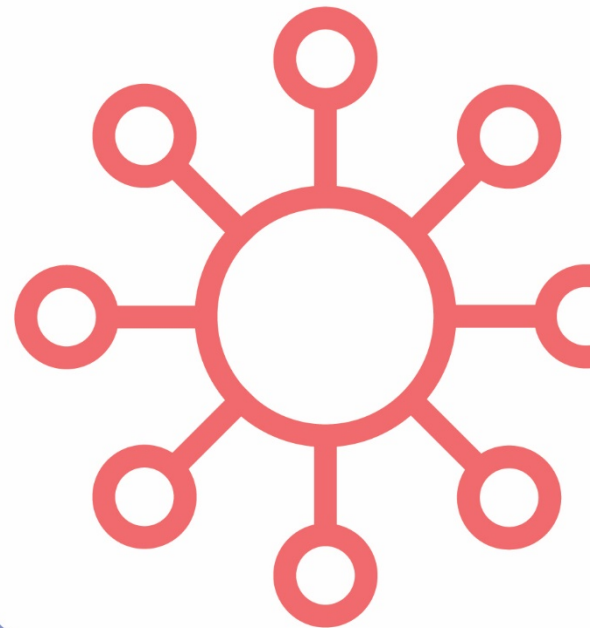
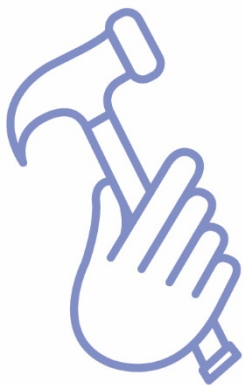


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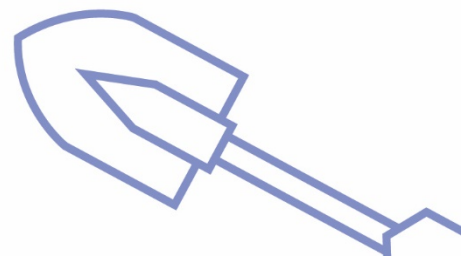
Small Size, Big Impact

*Employment Dynamics in Microenterprises
during Covid-19*

Sharon Buteau



CENTRE FOR SUSTAINABLE EMPLOYMENT



About Azim Premji University's work on sustainable employment

Azim Premji University was established in 2010, by the Azim Premji Foundation, with a clear social purpose of working towards a just, equitable, humane, and sustainable society. All of the University's programmes, teaching, research, and practice, work towards this purpose.

To contribute to the critical matter of India creating just and sustainable employment, the University has set up the Centre for Sustainable Employment (CSE), which conducts and supports research in areas of work, labour, and employment. The University is attempting to provide empirically grounded, analytical reflections on the state of work and workers in India, as well as to evaluate and propose policies that aim to create sustainable jobs. To this end the University also gives grants to create new knowledge in the above areas. It also hosts a working paper series to which contributions are invited from researchers, policy-makers, civil society actors, and journalists. The University's CSE website is an important part of this agenda. In addition to research papers and policy briefs, it hosts government reports, as well as data and statistics on the Indian labour market.

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Small Size, Big Impact :

Employment Dynamics in Microenterprises during COVID-19

Sharon Buteau

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1. Introduction

The COVID-19 outbreak has had severe repercussions across the economy, particularly on micro, small and medium enterprises (MSMEs), affecting the lives of entrepreneurs and their workforce alike. The Government of India initiated a strict national lockdown on March 24th, 2020, limiting the movements of the entire population, along with the functioning of businesses, restricted to those catering to essential needs. Businesses faced many unexpected challenges such as temporary closures, reduced demand and income, and disrupted supply chains to name a few. With the gradual re-opening of the economy, while enterprises have resumed operations, the long-term impact on their growth and workforce is likely to persist.

The MSME sector in India is significant in its scale and contributions - it accounts for about 30 percent of the country's GDP, and plays an important role in job creation - employing nearly 110 million people. A large portion of these jobs are generated in the form of self-employment, through small family-run businesses, and enterprises with a handful of employees (typically less than 5).¹ Approximately 95 percent of micro enterprises are in the informal/unorganized segment. These enterprises broadly fall under the 'microenterprise' segment, within the MSME categories. Microenterprises are often rooted in local contexts and take various forms such as the local kirana (convenience) store, home-based artisan, small service outlets like tailors and mechanic shops, among others. The large number of low employee headcount firms that account for the bulk of employment creation in the country has remained static. For example, single worker firms and firms with up to three total workers accounted for 93 percent of all microenterprises in 2010 and 94 percent in 2015.²

While the informal sector contributes around half of the GDP of the country,³ it dominates the employment footprint such that more than 90 percent of the total workforce has been engaged in the informal economy.⁴ This situation reflects a catch-22 for both employers and employees. The precarious condition of microbusinesses makes it challenging for them to offer full-time permanent employment, competitive wages and work benefits, which in turn disincentivises

¹ Small Matters, Global evidence on the contribution to employment by the self-employed, microenterprises and SMEs, ILO, 2019

² Basole A. & Chandy V. (2019) Microenterprises in India: A Multidimensional Analysis, Global Alliance for Mass Entrepreneurship and Azim Premji University, Bangalore

³ Murthy R (2017), Measurement of Informal Economy, Indian Experience, IMF Seventh Statistical Forum

⁴ The National Commission for Enterprises in the Unorganized Sector (NCEUS) recommends defining informal economy as "the informal sector and its workers plus the informal workers in the formal sector".

formalisation. This in turn limits their ability to leverage economic assets and grow. These enterprises are typically set-up with little investment in fixed assets and inventory and operate on cash-and-carry terms. Weak access to markets also results in seasonal or volatile business volumes, with no financial mechanisms to weather or smoothen these shocks. Consequently, the nature of employment generated by microenterprises is informal, and varies with demand. Such employment opportunities are typically labelled as casual, seasonal, or sometimes contract labour, and lack job security or access to financial safety nets, leaving those employed vulnerable to economic downturns and other shocks. Data from the Periodic Labour Force Survey 2018-19 indicates that 74.4 percent of employees do not have a formal contract. Further details are shared in the table below (Table 1).

Table 1. Workers by employment type and job security

	% share of employment	% without a formal contract
Rural	42.0%	78.3%
Worked as Casual Wage Labour	19.2%	99.3%
Worked as Regular/Salaried Wage Employee	22.8%	61.2%
Urban	58.0%	71.6%
Worked as Casual Wage Labour	11.2%	98.9%
Worked as Regular/Salaried Wage Employee	46.7%	65.1%
Grand Total	100.0%	74.4%

Source: Periodic Labour Force Survey 2018-19

Furthermore, low productivity of these firms creates additional bottlenecks in the way of job creation and income growth. Few studies in India have deeply focused on employment volatility within microenterprises. One reason is the glaring lack of administrative and other data on these enterprises, as they typically lack formal identification and transact largely in cash. It is challenging to capture enterprise data at that level; in particular, data related to (informal) employees is challenging to gather. Researchers usually triangulate data from industry surveys that collect information on larger registered industries, and from household surveys or periodic labour force surveys that collect information on occupational patterns.

Understanding the nature of employment offered by these microenterprises, and the factors that influence their productivity, can provide valuable inputs for policies and programs that seek to create jobs while encouraging enterprise growth and resilience.

2. COVID-19 Economic Shock

There is a dearth of literature on the impact of acute crises on microenterprises, and this lack of information is compounded in times of uncertainty, as was witnessed during the COVID-19 pandemic. Previous studies have highlighted the vulnerability of MSMEs to external shocks that are not in their control. However, most studies have focused on larger firms and those in developed economies, and not on microenterprises in developing countries. Moreover, the circumstances of crises studied included economic recessions, natural disasters or a financial crisis such as the global financial crisis in 2008.⁵ Furthermore, past studies have focused on dimensions such as operations and income at the firm level, and little attention has been paid on how these crises affect the workforce and employment patterns among small businesses.

A few rapid studies conducted during the pandemic provide some insight into employment patterns. For instance, a survey conducted by the All India Manufacturers Organisation (AIMO) in June 2020 indicated that due to the volatility caused by the pandemic, at least 72 percent of the micro, small and medium enterprises expect to reduce their employee count by August 2020. To

⁵ The Impact of Covid-19 Pandemic Crisis on Micro-Enterprises: Entrepreneurs' Perspective on Business Continuity and Recovery Strategy. Fabeila and al. The Asian Institute of Research Journal of Economics and Business Vol 3, No 2 2020

put these estimates into figures, the survey on MSMEs conducted by SKOCH Group in May 2020 in collaboration with Federation of Indian Micro, Small and Medium Enterprises estimated that 25 to 30 million workers had lost their jobs by June 2020. While these cross-sectional studies are useful to understand the pulse of the sector at the time of the survey, they do not provide insights on the state of microenterprises and their workforce in subsequent months.

In this paper, we discuss insights gathered through a rapid assessment of microenterprises in India and some field work, conducted over four waves between May 2020 and January 2021. The paper discusses some initial findings on the impact of the lockdown on employment levels and trends.

Methodology/Sample

Data for this dynamic, rapid panel survey was collected over four waves between May 2020 and January 2021. Given the logistical challenges of conducting a survey during COVID-19, a stratified, convenience random sample of 1461 microbusinesses was drawn from various partnering organizations to represent sub-industries in manufacturing, services and trade. Data was collected through telephonic surveys that were administered in the local language - each survey lasted for around 18 to 20 minutes. The bulk of the microenterprises in the sample are situated in tier-3 cities or rural areas. While we tried to be comprehensive to broadly cover industries and women-led enterprises, the sample is not necessarily representative of the general population.

The samples across four waves are distributed as below:

Table 2. Sample Details & Operational Status Overtime:

	Wave 1	Wave 2	Wave 3	Wave 4
	04/05/20-06/06/20	01/07/20-11/08/20	23/06/20-25/10/20	11/12/20-16/01/21
Total Sample	1461	1129	933	818
<i>Business in function</i>	1461	1038	902	787
<i>Exit of Business</i>	-	91	31	31
Attrition	-	332	528	643
<i>Operational Status</i>				
Fully Operational	3.2%	10.8%	57.1%	51.6%
Partly Operational	13.8%	51.8%	29.1%	39.1%
Temporary Shut	83.5%	29.3%	10.5%	5.5%
Exit of Business	-	8.1%	3.3%	3.8%

As the lockdown was gradually lifted across India, the number of businesses that resumed operations had increased. The total number of businesses closed declined to 122 by Wave 4, while the numbers in the temporarily closed category reduced considerably.

Table 3. Demographic Details of Respondents in Wave 1

	All	Manufacturing	Service	Trade
Age of business (Avg, Years)	12	14	10	6
Female-led	19%	4.2%	47.2%	7.2%
Registered Business	74%	66.2%	88.2%	67.5%
Essential Business	29.3%	5.9%	5.9%	68.2%
Business Format				
<i>Fixed Store</i>	65%	49.9%	77.5%	86.4%
<i>Home based business</i>	10%	6.7%	16.4%	8.4%
<i>Small manufacturing plant</i>	23%	43.12%	2.6%	4.8%
<i>Village enterprise</i>	1%	0.3%	1.8%	0.4%
Geography ⁶				
<i>North</i>	39.5%	59.5%	0.4%	59%
<i>South</i>	49.6%	33.9%	85.8%	23.2%
<i>West</i>	10.9%	6.5%	13.8%	17.7%
Total Sample		49.2%	33.7%	17%
Total Sample (in no's)	1461	719	493	249

⁶ States: Delhi, Haryana, Maharashtra, Punjab, Rajasthan, Tamil Nadu, and Uttar Pradesh

Majority of the businesses in the sample operated a fixed store, while around 23 percent were small manufacturing units. The segment wise impact has been assessed to understand the dynamics. 16.4 percent of the home-based businesses operated in the services sector with more than 86 percent of the trade businesses working as a fixed store. These units in fact performed a critical component during the lockdown phase as these services were deemed 'essential' by the government (68.2 percent in trade sector).

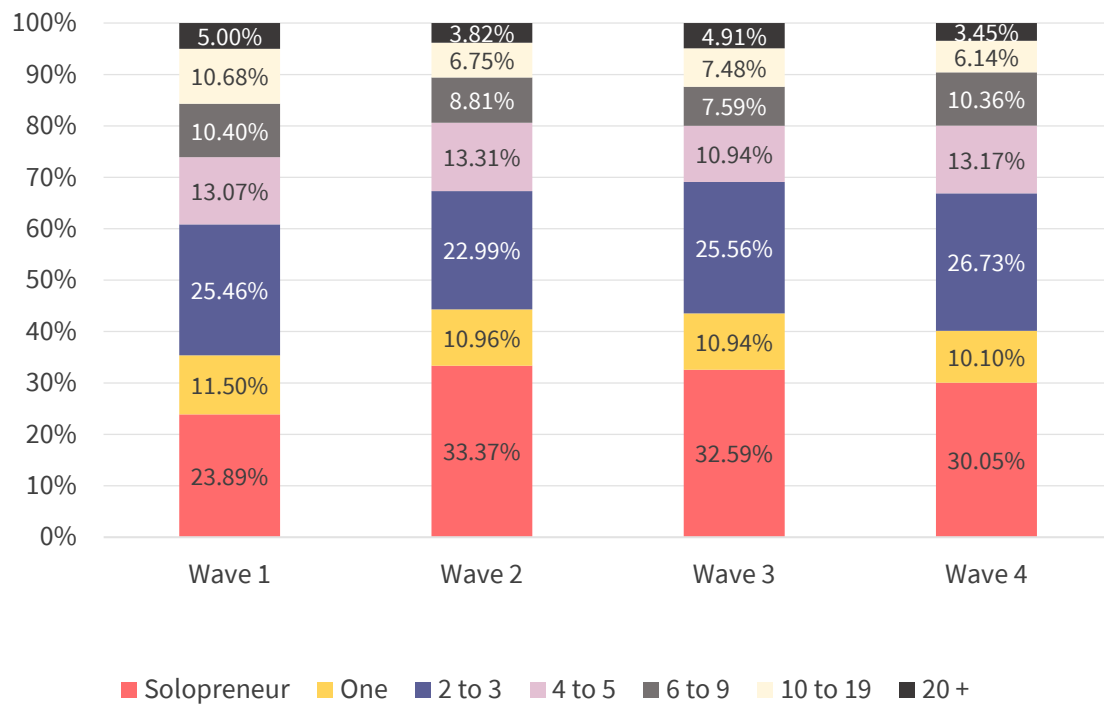
The study took a liberal approach in capturing registration of businesses and since the samples were drawn from partners who also provide microfinance services, the total number of businesses that reported having a registration is higher than the norm (less than 5%).

19 percent of the sample comprised female-led enterprises, primarily engaged in the services sector which have a higher proportion of solopreneurs and had undergone higher employment volatility compared to the manufacturing sector. When looking at staffing, we asked the question on the number of paid employees, including full-time and/or part-time.

Below is the employment distribution by employment size category and industry. The distribution is different from the macro aggregate distribution of firms in India, due to purposeful sampling of more established firms.

2.1 Employment Over time

When looking at aggregate employment over time (including open, and temporary closed enterprises), the figure below highlights a few salient aspects. Not surprising, the widest fluctuations are in the solopreneur's category, as this segment is subject to fluctuations in market demand. This segment also represents firms who have temporarily "shrunk" to weather the crisis.

Figure 1: Trend in Employment Size Category Over Time

When comparing those firms that are operational (fully or partially) with those who are temporarily closed, there are a few key differences - businesses with two to three workers have seen higher positive movements among operational businesses compared to solopreneurs. The number of solopreneurs who are temporarily closed increased incrementally by Round 4.

Figure 2: Movement of workers in operational businesses

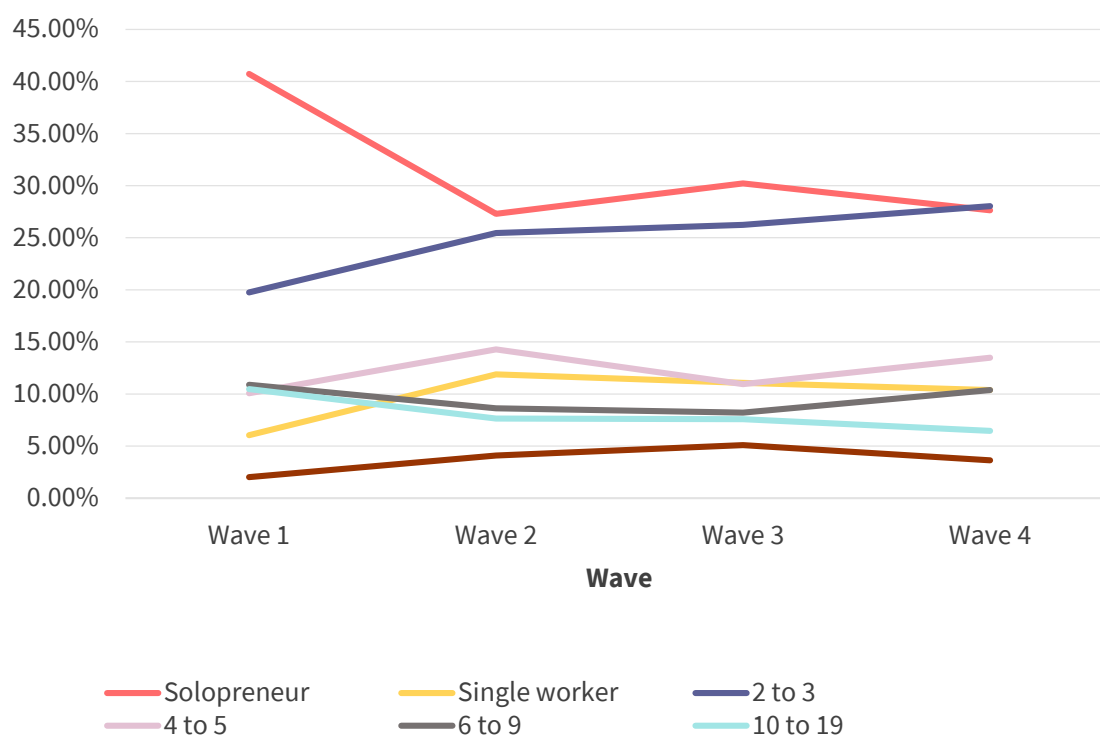
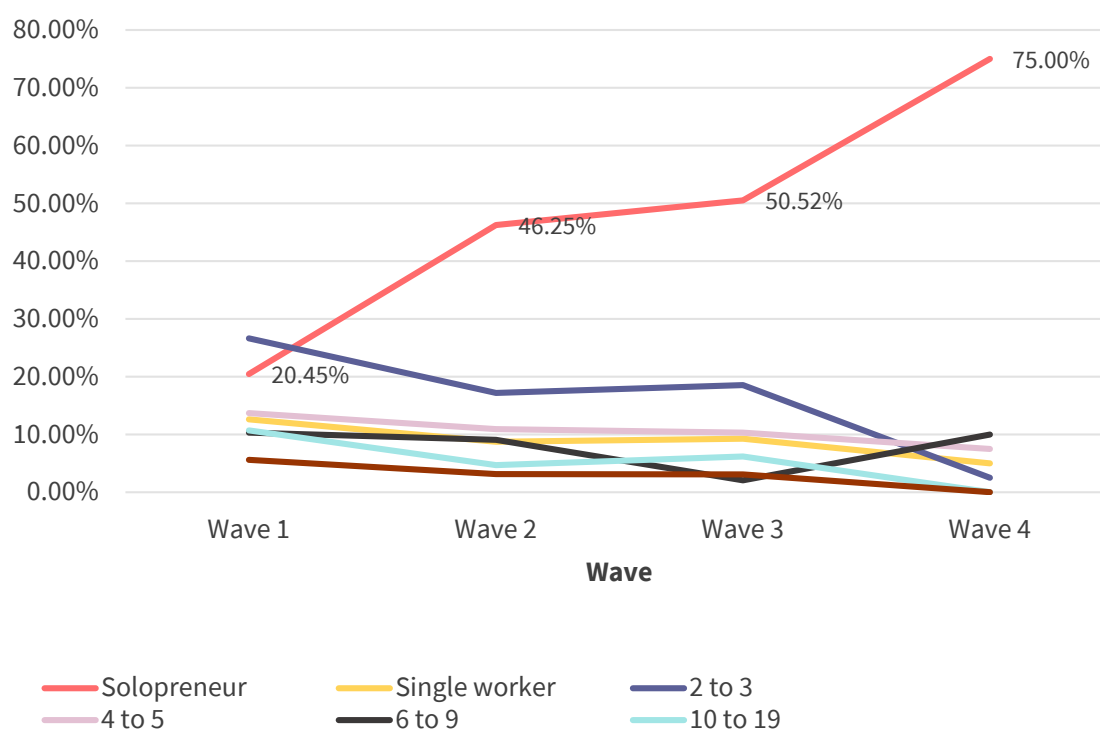


Figure 3: Movement of workers among temporarily closed businesses



Underlying this perceived aggregate stability in some segments is a lot of volatility. During our survey waves, we collected information on the number of employees at the time of the survey, and whether businesses had laid off employees since the previous round of survey. When looking at the frequency of layoffs, more than half the businesses have not reported any layoffs, and 28 percent reported layoffs at least once.

Table 4. Reported Layoffs

Firms Reported Layoffs	%
Never	57.3
Once	27.7
Twice	12.0
Thrice	2.7
All 4 rounds	0.3
Sample	787*

* Reported for enterprises in all four waves

The table below showcases the percentage of firms that reported layoffs over time, versus firms that had a decrease in reported workforce. When comparing both figures, the difference is quite significant, although it narrows down over time, from 29 percent to 13 percent. Figures below include all firms, even solopreneurs, as there was a lot of volatility and we wanted to take that into account.

Table 5: Layoffs vs. “not working”

	% Firms that Reported Layoffs [A]	% Firms that Showed Decrease in Reported Employees [B]	Difference [B]-[A]	Average Reduction in Reported Count (%)
Wave 1- Wave 2	16.17%	44.83%	28.66%	-71.7%
Wave 2- Wave 3	17.36%	31.68%	14.32%	-67.1%
Wave 3- Wave 4	17.79%	30.89%	13.10%	-65.3%

We also assume the difference between a firm “layoff” and decrease in employee workforce could be explained by a few key factors. To add further depth to the results gathered from the panel survey, we conducted a few interviews to understand this issue. One of the key insights that emerged from these interviews is that microenterprises adopted a range of coping mechanisms to cushion the impact on their workforce. A few cases are highlighted below.

Micro businesses, where possible, value loyalty even in a devastated economy

Case1: Vengadesh is a small business owner who employs close to seven people in his welding workshop in the small town of Tirunelveli in Tamil Nadu. All of them have worked with him for over a decade and four of these are migrants. On being asked how COVID has impacted his business, he said, *“Despite this situation, I did not consider laying off my workers. Instead, I had a conversation with my workers about their preferences. Based on that discussion, I continue to pay two of my staff members who were willing to come in for work and retained the others without salary.”*

Case 2: Satish owns a small paint workshop in Trichy, Tamil Nadu. Despite the downturn in business caused by the COVID-19 pandemic, he still continues to pay his four employees on a weekly basis. He goes on to state that *“My staff has been working with me for close to four years. How could I suddenly abandon them in tough times? I dipped into my savings to pay their dues and asked them to come to work once the business resumes operations.”*

Among those who had to lay off workers, some were left with no option due to disrupted demand and cash crunch

Case 3: Nashim runs an electrical repair shop in New Delhi. He had employed four staff and had to lay off everyone. Was it difficult? *“For two years we have been eating together - just like friends. With the lockdown, my business was out of any work and had zero cash inflow. How would I pay them a total of ₹20,000 for their work? It was impossible. All of them understood my situation and migrated back to Bihar.”* If the demand goes up, we enquired, won't he face a workforce shortage? *“My workers went with a plan to come back post Diwali for work, hoping business restarts by then. But I cannot say anything for certain”.*

When looking at hiring practices, we compare the self-reported figures on intent to hiring in the next few months with actual increase in number of employees. The difference is much smaller than in the case of layoffs, suggesting that there were different mechanisms which prompt hiring versus laying off decisions.

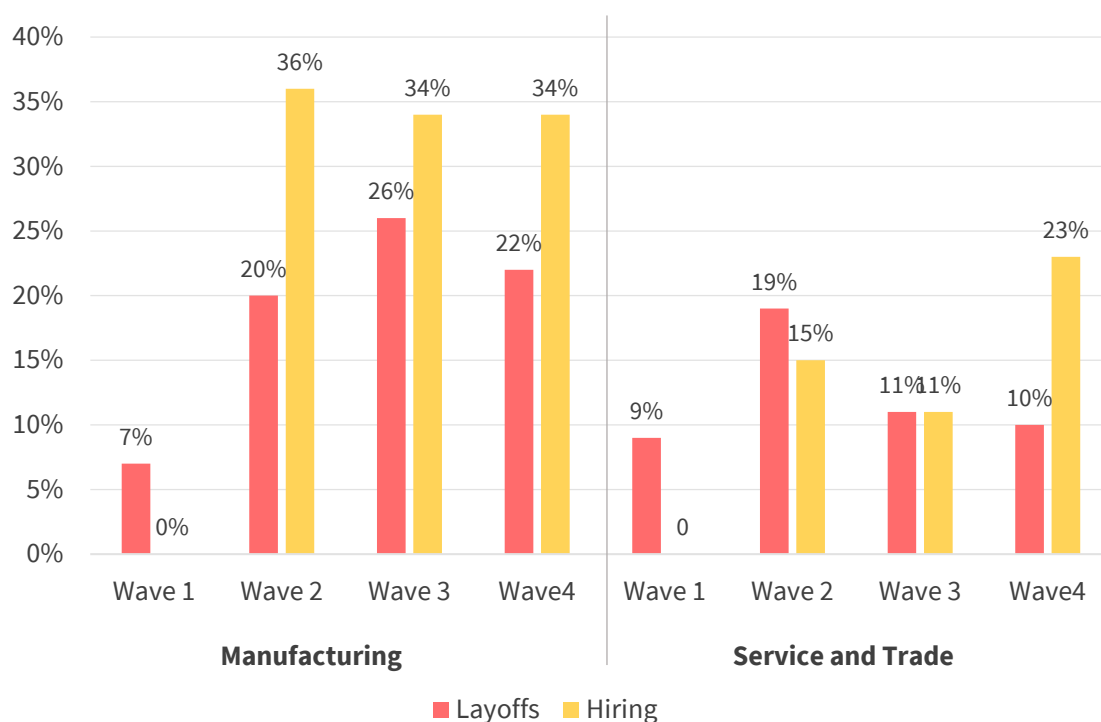
Table 6. “Intent to hire” vs staff increase

	% Firms that Reported Intent to hire in next months [A]	% Firms that Showed Increase in Reported Employees [B]	Difference [B]-[A]	Average Increase in Reported Count (%)
Wave 2- Wave 3	24.5%	32.4%	7.9%	162%
Wave 3- Wave 4	30.61%	35.89%	5.27%	121%

To further gain insights on what factors influenced hiring decisions and practices, we conducted a survey in December 2020 among a sample of 241 microenterprises in Chennai and Jaipur. Their hiring projections are largely based on orders/projected upcoming orders. A majority of enterprises (85 percent) mentioned it was somewhat or very difficult to replace a worker when he or she leaves. Their primary avenue for seeking new hires is from word-of-mouth reference or worker’s approaching on their own. Furthermore, microenterprises offered employees additional benefits other than the remuneration, such as:

- Give loans/advances when required (35 percent)
- Provide financial support during festivities or medical needs (39 percent)
- Accommodation (6.2 percent)
- Bonus/incentives (36.5 percent)
- Food (12 percent)
- Assistance with family emergency (6.2 percent)

There are several factors that can also explain workforce volatility, such as industry type. The layoffs and hiring among manufacturing firms was fairly consistent compared to services and trade sectors suggesting the sectoral differences in employment. The higher volatility among services and trade sectors suggests how the shocks have a deeper impact on the employment



scenario in a sector that employs the most number of people.

Figure 4: Employment Layoffs/Intent to hire trend by Industry

2.2 Other Major Trends

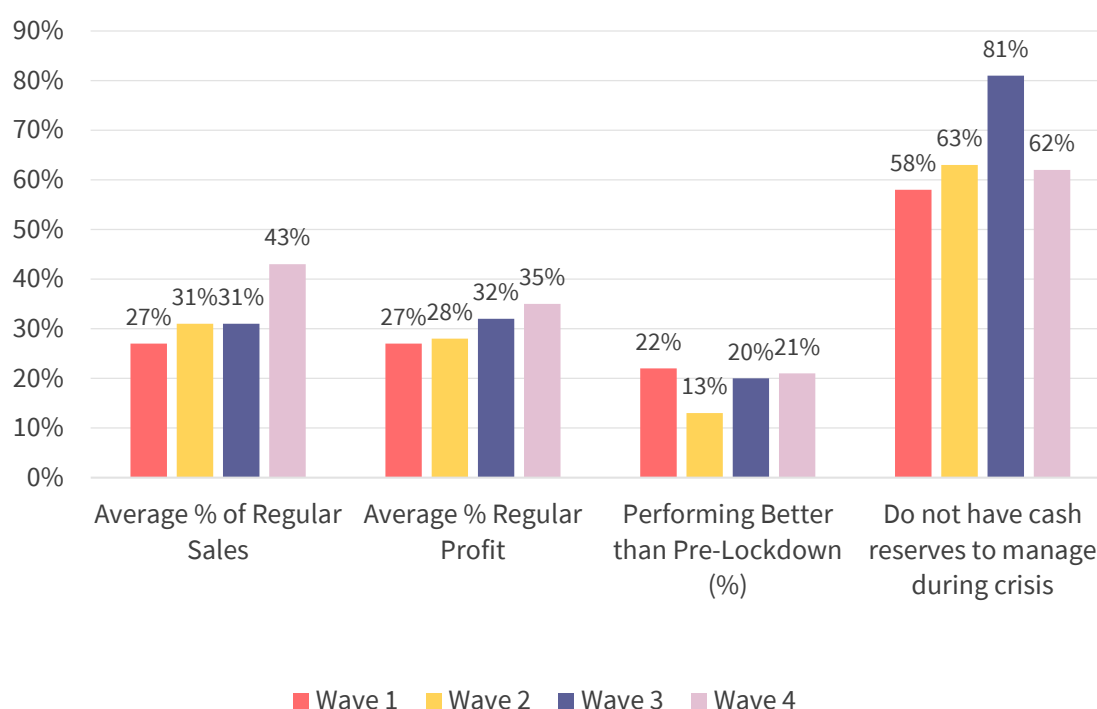
While there were major challenges in operating the businesses, these often differed over time. Among them, labour constraints decreased overtime, while credit and working capital dried up and reached a peak in wave 3. Low sales and demand fluctuated but remained consistently high.

Table 7: Challenges

Challenges	Wave 1	Wave 2	Wave 3	Wave 4
Inadequate working-capital		19.7%	28.6%	17.52%
Labour shortage	39.1%	25.2%	17.0%	14.02%
Limited operations due to fixed hours		13.2%	27.0%	12.67%
Low sales and low customer footfall	86.8%	68.6%	77.4%	72.37%
No challenges	13.2%	7.6%	4.7%	7.14%
Petty Cash management		23.1%	44.2%	28.03%
Shortage of raw material	62.1%	25.6%	17.9%	22.37%
Supply and distribution issues	32.1%	18.7%	12.7%	22.91%
Unavailability of Trade credit	2.1%	5.5%	16.9%	10.24%
Others	8.6%	3.0%	3.9%	1.75%
Sample*	243	707	804	742

* Businesses that were operational

The direct impact of the challenges especially lower demand is reflected in the sales and profits of microenterprises. While there are some signs of a recovery, which also suggests resilience, there is an indication that their long-term growth is impacted by the crisis (only 21 percent reported performing better than pre-lockdown levels) largely due to cash reserves drying up.

Figure 5: Financial Status Over Time

3. Conclusion

The informal nature of employment among microenterprises in India leaves their workforce vulnerable to external shocks. This presents a challenge for both employees and microenterprises - as without a steady business, proprietors cannot offer stable employment, and face barriers to growth. While the ecosystem was fragile prior to the COVID-19 pandemic, the widespread economic shock has highlighted the challenges faced by microenterprises in coping with such events. Firms have adopted a number of mechanisms to cope with business disruptions, and loyalty and trust are seen as important factors that influence their response. However, there is a need for a more robust policy and systemic response to help microenterprises navigate the current crisis and build their resilience in the long term.

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