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India - Country Report

Labour Laws and Growth of Micro and Small Enterprises

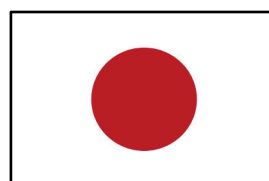


Labour Laws and Growth of Micro and Small Enterprises

India - Country Report



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Foreword

Enterprises, in particular micro- and small enterprises or MSEs, are considered the growth engine for creating productive jobs. They play a crucial role enabling countries achieve the goal of decent work for all. However, enterprises often face significant obstacles in the forms of red tape, lack of access to financing and. 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, of the benefits the formal economy workers do. Enterprises operating in the informal economy, at times, also contribute to unfair competition by avoiding taxation and the cost 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 India 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 India, the research focused on four sectors: agro processing, woodworking, textile and garment industry, and hospitality industry. The first part of this 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 500 enterprises.

Professor K.P. Kannan, former member of the National Commission for Enterprises in the Unorganised Sector (NCEUS) and former director of the Centre for Development Studies (CDS), Trivandrum, is the lead author of the study. Professor T.S. Papola of the Institute for Studies in Industrial Development has provided comments and has been responsible for guiding the four country studies. The three state-level surveys were carried out by A.C. Nielsen ORG MARG. Mridusmita Bodoloi (consultant) analysed and incorporated 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.

This project was made possible through support from the Norwegian Agency for Development Cooperation, 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
Director, ILO Decent Work Team
New Delhi

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Executive summary

This study is based on a survey of micro- and small enterprises (MSEs) in India, covering three states, Maharashtra, Tamil Nadu and Odisha. It provides empirical evidence for an informed understanding of labour legislation and the business-related regulatory factors that can aid or inhibit growth, quality of jobs and employment creation of MSEs in India in general and the three selected states in particular. This study is part of four country studies in South Asia, covering India, Bangladesh, Sri Lanka, and Nepal. These countries broadly share the same approach towards the application of labour laws and business regulations in MSEs: generic or partial exemptions for enterprises below certain threshold sizes. The core questions of the research may be summed up as follows:

- (i) Does compliance with labour and business laws along with threshold levels aid or inhibit the growth of firms and lead to avoidance strategies?
- (ii) If yes, what are the important variables that affect such behaviour (for example, degree of registration, inspection, penalties)?
- (iii) Does the presence of a trade union aid or inhibit the growth of firms and compliance with labour laws?
- (iv) Does the informal payment system act as a plausible growth trap or as a strategy to reduce costs arising out of compliance with labour and business laws?
- (v) Do these findings support the perception-based ranking of factors that affect the growth of MSEs?

This study first took stock of the current situation with regard to MSEs in India and then reviewed and prioritized those laws, regulations and protective/promotional schemes that are perceived to have a high probability of acting as plausible growth traps. In India, all labour and business laws are largely, if not exclusively based on certain threshold criteria (for example, employment, capital investment or annual turnover). Only few laws are applicable to enterprises of all sizes such as the Minimum Wages Act of 1948. As far as legal registration of manufacturing firms is concerned, the employment threshold of ten is a major marking point in the sense that all those employing ten or more workers and using electric power (20 or more if power is not used) are required to register under the Factories Act of 1948. As for the formation of trade unions, the minimum requirement is the consent of seven regular employees. The labour laws that constitute a cost, in addition to minimum wages, to the employer are: contribution to employees' provident fund (EPF), payment of gratuity and payment of retrenchment compensation. All these are, however, applicable to units above certain threshold levels. Similarly, the main business law that constitutes a cost is payment of income tax. Other business laws, such as payment of value added tax (VAT), are not a direct cost to the enterprises since they have to be collected from the purchaser of goods and handed over to the government.

The survey for this study collected data from 3,029 enterprises (1,204 from Maharashtra, 1,225 from Tamil Nadu and 600 from Odisha), covering the four sectors of textiles, auto components, leather, and food processing in Maharashtra and Tamil Nadu, and only textiles and food processing in Odisha. The sample units were also classified according to five employment-size groups, viz. 4–6, 7–10, 11–20, 20–49, and 50–70. Each employer was asked, through a structured questionnaire, what they knew about the existence of, as well as compliance with, labour laws and business regulations, their reason/s for non-compliance, whether the existence of such laws and their compliance affected growth, their avoidance strategies (such as informal payments, setting up of parallel units), the presence of a trade union, and their perception of the factors that inhibited or did not inhibit growth. The survey also captured basic information such as registration, nature of employment of workers, conditions of work (for example, working hours per day), official inspections, and precise knowledge of the obligations and

penalties of labour and business laws. The survey brought out many findings that are quite important from a policy perspective. The key highlights of the survey are summarized as follows:

- While Maharashtra and Tamil Nadu had widespread prevalence of proprietorship businesses (74 per cent and 82 per cent respectively), Odisha had a majority of firms that were unregistered or informal (65 per cent). The survey indicated that the phenomenon of “casualization of labour”¹ was widely present in all the three states. More than half of the total workers in Maharashtra (58 per cent) and Odisha (60 per cent) were casual workers, whereas in Tamil Nadu this number was relatively less at 40 per cent. While registration is not mandatory, a large section of the enterprises had one or more registration. The percentage of MSEs without any registration was only one per cent in Maharashtra, while it was 30 per cent in Tamil Nadu and 49 per cent in Odisha. Government inspections of enterprises was common in Maharashtra (94 per cent), although the proportion of MSEs being inspected was relatively less in Tamil Nadu (64 per cent) and Odisha (53 per cent).
- Awareness of EPF regulations among MSEs in Maharashtra and Tamil Nadu was significantly low among enterprises that were below the threshold level. However, in Odisha, a considerable proportion of 40 per cent of MSEs with less than 21 workers reported that they had tried to stay below the threshold level in order to avoid making EPF payments. Therefore, one can see that EPF regulation in Odisha did act as a growth trap to a certain extent. Compliance rate with regard to EPF regulations among the eligible firms was low in Odisha and relatively higher in Maharashtra and Tamil Nadu (57 per cent and 63 per cent respectively).
- Compliance to gratuity regulations was low (10 per cent or less) in all the three surveyed states. The majority of those who were not required to pay were simply not aware of its effect on growth, with very few attributing it to static growth. Similarly, awareness of retrenchment payments was exceptionally low among MSEs below the threshold level. Almost all the surveyed MSEs in Odisha and Maharashtra, and 82 per cent in Tamil Nadu, were not aware of this regulation. Even among the MSEs above the threshold level, the compliance levels were poor, with more than 70 per cent firms in the three states not complying with retrenchment regulations.
- As for business laws, the compliance rate with respect to income tax payment varied quite sharply between the three states. In Maharashtra, 80 per cent were paying income tax, followed by 47 per cent in Tamil Nadu and only 31 per cent in Odisha. Income tax obligations did seem to act as a growth barrier in the case of 40 per cent of MSEs who were either sole proprietorships or unregistered businesses in Tamil Nadu. However, this was not the case with Maharashtra and Odisha. While a majority of firms were not aware of this regulation in Odisha, only nine per cent of MSEs reported trying to stay below the threshold income level in order to avoid payment. In the case of VAT, the compliance levels were much lower than that for income tax (less than 45 per cent in all three states).
- “Avoidance by choice” was commonly observed avoidance behaviour in all three states as justification for non-compliance to different labour laws and business regulations. Some of the common reasons for not complying with minimum wage, gratuity, income tax and VAT indicate the existence of this strategy. The typical reasons were: “It is legally required, but not enforced”, “Unnecessarily complicated/do not see the benefits”, “Too costly”, and “Takes too much time”.
- Business registration was found to be positively associated with the maintenance of an employment register and payment of minimum wages. The knowledge of informal

¹ Casualization is defined as: “Workers who have an explicit or implicit contract of employment which is not expected to continue for more than a short period...” Fifteenth International Conference of Labour Statisticians, 19–28 Jan. 1993.

payment for avoiding compliance seemed to be quite common but it did not seem to have a positive association with non-compliance with labour and business laws. This could be largely, if not only, due to lessening the burden of full payment/compliance as well as a strategy to avoid inviting any trouble due to official inspections and the need to maintain a friendly relationship with officials.

- Employers' perceptions on the general investment climate by way of responding to the positive or negative influence of listed factors were quite crucial in the overall context of the findings of the survey. Cost of labour did not emerge as a factor with negative influence in their perception although in Maharashtra 51 per cent said it was so, as against 25 per cent in Tamil Nadu and just 15 per cent in Odisha. Availability and cost of land, access to skilled workers and government corruption emerged as negatively influencing business factors. Tamil Nadu and Odisha had more than 50 per cent responses in terms of negative influence. A similar picture of no major negative influence emerged in the case of business regulations in all three states. This was also the case in relation to employer obligations in labour laws and regulations. Here, again, Maharashtra reported a greater share of factors with negative influence, but all below 50 per cent except for "unions and collective bargaining" at 51 per cent. For all other factors, those reporting "no influence" outweighed those reporting "positive or strongly positive influence" except for "Limits on working time". The perception of MSEs in Odisha was somewhat similar to Tamil Nadu, where the responses pointing to "negative or strongly negative influence" is considerably lower. Overall, when compared to the level of awareness, compliance and avoidance of labour laws confirmed through the survey, the perception-based ranking of factors did not demonstrate any consistent tendency of overstating the impact of positive factors or understating the impact of negative factors.

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List of Abbreviations

| | |
|----------|--|
| AISHTM | <i>All India Skin and Hide Tanners and Merchants Association</i> |
| CDP | Cluster Development Programme |
| CLE | Council for Leather Exports |
| EPF | Employees Provident Fund |
| EU | European Union |
| FDI | foreign direct investment |
| GBC | Gross Bank Credit |
| IFLMEA | Indian Finished Leather Manufacturers & Exporters Association |
| ILIFO | Indian Leather Industry Foundation |
| IPC | Indian Penal Code |
| ISF | Indian Shoe Federation |
| KVIC | Khadi and Village Industries Commission |
| L L J | Labour Law Journal |
| L&S | Labour & Service |
| MOLE | Ministry of Labour and Employment |
| MSME | Ministry of Micro, Small and Medium Enterprises |
| MSE | Micro- and Small Enterprise |
| NABARD | National Bank for Agriculture and Rural Development |
| NCEUS | National Commission for Enterprises in the Unorganised Sector |
| NSIC | National Small Industries Corporation |
| NCL | National Commission on Labour |
| NLR | National Law Reporter |
| NMFP | National Mission on Food Processing |
| NORAD | Norwegian Agency for Development Cooperation |
| NSS | National Sample Survey |
| NSSO | National Sample Survey Office |
| OEM | Original Equipment Manufacturers |
| PSU | Primary Sampling Unit |
| SCC | Supreme Court Cases |
| S.C. Rly | South Central Railway |
| SFURTI | Scheme of Fund for Regeneration of Traditional Industries |
| SIDBI | Small Industries Development Bank of India |
| SMEs | Small and medium-sized enterprises |
| UNIDO | United Nations Industrial Development Organization |

Chapter 1

Background and introduction

1.1 Background

The micro- and small enterprise (MSE) sector is an important component of the economies of most countries. In fact, MSEs dominate the non-agricultural sector, particularly in developing countries, in terms of both number of enterprises and employment. The relatively low level of productivity of this sector compared to the sector dominated by medium and large enterprises means that their contribution to the gross domestic product (GDP) is comparatively small but not insignificant. However, their labour-intensive production means that the livelihoods of the majority of non-agricultural households depend on the MSE sector.

Past studies on the impact of labour legislation on job growth in MSEs in developing countries did not find a significant link between the two variables. Critics say that these results may not reflect reality as they are mainly based on perception-based rankings of issues influencing the business environment, or did not adequately handle the thresholds of labour law application in the sampling design.

It is in this context that the International Labour Office (ILO) launched a research and policy dialogue project to develop a better understanding of the role of labour laws and other business regulations in fostering an environment conducive to MSE growth. This project is supported by the Norwegian Agency for Development Cooperation (NORAD) and examines how labour and labour-related laws as well as other factors influencing the business environment affect the development of MSEs in South Asia. The project covers Bangladesh, India, Nepal, and Sri Lanka.

In all these countries there is considerable debate regarding the nature of labour laws and their impact on enterprise performance, employment creation and decent work. Part of the debate relates to the labour laws that affect medium and large enterprises, notably the laws regarding retrenchment. Other issues such as contract law and workplace inspections apply to large as well as small enterprises. Three interesting features of labour law in these countries are: (a) the lack of a single labour code; (b) the fact that various pieces of legislation apply to enterprises of various sizes (i.e., the labour law thresholds); and (c) the lack of protection for workers in enterprises with less than ten workers (India and Nepal).

Furthermore, it is unclear to what extent laws are enforced in practice. While the private sector often complains about excessive regulation, many enterprises are in fact unregulated due to a variety of reasons including the low monitoring and enforcement capacity of government departments, the avoidance behaviour of entrepreneurs and the use of unofficial payments to avoid compliance.

Based on a new methodological approach (see Chapter 3), a series of surveys have been carried out covering approximately 4,000 MSEs in the four South Asian countries in order to find out to what extent labour laws affect employment growth in MSEs. The India part of the study is the largest covering 2,500 MSEs in three states (Tamil Nadu, Odisha and Maharashtra), and the state-wise survey reports have now been brought out. This country report is intended to provide an overview of the nature, characteristics, size and the challenges faced by the MSE sector in India as a prelude to discussing and understanding the results obtained in the three surveys. The results of the surveys are then analysed and discussed and placed in perspective to appreciate the problems and challenges being faced by the MSE sector in its attempt to grow and develop.

1.2 Core characteristics and growth performance of the MSE sector

Although this country overview is intended to focus on the growth traps as well as growth potentials of the MSE sector in India, it is quite important to start with an overview of its core characteristics. Such an overview would greatly help place the sector in the larger perspective as well as appreciate its role in the development of the Indian economy.

Right from the days of Indian independence in 1947, it was recognized that the MSE sector had an important role to play. This realization emanated from the basic characteristic of the Indian economy – the predominance of small-scale production not just in agriculture but in all sectors of the economy. Planning as an instrument for economic development did give significant priority to the development of basic capital goods and the intermediate goods sector of the economy to enhance the overall rate of growth, and through that the savings and investment rates. However, it was realized that the small-scale sector has to be encouraged, and even protected, since it provided employment to an overwhelming majority of the workforce in the non-agricultural sector.

With the passing of The Industries (Development and Regulation) Act of 1951, the small enterprises sector in manufacturing received formal recognition. It was only later, in the mid-1980s that formal recognition was accorded to the small enterprises engaged in services. Barring the initial stages, the MSE sector has always been defined in terms of capital investment, a practice that is still in vogue. The most recent revision and categorization of small enterprises is in The Micro, Small and Medium Enterprises Development Act, 2006. Two things need to be noted here. One, a differential definition between manufacturing and services in terms of specified capital investment has been introduced. Two, a new category of “medium” enterprises was added with a higher ceiling on capital investment. Whether the inclusion of medium enterprises has added value to the policy regime and the operationalization of various promotional and regulatory measures is something that has not yet been attempted. At this stage, one can only say that this addition has added very little to the universe of micro, small and medium enterprises by way of number of establishments, value added and/or employment. The current categorization by law is given in table 1.1.

Table 1.1. Investment ceiling (in Rs.) for different categories of enterprises since 2006

| Manufacturing sector | |
|-------------------------------------|--|
| Enterprises | Investment in plant and machinery (in Rs.) |
| Microenterprises | Not exceeding 2.5 million |
| Small enterprises | More than 2.5 but not exceeding 50 million |
| Medium enterprises | More than 50 but not exceeding 100 million |
| Service Sector | |
| Micro-enterprises | Not exceeding 1.0 million |
| Small enterprises | More than 1.0 million but not exceeding 20 million |
| Medium enterprises | More than 20 million but not exceeding 50 million |
| Source: Government of India, 2006b. | |

There is a parallel classification of enterprises in the Indian economy in terms of the organized and unorganized sector enterprises based on an employment threshold. Historically, this has followed the threshold given in the Factories Act of 1948, which makes it mandatory for all enterprises with ten or more workers using power or 20 or more workers without using power to register under this Act. While this is applicable only to the manufacturing sector so far, the National Commission for Enterprises in the Unorganised Sector (NCEUS) recommended that this threshold be used, along with the unincorporated (i.e., proprietary and partnership) ownership, as the definition for enterprises in the unorganized sector. The NCEUS found a high

degree of intersection between the micro-enterprises defined in terms of investment in plant and equipment and employment of less than ten workers. For the small-scale enterprises other than micro units, the employment correlate of the capital investment threshold seems to be mostly, if not all, in the range of 10–19 workers. The results of the Third Census of Small Scale Industries conducted in 2001–02 by the now known as the Ministry of Micro, Small and Medium Enterprises (MSME) validates the hypothesis that micro-enterprises and small enterprises defined by capital investment do not exceed the employment threshold of 50 workers per enterprise. The results of this census show that 99.50 per cent of registered small enterprises (including micro-enterprises) employ not more than 50 workers, with enterprises employing not more than ten workers accounting for 88.44 per cent and those with 11–20 workers accounting for another 3.84 per cent. In the unregistered sector, 99.97 per cent of small enterprises employ not more than 50 workers, with those having not more than ten workers accounting for 99.51 per cent and those with 11–20 workers accounting for another 0.34 per cent.

The only source of data where all the units of production and services other than crop cultivation are enumerated is the Economic Census. The latest available is the Economic Census of 2005 (Government of India, 2006a). Although it provides only limited data, such as the number of enterprises, number of workers and the type of activity, it could serve as a basis for a preliminary understanding of the MSE sector in India. What this brings out is the fact that India is a large economy characterized by a very large number of very small units of production.

The Economic Census figures of enterprises and employment on the basis of three thresholds of employment size is given in table 1.2. It is quite clear from table 1.2 that both in terms of number of enterprises as well as employment, the size class of 1–9 workers dominates the non-farm sector in India. While 98.5 per cent of enterprises are in this size class, there is hardly any difference between industry and services, as the latter is at around 98 per cent. In terms of employment it is 74.5 per cent, with the industry sector accounting for 66 per cent of its total. These statistics are closely in line with the findings arising out of the National Sample Survey (NSS). The ownership pattern reveals that 99 per cent of them are proprietary and partnership enterprises.

Thus the MSE sector is dominated by small size of employment of less than ten workers and comprises either as proprietary or partnership enterprises. To this can be added the small-scale units defined above in table 1.1, where the employment size is unlikely to exceed 19 workers in most cases. If this segment of enterprises is added, then the emerging picture is one of very high predominance of MSE enterprises in both industry and services sectors in the Indian economy. Hence, the main characteristics of the large and growing Indian economy is one of a large number of small units of production and services.

Table 1.2. Percentage distribution of number of enterprises and workers in the non-farm sector in India by employment size class in 1998 and 2005

| Sector | Employment size class | Enterprises | | Employment | | Rural 2005 | |
|-----------------|-----------------------|--------------|--------------|--------------|--------------|-------------|---------|
| | | 1998 | 2005 | 1998 | 2005 | Enterprises | Workers |
| Agriculture (A) | 1. 1-9 | 11.38 | 14.49 | 7.66 | 10.05 | 22.29 | 10.05 |
| | 2. 10-19 | 0.05 | 0.03 | 0.22 | 0.16 | 0.05 | 0.16 |
| | 3. 20+ | 0.01 | 0.02 | 0.23 | 0.61 | 0.03 | 0.61 |
| | 4. 2+3 | 0.06 | 0.05 | 0.45 | 0.77 | 0.07 | 0.77 |
| | 5. Total of A | 11.45 | 14.54 | 8.11 | 10.82 | 22.36 | 10.82 |
| Industry (I) | 1. 1-9 | 18.41 | 20.60 | 15.17 | 17.82 | 20.94 | 17.82 |
| | 2. 10-19 | 0.64 | 0.20 | 2.95 | 1.09 | 0.16 | 1.09 |
| | 3. 20+ | 0.39 | 0.22 | 10.97 | 8.09 | 0.18 | 8.09 |
| | 4. 2+3 | 1.02 | 0.42 | 13.92 | 9.18 | 0.34 | 9.18 |
| | 5. Total of I | 19.43 | 21.02 | 29.09 | 27.00 | 21.28 | 27.00 |
| Services (S) | 1. 1-9 | 67.44 | 63.40 | 44.09 | 46.62 | 55.70 | 46.62 |
| | 2. 10-19 | 1.07 | 0.59 | 4.98 | 3.23 | 0.45 | 3.23 |
| | 3. 20+ | 0.61 | 0.45 | 13.73 | 12.34 | 0.22 | 12.34 |
| | 4. 2+3 | 1.68 | 1.04 | 18.71 | 15.57 | 0.67 | 15.57 |
| | 5. Total of S | 69.12 | 64.44 | 62.79 | 62.18 | 56.37 | 62.18 |
| Total | 1. 1-9 | 97.23 | 98.49 | 66.92 | 74.48 | 98.92 | 74.48 |
| | 2. 10-19 | 1.76 | 0.82 | 8.16 | 4.48 | 0.65 | 4.48 |
| | 3. 20+ | 1.01 | 0.69 | 24.92 | 21.04 | 0.43 | 21.04 |
| | 4. 2+3 | 2.77 | 1.51 | 33.08 | 25.52 | 1.08 | 25.52 |
| | 5. Total (A+I+S) | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

But the structure of the MSE sector has a further size characteristic that needs to be noted at the outset. This information, as well as depicting the other core characteristics of the MSE sector, is found in the various NSSs.

Table 1.3. Percentage distribution of enterprises by enterprise size

| Employment size | Non-agri informal sector (1999-2000) | Informal mfg (2000-01) | Informal services (2001-02) | Small-scale industries (2001-02) |
|---|--------------------------------------|------------------------|-----------------------------|----------------------------------|
| 1 | 57.1 | 42.4 | 64.3 | 40.1 |
| 2-5 | 40.3 | 53.4 | 32.3 | 55.3 |
| 6-9 | 1.9 | 3.0 | 2.1 | 3.0 |
| Micro-enterprises (less than 10) | 99.3 | 98.8 | 98.7 | 98.4 |
| Above 10 | 0.7 | 1.2 | 1.3 | 1.1 |
| All | 100 | 100.0 | 100.0 | 100.0 |
| Total Number (million) | 44.4 | 17.0 | 14.5 | 10.5 |
| Source: NCEUS, 2007b. | | | | |

These figures in tables 1.3 and 1.4 illustrate the significant share of Own Account Enterprises, i.e., enterprises operated by one person with or without the help of unpaid family workers. This group accounts for 42 per cent share in manufacturing and 64 per cent share in services. Regarding employment, the shares are around 20 per cent and 35 per cent respectively. Frequently this group has a large representation of survivalist activities or “disguised wage work” as characterized by the NCEUS. However, this group is not the main focus of this survey, which concentrates on enterprises with hired workers. Again, the smaller enterprises with employment between two and five dominate in terms of employment, with 62 per cent and 43 per cent share in manufacturing and services respectively. In terms of number of enterprises, the shares are 53 per cent and 32 per cent respectively. From a growth point of view, especially in the context of the growth trap hypothesis, the more interesting segment is that of six to nine workers which account for only less than ten per cent of employment in the unorganized sector and two per cent to three per cent in terms of number of enterprises. However, if they are enabled to grow further or, the growth traps are removed, then there is a case for more focused attention for increasing output as well as employment with decent conditions of work as envisaged by the ILO.

Table 1.4. Percentage distribution of workers by enterprise size

| Employment size | Non-agri informal sector (1999-2000) | Unorganized manufacturing (2000-01) | Unorganized services (2001-02) | Small-scale industries (2001-02) |
|---|---|--|---------------------------------------|---|
| 1 | 31.8 | 19.5 | 35.1 | 16.9 |
| 2-5 | 54.7 | 61.9 | 43.3 | 59.2 |
| 6-9 | 7.5 | 9.7 | 8.2 | 8.8 |
| Micro-enterprises (less than 10) | 94.0 | 91.0 | 86.6 | 84.9 |
| Above 10 | 6.0 | 9.0 | 13.4 | 15.1 |
| All | 100 | 100.0 | 100.0 | 100.0 |
| Total Number (million) | 79.8 | 37.1 | 26.6 | 24.9 |

However, it needs to be pointed out that the average employment in either 2-5 segments or 6-9 segments does not seem to reach a point indicating their readiness to expand further. The average employment is neither close to five or nine respectively. Rather the average employment is below their existing potential to reach the upper limit of 9.

Whether one goes by the results arising out of the various NSS of the unorganized manufacturing sector or the ‘census’ findings of the MSME the core characteristics of the MSE manufacturing sector remains similar.

As per the Economic Census of 2005, there is a predominance of enterprises in rural areas accounting for 61 per cent of enterprises and 52 per cent of workers. Value added per enterprise as well as per worker is much lower in these units than those located in urban areas. This is quite understandable given the constraints of a low-income market in rural areas. Even in urban areas the survivalist enterprises (i.e., Own Account Enterprises) account for around 30 per cent of enterprises. However, urban enterprises are relatively more capital intensive; hence they show a higher labour productivity and value added per enterprise. The share of manufacturing enterprises in urban areas is also higher than in rural areas.

Some more important characteristics can be obtained from the Fourth Census of Micro, Small and Medium Enterprises (henceforth Fourth Census). Even then the picture of MSEs emerging from this study is closer to the surveys of the National Sample Survey Office (NSSO). Further, there is the classification of MSEs in terms of “registered” and “unregistered” which also throws up some interesting features. The main characteristics and features are summarized in table 1.5.

Although the total number of units covered in the Fourth Census is smaller than that captured by the NSS surveys, we focus mainly on the characteristics. The smaller number of 26 million enterprises is possibly due to an under reporting of Own Account Enterprises, to that extent the enterprises covered are those with hired workers. While the available data pertains to “quick results”, there are a number of features that need to be noted in order to understand the MSE sector in India.

At the outset, the Fourth Census establishes that more than 90 per cent of the enterprises are proprietary or partnership units; the registered segment’s share being close to 92 per cent while that of the unregistered segment showing close to 95 per cent.

It appears that only around six per cent of all the covered enterprises are registered with a government entity. Since registration is not mandatory this might be due to the limited outreach of the various schemes and promotional measures of the central and state governments. The share of manufacturing enterprises in total enterprises is close to four per cent suggesting that a higher share of manufacturing enterprises have shown interest in registration. Within the total registered segment, two-thirds are in fact manufacturing enterprises.

In terms of employment, the share of the registered sector is nearly 17 per cent. Employment in both registered and unregistered segments is dominated by males, the shares being 80 per cent and 82 per cent respectively out of the respective totals. Enterprises with a higher employment size seem to register more than otherwise. The average employment in the registered segment being close six persons and for manufacturing it is close to eight persons.

In terms of rural and urban locations, the enterprises are more or less evenly distributed with the rural area accounting for nearly 53 per cent of MSEs. More important is the regional spread of the MSEs. The top five states – Tamil Nadu (15.07 per cent), Gujarat (14.08 per cent), Uttar Pradesh (12.08 per cent), Kerala (9.65 per cent), and Karnataka (8.99 per cent) – account for nearly 61 per cent of enterprises.

Table 1.5: Main characteristics of the MSE Sector

| Indicator | Registered | Unregistered |
|--|-------------------|---------------------|
| Total number of enterprises (in lakhs) | 15.53 | 245.48 |
| Percentage share | 5.94 | 94.06 |
| Average employment per enterprise (mfg + services) | 5.93 | 2.05 |
| Share of proprietary and partnership units | 91.57 | 94.67 |
| Share of enterprises using commercial energy | 75.18 | 25.88 |
| Share of enterprises using electrical energy | | |
| Share of enterprises by source of finance: | | |
| a) Self-finance | 87.77 | 93.08 |
| b) Institutional source | 11.21 | 4.80 |
| c) Non-institutional sources | 1.02 | 2.12 |
| Manufacturing enterprises: | | |
| a) Share in total (R+UR) enterprises | 3.96 | 24.57 |
| b) Share in registered total | 66.67 | - |
| c) Share in unregistered total | - | 28.56 |
| d) Average employment | 7.71 | 2.32 |
| Source: Government of India, 2009. | | |

1.3 Growth performance

Given the predominance of MSEs in the Indian economy, in terms of both the share of enterprises and employment, the growth performance of this sector assumes a great deal of importance. Since national income data do not permit a neat classification of the share of income in terms of MSE and non-MSE sectors, it is not possible to talk about the growth rate of this sector. The annual *Economic Surveys* published by the Ministry of Finance, Government of India, usually mention the share of the MSE manufacturing sector in total manufacturing output. In 2007 this share was reported at 39 per cent. In terms of exports, the share of MSEs has been reported at around 34 per cent.

With a view to finding out the share of the MSE sector as a whole (all non-farm activities), the NCEUS (2008) made an attempt to reclassify the output in the economy as between formal and informal sectors using the national income data available for two time points, viz. 1999–2000 and 2004–05. It found that the share of the informal sector was 42 per cent of the total GDP minus agriculture and mining and this reduced to 40 per cent in 2004–05. This is because the growth in the informal sector was four per cent whereas the formal sector registered a growth rate of around six per cent. In the manufacturing sector, growth of the informal sector was 4.9 per cent during this period while it was 7.04 per cent in the formal sector. Of course, the difference in growth rate can be largely explained by the low capital intensity as well as skill level of the workforce in the informal sector.

Realizing the importance of the MSE sector, the government has been implementing a large number of promotion schemes including technology upgradation, access to credit, cluster development and so on. Some of these are discussed briefly in the next chapter. However, the protective schemes in the form of reservation of production of specified goods have been considerably reduced. This has forced the MSE sector to compete with bigger enterprises not only in the domestic economy but also internationally.

Chapter 2

Labour law, business environment and MSEs in India

2.1 Labour law in the context of MSE growth

All modern regimes have a set of laws that either regulate and/or protect labour. These vary from universal laws applicable to all types of employment to specific occupations or employment size classes. The Indian Constitution provides both regulation and protection of labour. However, under its federal system, the subject of labour is in the Concurrent List thus enabling both central as well as state governments to enact legislation. By recent estimates there are 52 central labour laws in addition to several state labour laws, the exact number of which has not yet been available.

In the context of the discussion in this report, one may categorize labour laws into three categories. The first category would consist of laws that are applicable to all types of employment and are considered foundational in a modern democratic society. The second one would be those that are applicable to the micro- and small enterprise (MSE) sector, the subject of this study. The third category would consist of those laws that are applicable to enterprises that do not belong to the category of MSEs but which come under the new category of medium enterprises. While there is a plethora of labour laws in India dating from those enacted during colonial times, a selection has been made in terms of their current relevance. (A list of national labour laws is given in table 2.1.) This is given in terms of three thresholds, namely less than ten workers, 10–19 workers and 20–49 workers.

The construction of the three thresholds by employment size is the most convenient way of categorization because most labour law applicability is based on such a criterion. However, for other purposes, especially for promotional and protective policies and eligibility for benefits under various schemes, the criterion is the capital investment that we discussed in Chapter 1. It was noted earlier that there is a close correspondence between these two criteria, viz. investment in plant and machinery and employment size. While nearly 95 per cent of enterprises with less than ten workers have less than the investment threshold for micro-enterprises, the remaining five per cent might get classified in the next group of 10–19 workers or the “small enterprise” category by investment threshold. The employment size category of 20–49 workers has been included so that some labour-intensive enterprises in this group could qualify for “small enterprise” status, although some of them will figure in the “medium enterprise” category as per the investment threshold. As mentioned earlier, 99.50 per cent of registered enterprises and 99.97 per cent of unregistered enterprises defined in terms of capital investment do not employ more than 50 workers.

Table 2.1. Applicability of important labour laws to the MSE sector by employment threshold

| Employment Threshold | | |
|---|--|---|
| 1-9 workers | 10-19 workers | 20-49 workers |
| | | Third Threshold |
| | | The Contract Labour (Regulation and Abolition) Act, 1970 |
| | | The Payment of Bonus Act, 1965 |
| | Second Threshold | The Employees' Provident Fund and Miscellaneous Provisions. Act, 1952 |
| | Labour Laws (Exemption from Furnishing Returns and Monitoring Registers) Act | |
| | The Payment of Gratuity Act, 1972 | |
| | The Factories Act, 1948 | |
| | The Employees' State Insurance Act, 1948 | |
| | The Payment of Wages Act, 1936 | |
| | Maternity Benefits Act, 1961 | |
| | Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988. | |
| First Threshold | | |
| Shops and Establishments Acts of state governments | | |
| Workmen's Compensation Act, 1923 | | |
| Child Labour (Prohibition & Regulation) Act, 1986 | | |
| Bonded Labour System (Abolition) Act, 1976 | | |
| Equal Remuneration Act, 1976 | | |
| The Industrial Disputes Act 1947 [with the exception of Chapters VA and B applicable to enterprises with 50 and above and 100 and above workers respectively] | | |
| Minimum Wages Act, 1948 | | |
| Trade Union Act, 1926 | | |
| Labour Laws (Exemption from Furnishing Returns and Monitoring Registers) Act (in some states) | | |

For the sake of discussion and understanding the applicability of labour laws to the MSE sector, the main labour laws are presented that are applicable to the three employment thresholds (given in table 2.1). The legislation acts like a ladder in the sense that as enterprises graduate from the first threshold to the second and then the third, they come under a larger number of labour laws. It needs to be kept in mind that this universe is dominated by the first threshold accounting for nearly 97 per cent of enterprises and 74 per cent of employment in the non-farm sector (see table 1.2). The small and medium-sized enterprises (SMEs) sector in India is dominated by micro-enterprises employing less than ten workers, with a capital investment not exceeding 2.5 million rupees (INR).

Whether the universal laws that are applicable to all wage employment constrain micro-enterprises is a moot point because the basic objectives of such laws are social. The Equal Remuneration Act of 1976 stipulates equal remuneration to men and women performing the same work so as to prevent discrimination against women. In actual practice, employers assign women to different work, which enables them to remunerate the female workers less than what is given to the male workers. In the MSE sector the law is hardly enforced. Many state governments have exempted MSEs from filing returns on this account.

The Bonded Labour System (Abolition) Act of 1976 seeks the abolition of the bonded labour system with a view to preventing the economic and physical exploitation of the weaker sections of society. While the reporting of bonded labour by labour departments in the states is almost negligible, the prevalence of this system in some parts of the country and activities are often reported by both the media and the research community (see NCEUS, 2007a, Chapter 6).

Among the other main labour laws applicable to micro-enterprises, the most important one is the Shops and Establishments Acts of different state governments. These Acts are intended to regulate hours of work, payment of wages, ban on night work for women and so on.

Apart from the first two universal laws, there are a number of labour laws – as given in table 2.1– that apply to the MSE sector. The most important are the Minimum Wages Act of 1948 and The Child Labour (Regulation and Prohibition) Act, 1986. Under the Minimum Wages Act, there are a large number of Acts by the state governments according to trade/occupations as well as regions within the state. These Acts are hardly enforced given the geographical area as well as numerical coverage. They also differ a great deal depending on trade/industry/occupation and location. Anant and Sundaram (1998) showed that several states have a statutory minimum wage well below the poverty line. The design and structural weakness of the Minimum Wage Act is shown to be partly responsible for its ineffective implementation (Sankaran, 1997). Field studies, such as the one in Ahmedabad, revealed that only 30 per cent of the workers in the unorganized sector are officially covered by the employment schedules of the Minimum Wages Act (Unni, 1998).

Since there are far too many minimum wages, the NCEUS carried out an exercise to find out the proportion of casual workers in the non-agricultural sector who do not get a national, though non-statutory, minimum wages of INR 66 a day in 2004–05. It found that 60 per cent of men and 88 per cent of women casual workers in rural areas do not get this notional national minimum wage. In urban areas, the percentages were 45 per cent and 83 per cent respectively (NCEUS, 2007a, p. 259). States with low incidence of poverty or high rural prosperity with some social security, such as Kerala and Punjab, showed the lowest percentage of casual workers receiving below this national minimum wage. This underlines the importance of overall livelihood security of the working poor in terms of low poverty and a measure of social security along with a high degree of organization of workers as in the case of Kerala.

Child labour law is another important law that receives some attention from enforcement agencies although child labour is not abolished in certain types of work and is regulated in others in terms of time, weekly holidays and also safety of the children. On the whole, the

incidence of child work in India is on the decline. The NSS 61st Round reveals an incidence of 3.4 per cent of child labour among all children (ibid., p. 103). It is mostly concentrated in agriculture (66.6 per cent), manufacturing (17.2 per cent) and retail trade (6.4 per cent). Child labour in manufacturing is largely concentrated in certain activities such as carpet-making, bidi-making, hosiery, match industry and a few others in certain locations. Given the basic objective of enabling children to go to school and grow into educated citizens, there is no reason why such a law should be seen as a growth trap at all. Conformity to this law becomes a basic issue of socio-economic development.

Apart from these laws, applicable also to the first threshold of MSEs, there are a few other labour laws that are applicable to the second and third thresholds, as shown in the Table 2.1. These could become a growth trap provided the benefits arising out of growth opportunities get cancelled out by the costs that need to be incurred for compliance with these laws. This means that only in their absence can such MSEs hope to grow further. This is examined in the light of the surveys in three states in Chapter 4.

Table 2.2. Reason-wise percentage of sick/incipient sick units (SSI)

| Reason for sickness/ incipient sickness | Percentage of sick/incipient sick units | | | |
|--|---|--------------|------------|--------------|
| | 2003-04 | | 2004-05 | |
| | Registered | Unregistered | Registered | Unregistered |
| Lack of demand | 71.6 | 84.1 | 58 | 69 |
| Shortage of working capital | 48.0 | 47.1 | 57 | 43 |
| Non-availability of raw material | 15.1 | 15.2 | 12 | 12 |
| Power shortage | 21.4 | 14.8 | 17 | 12 |
| Labour problems | 7.4 | 5.1 | 6 | 4 |
| Marketing problems | 44.5 | 41.2 | 37 | 36 |
| Equipment problems | 10.6 | 12.9 | 9 | 12 |
| Management problems | 5.5 | 5.1 | 5 | 3 |

Source: Ministry of Small Scale Industries, Government of India.

On the face of it, such a growth trap seems to be somewhat far-fetched if one goes by the available but limited evidence. One is the evidence relating to the “sickness” of MSEs due to a variety of reasons (table 2.2). The implication is that these MSEs were not able to survive, let alone grow, and have fallen into bad times. This could have probably resulted in mortality although there is no measure of sick units finally closing down. Only 7.4 per cent of the MSEs reported sickness due to labour problems in the registered segment, while the share was only 5.1 per cent in the unregistered segment in 2003-04. In the next year, the shares have in fact marginally declined to six per cent and four per cent respectively. Three main reasons cited are striking and these are “lack of demand”, “shortage of working capital” and “marketing problems”. The first two have to do with the macroeconomic situation as well as policy in that the demand for the output of MSEs has become a problem area given the de-reservation of products and the consequent competition from large enterprises. Shortage of working capital is essentially a matter of access to institutional credit, which, as we shall see later, has registered a sharp decline as a share of total credit in the economy. Problems relating to marketing are a structural problem given the small size and financial and other capacities of the MSEs.

Table 2.3. Factors influencing decision to invest in expansion of enterprises (per cent distribution)

| Factors influencing investment decision | Positive influence | No influence | Negative influence |
|--|---------------------------|---------------------|---------------------------|
| Market | 80.19 | 16.67 | 3.14 |
| Access to finance | 58.65 | 29.87 | 11.48 |
| Payment to workers | 52.67 | 43.24 | 4.09 |
| Access to resources | 36.01 | 48.58 | 15.41 |
| Promotional policy | 11.32 | 66.19 | 22.48 |
| Labour laws | 8.33 | 79.40 | 12.26 |
| Tax policy | 8.02 | 65.72 | 26.26 |
| Government regulations | 2.83 | 68.08 | 29.09 |

Source: Singh and Mehta, 2004.

The evidence from a study of MSEs in Uttar Pradesh, given in table 2.3, is also revealing and supportive of the above observations. Only less than 13 per cent MSEs surveyed reported labour laws exerting a negative influence in the decision to expand investment. Market-related factors (obviously growing market opportunities), access to finance and the ability to pay workers exerts greater and positive influence suggesting these factors drive them in their decisions to expand investment in the enterprises. Such a finding is quite revealing in the context of the supposed link between labour laws and growth traps.

2.2 Issues of labour law enforcement in India

Labour law enforcement in India is carried out both by the central government through the Office of the Chief Labour Commissioner and by the various state governments through their respective labour commissioners. According to a former Chief Labour Commissioner, inspection by the central government officials is confined to central public sector enterprises and large private corporate sector enterprises that do not fit into our category of MSEs (Mukhopadhyay, 2010). It is the state government that by and large carries out enforcement of both central and state labour laws in enterprises that do not come under the purview of the central government inspection and that includes MSEs.

However, there are jurisdictional issues in inspections and in some cases both central and state officials carry out overlapping inspections. Most labour laws are central legislations that are often amended by the state government to reflect their regional context. There are also state-level laws and the most important one as far as the MSE sector is concerned is the Shops and Establishments Act that was referred to earlier.

While there are many ambiguities and complexities in Indian labour laws ranging from definitional to jurisdictional issues (see Chandra and Parashar, 2005) for a succinct discussion), these are not the major issues facing the MSE sector. As discussed above, the MSE sector in India could be divided into three “employment threshold levels”, as depicted in Table 2.1, where the important labour laws are listed that are applicable to each threshold. The first threshold is basically the informal sector where most labour laws are not applicable. However, there are still some laws that the enterprises have to conform to. As far as enforcement is concerned, laws regulating child labour and bonded labour focus on specific activities and regions. And most inspections take place as a result of the work of civil society groups and/or activists. Most of these micro-/informal enterprises are not therefore directly affected. It needs to be noted that such practices emanate from extreme poverty and dependence of poor households. Therefore, their abolition or minimization would be dependent on the success of poverty

reduction as well as the provision of basic socio-economic security. There is no doubt that the interventions of the government both at the national and state levels in providing subsidized food grains, free midday meals at schools, supplementary nutrition for pre-school children, old age pension and the recent schemes of rural employment guarantee as well as social insurance for health care have greatly reduced the intensity of these two problems. However, from a comparative Asian perspective, especially with reference to East and South-East Asia, India still has some catching up to do.

The other important and universal labour law is the Payment of Minimum Wages Act, 1948. Under this act, there are a large number of minimum wages prescribed by the state government for different trades and regions. State-level labour inspectors are empowered to inspect and ensure the payment of wages. However, the limited staff available with most state governments results in the inspection being confined to mostly urban areas and selected clusters in other areas. In terms of outcome it is difficult to assess the impact of such inspections because it requires a comparison of minimum wages in a particular industry in a given region with the actual wage payment made. Given the overall situation reported in section 2.1 whereby the majority of workers do not earn a notional national minimum wage speaks for itself about the effectiveness of inspections. Industry-specific and location-specific studies indicate that employers in general are not averse to payment of minimum wages or the need for it. But they are often handicapped by uncertain demand for products and their role as price-takers. But it is also important to remember that squeezed between the purchasers of their products and the price-takers in the non-labour input market, they focus their energy on underpaying labour so as to maximize their profits. From the workers' point of view the situation is one of accepting the given wage arising largely out of their poverty and the non-availability of more gainful employment. Therefore, the solution often lies in raising the reserve price of labour by reducing the poverty of the working poor by state-sponsored programmes and that is what has been going on in the country. The fact that states with low incidence of poverty and other forms of deprivation (such as Kerala, Punjab and Haryana, and Himachal Pradesh) have low incidence of not receiving minimum wages is a testimony to this larger situation.

While the Trade Union Act of 1926 provides for the formation of unions by a group of seven or more workers, this is often not a practical one in the micro-enterprises employing up to nine workers. Some of these workers may be close relatives or from the same caste or community as the employer or from the same village, often working in a social networking context. The workers are often aware of the difficulties of the employer or afraid of losing their employment by forming trade unions. What is happening in the Indian context is the increasing tendency towards collective action across occupations or industries demanding state action for the implementation of minimum wages, provision of social security and so on. It has been reported that of the total trade union membership in the country, half of them are informal workers either in agriculture or in micro-enterprises.

In the micro-enterprises belonging to the first threshold, there are a few other labour laws. The Shops and Establishments Act lay down the working hours, holidays and so on, and the labour inspection regime is the one verifying the compliance. Such condoning may either be due to political pressure to not subject small enterprises to "harassment by inspection" or as a quid pro quo for small illegal payments made to labour inspectors. In fact, the labour inspection system, as with many other regulatory laws, gives scope for widespread "rent-seeking" by officials. In the case of MSEs, these rents may be small in absolute terms but when collected from a large number of enterprises they add up to a substantial sum. These then constitute a "cost" to the enterprises that would be weighed against non-compliance. The lower the share of the former compared to the latter, the greater the incentive for such "costs" to be factored in the cost of production.

In sum, micro-enterprises with less than ten workers constitute more than 90 per cent of the enterprises and do not come under the purview of a large number of labour laws. However, a

limited number of labour laws applicable to them are not found to be effective enough in terms of the stated objectives. The labour inspection system is weak. While employers often complain of the harassment, the result is a culture of “rent-seeking” by officials which is considered a cost by these small employers. Since the cost of compliance is seen to be more costly, the rent-seeking culture prevails. Officials have incentives to retain the laws rather than work for their simplification because they act as a source for their rent-seeking activities.

On the basis of complaints from associations of small MSE industry employers, a number of state governments have exempted this category of enterprises from furnishing too many returns and registers. For example, as per the Labour Law (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988 they need to submit only a core return and maintain only three registers. A similar exemption system has come about in a few other states as well.

With regard to the second employment threshold of MSEs (10–19 workers), they have to conform, in addition to the laws applicable to the first threshold, a few other laws mentioned in table 2.1. The most important of these relate to the Employees’ State Insurance Act, 1948 (henceforth ESI Act) as well as the Payment of Gratuity Act, 1972. The ESI Act is applicable to establishments employing ten or more workers while the Payment of Gratuity Act is applicable to only workers working in establishments with 50 or more workers with at least five years of service. The total number of worker members enrolled in the Employees’ State Insurance Scheme is only around 15.5 million or 3.4 per cent of the total workforce.

There are several possible reasons why labour laws are not perceived to be major bottlenecks for growth. In a detailed review of these factors, it was found that the inadequacy of the labour administration system, especially in the states, the large universe of the MSEs in relation to the number of officials, the widespread system of illegal payments collected by officials, the lack of awareness of labour laws and other laws among significant segments of the MSEs, and the cost of non-compliance being far less than compliance to the employers. Other but significant possible factors include the low importance attached to labour and employment at the level of the central government as well as various state governments. The onset of neoliberal economic reforms that gives primacy to maximizing aggregate economic growth has further reduced the importance given to this area by governments. Furthermore, the relentless lobbying and propaganda by powerful associations of employers has created an impression that labour laws are the biggest block to maximizing growth and employment which finds a favourable reception by both the political and administrative executive. Given the confinement of trade unions to the very small segment of the formal or organized sector of the economy till recently and the global trend in the decline of unionism, the trade unions in India have also experienced a further decline in their limited power to influence policy in favour of decent work conditions, especially in the MSEs dominated by the informal/unorganized sector.

It is pertinent here to point out that the Government of India has ratified the ILO Labour Inspection Convention, 1947 (No. 81) that exclusively pertains to labour inspection. Therefore, it is duty-bound to carry out labour inspections to ensure that various labour standards laid down in the national and state-level legislations are conformed to by the enterprises that come under the purview of the legislation. Of course, there is a strong case to reform the inspection system with a view to remove the opportunities for rent-seeking as well as harassment. The forms and registers to be maintained could be simplified, opportunity for conforming could be given before initiating penal action, awareness could be enhanced and, most of all, the positive link between workers’ livelihood security, health and productivity and quality could be stressed and demonstrated. All these could create a win-win situation for both the large number of small employers and their workers, thus broadening aggregate demand and sustainable growth in the economy. It is this aspect that is conspicuous by its absence in the attitude of the state and employers’ associations towards the MSE sector in general and poor workers in particular that has contributed to the persistence of appalling conditions of work that has been documented in

detail by the National Commission for Enterprises in the Unorganised Sector (NCEUS) in one of its reports (NCEUS 2007a).

2.3 Business environment: The regulatory framework

Although the micro-enterprises are exempt from many labour and business regulatory laws, small enterprises, especially those with ten or more workers, have to conform to a number of regulations. The labour law regulations discussed in the earlier section only constitute one segment of this regulatory framework. The other is business regulation. These may be discussed under three heads: (a) registration of enterprises, (b) environmental and safety regulations, and (c) regulations related to collection and payment of taxes.

There is no requirement of registration for all enterprises. If an enterprise comes under the Shops and Commercial Establishments Act of a particular state, then there is a registration under this Act. For manufacturing enterprises, registration under the Factories Act, 1948 is mandatory for enterprises with ten or more workers and using power or 20 or more workers without using power. Then there is the registration requirement with the sales tax department of the state government if the enterprises come above the threshold stipulated for purposes of taxation. There are other types of registration that are not necessarily mandated by any law but for purposes of availing benefits under one or more of the schemes of the central and/or state government.

With all these conditions, it is found that the share of registered units among the total enterprises covered under the Fourth Census of Micro, Small and Medium Enterprises is only six per cent. One main reason is the small size of the enterprises (below ten workers) and the other is the lack of awareness of the registration. Besides, there is also the reluctance to register units either for fear of attracting tax authorities or the hassles in such a process. These of course constitute an avoidance strategy.

The second set of reasons for registration arises due to environmental or safety requirements attracting certain specific laws or rules. While these are not applicable to a significant share of MSEs, the rules are often overlooked even in the relevant cases due to the large number of very small enterprises or the geographical spread of such enterprises. The MSEs are also often not in a position to invest in plant and equipment and related processes due to their weak capital base.

Tax laws and rules also attract registration of one kind or another whenever enterprises are above the stipulated threshold levels. Here again the coverage is uneven due to weak enforcement capacity of the government as well as avoidance strategies resorted to by the MSEs.

One of the major reasons for the low level of registration could be the time taken for obtaining the relevant approvals and permissions. For an entrepreneur who would like to go through all these processes and steps it could be quite time-consuming and often cumbersome. In a study conducted by the ILO in the state of Uttar Pradesh (UP), the number of steps in the process was found to be around 15 at the minimum and around 23 in cases that require special permissions in specified industries (ILO, 2005, p. 38).

While one should recognize the time-consuming nature of the process of conforming to a number of business regulatory laws and rules, one should also keep in mind the reality of the dominance of micro-enterprises often engaged in simple labour-intensive activities, especially in rural areas where registration of enterprises is more an exception. In such enterprises the employer is hardly distinguishable from the poor workers either in terms of education or awareness of regulatory laws or the capacity for capital investment that would give him the status of an "employer".

In such a context it is quite unrealistic to talk about these business regulations acting as "growth traps". But they no doubt instil a sense of fear among the owners of the MSEs that has largely to

do with their asymmetric power relation with the enforcement officials. De facto the mere existence of a number of regulatory laws and/or rules gives power to enforcement agencies that often result in harassment of the employers with a view to extracting various types of rent. Such a situation and climate of fear leads to avoidance strategies incurring certain costs. The UP study referred to above made a quantification of such costs and found that they constitute around 15 per cent of the cost incurred for registration. The remaining 85 per cent were in the form of statutory payments, travelling expenses, legal and financial and other expenses (ibid., p. 43).

The correlation between the rate of registration and the number of employees suggest that enterprises see advantages arising from registration that would include benefits from various government-sponsored promotional and incentive schemes. Therefore, we turn to a brief discussion of the business environment related to such interventions.

2.4 Business environment: Promotional measures and incentive schemes

In this brief section, an overview is provided of the promotional measures as well as incentive schemes for the development of the MSE sector in India. There is a fairly long history of sustaining as well as developing this sector, earlier known as the small-scale sector of the economy. The *raison d'être* for such a policy was rooted in the economic development strategy through planning. While planning gave primacy to the development of capital goods and the intermediate goods sector along with the development of infrastructure and agriculture, it was realized that there is a huge army of surplus labour as well as further growth through new labour market entrants that will not be fully absorbed by the new sectors. Since the livelihoods of the vast majority of people were dependent on agriculture as well as small industry, it was realized that critical support should be extended to this sector. As such there was concern with regard to retaining employment as the main source of livelihood. This logic led to a protective policy through a system of "reservation" of products for production by the small-scale sector to ward off unequal competition from the large formal sector of the economy. Over a period of time the number of products reserved reached 836 during the beginning of the 1990s. With the launching of the neoliberal economic reforms, the logic of such a protective policy was lost and a gradual process of "de-reservation" was set in motion, which brought down the number of reserved products to just 86. Although this was done in the name of creating a "level playing field", it should be emphasized here that the structural backwardness of the MSE sector remained strongly compounded by an active policy of exposing it to both domestic and global competition.

Several committees and commissions have examined the plight of the MSE sector over a period of time resulting in a number of recommendations, most of which were implemented in one way or another. In the new context of economic liberalization, there was a strong case for promotional policies and incentive schemes that reflected the realization that there was no level playing field for MSEs. Some of the earlier policies were fine-tuned and revised and some new ones introduced. These are briefly discussed here.

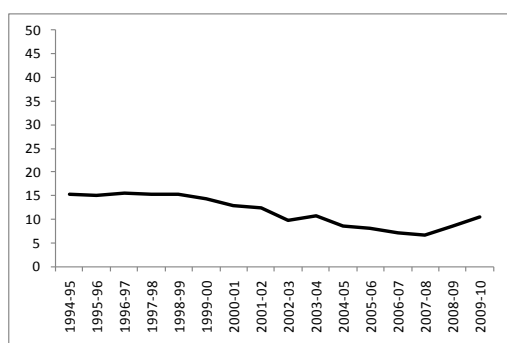
2.4.1 Access to credit

This has been a perennial problem of the MSE sector. It is rooted in the structural weakness of this sector, characterized by a very large number of poor entrepreneurs. We have already seen that those running tiny enterprises (e.g. street vendors, artisans working in household units, tiny shopkeepers and so on), known as Own Account Enterprises, are basically disguised wage earners who account for a third of the employment in the informal sector. The other group consists of enterprises with one to nine workers who also work with very little capital in the form of plant and machinery. Those with relatively large enterprises working with hired workers from ten to 50 have a relatively higher capital labour ratio, a far cry from the large enterprises. Therefore, there is the need for long-term capital as well as working capital. Policies to address this need have resulted in directing a portion of the Gross Bank Credit (GBC)

through commercial and cooperative banks, creation of specialized financing and refinancing institutions such as the National Small Industries Corporation (NSIC), Small Industries Development Bank of India (SIDBI), and National Bank for Agriculture and Rural Development (NABARD) (initially meant for agriculture but later extended to rural non-farm enterprises). In addition, state-level bodies such as state industrial development corporations, state financial corporations were also created. The Reserve Bank of India also directed banks to enhance their lending to the MSE sector although there is no statutory mandate for such direction.

As pointed out by NCEUS (2009, p. 283) and despite many initiatives and directions, the share of net bank credit to the MSE sector declined from 15.2 per cent in 1994–95 to 6.6 per cent in 2007–08 (figure 2.1). Given the acceleration in total bank credit in India, the share of the MSE sector increased in absolute terms from INR 291.75 billion in 1994–95 to INR 1558.04 billion in 2007–08, i.e. an increase of 5.3 times. However, the total bank credit increased 12.4 times! In the last two years there has been some improvement in the share of total bank credit going to the MSE sector. In 2008–08 it was 8.6 per cent and in 2009–10 it was 10.6 per cent.

Figure 2.1. Credit to MSE sector as percentage of net bank credit



The question here is whether any special treatment by way of access to credit acts as a “growth trap” in order to continue to enjoy such a benefit? The rate of interest charged to the MSE sector is higher than that available for the large corporate sector. Banks are reluctant to entertain applications for small loans because of the paperwork involved and the numbers of clients to deal with, the small entrepreneurs in addition have much less social or economic clout to ensure that their credit needs are adequately met. Although some microcredit schemes offer credit to the self-employed women and other enterprises at a subsidized rate, these are primarily from the

resources made available by NABARD. The private micro financial institutions charge interests that range from 24 per cent to 36 per cent per year.

The government has set up a Credit Guarantee Fund to provide relief to those micro- and small entrepreneurs who are unable to pledge collateral security in order to obtain loans for the development of their enterprises. Several modifications have recently been made to make it more attractive which, inter alia, include the following: (i) enhancement in the loan limit to INR 10 million; (ii) enhancement of guarantee cover from 75 per cent to 85 per cent for loans up to INR 0.5 million; (iii) enhancement of guarantee cover from 75 per cent to 80 per cent for MSEs owned/operated by women and for loans in the North-east Region (NER); and (iv) reduction in one-time guarantee fee from 1.5 per cent to one per cent and annual service charges from 0.75 to 0.50 for loans up to INR 0.5 million. As a result, the scheme has been able to overcome the initial inhibition of bankers and is steadily gaining in acceptance. Further, efforts made to enhance the awareness have led to increasing the coverage from 68,062 proposals (for loans of INR 17.05 billion) at the end of March 2007 to 437,465 proposals (for loans of INR 181.65 billion) at the end of October 2010.

2.4.2 Fiscal incentives

There were a number of fiscal incentives in the form of tax exemptions, refunds, postponement of direct and indirect taxes besides special tax concessions. In the wake of the economic reforms starting from the early 1990s these have been revised and modified from time to time. Currently, the fiscal incentives are limited to a few exemptions from excise and service tax. There is now a General Excise Exemption Scheme under which the exemption limit has been raised from INR 10 million to INR 15 million and the turnover eligibility limit to avail the exemption benefits has been enhanced from INR 30 million to INR 40 million with effect from April 2005. Further, small service providers with a turnover of up to INR one million have been

exempted from service tax. In order to encourage SMEs to invest and grow, the surcharge on all firms and companies with a taxable income of INR 10 million or less has been removed with effect from 1 April 2007. The turnover limit for tax audit and for the purpose of presumptive taxation of small businesses has been enhanced to INR six million with effect from 1 April 2010. To ease the cash flow position for small-scale manufacturers, they have been permitted to take full credit of central excise duty paid on capital goods in a single instalment in the year of their receipt. Further, they have also been permitted to pay central excise duty on a quarterly basis, rather than monthly basis.

These fiscal incentives no doubt help most of the micro-enterprises whose output is often below the exemption limits. Whether such enterprises find these incentives more attractive than the benefits arising out of becoming bigger enterprises cannot be answered on the basis of statistics that show averages on output and related variables. In any case, the objective of such fiscal incentives is to ease the burden of small enterprises that are not only structurally weak but also face tough competition from larger units.

There are some specific incentives for export-oriented MSEs, some of which are also applicable to larger enterprises. These include (i) import of capital goods, raw material and other essential inputs duty free or at concessional rates and (ii) refund of duties paid on the raw material used in export production by a system of duty drawback as well as pre- and post-shipment credit at concessional rates. This duty drawback system has recently been withdrawn. In addition, some promotional measures are also in place such as participation in international exhibitions, quality control and assistance for ISO certification.

2.4.3 Marketing support systems

Marketing is another critical problem faced by the MSEs given their small size of output and limited financial capability. This problem was recognized quite early in the 1950s and a number of institutional support systems have since been created. These are in the form of promotional boards whose activities encompass, among other things, a variety of marketing support mechanisms including for exports. Boards have been created for the products of village and cottage industries called the Khadi and Village Industries Board, the Central Silk Board, the Coir Board, the All India Handicrafts Board and the All India Handloom Board. They set up sales emporiums in cities and marketing fairs during festival seasons. State-level boards are also set up with similar objectives. These bodies continue to function as channels for marketing the products of the MSE sector, especially those of the village and cottage industries. Modern MSEs usually work as points for outsourcing, subcontracting for larger firms as well as for exporters.

The marketing support system can hardly be conceived as a “growth trap” in the sense that the benefits of the support accrue to the group as a whole rather than to individual enterprises. Moreover, the support mainly serves micro-enterprises spread over several thousand units in a large number of villages in the country

2.4.4 Technology upgradation schemes

There is no doubt that technology upgradation is an important factor determining the ability of MSEs to survive and grow in a globally competitive environment. Given their very low financial capacity and knowledge of the sources of technology acquisition, this is something that should receive the attention of the government. Unlike large enterprises, MSEs cannot undertake technology upgradation as an in-house research and development (R&D) activity. MSEs usually innovate more informally by copying, learning by doing and so on. Industrial clusters (see next section), taken as a single unit, could be a useful platform for technological upgradation and development.

The Government of India has initiated a number of technology upgradation schemes for MSEs. The MSME plays a key role in this area through its Development Commissioner with over 60

offices and 21 autonomous bodies located in different parts of the country. The NSIC helps in the technology upgradation of MSEs by offering support services through its Technical Services and Extension Centres. It has also set up Training-cum-Incubation Centres for small enterprises at its Technical Centres.

The Khadi and Village Industries Commission (KVIC) and the Coir Board have their Scheme of Fund for Regeneration of Traditional Industries (SFURTI), Prime Minister's Employment Generation Programme, Rural Industries Service Centres and similar facilities. The Ministry of Science and Technology also implements a number of schemes for modern MSEs. The Ministry of Textiles operates a Technology Up-gradation Fund Scheme specifically for the textile units but the scope of which does not cover most MSEs. Besides these agencies and departments there are several other ministries (such as the Ministry of Rural Development, SIDBI, the Ministry of Commerce and Industry) with a number of technology upgradation schemes.

One of the major drawbacks of these large numbers of schemes is their limited outreach as well as absence of coordination to pool experiences and exchange knowledge and ideas. Besides, a large number of micro-enterprises are not in a position to avail these schemes because of their inability as well as lack of information and access to such schemes.

Keeping these drawbacks in mind, the NCEUS (2009) made a number of recommendations. Some notable recommendations are (a) the creation of a national council for guidance and assistance in policy formulation for technology upgradation and (b) the adoption of a "mission mode" for promotion of technology in the informal/micro enterprise sector, strengthening the existing rural technology centres, setting up of Technological Innovation and Dissemination Centres in each state, designating the existing District Industries Centres as the nodal agency for technology dissemination at the district level, linking engineering and technical educational institutions with the MSEs in the locality and easier access to credit at affordable rates (ibid).

2.4.5 Cluster development programme

This programme is also intended to provide common facilities for the MSE sector which are clustered either over a period of time or by design. Most MSE clusters in India have evolved over a long period of time and are dominated by artisanal and/or village industries. But there are also modern industrial clusters including ancillary industries (e.g. auto components), or subcontracting/outsourcing enterprises (e.g. textiles and garments). The cluster development programme (CDP) is preceded by the Industrial Estate Programme, Industrial Growth Centres and later the Technology Upgradation and Management Programme. The Small Industry Cluster Development Programme is a more broad-based one to include development of clusters with support for domestic marketing, exports, skill development, setting up of common facilities as well as technology upgradation and its diffusion. Initially the programme focused mainly on "soft areas" such as general awareness and trust building, counselling, training and capacity building, exposure visits, credit facilitation and market developments. Later, a "hard component" was included in terms of assisting technology upgradation, quality standardization and testing by setting up common facility centres.

Currently, more than 400 clusters have been developed with common facility centres and other infrastructure and another 130 clusters are being given similar assistance by the Government of India. Many of the current clusters relate to modern production units. Some of the older enterprises in such industries as coir processing and manufacturing have been upgraded with new technologies. The United Nations Industrial Development Organization (UNIDO) has identified 387 clusters in different industry groups (see NCEUS, 2009, p. 337). In addition, it also identified more than 4,000 artisanal clusters that have considerable potential for development through a variety of measures including technology upgradation, greater access to credit, marketing facilities and so on.

The CDP of the Government of India was commended by the NCEUS (*ibid.*, pp. 350–51) because it is in a position to address some of the basic problems of the MSEs in a cost-effective manner. However, the NCEUS found this programme too small given the large number of clusters and its employment potential in the country. It therefore advocated the formation of “growth poles” by combining a number of clusters and enhancing the infrastructural facilities linking them. In addition, it also wanted the inclusion of social development programmes, such as conditions of work, housing, sanitation, skill development and so on, that would enhance the capabilities of workers and their families which in turn would contribute to the enhancement of labour productivity.

2.5 Selection of MSE sectors for this study and an interpretation of growth trap potential

As discussed in Chapter 3, the study selected four sectors that are quite important from the point of both income and employment in the Indian economy and also in terms of the livelihood avenues of a vast segment of the population. Brief overviews of these sectors – food processing, textiles and garments, leather and auto components – are given below.

2.5.1 Food processing

The food processing sector in Indian industry is one of the fast-growing sectors of the Indian economy given the fact that the share of agricultural and related food products processed is quite low. Agri products and dairy products register the highest with around 35 per cent going to the processing sector while only 21 per cent of meat, six per cent to 10 per cent of poultry and just three per cent of fruits and vegetables get processed. During the period 2000–05, the food processing industry registered an annual growth rate of around 13 per cent. Such rapid growth is expected to continue due to increasing urbanization, increase in incomes of the middle class and time-saving, even for people living in rural areas.

An estimate of the income generated in the food processing sector (Code 15 in National Industrial Classification-1998) by NCEUS (2008, p. 175–78) shows that it accounts for nearly two per cent of the gross domestic product (GDP). In terms of employment it can be reckoned that nearly six million persons are employed in this sector given the fact that 5.1 million workers were estimated to be working in the informal sector of the food processing sector (*ibid.*, p. 120). However, given the entry of large enterprises into this fast-growing sector, assisted by the policies under economic reforms, the organized or formal sector of the food processing sector accounts for close to 60 per cent of the output. It is expected that this segment will grow further given the policy and programme incentives in its favour such as the setting up of mega parks, finance and other assistance for storage facilities and so on. However, this leaves scope for a number of SMEs (employing up to 50 workers) to take advantage of such assistance.

Food processing takes place at the primary, secondary and tertiary levels. While most primary processing is done at the location or close to the production, it is the secondary and tertiary processing that lends itself to setting up of enterprises in the manufacturing sector. Given the uneven distribution of income, three distinct market segments have come into existence. At the lowest level is the predominance of micro- and small enterprises including a number of cottage enterprises catering to local markets with limited purchasing power to a large number of populations. Here tastes and availability of local raw materials is crucial. At the middle level is the significant presence of middle class with enough purchasing power to demand branded and unbranded processed food not only in cities but also in a large number of small and big towns. This segment is likely to expand faster as incomes keep increasing. At the top level is the high-income market in which a number of large firms, national and multinational, operate across cities in the country.

Realizing the potential for growth, the Government of India has initiated a number of schemes for the development of this sector. One such scheme is the setting up of Mega Food Parks across the country. While this was launched during the Eleventh Five Year Plan (2007–12), no such

park has so far been commissioned mainly due to non-availability of land and many unresolved many procedural formalities. Perhaps, realizing this, a new scheme of Mini Food Parks has been launched. It is expected that the mini food parks will help the development of MSEs and thereby spread the benefits of income and employment across larger sections of the population. Skill development is another area of focus. This is particularly important for ensuring quality and safety of the processed food. Modernization of the abattoir is another scheme that is being actively promoted. Taking all these into consideration, the government has decided to launch a National Mission on Food Processing (NMFP) to coordinate and fasten all the developmental schemes.

Given the presence of this industry across India, the ILO has included this industry for the sample survey in this study in all the three states.

2.5.2 Textiles and clothing

Next to the food processing sector, the textiles and garment industry in India is a major sector of Indian industry in terms of both output and employment. It accounts for close to two per cent of GDP and five per cent to six per cent of employment. It is a vast sector in terms of range of activities, from processing of fibres to finished goods, and is spread across the country. Similarly, there is a strong organized as well as unorganized sector accounting for roughly equal proportion of output. In terms of employment, however, the MSE sector is vastly more important, employing around 16.3 million persons, while the organized sector is reckoned to have employed around 6.6 million workers as of 2005.

The production of textiles and garments is spread across India, but there are a large number of clusters such as handloom clusters, power loom clusters, garment-making clusters, and large textile factory clusters. In terms of exports, Tiruppur, Bangalore, Mumbai and New Delhi are the leading centres. While the production of textiles and garments has been growing around five per cent per annum during the last five years, the recent recessionary situation in Western countries has somewhat dented growth prospects. However, there is potential for enhancing the growth of output as well as of employment to cater to the growing domestic and diversified export market. Currently, the export market is heavily dependent on the European Union (EU), which accounts for nearly a quarter of the exports from India. The other important destinations are the United States (US), China, United Arab Emirates, and Bangladesh. In the case of Bangladesh, it is possible that much of the exports are in the form of clothing, which are then transformed into garments for further export.

In the MSE sector, an important segment is that of the handlooms, where a variety of clothing and garments are produced using cotton, silk and wool. The handloom clusters are present in every state in India. According to the Office of the Development Commissioner for Handlooms in the Ministry of Textiles, Government of India, there are currently 4.3 million handloom weavers and allied workers. Despite their skill and capability to produce exquisite clothing and garments, their social and economic conditions are quite weak. A number of schemes for their welfare, skill upgradation and development of workplaces have been initiated by both central and state governments.

Although India accounts for only around three per cent of the world trade in textiles and garments, there is considerable scope for enhancing this share. The target now is to raise it to seven per cent by the end of the Twelfth Five Year Plan (2012–17). Given a vast domestic market, India accounts for nearly 14 per cent of the world's production of textiles and garments.

The development of modern garment-making clusters is a recent phenomenon (three to five decades) compared to the vast network of handloom clusters. These clusters are the growth centres in textiles and garments and are expected to contribute to the growth of the industry. However, an overwhelming proportion of the production units are MSEs where employment and social security are the exception than the rule. Given such a scenario, and taking into

account the importance and the potential for development of this industry, the ILO has included this industry in its study in the three states of Maharashtra, Tamil Nadu and Odisha.

2.5.3 Leather industry

From the point of view of the MSE sector in manufacturing, the leather industry is important in terms of output as well as employment. Until 2002, the leather sector was reserved for the MSE sector and since then it has been de-reserved and hence opened to larger enterprises. Given the fact that 100 per cent foreign direct investment (FDI) as well as 100 per cent repatriation of profits are allowed, the domestic industry also faces serious challenges in terms of technology upgradation, quality control, marketing and so on.

Despite these challenges, the leather industry continues to be dominated by MSEs with the possible exception of the tanneries sector where raw hides and skins are converted into leather. The other main segment is the factories sector where leather is transformed into a variety of consumer products (finished leather, footwear, leather garments, etc.). The leather industry in India is concentrated in a few locations with Tamil Nadu accounting for around 40 per cent of exports and 60 per cent of tanning capacity. Within Tamil Nadu, the leather industry is concentrated in Chennai, Ambur, Ranipet, Vaniyambadi, Vellore, Pernambut, Trichy, Dindigul and Erode. The other important locations are Uttar Pradesh (Kanpur, Agra, Noida, and Saharanpur), Maharashtra (Mumbai), West Bengal (Kolkata), Punjab (Jalandhar). The other locations are Karnataka (Bangalore), Andhra Pradesh (Hyderabad), Kerala (Kozhikode and Ernakulam), Haryana (Ambala, Gurgaon, Panchkula, Karnal, and Faridabad), Madhya Pradesh (Dewas), and Delhi.

With the introduction of new technologies and quality control system, India has been increasing its annual turnover of leather products which is current around US\$7.5 billion (2011-12) of which exports accounted for US\$4.86 billion. Exports were growing at an annual rate of around 8.2 per cent during the last five years.

According to the Council for Leather Exports (CLE), a body sponsored by the Ministry of Commerce and Industry, Government of India, the leather industry is a labour-intensive one providing employment to around 2.5 million people. Given the fact that an overwhelming proportion of units are in the MSE sector, workers in this sector belong predominantly to the poorer sections of society. Women are mostly employed in the leather product manufacturing sector where they are reported to account for about 30 per cent of total employment. Given the fast pace in tastes and preferences, the challenge is to upgrade the skills of workers along with the introduction of clean technologies (avoiding pollution) and diversification of products and markets.

India has made considerable progress in upgrading existing technology and in providing quality products. In this the industry is assisted by specialized institutions created by the government such as the Central Leather Research Institute, Chennai (which has earned a reputation of high excellence), the Central Footwear Training Institute, Chennai, and the Indian Institute of Leather Products, Chennai. There are also other institutional support systems such as CLE, the All India Skin and Hide Tanners and Merchants Association, the Indian Shoe Federation (ISF), the Indian Finished Leather Manufacturers & Exporters Association (IFLMEA), the Indian Leather Industry Foundation (ILIFO), and regional associations of tanners and leather product manufacturers. Under the CDP, Common Effluent Treatment Plants are set up along with other infrastructural facilities for clusters of MSE units in select localities.

There are several challenges facing the leather industry in India. Much less talked about, possibly because of the weak associational and bargaining power of workers, is the employment, training and livelihood security of the workers. Much of employment in the industry is on contract basis. While training at certain higher levels is imparted, most shop-floor workers do not receiving formal training to upgrade their skills and contribute to higher productivity. Many

of them also do not have any social security provided by the employers. It is expected that as the industry moves up the value chain, better employment and working and social security provisions will come into force in the industry.

Pollution from the tanneries has been a major environmental concern. Tamil Nadu has been in the lead in reducing this problem. It is reported that more than 95 per cent of the tanneries have pollution control devices. Nineteen Common Effluent Treatment Plants have been installed of which 14 are in Tamil Nadu. Besides, there are a number of individual effluent treatment plants. Since export of raw and semi-finished leather is banned since 1991, the industry is making a conscious attempt to move up the value chain by exporting finished leather and leather products. However, the export market is concentrated in the EU and account for nearly two-thirds of total exports. Given the recessionary conditions in Europe, diversification of exports has become an imperative for the leather industry.

India's share in total world exports (around five per cent), despite the growth in its exports, is quite smaller than its share of cattle population. India is endowed with 21 per cent of the world's cattle and buffalo population and 11 per cent of the world's goat and sheep population. In this sense, there is considerable potential for developing the leather industry and generate income and employment for millions of workers.

2.5.4 Auto components industry

The auto components industry is an ancillary industry of the manufacturing of automobile vehicles. It is often referred to as a sunrise industry in the Indian context as its growth has been closely related to the liberalization of this sector. The Indian auto component industry has a distinct global competitive advantage in terms of both quality and price. This is corroborated by its impressive growth of around 20 per cent per annum since 2000. It is claimed that the industry has the capacity to manufacture the entire range of auto products of roughly 20,000 components required for the vehicle industry (Dun & Bradstreet, 2006), Emerging Auto Components SMEs of India). The main product segments of the auto component industry in India are engine parts, electrical parts, drive and transmission steering parts, suspension and braking parts, equipment, and other parts.

Given the rising domestic market for automobile vehicles, a major share of auto components is manufactured for the domestic market. The automobile manufacturing sector has the presence of both Indian and foreign companies, sometimes as joint ventures. The share of exports in total production of auto components has experienced solid growth in recent years, which signifies the potential for further exports provided the global economic scenario is favourable. Currently, there are fears that the recession and slowdown in the EU and US economies might dampen the prospects for exports. At the same time, there is also the possibility of diversifying exports to other emerging economies as well as fast-growing developing countries. The fact that India still accounts for only one per cent of the global auto components market points to its potential for emerging as a major supply base.

As in most other industries, the auto components sector is also characterized by a range of firms from micro-enterprises to small, medium and large enterprises. There are a few large enterprises with global markets and which have acquired auto component manufacturing companies in other countries. Then there are the medium enterprises with investment in plant and machinery of more than INR 50 million but less than INR 100 million which is the official threshold limit for such enterprises. There are also the small enterprises followed by micro-enterprises that are in the informal sector. The Dun & Bradstreet report points out that there are 400 large firms in the organized sector catering largely to the original equipment manufacturers (OEMs). Then there are around 10,000 enterprises in the unorganized/informal sector. The report also states that four per cent of the companies supply 80 per cent of the requirements of the OEMs. On the other hand, the MSEs cater to the aftermarket requirements and also engage in piecemeal and contract manufacturing.

In a study of 332 companies, it was found that 57 per cent were medium enterprises while 43 per cent were small-scale enterprises. The study did not cover the micro-enterprises. However, some interesting findings could provide a background to this study. First, the auto components industry is concentrated in four regional locations – in the north (in and around Delhi, Gurgaon and nearby areas in Haryana); in the west (in and around Pune); in the east (in and around Kolkata); and in the south (in and around Chennai and Bengaluru). Around 40 per cent of the companies are located in the north, 37 per cent in the west, 18 per cent in the south, and just four per cent in the east. In terms of both turnover and supplying to all segments of the market, the north and the west dominate. Around 50 per cent of the companies in the north, south and east are stand-alone companies, while over 33 per cent of companies in the west are ancillary units. Around 67 per cent of the companies were exporting their products. Most – nearly 90 per cent – have quality certifications.

A critical factor in the operations of these companies was the source of funding. Two-thirds of the companies were being funded by public sector banks followed by private sector and then cooperative banks. Multinational banks were funding only one per cent of the companies. Only seven per cent of the companies reported difficulty in acquiring funds and that too mostly in the north and the west.

It is interesting to note that “infrastructure and lack of institutional assistance were cited as the key hindrances to growth of these SMEs” (ibid., p. 6). Around 235 per cent of companies complained of marketing issues and they were mostly from the north, west and east.

2.5.5 Interpretation of potential growth trap

This study is about the potential growth trap that MSEs could face, especially in relation to labour and non-labour business regulation laws. The empirical part of the study is a survey of select manufacturing industries in the MSE sector through responses from employers in the form of answers to a structured questionnaire. However, it is important to set up a few workable hypotheses before we examine the findings of the survey.

Table 2.4. Plausible growth traps arising out of labour and business laws

| Type of plausible growth trap | Target group and eligibility criteria and remarks, if any |
|---|--|
| A. Arising out of labour laws | |
| Cost increase pressure from having a trade union representation | Enterprises with six or more employees (In actual practice, very few trade unions at the enterprise level in the MSEs). |
| Payment of at least minimum wages | Under various state-level laws based on The Minimum Wages Act of 1948 [Widespread breach of law, often unaware of industry-specific minimum wages]. |
| Cost of covering social security benefits | Enterprises with 20 or more employees (Mostly provident fund, subscription to employees’ health insurance under the ESI Act and payment of gratuity). |
| Cost of cumulative compensation upon dismissal | Enterprises with 50 or more employees (Not applicable except to a tiny share of MSEs). |
| B. Non-labour business regulation laws/rules | |
| Cost of becoming a formal enterprise by registering under the Factories Act, 1948 | This basically affects enterprises with ten or more employees using power and 20 or more workers without using power (Applicable mainly to manufacturing enterprises). |

| | |
|---|---|
| Various permissions for setting up an enterprises | An ILO study of MSEs in Uttar Pradesh reported 30 to 120 days as time required for various permissions. |
| Registration of enterprises for purposes of tax payments | Exemptions given to enterprises with a threshold limit of turnover. There could be more than one registration required. Could act as a growth trap if the transaction costs in terms of time as well as money payment are seen as costly. |
| C. Incentives for MSEs that could inhibit further growth | |
| Reservation policy (being protected from potential competition from larger enterprises) | This has been considerably pruned to a minimum list of 37 products. (MSEs often complain that this has pushed them to compete with much stronger and larger enterprises.) |
| Incentives such as exemption from payment of VAT, capital investment subsidy, credit under priority sector lending, duty drawback for exports, etc. | These are mainly to give a measure of protection to MSEs considering their structural and other disadvantages and inability to compete with larger enterprises. There is also the implicit recognition that such incentives help create employment. To construe them as “potential growth traps” essentially means that MSEs prefer to enjoy such incentives rather than reap the benefits arising out of growth. In other words, they value the incremental benefits of growth as less than the benefits arising from such incentives. |

Before a set of workable hypotheses is set up, it is quite important to emphasize the core structural features as well as the policy regime governing the functioning of MSEs. The basic point to note is that the MSE sector in India contributes close to 40–45 per cent of the GDP thereby underscoring its importance in the macroeconomic context. In terms of size and character of enterprises, the MSE sector is dominated by the unorganized sector employing less than ten workers and owned as proprietary or partnership enterprises. There is a high degree of correspondence between this employment threshold of informal enterprises and the capital investment definition of micro-enterprises. For the universe of micro-enterprises as well as small enterprises, the convergence between the capital investment definition and the employment size limit of 50 workers is close to 99 per cent.

Although there are several central and state labour laws, the unorganized sector enterprises, with an employment threshold of less than ten workers, have been exempted from most of labour laws. Further, many state governments have done away with the need to file multiple returns on labour laws. The regime of inspections has also been relaxed. However, one may argue that the mere existence of these laws and their applicability to MSEs above the employment threshold of ten or more workers implies the existence of a potential growth trap to such enterprises.

Further, MSEs at the micro level, faced with a number of labour and non-labour business laws and the threat of inspection, might see many provisions and rules as potential growth traps and will be forced to respond either in the form of compliance or bear the cost of non-compliance. Based, on a survey of the existing literature a list of plausible growth traps is presented in table 2.4.

Chapter 3: Survey design

3.1 Introduction

The survey of micro- and small enterprises (MSEs) was conducted in three selected states of India, namely Tamil Nadu, Maharashtra and Odisha.

3.1.1 Tamil Nadu

The survey in Tamil Nadu canvassed the business activity sectors of textile, leather, auto and food processing. In total, 1,225 interviews were completed. The study was conducted in the districts of Vellore, Erode, Tirupur, Madurai, Coimbatore, Salem, and Chennai, covering MSEs with numbers of employees ranging from four to 70.

3.1.2 Maharashtra

The survey in Maharashtra canvassed the business activity sectors of textile, leather, auto and food processing. Initially, 300 interviews of MSME owners/managers for each of the four sectors were earmarked. For all the four sectors, at least 300 successful interviews were completed and for some other sectors there has been some overachievement; a total of 1,204 interviews were completed in the state of Maharashtra. The study covered the districts of Aurangabad, Solapur, Satara, Pune, Thane, and Mumbai. MSEs with numbers of employees ranging from four to 70 were covered in this study.

3.1.3 Odisha

The survey in Odisha canvassed the business activity sectors of textile and food processing. For the each of the two sectors 300 successful interviews were completed, making a total sample of 600 in the state. The study covered the districts of Cuttack, Ganjam and Khurda. MSEs with number of employees ranging from four till 70 were covered in this study.

3.2 Sample size variation with respect to employment thresholds

The survey of MSEs conducted in the three states consisted of two phases: (a) the preliminary listing of all units in the selected sectors and districts which becomes the “sampling frame” for the study and (b) the sample units drawn/selected from this sampling frame. During the listing phase, information on “employee size” of the units was collected, which is the classificatory variable in order to stratify the sampling frame according to “worker size groups”. It may be noted that the response on “employee size” provided by the units included “casual workers” and “part-time” workers.

However, since the applicability of many of the labour laws/business regulations in India are threshold-specific, based on the number of full-time paid workers employed in the enterprise, it was later decided that the “worker groups” will be reset as per “full-time paid employee size” of units and not total employment. Accordingly, a subset of the total sample was eventually utilized for studying the impact of labour laws which are employee threshold specific. However, for the remaining aspects of the study that have no bearing on employee threshold, the entire sample size, irrespective of size of employment, has been used for analysing the data.

The full sample distribution amongst worker groups and sectors based on total employee size is shown in Tables 3.1a, 3.2a and 3.3a. Again, the full sample distribution of the surveyed firms based on full-time paid employee size is shown in Tables 3.1b, 3.2b and 3.3b. The distribution of the reduced sample (subset of the total sample) amongst worker groups, used for size-dependent labour laws, is shown in Tables 3.1c, 3.2c and 3.3c.

3.2.1 Tamil Nadu

The full sample distribution amongst worker groups (based on total employees) and sectors is shown in table 3.1a.

Table 3.1a. Original worker group stratification (based on total employees) based on all employees, Tamil Nadu

| Worker group | Business sector | | | | Total |
|---------------|-----------------|------------|-----------------|------------|--------------|
| | Textile | Auto | Food processing | Leather | |
| 4-6 workers | 160 | 194 | 223 | 84 | 661 |
| 7-9 workers | 48 | 56 | 53 | 36 | 193 |
| 10-20 workers | 57 | 41 | 22 | 109 | 229 |
| 21-49 workers | 23 | 12 | 2 | 50 | 87 |
| 50-70 workers | 13 | 11 | 0 | 31 | 55 |
| Total | 301 | 314 | 300 | 310 | 1 225 |

The full sample distribution of the surveyed firms based on full-time paid employees at the time of analysis of the survey data is shown in table 3.1b.

Table 3.1b. Worker group stratification based on full-time paid employee size, Tamil Nadu

| Worker group | Business sector | | | | Total |
|---------------------|-----------------|------------|-----------------|------------|--------------|
| | Textile | Auto | Food processing | Leather | |
| Less than 4 workers | 117 | 17 | 28 | 34 | 196 |
| 4-6 workers | 104 | 181 | 226 | 107 | 618 |
| 7-9 workers | 20 | 53 | 23 | 21 | 117 |
| 10-20 workers | 40 | 40 | 22 | 87 | 189 |
| 21-49 workers | 17 | 12 | 1 | 39 | 69 |
| 50-70 workers | 3 | 11 | 0 | 22 | 36 |
| Total | 301 | 314 | 300 | 310 | 1 225 |

The distribution of the reduced sample (subset of the total sample) amongst worker groups, used for size-dependent labour laws, such as employees' provident fund, gratuity, unionization and retrenchment payments, is shown in table 3.1c.

Table 3.1c. The subset of sample used for size-dependent labour laws, Tamil Nadu

| Worker group | Business sector | | | | Total |
|---------------|-----------------|------------|-----------------|------------|------------|
| | Textile | Auto | Food processing | Leather | |
| 4-6 workers | 96 | 181 | 212 | 82 | 571 |
| 7-9 workers | 18 | 53 | 23 | 16 | 110 |
| 10-20 workers | 27 | 40 | 22 | 80 | 169 |
| 21-49 workers | 13 | 12 | 1 | 35 | 61 |
| 50-70 workers | 3 | 11 | 0 | 22 | 36 |
| Total | 157 | 297 | 258 | 235 | 947 |

3.2.2 Maharashtra

The full sample distribution amongst worker groups (based on total employees) and sectors is shown in table 3.2a.

Table 3.2a. Original worker group stratification (based on total employees) based on all employees, Maharashtra

| Worker group | Business sector | | | | Total |
|---------------|-----------------|------------|-----------------|------------|--------------|
| | Textile | Auto | Food processing | Leather | |
| 4-6 workers | 180 | 174 | 193 | 282 | 829 |
| 7-9 workers | 57 | 64 | 66 | 9 | 196 |
| 10-20 workers | 46 | 45 | 34 | 8 | 133 |
| 21-49 workers | 12 | 13 | 4 | 1 | 30 |
| 50-70 workers | 5 | 8 | 3 | 0 | 16 |
| Total | 300 | 304 | 300 | 300 | 1 204 |

The full sample distribution of the surveyed firms based on full-time paid employees at the time of analysis of the survey data is shown in table 3.2b.

Table 3.2b. Worker group stratification based on full-time paid employee size, Maharashtra

| Worker group | Business sector | | | | Total |
|---------------------|-----------------|------------|-----------------|------------|--------------|
| | Textile | Auto | Food processing | Leather | |
| Less than 4 workers | 96 | 56 | 69 | 102 | 323 |
| 4-6 workers | 180 | 177 | 208 | 189 | 754 |
| 7-9 workers | 16 | 45 | 12 | 6 | 79 |
| 10-20 workers | 5 | 13 | 9 | 3 | 30 |
| 21-49 workers | 0 | 6 | 1 | 0 | 7 |
| 50-70 workers | 3 | 7 | 1 | 0 | 11 |
| Total | 300 | 304 | 300 | 300 | 1 204 |

The distribution of the reduced sample (subset of the total sample) amongst worker groups, used for size-dependent labour laws, such as employees' provident fund, gratuity, unionization and retrenchment payments, is shown in table 3.2c.

Table 3.2c. The subset of sample used for size-dependent labour laws, Maharashtra

| Worker group | Business sector | | | | Total |
|---------------|-----------------|------------|-----------------|------------|------------|
| | Textile | Auto | Food processing | Leather | |
| 4-6 workers | 160 | 173 | 166 | 184 | 683 |
| 7-9 workers | 10 | 44 | 6 | 5 | 65 |
| 10-20 workers | 3 | 11 | 4 | 2 | 20 |
| 21-49 workers | 0 | 5 | 0 | 0 | 5 |
| 50-70 workers | 3 | 7 | 1 | 0 | 11 |
| Total | 176 | 240 | 177 | 191 | 784 |

3.2.3 Odisha

The full sample distribution amongst worker groups (based on total employees) and sectors is shown in table 3.3a.

Table 3.3a. Original worker group stratification (based on total employees) based on all employees, Odisha

| Worker group | Business sector | | | | Total |
|---------------|-----------------|------|-----------------|---------|------------|
| | Textile | Auto | Food processing | Leather | |
| 4-6 workers | 265 | | 88 | | 353 |
| 7-9 workers | 28 | | 51 | | 79 |
| 10-20 workers | 5 | | 45 | | 50 |
| 21-49 workers | 2 | | 38 | | 40 |
| 50-70 workers | 0 | | 78 | | 78 |
| Total | 300 | | 300 | | 600 |

The full sample distribution of the surveyed firms based on full-time paid employees at the time of analysis of the survey data is shown in table 3.3b.

Table 3.3b. Worker Group Stratification based on full time paid employee size, Odisha

| Worker group | Business sector | | | | Total |
|---------------------|-----------------|------|-----------------|---------|------------|
| | Textile | Auto | Food processing | Leather | |
| Less than 4 workers | 257 | | 54 | | 311 |
| 4-6 workers | 21 | | 110 | | 131 |
| 7-9 workers | 17 | | 36 | | 53 |
| 10-20 workers | 5 | | 64 | | 69 |
| 21-49 workers | 0 | | 21 | | 21 |
| 50-70 workers | 0 | | 15 | | 15 |
| Total | 300 | | 300 | | 600 |

The distribution of the reduced sample (subset of the total sample) amongst worker groups, used for size-dependent labour laws, such as employees' provident fund, gratuity, unionization and retrenchment payments, is shown in table 3.3c.

Table 3.3c. The subset of sample used for size-dependent labour laws, Odisha

| Worker group | Business sector | | | | Total |
|---------------|-----------------|------|-----------------|---------|------------|
| | Textile | Auto | Food processing | Leather | |
| 4-6 workers | 18 | | 60 | | 78 |
| 7-9 workers | 17 | | 18 | | 35 |
| 10-20 workers | 5 | | 15 | | 20 |
| 21-49 workers | 0 | | 9 | | 9 |
| 50-70 workers | 0 | | 15 | | 15 |
| Total | 40 | | 117 | | 157 |

Chapter 4: Survey Findings

4.1 Characteristics of MSEs surveyed

4.1.1 Ownership pattern of MSEs

Sole proprietorship is observed to be the most significant type of business structure in both the smaller as well as the larger enterprises surveyed in the states of Maharashtra and Tamil Nadu (table 4.1). Some 74 per cent and 82 per cent of the total surveyed micro- and small enterprises (MSEs) in Maharashtra and Tamil Nadu, respectively, are sole proprietorships. Among the surveyed sectors in Maharashtra, the proportion of MSEs that are sole proprietorships is highest in the leather sector (97 per cent) and lowest in the automobile sector (53 per cent). There is not much difference in the pattern of legal structure across different business sectors in Tamil Nadu, where 78–88 per cent MSEs are sole proprietorships.

“Staying informal” is not observed to be a dominant strategy in Maharashtra and Tamil Nadu. While only one per cent of the surveyed firms in Tamil Nadu were reported as unregistered, the numbers were almost nil for Maharashtra. This finding for Maharashtra matches with the fact that only one per cent of the surveyed firms reported that they had none of the five popular types or any other type of registration, as discussed in the subsection on business and related registration. However, in the case of Tamil Nadu, as many as 30 per cent enterprises reported that they were not registered with any of the most common types of registration, as opposed to only one per cent reporting to be informal or unregistered under type of legal structure. The reason for this discrepancy is not very clear. This might be either because the interviewees could not clearly remember at which office/authority they had registered their company as sole proprietorship or partnership, or because the one per cent reported to be unregistered when probed about their structure is a highly under-reported figure.

All the enterprises in the two surveyed sectors in Odisha were either registered under individual proprietorships or reported as unregistered. Almost two-third (65 per cent) of the total MSEs in the two surveyed sectors were reported as unregistered. The proportion of unregistered businesses was 70 per cent among MSEs in the textile industry, while the same was 59 per cent among those working in the leather industry. The survey found that only 49 per cent reported not having any of the most common forms of registration. Therefore, the discrepancy between 49 per cent and 65 per cent could be a result of some of the sole proprietorship businesses with business registration reporting themselves to be informal according to the definition followed in India according to NCEUS (i.e. enterprises owned by individuals or partnerships employing less than ten workers).

Table 4.1. Distribution of MSEs across type of legal structure in different business sectors

| Legal structure | Textile | Automobile | Food processing | Leather | Total |
|---------------------------------|------------|------------|-----------------|------------|--------------|
| Maharashtra | | | | | |
| Sole proprietorship | 68% | 53% | 76% | 97% | 74% |
| Partnership | 27% | 43% | 21% | 1% | 23% |
| Private limited company | 4% | 5% | 2% | 0% | 3% |
| Cooperative | 0% | 0% | 0% | 1% | 0% |
| Unregistered/ Informal | 0% | 0% | 0% | 0% | 0% |
| Others | 1% | 0% | 1% | 0% | 0% |
| Base (Total no. of MSEs) | 300 | 304 | 300 | 300 | 1,204 |

| Tamil Nadu | | | | | |
|---------------------------------|------------|------------|------------|------------|--------------|
| Sole proprietorship | 86% | 78% | 88% | 78% | 82% |
| Partnership | 13% | 19% | 7% | 15% | 14% |
| Private limited company | 1% | 3% | 3% | 6% | 3% |
| Cooperative | 0% | 0% | 0% | 0% | 0% |
| Unregistered/Informal | 0% | 0% | 2% | 1% | 1% |
| Others | 0% | 0% | 0% | 0% | 0% |
| Base (Total no. of MSEs) | 301 | 314 | 300 | 310 | 1,225 |
| Odisha | | | | | |
| Sole proprietorship | 30% | | 41% | | 35% |
| Partnership | 0% | | 0% | | 0% |
| Private limited company | 0% | | 0% | | 0% |
| Cooperative | 0% | | 0% | | 0% |
| Unregistered/Informal | 70% | | 59% | | 65% |
| Others | 0% | | 0% | | 0% |
| Base (Total no. of MSEs) | 300 | | 300 | | 600 |

4.1.2 Employment

4.1.2a Employee composition

As far as type of employment is concerned, the two most common categories being observed in all the three surveyed states were full-time regular workers and casual/temporary workers. In Odisha there were no part-time workers, while Maharashtra and Tamil Nadu had less than one per cent part-time workers. In the surveyed sectors in all three states, casualization or informalization of labour is observed to be significant (tables 4.2 and 4.3).

Overall, casual workers as a share of total workers were 58 per cent in Maharashtra in 2011, which was much lower than the share in 2009. Share of casual paid workers in Maharashtra was slightly higher in case of the textile industry (63 per cent) as compared to the other three. Of the total workers (including unpaid workers) in the surveyed MSEs, 75 per cent were male in 2011 (Tables B.1 and B.2). Among the four surveyed sectors, the share of males was relatively higher in the leather sectors (88 per cent). The proportion of females was slightly higher in the case of full-time workers.

In the case of Tamil Nadu, even though a larger share of total workers is employed as full-time workers, a significant proportion of 40 per cent workers continued working as casual workers. The share of casual workers was even higher in the textile sector (61 per cent). Part-time workers were almost insignificant (less than one per cent) in the surveyed sectors. Of the total workers in Tamil Nadu, 28 per cent were females and this ratio was similar for both full-time workers as well as casual workers. It is important to note that the proportion of females was highest in the food processing sector (48 per cent) and lowest in the automobile sector (15 per cent).

Table 4.2. Distribution of total employees (paid and unpaid combined) in MSEs across type of employment by business sector, 2011

| Nature of employment | Textile | Automobile | Food processing | Leather | Total |
|-----------------------------|--------------|--------------|-----------------|--------------|---------------|
| Maharashtra | | | | | |
| Full-time | 37% | 39% | 41% | 51% | 41% |
| Part-time | 0% | 1% | 0% | 0% | 0% |
| Casual/Temporary | 63% | 60% | 59% | 49% | 58% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Base (Total workers) | 3 754 | 4 849 | 3 237 | 2 383 | 14 223 |
| Tamil Nadu | | | | | |
| Full-time | 39% | 73% | 72% | 64% | 60% |
| Part-time | 0% | 0% | 2% | 0% | 0% |
| Casual/Temporary | 61% | 27% | 26% | 35% | 40% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Base (Total workers) | 5 073 | 3 821 | 2 206 | 6 137 | 17 237 |
| Odisha | | | | | |
| Full-time | 32% | | 34% | | 34% |
| Part-time | 0% | | 0% | | 0% |
| Casual/Temporary | 68% | | 66% | | 66% |
| Total | 100% | | 100% | | 100% |
| Base (Total workers) | 2 647 | | 9 132 | | 11 779 |

Among the three states, Odisha had the highest share of casual/temporary workers with two-thirds (66 per cent) of the total workers being employed as casual workers. Part-time workers were almost nil in the surveyed sectors. Unlike the other two states, the share of females in total workers (58 per cent) was higher than that of males (42 per cent) in Odisha. In the case of casual workers, the proportion of females was even higher at 60 per cent.

Table 4.3. Distribution of total employees (paid and unpaid combined) in MSEs across type of employment, by business sector (2009)

| Nature of employment | Textile | Automobile | Food processing | Leather | Total |
|-----------------------------|-----------|--------------|-----------------|--------------|---------------|
| Maharashtra | | | | | |
| Full-time | 0% | 17% | 1% | 100% | 3% |
| Part-time | 0% | 0% | 0% | 0% | 0% |
| Casual/Temporary | 100% | 83% | 99% | 0% | 97% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Base (Total workers) | 15 | 1 772 | 65 268 | 1 141 | 68 196 |
| Tamil Nadu | | | | | |
| Full-time | 67% | 83% | 69% | 69% | 73% |
| Part-time | 0% | 0% | 3% | 0% | 1% |
| Casual/Temporary | 33% | 17% | 28% | 31% | 26% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Base (Total workers) | 39 | 2 226 | 1 713 | 4,047 | 8 025 |

| Odisha | | | | | |
|-----------------------------|--|--|--------------|--|--------------|
| Full-time | | | 27% | | 27% |
| Part-time | | | 0% | | 0% |
| Casual/Temporary | | | 73% | | 73% |
| Total | | | 100% | | 100% |
| Base (Total workers) | | | 1 472 | | 1 472 |

4.1.2b Hours of work

A majority of MSEs reported working in the range of eight to ten hours. From this information it is not easy to interpret whether they worked for eight hours or ten hours but one may not be far off the mark, given the ground realities, to say that the average working hours could be around nine to ten hours. In Maharashtra, 71 per cent of enterprises reported their working hours as eight to ten, while it was 87 per cent in Tamil Nadu and 99 per cent in Odisha. However, it is also significant to note that 28 per cent of enterprises in Maharashtra reported their working hours as between ten and 12, which could be due to the fact that nearly half the workers were household workers. The numbers were 10 per cent in Tamil Nadu and just one per cent in Odisha.

4.1.2c Mode of wage payment

Despite an overwhelming presence of casual/temporary workers, the widely prevalent form of wage payment was observed to be the monthly basis of paying; it was 78 per cent in Maharashtra, 59 per cent in Tamil Nadu and 60 per cent in Odisha (Table B.3). In Maharashtra, most of the other MSEs paid on a weekly basis, although in Tamil Nadu and Odisha the daily mode of payment covered 17 per cent and 25 per cent of MSEs respectively. This seems to suggest that in all the three states, the casual/temporary status of a significant proportion of workers is not associated with daily or weekly payment, possibly due to the fact that work was available on a regular basis but the employers in these MSEs did not want to extend them the status of regular workers. This could be for a variety of reasons including the uncertainties in securing orders for work and the inability or the unwillingness to extend non-wage benefits for such regular workers.

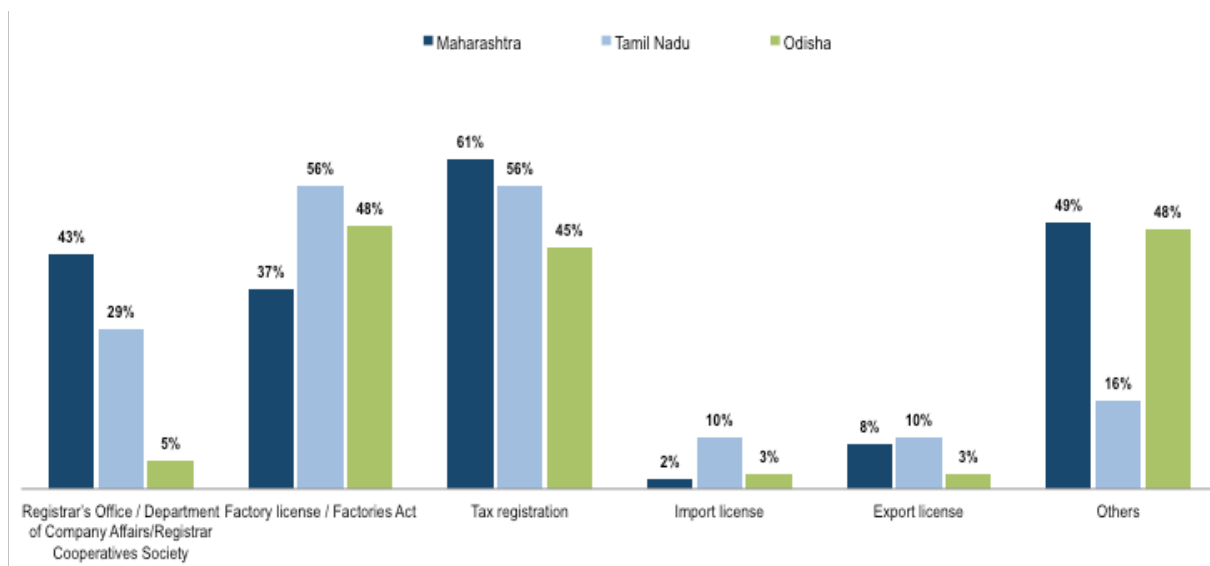
4.1.3 Business and related registration

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. Percentage of MSEs without any registration in Maharashtra was only one per cent, while it was 30 per cent in Tamil Nadu and 49 per cent in Odisha. In India, registration is not necessarily a sign of the formal nature of the enterprises due to the definition of the unorganized sector. Registration is tied to specific requirements including availing of subsidies and promotional incentives. It was also found during the survey that the percentage of registered enterprises goes up as one move up the employment ladder.

In Maharashtra, tax registration (PAN/VAT) seems to be the most frequent type of registration undertaken by enterprises, with 61 per cent of MSEs having this type of registration (figure 4.1). The second most popular registration is observed to be that with the Registrar's Office/Department of Company Affairs (43 per cent). It is to be noted that a significant proportion of 49 per cent of MSEs in Maharashtra reported to have licenses other the five popular types of registration enquired in the survey. In the case of Tamil Nadu, tax registration and factory license are observed to be most popular types of registration with 56 per cent of MSEs having these two types of registration. The case is the same with Odisha, where the most common type of registration is the factory license (48 per cent), followed by tax registration (45 per cent). Similar to Maharashtra, in Odisha also a considerable proportion of 48 per cent firms

were having registrations other than the five popular types listed in the survey. Among the different types of registration, import and export licenses are the ones with minimum presence among the surveyed MSEs in all the three states. Odisha has the minimum share of MSEs with export licenses (3 per cent), while Maharashtra has the minimum share of MSEs with import licenses (2 per cent).

Figure 4.1. Percentage of MSEs who have different business registration



4.1.4 Business inspection

It was observed during the survey that most of the MSEs were inspected by government officials. However, there was a clear variation across the three states (Table B.4). In Maharashtra, 94 per cent of MSEs reported being inspected, while in Tamil Nadu 36 per cent did not get inspected at all. In Odisha, MSEs that have never had a single inspection during one year previous to the survey comprised close to half of the total surveyed firms (47 per cent). In Maharashtra, while 88 per cent establishments were visited one to two times for inspection, another seven per cent were visited three to five times. In the case of Tamil Nadu, the MSEs that were inspected once or twice comprised 56 per cent of the total sample and those inspected three to five times formed six per cent of the sample. On the other hand, in Odisha a comparatively lower proportion of 38 per cent of MSEs were visited for inspection one or two times, and 14 per cent reported to have been visited by government inspectors five to ten times.

Of the five different types of inspection that were enquired about during the survey, inspection by a health/labour inspector had relatively better coverage in Maharashtra (62 per cent) (Table B.5). As high as 99 per cent firms in the leather industry and 89 per cent firms from the food processing industry reported that they were inspected by labour/health inspectors. However, in the automobile sector, inspection by a factory inspector had much wider coverage of 78 per cent. Of the total sampled firms in Tamil Nadu, maximum were inspected by factory inspectors (65 per cent), followed by health/labour inspectors (40 per cent) and tax inspectors (31 per cent). The scenario was somewhat different in Odisha where almost half (49 per cent) of the surveyed MSEs reported were inspected by government officials other than the four types enquired during the survey. While 19 per cent were inspected by factory inspectors, around 20 per cent were reported to have been inspected by health/labour inspectors.

4.1.5 Employment register

Among the three states, the proportion of MSEs who claimed to have maintained employment registers was highest in Maharashtra (59 per cent), followed by Tamil Nadu (51 per cent) and Odisha (35 per cent). In the case of both Maharashtra and Odisha, among the four sectors being

surveyed, the proportion of MSEs maintaining employment registers was highest in the automobile sector (table 4.4). On the contrary, all the surveyed firms in the leather sector in Maharashtra and 96 per cent firms working in the food processing sector in Tamil Nadu did not maintain any employment register. In the case of Odisha, 95 per cent MSEs from the textile sector reported that they did not maintain employment registers for their workers, while this proportion was 34 per cent in the food processing sector.

When MSEs who did not keep employment registers were asked why they didn't do so, the responses varied across the three states (table B.6). While more than half of the MSEs in Maharashtra did not specify the reason for not maintaining a register, a smaller share of MSEs provided reasons that can be considered "avoidance by choice" behaviour such as "It is legal, but not enforced" (14 per cent), "Unnecessarily complicated" (ten per cent), and "Takes too much time" (six per cent). In Tamil Nadu, the reasons provided by a large proportion of MSEs seemed to be quite legitimate. For instance, 71 per cent MSEs who did not maintain registers reported that they didn't do so since it was not a legal requirement for them. Half of the MSEs (52 per cent) in Tamil Nadu also stated that it was not necessary to maintain employment registers since they provided daily wage payments to their workers. Similar to Maharashtra, "avoidance by choice" behaviour was not very widespread in Tamil Nadu either with "It is legal, but not enforced" at 12 per cent, "Unnecessarily complicated" at 24 per cent, and "Too costly" at 12 per cent. Among MSEs in Odisha who did not maintain employment registers, avoidance by choice behaviour was most common. Around two-thirds (65 per cent) of MSEs not maintaining employment registers in Odisha stated the reason as "Unnecessarily complicated", followed by 11 per cent who said that there was no legal enforcement and three per cent who said it takes too much time.

Table 4.4. Percentage of MSEs that maintain an official employment register by business sectors

| Business sector | Maharashtra | | Tamil Nadu | | Odisha | |
|-----------------|-------------|-------------------|------------|-------------------|--------|-------------------|
| | % MSEs | Base (Total MSEs) | % MSEs | Base (Total MSEs) | % MSEs | Base (Total MSEs) |
| Textile | 59% | 300 | 51% | 301 | 5% | 300 |
| Automobile | 97% | 304 | 90% | 314 | | |
| Food processing | 78% | 300 | 4% | 300 | 64% | 300 |
| Leather | 0% | 300 | 56% | 310 | | |
| Total | 59% | 1 204 | 51% | 1 225 | 35% | 600 |

4.1.6 Presence of trade unions

According to the Indian Trade Union Act, any enterprise with seven or more workers is allowed to form a trade union; however, it is not a compulsory legal requirement. In this section we intend to find out whether there is a prevalence of trade unions among the MSEs in the surveyed sectors and whether this acts as a plausible growth trap for MSEs in India. It should be mentioned here that the survey deals with MSEs where unions generally do not exist, even in the case of firms beyond the threshold level of seven workers. There could be several reasons, including sociological, because the precarious nature of employment compels workers to keep a friendly but subservient relationship with the employer.

The survey revealed that the prevalence of trade unions was limited in all the three states in the surveyed sectors (table 4.5). Of the total MSEs with seven or more full-time paid workers, four per cent each in Maharashtra and Odisha and six per cent in Tamil Nadu reported that their workers had formed trade unions. When the enterprises without any trade union were asked to

provide the reasons why, the “avoidance by choice” behaviour was most prevalent in Maharashtra and Odisha (table B.7). In Maharashtra, 54 per cent of MSEs stated that their workers have not formed any union because there were regular meetings or communication with the workers, while 52 per cent also said that the workers did not demand any union. In Odisha, too, a considerable proportion of firms cited reasons that reflected avoidance by choice strategy such as “There are regular meetings/communication with workers (84 per cent), “Workers have not demanded a union” (73 per cent), and “Too costly for the firm” (13 per cent). In Tamil Nadu, while 60 per cent of firms without a trade union said that it was not legally required, 59 per cent also said that the workers never demanded one. Here, it is important to mention that since trade union formation is not a legal obligation therefore the questions relating to legal requirement and no enforcement do not really arise.

In each of the three states, the share of MSEs below the threshold level for forming a trade union (with less than seven paid full-time workers), who reported that they were aware of the regulation and decided not to grow in order to avoid having and dealing with trade unions in their business, was observed to be very small (table 4.6). Only one per cent MSEs in both Maharashtra and Tamil Nadu and eight per cent in Odisha followed the “staying below the threshold” strategy. On the other hand, more than two-thirds of the MSEs with less than seven workers in all three states reported that they were not aware of the regulation regarding trade union formation. In the case of Tamil Nadu, the percentage of MSEs who were unaware of this regulation was as high as 91 per cent, followed by 73 per cent MSEs in Odisha and 69 per cent MSEs in Maharashtra.

All MSEs were asked about the number of working days lost during the previous year, prior to the survey, due to labour disputes. Overall, 17 per cent in Maharashtra, 14 per cent in Odisha and only four per cent in Tamil Nadu had reported that they have lost working days due to labour disputes (table B.8), most of them having lost between one to five days. Unlike other states, a relatively higher proportion of six per cent firms reported that they lost six to ten days due to disputes. Among the four sectors in Maharashtra, the proportion of MSEs who lost working days was relatively higher in the automobile sector, where 37 per cent firms lost one to five days, while no labour days were lost in the leather sector.

Table 4.5. Percentage of MSEs with seven or more workers who have a trade union at their business, by business sector

| Business sector | Maharashtra | | Tamil Nadu | | Odisha | |
|-----------------|---------------------------|---|---------------------------|---|---------------------------|---|
| | % MSEs with a trade union | Base (No. of MSEs with seven or more workers) | % MSEs with a trade union | Base (No. of MSEs with seven or more workers) | % MSEs with a trade union | Base (No. of MSEs with seven or more workers) |
| Textile | 4% | 24 | 3% | 80 | 0% | 22 |
| Automobile | 3% | 71 | 1% | 116 | | |
| Food processing | 9% | 23 | 0% | 46 | 5% | 136 |
| Leather | 0% | 9 | 13% | 169 | | |
| Total | 4% | 127 | 6% | 411 | 4% | 158 |

Table 4.6. Percentage distribution of MSEs with less than seven workers on their knowledge about forming trade union in each business sector

| Status of awareness on trade union formation and its impact | Textile | Automobile | Food processing | Leather | Total |
|--|----------------|-------------------|------------------------|----------------|--------------|
| Maharashtra | | | | | |
| Aware and tried to stay below threshold | 3% | 3% | 0% | 0% | 1% |
| Aware but with no effect on growth | 27% | 82% | 11% | 0% | 30% |
| Not aware | 71% | 15% | 89% | 100% | 69% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Base (MSEs with less than seven workers) | 160 | 173 | 166 | 184 | 683 |
| Tamil Nadu | | | | | |
| Aware and tried to stay below threshold | 1% | 1% | 0% | 0% | 1% |
| Aware but with no effect on growth | 9% | 14% | 4% | 5% | 8% |
| Not aware | 90% | 86% | 95% | 95% | 91% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Base (MSEs with less than seven workers) | 96 | 181 | 212 | 82 | 571 |
| Odisha | | | | | |
| Aware and tried to stay below threshold | 0% | | 10% | | 8% |
| Aware but with no effect on growth | 17% | | 20% | | 19% |
| Not aware | 83% | | 70% | | 73% |
| Total | 100% | | 100% | | 100% |
| Base (MSEs with less than seven workers) | 18 | | 60 | | 78 |

4.1.7 Parallel units

During the survey all MSEs were asked whether 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 to different labour laws that are applicable only to larger firms.

The survey revealed that in all the three states, prevalence of parallel units was observed to be very low. Of the total MSEs surveyed, only nine per cent in Maharashtra, four per cent in Odisha and 0.5 per cent in Tamil Nadu had parallel units in the same or neighbouring districts (table 4.7). There is a likelihood that they might have created parallel units as part of the “staying below the threshold” strategy.

Table 4.7. Percentage of MSEs with more than one parallel business unit in the same or neighbouring district, by business sector

| Business sector | Maharashtra | | Tamil Nadu | | Odisha | |
|-----------------|---|--------------------|---|--------------------|---|--------------------|
| | % MSEs that manage more than one business | Base (No. of MSEs) | % MSEs that manage more than one business | Base (No. of MSEs) | % MSEs that manage more than one business | Base (No. of MSEs) |
| Textile | 5% | 300 | 1% | 301 | 0.3% | 300 |
| Automobile | 2% | 304 | 1% | 314 | | |
| Food processing | 4% | 300 | 1% | 300 | 7% | 300 |
| Leather | 27% | 300 | 0% | 310 | | |
| All | 9% | 1 204 | 0.5% | 1 225 | 4% | 600 |

4.2 An analysis of the survey findings in terms of the study objective

The main objective of this study, based on surveys of MSEs in three states, is to find out whether labour-related 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 six major questions to elicit responses from the 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 VAT act as plausible growth traps for MSEs?

Question 4: Does business registration impact compliance with labour laws?

Question 5: Does the informal payment system impact compliance to labour laws?

It should be noted that in order to find the answer to these questions the analysis is done on the basis of the responses of the employers, assuming that they are in a position to articulate which one of them might be acting as plausible growth traps. Later, we shall have occasion to see whether factors other than those listed as plausible growth traps do come into the picture in order to assess the relative position of those factors vis-à-vis the listed objective of the study. In the following subsections, an attempt has been made to answer each of the above study questions one by one.

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

Minimum wage payment regulation is applicable to businesses across all sizes in the three surveyed states of India, i.e. Maharashtra, Tamil Nadu and Odisha. Among the three states, the compliance rate in terms of payment of minimum wage was observed to be lowest in Maharashtra. Overall, 40 per cent of MSEs in Maharashtra reported that they were aware of the government-specified minimum wage and paid their workers accordingly, while it was 71 per cent in Tamil Nadu and as high as 91 per cent in Odisha where only two sectors were covered in the survey. Only a minority of the MSEs across the three states, i.e. five per cent, two per cent and one per cent in Maharashtra, Tamil Nadu and Odisha, respectively, reported that they were aware of the regulation but still avoided paying the minimum wage to their workers (table 4.8).

In the case of Maharashtra, around half of the MSEs (53 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 (99 per cent) and almost non-existent among MSEs in the automobile industry. The proportion of MSEs who claimed not being aware of minimum wage obligations is comparatively less in Tamil Nadu (27 per cent), and even lesser in Odisha (11 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 in the non-payment of minimum wages.

Interestingly, the percentage of MSEs reporting it as too costly is only a tiny minority in Tamil Nadu and Odisha, two per cent and five per cent respectively, while it was 21 per cent in Maharashtra. The reported reasons for not paying vary a great deal; 78 per cent of MSEs in Odisha said it is not legally required, while in Maharashtra no one reported this as a reason. Instead, in Maharashtra, 42 per cent reported that it is legally required, but not enforced and another 21 per cent said it is unnecessarily complicated. In Tamil Nadu, 28 per cent said that it is not legally required; another 20 per cent said it is unnecessarily complicated, while yet another 30 per cent attributed it to various “other” reasons.

Awareness of penalties related to non-compliance of regulations on minimum wage was observed to be the lowest in Maharashtra among the three surveyed states (table 4.9). Of the surveyed MSEs, seven per cent in Maharashtra, 33 per cent in Tamil Nadu and 17 per cent in Odisha reported that they heard about the existence of penalties for non-compliance to regulations on minimum wage.²

Table 4.8. Percentage distribution of MSEs across status of awareness and payment of government-specified minimum wage by business sector

| Status of awareness and Payment | Textile | Automobile | Food processing | Leather | Total |
|---------------------------------|------------|------------|-----------------|------------|--------------|
| Maharashtra | | | | | |
| Aware and pay | 52% | 84% | 21% | 1% | 40% |
| Aware but do not pay | 10% | 6% | 4% | 0% | 5% |
| Missing response | 1% | 11% | 0% | 0% | 3% |
| Not aware | 36% | 0% | 76% | 99% | 53% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Base (No. of MSEs) | 300 | 304 | 300 | 300 | 1204 |
| Tamil Nadu | | | | | |
| Aware and pay | 79% | 87% | 21% | 95% | 71% |
| Aware but do not pay | 3% | 1% | 4% | 0% | 2% |
| Not aware | 18% | 12% | 75% | 5% | 27% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Base (No. of MSEs) | 301 | 314 | 300 | 310 | 1 225 |
| Odisha | | | | | |
| Aware and pay | 98% | | 79% | | 89% |
| Aware but do not pay | 0% | | 1% | | 1% |
| Not aware | 2% | | 20% | | 11% |
| Total | 100% | | 100% | | 100% |
| Base (No. of MSEs) | 300 | | 300 | | 600 |

² However, due to data constraints it was not possible to analyse the knowledge of the MSEs regarding the exact nature (amount and category) of penalties.

Table 4.9. Percentage MSEs who have heard that there are penalties if businesses do not comply with minimum wage regulations

| Business sector | Maharashtra | Tamil Nadu | Odisha |
|------------------------|--------------------|-------------------|---------------|
| Textile | 11% | 35% | 0% |
| Automobile | 11% | 75% | |
| Food Processing | 4% | 15% | 33% |
| Leather | 0% | 5% | |
| All | 7% | 33% | 17% |

4.2.2 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 three specific types: (i) payment of the employer contribution to the provident fund or Employee Provident Fund (EPF); (ii) Payment of gratuity on retirement or completion of stipulated period of service; and (iii) Payment of retrenchment benefits.

4.2.2a Employees' provident fund (EPF)

In India, the regulation regarding contribution to Employees' Provident Fund (EPF) for old-age pension is applicable to businesses with more than 20 workers. None of the surveyed MSEs with less than 21 workers in Maharashtra and only one per cent MSEs in Tamil Nadu reported trying to stay below the threshold in order to avoid making EPF contributions (table 4.10). Thus the "staying below the threshold" strategy in order to avoid compliance to EPF regulations was almost non-existent in these two states and therefore EPF payment obligations were not observed to be acting as a growth trap in Maharashtra and Tamil Nadu. However, in Odisha a considerable proportion of 40 per cent MSEs with less than 21 workers reported that they tried to stay below the threshold in order to avoid making EPF payments. Therefore, it is evident that for these MSEs from the leather and food processing sectors in Odisha, the EPF regulation did act as a growth trap to a certain extent. However, the remaining 60 per cent did not think so.

A majority of enterprises in Maharashtra and Tamil Nadu, that were not eligible for payment of EPF (those below the threshold), were observed as being unaware of the provision at all. More than 90 per cent MSEs in Maharashtra with less than 21 workers were not aware about regulations related to EPF payments. The proportion of MSEs unaware about EPF obligations in Maharashtra was even higher in the food processing and leather sectors (99 per cent each). In the case of Tamil Nadu, 69 per cent MSEs, as a whole, reported to be unaware of EPF obligations. However, in Odisha there was, surprisingly, a high rate of awareness at 61 per cent. This is somewhat contrary to our expectation because Odisha's level of urbanization and industrialization is quite low compared to Maharashtra and Tamil Nadu.

A considerable percentage of firms who have a number of full-time paid workers above the threshold level, i.e. with 21 or more workers, reported that they did not make EPF contributions. Of those MSEs above the threshold, 43 per cent in Maharashtra, 36 per cent in Tamil Nadu and 70 per cent in Odisha did not make EPF contributions. When MSEs above the threshold who did not comply with EPF regulations were asked about the reasons, a majority provided answers that clearly reflected "avoidance by choice" behaviour in all the three states (table B.9). For instance, MSEs in Tamil Nadu provided reasons such as "Employees prefer to receive higher take-home pay" (68 per cent), "Workers have not demanded it" (53 per cent), and "Unnecessarily complicated" (11 per cent). Such avoidance strategy could most likely be followed due to reducing unit costs in a situation where the MSEs are facing strong competition from large firms or are often working under such arrangements as outsourcing, subcontracting and so on.

Among those MSEs above the threshold level, who had made EPF payments, almost all in Maharashtra reported that they took one to two hours per month to file returns. In the case of Odisha, a majority of the MSEs (86 per cent) claimed that they took more than two hours per month to fill monthly EPF returns. In Tamil Nadu, while half the firms (52 per cent) took 30 to 60 minutes per month, the cost of transaction varied between less than 30 minutes to more than two hours for the remaining MSEs.

Table 4.10. Percentage distribution of MSEs with less than 21 workers on awareness about EPF payment requirements and its impact on growth

| Status of awareness and impact on growth | Textile | Automobile | Food processing | Leather | Total |
|---|------------|------------|-----------------|------------|------------|
| Maharashtra | | | | | |
| Aware and tried to stay below threshold | 0% | 0% | 0% | 0% | 0% |
| Aware but with no effect on growth | 13% | 8% | 1% | 1% | 6% |
| Not aware | 87% | 92% | 99% | 99% | 94% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Base (No. of MSEs with less than 21 workers) | 173 | 228 | 176 | 191 | 768 |
| Tamil Nadu | | | | | |
| Aware and tried to stay below threshold | 1% | 1% | 0% | 1% | 1% |
| Aware but with no effect on growth | 34% | 31% | 2% | 66% | 30% |
| Not aware | 65% | 68% | 98% | 34% | 69% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Base (No. of MSEs with less than 21 workers) | 141 | 274 | 257 | 178 | 850 |
| Odisha | | | | | |
| Aware and tried to stay below threshold | 12% | n.a. | 52% | n.a. | 40% |
| Aware but with no effect on growth | 7% | n.a. | 27% | n.a. | 21% |
| Not aware | 74% | n.a. | 22% | n.a. | 39% |
| Total | 100% | n.a. | 100% | n.a. | 100% |
| Base (No. of MSEs with less than 21 workers) | 43 | | 93 | | 133 |

4.2.2b Gratuity

In India, the legislation on gratuity mandates enterprises with more than ten regular employees to pay gratuity either on retirement or resignation, provided they have completed at least five years of employment.

As a whole, the awareness level regarding gratuity regulations among the firms that employ less than ten workers is quite low (table 4.11). In Maharashtra, a significantly high share of 95 per cent MSEs below the threshold level reported that they were not aware about the gratuity payment obligation, followed by 76 per cent in Tamil Nadu, and 68 per cent in Odisha. The survey attempted to understand whether the employers of the MSEs with less than ten full-time paid employees perceived the gratuity payment obligation as a plausible growth trap. None of

the surveyed MSEs having employee size below the threshold level in Maharashtra and only one per cent MSEs in Tamil Nadu reported that they had decided not to grow in size or employ workers beyond five years of service in order to avoid making gratuity payments. Thus “staying below the threshold” strategy in order to avoid compliance was almost non-existent among MSEs with less than ten workers. The situation in Odisha was somewhat different with 24 per cent of firms being aware of gratuity payment obligations and who tried to stay below the threshold in order to avoid compliance. On the whole, the finding suggests that very few firms associated the existence of gratuity payment as a plausible growth trap.

In Maharashtra, the number of MSEs eligible to make gratuity payments was only 48 out of a total of 881, in Tamil Nadu it was 294 out of 1,029, and in Odisha it was 105 out of 289. In Maharashtra, the compliance rate was just 10 per cent (with 71 per cent responses missing) and this was from the textile and automobile sectors. In Tamil Nadu, it was 16 per cent (with 54 per cent missing) and except one firm all others belonged to the textile, auto and leather Sectors. In Odisha, the compliance rate was just eight per cent (with 43 per cent missing) with all eight firms from the food processing sector.

Given this poor rate of compliance, it is important to know the reasons for non-compliance (table B.10). As in the case of EPF, what is quite common among the firms that are required to comply is the avoidance strategy. This again could be due to their eagerness to keep the cost of production as low as possible. In Maharashtra, “avoidance by choice” behaviour was most common. Of the 18 enterprises that responded in Maharashtra, while 67 per cent reported that “Workers have not demanded it”, 22 per cent also reported that “It is too costly”. In Tamil Nadu, of the 85 firms that responded, a considerable proportion provided reasons for non-compliance that were quite genuine such as “It is not legally required” (59 per cent) and “There was no resignation/retirement” (13 per cent). Again, a considerable proportion of firms provided reasons that reflected “avoidance by choice” behaviour such as “Workers have not demanded it” (75 per cent), “Takes too much time” (18 per cent), and “It is legal, but not enforced” (13 per cent). Similar to Maharashtra, In Odisha, too, a large section of firms was observed to follow “avoidance by choice” strategy for not complying with gratuity payments. Of the 48 firms that responded in Odisha, 81 per cent responded by saying, “Workers have not demanded it”, while another 21 per cent reported that it “Takes too much time”. However, around 67 per cent of MSEs also claimed that they avoided compliance because there was no retirement or resignation in their firm. Given the low rate of response and the reasons alluded to for not complying with this non-wage benefit, it would appear that employers are too keen to avoid payment of this benefit. The fact that workers have not demanded it should be seen in light of their low bargaining capacity arising partly out of the small employment size in firms along with their low education and need for some kind of employment as a means of livelihood security. Of the surveyed MSEs, 13 per cent in Maharashtra, 19 per cent in Tamil Nadu and nine per cent in Odisha reported that they had heard about the existence of penalties for non-compliance to regulations on gratuity² (table 4.12).

It needs to be noted that the knowledge about the amount to be paid by businesses as gratuity was considerably lower among the surveyed firms in all the three states. The percentage of MSEs who claimed to know the amount of gratuity payment that businesses with ten or more regular employees are required to make was only one per cent in Maharashtra, followed by 22 per cent in Tamil Nadu and 36 per cent in Odisha (table B.11). These figures are in line with the small percentage of the firms who reported to have ever made gratuity payments.

² However, due to data constraints it was not possible to analyse the knowledge of the MSEs regarding the exact nature (amount and category) of the penalties.

Table 4.11. Percentage distribution of MSEs with less than ten workers, across awareness on gratuity payment requirements and its impact on growth

| Status of awareness and impact on growth | Textile | Automobile | Food processing | Leather | Total |
|---|------------|------------|-----------------|------------|------------|
| Maharashtra | | | | | |
| Aware and tried to stay below threshold | 0% | 0% | 0% | 0% | 0% |
| Aware but with no effect on growth | 9% | 10% | 1% | 0% | 5% |
| Not aware | 91% | 90% | 99% | 100% | 95% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Base (No. of MSEs with less than ten full-time paid workers) | 170 | 217 | 172 | 189 | 748 |
| Tamil Nadu | | | | | |
| Aware and tried to stay below threshold | 2% | 3% | 0% | 0% | 1% |
| Aware but with no effect on growth | 31% | 33% | 2% | 31% | 21% |
| Not aware | 68% | 64% | 98% | 61% | 76% |
| Missing information | 0% | 0% | 0% | 8% | 1% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Base (No. of MSEs with less than ten full-time paid workers) | 114 | 234 | 235 | 98 | 681 |
| Odisha | | | | | |
| Aware and tried to stay below threshold | 6% | | 32% | | 24% |
| Aware but with no effect on growth | 0% | | 12% | | 8% |
| Not aware | 94% | | 56% | | 68% |
| Total | 100% | | 100% | | 100% |
| Base (No. of MSEs with less than ten full-time paid workers) | 35 | | 78 | | 113 |

Table 4.12. Percentage MSEs that have heard that there are penalties if businesses do not comply with gratuity regulations

| Business sector | Maharashtra | Tamil Nadu | Odisha |
|-----------------|-------------|------------|-----------|
| Textile | 7% | 16% | 0% |
| Automobile | 9% | 53% | |
| Food Processing | 1% | 1% | 18% |
| Leather | 34% | 3% | |
| All | 13% | 19% | 9% |

4.2.2c Retrenchment payment

In India, when an employee is retrenched by the employer, he or she is entitled for compensation if the period of service in the enterprise is at least five years and the enterprise in question is employing more than 50 workers. It was observed during the survey that awareness levels regarding regulations on retrenchment payments among MSEs with less than 50 full-time paid workers were exceptionally low (table 4.13). Almost all the surveyed MSEs below the threshold level in Odisha, 99 per cent in Maharashtra and 82 per cent in Tamil Nadu responded that they were not aware of this regulation. As a result its impact on the growth of MSEs could not be adequately captured based on the survey responses. None of the surveyed MSEs with less than 50 full-time paid workers across the three states reported trying to stay below the threshold level in terms of employee size in order to avoid compliance to regulations on retrenchment payments. Therefore, it can be concluded that this regulation was not acting as a plausible growth trap for these MSEs and “staying below the threshold” strategy of avoidance was not at all observed.

Of the total MSEs with 50 or more workers, 27 per cent each in Maharashtra and Odisha and only eight per cent in Tamil Nadu reported that they had ever taken government permission to retrench workers and provided retrenchment payments (table 4.14). What are the reasons for non-compliance? Low compliance among eligible firms suggests an avoidance strategy to keep the cost of production as low as possible. Among the eight sampled firms in Maharashtra above the threshold level who did not comply with the regulation, the “avoidance by choice” behaviour was quite evident (table B.12). The reasons provided by most of the firms included “It has not been demanded” (27 per cent), “It has not been necessary” (27 per cent) and “Too costly” (18 per cent). In the case of Tamil Nadu, one of the most frequently cited reasons was that “The separation was voluntary” (45 per cent). These are grey cases and may not be interpreted as direct defiance to legal obligations, but could indicate that “seeking voluntary separation” might be a popular avoidance strategy of the enterprises for retrenchment regulations. A considerable number of MSEs provided reasons that can be considered as direct “avoidance by choice” behaviour such as “It has not been necessary” (58 per cent), “It is legal, but not enforced” (30 per cent), “It has not been demanded” (15 per cent), and “Too costly” (3 per cent). Around 30 per cent of MSEs also reported that they were legally exempted. In Odisha, the reason provided for non-compliance by most of the MSEs was “It has not been necessary” (86 per cent), followed by “The separation was voluntary” (71 per cent).

What needs to be noted is that even the knowledge about monetary costs for retrenchment of workers is almost nil in the surveyed firms in all the three states. Those MSEs who claimed to know the transaction cost of the retrenchment regulations were few (table B.13), from one per cent each in Maharashtra and Odisha, to 18 per cent in Tamil Nadu. These figures are in line with the small percentage of the firms ever complying with the retrenchment regulations.

Table 4.13. Percentage distribution of MSEs with less than 50 full-time paid workers, on their knowledge about provision of retrenchment compensation and its impact on growth

| Status of awareness and impact on growth | Textile | Automobile | Food processing | Leather | Total |
|--|------------|------------|-----------------|------------|------------|
| Maharashtra | | | | | |
| Aware and tried to stay below threshold | 0% | 0% | 0% | 0% | 0% |
| Aware but with no effect on growth | 1% | 1% | 0% | 1% | 1% |
| Not aware | 99% | 99% | 100% | 99% | 99% |
| Base (No. of MSEs with less than 50 paid full-time workers) | 173 | 233 | 176 | 191 | 773 |

| Tamil Nadu | | | | | |
|--|------------|------------|------------|------------|------------|
| Aware and tried to stay below threshold | 0% | 0% | 0% | 0% | 0% |
| Aware but with no effect on growth | 31% | 6% | 1% | 39% | 18% |
| Not aware | 69% | 94% | 99% | 61% | 82% |
| Base (No. of MSEs with less than 50 paid full-time workers) | 124 | 185 | 215 | 207 | 731 |
| Odisha | | | | | |
| Aware and tried to stay below threshold | 0% | | 0% | | 0% |
| Aware but with no effect on growth | 0% | | 0% | | 0% |
| Not aware | 100% | | 100% | | 100% |
| Base (No. of MSEs with less than 50 paid full-time workers) | 8 | | 65 | | 73 |
| Note: In the case of Odisha, 50 per cent of MSEs did not answer this question and the percentages are calculated on the basis of only 50 per cent responses. | | | | | |

Table 4.14. Percentage of MSEs with 50 or more full-time paid workers, on their compliance level regarding retrenchment regulations

| Status of compliance | Maharashtra | Tamil Nadu | Odisha |
|--|--------------------|-------------------|---------------|
| MSEs that have ever taken government permission to retrench workers and provided retrenchment payments | 27% | 8% | 27% |
| MSEs that did not comply | 73% | 92% | 73% |
| Total | 100% | 100% | 100% |
| Base (Total no. of MSEs with 50 or more full-time paid workers) | 11 | 36 | 15 |

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

4.2.3a Income tax

In the case of income tax in India, the threshold is not related to number of employees, but annual income level. In terms of payment of income tax, the compliance rate varied quite sharply between the three states. In Maharashtra, 80 per cent of the firms reported that they were paying income tax (table 4.15). In Tamil Nadu, the compliance rate came down to 47 per cent and in Odisha it went down further to 31 per cent. When one examines the sector-wise picture, it emerges that the auto components industry in Maharashtra reported the highest rate of compliance at 97 per cent, while the food processing sector was lowest at 60 per cent. In Tamil Nadu, it is the textile and leather sectors that reported the highest compliance at 66 per cent each, followed by the auto components sector at 37 per cent. In Odisha, half of the surveyed MSEs in food processing reported that they paid income tax, while compliance rate in the textile sector was much lower at 12 per cent.

Of all the firms who reported as having paid income tax, 48 per cent in Maharashtra, 47 per cent in Odisha and 46 per cent in Tamil Nadu stated that they paid it at the rate of 10 per cent (table

B.14). Around half of the MSEs in both Tamil Nadu and Odisha reported that they paid income tax at rates greater than 15 per cent, while the same for Maharashtra was much lower at 11 per cent. In Maharashtra, the majority (70 per cent) of MSEs which paid income tax mentioned the transaction cost in the form of time required for filing and paying income tax to be one to three days (table B.15); followed by another 18 per cent who mentioned the average time required to be four to ten days. There was not much difference among business sectors in the distribution pattern of MSEs across transaction costs for income tax payment, except the leather sector where a relatively larger proportion of firms (73 per cent) reported that they took four to ten days on an average to file and pay income tax. In the case of Tamil Nadu, no such trend was observed, with the time for payment of income tax ranging from a few days to more than a month. The majority of MSEs in Odisha (86 per cent) reported that they took four to ten days on an average for filing and paying income tax.

When the reasons for non-compliance are probed, it was observed that most of the MSEs in Maharashtra are not paying income tax, followed “avoidance by choice” strategy for evading income tax payment (table B.16). For instance, the most common reason cited by 85 per cent of MSEs in Maharashtra was that “It is legal, but not enforced”, clearly suggesting that the respondents did not think that they came under the non-eligible category. The reason stated by most of the MSEs (70 per cent) in Tamil Nadu for not paying income tax was that they were legally exempted from income tax payment. However, since data on the annual turnover of MSEs was not collected during the survey, it was uncertain whether all of these 70 per cent firms not paying income tax were legitimately exempted because their earning was less than the threshold level or not. Though relatively smaller in percentage, some MSEs provided reasons for non-compliance that can be considered as “avoidance by choice” such as “Unnecessarily complicated” (41 per cent), “It is legally required, but not enforced” (27 per cent), “Too costly” (18 per cent) and “Takes too much time” (One per cent). Similar to Maharashtra, in Odisha also 94 per cent of MSEs tried to avoid paying income tax, citing it as unnecessarily complicated, followed by 24 per cent MSEs who believed it to be too costly.

Do the firms think that payment of income tax has an effect on the growth of their firms? Only one per cent MSEs in Odisha and nine per cent MSEs in Maharashtra, among those that are either sole proprietorships or unregistered businesses, reported that they were aware of income tax regulations and still tried to avoid compliance by keeping their income below the threshold level, thereby following the “staying below the threshold” strategy (table 4.16). On the other hand, a relatively higher proportion of 40 per cent MSEs, all sole proprietorships and unregistered businesses in Tamil Nadu, admitted that they tried to stay below the threshold level in order to avoid compliance. Therefore, for these MSEs the regulation acted as a plausible growth trap. Overall, for 60 per cent of firms in Tamil Nadu and 69 per cent of firms in Maharashtra, the obligation to pay income tax did not act as a growth barrier. In the case of Odisha, the scenario was a bit different with the majority (92 per cent) of sole proprietorships and unregistered businesses claiming that they were not aware of this regulation. In terms of employment size, bigger firms registered a higher percentage of response of “no effect on growth” in all the three states. Such a high response rate from the bigger firms is quite important given the fact that these firms have a greater potential for growth than the smaller ones. It was observed that knowledge about penalties that existed for non-compliance of income tax regulations was not common among the MSEs across all three states (table 4.17). Of the total surveyed MSEs, 24 per cent in Maharashtra, 27 per cent in Tamil Nadu and 16 per cent in Odisha reported that they had heard about the existence of penalties for non-compliance to regulations on income tax.³

³ However, due to data constraints it was not possible to analyse the knowledge of the MSEs vis-à-vis the exact nature (amount and category) of the penalties.

Table 4.15. Percentage of MSEs that paid income tax

| Business sector | Maharashtra | | Tamil Nadu | | Odisha | |
|-----------------|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|
| | % MSEs who pay income tax | Base (Total no. of MSEs) | % MSEs who pay income tax | Base (Total no. of MSEs) | % MSEs who pay income tax | Base (Total no. of MSEs) |
| Textile | 89% | 300 | 67% | 301 | 12% | 300 |
| Automobile | 97% | 304 | 37% | 314 | | |
| Food processing | 60% | 300 | 19% | 300 | 50% | 300 |
| Leather | 74% | 300 | 66% | 310 | | |
| Total | 80% | 1 204 | 47% | 1 225 | 31% | 600 |

Table 4.16. Percentage distribution of MSEs (sole proprietorships & unregistered businesses) across their knowledge about income tax payment and its impact on growth

| Status of awareness and impact on growth | Textile | Automobile | Food processing | Leather | Total |
|---|---------|------------|-----------------|---------|-------|
| Maharashtra | | | | | |
| Aware and tried to stay below threshold | 16% | 20% | 6% | 0% | 9% |
| Aware but with no effect on growth | 71% | 80% | 42% | 82% | 69% |
| Not aware | 14% | 0% | 52% | 18% | 23% |
| Tamil Nadu | | | | | |
| Aware and tried to stay below threshold | 43% | 50% | 42% | 1% | 40% |
| Aware but with no effect on growth | 57% | 50% | 58% | 99% | 60% |
| Not aware | 0% | 0% | 0% | 0% | 0% |
| Odisha | | | | | |
| Aware and tried to stay below threshold | 0% | | 5% | | 1% |
| Aware but with no effect on growth | 3% | | 40% | | 7% |
| Not aware | 97% | | 55% | | 92% |
| Note: About 46 per cent of firms in Tamil Nadu and 67 per cent of firms in Odisha did not provide an answer to this question. Therefore, the percentages are based on a smaller sample. | | | | | |

Table 4.17. Percentage of MSEs that have heard that there are penalties if businesses do not comply with income tax regulations

| Business sector | Maharashtra | Tamil Nadu | Odisha |
|-----------------|-------------|------------|--------|
| Textile | 39% | 25% | 0% |
| Automobile | 16% | 68% | n.a. |
| Food Processing | 5% | 4% | 32% |
| Leather | 37% | 7% | n.a. |
| All | 24% | 27% | 16% |

4.2.3b VAT

Payment of VAT is another business-related requirement that was probed in the survey. Of the total surveyed MSEs, 43 per cent each in Maharashtra and Tamil Nadu and 24 per cent in Odisha reported compliance with regard to payment of VAT (table 4.18). In Maharashtra, the auto components sector topped with a compliance rate of 93 per cent, followed by textiles at 59 per cent and food processing at 19 per cent, whereas the leather sector reported zero compliance. In Tamil Nadu, it is the food processing sector that reported the lowest compliance rate at three per cent, while the leather sector topped with the highest compliance rate at 75 per cent. In Odisha, the relatively low overall compliance rate of 24 per cent was largely contributed by the textile sector, which reported just two per cent compliance rate.

From the perspective of employment size of firms, the survey revealed that the compliance rate increased as the size of firms went up in all the three states. The highest compliance rate was reported by the firms with the biggest worker groups in all three states, although the rates varied with Maharashtra reporting 100 per cent, Tamil Nadu at 73 per cent and Odisha at 63 per cent. As in the case of income tax, the lesson that one may draw is that the growth of MSEs tends to result in higher rate of compliance with regard to payment of various taxes to the government.

The reasons for non-compliance showed considerable variance across the three states (table B.17). In Maharashtra, the reasons provided by most of the MSEs reflected “avoidance by choice” behaviour such as “It is legally required but not enforced” (67 per cent), “Too costly” (23 per cent) and “Unnecessarily complicated” (17 per cent). The most frequently cited reason in Tamil Nadu was “It is not legally required or exempted” (54 per cent). Although small in number, a considerable proportion of enterprises in Tamil Nadu also provided reasons that reflected the avoidance strategy such as “It is legally required but not enforced” (39 per cent), “Unnecessarily complicated” (28 per cent), and “Too costly” (9 per cent). Similar to Maharashtra, in Odisha also avoidance behaviour for not complying with VAT regulations was observed among most firms. As high as 95 per cent of the firms not paying VAT said the process was unnecessarily complicated, followed by 27 per cent saying that it was too costly.

Table 4.18. Percentage of MSEs who paid VAT, by business sector

| Business sector | Maharashtra | | Tamil Nadu | | Odisha | |
|-----------------|---------------------|--------------------------|---------------------|--------------------------|---------------------|--------------------------|
| | % MSEs who paid VAT | Base (Total no. of MSEs) | % MSEs who paid VAT | Base (Total no. of MSEs) | % MSEs who paid VAT | Base (Total no. of MSEs) |
| Textile | 59% | 300 | 45% | 301 | 2% | 262 |
| Automobile | 93% | 304 | 48% | 314 | | |
| Food processing | 19% | 300 | 3% | 300 | 85% | 162 |
| Leather | 0% | 300 | 75% | 310 | | |
| Total | 43% | 1 204 | 43% | 1 225 | 34% | 424 |

Note: In the case of Odisha, only 424 MSEs out of 600 had replied to this question. So the percentage distribution is based on only 70 per cent responses.

The crucial question of course is about the awareness of the requirement to register for and pay VAT if a business has a turnover of INR one million or more per year unless the transaction was conducted within the state, and its plausible effect on growth. In this case, however, a majority of the firms in Tamil Nadu and Odisha were not aware of the obligation (table 4.19). In Odisha, 93 per cent of firms reported being “not aware”; the corresponding percentages for Tamil Nadu and Maharashtra are 75 per cent and 51 per cent respectively. In Odisha, the two sector surveys

responded overwhelmingly with this answer, while in Tamil Nadu 91 per cent of MSEs working in the food processing sector responded citing lack of awareness of the obligation, followed by 76 per cent in the textile sector. In Maharashtra, 99 per cent of leather firms reported lack of awareness, followed by 76 per cent of food processing firms. It is important to note that none of the auto component firms reported lack of awareness regarding the VAT payment obligation. In both Maharashtra and Tamil Nadu, 10 per cent each of the total MSEs being surveyed reported that they tried to keep their annual turnover below the threshold level in order to avoid compliance to VAT regulations. However, since more than 90 per cent of the firms in Odisha were unaware of the regulation it was difficult to assess if VAT acted as a growth barrier to these MSEs.

Table 4.19. Percentage distribution of MSEs across their knowledge about VAT payment obligations if their turnover is above threshold* and its impact on growth

| Status of awareness and impact on growth | Textile | Automobile | Food processing | Leather | Total |
|--|------------|------------|-----------------|------------|--------------|
| Maharashtra | | | | | |
| Aware and tried to stay below threshold | 16% | 15% | 7% | 0% | 10% |
| Aware but with no effect on growth | 50% | 85% | 17% | 1% | 39% |
| Not aware | 34% | 0% | 76% | 99% | 51% |
| Base (Total No. of MSEs) | 297 | 303 | 262 | 300 | 1162 |
| Tamil Nadu | | | | | |
| Aware and tried to stay below threshold | 14% | 22% | 4% | 0% | 10% |
| Aware but with no effect on growth | 10% | 13% | 5% | 31% | 15% |
| Not aware | 76% | 65% | 91% | 69% | 75% |
| Base (Total No. of MSEs) | 301 | 314 | 300 | 310 | 1 225 |
| Odisha | | | | | |
| Aware and tried to stay below threshold | 0% | | 3% | | 1% |
| Aware but with no effect on growth | 1% | | 11% | | 6% |
| Not aware | 99% | | 87% | | 93% |
| Base (Total No. of MSEs) | 300 | | 300 | | 600 |
| Note: * Threshold for VAT payment: Business turnover is INR 1million or more per year (unless the transaction was conducted within the state). | | | | | |

4.2.4 Does business registration impact compliance with labour laws?

While registration is not a legal requirement for an MSE, it would be important to examine whether registration has some influence in the degree of labour law compliance. This has been examined with reference to maintenance of employment registers by MSEs and compliance with four labour laws: (a) payment of minimum wages, (b) payment of EPF contribution, (c) payment of gratuity, and (d) payment of retrenchment compensation. Also, it was examined how business registration impacted payment of income tax and VAT among MSEs (tables 4.20a, 4.20b and 4.20c). During the survey, five popular types of registration were probed along with a category called "Others" which reflected any other form than the five specified. In an earlier

section (Business and related registration), we have already studied in detail the level of compliance with regard to all these different forms of registration in the three surveyed states.

4.2.4a Registrar's Office/Department of Company Affairs/Registrar Cooperatives Society

In Maharashtra, registering with the Registrar's Office was observed to have a positive impact on compliance with regulations regarding payment of minimum wage, EPF and gratuity. It was also observed that those with this registration were more likely to maintain employment registers for their workers. In Tamil Nadu, it was seen that the proportion of MSEs who maintained employment registers and those who complied with regulations related to minimum wage, gratuity and retrenchment payment improved slightly if they had registered with the Registrar's Office. Regarding the other regulations, there was no positive impact of having this registration. On the contrary, except for minimum wage, compliance to all other labour laws increased considerably when firms had registered with the Registrar's Office.

4.2.4b Factory license/Factories Act 1948

Having a factory licence in Maharashtra was observed to have a positive impact only on payment of EPF and maintenance of employment registers. The proportion of enterprises making EPF payments increased significantly from 57 per cent to 80 per cent when they had a factory license. However, in the case of most other laws, there was no association observed between compliance and having a factory license in Maharashtra. The situation was slightly different in Tamil Nadu, where again there was no association observed between having a factory license and payment of statutory non-wage benefits such as EPF, gratuity and retrenchment. However, in the case of laws related to minimum wage, income tax and VAT, there was definitely a positive influence of factory registration on the degree of compliance. In Odisha, the proportion of enterprises that complied with income tax and VAT payment and those who maintained employment registers was considerably higher when they had a factory license. However, the factory license seemed to have no influence on compliance level for other labour laws.

4.2.4c Tax registration

One of the basic records for an enterprise is an employment register. It was revealed that 82 per cent of the registered enterprises in Maharashtra maintained an employment register compared to 59 per cent overall, thus underlining the association between tax registrations and maintaining an employment register. Similarly, VAT compliance was relatively higher among enterprises with a tax registration (54 per cent) compared to 43 per cent overall. Tax registration in Maharashtra was found to have almost no impact at all on compliance to rest of the four regulations. In the case of Tamil Nadu, there was no clear association observed between having a tax registration and compliance with EPF, gratuity and retrenchment payment. However, in the case of maintenance of employment registers and payment of minimum wage, income tax and VAT, compliance rate among enterprises having a tax registration was higher than the overall average. In Odisha, except for payment of income tax and VAT, and maintenance of employment registers, there was no impact observed in compliance to other laws and having a tax registration.

Table 4.20a. Labour law compliance among MSEs with different types of licenses or registrations in Maharashtra

| Compliance level | MSEs with the following licenses/registration | | | | | | All MSEs |
|--|---|--------------------------------------|-------------------|----------------|----------------|------------|--------------|
| | Regis-trar's Office | Factory license / Factories Act 1948 | Tax regis-tration | Import license | Export license | Others | |
| Maintenance of employment register | | | | | | | |
| MSEs who complied | 67% | 73% | 82% | 0% | 21% | 83% | 59% |
| MSEs who did not comply | 33% | 27% | 18% | 100% | 79% | 17% | 41% |
| Base (No. of MSEs) | 520 | 442 | 730 | 23 | 98 | 590 | 1 204 |
| Payment of minimum wages | | | | | | | |
| MSEs who complied | 49% | 21% | 47% | 0% | 4% | 80% | 41% |
| MSEs who did not comply | 3% | 6% | 5% | 0% | 0% | 9% | 5% |
| Base (No. of MSEs) | 520 | 137 | 730 | 23 | 98 | 590 | 1 204 |
| Payment of EPF | | | | | | | |
| MSEs who paid | 67% | 80% | 57% | | | 57% | 57% |
| MSEs who did not pay | 33% | 20% | 43% | | | 43% | 43% |
| Base (No. of MSEs) | 6 | 5 | 7 | 0 | 0 | 7 | 7 |
| Payment of gratuity | | | | | | | |
| MSEs who paid | 71% | 50% | 36% | | | 36% | 36% |
| MSEs who did not pay | 29% | 50% | 64% | | | 64% | 64% |
| Base (No. of MSEs) | 7 | 10 | 14 | | | 14 | 14 |
| Retrenchment payment and permission | | | | | | | |
| MSEs who paid | 25% | 25% | 25% | | | 22% | 27% |
| MSEs who did not pay | 75% | 75% | 75% | | | 78% | 73% |
| Base (No. of MSEs) | 8 | 8 | 8 | | | 9 | 11 |
| Payment of income tax | | | | | | | |
| MSEs who paid | 73% | 69% | 76% | 100% | 81% | 97% | 80% |
| MSEs who did not pay | 27% | 31% | 24% | 0% | 19% | 3% | 20% |
| Base (No. of MSEs) | 520 | 442 | 730 | 23 | 98 | 590 | 1 204 |
| Payment of VAT | | | | | | | |
| MSEs who paid | 45% | 29% | 56% | 0% | 16% | 84% | 43% |
| MSEs who did not pay | 55% | 71% | 44% | 100% | 84% | 16% | 57% |
| Base (No. of MSEs) | 520 | 442 | 730 | 23 | 98 | 590 | 1 204 |

4.2.4d Import and export license

Except payment of income tax, acquiring import or export licenses did not really influence compliance to all other labour laws in Maharashtra. However, all the 23 sampled MSEs who reported to have an import license had also paid income tax. In Tamil Nadu, registration for securing import or export licences seemed to have a considerable influence on compliance to labour laws except for EPF payment. For instance, compared to 47 per cent of MSEs as a whole who paid income tax, the proportion increased to 68 per cent when they had either an export or an import license. In Odisha, it was observed that proportion of enterprises who complied with minimum wage, EPF, income tax, and VAT regulations increased considerably when they had export or import licenses. However, these two licenses did not have any positive impact on compliance rate in case of gratuity and retrenchment laws.

Table 4.20b. Labour law compliance among MSEs with different types of licenses or registrations in Tamil Nadu

| Compliance level | MSEs with the following licenses/registration | | | | | | All MSEs |
|--|---|--------------------------------------|------------------|----------------|----------------|------------|--------------|
| | Registrar's Office | Factory license / Factories Act 1948 | Tax registration | Import license | Export license | Others | |
| Maintenance of employment register | | | | | | | |
| MSEs who complied | 60% | 63% | 65% | 65% | 62% | 49% | 51% |
| MSEs who did not comply | 40% | 37% | 35% | 35% | 38% | 51% | 49% |
| Base (No. of MSEs) | 361 | 684 | 685 | 117 | 117 | 198 | 1 225 |
| Payment of minimum wages | | | | | | | |
| MSEs who complied | 84% | 85% | 85% | 96% | 91% | 77% | 71% |
| MSEs who did not comply | 16% | 15% | 15% | 4% | 9% | 23% | 29% |
| Base (No. of MSEs) | 361 | 684 | 685 | 117 | 117 | 198 | 1 225 |
| Payment of EPF | | | | | | | |
| MSEs who paid | 62% | 64% | 61% | 59% | 51% | 46% | 64% |
| MSEs who did not pay | 38% | 36% | 39% | 41% | 49% | 54% | 36% |
| Base (No. of MSEs) | 42 | 95 | 84 | 34 | 37 | 13 | 105 |
| Payment of gratuity | | | | | | | |
| MSEs who paid | 32% | 15% | 15% | 63% | 63% | 9% | 13% |
| MSEs who did not pay | 68% | 85% | 85% | 38% | 38% | 91% | 87% |
| Base (No. of MSEs) | 22 | 54 | 53 | 8 | 8 | 54 | 60 |
| Retrenchment payment and permission | | | | | | | |
| MSEs who paid | 12% | 10% | 12% | 25% | 20% | 33% | 8% |
| MSEs who did not pay | 88% | 90% | 88% | 75% | 80% | 67% | 92% |
| Base (No. of MSEs) | 17 | 30 | 26 | 12 | 15 | 6 | 36 |
| Payment of income tax | | | | | | | |
| MSEs who paid | 40% | 56% | 52% | 68% | 68% | 40% | 47% |
| MSEs who did not pay | 60% | 44% | 48% | 32% | 32% | 60% | 53% |
| Base (No. of MSEs) | 361 | 684 | 685 | 117 | 117 | 198 | 1 225 |
| Payment of VAT | | | | | | | |
| MSEs who paid | 45% | 52% | 51% | 58% | 59% | 25% | 43% |
| MSEs who did not pay | 55% | 48% | 49% | 42% | 41% | 75% | 57% |
| Base (No. of MSEs) | 361 | 684 | 685 | 117 | 117 | 198 | 1 225 |

Table 4.20c. Labour law compliance among MSEs with different types of licenses or registrations in Odisha

| Compliance level | MSEs with the following licenses/registration | | | | | | All MSEs |
|--|---|--------------------------------------|------------------|----------------|----------------|------------|------------|
| | Registrar's Office | Factory license / Factories Act 1948 | Tax registration | Import license | Export license | Others | |
| Maintenance of employment register | | | | | | | |
| MSEs who complied | 84% | 78% | 79% | 81% | 81% | 74% | 37% |
| MSEs who did not comply | 16% | 22% | 21% | 19% | 19% | 26% | 63% |
| Base (No. of MSEs) | 32 | 263 | 242 | 16 | 16 | 258 | 569 |
| Payment of minimum wages | | | | | | | |
| MSEs who complied | 63% | 84% | 84% | 69% | 69% | 84% | 89% |
| MSEs who did not comply | 38% | 16% | 16% | 31% | 31% | 16% | 11% |
| Base (No. of MSEs) | 32 | 278 | 256 | 16 | 16 | 273 | 600 |
| Payment of EPF | | | | | | | |
| MSEs who paid | 60% | 27% | 30% | 67% | 67% | 20% | 30% |
| MSEs who did not pay | 40% | 73% | 70% | 33% | 33% | 80% | 70% |
| Base (No. of MSEs) | 5 | 22 | 23 | 3 | 3 | 20 | 23 |
| Payment of gratuity | | | | | | | |
| MSEs who paid | 57% | 37% | 32% | 27% | 31% | 83% | 35% |
| MSEs who did not pay | 43% | 63% | 68% | 73% | 69% | 17% | 65% |
| Base (No. of MSEs) | 30 | 123 | 120 | 45 | 42 | 6 | 136 |
| Retrenchment payment and permission | | | | | | | |
| MSEs who paid | 50% | 7% | 7% | 0% | 0% | 8% | 27% |
| MSEs who did not pay | 50% | 93% | 93% | 100% | 100% | 92% | 73% |
| Base (No. of MSEs) | 6 | 15 | 15 | 3 | 3 | 12 | 15 |
| Payment of income tax | | | | | | | |
| MSEs who paid | 47% | 51% | 56% | 50% | 50% | 50% | 31% |
| MSEs who did not pay | 53% | 49% | 44% | 50% | 50% | 50% | 69% |
| Base (No. of MSEs) | 32 | 290 | 267 | 16 | 16 | 288 | 600 |
| Payment of VAT | | | | | | | |
| MSEs who paid | 64% | 86% | 96% | 56% | 56% | 88% | 34% |
| MSEs who did not pay | 36% | 14% | 4% | 44% | 44% | 12% | 66% |
| Base (No. of MSEs) | 14 | 160 | 143 | 9 | 9 | 154 | 424 |

4.2.5 Does the informal payment system impact compliance to labour laws?

The system of informal payments is one way of capturing payment of bribes or any other kinds of payments so as to avoid compliance with labour laws and/or business regulations. The survey enquired if the MSEs had heard about informal payments with respect to each of the major labour laws and if they had actually made such payments.

Making informal payments appeared to be a popular avoidance strategy in the case of Maharashtra, especially with regard to VAT, income tax and minimum wage payments (table 4.21). Around half of the surveyed MSEs (50 per cent) in the case of VAT, 43 per cent in the case of income tax and 41 per cent with respect to minimum wage regulations had admitted making informal payments in order to avoid compliance. The share of MSEs who made informal payments to avoid gratuity obligations was comparatively lower at nine per cent.

Tamil Nadu's case was similar to Maharashtra. Making informal payments was observed to be an avoidance strategy practiced by a considerable share of MSEs in Tamil Nadu as well. More than half of the MSEs in Tamil Nadu (58 per cent) admitted that they had made informal payments to avoid compliance to minimum wage obligations. While 38 per cent MSEs were honest enough to report that they had actually made informal payments to avoid compliance to provident fund rules, 34 per cent also reported that they had paid such money to avoid gratuity payments. If we look further into the practice of informal payments across different sectors, it was observed that this practice was relatively more popular among MSEs working in the leather sector. Almost 87 per cent of MSEs in the leather sector reported making such payments to avoid minimum wage obligations. A similar situation was reported with regard to the provident fund regulation, where a comparatively higher proportion of 68 per cent MSEs in the leather sector had admitted to making informal payments.

In Odisha, the proportion of MSEs who made informal payments to avoid labour laws was equally widespread compared to the other two states. While half (52 per cent) of the MSEs had reportedly made such payments to avoid regulations on VAT, 46 per cent of MSEs had also reportedly made such payments to avoid income tax regulations. However, the proportion of MSEs who had made informal payments to avoid minimum wage regulations was almost negligible (1 per cent) among MSEs in the two surveyed sectors in Odisha.

Table 4.21. Percentage of MSEs across different business sectors which have made informal payments to avoid compliance to regulations in their business

| List of regulations | Minimum wages | Provident fund | Gratuity | Income tax | VAT | Retrenchment payments/ Industrial Disputes Act | Base (Total No. of MSEs) |
|------------------------|---------------|----------------|----------|------------|-----|--|--------------------------|
| Maharashtra | | | | | | | |
| Textile | 50% | 17% | 16% | 43% | 47% | n/a | 300 |
| Automobile | 91% | 21% | 9% | 63% | 86% | n/a | 304 |
| Food processing | 23% | 12% | 11% | 66% | 65% | n/a | 300 |
| Leather | 0% | 0% | 0% | 0% | 0% | n/a | 300 |
| Total | 41% | 13% | 9% | 43% | 50% | n/a | 1 204 |
| Tamil Nadu | | | | | | | |
| Textile | 64% | 38% | 33% | 3% | 5% | 0.0% | 301 |
| Automobile | 65% | 44% | 44% | 3% | 2% | 0.3% | 314 |
| Food processing | 13% | 5% | 8% | 0% | 6% | 0.0% | 300 |
| Leather | 87% | 62% | 49% | 9% | 20% | 0.0% | 310 |
| Total | 58% | 38% | 34% | 4% | 8% | 0.1% | 1 225 |

| Odisha | | | | | | | |
|--|------|-----|-----|-----|-----|-----|------------|
| Textile | 0.3% | 3% | 4% | 79% | 92% | n/a | 300 |
| Automobile | | | | | | | |
| Food processing | 2% | 53% | 68% | 13% | 11% | n/a | 300 |
| Leather | | | | | | | |
| Total | 1% | 28% | 36% | 46% | 52% | n/a | 600 |
| Note: In the case of Maharashtra and Odisha, in the category of retrenchment payments, the percentage of MSEs who made informal payments could not be shown due to data constraints. | | | | | | | |

4.3 Perception-based ranking of factors influencing business growth

When compared to the level of awareness, compliance and avoidance to labour laws confirmed through the survey, the perception-based ranking of factors from the survey did not demonstrate any consistent tendency of overstating the impact of positive factors or understating the impact of negative factors.

- While 36 per cent firms in Maharashtra and 43 per cent firms in Tamil Nadu perceived that maintaining employment registers had a positive or strongly positive influence on business, a considerably larger proportion (59 per cent in Maharashtra and 51 per cent Tamil Nadu) of the businesses actually maintained employment registers. However, in Odisha, as opposed to the perception of 48 per cent MSEs that maintenance of employment registers has a positive influence on business growth, only 35 per cent actually maintained the registers.
- While 22 per cent MSEs in Maharashtra and 55 per cent MSEs in Tamil Nadu perceived paying the minimum wage as positively affecting the growth of business, a considerably higher proportion of firms (40 per cent in Maharashtra and 71 per cent in Tamil Nadu) in both the states actually claimed to be paying the minimum wage. In the case of Odisha, the proportion of MSEs who paid minimum wages was exactly equal to those who perceived it to be positively affecting business growth.
- A considerable percentage of those firms who have a number of full-time paid workers above the threshold level, i.e. with 21 or more workers, reported that they did not make EPF contributions. Of those MSEs above the threshold level, 57 per cent in Maharashtra, 64 per cent in Tamil Nadu and 30 per cent in Odisha reportedly made EPF contributions. If we look at similar proportions with the total number of MSEs (above and below the threshold level) as the base, these numbers would come down considerably. Thus the numbers would be closer to nine per cent MSEs in Maharashtra, 17 per cent in Tamil Nadu and 28 per cent in Odisha, who perceived that compliance to EPF regulations positively impacts business growth.
- Having a trade union and collective bargaining process is perceived to positively influence growth of business in only two per cent MSEs in Maharashtra, 14 per cent in Tamil Nadu, and 10 per cent in Odisha. Except for Maharashtra, where a slightly higher share of four per cent MSEs reported that their workers had joined trade unions, only six per cent and four per cent of the businesses above the threshold level in Maharashtra and Tamil Nadu respectively had joined or formed a trade union. It is important to mention here that since these shares are calculated considering those MSEs above the threshold, the proportion would actually go down even more if we look into the proportions taking all MSEs as the base.
- Only four per cent MSEs in Maharashtra, 19 per cent in Tamil Nadu and 17 per cent in Odisha believed that severance payments have a positive influence on business growth. In line with this, survey results revealed that that awareness levels regarding regulations on retrenchment payments among MSEs with less than 50 full-time paid workers were

exceptionally low. Almost all the surveyed MSEs in Odisha, 99 per cent in Maharashtra and 82 per cent in Tamil Nadu responded that they were not aware of this regulation. Even the knowledge about monetary costs for retrenchment of workers was almost nil in the surveyed firms in all the three states. Those MSEs who claimed to know the transaction cost of the retrenchment regulations were few, from one per cent each in Maharashtra and Odisha to 18 per cent in Tamil Nadu. These figures are in line with the small percentage of the firms ever complying with the retrenchment regulations.

4.3.1 Influence of factors related to general investment climate

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. Three sets of factors were selected: (a) factors affecting business growth in terms of cost and availability of land and labour, infrastructure, cost of credit, and related factors; (b) business regulations such as banking, labour, and taxation; and (c) employer obligations in terms of complying with working time, 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, “not applicable” if they so wished. Only around 10 to 11 per cent responded saying “not applicable”. For a more focused and concise understanding of these responses, we have compressed them into three main categories, viz. “positive” (P) (combining strongly positive and positive), “negative” (N) (combining strongly negative and negative) and “no influence” (NI) (including “not applicable”). Of these total responses, their individual shares are recorded and analysed here (table 4.22).

Maharashtra: More than 50 per cent of MSEs perceived four factors – cost of labour, access to appropriately skilled workers, availability of land, and cost of land – to have a negative influence on business growth. Availability of raw materials, water and sanitation facilities, availability of electricity, cost of electricity, and transport infrastructure were identified as being either a positive or strongly positive influence on business growth. Factors such as industrial security, effectiveness of courts in dealing with disputes, cost of finance and access to credit were identified by 50 per cent or more of the MSEs as having no influence on business growth. In sum, availability and cost of land as well as availability of skilled labour and cost of labour were pointed out as the two most important factors negatively or strongly negatively influencing business growth in Maharashtra.

Tamil Nadu: Interestingly, in the Tamil Nadu survey, none of the 18 factors emerged with a share of 50 per cent or more as “negatively or strongly negatively influencing” business growth. Availability of electricity came close with 48 per cent reporting it as “negatively or strongly negatively influencing” growth. This is in tune with the electricity supply situation in the state of Tamil Nadu where for certain hours of the day electricity supply is absent due to shortage. Next in prominence was the cost of land, followed by cost of electricity and cost of water and sanitation (presumably water), which gave a higher percentage as “negatively or strongly negatively influencing growth”. Cost of labour is not seen as a negative factor here for the majority and the same is the case with access and cost of credit. In fact, 50 per cent of responses to cost of labour referred to “positive or strongly positive influence”, perhaps pointing to the relatively lower cost of labour in the state.

Odisha: In Odisha, the scenario is heavily in favour of the response “positive or strongly positive influence” for most, if not all, the factors. This could be largely due to the low level of industrialization of the state and the relatively easy access to land and labour. In fact, cost of labour was mentioned only in terms of 15 per cent of responses. A very low share of negative influence was marked for “level of taxation” that could be due to low or no taxation for the industries that were surveyed, i.e. textiles mostly in the traditional sector and food processing. Availability of electricity also did not emerge as a negatively influencing factor, probably due to less use of energy in the industries surveyed.

Table 4.22. Distribution of MSEs across factors (general investment climate) influencing business growth

| Factors of influence | Maharashtra | | | Tamil Nadu | | | Odisha | | |
|---|-------------|-----|-----|------------|-----|-----|--------|-----|-----|
| | P | N | NI | P | N | NI | P | N | NI |
| Market demand for your products and services | 72% | 24% | 5% | 64% | 4% | 32% | 99% | 0% | 1% |
| Cost of labour | 23% | 51% | 26% | 50% | 25% | 25% | 84% | 15% | 2% |
| Level of taxation | 13% | 44% | 43% | 24% | 26% | 50% | 90% | 3% | 7% |
| Regulations and inspections (labour, taxation, registration, licensing, etc.) | 40% | 46% | 14% | 30% | 26% | 43% | 52% | 7% | 42% |
| Cost of finance (e.g. interest rates) | 8% | 40% | 52% | 28% | 26% | 46% | 43% | 20% | 37% |
| Access to credit (procedural) | 13% | 37% | 50% | 30% | 29% | 41% | 43% | 15% | 42% |
| Access to appropriately skilled workers | 21% | 64% | 15% | 54% | 25% | 21% | 60% | 20% | 20% |
| Transport infrastructure | 53% | 31% | 16% | 34% | 22% | 44% | 93% | 1% | 6% |
| Effectiveness of courts dealing with disputes | 12% | 35% | 53% | 34% | 23% | 43% | 44% | 10% | 46% |
| Government corruption | 6% | 50% | 44% | 14% | 38% | 47% | 40% | 26% | 35% |
| Non-payment by customers | 48% | 37% | 15% | 40% | 35% | 25% | 89% | 7% | 5% |
| Availability of land and premises for business | 18% | 61% | 21% | 35% | 35% | 30% | 78% | 5% | 17% |
| Cost of land and premises for business | 17% | 60% | 23% | 28% | 41% | 30% | 76% | 7% | 17% |
| Availability of electricity | 62% | 21% | 17% | 40% | 48% | 12% | 72% | 25% | 3% |
| Cost of electricity | 53% | 25% | 22% | 36% | 40% | 25% | 63% | 32% | 5% |
| Water and sanitation facilities | 63% | 18% | 19% | 34% | 40% | 26% | 95% | 2% | 4% |
| Availability of raw materials | 65% | 18% | 17% | 52% | 22% | 26% | 87% | 10% | 3% |
| Industrial security (extortion, threat to life for business persons) | 6% | 32% | 63% | 22% | 18% | 60% | 29% | 5% | 66% |
| Others | 2% | 19% | 79% | 1% | 3% | 96% | 31% | 38% | 31% |

4.3.2 Influence of business environment related factors (laws and regulations)

Under the category of business environment (laws and regulations) influencing growth, ten factors were specified for response (table 4.23).

Maharashtra: Among the different aspects of a business environment, the factor that was perceived by the highest proportion (68 per cent) of MSEs as having a negative influence on business growth was the obligation to comply with export and import regulations, followed by “Registering land and other property” (58 per cent), and “Complying with food and health standards (for products)” (57 per cent). A considerable proportion of MSEs perceived many of the factors to have no influence on business growth such as “Time required to complete tax administration” (48 per cent) and “Complying with labour regulation and inspections (Health and safety, social security, hiring and firing, leave and other benefits)” (48 per cent). Except for

cost and time required to register a business or to obtain a business licence, the perceived impact of all other factors by a majority of the MSEs was either in negative terms or nil. This is quite understandable because complying with business regulations is associated with awareness of procedures, time as well as some cost.

Tamil Nadu: The general scenario in Tamil Nadu was the same as in Maharashtra, but the percentage of responses in terms of “negative or strongly negative” was much less. The situation was more of neutrality since the responses were more in terms of “no influence”. More than half of the MSEs thought that factors such as “Obtaining patents and copyrights” (57 per cent), “Complying with import and export regulations” (58 per cent), “Registering land and other property” (60 per cent) had no influence on business growth. Except for the factors “Cost and time required to register a business” and “Maintaining minimum product standards and certification”, which were perceived to have positive or strongly positive influence on business growth by 50 per cent of MSEs, a relatively smaller share of MSEs felt that other factors had a positive impact on growth. It would appear that generally complying with business regulations is not seen in a negative way in terms of business growth.

Odisha: In the case of Odisha, around 40 per cent to 60 per cent of MSEs perceived that most of the factors related to laws and regulations had no influence on business growth. The top three factors that are perceived to have no influence were “Registering land and other property” (60 per cent), “Complying with import and export regulations” (58 per cent), and “Obtaining patents and copyrights” (57 per cent). Half of the MSEs believed that the cost or time required to register a business and the regulations to maintain minimum product standards and certification have a positive influence on business growth. The proportion of MSEs who thought that the other factors had a positive impact was relatively lower.

Table 4.23. Distribution of MSEs across factors influencing business growth (Laws & regulations)

| Factors of influence | Maharashtra | | | Tamil Nadu | | | Odisha | | |
|--|-------------|-----|-----|------------|-----|-----|--------|-----|-----|
| | P | N | NI | P | N | NI | P | N | NI |
| Cost or time required to register a business | 63% | 9% | 28% | 50% | 13% | 37% | 50% | 13% | 37% |
| Cost and time required to obtain a business license | 45% | 11% | 44% | 44% | 22% | 34% | 44% | 22% | 34% |
| Complying with banking and credit regulations | 11% | 44% | 45% | 24% | 26% | 51% | 24% | 26% | 51% |
| Cost and time required to register for taxation | 16% | 38% | 46% | 25% | 29% | 46% | 25% | 29% | 46% |
| Cost of taxation (Income tax, sales tax/VAT) | 37% | 18% | 46% | 22% | 28% | 50% | 22% | 28% | 50% |
| Time required to complete tax administration | 13% | 40% | 48% | 31% | 22% | 46% | 31% | 22% | 46% |
| Complying with labour regulation and inspections (Health and safety, social security, hiring and firing, leave and other benefits) | 5% | 46% | 48% | 29% | 26% | 46% | 29% | 26% | 46% |
| Complying with environmental and sanitary standards | 8% | 51% | 41% | 26% | 25% | 48% | 26% | 25% | 48% |

| | | | | | | | | | |
|---|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Maintaining minimum product standards and certification | 12% | 52% | 36% | 50% | 19% | 31% | 50% | 19% | 31% |
| Complying with food and health standards (for products) | 13% | 57% | 30% | 38% | 20% | 43% | 38% | 20% | 43% |
| Obtaining patents and copyrights | 10% | 51% | 39% | 26% | 17% | 57% | 26% | 17% | 57% |
| Complying with import and export regulations | 3% | 64% | 34% | 21% | 21% | 58% | 21% | 21% | 58% |
| Registering land and other property | 6% | 58% | 36% | 21% | 19% | 60% | 21% | 19% | 60% |
| Others | 1% | 87% | 12% | 2% | 51% | 47% | 2% | 51% | 47% |

4.3.3 Influence of factors related to labour laws and regulations

In order to study how MSEs perceive the influence of labour laws and employment obligations on business growth, 12 factors were specifically listed for the survey. Of these, nine were related to workers in terms of working time and payment of wages and non-wage benefits (table 4.24).

Maharashtra: In Maharashtra, 51 per cent firms reported that “Unions and collective bargaining” has a negative influence on business growth. For all other factors, those reporting “no influence” outweighed those reporting “positive or strongly positive influence” except “Limits on working time”. Interestingly, 43 per cent of responses reported “positive or strongly positive influence” with regard to “Limits on working time”, while only 22 per cent responded “negative or strongly negative influence”. The remaining 35 per cent reported “no influence”. Again, of the total MSEs in Maharashtra, 49 per cent each reported that provident fund and severance pay negatively influence business growth. The picture is similar with regard to “Dismissal procedures and disputes” and to a lesser extent for three other factors such as “Paying for annual leave”, “Workers’ injury compensation” and “Insurance”.

Tamil Nadu: In Tamil Nadu, in most cases only less than a quarter of the responses pointed to the “negative or strongly negative influence” nature of the listed factors. In fact, 55 per cent responses were “positive or strongly positive influence” with regard to paying the minimum wage, closely followed by 54 per cent for complying with health and safety standards for workers. For six factors, including provident fund contribution, unions and collective bargaining, severance pay, paying for annual leave and insurance, the majority response was “no influence”. Therefore, the scenario here is characterized more by a positive attitude towards employer obligations which points to the possibilities of creating a favourable ambience for establishing decent work conditions.

Odisha: The perception of MSEs in Odisha regarding impact of factors related to laws and regulations is somewhat similar to Tamil Nadu. It was observed that the percentage of responses pointing to “negative or strongly negative influence” is considerably lower. In fact, the highest proportion of MSEs who perceived that one of the factors has a negative impact on business growth was 19 per cent in the case of “Paying for annual leave”. About 89 per cent reported “positive or strongly positive influence” for “Paying the minimum wage” followed by 65 per cent for “Limits on working time” and 61 per cent for “Workers’ injury compensation” and 56 per cent for “Complying with health and safety standards for workers”.

Table 4.24. Distribution of MSEs across elements of labour law and regulation influencing business growth

| Elements of labour law and regulation | Maharashtra | | | Tamil Nadu | | | Odisha | | |
|--|-------------|-----|-----|------------|-----|-----|--------|-----|-----|
| | P | N | NI | P | N | NI | P | N | NI |
| Maintaining an employment register | 36% | 14% | 50% | 43% | 9% | 49% | 48% | 5% | 48% |
| Paying the minimum wage | 22% | 27% | 51% | 55% | 11% | 34% | 89% | 3% | 8% |
| Complying with health and safety standards for workers | 12% | 32% | 55% | 54% | 14% | 32% | 56% | 1% | 42% |
| Dismissal procedures and disputes | 7% | 48% | 45% | 23% | 25% | 52% | 49% | 6% | 45% |
| Severance payments (Retrenchment, gratuity, EPF) | 4% | 49% | 47% | 19% | 18% | 64% | 17% | 11% | 72% |
| Provident fund contributions | 6% | 49% | 46% | 17% | 17% | 65% | 28% | 15% | 58% |
| Paying for annual leave | 9% | 44% | 47% | 26% | 19% | 56% | 21% | 19% | 60% |
| Unions and collective bargaining | 2% | 51% | 47% | 14% | 18% | 68% | 10% | 15% | 75% |
| Workers' injury compensation | 6% | 41% | 53% | 45% | 21% | 35% | 61% | 10% | 29% |
| Limits on working time (per day, week, etc.) | 43% | 22% | 35% | 43% | 18% | 40% | 65% | 9% | 26% |
| Insurance | 6% | 41% | 53% | 26% | 18% | 56% | 40% | 7% | 53% |
| Others | 1% | 15% | 84% | 3% | 1% | 96% | 62% | 0% | 38% |

Chapter 5: Summary and conclusion

Based on the survey of 3,029 micro- and small enterprises (MSEs) in three states in India (1,204 from Maharashtra, 1,225 from Tamil Nadu and 600 from Odisha), covering the four sectors of textiles, auto components, leather and food processing, the key findings are summarized below.

5.1 Employee Composition

In the surveyed sectors in all three states, *casualization* or *informalization* of labour is observed to be significant. Both Maharashtra and Odisha reported a high incidence of casual/temporary workers at 58 per cent and 66 per cent respectively. However, the incidence of such workers in Tamil Nadu was relatively less at 40 per cent. At the same time, an overwhelming proportion of workers employed in the micro- and small enterprises (MSEs) were observed to be full-time paid workers. A majority of the workers were males in Maharashtra (75 per cent) and Tamil Nadu (72 per cent). However, the share of females in total workers (58 per cent) was higher than that of males (42 per cent) in Odisha. There were hardly any household workers in Tamil Nadu and Odisha. However, in Maharashtra the incidence of household workers was 47 per cent, perhaps denoting that they worked from their homes.

5.2 Business and related registration

The four industries covered in this survey reported a fairly high share of registration of one kind or another. The percentage of MSEs without any registration in Maharashtra was only one per cent, while it was 30 per cent in Tamil Nadu and 49 per cent in Odisha. It must be borne in mind that in India registration of MSEs is not mandatory unless they cross the threshold of ten or more workers and using electricity (or 20 or more without using electricity) in manufacturing. Across the three states, tax registration and factory license are observed to be the most popular types of registration. Awareness of registration is quite high in both Maharashtra and Tamil Nadu with 79 per cent and 86 per cent of enterprises believing that it is legally required.

5.3 Employment register

Overall, the proportion of MSEs who claimed to have maintained employment registers was highest in Maharashtra (59 per cent), followed by Tamil Nadu (51 per cent) and Odisha (35 per cent). In case of both Maharashtra and Odisha, among the four sectors being surveyed, the proportion of MSEs maintaining employment registers was highest in the automobile sector (table 4.4). On the contrary, all the surveyed firms in the leather sector in Maharashtra and 96 per cent firms working in the food processing sector in Tamil Nadu did not maintain any employment registers. In the case of Odisha, 95 per cent of MSEs from the textile sector reported that they did not maintain employment registers for their workers. While half of the MSEs did not specify any reason for not maintaining registers, a large proportion of MSEs in Tamil Nadu responded saying it was either not a legal requirement for them or it was not necessary since they provided daily wage payments to their workers. On the contrary, in Odisha “avoidance by choice” behaviour was most common. Around two-thirds (65 per cent) of MSEs not maintaining employment registers in Odisha stated their reasons as “Unnecessarily complicated”, followed by 11 per cent who said legal enforcement was lacking.

5.4 Business inspection

Contrary to popular impression, a large section of enterprises surveyed in the three states reported that they were inspected by government officials. However, there was a clear variation across the three states. In Maharashtra, 94 per cent of the MSEs reported being inspected, while in Tamil Nadu 36 per cent did not get inspected at all. In Odisha, close to half of the total surveyed MSEs (47 per cent) have never had a single inspection during the year prior to the survey.

5.5 Minimum wage

An overwhelming majority of enterprises in Odisha (91 per cent) and Tamil Nadu (71 per cent) reported that they were aware of minimum wages and paying it as such. However, the compliance rate was observed to be much lower in Maharashtra. Overall, 40 per cent of MSEs in Maharashtra reported that they were aware of the government-specified minimum wage and paid their workers accordingly. The lack of awareness about the government-specified minimum wage was quite high in Maharashtra and most of these were very small enterprises. In Maharashtra, around half of the MSEs (53 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 (99 per cent) and was almost non-existent among MSEs in the automobile industry. Among the three surveyed states, Maharashtra was least aware of the penalties related to non-compliance of regulations on minimum wages. Of the surveyed MSEs, seven per cent in Maharashtra, 33 per cent in Tamil Nadu and 17 per cent in Odisha reportedly knew about the existence of penalties for non-compliance.

5.6 Employees' provident fund (EPF)

None of the surveyed MSEs (with less than 21 workers) in Maharashtra and only one per cent of MSEs in Tamil Nadu reportedly tried to stay below the threshold level in order to avoid making EPF contributions. Thus the "staying below the threshold" strategy in order to avoid compliance to EPF regulations was almost non-existent in these two states and therefore EPF obligations were not observed to be acting as a growth trap in Maharashtra and Tamil Nadu. However, in Odisha, a considerable proportion of 40 per cent of MSEs with less than 21 workers reported that they tried to stay below the threshold level in order to avoid making EPF payments. A majority of the enterprises in Maharashtra and Tamil Nadu that were not eligible to pay EPF (those below the threshold level) were observed to be unaware of the provision at all. Among the MSEs that are legally required to contribute to EPF (above the threshold level), 57 per cent in Maharashtra and 30 per cent in Odisha reportedly made EPF payments. Tamil Nadu reported a compliance rate of 64 per cent. When MSEs above the level threshold, who did not comply with EPF regulations, were asked why, the majority provided answers that clearly reflected "avoidance by choice" behaviour in all the three states

5.7 Gratuity

Since an overwhelming proportion of enterprises employed only less than ten workers, the number of eligible enterprises was small. And among these the compliance rate was quite low with eight per cent in Odisha, 10 per cent in Maharashtra and 16 per cent in Tamil Nadu. The most common reason for non-compliance was that the workers had not demanded it. Very few firms associate the requirement of gratuity payment as a possible growth trap influencing their decision not to grow. As with the EPF contribution, what is quite common among the enterprises is an avoidance strategy, possibly due to their eagerness to keep the cost of production as low as possible.

5.8 Retrenchment benefits

In India, when an employee is retrenched by the employer, the employee is entitled to compensation if the period of service in the firm is at least five years and the firm in question is employing more than 50 workers. As a result, very few firms qualified for payment of retrenchment benefits. In terms of compliance of these eligible firms (MSEs with 50 or more workers), 27 per cent each in Maharashtra and Odisha and only eight per cent in Tamil Nadu reported ever asking for government permission to retrench workers and provide retrenchment payments. The most common answer for non-compliance was that the workers had not demanded it. Awareness levels regarding regulations on retrenchment payments among MSEs with less than 50 full-time paid workers were exceptionally low (table 4.13). Almost all the surveyed MSEs below the threshold level in Odisha, 99 per cent in Maharashtra and 82 per cent in Tamil Nadu were not aware of this regulation. As a result, its impact on growth of MSEs could not be adequately captured based on the survey responses.

5.9 Trade union

While the Trade Union Act 1926 enables the formation of trade unions by workers (by an initiative of at least seven workers), the existence of such trade unions in MSEs is rare given the small size of enterprises (mostly less than ten workers) and the weak bargaining capacity of workers therein. Of the total MSEs with seven or more full-time paid workers, four per cent each in Maharashtra and Odisha and six per cent in Tamil Nadu reported that their workers had formed trade unions. There was hardly any awareness of this Act among the smaller enterprises. More than two-thirds of the MSEs, with less than seven workers in all three states, reported being unaware of the regulation regarding trade union formation. In the case of Tamil Nadu, 91 per cent of MSEs were not aware of this regulation, followed by 73 per cent in Odisha and 69 per cent in Maharashtra. Although a question about legal requirement was posed to the enterprises, there is no legal mandate to have workers' unions in the enterprises.

5.10 Income tax

Those who paid income tax varied from 31 per cent in Odisha, 47 per cent in Tamil Nadu and 80 per cent in Maharashtra. Understandably, the rate of compliance increased with the size of the enterprise. The most common reason for non-compliance varied from "It is legally required but not enforced" in Maharashtra to "It is unnecessarily complicated" in Odisha. A large majority of firms did not think that payment of income tax was a deterrent to the growth of firms. Only one per cent of MSEs in Odisha and nine per cent of MSEs in Maharashtra, among either the sole proprietorships or unregistered businesses, reported knowing about income tax regulations and still tried to avoid compliance by keeping their income below the threshold level, thereby following the "staying below the threshold" strategy. On the other hand, in a relatively higher proportion, 40 per cent of MSEs of all sole proprietorships and unregistered businesses in Tamil Nadu admitted that they had tried to stay below the threshold level in order to avoid compliance, thereby suggesting that this regulation may act as a possible growth trap.

5.11 Value added tax (VAT)

The compliance rate with regard to payment of VAT varied from 43 per cent each in Maharashtra and Tamil Nadu and 24 per cent in Odisha. The compliance rate increased with the size of the firms. The most common reason for non-compliance varied from "It is legally required, but not enforced" in Maharashtra, "Not legally required/exempted" in Tamil Nadu to "Unnecessarily complicated" in Odisha. In terms of awareness of the requirement for VAT payment and its possible impact on growth, the finding was one of lack of awareness for a majority of firms in the three states. In Odisha, 93 per cent of firms reported lack of awareness, while this was 75 per cent in Tamil Nadu and 51 per cent in Maharashtra.

5.12 Informal payments

Informal payments in order to avoid compliance to labour laws/regulations were quite common among the surveyed MSEs across the three states. However, informal payments varied across purposes for which such payments were made. The most common one was for avoiding income tax payment. In some cases payments were also made for avoiding payment of statutory obligations such as minimum wages and VAT. For instance, in Maharashtra around half of the surveyed MSEs (50 per cent) in the case of VAT, 43 per cent in the case of income tax and 41 per cent with respect to minimum wage regulations had admitted that they had made informal payments in order to avoid compliance.

5.13 Perception-based rating of factors affecting business growth

- In Maharashtra and Tamil Nadu the proportion of businesses that actually maintained employment registers was considerably higher than those who perceived that maintaining employment registers had a positive influence on growth. However, in Odisha, the scenario was exactly the opposite. A similar situation existed in the case of minimum wage

compliance, where the proportion of MSEs who actually followed the Minimum Wages Act, 1948 was much higher than those who perceived that paying minimum wage positively affects growth of their businesses.

- Of those MSEs eligible to make EPF payments, 57 per cent in Maharashtra, 64 per cent in Tamil Nadu and 30 per cent in Odisha reportedly made EPF contributions. If we look at similar proportions with the total number of MSEs (above and below the threshold level) as the base, these numbers would come down considerably. Thus the numbers of those enterprises that view compliance to EPF regulations as having a positive impact on business growth would be closer to nine per cent in Maharashtra, 17 per cent in Tamil Nadu and 28 per cent in Odisha.
- Only four per cent of MSEs in Maharashtra, 19 per cent in Tamil Nadu and 17 per cent in Odisha believed that severance payments have a positive influence on business growth. In line with this, the survey results revealed that the awareness levels regarding regulations on retrenchment payments among MSEs with less than 50 full-time paid workers were exceptionally low. Almost all the surveyed MSEs in Odisha, 99 per cent in Maharashtra and 82 per cent in Tamil Nadu responded as being unaware of this regulation. These figures are in line with the small percentage of the firms ever complying with the retrenchment regulations.
- In the case of Maharashtra, more than 50 per cent of MSEs perceived four factors related to investment climate, i.e. cost of labour, access to appropriately skilled workers, availability of land, and cost of land, as having a negative influence on business growth. On the contrary, none out of the 18 factors emerged with a share of 50 per cent or more responding to them as 'negatively or strongly negatively influencing' business growth in Tamil Nadu survey. Only availability of electricity emerged as a factor where 48 per cent of MSEs perceived it to have a negative influence on business growth. The scenario was heavily in favour of the response "positive or strongly positive influence" for most, if not all, the factors for Odisha.
- Among the different aspects of the business environment in Maharashtra, the factor that was perceived by the highest proportion (68 per cent) of MSEs as having a negative influence on business growth was the obligation to comply with export and import regulations, followed by "Registering land and other property", and "Complying with food and health standards (for products)". With regard to most of the other factors, the situation was more of neutrality since the responses were more along the lines of "No influence" for both Tamil Nadu and Orissa.

5.14 Concluding remarks

The survey revealed that most of the existing labour laws and business regulations were not perceived by the MSEs to be acting as growth deterrents, especially in Maharashtra and Tamil Nadu. However, in Odisha, a little higher than one-third of the enterprises felt that income tax and EPF payment obligations did act as plausible growth traps and they tried to stay below the threshold size in order to avoid compliance. However, in all three states there were a lot of avoidance strategies as well as a lack of proper awareness regarding both labour laws and business regulations. There was also pervasive avoidance of questions that perhaps indicated the apprehensions of the owners of MSEs in responding with precise answers. It was also observed that the awareness regarding penalties related to non-compliance of regulations was considerably low among the firms surveyed.

The findings suggest that there is a need for simplification of labour and business laws to allow for them to be easily accessed, understood and implemented by the MSEs. This should, in our view, go along with promotional schemes for the growth and transformation of these enterprises into vibrant economic entities providing both income and employment to the large body of informal workers. Such policies and schemes should include (a) active labour market policies for upgrading skills, (b) easy access to credit, (c) provision of critical inputs such as electricity, and (d) information on market conditions. Given the existence of a large number of clusters of MSEs across the country, such policies and schemes could be implemented effectively by expanding the existing Cluster Development Programme (CDP).

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Appendix I. Outline of the survey programme

I. Geographical coverage

The geographical coverage in terms of number of districts covered in the three states is as follows:

| Maharashtra | Tamil Nadu | Orissa |
|--------------------|-------------------|---------------|
| Mumbai | Coimbatore | Ganjam |
| Solapur | Chennai | Cuttak |
| Thane | Vellore | Khurda |
| Pune | Salem | |
| Satara | Madurai | |
| Aurangabad | Tirupur | |
| | Erode | |

II. Area frame

In the absence of any business register, an “area frame” was used. A list of districts within the state formed the area frame.

III. Selection of primary sampling units (PSUs)

This has been done using Probability Proportional to Size (PPS) sampling. For draw of PSUs (towns for urban areas and villages in rural areas) size measurements of the establishments according to activity category were used. The data on size of establishments was obtained from the *Economic Census 2005* (Government of India, 2006a) conducted by the Central Statistical Office (CSO). The 4-digit economic activity classification of the National Industrial Classification (NIC) - 2004 (based on ISIC 3.1) was used in the *Economic Census 2005*. For this study, the 4-digit NIC-2004 codes, after selecting the PSUs, were later converted into 4-digit matching codes as per NIC-2008 (based on ISIC 2008) using an appropriate concordance table. All the tables produced in the findings of this report are, therefore, based on NIC-2008 activity codes at its 4-digit levels which correspond to UN ISIC rev 4.

IV. List frame

Within each selected PSU, all establishments under each of the four sectors located outside the households were listed through “listing operation” – which formed the list frame (or sampling frame) for drawing of the sample. The NIC-2008 codes which were used for the activities under study, namely textile, auto, leather and food processing are given in table A.1.

Table A.1. Sectors covered under the study as per NIC-2008 in three states

| Auto- mobile (NIC- 2008 codes) | Description | Food process- sing (NIC- 2008 codes) | Description | Leather (NIC- 2008 codes) | Description | Textiles (NIC- 2008 codes) | Description |
|---|--|---|--|--|--|---|---|
| (1) | (2) | (1) | (2) | (1) | (2) | (1) | (2) |
| 2910 | Manufacture of motor vehicles | 1010 | Production, processing and preserving of meat and meat products. | 1511 | Tanning and dressing of leather | 1311 | Preparation and spinning of textile fiber including weaving of textiles (excluding khadi/ handloom) |
| 2920 | Manufacture of bodies (coach work) for motor vehicles; manufacture of trailers and semi-trailers | 1020 | Processing and preserving of fish and fish products | 1512 | Manufacture of luggage, handbags, and the like, saddlery and harness | 1312 | Finishing of textile excluding khadi/ handloom |
| 2930 | Manufacture of parts and accessories for motor vehicles and their engines [brakes, gear boxes, axles, road wheels, suspension shock absorbers, radiators, silencers, exhaust pipes, steering wheels, steering columns and steering boxes and other parts and accessories n.e.c.] | 1030 | Processing and preserving of fruit, vegetables and edible nuts | 1520 | Manufacture of footwear | 1313 | Manufacture of made-up textile articles, except apparel |

| Auto- mobile (NIC- 2008 codes) | Description | Food process- ing (NIC- 2008 codes) | Description | Leather (NIC- 2008 codes) | Description | Textiles (NIC- 2008 codes) | Description |
|---|----------------------------|--|---|--|--------------------|---|---|
| (1) | (2) | (1) | (2) | (1) | (2) | (1) | (2) |
| 3091 | Manufacture of motorcycles | 1040 | Manufacture of vegetable and animal oils and fats | | | 1392 | Manufacture of carpet and rugs other than by hand |
| | | 1050 | Manufacture of dairy product | | | 1393 | Manufacture of cordage, rope, twine and netting |
| | | 1061 | Manufacture of grain mill products | | | 1394 | Embroidery work, zari work and making of ornamental trimmings by hand |
| | | 1062 | Manufacture of starches and starch products | | | 1399 | Manufacture of other textiles n.e.c. |
| | | 1080 | Manufacture of prepared animal feeds | | | 1391 | Manufacture of knitted and crocheted fabrics and articles |
| | | 1071 | Manufacture of bakery products | | | | |
| | | 1072 | Manufacture of sugar | | | | |
| | | 1073 | Manufacture of cocoa, chocolate and sugar confectionery | | | | |
| | | 1074 | Manufacture of macaroni, noodles, couscous and similar farinaceous products | | | | |
| | | 1079 | Manufacture of other food products n.e.c. | | | | |

| Auto-mobile (NIC-2008 codes) | Description | Food process- sing (NIC- 2008 codes) | Description | Leather (NIC- 2008 codes) | Description | Textiles (NIC- 2008 codes) | Description |
|------------------------------------|-------------|---|---|------------------------------------|-------------|-------------------------------------|-------------|
| (1) | (2) | (1) | (2) | (1) | (2) | (1) | (2) |
| | | 1101 | Distilling, rectifying and blending of spirits; ethyl alcohol production from fermented materials | | | | |
| | | 1102 | Manufacture of wines | | | | |
| | | 1103 | Manufacture of malt liquors and malt | | | | |
| | | 1104 | Manufacture of soft drinks; production of mineral waters | | | | |

V. Period of the survey and work programme

The selection of PSUs and listing of establishments were carried out from February 2011 till the end of April 2011. The main fieldwork for data collection from selected establishments across the three states (Tamil Nadu, Maharashtra and Orissa) was carried out in phases in view of elections and other issues. The process of data collection started in May 2011 and was completed in mid-August 2011.

VI. Questionnaire design

Two types of questionnaires were used. The first one was for netting the establishments located outside the households with FIXED structure by the number of employees across the four survey sectors under study in the three states. This provides the **Sampling Frame** for selection of "business establishments" for the study under reference. In the listing questionnaire, which was a short questionnaire, the following important questions were asked:

- i) Type of business
- ii) Status of registration
- iii) Number of hired workers

It may be noted that household-based establishments were beyond the scope of this study and therefore were not covered in listing operation.

The main features of the questionnaire for the main survey, which was administered across establishments, were as under:

- a. Sector of operation and business address.
- b. Employee size.
- c. Business profile in terms of product manufactured, years of operation, structure of business, employment in terms of part time, full time, temporary, average working hours, and mode of payment.
- d. Perception of the business environment, labour laws and business regulations; whether maintaining an employment register, paying minimum wages, provident fund, insurance, etc.
- e. Business registration – whether partnership, private limited, cooperative; the number of days taken for registration, official fees for registration, reasons for not registering.
- f. Compliance with laws and regulations; payment of minimum wages.
- g. Social security and workers compensation.
- h. Unionization and gratuity.
- i. Income tax and VAT.
- j. Any incentives, informal payments and penalty questions.

A. Sampling design

I. Definition of PSUs for urban and rural areas

PSUs are separate for urban and rural areas. For urban areas, the primary sampling unit is the “town” and for rural areas it is the “village”.

II. Methodology adopted/sampling procedure

A multistage PPS sampling process (three-stage sampling) was used for selection of PSUs in all the three states of Tamil Nadu, Maharashtra and Odisha. There was no separate frame according to rural/urban. However, the questionnaire profiling is urban/rural.

a. Selection of first stage units

It was decided that 10 per cent of the total number of districts within a state would be the reasonable size of the first stage unit (FSU) for getting a better picture of the industrial scenario of the state as a whole. Accordingly, the sample allocation of districts would be as follows:

- For Tamil Nadu, three districts were selected as FSUs. It may be noted that the MSE sector in this state is highly organized and developed. These three districts were chosen using PPS sampling without replacement (PPS WOR) so that there is a higher chance of selecting districts with high concentration of businesses.
- The recommended size measure used was number of business establishments in the district as per the *Economic Census 2005*.
- The cumulative total method of systematic PPS sampling was used to select districts.

b. Selection of second stage units

- The total sample allocation for PSUs for Tamil Nadu was fixed at 50. The allocation of PSUs in each of the selected districts had to be proportional to the number of business establishments so that districts with a higher concentration of businesses are allocated more PSUs.
- There was no minimum number of establishments for each sector set for the purpose of selection of PSUs in the selected districts.
- From the selected units, PSUs were selected based on probability proportional to size (PPS) on the concentration of target sectors.

c. Selection of third stage units

- A separate listing questionnaire was canvassed for the development of a list frame to be used for the selection of third stage units, namely business establishments within each of the selected PSUs or from a segment of a PSU.
- In the third stage, 12 business establishments were selected per PSU on an average for canvassing the main questionnaire through face-to-face interviews.
- Depending on the size of the PSU, the whole area was covered (if numbers of households is less than, say, 100) for selection of third stage units otherwise the segment formation approach was used as given below.
- To do the segment formation within a PSU where the number of households is more than 100, an area with probability proportional to the concentration of businesses was chosen.

d. PPS sampling procedure used

PPS WOR technique was used to select the districts. The procedure used to obtain the sample districts through PPS sampling is explained as under:

Step 1: List all the business establishments in each district.

Step 2: Calculate the running cumulative industries (as shown in column C). The last number in this column is the total number of business establishments in the state.

Step 3: **10 per cent** of the number of districts selected in the sample is three. Divide the total number of the establishments in the state. The result, 5,024, is the Sampling Interval (SI).

Step 4: A number between one and three – the SI was chosen at random to determine the random start (RS). In this case, the RS is 2523.

Step 5: Next, the following series was computed:

RS

RS+SI

RS+2SI

Example: RS + 2SI, is calculated as two times the sampling interval added to the RS. In this case, $2523 + 2(5024) = 12571$.

Step 6: Each of the three numbers corresponds to the districts on the list. The districts selected are those for which the cumulative population contains the numbers in the series we calculated.

Step 7: Continuing in this manner, the desired numbers of districts are selected.

III. Sample selected

a. Tamil Nadu

The districts selected are Coimbatore, Erode, Chennai, Madurai, Salem, and Tiruchirapalli. It is found that Salem has the maximum number of business establishments from the requisite sectors, out of the six districts selected. Since the number of PSUs selected from the districts should be proportional to the total number of business establishments present in the districts, it was approximated that the number of PSUs that will be selected from each of the districts will be as shown in table A.2.

Table A.2. Distribution of PSUs over selected districts in Tamil Nadu as per urban/rural break-up

| District | PSUs = Towns + Villages | Towns | Villages |
|------------|-------------------------|-------|----------|
| Coimbatore | 23 | 6 | 17 |
| Erode | 17 | 5 | 12 |
| Vellore | 2 | 1 | 1 |
| Salem | 45 | 10 | 35 |
| Tirupur | 8 | 5 | 3 |
| Chennai | 1 | 1 | 0 |
| Madurai | 2 | 1 | 1 |
| Total | 100 | | |

b. Maharashtra

The districts selected in Maharashtra are Aurangabad, Pune, Mumbai, Solapur, Thane, and Satara. Listing was conducted in the selected PSUs in these six districts to find out the number of units or enterprises belonging to the four sectors covered by the study. The primary survey was conducted in 1,200 units (spread amongst the four sectors) in the state.

c. Odisha

The districts selected in Odisha are Cuttack, Khurdha and Ganjam. It was found that Cuttack has the maximum number of business establishments from the requisite sectors, out of the three districts selected, while Khurdha and Ganjam have similar number of business establishments from the requisite sectors. Hence, it was approximated that around 20 PSUs out of 50 should be in Cuttack district. Khurdha and Ganjam would have around 15 out of 50 PSUs each (table A.3).

Table A.3. Distribution of PSUs over selected districts in Tamil Nadu as per urban/rural break-up

| District | PSUs = Towns + Villages | Towns | Villages |
|----------|-------------------------|-------|----------|
| Khurda | 15 | 3 | 12 |
| Cuttack | 20 | 3 | 17 |
| Ganjam | 15 | 4 | 11 |
| Total | 50 | | |

Sample Allocation

In order to adjust the non-response five per cent over sampling was done at the third stage.

B. Training, field supervision and quality control

- The training imparted to the field enumerators was carried out at the district headquarters of the corresponding states.
- The field briefing was given by the research professionals and each aspect of the main questionnaire was discussed. After the briefing, the researcher along with the field supervisor and enumerators visited the enterprises in each segment and carried out the pilot work. In addition to collecting information from each of the three states of the study, they also wanted to find out about any issues/problems that had cropped up at this stage.

- The designated field supervisors across the three states carried out spot checking as well as 50 per cent verification checks in each segment for each state. In addition, wherever the enumerator faced an obstacle/problem, or the respondent was not available, that enterprise was revisited by the enumerator as well as the supervisor and the data collected.
- Once the data were collected and checked /spot checked by the supervisor, the completed questionnaires were sent to the research office in Delhi for necessary scrutiny, coding and data entry. If an enterprise did not respond, they were dropped from the final list of successful respondents and replaced by a substitute from the same segment.

C. Estimation procedure

The data used for tabulation are unweighted without application of “multipliers” and percentage distribution has been arrived at by using such “unweighted data”.

D. Limitations/Observations

- Census Enumeration Area (EA) maps could not be used. However, in the case of towns, ward details and ward numbers were collected from the electoral office and were used.
- The establishments which were also enterprises were surveyed.
- Incomplete questionnaires were not considered and no auto editing has been done.
- Percentages have been arrived at by using “unweighted data”, without any multiplier. As such, no state-level estimates have been made.
- The results are to be treated as a case study.
- Since no weights/multiplier was used, there are no state-wise estimates for inter-state comparison.

Appendix II

Table B.1. Distribution of total employees in MSEs across gender for different types of employment in each sector, 2011

| Maharashtra | | | | | | | | |
|-----------------|-----------|--------|-----------|--------|------------------|--------|-------|--------|
| Business sector | Full time | | Part time | | Casual/Temporary | | Total | |
| | Male | Female | Male | Female | Male | Female | Male | Female |
| Textile | 64% | 36% | | | 73% | 27% | 70% | 30% |
| Automobile | 72% | 28% | 100% | 0% | 85% | 15% | 80% | 20% |
| Food processing | 75% | 25% | 100% | 0% | 56% | 44% | 64% | 36% |
| Leather | 88% | 12% | | | 88% | 12% | 88% | 12% |
| Total | 74% | 26% | 100% | 0% | 76% | 24% | 75% | 25% |
| Tamil Nadu | | | | | | | | |
| Business Sector | Full time | | Part time | | Casual/Temporary | | Total | |
| | Male | Female | Male | Female | Male | Female | Male | Female |
| Textile | 77% | 23% | | | 61% | 39% | 67% | 33% |
| Automobile | 84% | 16% | 100% | 0% | 87% | 13% | 85% | 15% |
| Food processing | 50% | 50% | 49% | 51% | 58% | 42% | 52% | 48% |
| Leather | 71% | 29% | 83% | 17% | 79% | 21% | 74% | 26% |
| Total | 73% | 27% | 69% | 31% | 70% | 30% | 72% | 28% |
| Orissa | | | | | | | | |
| Business sector | Full time | | Part time | | Casual/Temporary | | Total | |
| | Male | Female | Male | Female | Male | Female | Male | Female |
| Textile | 86% | 14% | | | 56% | 44% | 66% | 34% |
| Automobile | | | | | | | | |
| Food processing | 36% | 64% | | | 35% | 65% | 35% | 65% |
| Leather | | | | | | | | |
| Total | 46% | 54% | | | 40% | 60% | 42% | 58% |

Table B.2. Distribution of total employees in MSEs across gender for different types of employment in each sector, 2009

| Maharashtra | | | | | | | | |
|-----------------|-----------|--------|-----------|--------|------------------|--------|-------|--------|
| Business sector | Full time | | Part time | | Casual/Temporary | | Total | |
| | Male | Female | Male | Female | Male | Female | Male | Female |
| Textile | | | | | 100% | 0% | 100% | 0% |
| Automobile | 99% | 1% | | | 99% | 1% | 99% | 1% |
| Food processing | 77% | 23% | 100% | 0% | 51% | 49% | 51% | 49% |
| Leather | 100% | 0% | | | 100% | 0% | 100% | 0% |
| Total | 93% | 7% | 100% | 0% | 52% | 48% | 53% | 47% |

| Tamil Nadu | | | | | | | | |
|-----------------|-----------|--------|-----------|--------|------------------|--------|-------|--------|
| Business sector | Full time | | Part time | | Casual/Temporary | | Total | |
| | Male | Female | Male | Female | Male | Female | Male | Female |
| Textile | 77% | 23% | | | 38% | 62% | 64% | 36% |
| Automobile | 92% | 8% | 100% | 0% | 88% | 12% | 91% | 9% |
| Food processing | 56% | 44% | 34% | 66% | 65% | 35% | 58% | 42% |
| Leather | 69% | 31% | 50% | 50% | 76% | 24% | 71% | 29% |
| Total | 73% | 27% | 43% | 57% | 76% | 24% | 74% | 26% |
| Orissa | | | | | | | | |
| Business sector | Full time | | Part time | | Casual/Temporary | | Total | |
| | Male | Female | Male | Female | Male | Female | Male | Female |
| Textile | | | | | | | | |
| Automobile | | | | | | | | |
| Food processing | 96% | 4% | | | 64% | 36% | 72% | 28% |
| Leather | | | | | | | | |
| Total | 96% | 4% | | | 64% | 36% | 72% | 28% |

Table B.3: Distribution of MSEs across Payment Modality in different Business Sectors

| Payment modality | Textile | Automobile | Food processing | Leather | Total |
|------------------|---------|------------|-----------------|---------|-------|
| Maharashtra | | | | | |
| Hourly basis | 0% | 0% | 0% | 0% | 0% |
| Daily basis | 10% | 0% | 8% | 0% | 5% |
| Weekly basis | 1% | 1% | 67% | 0% | 17% |
| Monthly basis | 88% | 99% | 24% | 100% | 78% |
| Piece-rate | 0% | 0% | 0% | 0% | 0% |
| Lump-sum | 0% | 0% | 0% | 0% | 0% |
| Other | 0% | 0% | 1% | 0% | 0% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Tamil Nadu | | | | | |
| Hourly basis | 0% | 0% | 1% | 0% | 0% |
| Daily basis | 12% | 3% | 46% | 10% | 17% |
| Weekly basis | 23% | 6% | 30% | 23% | 20% |
| Monthly basis | 62% | 89% | 18% | 67% | 59% |
| Piece-rate | 2% | 2% | 4% | 1% | 2% |
| Lump-sum | 1% | 0% | 2% | 0% | 1% |
| Other | 0% | 0% | 0% | 0% | 0% |
| Total | 100% | 100% | 100% | 100% | 100% |

| Odisha | | | | | |
|---------------|------|--|------|--|------|
| Hourly basis | 0% | | 0% | | 0% |
| Daily basis | 34% | | 16% | | 25% |
| Weekly basis | 0% | | 8% | | 4% |
| Monthly basis | 45% | | 75% | | 60% |
| Piece-rate | 21% | | 1% | | 11% |
| Lump-sum | 0% | | 0% | | 0% |
| Other | 0% | | 0% | | 0% |
| Total | 100% | | 100% | | 100% |

Table B.4. Percentage distribution of MSEs by frequency of official inspection in different business sectors

| Frequency of government inspection | Textile | Automobile | Food processing | Leather | Total |
|------------------------------------|------------|------------|-----------------|------------|--------------|
| Maharashtra | | | | | |
| Not once | 7% | 11% | 3% | 1% | 6% |
| 1-2 times | 87% | 88% | 76% | 99% | 88% |
| 3-5 times | 5% | 1% | 21% | 0% | 7% |
| 5-10 times | 0% | 0% | 0% | 0% | 0% |
| 10 or more times | 0% | 0% | 0% | 0% | 0% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Base (Total no. of MSEs) | 300 | 304 | 300 | 300 | 1 204 |
| Tamil Nadu | | | | | |
| Not once | 27% | 39% | 71% | 7% | 36% |
| 1-2 times | 69% | 60% | 25% | 71% | 56% |
| 3-5 times | 3% | 1% | 4% | 15% | 6% |
| 5-10 times | 1% | 0% | 0% | 8% | 2% |
| 10 or more times | 0% | 0% | 0% | 0% | 0% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Base (Total no. of MSEs) | 301 | 314 | 300 | 310 | 1 225 |
| Odisha | | | | | |
| Not once | 85% | | 8% | | 47% |
| 1-2 times | 11% | | 66% | | 38% |
| 3-5 times | 0% | | 3% | | 1% |
| 5-10 times | 4% | | 24% | | 14% |
| 10 or more times | 0% | | 0% | | 0% |
| Total | 100% | | 100% | | 100% |
| Base (No. of MSEs) | 300 | | 300 | | 600 |

Table B.5. Percentage of MSEs that are inspected by different officers/departments

| Officers/Departments | Textile | Automobile | Food processing | Leather | Total |
|---------------------------------|------------|------------|-----------------|------------|-------------|
| Maharashtra | | | | | |
| Factory Inspector | 33% | 78% | 4% | 0% | 29% |
| Health / Labor Inspector | 53% | 10% | 89% | 99% | 62% |
| Tax inspector | 0% | 0% | 0% | 0% | 0% |
| Other | 0% | 0% | 0% | 0% | 0% |
| Base (Total no. of MSEs) | 300 | 304 | 300 | 300 | 1204 |
| Tamil Nadu | | | | | |
| Factory Inspector | 61% | 66% | 65% | 68% | 65% |
| Health / Labor Inspector | 50% | 23% | 39% | 47% | 40% |
| Tax inspector | 29% | 34% | 5% | 56% | 31% |
| Other | 8% | 2% | 1% | 10% | 5% |
| Base (Total no. of MSEs) | 301 | 314 | 300 | 310 | 1225 |
| Odisha | | | | | |
| Factory Inspector | 5% | | 32% | | 19% |
| Health / Labor Inspector | 1% | | 43% | | 22% |
| Tax inspector | 0% | | 6% | | 3% |
| Other | 93% | | 4% | | 49% |
| Base (Total no. of MSEs) | 300 | | 300 | | 600 |

Table B.6. Percentage of MSEs that do not maintain an official employment register (various reasons)

| Reason | % MSEs | | |
|--|-------------|------------|------------|
| | Maharashtra | Tamil Nadu | Odisha |
| It is not legally required | 5% | 71% | 1% |
| It is legal, but not enforced | 14% | 12% | 11% |
| Takes too much time | 6% | 7% | 3% |
| Unnecessarily complicated | 10% | 24% | 65% |
| Too costly | 0% | 12% | 2% |
| Not necessary, daily wage payment | 8% | 52% | 26% |
| Others | 57% | 2% | 10% |
| No reason provided | 12% | 0% | 10% |
| Base (Total no. of MSEs that do not maintain employment register) | 497 | 601 | 391 |

Table B.7. Percentage of MSEs with seven or more workers who do not have a trade union at their business (various reasons)

| Reason | % MSEs | | |
|---|-------------|------------|-----------|
| | Maharashtra | Tamil Nadu | Odisha |
| It is not legally required | 9% | 60% | 7% |
| It is legally required, but not enforced | 37% | 33% | 29% |
| Too costly | 18% | 6% | 13% |
| There are regular meetings/communication with workers | 54% | 26% | 84% |
| Workers have not demanded a union | 52% | 59% | 73% |
| Others | 11% | 4% | 3% |
| Base (No. of MSEs with seven or more workers without a trade union who responded) | 122 | 70 | 94 |
| Note: Percentages do not add to 100 per cent because the same enterprise can give more than one reason. | | | |

Table B.8. Percentage distribution of MSEs in India across number of days lost due to labour disputes in last one year, by business sector

| Days of work lost due to labour disputes | Textile | Automobile | Food processing | Leather | Total |
|--|------------|------------|-----------------|------------|-------------|
| Maharashtra | | | | | |
| 0 days | 85% | 63% | 85% | 100% | 83% |
| 1-5 days | 14% | 37% | 12% | 0% | 16% |
| 6-20 days | 0% | 0% | 2% | 0% | 0% |
| 21-50 days | 0% | 0% | 0% | 0% | 0% |
| 51 and above | 1% | 0% | 1% | 0% | 0% |
| Base (Total no. of MSEs) | 300 | 304 | 300 | 300 | 1204 |
| Tamil Nadu | | | | | |
| 0 days | 96% | 99% | 97% | 93% | 96% |
| 1-5 days | 4% | 0% | 3% | 5% | 3% |
| 6-20 days | 0% | 1% | 0% | 1% | 0% |
| 21-50 days | 0% | 0% | 0% | 1% | 0% |
| 51 and above | 0% | 0% | 0% | 0% | 0% |
| Base (Total no. MSEs) | 301 | 314 | 300 | 310 | 1225 |
| Odisha | | | | | |
| 0 days | 96% | | 78% | | 87% |
| 1-5 days | 4% | | 3% | | 3% |
| 6-20 days | 1% | | 11% | | 6% |
| 21-50 days | 0% | | 5% | | 2% |
| 51 and above | 0% | | 3% | | 2% |
| Base (Total no. of MSEs) | 300 | | 300 | | 600 |

Table B.9. Percentage of MSEs with 21 or more workers who do not file a monthly EPF return (various reasons)

| Reason | % MSEs | | |
|---|-------------|------------|-----------|
| | Maharashtra | Tamil Nadu | Odisha |
| It is not legally required | 0% | 32% | 0% |
| It is legal, but not enforced | 33% | 5% | 6% |
| Takes too much time | 33% | 3% | 0% |
| Unnecessarily complicated | 0% | 11% | 56% |
| Too costly | 0% | 11% | 31% |
| Workers have not demanded it | 67% | 53% | 63% |
| Employees prefer to receive higher take-home pay | 0% | 68% | 31% |
| Others | 0% | 18% | 0% |
| Base (MSEs with 21 or more workers who do not file monthly EPF return) | 3 | 38 | 16 |

Table B.10. Percentage of MSEs with ten or more workers who have never made gratuity payments (various reasons)

| Reason | % MSEs | | |
|---|-------------|------------|-----------|
| | Maharashtra | Tamil Nadu | Odisha |
| It is not legally required | 0% | 59% | 0% |
| It is legal, but not enforced | 11% | 13% | 6% |
| There was no resignation/retirement | 0% | 13% | 67% |
| Takes too much time | 0% | 18% | 21% |
| Too costly | 22% | 7% | 19% |
| Workers have not demanded it | 67% | 75% | 81% |
| Other | 0% | 1% | 2% |
| All MSEs with ten or more workers who have never made gratuity payments | 18 | 85 | 94 |
| Note: Percentages might not add up to 100 per cent because a firm can provide more than one answer. | | | |

Table B.11. Percentage of MSEs who reported that they are aware of the amount of gratuity payment that businesses with ten or more regular employees are required to make

| Business sector | Maharashtra | | Tamil Nadu | | Odisha | |
|-----------------|-------------|--------------------------|------------|--------------------------|--------|--------------------------|
| | % MSEs | Base (Total no. of MSEs) | % MSEs | Base (Total no. of MSEs) | % MSEs | Base (Total no. of MSEs) |
| Textile | 1% | 300 | 14% | 301 | 1% | 300 |
| Automobile | 1% | 304 | 45% | 314 | | |
| Food processing | 1% | 300 | 2% | 300 | 71% | 297 |
| Leather | 0% | 300 | 26% | 310 | | |
| Total | 1% | 1 204 | 22% | 1 225 | 36% | 597 |

Table B.12. Percentage of MSEs with 50 or more workers who have never taken government permission to retrench workers and provided retrenchment payments across reasons

| Reason | % MSEs | | |
|---|-------------|------------|----------|
| | Maharashtra | Tamil Nadu | Odisha |
| It is not legally required/exempted | 0% | 30% | 14% |
| It is legal, but not enforced | 9% | 21% | 14% |
| Takes too much time | 0% | 0% | 0% |
| Too costly | 18% | 3% | 0% |
| It has not been demanded | 27% | 15% | 14% |
| It has not been necessary | 27% | 58% | 86% |
| The separation was voluntary | 9% | 45% | 71% |
| Others | 9% | 24% | 0% |
| Base (No. of MSEs with 50 or more workers who have never taken government permission to retrench workers and provided retrenchment payments) | 8 | 33 | 7 |

Table B.13. Percentage of MSEs who reported that they are aware of monetary and transaction costs involved in retrenchment of employees

| Business Sector | Maharashtra | | Base (Total MSEs) | Tamil Nadu | | Base (Total MSEs) | Odisha | | Base (Total MSEs) |
|-----------------|---|------------------|-------------------|---|---------------|-------------------|---|----|-------------------|
| | % MSEs aware of costs involved in retrenchment of employees | | | % MSEs aware of costs involved in retrenchment of employees | | | % MSEs aware of costs involved in retrenchment of employees | | |
| | Monetary cost | Transaction cost | Monetary cost | Transaction cost | Monetary cost | Transaction cost | | | |
| Textile | 2% | 1% | 300 | 13% | 0% | 301 | 0% | 0% | 300 |
| Auto-mobile | 1% | 0% | 304 | 32% | 0% | 314 | | | |
| Food processing | 0% | 0% | 300 | 6% | 0% | 300 | 2% | 0% | 300 |
| Leather | 0% | 0% | 300 | 20% | 0% | 310 | | | |
| Total | 1% | 0% | 1 204 | 18% | 0% | 1 225 | 1% | 0% | 600 |

Table B.14. Percentage distribution of MSEs who pay income tax across rate of income tax, by business sector

| Income tax rate | Textile | Automobile | Food processing | Leather | Total |
|--------------------|---------|------------|-----------------|---------|-------|
| Maharashtra | | | | | |
| Less than 10% | 25% | 17% | 64% | 1% | 22% |
| 10% | 38% | 30% | 32% | 99% | 48% |
| 11% to 15% | 21% | 35% | 2% | 0% | 19% |
| More than 15% | 16% | 17% | 1% | 0% | 11% |
| Total | 100% | 100% | 100% | 100% | 100% |

| Tamil Nadu | | | | | |
|-------------------|-------------|-------------|-------------|-------------|-------------|
| Less than 10% | 1% | 1% | 0% | 0% | 0% |
| 10% | 43% | 66% | 52% | 35% | 46% |
| 11% to 15% | 12% | 2% | 0% | 1% | 5% |
| More than 15% | 45% | 31% | 48% | 64% | 49% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Odisha | | | | | |
| Less than 10% | 0% | | 0% | | 0% |
| 10% | 100% | | 35% | | 47% |
| 11% to 15% | 0% | | 1% | | 1% |
| More than 15% | 0% | | 65% | | 52% |
| Total | 100% | | 100% | | 100% |

Note: All the MSEs who reported paying income tax did not provide information on the rate. Sample of MSEs who provided information are: Maharashtra: 706 out of 962, Tamil Nadu: 552 out of 581, Odisha: 177 out of 184.

Table B.15. Percentage distribution of MSEs who pay income tax on time spent on filing and paying for income tax, by business sector

| Time spent for filing and paying income tax | Textile | Automobile | Food processing | Leather | Total |
|--|----------------|-------------------|------------------------|----------------|--------------|
| Maharashtra | | | | | |
| 1-3 days | 89% | 88% | 65% | 27% | 70% |
| 4-10 days | 8% | 10% | 34% | 73% | 28% |
| 11-30 days | 3% | 2% | 1% | 0% | 2% |
| More than 30 days | 0% | 0% | 0% | 0% | 0% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Tamil Nadu | | | | | |
| 1-3 days | 24% | 27% | 39% | 40% | 32% |
| 4-10 days | 23% | 24% | 45% | 42% | 32% |
| 11-30 days | 24% | 48% | 14% | 14% | 24% |
| More than 30 days | 29% | 1% | 2% | 4% | 12% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Odisha | | | | | |
| 1-3 days | 0% | | 11% | | 11% |
| 4-10 days | 100% | | 86% | | 86% |
| 11-30 days | 0% | | 3% | | 3% |
| More than 30 days | 0% | | 0% | | 0% |
| Total | 100% | | 100% | | 100% |

Note: All the MSEs who reportedly paid income tax in Tamil Nadu and Odisha did not provide information on the number of days required to do so. Sample of MSEs who provided information are: Tamil Nadu: 577 out of 581, Orisaa: 137 out of 184.

Table B.16. Percentage of MSEs who did not pay income tax (various reasons)

| Reason | % MSEs | | |
|---|-------------|------------|------------|
| | Maharashtra | Tamil Nadu | Odisha |
| It is not legally required/exempted | 5% | 70% | 1% |
| It is legal, but not enforced | 85% | 27% | 23% |
| Takes too much time | 20% | 1% | 0% |
| Unnecessarily complicated | 21% | 41% | 94% |
| Too costly | 17% | 18% | 24% |
| Others | 46% | 0% | 0% |
| Base (Total MSEs who did not pay income tax) | 242 | 375 | 262 |
| Note: Percentages do not add to 100 per cent because the same enterprise can give more than one reason. | | | |

Table B.17. Percentage of MSEs who did not pay VAT (various reasons)

| Reason | % MSEs | | |
|--|-------------|------------|------------|
| | Maharashtra | Tamil Nadu | Odisha |
| It is not legally required/exempted | 4% | 54% | 2% |
| It is legally required, but not enforced | 63% | 39% | 18% |
| Takes too much time | 6% | 1% | 2% |
| Unnecessarily complicated | 17% | 28% | 95% |
| Too costly | 23% | 9% | 27% |
| Others | 72% | 0% | 1% |
| Base (Total MSEs who did not pay VAT) | 685 | 694 | 274 |
| Note: Percentages do not add up to 100 per cent because the same enterprise can give more than one reason. | | | |