

Services

The service sector contributes nearly 41 percent of the state's income and accounts for 50 percent of total employment. In the five most earthquake affected districts, nearly half a million people worked in the service sector and together they contributed about Rs. 6,766 crores (\$1,455 million) towards the state's annual income. The assessment team estimated that the asset damages and output losses in the service sector are Rs. 1,160 crores (\$250 million) and Rs. 1,748 crores (\$ 376 million) respectively¹. The assessment team has expressed the view that the government, instead of getting involved in a full-scale rehabilitation of commercial buildings², should create an enabling environment to let the entrepreneurs quickly rebuild their establishments and bring back normalcy to the region.

Overview of the Service Sector of the Affected Region

The five most severely earthquake affected districts (i.e., Kutch, Rajkot, Jamnagar, Patan, and Surendranagar) have a large number of trade and commerce establishments, with wholesale and retail shops, restaurants, and hotels constituting the largest segment of the service sector, both in terms of employment and number of enterprises. Some of the largest shopping centers in the affected region are in the Gandhidham area, where a large number of imported goods brought through the Kandla port are sold. Some of the rich Kutchis living in Mumbai are known to have made large investments in shopping centers in Gandhidham and nearby places.

Community, social, and personal services constitute the second biggest segment of the service sector in the affected region, with the presence of a large number of NGOs in the drought affected parts of the Kutch district.

Table 1: Level of Employment and Output Produced in the Service Sector

Name of the District	Trade, Restaurants and Hotels		Transport, Communication and Storage		Finance, Insurance and Real Estate		Community, Social & Personal Service	
	Employment (Nos.)	Output (Rs. Crores)	Employment (Nos.)	Output (Rs. Crores)	Employment (Nos.)	Output (Rs. Crores)	Employment (Nos.)	Output (Rs. Crores)
Jamnagar	31,456	403	7,717	249	2,978	150	44,487	540
Rajkot	57,847	740	14,355	462	8,249	414	65,733	797
Surendranagar	21,637	277	5,105	165	1,915	96	30,132	366
Kachchh	20,749	266	12,920	416	3,220	162	39,402	478
Patan	22,917	293	3,847	124	1,799	90	23,001	279
In Affected Districts	154,606	1,979	43,944	1,416	18,161	912	202,755	2,460

¹ While estimating the asset damages, damages to various infrastructures in the service sector, like health, education, and all those sectors covered in the previous annexes are excluded. But for estimating the output losses, the damage to the entire service sector is included.

² On February 26th, the local press reported the announcement of a rehabilitation package by GOG for industry and some parts of the service sector (See Times of India). Further details concerning this package are not yet available, but it is expected to be much smaller in size compared to the housing package.

A district-wise breakdown of number employed and value added (see Section IV for details) in various subsectors of the service sector is shown in Table 1. Nearly half a million people worked in the service sector in these districts and the net income generated from the sector was estimated at Rs. 6,766 crores (\$1,455 million) in 1999-2000.

Damage to Assets

The damage to the assets of commercial establishments (shops, restaurants, hotels, banks, cooperatives, and other financial institutions) is estimated to be nearly Rs. 772 crores (\$166 million). Another Rs.298 crores (\$64 million) worth of inventories, working capital, and other goods are estimated to have been lost or destroyed (Table 2).

Table 2: Estimate of the Damage to Assets

Type of Damages in Various Sub-sectors	Direct Cost	Reconstruction
	Rs. Crores (US\$ million)	Rs. Crores (US\$ million)*
1. Commercial Buildings (Totally and Partially Damaged)	772 (166)	930 (200)
Trade, Restaurants, and Hotels	721 (155)	865 (186)
Finance, Insurance, and Real estate	51 (11)	65 (14)
2. Goods, Inventory, Equipment and Working Capital Lost	298 (64)	
Trade, Restaurants, and Hotels	247 (53)	
Finance, Insurance, and Real estate	51 (11)	
3. Damages to other Segments of the Service Sector	93 (20)	
Service Sector Damages (Sum of lines 1, 2, and 3)	1160 (250)	930 (200)

* Reconstruction costs are assumed to be 20 percent higher than the damage to assets.

Source: Status Report of Damages due to Earthquake on 26th January 2001 in Municipalities of Gujarat State, GOG; and Joint Team Estimates.

The damage to assets in the case of the service sector refers to the value of the physical damage to the commercial establishments (shops, restaurants, hotels, and financial institutions), goods, inventories, and other working capital stored in these establishments, and infrastructure related to education, health, transport, and communication sectors. Since most of the infrastructure related asset damages are discussed in the various annexes of this report, we limit our discussion to asset damage to commercial establishments alone.

A precise assessment of the asset damage to commercial establishments is difficult, because there is very little information available from GOG yet³. The only information available is the number of units damaged in municipalities (source: Urban Development and Urban Housing Department and Gujarat Municipal Finance Board). Using this information, a ratio of commercial to residential buildings damaged is estimated for each of the affected municipalities. The same ratio is assumed for estimating the number of commercial buildings damaged in rural areas. The unit value of a damaged commercial building in a particular area is assumed to be twice the unit value of a damaged private house in the same area. Based on these assumptions, the damage to commercial establishments is estimated to be around Rs. 772 crores (\$166 million).

To estimate the damage to inventories and working capital, a two-month turnover amount of the affected commercial establishments in the five most affected districts (namely Kutch, Rajkot, Jamnagar, Surendranagar, and Patan) is used⁴. This results in a loss of Rs. 298 crores

³ According to GOG, a survey on damages to shops and other non-industrial commercial establishments will begin at end of February 2001 and is likely to be completed in the next 2 months.

⁴ The turnover amount is assumed to be one-and-half times the value added by these retail units.

(\$64 million) worth of inventories, working capital, and other goods by these commercial establishments because of the earthquake.

Estimated Output Losses

The output losses in services is expected to be around Rs. 1748 crores (\$376 million). On account of these damages alone, the state's real GSDP growth rate may get lowered by more than one percentage point in 2001-02. However, this negative growth effect is likely to be more than offset if the government successfully implements the large-scale rehabilitation and reconstruction packages, and the anticipated surge in remittances from abroad materializes.

Output losses are caused by four factors. First, damages to the infrastructure of the service sector will adversely affect output. Second, many of the commercial establishments have lost their inventories and working capital. This is likely to severely limit their activities in the initial period. Third, as much of the labor in the affected region have moved out, output in the short run is likely to be adversely affected by labor shortages and a corresponding rise in wages. Finally, the demand for consumer goods is expected to remain depressed for the next few months for the following reasons: (a) much of the affected population living in temporary housing will postpone their purchases; (b) some of the affected population are likely to remain liquidity constrained; and (c) a huge amount of relief materials continue to be flown into the affected region from outside the state.

At the same time, there are two potential factors, which are expected to have a positive impact on output of the service sector. First, are the activities associated with relief and rehabilitation efforts in the housing sector (which has been announced) and in the industrial sector (to be announced soon). These activities are expected to give a boost to the real estate market, create new jobs in the community, social, and personal subsectors of the affected districts, and raise the demand for insurance products. Second, it is widely expected that there will be a surge in remittances from outside the state and the country from friends and families of the affected people, which is likely to have a positive impact on aggregate demand.

To estimate the contribution of a particular subsector of a district to the overall output of the economy, we assume that the labor output (and/or the enterprise output) ratio is the same across all the affected districts⁵. We then assume that the following portion of the output from each district will be lost for the next few months due to disruption caused by the earthquake: 50 percent from Kutch and 20 percent each from Rajkot, Jamnagar, Surendranagar, and Patan. A district-wise breakdown of the output that will be lost from the affected districts in the coming months on account of the earthquake is shown in Table 3.

Our estimate of the asset losses and output losses cannot be easily compared with the estimates provided in the GOG report, because the latter does not distinguish between the asset damages (stock loss) and the output losses (flow loss). According to GOG's industry and service department, an assessment of the asset damage to commercial establishments is being planned, so more precise numbers will be available in the next few weeks. It is however important to note that our estimate of the asset and output damages combined is Rs.2,911 crores

⁵ Such an assumption is necessary, because data on district-wise value added by various segments of the service sector is not compiled by the GOG. The assumption would appear highly stylized under most conditions. But given the nature of the affected districts, which are mostly rural, and have a large number of labor intensive service organizations, this assumption can be defended in our context.

(\$626 million), which is very close to the Rs.2,999crores (\$645 million) estimated by the GOG as the overall loss in the ‘trade and commerce sector’.

Table 3: District-wise Breakdown of the Output Losses in various segments of the Service Sector in Rs. Crores (\$ million)

Name of the District (expected loss)	Trade, Restaurants and Hotels	Transport, Communication and Storage	Finance, Insurance and Real Estate	Community, Social & Personal Service	Total
Kachchh (75%)	133 (28.6)	208 (44.8)	80.9 (17.4)	239 (51.4)	660 (142)
Rajkot (20%)	148 (31.8)	92.5 (19.9)	82.8 (17.8)	159.4 (34.3)	484 (104)
Jamnagar (20%)	80 (17.3)	49.7 (10.7)	29.7 (6.4)	107.8 (23.2)	270 (58)
Surendranagar (20%)	55 (11.9)	33.0 (7.1)	19.1 (4.1)	73.0 (15.7)	181 (39)
Patan (20%)	59 (12.6)	24.6 (5.3)	18.1 (3.9)	55.8 (12.0)	158 (34)
In Affected Districts	475 (102)	408 (87.8)	231 (49.7)	635 (136.6)	1748 (376)

Needs

As noted above, a complete assessment of the assets lost in the service sector is yet to be determined by the GOG. This assessment should be initiated as soon as possible. Even without a precise assessment, it is however known that a large part of the population in the affected region is dependent on the service sector for their livelihood. Thus, there is a need to restart economic activities in the area soon. The financial institutions, like banks and co-operatives, who were closed for a week or longer after the earthquake need to begin their normal operation of lending to the trade and commerce sector, so that monetary transactions can begin in the region. In order to ensure that the country’s trade is not affected by transportation bottlenecks, the Kandla port needs to operate at full capacity soon (it is currently working at 50-60 percent capacity). Many of the laborers, especially from the transportation sector, who have moved out of the affected areas, should be encouraged to return to the area and facilitate in the rehabilitation exercise. The reconstruction of the commercial establishments in fully destroyed villages is now dependent on where the new villages will be built. Therefore, the state administration should initiate steps whereby the reconstruction of commercial establishments is carried out in parallel with the construction of private houses.

Reconstruction Strategy

Unlike the private housing sector, the government does not appear to be interested in undertaking any large-scale rehabilitation of commercial establishments, and the joint team fully endorse the government’s approach. The team views that the government should create an enabling environment to let the entrepreneurs quickly rebuild their establishments and bring back normalcy to the region. For example, the government should treat rebuilding of the affected infrastructure of the service sector (e.g., health centers, schools, community houses, transportation and communication infrastructures, water) as top priority, provide price based incentives for small traders and shopkeepers to reconstruct their properties and begin their operation soon, and encourage migrant laborers to return to the affected region. It should ensure that most of the relief materials are procured from the local area, giving a boost to trade and commerce in the affected region.

Implementation Considerations

Most of the lost properties in this sector (excluding the infrastructure) were in private hands. Therefore, there has not been much interest among the donor community to finance reconstruction activities in this sector, and so we do not anticipate any donor coordination problem for the sector. There are, however, at least 3 risk factors that we have identified, which the government and donor communities should consider while implementing their projects. They are:

If the retail market does not return to normalcy soon, shortages in certain commodities can develop (especially on items like cement, steel, and other construction materials), giving rise to steep price hikes, and this can seriously undermine the reconstruction activities.

Second, the region may have lost some of the service sector jobs permanently, (like the large commercial centers in Gandhidham, where there are doubts that some of the promoters would rebuild them), and this is likely to increase unemployment in the region, at least in the short-run.

Finally, some of the public sector banks are likely to experience decline in their profitability as they have been instructed by the RBI to give two years moratorium on existing loans and to provide highly subsidized loans to affected people to rebuild their houses. This policy may adversely affect the balance sheet of some of the banks, forcing them to limit their exposure to the earthquake affected region. Thus, the loan to the housing sector may crowd out the loan that otherwise would have gone to the wholesale and retail traders, thereby restricting trade and commerce activities in the region.