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Labour Law, the Business Environment and Growth of Micro and Small Enterprises

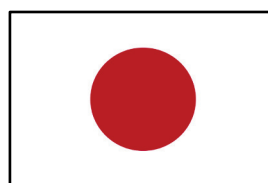


Labour Law, the Business Environment and Growth of Micro and Small Enterprises

Bangladesh - Country Report



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Foreword

Enterprises, in particular micro and small enterprises (MSEs), are considered the growth engine for creating productive jobs. They play a crucial role in enabling countries achieve the goal of decent work for all. However, enterprises often face significant obstacles in the forms of red tape and lack of access to financing and markets. These challenges are among the contributing reasons why entrepreneurs decide to operate in the informal economy.

The International Labour Organization (ILO) has identified the informal economy as representing a significant obstacle to achieving decent work for all. Entrepreneurs who operate in the informal economy are less productive and unlikely to achieve the full growth potential of their enterprise. Furthermore, workers employed in informal enterprises generally receive lower salaries and enjoy fewer, if any, benefits the formal economy workers do. Enterprises operating in the informal economy, at times, also contribute to unfair competition by avoiding taxation and the costs associated with compliance with labour laws and other regulations. Facilitating the formalization of enterprises and workers is a key priority guiding the work of the ILO.

This study was conducted to support the ongoing policy dialogue in Bangladesh on strategies to support the formalization of the informal economy. While informal economy issues affect entrepreneurs and workers alike, this study focuses on the enterprise side of informality. It is part of a series of four country studies commissioned by the ILO to research the impact of labour laws and the cost of regularization on entrepreneurs' decisions to formalize their business. The countries covered by this research are India, Nepal, Bangladesh, and Sri Lanka. In Bangladesh, the study has focused on the following sectors: agro processing, leather goods, light engineering, and textile/garments. The first part of the study was completed in 2007. In the second part of the study, which was completed in 2011, the research was expanded with a large-scale survey targeting 611 enterprises.

Dr Muhammad Ziaulhaq Mamun, professor at the Institute of Business Administration, University of Dhaka, is the lead author of the study. Professor T.S. Papola of the Institute for Studies in Industrial Development has provided valuable support and is responsible for guiding the four country studies. Mridusmita Bodoloi (Consultant) has analysed and incorporated the additional data. Hideki Kagohashi (Senior Enterprise Specialist) of the ILO's Decent Work Team for South Asia has been responsible for conceptualizing and overseeing the research. Thomas Kring (Chief Technical Advisor, 'Way Out of Informality' project) oversaw and managed the finalization of the study.

The study was made possible with support from the Norwegian Agency for Development Cooperation, and with additional support from the Japanese government, provided under the "Way Out Of Informality: Facilitating Formalization of Informal Economy in South Asia" sub-regional project.

Tine Staermose
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ILO Decent Work Team for South
Asia and Country Office for India
New Delhi

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Executive summary

This study is based on a survey of micro- and small enterprises (MSEs) in Bangladesh and provides a better understanding of the legal and regulatory factors that can aid or inhibit growth, quality of jobs and employment creation in MSEs in the country. It is a part of the four country studies conducted in South Asia, covering India, Nepal and Sri Lanka as well. These countries broadly share the same approach towards the application of labour and labour-related laws in MSEs: generic or partial exemptions for enterprises below certain threshold sizes. The core questions of the research are as follows: (a) whether these exemption thresholds, both of labour as well as other business regulations, are associated with certain types of avoidance behaviour by the firms and, if so, to what degree; (b) whether regulations without such exemptions are associated with certain types of avoidance behaviour and, if so, to what degree; (c) what are the important variables that affect such behaviour (e.g. inspection coverage); and (d) whether these findings support the perception-based rating of factors that affect the growth of MSEs.

The study first reviewed and prioritized those laws and regulations from labour and other regulatory issues that are perceived to have a high probability of becoming growth traps (e.g. incentivizing businesses to stay smaller than the set threshold or remain unregistered). The Bangladesh Labour Act, 2006 abolished most thresholds for number of workers and made most legal provisions applicable to all businesses. The few remaining thresholds are on occupational health and safety and welfare provisions and include, among others, the following: (a) the provision of a shelter/restroom/lunch room in enterprises with 50+ workers and a separate room for women in enterprises with 25 female workers; (b) the provision of a children's room for enterprises with 40 female workers with children below six years of age. The formation of a trade union has an implicit threshold of five workers as part of registration requirements. Besides labour laws, laws on income tax and value added tax (VAT) also have thresholds for exemption and lower rates, but they are set on the basis of annual turnover, not number of employees. Besides the original assumption of firms staying below the threshold level, several other avoidance strategies were presumed and the survey questionnaire was designed to capture them.

The survey collected data from the sample of 611 enterprises, covering four sectors (agro processing, leather goods, light engineering, and textile/garments) with three to seventy employees. Having identified the above-mentioned thresholds, the survey stratified them into five groups of firms according to number of employees. It asked the owners/managers of these businesses about their knowledge of and actual compliance with each of the labour and business regulations perceived important in Bangladesh. It also asked for the transaction cost of compliance and, if applicable, the reasons for non-compliance. Regarding the legal requirements of a threshold, the survey had different sets of questions for those below and those above the threshold level in order to precisely identify avoidance and non-compliance behaviour and the reasons behind it. The questionnaire also captured information on registration, licensing, precise knowledge of the obligations and penalties of the labour regulations as well as the frequency of inspection, access to incentives and informal payments.

The main survey findings are as follows:

- Businesses in Bangladesh practiced a “*staying below the threshold level*” strategy, but only marginally. Two firms reported that they had tried to keep their income below the income tax exemption ceiling, and four firms tried to keep their income below the lower VAT rate ceiling; one business decided not to grow in order to avoid providing shelter/rest room/lunch room (applicable for every 50 employees or every 25 female employees), but no one tried to do with regard to the provision of a children's room; there was one case on the Environmental Clearance Certificate (ECC); and no one exercised the strategy to avoid the formation of a trade union. The only notable area was

incentive programmes. Of those aware of the eligibility ceiling, 35 per cent were concerned about losing benefits by outgrowing the ceiling. However, due to the low availing ratio, this group represents only three per cent of the total MSEs surveyed.

- “Creating parallel firms” can be considered a way of “staying below the threshold”. About 15 owners (two per cent of the sample firms) disclosed that they owned 26 parallel units. While most had less than 25 employees, there was no clear indication whether they intended to avoid any regulations by having parallel units.
- Non-compliance with the legal obligations because MSEs are “simply uninformed” seemed a popular scenario in Bangladesh with regard to minimum wage (47 per cent were unaware of the obligations, 57 per cent did not pay minimum wage) and employees’ provident fund (EPF) (80 per cent were unaware of the obligations, only two businesses – 0.3 per cent of the sample – made EPF contributions). Gratuity shared a similar fate, with 79 per cent unaware of the obligations with regard to gratuity and with no one ever having made gratuity payments; however, the difficult-to-meet eligibility condition (25 years of work before separation) may also explain why no one had ever made a gratuity payment.
- “Outright defiance of legal obligations” was commonly observed avoidance behaviour in Bangladesh. Around ten per cent of the enterprises indicated that they were aware of the minimum wage obligations but did not pay, and 20 per cent were aware of the EPF obligations but did not make EPF contributions. Some enterprises claimed “It is not legally required”, but most others gave reasons which confirmed that they were avoiding payments while knowing that they were supposed to pay. Thus “*avoidance by choice*” behaviour was observed in many cases. Out of 78 per cent of MSEs not paying income tax, some claimed it was because it was not legally required or they were exempted, but other reasons given confirmed that they knew they were above the ceiling but did not pay income tax. For 81 per cent of MSEs not paying VAT, the situation was the same.
- “*Making informal payments*” was identified as a popular avoidance strategy in Bangladesh on the basis of the “have heard of” question. Knowledge of the practice of informal payments was most prevalent in relation to income tax (41 per cent), followed by environmental regulations (39 per cent), compensation for injury/death (39 per cent), VAT (37 per cent), and minimum wage (32 per cent). Businesses also heard of informal payments being made with regard to all other remaining regulations, ranging from nine per cent to 16 per cent. A substantially small percentage of MSEs responded saying they had actually made such informal payments in relation to EPF contribution (six per cent), trade union formation (four per cent) and the provision of shelter/rest room/lunch room (four per cent).
- The survey data seemed to indicate the phenomenon of “*casualizing of labour*” in Bangladesh to a small degree, although it is not clear whether this should be considered an avoidance strategy. Of the total workers, only two per cent were found to be working as casual or temporary workers. While none of the paid workers were working on a temporary basis, a relatively higher proportion of 12 per cent unpaid workers were temporary or casual employees. A significant number of “full-time employees” of MSEs in Bangladesh may have casual labour characteristics to a degree that they are paid on piece-rate basis (25 per cent) and daily basis (ten per cent). Daily wage payment was the key reason for not maintaining the employment register among micro businesses, with three to five workers, in the leather goods and textile sectors (i.e. the indication of “casualizing labour”).
- Regarding EPF, some avoidance strategies included “No action without demand” and “Negotiate for less costly arrangement”.
- With 15 per cent of MSEs unregistered, it is uncertain whether they followed “Avoiding registration/staying informal” as a strategy to avoid compliance with labour and tax

regulations, although they did demonstrate lower levels of compliance than registered businesses.

- When compared to the level of awareness, compliance and avoidance confirmed through the survey, the general tendency is that perception-based rating overstates the impact of positive factors. The transaction cost of tax administration was the only exception where the negative perception was supported by relatively high transaction costs reported by the surveyed MSEs. While 67 per cent of MSEs perceived payment of workers according to minimum wage regulations as positively affecting the growth of business, a considerably lower proportion of firms (43 per cent) actually reported paying their workers according to the minimum wage act. The survey revealed that compliance with EPF regulations was almost non-existent among the MSEs in Bangladesh. Less than one per cent of the total surveyed enterprises admitted making EPF contributions. However, almost half of the enterprises believed that compliance with EPF regulations positively impacts business growth. Around 29 per cent of MSEs in Bangladesh perceived having a trade union and collective bargaining process as positively influencing business growth. However, none of the 234 surveyed businesses above the threshold level had a trade union formed by its employees.

Finally, the report discusses the results and their contribution to policy dialogue towards the legal and regulatory framework that would provide a good balance between the protection of workers and the incentives to growth and employment generation in the context of the emerging smart and responsive regulation debate.

List of abbreviations

AEIS	Annual Establishment and Institutions Survey
BBS	Bangladesh Bureau of Statistics
BSCIC	Bangladesh Small and Cottage Industries Corporation
CMI	Census of Manufacturing Industries
CSR	Corporate social responsibility
ECC	Environmental Clearance Certificate
EPF	Employees' provident fund
EU	European Union
LES	Light Engineering Sector
LPAs	Labour policy areas
MFI	Micro financing institutions
MSE	Micro- and small enterprise
MSME	Micro-, small and medium enterprise
NGO	Non-governmental organization
NTB	Non-tariff barrier
PSU	Primary sampling unit
PPS	Probability Proportional to Size
RMG	Ready-made garment
SME	Small and medium-sized enterprises
VAT	Value added tax

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Concepts and definitions

Apprentice	A learner who is paid an allowance during the period of his/her training.
Badli	A worker who is appointed as a permanent worker or probationer who is temporarily absent.
Casual labour	An enterprise contracts workers who are not considered part of the regular workforce of the enterprise and whose employment is of a casual nature.
Establishment (industrial)	Any workshop/ other establishment in which articles are produced, adapted or manufactured or where the work of making, altering, repairing, ornamenting, finishing or packing or otherwise treating any article or substance, with a view to their use, transport, sale, delivery or disposal, is carried on or such other class of establishments including water transport vessels or any class thereof which the government may, by notification in the official <i>Gazette</i> , declare to be an industrial establishment, and includes (i) any motor omnibus service, any dock, wharf or jetty; (ii) any mine, quarry, gas-field or oil-field; (iii) any plantation; or (iv) a factory.
Expanding horizontally	An entrepreneur sets up an additional enterprise, and neither of the two enterprises breaches the size threshold.
Full-time job	Employment where the employees are presumably committed to stay with that enterprise for a specified period of time. Most MSEs do not have the required formal structure for full-time employment (e.g. registration, salary, working hours, and so on).
Hiding workers	When an enterprise expands beyond the threshold level but does not report the additional workers.
Large industry	An industry with more than 100 workers, or one in which the value/replacement cost of durable resources other than land and factory buildings is above 100 million Bangladeshi Taka(BDT) (US\$1=Tk.70 approx.).
Medium industry	An industry with 25–100 workers, or in which the value/ replacement cost of durable resources other than land and factory buildings is between BDT15 million and BDT100 million.
Micro-enterprise or cottage industry	An industry in which members of a family are engaged either part time or fulltime in production or service-oriented activities – considered micro-enterprise (Industrial Policy, 2005 of Bangladesh).
Permanent worker	A worker who has been engaged on a permanent basis or who has satisfactorily completed the period of his probation in a shop or commercial or industrial establishment.

Small industry	An industry with fewer than 25 workers, or one in which the value/replacement cost of durable resources other than land and factory buildings is under BDT15 million (Industrial Policy, 2005 of Bangladesh).
Temporary worker	A worker who has been engaged for work which is essentially of a temporary nature and is likely to be finished within a limited period
Unofficial payments	When an entrepreneur pays officials not to enforce the law. Contrarily, the existence of regulatory compliance appeared to benefit enterprises, particularly large ones, more than hurt them, due to greater buyer acceptance of a compliant enterprise.
Worker	Any person, including any apprentice, employed in any shop, commercial establishment or industrial establishment to do any skilled, unskilled, manual, technical, trade promotional or clerical work for hire or reward, whether the terms of employment be expressed or implied, but does not include any such person (i) who is employed mainly in a managerial or administrative capacity; or (ii) who, being employed in a supervisory capacity, exercises, either by nature of the duties attached to office or by reason of power vested in him, functions mainly of managerial or administrative nature.

Chapter 1: Introduction

Micro- and small enterprises (MSEs) employ a large proportion of the population in developing countries, including Bangladesh. Consequently, growth of MSEs is essential for employment generation, enhancing quality of life and the national economic development of the country. It is therefore important to ensure sustained growth of MSEs through effective policies and regulation. The regulation helps create a situation that balances the rights and interests of all parties involved to the extent practical. It is equally applicable to labour laws, which try and protect the rights of the workers while reasonably regulating employment and operations without disadvantaging the employers. Therefore, it is important to measure the impact of labour laws, other regulations and the business environment on MSEs to ensure that their operations and growth are not impeded, and to also identify the means with which to amend situations in which they are.

There is considerable debate in Bangladesh regarding the nature of labour laws and their impact on enterprise performance, employment creation and decent work. A study was conducted on the “Impact of Labour Laws and Business Environment on MSEs of Bangladesh”¹ to carry out research, engage in dialogue, develop best practices and generate tools for constituents. The study has tried to identify factors that inhibit MSE growth, as well as impede job quality and employment creation of MSEs in South Asia (Bangladesh, India, Nepal, and Sri Lanka). In this phase the project specifically undertook the following:

1. Studied the plausible impact of labour laws, other regulations and the business environment in Bangladesh on enterprises in general and MSEs in particular,
2. Assessed the factors (legal, quasi-legal or general business environment) that affect the size and growth of enterprises, restricting them to MSE levels.
3. Identified the nature of regulations and business environment factors that have contributed to business growth, and review the scope of emulating them to encompass MSEs in Bangladesh.

This study in Bangladesh was initiated with a review of the pertinent literature regarding the impact of labour laws on enterprises in international and national contexts. The regulatory review was initiated with a review of the recently consolidated Bangladesh Labour Act, 2006. The various sections of the Act that have implications for Labour Policy Areas (LPA), defined by the ILO have been identified. The empirical study was conducted in four sub-sectors (agro processing, leather goods, light engineering, and textile/garments) based on intensity of employment using data from the Bangladesh Bureau of Statistics’ (BBS) Annual Establishment and Institutions Survey (AEIS) 2002/03 statistics and Census of Manufacturing Industries (CMI). Small-scale manufacturing industries were within the scope of the survey. The AEIS covers establishments that employ up to ten persons, while the CMI encompasses establishments that employ more than ten persons.

The survey data were used to conduct analyses to check for changes in the number of enterprises in various size categories, to determine if the total composition of enterprises by size of enterprise has changed, with a predominance towards smaller (or larger) enterprises beyond a certain size. Furthermore, the data from AEIS enabled observation of the trend of employment size within sectors, which could not be extended to enterprises with more than ten workers due to lack of comparable data in the CMI.

The initial study identified a number of important aspects of labour laws and other regulations in Bangladesh pertaining to MSEs. First, legal enforcement in MSEs is extremely lax in

¹In the first phase of a greater body of work done by the Small Enterprise Development Unit (SEED) in the Job Creation and Enterprise Development Department (EMP/ENT) at ILO Headquarters in Geneva.

Bangladesh, which invalidates any potential impact a law/regulation might have. Also, several types of avoidance strategies were being used by entrepreneurs that may change the nature of the employment relationship. A typology of such strategies includes the following:

1. Expanding horizontally: the entrepreneur sets up an additional enterprise, and neither of the two enterprises breaches the size threshold.
2. Hiding workers: an enterprise expands beyond the threshold but does not report the additional workers.
3. Casualizing labour: an enterprise contracts workers who are not considered to be part of the regular workforce of the enterprise.
4. Making unofficial payments: the entrepreneur pays officials to not enforce the law. Contrarily, the existence of regulatory compliance appeared to benefit enterprises, particularly large ones, more than hurting them, due to greater buyer acceptance of a compliant enterprise.

Finally, a few hypotheses were developed as an outcome of the study:

1. There is greater regulatory enforcement for medium and large enterprises compared to small and micro-enterprises.
2. Access to funds and markets is a more significant impediment to MSE growth than regulations.
3. Benefits of compliance (induced by buyer pressure) often outweigh costs of compliance for medium and large enterprises.
4. Benefits of compliance for MSEs may be structured in such a way that they outweigh the costs of compliance (replicated from medium and large enterprises).

In addition to the above, a number of areas have been developed for further in-depth study, particularly involving size differentials and regulatory coverage and enforcement. It appears that there is greater regulatory enforcement for medium and large enterprises compared to MSEs. Although apparently an obvious statement, the level of enforcement in relation to the scope of enforcement might not be too different for medium and large enterprises compared to MSEs. This needs to be studied to determine the effort that needs to be expended to increase the enforcement of labour laws. The study found that access to funds and markets is a more significant impediment to MSE growth rather than regulation. This hypothesis appears to be true under circumstances where legal enforcement is lax; however, the veracity of the statement needs to be established under conditions where enforcement is exact. If under those conditions the hypothesis is proven right, the policies might be required to circumvent such obstacles to promote enterprise growth.

The benefits of compliance (induced by buyer pressure) often outweigh the costs of compliance for most medium and large enterprises – which may be replicated for MSEs. Experiences from the large textile and garments sector has shown that compliance leads to greater acceptance by the customer – similar endorsement or certification mechanism may be designed for MSEs to ensure easier market access. It appears that regulation has to be tailored according to enterprise size, nature of business and industry. Prudent legislation would be adapted according to enterprise characteristics. However, there are complications involved, of detailed design as well as specific enforcement. A cost-benefit and degree of customization analyses of law redesign might be required before undertaking such adaptation.

In the second phase, the study focused on determining the actual costs of doing business in terms of both labour laws and other non-labour related laws. The study also identified those non-legal and non-regulatory factors that have a significant impact on constraining the growth

of MSEs, employment expansion and the promotion of decent work. Specifically, the project does the following: (a) explains the situation and trends in doing business, namely registration, licensing, issuing permits and so on; (b) studies the effect of incentives and subsidy schemes, namely tax incentives, preferred access to credit, capital investment subsidy, and so on the costs versus benefits of doing business; and (c) conducts statistical analyses on enterprise size to explore possible clustering (bunching) around a particular enterprise size. Once completed, the study will develop best practices and tools for decent work, better employment and improved working conditions for the employee, which also benefits the employer.

This study focuses primarily on MSEs in Bangladesh and examines how their growth is affected by labour legislation, in particular the newly consolidated Bangladesh Labour Act, 2006 and business environment factors. The findings are valid within the theoretical exercise of regulatory review, empirical findings based on a limited number of focus group discussions (FGDs), KIIs, case studies conducted in the four sectors, and statistical representation based on available data. Devoting more resources would enable a survey of enterprises and identification of factors that affect various types of MSEs in terms of growth, employment, operations, and competitiveness, leading to more generalizable conclusions. The availability of continuous time-series data would have enabled a thorough inspection of law enactment events and resultant MSE growth dynamics. The inclusion of more sectors would have permitted a more accurate illustration of the impact of the legal and business environment across various types of enterprises.

Chapter 2: Overview of labour laws, business regulations and MSEs

2.1 Labour law in Bangladesh in the context of MSE growth

2.1.1 Regulatory framework of Bangladesh

Following Bangladesh's independence from Pakistan in 1971, the British-era legislation that had continued to function in Pakistan, as well as the post-1947 legislation enacted by Pakistan, remained the bases for Bangladeshi laws. In an effort to consolidate and codify the various regulations, the Bangladesh Labour Act, 2006 was enacted by repealing most of the significant labour laws of Bangladesh. The laws were codified to enable the application of legal obligations to a wider range of premises and enterprises, as well as to create broader provisions for prosecution processes. A significant outcome of the codification was the eradication of a minimum threshold for number of workers that have to be employed before the code's obligations apply to an establishment, excepting a handful of exemptions based on size.

2.1.2 Potential impact of labour regulation on MSEs and avoidance strategies

The impact of regulation in Bangladesh is felt across enterprises, irrespective of size. The most significant impact on MSEs is observed in the following areas: (a) conditions of service and employment; (b) health and hygiene; (c) payment to workers; and (d) collective bargaining. The following sections identify the potential impact of labour regulation on MSEs and the corresponding avoidance strategies, categorized according to the pertinent labour policy areas (LPAs).

2.1.2a Collective bargaining and freedom of association

The rights to collective bargaining and freedom of association would affect medium (and large) enterprises to a greater extent, compared to micro and small-enterprises; more so because there is an implicit threshold of a minimum of five employees to form a trade union. The bargaining power of workers is increased at the cost of power to negotiate on behalf of the employers. Such a law would affect the cost of operations directly, affecting not only the cost of production but also the quality and availability of labour. However, the use of intimidation, coercion, threat, confinement or use of violence by workers to compel employers has been outlawed – thereby creating a balance between the effect of regulation and the collective rights of workers.

Employers avoid the creation of trade unions by influencing opinion leader-workers. These workers are identified as yielding significant sway over other workers and are provided with various benefits, thus enabling employers to exert control over employees' activities. Another common practice involves influencing through political party interventions. Finally, employers may also resort to heinous practices to discourage trade unions through considerable intimidation in the form of termination, harassment and violence against workers should they show any sign of union activity.

2.1.2b Anti-discrimination/equal employment opportunity

The Bangladesh Constitution has established a non-discriminatory employment ethos which permeates the spirit of the Bangladesh Labour Act, 2006. The nature of work and employment traditions in MSEs dictate the employment opportunities available, e.g. garment/textile workers are predominantly female, while the light engineering sector mostly employs males and so on. Generally, physically demanding work is performed by males, while work requiring repetition or sustained concentration is performed by females – not determined by legal provisions. However, if specific anti-discrimination provisions existed, there would not be any significant impact on MSEs due to the high availability of low-cost labour, prevalent practices of self-selection and absence of explicit discrimination in MSEs.

Enterprises employ ingenious methods to discriminate against certain demographic groups from employment in certain jobs. These include, among others, the inclusion of physically demanding, hazardous components or night work in job descriptions to discourage women and the identification of lack of experience for certain ethnic minorities, thereby perpetuating a vicious cycle. Often, employees belonging to a certain demographic group are not provided with job advancement opportunities or pay increases, thereby discouraging them from continuing their employment with the organization.

2.1.2c Prohibitions on forced labour/child labour

The Bangladesh Labour Act, 2006 deals specifically with the prohibitions on the employment of children. In a poor country like Bangladesh, it is believed that there are negligible instances of forced labour in MSEs. Enforcement of the prohibition would have little impact in terms of operations or even employment. Consequently, in terms of prohibitions on child labour, there is expected to be significant impact in the case of enforcement, in terms of cost of operations as well as penalties for infringement. Micro-,small and medium enterprises(MSMEs) still employ a large number of child workers because of the low cost of employment and policy failure due to the lack of acknowledgement of the needs of working children and their families so that they can break out of the cycle of poverty.

Employers maintain no official records of employment of child labour in enterprises in Bangladesh, with payments being informally settled on a periodic basis. Also, physicians recruited by the company falsely attest that the child is over the minimum age. There are often hidden entrances created for child labourers to enter the organization's premises. In certain instances, child labour is identified as "apprentices", not engaged in hazardous or arduous work.

2.1.2d Minimum wage

The objective of setting minimum wages for workers is directed against the exploitation of ignorant, less organized and less privileged workers, achieved through the establishment of a Minimum Wages Board. The provisions allow for periodical reviews of the minimum wages set for specific industries, taking into account the changing economic conditions. The minimum wages are legally enforceable and violations are punishable by fines and/or imprisonment. The suitably represented Board provides an opportunity to establish minimum wages that strike a balance between costs to employers and benefits for employees. However, the economic reality would negatively impact the cost of operations of MSEs (similar to large enterprises as exemplified) and the employment of labour. Nonetheless, the interests of the disadvantaged workers need to be protected against exploitation.

Enterprises manage to pay below minimum wage by maintaining a pool of surplus standby workers, thereby creating pressure on regular workers and reducing their bargaining power significantly. Often, part-time or casual ("*badli*") workers are used fulltime but paid on a part-time basis, thereby avoiding payment of minimum wages. Also, workers are needlessly harassed with penalties for non-performed or substandard work, which is a means of reducing the effective wage payment.

2.1.2e Overtime/working time limits

Working hours and overtime regulations state that regular working hours should be limited to eight hours on each working day and 48 hours per work-week. Overtime work shall not exceed nine hours per working day and 60 hours per work-week, while not exceeding 56 hours per week in a year. Overtime work is to be compensated at twice the ordinary rate of basic wages and dearness allowance. An ILO study found that workers in Bangladesh work some of the longest hours in the world, having worked an extra 31.7 hours per week in 2000. The practice of working such long hours is quite prevalent in Bangladesh, particularly in MSEs at little extra pay or overtime. Enforcement of these provisions, which is deemed essential, would result in an increase in cost of operations for MSE owners. However, enforcement would see MSEs

generating more employment to avoid overtime payment, serving the interests of a larger workforce.

The avoidance of payment of overtime and setting working-time limits is very common to enterprises in Bangladesh. Enterprise owners effectively avoid overtime payment by not maintaining an accurate working-time schedule for any worker, generally under-recording time worked. Also, workers are threatened with retrenchment or replacement when requesting overtime payment, which forces them to accept overtime work with regular pay, preferable to lack of work.

2.1.2f Paid time off

Provisions of the Bangladesh Labour Act, 2006 (Chapter IX) also allow for paid time off, specifically calculated at the wage rate of one day for every 18 days of work (for shops, establishments and factories) during a period of twelve months. Such practice of paid time off is quite rare in Bangladesh in MSEs and enforcement would significantly affect the operations of the enterprises, possibly creating enforced attrition for non-specialized functions. Enforcement of service contracts would be necessary to make regulations for paid time off more effective and safeguard the particular interests of the disadvantaged and unskilled.

Enterprises that avoid such payments in Bangladesh generally employ either of two methods. Either the employee is retrenched, if seeking paid time off, or a suitable replacement is found to work in his/her lieu for the duration of the absence. The amount due for unavailed leave is shown as having been paid, while in actuality it is payment made to the replacement or payment for work done, without availing leave.

2.1.2g Social security (retirement, disability, death, sickness and health benefits)

The “Conditions of Service and Employment” and special provisions under “Welfare” of the Bangladesh Labour Act, 2006 provide for social security of workers, specific provisions and a number of safety nets. However, the precondition of entitlement of these security measures is a record of employment and specification of the terms of the service contract. In MSEs in Bangladesh (and even in large enterprises, for semi-skilled workers), service books are not issued – thereby hampering realization of access to social security for workers. Although the cost of operations would be affected for enterprises, this would be a sector-wide phenomenon, enabling enterprises to pass on the cost increase to buyers.

Enterprises in Bangladesh evade such social security obligations by not maintaining accurate registries of employment and by not issuing service books to employees. Even the register of workers is often manipulated to obviate the need for payment for deserving reasons.

2.1.2h Unemployment insurance

There are no specifically design unemployment insurance schemes in Bangladesh endorsed by legislation. The retrenchment benefits function as short-term insurance in case of lay-offs/retrenchment, and only for a small minority of workers who have been employed in larger companies in the formal sector. The scope of such insurance is miniscule compared to the pressing need of the sector.

Lack of proper legislation makes avoidance of payment of unemployment insurance quite easy for enterprises in Bangladesh. Moreover, service contracts are not issued to avoid claims as well.

2.1.2i Workers’ compensation

Workers are provided protection in the form of legal compensation, as outlined in the Bangladesh Labour Act, 2006. MSEs in general and micro-enterprises in particular are generally socially inclined to pay workers compensation due to the owners’ familiarity with employees.

Legislation, as designed, might introduce unnecessary procedures of payment via the labour courts, which might deter compensation. A more effective means might be the use of an independent assessor to confirm compensation.

The means of paying regular workers compensation in the case of accidents are manipulated by enterprises in Bangladesh through the undervaluation of damages. Usually, physicians or appraisers hired by the company evaluate the extent of the damage as well the onus of responsibility and invariably find circumstances to be in favour of the employer. Also, insurance companies are prone to support the employers' position to reduce payments on their parts.

2.1.2j Protection against unjust dismissal

The "Conditions of Service and Employment" of the Bangladesh Labour Act, 2006 includes legislation providing protection to workers against unjust dismissal. Apart from the provisions barring unjust dismissal (including formal complaint, investigation and hearing procedures) is the provision for grievance procedure that the worker can follow in case of unjust dismissal, which if proven for the worker might result in hefty fines in the form of termination benefits. MSEs would be significantly affected by this legislation if properly enforced, due to the high attrition in these enterprises, often bordering on unjust dismissal practices. However, the actual cost of compliance would be minimal, since the provisions would act more as deterrents, ensuring more secure employment for the earnest worker.

Bangladesh enterprises identify highly subjective bases as grounds for dismissal, in the forms of substandard work, time wastage, incitement of others, etc., which enables them to terminate employment easily. Moreover, these avoidance strategies tie-in with other avoidance measures, namely barring trade union formation, avoidance of various forms of payments, etc. Also, duress is brought upon other employees to back the employers' claim against particular individuals. Finally, lack of a regular register of workers makes unjust dismissal practices easy to undertake.

2.1.2k Occupational health and safety standards

Health and safety standards at the workplace are very specific, implying the numerous measures to be taken to ensure worker well-being and safety. These standards are identified by industry, nature of work, composition of workers by gender, and scale of operations. MSEs would be most significantly affected by these health and safety standards, irrespective of size of operations, due to the encompassing nature of the provisions, and as represented by the high number of deaths and injuries cited. However, these standards necessitate capital outlay, which may be hard to avail, but once availed, may be amortized over a long period of time. The short-term effects would be negative for an enterprise trying to meet the standards not currently met, but the benefits would accrue in the long term. Compliance with these standards would also lead to certain cost savings, particularly in terms of property damage and worker compensation.

Enterprises in Bangladesh tend to ignore such standards more than avoid them – escaping due to lax enforcement. However, forms of evasion include publication of notices indicating commencement of precautionary measures that are never implemented, blaming employees for failure to comply, and displacement of onus on the outsourced organization's failure to deliver on safety measures. Bribing inspecting officials is a common practice, as a means of evading maintenance of health and safety standards.

2.1.2l Advance notice and consultation (for large-scale lay-offs), placement after dismissal

The Bangladesh Labour Act, 2006 provides for the establishment of a participation committee in enterprises employing at least 50 workers, apart from the trade unions in operation. Such legislation would not affect the MSEs as much as the medium and large enterprises due to the size threshold of the participation committees. Ensuring unemployment insurance may be a more feasible approach compared to placement efforts following dismissal. These legislations would not necessarily increase costs of operations (or require capital outlays); rather

procedural complications and time delays might be introduced in enterprise operations. However, mediation by a third party might help objectify the rationale behind any enterprise action that has wider implications for worker groups, and expedite procedures.

The lack of knowledge on the part of Bangladeshi workers is an effective avoidance measure for employers in evading the provisions for advance notice and consultation or placement after dismissal. Also, trade unions that are either barred or manipulated by employers thereby permitting them to avoid such measures through implicit control of the workers.

2.1.2m Parental/family Leave

Parental leave benefits are accorded to women, along with maternity benefits, in the Bangladesh Labour Act, 2006 (Chapter IV). The leave is made obligatory by wording the legislation as prohibition of employment during eight weeks before and after delivery of child. This legislation significantly affects small, medium and large enterprises due to the benefits payable during an extended period of non-contribution from an employee. Most enterprises would attempt to circumvent the legislation by temporarily laying-off the worker, which is prohibited by law. Enforcement would protect the worker as well as the sanctity of childbirth.

Enterprises in Bangladesh lay-off workers rather than provide parental/family leave, thereby evading such provisions. Also, when permitted, the days of leave are forcibly shortened to very brief durations.

2.1.2n Employee consultation

Individual employee consultation is not a practice common to MSEs in Bangladesh and neither is there a legislation mandating such a degree of communication. Employee consultation, within the Bangladesh context, mostly falls within the purview of corporate social responsibility (CSR), with large enterprises engaging in it, particularly to involve expert employees as inputs into the decision-making process.

The lack of legislation of CSR, on the part of employers, results in an automatic avoidance of employee consultation by enterprises in Bangladesh.

2.1.2o Protection of rights and entitlements on transfer of undertaking

Although not directly legislated, the issue of protection of worker rights on transfer of undertaking is approximated in the Bangladesh Labour Act, 2006, which addresses the issue of Closure of Establishment. In such cases, the employees are entitled to severance pay, but not guarantee alternate employment. If legislation were crafted to protect workers' rights of ownership transfer, the new owners, particularly of large enterprises, would be affected more compared to the previous owners. MSEs, in particular, operate within a flexible set-up in Bangladesh, making it more convenient to start/close an enterprise, rather than transferring ownership.

Avoidance strategies are simply not practiced by firms in Bangladesh due to the obscurity of the legislation and lack of concern for employees, which is considered a concern of the new employers rather than the incumbent.

2.2 Business regulations in Bangladesh in the context of MSE growth

2.2.1 Perceptions on the business environment (laws and regulations)

The factors which MSEs perceive as influencing business growth in case of laws and regulations are: complying with environmental and sanitary standards, maintaining a minimum product standard and certification, and complying with food and health standards. On the other hand, several factors that hinder the growth of MSEs are cost and time required to register a business;

cost and time required to obtain a business license; compliance with banking and credit regulations; cost and time required to register with tax authorities; cost of taxation; and the time required to complete tax administration. The few other factors that have very little influence on business growth include, among others, complying with labour regulations and inspection, complying with import and export regulations, registering land and other property, and obtaining patents and copyrights.

2.2.1a Business and related registration

Business registration issues, such as status of registration, reasons for registering/not registering, and soon have been identified as a growth trap. A trade license is a common type of registration for all business sizes and sectors. For larger businesses, particularly belonging to leather and light engineering, company/cooperative tax as well as value added tax (VAT) are common registration types.

2.2.1b Maintaining an employment register

Employment register maintenance is a regulatory requirement. Very few businesses, especially with lower-worker groups, maintain an employment register. The key reason for not doing so is the perception that it is not legally required.

2.2.1c Official inspection

Inspection by officials of different departments is not a common practice among MSEs in Bangladesh. The incidence of visits is higher in agro processing compared to the other sectors. In particular, the health inspector and food and technology department personnel inspect the food processing sector a little more than the other sectors.

2.2.1d Income tax

The practice of income tax payment is not very common among MSEs in Bangladesh. Whether income tax contributes to the static growth of MSEs is also debatable. The incidence of income tax payment is higher in the textile sector and lower in light engineering. Some of the key reasons for not paying income tax are lack of awareness, cost, and various complications among others. Very few enterprises are aware of the income tax ceiling and that it attributes to static growth, i.e. they consider income tax to be a growth trap.

2.2.1e Value added tax (VAT)

Very few MSEs make VAT payments. They are also not aware of the VAT rate, VAT tax ceiling and VAT contribution to static growth of MSEs. As with income tax, the key reasons for not paying VAT include, among others, lack of awareness, cost, and various complications.

2.2.1f Informal payment and compliance

Awareness regarding penalties of non-compliance is found higher in the areas of income tax, VAT, environmental regulation, compensation for injury/death, and minimum wage. Informal payment is found to be higher in the areas of income tax, environmental regulation, compensation for injury/death, VAT, and minimum wage. Though claimed rate is lower, enterprises used to make informal payments to avoid labour regulations in all cases except provision of children's room.

2.2.2 Perception of the general investment climate

The factors that MSEs perceive as having a positive or strongly positive influence on business growth are market demand of product/service, cost of labour, access to credit, access to appropriate skilled workers, transport infrastructure, availability of land and premises for business, availability of electricity, water and sanitation facilities, and availability of raw materials. On the contrary, survey findings revealed that several factors that hinder the growth

of MSEs are level of taxation, regulations and inspections (labour, taxation, registration, licensing, etc.), cost of finance (e.g. interest rate), government corruption, non-payment by customers, cost of electricity and industrial security (extortion, threat to life for business persons, etc.).

2.3 Incentive schemes in Bangladesh in the context of MSE growth

2.3.1 Government measures to enforce legislation

The government measures to enforce the Bangladesh Labour Act, 2006, which is a consolidation of major labour regulations, act as deterrence to non-compliance. Under the Act, there are a number of new offences – as well as significantly more stringent penalties that can be imposed by the court – specifically relating to health, safety and welfare. Compared to the past, for certain offences the maximum fines are considerably higher now. Also, the process of prosecutions for offences under the Act shall take place in the dedicated Labour Court rather than in the Court of Magistrates as before.

The coverage of liability has been increased to where every director, partner, shareholder or manager or secretary, or any other officer or representative directly involved in the administration of a company or body shall be deemed to be guilty of an offence committed by the company or body, unless he proves that the offence has been committed without his knowledge or consent or he has tried his best to prevent the offence - ensuring compliance on a large number of individuals rather than holding a handful of people responsible.

Complaints regarding violation of the provisions of the labour law can be lodged either by an inspector or an “aggrieved person or trade union” within six months of the commission of the offence. Section 319 of the Act, in defining the powers that the inspectors have to determine compliance with law, includes the following: the power to enter and inspect any part of an establishment at any reasonable time, demand the production of registers and so on; make any examination and enquiries necessary to determine compliance, take statements from any person(s) employed in the establishment at the time or within the previous two-month period, make the person sign any statement that they have given, seize any documents, and so on. During normal working hours, an inspector can also take a sample of a substance suspected of being involved in the contravention of a provision of a code or likely to cause injury to the health of workers. The Act is being enforced through both routine and complaint-driven inspections, ensuring a greater possibility of discovery of violation.

2.3.2 Potential impact of business environment on MSEs

2.3.2a Access to finance

Lack of access to finance is a major constraint that is encountered on different fronts by micro-enterprises. Within the small-scale, women-based rural micro-enterprise, entrepreneurs most commonly cite finance as the fundamental problem encountered in maintaining their competitive position, with raw material shortages cited next.

MSE growth is hampered by inadequate funding of non-governmental organizations (NGOs) and the high interest rates of micro financing institutions (MFIs); both problems are not related to the government. NGOs lending microfinance are characterized by a high level of operational efficiency and heavy dependence on external finance either through donor funds or government financial support and this has caused them to have governance problems. Their inability to serve MSEs on a continual and sustainable basis has constrained the expected growth of MSEs throughout the country, especially in rural areas.

At the same time, the cost of credit remains an obstacle to the growth of MSEs. MFIs need to generate sufficient revenue to meet their operating costs and maintain capacity holdings. The

cost of lending funds was highly subsidized by donors over the years. However, with recent decreases in donor funds and limited access to formal financial institutions, the interest rates that MFIs charge are allegedly becoming exorbitant when compared to those in the formal sector. On the other hand, state intervention in the form of a government directive or a cap on the interest rates would be ill-advised since it would render it impossible for many NGOs to sustain their operations and in the long run would cause the MSEs to have even less access to loans. The bottom line is poor people value having access to credit much more than the rate of interest.

In a populous country like Bangladesh, it is extremely essential to stimulate labour-intensive small and medium-sized enterprises (SMEs) requiring less capital. However, the growth of this sector is sluggish due to constraints in access to finance. A decision has been taken to establish an SME foundation under the Ministry of Industry as a new initiative. The Bangladesh Small and Cottage Industries Corporation (BSCIC) has also taken initiatives to create a trust fund for providing industrial loans.

2.3.2b Infrastructure

Even though the government has focused on creating institutions, special programmes to disburse funds to the poor give little attention to building financial infrastructure that supports, strengthens and ensures the sustainability of such institutions or programmes and promotes participation of private sector institutions in microfinance. Meanwhile, the rural infrastructure is inadequate in ensuring a proper business environment, especially when it comes to rural connectivity and electrification. Transportation costs are high and utilities services are not available to the required extent. Rural MSEs also lack sufficient logistical services, mostly warehouses and cold storages, resulting in inadequate growth of agro-based MSEs in rural Bangladesh.

2.3.2c Access to markets

Financial constraints is the most frequently faced constraint in both operating and start-up stages, followed by marketing. Infrastructure problems also rank high on the list. The marketing problem, an opinion of the survey respondents, entails mainly “not enough customers” and “low prices received”. The reason why the enterprise may be facing marketing problems is because it is in a market that is already saturated with too many enterprises, it is not in a good location or it is an inferior product. The reason will vary according to different factors, e.g. geographical location, industrial sector, etc. The government can reform its policy framework so as to protect small enterprises against unfair competition from larger counterparts in the market and remove any kind of anti-small bias that may exist. In this regard, easing regulations as opposed to reforming policies is important, more so if the government seeks to implement a framework that is conducive to growth of MSEs. Another step the government could take is to improve the infrastructure of the country so that MSEs are not barred from accessing new geographical segments due to an inadequate transportation system.

Access to both output and input markets is a major constraint, especially when competing against larger enterprises. Trade policies have an indirect yet profound impact in this regard. Non-tariff barriers (NTBs), like import and export, are more favourable to larger firms because of their greater size and business volume. Raw material sourcing as well as procurement of capital equipment is relatively more expensive for the smaller firms. Even in the case of tariff barriers, small enterprises are at a disadvantageous position where large enterprises are more protected than small enterprises. Finally, trade liberalization exposes MSEs to a more competitive environment, one which they are unable to handle with their lack of professional management and resources.

2.3.2d Other factors

Apart from the aforementioned constraints, many others, such as corruption and lack of quality assurance, are cited as problems by entrepreneurs. One problem that has been identified but not stressed upon is information inefficiency. The market becomes the impediment by sudden and sometimes artificially created high level of price. Hence, the price information system should be made effective, timely and quick to take remedial measures to any sudden price hike in any region. There is, however, lack of sufficient literature that identifies information inefficiency as a major constraint in MSE development, even though it is generally considered to be an impediment to MSEs in the agriculture sector in rural areas.

2.3.2e Doing business

As identified, the major growth impediments for MSEs arise out of the business environment in Bangladesh. This is exemplified by Bangladesh's 88th ranking in the World Bank's "Ease of Doing Business" 2006 ranking, placing Bangladesh in the 51 percentile out of 175 countries; which is further compounded by deterioration in rank from 81st position in 2005. The ranking has not improved much till date. The main hindrances to growth are: lack of easy access to funds; lack of easy access to factor and output markets; infrastructural dearth; corrupt business practices; and bureaucratic procedures. Government policies regarding the elimination of such inhibiting factors have not been properly implemented.

2.4 MSE statistics in Bangladesh and interpretation of growth trap potentials

2.4.1 MSEs in Bangladesh

Numerous MSMEs in Bangladesh employ millions of people. Apart from generating employment, the contribution of this sector to the gross domestic product (GDP) of Bangladesh is significant – which, in turn, generates further economic activity. A significant portion of these enterprises are informally arranged, where mostly household labour is employed and firms are not registered. Such informal arrangements deprive the enterprises of policy initiatives, while not being able to protect the workers' rights and requirements. These enterprises share among themselves not only similar characteristics but also factors that constrain their growth and limit their operations. The eradication of these factors would have ripple effects on enterprises and the economy.

The major impediments to the growth of MSEs appear to be lack of easy access to low-cost funds, lack of market information and market access, power disruption, restrictions on timing of operations, high licensing and regulatory fees, and perceived lack of government support. However, different sectors perceive these impediments in varying degrees, with certain sectors being subjected to particular types of obstacles more. These are discussed below.

2.4.2 Garments/textiles

The garments/textiles industry in Bangladesh is the fastest-growing industry accounting for more than 75 per cent of total exports. Cheap labour and trade status with the European Union (EU) that ensures quota benefits for the country gives Bangladesh the competitive edge in the global market for textiles and garments. The garment sector accounts for roughly 77 per cent of the country's foreign exchange earnings, and 50 per cent of its industrial workforce. There is, however, a huge fabric demand–supply gap in the ready-made garment (RMG) industry, which is being met by imports. This indicates a huge potential for backward linkages. The garment/textile MSEs, which perform mainly outsourced (subcontracted) work for large enterprises, particularly in specialized tasks such as labelling or embroidery, are mostly formal, registered enterprises.

2.4.2a Small enterprises

Entrepreneurship and operations

Most small enterprise owners were educated either till higher secondary or had a bachelor's degree. The businesses were either started on own initiative or were family-owned enterprises. Type of ownership was almost equally divided between sole proprietorship and partnership across firms, with all enterprises being run on rented property and operating within a cluster of similar-sized enterprises. The enterprises consistently grew in operations over the last few years, employing more people and generating more revenue with each level of growth. Regulatory fees and bureaucratic procedures were identified as imposing the most costs on them. Moreover, irregular electricity supply and infrastructural problems (namely transportation issues) regularly plague these enterprises.

Access to finance

Currently, in terms of short-term credit, these enterprises rely heavily on commercial banks. For longer-term credit, financial institutions' requirements are considered too stringent, forcing them to rely on own equity and suppliers' credit for machinery purchases, used for major investments in production capacity increases. They identified government policies, or lack thereof, as having a negative impact on investment decisions.

Employment policies and practices

Access to finance and business location have determined the employment choices made by these enterprises, in terms of skill levels of workers. The employees have been provided with regular on-the-job-training and productivity incentives – which have resulted in better performance. Working conditions have been positively affected by buyer pressure, while being negatively impacted by limited access to capital.

Market access and power

These enterprises identified the international market as their main markets, although they are not directly approached by foreign buyers; rather larger enterprises approach them for partial or specialized item orders received from international buyers. The nature of specialized work has given them a degree of power over their direct buyers.

2.4.2b Micro-enterprises

Entrepreneurship and operations

Most micro-entrepreneurs had received some form of vocational training or secondary education. They had started their businesses with money borrowed from usurers, friends/family or from micro-enterprise institutions, although the cost of borrowed funds appear quite high to them. The repayment on the borrowed funds leaves them generating minimal levels of profit from operations.

Access to finance

Currently, these enterprises rely heavily on informal systems, although the need for funds is generally low due to lack of process upgradation. Generated profit is partly usurped by loan repayment and by reinvestment in general maintenance and upkeep of setup.

Employment policies and practices

Most MSEs are run with family labour or with help from neighbours/friends who are party to the same loan scheme. The opportunity cost of employment is low due to the same-household owner-operator set-up.

Market access and power

These enterprises, although performing highly specialized and artistic work (e.g. embroidery work in Mirpur), yield very little market power, owing mostly to the scale of operations and situation within a homogeneous cluster.

2.4.2c Legal implementation matrix

Table 2.1. Summary of labour policy areas and their implementation practices for the Garments/textile Sector

Labour policy areas	Implementation level				
	1 Not imple- mented	2	3 Somewhat imple- mented	4	5 Fully imple- mented
Collective bargaining and freedom of association			√		
Anti-discrimination/equal employment opportunity			√		
Prohibitions on forced labour/child labour				√	
Minimum wage				√	
Overtime/working time limits			√		
Paid time off		√			
Social security (retirement, disability, death, sickness and health benefits)			√		
Unemployment insurance	√				
Workers' compensation				√	
Protection against unjust dismissal		√			
Occupational health and safety standards				√	
Advance notice and consultation (for large-scale lay-offs) placement after dismissal		√			
Parental/family leave				√	
Employee consultation			√		
Protection of rights and entitlements on transfer of undertaking	√				

2.4.3 Leather goods

The labour-intensive industry has a domestic supply of good quality raw materials. Combined with adequate government support in the form of tax holidays, duty-free imports of raw materials and machinery for export-oriented leather market, it is well suited to Bangladesh. The industry, however, lacks domestic technology and expertise and local support industries, such as chemicals, are still underdeveloped.

There is already a sizeable domestic leather industry, mostly export-oriented, in Bangladesh. Footwear is the rapidly-growing sector for leather products, and is more important in terms of value addition. Taking into account the basic raw materials needed for the production of leather goods and leather shoes, the availability of a large low-cost but trainable labour force, and the tariff concessions available to major importing countries under EU's generalized scheme of preferences (GSP), Bangladesh can be a potential off-shore manufacturing location for low-cost but high quality leather and leather products.

2.4.3a Small enterprises

Entrepreneurship and operations

Most leather goods firms/units are under sole proprietorship. The operations were established by entrepreneurs who were lured by the high profit margin of the leather goods sector. The leather goods firms use raw materials collected mainly from proximate local sources, thus creating clusters of leather goods manufacturers near tanneries. Irregular electricity supply and timing of operations affect the leather goods manufacturers most significantly, in addition to marketing factors.

Access to finance

About 80 per cent of the invested capital is self-financed in the leather goods enterprises. Capital investment is not made on a regular basis, obviating the need for excessive funds.

Employment policies and practices

Most employees of leather goods manufacturing units are trained and experienced in the industry. Most employees are full-time employees, working in hazardous working conditions, close to hot water and lime, for example. These enterprises are fraught with health regulation violations, which the owners indicated as being unable to remedy and which they identified as a legal requirement but not practicable.

Market access and power

The relatively high profit margins in the leather goods sector come from the high value addition in the sector. However, lack of design skills and inadequate marketing know-how and efforts are identified as the most significant impediment to enterprise growth.

2.4.3b Micro-enterprises

Entrepreneurship and operations

Most leather goods micro-enterprises are single owner-operator set-ups. Often household labour is employed at low-opportunity cost of employment. This enables higher profit margins to be calculated, in spite of low price of output.

Access to finance

Leather goods manufacturers in small enterprises use basic tools for cutting, skiving, stitching etc., requiring very little capital investment. Microfinance institutions (MFIs) are often their sole source of capital.

Employment policies and practices

Unlike their counterparts in small enterprises, micro-enterprise leather goods workers are often unskilled, requiring oversight for intricate workmanship. The health hazards are prominent in these enterprises, too, as the working conditions are very unhealthy.

Market access and power

The sales volume generated by micro-enterprise leather goods manufacturers is very little compared to small enterprises, creating opportunities for economies of scale and scope, which are often unattainable due to poor marketing skills and ability.

2.4.3c Legal implementation matrix

Table 2.2. Summary of labour policy areas and their implementation practices for Leather goods

Labour policy areas	Implementation level				
	1 Not imple- mented	2	3 Somewhat imple- mented	4	5 Fully imple- mented
Collective bargaining and freedom of association			√		
Anti-discrimination/equal employment opportunity			√		
Prohibitions on forced labour/child labour		√			
Minimum wage		√			
Overtime/working time limits		√			
Paid time off	√				
Social security (retirement, disability, death, sickness and health benefits)		√			
Unemployment insurance	√				
Workers' compensation		√			
Protection against unjust dismissal	√				
Occupational health and safety standards	√				
Advance notice and consultation (for large-scale lay-offs) placement after dismissal	√				
Parental/family leave			√		
Employee consultation	√				
Protection of rights and entitlements on transfer of undertaking		√			

2.4.4 Agro/food processing

The industry has grown significantly in recent years, being endowed with a huge supply of raw materials. Increased cultivation of vegetables, spices and tropical fruits in the country could supply raw materials to local agro-processing industries for both domestic and export markets. Progressive agricultural practices, improved marketing techniques and up-to-date processing facilities would enable the agro-processing industry to improve its quality and expand production levels significantly. Investment interests are regularly encouraged by government policies and initiatives in agro-based industries.

2.4.4a Small enterprises

Entrepreneurship and operations

Small enterprises in agro/food processing are operated mostly by landowning farmers, using own finance or microfinance to run the business. The establishments were setup mostly as a continuation of a running family business, on premises generally owned by the entrepreneurs themselves. These enterprises are often subject to disruptions by natural forces, necessitating alternate enterprise during those times. Although a lot of these operations use mechanization, labour intensity rarely decreases, indicating the use of intense labour to operate the machinery and supervise the outfit. Power disruptions and timing of operations also hamper continuous production for these enterprises.

Access to finance

Access to finance, although comparatively easier compared to the other sectors, is dictated by the capacity to service debts from continued operations.

Employment policies and practices

These small enterprises employ labour at very low costs, due to the enterprises' geographic locations in poor labour markets where wage rates are habitually low. Working conditions are unhealthy, creating a lot of air and water pollution, where the workers regularly engage in menial tasks. Working hours are rather prolonged and span ten to 12 hours at a stretch, with lack of basic facilities even for female workers.

Market access and power

These enterprises suffer from lack of access to markets due to infrastructural (namely transportation) problems, forcing them to rely on the mercy of intermediaries, who can generate large volumes from wide collection efforts.

2.4.4b Micro-enterprises

Entrepreneurship and operations

These enterprises are heavily funded by MFIs and are operated using exclusively household labour.

Access to finance

Access to finance is relatively easy for these enterprises, although the cost of finance is considered high, keeping the owners in perpetual indebtedness.

Employment policies and practices

The labour productivity per unit cost of input tends to be high in these enterprises due to the low cost of household labour and high motivation.

Market access and power

These enterprises suffer from severe lack of market power due to the small volume of output and lack of market information.

2.4.4c Legal implementation matrix

Table 2.3. Summary of labour policy areas and their implementation practices for the Agro/food processing sector

Labour policy areas	Implementation level				
	1 Not imple- mented	2	3 Somewhat imple- mented	4	5 Fully imple- mented
Collective bargaining and freedom of association		√			
Anti-discrimination/equal employment opportunity			√		
Prohibitions on forced labour/child labour		√			
Minimum wage	√				
Overtime/Working time limits	√				
Paid time off	√				
Social security (retirement, disability, death, sickness and health benefits)		√			
Unemployment insurance	√				
Workers' compensation		√			
Protection against unjust dismissal	√				
Occupational health and safety standards		√			
Advance notice and consultation (for large-scale lay-offs) placement after dismissal	√				
Parental/family leave				√	
Employee consultation	√				
Protection of rights and entitlements on transfer of undertaking	√				

2.4.5 Light engineering

Light industries in Bangladesh produce a huge number of labour-intensive goods including toys, consumer items, small tools, and paper products for the domestic market. Further development for these industries presents various investment opportunities. Export-oriented production in light industries has increased in the past few years. The Light engineering sector (LES) in Bangladesh consists of over 7,000 firms, with 800,000 employees, and generates annual revenues of about 95 billion Bangladeshi Taka (BDT) (US\$1,600 million).

The LES supply chain consists of firms engaged in metal sourcing, metal preparation, metal cutting, forming & finishing, parts manufacturing, assembly & production of finished goods for a large variety of industrial and household applications. The customer industries include toothbrush & buckets, auto-parts & parts of machines used in the textile, pharmaceutical and other sectors, diesel engines, irrigation pumps and power tillers among others.

2.4.5a Small enterprises

Entrepreneurship and operations

The small light engineering enterprise owners are either educated till higher secondary or have a bachelor's degree; some owners have received no formal education. Type of ownership is almost exclusively sole proprietorship, with most of the enterprises being run on rented property, operating within a cluster of similar enterprises. Similar to garment/textile enterprises, regulatory fees and bureaucratic procedures were identified as the highest costs.

Access to finance

Small light engineering firms suffer from access to finance, and this is exacerbated by their greater need for capital to procure, maintain and upgrade machinery on a regular basis.

Employment policies and practices

Workers in the light engineering sector are generally mentored by the enterprise owners or senior colleagues, providing on-the-job training. The workers work in extremely hazardous conditions, in heat and close to dangerous machinery.

Market access and power

These enterprises had greater market power when the industry competed amongst them, implicitly charging relatively higher prices for their products. With the entry of low-cost Chinese imports, the sector is facing stiff competition, drastically losing market power. The urban locations of these enterprises, especially in clusters, permit these enterprises to gain high market access, although potential markets beyond the local are left unexplored.

2.4.5b Micro-enterprises

Entrepreneurship and operations

The micro light engineering enterprises are generally set up by workers who have worked in small light engineering enterprises and have gained a modicum of expertise.

Access to finance

These enterprises suffer from lack of easy access to finance, often going out of business in the face of stiff competition or lack of local demand. Entrepreneurs identified friends and family members, who function as patrons with vested interest, as the primary source of capital.

Employment policies and practices

These set-ups also operate in hazardous working conditions, with child employment being a common phenomenon.

Market access and power

Location is the most important factor for such micro-enterprises, followed by positive word-of-mouth.

2.4.5c Legal implementation matrix

Table 2.4. Summary of labour policy areas and their implementation practices for Light engineering

Labour policy areas	Implementation level				
	1 Not imple- mented	2	3 Somewhat imple- mented	4	5 Fully imple- mented
Collective bargaining and freedom of association			√		
Anti-discrimination/equal employment opportunity		√			
Prohibitions on forced labour/child labour		√			
Minimum wage		√			
Overtime/Working time limits		√			
Paid time off	√				
Social security (retirement, disability, death, sickness and health benefits)			√		
Unemployment insurance	√				
Workers' compensation			√		
Protection against unjust dismissal		√			
Occupational health and safety standards	√				
Advance notice and consultation (for large-scale lay-offs) placement after dismissal	√				
Parental/family leave		√			
Employee consultation	√				
Protection of rights and entitlements on transfer of undertaking		√			

2.4.6 Costs of compliance

In spite of the potential for impairing the growth and operations of MSEs, due to the across-the-board application of labour laws in Bangladesh, the cost of compliance to regulations seems to be rather minimal for MSEs due to (a) lack of legal information and knowledge, and (b) lax, almost non-existent, legal enforcement. On the other hand, the impact of compliance is most significant on large enterprises, particularly garments/textiles. Compliance is greater in large enterprise due to the enforcement of a compliance cell in order to ensure sustained customer orders from compliance-conscious foreign buyers.

However, the garment/textile owners identified buyer-pressure induced compliance as being more beneficial than harmful, since it ensured buyer acceptance more readily compared to non-compliant enterprises. The most significant adverse impact is the opportunity cost of space for large textile owners. Space that could otherwise have been used for capacity installations are

being used to ensure compliance to health and safety standards – a necessary component for a decent work environment.

For MSEs, the cost of compliance is most prominent for registered enterprises for which regulatory fees are proving costly. Apart from these, the policy of removing informal markets has affected the enterprise owners' access to markets. The potential cost drivers of compliance, irrespective of actual enforcement, have been identified in the study.

2.4.7 Major growth factors

Apart from the growth impediments facing MSEs, this study has also identified certain growth factors that are mostly endogenous to the entrepreneur and the enterprise. These are entrepreneurship, micro financing facilities, outsourcing opportunities, policy spill over, and set-up flexibility.

2.4.8 MSE statistics in Bangladesh and the interpretation of growth trap potential

2.4.8a Enterprise growth

Based on statistics from the Bangladesh Bureau of Statistics' (BBS Annual Establishment & Institutions Survey (AEIS) and the Census of Manufacturing Industries (CMI), it is evident that small and micro-enterprises, those employing below six persons, have grown significantly and steadily over the years. The smallest establishments (one person employed) and the larger ones (100–999 workers) have grown tremendously over the last ten years. While most size categories grew noticeably, organizations employing 6–9workers and those employing 10–19 employees have declined over last the ten years. Although a possible cause might be a tendency to cluster below and above a threshold size of ten employees, closer inspection into the trend by industries (from AEIS) and intermediate year figures (from CMI) reveal a slightly different picture.

2.4.8b Employment size trends by industry (*employing less than ten persons*)

Available data from AEIS (1992–93 to 1996–97) on enterprises employing below ten workers show employment size trends by industry. The food, beverages and tobacco industry and other manufacturing industries require the smallest set-ups. Moreover, the growth over the years in these sectors has resulted in overall growth of establishments with one worker.

For establishments employing two workers, the following is apparent. The textiles, apparel and leather sectors, which show a declining numbers trend, and wood, wood products and furniture sectors, which paint a fluctuating picture, cannot dampen the overall impact of the enormous growth in the food, beverages and tobacco sector, leading to overall growth. For establishments employing 3–5workers, the following is apparent. The industries that require slightly larger set-ups are gaining prominence, which counteracts the downward trend of the large food, beverages and tobacco sector, resulting in a slight decline over six years, from 1992 to 1997.

Finally, the size category of 6–9workers is decreasing. The decreases in the textiles, apparel and leather sectors and the significant decline in the preceding year for wood products and furniture has resulted in an absolute decrease in the number of establishments from 1995–96 to 1996–97. The decrease in the wood products and furniture sectors may, to a certain extent, explain the fall in enterprises with 6–9workers.

2.4.8c Employment size trend over time (*employing ten persons or more*)

Available data from CMI (1996–97 to 2002–03) on enterprises employing ten or more workers show employment size trends by size over time. It is clear that establishments employing 10–19 workers first increase in number, and then, after “stepping” down in 2000–01, begin to rise again. This is matched by a sudden increase in the number of enterprises employing 20–49

workers in 2000–01, which might indicate a graduation of small enterprises into medium enterprises due to the “thrust” policies of the government.

2.4.8d Enterprise composition trend

When the composition of micro-, small, medium and large enterprises is studied over time, it is found that there is remarkable similarity of distribution by size over time. It is to be noted that this is not necessarily a reflection of healthy growth, rather of simultaneous growth – which would not have been seen had there been any size-specific growth traps.

There has been some redistribution within each size classification, with the most significant decrease in enterprises with 6–9 and 10–19 workers, while enterprises with 1–5 (and 100+) employees grew the most. It may appear that enterprises which previously employed around 6–20 employees have de-clustered; however, there has been no associated “event” where legal thresholds were recalibrated over the data period. It seems more likely that relatively smaller and micro-enterprises grew more rapidly out of necessity and ease of establishment.

2.4.9 Factors impeding and enhancing MSE growth

2.4.9a Factors impeding MSE growth

The factors impeding MSE growth are lack of access to finance, markets and infrastructural problems rather than labour laws. The impact is not felt due to lack of enforcement which, if propagated, might affect MSE growth. The effect on MSEs might be detrimental, since laws have not been designed on equitable bases – where different sizes of organizations are subject to different laws.

The reason behind lack of access to funds is the lack of credibility of micro and small operations, which either deters banks from lending or induces microfinance organizations to charge high effective interest rates for non-collateralized loans. Lack of access to markets, both input and output, is often due to the characteristics of the market. Input markets are often controlled by a handful of owners creating price distortions, while output markets are often opaque with demand and price information not readily available, particularly due to intermediaries, lack of communication and difficulty of physical access.

2.4.9b Factors enhancing MSE growth

The flipside of growth impediments can enhance MSE growth. If MSEs are provided with easy access to finance through either government institutions or monitored entities, then MSE growth can easily be accelerated. Equally important is the creation of easily accessible input and output markets where the structure is kept from becoming collusive. Also, improved communication and training can improve management of marketing efforts as well as enhance factor market access.

Promotion of entrepreneurship is vital for the growth of enterprises of all sizes including MSEs. These can be in the form of education, training and/or apprenticeship. Bureaucracy and regulatory ineptitude need to be eliminated to create a proper balance that protects the rights of both owners and employers within an enterprise setting. These would propel the growth of MSEs, while creating a decent work environment.

Chapter 3: Research methodology

3.1 Sampling frames used for the study

3.1.1 Area frame

The sampling frame includes all 64 districts of Bangladesh. The number of districts selected in the sample for Bangladesh is six as per TOR. Probability Proportional to Size (PPS) sampling, without replacement technique, has been followed for district selection. The sample districts are selected on the basis of cumulative total method under PPS sampling. The Bangladesh Bureau of Statistics' (BBS) Annual Establishment and Institutions Survey (AEIS), 2002/03 statistics, and the Census of Manufacturing Industries (CMI) were used for "size measure" for each of the activity sectors considered for the survey.

3.1.2 List frame

In the absence of any sampling frame for drawing of establishment according to activity sectors within each primary sampling unit (PSU), a list frame was developed for each selected PSU by visiting all the establishments within the selected districts, taking help from persons well informed (e.g. industry association leaders, traders, and government officials) about industry locations. Activity sector was list frame was developed for drawing of sample of establishments for canvassing main questionnaire.

3.2 Questionnaire design

The survey questionnaire was developed after numerous meetings, correspondences and iterations in different venues on several occasions with ILO representatives and the Bangladesh team (Appendix IV). After the English version of the questionnaire (from the ILO) was finalized, it was translated into Bengali – the national language of Bangladesh (Appendix IV). A pilot survey with the Bengali questionnaire was conducted by 12 interviewers. It covered respondents from all business sectors (three interviews per sector). After the trial interviews, necessary changes were made in the language of the questionnaire to make it easy for the target respondents to understand. Only then was the questionnaire finalized and printed.

The coordination schema focuses on the actual costs of doing business in terms of both labour laws and other non-labour laws. The complex variables include non-legal and non-regulatory factors that have a significant impact on constraining the growth of MSEs, employment expansion and the promotion of decent work. The other schema variables include complaints of excessive regulation, low staffing and capacity of government departments, the avoidance behaviour of entrepreneurs and the use of unofficial payments by employers to officials to avoid compliance and so on. The outcome of the responses will help to develop best practices and tools for decent work, better employment and improved working conditions for the employee, which also benefits the employer.

3.3 Limitations

A major limitation of the survey started with the availability of the updated data of MSEs in Bangladesh. As noted earlier, the empirical study was conducted in four sub-sectors (garments/textile, leather goods, agro/food processing, light engineering), based on intensity of employment, identified from the AEIS, 2002/03 statistics. The statistical review was done using BBS's AEIS and CMI data due to the pertinence of the data for the study. Small-scale manufacturing industries were within the scope of the survey. The AEIS covers establishments with up to ten workers, while the CMI covers establishments with more than ten workers employed. As the above-mentioned survey was conducted almost a decade ago, the district selection may not be a reflection of the real picture.

Another limitation was the enterprise listing in selected districts. For PSU selection, within the selected districts, no statistical data is available. Therefore, we visited all the selected districts and talked with people who were well informed about the industry locations in these districts. This process is a little subjective. In the event of non-availability of the required number of establishments in the selected PSUs, additional PSUs were selected randomly from the remaining area list for associated district.

Chapter 4: Survey findings

4.1 Ownership pattern and size

Sole proprietorship (81 per cent) is observed to be the key legal structure among the surveyed micro- and small enterprises (MSEs) in Bangladesh, followed by informal businesses (15 per cent) (figure 4.1). Since the surveyed enterprises were mostly micro and small in nature, which did not require much capital investment, we found most entrepreneurs opting for sole proprietorships. Of the total firms, more than half (62 per cent) were very small in size with only 3–5 members, followed by another one-third (33 per cent) with 6–25 members (table 4.1). Quite reasonably, more informal businesses were found for enterprises with lower number of workers in all the surveyed districts. Among the surveyed sectors in Bangladesh, the proportion of MSEs that are sole proprietorships is highest in light engineering (92 per cent) and lowest in garments/textile (72 per cent) (table 4.2).

“*Staying informal*” is not a popular strategy in Bangladesh. Overall, 15 per cent of the surveyed firms were reported as unregistered. Among the four sectors surveyed, informal businesses are relatively higher in number in the leather and garment sector, where 25 per cent of the businesses are unregistered. This finding for Bangladesh matches with the fact that only 15 per cent of the surveyed firms reported having at least one of the ten popular types of registration, as discussed ahead in the subsection on business-related registration.

Another unique finding of the survey is gender bias in business ownership, with all surveyed MSEs being owned by males. Considering factors such as social structure, type of business, nature of work, religious values and so on, the survey findings are quite justified. Bangladesh is an overpopulated country with a highly segregated society based on gender and class. Generally speaking, women in developing countries face two main challenges in promoting enterprises: (a) legitimizing and strengthening the base of existing women-owned enterprises and (b) promoting women entrepreneurship and business opportunities with high growth potential (ILO, 2007). Bangladeshi women entrepreneurs, like women in other developing countries, suffer from two distinct disadvantages: (a) the initial lack of confidence in their own abilities, and (b) society’s lack of confidence in women’s abilities. Such an imbalance results in families being reluctant to finance women’s ventures, bankers being reluctant to take on risks on projects set up by women, and a general unwillingness to accept women as decision-makers or to stand as guarantors for loans to them.

Figure 4.1. Percentage distribution of MSEs in Bangladesh across type of legal structure

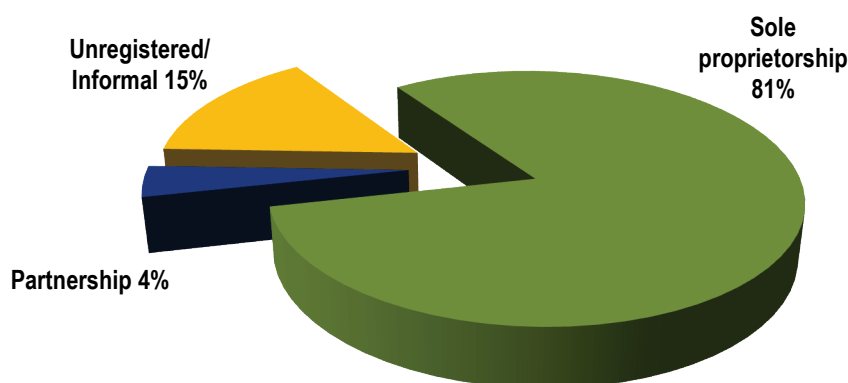


Table 4.1. Distribution of MSEs in Bangladesh across stratum, based on worker group, by business sectors

Worker group	Agro processing	Leather	Light engineering	Garments/textile	All
3-5 workers	55%	65%	71%	56%	62%
6-25 workers	37%	34%	27%	34%	33%
26-40 workers	5%	1%	1%	3%	2%
41-50 workers	1%	0%	1%	1%	1%
51-70 workers	2%	1%	1%	5%	2%
Base (total MSEs)	154	151	151	155	611

Table 4.2. Distribution of MSEs in Bangladesh across type of legal structure, by business sectors

Legal Structure	Agro processing	Leather	Light engineering	Garments/handloom	All
Sole proprietorship	86%	75%	92%	72%	81%
Partnership	8%	1%	3%	4%	4%
None (unregistered/informal)	6%	25%	5%	25%	15%
Base (Total MSEs)	154	151	151	155	611

4.2 Employment

4.2.1 Employee composition

As far as type of employment is concerned, full-time employment is the most common category observed among workers in the surveyed firms. Around 95 per cent of all workers were working on a full-time basis in the MSEs in Bangladesh. This is true for both male and female workers. However, the proportion of unpaid workers who were working fulltime was relatively less at 83 per cent. Compared to 2009, the percentage of full-time employees has decreased marginally (tables 4.3 and 4.4).

In the surveyed sectors in Bangladesh, *casualization* or *informalization* of labour is observed to be almost non-existent (tables 4.3 and 4.4). Of the total workers, only two per cent were found to be working as casual or temporary workers. While none of the paid workers were working on a temporary basis, a relatively higher proportion of 12 per cent of unpaid workers were either temporary or casual employees. Among the four surveyed sectors, the share of casual labourers was noticeable only in the garments/handloom sector (five per cent), while the other three sectors had less than one per cent workers who were casual.

The survey revealed that irrespective of location (urban/rural) and size of the MSEs, there was a clear male dominance in the surveyed industries irrespective of sector. In other words, the proportion of females working in micro-, small and medium enterprises was surprisingly low. Of the total workers in all the sampled firms, only three per cent were females (tables A.1 and A.2). This ratio was slightly higher in case of part-time (ten per cent) and casual workers (five per cent). The male-to-female ratio was also similar in the year 2009. It was observed that in agro-processing and garment sectors the involvement of female workers was comparatively higher in rural areas than in urban areas.

Table 4.3. Distribution of employees in MSEs in Bangladesh across type of employment for business sectors, 2011

Nature of Employment	Agro processing	Leather	Light engineering	Garments/handloom	All
Paid workers					
Full time	98%	95%	96%	100%	98%
Part time	2%	5%	3%	0%	2%
asual/temporary	1%	0%	0%	0%	0%
Base (total paid workers)	1369	806	825	1471	4471
Unpaid workers					
Full time	97%	85%	93%	66%	83%
Part time	3%	11%	7%	1%	5%
asual/temporary	0%	4%	0%	34%	12%
Base (total unpaid workers)	206	142	187	258	793
All (Paid+Unpaid)					
Full time	98%	93%	96%	95%	95%
Part time	2%	6%	4%	0%	3%
Casual/temporary	0%	1%	0%	5%	2%
Base (total workers)	1575	948	1012	1729	5264

Table 4.4. Distribution of employees in MSEs in Bangladesh across type of employment for business sectors, 2009

Nature of Employment	Agro processing	Leather	Light engineering	Garments/handloom	All
Paid workers					
Full time	98%	96%	98%	100%	98%
Part time	1%	4%	2%	0%	2%
Casual/temporary	0%	0%	0%	0%	0%
Base (total paid workers)	1102	650	653	1195	3600
Unpaid workers					
Full time	100%	99%	93%	68%	89%
Part time	0%	1%	7%	0%	2%
Casual/temporary	0%	0%	0%	32%	10%
Base (total unpaid workers)	209	142	165	226	742
All (Paid+Unpaid)					
Full time	99%	96%	97%	95%	97%
Part time	1%	4%	3%	0%	2%
Casual/temporary	0%	0%	0%	5%	2%
Base (total workers)	1311	792	818	1421	4342

4.2.2 Hours of work

A majority of MSEs (64 per cent) reported that their employees worked eight to ten hours a day. While one-third reported average working hours per day as eight hours, another 26 per cent reported that they worked ten hours a day on average. However, it is also significant that 23 per cent of enterprises reported average working hours as 12. Enterprises with lower number of workers had on average longer working hours. Since the majority of MSEs were privately owned and informal in structure, they did not follow any law-bound office hours. The decision on working hours was observed to be mostly on the basis of owner domination, industry environment and mutual understanding. Similarly, 85 per cent of MSEs indicated that average working days in a month at their enterprises were more than 25 days, whereas 15 per cent MSEs indicated working days in a month as between 16 to 25.

4.2.3 Mode of wage payment

Despite an overwhelming presence of full-time workers, only around half (53 per cent) of MSEs reported paying their employees on a monthly basis (table A.3). It should be noted here that even though monthly salary might be considered as a measure of full-time employment, it is not always so. Among the four surveyed sectors, monthly mode of wage payment was most prevalent in light engineering (71 per cent) and least prevalent in the leather goods sector (30 per cent). The piece-rate system is the next most widely used mode of wage payment, followed by 25 per cent of MSEs. Piece-rate modality is higher in the leather goods and textile sectors. Piece-rate mode of payment is also practiced more among enterprises with lower numbers of workers.

4.3 Business and related registration

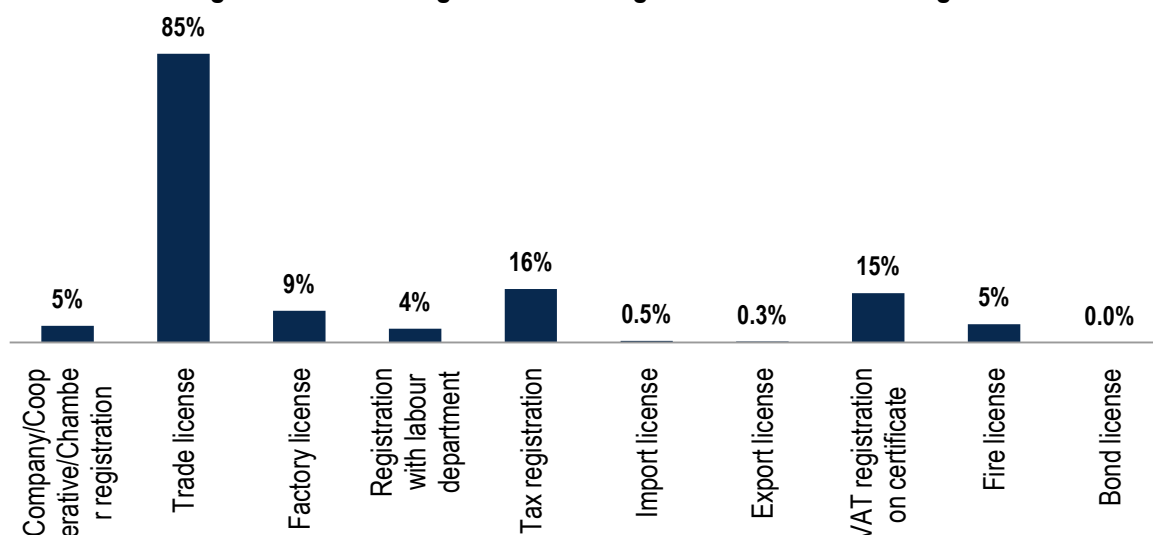
One of the indicators often examined to assess the informal status of enterprises is their status of registration. The four industries covered in this survey reported a fairly high share of registration of one kind or another. Overall, the percentage of MSEs without any registration in Bangladesh was 15 per cent. However, in the case of agro processing and light engineering, firms without registration were only five per cent and six per cent respectively. It was observed during the survey that the percentage of registered enterprises goes up significantly as the size of the workforce increases. All the surveyed businesses with larger worker groups (41 or above) had at least one type of registration.

Having a trade license seems to be the most popular type of registration for MSEs in Bangladesh, with a significant proportion (85 per cent) of MSEs having this type of registration (figure 4.2). In fact, more than 94 per cent of businesses in agro processing and light engineering reported having a trade license. In comparison, all the other nine types of registration were much less popular. After the trade license, the other two types of registration that were more popular among MSEs in Bangladesh were tax registration (16 per cent) and value added tax (VAT) registration (15 per cent). It should be noted that export, import and bond licenses are the three least popular types of registration among MSEs, with each of these having a prevalence rate of less than one per cent.

When MSEs with registration were asked the reason for having that registration, more than 90 per cent reported getting it because it was a legal requirement (table A.4). Very few businesses gave any other reason, like the six per cent with VAT registration who said they had obtained it because it was needed by either suppliers or buyers. On the other hand, two key reasons for not acquiring registration are lack of awareness and that it is not legally required (table A.5). It was observed that none of the surveyed firms had a bond license and 57 per cent of them said that it was because they were not aware of the legal requirement, followed by another 23 per cent who reported that it was not a legal requirement for them. Similarly, 55 per cent of firms without a fire license and 50 per cent of firms without an export license reportedly were unaware of the need for such a license. In the case of all other licenses, more than 40 per cent of firms reported not registering because they were not aware of the registration being legally required. Overall, it

was observed that “avoidance by choice” behaviour was not common in the case of business registration. The reasons for not registering are found more or less similar for all business sectors as well as sizes of businesses.

Figure 4.2. Percentage MSEs in Bangladesh with different registration



4.4 Business inspection

It was observed during the survey that regular inspection by officials of different departments was not a common practice among MSEs in Bangladesh. More than three-fourths of MSEs (76 per cent) had not been inspected by government officials during the year prior to the survey (table 4.5). However, there was a clear variation across the four sectors being surveyed. While 91 per cent of MSEs in the leather sector reported not having had any inspection, the number for agro processing was only 54 per cent. Overall, around 21 per cent of firms reported being inspected either once or twice during the year prior to the survey period.

If we look at the departments or officials who visited the firms for inspection, 24 per cent of firms in agro processing were inspected by the food and technology department and 21 per cent were reported to have been inspected by health inspectors. In the case of the garments/handloom sector, 15 per cent of MSEs reported being inspected by the labour department. In comparison, inspections by all other departments/officials were much smaller in proportion across the four sectors (table A.6).

Table 4.5. Percentage distribution of MSEs in Bangladesh by frequency of official inspection in different business sectors

Frequency of government inspection	Agro processing	Leather	Light engineering	Garments/Handloom	All
Not once	54%	91%	77%	83%	76%
1-2 times	38%	9%	22%	15%	21%
3-5 times	6%	0%	0%	2%	2%
5-10 times	1%	0%	1%	0%	0%
10 or more times	1%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
Total No. of MSEs	154	151	151	155	611

4.5 Employment register

Overall, one-third of MSEs had reported that they maintained employment registers in their businesses (table 4.6). Among the four sectors being surveyed, the proportion of MSEs maintaining employment registers was highest in light engineering (41 per cent) and lowest in the leather sector (25 per cent). It is also found that higher the number of workers employed in MSEs, greater is the practice of maintaining registers for its employees. For instance, compared to 20 per cent of MSEs with 3–5 workers maintaining registers, 85 per cent of those with 51–70 workers had reported to have maintained such registers.

When MSEs who did not keep employment registers were asked their reasons for not doing so, one of the key reasons was the perception that it was not legally required (table A.7). While 29 per cent of MSEs did not specify the reason for not maintaining a register, a relatively smaller share of MSEs provided reasons that can be considered “avoidance by choice” behaviour which includes reasons such as “Unnecessarily complicated (23 per cent)”, “Too costly” (19 per cent), “Takes too much time” (15 per cent) and “It is legally required, but not enforced” (ten per cent). Around one-fourth of the MSEs (25 per cent) also provided a legitimate reason: since they paid daily wages to their employees it was not essential to maintain an employment register.

Table 4.6. Percentage of MSEs in Bangladesh that keep and maintain an official employment register, by business sector and worker group

Business sector/ Worker group	% MSEs that maintain an official employment register	Base (No. of MSEs)
Agro processing	34%	154
Leather	25%	151
Light engineering	41%	151
Garments/Handloom	33%	155
3–5 workers	20%	377
6–25 workers	51%	202
26–40 workers	71%	14
41–50 workers	80%	5
51–70 workers	85%	13
All enterprises	33%	611

4.6 Presence of trade unions

This section examines the presence of trade unions among MSEs in the surveyed sectors and analysis whether the right to collective bargaining and freedom of association through formation of trade unions by workers works as a plausible growth trap for MSEs. In Bangladesh, if an enterprise has six or more workers, they are allowed to form a trade union. Because of this implicit threshold, medium (and large) enterprises are likely to be affected to a greater extent compared to small and micro-enterprises.

None of the MSEs below the threshold level (less than six workers), who were aware of the regulation, decided not to grow in order to avoid dealing with trade unions (table 4.7). Thus “staying below the threshold” strategy in order to avoid compliance was almost non-existent among the MSEs in Bangladesh and the right to form trade unions was not observed as a growth trap issue for businesses with less than six employees. On the other hand, a majority of the MSEs (89 per cent) with less than six workers reported that were not aware of the regulation regarding trade union formation. Not much variation was observed in the proportion of firms who were unaware across the four sectors.

The survey revealed that there was not a single firm among the 234 sampled MSEs with six or more workers that had formed a trade union (table 4.8). Thus there was no existence of trade unions among the surveyed enterprises – irrespective of business sector or the size of business. When all the surveyed enterprises above the threshold level were asked to provide reasons for not having any trade union, the “avoidance by choice” strategy was clearly evident (table A.8). More than two-thirds (67 per cent) of the enterprises stated that they did not form any trade union because the workers had not demanded it. Another 15 per cent also reported that even though it was legally required, it was not enforced. In this connection the study notes that in the case of 67 per cent of MSEs, there was an overall wage increase for employees during the one year previous to the survey (Tables A.10, A.11, A.12, A.13). Of those MSEs who gave increments to their employees, more than two-thirds provided it at a rate of either ten per cent or less. Again, all MSEs were questioned about the number of working days lost during the one year previous to the survey due to labour disputes (Table A.9). It is to be noted that almost all (98 per cent) MSEs reported that they had not lost a single day due to labour disputes.

The survey revealed that knowledge of the existence of the system of informal payments for avoiding the formation of trade unions was low among the surveyed MSEs. Of the total enterprises only 16 per cent said that they had heard about informal payments being made to avoid compliance with regulations on trade unions, and out of these only four per cent admitted to actually making such payments (table A.14). Similarly, awareness regarding existence of penalties for non-compliance with regulations on trade unionization was also found to be very low, with only nine per cent of MSEs reportedly having heard about this. Of those who had, four per cent of MSEs knew at least the category of penalty.

Table 4.7. Percentage distribution of MSEs with less than six workers in Bangladesh across their knowledge about forming a trade union and its impact on growth, by business sector

Status of awareness and impact on growth	Agro processing	Leather	Light engineering	Garments/handloom	All
Aware and tried to stay below threshold	0%	0%	0%	0%	0%
Aware but with no effect on growth	14%	8%	7%	15%	11%
Not aware	86%	92%	93%	85%	89%
Base (No. of MSEs with less than six workers)	85	98	107	97	377

Table 4.8. Percentage distribution of MSEs in Bangladesh with six or more who have a trade union, by business sector

Status	Agro processing	Leather	Light engineering	Garments/handloom	All
Have a trade union	0%	0%	0%	0%	0%
Do not have a trade union	100%	100%	100%	100%	100%
Base (No. of MSEs with six or more workers)	69	53	44	68	234

4.7 Parallel units

During the survey, all MSEs were asked if they owned or managed more than one business that provided the same product or service in the same and/or neighbouring district. It was hypothesized that more the number of parallel units, greater is the likelihood that MSEs did not want to grow beyond a certain size in order to avoid compliance with different labour laws that are applicable only to larger firms beyond a specified employee size limit.

The survey revealed that among the micro-, small and medium enterprises (MSMEs) the existence of parallel units was observed to be very low (table 4.9). Of the total surveyed MSEs, only 15 owners (two per cent of MSEs) had, altogether, 26 parallel units in the same or neighbouring district, out of which 14 businesses had less than 41 employees. There is a likelihood that these 14 firms might have created parallel units as part of their “staying below the threshold level” strategy because the regulation on the provision for shelter/rest room/lunch room as well as provision for children’s room is applicable to MSEs with more than 51 and 41 employees respectively.

Table 4.9. Percentage of MSEs in Bangladesh with more than one parallel business unit, by business sector and worker group

Business sector/ worker group	Percentage of MSEs with more than one similar business in the same district	Base (Total MSEs)
Agro processing	3%	154
Leather	3%	151
Light engineering	1%	151
Garments/handloom	3%	155
3–5 workers	2%	377
6–25 workers	2%	202
26–40 workers	7%	14
41–50 workers	20%	5
51–70 workers	0%	13
All enterprises	2%	611

4.8 Environmental regulations

The study observed that a majority of businesses, irrespective of location, legal structure and type of registration, do not comply with the Environmental Clearance Certificate (ECC). Of the total MSEs in Bangladesh, only six per cent had an ECC and it was even lower at only three per cent for businesses in the leather sector (table 4.10). The survey revealed that the compliance rate for environmental regulations went up as the size of the workforce increased in the MSEs. All the enterprises that complied with the ECC said they complied because it was legally required. When the enterprises that did not have an ECC were asked why they didn’t have the certificate, more than half of them replied saying they were not aware of the requirement (table A.16). While 25 per cent of MSEs believed that it was not a legal requirement, a relatively smaller share of MSEs provided reasons that can be considered “avoidance by choice” behaviour which includes reasons such as “It is legal, but not enforced” (19 per cent), “Complicated, do not see the benefit” (16 per cent), “Don’t want to pay the required fees” (ten per cent), and “Takes too much time” (five per cent).

Among those who had the ECC, a majority of them knew that the fee for the certificate goes up as the level of investment increases (table A.15). Only one out of 22 sampled enterprises (four

per cent) said they were aware that the ECC fees increases with level of investment and admitted to deciding not to expand due to higher costs involved.

More than one-third of the surveyed enterprises (39 per cent) reported knowing about the existence of the informal payment system to avoid compliance with environmental regulations (table A.17). However, out of those who were aware, only three per cent admitted that they had actually made such payments. Awareness of the existence of penalties for non-compliance was considerably high among the surveyed MSEs in Bangladesh. Overall, 42 per cent of MSEs reported that they were aware of the penalties for non-compliance with environmental regulations. Among the four sectors, the awareness level was highest among MSEs in agro processing (54 per cent) and lowest in the leather sector(32 per cent).

Table 4.10. Percentage of MSEs in Bangladesh that comply with the ECC, by business sector and worker group

Business sector/ worker group	Percentage of MSEs that comply with ECC	Base (total MSEs)
Agro processing	13%	154
Leather	3%	151
Light engineering	5%	151
Garments/handloom	5%	155
3-5 workers	5%	377
6-25 workers	5%	202
26-40 workers	7%	14
41-50 workers	40%	5
51-70 workers	46%	13
All enterprises	6%	611

4.9 Incentive programmes

Of the total MSEs being surveyed, a small share of only eight per cent reported that they had started their businesses with support from the government, a donor or a non-governmental organization (NGO) (table 4.11). Among the four business sectors, the percentage of MSEs who availed the support of such incentive programmes was highest among MSEs working in the light engineering sector (three per cent) and lowest in the leather sector (one per cent).

The survey revealed that around half of the MSEs indicated that they were not aware of the various incentive schemes – either government or non-government. While 29 per cent of MSEs were aware of only one incentive programme, another 22 per cent indicated being aware of two to three incentive programmes. A negligible share of only one per cent of MSEs was found to be aware of more than three incentive schemes. Sector-wise, enterprises that belonged to the light engineering and agro-processing sectors were more aware of the incentive schemes. Enterprises from the leather sector had the lowest awareness level. The study also noted that larger enterprises were more aware compared to other smaller ones. The status of awareness of the MSEs about maximum threshold for availing different incentive programmes was observed to be quite low. On average, 92 per cent of MSEs were not at all aware of the size threshold for availing the various incentive schemes. Out of those aware of the eligibility ceiling, 35 per cent were concerned about losing benefits by outgrowing the ceiling. However, due to the low-availing ratio, this group represents only three per cent of the total MSEs surveyed.

Table 4.11: Percentage of MSEs in Bangladesh whose businesses started with support from a government, donor or NGO, by business sector and worker group

Business sector/worker group	Percentage of MSEs who received support	Base (total MSEs)
Agro processing	10%	154
Leather	1%	151
Light engineering	13%	151
Garments/handloom	6%	155
3–5 workers	7%	377
6–25 workers	6%	202
26–40 workers	36%	14
41–50 workers	20%	5
51–70 workers	0%	13
All enterprises	8%	611

4.10 Analysis of survey findings in terms of study objectives

The main objective of this study, based on surveys of MSEs in Bangladesh, is to find out whether labour- and business-related factors act as plausible growth traps for MSEs. For the purpose of analysis, this overall objective has been translated into the following four major questions to elicit responses from enterprises:

- **Question 1:** Does compliance in payment of the statutory minimum wages act as a plausible growth trap for the MSEs surveyed?
- **Question 2:** Does compliance in payment of statutory non-wage benefits act as a plausible growth trap?
- **Question 3:** Do business-related factors, such as income tax and value added tax (VAT), act as plausible growth traps for MSEs?
- **Question 4:** Does the informal payment system impact compliance with labour laws?

4.10.1 Does compliance in payment of the statutory minimum wages act as a plausible growth trap for the MSEs surveyed?

The regulation on minimum wages is applicable to businesses across all sizes in Bangladesh. During the survey, a total of 41 per cent of MSEs reported paying their workers in accordance to the act on minimum wages (table 4.12). Among the four surveyed sectors, the compliance rate in terms of payment of minimum wage was observed to be lowest in the leather sector (21 per cent). Around half of the MSEs from both agro processing (53 per cent) and light engineering (54 per cent) reported that they were aware of government-specified minimum wages and paid their workers accordingly. In terms of worker group, it was observed that as the employee size increased, the compliance rate went up as well (table A.18). For instance, the proportion of those enterprises with 3–5 employees, who paid minimum wages, was 40 per cent compared to 80 per cent compliance rate among those with 41–50 employees.

Overall, almost half of the MSEs (47 per cent) were not aware of the requirement to pay minimum wages. This behaviour was more widely observed among MSEs working in the leather industry (69 per cent) and much less among MSEs in light engineering (34 per cent). Thus it can be observed from the survey that the lack of awareness with regard to payment of minimum wages among employers of the MSEs might be an important factor for non-payment of minimum wages.

On the other hand, the proportion of enterprises aware of the regulation but who still avoided paying minimum wages to their workers was much smaller (nine per cent). When these enterprises were asked the reason for non-compliance, a large section (47 per cent) did not provide any specific reason, while around one-third (36 per cent) said that it was not legally required (Table A.19). On the other hand, a considerable share of MSEs cited reasons that clearly reflected the “avoidance by choice” strategy and included reasons such as “Too costly” (41 per cent), “Unnecessarily complicated” (16 per cent), “Legally required, but not enforced” (ten per cent) and “Takes too much time” (two per cent).

More than half (55 per cent) of the enterprises claimed that they knew the minimum wage rate for their specific sector (table A.20). This reported knowledge was highest in light engineering (68 per cent) and lowest in the leather sector (37 per cent). Also, it was observed that a higher percentage of firms claimed awareness of the minimum wage rate as the size of the workforce increased. However, when probed about the exact wage rate, only seven per cent of enterprises could state the correct figure.

“Making informal payments” was not observed to be a very a popular avoidance strategy in Bangladesh (table A.21). Even though around one-third of MSEs (32 per cent) were aware of informal payments being made to avoid paying minimum wage, out of these only two per cent were honest enough to report that they had made such payments to avoid compliance with the minimum wage. Awareness of penalties related to non-compliance of regulations on minimum wage was observed to be relatively low. Overall, around one-third of the MSEs had reported hearing about such penalties. Among the four surveyed sectors, knowledge of penalties was the lowest in the leather sector (21 per cent). Out of those who were aware, only one per cent was able to describe the exact quantum and category of penalty.

Table 4.12. Percentage distribution of MSEs in Bangladesh across status of awareness and payment of sector-specific minimum wages, by business sector

Status of awareness and payment	Agro processing	Leather	Light engineering	Garments/ handloom	All
Aware and pay	53%	21%	54%	46%	43%
Aware but do not pay	6%	11%	12%	10%	9%
Not aware	41%	69%	34%	45%	47%
Total	100%	100%	100%	100%	100%
Base (no. of MSEs)	154	151	151	155	611

4.10.2 Does compliance in payment of statutory non-wage benefits act as a plausible growth trap?

The statutory non-wage benefits referred to in the survey can be subdivided into five specific types: (i) payment of the employer contribution to the provident fund or employees’ provident fund (EPF); (ii) payment of gratuity on retirement or completion of stipulated period of service; (iii) compensation for injury or death; (iv) provision of shelter/rest room and lunch room; and (v) provision of children’s room.

4.10.2a EPF

In Bangladesh, the regulation regarding EPF contribution is applicable to all businesses irrespective of employee size. However, it is important to note that the compliance rate with regard to EPF was almost nil among the surveyed enterprises. Only two out of the 611 sampled enterprises reported making EPF contributions (tables 4.13, A.22). An overwhelming proportion of 80 per cent of sampled firms reported not being aware of EPF regulations. Thus,

for a majority of enterprises in Bangladesh, non-compliance with EPF provisions was primarily because of lack of awareness of this regulation.

On the other hand, 20 per cent of enterprises said that even though they were aware of the regulation, they did not contribute towards EPF. When the MSEs who did not comply with EPF regulations were asked their reasons for non-compliance, the majority provided answers that clearly reflected “avoidance by choice” behaviour (table 4.14). For instance, a considerable share of MSEs provided reasons such as “Workers have not demanded it” (46 per cent), “Employees prefer to receive higher take-home pay” (39 per cent), “It is legally required, but not enforced” (24 per cent), “Too costly” (15 per cent), and “Unnecessarily complicated” (ten per cent). Such avoidance strategy could most likely be followed to reduce unit costs in a situation where the MSEs faced strong competition from large firms. Again, it should be noted that the awareness level regarding actual rate of EPF contributions that businesses are required to make was observed to be quite poor among the MSEs in Bangladesh. Only 13 per cent of the total surveyed MSEs reported that they were aware of the rate for EPF contribution (table A.24). In case of businesses that belong to the leather sector, this perceived awareness was even lower (six per cent). However, none of the enterprises who claimed to know the EPF rate could actually specify the exact value.

It was observed that the practice of making informal payments to avoid compliance with regulations on provident fund was not very well known (table A.25). Overall, only 12 per cent of businesses claimed that they were aware of informal payments being made to avoid EPF contributions. Of those who were aware, around six per cent reported that they had actually made such payments. It was observed that awareness of informal payments went up as the size of the workforce increased.

The survey revealed that awareness of the existence of penalties for not complying with regulations on EPF was considerably low. Only nine per cent of MSEs claimed awareness of such penalties. It was observed that increase in employee size of enterprises increased the awareness of the penalties as well. However, while only two per cent could specify the category of penalty, none of the enterprises who were aware could specify the exact quantum and category of penalty for non-compliance with EPF regulations.

Table 4.13. Percentage distribution of MSEs in Bangladesh across status of awareness and payment of EPF, by business sector

Status of awareness and payment	Agro processing	Leather	Light engineering	Garments/handloom	All
Aware and pay	0%	0%	1%	1%	0%
Aware but do not pay	21%	19%	20%	19%	20%
Not aware	79%	81%	79%	80%	80%
Total	100%	100%	100%	100%	100%
Base (total MSEs)	154	151	151	155	611

4.10.2b Gratuity

In Bangladesh, all businesses are required to make gratuity payments to employees who have been in service for more than 25 years, irrespective of employee size. Thus the liability of gratuity emerges towards employees completing a minimum of 25 years of services. However, it was observed during the survey that among all the paid employees in the surveyed enterprises, those who had completed 25 or more years of service were almost negligible (less than 0.5 per cent). Whether fulltime or part time, there was hardly any employee who had completed 25 years of service in a single enterprise (table 4.14).

It is important to note that a significant proportion of 79 per cent sampled firms reported that they were not even aware of the regulations regarding gratuity payment (tables 4.15, A.26). The remaining 21 per cent reported that they did not pay gratuity even though they were aware of the regulation. When these enterprises were probed about the reasons for not paying, more than half (56 per cent) did not specify any reason, while another 20 per cent said that it was not a legal requirement for them (table A.27). A relatively smaller proportion of firms also stated reasons that reflected “avoidance by choice” behaviour such as “Workers have not demanded it” (19 per cent), “Too costly” (12 per cent), and “It is legal, but not enforced” (six per cent). When asked the amount of gratuity businesses are required to pay, 16 per cent of the total MSEs reported being aware of the regulation (table A.28). However, no one could specify the exact amount.

Knowledge of the practice of making informal payments in order to avoid compliance with gratuity regulations was observed to be quite low in Bangladesh (table A.29). Of the total surveyed enterprises, only 12 per cent had heard about informal payments being made. Again, of those who had heard about such payments being made, a negligible share of three per cent of MSEs was honest enough to admit that they had actually made such payments to avoid compliance.

It was revealed during that survey that awareness of the existence of penalties for not complying with regulations on gratuity was considerably low. Only nine per cent of MSEs claimed knowledge of such penalties. There was not much variation regarding awareness of penalties across the four surveyed business sectors. However, while only two per cent could specify the category of penalty, none of the enterprises who were perceived as aware could specify the exact quantum and category of penalty on non-compliance with gratuity regulations.

Table 4.14. Distribution of paid workers in MSEs in Bangladesh across duration of employment, by nature of employment, 2011

Nature of employment	Working for > = 25 years	Working for < 25 years	Total working
Full time	0.0%	100.0%	100%
Part time	0.0%	100.0%	100%
Casual/temporary	0.0%	100.0%	100%
Total	0.0%	100.0%	100%

Table 4.15. Percentage distribution of MSEs in Bangladesh across status of awareness and payment of gratuity, by business sector

Status of awareness and payment	Agro processing	Leather	Light engineering	Garments/ Handloom	All
Aware and pay	0%	0%	0%	0%	0%
Aware but do not pay	25%	19%	22%	16%	21%
Not aware	75%	81%	78%	84%	79%
Total	100%	100%	100%	100%	100%
Base (No. of MSEs)	154	151	151	155	611

4.10.2c Compensation for injury or death

In Bangladesh it is legally required that businesses compensate workers for any death or injury at work. The survey revealed that around 14 per cent of enterprises were not aware of such

provisions for compensation in case of injury or death of workers (tables 4.16, A.30). Although an overwhelming proportion of 86 per cent of enterprises reported that they were aware of this legal obligation, only eight per cent of MSEs indicated that they had provided such compensation to their workers. Among the four surveyed sectors, the compliance rate was relatively higher in light engineering (14 per cent) and almost negligible in the leather sector (two per cent). Again, awareness as well as compliance rate were higher for enterprises with a higher number of workers. It is important to note that a majority of firms (83 per cent) reported being aware of the kind of compensation businesses must provide to workers in case of injury or death at work (table A.32). This perceived awareness was even higher in the case of larger firms. However, when they were asked to mention the exact amount of the compensation, most enterprises (99 per cent) could not provide the correct answer.

When the 79 per cent of firms who admitted that they did not provide compensation were asked to provide reasons for non-compliance, most (97 per cent) provided a reason that appeared legitimate, i.e. “It has not been necessary (no injury or death)” (Table A.31). While five per cent of MSEs thought that it was not a legal requirement, a smaller share also provided reasons that appeared to be avoidance strategy such as “Too costly” (seven per cent), “It has not been demanded” (four per cent), “It is legally required, but not enforced” (four per cent), and “Takes too much time” (three per cent).

“Making informal payments” was identified as a major avoidance strategy in Bangladesh on the basis of the “have heard of” question (table A.33). More than one-third of the respondents (39 per cent) reported that they had heard about the informal payments. In comparison, a substantially smaller percentage of MSEs responded saying they had actually made such informal payments in order to avoid paying compensation to employees (three per cent out of those who were aware of such payments).

A significant proportion of 41 per cent of MSEs in Bangladesh reported that they had heard of the existence of penalties for non-compliance with regulations on compensation to workers for any injury or death at work. Out of these, only one per cent of MSEs were able to describe both the category and quantum of penalty correctly.

Table 4.16. Percentage distribution of MSEs in Bangladesh on knowledge about the obligation to compensate workers in case of injury or death at work, by business sector

Status of awareness and compliance	Agro processing	Leather	Light engineering	Garments/handloom	All
Aware and provided compensation	8%	2%	14%	6%	8%
Aware and did not provide compensation	79%	78%	79%	79%	79%
Not aware	13%	20%	7%	15%	14%
All	100%	100%	100%	100%	100%
Base (MSEs with less than ten workers)	154	151	151	155	611

4.10.2d Provision of shelter or rest room and lunch room

According to the regulation on provision of shelter or rest room or lunch room, if a business has 51+ regular workers or 26 or more female workers, it has to provide a shelter/restroom/lunch room for the workers, with separate facilities for the women.

The survey revealed that the majority (86 per cent) of MSEs with less than 51 workers or less than 26 female workers were not aware of the provision for rest room/lunch room for enterprises above the threshold level (tables 4.17, A.34). Awareness level increases moderately as the size of the enterprise increase. Among those who were aware, “staying below the threshold level” strategy in order to avoid compliance was not at all observed. On the other hand, around 14 per cent of MSEs below the threshold level had reported that the obligation to provide such facilities if they become bigger in size does not affect their growth. All the ten sampled enterprises with 51+ workers or 26+ female workers said that they did not provide shelter/restroom/lunch room facilities to their workers (with a separate room for female workers).

“Making informal payments” was apparently practiced by some to avoid providing shelter/restroom/lunchroom to workers (table A.35). Overall, nine per cent of the MSEs reported hearing about informal payments being made to avoid compliance with such regulations in their sector of business. Out of these, four per cent were honest enough to report having actually made such payments to avoid compliance with these regulations. During the survey, it was observed that only a negligible share of three per cent of MSEs had heard about the existence of penalties for non-compliance with these regulations. However, none of could specify the exact quantum and category of the penalty.

Table 4.17. Percentage distribution of MSEs in Bangladesh below threshold* across their knowledge of the obligation to provide shelter/restroom/lunch room for workers with separate facilities for women and its impact on growth, by business sector

Status of awareness and compliance	Agro processing	Leather	Light engineering	Garments/handloom	All
Aware and tried to stay below threshold	0%	0%	1%	0%	0%
Aware but not affecting growth	18%	9%	18%	11%	14%
Not aware	82%	91%	81%	89%	86%
All	100%	100%	100%	100%	100%
Base	153	150	150	148	601
Note: * Threshold: A business with 51+ regular workers or 26+ female workers, which requires the provision of a shelter/restroom/lunch room for them, with separate facilities for women.					

4.10.2e Provision of children’s room

In Bangladesh, the obligation to provide a facility which acts as a children’s room is applicable to businesses with 41 or more female employees. The survey revealed that an overwhelming proportion of 93 per cent of MSEs with less than 41 females employed had reported that they were not aware of the regulation (tables 4.18, A.36). For the remaining seven per cent of MSEs below the threshold level, this regulation did not act as a growth barrier. Thus, there was no MSE in the surveyed industries who tried to “stay below the threshold level” in order to avoid compliance. Across sectors the awareness level was marginally higher for textile and agro processing compared to the others. In worker groups, awareness was found to be higher in enterprises with higher numbers of workers.

Overall, knowledge of the kind of children’s room businesses with more than 40 workers should provide for the children, of female employees, who are less than six years of age was considerably low (table A.37). Only nine per cent of the total surveyed enterprises claimed knowledge of the kind of facilities that had to be provided. However, only three per cent could actually name all the facilities.

It was observed that “making informal payments” was not a popular avoidance strategy in this case, with only nine per cent of enterprises reportedly aware of this practice (table A.38). Of those who were aware, only three per cent admitted to actually making such payments to avoid providing a children’s room in case they had more than 40 female employees. In a situation of such low levels of awareness and compliance, it was not surprising to find that a negligible share of four per cent of MSEs were aware of the existence of penalties for non-compliance and even fewer knew of the penalty that is imposed in a situation of non-compliance.

Ten out of the 13 sampled MSEs (77 per cent) with 41–50 workers reported knowing about the provision for a children’s room for enterprises with more than 51 workers before October 2006. Among the MSEs that were aware, none of the enterprises indicated that they had tried to stay below the threshold level in order to avoid compliance.

Table 4.18. Percentage distribution of MSEs in Bangladesh below threshold* across their knowledge about the obligation to provide children’s room facilities and its impact on growth, by business sector

Status of awareness and compliance	Agro processing	Leather	Light engineering	Garments/textiles	All
Aware and tried to stay below threshold	0%	0%	0%	0%	0%
Aware but not affecting growth	10%	6%	5%	9%	7%
Not aware	90%	94%	95%	91%	93%
All	100%	100%	100%	100%	100%
Base (MSEs with less than 41 female workers)	154	151	151	155	611

Note: *Threshold: A business with 41+ female employees must provide a children’s room.

4.10.3 Do business-related factors, such as income tax and VAT, act as plausible growth traps for MSEs?

4.10.3a Income tax

In the case of income tax in Bangladesh, the threshold is not related to number of employees, but to annual income. None of the surveyed MSEs, either sole proprietorships or unregistered businesses, were aware of the income tax regulations and they still tried to avoid compliance by keeping their income below the threshold level, thereby following the “staying below the threshold” strategy (tables 4.20, A.40). On the other hand, 72 per cent of all sole proprietorships and unregistered businesses reported that they were not at all aware that if they earn more than 165,000 Bangladeshi Taka (BDT), they are required to pay income tax. Among the four surveyed sectors, the proportion of such firms who were not aware of these regulations was relatively less in the light engineering sector (64 per cent) and higher in the leather sector (85 per cent).

Overall, a significantly high proportion of 78 per cent of MSEs did not pay income tax (table 4.19). The proportion of MSEs who did not comply with income tax regulations was observed to be highest in the leather sector (96 per cent) and lowest in agro processing (66 per cent). While 46 per cent of MSEs did not specify any particular reason for non-compliance with income tax regulations, a considerable proportion, 29 per cent, stated they were legally exempted from paying income tax (table A.39). A relatively smaller share of enterprises also gave reasons that clearly reflected the “avoidance by choice” strategy such as “Too costly” (26 per cent), “Unnecessarily complicated (do not see the benefit)” (18 per cent), “It is legally required, but not enforced” (15 per cent), and “Takes too much time” (nine per cent).

Knowledge of the existence of the system of informal payments to avoid compliance with income tax regulations was quite high among the surveyed MSEs in Bangladesh. Around 41 per cent of MSEs had heard of informal payments being made to avoid compliance with regulations on income tax (table A.41); out of which, three per cent reported having actually made such informal payments to avoid compliance. Almost half the surveyed MSEs (48 per cent) stated having heard about the existence of penalties for evading payment of income tax (tables A.44, A.45). Compared to the other business laws, knowledge of the existence of penalties was observed to be much higher in the case of income tax. However, not one MSE could describe both the quantum and category of the penalty.

Table 4.19. Percentage of MSEs in Bangladesh who pay income tax, by business sector and worker group

Business sector/ worker group	Percentage of MSEs who pay income tax	Base (total MSEs)
Agro processing	34%	154
Leather	4%	151
Light engineering	26%	151
Garments/handloom	22%	155
3-5 workers	11%	377
6-25 workers	33%	202
26-40 workers	64%	14
41-50 workers	100%	5
51-70 workers	77%	13
All enterprises	22%	611

Table 4.20. Percentage distribution of MSEs (sole proprietorships and unregistered businesses) in Bangladesh based on knowledge of requirement for income tax payment if income is above threshold* and its impact on growth

Status of awareness and impact on growth	Agro processing	Leather	Light engineering	Garments/ textiles	All
Aware and tried to stay below threshold	0%	0%	1%	0%	0%
Aware but not affecting growth	34%	15%	34%	28%	28%
Not aware	66%	85%	64%	72%	72%
Base (MSEs that are sole proprietorships or unregistered businesses)	142	150	146	149	587
Note: * Threshold: A business that earns more than BDT 165,000 and is required to pay income tax.					

4.10.3b VAT

The threshold for VAT in Bangladesh is not related to number of employees, but to annual turnover. According to regulation, all enterprises are required to collect and pay VAT, which is four per cent if the annual turnover is below BDT two million and 15 per cent if the turnover is above BDT two million. Awareness regarding VAT regulations was found to be significantly low among the surveyed MSEs. Of the total MSEs, 90 per cent reported not being aware of the fact that all businesses in Bangladesh had to collect and pay VAT at the specified rate (table 4.22).

Overall, only one per cent of enterprises indicated awareness of the VAT ceiling and tried not to grow their business in order to avoid paying higher VAT rate. Thus, in Bangladesh, VAT ceiling is hardly considered a growth trap. In addition, ten per cent of MSEs were aware of the VAT ceiling but claimed it did not affect their business growth.

Even though all enterprises are required to pay VAT in Bangladesh, a majority (81 per cent) of the surveyed MSEs did not pay VAT (table 4.21). This is in line with the finding that 90 per cent of enterprises were not aware of the prevailing VAT ceiling in Bangladesh. The proportion of MSEs who did not pay VAT was even higher in the leather sector (95 per cent) as compared to the other three sectors. A large proportion of MSEs (41 per cent) who did not pay VAT did not provide any reason for this avoidance behaviour. Around 28 per cent who did not pay VAT stated they did so because it was not legally required or because they were exempted from making VAT payments. However, a considerable section of MSEs provided reasons for non-compliance that clearly reflected the “avoidance by choice” strategy such as “Too costly” (27 per cent), “Unnecessarily complicated (do not see the benefit)” (18 per cent), “It is legally required, but not enforced” (17 per cent), and “Takes too much time” (ten per cent) (Table A.42). Of those MSEs who paid VAT, around 28 per cent paid it at the rate of four per cent, while another 15 per cent paid it at a rate of 15 per cent, which is exact compliance with the regulation. While 14 per cent reported paying VAT at a rate less than four per cent, another 24 per cent could specify the exact VAT rate.

When 19 per cent of the total surveyed MSEs who paid VAT were asked about the transaction cost (time spent) for collecting and paying VAT, around one-third (33 per cent) reported that they could do so within a month. While 23 per cent of the MSEs reportedly spent less than a week annually in collecting and paying VAT, another 23 per cent took between one to three months.

Awareness of the existence of penalties for non-compliance with VAT regulations was observed to be quite high among the MSEs in Bangladesh. Around 44 per cent of MSEs stated they heard about penalties for non-compliance with VAT regulations (tables A.44, A.45). Of those who had heard, only one per cent could specify the category of the penalty correctly. However, none of the MSEs could specify both category and quantum of penalty for evading collection and payment of VAT. Of the total MSEs being surveyed, 37 per cent claimed that they had heard of informal payments being made in order to avoid compliance with regulations on VAT (table A.43). Of these, four per cent of MSEs were honest enough to report having made such payments to avoid compliance with such regulations. The proportion of MSEs who claimed to have made informal payments was marginally higher in enterprises with more than 25 employees.

Table 4.21. Percentage of MSEs in Bangladesh who pay VAT, by business sector and worker group

Business sector/Worker group	% MSEs who pay VAT	Base (Total No. of MSEs)
Agro processing	28%	154
Leather	5%	151
Light engineering	22%	151
Garments/handloom	21%	155
3-5 workers	12%	377
6-25 workers	25%	202
26-40 workers	43%	14
41-50 workers	80%	5
51-70 workers	77%	13
All enterprises	19%	611

Table 4.22. Percentage distribution of MSEs in Bangladesh based on knowledge of VAT ceiling* and its impact on growth, by business sector

Status of awareness and impact on growth	Agro processing	Leather	Light engineering	Garments/textiles	All
Aware and tried not to grow	1%	1%	1%	0%	1%
Aware but not affecting growth	12%	3%	13%	11%	10%
Not aware	88%	96%	86%	89%	90%
All	100%	100%	100%	100%	100%
Base (total of MSEs)	154	151	151	155	611
Note:*VAT regulation: Enterprises need to pay VAT at the rate of four per cent if the annual turnover is below BDT two million and 15 per cent if the turnover is above BDT two million.					

4.10.4 Does the informal payment system impact compliance with labour laws?

4.10.4a Informal payments to avoid compliance with laws/regulations

- Awareness among the surveyed enterprises about the system of informal payments and the actual practice of making informal payments in order to avoid compliance with different labour laws and regulations are shown in tables 4.23 and 4.24 respectively. Knowledge of informal payments was observed to be higher in the areas of income tax (41 per cent), environmental regulations (39 per cent), compensation for injury/death (39 per cent), VAT (37 per cent), and minimum wage (32 per cent). Among the four surveyed sectors, awareness was found to be lower in the leather sector compared to the others sectors.
- The share of enterprises who claimed to have made informal payments was found to be very low in the case of all regulations. However, even though small in number, a few surveyed enterprises did admit to making informal payments to avoid labour regulations in all cases except for provision of children's room. For instance, out of those who had heard of informal payments being made, six per cent actually made informal payments to avoid provident fund, four per cent to avoid VAT, and three per cent to avoid paying income tax.

Table 4.23. Percentage of MSEs in Bangladesh who have heard of informal payments being made to avoid compliance with regulations, by business sector

List of regulations	Agro processing	Leather	Light engineering	Garments/handloom	All
Environmental regulations	47%	32%	37%	41%	39%
Minimum wages	34%	23%	36%	35%	32%
Provident fund	18%	6%	16%	7%	12%
Gratuity	13%	12%	15%	7%	12%
Trade unions	18%	13%	21%	14%	16%
Income tax	46%	32%	44%	40%	41%
VAT	42%	30%	41%	36%	37%
Compensation for injury/death	44%	31%	43%	39%	39%
Provision of shelter/restroom/lunchroom	12%	5%	11%	9%	9%
Provision of children's room	13%	5%	11%	9%	9%
Base (no. of MSEs)	154	151	151	155	611

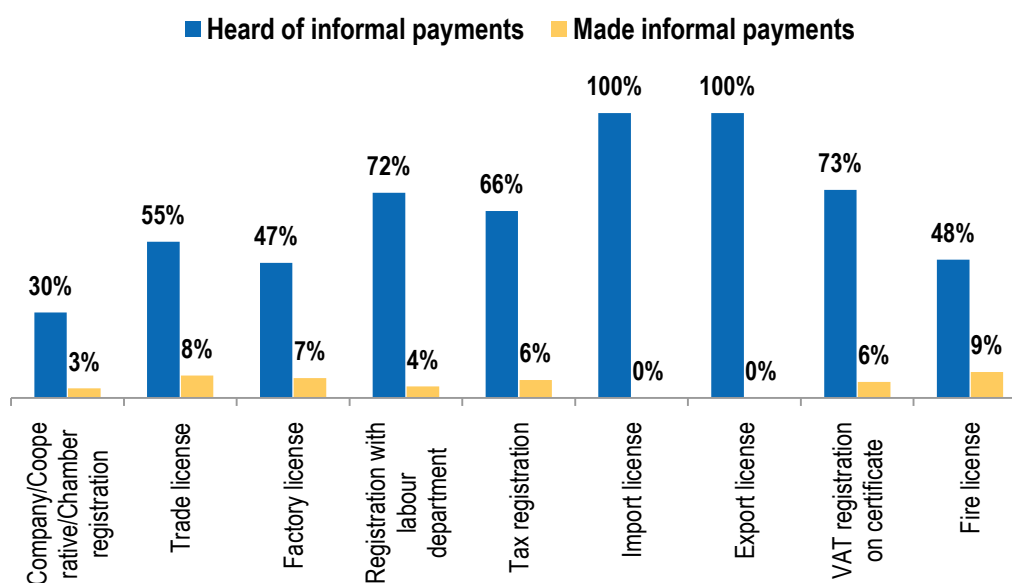
Table 4.24. Percentage of MSEs in Bangladesh who have made informal payments to avoid compliance, by business sector

List of regulations	Agro processing	Leather	Light engineering	Garments/handloom	All
Environmental regulations	4%	8%	2%	0%	3%
Minimum wages	6%	0%	0%	0%	2%
Provident fund	7%	22%	0%	0%	6%
Gratuity	5%	0%	4%	0%	3%
Trade unions	4%	0%	9%	0%	4%
Income tax	3%	6%	3%	2%	3%
VAT	5%	4%	3%	2%	4%
Compensation on injury or death	1%	4%	2%	3%	3%
Provision of shelter/restroom/lunchroom	6%	14%	0%	0%	4%
Provision of children's room	0%	0%	0%	0%	0%

4.10.4b Informal payments to acquire license or registration

- The MSEs were asked if they had heard of or made informal payments in order to acquire each of the different types of registration or licenses (figure 4.3). More than 70 per cent of MSEs who had VAT registration (73 per cent) and registration with the labour department (72 per cent) had heard of businesses paying for the services of agents or making informal payments to government officers to get these registrations. Similarly, 55 per cent of MSEs with trade license and 66 per cent with tax registration had heard about such payments being made. Knowledge of informal payments was comparatively lower among those with company/cooperative registration (30 per cent).
- Of the total MSEs with different types of license/registration, the proportion who admitted having made informal payments was highest among those who had a fire license (nine per cent), followed by trade license (eight per cent) and factory license (seven per cent). On the other hand, a considerably smaller share of MSEs reported making informal payments in order to obtain company/cooperative registration (three per cent) and registration with the labour department (four per cent).

Figure 4.3. Percentage MSEs in Bangladesh with different licenses who have heard of or made informal payments to acquire a particular licence/registration



4.11 Perception-based ranking of factors influencing business growth

Given the fact that the general investment climate is crucial to understand the setting up, functioning and growth of enterprises, it was thought necessary to capture the influence of various factors as perceived by the employers. The following three sets of factors were selected: (i) factors affecting business growth in terms of cost and availability of land and labour, infrastructure, cost of credit, and related factors; (ii) business regulations such as banking, labour, taxation and related ones; and (iii) employer obligations in terms of compliance with working hours, wages and non-wage payment regulations. The employers were asked to identify each factor in terms of their level of influence such as “strongly positive”, “positive”, “strongly negative”, “negative”, “no influence”, and a last category of “not applicable” if they so wished. Of these total responses, their individual shares are recorded and analysed here.

When compared to the level of awareness, compliance and avoidance of labour laws confirmed through the survey, the perception-based ranking of factors from the survey mostly demonstrated a consistent tendency of overstating the impact of positive factors or understating the impact of negative factors.

- While 78 per cent of firms in Bangladesh felt that maintaining employment registers had a positive or strongly positive influence on business, a considerably smaller proportion of only 33 per cent of businesses actually maintained employment registers.
- While 67 per cent of MSEs felt that payment of workers according to the regulations on minimum wage positively affects the growth of business, a considerably lower proportion of firms (43 per cent) actually paid their workers according to the minimum wage act.
- The survey revealed that compliance with EPF regulations was almost non-existent among the MSEs in Bangladesh. Less than one per cent (only two sampled enterprises) of the total surveyed enterprises admitted to making EPF contributions. However, almost half of the enterprises believed that compliance with EPF regulations positively impacts business growth.
- Having a trade union and collective bargaining process is perceived to positively influence growth of business by 29 per cent MSEs in Bangladesh. However, none of the 234 surveyed businesses above the threshold level had a trade union that was formed by the employees.
- While 39 per cent of MSEs in Bangladesh believed that severance payments, such as gratuity, had a positive influence on business growth, none of the surveyed enterprises actually made such payments to their workers. However, in the case of Bangladesh, only those workers who had completed 25 years of service were entitled for gratuity and there was hardly any employee who had worked for 25 years among the surveyed firms. As a result, even if the firms believed that the gratuity payment system positively impacts business growth, the majority were not actually liable to make such payments.
- More than half of the surveyed firms (59 per cent) felt that if they follow the regulation on compensating workers in case of injury, it would have a positive impact on business growth. However, even though 87 per cent of the total enterprises reported being aware of this regulation, only eight per cent actually paid such compensation to the workers.

4.11.1 Influence of factors related to general investment climate

Table 4.26 shows the distribution of MSEs in Bangladesh across factors of influence related to the general investment climate which impact business growth. It is observed that out of the 18 factors analysed, three factors were perceived to have a strongly negative influence on business growth by more than half of the enterprises. These three factors were “Government corruption” (71 per cent), “Non-payment by customers” (55 per cent), and “Industrial security (extortion, threat to life for business persons)” (68 per cent). Around 72 per cent reported cost of electricity as “negatively or strongly negatively influencing” growth. Next in prominence was the cost of finance (69 per cent), followed by the level of taxation (62 per cent), which a higher percentage gave as “negatively or strongly negatively influencing” growth. On the other hand,

more than 60 per cent of firms believed that “Market demand for your products or services” (68 per cent) and “Access to appropriately skilled workers” (62 per cent) had a strongly positive impact on business growth. More or less similar findings are observed for all business sectors (agro processing, light engineering, leather goods, and textiles) without any significant difference vis-à-vis the perception of the general investment climate.

Table 4.26. Distribution of MSEs in Bangladesh across factors of influence related to the general investment climate and their effect on business growth (all sectors)

Factors of influence	Strongly positive influence	Positive influence	No influence	Negative influence	Strongly negative influence	Does not apply	Total
Market demand for your products or services	68%	28%	2%	1%	0%	0%	100%
The cost of labour	36%	39%	12%	10%	2%	0%	100%
The level of taxation	5%	12%	17%	32%	30%	3%	100%
Regulations and inspections (labour, taxation, registration, licensing, etc.)	4%	17%	18%	28%	28%	4%	100%
The cost of finance (e.g. interest rates)	6%	9%	13%	32%	37%	3%	100%
Access to credit (procedural)	47%	42%	8%	3%	0%	0%	100%
Access to appropriately skilled workers	63%	24%	5%	6%	2%	0%	100%
Transport infrastructure	60%	29%	5%	5%	1%	0%	100%
Effectiveness of courts dealing with disputes	5%	19%	32%	11%	18%	16%	100%
Government corruption	1%	1%	5%	17%	71%	5%	100%
Non-payment By customers	3%	3%	7%	30%	55%	1%	100%
Availability of land and premises for business	36%	46%	9%	3%	2%	3%	100%
Cost of land and premises for business	13%	18%	19%	19%	26%	5%	100%
Availability of electricity	51%	40%	6%	2%	1%	0%	100%
Cost of electricity	4%	12%	12%	30%	42%	0%	100%
Water and sanitation facilities	36%	42%	10%	5%	3%	3%	100%
Availability of raw materials	50%	38%	8%	2%	1%	1%	100%
Industrial security (extortion, threat to life for business persons)	1%	2%	9%	10%	68%	11%	100%

4.11.2 Influence of business environment-related factors (laws and regulations)

Under the category of business environment (laws and regulations) influencing growth, 13 main factors were identified (table 4.27). Among the different aspects of the business environment, the factor that was perceived by the highest proportion (72 per cent) of MSEs as having a

negative influence on business growth was the time required to complete tax administration, followed by cost and time required to obtain a business license (72 per cent) and time required to register for taxation (69 per cent). A considerable proportion of MSEs perceived many of the factors to have no influence on business growth. These include, among others, “Obtaining patents and copyrights” (27 per cent), “Complying with labour regulation and inspections (health and safety, social security, hiring and firing, leave and other benefits)” (26 per cent), and “Complying with environmental and sanitary standards (regulations)” (26 per cent). On the other hand, the factor considered by the highest proportion of enterprises to have a positive impact was “Maintaining minimum product standards and certification” (78 per cent).

Table 4.27. Distribution of MSEs in Bangladesh across factors of influence related to the business environment and their effect on business growth (all sectors)

Factors of influence	Strongly positive influence	Positive influence	No influence	Negative influence	Strongly negative influence	Does not apply	Total
Cost or time required to register a business	1%	8%	21%	47%	22%	1%	100%
Cost and time required to obtain a business license	1%	8%	18%	39%	33%	1%	100%
Complying with banking and credit regulations	6%	22%	18%	23%	28%	3%	100%
Cost and time required to register for taxation	1%	5%	22%	34%	35%	3%	100%
Cost of taxation (income tax, sales tax/VAT)	1%	6%	19%	30%	35%	9%	100%
Time required to complete tax administration	1%	5%	19%	35%	37%	4%	100%
Complying with labour regulation and inspections (health and safety, social security, hiring and firing, leave and other benefits)	12%	33%	26%	14%	12%	3%	100%
Complying with environmental and sanitary standards	20%	37%	26%	7%	2%	9%	100%
Maintaining minimum product standards and certification	31%	47%	14%	4%	1%	3%	100%
Complying with food and health standards (for products)	25%	43%	18%	2%	2%	9%	100%
Obtaining patents and copyrights	4%	8%	27%	14%	22%	25%	100%
Complying with import and export regulations	19%	22%	22%	6%	8%	23%	100%
Registering land and other property	17%	27%	23%	10%	11%	11%	100%

4.11.3 Influence of factors related to labour laws and regulations

Table 4.28 shows the distribution of MSEs in Bangladesh across elements of labour laws influencing business growth. The perception of MSEs vis-à-vis the factors encouraging (have positive influence) or hindering (have negative influence) their growth, in terms of labour laws and regulations, are examined in this subsection. Except for three out of the 12 factors specified, all the other factors are perceived to have a positive influence on business growth by more than half of the MSEs. These three factors are “Severance payments (retrenchment, gratuity, EPF)” (39 per cent), “Provident fund contributions” (47 per cent), and “Unions and collective bargaining” (29 per cent).

However, survey findings revealed that some other factors, such as severance payments, provident fund contribution, unionization, insurance, and welfare funds, are perceived by more than 25 per cent of the MSEs to have no influence on business growth. More or less similar findings are observed for all the business sectors (agro processing, light engineering, leather goods, and textiles) without any significant difference vis-à-vis the perception of labour law and regulation.

Table 4.28. Distribution of MSEs in Bangladesh across elements of labour law and regulation influencing business growth (all sectors)

Element of labour law and regulation	Strongly positive influence	Positive influence	No influence	Negative influence	Strongly negative influence	Does not apply	Total
Maintaining an employment register	43%	35%	12%	4%	1%	4%	100%
Paying the minimum wage	24%	43%	15%	15%	3%	1%	100%
Complying with health and safety standards for workers	37%	47%	11%	2%	0%	2%	100%
Dismissal procedures and disputes	22%	31%	23%	17%	3%	4%	100%
Severance payments (retrenchment, gratuity, EPF)	20%	19%	31%	15%	8%	6%	100%
Provident fund contributions	20%	27%	27%	12%	3%	10%	100%
Paying for annual leave	22%	31%	22%	12%	4%	10%	100%
Unions and collective bargaining	13%	16%	32%	11%	8%	21%	100%
Workers' injury compensation	25%	34%	17%	13%	5%	6%	100%
Limits on working hours (per day, week, etc.)	29%	40%	21%	6%	1%	3%	100%
Insurance	28%	37%	26%	5%	1%	3%	100%
Welfare funds	26%	26%	27%	7%	4%	10%	100%

Chapter 5: Summary and conclusion

Based on the survey of 611 micro- and small enterprises (MSEs) in Bangladesh, covering the four sectors of agro processing, leather goods, light engineering and garments/textiles, the key findings are summarized below.

5.1 Employee composition

Among the MSEs working in Bangladesh, *casualization* or *informalization* of labour is observed to be almost non-existent. Of the total workers, only two per cent were found to be working as casual or temporary workers. At the same time, an overwhelming proportion of 95 per cent workers employed in the MSEs were observed to be full-time workers. This is true for both male and female workers. However, the proportion of unpaid workers who were working fulltime was relatively less at 83 per cent. The majority of workers were males (97 per cent) and only three per cent were females.

5.2 Business and related registration

“*Staying informal*” is not a popular strategy to avoid compliance with laws and regulations in Bangladesh. Overall, only 15 per cent of the surveyed firms had reported themselves as unregistered. Among the four sectors surveyed, informal businesses were relatively higher in number in the leather and garments sectors, where 25 per cent of the businesses are unregistered. Sole proprietorship (81 per cent) is observed to be the key legal structure among the surveyed MSEs. Key reasons for not acquiring registration were lack of awareness and perceived absence of legal obligation. Having a trade license seems to be the most popular type of registration for the MSEs, with a significant proportion (85 per cent) having this type of registration. In comparison, all the other nine types of registration were observed to be much less popular.

5.3 Employment register

Around one-third of the surveyed businesses reported that they maintained employment registers. It is noted that among the four sectors being surveyed, the proportion of MSEs maintaining employment registers was highest in light engineering (41 per cent) and lowest in the leather sector (25 per cent). Also, higher the number of workers employed in the MSEs, greater is the practice of maintaining registers for its employees. The key reason for not maintaining employment registers is the perception that it is not legally required. Around one-fourth of the MSEs (25 per cent) also provided a legitimate reason – since they paid daily wages to their employees it was not essential to maintain employment registers.

5.4 Environmental regulations

The study observed that the majority of businesses in Bangladesh did not comply with the Environmental Clearance Certificate (ECC). Of the total MSEs, only six per cent had the ECC and this number was even lower at only three per cent in the case of businesses working in the leather sector. When the enterprises without the ECC were asked the reasons for non-compliance, more than half responded they were not aware of the requirement. While 25 per cent of MSEs believed that it was not a legal requirement, a relatively smaller share of MSEs provided reasons that can be considered “avoidance by choice” behaviour. “Making informal payments” appeared to be a popular avoidance strategy since 39 per cent of MSEs had heard about the existence of the informal payment system practiced to avoid compliance with environmental regulations. This was the second-highest ratio after income tax (41 per cent). Of those who had heard of informal payments being made, three per cent were honest enough to report that they had made such payments to avoid compliance with environmental regulations.

5.5 Business inspection

Inspection by officials of different departments is not a common practice among MSEs in Bangladesh. The incidence of visits is higher in agro processing compared to the other sectors. It

was found that the health inspector and the food and technology department personnel inspect the food processing sector a little more than the other sectors. The study also noted that a majority (76 per cent) of enterprises had no experience of official/department inspection in the 12 months prior to the survey.

5.6 Trade union

The study found that only 11 per cent of businesses with less than six workers were aware of the fact that businesses with more than six workers had the right to form any trade union. However, “staying below the threshold level” strategy in order to avoid compliance was almost non-existent among the MSEs in Bangladesh and the right to form a trade union was not observed as a growth trap for businesses with less than six employees. On the other hand, the majority of MSEs (89 per cent) with less than six workers reported that were not aware of the regulation regarding trade union formation. The survey revealed that there was not a single firm among the sampled MSEs with six or more workers that had formed a trade union. When all the surveyed enterprises above the threshold level were asked to provide the reasons for not having any trade union, the “avoidance by choice” strategy was clearly evident. More than two-thirds (67 per cent) of the enterprises stated that they did not form any trade union because the workers had not demanded it. Another 15 per cent also reported that even though legally required, it was not enforced. Regardless of the non-existence of a trade union, 67 per cent of MSEs reported that there was an overall wage increase for their employees in the 12 months prior to the survey. In this connection it is to be noted that almost all (98 per cent) the MSEs reported that they had not lost a single day due to labour disputes.

5.7 Minimum wage

Overall, 41 per cent of MSEs reported paying their workers in accordance with the minimum wages act. Almost half of the sampled MSEs (47 per cent) were not aware of the minimum wage obligations (“Simply uninformed”). The ratio of firms not aware of the obligations was highest among the leather firms (69 per cent) and lowest among the light engineering firms (34 per cent), higher among unregistered businesses (53 per cent) than sole proprietorships (47 per cent) and partnership firms (33 per cent), and, interestingly, higher among urban firms (50 per cent) than rural firms (36 per cent). On the other hand, nine per cent of the enterprises indicated that they were aware but did not pay the minimum wage (i.e. “Outright defiance of legal obligations”). When these enterprises were asked about their reason for non-compliance, a large section (47 per cent) did not provide any specific reason, while around one-third (36 per cent) said that it was not legally required. On the other hand, a considerable share of MSEs cited reasons that clearly reflected the “avoidance by choice” strategy such as “Too costly” (41 per cent), “Unnecessarily complicated” (16 per cent), “Legally required, but not enforced” (ten per cent) and “Takes too much time” (two per cent).

“Making informal payments” appears to be a popular avoidance strategy, with 32 per cent of the respondents having heard of such payments being made to avoid compliance with regulations on minimum wage. Interestingly, the awareness ratio was higher among unregistered businesses (44 per cent) than sole proprietorships (36 per cent) and partnership firms (33 per cent). Of those who had heard of the system of informal payments, two per cent were honest enough to report having made such payments to avoid compliance with the minimum wage regulations.

5.8 Employees’ provident fund (EPF) and gratuity

The study noted that practice of making EPF contributions and gratuity payments was non-existent among the surveyed MSEs. Only around 20 per cent of MSEs were aware of EPF and gratuity but in both cases these have no effect on growth. In around 80 per cent of cases, the MSEs are not even aware about these two social security measures. Awareness of EPF and gratuity is found to be higher in MSEs with higher numbers of workers. When the MSEs who did not comply with EPF regulations were asked about their reasons for non-compliance, a majority

of them provided answers that clearly reflected “avoidance by choice” behaviour. For instance, a considerable share of MSEs provided reasons such as “Workers have not demanded it” (46 per cent), “Employees prefer to receive higher take-home pay” (39 per cent), “It is legally required, but not enforced” (24 per cent), “Too costly” (15 per cent) and “Unnecessarily complicated” (ten per cent). In the case of gratuity, perhaps the threshold of 25 years in work to become eligible for gratuity is too severe a condition, which may explain why no firm has ever made gratuity payments.

5.9 Compensation for injury or death

In Bangladesh, it is a legal requirement for all businesses to compensate workers for any death or injury at work. The survey revealed that 14 per cent of enterprises were not aware of this legal provision. Although a majority (86 per cent) of the enterprises reported that they were aware of this legal obligation, only eight per cent of MSEs provided such compensation to their workers.

When those MSEs who did not provide compensation were asked their reason for non-compliance, most enterprises (97 per cent) provided a reason that appeared legitimate, i.e. “It has not been necessary (no injury or death)”. While five per cent of MSEs thought that it was not a legal requirement, a smaller share also provided reasons that appeared to be avoidance strategy such as “Too costly” (seven per cent), “It has not been demanded” (four per cent), “It is legally required, but not enforced” (four per cent), and “Takes too much time” (three per cent).

“Making informal payments” was identified as a major avoidance strategy in Bangladesh on the basis of reported awareness levels. More than one-third of the respondents (39 per cent) had heard of the informal payment system. A substantially smaller percentage of MSEs responded saying they had actually made such informal payments in order to avoid paying compensation to employees (three per cent out of those who were aware of such payments being made).

5.10 Provision of shelter or rest room and lunch room

If a business in Bangladesh has 51 or more regular workers or 26 or more female workers, it is required to provide a shelter/restroom/lunch room for them, with separate facilities for the women. The survey revealed that the majority (86 per cent) of MSEs with less than 51 workers or less than 26 female workers were not aware that such a provision had to be made by enterprises above a certain employee size threshold. Awareness level increases moderately as the size of the enterprises increases. Among those who were aware, “staying below the threshold level” strategy in order to avoid compliance was not observed. On the other hand, around 14 per cent of MSEs below the threshold level had reported that the obligation to provide such facilities if they become bigger in size did not affect their growth.

5.11 Provision of children’s room

In Bangladesh, the obligation to provide a children’s room facility is applicable to businesses with 41 or more female employees. It was observed that an overwhelming proportion of 93 per cent of MSEs with less than 41 female employees had reported that they were not aware of the regulation. For the remaining seven per cent of MSEs below the threshold level, this regulation did not act as a growth barrier. Thus, there was no MSE in the surveyed industries who tried to “stay below the threshold level” in order to avoid compliance.

“Making informal payments” was not a popular avoidance strategy in this case, with only nine per cent of enterprises reportedly aware of this practice. Of those who were aware, only three per cent admitted that they had actually made such payments to avoid providing a children’s room in case they had more than 41 female employees. In a situation of such low levels of awareness and compliance, it was not surprising to find that a negligible share of four per cent of MSEs had reported awareness of the existence of penalties for non-compliance and even fewer knew the exact penalty imposed in a situation of non-compliance.

5.12 Income tax

None of the surveyed MSEs, sole proprietorships or unregistered businesses, reported awareness of income tax regulations and still tried to avoid compliance by keeping their income below the threshold level. Thus “staying below the threshold level” strategy was almost non-existent. On the other hand, an overwhelming proportion of 72 per cent of all sole proprietorships and unregistered businesses reported that they were not at all aware that if they earned more than 165,000 Bangladeshi Taka (BDT), they are required to pay income tax. Overall, a significantly high proportion of 78 per cent of MSEs reported that they did not pay income tax. While 46 per cent of MSEs did not specify any particular reason for non-compliance, around 29 per cent stated that they did not pay income tax because they were legally exempted from income tax payment. The transaction cost of paying income tax appeared relatively high. The average time taken to process income tax documents was one month (42 per cent) or less than a week (20 per cent). This, combined with the reasons for non-payment, such as “Too costly” and “Unnecessarily complicated”, indicates the need to simplify the process of income tax filing.

Knowledge of the existence of the practice of making informal payments to avoid compliance with income tax regulations was quite high among the surveyed MSEs in Bangladesh. Around 41 per cent reported having heard of informal payments being made to avoid compliance with regulations on income tax; out of which, three per cent reported having actually made such informal payments to avoid compliance. Almost half the surveyed MSEs (48 per cent) had heard of the existence of penalties for evading payment of income tax.

5.13 Value added tax (VAT)

Awareness regarding VAT regulations was found to be significantly low among the surveyed MSEs. Of the total MSEs, only ten per cent reported that they were aware of the VAT ceiling, but they claimed it did not affect their business growth. Overall, only one per cent of enterprises indicated being aware of the VAT ceiling and tried not to grow their business in order to avoid paying a higher VAT rate. Thus, in Bangladesh, the VAT ceiling is hardly considered a growth trap. Even though all enterprises are required to pay VAT in Bangladesh, the majority (81 per cent) of the surveyed MSEs reported that they did not pay VAT. Around 28 per cent who did not pay VAT had stated that they did so because it was not legally required or because they were exempted from it. However, a considerable section of MSEs provided reasons for non-compliance that clearly reflected the “avoidance by choice” strategy such as “Too costly” (27 per cent), “Unnecessarily complicated (do not see the benefit)” (18 per cent), “It is legally required, but not enforced” (17 per cent), and “Takes too much time” (ten per cent).

The transaction cost for VAT payment appeared relatively high. When 19 per cent of the total surveyed MSEs who paid VAT were asked about the transaction cost (time spent) for collecting and paying VAT, around one-third (33 per cent) reported that it took a month. While 23 per cent of the MSEs reportedly spent less than a week annually in collecting and paying VAT, another 23 per cent took between one to three months to do so.

5.14 Informal payments

Awareness of informal payments was observed to be higher in the areas of income tax (41 per cent), environmental regulations (39 per cent), compensation for injury/death (39 per cent), VAT (37 per cent) and minimum wage (32 per cent). The share of enterprises who claimed to have made informal payments was found to be very low in the case of all regulations. However, even though small in number, a few surveyed enterprises did admit that they had made informal payments to avoid labour regulations in all cases, except for the provision of a children’s room. For instance, out of those who heard of informal payments, six per cent actually made informal payments to avoid paying provident fund, four per cent to avoid paying VAT, and three per cent to avoid paying income tax.

Again, the MSEs were asked whether they had heard of or made informal payments in order to acquire each of the different types of registration or licenses. The survey revealed that more than 70 per cent of MSEs who had VAT registration (73 per cent) and registration with the labour department (72 per cent) had heard of businesses that paid for the services of agents or made informal payments to government officers to get these registrations. Similarly, 55 per cent of MSEs with trade license and 66 per cent with tax registration had heard of such payments being made. Of the MSEs with different types of license/registration, the proportion who admitted to having made informal payments was highest among those who had a fire license (nine per cent), followed by trade license (eight per cent) and factory license (seven per cent). The proportion of firms who admitted making informal payments was considerably smaller in the case of other registrations.

5.15 Perception-based rating of factors affecting business growth

This study shows that the factors related to labour laws and regulations, which are perceived by MSEs to have a positive or strongly positive influence on business growth, include maintenance of employment register; payment of minimum wage; compliance with health and safety standards, dismissal and disputes procedures, payment for annual leave, workers' injury compensation, limits on working hours; and an insurance and welfare fund. However, the survey findings have revealed that none of the factors concerning labour law and regulation have a negative or strongly negative influence on business growth. Some other factors like severance payments, provident fund contribution, and unions and collective bargaining are mostly perceived as having no influence on the growth of MSEs. More or less similar findings are found for all business sectors (agro processing, light engineering, leather goods, and textile).

When compared to level of awareness, compliance and avoidance of labour laws confirmed through the survey that the perception-based ranking of factors from the survey mostly demonstrated a consistent tendency of overstating the impact of positive factors or understating the impact of negative factors. For instance, while 78 per cent of firms in Bangladesh perceived maintenance of employment registers as having a positive or strongly positive influence on business, a considerably smaller proportion of only 33 per cent of businesses actually maintained employment registers. Again, while 67 per cent of MSEs perceived payment of workers according to regulations on minimum wage as positively affecting growth of business, a considerably lower proportion of firms (43 per cent) actually reported paying their workers according to the minimum wage act.

5.16 Concluding remarks

The survey reveals that most of the existing labour laws and business regulations in Bangladesh were not perceived as acting as growth barriers, especially the obligation to comply with income tax, VAT, EPF contribution, minimum wage, provision of shelter/rest room/lunch room and children's room. In the case of many labour laws, a large majority of MSEs were observed to be lacking proper awareness of the existence of such regulations. Perhaps lack of awareness combined with different avoidance strategies lead to poor compliance of the many business regulations that were applicable to all businesses in Bangladesh. It was also observed that awareness regarding penalties related to non-compliance of regulations was moderate among the surveyed firms.

The overall impression is of the need to simplify labour and business laws in a way that can be easily understood and implemented by MSEs. In order to achieve this, the time and cost involved in complying with different labour laws should be minimized. It is equally important to put enough effort into creating awareness and building a sound knowledge base of these laws and related penalties for non-compliance. At the same time, proper enforcement of the laws by legal authorities would also help in achieving better compliance from MSEs.

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Appendix I. Detailed tables for chapter 4

Table A.1. Distribution of employees in MSEs in Bangladesh across gender for different types of employment, 2011

Nature of employment	Male	Female	Total
Paid workers			
Full time	97%	3%	100%
Part time	85%	15%	100%
Casual/temporary	100%	0%	100%
Total	97%	3%	100%
Base (total paid workers)	4324	147	4471
Unpaid workers			
Full time	98%	2%	100%
Part time	100%	0%	100%
Casual/temporary	94%	6%	.
Total	98%	2%	100%
Base (total unpaid workers)	777	16	793
Total workers (paid + unpaid)			
Full time	97%	3%	100%
Part time	90%	10%	100%
Casual/temporary	94%	6%	100%
Total	97%	3%	100%
Base (total workers)	5101	163	5264

Table A.2. Distribution of employees in MSEs in Bangladesh across gender for different types of employment, 2009

Paid workers			
Full time	97%	3%	100%
Part time	88%	12%	100%
Casual/temporary	100%	0%	100%
Total	97%	3%	100%
Base (total paid workers)	3481	119	3600
Unpaid workers			
Full time	97%	3%	100%
Part time	92%	8%	100%
Casual/temporary	100%	0%	100%
Total	97%	3%	100%
Base (total unpaid workers)	721	21	742
Total workers (paid + unpaid)			
Full time	97%	3%	100%
Part Time	89%	11%	100%
Casual/temporary	100%	0%	100%
Total	97%	3%	100%
Base (total workers)	4202	140	4342

Table A.3. Distribution of MSEs in Bangladesh across payment modality, by business sectors

Payment modality	Agro processing	Leather	Light engineering	Garments/handloom	All
Hourly basis	1%	0%	1%	1%	1%
Daily basis	18%	8%	10%	2%	9%
Weekly basis	8%	5%	13%	15%	10%
Monthly basis	66%	30%	71%	46%	53%
Piece-rate	3%	56%	4%	36%	25%
Lumpsum	1%	0%	0%	0%	0%
Other	3%	1%	1%	0%	1%
Total	100%	100%	100%	100%	100%
Base (total no. of MSEs)	154	151	151	155	611

Table A.4. Percentage of MSEs in Bangladesh with different business licenses across reasons for having each licence

Licences	It is legally required	To qualify for credit	To avail government /donor/ NGO schemes	Needed by suppliers/buyers	Others	Base (No. of MSEs having the particular licence)
Company/cooperative /chamber registration	93%	3%	0%	3%	0%	30
Trade license	97%	4%	1%	1%	1%	520
Factory license	98%	0%	0%	2%	0%	57
Registration with labour department	92%	4%	0%	4%	0%	25
Tax registration	93%	3%	2%	2%	0%	96
Import license	33%	0%	0%	0%	67%	3
Export license					100%	2
VAT registration on certificate	92%	1%	1%	6%	0%	89
Fire license	94%	3%	3%	0%	0%	33
Bond license						0

Table A.5. Distribution of MSEs in Bangladesh who have not acquired different licenses across reasons for not acquiring them

Licences	It is not legally required	It is legal, but not enforced	Takes too much time	Complicated / do not see the benefit	Don't want to pay the required fees	Don't want to become taxable	Not aware of requirement	Others	Base (MSEs not having the particular licence/ registration)
Company/ cooperative/ chamber registration	29%	7%	1%	12%	1%	1%	47%	3%	581
Trade license	15%	13%	4%	4%	14%	1%	42%	5%	91
Factory license	24%	10%	3%	11%	3%	1%	45%	3%	554
Registration with labour department	24%	8%	2%	10%	3%	4%	47%	2%	586
Tax registration	23%	10%	3%	9%	4%	9%	40%	3%	515
Import license	26%	4%	1%	10%	2%	5%	48%	3%	608
Export license	26%	3%	2%	8%	2%	5%	50%	3%	609
VAT registration on certificate	25%	8%	3%	6%	5%	7%	44%	3%	522
Fire license	22%	5%	2%	8%	2%	2%	55%	3%	578
Bond license	23%	4%	2%	6%	1%	3%	57%	3%	611

Table A.6. Percentage of MSEs in Bangladesh that are inspected by different officers/departments, by business sector

Officers/departments	Agro processing	Leather	Light engineering	Garments/ handloom	All
Labour department	14%	1%	9%	15%	10%
Factory inspector	13%	5%	4%	10%	8%
Health inspector	21%	1%	2%	6%	8%
Industry department	3%	0%	3%	2%	2%
Food and technology department	24%	0%	2%	1%	7%
Environmental inspection	2%	1%	0%	3%	1%
Tax/VAT authority	10%	2%	11%	8%	8%
Others	4%	0%	10%	3%	4%
Can't say	51%	91%	69%	66%	69%
Base (no. of MSEs)	154	151	151	155	611

Note: Percentages might not add up to 100 because the same firm can be visited by more than one officer/department.

Table A.7. Percentage of MSEs in Bangladesh that do not maintain official employment register across reasons

Reason	MSEs (%)
It is not legally required	34%
It is legal, but not enforced	10%
Takes too much time	15%
Unnecessary complicated	23%
Too costly	19%
Not necessary, daily wage payment	25%
Other	29%
Base (total no. of MSEs that do not maintain employment register)	407
Note: Percentages do not add to 100% because the same enterprise can give more than one reason.	

Table A.8. Percentage of MSEs with six or more workers in Bangladesh who do not have a trade union across reason for workers not having a union

Reason	MSEs (%)
It is not legally required	19%
It is legally required, but not enforced	15%
Too costly	6%
There are regular meetings/communication with workers	2%
Workers have not demanded a union	67%
Others	12%
Base (total MSEs with six or more workers who do not have a trade union)	234
It is not legally required	19%
Note: Percentages do not add to 100% because the same enterprise can give more than one reason.	

Table A.9. Percentage distribution of MSEs in Bangladesh across number of days of work lost due to labour disputes, by business sector

Status of awareness and impact on growth	Agro processing	Leather	Light engineering	Garments/handloom	All
0 days	97%	99%	95%	99%	98%
1-5 days	2%	1%	3%	1%	2%
6-20 days	1%	0%	1%	0%	0%
Base (total MSEs)	154	151	151	155	611

Table A.10. Percentage distribution of MSEs in Bangladesh across status of overall wage increase for employees during the year prior to the survey, by business sector

Status of wage increase	Agro processing	Leather	Light engineering	Garments/handloom	All
There is overall wage increase	70%	52%	77%	69%	67%
No wage increase	30%	48%	23%	31%	33%
Total	100%	100%	100%	100%	100%
Base (total MSEs)	154	151	151	155	611

Table A.11. Percentage distribution of MSEs in Bangladesh across status of overall wage increase for employees during the year prior to the survey, by worker group

Status of wage increase	3-5 workers	6-25 workers	26-40 workers	41-50 workers	51-70 workers	All
There is overall wage increase	63%	74%	79%	60%	77%	67%
No wage increase	37%	26%	21%	40%	23%	33%
Total	100%	100%	100%	100%	100%	100%
Base (total No. of MSEs)	377	202	14	5	13	611

Table A.12. Percentage distribution of MSEs in Bangladesh that had an overall wage increase for their employees during the year prior to the survey across rate of wage increase, by business sector

Rate of wage increase	Agro processing	Leather	Light engineering	Garments/handloom	All
Less than 10%	30%	37%	30%	21%	29%
10%	35%	44%	38%	36%	38%
11%-15%	18%	8%	10%	21%	14%
16%-20%	10%	5%	11%	16%	11%
Greater than 20%	7%	6%	10%	7%	8%
Total	100%	100%	100%	100%	100%
Base (no. of MSEs whose employees had wage increase)	108	79	116	107	410

Table A.13. Percentage distribution of MSEs in Bangladesh that had an overall wage increase for their employees during the year prior to the survey across rate of wage increase, by worker group

Rate of wage increase	3-5 workers	6-25 workers	26-40 workers	41-50 workers	51-70 workers	All
Less than 10%	37%	20%	9%	0%	0%	29%
10%	33%	45%	55%	67%	30%	38%
11%-15%	8%	23%	9%	0%	30%	14%
16%-20%	12%	6%	18%	33%	40%	11%
Greater than 20%	10%	6%	9%	0%	0%	8%
Total	100%	100%	100%	100%	100%	100%
Base (no. of MSEs whose employees had wage increase)	236	150	11	3	10	410

Table A.14. Percentage of MSEs in Bangladesh who have heard of or made informal payments to avoid compliance with regulations on trade unions

Business sector/ worker group	Percentage who heard of informal payments	Of those who heard, the percentage who made informal payments	Base (total no. of MSEs)
Agro processing	18%	4%	154
Leather	13%	0%	151
Light engineering	21%	9%	151
Garments/handloom	14%	0%	155
3-5 workers	15%	5%	377
6-25 workers	16%	3%	202
26-40 workers	36%	0%	14
41-50 workers	40%	0%	5
51-70 workers	38%	0%	13
All enterprises	16%	4%	611

Table A.15. Percentage of MSEs in Bangladesh who are aware that the fees for an ECC is higher with increase in investment, by business sector

Business sector	MSEs who are aware of ECC fees being higher with increase in investment	Base (MSEs that comply with ECC)
Agro processing	60%	20
Leather	25%	4
Light engineering	57%	7
Garments/handloom	86%	7
All	61%	38

Table A.16. Percentage of MSEs in Bangladesh across reasons for not registering/acquiring the ECC

What are the reason(s) for not registering/acquiring license	MSEs (%)
It is not legally required	25%
It is legal, but not enforced	19%
Takes too much time	5%
Complicated, do not see the benefit	16%
Don't want to pay the required fees	10%
Not aware of the requirement	58%
Others	4%
Base (no. of MSEs that did not comply with ECC)	573
Note: Percentages do not add to 100% since one enterprise can give more than one reason.	

Table A.17. Percentage of MSEs in Bangladesh who have heard of or made informal payments to avoid compliance with environmental regulations

Business sector/worker group	Percentage who heard of informal payments	Of those who heard, the percentage who made informal payments	Base (total no. of MSEs)
Agro processing	47%	4%	154
Leather	32%	8%	151
Light engineering	37%	2%	151
Garments/handloom	41%	0%	155
3-5 workers	34%	4%	377
6-25 workers	45%	2%	202
26-40 workers	57%	0%	14
41-50 workers	60%	0%	5
51-70 workers	69%	11%	13
All enterprises	39%	3%	611

Table A.18. Percentage distribution of MSEs in Bangladesh across status of awareness and payment of sector-specific minimum wages, by worker group

Status of awareness and payment	3-5 workers	6-25 workers	26-40 workers	41-50 workers	51-70 workers	All
Aware and pay	40%	46%	57%	80%	69%	43%
Aware but do not pay	11%	8%	0%	0%	8%	9%
Not aware	49%	46%	43%	20%	23%	47%
Total	100%	100%	100%	100%	100%	100%
Base (no. of MSEs)	377	202	14	5	13	611

Table A.19. Percentage of MSEs in Bangladesh who are aware of the minimum wage but do not comply with regulations, across reasons

Reason	MSEs (%)
It is not legally required	36%
Legally required, but not enforced	10%
Takes too much time	2%
Unnecessarily complicated	16%
Too costly	41%
Others	47%
Base (total no. of MSEs who are aware but do not comply with regulations on minimum wage)	58
Note: Percentages do not add to 100% because the same enterprise can give more than one reason.	

Table A.20. Percentage of MSEs in Bangladesh who reported being aware of the minimum wage for their sector

Business sector/worker group	MSEs (%)	Base (total MSEs)
Agro processing	60%	154
Leather	37%	151
Light engineering	68%	151
Garments/handloom	56%	155
3-5 workers	56%	377
6-25 workers	50%	202
26-40 workers	64%	14
41-50 workers	80%	5
51-70 workers	69%	13
All enterprises	55%	611

Table A.21. Percentage of MSEs in Bangladesh who have heard of or made informal payments to avoid compliance with regulations on minimum wages

Business sector/worker group	Percentage who have heard of informal payments	Of those who heard, the percentage who made informal payments	Base (total no. of MSEs)
Agro processing	34%	6%	154
Leather	23%	0%	151
Light engineering	36%	0%	151
Garments/handloom	35%	0%	155
3-5 workers	27%	2%	377
6-25 workers	36%	1%	202
26-40 workers	64%	0%	14
41-50 workers	40%	0%	5
51-70 workers	77%	0%	13
All enterprises	32%	2%	611

Table A.22. Percentage distribution of MSEs in Bangladesh across status of awareness and payment of EPF, by worker group

Status of awareness and payment	3-5 workers	6-25 workers	26-40 workers	41-50 workers	51-70 workers	All
Aware and pay	0%	0%	0%	20%	8%	0%
Aware but do not pay	16%	26%	21%	80%	23%	20%
Not aware	84%	74%	79%	0%	69%	80%
Total	100%	100%	100%	100%	100%	100%
Base (no. of MSEs)	377	202	14	5	13	611

Table A.23. Percentage distribution of MSEs in Bangladesh who do not file monthly EPF returns, various reasons

Reason	MSEs (%)
It is not legally required	15%
It is legally required, but not enforced	24%
Takes too much time	5%
Unnecessarily complicated (do not see benefit)	10%
Too costly	15%
Workers have not demanded it	46%
Employees prefer to receive higher take-home pay	39%
Others	10%
Base (total no. of MSEs who are aware but do not comply with regulations on EPF)	122
Note: Percentages do not add to 100% because the same enterprise can give more than one reason.	

Table A.24. Percentage of MSEs in Bangladesh who reported being aware of the rate of EPF contributions that businesses are required to make

Business sector/worker group	MSEs (%)	Base (total MSEs)
Agro processing	16%	154
Leather	6%	151
Light engineering	15%	151
Garments/handloom	14%	155
3-5 workers	12%	377
6-25 workers	11%	202
26-40 workers	14%	14
41-50 workers	80%	5
51-70 workers	31%	13
All enterprises	13%	611

Table A.25. Percentage of MSEs in Bangladesh who have heard of or made informal payments to avoid compliance to regulations on provident fund

Business sector/worker group	Percentage who heard of informal payments	Of those who heard, the percentage who made informal payments	Base (total no. of MSEs)
Agro processing	18%	7%	154
Leather	6%	22%	151
Light engineering	16%	0%	151
Garments/handloom	7%	0%	155
3-5 workers	10%	3%	377
6-25 workers	13%	8%	202
26-40 workers	21%	0%	14
41-50 workers	40%	0%	5
51-70 workers	23%	33%	13
All enterprises	12%	6%	611

Table A.26. Percentage distribution of MSEs in Bangladesh across status of awareness and payment of gratuity, by worker group

Status of awareness and payment	3-5 workers	6-25 workers	26-40 workers	41-50 workers	51-70 workers	All
Aware and pay	0%	0%	0%	0%	0%	0%
Aware but do not pay	16%	27%	29%	20%	38%	21%
Not aware	84%	73%	71%	80%	62%	79%
Total	100%	100%	100%	100%	100%	100%
Base (no. of MSEs)	377	202	14	5	13	611

Table A.27. Percentage of MSEs in Bangladesh who have never paid gratuity, various reasons

Reason	% MSEs
It is not legally required	20%
It is legal, but not enforced	6%
There was no resignation/retirement	13%
Takes too much time	6%
Too costly	12%
Workers have not demanded it	19%
There is a welfare fund	1%
Others	56%
All MSEs who are aware of gratuity but never paid	126
Note: Percentages do not add to 100% because the same enterprise can give more than one reason.	

Table A.28. Percentage of MSEs in Bangladesh who reported awareness of the rate of gratuity payment that businesses are required to make

Business sector/worker group	MSEs (%)	Base (total MSEs)
Agro processing	22%	154
Leather	10%	151
Light engineering	17%	151
Garments/handloom	16%	155
3-5 workers	15%	377
6-25 workers	17%	202
26-40 workers	21%	14
41-50 workers	40%	5
51-70 workers	38%	13
All enterprises	16%	611

Table A.29. Percentage of MSEs in Bangladesh who have heard of or made informal payments to avoid compliance with regulations on gratuity

Business sector/worker group	Percentage who heard of informal payments	Of those who heard, the percentage who made informal payments	Base (total no. of MSEs)
Agro processing	13%	5%	154
Leather	12%	0%	151
Light engineering	15%	4%	151
Garments/handloom	7%	0%	155
3-5 workers	11%	0%	377
6-25 workers	11%	9%	202
26-40 workers	29%	0%	14
41-50 workers	40%	0%	5
51-70 workers	23%	0%	13
All enterprises	12%	3%	611

Table A.30. Percentage distribution of MSEs in Bangladesh across their knowledge of the obligation to provide compensation to workers for any injury or death at work and its compliance, by worker group

Status of awareness and compliance	3-5 workers	6-25 workers	26-40 workers	41-50 workers	51-70 workers	All
Aware and provided compensation	6%	7%	14%	20%	38%	8%
Aware and not provided compensation	78%	81%	64%	80%	62%	79%
Not aware	16%	11%	21%	0%	0%	14%
All	100%	100%	100%	100%	100%	100%
Base (no. of MSEs with less than ten workers)	318	179	11	5	13	526

Table A.31. Percentage of MSEs in Bangladesh who did not provide compensation to workers for any injury or death, various reasons for not paying

Reason	MSEs (%)
It is not legally required/exempted	5%
It is legally required, but not enforced	4%
Takes too much time	3%
Too costly	7%
It has not been demanded	4%
It has not been necessary (no injury or death)	97%
Others	1%
Base (total MSEs who do not pay VAT)	480
Note: Percentages do not add to 100% because the same enterprise can give more than one reason.	

Table A.32. Percentage of MSEs in Bangladesh who reported being aware of the kind of compensation businesses must provide to workers in case of injury or death at work

Business Sector/worker group	MSEs (%)	Base (total MSEs)
Agro processing	86%	154
Leather	77%	151
Light engineering	90%	151
Garments/handloom	79%	155
3-5 workers	82%	377
6-25 workers	83%	202
26-40 workers	93%	14
41-50 workers	100%	5
51-70 workers	100%	13
All enterprises	83%	611

Table A.33. Percentage of MSEs in Bangladesh who have heard of or made informal payments to avoid compliance with regulations on compensation for injury or death

Business sector/worker group	Percentage who heard of informal payments	Of those who heard, the percentage who made informal payments	Base (total no. of MSEs)
Agro processing	44%	1%	154
Leather	31%	4%	151
Light engineering	43%	2%	151
Garments/handloom	39%	3%	155
3-5 workers	38%	2%	377
6-25 workers	39%	3%	202
26-40 workers	50%	0%	14
41-50 workers	40%	0%	5
51-70 workers	62%	13%	13
All enterprises	39%	3%	611

Table A.34. Percentage distribution of MSEs in Bangladesh below threshold* across their knowledge of the obligation to provide shelter/restroom/lunch room for workers with separate facilities for women and its impact on growth, by worker group

Status of awareness and compliance	3-5 workers	6-25 workers	26-40 workers	41-50 workers	51-70 workers	All
Aware and tried to stay below threshold level	0%	0%	0%	0%	0%	0%
Aware but not affecting growth	13%	13%	36%	40%	33%	14%
Not aware	87%	86%	64%	60%	67%	86%
All	100%	100%	100%	100%	100%	100%
Base (no. of MSEs with less than 51 workers and/or less than 26 female workers)	377	202	14	5	3	601
Note: Threshold*: If a business has 51 or more regular workers or 26 or more female workers, it is required to provide a shelter/restroom/lunch room for the workers, with separate facilities for the female workers.						

Table A.35. Percentage of MSEs in Bangladesh who have heard of or made informal payments to avoid compliance with regulations regarding provision of shelter/restroom/lunchroom

Business sector/worker group	Percentage who heard of informal payments	Of those who heard, the percentage who made informal payments	Base (total no. of MSEs)
Agro processing	12%	6%	154
Leather	5%	14%	151
Light engineering	11%	0%	151
Garments/handloom	9%	0%	155
3-5 workers	7%	0%	377
6-25 workers	9%	6%	202
26-40 workers	36%	0%	14
41-50 workers	40%	0%	5
51-70 workers	31%	25%	13
All enterprises	9%	4%	611

Table A.36. Percentage distribution of MSEs in Bangladesh below threshold* across their knowledge of the obligation to provide children's room facilities and its impact on growth, by worker group

Status of awareness and compliance	3-5 workers	6-25 workers	26-40 workers	41-50 workers	51-70 workers	All
Aware and tried to stay below threshold	0%	0%	0%	0%	0%	0%
Aware but not affecting growth	6%	8%	21%	20%	23%	7%
Not aware	94%	92%	79%	80%	77%	93%
All	100%	100%	100%	100%	100%	100%
Base (no. of MSEs with less than 51 workers and/or less than 26 female workers)	377	202	14	5	13	611
Note: Threshold*: If a business has 41 or more female employees, it must provide children's room facilities.						

Table A.37. Percentage of MSEs in Bangladesh who reported awareness of the kind of children's room businesses with more than 40 workers should provide for children less than six years old

Business Sector/worker group	MSEs (%)	Base (total MSEs)
Agro processing	8%	154
Leather	5%	151
Light engineering	5%	151
Garments/handloom	7%	155
3-5 workers	5%	377
6-25 workers	6%	202
26-40 workers	14%	14
41-50 workers	20%	5
51-70 workers	23%	13
All enterprises	6%	611

Table A.38. Percentage of MSEs in Bangladesh who have heard of or made informal payments to avoid compliance with regulations on provision of children's room

Business sector/worker group	Percentage who heard of informal payments	Of those who heard, the percentage who made informal payments	Base (total no. of MSEs)
Agro processing	13%	0%	154
Leather	5%	0%	151
Light engineering	11%	0%	151
Garments/handloom	9%	0%	155
3-5 workers	8%	0%	377
6-25 workers	10%	0%	202
26-40 workers	36%	0%	14
41-50 workers	40%	0%	5
51-70 workers	15%	0%	13
All enterprises	9%	0%	611

Table A.39. Percentage of MSEs in Bangladesh who do not pay income tax, various reasons

Reason	MSEs (%)
It is not legally required/exempted	29%
It is legally required, but not enforced	15%
Takes too much time	9%
Unnecessarily complicated (do not see the benefit)	18%
Too costly	26%
Others	46%
Base (total MSEs who do not pay income tax)	479
Note: Percentages do not add up to 100% because the same enterprise can give more than one reason.	

Table A.40. Percentage distribution of MSEs in Bangladesh which are sole proprietorships and unregistered businesses on the requirement for income tax payment * and impact on growth, by worker group

Status of awareness and impact on growth	3-5 workers	6-25 workers	26-40 workers	41-50 workers	51-70 workers	All
Aware and tried to stay below threshold	0%	1%	0%	0%	0%	0%
Aware but not affecting growth	24%	31%	33%	80%	64%	28%
Not aware	76%	69%	67%	20%	36%	72%
Base (no. of MSEs that are either sole proprietorships or unregistered businesses)	373	186	12	5	11	587
Note: * Threshold: If a business earns more than BDT 165,000, it is required to pay income tax.						

Table A.41. Percentage of MSEs in Bangladesh who have heard of or made informal payments to avoid compliance with regulations on income tax

Business sector/worker group	Percentage who heard of informal payments	Of those who heard, the percentage who made informal payments	Base (total no. of MSEs)
Agro processing	46%	3%	154
Leather	32%	6%	151
Light engineering	44%	3%	151
Garments/handloom	40%	2%	155
3-5 workers	36%	2%	377
6-25 workers	44%	3%	202
26-40 workers	64%	11%	14
41-50 workers	60%	0%	5
51-70 workers	85%	9%	13
All enterprises	41%	3%	611

Table A.42. Percentage of MSEs in Bangladesh who do not pay VAT, various reasons

Reason	MSEs (%)
It is not legally required/exempted	28%
It is legally required, but not enforced	17%
Takes too much time	10%
Unnecessarily complicated (do not see the benefit)	18%
Too costly	27%
Others	41%
Base (total MSEs who do not pay VAT)	495
Note: Percentages do not add to 100% because the same enterprise can give more than one reason.	

Table A.43. Percentage of MSEs in Bangladesh who have heard of or made informal payments to avoid compliance with regulations on VAT

Business sector/worker group	Percentage who heard of informal payments	Of those who heard, the percentage who made informal payments	Base (total no. of MSEs)
Agro processing	42%	5%	154
Leather	30%	4%	151
Light engineering	41%	3%	151
Garments/handloom	36%	2%	155
3-5 workers	34%	2%	377
6-25 workers	39%	5%	202
26-40 workers	64%	11%	14
41-50 workers	40%	0%	5
51-70 workers	77%	10%	13
All enterprises	37%	4%	611

Table A.44. Percentage of MSEs in Bangladesh who have heard of penalties if businesses do not comply with different regulations, by business sector

Regulations	Agro processing	Leather	Light engineering	Garments/handloom	All enterprises
Environmental regulations	54%	32%	43%	40%	42%
Minimum wage	37%	21%	40%	36%	34%
EPF	11%	5%	9%	12%	9%
Gratuity payments	8%	10%	9%	9%	9%
Trade union	9%	5%	9%	12%	9%
Income tax	53%	40%	55%	45%	48%
VAT	50%	37%	46%	41%	44%
Compensation for injury or death	45%	35%	40%	44%	41%
Provision of shelter/restroom/lunchroom (for businesses with more than 50 workers)	4%	2%	4%	3%	3%
Provision of shelter/Restroom/Lunchroom (for businesses with more than 25 female workers)	4%	2%	3%	4%	3%
Provision of children's room	6%	1%	5%	4%	4%
Base (total MSEs)	154	151	151	155	611

Table A.45. Percentage distribution of MSEs in Bangladesh who had heard about the existence of penalties for non-compliance with environmental regulations, across knowledge of different penalties

Regulations	Unable to specify the penalties	Answer mis-matched	Knows category and the quantum	Knows category but not quantum	Total	Base (no. of MSEs who have heard about penalties)
Environmental regulations	75%	24%	0%	1%	100%	259
Minimum wage	81%	17%	1%	1%	100%	206
EPF	89%	9%	0%	2%	100%	57
Gratuity payments	93%	5%	0%	2%	100%	56
Trade union	94%	0%	2%	4%	100%	54
Income tax	77%	22%	0%	0%	100%	296
VAT	82%	17%	0%	1%	100%	267
Compensation for injury or death	89%	10%	1%	0%	100%	250
Provision of shelter/Restroom/lunchroom (for businesses with more than 50 workers)	95%	0%	5%	0%	100%	20
Provision of shelter/restroom /lunchroom (for businesses with more than 25 female workers)	95%	0%	5%	0%	100%	20
Provision of children's room	96%	0%	0%	4%	100%	25

Appendix II. Labour policy areas (LPA)

1. Collective bargaining and freedom of association
2. Anti-discrimination/equal employment opportunity
3. Prohibitions on forced labour/child labour
4. Minimum wage
5. Overtime/Working hour limits
6. Paid time off
7. Social security (retirement, disability, death, sickness and health benefits)
8. Unemployment insurance
9. Workers' compensation
10. Protection against unjust dismissal
11. Occupational health and safety standards
12. Advance notice and consultation (for large-scale lay-offs) placement after dismissal
13. Parental/family leave
14. Employee consultation
15. Protection of rights and entitlements on transfer of undertaking

Appendix III. Threshold diagram of labour laws for different sizes of enterprises, Bangladesh

7th threshold	Section 87 Sick room with medical dispensary						
	6th threshold	Section 58 (3) Ensuring adequate supply of drinking water					
5th threshold	Section 98 Provision for compulsory group insurance						
	4th threshold	Section 234 Establishment of participation and welfare funds for workers Section 241 Eligibility of workers to participate in the funds Section 242 Utilization of participation funds					
3rd	Section 62 (8) Arrangement of mock fire-fighting Section 205 Provision for participation committee Section 208 Implementation of recommendations of participation committee						
	2nd	Section 89 Maintenance of safety record book					
	1st	Section 62 (7) Creating awareness of the means of escape when work is in close proximity of inflammable materials					
Bangladesh Labour Act, 2006 (all sections except the above)							
1+	10+	25+	50+	100+	200+	250+	300+

Appendix IV. Research methodology and survey design

I. Period of survey and work programme

- Supervisor training (for listing operation): 24 March 2011
- Enumerator training (for listing operation): from 26 March 2011 to 29 March 2011
- Conduct of listing exercise: from 30 March 2011 to 7 April 2011
- Supervisor training (for data collection and field monitoring): from 7 April 2011 to 9 April 2011
- Enumerator training (field survey): 12 April 2011 to 14 April 2011
- Detail interviews/canvassing of questionnaire: 18 April 2011 to 30 April 2011
- Data entry: 29 April 2011 to 12 May 2011

II. Questionnaire design

The survey questionnaire was developed after a number of meetings, correspondences, iterations in different venues, on several occasions, with ILO representatives and the Bangladesh team. After finalizing the English version of the questionnaire from ILO, it was then translated into Bengali – the national language of Bangladesh. A pilot survey by 12 interviewers using the Bengali questionnaire was conducted which covered respondents from all business sectors (three interviews per sector). Based on the results of the trial interviews, necessary changes were made in the language of the questionnaire to make it easy for the target respondents to understand. Only then was the questionnaire finalized and printed.

The coordination schema focuses on the actual costs of doing business in terms of both labour and other non-labour-related laws. The complex variables include non-legal and non-regulatory factors that have a significant impact on constraining the growth of MSEs, employment expansion and the promotion of decent work. The other schema variables include complaints of excessive regulation, inadequate staffing and capacity of government departments, the avoidance behaviour of entrepreneurs, and the use of unofficial payments by employers to officials to avoid compliance, etc. The outcome of the responses will help develop best practices and tools for decent work, better employment and improved working conditions, for the employee as well as the employer.

III. Stratification

For Bangladesh no stratification or segmentation is made (urban/rural).

IV. Sectoral break-up

There was no separate allocation for urban and rural establishments. After a random selection of establishments, the urban–rural share was calculated.

V. Sampling design

V(a). Primary sampling units (PSUs)

The PSUs were **areas** (table A.5) where establishments had “worker size groups” of 3–5, 6–25, 26–40, 41–50, and 51–70 in agro processing, leather, light engineering and textile/garments/handloom.

V(b). Methodology adopted/sampling procedure

The survey is conducted following Probability Proportional to Size (PPS) sampling, without replacement technique, for district selection. Then, following the guideline set by ILO, the

number of PSUs was determined proportional to the total number of business establishments in the districts. The detailed methodological aspect of the survey is enumerated ahead.

V(c). Stage 1: Selection of districts

The first stage of sampling is to select districts from all 64 districts of Bangladesh. The sample districts are selected on the basis of cumulative total method under PPS sampling. The procedure used to select the sample districts is explained below.

Step 1: Listing of all the business establishments in each districts based on AEIS and CMI data of BBS (falls within our category of interest and size thresholds).

Step 2: Calculation of running cumulative industries. The last number in this column is the total number of business establishments in Bangladesh.

Step 3: The number of districts selected in the sample for Bangladesh is six as per TOR. The last cumulative number of establishments in Bangladesh is 10,623.

Step 4: From the 5-digit random table, a random number is selected between one and 10,623. The first random number is 02269. District 11 (Dhaka) falls in this range (between 2,118 and 3,753) and, therefore, Dhaka is the randomly selected first district.

Step 5: Similarly, another five random numbers have been generated to select a total of six districts. Other random numbers are 08112, 00556, 05091, 09545, and 01556. Consequently, selected districts are Narayanganj, Bogra, Gazipur, Rajshahi, and Chittagong.

The details of district selection are shown in table A.1.

Table A.1. Selection of districts

District code	District name	Total establishment	Cumulative total	Selected districts	Random no.
1	Bagerhat	26	26		
2	Barguna	4	30		
3	Barisal	0	30		
4	Bogra	583	613	D3	00556
5	Brahamanbaria	225	838		
6	Chandpur	128	966		
7	Chittagong	753	1719	D6	01556
8	Chuadanga	129	1848		
9	Comilla	208	2056		
10	Cox's Bazar	62	2118		
11	Dhaka	1635	3753	D1	02269
12	Dinajpur	400	4153		
13	Faridpur	5	4158		
14	Feni	31	4189		
15	Gaibandha	881	5070		

16	Gazipur	331	5401	D4	05091
17	Gopalganj	0	5401		
18	Habiganj	35	5436		
19	Joypurhat	159	5595		
20	Jamalpur	84	5679		
21	Jessore	142	5821		
22	Jhenaidah	69	5890		
23	Khulna	305	6195		
24	Kishoreganj	10	6205		
25	Kurigram	164	6369		
26	Kushtia	88	6457		
27	Lakshmipur	23	6480		
28	Lalmonirhat	34	6514		
29	Magura	54	6568		
30	Manikganj	48	6616		
31	Meherpur	8	6624		
32	Moulavibazar	8	6632		
33	Munshiganj	254	6886		
34	Mymensingh	337	7223		
35	Naogaon	430	7653		
36	Narail	4	7657		
37	Narayanganj	755	8412	D2	08112
38	Narsingdi	516	8928		
39	Natore	162	9090		
40	Nawabganj	124	9214		
41	Netrokona	0	9214		
42	Nilphamari	82	9296		
43	Noakhali	80	9376		
44	Pabna	105	9481		
45	Panchagarh	58	9539		
46	Patuakhali	0	9539		
47	Rajshahi	442	9981	D5	09545
48	Rajbari	7	9988		
49	Rangamati	0	9988		
50	Rangpur	113	10101		
51	Shariatpur	0	10101		

52	Satkhira	175	10276		
53	Sirajganj	55	10331		
54	Sherpur	70	10401		
55	Sunamganj	37	10438		
56	Sylhet	137	10575		
57	Tangail	48	10623		
58	Thakurgaon	0	10623		
59	Bhola	0	10623		
60	Jhalokathi	0	10623		
61	Pirojpur	0	10623		
62	Bandarban	0	10623		
63	Khagrachari	0	10623		
64	Madaripur	0	10623		
	Total	10623			

V(d). Stage 2: Selection of PSUs

As noted, in the first stage of sampling, six districts are selected (i.e. Dhaka, Chittagong, Gazipur, Narayanganj, Bogra and Rajshahi). Among those, it was found that Dhaka has the maximum number of business establishments (1,635). Hence, following the guideline set by ILO, the number of PSUs selected from the districts should be proportional to the total number of business establishments in the selected districts. Therefore, the number of PSUs from the selected districts would be as follows (table A.2).

Table A.2. Number of PSUs, by district

District name	Total establishments	%	No. of PSUs
Dhaka	1 635	36.34	19
Chittagong	753	16.74	8
Bogra	583	12.96	6
Gazipur	331	7.36	4
Narayanganj	755	16.78	8
Rajshahi	442	9.82	5
Total	4 499	100.00	50

For selection of PSUs, within the selected districts in Bangladesh, no statistical data on number of establishments (by area/PSU) is available. Therefore, we have visited all the selected districts and talked with persons (e.g. industry association leaders, traders, government officials) who are well informed about the industry locations for the associated districts. After that, a comprehensive **area list** for each district was made. Then, from the list, we have selected (using SRS method) required number of PSUs for each of the selected districts covering both urban and rural areas. In the event of non-availability of required number of establishments in the selected PSUs, additional PSUs were selected randomly from the remaining area list for associated district. A district-wise, randomly selected list of PSUs (areas) is shown in table A.3.

Table A.3. District-wise randomly selected list of PSUs

Dhaka	Chittagong	Bogra	Gazipur	Narayanganj	Rajshahi
1. Mohammadpur	1. City college	1. Gohail road	1. Tongi	1. Bandar	1. Gourhanga
2. Hazaribag	2. Mughaltuli	2. Chelopara	2. Rail gate	2. Rail gate	2. Sopura
3. Dholaikhal	3. Pahartoli	3. Gokul	3. Konabari	3. Vulta	3. Putia
4. Postogola	4. Baddarhat	4. Sherpur	4. Sreepur	4. Rupganj	4. Nowdapara
5. Tejgaon	5. Halisahar	5. Colony bazar		5. Shiddhir ganj	5. Talaimari
6. Saidabad	6. Basirhat	6. Sahir uddin market		6. Chashara	
7. Joykali Mondir	7. Sitakundu			7. Kanchpur	
8. Badda/Kuril	8. Cornelhat			8. Araihasar	
9. Mirpur - 1					
10. Mirpur - 10					
11. Shanir Akhra					
12. Jigatola					
13. Lalbag					
14. Islampur					
15. Choc Bazar					
16. Doyaganj					
17. Savar					
18. Keraniganj					
19. Shampur					

V(e). Distribution of business location, by district

As noted, in the first stage of sampling, six districts are selected for the survey – Dhaka, Chittagong, Gazipur, Narayanganj, Bogra, and Rajshahi. Both urban and rural locations were covered in the process of selection. Table A.4 shows the rural–urban ratio of business location by district.

Table A.4. Business location, by district

District	Rural	Urban	Total
Dhaka	22 (9.2%)	216 (90.8%)	238 (100%)
Chittagong	15 (13.6%)	95 (86.4%)	110 (100%)
Bogra	26 (31.0%)	58 (69.0%)	84 (100%)
Gazipur	9 (23.7%)	29 (76.3%)	38 (100%)
Narayanganj	41 (61.2%)	26 (38.8%)	67 (100%)
Rajshahi	22 (29.7%)	52 (70.3%)	74 (100%)

VI. Sample allocation

VI(a).Determination of sample size

Based on the above distribution, sample size by sector and size was derived. It can be noted that, on average, a sample size of 150 was allocated for each business sector and distributed proportionately by size – as found during the listing exercise. Final sample distribution is shown in table A.5.

Table A.5. Allocation of sample size

Enterprise worker size	Business sector			
	Agro processing	Leather	Light engineering	Textiles - garments/handloom
3-5 Workers	85	98	107	87
6-25 Workers	57	51	41	53
26-40 Workers	7	1	1	5
41-50 Workers	2	0	1	2
51-70 Workers	3	1	1	8
Total	154	151	151	155

VI(b). Selection of enterprises

Finally, enterprises (for detailed interviews) were selected using systematic random sampling using the list frame of category of enterprises belonging to each activity-group developed through door-to-door visits.

VII. Enumeration area

At first, the selected PSUs/areas were marked by road boundaries using maps. Then each of the PSUs/areas was subdivided into blocks by road boundaries. The enumerator visited all the target establishments within a sub-block before covering another sub-block. Similarly, all the sub-blocks were visited to complete the listing exercise of a PSU/area. All the target establishments – within or outside households – were covered.

VIII. Field operation for listing and main survey

The listing exercise noted a total of 3,568 enterprises – distributed by sector and size threshold – as shown in table A.6.

Table A.6. Enterprises distributed by sector and size threshold

Enterprise worker size	Business sector			
	Agro processing	Leather	Light engineering	Textile - garments/handloom
3-5	426 (56.0%)	299 (66.7%)	1166 (70.7%)	402 (56.7%)
6-25	279 (36.7%)	144 (32.1%)	455 (27.6%)	236 (33.3%)
26-40	33 (4.3%)	3 (0.7%)	15 (0.9%)	24 (3.4%)
41-50	9 (1.2%)	0 (0.0%)	5 (0.3%)	9 (1.3%)
51-70	14 (1.8%)	2 (0.4%)	9 (0.5%)	38 (5.4%)
Total	761 (100%)	448 (100%)	1650 (100%)	709 (100%)

IX. Training, field supervision and quality control

Supervisor training (for listing)

Prior to data collection activities, for the listing exercise, a central training session was organized for the supervisors in Dhaka. The six supervisors (one for each study centre) were trained by the field coordinator of the survey. It was a one-day training session (24 March 2011).

Enumerator training (for listing)

The supervisors then went on to their allocated study centre and conducted another training session – separately for each of the study centre for listing enumerators.

Supervisor training (for data collection and field monitoring)

Prior to the field questionnaire survey, another training session was organized for the supervisors for a comprehensive understanding of the survey method and questionnaire. This training session lasted three days (from 7 April 2011 to 9 April 2011).

Enumerator training (field survey)

After the supervisor training, an enumerator training programme was conducted (12 April 2011 to 14 April 2011) on the questionnaire, pilot testing and conduct of survey as well as logistical arrangements involving field supervisors, enumerators and the study team members. Pilot testing of the questionnaire was also conducted later.

Other quality measures taken during different phase of the project are as follows:

- 1) For the first three days, all supervisors worked with individual enumerators to complete two questionnaires by each enumerator.
- 2) Along with the enumerators, the supervisors also completed a few questionnaires to familiarize themselves with the questionnaire and to find out if there were problems in filling up the questionnaires.
- 3) All filled in questionnaires were checked by the supervisors. In the case of incomplete/partially filled questionnaires, the enumerators visited the enterprise again to complete the interviews.
- 4) Every evening, both enumerator and supervisor met to assess the progress made and to plan for the next day.
- 5) In ten per cent of the interviews conducted, the supervisors were present (accompanied by the enumerators).
- 6) Another 20 per cent interviews were re-checked and verified by the supervisors.
- 7) A quality control team, comprising the researcher, data analysts and senior field managers, also visited all the study centres. This team also back-checked another ten per cent of the interviews.
- 8) Every day, during data collection activities, the field coordinator maintained contact with all the supervisors. The supervisors discussed with the coordinators the daily progress made, the problems facing them during data collection, and their action plan for the next day.

- 9) A database (with mobile numbers) of the enumerators was maintained. Central quality control team members also randomly contacted enumerators to understand their views regarding data collection activities. This was done throughout the data collection period.
- 10) Surprise field visits were also made at all the study centres.
- 11) A listing exercise was conducted from 30 March 2011 to 7 April 2011, whereas detailed interviews were conducted from 18 April 2011 to 30 April 2011.
The number of enumerators employed by each study centre was:
Dhaka, 13; Chittagong, 8; Rajshahi, 8; Bogra, 7; Narayanganj, 6; and Gazipur, 6.
- 12) For Dhaka, Chittagong, Rajshahi, and Bogra, additional co-supervisors were employed since the number of enumerators was higher.
- 13) After completion of data collection, another three days were given for quality checks. All filled-up questionnaires were checked in the field itself for errors or missing data and corrected prior to dispatch to the head office for data entry.
- 14) Data entry began on 29 April 2011 and was completed by 12 May 2011. Before completing data collection activities, some questionnaires were collected from all the study centres and data entry was started – of course after necessary back-checking and other quality measures.
- 15) Punched data was rechecked to ensure error-free data entry.

X. Estimation procedure

The data used for tabulation are un-weighted without application of “multipliers” and percentage distribution has been arrived at by using such “un-weighted data”. However, attempts have been made to use statistical testing of hypothesis in order to test a few crucial issues on the impact of labour laws at a five per cent level of significance (i.e. 95 per cent level of confidence).

XI. Hypotheses to be tested

This study is mainly objective-based; we have not developed individual hypotheses against the specific objectives. According to ILO requirements and previous discussions with other ILO consultants, we have focused on the given tabular formats (reflecting the objectives) by ILO. Even then the following hypotheses, which were developed during the preliminary phase of the survey, acted as the broad guidelines for this study. The hypotheses developed were not statistical in nature, they were mainly qualitative. As a result, there was no scope for statistical testing. The hypotheses are:

1. There is greater regulatory enforcement for medium and large enterprises compared to MSEs.
2. Access to funds and markets is a significant impediment to MSE growth compared to business regulations.
3. Benefits of compliance (induced by buyer pressure) often outweigh costs of compliance for medium and large enterprises.
4. Benefits of compliance for MSEs may be structured such that they outweigh the costs of compliance (replicated from medium and large enterprises).

Considering the above limitations for statistical hypotheses testing, we have developed few crucial hypotheses and tested those at level of significance of 5% ($\alpha = 5\%$) following the standard statistical procedure. The hypotheses are as follows:

1. In different business sectors (agro processing, leather, light engineering, and textile/garments/handloom) there is no sex-segregated discrimination on establishments as per type (formal/informal).
2. Irrespective of sector, there is no difference of permanent full-time workers in different types of establishments (formal/informal).
3. In any of the business sectors there is no gender discrimination in establishments by business location (urban/rural).
4. In any business sector, there is no gender discrimination on establishments by business location (within households and outside households).

Irrespective of the sectors, establishments that are aware of the incentive schemes will grow more than those who are unaware of the incentive schemes.