



International Labour Organization



Study on Business Registration of Small Enterprises

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Information Sheet

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Executive Summary

ILO, Enter-Growth is facilitating poverty alleviation activities through an integrated micro and small enterprise development programme, in areas of high poverty incidence, particularly to improve the business environment. One of the main constraints according to previous studies was that a large number of enterprises did not register their businesses. Therefore, Enter-Growth undertook a further study to examine why a large number of entrepreneurs did not register and whether non-registered enterprises or entrepreneurs had adequate knowledge/information on how to register their businesses.

One hundred randomly selected non-registered enterprises in thirty selected Grama Niladhari Divisions in the four Districts of Kurunegala, Polonnaruwa, Anuradhapura and Puttalam were surveyed for the above study. A representative sample of enterprises was selected to capture the diversity of enterprises operating in the surveyed areas. One of the constraints of the study turned out to be the lack of information on non-registered businesses and another one was the reluctance of the entrepreneurs to divulge information to the enumerators. The survey was conducted using four enumerators, who are in-house staff at EML (Ltd), the consultants conducting the study.

The results of the survey are presented in two sections. Part I of the report analyses the direct answers in the questionnaire. Part II examines and analyses the cross relationships between the variables under the following categories:

- Respondent's sex
- Business sector
- Contribution by the business to household income
- Membership of associations
- Taken business training
- Age of the business

Of those surveyed, 34% are women and 66% are men. The survey has been able to encompass the four main sectors in the rural economy, namely the agriculture sector, manufacturing sector, the trade/wholesale sector and the services sector, in almost equal proportion. Of the respondents, 87% say that the income earned from their business contributes to more than half of the household income. This shows that most of these small enterprises do make a valuable contribution to the family income.

Close to half of the entrepreneurs surveyed, 46%, have been operating their business for over 3 years. About one third, 32%, started their business less than one year ago while about 22% have been operating 1 to 3 years. When it comes to membership of business associations and business training, about 71% of the respondents are not members of any business association and about 75% of the respondents have not taken any business training.

Regarding the question why they have not registered their business, 37% of the respondents say that it is not necessary to register in order to run the business and a further 26% feel that the business is too small to register. The other reasons are that they do not know how to register the business, 8%, they prefer not to have contacts with the authorities, 7%, and they feel that registering their business is both time consuming

and costly, 5%. The percentage of those who say that they would not want to register the business in order to avoid taxation is negligible.

An important finding is that about 37% of the entrepreneurs surveyed, say they plan to register the business within 12 months while about 53% do not. The main reasons for considering a registration of the business in the future are to expand the business and increase profits, 25%, to obtain loans, 15%, and because it is required by law, 4%.

The knowledge about business registration is poor. Of those surveyed, 86% do not know the procedures for registering a business. The survey reveals that the knowledge about registration is lower among women than men. The intention to register the business is also lower among women than among their male counterparts.

The survey shows no major differences between the different business sectors. For example, there is not much difference regarding the plans to register among the varied business sectors. Also, the most common reasons to consider registering are similar, irrespective of business sector. However, agro related businesses have much lower awareness about business registration than the other sectors, especially than service related businesses.

Similarly, it is also difficult to draw a relationship between the age of the business and the plan to register. However, it seems that the willingness to register is highest among the recently started businesses. Further, the age of the business does not seem to have improved the knowledge about the business registration, on the contrary it is lower for businesses that are more than 3 years old than for the businesses that are younger.

The membership of business associations and business training encourage the entrepreneurs to register the business. The proportion planning to register the business is higher among those who are members of associations or have taken training. Business training also has an impact on the knowledge of business registration whereas membership of business association does not have the same impact.

Overall, this survey shows that there is a need for increasing awareness regarding to the benefits of business registration and increasing the knowledge on the procedures to be followed in registering a business. The results of the survey suggests that more efforts should be made to encourage businesses to join business associations and take business training since this has a positive impact and can highlight the importance and benefits of registering the business.

1. Introduction

ILO, Enter-Growth supports the implementation of the Government of Sri Lanka's strategy for poverty alleviation through the generation of quality employment for both women and men. Enter-Growth is facilitating poverty alleviation activities through an integrated micro and small enterprise development programme that targets four districts with a high incidence of poverty, Kurunegala, Polonnaruwa, Anuradhapura and Puttalam. One of the main strategies of the programme for poverty alleviation is to improve the business environment.

Regulations implemented by the public sector are an integral part of the business environment, with business registration being the main regulation applying to all businesses. Previous studies by Enter-Growth have shown that the majority of small enterprises in the four Districts are not registered. Therefore, Enter-Growth decided to undertake a survey to collect information on business registration of enterprises in Kurunegala, Polonnaruwa, Anuradhapura and Puttalam Districts.

The main objectives of the study are to determine:

- Why enterprises/entrepreneurs are not registered.
- Whether non-registered enterprises or entrepreneurs have adequate knowledge/information on how to register their businesses.

This study was expected to provide insights on why a large number of businesses does not register as well as on how to increase the number of registered businesses. The terms of reference of the study were as follows:

- a) Conduct a sample survey of 100 randomly selected small enterprises/entrepreneurs in the Kurunegala, Polonnaruwa, Anuradhapura and Puttalam Districts.
- b) Identify and contact selected enterprises/entrepreneurs.
- c) Conduct structured face-to-face interviews with the identified enterprises/entrepreneurs in one DS division in each of the above Districts.
- d) Undertake a qualitative and quantitative analysis of the data and present the results in both graphics as well as text formats.

2. Methodology

2.1 Sample Selection

According to government regulations, all businesses should be registered at the Divisional Secretaries of the area where the enterprise is located. Since this survey was to be conducted on enterprises that were not registered, it was necessary in the first instance to collect information on non-registered enterprises. Therefore, prior to the selection process, the enumerators visited the Divisional Secretariat's offices where they, with the assistance of the officials dealing with business registration, selected 30 GN divisions with a large number of non-registered enterprises. The survey team visited the enterprises in the selected GN divisions and interviewed these enterprises. If during the preliminary stage of the interview it was found that the particular enterprise was registered, then the enumerator would stop that interview and go to another enterprise. A sample of 100 non-registered enterprises was selected. A representative sample was selected to capture the diversity of the enterprises in the studied areas.

2.2 Details of Sample

For the above survey, EML Consultants employed four in-house staff members with extensive experience in conducting such surveys. Two enumerators conducted the surveys in each District.

Districts	DS Divisions	No of GN Divisions	No of completed questionnaires	No of days for survey
Kurunegala	Galgamuwa	15	25	2
Puttalam	Pallama	5	25	3
Anuradhapura	Nachchaduwa	5	25	3
Polonnaruwa	Medirigiriya	5	25	2
TOTAL		30	100	10

Tamil speaking entrepreneurs were available for interviews in Anuradhapura and Polonnaruwa Districts, where 6 respondents in each District were interviewed.

2.3 Limitations/constraints faced during the survey

Problems in eliciting response from interviewees: At the initial stages, it was difficult to obtain the required information from the entrepreneurs. This was due to the general reluctance of the entrepreneurs to divulge information to unknown parties. Furthermore, they expressed their misgivings about the efficacy of surveys indicating that past surveys had not yielded any benefits for them. Consequently, the enumerators had to spend a longer time with the interviewees than originally planned, in order to win their confidence and to make them feel comfortable and also to convince that they were not inspectors from the Department of Inland Revenue, trying to bring them into the tax system.

Lack of data on non-registered businesses: One of the problems faced during the survey was the lack of information on non-registered businesses. It was only possible to verify whether an enterprise was registered or not after a visit to the enterprise and after a meeting with the owner or manager. It is suggested that for future surveys of this nature, it would be useful if a list of the business/entrepreneurs who are not registered is made available prior to the survey. This would facilitate such surveys as well as reduce the preparatory time spent. In addition, the assistance of a local resident with good knowledge of the businesses in the area and the trust of the entrepreneurs, would help improving the quality as well as reducing the time spent on the surveys.

Difficulty in identifying ownership of the enterprise according to gender: In many cases, the woman came forward to answer the questions and the interviewer was told that she owned the business. However, during the course of the interview when the owners name was to be filled in the questionnaire, the interviewer was told that the owner is the man of the household, who is also usually the chief occupant. In actual fact both the husband and wife are co-owners of the business. In such instances the ownership has been attributed to the man in the questionnaire.

3. PART I - Quantitative Analysis

3.1 Percentage of men and women surveyed

Of those interviewed, 66% are men and 34% women.

Table 1 (N=100)

	Percentage
Male	66.0
Female	34.0

3.2 Business Sectors

The diversity of the business sectors are summarized in Table 2. The most common sectors are the agro related sector and the manufacturing sector.

Table 2 (N=100)

Business Sector	Business sub-sectors in each sector	Percentage
Agro related sector	cut flower, cut foliage, ornamental fish farms, cattle farming/poultry and other agriculture or agro processing	28
Manufacturing related	manufacturing of food and beverages, manufacturing of coconut-based (oil, coir etc.) products, small scale garment, handicraft, rice milling, cement-based products, light engineering and other manufacturing	27
Trade (retail and wholesale)	retail (buying and selling to individual customers, shops/petty trade) wholesale (buying and selling in bulk to other business)	19
Services	garage, hospitality (tourism, hotels, restaurant), and other services	21
Others	wood-based products, brick makers	5

3.3 The contribution of the business to the household income

Of the respondents interviewed, 87% say that the income they earn from their business contributes to more than half of the household income. This shows that most of the enterprises do make a valuable contribution to the family income.

Table 3 (N=100)

Does the income from this business contribute to more than half of your family's income? (percentage)	
Not responded	1.0
Yes	87.0
No	12.0

3.4 Membership of Business Associations

About 23% of the entrepreneurs are members of a business association.

Table 4 (N=100)

Are you member of any business networks/associations? (percentage)	
Not responded	6.0
Yes	23.0
No	71.0

3.5 Business Training

Of the respondents, 23% have taken part in business training. The 25% who have received training have attended varied programs, some even more than one program. Most of the training programs have been in agricultural related areas.

Table 5 (N=100)

Have you taken part in any business training? (percentage)	
Not responded	2.0
Yes	23.0
No	75.0
Total	100.0

3.6 Age of the Business

The survey results show that nearly half of the respondents' businesses have been operating more than 3 years.

Table 6 (N=100)

For how long have you had this business? (percentage)	
Less than 1 year	32.0
1-3 years	22.0
More than 3 years	46.0

3.7 Main reasons for not being registered

Of the respondents, 37% are of the view that it is not necessary for their enterprise to be registered in order to run the business and 26% feel that the business is too small to register. A further 8% say that they do not know how to register the business, while 7% say that they prefer not to have contacts with the authorities and 5% feel that registering their business is time consuming and costly.

Table 7 (N=100)

What are the main reasons for not having registered your business?	Percentage
Not necessary to be able to run the business	37.0
Don't know about business registration /how to register	8.0
Prefer not to have contact with authorities	7.0
To avoid taxation	2.0
The business is too small to register	26.0
It's difficult to register	1.0
It will require time and money	5.0
Other	9.0
Total	95.0
Not responded	5.0
	100.0

Table 8 (N=100)

Other (Specification)	Percentage
	91.0
Already registered with P.S	1.0
Applied and waiting for 4 months	1.0
DS has been informed then to register after one year	1.0
Believe that they are already registered	1.0
Hoping to register the business	5.0
	100.0

3.8 Plans to register the business within 12 months

The majority of the respondents, 53%, do not plan to register their business within one year whereas 37% say they will. However, 10% have not responded.

Table 9 (N=100)

In the next 12 months, do you have any plans to register the business?	Percentage
Not responded	10.0
Yes	37.0
No	53.0
	100.0

3.9 Main reasons to consider registering the business

Of those surveyed, 31% say that they would never register their business while 10% have not responded to the question. This leaves a balance of 59%, who have given the reason why they would register. Among these, 16% say the reason would be to improve the business and 13% to be able to apply for loans.

Table 10 (N=100)

For what main reasons would you consider to register the business?	Percentage
To follow the law/ it's compulsory	4.0
If the business grows and profit increases	6.0
To improve the business and expand/get more customers	16.0
To make it easier to get licenses, permits, etc.	1.0
To be able to apply for loans	13.0
To make it easier to get advice and services from government	3.0
I would never register my business	31.0
Other	16.0
Total	90.0
Not responded	10.0
	100.0

3.10 Knowledge about business registration

3.10.1 Stated knowledge on how to register a business

Of those surveyed, a large majority, 79%, say that they do not know the procedure on how to register a business whereas 18% claim that they do.

Table 11 (N=100)

Do you know how to register a business?	Percentage
Not responded	3.0
Yes	18.0
No	79.0

3.10.2 Actual knowledge of where to register a business

A very high percentage, 82%, do not know that a business is registered at the Divisional Secretariat Office.

Table 12 (N=100)

Did the respondent know where a business is registered?	Percentage
Not responded	3.0
Yes	15.0
No	82.0

3.10.3 Actual knowledge about normal registration fee

Most of those surveyed, 91%, have no idea about the registration fees.

Table 13 (N=100)

Did the respondent know the normal registration fee for a business?	Percentage
Not responded	3.0
Yes	6.0
No	91.0

3.10.4 Actual knowledge about how to register a business/enterprise

When it comes to actual knowledge about the business registration procedure, 86% do not know about this. Only 10% actually know how to register a business, which can be compared with the 18% who claimed that they did.

Table 14 (N=100)

Did the respondent know how to register a business/enterprise?	Percentage
Not responded	4.0
Yes	10.0
No	86.0

4. PART II – Analysis of Relationships

Relationships has been analyzed under following categories

- Respondent's sex
- Business sector
- Contribution of the business to household income
- Membership of associations
- Taken business training
- Age of the business

4.1 Respondents Sex

4.1.1 Relationship between respondent's sex and main reasons for not registering the business

Both men and women seem to have the same reasons for not registering their businesses. Both men and women are of the view that either it is not necessary to register the business or the business is too small to register.

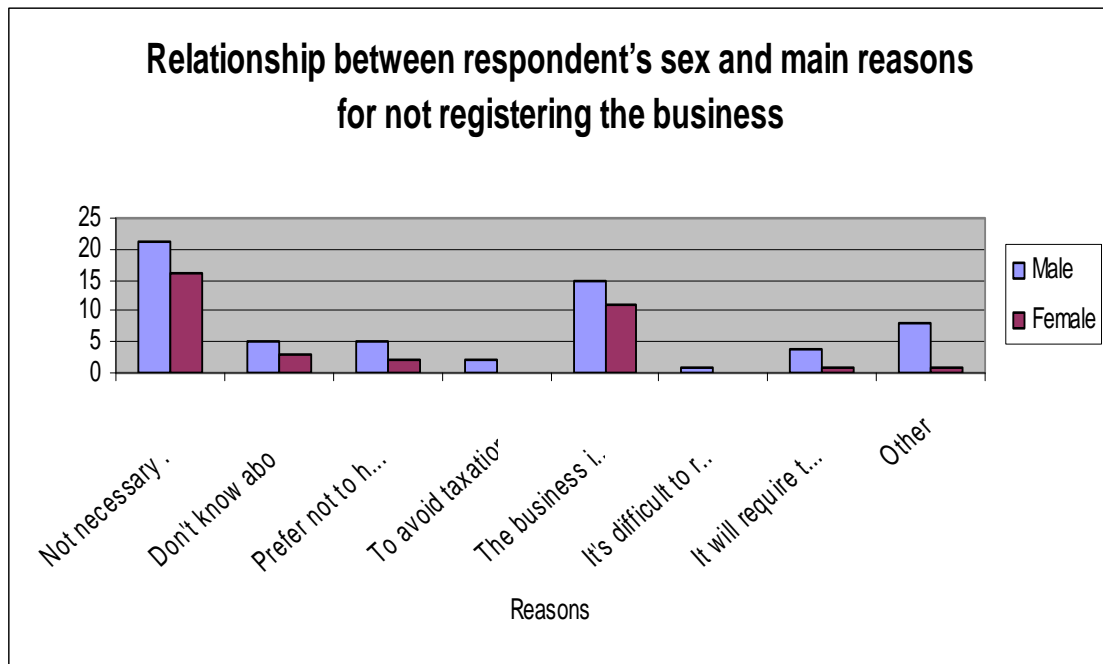


Table 15

Main reasons for not having registered the business	Percentage	
	Men (N=61)	Women (N=34)
Not necessary to register to be able to run the business	34.4	47.1
Don't know about business registration/how to register	8.2	8.8
Prefer not to have contact with authorities	8.2	5.9
To avoid taxation	3.3	0.0
The business is too small to register	24.6	32.4
It's difficult to register	1.6	0.0
It will require time and money	6.6	2.9
Other	13.1	2.9

4.1.2 Relationship between respondent's sex and plans to register the business

Almost half of the men, 45%, say they plan to register their business within 12 months whereas only 29% of the women say they plan to do that.

Table 16

Plans to register the business within 12 months?	Percentage	
	Men (N=59)	Women (N=31)
Yes	45.8	29.0
No	54.2	71.0

4.1.3 Relationship between respondent's sex and main reasons to consider registering the business

In case of both men and women, 18%, say that the main reason to consider registering is to improve the business and to expand it. The other most common reason by both men and women is to be able to apply for a loan. However, the percentage of men who give this reason is higher, 18%, than for the women, 9%. This indicates that men either are more aware of the fact that taking a loan requires a registration or that more men want to invest in their business.

Almost half of the female respondents, 47%, state that they would never register the business while only 26% of the men say this. This indicates that the view of never wanting to register the business is more prevalent among women than men.

Table 17

Main reasons to consider registering the business	Percentage	
	Men (N=56)	Women (N=34)
To follow the law/it's compulsory	3.6	5.9
If the business grows and profit increases	7.1	5.9
To improve the business and expand/get more customers	17.9	17.6
To make it easier to get licenses, permits, etc.	1.8	0.0
To be able to apply for loans	17.9	8.8
To make it easier to get advice and services from government and other organizations	3.6	2.9
I would never register my business	26.8	47.1
Other	21.4	11.8

4.1.4 Relationship between respondent's sex and knowledge about how to register a business

The knowledge about how to register a business is very low, both among women and men. However, it is lower among women with only 6% of the female respondents knowing how to register a business while the share among the male respondents is 13%.

Table 18

Knowledge on how to register a business/enterprise?	Percentage	
	Men (N=62)	Women (N=34)
Yes	12.9	5.9
No	87.1	94.1

Summary: This analysis shows that the intention to register the business is generally lower among the women than the men. It also shows that the knowledge about business registration among the women is lower, compared to their male counterparts.

4.2 Business Sector

4.2.1 Relationship between business sector and the main reasons for not registering the business

There is not a big difference between the business sectors regarding the reason for not registering the business. The reason that it is not necessary to register the business to be able to run it, is most prevalent in the agriculture related sector with 54%. Further, a fair percentage in this sector also give the reason that either they prefer not to have contact with the authorities or the business is too small to register. Also in the manufacturing related sector, many respondents, 38%, believe that it is not necessary to

register the business to be able to run it while 30% give the reason that it is too small to register.

In the services related sectors the most common reasons are that it is not necessary to register to be able to run the business, the business is too small to register and other reasons. In the retail and wholesale sector, the most common reason for a large majority, almost 60%, is that the business is too small to register. Lack of knowledge regarding how to register the business is also given as a reason by a few in this sector.

Table 19

Main reasons for not having registered the business	Business Sectors (percentage)				
	Agro related (N=24)	Manufacturing (N=26)	Trade (N=19)	Services (N=21)	Other (N=5)
Not necessary to register to be able to run the business	54.2	38.5	15.8	42.9	40.0
Don't know about business registration	4.2	3.8	15.8	9.5	20.0
Prefer not to have Contact with authorities	16.7	3.8	5.3	4.8	0.0
To avoid taxation	0.0	7.7	0.0	0.0	0.0
The business is too small to register	12.5	30.8	52.6	19.0	20.0
It's difficult to register	0.0	3.8	0.0	0.0	0.0
It will require time and money	4.2	7.7	5.3	4.8	0.0
Other	8.3	3.8	5.3	19.0	20.0

4.2.2 Relationship between business sector and plans to register the business

The manufacturing of coconut-based (oil, coir, etc.) products is the only sub-sector where most of the respondents plan to register, while a majority of the other sectors do not plan to register the business. In the agriculture related sectors, the percentage of respondents who are planning to register the business and those who are not, is equal.

Table 20

Plans to register the business within 12 months?	Business Sectors (percentage)				
	Agro related (N=22)	Manufacturing (N=26)	Trade (N=17)	Services (N=20)	Other (N=5)
Yes	50.0	42.3	35.3	35.0	20.0
No	50.0	57.7	64.7	65.0	80.0

4.2.3 Relationship between business sector and main reasons to consider registering the business

In the agricultural related sectors, the most common reason among those who plan to register the business is that they will be able to apply for loans. The next most common

reason to consider registration is to improve the business and expand/to get more customers.

Similarly, in the manufacturing and the retail and wholesale sectors, main reasons are to be able to apply for loans, to improve the business and expand/get more customers and if the business grows and profit increases.

In the services sectors the most common reason is to improve the business and expand/get more customers.

Table 21

Main reasons to consider registering the business	Business Sectors (percentage)				
	Agro related (N=24)	Manufacturing (N=26)	Trade (N=19)	Services (N=17)	Other (N=4)
To follow the law/it's compulsory	4.2	3.8	0.0	11.8	0.0
If the business grows and profit increases	0.0	11.5	15.8	0.0	0.0
To improve the business and expand/get more customers	12.5	11.5	21.1	23.5	50.0
To make it easier to get license, permit, etc.	0.0	3.8	0.0	0.0	0.0
To be able to apply for loans	25.0	15.4	10.5	5.9	0.0
To make it easier to get advice and services from government and other organizations	0.0	3.8	0.0	11.8	0.0
I would never register my business	41.7	34.6	31.6	23.5	50.0
Other	16.7	15.4	21.1	23.5	0.0

4.2.4 Relationship between business sector and knowledge about how to register a business

None of the respondents in the agricultural related sectors know how to register a business. Also in the other sectors the knowledge is low: 89,5% in the trade sector, 85% in the manufacturing sector and 80% in the service sectors do not know. However, in the services sector, 50% of those who run garages know how to register a businesses.

Table 22

Knowledge on how to register a business/enterprise?	Business Sectors (percentage)				
	Agro related (N=25)	Manufacturing (N=27)	Trade (N=19)	Services (N=22)	Other (N=5)
Yes	0.0	14.8	10.5	20.0	0.0
No	100.0	85.2	89.5	80.0	100.0

Summary: The above analysis shows that there are only small differences between the different business sectors. For example, there is not much difference regarding the plan to register among the varied business sectors or the most common reasons to consider

registering. However, agricultural related businesses have much lower awareness about business registration than the other sectors, especially than services related businesses.

4.3 Household Income

The relationships between household income on the one hand and on the other hand the reasons for not registering, plans to register, reasons to consider a registration and knowledge were investigated but since no relationships were found and no other relevant conclusions were drawn, the tables and analysis are not included in the report.

4.4 Age of the Business

4.4.1 Relationship between the age of the business and main reasons for not registering the business

The two most common reasons for not registering among businesses which are less than one year and more than three years old, are that it is not necessary to register in order to run the business and it is too small to register. However, for businesses 1 to 3 years old, the only most common reason is that it is not necessary to register in order to run the business. The reasons that a business could be run without registering and that it is too small to register, prevail even after the business is run for more than three years.

Table 23

Main reasons for not registering the business	Age of the Business (percentage)		
	Less than 1 year (N=31)	1-3 Years (N=20)	More than 3 years (N=44)
Not necessary to register to be able to run the business	29.0	60.0	36.4
Don't know about business registration/how to register	12.9	5.0	6.8
Prefer not to have contact with authorities	6.5	5.0	9.1
To avoid taxation	0.0	0.0	4.5
The business is too small to register	25.8	15.0	34.1
It's difficult to register	3.2	0.0	0.0
It will require time and money	9.7	5.0	2.3
Other	12.9	10.0	6.8

4.4.2 Relationship between the age of the business and plans to register the business

The percentage of respondents planning to register the business is high when the business is less than one year old, but low when it is 1-3 years old. However, it increases substantially when it is more than 3 years old. The reason could be that initially the entrepreneurs are hoping to register the business but this is followed by a period of uncertainty. Once the business is established they may be considering registering it.

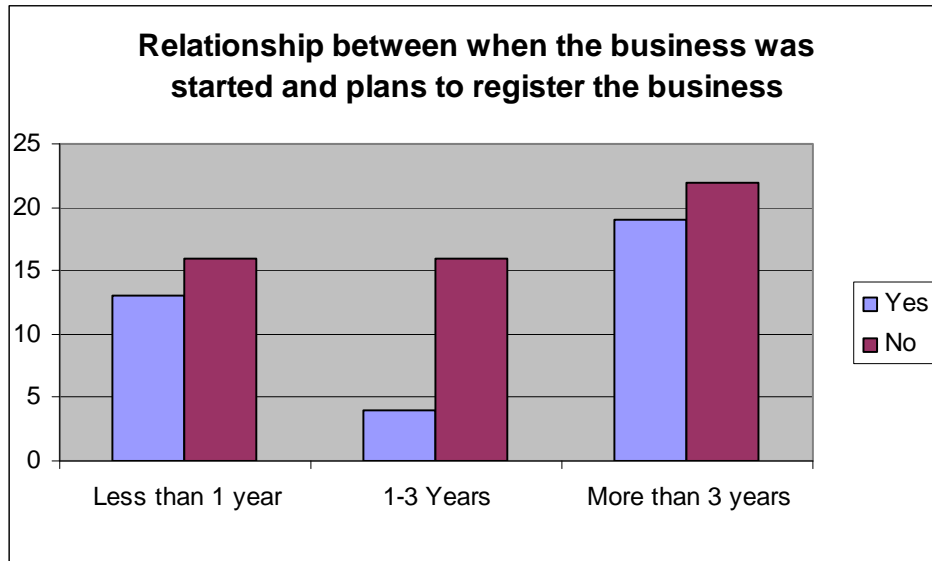


Table 24

Plans to register the business within 12 months?	Age of Business (percentage)		
	Less than 1 year (N=29)	1-3 Years (N=20)	More than 3 years (N=41)
Yes	44,8	20	46,3
No	55,2	80	53,7

4.4.3 Relationship between the age of the business and mains reasons to consider registering the business

For businesses that are less than one year and more than 3 years the most common reason to consider registering the business is that it will help to improve and expand it. The next most common reason is to be able to apply for loans. However, among the businesses started 1 to 3 years ago, the most common reasons are that it will help them to apply for loans and they will consider registering if the business grows.

In all three categories approximately similar percentages (30% to 40%) say that they would never register the business. It is also to be noted that the percentage of those who give a reason why they would consider a registration in the three categories are 58%, 45% and 41% respectively. This indicates that considering to register the business decreases along with the age of the business .

Table 25

Main reasons to consider registering the business	Age of Business (percentage)		
	Less than 1 year (N=29)	1-3 Years (N=20)	More than 3 years (N=41)
To follow the law/it's compulsory	10.3	5.0	0.0
If the business grows and profit increases	3.4	15.0	4.9
To improve the business and expand/get more customers	20.7	10.0	19.5
To make it easier to get licenses, permits, etc.	3.4	0.0	0.0
To be able to apply for loans	13.8	15.0	14.6
To make it easier to get advice and services from government and other organizations	6.9	0.0	2.4
I would never register my business	31.0	40.0	34.1
Other	10.3	15.0	24.4

4.4.4 Relationship between the age of the business and knowledge about how a business is registered

The percentage of respondents who actually know how to register is 16%, 10% and 7%, respectively for the three categories. This means that the actual knowledge decreases as the business gets older.

Table 26

Knowledge on how to register a business/enterprise?	Age of Business (percentage)		
	Less than 1 year (N=30)	1-3 Years (N=22)	More than 3 years (N=44)
Yes	16.7	9.1	6.8
No	83.3	90.9	93.2

Summary: This analysis shows that businesses between 1 and 3 years old give different reasons for not registering and considering a registration than the other two groups. The willingness to register is highest among the recently started businesses. The age of the business have not improved the knowledge about the business registration, on the contrary it is lower.

4.5 Membership of Association

4.5.1 Relationship between membership of association and main reasons for not registering

Among those who are members of associations, 33% have given for reason for not registering that the business is too small to be registered while 23% think it is not

necessary to register in order to run it. Interestingly, among those who are not members of associations, the main reasons are the same but reverse, 41% are of the view that it is not necessary to register in order to run the business while 28% say that the business is too small to register.

Table 27

Main reasons for not registering the business	Member of Business Networks/ Associations? (percentage)	
	Yes (N=21)	No (N=68)
Not necessary to register to be able to run the business	23.8	41.2
Don't know about business registration/how to register	14.3	7.4
Prefer not to have contact with authorities	4.8	8.8
To avoid taxation	0.0	2.9
The business is too small to register	33.3	27.9
It's difficult to register	0.0	1.5
It will require time and money	9.5	2.9
Other	14.3	7.4

4.5.2 Relationship between membership of association and plans to register the business

A large majority, about 80%, of those who are members of associations are planning to register. In contrast only about 29% of those who are not members of associations are planning to register. This shows that there is a strong relationship between memberships of associations and plans to register.

Table 28

Plans to register the business within 12 months?	Member of Business Networks/ Associations? (percentage)	
	Yes (N=19)	No (N=65)
Yes	78.9	29.2
No	21.1	70.8

4.5.3 Relationship between membership of associations and main reasons to consider registering the business

25% of the respondents who are members of associations, feel that registering will help them to apply for loans. A further 20% hold the view that registering will improve the business and the business could grow. Those who are not members of associations give a somewhat different answer. About 25% say that registration could help improve the business and another 11% say that it will help them to apply for loans. This indicates that the entrepreneurs who are members of associations have higher awareness and/or a higher willingness to invest in their business.

About 37% of those who are not members of association say that they will never register the business, while among those who are members only 20% say that they will never register. This shows that being a member of an association could encourage entrepreneurs to register the business

Table 29

Main reasons to consider registering the business	Member of Business Networks/ Associations? (percentage)	
	Yes (N=20)	No (N=65)
To follow the law/it's compulsory	5	3
If the business grows and profit increases	10	6
To improve the business and expand/get more customers	15	20
To make it easier to get licenses, permits, etc.	0	2
To be able to apply for loans	25	11
To make it easier to get advice and services from government and other organizations	0	5
I would never register my business	20	37
Other	25	17

4.5.4 Relationship between membership of association and knowledge about how to register a business

It is interesting to see that when it comes to actual knowledge about how to register, the membership of association has not increased the respondents' knowledge.

Table 30

Knowledge on how to register a business/enterprise?	Member of Business Networks/ Associations? (percentage)	
	Yes (N=22)	No (N=68)
Yes	9	9
No	91	91

Summary: The reasons for not being registered and for considering a registration, given by entrepreneurs who are members of business associations, indicates higher awareness among them than among those who are not members. The proportion planning to register the business is much higher among those who are members of associations. This indicates that the membership of association encourages businesses to register. However, the membership of association have not helped to increase the knowledge about the businesses registration procedure.

4.6 Business Training

4.6.1 Relationship between having taken business training and main reasons for not registering the business

The two most common reasons for not registering the business for both categories are that it is not necessary to register in order to run the business and that the business is too small. Interestingly a higher percentage among those who have taken training than those who have not say it is because they do not know about registration. This is a contradictory result considering the rest of the results below.

Table 31

Main reasons for not registering the business	Have taken Business Training? (percentage)	
	Yes (N=22)	No (N=71)
Not necessary to register to be able to run the business	36	38
Don't know about business registration/how to register	14	7
Prefer not to have contact with authorities	5	8
To avoid taxation	0	3
The business is too small to register	23	30
It's difficult to register	0	1
It will require time and money	9	4
Other	14	8

4.6.2 Relationship between having taken business training and plans to register the business

This table shows that among those who have taken business training, 48% plan to register the business while among those who have not, 37% plan to do it. This indicates that a positive relationship exists between those who have taken business training and the plans to register the business.

Table 32

Plans to register the business within 12 months?	Have taken Business Training? (percentage)	
	Yes (N=23)	No (N=65)
Yes	48	37
No	52	63

4.6.3 Relationship between having taken business training and main reason to consider registering the business

Similar to above, a higher share, 38%, of those who have not received training say they would never register the business than those who have, 20%. Also, higher shares of the

ones who have received training have for reasons to consider registering that it will be possible to apply for loans and to improve/expand the business.

Table 33

Main reasons to consider registering the business	Have taken Business Training? (percentage)	
	Yes (N=18)	No (N=70)
To follow the law/it's compulsory	6	4
If the business grows and profit increases	6	7
To improve the business and expand/get more customers	22	17
To make it easier to get licenses, permits, etc.	0	1
To be able to apply for loans	28	11
To make it easier to get advice and services from government and other organizations	0	4
I would never register my business	22	39
Other	17	16

4.6.4 Relationship between having taken business training and knowledge about how to register a business

The percentage of respondents who know how to register a business is higher among those who have received business training, 18%, than those who have not, 8%. This shows that business training increases awareness about how to register a business.

Table 34

Knowledge on how to register a business/enterprise?	Have taken Business Training? (percentage)	
	Yes (N=22)	No (N=72)
Yes	18	8
No	82	92

Summary: Taking business training seems to help entrepreneurs to increase the knowledge about business registration. Also, a higher percentage of those who have taken training are planning to register the business. Finally, similarly to the relationships on membership of business associations, entrepreneurs who have taken training seem more willing to invest in their business and/or have higher awareness about loans.

5. Additional findings and analysis

Entrepreneurs not considering the business as a “business to be registered”

Most small entrepreneurs have the notion that a formal business involves either working in an office or an enterprise that involves manufacturing. Agriculture and trade are not considered as businesses to be registered. This is mainly due to the fact that they see this as a livelihood activity rather than a formal business.

For example, for manufacturing of bricks, the respondents say that they use the sand available in their own gardens and that the entire family gets involved in the business. Therefore they believe that it is a livelihood rather than a business and there is no need to register.

In some other cases, they feel it is not necessary to register as the family had been conducting the business for several years, with ownership being handed over from one generation to another.

Another example is poultry farming where the entrepreneur depends on the buyer who provides chickens and other services such as provision of feed, medicine, etc. The buyer purchases the grown chicken at an agreed price. Most of these businesses are not sure of the continuity of the business since the buyer may or may not give them that business in the future. Due to this situation, they feel that they do not need to register.

Businesses such as service stations and carpentry shops need to obtain approvals/licenses from other relevant authorities before starting the business. The business registration is possible only after they get these approvals or licenses. In such cases, many believe that these approvals/licenses are sufficient to operate the business and there is no need for business registration as such.

Those receiving micro finance such as Samurdhi recipients do not generally register their business, as they feel it is already state approved.

The role of bank loans

In many cases, the entrepreneurs do not see the importance of registering the business except when they want to obtain a bank loan. Under the existing regulations, even a small business should be registered to obtain a bank loan. Most of them speak about the difficulties in running their businesses and they feel that a registration will not help them to overcome these difficulties.

Benefits of registering

Some respondents have indicated that they would consider registering the business if there is a direct benefit to their businesses. They do not see how a registration would provide them with solutions to some of their major problems:

- Lack of funding
- Inability to market their product beyond the immediate area
- Exploitation by middlemen

Evidently, the entrepreneurs do have low awareness of the benefits of business registration since a business registration actually could help the entrepreneurs to deal with these problems.

6. Final Conclusions

Overall, this survey shows that there is a need for increasing awareness with regard to the advantages and benefits of business registration and for increasing the knowledge on the procedures to be followed in registering a business. Also, the results of the survey suggests that more efforts should be made to encourage entrepreneurs to join business associations and take business training, which highlight the benefits of registering the business and increase awareness about business registration.

Terms of Reference

Study on Business Registration of Small Enterprises

1. Background

Enter-Growth supports the implementation of the Government of Sri Lanka's strategy for poverty reduction and the generation of quality employment for women and men through an integrated micro and small enterprise development programme that targets four districts with a high incidence of poverty, Kurunegala, Polonnaruwa, Anuradhapura and Puttalam. One of the aims of the programme is to improve the business environment.

One part of the business environment is the regulations implemented by public sector. In order to make regulatory procedures more efficient and improve the services provided to small enterprises, local stakeholders have agreed that the first step is to collect information regarding regulations affecting enterprises. For this reason, studies and assessments of the current regulatory procedures affecting enterprises, are being carried out. One of these studies focus on the business registration of small enterprises. Enter-Growth has already carried out six focus group discussions among small enterprises in Kurunegala and Puttalam Districts. The next step, covered in this terms of reference, is to do a survey in order to collect supplementary information on business registration among small enterprises in Kurunegala, Polonnaruwa, Anuradhapura and Puttalam Districts.

2. Overall objective and purpose

The study on business registration is part of a long-term goal to make more enterprises/entrepreneurs registering their business so that they are part of the formal economy. The purpose of this assignment is to find out:

- Why enterprises/entrepreneurs are not registered.
- If non-registered enterprises/entrepreneurs have information on how to register their business.

3. Specific tasks

The consultant will conduct a survey on business registration among small enterprises/entrepreneurs. The assignment includes the following tasks:

- Identify and contact enterprises/entrepreneurs.
- Conduct structured face-to-face interviews with the identified enterprises/entrepreneurs. The consultant must complete 100 questionnaires with enterprises/entrepreneurs that fulfill the criteria, (see below).

- Produce a written quantitative report in English on the result of the survey (see 4. Report format)

Enter-Growth will provide the consultant with a structured questionnaire in Sinhala and Tamil with 18 questions, (see annex). The questions are based on the focus group discussions among small enterprises/entrepreneurs mentioned in the background. Enter-Growth will provide training that is specific to this assignment to the enumerators.

The enterprises/entrepreneurs must be selected according to the following criteria:

- The person interviewed has to be the business owner (not spouse, employee, etc.).
- Non-registered enterprises in rural areas.
- The entrepreneur must work at least half-time with this business.

In addition to the above criteria the consultant must provide for a good gender balance, approximately 50 women and 50 men, and cover as many sectors as possible.

The interviews will take place in four rural Divisions in Kurunegala, Polonnaruwa, Anuradhapura and Puttalam Districts. The District offices of Enter-Growth will select appropriate Divisions.

4. Report Format

The quantitative report must include the following information:

- Number of completed questionnaires and District breakdown
- Which Divisions that were represented
- Percentage of women
- Percentage of men
- List each sector code with number of enterprises
- Percentage that stated that the income earned from this business contribute to more than half of the family's total income
- Percentage that was part of a business network/association
- Percentage that had taken part in any business training
- Which organizations that provided the training and what type of training
- How long the enterprises/entrepreneurs had had their business, percentage for each code
- What were the reasons for not being registered, list each code with its frequency
- Percentage of enterprises/entrepreneurs that had plans to register their business within 12 months
- For what main reasons would the enterprises/entrepreneurs consider to register the business, list each code with its frequency
- Percentage stating that they knew how to register a business
- Percentage knowing where to register a business

- Percentage knowing what the normal registration fee was
- Percentage knowing how to register a business
- Breakdown of answers regarding special requirements for registering their type of business, percentage for each code.
- List the specific requirements mentioned by the respondents.

The relation between on the one hand:

- Respondent's sex
- Business sector
- Contribution of the business to household income
- Membership of associations
- Having taken business training
- When the business was started

And on the other hand:

- Main reasons for not registering
- Plans to register
- Reasons to consider registration
- Stated knowledge about registering
- Actual knowledge about registering

In addition:

Relation between reasons for not registering the business and the plans to register

5. Approach, time frame and budget

The assignment is expected to take place in December/January. Interested companies are requested to submit their proposal with a detailed action plan, methodology for the assignment and detailed budget by 5 December no later than 17.00. The proposal will specifically include how the consultant will identify the enterprises/entrepreneurs and who they will use as enumerators.

Questionnaire

Consultant company	Questionnaire no:
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Name of interviewer:

Interview date:	Interview time:
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(Only use the right hand column. Enter the Division where the interview is taking place in the row that corresponds with the right district.)

District :	Division:
1 Kurunegala	
2 Puttalam	
4 Polonnaruwa	
3 Anuradhapura	

Important: Please fill this page on completion of the interview

1. QUESTIONS FOR SELECTION

1.1 Are you running a business or working as self-employed for earning an income?

(Code yes or no)

Yes	1	Continue
No	2	*Thank and terminate interview

*It is possible that the person does not call their business activities “a business” or even “enterprise”. The important thing is that they conduct business activities to generate an income. It is also possible that the business is run by several people (family owned, partners, employees).

1.2 Do you own this business?

(Code yes or no)

Yes	1	Continue
No	2	*Thank and terminate interview

*If the person does not own the business, ask for the owner or if it is possible to contact the owner for an interview. The business might have more than one owner (husband and wife, family owned), interview one of them. Do not interview employees.

1.3 Is this business conducted more than half-time?

(Code yes or no)

Yes	1	Continue
No	2	*Thank and terminate interview

*In total the business must be at least a half-time activity. The important thing is the business itself and not how much time the owner spends on the business. The owner might have employees to carry out the business.

1.4 Is your business registered?

(Code yes or no)

Yes	1	Thank and terminate interview
No	2	Continue

*If the person is hesitant to answer, go back to the information in the introduction letter. Remind him/her that everything is confidential and that we do not report to any authorities.

(There are different types of business registration. In this study registration refers to the following: i) Divisional Secretariat office where sole proprietorships and partnerships are registered. ii) Company registrars' office where limited liability companies are registered. Note that enterprises that are registered with the Pradeshiya Sabhas (annual registration) will NOT be considered as registered businesses)

2. ENTREPRENEUR PROFILE

2.1 What is your name, address and telephone number?

Name:	Telephone number:
Address:	

2.2 Respondent's sex

(Code by observation)

Male	1
Female	2

2.3 Please describe your business in terms of the products or services?

(Code the right code below. Do not read out. The purpose is to find out what sector the business belongs to.)

Agriculture or agro processing	
- Cut flower, cut foliage	1
- Fishery	2
- Ornamental fish farms	3
- Cattle farming/poultry	4
- Other agriculture or agro processing	5
Manufacturing (from home or workplace, producing concrete products)	
- Manufacturing of food and beverages	6
- Manufacturing of coconut-based (oil, coir, etc.) products	7
- Handloom	8

- Small scale garment	9
- Handicraft	10
- Rice milling	11
- Cement-based products	12
- Mining and quarrying, metal crushing, etc.	13
- Light engineering	14
- Other manufacturing	15
Service (providing services, e.g. hairdressing, mechanics)	
- Three-wheeler	16
- Garage	17
- Hospitality (tourism, hotels, restaurant)	18
- Other services	19
Other	
- Wood-based products	20
- Construction	21
- Brick makers	22
- Retail (buying and selling to individual customers, shops/petty trade)	23
- Wholesale (buying and selling in bulk to other businesses)	24
- Other including multiple activities if don't know which one is main (specify)	

2.4 Does the income earned from this business contribute to more than half of your family's total income?

(Code yes or no)

Yes	1
No	2

2.5 Are you member of any business networks/associations?

(Code yes or no)

Yes	1
No	2

2.6 Have you taken part in any business training?

(Code yes or no)

Yes	1
No	2

If yes, ask the entrepreneur, which organization provided the training:

If yes, ask the entrepreneur, what type of training:

3. BUSINESS

3.1 For how long have you had this business?

(Circle the code corresponding with the answer)

Less than 1 year	1
1-3 years	2
More than 3 years	3

3.2 What are the main reasons for not having registered your business?

(Code the main reasons. Do not read out. The purpose is to find out why the entrepreneur is not registered.)

Not necessary to register to be able to run the business	1
Don't know about business registration/how to register	2
Fear that the authorities won't approve the business registration	3
Prefer not to have contact with authorities	4
To avoid taxation	5
The business is too small to register	6
It's difficult to register	7
It will require time and money	8
I don't know	9
Other (specify)	

3.3 In the next 12 months, do you have any plans to register your business?

(Code yes or no)

Yes	1
No	2

3.4 For what main reasons would you consider registering your business?

(Code the main reasons. Do not read out. The purpose is to find out why the entrepreneur would like to or feel it is necessary to register.)

To follow the law/it's compulsory	1
If the business grows and profit increases	2
To improve the business and expand/get more customers	3
To make it easier to get licenses, permits, etc.	4
To be able to import/export	5
To be able to apply for loans	6
To be able to open a bank account	7
To make it easier to get advice and services from government and other organisations	8
To make it easier to have employees	9
Other (specify)	
I would never register my business	10

3.5 Do you know how to register a business/enterprise?

(Code yes or no)

Yes	1
No	2

(If yes, ask the respondent the following control questions and code yes for right answer and no for wrong answer. The purpose of the question 3.5 is to get the stated knowledge. The purpose of questions 3.5.1-3 is to find out the actual knowledge. Business registration is here referred to sole proprietorships and partnerships which are registered at the Divisional Secretariat office.)

3.5.1 Where is a business/enterprise registered?

Right answer: Divisional Secretariat Office

Yes	1
No	2

3.5.2 What is the normal registration fee for a business/enterprise?

Right answer: 500 rupees.

Yes	1
No	2

3.5.3 How is a business/enterprise registered?

Right answer: "Go to the DS office and get a form, which has to be completed and certified by the Gramasevaka. The certified form is given to the DS office which approves and registers the business."

(If the description is similar to the one above, code yes. If the respondent knows the procedure but add steps, which is specific to this type of business, code yes.)

Yes	1
No	2

3.6 Are there any specific requirements to register a business like yours?

(Circle the code corresponding with the answer. The purpose is to find out if the entrepreneur belongs to a sector where the authorities require more complicated procedures than described above.)

Yes	1
No	2
I don't know	3

If yes, ask the entrepreneur to specify what type of requirements:

THANK AND END THE INTERVIEW