



Annual Survey of Services Sector Enterprises

For Prelims: [Service Sector](#), [Digital India](#), [AI](#), [ML](#), [Skill India Digital](#), [PMKVY 4.0](#), [Global Capability Centers \(GCCs\)](#), [Digital Literacy](#).

For Mains: State of incorporated services sector enterprises in India, their contribution, associated challenges and way forward.

[Source: PIB](#)

Why in News?

The [Ministry of Statistics and Programme Implementation](#) released findings from a pilot study on the **Annual Survey of Services Sector Enterprises**, aimed at filling **critical data gaps** in India's **incorporated service sector**, which is **not covered** by existing surveys like the [Annual Survey of Unincorporated Sector Enterprises](#).

- It covered those service sector enterprises which are registered under **Companies Act and Limited Liability Partnership Act**.
- It found that **82.4% enterprises** were **Private Limited Companies**, followed by **Public Limited Companies (8%)** and **LLPs (8%)**.

What is the Importance of Services Sector Enterprises for India?

- **Contribution to GDP:** In **FY 2024-25**, the services sector contributed approximately **55%** to India's Gross Value Added (GVA), up from 50.6% in FY14.
 - It sustained strong growth at **7.6% in FY24**, showcasing its **resilience amid global challenges**.
- **Employment Generation:** The sector employs approximately **30% of India's workforce**, encompassing industries such as **information technology, finance, healthcare, education, tourism, and retail**.
- **Global Trade:** During April-December 2024, India's services exports stood at **USD 280.94 billion**.
 - In **telecommunications, computer, and information services**, India accounts for **10.2%** of global exports, ranking as the **2nd-largest** exporter in this category.
- **Foreign Direct Investment (FDI):** From April 2000 to December 2024, the services sector attracted **USD 116.72 billion in FDI**, constituting about **16% of India's total FDI** inflows during this period.
- **Integration with Other Sectors:** The '**servicification**' of industry, or the growing integration of services like **design, logistics, and after-sales support** into manufacturing processes, has boosted **productivity and added value** to the industrial sector.
- **Critical for Urbanization & Digital India:** The expansion of **FinTech and digital payments**, is critical for the success of [Digital India](#).
 - The [Smart Cities Mission](#) also depends on this sector for services like **urban**

mobility, [waste management](#), and e-governance.

What are the Challenges Faced by the Services Sector in India?

- **Skill Gaps & Workforce Readiness:** The [Economic Survey 2023-24](#) indicates that **only 51.25%** of India's youth are considered **employable**, possessing the **skills** needed to meet the rapidly **evolving demands of the industry**.
 - According to [WEF](#), **only 5%** of India's workforce, the youngest and largest in the world, is recognized as **formally skilled**.
- **Informal Employment Dominance:** In 2017-18, around **78%** of services sector jobs were **informal**.
 - **Gig workers** (Swiggy, Ola, Uber) **lack** social security such as **health insurance, retirement funds, or paid leave**.
- **Global Competition & Protectionism:** IT sector faces **visa restrictions** (e.g., H-1B rejections by US), rise of **competing hubs** (e.g., Philippines (BPO), Vietnam (IT)), and **declining cost advantage** (e.g., Indian IT wages rose 8-10% annually on an average).
- **Infrastructure Gaps:** Larger units are **yet to fully adopt AI and ML**, which are essential for enhancing **connectivity and customer engagement**.
 - A majority of [MSME units in rural areas](#), run by women, SC-ST and other marginalized groups, **do not have access to basic digital tools**.
- **Post-Pandemic Vulnerabilities:** Inbound tourism in India is **still recovering** from the pandemic, with **foreign tourist arrivals at 90% of 2019 levels** in the first half of 2024.

How to Address Challenges in the Services Sector?

- **Upskilling:** Expand [Skill India Digital](#) to certify **workers** in AI, cloud computing, and cybersecurity and **increase vocational training institutes** under [PMKVY 4.0](#).
 - The [Prime Minister Internship Scheme \(PMIS\)](#) should be **vigorously pursued to enhance employability** and **bridge the gap between academic knowledge and industry requirements**.
- **Strengthening Global Competitiveness:** Negotiate [free trade agreements \(FTAs\)](#) with **EU, UK, and Australia** to reduce visa restrictions.
 - Promote [Global Capability Centers \(GCCs\)](#) to leverage India's vast **talent pool** to support various functions like **IT, R&D, and finance**.
- **Digital Infrastructure and Cybersecurity:** Strengthen cybersecurity by investing in robust frameworks, promoting secure **cloud adoption**—particularly in financial institutions—and enhancing [digital literacy](#) for safe and effective tech use.
- **Foster Growth in Tier-2 and Tier-3 Cities:** [NITI Aayog](#) recommends decentralizing service-sector growth to **Tier-2 and Tier-3 cities** by boosting infrastructure and **digital connectivity** in smaller cities.

Conclusion

The **services sector** is vital to India's **economy**, contributing significantly to **GDP, employment, and global trade**. However, challenges like **skill gaps, informal employment, and global competition** hinder growth. Addressing these issues through **upskilling, infrastructure development, and fostering growth in smaller cities** can enhance sector **resilience and global competitiveness**.

Drishti Mains Question:

What are the key challenges facing India's services sector despite its economic dominance, and how can it become more inclusive and resilient?

UPSC Civil Services Examination, Previous Year Question (PYQ)

Prelims

Q. In the 'Index of Eight Core Industries', which one of the following is given the highest weight? (2015)

- (a) Coal production
- (b) Electricity generation
- (c) Fertilizer production
- (d) Steel production

Ans: (b)

Mains

Q. Industrial growth rate has lagged behind in the overall growth of Gross-Domestic-Product(GDP) in the post-reform period" Give reasons. How far are the recent changes in Industrial Policy capable of increasing the industrial growth rate? (2017)

Q. Normally countries shift from agriculture to industry and then later to services, but India shifted directly from agriculture to services. What are the reasons for the huge growth of services vis-a-vis the industry in the country? Can India become a developed country without a strong industrial base? (2014)

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