private health sector has grown into a giant – it is the largest private health sector in the world. With 60-80 % of health care sought in the private sector, and households contributing 4-6 % of their incomes, there's a whopping Rs. 400-600 billion health care market in India.

Some of the advantages are as follows:

- 1) The investment in the private health sector is huge
- 2) The quality of service and facilities in private hospital are better
- 3) The service is patient –friendly and more sensitive to people
- 4) The service is more efficient, prompt, and instant
- 5) Its functioning is more transparent and accountable
- 6) The scope of competition among the private competitors is very high
- 7) The efficiency and quality of health services is steadily improving
- 8) It generates huge employment opportunities for the doctors and related workers
- 9) It has specialization and expertise in different branches and different diseases

2.5 PROBLEMS OF PRIVATE SECTOR

The private sector faces the following important problems.

i) Profit Motive:

Almost all industrial houses in the private sector operate with the sole motive of maximizing the profits. They are profit hunters. As a result they are only interested to invest only in those activities, where there is quick profit and high profits. They therefore tend to ignore to build the industrial base of the country. So the capital goods sector and basic industries remain neglected. They only invest in consumer good industries.

ii) Consumer Durables:

The private sector operators focus on the needs of elite class and urban consumers as they have ample purchasing power. Therefore the production pattern is skewed in favour of relatively smaller richer section of the society. The industrial units tend to produce only consumer durables like electronics and automobiles for the elitist section. Therefore the core economic activity suffers as production structure of the country is distorted.

iii) Monopoly Concentration

The big industrial and business houses tend to expand continuously. Therefore the MRTP act was in place to curb this trend. After economic reforms of 1991 in India, ironically there is less or unfair competition which results in concentration of wealth in few hands. This has happened in India.

iv) Infrastructural Bottleneck

The business sector of India faces always the severe problem of infrastructure bottlenecks. The most important is power shortage and lack of transport facilities. Acute power shortfalls, unscheduled powercuts, erratic power quality delay in new power connection and high energy costs adversely affects the performance and competitive strength of industries in India.

v) Diminishing Net value added

The net present value is defined as the amount generated over and above the cost of raw material which go to the production system after allowing for the depreciation charges. It indicates the efficiency of production process. Many industries in the private sector have reported a decline in the share of net value added in output in a number of years. It only implies that the same amount of raw material has generated less output. Thus the level of efficiency has been declining.

vi) Trade deficit

A large number of private sector companies have been resorting to massive imports in the post liberalization period in order to upgrade their technology in a bid to brace up to global competition. As a result their import expenditure has increased at a much faster rate than their export earnings. This has pushed up the trade deficit of many developing countries including our country.

vii) Industrial Disputes

As compared to public sector companies the private sector companies suffer more from industrial disputes. Differences and conflicts between owners and workers regarding wage, bonus retrenchment and other issues frequently emerge. Although there is arbitration boards, works committee for settlement of industrial disputes, the employers have better bargaining capacity. Taking advantage of this, they often refuse even the genuine demands of workers and conflicts assume the shape of a long drawn out struggles. So industrial often results in strikes and lockouts. It results in huge loss of man days and production leading to lower GDP.

viii) Foreign competition

Private sector suffers from severe foreign competition. The economic reforms of 1991 have opened up the gates to foreign investors. The process of globalization and integration of the Indian economy with the global economy has led to unequal competition- a competition between giant MNCs and dwarf Indian firms. Indians felt excited with the euphoria of liberalization and higher economic growth. But foreign competition means larger imports, cheaper imports, more foreign investment and larger opportunities for MNCs to raid and takeover and predating process. Even the large Indian firms are just operating like pygmies compared to MNCs. Many of them have been gobbled up and others are waiting their turn with bated breath.

ix) Industrial Sickness

The private sector units big or small face the problems of industrial sickness. Significant amount of loanable funds are locked up in sick industrial units,

which causes the wastes and affects the healthy growth of the entire industrial sector. As on March 2007, the total sick units were 1.18 lakhs with a bank credit of Rs30333 crores. Sickness is caused by both internal factors like finance, production, technology, management and external factors like market demand, recession and input supply, government policies.

x) Industrial finance

The small, medium and large private firms in the private sector confront the serious problem of industrial sickness. Huge amount of loanable funds and finance of financial institutions are locked up in sick industrial units causing wastages of resources. It adversely affects the healthy growth of industrial economy of India. At the end of March 2007, there were 1.18 lakh sick units involving a bank credit of Rs.30,333 crores. Besides the external causes, the internal causes of industrial sickness refer to inefficiency, poor management of the private firms.

2.6 CORPORATE GOVERNANCE

Corporate governance is a multi-faceted subject. It is the set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled. Corporate governance also includes the relationships among the stakeholders involved and the goals for which the corporation is governed. The principal stakeholders are the shareholders, the board of directors, employees, customers, creditors, suppliers, and the community at large. An important theme of corporate governance is to ensure the accountability of certain individuals in an organization through mechanisms that try to reduce or eliminate the principal-agent problem. The positive effect of corporate governance on different stakeholders ultimately is a strengthened economy, and hence good corporate governance is a tool for socio-economic development

Parties involved in corporate governance include the regulatory body (e.g. the Chief Executive Officer, the board of directors, management, shareholders and Auditors). Other stakeholders who take part include suppliers, employees, creditors, customers and the community at large. In corporations, the shareholder delegates decision rights to the manager to act in the principal's best interests. A board of directors often plays a key role in corporate governance. It is their responsibility to endorse the organization's strategy, develop directional policy, appoint, supervise and remunerate senior executives and to ensure accountability of the organization to its owners and authorities. The Company Secretary, is a high ranking professional who is trained to uphold the highest standards of corporate governance, effective operations, compliance and administration. All parties to corporate governance have an interest, whether direct or indirect, in the effective performance of the organization. Directors, workers and management receive salaries, benefits and reputation, while shareholders receive capital return. Customers receive goods and services; suppliers receive compensation for their goods or services. In return these individuals provide value in the form of natural, human, social and other forms of capital.

2.6.1 Principles

Key elements of good corporate governance principles include honesty, trust and integrity, openness, performance orientation, responsibility and accountability,

mutual respect, and commitment to the organization. Commonly accepted principles of corporate governance include the following:

- 1) Rights and equitable treatment of shareholders:
- 2) Interests of all legitimate stakeholders:
- 3) Role and responsibilities of the board
- 4) Integrity and ethical behaviour and decision making.
- 5) Disclosure and transparency
- 6) Independence of external auditors

Corporate Governance is much broader. It must include a fair, efficient and transparent administration and strive to meet certain well defined, written objectives. Corporate governance goes well beyond laws and rules. The quantity, quality and frequency of financial and managerial disclosure, the degree and extent to which the board of Director (BOD) exercise their *trustee* responsibilities and the commitment to run a transparent organization- should be constantly evolving. Perpetuation of the organization for its own sake is counterproductive.

2.6.2 Mechanisms and controls

Corporate governance mechanisms and controls are designed to reduce the inefficiencies that arise from moral hazard and adverse selection. There are two types of controls in corporate governance.

- a) Internal corporate governance controls
- b) External Corporate Governance Controls

The corporate governance has the following systemic problems:

- 1) Lobbying process is worse for the company.
- 2) Monitoring costs is very high.
- 3) Supply of accounting information is not perfect.

2.7 CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility (CSR) is also known as corporate citizenship, responsible business, sustainable responsible business (SRB), or corporate social performance. It is a form of corporate self-regulation integrated into a business model. Ideally, CSR policy would function as a built-in, self-regulating mechanism whereby business would monitor and ensure its support to law, ethical standards, and international norms. Consequently, business would embrace responsibility for the impact of its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. Furthermore, CSR-focused businesses would proactively promote the public interest by encouraging community development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. Essentially, CSR is the deliberate inclusion of public interest into corporate decision-making, and the honoring of a triple bottom line: people, planet, profit.

The CSR is linked to the rise in popularity of ethical consumerism over the last two decades. Development of business ethics is one of the forms of applied ethics that examines ethical principles and moral or ethical problems that can

arise in a business environment. In the increasingly conscience-focused marketplaces of the 21st century, the demand for more ethical business processes and actions is increasing. Simultaneously, pressure is applied on industry to improve business ethics through public initiatives. Corporations are re-branding their core values in the light of business ethics. The term “CSR” came in to common use in the early 1970s. It implies that stakeholder, should benefit from the business activity of shareholders. ISO 26000 is the recognized international standard for CSR. The UN has developed the Principles for Responsible Investment as guidelines for investing entities.

Thus the CSR refers to the following:

- a) It is an aid to an organization’s mission.
- b) It represents the social obligation and core values of the company
- c) It upholds the interest of the customers and society at large.
- d) It is a part of business ethics, involving social accounting
- e) It is community-based and conscience-focused business
- f) It integrates both stakeholder and shareholder of business

Corporate Social Responsibility has been defined and redefined in many ways. Proponents argue that there is a strong business case for CSR, in that corporations benefit in multiple ways by operating with a perspective broader and longer than their own immediate, short-term profits.

2.7.1 Advantages of CSR

The economy exists to serve human beings, so all economic entities have an obligation to the society. Others, such as Patricia Werhane, argue that CSR should be considered more as a corporate moral responsibility. As discussed above, many CSR proponents point out that CSR has the following advantages.

- 1) It improves long-term corporate profitability by maximizing interests of society as a whole
- 2) It reduces risks and inefficiencies while offering a host of potential benefits
- 3) It enhances brand reputation and employee engagement
- 4) It can be an aid to recruitment and retention
- 5) It builds the customer loyalty and stakeholders goodwill
- 6) It integrates environmental aspects of business operations

2.8 PUBLIC-PRIVATE PARTNERSHIPS

The public- private partnership (PPP) is one of the most popular reforms of the last decade in public financial management. A growing number of countries show interest in PPP as it is the best antidote to the worldwide downturn in infrastructure investment. It is found in Europe that between 1990 and 2005, more than a thousand partnerships had been signed in the European Union alone, representing an investment of almost 200 billion euros.

The PPP refers to the arrangement in which the private sector supplies infrastructure assets and services traditionally provided by governments. There

is the presence of external financing in the activities of the Government. The PPPs are government contracts with the private sector that, through their flexibility and complexity, put the public entity's assets at significant risks. This is because they are partially exempt from traditional procurement schemes and regulations and are used by ministries less trained than their private sector counterparts to develop efficient risk management procedures.

In this rapidly evolving area, the consensus currently crystallizes on following points:

- 1) PPPs should be limited to projects delivering greater Value for Money
- 2) the contractibility of the quality of service,
- 3) the transfer of a significant share of risks to the private sector,
- 4) the presence of competition or incentive-based regulations,
- 5) a sound institutional and legal framework,
- 6) a sufficient level of technical expertise in the government, and
- 7) the proper disclosure of PPP commitments, along with government guarantees

Check Your Progress 2

Note: a) Write your answer in about 50 words.

- b) Check your progress with possible answers given at the end of the unit.

- 1) Describe the role of private sector in providing employment to the masses.

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- 2) What are the key principles of corporate governance?

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- 3) Mention the problem of infrastructural bottleneck faced by private sector

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4) What is Corporate Social Responsibility (CSR)?

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2.9 LET US SUM UP

In this unit we dealt with the definition and significance of private sector in the process of economic development. We examined the role of private sector in economic growth of India. We analyzed the significance of corporate sector in infrastructural development, industrial development, education and health care. We analyzed the problems and constraints of private enterprises of India. We discussed about corporate governance, corporate social responsibility and public-private partnership in Indian context. We also analyzed the merits and demerits of privatization process in India.

2.10 REFERENCES AND SELECTED READINGS

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2.11 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress 1

Answer 1: The private sector plays the following dominant role in Indian economy

- 1) It has an extensive modern industrial sector
- 2) It has become the powerful driver of development
- 3) It has led to the growth of Small scale industries

- 4) It has huge employment and investment potential
- 5) It plays significant role in health and education sector

Answer 2: Some positive effects of the growth of private sector in India are as follows:

- Manufacturing registered 11.9% growth
- The passenger vehicles sector grew by 11.61% during April-May 2007
- Electricity, gas & water supply performed well and recorded an impressive growth rate of 8.3%
- Construction growth rate rose to 10.7%
- Trade, hotels, transport and communication registered a growth rate of 12%

Answer 3: The top eight sectors which have attracted FDI in India are as follows:

- a) Automotive components
- b) Financial services (banking and non banking)
- c) Electric Power plants
- d) Coal Washeries
- e) Coal –bed methane explorations and recovery
- f) Telecommunication equipments and service
- g) Hospitality industry
- h) Food processing industry

Check Your Progress 2

Answer 1: The private sector has supplemented and complemented government endeavour in providing employment and thereby helping in solving the problem of unemployment in the country. Although there are complains of exploitation, yet it has provided livelihood to a large section of unemployed who otherwise could not find a place in public sector.

Answer 2: Commonly accepted principles of corporate governance include the following:

- 7) Rights and equitable treatment of shareholders:
- 8) Interests of all legitimate stakeholders:
- 9) Role and responsibilities of the board
- 10) Integrity and ethical behaviour and decision making.
- 11) Disclosure and transparency
- 12) independence of external auditors

Answer 3: The business sector of India faces always the severe problem of infrastructure bottlenecks. The most important is power shortage and lack of transport facilities. Acute power shortfalls, unscheduled powercuts, erratic power quality delay in new power connection and high energy costs adversely affects the performance and competitive strength of industries in India.

Answer 4: The CSR refers to the following:

- g) It is an aid to an organization's mission.
- h) It represents the social obligation and core values of the company
- i) It upholds the interest of the customers and society at large.
- j) It is a part of business ethics, involving social accounting
- k) It is community-based and conscience-focused business
- l) It integrates both stakeholder and shareholder of business



UNIT 3 DEVELOPMENT OF SERVICE SECTOR

Structure

- 3.1 Introduction
- 3.2 Service Sector: Concept and Role
- 3.3 Important Services Sectors in India
- 3.4 Factors Contributing to the Growth of Service Sector
- 3.5 Challenges of Service Sector
- 3.6 Measures for Promotion of Service Sector
- 3.7 Let Us Sum Up
- 3.8 References and Suggested Readings
- 3.9 Check your progress - Possible Answers

3.1 INTRODUCTION

In the previous two chapters you read about role of public and private sector in Indian economy. Unlike these two sectors there is another sector called the service sector which now a days plays an important role in Indian Economy. This unit will deal in detail with the tertiary or service sector. The tertiary sector is now the largest sector of the global economy as well as of Indian economy. It is also the fastest-growing sector. It is also known as the service sector or the service industry. It is one of the three economic sectors, the others being the secondary sector and the primary sector. For the last 30 years there has been a substantial shift from the primary and secondary sectors to the tertiary sector in all industrialized countries. The service sector consists of the “soft” parts of the economy. It is composed of various activities where people offer their knowledge and time to improve productivity, performance, potential, and sustainability. The basic characteristic of this sector is the production of services instead of end products. Services (also known as “intangible goods”) include attention, advice, experience, and discussion. The service sector includes retail, banks, hotels, real estate, education, health, social work, transport, computer services, recreation, media, communication, electricity, gas and water supply.

Examples of service sector employment include: Government, Healthcare/ hospitals, Public health, Waste disposal, Education Banking, Insurance, Financial Services, Legal Services, Consulting, News Media, Hospitality industry (e.g. restaurants, hotels, casino), Tourism, Retail sales Franchising, Sales and Real estate

After studying this unit you should be able to:

- Explain the concept and role of service sector
- Examine the factors contributing for rapid growth of service sector
- Discuss the contribution of service sector to economic growth
- Describe various challenges of service sector
- Narrate various measures required for the promotion of service sector

3.2 SERVICE SECTOR: CONCEPT AND ROLE

3.2.1 Service Sector in India: Meaning and Composition

The tertiary or service sector provides a service, not an actual product. Services or the “tertiary sector” of the economy covers a wide gamut of activities like trading, banking & finance, infotainment, real estate, transportation, security, management & technical consultancy among several others.

In the National Income Accounting in India, service sector includes the following:

1. Trade, hotels and restaurants (THR)
 - 1.1 Trade
 - 1.2 Hotels and restaurants
2. Transport, storage and communication
 - 2.1 Railways
 - 2.2 Transport by other means
 - 2.3 Storage
 - 2.4 Communication
3. Finance, insurance, real estate and business services
 - 3.1 Banking and insurance
 - 3.2 Real estate, ownership of dwellings and business services
4. Community, social and personal services
 - 4.1 Public administration and defense (PA&D)
 - 4.2 Other services

3.2.2 Growth of Service Sector in India

India is the 4th largest economy and 2nd fastest growing major economy of the world today. India ranks 50 out of 117 economies in terms of competitiveness. Its rank is 15th in service sector of the world. Strong growth across sectors promises not just to beat back the recession blues but also cement India's position as a leading growth center in Asia alongside China. FDI in India are flowing into mainly three service sub sectors : Telecommunication equipments and services, Financial services (banking and non banking) and Hospitality industry. More than two decades of opening up has produced new dynamism in India People force of India is growing fast. India is the largest English speaking country in the world. Therefore India has experienced hyper growth of its service sector.

Indian economy is classified in three sectors — Agriculture and allied, Industry and Services. Agriculture sector includes Agriculture (Agriculture proper & Livestock), Forestry & Logging, Fishing and related activities. Industry includes ‘Mining & quarrying’, Manufacturing (Registered & Unregistered), Electricity, Gas, Water supply, and Construction. Services sector includes ‘Trade, hotels, transport, communication and services related to broadcasting’, ‘Financial, real estate & ‘Public Administration, defence and other services’.

Services sector is the largest sector of India. Gross Value Added (GVA) at current prices for Services sector is estimated at 73.79 lakh crore INR in 2016-17.

Services sector accounts for 53.66% of total India's GVA of 137.51 lakh crore Indian rupees. With GVA of Rs. 39.90 lakh crore, Industry sector contributes 29.02%. While, Agriculture and allied sector shares 17.32% and GVA is around of 23.82 lakh crore INR.

At 2011-12 prices, composition of Agriculture & allied, Industry, and Services sector were 15.11%, 31.12%, and 53.77%, respectively. Accordingly, now the sector wise Indian GDP composition in 2014 was as follows: Agriculture (17.9%), Industry (24.2%) and Services (57.9%). Total production of agriculture sector is \$366.92 billion. India is 2nd larger producer of agriculture product. India accounts for 7.68 percent of total global agricultural output. GDP of Industry sector is \$495.62 billion and world rank is 12. In Services sector, India world rank was 11 and GDP was \$1185.79 billion. Contribution of Agriculture sector in Indian economy is much higher than world's average (6.1%). Contribution of Industry and Services sector is lower than world's average 30.5% for Industry sector and 63.5% for Services sector.

Service Sector in India today accounts for more than half of India's GDP. According to data for the financial year 2014, the share of services, industry, and agriculture in India's GDP was 55.1 per cent, 26.4 per cent, and 18.5 per cent respectively. The fact that the service sector now accounts for more than half the GDP marks a watershed in the evolution of the Indian economy and takes it closer to the fundamentals of a developed economy. There was marked acceleration in services sector growth in the eighties and nineties, especially in the nineties. While the share of services in India's GDP increased by 21 per cent points in the 50 years between 1950 and 2000, nearly 40 per cent of that increase was concentrated in the nineties. While almost all service sectors participated in this boom, growth was fastest in communications, banking, hotels and restaurants, community services, trade and business services. One of the reasons for the sudden growth in the services sector in India in the nineties was the liberalization in the regulatory framework that gave rise to innovation and higher exports from the services sector.

The boom in the services sector has been relatively "jobless". The rise in services share in GDP has not been accompanied by proportionate increase in the sector's share of national employment. Some economists have also cautioned that service sector growth must be supported by proportionate growth of the industrial sector, otherwise the service sector growth will not be sustainable. In the current economic scenario it looks that the boom in the services sector is here to stay as India is fast emerging as global services hub.

Table 1: Contribution of Service Sector to Economic Growth

Sectors	1950/ 51	1960/ 61	1970/ 71	1980/ 81	1990/ 91	2000/ 01	2007/ 08	2008/ 09
Agriculture	55.3	50.8	44.3	37.9	31.4	23.9	17.8	17.0
Industry	15.1	18.8	22.1	24.1	25.9	25.8	26.5	25.8
Services	29.8	30.4	33.6	38.0	42.7	50.3	55.7	57.3

Source: Reserve Bank of India, *Handbook of Statistics of Indian Economy, 2008-09* and Government of India, *Economic Survey, 2009-10*, New Delhi

The service sector has unprecedented growth in India over last sixty years. The sectoral share of service sector has increased from 29% in 1950s to 57% in 2009. But the share of agriculture in GDP has decreased from 55% to 17% during the same period. It is seen from the following table 2.

Table 2: Sectoral Share of GDP in India

Sector	GVA (Rupees in Crore) at Current Prices						
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	%Share
1 Agriculture Sector	1,501,816	1,680,798	1,932,692	2,067,935	2,172,910	2,382,289	17.32
1.1 Agriculture, forestry & fishing	1,501,816	1,680,798	1,932,692	2,067,935	2,172,910	2,382,289	17.32
2 Industry Sector	2,635,052	2,921,262	3,188,270	3,455,221	3,683,358	3,989,791	29.02
2.1 Mining & quarrying	261,035	285,776	295,716	313,844	296,041	309,178	2.25
2.2 Manufacturing	1,409,986	1,572,830	1,713,445	1,883,929	2,065,093	2,278,149	16.57
2.3 Electricity, gas, water supply & other utility services	186,668	215,164	259,840	279,456	321,765	338,396	2.46
2.4 Construction	777,363	847,492	919,269	977,992	1,000,459	1,064,068	7.74
3 Services Sector	3,969,789	4,603,255	5,245,305	5,947,260	6,595,670	7,378,705	53.66
3.1 Trade, hotels, transport, communication and services related to broadcasting	1,413,116	1,664,083	1,874,443	2,095,337	2,294,367	2,538,162	18.46
3.2 Financial, real estate & prof servs	1,530,691	1,776,023	2,069,386	2,363,328	2,632,432	2,896,300	21.06
3.3 Public Administration, defence and other services	1,025,982	1,163,149	1,301,476	1,488,595	1,668,871	1,944,243	14.14
GVA at basic prices	8,106,656	9,205,315	10,366,266	11,470,415	12,451,938	13,750,786	100.00

Source: Ministry of Statistics and Programme Implementation, Planning Commission, (2017) Govt of India

Major Services' Sector-wise performance and some recent Government policies till 2017 to boost the growth of the sector are as follows:

Tourism

India's Tourism sector has been performing well with Foreign Tourist Arrivals (FTAs) growing by 9.7% to 8.8 million and Foreign Exchange Earnings (FEEs) at 8.8% to US\$ 22.9 billion in 2016. FTAs during 2017 were 10.2 million, with a growth of 15.6%, while FEEs from tourism were US\$ 27.7 billion, with a growth of 20.8% over 2016. Domestic tourist visits grew by 12.7% to 1,614 million in 2016 from 1,432 million in 2015. Tamil Nadu, Uttar Pradesh, Andhra Pradesh, Madhya Pradesh and Karnataka were the Top 5 Destination States in 2016.

Various initiatives have been taken by the Government to promote tourism include the introduction of the e-Visa facility under three categories of Tourist, Medical and Business for the citizens of 163 countries; launch of Global Media Campaign for 2017-18 on various Channels; launch of 'The Heritage Trails' to promote the World Heritage Sites in India; launch of International Media Campaign on various international TV channels; Celebration of 'Paryatan Parv' having 3 components namely 'Dekho Apna Desh' to encourage Indians to visit their own country, 'Tourism for All' with tourism events at sites across all states in the country, and 'Tourism & Governance' with interactive sessions & workshops with stakeholders on varied themes. FTAs on e-Tourist Visa grew by 143% to 10.8 lakh in 2016, and further grew by 57.2% to 17.0 lakh during 2017.

IT-BPM

India's Information Technology – Business Process Management (IT-BPM) industry grew by 8.1% in 2016-17 to US\$ 139.9 billion (excluding e-commerce

and hardware) from US\$129.4 billion in 2015-16, as per NASSCOM data. IT-BPM exports grew by 7.6% to US\$116.1bn from US\$ 107.8 billion during the same period. E-commerce market is estimated at US\$ 33bn, with a 19.1% growth in 2016-17.

To further promote this sector, many initiatives have been taken, which include the establishment of BPO Promotion and Common Services Centres to help create digital inclusion and equitable growth and provide employment to 1.45 lakh persons, mostly in the small towns; setting up a separate Northeast BPO promotion Scheme with 5000 seats and having employment potential of 15000 persons; preparing the draft Open Data Protection Policy law; besides long-term initiatives like Digital India, Make in India, Smart Cities, e-Governance, push for digital talent through Skill India, drive towards a cashless economy and efforts to kindle innovation through Start-up India.

Real Estate

The Indian Real Estate sector has begun to show signs of improvement with the total FDI of US\$ 257mn in H1 2017, which is more than double the total FDI in 2016 full year. Some of the recent reforms and policies taken by the Government of India related to Real Estate Sector include the Pradhan Mantri Awas Yojana (PMAY) with the government sanctioning over 3.1 million houses for the affordable housing segment in urban regions till November 2017. Of this, about 1.6 million houses have been grounded and are at various stages of construction, and about 0.4 million houses have been built under the mission. PPP policy for affordable housing was also announced on 21st September 2017 for affordable housing segment to provide further impetus to the ambitious 'Housing for all by 2022' mission. Credit Linked Subsidy Scheme (CLSS) under PMAY was extended to the Middle Income Group (MIG) segment, which got included in the scheme from 1st January 2017. With the enactment of Real Estate (Regulation & Development) Act, 2016, it is anticipated that accountability would lead to higher growth across the real estate value chain, while compulsory disclosures and registrations would ensure transparency.

R&D

The professional Scientific & Technical activities which include R&D services grew by 17.5% and 41.1% in 2014-15 and 2015-16 respectively. India-based R&D services companies, which account for almost 22% of the global market, grew at 12.7%. However, India's gross expenditure on R&D has been at around 1% of GDP. India ranks 60th out of 127 on the Global Innovation Index (GII) 2017, improving from 66th rank in 2016. Buoyed by the Government's support which includes important Schemes of different Ministries/Departments, the R&D sector in India is all set to witness robust growth in the coming years. According to a study, engineering R&D market in India is estimated to grow at a CAGR of 14% to reach US\$ 42 billion by 2020. India is also expected to witness strong growth in its agriculture and pharmaceutical sectors as the Government is investing large sums to set up dedicated research centres for R&D in these sectors.

3.2.4 Contribution of Service Sector to Employment

It is important to point out that, within the services sector employment growth rate is highest in finance, insurance, and business services, followed by trade, hotels and restaurants and transport etc. the community social and personal services

occupy the last rank in growth rates of employment. Even though there has been substantial growth of service sector after the globalization, commensurating to its growth, the employment absorbing capability of the service sector is slow. It is found that during 1990s although the service sector growth was from 42 percent to 48 percent of GDP, during the same period, the employment share of the services actually declined by about one percentage point during the decade. In other words, it can be concluded that while activity has shifted to services, employment creation in services has lagged far behind.

Indian Economy is classified in three major sectors;

Agriculture & Allied Sector: This sector includes forestry and fishing also. This sector is also known as the primary sector of the economy. At the time of Indian independence this sector had biggest share in the Gross Domestic Product of India. But year by year its contribution goes on declining and currently it contributes only 17% of Indian GDP at current prices. It is worth to mention that agriculture sector provides jobs to around 53% population of India.

Industry Sector: This sector includes ‘Mining & quarrying’, Manufacturing (Registered & Unregistered), Gas, Electricity, Construction and Water supply. This is also known as the secondary sectors of the economy. Currently it is contributing around 31% of the Indian GDP (at current prices).

Services Sector: Services sector includes ‘Financial, real estate & professional services, Public Administration, defence and other services, trade, hotels, transport, communication and services related to broadcasting. This sector is also known as tertiary sector of the economy. Currently this sector is the backbone of the Indian economy and contributing around 53% of the Indian GDP.

Services sector is the largest sector of India. Gross Value Added (GVA) at current prices for Services sector is estimated at 73.79 lakh crore INR in 2016-17. Services sector accounts for 53.66% of total India’s GVA of 137.51 lakh crore Indian rupees.

Industrial sector contributes 29.02% with GVA of Rs. 39.90 lakh crore. While, Primary Sector of the economy i.e. Agriculture and allied sector contributes 17.32% and its GVA is around Rs. 23.82 lakh crore at the current prices in the FY 2016-17.

Table 3: Three sectors of the Indian economy in the FY 2016-17 at the current price.

Sector	GVA (Rupees in Crore) at current prices (2016-17)	Percentage share
1.0 Agriculture Sector	2,382,289	17.32 %
1.1 Agriculture, forestry & fishing	2,382,289	17.32 %
2.0 Industry Sector	3,989,791	29.02 %
2.1 Mining & quarrying	309,178	2.25 %
2.2 Manufacturing	2,278,149	16.57 %
2.3 Electricity, gas, water supply & other utility services	338,396	2.46 %

2.4 Construction	1,064,068	7.74 %
3.0 Services Sector	7,378,705	53.66 %
3.1 Trade, hotels, transport, communication and services related to broadcasting	2,538,162	18.46 %
3.2 Financial, real estate & prof servs	2,896,300	21.06 %
3.3 Public Administration, defence and other services	1,944,243	14.14 %
GVA at Current Prices	13,750,786	100.00 %

Source: *Economic Survey Report 2017-18. Government of India.*

The above table shows that the service sector is the backbone of the Indian economy; contributing the most in Indian GDP followed by the industrial sector. But the declining percentage of the agriculture and allied sector in the Indian GDP is the cause of concern for the policy makers because this sector still provides livelihood to around 53% population of the country but its contribution in the economy is declining year by year.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your progress with possible answers given at the end of the unit.

1) What are the service sectors to which FDI flows are significant?

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2) Which service sectors are fluctuating after the global financial meltdown?

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3) What are the constituents of service sector in India?

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- 4) What is the trend of contributions of three sectors in our economy?

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3.3 IMPORTANT SERVICES SECTORS IN INDIA

3.3.1 Financial Sector

Some of the important services sectors in India follow:

Financial sector and financial services sector have grown considerably in recent years, catalysed by deregulation in the 1990s. The financial sector consists of two types of market: Money market and capital market. The privatization process in banking and insurance sector of India has been very powerful. International acquisitions and internal growth have swollen the banks' combined balance sheets. The foreign commercial banks have subsidiaries and branch offices in India and elsewhere. Total assets of the commercial banks have significantly increased. Many other credit institutions and non banking institutions currently operate in every country including India: Life Insurance Company (LIC) represents the largest portion of total assets of insurance companies.

There are three types of Insurance in India

1. Life Insurance - guaranteeing a specific sum of money to a designated beneficiary upon the death of the insured, or to the insured if he or she lives beyond a certain age.
- 2) Health Insurance - against expenses incurred through illness of the insured.
- 3) Liability Insurance – for property such as automobiles, property and professional/business mishaps.

Because of extensive reforms undertaken in the banking sector after 1991, the performance of banking sector has improved significantly. The operating profits and net profit of public sector banks has increased by 33% 28.3% during 2008-09. There were 15 old private sector banks and 7 new private banks (Axis, HDFC, ICICI, Development Credit Bank Ltd, Indus Ind. Ban ltd, Kotak Mahindra Bank Ltd and Yes Bank Ltd) have started operating in India. The operating profits of old private banks were 33.2 % while it is 24.6 % in case new private banks during 2008-09. The net profit of old private and new private banks rose by 21.8% and 12.1% respectively during 2008-09.

3.3.2 IT and Software Sector

The Indian information technology (IT) industry has played a major role in placing India on the international map. India is witnessing resurgence in the service sector most dramatically in IT sector, Bio Technology etc. Some Indian firms in IT business have become world-beaters. India is meeting almost 70 % of worldwide BPO demand. Multinational firms come to India for lower cost and ultimately

stay here for quality. The Indian IT sector is growing rapidly and it has already made its presence felt in all parts of the world. The industry is mainly governed by IT software and facilities for instance System Integration, Software experiments, Custom Application Development and Maintenance (CADM), network services and IT Solutions. IT has a major role in strengthening the economic and technical foundations of India. Indian professionals are setting up examples of their proficiency in IT, in India as well as abroad. The sector can be classified into 4 broad categories - IT Services, Engineering Services, ITES-BPO Services, E Business. IT Services can further be categorized into Information Services (IS) outsourcing, packaged software support and installation, systems integration, processing services, hardware support and installation and IT training and education.

The IT/ITES industry provides direct employment to the about 2.23 million and indirect employment to the 8 million people. Due to the high demand of India's vaunted IT outsourcing sector, companies have been forced to raise wages by 10 to 15 per cent. IT sector is dynamic sector which is continuously evolving. As per NASSCOM, IT exports in business process outsourcing (BPO) services attained revenues of US \$ 48 billion in FY 2008-09 and accounted for more than 77 percent of the entire software and services income. Over the years India has been the most favourable outsourcing hub for firm on a lookout of offshore their IT operations. The factors behind India being a preferred destination are its reasonable priced labour, favourable business ambiance and availability of expert workforce.

Top Software Companies in India

There are number of software companies in India which have been doing well. However, some of the top Indian software companies can be listed as:

Tata Consultancy Services	MphasiS
Wipro Limited	IBM India
Infosys	Patni Computer Systems
HCL Technologies	L&T Infotech
Tech Mahindra	i-flex Solutions

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your progress with possible answers given at the end of the unit.

1) What are the new private banks in India?

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2) What are different types of insurance in India?

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3) What are the constituents of capital market in India?

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4) What are the different types of business in IT sector?

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5) What are the factors contributing for the success of IT sector of India?

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3.3.3 Indian Telecom Industry

Indian Telecom Industry is the fifth largest and fastest growing in the world. It has provided 110.01 million connections. It is currently expected to contribute nearly one percent to India's GDP. The subscriber base has grown by 40% in 2005 and is expected to reach 250 million in 2007. Over the last 3 years, two out of every three new telephone connections were wireless. Consequently, wireless now accounts for 54.6% of the total telephone subscriber base, as compared to only 40% in 2003. Wireless subscriber growth is expected to grow at 2.5 million new subscribers every month in 2007. The wireless subscriber base skyrocketed from 33.69 million in 2004 to 62.57 million in FY 2004 -2005. The wireless technologies currently in use Indian Telecom Industry are Global System for Mobile Communications (GSM) and Code Division Multiple Access (CDMA). Telecom Industry in India is regulated by 'Telecom Regulatory Authority of India'

(TRAI). It has earned good reputation for transparency and competence. Three types of players exist in Telecom Industry in India:

- State owned companies like - BSNL and MTNL.
- Private Indian owned companies like - Reliance Infocom and Tata Teleservices.
- Foreign invested companies like - Hutchison-Essar, Bharti Tele-Ventures, Escotel, Idea Cellular, BPL Mobile, Spice Communications etc.

The Indian Telecom Industry services is not confined to basic telephone but it also extends to internet, broadband (both wireless and fixed), cable TV, SMS, IPTV, soft switches, etc.

3.3.4 Foreign Trade in Services

The largest service sub sector in India is trade. The share of this sector in GDP was almost 12 per cent or more throughout the period of planning. Now it has become more than 14%. This sector registered a growth of about 6% per annum in 1980s, 7% per annum in 1990s and it is more than 9% per annum in the current decade. There are number of services which are traded across the countries. Transport and insurance are traditional components of trade in India. With the spread of telecommunication and computer technologies, virtually all types of commercial services have become tradable among countries. The liberalization policies of nineties and the removal of regulatory obstacles have fueled the steady growth of foreign investment and trade in services.

3.3.5 Hospitality and Tourism Sector

Tourism is the second largest industry of the world and sixth largest industry in India. Tourism comprises the largest component of the tertiary sector. It constitutes the major item in the world trade, which is growing at a faster rate than the world trade in tangible goods. It has now become a highly organized industry representing about 12 percent of world's gross income. World's revenue from this business has been constantly growing at a faster rate. In developing countries Tourism is also one of the largest industries with fastest expansion in its range and dimension. It is an industry with great employment potential. In fact one in every 16 workers worldwide owns his or her job to tourism sector. It has emerged as the most lucrative business of the world, having tremendous potentiality for earning foreign exchange, yielding tax revenue to the state, promoting ancillary industries, generating income and employment and developing backward regions through various linkage effects. Indian tourism as a sector of economic significance received the widest recognition after II world war.

There are many other ancillary services and informal activities having direct effects on tourism. Ancillary services having direct connectivity with tourism are: handicrafts, souvenir industry, horticulture, floriculture, leisure and entertainment services, and activities of all personals dealing with tourists across the counter in customs, immigration, airports, airlines, railway stations, ferry services, museums, bus terminals, taxi stands, banks, medicals, police stations, post offices, communication, advertising, shopping centers, sports and many other organizations both in the private and public sector.

3.3.6 Hotel Industry

Hotel accommodation is the significant segment of hospitality industry of India. The 'Incredible India' destination campaign and the recently launched 'Atithi Devo Bhavah' (ADB) campaign have also helped in the growth of domestic and international tourism and consequently the hotel industry. Hotel Industry in India has witnessed tremendous boom in recent years. Hotel Industry is inextricably linked to the tourism industry and the growth in the Indian tourism industry has fuelled the growth of Indian hotel industry. The thriving economy and increased business opportunities in India have acted as a boon for Indian hotel industry. The arrival of low cost airlines and the associated price wars have given domestic tourists a host of options. Growth story of hotel industry of India seconds only to China in Asia Pacific. Hotel industry of India has the supply of 110,000 rooms. According to the tourism ministry, 4.4 million tourists visited India in 2009 and at current trend; demand will soar to 10 million in 2010 - to accommodate 350 million domestic travelers. With tremendous pull of opportunity, India is a destination for hotel chains looking for growth. The World Travel and Tourism Council, India, data says, India ranks 18th in business travel and will be among the top 5 in this decade. Sources estimate, demand is going to exceed supply by at least 100% over the next 2 years. Hotel Industry' is adding about 60,000 quality rooms, currently in different stages of planning and development MNC Hotel Industry giants are flocking India and forging Joint Ventures to earn their share of pie in the race. Government has approved 300 hotel projects, nearly half of which are in the luxury range. Sources said, the manpower requirements of the hotel industry will increase from 7 million in 2002 to 15 million by 2010.

3.4 FACTORS CONTRIBUTING TO THE GROWTH OF SERVICE SECTOR

The service sector has rapidly grown due to many reasons. The following factors have mainly contributed towards its growth.

Liberalization Policy

The globalization process after 1991 has considerably liberalized the industrial and trade policies and opened up the banking, insurance, transport and communication sectors to private entrepreneurs. This liberalization has boosted the growth of service sector in India. Some sectors which are more liberalized, like banking, IT, communication, insurance services have experienced faster growth.

Technological Advancement

Growth of service sector is also stimulated by technological advancement. New activities and new products emerge as a result of technological breakthrough. The technological advancements that have positive impact on economic growth in India are the increasing use of internet in case of IT sector, expansion of cellular phone in case of telecom sector and wider use of ATM/credit cards in case of banking sector.

Splintering

With maturing of the economy specialization takes place. Industrial units tend to outsource some of the activities which were previously undertaken by them. They

use and hire the services of the specialist contractors and sub contractors to provide accounting, R/D, cleaning, legal and security services, etc. This process of specialization splintering leads to a growth in the share of services in GDP, even when GDP itself not growing. Jobs outsourced are counted as service sector contribution to GDP rather than being subsumed in manufacturing value-added.

Sectoral Interdependence

The growth of industry and other sectors has positive impact on the service sector because the interdependence among sector has also increased. There is direct and reverse interrelationship between industry and service sector. The impact of manufacturing sector on service sector is significant. But the contribution of service input to manufacturing in 1980 was only 1% of output growth, while it has increased substantially upto 25% in 1990s. This implies that increasing use of services in manufacturing favourably affects the TFP (total factor productivity)

Demand-side impetus

Demand for different type of services increased by leaps and bounds after 1991. The share of services in the consumption basket increased by 3% points each decade; that is from 8% to 11% during 1960-61, 14% during 1970-71, 17% during 1980-81 and 20% during 1990-91. Thereafter the trend changed significantly, when private sector consumption of services increased to 31% and during 2016-17 it increased even higher. Thus the growth of service sector is due to the impetus given by domestic consumers as well as foreign buyers.

3.5 CHALLENGES OF SERVICE SECTOR

Some of the challenges of service sector are narrated below:

- i) Indian money market is not integrated with debt and foreign exchange market. According to Y.V Reddy, Governor of RBI, while the base has been created with the variety of products in the money market, the market has not acquired the required depth in terms of both volume and liquidity. Though the banks have expanded their branches in an unprecedented scale, the banking facilities in the country are still inadequate. One branch serves about 160000 population in India while it is only 1200 persons in US. There more competition than cooperation and coordination between various players of money market.
- ii) There is no integration between the organized sector and unorganized sector of Indian money market. The indigenous bankers do operate as individuals and private firms, whose volume of operates are unknown. They do not constitute a homogeneous group. They are engaged in many banking and non-banking business, which remain largely unregulated. The credit of money lender has remained as the necessary evil.
- iii) There is absence of organized bill market. There is lack of rational interest rates structure. There is shortage of funds in money market. The market for short-term asset has not yet developed. In terms of organization, resources, stability and elasticity financial institutions are hardly comparable to the money market of London or New York. The emergence of parallel economy and vast amount of black money in India has also caused shortage of financial resources in the money market.

- iv) With western imitation through free market policy, rapidity in tourism sector may result in creation of new tourism facilities. These developments in many cases lead to competition and conflict. In turn they have generated a wide range of deleterious environmental impacts. It has many negative social and cultural impacts. The local people of the tourist centers stand to lose in the current process of tourism development. It has become another element of the destructive process, which exploits the local population, damages the environment, promotes consumerism, widens the gap between rich and poor and reinforces the global status quo.
- v) Educational system has an unintended consequence of producing an “educational vacuum” for the society at large. Because all good students now are running after lucrative jobs as per the imperative of commodity-centric society and as per the new trend of higher education. Maximization of the short run individual objectives is being done at the cost of long run social objectives. The society ultimately remains neglected and bypassed.
- vi) The year 2011 is likely to be a boom for skilled worker in IT & ITES, biotechnology as against the 15 per cent hike in their salaries in 2010. The employers are trying to catch up the highly skilled manpower and the salaries are going through the roof. The youth force of India is contributing to the growth in IT sector. However, the huge numbers of Indian youth are not only unemployed but unemployable on the contrary a large numbers of white collar jobs are waiting for suitable candidates. IT and ITES industry and biotech industry are facing skill manpower shortages. Companies are not only facing the problem of retention difficult and job hopping extensive, but there is a clear shortage of skill. Mainly IT/ITES, academics, engineering, HR, hospitality, insurance and biotechnology sectors, which are driven by the highly skilled manpower but the supply of capable labor is not up to the demand at the point.
- vii) The employment generation in service sector has been increasing at a slower rate than the growth of output in the service sector over the years. Thus India is witnessing a jobless service sector growth during 1990s. It is very different experience compared to other countries. Service sector accounts for more than 55% of GDP, but its share in employment continues to be very low; less than one-fourth of the total. It means the growth in value addition in service sector is higher than the employment growth in the service sector. It implies that the growth of average productivity of labour is higher than the growth of employment in service sector. For example finance, insurance and real estate business account for 13 % of GDP in 2000, but employed only 1.2 % of the labour force. So service sector alone cannot sustain the present trend of economic growth in the long run.

3.6 MEASURES FOR PROMOTION OF SERVICE SECTOR

Some of the measures required to be taken for the promotion of service sector in India are as follows:

- i) Institutional reforms should be made to integrate money market with debt and foreign exchange market. It should facilitate RBI (Reserve Bank of India)

to use indirect tools of monetary regulations. There should be integration between the organized sector and unorganized sector of Indian money market. There should be cooperation and coordination between various players of money market. The RBI should regulate the lending operations of the money lenders and indigenous bankers which is weakening the credit control system. It should stop the exploitation of money lenders and protect the small borrowers by developing institutional sources of credit.

- ii) The stringent policy is necessary to curb parallel economy and vast amount of black money in India in order to overcome the shortage of financial resources in the money market. The RBI should mop up the excess liquidity generated on account of the accretion to the foreign exchange assets of the banks to neutralise the monetary impact of capital flows.
- iii) Given the synergistic relationship between education, health, nutrition, energy, adequate allocation of public investment should be made on the social overheads and efficient measures should be adopted to magnify its trickle-down effect on rural people. The new approach requires human development goals to be an integral part of the economic development. It should be more and more inclusive process. Community involvement is necessary in order to reduce the urban bias in the emerging health care system. Health for all should entail the removal of various obstacles to these services such as elimination of ignorance, malnutrition, unhygienic housing, contaminated water supply etc. Thus concerted efforts should be made in all directions.
- iv) India should adopt a new set of values in tourism development. In order to have a distinguished niche in the international tourism market India should develop its tourism in its own way and vision. In pursuing the efficient and profitable path of tourism development should not result in high environmental distortions. Healthy tourism should not result in unhealthy environment. Unmanaged tourism can be disastrous but organized tourism can only contribute to the genuine prosperity of the region. Suitable policy of the state should be designed to ensure 'green tourism' and 'rural tourism'. In this pursuit more resources should be invested to reinforce the ecosystem rather than making it vulnerable to risks from unplanned activities.
- v) The education should be perceived as an integral part of both social development and economic development. Educational reform should aim at promoting: 'neo-professionalism' and 'value-based education.' The knowledge-based society emerges from a progressive educational system. Thus our educational system should promote quality in order to have a knowledge-based society for India. The education should integrate materialism with morality and liberation of mind. The higher education system should help in building a society which automatically rejects any type of malfunctioning and mal-development.
- vi) The IT industry should depend more on exports of software products to advanced countries of the world. It should enhance its credibility as a business destination by creating a new model of global delivery, forging the relationship with MNCs, generating saving for the customers and promoting a focus on quality. There should be diversification in order to neutralize the effects of fluctuation in the global demand. There should strong agenda and high priority for R & D activities in service sector

The growth of Indian economy in the post liberalization period has been service-led growth. Thus the future of Indian economy depends on the growth potential of service sector. The dynamism in the service sector plays the crucial role in maintaining the growth momentum of the economy. Service sector now accounts for 70 % of the global output. The characteristics of the service have been altered by the revolution in the services sector. Services can now be produced and exported at lower cost. The old idea of services being non-transportable, non-tradable, and non-scalable no longer holds for a host of modern impersonal services. Therefore India can sustain a service-led growth as there is huge room for catch-up and convergence. Thus industrialization is not the only route to economic development. Thus service sector is highly growth-stimulating with positive externalities for other sectors and remains as the catalytic agent for economic growth. The growth in the service sector has not been uniform. In order to arrive at some policy direction it is imperative to examine the performance of different services and assess the economy's potentials and constraints in these services. We should examine the performance of aggregate as well as disaggregated services in terms of their growth rates; share in GDP, employment, trade and FDI.

Check Your Progress 3

Note: a) Write your answer in about 50 words.

b) Check your progress with possible answers given at the end of the unit.

1) What are the factors responsible for rapid growth of service sector of India?

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2) What are the major bottlenecks of Indian telecom industry?

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3) What are the services available in foreign trade?

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In this unit we dealt with the definition and significance of Tertiary sector in the process of economic growth. We examined the role of service sector in economic growth of India. We analyzed the significance of service sector in IT sector, Banking, Insurance, Trade, infrastructural development, tourism development, education and health care. We analyzed the problems and challenges of service sector of India. We have given the suggestive measure for the improvement of the service sector.

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3.9 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress 1

Answer1: Mainly FDI in India are flowing into mainly three service sub sectors : Telecommunication equipments and services, Financial services (banking and non banking) and Hospitality industry.

Answer2: The highest growth is registered by financing, insurance and real estate, followed by trade, hotel, transport and communication. After global financial crisis construction and trade, hotel and transport sector had quicker recovery than financing and insurance sector of India

Answer3: In the National Income Accounting in India, service sector includes the following:

- 1) Trade, hotels and restaurants (THR)
- 2) Transport, storage and communication
- 3) Finance, insurance, real estate and business services
- 4) Community, social and personal services

Answer4: The contribution of service sector has been consistently rising from 29% to 68 % in 2007, after which it declines due to world financial crisis. But the contribution of agriculture has fallen to only 7% over the years while the contribution of industry is stagnating in India.

Check Your Progress 2

Answer1: There were 15 old private sector banks and 7 new private banks are: Axix, HDFC, ICICI, Development Credit Bank Ltd, Indus Ind Ban Ltd, Kotak Mahindra Bank Ltd and Yes Bank Ltd.

Answer2: There are three types of Insurance in India: a) Life Insurance - guaranteeing a specific amount in case of death (b) Health Insurance - against expenses incurred through illness of the insured. (c) Liability Insurance – for property such as automobiles, property and professional/business mishaps.

Answer3: The capital market has two constituents: (1) The financial institutions and (2) the securities Market. The financial institutions e.g IFCI, IDBI, Exim Bank, SIDBI, IDFC, SFCs, LIC etc provide long term and medium term loan facilities. The securities market is divided into (i) the Government (gilt edged) securities market and (ii) the corporate securities market.

Answer4: There are mainly 5 types of business in the IT sectors: Infrastructure Software like OS, middleware and databases. Enterprise Software needed in finance, sales and marketing, production and logistics. Security Software,

Answer5: There are four major factors which have contributed for the success of IT of India. They are: (i) skilled professionals in IT. (ii) demographic factor like 60% of the population belong to age group of 15-65. (iii) vast academic infrastructure. (iv) India has the second largest English-speaking workforce in the world.

Check Your Progress 3

Answer1: The rapid growth of service sector has been possible for following five factors: (i) Liberalization Policy. (ii) Technological Advancement (iii) Splintering (iv) Sectoral Interdependence and (v) Demand-side impetus.

Answer2: Indian Telecom Industry has the following bottlenecks: (i) Slow reform process. (ii) Low penetration- achieving break-even is difficult. (iii) Huge initial investments (iv) Limited spectrum availability and interconnection charges between the private and state operators.

Answer3: After liberalization variety of services are exported and imported. Now it constitutes about 14% of India's GDP. These services are mainly relating to Travel, Transport, Insurance, Software services, Business services, Financial services etc.

UNIT 4 ROLE OF UNORGANISED SECTOR IN DEVELOPMENT

Structure

- 4.1 Introduction
- 4.2 Meaning and Concept of Unorganised Sector
- 4.3 Unorganised Sector and Employment
- 4.4 Importance of Unorganised Sector in Indian Economy
- 4.5 Programmes and Policies for Unorganised Sector and its Workers
- 4.6 Recommendations of NCEUS to Strengthen the Unorganised Sector
- 4.7 Let Us Sum Up
- 4.8 Key Words
- 4.9 References and Selected Readings
- 4.10 Check your Progress - Possible Answers

4.1 INTRODUCTION

Informal sector provides the means of livelihood to millions of people in the world. In India it occupies significant place as far as employment is concerned, nine out of ten individuals are engaged in informal sector. However, it is an important but controversial sector of the economy. No doubt it provides huge job but in most of the cases, the jobs are low-paid and the job security is poor. The informal sector broadly consists of all incorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services with a very limited number of workers.

After studying this unit, you will be able to:

- Explain the meaning and concept of unorganised sector.
- Discuss the importance of unorganised sector in Indian economy.
- List out the various programmes and policies of unorganised sector and its workers
- Discuss the contributions and recommendations of National Commission for Enterprises in the Unorganised Sector (NCEUS)

4.2 MEANING AND CONCEPT OF UNORGANISED SECTOR

In India, the terms ‘formal sector’ and ‘informal sector’ have not been used in the official statistics or in the National Account Statistics (NAS). Instead, our official agencies use the terms ‘organised’ and ‘unorganised’ sectors to denote two major segments, in the production of goods and services in the national economy. As per the conventional understanding, the ‘organised sector’ comprises enterprises for which the statistics are available from official documents and reports. On the other hand, the unorganised sector refers to those enterprises whose activities or collection of data is not regulated under any legal provision or those do not

maintain any regular accounts. The informal sector units typically operate on a small scale with little or no division between labour and capital as factors of production. A major share of the informal sector is composed of self employed individuals. It is also observed that, the organised sector can be distinguished from the unorganised by the presence of legal protection, size of establishments, capability of the workers to organise themselves in unions, and the systematic manner in which production processes are organised in perceptible patterns.

While using such distinctions, the ‘unorganised sector’ is often understood as a ‘residual sector’ that *‘covers the area that falls outside the purview of the organised sector’*. For instance, Employment in the unorganised sector has hitherto been derived by Director General of Employment and Training (DGET) as a residual of the total workers minus workers in the organised sector. Such conceptualization of unorganised sector as a ‘residual sector’, however, fail to capture the informal/unorganised employment in the formal/organised sector-which is a growing phenomenon in Indian economy, in the recent past.

In the context of India, both the enterprise concept (i.e. to define unorganised sector) and the employment concept (i.e. to define unorganised employment) lack in conceptual clarity and uniformity across the sub-sectors of the economy. For instance, the Central Statistical Organisation (CSO) uses the term organised enterprise as small units with 10 or more workers with power or 20 or more workers without power for the manufacturing sector. However, in the absence of similar statistical data, the definition cannot be extended to the service sector.

The vocations, employments and conditions of work are so varied and disparate that it is found difficult to arrive at a convincing and precise definition of the sector. Similarly, as the estimation of the shares of the sector to the total output and the workers of the economy becomes a difficult task, since there is no single or primary criterion or characteristic by which the unorganised sector could be defined or differentiated.

The terms ‘organised’ and ‘unorganised’ (and their definitional aspects) also attracted intensive debates, as they have been different from the internationally accepted and popular concepts of ‘formal’ and ‘informal’. However, of late, there is a growing consensus that both these sets of terms (i.e. ‘organised/unorganised’ and ‘formal/informal’) can be used interchangeably such that they are consistent with international definitions adopted by the International Conference of Labour Statisticians and the International Labour Organisation. For instance, two major National Commissions set up by the Government of India (National Commission on Labour 1998-2002 , and National Commission for Enterprises in the Unorganised Sector (NCEUS) 2004-2009) treat the words ‘unorganised sector’ and ‘informal sector’ as denoting the same area and, therefore, regarded them as interchangeable terms. In 1996, the fifteenth international conference on labour statistics defined the informal sector as “all unregistered or unincorporated enterprises below a certain size, including microenterprises owned by informal employers who hire one or more employees on a continuous basis and own account operations owned by individuals who may employ contributing family workers and employees on an occasional basis.

The recent contributions of NCEUS in bringing conceptual clarity to the term ‘unorganised sector’ is worth discussing. The Commission which was mandated to: “review the status of unorganized/informal sector in India including the nature

of enterprises, their size, spread and scope, and magnitude of employment,” observed that the definitions being used by various agencies to identify the unorganised/informal sector are not uniform and it varied in certain cases even among different sub-sectors of the economy. To address this aspect, the Commission, constituted a Task Force to examine definitional and statistical issues relating to the sector.

The Task Force formulated a set of harmonized definitions of the sector and informal employment. Accordingly the unorganised sector is defined as that segment of the economy, which: “...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”. Similarly, ‘unorganised workers’ are defined as: “those working in the unorganized sector or households, excluding regular workers with social security benefits provided by the employers and the workers in the formal sector without any employment and social security benefits provided by the employers”.

As the NCEUS used different concepts and methodologies to define and quantify the share of unorganised sector in the national economy, the estimates thus arrived at vary from the existing major data collection agencies. Table 1 provides a comparison of concepts, methodologies and the estimates of CSO (concerning unorganised sector) vis-à-vis those of NCEUS Sub-Group.

Table 1: Unorganised Sector: Comparison of Concepts and Methodologies of CSO and NCEUS Sub-Group

Item	CSO	NCEUS Sub-Group
Definitions of un-organised sectors	Follows different criteria for different industry groups mainly dictated by availability of data	Proprietary and partnership enterprises employing less than 10 workers
Share of Unorganised Sector	Varies between 57 and 60 percent since 1993-94	55.42% in 1999-2000 and 49.94% in 2004-05
Methodology	The GDP estimates of unorganized sector in each compilation category are initially prepared for a benchmark year by using labour input method. The labour input data is obtained from Census of Small Scale Industry, NSS surveys on Employment & Unemployment, DGT etc. For the subsequent years, the benchmark year estimates are extrapolated with appropriate physical indicators and the relevant price indices.	Value added per worker estimated from 55th, 56th and 57th round unorganised sectors surveys. Employment estimates from 55th and 61st Round EUS survey. Apportioning was not limited only to unorganised sector GDP. In the services sector total GDP was apportioned.

Source: NCEUS (2008)

The National Sample Survey Organization (NSSO), which has been conducting surveys of unorganized enterprises at periodical intervals, generally adopted the following criteria for the identification of un-organized sector:

- i) In case of manufacturing industries, the enterprises not covered under the Annual Survey of Industries (ASI) are taken to constitute the un-organized sector.
- ii) In the case of service industries, all enterprises, except those run by the government (Central, State and Local Body) and in the corporate sector were regarded as un-organized.

4.3 UNORGANISED SECTOR AND EMPLOYMENT

The employment in the unorganized sector can be broadly categorized into three:

4.3.1 Area and Sex-Wise Employment Status of Informal Workforce

India is an emerging economy with 457.46 million workers in 2004-05. The size of workforce was 396.76 million in 1999-2000. A large chunk of the workforce was engaged in the informal sector. The estimated number of informal sector workers in 2004-05 was 394.90 million in India contributing 86 percent of total workers. Table 2 shows the distribution of informal and formal sector workers by sector and sex between 1999-2000 and 2004-05. In rural areas the share of informal sector workers in each population segment recorded more than 90 percent and the share of female workers is more than male workers in 2004-05 being 94.5 percent and 90.34 percent respectively.

Table 2: Distribution of Informal and Formal Sector Workers by Sector and Sex between 1999-2000 and 2004-05 (in million)

Sector	Sex	Informal Sector		Formal Sector		Total	
		1999-00	2004-05	1999-00	2004-05	1999-00	2004-05
Rural	Male	178.50	197.87	18.24	21.17	196.74	219.04
	Female	98.63	117.21	5.39	6.82	104.02	124.03
	Persons	277.13	315.08	23.63	27.99	300.75	343.07
Urban	Male	51.62	61.94	25.42	28.46	77.05	90.40
	Female	13.89	17.88	5.07	6.12	18.96	24.00
	Persons	65.51	79.82	30.50	34.58	96.01	114.40
Total	Male	230.12	259.81	43.66	49.63	273.78	309.44
	Female	112.51	135.09	10.46	12.94	122.98	148.03
	Persons	342.64	394.90	54.12	62.57	396.76	457.46

Source: NSSO 55th (1999-00) and 61st (2004-05) Round Survey on Employment and Unemployment, also see A.K. Naik, "Informal Sector and Informal Workers in India", Website : <http://www.iari.org>

India's economy grew by 8.0 per cent in fiscal year (FY) 2016 (April 2015-March 2016), the fastest pace since 2011-12. However, in 2016-17 the GDP growth rate slowed down to 7.1 per cent, mostly on account of deceleration in

gross fixed capital formation. IMF's latest growth forecast shows that disruptions caused by demonetization is unlikely to affect economic growth over the longer term, and GDP growth is expected to rebound to 7.2 per cent in 2017-18 and 7.7 per cent in FY 2019 (Table 3).

Table 3: Key economic labour market indicators

Macro	2014-15	2015-16	2016-17
Real GDP (% change y-o-y) ^{i,a}	75	80	7.1
Investment (% of GDP)	35.7	34.9	33.2
Labour market	2004-05	2009-10	2011-12
Employment (million) ^{ii,b,c}	457.9	459.0	472.9
Unemployment (million) ^c	11.3	9.8	10.8
Labour force participation rate (%) ^d	63.7	57.1	55.9
Male	84.0	80.6	79.8
Female	42.7	32.6	31.2
Unemployment rate (%) ^d	2.3	2.0	2.1
Male	2.1	1.9	2.1
Female	2.6	2.3	2.3
Share of employment in manufacturing (%) ^d	11.6	11.0	12.5
Male	12.0	11.1	12.2
Female	11.0	10.8	13.2
Share of regular wage and salaried workers (%) ^d	14.4	15.7	17.9
Male	17.3	17.8	19.9
Female	8.4	10.2	12.8
Working poverty rate (%) ⁱⁱⁱ			
<US\$1.90 per day	35.3	28.4	17.9
>=US\$1.90 & <US\$3.10 per day	36.5	37.5	35.0
Average real daily wage index (2004-05) = 100) ^e			
Rural	100.0	111.7	122.8
Urban	100.0	129.4	n.a.

Note: a) at 2011-12 prices; b) all ages; c) usual status; d) estimates for persons aged 15 years and above; e) average real daily wage index for regular wage employees aged 15-59 years

Source: i) Ministry of Finance monthly Economic Report, May 2017; ii) National Sample Survey, Employment and Unemployment Schedule, 61st, 66th and 86th rounds; iii) ILO: Key Indicators of the Labour Market, 9th Edition (Geneva, 2015)

On the employment front, the challenge continues to be to ensure that economic growth translates into better labour market conditions. The vast majority of workers in India are in informal jobs. Although there has been a shift out of agriculture, construction has absorbed more workers than other sectors in recent years. Most of the new jobs being created in the formal sector are actually informal

because workers do not have access to employment benefits or social security. In addition, notable disparities in the labour force participation rates of men and women persist.

Between 1999-00 and 2011-12, there was a considerable increase in rural non-farm employment (12 per cent, as per the usual principal status definition). The greatest increase was in the states of Jammu and Kashmir (33 per cent), Goa (21 per cent) and Punjab (20 per cent). Overall, the proportion of households, whose principal source of income depends on agriculture, declined from 63 per cent in 2002-03 to 58 per cent in 2012-13.

The largest increase in non-agricultural employment has been in the construction sector, where the share of employment in rural areas increased from 14.4 per cent (1999-00) to 30.1 per cent (2011-12). This has been accompanied by a change in employment status, with a rise in casual wage employment and a decline in selfemployment. Informality persists: the quality of employment remains the main challenge. The majority of workers in India are in informal employment. Behind this there are two underlying, but diverging, trends. Firstly, the share of workers in the unorganized sector fell from 86.3 per cent in 2004-05 to 82.2 per cent in 2011-12. At the same time, the share of informal workers in the organized sector (i.e. workers without access to social security) increased significantly because of a greater use of contract and other forms of casual labour. The share of contract labour in organized manufacturing increased from 15.6 per cent at the end of the 1990s to 34.7 per cent in 2011-12. 79 per cent of non-agricultural wage workers had no written contract and only 23.8 per cent were eligible for social security benefits. Because of these countervailing trends, the overall proportion of informal workers in total employment (e.g. unorganized sector workers plus informal workers in the organized sector) has remained relatively stable, at around 92 per cent. Within the overall category of informal workers, the largest group is own-account workers (32.2 per cent), followed by informal employees in the informal sector (30.0 per cent) and contributing family workers (17.9 per cent).

4.3.2 Sector wise Employment Status of Informal Sector

The composition of employment in the organised vs unorganized sector was in the proportion 13:87 in 2004-05 and 17:83 in 2011-12 indicating an increase in organized sector employment from 13 per cent in 2004-05 to 17 per cent in 2011-12. But this increase in organized sector employment was informal in nature (48 per cent in 2004-05 increased to 55 per cent in 2011-12) while the share of organised formal employment decreased (52 per cent in 2004-05 decreased to 45 per cent in 2011-12). But in the unorganised sector the share of formal employment marginally increased from 0.3 to 0.4 per cent and that of informal employment declined marginally from 99.7 to 99.6 per cent. On the whole the number of formally employed increased from 33.41 million in 2004-05 to 38.56 million in 2011-12, while informally employed increased from 426.20 million to 435.66 million during this period.

As shown in table 4, agricultural sector absorbs 60 percent of workforce in India in 1999-00 which came down to 57 percent in 2004-05. The share of Agriculture sector is more in informal sector workers; it is 68 percent and 64 percent for the respective periods. After agriculture, it is the service sector where 19 percent of

informal sector workers engaged in 1999-00 and this figure increases to 21 percent in 2004-05. The share of industry sector in informal sector workers also increased from 13 to 15 percent in the same period. If we look by industry group after agriculture it is trade and manufacturing sector where a sizeable number of informal sector workers are engaged. Around three fourth of the informal sector workers are in the profession of merchants and shopkeepers, wholesale and retail trade and salesmen, shop assistants and realted workers.

Between 2004-05 and 2011-12, total employment in the country rose from 457.9 million to 472.4 million. Over the same period employment in the organised, non-agricultural sector, defined to include all units with 10 or more workers if using power and 20 or more workers if not using power, rose from 28.8 million to 47.7 million, whereas employment in the unorganised sector rose from 185.4 million to 209.6 million. That is organised sector employment stood at 6.3 per cent and 10.1 per cent respectively of total employment in 2004-05 and 2011-12. In absolute terms there were more who joined the unorganised sector's workforce than the number who entered the organised sector between the two years. Even in 2011-12, as much as 86 per cent of workers in the private sector and 50 per cent in the public sector were in units that could be designated as unorganised based on employment size.

Table 4: Estimated Number of Informal Sector Workers, Percentage Share of Informal Sector Workers to Total Workers and Average Annual Growth Rate by Industry Group between 1999-00 and 2004-05

Industry Group	Estimated Number of Informal Sector Worker (in million)		Share of Informal Sector Workers to Total (in percent)		Growth Rate (%)
	1999-00	2004-05	1999-00	2004-05	
Agriculture	232.21	252.83	97.70	97.65	1.72
Mining	0.88	0.89	40.55	33.74	0.22
Manufacturing	30.92	39.71	70.19	71.20	5.13
Electricity	0.09	0.09	8.35	6.59	-1.99
Construction	12.92	19.66	73.66	75.58	8.77
Trade	34.29	41.43	93.64	95.54	3.85
Hotels	4.08	5.29	88.30	86.72	5.34
Transport	10.44	14.02	71.42	75.93	6.09
Finance	0.49	0.80	21.91	25.70	10.00
Real Estate	2.02	3.29	75.66	70.74	10.25
Administration	0.80	0.08	7.66	0.90	-37.01
Education	2.29	3.07	27.04	26.88	6.04
Health	1.22	1.64	42.85	44.18	6.03
Community	8.47	7.40	86.82	88.20	-2.67
Household & Extra	1.51	4.70	81.58	98.72	25.42
Total	342.64	394.90	86.36	86.32	2.88

Source: NSSO 55th (1999-00) and 61st (2004-05) Round Survey on Employment and Unemployment, also see A.K. Naik, "Informal Sector and Informal Workers in India", Website : <http://www.iari.org>

4.3.3 State Wise Employment Status of Informal Workforce

The statistics shows that in Andhra Pradesh, Himachal Pradesh, Karnataka, Madhya Pradesh the estimated number of informal sector workers per thousand population was the highest in descending order (table 5). But both in 1999-00 and 2004-05, the share of informal sector workers was highest in Bihar followed by Uttar Pradesh, Rajasthan and Orissa. The mentioned four states are very poor in comparison to other states of India. The incidence of poverty or the percentage of poor living below poverty line in these states is much above the national average. It seems there is a positive correlation between poverty and informal sector.

Table 5: Estimated Number of Informal Sector Workers Per Thousand Population, Percentage Share of Informal Sector Workers to Total Workers and Average Annual Growth Rate by State between 1999-00 and 2004-05

State	Estimated Number of Informal Sector Worker per thousand population		Share of Informal Sector Workers to Total (in percent)		Growth Rate (%)
	1999-00	2004-05	1999-00	2004-05	
Andhra Pradesh	420	443	88.45	88.28	1.01
Assam	267	326	76.70	84.41	7.17
Bihar	313	315	93.71	93.59	1.53
Gujarat	380	386	85.06	82.83	2.32
Haryana	279	334	82.44	83.45	6.82
Himachal Pradesh	437	438	88.47	83.66	2.85
J&K	368	322	87.69	81.65	-2.87
Karnataka	378	424	84.51	86.58	2.88
Kerala	258	250	67.56	63.40	1.98
Madhya Pradesh	384	398	90.47	89.24	2.52
Maharashtra	344	380	81.51	82.00	3.05
Orissa	362	393	89.62	90.08	3.25
Punjab	331	355	85.60	85.23	3.68
Rajasthan	373	393	91.04	91.16	5.51
Tamil Nadu	381	391	81.85	80.76	0.39
Uttar Pradesh	306	338	90.95	92.20	3.91
West Bengal	312	327	86.79	85.42	3.65
Other North Eastern States	314	346	85.13	83.72	5.83
Other States & UTs	197	210	60.39	60.85	1.46
Total	341	362	86.36	86.32	2.88

Note: Bihar includes Jharkhand, Madhya Pradesh includes Chhattisgarh and Uttar Pradesh includes Uttarakhand

Source: NSSO 55th (1999-00) and 61st (2004-05) Round Survey on Employment and Unemployment, also see A.K. Naik, "Informal Sector and Informal Workers in India", Website : <http://www.iari.org>

**Table 6: State – wise Distribution of Informal Employment compared with
Labour Reform Index**

States	State share in All India manufacturing workforce	Labour reform Index	Share of informal workforce in manufacturing in the Stat
Uttar Pradesh	14.44	58	77.45
Andhra Pradesh	7.08	56	91.16
Gujarat	8.71	53	74.29
Rajasthan	4.05	47	85.51
Punjab	3.19	46	93.12
Madhya Pradesh	3.33	46	77.03
Odisha	2.89	44	66.02
Karnataka	5.41	42	91.79
Tamil Nadu	11.11	41	98.54
Maharashtra	10.25	35	99.18
Kerala	2.98	32	78.67
Bihar	2.65	29	98.52
West Bengal	14.18	27	87.82

Source: Calculated using unit level data of NSSO Employment-Unemployment Survey 2011-12

Note: i) Selected States account for 90 per cent share in All India manufacturing sector workforce.

- ii) Labour reform index is taken from **Sean Dougherty** article “Labour Regulations and employment dynamics at State level in India” (2008). The index may not capture the labour reform regulations that took place after 2008. The index reflects the extent to which procedural changes have reduced transaction costs, through limiting the scope of regulations, providing greater clarity in their application, or simplifying compliance procedure. Lower value (on the scale of 1-100) index implies the number of reforms carried out by state are few.

Data indicates labour market rigidities, poor skill levels, increasing competition from imports as the factors inducing creation of informal employment and decline of formal employment opportunities. Labour market rigidity is blamed on the multiple labour legislations that deters the hire and fire policy. But is labour laws a hindrance? In Table-5, a comparison was made between State-wise distribution of informally employed in the manufacturing sector vis-à-vis the labour reform index which shows that even when the labour reform index is high indicating that even in States like Gujarat where the stringency of labour regulations was lowered by procedural changes, simplifying compliance and limiting scope of regulations, the jobs that were created in the manufacturing sector were informal in nature. Similar is the case with Uttar Pradesh and Andhra Pradesh. Irrespective of labour reforms being a hindrance or otherwise, extent of informal employment was more than 90 per cent in the major industrial States. These findings only indicate that labour reforms alone will not reduce informalisation.

4.4 IMPORTANCE OF UNORGANISED SECTOR IN INDIAN ECONOMY

Predominance of unorganised sector and informal employment has been the central feature of Indian economy, for the past several decades.

Informal activities are the way of doing things characterized by:

- i) Easy entry

- ii) Reliance on indigenous resources
- iii) Family ownership and enterprises
- iv) The small scale of operation
- v) Labour-intensive and adapted technology
- vi) Skill organized outside the formal school system
- vii) Unregulated and competitive markets

The growth of formal employment in the country has always been less than that of total employment, indicating a faster growth of employment in the informal sector. Temporal data suggests that within the formal sector also the proportion of informal/unorganized workers is on the increase. For instance, by providing a comparison of the NSSO Employment Data for 55th and 61st Rounds (for 1999-2000 and 2004-2005 respectively) the NCEUS explains that the country is currently in a state of ‘informalisation of the formal sector’, where the entire increase in the employment in the organised sector over this period has been informal in nature (NCEUS, 2007).

The prominence of the informal sector is duly recognised in the recent policy documents of the Government of India, which discusses the ways and means of employment generation, to benefit the growing mass of unemployed. For instance, a special group constituted by the apex-planning agency of the country (Planning Commission of India) on “Targeting 10 Million Employment Opportunities per year over the 10th Plan Period (2002-2007)” explains that – “exclusively for generating the desirable high level of employment in the country, one has to target the unorganised sector, including small and medium enterprises”.

The unorganised/informal sector in India suffers from a low productivity syndrome, compared to the organised/formal sector. The prominent features of the sector are lower real wages and poor working/living conditions. Further, the sector is characterised by excessive seasonality of employment (especially in the farm sector), preponderance of casual and contractual employment, atypical production organizations and work relations, absence of social security measures and welfare legislations, negation of social standards and worker rights and denial of minimum wages. Poor human capital base (in terms of education, skill and training) as well as lower mobilisation status of the workforce further add to the vulnerability and weaken the bargaining strength of workers in the informal sector.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

- b) Check your progress with possible answers given at the end of the unit.

- 1) Write the harmonized definition of unorganised sector or informal sector provided by NCEUS.

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- 2) What are the main problems of informal sector in India?

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4.5 PROGRAMMES AND POLICIES FOR UNORGANISED SECTOR AND ITS WORKERS

Given the prominence of unorganised sector and unorganised sector workers in the Indian economy, there are a multitude of programmes and policies that address the issues related to the sector and the requirements of the workers engaged in the sector.

4.5.1 Sector Specific and Enterprise Oriented Interventions

Since small enterprises are the mainstay of the unorganised sector in India, a large chunk of policy planning for the sector has been focusing on the issue of protecting and promoting smaller production units. Policy instruments adopted by the government to promote the Small Scale Industry (SSI) include: (a) Financial Incentives; (ii) fiscal incentives; (iii) general incentives; (iv) special incentives in backward areas, and (v) reservation of items for SSI.

A major set of schemes and programmes meant for strengthening the unorganised sector are those related to the promotion of small scale enterprises. Micro, Small and Medium Enterprises (MSMEs), including khadi and village/rural enterprises constitute an important segment of Indian economy in terms of their contribution to GDP, exports and employment. The Union Ministry of Micro, Small and Medium enterprises assist the state governments (which have the primary responsibility of promoting MSMEs) in their efforts for promoting growth and performance of smaller enterprises.

The various spheres of intervention of the Ministry, and its allied organisations, so far include: (1) provision of credit from financial institutions/banks; (2) support for technology upgradation and upgradation; (3) integrated infrastructural facilities; (4) modern testing facilities and quality certification; (5) access to modern management practices; (6) entrepreneurship development and skill upgradation through appropriate training facilities; (7) support for product development, design intervention and packaging; (8) welfare of artisans and workers; (9) assistance for better access to domestic and export markets; and (10) cluster-wide measures to promote capacity building and empowerment of the units and their collectives.

One of the major recent policy interventions of the Government to focus on the sector to strengthen it further is the setting up of the National Commission for Enterprises in the Unorganised Sector (NCEUS) as a supervisory and advisory body for the unorganised sector for examining the problems confronting the enterprises in the unorganised/informal sector and making recommendations to provide technical, marketing and credit support to these enterprises.

4.5.2 Social Security Measures for the Unorganised Sector Workers

Due to a growing recognition of the burgeoning informal sector and its resultant adverse implications on labour standards as well as social security systems, during the recent past, the policy planners in India have been paying considerable attention towards designing more effective social safety nets and revamping the existing measures. Of late, issues like targeting, proper identification, expansion of coverage as well as designing of efficient delivery mechanisms received more attention than ever in the history. Along side these aspects, mounting fiscal deficit scenarios forced the governments (both at the centre and in the states) to seek alternative approaches to devise more cost-effective and targeted interventions as well as to seek enhanced participation of and contributions from other stakeholders, such as the employers as well as the social/community actors (including the targeted beneficiaries themselves).

i) Food Security Initiatives

Since mid 1990s, a major area of intervention was in terms of targeting and strengthening the food based social security systems. In 1995, a major scheme on providing mid-day meals was launched through which some amount of cooked food was ensured per day to the children of indigent families. This measure not only acted as a means of nutritional support to the families of unorganized sector labour, but also provided an incentive for school enrolment of their children.

The next remarkable step was the introduction of the Community Grain Bank Scheme, which though launched on an experimental basis in select tribal regions, was generally hailed as an effective and innovative approach to ensure community involvement in the implementation of social security measures. In 1997, the PDS framework prevalent in the country was massively overhauled and a revamped and targeted system (TPDS) was launched, with a progressive and discriminatory pricing mechanism, through which a higher share of overall food subsidy was earmarked to those families below poverty line. These efforts, of streamlining the benefits to benefit the disadvantaged and needy segments of the society, were further supplemented with the introduction of two more programmes, namely Annapurna Scheme and Antyodaya Anna Scheme. While the former aimed at providing some food relief to the elderly in the impoverished families, the latter was objected to abate hunger among poorest of the poor.

ii) Social Insurance and Pension Measures

In the social insurance sector also, the recent past witnessed a remarkable upsurge with the introduction a number of new schemes, the details of which are summarized in Table 2. A major and universal of social insurance scheme (Janshree Bima Yojana) was launched in 2000, along with the Life Insurance Corporation of India (LIC). The implementation of the scheme, which is currently functional and expanding, is designed with the help of some local level nodal agencies, which could be panchayats (local self governments), non-governmental organizations and self-help groups (SHGs) or any other institutionalized arrangements. Another scheme launched in collaboration with LIC in 2001, Krishi Samajik Suraksha Yojana, was aimed at providing some social insurance benefits to the farm workers. However, due to inadequate resources, the scheme was closed later in 2004. Yet another LIC aided scheme was the Varishta Pension

Bima launched in 2003, which is being fully financed by the investments of the beneficiaries. Subsequently, in 2004, a community based Universal Health Insurance System was also launched by the public sector general insurance companies of the country, which aimed at providing some reimbursement of medical expenses; life-cum-accident insurance; and compensation on job loss to the families below poverty line. Some of the other social security initiatives introduced by the Government of India, in recent past, include: Handloom Weavers' Comprehensive Welfare Schemes, Handicraft Artisans Comprehensive Welfare Scheme, Pension to Mastercraftpersons, National Scheme for Welfare of Fishermen and Training and Extension, Aam Admi Bima Yojana and Rashtriya Swasthya Bima Yojana. In 2004, Government also launched a Comprehensive Social Security Scheme for the Unorganized Sector Workers, as a follow up to the recommendations of the Second National Commission on Labour (2002).

iii) Legislative Interventions and Initiatives

There have been some commendable legislative initiatives in the recent past that have bearings on the welfare of unorganized sector workers. In 1996, two umbrella legislations towards regulating the conditions of work and provision of a measure of social security to the group of construction workers, which constitutes one of the largest segments of workers in the unorganized sector – were passed by the Parliament of India.

On the basis of these legislations [The Building and other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996 & The Building and Other Construction Workers Welfare Cess Act, 1996], various states are expected to enact state level legislations. Subsequently, the Government notified the Building and Other Construction Workers (ECS) Central Rules, 1998, which stipulated several social security benefits to the construction workers including accident relief, old age pension, housing loans, payment of insurance premium, payment towards educational expenses of children, medical and maternity benefits. Following these Acts, various state governments are currently in the process of enacting their own legislations. So far, six states have enacted such legislations and functioning of the new schemes under these legislations have been attaining momentum in states like Kerala and Tamil Nadu.

The Second National Commission on Labour (NCL), constituted by the Government in 1999 dealt with the social security concerns of unorganized sector in a detailed manner. One of the six special study groups constituted by the commission was on social security and in its final report submitted in 2002, the Commission provided detailed recommendations towards strengthening the social security system in the country. As mentioned elsewhere, in response to the Commission's recommendations, the Ministry of Labour prepared a pilot Unorganized Sector Workers Social Security Scheme (2004), which however met with limited response. Further, the Ministry also prepared an Unorganized Sector Workers Bill, 2004, which contained measures relating to both social security and conditions of work in the informal sector.

iv) Unorganised Sector Workers' Social Security Act, 2008

In 2006, a Draft Bill was proposed by the NCEUS [The Unorganized Workers' Social Security (Draft) Bill, 2006] envisaged a three-pronged approach comprising of health insurance, life insurance and old age security for the benefit

of about 300 million workers in the unorganized sector. A distinct feature of the NCEUS's proposal was its right based approach, as the scheme envisages a legally enforceable entitlement for the beneficiaries. Unlike many other earlier schemes, it makes all unorganized sector workers eligible for the social security, irrespective of their occupation and duration of employment (NCEUS, 2006). Yet another important aspect is that, had implemented, the NCEUS plan would have provided a national floor level social security for all the informal workers throughout the country. Notwithstanding these merits, the bill was not passed though it prepared ground for the **Unorganised Sector Workers' Social Security Act, 2008**, which was by the Parliament and had subsequently received the assent of the President in December 2008. The Act seeks to provide welfare measures for workers in the unorganised sector is considered as the first major step in 60 years to remove the plights of the poor worker in the sector. It is expected that in the first five years, over 34 crore workers in the informal sector (including agricultural workers and migrant labourers) would get the benefits of health, life and disability insurances, old-age pension and the group accident scheme.

v) **National Rural Employment Guarantee Act, 2005**

A relevant legislation of recent times that has strong and positive implications to the working poor is the National Employment Guarantee Act (NREGA), 2005. NREGA is a step towards legal enforcement of the right to work, as aspect of the fundamental right to live with dignity. The provisions of NREGA, 2005, which are now being implemented country wide ensure at least 100 days of guaranteed wage employment in a year to at least one adult member of very household. The work is to be provided within 15 days of demanding it and to be located within five kilometers distance. The salient features of the resultant National Employment Guarantee Scheme (NREGS) include the self-selection characteristics and the unemployment compensation to be paid by the government, in case the required minimum employment could not be provided.

The available appraisals of the functioning of the NREGS suggest that, while the scheme is found to be effective in certain regions/pockets, its performance is lagging behind in many other regions. Despite the widespread criticism regarding the narrow scope of the scheme (restricted to below poverty line households) and inadequate role of local bodies in selection of the beneficiaries, the efficient implementation of the provisions of this scheme is expected to enhance the social security levels and reservation income of the rural labour households, besides bringing in a rise in the rural wage levels across the country. A major merit of the NREGA, 2005 is that it provided for the first time in history a right based and legally enforceable benefit of livelihood security to the rural poor, by guaranteeing a minimum level of wage employment. The provision of payment of unemployment allowance, in the event of state's failure to provide assured minimum employment.

4.5.3 Problems and Disadvantages of Unorganised Sector

The unorganized sector has a number of disadvantages. The enterprises in the sector are normally small sized establishments with low capital investment per person employed. Due to this, the productivity levels of the unorganized enterprises are lower compared to their counterparts in the organized sector. Given the fact that a large proportion of these units are not registered, their ability to access credit remains rather limited. The small enterprises are also constrained by poor marketing and infrastructural facilities. Small and scattered nature of the

enterprises and the resultant diseconomies of scale also results in difficulties for accessing capital and common infrastructural facilities. With poor infrastructure and resources firms also do not have much scope for entrepreneurship development. Competition from large units is yet another important problem faced by unorganized sector enterprises.

Unorganized enterprises also lag behind in terms of technology. Most of the enterprises use inferior and obsolete technology and invest very little on technology up gradation. Use of inferior and obsolete technology further reduces their productivity and income in the sector. The work and workers in the unorganized sector also share serious disadvantages. The work related disadvantages include: (a) casual nature of employment, (b) lower wages and inferior working conditions; (c) absence of social security measures; and (d) lack of worker collectivity. Workers often do not have any definite employer and the resultant 'multiple employer status' adds to their insecurity of employment (in terms of tenure as well as terms and benefits).

The workers in most unorganized enterprises are characterized by lower educational and skill levels. They are entangled in vicious levels of poverty which reduces their productivity and income levels. Unsanitary conditions prevalent in the unorganized workplaces often cause continuous health hazards to the workers. Unrecorded / unregistered nature of the enterprises poses difficulty in providing training programmes or social security schemes to the workers.

4.6 RECOMMENDATIONS OF NCEUS TO STRENGTHEN THE UNORGANISED SECTOR

Confirming to its mandate, the National Commission for Enterprises in the Unorganised Sector (NCEUS) has recommended several policy prescriptions to strengthen the enterprises in the unorganised sector and to promote welfare of the workers in the informal sector. The Commission, in its final report, observes that we must have very targeted policies for expanding employment, especially in the unorganised sector, which can not be brought up simply by economic growth.

According to the Commission, for expanding employment, a well designed set of policies and programmes have to be adopted and implemented. These measures have to focus especially towards the unorganised sector, which would continue to engage a lion share of the increase in labour force.

In view of the myriad problems and prospects of the informal sector economy, the Commission recommended a strategy of '**leveling up**', the informal economy by advocating a series of promotional policies to strengthen the working conditions, enterprise capacity and so on – to realise higher productivity, along with providing social security and decent conditions of work. The promotional measures suggested by the Commission include:

- i) *Creation of a 'social floor'*: consisting of provision of a national minimum social security; enforcement of a national floor level wage (called national minimum wage) and a stipulation of minimum conditions of work.
- ii) *Skill formation for the informal workers as a critical capability to enhance their productivity and income*: To support skill development in the

unorganised sector, the Commission recommended launching of a National Mission for Development of Skills in the Unorganised Sector.

- iii) *Strengthening of NREGA:* The Commission viewed the NREGA as an important component of the full employment strategy for India. Accordingly, the Commission recommended strengthening the programme in the rural area and connecting it up with a programme of urban renewal. It was also recommended to expand the list of assets under NREGA and invest these assets in the poor.
- iv) *Agricultural regeneration through a special programme for marginal and small farmers:* To build capacity of small-marginal farmers through a group based approach, the Commission has worked out a special programme targeting these groups. The principal activities proposed under the special programme include: promotion of marginal-small farmers' groups; enabling greater access to institutional credit; training and capacity building; support for strengthening non-farm activities; gender focused activities; and so on. In this context, the Commission also recommended building up of a National Fund for the Unorganised Sector (NAFUS), comparable to the NABARD for agriculture, to provide finance, marketing and technological facilities.
- v) *Development of micro enterprises in the non-farm sector with a focus on development of clusters and Growth Poles:* The Commission recommended for the adoption of Growth Pole model for cluster development. This recommendation involves an upscaling of cluster development efforts through provision of common infrastructure, service centres

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your progress with possible answers given at the end of the unit.

- 1) List the major policy instruments adopted by the government to promote the Small Scale Industry.

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- 2) Name the important food security initiatives, in the recent past, which are beneficial to the workers in the unorganised sector.

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- 3) NREGA is a step towards legal enforcement of the right to work. Explain.

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4.7 LET US SUM UP

In this unit, we discussed the meaning and concept of unorganised sector and also understood the importance of unorganised sector in India's economy. Subsequently, we also discussed the major programmes and policies for unorganised sector and workers in the sector – focusing on the sector specific and enterprise oriented interventions as well as the social security measures for unorganised sector workers. As part of discussion, we also understood various food security initiatives, social insurance and pension measures, besides the major legislative interventions and initiatives. Towards the end of the unit, we also discussed the major recommendations of the NCEUS to strengthen the unorganised sector.

4.8 KEY WORDS

Unorganised Sector: Unorganised sector is defined as that segment of the economy,

which: “...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”.

Unorganised workers: Unorganised workers are defined as “those working in the unorganized sector or households, excluding regular workers with social security benefits provided by the employers and the workers in the formal sector without any employment and social security benefits provided by the employers”.

Social Security: In its simplest sense, the term ‘Social Security’ implies the protection which society provides for its members, in times of deprivation and loss of income during economic crisis and other contingencies.

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4.10 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress 1

Answer1: The Task Force formulated a set of harmonized definitions of the sector and informal employment. Accordingly the unorganised sector is defined as that segment of the economy, which: “...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”.

Answer 2: The unorganised/informal sector in India suffers from a low productivity syndrome, compared to the organised/formal sector. The prominent features of the sector are lower real wages and poor working/living conditions. Further, the sector is characterised by excessive seasonality of employment (especially in the farm sector), preponderance of casual and contractual employment, atypical production organizations and work relations, absence of social security measures and welfare legislations, negation of social standards and worker rights and denial of minimum wages.

Check Your Progress 2

Answer 1: Since small enterprises are the mainstay of the unorganised sector in India, a large chunk of policy planning for the sector has been focusing on the issue of protecting and promoting smaller production units. Policy instruments adopted by the government to promote the Small Scale Industry (SSI) include: (a) Financial Incentives; (ii) fiscal incentives; (iii) general incentives; (iv) special incentives in backward areas, and (v) reservation of items for SSI.

Answer 2: In 1995, a major scheme on providing mid-day meals was launched through which some amount of cooked food was ensured per day to the children of indigent families. In 1997, the PDS framework prevalent in the country was revamped and targeted system (TPDS) was launched, with a progressive and discriminatory pricing mechanism in favour of families below poverty line. Two more programmes were introduced in 2000, namely Annapurna Scheme and Antyodaya Anna Scheme. While the former aimed at providing some food relief to the elderly in the impoverished families, the latter was objected to abate hunger among poorest of the poor.

Answer 3: The provisions of NREGA, 2005, which are now being implemented country wide ensure at least 100 days of guaranteed wage employment in a year to at least one adult member of very household. The work is to be provided within 15 days of demanding it and to be located within five kilometers distance. The salient features of the resultant National Employment Guarantee Scheme (NREGS) include the self-selection characteristics and the unemployment compensation to be paid by the government, in case the required minimum employment could not be provided.



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