Informal Economy in India: Setting the framework for formalisation
# Contents

Introduction

1. Informal Economy in India: An Overview
   - Definition(s)
   - Size of Informal Economy in India
   - Legal & Regulatory Framework for Enterprises

2. Issues and Challenges
   - Costs of Formal vs Informal Economy
   - Concerns over Growth and Scalability
   - Barriers to Formality
   - Perceptions vs Reality
   - Enforcement issues
   - Adjustment Costs for Economy
   - Case Studies: Survey of Informal Enterprises

3. Learnings from Other Countries
   - Best Practices: Framework for Formalisation

4. Recommendations: Encouraging Formalisation

Annex 1: Global Case Studies
   - Brazil
   - Colombia
   - Chile

Annex 2: MSME Schemes in India
Introduction

“People think it is big industries and corporate houses that provide higher employment. The truth is, only 12.5 million people are employed by big corporate houses, against 120 million by the MSME sector. We need to understand the energy of the bottom of the pyramid of individuals and provide them with means for upliftment.”

- Shri Narendra Modi, Hon’ble Prime Minister during the launch of Pradhan Mantri Mudra Yojana

More than half of economic activity of India is carried out in the informal sector. Undoubtedly, informal enterprises play an important role in the economy, especially in terms of their contribution to job creation. However, a large informal sector is mostly undesirable as it is associated with low tax base, poor working conditions of labour, absence of social security and inefficiency due to lack of scale. Therefore, policymakers across the world aim to reduce the size of the informal economy by inducing formalization of unregistered/unorganized enterprises.

In the Union Budget speech on February 1, 2017, the Finance Minister outlined some key facts on India’s tax records. He highlighted that India’s tax to GDP ratio is very low and that direct tax collection is not commensurate with the income and consumption patterns of the Indian economy. He said - “As against 5.6 crore informal sector individual enterprises and firms doing small business in India, the number of returns filed by this category are only 1.81 crore. Out of the 13.94 lakh companies registered in India upto 31st March, 2014, 5.97 lakh companies have filed their returns for Assessment Year 2016-17. Of the 5.97 lakh companies which have filed their returns for Assessment Year 2016-17 so far, as many as 2.76 lakh companies have shown losses or zero income.......We can contrast this with the fact that in the last five years, more than 1.25 crore cars have been sold, and number of Indian citizens who flew abroad, either for business or tourism, is 2 crore in the year 2015.”

Clearly there is a huge amount of tax evasion in the country, which is detrimental to sustained growth and development. To reverse this trend, the government has embarked on a series of measures including efforts towards reasonable rates of taxation, simplified tax administration and curbing of black money, demonetization and most recently the implementation of GST from July 2017.

The key reasons why informal enterprises avoid registration have been well examined in Hernando De Soto’s work - ‘The Other Path’, in which he highlighted that micro-entrepreneurs preferred to operate informally in any economy to avoid excessive costs, time and effort complying with formal institutional frameworks. In case of India, the government has been taking several measures to lower the time and costs associated with setting up and operating small businesses, but this has not resulted in significant transition of informal to formal sector. It is thus important to understand
the reasons as to why small enterprises prefer to remain informal and also to assess the key motivational factors that will encourage them to shift to a formal set-up.

In this context, FICCI has done this study of informal economy in India and arrived at a policy framework to encourage greater formalization. As a part of the study, FICCI had commissioned Red Seer Consulting to conduct a survey of informal enterprises in five industrial clusters namely Jalandhar (sports goods), Moradabad (brass), Kanpur (leather), Jaipur (gems & jewellery) and Coimbatore (textiles), with a view to gauge the awareness and perceptions of unorganized enterprises about organized/ formal sector, to understand the key issues and challenges faced by them including the impact of demonetization on their businesses, and to identify the key areas for policy intervention that could act as motivators for formalization.

The survey findings and study of various policy solutions across countries have been useful in designing a targeted framework of policies for formalisation in India, which has been laid out in the last chapter of this report. If these recommendations are implemented, there will be a significant expansion of the base of formal economy in India, thereby leading to higher growth in economic activities as well as fiscal revenues.
1. Informal Economy in India: An Overview

**Definition(s)**

There is no standard definition for informal economy as different organisations and different studies have used varying definitions. Informal economy is commonly understood as a section of the economy which is not formal. A formal economy is generally referred to as that part of the economy which operates under the regulatory framework, is taxed by the government, and is monitored for inclusion in the gross national product. For instance, in manufacturing, the organized or formal sector includes establishments with more than 10 workers if the establishment uses electricity. If the establishment does not use electricity, the threshold is 20 workers or more.

The ‘National Commission for Enterprises in the Unorganized Sector (NCEUS)’ defines informal sector as all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers.

As per International Labour Organisation (ILO), the informal sector consists of units that are unincorporated (i.e. not constituted as separate legal entities of their owners), produce goods or services for sale or barter, and satisfy a number of criteria, for example, they are unregistered, small, have unregistered employees and/or they do not maintain a complete set of accounts. Here, enterprises/ units include not only those that employ hired labour but also self-employed persons such as street vendors, taxi-drivers, home based workers, etc.

A wider concept of informal economy includes informal employment, which as per NCEUS consist of those working in the unorganized sector or households, excluding regular workers with social security benefits provided by the employers and the workers in the formal sector without any employment and social security benefits provided by the employers.

*However, this study focuses only on informal enterprises.*

**Size of Informal Economy in India**

Given the variations in definition of the informal economy and lack of monitoring and collection of data on informal enterprises, it is extremely difficult to ascertain the true size of informal economy in India.
Some studies have estimated the size and contribution of informal economy to India’s national product. As can be seen from the table below, the informal sector contributes over 54% to India’s Gross value Added (GVA) (2008-09 estimates). Some of the sectors with large presence of informal sector includes agriculture, forestry, fishing, construction, retail trade, restaurants, local transport, and real estate. Besides these sectors, unorganised enterprises are common in some manufacturing activities like garments, furniture, footwear, leather, sports goods, gems & jewellery, etc.

Estimates of unorganized sector in the GVA at current prices (Rs. in 10 million)

<table>
<thead>
<tr>
<th>Industry</th>
<th>2004-05</th>
<th>2008-09</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>orgd</td>
</tr>
<tr>
<td><strong>1 Agriculture, forestry &amp; logging and fishing</strong></td>
<td>560309</td>
<td>33288</td>
</tr>
<tr>
<td>1.1 agriculture</td>
<td>470602</td>
<td>29362</td>
</tr>
<tr>
<td>1.2 forestry and logging</td>
<td>62272</td>
<td>3908</td>
</tr>
<tr>
<td>1.3 fishing</td>
<td>27435</td>
<td>18</td>
</tr>
<tr>
<td><strong>2 Mining &amp; quarrying</strong></td>
<td>84954</td>
<td>77622</td>
</tr>
<tr>
<td><strong>3 Manufacturing</strong></td>
<td>453225</td>
<td>292344</td>
</tr>
<tr>
<td><strong>4 Electricity</strong></td>
<td>61905</td>
<td>60118</td>
</tr>
<tr>
<td><strong>5 Construction</strong></td>
<td>229932</td>
<td>83025</td>
</tr>
<tr>
<td><strong>6 Trade, hotels &amp; restaurants</strong></td>
<td>477299</td>
<td>108730</td>
</tr>
<tr>
<td>6.1 Trade</td>
<td>433963</td>
<td>92629</td>
</tr>
<tr>
<td>6.2 Hotels and restaurants</td>
<td>43336</td>
<td>16101</td>
</tr>
<tr>
<td><strong>7 Transport, storage &amp; communication</strong></td>
<td>250598</td>
<td>106882</td>
</tr>
<tr>
<td>7.1 railways</td>
<td>29118</td>
<td>29118</td>
</tr>
<tr>
<td>7.2 transport by other means</td>
<td>170347</td>
<td>35655</td>
</tr>
<tr>
<td>7.3 storage</td>
<td>1959</td>
<td>1324</td>
</tr>
<tr>
<td>7.4 communication</td>
<td>49174</td>
<td>40785</td>
</tr>
<tr>
<td><strong>8 financing, insurance, real estate</strong></td>
<td>435784</td>
<td>219311</td>
</tr>
<tr>
<td>8.1 banking and insurance</td>
<td>171098</td>
<td>152398</td>
</tr>
<tr>
<td>8.2 real estate, ownership of dwelling</td>
<td>264686</td>
<td>66913</td>
</tr>
<tr>
<td><strong>9 Community, social &amp;</strong></td>
<td>413594</td>
<td>311756</td>
</tr>
</tbody>
</table>
The census of Micro, Small & Medium Enterprises (MSME) (2006-07) also shows that of nearly 361 lakh MSMEs in India, about 95.7% are unregistered, with a large number operating in the unorganised/ informal sector.

### Distribution of Working MSMEs by type of Organisation (in lakh)

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>Registered</th>
<th>Unregistered</th>
<th>Total</th>
<th>% of Unregistered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proprietary</td>
<td>14.09</td>
<td>327.45</td>
<td>341.54</td>
<td>95.9%</td>
</tr>
<tr>
<td>Partnership</td>
<td>0.63</td>
<td>3.65</td>
<td>4.28</td>
<td>85.3%</td>
</tr>
<tr>
<td>Private Company</td>
<td>0.43</td>
<td>0.06</td>
<td>0.49</td>
<td>12.2%</td>
</tr>
<tr>
<td>Co-operatives</td>
<td>0.05</td>
<td>1.16</td>
<td>1.21</td>
<td>95.9%</td>
</tr>
<tr>
<td>Others</td>
<td>0.44</td>
<td>7.65</td>
<td>8.09</td>
<td>94.6%</td>
</tr>
<tr>
<td>Not recorded</td>
<td>0.0</td>
<td>6.15</td>
<td>6.15</td>
<td>100.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15.64</strong></td>
<td><strong>346.12</strong></td>
<td><strong>361.76</strong></td>
<td><strong>95.7%</strong></td>
</tr>
</tbody>
</table>

**Source:** Fourth All India Census of MSME, 2006-2007

### Legal & Regulatory Framework for Enterprises

With more than half of the economic activities in India operating outside the legal and regulatory framework, it is essential to understand as to why do these enterprises shy from becoming a legal entity. One of the reasons could be complexities and difficulties associated with the overall regulatory framework.

The legal framework applicable for enterprises in India can be broadly categorised into following:

**Registration:** To get registered, a business owner first needs to identify his/her business as a particular entity namely sole proprietorship, partnership, company, or a co-operative society. Each type of business entity has a governing Act which defines the entity.

For MSMEs in India, earlier enterprises were required to fill two different forms (Entrepreneur Memorandum I and II), but now this has been replaced by a simple form called Udyog Aadhar, which provides MSME registration and entails various benefits that the government provides to registered MSMEs such as those related to credit guarantee scheme, priority sector lending, capital subsidy, power tariff subsidies, tax concessions and exemptions, etc.
**Indirect Taxation:** A registered business entity is required to collect tax on all sales made and to deposit it with the government. Before 1st July 2017, a business in the manufacture or trade of goods was bound to collect and pay Excise Duty and Value Added Tax (VAT) respectively to the relevant Government(s). The entity receives a registration number, generally known as the Tax Identification Number (TIN) for every different tax that the business is bound to collect and pay. Similarly, a service providing entity needs to collect and pay Service Tax to the Government. There are several other indirect taxes that a business passes on to the final consumer. From 1st July, 2017 onwards, all indirect taxes for most goods and services have been subsumed under one single indirect tax called the Goods and Services Tax. All existing and new businesses have to register under the GST and will receive a GSTIN for the same.

**Direct Taxation:** Profits earned by a business are taxable under the laws of the Income Tax Act, 1961. In order to file Income Tax returns and deposit the tax, the business entity is required to register for a Permanent Account Number (PAN).

Besides these, there are certain regulatory procedures that need to be complied by a legal entity. All businesses in the formal sector must comply with the prescribed regulations. These include:

**Security and Safety Regulations:** To formally start a business, an enterprise also needs to abide by various other regulatory procedures related to safety and security that may be governed by specific Acts. For instance, a business enterprise is required to obtain No Objection Certificates from Fire department, Pollution Control Board, Health department, Licensing Commissioner, etc. Setting up of some of the business activities formally like restaurant requires submission of various documents for registration as well as various official clearances. Besides documentation, approval is required from multiple government authorities.

**Labour regulations:** Various labour laws apply to a business entity, depending on the number of employees that work there

- **1-9 employees:** Workmen’s Compensation Act, 1923; Minimum Wages Act, 1948; The Industrial Disputes Act 1947, etc.
- **10-19 workers:** The payment of gratuity Act, 1972; Maternity Benefits Act, 1961, etc.
- **20-49 workers:** The Payment of Bonus Act, 1965; The Employees Provident Fund and Miscellaneous Provisions Act, 1952, etc.
2. Issues and Challenges

The fourth census report of MSMEs puts the number of unregistered MSMEs in India at 346.12 lakh, which forms about 95.7% of all MSMEs present in the country. Out of this, 327.45 lakh enterprises are proprietorship firms. They are peculiar for working under small profit margins and a business model which is vulnerable to sudden change. They have to face many challenges that pose questions on their survival in a highly competitive and aggressive market. Along with this, they lack awareness of the benefits derived from formalisation and organisation.

This chapter highlights the key issues and challenges that exist in formalisation of informal enterprises, primarily in wake of the perceived costs of being in the formal economy vis-à-vis the informal one, the concerns of MSMEs over growth and scalability, the key barriers to formality, lack of awareness reflected in misperceptions, weak enforcement by State and also the adjustment costs that the lower-end of the society would face from formalisation.

**Costs of Formal vs Informal Economy**

The decision of small firms to formalise depends on the benefits that are derived from formalisation over the risks of remaining in the informal economy. If the former outweighs the latter, only then does formalisation seem like a viable option. The costs associated with formalisation are broadly of two types:

a) **Entry costs:**
It requires a lot of time to go through all of the compulsory procedures to get registered in the formal set up. It also includes the licence or registration fees that need to be paid, which may vary from state to state. An ILO study of MSEs in Uttar Pradesh reported 30 to 120 days as time required for various permissions. In Delhi, to open a restaurant in a formal manner, one has to fulfil 45 obligations in ten phases.

The major deterrents during entry include:

- Complicated paperwork for firm registration
- Subsequent permissions, clearances and licenses from multiple departments of the Government
- One time fees to be paid for all the above
- Time costs

b) **Formal operating costs:**
These are recurring costs associated with working in the formal economy, and include:

- Monetary costs like taxes, fees, social security contributions
- Compliance costs with respect to labour and other regulations, and
• Harassment by Government officials following any discrepancy in compliance.

After registration, there are numerous rules and regulations that have to be abided by the small firms that hold them back from growing in size. In case of India, a large number of small firms find income tax and EPF payment obligations as hurdles and majority of them try to stay below the threshold size in order to avoid compliance.\(^1\) Labour regulations, especially stringent hiring and firing rules also keep the entrepreneurs hands tied. A lot of the firms’ finances during their growing phase are diverted towards employees’ compensation and social security contributions. Also, registered firms cannot pay their employees below the minimum wage level or else it would attract heavy fines and penalties.

As against this, small firms find it beneficial to operate in the informal sector. They are free from bearing the entry costs and the formal operating costs as faced by formal organisations. They do not have to comply with stringent rules and regulations, nor are they forced to compensate their employees in a particular way. They can thus retain all their earnings with minimal costs and hence have a huge incentive to remain undetected.

**Risks associated with not registering**

Contrary to the benefits of staying informal, there are also several costs associated with informality. To remain undetected, informal businesses are required to use less-visible work places (often residential), keep less number of employees and that too dispersed, avoid certain market places and keep the scale of business low. These phenomena directly affect the firms’ business, forcing them to operate at thin margins. Additionally, if detected, the firm has to bribe authorities to avoid penalties and fines.

Informality deprives a small firm of external funds, restricting it from investing in new fixed assets which would help the firm grow. It does not have property rights over the same either. All the more, it cannot use its existing assets as collateral for fresh credit. An unregistered firm does not enjoy the benefits of the country’s legal system. It cannot make use of the provisions of The Contract Act or similar other business laws in case of an undesirable event. All contracts of a firm in the informal economy are rendered unenforceable as the firm itself is not registered.

The major risks are those of scalability, corruption, low access to both credit and a modern marketplace to sell goods and services. However, there is aversion to remain informal as there are many benefits arising out of it. As per FICCI’s survey of informal enterprises in five industrial clusters, majority of respondents identified several disadvantages of staying informal such as risk of fines and penalties upon detection, non-availability of credit for investments and scaling up, difficult to

\(^1\) *ILO India country survey of MSE enterprises in 2014*
expand business geographically, non-availability of modern marketing practices and use of online marketplaces, and difficulty in finding skilled labour.

**Survey Findings: Risks of not registering**

(Percentage respondents)

<table>
<thead>
<tr>
<th></th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5%</td>
<td>78%</td>
</tr>
<tr>
<td>2</td>
<td>2%</td>
<td>52%</td>
</tr>
<tr>
<td>3</td>
<td>18%</td>
<td>45%</td>
</tr>
<tr>
<td>4</td>
<td>10%</td>
<td>61%</td>
</tr>
<tr>
<td>5</td>
<td>24%</td>
<td>55%</td>
</tr>
<tr>
<td>6</td>
<td>34%</td>
<td>67%</td>
</tr>
<tr>
<td>7</td>
<td>44%</td>
<td>71%</td>
</tr>
<tr>
<td>8</td>
<td>3%</td>
<td>53%</td>
</tr>
<tr>
<td>9</td>
<td>46%</td>
<td>74%</td>
</tr>
<tr>
<td>10</td>
<td>36%</td>
<td>68%</td>
</tr>
</tbody>
</table>

Thus, informal enterprises are unable to reap benefits associated with being in the formal set up namely ease of permanent location, access to formal credit, insurance, access to business development services, and access to larger geographical market as well as benefit of utilising online marketplaces.

**Ideas for policy formulation:** While there are costs for both formality and informality, the government should aim at reducing the costs of entry and operations in a formal set up for small enterprises. This would encourage small enterprises to voluntarily shift to formal set-up. Future policy discourse should thus focus at ease of registration at low or no registration cost, using a single window for all registrations, permissions, licenses and clearances. The tax assessment and collection process
should be automated as far as possible with low bureaucratic interference in order to avoid undesirable harassment from officials at their discretion.

**Concerns over Growth and Scalability**

Micro and small enterprises operating in an informal environment face severe survival challenges, especially due to competition from big manufacturers. Almost 80% of the small informal businesses that were surveyed for this study indicated that their business has been declining and will continue to do so in future.

Most of these enterprises operate on thin margins and have been impacted by cheaper imports as well as shift in consumer purchases towards organised retail market. Additionally, the recent demonetisation drive also had a severe impact on their businesses. Over 70% of the surveyed respondents suffered severe impact from demonetisation, and many of them had to increase credit cycle and also layoff employees. Since most of them are unsure of their future growth or even survival, there is high resistance to undergoing the formalities for formal registration.

**Survey Findings: Outlook on Growth and Scalability**

(Percentage respondents)

![Surveys and charts showing the current status and future outlook of businesses, indicating a decline in growth and scalability.](image-url)
Impact of Demonetisation

Demonetisation of currency notes of denomination Rs. 500 and Rs. 1000, carried out during November and December 2016, had a severe impact on informal sector, affecting their sales, payment collection, employment as well as their profitability. Nearly 93% of respondent firms in FICCI’s survey indicated that they do at least 8 out of 10 transactions in cash, and as such they were very badly impacted by demonetisation. About 80% of respondent firms indicated shift to non-cash methods during this period, including use of cheques, wallets for payments and revenue collections and about 60% of respondent firms indicated enhancing credit cycles to customers and 30% reported delayed payments to vendors and employees, while another 30% reported laying off employees to ward off losses. However, the negative impact on sales from demonetization has reduced and sales have started to recover from the lows of November-December 2016.

Survey Findings: Loss/ Gain in Sales post Demonetisation
(Percentage respondents)

![Survey Findings Diagram]

Ideas for policy formulation: Costs of informality generally have severe impact on survival of small businesses. Thin profit margins of such enterprises devoid them of growth and business condition either remain in status quo or further deteriorate. It also renders them vulnerable to market shocks. Government needs to spread awareness about benefits of MSME registration and ensure easy access to finance and markets for small enterprises so that they can grow their businesses and also compete with larger enterprises. Various confidence building and support measures are required to enable small enterprises to get registered and earn a better livelihood.
Barriers to Formality

Besides the monetary costs of getting registered and operating in a formal set-up, most of the informal enterprises resist formalisation due to hassles of paper-work and documentation, dealing with bureaucracy, loss of significant time in various processes, fear of non-compliance to laws and rules due to lack of understanding, fear of audits and inspections and harassment from officials, and other factors like fear of employees becoming part of trade unions, etc.

**Survey Findings: Reasons for not registering**

(Percentage respondents)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dealing with too many government departments</td>
<td>73%</td>
</tr>
<tr>
<td>Too much paperwork</td>
<td>75%</td>
</tr>
<tr>
<td>Multi-stage process requiring repeated lot of time involvement of the promoter</td>
<td>33%</td>
</tr>
<tr>
<td>Multiple audits by officials</td>
<td>16%</td>
</tr>
<tr>
<td>Too many requirements to change business processes before registration</td>
<td>29%</td>
</tr>
<tr>
<td>Time spent on understanding laws related to registration</td>
<td>35%</td>
</tr>
<tr>
<td>Complex laws and language of requirements related to registration</td>
<td>64%</td>
</tr>
<tr>
<td>Fear of employees becoming part of Trade Union</td>
<td>23%</td>
</tr>
<tr>
<td>Additional Costs of paying social security for employees</td>
<td>39%</td>
</tr>
<tr>
<td>Not sure/ Don't know</td>
<td>20%</td>
</tr>
</tbody>
</table>

As per economic literature, growth in unorganised/ informal sector is generally due to either of the following reasons:

- High monetary costs associated with a formal set-up acts as a barrier to entry for informal enterprises (Exclusion view)
- Benefits of formalisation are not high enough to compensate for the costs of formalising and the survival of such enterprises will be difficult (Exit view)
- People resort to start an informal business due to lack of wage jobs in the formal economy (Dual economy view)

All these reasons can be attributed to the growth of informal enterprises in India. As revealed in FICCI’s survey of industrial clusters, it is quite evident that unorganised enterprises do not want to get registered as it entails huge barriers, in terms of both monetary cost and time. Infact, one of the key reasons why unorganised players do not register business is to avoid tax net as they operate at marginal levels and cannot afford to pay taxes. Survival is a bigger concern for such enterprises. They believe that post registration, they will be rendered uncompetitive against not only the organised large players but also against the unorganised players who continue to remain in the informal sector. Businesses also view registration as unnecessary because they believe that it would lead to harassment, compliance and legal binding.
Additionally, almost 39% of the respondent entrepreneurs had indicated that they would prefer to be employed with fixed salary rather than continue the current business, thus reflecting the desire for a stable livelihood.

**Ideas for policy formulation:** Given that the broad reasons for informality stem from barriers like cost of registration and compliance, complexities of regulations and inability to compete with organised players, the government should aim at addressing each of these challenges. Measures to reduce the time, cost and complexity of registration are a pre-requisite. Additionally, incentives can be provided to enterprises that shift to formal set-up so that they can survive in the market along with bigger players. Moreover, lack of employment opportunities in formal sector also force people to opt for informal businesses. The government needs to expand and promote the skill development programmes to enable youth to earn a decent livelihood.

**Perceptions vs Reality**

Most entrepreneurs believe that cost of formality is far greater than cost of remaining informal. The negative perceptions of entrepreneurs about registration cost and other hassles are largely unfounded, based on misconceptions and lack of awareness.

As per the findings of FICCI’s survey of informal enterprises in six industrial clusters, about 86% of respondents believe that registration process costs a lot of money, but more than 40% of respondents were unaware of the either one-time or recurring costs associated with registration. A large majority were also unaware about the type of registration that is required.

Similarly, 71% of the respondents identified regular compliance and paperwork as a deterrent to registration and almost 81% indicated that they will have to pay huge penalties for non-compliance with regulations. However, almost 80% of respondents were unaware about the taxes that need to be paid post registration, and none of the respondents were aware about the likely cost of taking legal assistance or hiring of skilled employee for meeting the compliances.

As per the survey, 90% of respondents believed that they would unnecessarily get harassed by officials post registration, primarily due to their inability to comply with legal requirements. However, while responding to a further query as to which official department do they expect harassment from, most of the respondents were not very clear. About 29% mentioned local municipality, 19% mentioned sales tax department and 16% mentioned labour department as the source of harassment, while remaining did not have any specific answer.
Ideas for policy formulation: Survey findings clearly indicate that in majority of cases, resistance towards registration is due to lack of awareness and strong misconceptions. In order to motivate entrepreneurs to get registered, there is a need to spread awareness about the benefits of formalisation vis-à-vis its costs. Additionally, various measures being taken by the government to simplify regulations, to incentivise and minimise costs, as well as steps taken to support MSMEs need to be promoted at a large scale.
The widespread existence of informal economy also reflects weak enforcement of laws and procedures. As per FICCI’s survey, most of the promoters view registration unnecessary as it is not legally enforced and has no major benefits. 79% of respondents believe that there are no major benefits that registered firms are able to reap, 68% believe that there are no major legal consequences associated with not registering.

Various studies done in the past also indicate that weak enforcement encourages informal entrepreneurs to refrain from legal processes and rather incur slight cost of detection (in form of bribes to local authorities). Such payoffs enable these enterprises to get away with fines and penalties.

### Perception Towards Registration: Negative (3/3)

<table>
<thead>
<tr>
<th>Perception</th>
<th>Strongly Agree</th>
<th>Agree + Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Legally Enforced</td>
<td>73%</td>
<td>23%</td>
</tr>
<tr>
<td>Registration legally required but not enforced</td>
<td>68%</td>
<td>18%</td>
</tr>
</tbody>
</table>

**Ideas for policy formulation:** Rigid laws, cumbersome procedures and strict penalties emanating from non-compliance often discourage entrepreneurs to enter the legal set-up and rather they prefer to make some extra-legal payments to avoid penalties. While government should continue its efforts in simplifying the registration process, it can also consider designing innovative schemes that allow informal enterprises to experiment with registration and gauge real benefits without inviting any fines and penalties. Adequate training should be provided to enable such enterprises to adhere to necessary compliances.

### Adjustment Costs for Economy

A large proportion of informal economy in a country’s overall output is definitely undesirable, however we cannot ignore the fact that informal economy has a
significant job and income generating potential. Moreover, it serves the needs of the lower strata of the society, by providing goods and services at low costs.

**Ideas for policy formulation:** As long as there is a large proportion of population with lower level of income, widespread informality is also expected to continue. The government should look at ways and mechanisms for providing assured income/social security benefits to all citizens that enables them to earn a decent livelihood. If such social security is available, entrepreneurs will be more than willing to be a legal entity and an integral part of formal economy. Innovative mechanisms should also be devised to give legitimacy to micro enterprises that deliver goods and services at low prices and serve demand of an important segment of the society.

**Case Studies: Survey of Informal Enterprises**

1. **Survey of informal enterprises in six industrial clusters**

The survey covered unregistered/ informal enterprises in six industrial sectors namely brass, leather, sports, textile, and jewellery based five cities namely Moradabad, Kanpur, Jalandhar, Coimbatore and Jaipur, respectively. The survey findings reveal that respondents in all surveyed sectors (other than textiles) have a neutral or negative present and future outlook regarding their own business and the industry that it belongs to. These firms have also faced a decline in their revenue due to demonetization.

These firms, across sectors, have to face various challenges in their day to day business operations. Major challenges posed by these firms are corruption, availability of regular electricity, and access to easy credit. In order to ease these issues, they expect the Government to rationalize tax rates, invest in skill development, and ban predatory pricing by large firms and promote competitive business practices. Looking deeper into individual sectors, the greatest barrier to get registered for firms belonging to the brass and leather industries is harassment by Government officials, while it is disclosure of business information and finances to a third person for the textile industry. For the jewellery industry, compliance emerges as the biggest barrier to formalization, whereas the respondent firms in sports industry sees no major benefit from getting registered. Most firms stated fear of competition from large players and Chinese imports which were eating away into gains of their business. Due to lack of formal access to credit, they were working on a very tight working capital cycle which restricted them from growing. They also faced harassment from Government officials.
**Survey Findings: Key Issues and Challenges**

### Key Challenges for Informal Sector

<table>
<thead>
<tr>
<th>Challenge Area</th>
<th>Relevance as per Industry</th>
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<tbody>
<tr>
<td></td>
<td>Brass</td>
</tr>
<tr>
<td>Grievances from Policy Makers</td>
<td><img src="image" alt="Relevance" /></td>
</tr>
<tr>
<td>- Demonetization</td>
<td>More recent challenge as smaller businesses were not equipped to face such uncertain events. It has led to lowering of business sentiment.</td>
</tr>
<tr>
<td>- Corruption</td>
<td>Mainly from local bodies. Businesses fear harassment from government upon interaction.</td>
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<tr>
<td>Lack of Resources</td>
<td>Regular Electricity</td>
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<tr>
<td>- Skilled Labour Availability</td>
<td>Demand of skilled labour</td>
</tr>
<tr>
<td>SEFI Competition</td>
<td>Large Players</td>
</tr>
<tr>
<td>- Other Regions</td>
<td>High competition from similar quality goods produced more cost effectively in other states.</td>
</tr>
<tr>
<td>- Substitute Goods</td>
<td>Emergence of cheaper substitutes and change in consumer preferences.</td>
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**Survey Findings: Key Expectations of Informal Enterprises**

### Key Expectations of Informal Sector

<table>
<thead>
<tr>
<th>Expectation Area</th>
<th>Relevance as per Industry</th>
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<tbody>
<tr>
<td></td>
<td>Brass</td>
</tr>
<tr>
<td>Create a Level Playing Field</td>
<td>Uniform Taxation Policy</td>
</tr>
<tr>
<td>- Banning Predatory Pricing</td>
<td>Mass discount by big players have started forcing small players out.</td>
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<tr>
<td>- Reduced Tax Rates</td>
<td>Reduced tax rates is a demand common across all sectors.</td>
</tr>
<tr>
<td>Create Demand</td>
<td>Govt. Sourcing Goods</td>
</tr>
<tr>
<td>- Export Incentives/Support</td>
<td>Export support expected in order to get higher margins.</td>
</tr>
<tr>
<td>Resource Support</td>
<td>Subsidized Electricity</td>
</tr>
</tbody>
</table>
| - Skills Development | Demand of vocational training to labour.
2. Survey of Indore’s Sarafa Bazaar

Indore’s Sarafa (Sarāfā) Bazaar is traditionally a market for Gold & Silver jewellery, gems, etc., but what is unique to Indore’s Sarafa Bazaar is the fact that it turns into a street food destination every single night after 8 pm. Makers of traditional Indian savouries and sweets, and now the Western snacks also, line up their kiosks/carts outside each jewellery shop. This late-night market gets nearly 3000 visitors, both locals and tourists. A survey of 68 food vendors was conducted in the Sarafa Bazaar.

The respondents showed a major preference towards the provision of ‘Infrastructure’ at every level. An important finding was that, most of these entrepreneurs were more interested in acquiring a fixed workplace and formalisation of their business than in the expansion of the marketplace. They seemed to be exhausted by the constant threats from nearby shops and dealing with the officials. They said that they wanted a system by which they could have stability in their operations.

In the past, local Municipal Body operated a system wherein they charged each street vendor a minimal sum and issued a receipt in return. This ‘chit system’, as popularly referred to by the vendors, provided the vendors with legitimacy and confidence in the system. The slip system had allowed them to carry out their day-to-day operations without any fear or disturbance. The discontinuation of the slip system has made life miserable for these ‘Thelawalas’- they are more likely to face harassment from the nearby shopkeepers and the officials. They do not get a sense of ownership and business identity, the things which they desire more than mere profits.

Most of the street vendors thus desire a shop of their own. This justifies how the factor of ‘Loans’ is regarded to almost as important. They seek financial assistance, on favourable terms, primarily to purchase a shop of their own. Beyond these two factors, the respondents showed slight desire for ‘Protection’. It is a belief that the state police department has been adequate in protecting their wares and the area from anti-social elements.

Having a fixed and formalised shop plays well on the social front too, as the public in general looks at such owners as ‘shopkeepers’ or ‘traders’ rather than as small ‘roadside vendors’. In short, there are multiple benefits in the formal sector for them to yearn for formalisation. They even agreed to pay some proportion of their revenues as tax to the government, provided they get a fixed place for their operations. They did not have much information regarding the procedures and formalities and believed it to be a cumbersome process. However, they were ready to comply with the procedures for the sake of formalisation.

Another important finding was related to the government policies. The government has launched several policies and programmes for the development of the small and informal sector markets, but the perks of such initiatives do not seem to be reaching the actual targets. When enquired, it seemed that they are unaware of the steps that are being taken by the administration for their upliftment and development.
Another point to be noted is that while the Central Government has passed the Street Vendors Act, 2014, which aims to protect the livelihood of street vendors, the same has not been implemented at the municipal level in many districts, including Indore. The Street Vendors Act requires formation of Town Vending Committee for identification of vending zones and issuing certification to vendors, thereby prohibiting the harassment of authorised street vendors by police and local authorities.

Granting legitimacy to these street vendors is one of the strongest tools for formalisation, and while the provisions exist in law, the same need to be strictly implemented and enforced at the states and municipal levels.

3. **Survey of Informal Enterprises in Waste Collection Sector**

Waste collection in India is mainly carried out by the local government body of the location, for example, a municipality carries out the function in a city. For the subsequent functions like sorting, recycling and waste treatment, the municipality may outsource these functions to NGOs or private firms. Such private firms may or not belong to the formal economy.

A lot of the waste is collected by rag-pickers. They then sort this waste into biodegradable and non-biodegradable waste. Waste is then sold to wholesalers, who further sell it to such firms that manage and treat waste, or even recycle it, and sell it. Some firms even export the waste further. The characteristics of the work of such firms, and no or partial recognition by law for waste management activities act as disincentives for registration.

Another point of contention is the recognition of rag-pickers as self-employed. Due to distinct links in the value chain of waste management, firms do not consider rag-pickers as employees even though they may be regularly supplying waste to the firms. The workers also do not get any social security protection of any kind, and their vulnerabilities are magnified by the hazardous nature of their work.

Apart from the above given obstacles, the survey conducted by FICCI brought into light some key issues and challenges faced by waste management firms for getting registered. Firstly, the difference in size between large registered players and small informal sector players is huge, and creates competition for them. 92% of the respondents agreed that harassment by Government officials was the biggest barrier to getting registered. Compliance with multiple authorities and non-accrual of benefits post registration were cited as other barriers by 80% of the respondents.

"Lack to access to government auctions is a major hurdle for us unregistered entities. We have to pay all the bid money upfront which is not possible for small enterprises like us.”

- Respondent, Jaipur

"We have to pay ~10% taxes on every purchase of scrap material which dis-incentivizes us to get registered.”

- Respondent, Moradabad
The survey findings further reveal that stability and incentives could encourage the informal entities in waste management sector to consider registration. 76% of the respondents said they were most likely to register if the Government would take steps to reduce competition from large firms. Furthermore, 84% of the respondents said that opportunities of working directly with the municipality for waste management would encourage registration. A similar ratio of respondents said that they would formalize if the Government would reimburse or provide subsidies towards their social security contributions.
3. Learnings from Other Countries

Formalization of an economy is a process, which involves several phases. There is no universal policy framework to formalize economies all over the world, but rather, there exist sets of policies which can be combined and adapted by countries in the way it suits them best. Formalization comes with its set of benefits as well as challenges. As noted in the earlier chapters, cumbersome administrative procedures, fear of non-compliances and harassment from officials act as major de-motivators in formalizing business. Going through long procedures involve incurring huge costs and are time consuming, which the small firms and individual entrepreneurs cannot afford. Secondly, unregistered firms get away with paying taxes and social security contributions. Such additional costs act as a disincentive for formalisation.

Thus, making the administrative procedures simpler and less costly, introducing special and lower tax rates for small firms, providing them proper access to credit and financing for their better management, taking care of their social security contributions and replacing inspections and fines with training to improve awareness and knowledge of the entrepreneurs so that they are not harassed by the public officials are some of the measures which can help in promoting formalization among the micro, small and medium firms. A study of several countries that have had some success in formalisation was done with a view to identify best practices and innovative policy measures that can facilitate formalisation.

**Best Practices: Framework for Formalisation**

**Streamlining of Administrative Procedures**

In many countries, starting a business involves obtaining a lot of licenses and other permissions, which is a costly and time consuming process. Entrepreneurs are often harassed by public officials and there exists red tape. Thus, the need to streamline the procedures for business registration and licensing has caught attention of governments of different countries. They have implemented reforms to make it easier to formally establish a business.

For example, in Chile, procedures were simplified by introducing laws such as one involving special legal procedures for family owned enterprises, followed by laws that aimed at eliminating red tape in creating, modifying and liquidating a business.

In Brazil, under the Simples Nacional Law, the firms did not have to present their tax and social declarations at different levels of jurisdiction anymore. Moreover, a separate portal for individual entrepreneurs was launched for their registration.
Laws protecting citizens from red tape were also implemented in Colombia and Costa Rica.

**Mechanism for Administrative Support**

A focus only on registration is not enough to lead to formalization. Incentives to encourage sustained progression out of informality are required. Informal firms must be made fit to operate formally. This can be facilitated through providing information and market support. This can be done through business support centres, educational TV programmes, etc.

In 2001, creating a company in Colombia involved a lot of administrative procedures. To resolve this situation, the National Confederation of Chambers of Commerce initiated a series of **Business Support Centres**, which provided information and assistance in registering the business, in order to make it simpler and reduce the costs associated. This led to an augmentation of registration rate by 5% by 2007, in cities with business support centres than in cities without them.

In Costa Rica, **CREAPYME** is a network of business support centres which offer

**Tax reforms**

The tax laws and regulations that come along with formalization are something that the small business owners take into account while making the decision to formalize. Not only the rates, but the complexity of procedures, multiplicity of taxes and the lack of information and support also disincentivise the entrepreneurs from formalizing their business.

In order to promote formalization, the steps that could be taken in the field of taxation include special tax regimes for micro, small and medium enterprises, convenient payment mechanisms, proper information and assistance and measures to check tax evasion. Special tax regimes for SMEs include lower tax rates, certain exemptions and integration of different taxes into a single payment.

For example, in Chile, a new tax and accounting system was introduced, which made
calculation of taxes simple and thus reduced costs.

In Colombia, the MSME Law reduced parafiscal contributions of businesses during their first three years of operation. In 2010, companies with up to 50 workers were exempted from income tax, parafiscal contributions and company registration fees. In 2012, the parafiscal contributions were abolished and employers’ social security contributions were reduced, in case of employees with salary up to ten minimum wages.

In Costa Rica, small companies faced preferential tax rates and were exempted from a corporate tax. Only the SMEs registered with the Ministry of Economy could take benefit of this exemption, thus reinforcing formalization.

In Brazil, the “SIMPLES Nacional” scheme allowed small businesses to combine several federal, state and municipal taxes into one single annual payment, of which the amount varies according to gross income and the type of economic activity exercised. This reduced the amount required to be paid.

The Law on Individual Microentrepreneurs allowed own-account workers with annual sales amounts up to a certain ceiling to pay a fixed monthly amount, exempting them from other payments such as social security contributions and other taxes.

**Social security contributions**

Informal businesses often fail to comply with their obligation related to the social security coverage of the workers in the firm. The costs related to declaring and paying to different social security administrators acts as obstacles to formalization. However, it is not always about whether they can afford these costs or not. Often the workers in these companies feel that social security contributions do not necessarily generate the benefits they would aspire to enjoy. Another disincentive to formalization is the lack of continuity in social security payments, caused by seasonal or intermittent employment in micro and small enterprises. Limited knowledge among employers and employees about the real benefits of social security, thus constitutes another obstacle.

Given these difficulties, the benefits from complying with social security payment schedules should be such that the stakeholders consider them to be valuable. The services that these schemes provide should be of good quality, in areas such as health, maternity and unemployment. Schemes like accidental insurance coverage at work act as incentives to labour formalization. There is no single, ideal format for promoting formalization and social protection coverage in micro and small enterprises. However, the way in which social security schemes are designed and administrated certainly has an impact on the level of formalization in this segment of firms.
Some of the characteristics that would favour formalization are: 1) progressive social security contributions, 2) subsidies for social security contributions on low-income wages, 3) the existence of a solidarity pillar 4) reduction of the administration costs of social security schemes.

Some countries in Latin America and the Caribbean have established special social security schemes for certain segments of workers, companies or sectors. In most cases these schemes target the own-account workers, contributing family workers, micro and small businesses, subcontractors and temporary or part-time workers.

For example, in Brazil, the Law on individual microentrepreneurs provides access to state pension. In Chile, Colombia and Costa Rica, an online portal was launched, where the social security contributions could be declared and paid in a centralized manner.

In 2013, Colombia implemented a Law which eliminated a part of the employers’ contribution to social security in case of employees with salaries less than ten minimum wages. To offset the drop in social security revenues, the Government created a new equity tax, known as CREE, levied on firm profits. Shifting part of social security costs from payroll to profit tax is supposed to be beneficial for micro and small enterprises, which are generally labour intensive.

**Inspection and Compliance**

The limited control of the tax and labour authorities over the informal firms acts as an obstacle to their formalization. Regulation concerns not only labour law, but also health and safety, taxation, accounting rules, technical standards, consumer rights, bureaucratic procedures, and more. There is need for better regulatory environment. Complying with the law must become easier and law enforcement should be more effective. It is important that the small firm owners are not harassed by the public authorities.

Measures that involve capacity building are more effective than punitive sanctions for lack of compliance. For example in Chile and Peru, inspectorates provide training for micro and small enterprises (MSEs) to comply with the law, particularly on safety and health issues, instead of imposing a fine on them for defaulting; firms are given a period of time to ensure compliance. This reduces the risk of recently formalized microentrepreneurs to incur costs due to unfamiliarity with the regulations.

In order to be able to impart better knowledge and information about the rules and regulations, it is primarily necessary to train the officials to interact with the employers. SEBRAE´s training program for municipal officials in Brazil, for example, was key to the successful implementation of laws like “SIMPLES” and “Individual
Microentrepreneurs”.

At the same time, it is necessary to organize training programs and information campaigns for employers and employees of micro and small enterprises. The role of business associations and trade unions in these efforts is very important and positively evaluated in the region. The Business Support Centres and the formalization workshops and brigades in Colombia constitute interesting examples in this regard.

A study in Chile concluded that micro entrepreneurs fear inspections, and that is what keeps them from formalizing their business. The government decided to resolve this through better provision of information, education and support. Its programme replaced labour inspection fines with training. Instead of paying fine, the violators can participate in the course on labour legislation. The training programme consists of a six hour workshop focusing on ways to create a more appropriate work environment through compliance with labour laws. Offering training programmes instead of imposing fines on defaulting microentrepreneurs in Chile was an effective step which incentivized small firms to formalize.

Chile also implemented the good labour practice programme micro, small and medium enterprises to provide them with technical assistance in compliance, social security provisions and occupational safety and health standards.

**Awareness and Promotional Campaigns**

Very often, micro and small entrepreneurs lack awareness of not just rules and regulations but also of various policies and schemes being run by the authorities to support registered enterprises. Targeted awareness campaigns have been organized in some countries to assist entrepreneurs in registration processes.

For example, Colombia launched a program called “Colombia Goes Formal”, led by the Ministry of Trade, Manufacturing and Tourism (MinCIT), with an aim to formalize existing companies, through formalization workshops and brigades. In the workshops, informal entrepreneurs were invited and informed about the services that the private and public entities offer during registration of their businesses. The formalization brigades educated and assisted entrepreneurs who were ready to formalize their business.

**Access to credit**

The informal business owners cannot use their assets as collateral when requesting for formal credit. Thus, obtaining adequate financing is difficult and costly for informal firms, making it hard to run and expand their business. Thus, policies
providing them access to finance and credit acts as incentives to formalize.

Different countries have adopted different policies to ease the credit facilitation.

In Brazil, the Law on individual micro-entrepreneurs allowed registered individuals to open a bank account and apply for loans. This also helped women entrepreneurs since a large population of micro enterprises are run by women. Also, the commercial banks were required to keep 2% of public deposits reserved in order to extend loans to small firms.

The development bank of Chile provided easy credit to microenterprises and also launched an entrepreneur’s account to help the newly registered MSEs to manage their finances.

Colombia promoted young entrepreneurs and provided them easy access to credit. “Colombia goes formal” helped firms who wished to formalize, through credit lines and grants.

The Business Support Centres in Costa Rica provide information on access to finance and markets.

<table>
<thead>
<tr>
<th>Streamlining of administrative procedures</th>
<th>Taxation</th>
<th>Improved access to financial services</th>
<th>Inspection and compliance</th>
<th>Social security</th>
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</thead>
<tbody>
<tr>
<td><strong>Simples Nacional:</strong> Small firms were now not required to present the tax and social security declarations separately at federal, state and municipal levels.</td>
<td><strong>Simples Nacional:</strong> combined 8 different taxes into one single monthly payment. It reduced the amount of tax required to be paid.</td>
<td><strong>Law on individual microentrepreneurs:</strong> registered individuals could open a bank account, apply for loan; provides financial help to women entrepreneurs.</td>
<td><strong>SEBRAE:</strong> The support agency offers assistance, through support centres in different regions; also plays a role in the design and implementation of regulatory framework for MSEs.</td>
<td><strong>Law on individual microentrepreneurs:</strong> access to state pension, etc.</td>
</tr>
<tr>
<td><strong>Law on individual microentrepreneurs:</strong> individuals can register themselves through a portal and get formalized.</td>
<td><strong>Law on individual microentrepreneurs:</strong> individual needs to pay a fixed monthly amount and is exempted from other payments.</td>
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<tr>
<td><strong>REDESIM:</strong> A national network aimed to integrate all registration and licensing procedures into a single system.</td>
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<tr>
<td>CHILE</td>
<td>COLOMBIA</td>
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<tr>
<td><strong>‘Your business in a day’: simplify procedures involved in starting up a business through easy and free registration by filling a single form.</strong></td>
<td><strong>Law for family-owned microenterprises</strong> simplified registration of home based enterprises and access to financial and business services.</td>
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<tr>
<td><strong>Bankruptcy Law</strong>: aimed at easy liquidation of registered businesses.</td>
<td><strong>Business Support Centres</strong>: provided information and assistance to entrepreneurs to help them establish their business in one day at low cost.</td>
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<tr>
<td><strong>Law for family-owned microenterprises</strong> simplified registration of home based enterprises and access to financial and business services.</td>
<td><strong>Anti-Red Tape Decree</strong>: simplified procedures, thus reducing time and costs involved in formalization of company.</td>
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<tr>
<td>Streamlining of administrative procedures</td>
<td><strong>Digitalization</strong>: Taxes could be paid online, reducing the time involved.</td>
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<tr>
<td>Taxation</td>
<td><strong>Micro, Small and Medium Enterprise Law</strong> and <strong>Law for the Formalization and creation of Employment</strong>: Provided tax exemptions and special tax rates based on the size of the firm. Reduced the parafiscal taxes to be paid by employers, for the initial three years.</td>
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<tr>
<td>Improved access to financial services</td>
<td><strong>Law for the Formalization and creation of Employment</strong>: Young, trained entrepreneurs can get bank loans easily.</td>
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<tr>
<td>Inspection and compliance</td>
<td><strong>Colombia Goes Formal</strong>: Helps firms who wish to formalize through credit lines and grants.</td>
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<tr>
<td>Social security</td>
<td><strong>The 2013 Tax Reform</strong>: Eliminated parafiscal contributions.</td>
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<tr>
<td><strong>PREVIRED</strong>: Portal launched for companies to pay their employees’ social security funds online.</td>
<td><strong>Integrated Social Security Contribution Form</strong>: social security and parafiscal contributions could be declared and paid online.</td>
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<tr>
<td><strong>BancoEstado Microempresas</strong>: provided easy credit to microbusinesses and helped them to formalize; also launched entrepreneur’s account to help newly registered formal MSEs to manage their finances.</td>
<td><strong>Law protecting citizens from Red Tape</strong>: Applicants do not need to resubmit the documents they’ve already submitted. Business entities are provided a code which</td>
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</table>
enables different administrative entities to access their files and complete the processes within a defined period. The user can sue the administrative entity otherwise.

**CREAPYME** is a network of business support centres which offer support with administrative procedures.

**National Network of Business Incubators and Accelerators:** Incubators cannot ask MSMEs for the documents they've already presented to the Ministry of Economy, Industry and Trade; they need to analyse proposals and notify interested parties within 15 days.

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<tr>
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<tbody>
<tr>
<td>enables different administrative entities to access their files and complete the processes within a defined period. The user can sue the administrative entity otherwise.</td>
<td>minimum wage tax which the formalized MSEs were exempted from. <strong>Preferred Income Tax rates:</strong> Registered small firms had to pay taxes of either 10% or 20% of gross revenue as against 30% for larger firms; also, companies facing losses during a period can deduct these amounts from taxable income. <strong>PROPyme Fund:</strong> The SME support fund provides funding to innovative and developmental projects. The Ministry of Science and Technology provides the fund. Only formalized firms can avail the facility.</td>
<td>information about the procedures and requirements. <strong>Digital support:</strong> Websites facilitating access to programmes, services and tools that can help entrepreneurs to start and improve their business have been launched; they provide all information relating to the procedures and regulations.</td>
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4. Recommendations: Encouraging Formalisation

In order to broaden the base of registered enterprises and promote more inclusive growth, the Government may consider the following policy measures.

1) **Awareness and Training:** The entities working in the informal sector lack awareness about Government programs and the benefits for registration in general. Some of the initiatives that can be taken include: mass awareness programme, setting up of business support centres, etc.

   1.1) **Mass awareness and registration campaign:** The Government may undertake mass awareness drives like it did for Aadhar Cards or Jan Dhan bank accounts on a priority basis. Facilities of on the spot registration at such registration camps may be provided. This will facilitate quicker registrations by entities and subsequent formalization. As a part of the awareness drive, the Government may hold training sessions with owners of the entities towards the same. The case of “Colombia Goes Formal” campaign executed in Colombia is a case in point.

   1.2) **Business Support Centres:** The government can considering setting up of ‘Business Support Centres’ (can be done within the District Industries Centres), which can serve as facilitator for MSME registration, responding to all their queries, resolving their doubts and assisting them in complying with all processes. There should also be an interactive helpline by way of call centre to assist the small entrepreneurs with their queries. The existing District Industries Centres need to be strengthened in terms of their manpower and infrastructure.

2) **Administrative and Procedural Reforms:** The most important requirement for formalization is to simplify registration procedures and remove administrative bottlenecks. First of all, the procedures for registration of small enterprises need to be simplified and reduced to single form, including details related to licensing and clearances, for certain sectors. A single window national level portal is required subsuming all can be created for legal functions of business which are not recurring in nature, like registration, obtaining permissions, licenses, and even closure. In-fact, the Udyog Aadhar has already simplified MSME registration and the government may consider linking of all possible clearances and licenses also under this, so that enterprises can close all formalities in one go.

As discussed in the previous chapter, Brazil’s REDESIM and Chile’s ‘Your Business in a Day” are good examples of undertaking administrative reforms to promote formalisation.

3) **Tax related incentives:** Among one of the main reasons micro enterprise owners avoid registration is to avoid bearing the burden of tax, as many of them run on small margins. While reducing the corporate tax rates for MSMEs is one of the key demand
of enterprises, alternatively the government can consider introducing a scheme of ‘one tax/ one pay’, wherein all types of taxes and levies (corporate tax, GST, social security, property tax, etc.) are removed and one single payment is made on annual basis. Authorities could also improve tax administration and implement a simple tax such as presumptive tax and linking payments of such a tax to availability of infrastructure services.

Brazil’s Simples Nacional and law on Individual Microentrepreneurs that have been discussed in the previous chapter highlight how tax related simplification acts as an incentive towards formalisation.

4) **Review of laws and regulations:** There is a need to review all existing laws and regulations with a view to justify its efficiency. For instance, existing labour laws are complex and cumbersome and need to be simplified and rationalised. Additionally, adequate flexibility needs to be provided in laws to take care of the dynamics of industry.

5) **Easier Inspection and Compliance:** Most informal enterprises are wary of various inspection and compliance burdens that they will be subjected to post registration. Non-compliance to various labour, environmental regulations by small enterprises often happens due to lack of knowledge of the regulations. In order to encourage enterprises to formalize, the government may consider replacing penalty/ fines in case of first non-compliance with training and workshops. The case of Chile, as discussed in previous chapter, is a good example in this regard.

6) **Common infrastructure facilities:** In order to grow in size, MSMEs have to make heavy capital expenditure that they may not be able to afford. Competing firms in the same sector undertaking similar business may be advised to work out of an Industrial estate where a part of that estate is a common infrastructural facility which involves heavy capital investment. Such a facility may be provided by the Government to the MSMEs for a nominal charge or free of cost if possible.

7) **Public procurement:** The Government has introduced a revised Public Procurement Policy for MSMEs, wherein purchase preference shall be given to local suppliers in all procurements undertaken by procuring entities under the ‘Make in India’ initiative. To implement this effectively, the government can consider setting up Public Procurement Business Centres. For instance, in Chile, one fundamental step forward in improving micro and small enterprises’ share in public procurement was the creation of 16 public procurement business centres and access points throughout the country. ChileCompra, the government agency in charge of government acquisitions also organized two-hour training sessions for companies interested in registering as suppliers. The design and accessibility of the ChileCompra web portal has improved over time, facilitating participation by smaller businesses.
8) **Monetary Incentive:** Registration can also be directly linked with monetary incentives to the firms, subject to certain lock-in period of registration or other conditions. For instance, in Sri Lanka, a sample of 520 firms was drawn that stated that they were not yet registered at the divisional level. These firms were informed about the proper costs and benefits of formalizing, and they would receive a financial reward in case they decided to register. Firm owners were presented with an information brochure, designed in cooperation with the local chamber of commerce and divisional secretariat. In addition to this information, delivered by trained research assistants, firm owners were told that they would be reimbursed for registration for 1,000 LKR or about 9 USD (slightly above the average registration fee). The research team also made clear that cancelling registration immediately after registration and obtaining the reward was not an easy task. Out of the total 520 firms sampled, 104 firms registered.

9) **Sectoral Approach:** Taking a sectoral and sub-sectoral approach can be one of the ways to encourage the move out of informality, for example in agriculture and services, the government can develop appropriate policy response where informality is particularly prevalent. A sectoral approach can play an important role in identifying particularly dynamic and growth-oriented sectors to curb the rising informality in our country. For example, in June 2016, the government approved Rs 6,000-crore special package for the textiles and apparel sector to create one crore new jobs in 3 years, attracting investments of $11 billion and generating $30 billion in exports. Similar schemes for other sectors (with high level of informality) can bring flexibility and also provide the workers protection of the law, thereby promoting transition to formality.

10) **Extension of social protection:** A defining feature of informality is the limited or lack of access to social protection. Instruments to mitigate risks can have major impacts on both poverty reduction and on reducing informality. Thus government needs to ensure a comprehensive social security scheme covering both the unorganized and organized sector of the economy. An innovative scheme can be Micro-entrepreneurs Social security, wherein micro/ self-employed-entrepreneurs are provided social security benefits, subject to their registration (Aadhar based) that has to be renewed annually. This will attract several micro-entrepreneurs like street vendors, kirana shops, self-employed professionals like plumbers, etc. to get registered and be an integral part of the formal economy.
Annex 1: Global Case Studies

Brazil

About 95% of Brazilian firms are Micro and small enterprises (MSEs), generating about 16.6 million formal sector jobs and contributing 20% to GDP. In order to encourage formalization of micro and small enterprises, Brazil implemented a series of measures in the last three decades of the 20th century.

In 1984, the microenterprise law established the need for treating the microenterprises differently in terms of their taxation, and labour regulation and in relation to credit access and business development services. An autonomous body, SEBRAE, created in 1990, acted as the support body for the small enterprises, offering them assistance in market access, technology development, credit access and local economic development. In 1996, Simples Federal, a program offering differential tax treatment to micro and small enterprises, through the unification of taxes and the streamlining of formalization procedures, was initiated.

Despite these efforts of the government to favour micro and small enterprise growth and their formalization, the initial results in terms of formalization were not positive. However, starting in 2000s, the government adopted policies which were more business friendly.

Simples Nacional

In 2000, a law called Simples Nacional was formed, which combined eight different taxes of small firms into one single monthly payment, depending on their gross revenue and type of economic activity. Now, they did not have to present the tax and social security declarations at the federal, state and municipal levels separately, reducing the level of bureaucracy. This also reduced the amount of tax that had to be paid by the small firms. As a result, there was an increase in the number of formalized micro and small enterprises and as small firms moved out of the informal sector, tax revenues also rose.

Law on Individual Microentrepreneurs

The next major step towards formalization of micro enterprises was a law on individual microentrepreneurs. Under this law, entrepreneurs and own account workers, could register themselves with the microbusiness portal and get formalized. Registration made it easier for the entrepreneur to open a bank account, get access to a loan or issue bills. The individual microentrepreneur pays a fixed monthly amount and is exempted from other taxes and contributions. Registration also provides benefits such as access to a basic state pension, disability and survivor benefits, health and maternity protection, etc. Since most women led businesses are micro-businesses, the MEI law improved their participation in the formal sector, thereby
giving them access to new markets as well as to financial and non-financial services. In 2012, almost 60% of registered microentrepreneurs declared that their revenue had increased after they had formalized their operations.

Public acquisitions
For formalization micro and small enterprises, the government also took initiatives to encourage MSE participation in public procurement. One such initiative is the national school meals program run by the Ministry of Education, which obliges municipalities to spend 30% of the resources received for school meals from the national education development fund on products from family-based agriculture. A more recent initiative is the Sustainable Public Procurement Program created in 2012, where the federal government gives priority to small businesses specialized in environmentally, socially and economically responsible goods and services, underlining the importance of environmental preservation and responsible consumption.

MSEs that want to participate in any of the public procurement programs described here, must be fully formalized. This way, policies to expand MSE access to public procurement have become a fundamental pillar of the national strategy to encourage formalization of small firms.

Credit-related policies
Without access to credit, small firms remain trapped in the informal sector. To overcome this, the Brazilian government initiated credit policies, one of which required commercial banks and universal banks with commercial portfolios to use 2% of demand deposits to finance loans to small firms and microentrepreneurs.

Policies for innovation and technology transfer
Innovation and technology transfer promoted by the government acted as incentives to entrepreneurs to formalize. One such programme implemented was the National Support Program for Business Incubators, which strengthens the capacity of incubators and technological parks to expand and innovate micro and small firms.

Another significant program is the FINEP/SEBRAE initiative, which finances innovation projects jointly developed by micro and small enterprises and institutions involved in science and technology.

REDESIM
Starting up or closing a formal company involves a long and costly procedure in Brazil. To overcome this barrier, the government created a national network for the simplification of business registration and legalization, known as REDESIM, which aims to streamline and integrate into a single system all registration and licensing procedures related to the start-up, operation and closure of companies, regardless of their size.
Thus, different macro and microeconomic measures complemented each other, bringing about positive results at the level of the economy and specifically in the segment of small and micro enterprises. Comparing data from the 1990s and the 2000s reveals a significant shift toward formalization of the working population in Brazil, measured as the percentage of wage workers (employees) covered by social security.

## Colombia

The micro and small enterprise sector (MSE) in Colombia is characterized by high levels of informality. In 2010, six out of every ten microenterprises was operating informally. Various policies and programmes were introduced in order to simplify procedures of registering and lower the costs of operating formally and hiring employees, to promote the formalization of micro, small and medium sized industries.

### Institutional framework for MSME development

Colombia introduced the Micro, Small and Medium Enterprise Law in 2000 to support the micro and small enterprises. It laid the foundations for MSME policy development, creating various advisory councils for the micro, small and medium enterprises, and establishing legal basis to incentivize development of microcredit through financial institutions. The Law also provided incentives for creation of new firms and formalization of existing ones through various tax based incentives, such as tax exemptions and special tax rates, based on the firm size. Reduction of parafiscal taxes for the first three years of incorporation of a firm, which had to be paid by the employers along with their social security contributions, was an important step.

### Business Support Centres

In 2001, creating a company in Colombia involved a lot of administrative procedures. To resolve this situation, the National Confederation of Chambers of Commerce initiated a series of business support centres, which provided information and assistance in registering the business, in order to make it simpler and reduce the costs associated. This led to an augmentation of registration rate by 5% by 2007, in cities with business support centres than in cities without them. By 2013, the number of procedures for registering a business fell greatly, along with reduced costs.

### National Competitiveness Policy Framework

Under the framework of the 2008 National Competitiveness Policy, the firms were only required to present the standard business license to the district and municipal governments, and no other certificates, licenses or permits were required.

In order to further ease the unnecessary administrative regulations for individuals and firms, the Anti-Red Tape Decree was passed under 2012, based on the principles laid out in the National Competitiveness Policy. The anti-red tape decree simplified procedures, thus reducing time and costs needed for formalizing a company.
Moreover, digitalization further reduced time spent by entrepreneurs on these procedures. By 2008, the main national taxes could be paid online using a single format.

**Law for the Formalization and Creation of Employment**

The 2010 Law on the Formalization and Creation of Employment was a landmark achievement in terms of formalizing employment in MSMEs. Its main objectives were to formalize informal jobs, to create more jobs in the formal economy and to increase the income generating capacities of informal employees and small entrepreneurs. The Law covers areas such as business development programmes, temporarily reducing the regulatory burdens faced by small firms, regulations on worker cooperatives, simplifying procedures, etc.

The Law reduced the costs of hiring staff that belongs to certain vulnerable groups, such as the youth under 28 years of age, women who have been unemployed for more than a year, etc.

**“Colombia Goes Formal”**

“Colombia Goes Formal”, a programme led by the Ministry of Trade, Manufacturing and Tourism (MinCIT), aims to formalize existing companies, through formalization workshops and brigades. In the workshops, informal entrepreneurs are invited and informed about the services that the private and public entities offer during registration of their businesses. The formalization brigades educate and assist entrepreneurs who are ready to formalize their business.

**The National MSME System and its Instruments**

The National MSME system, created in 2004, comprised of financial and non-financial enterprise development instruments to promote formalization of businesses. Some of the instruments include the National Guarantee Fund, which facilitates formal credit to the MSMEs; the Banca de Oportunidades programme, which provides credit to localities not covered by banks; an entrepreneurship fund, which provides access to credit to students who have a business plan in mind; Finagro, an agro-based fund, which operates as a second-tier financial institution to facilitate projects undertaken to modernize rural MSME production systems and provide credit to agriculture related investments. The efforts to raise awareness among entrepreneurs and to assist them in formalizing their businesses did have an impact on the number of micro and small businesses registered.

According to the 2012 microenterprise survey, that year, 69.7% of Colombian microenterprises were registered with the local chamber of commerce while 77.3% maintained some kind of accounting system. These figures show that there was a substantial progress towards formalization since 2008.
Challenges

The challenge of formalizing micro and small enterprises still remains enormous. While the national taxes were unified and could be paid online, the regional and municipal taxes were still disaggregated, and only some local governments provided an online payment system. Innovation and technology development were not given adequate importance. There existed information gaps in relation to the total number of MSMEs which made it difficult to assess the impact of the policies and programmes undertaken to promote formalization of micro and small enterprises. Thus, there is a need to use rigorous methods to evaluate the existing programmes to further design effective policy instruments.

Chile

The informal economy in Chile is smaller as compared to rest of the Latin America. This can be accredited to the strong economic growth and effective institutions in Chile. Opening up a company costs lower in Chile than in other places. However, the private sector development in Chile still involves large numbers of small firms which operate informally, and are characterized by low productivity. A large share of micro and small enterprises also operate semi-formally and comply with some types of regulations but not with others. Policies to promote formalization in Chile mainly focused on creating a more favourable business environment and increasing competitiveness in small enterprises by reducing their regulatory burden.

The Small and Medium Enterprise Statute was passed in 2010. It established the need for small companies to be treated differently and formed the basis for establishing an enabling regulatory framework for their start-up, growth and closure.

Simplification of start-up procedures

In order to cut red tape and reduce costs for a business start-up, the Chilean government, in 2011, developed a strategy to foster competitiveness which would streamline procedures and thus stimulate economic growth, and implemented several laws and introduced new enterprise development programmes to do so.

Obtaining business operating licenses was made easy, by the municipalities being obliged to issue permanent operating licenses if the business owner produced all necessary permits.

“Your business in a day”

As part of the national competitiveness strategy, a new platform “Your Business in a Day” was created. It aimed to simplify the procedures involved in starting up a business and to encourage the existing informal businesses to formalize and firms operating as natural persons to acquire a legal status of being a sole proprietorship or a limited liability company. The platform provided easy and free registration, where only a digital form needed to be filled, replacing series of steps that previously had to be undertaken.
Family-owned microenterprises

A law governing family-owned microenterprises was initiated, which aimed to promote formalization by simplifying the registration of home-based enterprises. It also gave them easy access to financial and business development services. However, this law produced mixed results. It would have been more successful if more consistent promotional efforts towards entrepreneurs and municipal workers had been taken.

Substitution of labour inspection fines with training
Micro entrepreneurs fear inspections, and that is what keeps them from formalizing their business. Non-compliance to labour contract regulations, working hours and occupational health and safety are some of the reasons why they avoid inspections. These might happen due to lack of knowledge of the regulations. The government decided to resolve this through better provision of information, education and support. Its programme replaced labour inspection fines with training. Instead of paying fine, the violators can participate in the course on labour legislation.

MSME Good labour practices programme
Another programme implemented by the Chilean labour inspection to encourage the formalization of micro and small enterprises is the good labour practice programme for micro, small and medium (MSME) enterprises which provides technical assistance to employers and workers in complying with labour regulations, social security provisions and occupational safety and health standards in companies.

PREVIRED
The Previred portal was launched in 2002 by a group of private pension funds. It allowed companies to register their employees and pay their social security contributions through a single monthly payment online or in person, unlike before when separate worksheets for different pension funds had to be prepared.

Streamlined taxation
Tax registrations are vital for the formalization of micro and small enterprises. The owners of MSEs consider this to be costly and complex, making it a barrier to formalization. Chile introduced some major tax reforms for MSEs, simplifying procedures and reducing the costs of operating formally. In 2007, a new tax and accounting system was introduced, which simplified the cost of calculating profit tax for micro, small and medium businesses. With the simplified tax regime, the companies did not have to produce detailed profit and loss statements, balance sheets, etc. MSEs could maintain their accounting records in electronic format through an MSME portal.

“BancoEstado Microempresas”
Improving access to formal financial services is an important component of the strategy to formalize micro and small enterprises. The businesses get better equipped to comply with formal sector regulations if they have proper access to credit and savings instruments. In 1995, BancoEstado, Chile’s only state-owned commercial
bank, created a subsidiary specialized in microbusinesses which aimed to promote access to financial services for this segment of firms. It offered credit to formal and informal microenterprises who had been operative for more than a year. It helped customers to formalize by providing information and training on the procedures involved. In 2013, it also launched the entrepreneur’s account, which helped newly registered MSEs to manage their finances safely. It offered as an incentive to formalize since only formal enterprises could use the service.

**Bankruptcy Law**

In 2014, changes were introduced in the Chilean bankruptcy law, which aimed to solve the problems that businesses faced in being closed down, namely slow and costly procedures, constituting as a barrier to formalization of MSEs. The new regulations focused on saving viable companies. It also reduced the maximum time that must be taken to liquidate to twelve months.

According to estimates, in 2013, 52% of all Chilean enterprises had formalized their operations.

**Challenges**

The different laws that were implemented assumed to gain success without much training and promotion. Programmes aimed at reaching the small entrepreneurs, such as the good labour practices programme and the social security education programme were relatively small. Efforts to raise awareness are needed. A significant amount of MSEs still operate informally, lacking knowledge of the benefits of formalization.

Labour inspectors play an important role in supporting and monitoring the micro and small enterprises in their compliance with the labour legislation. The programmes replacing fines with training have not been implemented at a sufficient scale. Innovative ways to inspect and support micro and small enterprises should be explored, for instance through improved cooperation between municipalities and labour inspection offices.
Annex 2: MSME Schemes in India

SCHEMES TO IMPROVE COMPETITIVENESS

a. Market Assistance Scheme: This aims to enhance the marketing competitiveness of MSMEs by providing them a platform to interact with individual or institutional buyers and update them with the current market scenario and provide them a form for redressing their problems. The scheme is implemented through National Small Industries Corporation (NSIC) Limited. MSMEs are supported under the Scheme for capturing the new market opportunities through organising/ participating in various domestic & international exhibitions/ trade fairs, Buyer-Seller meets, intensive campaigns and other marketing events. Assistance is provided in the form of airfare allowances and space rent allowances for participation or organization for co-sponsoring such events. The NSIC provides infrastructure needs such as exhibition halls in Hyderabad and Delhi.

b. Micro & Small Enterprises Cluster Development Programme (MSECDP): The Ministry of MSME has adopted cluster development approach as a key strategy for enhancing productivity and competitiveness as well as capacity building of MSEs and their collectives in the country. Clustering of units also enables the providers of various services to them, including banks and credit agencies, to provide their services more economically, thus reducing the costs and improving the availability of services for these enterprises. The main objectives of this scheme are to support sustainability and growth of MSEs by addressing common issues such as improvement of technology, skills and quality, market access and access to capital, to build the capacity of MSEs for common supportive action through the formation of self-help groups, consortia, upgradation of associations, etc., to upgrade infrastructural facilities in MSEs etc. by providing financial help.

ASSISTANCE TO TRAINING INSTITUTIONS SCHEME

This scheme aims to strengthen and improve the infrastructure of training institutions and support entrepreneurship and skill development activities by providing financial assistance. The training institutes are given capital grants for creation/strengthening of infrastructure and programme support for conducting entrepreneurship development and skill development programmes. Maximum assistance for creation or strengthening of infrastructure is Rs.150 lakhs on matching basis, not exceeding 50% of project cost. However, for the North Eastern region (including Sikkim), Andaman & Nicobar and Lakshadweep, the maximum assistance on matching basis would be Rs. 270 lakhs or 90% of project cost, whichever is less. Any State/Union Territory Government, Training Institutions, NGOs and other development agencies can apply for assistance for creation or strengthening of infrastructure.
CREDIT RELATED SCHEMES

a. Credit Guarantee Trust Fund for Micro & Small Enterprises (CGT SME):
Ministry of Micro, Small and Medium Enterprises and Small Industries Development Bank of India (SIDBI) jointly established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) in order to implement Credit Guarantee Scheme for Micro and Small Enterprises. The corpus of CGTMSE is contributed by Government of India and SIDBI. 75% of the loan amount to the bank is guaranteed by the Trust Fund. Collateral free loans up to a limit of ₹ 100 lakh is available for individual MSEs on payment of guarantee fee to bank by the MSE. Both existing and new enterprises are eligible under the scheme.

b. Credit Facilitation through Bank Tie-up:
NSIC facilitates MSMEs in meeting their working capital and long term funds requirement through entering into MOU (Memorandum of Understanding) arrangement with various nationalized and private sector banks. So far MOU arrangement has been made with 33 Banks/FIs. NSIC facilitates MSMEs, seeking short-term and/or long-term credit limits, to prepare their proposals and in completing all formalities/ documentations as per the requirements of the banks. Thereafter, the proposal is submitted to the bank(s) with whom it has entered into MOU arrangement. NSIC also do the follow-up with the concerned banks for sanctioning of the credit facilities as per their lending norms. NSIC does not charge any fee from the MSMEs for facilitating them under this scheme.

The following schemes have been initiated by the Ministry of Finance for the MSMEs.

a. PRADHAN MANTRI MUDRA YOJANA (PMMY):
The PMMY aims to extend loans to micro enterprises engaged in manufacturing, trading and service sectors, such as proprietorship/partnership firms running as small manufacturing units, shopkeepers, fruits/vegetable sellers, hair cutting salons, transporters, truck operators, hawkers, co-operatives or body of individuals, food service units, repair shops, machine operators, small industries, artisans, food processors, self-help groups, professionals and service providers etc. in rural and urban areas with financing requirements up-to Rs.10 lakhs Loans are extended by banks, NBFCs, MFIs and other eligible financial intermediaries as notified by MUDRA Ltd.

The MUDRA loans are extended under following three categories:

- Loans upto INR 50,000/- (Shishu)
- Loans from INR 50,001 to INR lakh (Kishore)
- Loans from INR 5,00,001/- to INR 10 lakh (Tarun)
b. SIDBI SCHEMES

Small Industries Development Bank of India (SIDBI) is an independent financial institution aimed to aid the growth and development of micro, small and medium-scale enterprises in India. Following are some credit schemes provided by SIDBI:

i. **Growth Capital and Equity Assistance:** it provides capital to MSMEs to invest in marketing, brand building, R&D, etc through convertible bonds, subordinate debt and equity

ii. **General refinance:** financial assistance for Setting up MSEs, or their expansion, modernisation, diversification, etc.

iii. **Acquisition of ISO Series Certification by MSE Units:** it provides financial help to MSEs with two years’ performance, without default, to obtain an ISO certificate

iv. **Composite loan:** it provides Assistance for equipment and/or working capital and also for work sheds in the form of loans upto ₹25 lakh to artisans, micro-units ad cottage industries.

v. **Single window:** it provides long term loans to new projects undertaken by MSEs.

vi. It also provides financial support for development of infrastructure of MSMEs

c. **Other finance assistance schemes:**

i. **Credit Linked Capital Subsidy for Technology Upgradation:** CLCSS provides 15% subsidy for additional investment up to Rs 1 cr for technology upgradation by MSEs.

ii. **Raw material assistance and credit:** This scheme aims to facilitate MSMEs to procure raw materials easily, at a low cost. NSIC provides loans to buy raw material from NSIC against bank guarantee for 90 days.

iii. Under the National Manufacturing Competitiveness Programme (NMCP), the scheme **Entrepreneurial and Managerial Development of SMEs through Incubators** provides financial assistance for innovative business ideas which could be commercialized within a year, from Rs.4 to 8 lakh for each incubatee/idea, subject to overall ceiling of Rs.62.5 lakh for each Business Incubator.

**PERFORMANCE AND CREDIT RATING SCHEME**

In order to create awareness amongst the MSEs about their strengths and weaknesses, this scheme, implemented through the National Small Industries Corporation (NSIC) Limited provides a trusted third party opinion on their capabilities and creditworthiness. The rating is carried out through empanelled rating agencies i.e. CRISIL, CARE, ONICRA, SMERA, ICRA and Brickwork India Ratings. Under this Scheme, rating fee payable by the micro & small enterprises is subsidized for the first year only and that is subject to maximum of 75% of the fee or Rs. 40000/-, whichever is less.
EASE OF DOING BUSINESS SCHEMES

a. **Udyog Aadhar Memorandum:**
In order to make business operations easier for the MSMEs, the Prime Minister initiated a simplified form to make registration easier for the small businesses. The Ministry of MSMEs notified a simple, one-page form called the Udyog Aadhaar Memorandum (UAM) in 2015. The one page simplified registration Form constitutes a self-declaration format under which the MSME self-certifies its existence, bank account details, promoter/owner Aadhaar details, other minimum basic information required, etc. It helps in creating a business friendly environment, facilitating easy entry and exit from the market. The Ministry of MSME has set up the infrastructure i.e. the Udyog Aadhaar (UA) Portal (http://udyogaadhaar.gov.in) for online filing of Udyog Aadhaar Memorandum (UAM) by enterprises located anywhere in the country. The UA portal is also accessible on mobile devices. The registration process is free of cost.

b. **Infomediary services:**
They are a one-stop one-window bouquet of aids providing information on business, technology and finance to entrepreneurs with a membership.

c. **Marketing Intelligence Services Lease:** It acquires and analyses information in order to assess the market conditions and supply this information to MSMEs.

**ASPIRE (Scheme for promotion of Innovation, Entrepreneurship and Agro Industry)**
The scheme aims to promote entrepreneurship culture in India, along with creating new jobs and reducing unemployment, and also promote innovations to strengthen the competitiveness of MSME sector. This is to be done by setting up livelihood business incubators by NSIC, KVIC or Coir Boards or any other agency of the government. One time grants for the cost incurred on plant and machinery will be provided. Training cost will be met out of the ATI schemes of the MSME ministry.