

Small Size and Informality in Enterprises in Bihar

Implications for workers

The overwhelmingly small-size and informal nature of the enterprises in Bihar was revealed by an enterprise survey conducted in six selected towns of the state. This smallness of size was found both in terms of turnover and number of workers. The high degree of informality, of course, comes as no surprise in India, where the informal sector accounts for a major share of the activities (numbers) and where around 80 percent of the workforce, too, is informally employed. In fact, there has been increasing evidence of informalization within the formal sector (IHD 2014). This is the ground reality in the state when the Sustainable Development Goal No. 8 aims for ‘decent work’ for everyone by 2030.

The survey

It has been contended that Small and Medium Towns can play an important role in spreading urban development via rural-urban linkages (ref). Urbanization has been low in Bihar, a state with the highest population density in the country at 1106 people per sq. km. The urbanization in Bihar was just 11.3 percent in 2011 vis-a-vis the national average of 31.1 percent. In this context, an attempt was made to understand the urban development in Bihar with the help of an enterprise survey with reference to three towns in the more industrialized South Bihar and three in less industrialized North Bihar.

Within each region three towns were selected on the basis of their size, location, main economy, level of economic development, proximity to rural centres and large urban centres. From the Southern part, three towns comprising Patna (population 16.84 lakhs), Biharsharif (2.97 lakhs) both class I towns and Hilsa (population 0.51 lakhs) a class II town have been purposively selected. On the other hand from North Bihar, Darbhanga (population 2.96 lakhs), a class-I town, Madhubani (population 0.76 lakhs) a class –II town and Jhanjharpur which is a class III town (with population 0.31 lakhs) have been selected.¹ The survey was conducted during August-November 2015 at the factories, shops and establishments in the sample towns. The list of enterprises (other than registered factories) was collected from Department of Industries, Government of Bihar (GOB) and the town-wise list of factories collected from Annual Survey of Industries 2014-15. All the enterprises were classified into 19 broad activity categories for each town. The stratification for sampling of the shops/establishments was done on the basis of these broad categories and for each category proportionate sample has been drawn. The total number of enterprises covered in the enterprise survey conducted was 907 of which 31 are registered under the Factories Act.

Small-sized enterprises dominate

The survey showed that enterprises with annual turnover up to Rs 20 lakh account for around 80 percent to over 90 percent of total enterprises for all sample towns except for Patna.² At an aggregative level, for the Own Account Enterprises, with 67 percent having turnover below Rs 5 lakh, and another 29.

Table 1 Distribution (%) of enterprises by turnover for each type of enterprise

¹Patna is the centre for development in the state of Bihar and cannot be compared to any other town in the state.

² Data not shown here. Even in Patna, the corresponding share was quite high at 65.8 percent.

(six towns)
Category

Category	Own Account Enterprises	Non Directory Enterprises	Directory Enterprises	Total
Below 5 lakh	67.0	39.3	16.5	46.1
5-20 lakh	29.2	34.1	24.8	30.5
20-40 lakh	3.2	16.9	10.2	10.3
Above 40 lakh	0.6	9.6	48.4	13.0

Source: Field Survey

percent having turnover in the Rs 5-20 lakh bracket, there are barely 4 percent larger enterprises.³ For the Non Directory Enterprises, too, 63 percent have turnover below Rs 20 lakh. It is significant that even the Directory Enterprises, larger in size, which anyhow have a small presence in the sample at 15.3 percent, show 41 percent of enterprises with turnover of less than Rs 20 lakh.

The size of enterprises, or firm size, tells a similar story. By definition, NDEs employ up to 5 workers (own and hired together). Fig.1 shows that the modal frequency for the total of 380 NDEs in the sample is for 3 workers and the next highest frequency is for 4 workers. For Directory enterprises, the number of workers can be quite high and varies in the sample of 139 Directory Enterprises from 6 to 346 workers employed in an enterprise. However, more than half (56 percent) of the Directory Enterprises surveyed had 12 workers or less, i.e. in the range of 6-12 workers (Fig. 2). It is interesting that the highest frequency (14 enterprises) is for 8 workers. If we consider the benchmark numbers for factories⁴, then we see that 36 percent of the enterprises have below 10 workers and 66 percent of the enterprises have below 20 workers. Indian entrepreneurs allegedly tend to keep the size of their enterprises small so as to avoid coming into the formal network of the Factory Act, which involves various labour regulations, mandatory benefits to be given to workers as well as inspection, taxation, etc. The overall small size of the sample for DEs reflects such a situation.

Fig. 1 Distribution (%) of Non Directory Enterprises by number of workers

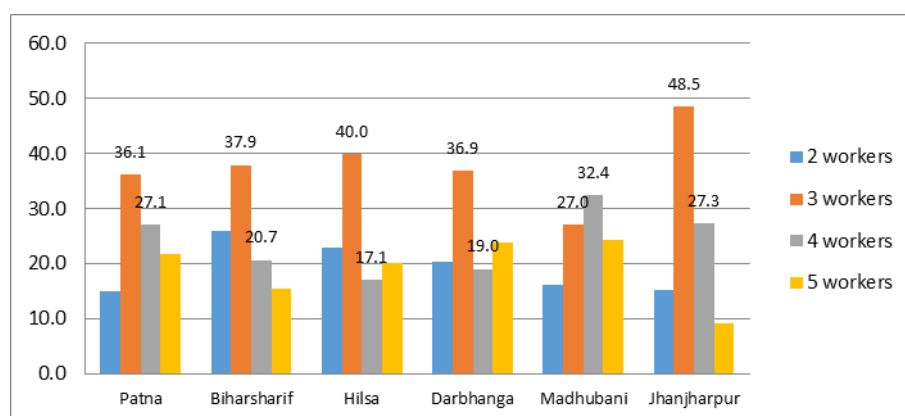
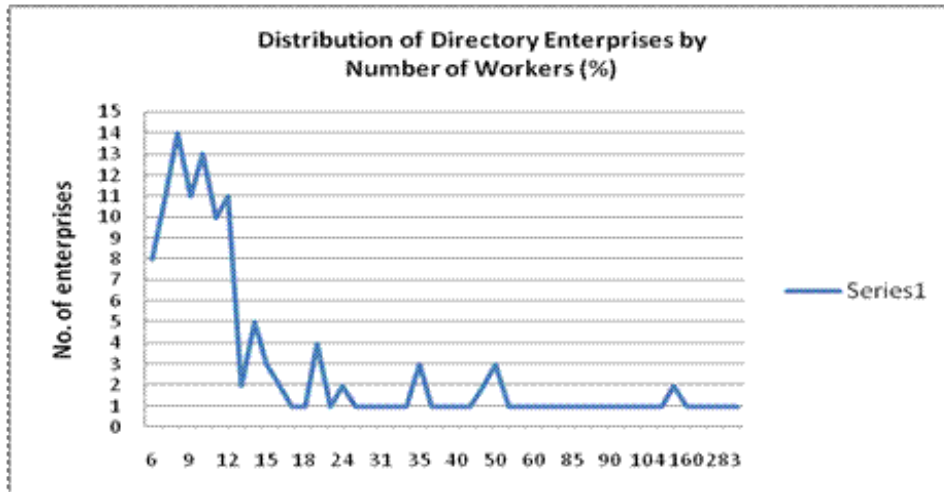


Fig. 2 Distribution (%) of Directory Enterprises by number of workers

³An enterprise, which is run usually without the help of any hired worker employed on a fairly regular basis, is defined as an Own Account Enterprise (OAE). The DEs are enterprises which employ 6 or more workers (household and hired workers taken together) of whom at least one hired worker is employed on a fairly regular basis. The NDEs refer to enterprises which employ less than 6 workers (household and hired workers taken together) of whom at least one hired worker is employed on a fairly regular basis.

⁴Factories refer to manufacturing activity being carried on with 10 or more workers with electricity or 20 or more workers working without the aid of electricity, with some exceptions such as mining, hotels and restaurants, etc.



What characterizes the informal sector?

A formal/organized sector enterprise is usually identified on the basis of whether an enterprise is registered or not, size of the enterprise, provision of benefits, etc. The NCEUS (National Commission for Enterprises in the Unorganized Sector) (2009) report has defined the Informal Sector as consisting of ‘..all unincorporated private enterprises owned by individuals and households engaged in the sale and production of goods and services on a proprietary partnership basis and with less than 10 total workers.’⁵ It is not necessary that all workers in the formal sector are formal workers. Formal sectors can also employ informal workers. The NCEUS report has defined Informal Workers as ‘..those working in the informal sector or households, excluding regular workers with social security benefits provided by the employers and workers in the formal sector without any employment and social security benefits provided by employers.’ Formalization of structure in an enterprise is important especially from the point of view of the workers, because they usually get better wages/salaries, better working conditions, social security, etc. with increasing formalization of the workplace.

The degree of formality in the survey enterprises has been probed with reference to the incidence of registration of the units, the type of contract provided to the workers, maintaining regular accounts, and frequency of inspection. The facilities provided to the workers have also been investigated.

Informal structure of enterprises

Informality characterizes most survey enterprises. Registration and maintenance of accounts were the features where the enterprises came across as relatively more formalized, with a high share (90 percent) of the DEs being registered. The larger towns showed higher incidence of registration vis-à-vis the smaller towns. Units with Trade/retail activity show relatively more maintenance of accounts as against manufacturing, and other services. However, in terms of provision of written contracts to employees, inspection process, provision of training, social security provisions such as medical leave, Provident Fund, gratuity, insurance, etc. and even in terms of providing toilet facilities, enterprises were found to be informal in nature with workers bearing the brunt of the effect of informality. Exploitative conditions for workers prevailed also in terms of number of hours of work and number of days worked.

Registration

On an average nearly 60 percent of the survey enterprises, taking all six sample towns together, reported that these were registered. The share was highest among the DEs (90.3 percent), followed by NDEs (65.7 percent), but only 37.5 percent of the OAEs were registered. There was also considerable variation across towns: Darbhanga (69.5 percent) and Patna (64.6 percent), the large towns, showed highest incidence of registration while, the smaller towns of Jhanjharpur (37.2 percent) and Hilsa

⁵Draft report of NCEUS, 2009.

(47.7 percent) showed least cases of registration of enterprises. Units engaged in trading and manufacturing had maximum share of registrations.

Provision of Contracts

Providing workers with a written contract is usually considered to be a hallmark of formalization of the system, and going by that, the sample of enterprises shows a dismal performance. Only 12 percent of directory and an insignificant 2 percent of non directory enterprises were found to be providing a written contract to their workers. Verbal contract is the dominant mode for both directory and non directory enterprises, and what is even more disturbing, the share of no contract being drawn up is as high as 27-28 percent (Figs 3 and 4).

Fig. 3 Nature of Contract for Non Directory Enterprises (Six Towns)

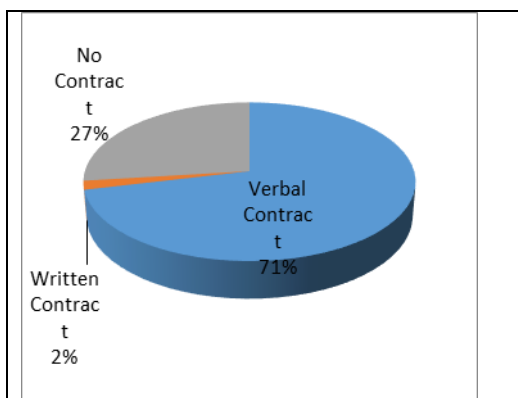
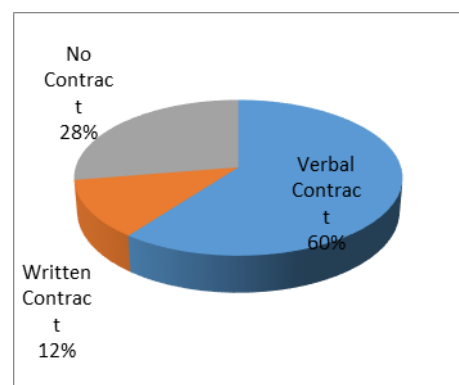


Fig. 4 Nature of Contract for Directory Enterprises (Six Enterprises (Six Towns))



Considering the individual towns, (Fig 5), it is seen that the incidence of no contracts is highest for enterprises surveyed in Hilsa and the incidence of written contract, i.e., formalisation, is highest in Patna, as can be expected. But even for enterprises in Patna, 68 percent reported employing their workers on the basis of a verbal contract, and nearly 22 percent did not provide any form of contract. The capital city of Patna being the exception, the smaller towns have hardly any form of written contract and even the relatively large town of Darbhanga showed just 2.7 percent of surveyed enterprises with a written contract. While there is not a lot of variation across towns regarding the type of contract given

Fig. 5 Type of Contracts in six sample towns

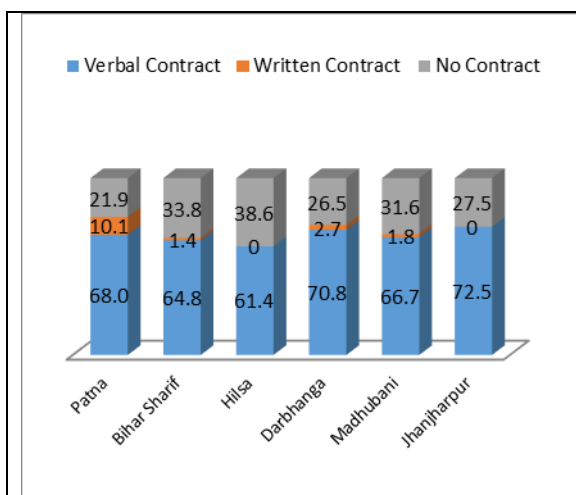
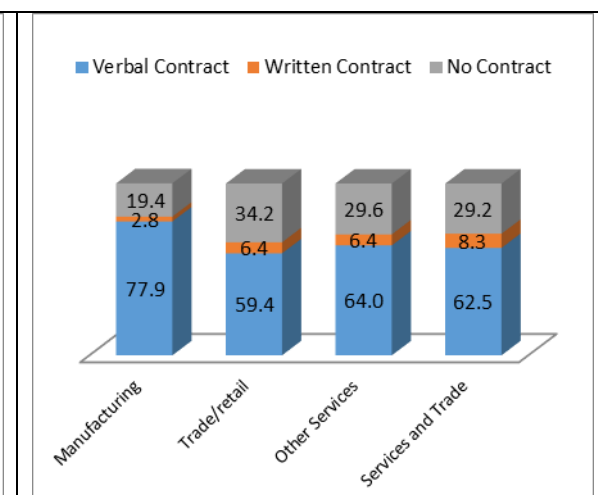


Fig. 6 Type of contracts in types of activities



to the workers, there is considerable variation vis-à-vis the enterprises engaged in different types of activities (Fig. 6). Enterprises engaged in trade/retail have the largest share of no contracts (34.2 percent) and the other service enterprises also have fairly high shares of no contracts. Written contracts are found least for the manufacturing activities, but these also have the least of share of enterprises with no contract at all. Such enterprises have the highest incidence of verbal contract.

Maintenance of accounts and frequency of inspection

Around 70 percent of the survey enterprises maintain accounts. The accounting system is stronger for the trading/retail enterprises, followed by services enterprises and somewhat lower for manufacturing units. Biharsharif, Darbhanga, Patna all exhibited very high share of trade/retail units with comparatively more formal structure on this count. The DEs, which are larger, have a relatively more formal structure vis-à-vis the other types of enterprises and show a high share of 86.1 percent maintaining accounts. OAEs show the least share for enterprises maintaining accounts.

But inspection was scarce among the survey units. Around 71.5 percent of the survey enterprises reported that no inspection takes place at their premises by Government inspector or by any public agency. Inspection is relatively slightly better in trading units. The higher frequency of inspection is once every three months or more, and only 5 percent of surveyed enterprises reported a monthly inspection. This feature points at the very informal structure of the enterprises surveyed. The overall small size of enterprises, and very low share of Directory Enterprises, is in keeping with informality observed among the surveyed units in terms of low incidence of inspection. But even for the DEs, around 40 percent enterprises reported that there was no inspection in the premises.

Provision of Facilities

Provision of even the basic facilities such as drinking water and toilets were not universal in the survey enterprises (Table 2), particularly the latter was woefully lacking. Training facilities were meagre.

Table 2 Provision of facilities in survey enterprises

	% survey enterprises reporting Drinking Water facilities	% survey enterprises reporting Toilet/Urinal Facilities	% survey enterprises reporting having any Training facilities
All Survey Enterprises	86.7%	55.3%	11%
Directory Enterprise	96.6%	81.8%	22.7%
Non Directory Enterprises	82.1 %	43.0%	5.5 %

Among the six sample towns, Darbhanga reported highest share (91.1 percent) with drinking water facilities and Biharsharif reporting least (76 percent) share. Enterprises under Other services category have higher shares (64 percent) reporting toilet facilities compared to trade and manufacturing units (53-54 percent). While in Patna, 62.4 percent enterprises have this amenity for the workers, in Jhanjharpur, barely one-third provide the same.

Among various activities, 19.2 percent of the Other services units provided training, contrasted by just 6.4 percent of the manufacturing units providing the same service. Among the sample towns, in Patna, the highest share of enterprises was reported for provision of training, but even this was just 16.6 percent of survey enterprises. In the semi-rural town of Jhanjharpur, on the other hand, there were

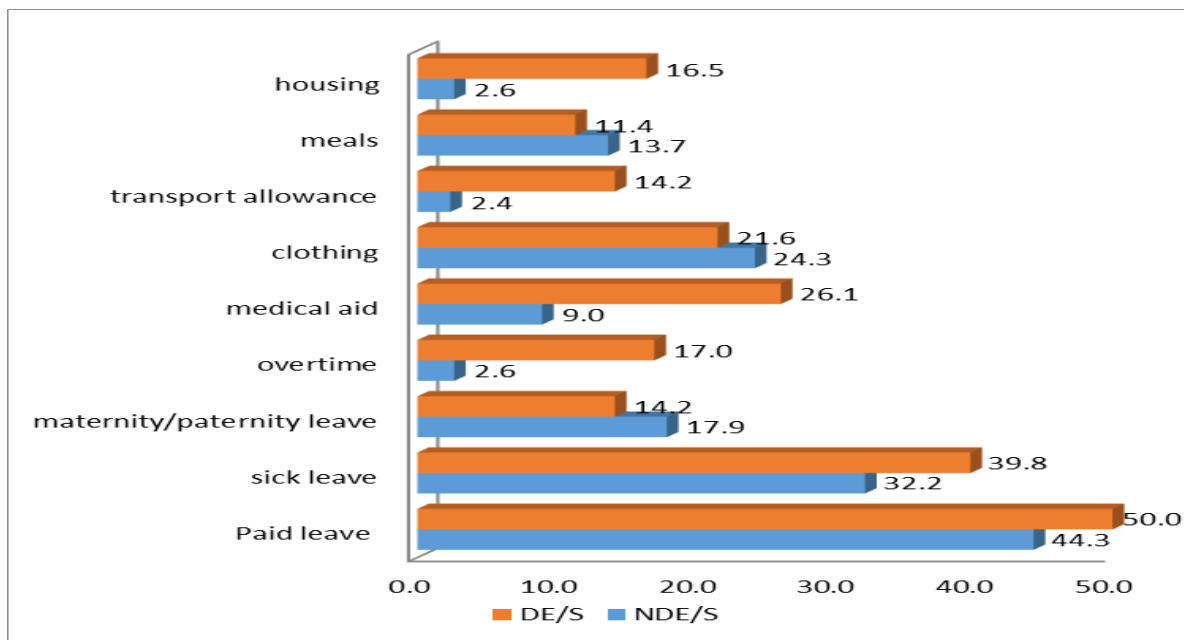
hardly any training facilities with just 2.4 percent of the enterprises providing some training to their workers.

Social security benefits

The deficit in provision of social security benefits is another marker of the informal nature of the enterprises in the sample towns. Among the establishments, the association of social security provisioning with larger enterprises is evident from Fig. 7 and Fig. 8. The Directory enterprises provided relatively higher benefits vis-à-vis the Non directory enterprises. Yet even for those, the maximum percentage of reporting units which provide such benefits do not exceed 50 percent. In fact, a slightly higher percentage of NDEs provide meals, clothing and maternity/paternity leave compared to DEs. For sick leave and paid leave, too, the NDEs are not far behind the DEs. However, in matters of housing, transport allowance and overtime, NDEs lag behind, and even for DEs, a very low share of enterprises provide these benefits to their workers.

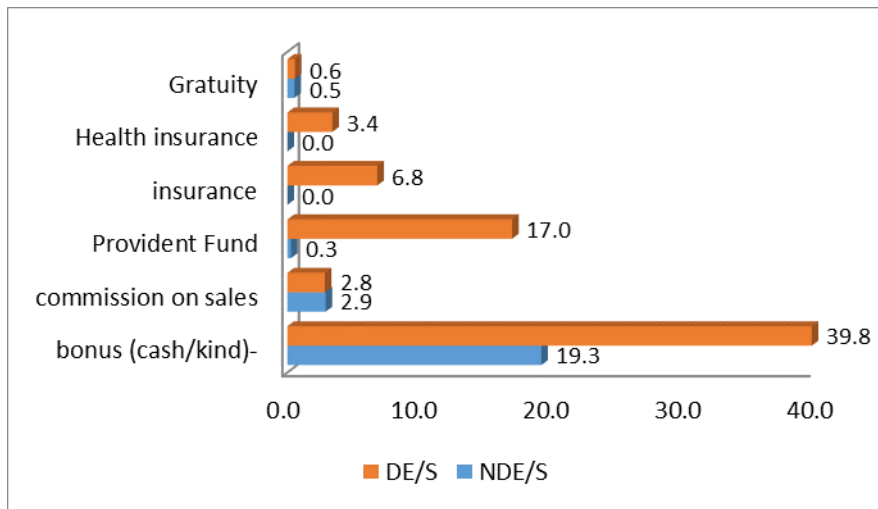
Among the sample towns, Darbhanga shows a high share of provision of paid leave and sick leave, particularly among the DEs (71.4 percent and 60.7 percent respectively). The trade/retail units and the service units provide such facilities more. In Patna, too, this feature is observed, though, to a lesser extent. The sample town of Hilsa, on the other hand, has very low percentages of enterprises providing facilities to the workers. Regarding medical aid, it is interesting that while 40 percent of the DEs give medical aid, the corresponding share is just 28 percent in Patna and this share for NDEs is extremely low at 7.5 percent for the Patna sample, even lower than in Hilsa.

Fig 7 Provision of selected social security benefits in DE and NDE units



The working conditions are seen to be even harsher when we look at the provision of the benefits associated with more formalized enterprises, such as Provident Fund, Gratuity, etc. The provision of Gratuity, PF, any form of insurance are practically non-existent in the NDEs, while even in DEs, just 17 percent reported provided the facility of PF to their employees. More employers give bonus to their workers: nearly 40 percent for DEs and around 19 percent for NDEs.

Fig. 8 Provision of selected social security benefits in DE and NDE units



Location

The location of the enterprise also reflects the degree of formality in the enterprise as can be seen from Table 3. With respect to self-employed workers in the informal sector, in particular, it has been seen that urban poverty rate among enterprises that have no fixed location can be as high as 40 percent (Sen 2013). Informality is not very pronounced in the survey enterprises in terms of location in Biharsharif

Table 3 Distribution (%) of Sample Enterprises in Six Towns by Location

Location of the establishment	Patna	Biharsharif	Hilsa	Darbhanga	Jhanjharpur	Madhubani	Total
within household premises	15.9	11.3	14.0	12.8	12.8	27.4	15.4
outside household premises: with fixed premises and with permanent structure	78.7	88.7	77.9	86.0	74.4	66.0	79.7
with fixed premises and with temporary structure/kiosk/stall	3.5	0.0	3.5	.6	12.8	3.8	3.3
with fixed premises but without any structure	.3	0.0	2.3	0.0	0.0	0.0	.3
mobile market	.3	0.0	0.0	0.0	0.0	0.0	.1
without fixed premises (street vendors)	1.0	0.0	2.3	.6	0.0	0.0	.7
Construction site	0.0	0.0	0.0	0.0	0.0	1.9	.2
others	.3	0.0	0.0	0.0	0.0	.9	.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

and Darbhanga since around 86-88 percent of the survey enterprises have fixed premises outside household premises as well as permanent structure. This share is slightly lower at around 74-78 percent in case of Patna, Hilsa and Jhanjharpur. But the share of fixed premises outside household premises as well as permanent structure is much lower at 66 percent for Madhubani. Correspondingly, Madhubani has a high share of enterprises (27.4 percent) located within household premises. The home-based enterprises are of many types, such as bidi-making, kirana shops, bamboo-basket making, garland-making, tailoring, fish/meat-selling, coaching centre, typing institute, etc. This share is also quite high for Patna at 15.9 percent. Jhanjharpur sample shows quite a high share, unlike in other towns, for enterprises located in temporary structures in fixed premises (12.8 percent).

Working hours

On an average, three-fourth of the survey enterprises have daily 9 working hours and above (Table 4). Around 19 percent of the enterprises reported working for 8 hours daily, while 5.4 percent said they worked for up to 7 hours. The hours of work are relatively long for enterprises in Darbhanga, while relatively more enterprises in Hilsa and Madhubani have somewhat lower hours. On an average, around half of the enterprises work for 7 days a week, and around half work for 6 days a week (Table 5). The long working hours are coupled with high number of weekly working days a week indicating that workers get very little rest. More than half the enterprises work for all seven days in a week and a 5-day week is practically non-existent among the survey enterprises. The enterprises in the two smaller towns of Hilsa in South Bihar and Jhanjharpur in North Bihar have a very high share of 7 day week.

Table 4 Distribution (%) of survey enterprises by daily working hours

	Up to 7 hours	8 hours	9 hours and above	Total	Up to 7 hours	8 hours	9 hours and above	Total
	Number				Percentage			
OAE	32	63	257	352	9.1	17.9	73.0	100
NDE	13	70	295	378	3.4	18.5	78.0	100
DE	4	38	133	175	2.3	21.7	76.0	100
Patna	15	51	248	314	4.8	16.2	79.0	100
Bihar Sharif	7	39	105	151	4.6	25.8	69.5	100
Hilsa	8	27	50	85	9.4	31.8	58.8	100
Darbhanga	4	23	137	164	2.4	14.0	83.5	100
Madhubani	11	17	77	105	10.5	16.2	73.3	100
Jhanjharpur	4	14	68	86	4.7	16.3	79.1	100
Total	49	171	685	905	5.4	18.9	75.7	100

Table 5 How many days in a week does the enterprise work?

	5 Days	6 Days	7 Days	Total	5 Days	6 Days	7 Days	Total
	Number				Percentage			
Patna	2	162	150	314	0.6	51.6	47.8	100
Bihar Sharif	3	76	72	151	2.0	50.3	47.7	100
Hilsa	4	21	60	85	4.7	24.7	70.6	100
Darbhanga	2	79	83	164	1.2	48.2	50.6	100
Madhubani	1	37	68	106	0.9	34.9	64.2	100
Jhanjharpur	0	15	71	86	0.0	17.4	82.6	100
Total	12	390	504	906	1.3	43.0	55.6	100

Conclusions and policy suggestions

The enterprise survey carried out in the six sample towns of Bihar indicated that the urban scenario in both North and South Bihar is characterized by small size of enterprises. It is revealed in terms of turnover as well as in terms of the number of workers employed. The high share of Own Account Enterprises and Non Directory Enterprises in the total sample is a pointer in this direction. The relatively larger establishment, the Directory Enterprises, which employ six hired workers or more,

comprise just 15 percent of the sample. Moreover, more than half of the Directory Enterprises employ between 6-12 workers, and 66 percent employ below 20 workers. This indicates that there is a tendency for the larger establishments to keep their size relatively small, possibly in order to escape the regulations associated with being registered under the Factories Act.

The informality of structure of the survey enterprises was captured in the lack of provision of written contracts by employers, poor facilities at the workplace, especially toilet provision, low provision of social security benefits, minimum inspection and very long working hours. There is relatively more formalization in terms of registration of the units, maintenance of accounts and fixed workplace. By and large, the Directory Enterprises showed more formal structure compared to Non Directory enterprises and Own Account Enterprises.

Overall, clearly the workers in the survey enterprises work in harsh conditions and they are not getting what is termed 'decent work'. They also get little time for rest and recreation. The small size of most enterprises and the proliferation of informality in the workplace, as well as limited checks and balances on the operation of such business units prevent setting in motion any forces that might rectify the situation. Small size of enterprises would also prevent workers from getting organized and demanding better working facilities and social security benefits.

A virtuous cycle of successful entrepreneurship and satisfied workers cannot overlook the workers' interest. The overwhelmingly informal nature of the workplace must be rectified and workers provided with written contract, basic facilities at the workplace, social security benefits, etc. including medical leave, meals, PF, gratuity, bonus, etc. The working hours, too, must be reduced in keeping with norms laid down by the state government.

There is need to put in place an effective inspection system, one which is not compromised with corrupt practices, so that the workers' interests are protected successfully. There also a need for more primary-survey based research on these issues, so that the ground reality regarding the working conditions for vast numbers of workers are brought to the attention of the policy-planners. Increased formalization of the workplace is an imperative that the policy-makers must acknowledge and act on with a sense of urgency.

This policy brief, prepared by Dr. Tanuka Endow, is based on a study 'Report on Growth, Urbanization and Rural-urban Linkages in Bihar' conducted at the Institute for Human Development, New Delhi. This study was funded by the International Growth Centre. The study report was prepared by Dr Tanuka Endow and Dr Sunil K. Mishra, under the over-all guidance of Dr. Alakh N. Sharma.