

# Creating Udyog Sahayak Enterprises Network (USENET) for Employment Generation and Scale-up in the MSME Sector

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## Report Team

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## About Azim Premji University's work on sustainable employment

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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.

**Website:** <https://cse.azimpremjiuniversity.edu.in/>

**Twitter:** @working\_india

**Facebook:** [facebook.com/centreforsustainableemployment](https://www.facebook.com/centreforsustainableemployment)

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## About Federation of Indian Chambers of Commerce and Industry (FICCI)

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Established in 1927, FICCI is the apex business organization in India. Its history is closely interwoven with India's struggle for independence, its industrialization, and its emergence as one of the most rapidly growing global economies. A non-government, not-for-profit organization, FICCI is the voice of India's business and industry. From influencing policy to encouraging debate, engaging with policy makers and civil society, FICCI articulates the views and concerns of industry. It serves its members from the Indian private and public corporate sectors and multinational companies, drawing its strength from diverse regional chambers of commerce and industry across states, reaching out to over 2,50,000 companies. FICCI provides a platform for networking and consensus building within and across sectors and is the first port of call for Indian industry, policy makers and the international business community.

## About Tata Institute of Social Sciences (TISS)

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As a community-engaged Social Science University, the Tata Institute of Social Sciences (TISS) has evolved as an educational ecosystem where students learn to ideate, innovate and translate what they learn for bringing about change in society. It is a space where classroom learning is blended with exposure to the field, communities, institutions, and corporate houses; locations of real time action. It is also the space where courses and programmes are developed to address societal and national level challenges and where faculty and students co-create model field action projects for bringing people-centred solutions to vexing social problems. Indeed, TISS occupies a unique position among institutions of higher learning in the country and its contribution goes beyond the stated goals of conventional universities.

# Executive Summary

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## Context

- We cannot achieve the demographic dividend unless we create jobs for millions of youth. There are multiple forces – thirteen of them identified in this report - working against employment growth in India from both supply side and the demand side
- It is proven that large enterprises create very few jobs. Even these few jobs are created for educated youth.
- Only Micro and Small Enterprises (MSEs) can create large number of jobs across India for workers with wide range of skills and education.
- Out of a total of just over 63 million enterprises in the MSME sector, 62 million are informal micro and very small enterprises (MSEs). Of these, single worker firms (own-account) are 40 million, firms with 2 to 5 workers are 22 million and firms with more than 5 but less than 10 are estimated at 1 million.
- 107.6 million workers (97% of all employment in the MSME sector) are in this MSE segment.
- These MSEs, surprisingly, are more rural than urban - 51% are in rural India.
- Women-owned firms accounted for 20 % of all enterprises, 16 % of all workers and 9 % of aggregate value-added. There is a huge potential to grow these women owned enterprises.
- MSEs are the most important segment of the Indian Economy if we want to achieve GDP and Employment growth. Moreover, many of these enterprises are closely aligned with households, particularly in location and ownership.
- These enterprises play a pivotal role in linking the formal and the informal sector through value chains.
- We don't need more micro-enterprises or more single-person firms. Instead, we need to scale-up these existing MSEs. How can we do this?
- By creating a support system which will make these MSEs go digital, grow in scale and increase their productivity. This will automatically create jobs The Udyog Sahayak Enterprise Network (USENET) proposed in this report is that support system.
- Why a support system? Because it is not possible to educate millions of the MSE entrepreneurs to become digital experts.
- Why now? Because India and the world are going digital. In the digital marketplace small can compete better and grow.

## What is USENET Project?

- 18 lakh Udyog Sahayak Enterprises (USEs) to be created over 5 years as part of USENET project: 5 lakh in Year 1, 6 lakh more by Year 3 and 7 lakh more by Year 5 - with the aim of scaling up these MSEs and also improving the Ease of Doing Business (EDB) for millions of MSEs. Till date the EDB was focussed on the large and medium enterprises. It is important to take EDB to the most important segment of the Indian Economy – MSEs.

- USENET is a complete entrepreneurship model, with Gol catalysing the enablement of the factors that would lead to self-sustenance of the USEs. It is envisaged as a service/transaction oriented model with a large bouquet of services made available to the MSEs at their doorstep such as digitisation and formalisation, availing of government loans, subsidies or other benefits, ensuring compliance with local, regional, and national regulation, aiding partnership with digital marketing platforms and digital payment platforms, etc.

- Each USENET will be allotted 15 MSEs initially to work with on a continuing basis and build a trust relationship with them. Every year thereafter a few more will be added till each USE will reach a capacity of 50 MSEs that they have a relationship with. Total reach through the 18 lakh USE network will be 4.4 crore MSEs in 5 years and will reach 8.1 crore MSEs in 10 years (Current 6.2 crore MSEs can grow to 8 crores in ten years due to the aggressive policies of Gol).

- By enabling scale-up, USENET will increase employment elasticity in the MSME sector. We estimate that an additional 1 crore (10.3 million) jobs can be created over five years going up to nearly 6 crores (56.9 million) over 10 years.

- Based on GVA per worker observed in this sector and assuming a 12% nominal rate of growth in GVA, these jobs represent an additional economic value of 2,16,000 crores at the end of 5 years and over 19 lakh crores at the end of 10 years.

- USEs will be supported by a National Digital Ecosystem for MSMEs (NDEM) that will be built on the principle of technology as a public good.

- It will operate with the help of a single window access to enterprise support services & schemes of Central and State governments.

- It will leverage technology to facilitate better access to credit and other vital infrastructure for millions of mature entrepreneurs who are ready to scale up and diversify their enterprises, but are unable to do so due to lack of access to larger loans owing to lack of digital visibility of their individual credit and repayment histories.
- This network will be a much improved version of the CSC network set up and run by Department of Electronics and IT (MeitY) now. Learnings from Banking Correspondent, Common Service Centre (VLEs) and Anganwadi models have been studied and incorporated.
- A new SPV can be created under the MSME ministry to be the implementing agency for USENET and the implementation would be done through the involvement of State-UT Administration/State Designated Agency (SDA)/ District Designated Agency (DDA).
- Udyog Sahayaks Entrepreneurs will be educated youth with 12th pass or graduate degrees who will be trained by the existing skilling ecosystem of the skill ministry. Thus, the programme creates sustainable livelihoods for 18 lakh educated youth, in addition to enabling MSE growth and indirect job creation and consequent economic growth
- Each USE will require a capex of Rs. 1,14,000 of which 50% is a grant from of Gol. 80% of working capital requirement will come in the form of a MUDRA loan.
- Youth will invest 50% of the initial investment required and also 20% of the margin money required for working capital loan from MUDRA bank.
- Each Micro entrepreneur will pay @ 300 Rs per month to the USE for their services of which 50% or Rs 150 per month will be reimbursed by the Gol. This Gol reimbursement will be withdrawn after six years.
- USE will also get paid commission for providing banking services like a Banking Correspondent and will also get a commission from the private parties for enabling MSEs to use their digital products.

- Total government pay-out in Year 1 is Rs 4,200 crores, and average over 5 years is Rs. 6,000 crores per year. Government spending per job created falls from Rs. 84,000 in Year 1 to Rs. 27,000 in Year 2 to Rs. 3,000 in Year 10.

- At the end of 5 years, government investment shows a return of 712% over 5 years and nearly 30 times over 10 years. The return on investment is calculated as cumulative economic value of new jobs created as a ratio of cumulative government investment in the programme.

-After 6 years the Government financial support is withdrawn and the USE will operate on its own.

- At the end of 5 years, income of the Udyog Sahayak entrepreneur is expected to be Rs. 1,33,000 per year. Lessons from CSC (village level entrepreneur), BC and Anganwadi models indicates that a sustainable flow of income of at least Rs 12,000 per month is key to the success of the model.

- USENET can be designed to benefit women entrepreneurs and enhance female labour force participation in the following ways:

- USENET trainings can mandate at least 35% participation from women going up to 50% by year 3 of USENET trainings.
- Management of the Udyog Sahayak Enterprise can have an equal gender balance and give first priority to assisting women led enterprises (e.g., USE may target 40% W-MSE).
- There will be an initial 35% quota for women-led USEs, going to 50% quota by year 3.
- USE will have specific focus on encouraging enterprises that help reduce the gender barriers to active female labour force participation – such as connecting women entrepreneurs with child care centres, safer transportation practices that facilitate greater women mobility, working with public safety officials to ensure a safe environment for women to work outside the home.

## Benefits of implementing USENET

1. 1.8 million of new entrepreneurship (gig employment) opportunities in the first five years for educated youth as Udyog Sahayaks - with Government support limited to only to 6 years.
2. Potential to create 56.9 million new jobs in ten years.
3. Potential to impact 80 million microenterprises in ten years including 20 million new MSEs created over the next 10 years.
4. Gov spend per new job of 11,310 is very low compared to investment required per job in large enterprises. At the seventh edition of Gujarat Partnership summit in 2015, global and Indian companies committed 2 lakh crores of investment and promised to create 50,000 jobs @ Rs. 4 crore investments per job!
5. Aligned with the formalisation, digital and Ease of Doing Business (EDB) agenda of Gov.
6. Most of the Udyog Sahayaks will work remotely and hence creates exciting opportunities for women who are keen to work from home. Reservations for educated women to become Udyog Sahayaks.
7. Can reduce migration by providing local jobs and local entrepreneurships to both graduate and non-graduate youth.
8. USENET will drive MSEs to register with MSME ministry.
9. USENET can help MSME ministry collect and publish periodic employment and economic data from MSEs.

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# 1

## Why we need an out-of-the-box solution for creating jobs in India

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Thirteen forces are working against employment of youth in India. We need to recognise them and create a completely new approach to job creation

### a. All time low Employment Elasticity (EE) and very slow employment growth

EE is the relationship between GDP growth and employment growth. It measures the % growth in jobs for every 1% increase in GDP. EE is at an all time low level in India. EE was around 0.22 during the period 1990 till 2014 (and has been falling since the 1980s (Basole et al, 2018)). EE was closer to zero before Covid on an all-India basis. Even sectors like construction with high EE is showing lower EE due to pre-fab and other innovations which have reduced in-situ construction. This explains why GDP growth has not yielded job growth in India.

During the period 2000-2018, job growth of all type of jobs grew at a CAGR (compounded annual growth rate) of 1.28% or 5.4 million per year. Compare this with our total population CAGR growth of 1.38% or 16.4 million per year during the same period. Compare this with the working age (age 15-64) population CAGR growth of 1.91% or 14.6 million per year during the period 2004 – 2018. We were creating approximately one job (37%) for every 3 persons entering the work force. The consequence – supply of manpower far exceeds the manpower demand.

### b. Loss of employment due to Covid lock down

During Covid complete lockdown across India for of 68 days - between 25 March 2020 till 31 May 2020 - job losses were extensive and were across sectors except agriculture and essential services. Several independent surveys indicate that MSMEs and informal employment in general were very badly hit with more than 50% of the workforce losing work during the lockdown.

### **c. Loss of employment due to reverse migration**

Estimates of Reverse migration are not available, according to a reply tabled in the Parliament. The initial GoI migrant estimates were around 27 million while the central government allocated food grains for 80 million migrants. Loss of employment and livelihoods due to reverse migration on account of Covid could vary between these two numbers.

### **d. Productivity improvement due to automation**

Large investments are designed with automation to minimise labour. Even labour-intensive Industries like Apparels saw an increase in productivity due to automation in response to globalisation of the Indian economy and Chinese competition which destroyed a lot of labour-intensive ethnic sectors like toys.

### **e. Productivity focus consequent to Covid migration**

Covid migration has again speeded up the focus on automation in severely affected sectors like construction which suffered due to non-availability of migrant labour post UNLOCK.

### **f. People are not looking for work - low LFPR among youth and women**

Out of 1300 million population, 900 million are in the working age of 15 to 64. Of these 900 million potential work forces, only 425 million were seeking work i.e., are in the work force. 430 million, i.e., for every 1 person in work force, 1 person is not seeking work - when they can work. The statistics among youth are also worrying. 5 out of 6 females and 1 out of 2 males in the age group 16-25 are not looking for work. One third of the youth in the same age group 16 to 25 estimated at a staggering 86 million are neither in jobs nor in education or in training (NEET). Hence unemployment statistics which speak only of the openly unemployed are misleading because they cover only those unemployed among those 425 million who are looking for work and excludes those who are not seeking work

### **g. Low creation of Government jobs despite craze for them**

The creation of new jobs in central and state government is on the decline due to increased privatisation and the policy of “minimum government and maximum governance”. But government jobs are best at the entry level compared to private sector and the government is also the best employer due to benefits and job security. This means every youth wants a government job and is waiting for the government opportunity and is idling till such time and not seeking private sector jobs.

### **h. Our demographics are working against compensation growth at entry level**

Clearly our demographics has resulted in supply of youth in the job market far exceeding demand for manpower. The World Bank estimates that India needs to generate 13.4 Million jobs a year which will require a GDP growth rate of 18% assuming we continue at the current LFPR levels and Employment Elasticity levels. The excess of supply over demand meant the market determined compensation, which is the intersection of supply and demand will stagnate as shown by Muralidhran et al, (2014).

### **i. Low compensation and low skill premium for skills**

Above cited study reveals that the average factory worker compensation net of inflation in the 12 year period 1999 and 2011 was stationery while the supervisor and managerial compensation grew by 150% to 480% of worker salaries. This showed that enterprises were diverting worker compensation to their managers and supervisors. This singular fact was responsible for the erosion of interest in non- supervisory skill jobs.

### **j. Migrants were going out of pocket when migrating for jobs and no scope for savings**

In 2011, out of a population of 1211 million, domestic migrants were 450 million (38% of total population). 1 out of 3 persons in Rural India and 1 out of 2 persons in urban India is a migrant. Since the jobs were in locations away from home, many Indians migrated - many within the district, many across districts and a few across states. The economic challenge of migration is the cost of living which has been increasing consistently, while compensation hardly keep pace with that. Net result - savings became negative and migrants were going out of

pocket while working and were forced into debt every time the migrant fell ill or went home. The government skill policies and migrant policies did not recognise the need to create infrastructure for migrants to stay like skill hostels in order to increase savings. This has resulted in reverse migration of skilled work force at the cost of employment.

### **k. Poor appreciation of the employment reality by state and central govt resulting in pursuing large projects at the cost of MSMEs and labour-intensive industries**

Many state governments and even the central government focused more on industries which maximised investment and economic value added. State Partnership summits invited big corporates to invest in the state with huge incentives. Clearly the past data shows that these huge investments bring in a very few jobs.

At the seventh edition of Gujarat Partnership summit in 2015, global and Indian companies committed 2 lakh crores of investment and promised to create 50,000 jobs @ Rs. 4 crore investments per job!

Many jobs are created during the construction phase, but bulk of these employment is for unskilled and semi-skilled labour. But the employment once the operations begin is very low since the plants are automated. This skill level required to run automated plants are very high. Even this small employment is "one time " because initial employees tend to stay. MNCs and large corporates prefer to invest more to automate and reduce manpower and one has to visit any FMCG plant or a petroleum refinery to see this reality incentives, but they did yield very low fresh jobs. Emphasis on MSME growth through incentives and partnership summits were totally missing for several decades resulting in GDP growth without job growth.

### **l. Global trend especially in gulf region against expat Indian jobs**

The reduction in oil prices has resulted in workers returning to Kerala and other states, adding to the local employment pool.

### **m. Unemployment problem of graduates**

According to one study the number of graduates passing out every year is around 6 million and we have created at best 1 million graduate jobs. In 14 years between 2004 till 2018, 39 Million graduates were added to working age population but only 17 Million (44%) are seeking work. 22 million graduates are idling waiting for the right work. These youth are more vocal, their parents who have paid for their education are frustrated and hence an unemployed graduate is an easy prey to anti- social elements.

### **For the foregoing reasons, we need a BIG and OUT OF THE BOX solution**

- Which enables creation of gig graduate jobs which are entrepreneurial.
- This should lead to a multiplier effect on job creation in the only place where jobs can be created – in Micro and Small enterprises (MSEs).
- This should ride the wave of digitalisation of markets and operations in MSEs to enable MSEs to access and transact with new customers and thereby grow.
- This should free the MSE entrepreneurs from huge and unproductive compliance load to enable them to focus on customers and operations.

# 2

## The MSME sector

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### 2.1 Overview

“ *The Micro sector, with over 63 million firms, accounts for 99% of estimated MSMEs.* ”

The estimated number of enterprises in the unincorporated non-agricultural sector (excluding construction) was 63.4 million in 2015 (latest available data). Total employment was estimated at 111.3 million in 2015. Aggregate gross value-added estimates were 11.5 trillion (lakh crores) in constant 2015 rupees. The sector is highly diverse, not only in terms of products and regions, but also scale of operation.

The new official definitions based on turnover are as follows. The Micro segment is defined as having investments upto Rs 1 crore and turnover of less than Rs 5 crore. The earlier definition based only on investment, was up to Rs 10 lakh for services and Rs 25 lakh for manufacturing. The investment limit for the Small category is Rs 10 crore (up from 5 crore earlier) with a turnover of less than 50 crore. Finally, enterprises with investments up to Rs 20 crore and a turnover of less than Rs 100 crore come under the Medium category.

As per the MSME Ministry Annual Report (2019-20), which still used the older definitions, the Micro sector, with over 63 million firms, accounts for 99% of estimated MSMEs. The Small sector with 3.31 lakh and Medium sector with 0.05 lakh, account for 0.52% and 0.01% respectively. The report also adds that out of 63.4 estimated number of MSMEs, 51% are in rural areas. The Micro sub-sector provided employment to 107.6 million workers or 97% of total employment in the sector. The Small sub-sector and the Medium sub-sector provided employment to 3.2 million (2.88%) and 0.17 million (0.16%) workers respectively.

Thus, the first distinction to be made is between microenterprises on the one hand and Small and Medium enterprises on the other. The latter category is almost all formal and here the issue of regulatory burden and compliance load is very important.

The second distinction needs to be made between nearly 62 million microenterprises which have less than 20 workers and hence are outside most formal regulation (other than ESI) and the rest of the 1 million, who are above the 20 worker threshold and therefore are the formal system (e.g., PF system). Of these 1 million enterprises which are part of the Provident Fund database, 70,000 have revenues greater than 5 crore (crossing the threshold from Micro to Small). The rest (9.3 lakh) are formal enterprises (more than 20 workers) but remain in the Micro segment as far as revenue definition goes (Table 1).

Finally, we come to the vast majority of firms, which are micro and informal with less than 10 workers, for whom hardly any compliances apply. In fact, for this segment, compliances are not the lever to ensure ease of doing business or scale-up. Rather we have to look at avenues such as integration with digital platforms, securing of licenses so that businesses can stop paying bribes, better access to formal finance and government schemes, and so on.

**Table 1:**  
**Typology**  
**for MSMEs**

|                             | Micro                  | Small and Medium     |
|-----------------------------|------------------------|----------------------|
| Formal ( $\geq 20$ workers) | 9.3 lakh enterprises   | 3.5 lakh enterprises |
| Informal ( $< 20$ workers)  | 62 million enterprises | --                   |

Within the universe of firms with less than ten workers, once again we find the distribution is heavily biased towards the tiniest, or what we might call “nano enterprises.” The breakup is as follows (Table 2) -

- Single worker firms – 40 million
- Firms with 2 to 5 workers – 22 million
- Firms with more than 5 but less than 10 workers – 1 million

**Table 2:**  
Share of various size classes in total number of enterprises, total GVA and total employment in 2015

| Size     | Enterprise Share | GVA Share | Employment Share |
|----------|------------------|-----------|------------------|
| One      | 61.78            | 32.49     | 37.27            |
| 2 to 3   | 32.12            | 36.17     | 40.65            |
| 4 to 5   | 3.78             | 13.25     | 9.84             |
| 6 to 9   | 1.67             | 10.55     | 7.04             |
| 10 to 19 | 0.65             | 7.54      | 5.20             |

*Sources and Notes : Reproduced from APU-GAME Microenterprises Report. Calculations based on NSS 73rd round unit level data.*

Thus, policy interventions need to be tailored by firm size since the challenges faced are very different at different scales.

1. For small and medium firms who are likely to have more than 20 workers and a turnover greater than 5 crores, the policy focus ought to be on improving ease of doing business via simplification, rationalisation, digitisation, etc.
2. For microenterprises which have less than 20 but more than 5 workers, with turnover greater than 50 lakhs, the emphasis should be on enabling growth by easing them into the formal system. The key here is that entrepreneurs should not be incentivised to stay tiny and expand via creation of more micro informal firms. Rather, they should see value in formalising.
3. For nano-enterprises with less than 5 workers and turnover of a few lakhs per annum (survivalist enterprises), the emphasis should be on skilling workers and placing them into larger firms as well as on enabling growth in-situ. The relevant policy levers here are matching informal workers to potential formal employers, better access to formal finance, better information on government schemes, licensing to prevent harassment by local officials, digitisation for market access etc.

**USENET can aid in all the three dimensions above by offering a diverse range of services appropriate to the size and sector in which the MSME operates.**

## 2.2. Expanding digital connectivity and emerging gig models for MSEs

“USENET can play a key role in the expansion of digital marketing platforms and digital payment models to smaller towns and rural areas.”

Emerging business models based on digital platforms have already transformed the microenterprise space substantially in the metropolitan cities and in some of the larger towns. Platforms such as Urban Company, Swiggy, and others, allow microenterprises to connect with customers beyond their usual catchment areas, while providing quality assurance and branding. Many of these start-ups have expanded rapidly in the past few years alongside digital connectivity due to mobile internet (discussed below). For example, UrbanClap, which offers services such as appliance repair, plumbing, carpentry, painting, hair and beauty services etc., expanded total transaction value from 130 crores in FY18 to 400 crores in FY19.<sup>1</sup>

As of now, various infrastructural as well as informational constraints prevent an extension of this model into smaller towns and rural areas. USENET can play a key role in the expansion of digital marketing platforms and digital payment models to smaller town and rural areas.

The requisite cyber-infrastructure is rapidly coming into existence as smartphone ownership expands. As per data from the Internet and Mobile Association of India (IAMAI) as of November 2019, nearly 500 million adults had some access to the internet. Those accessing the Internet only via mobile phones are the largest category (90% in urban and 97% in rural). 88% of these are 4G users. Rural penetration is growing fast, with 230 million users as of Nov 2019. Penetration is also growing in smaller towns, though expectedly it remains the highest for the top 8 metros at 65% as of Nov'19.

Importantly, Internet penetration is growing faster among women. Further, 70% of Internet users access the net daily and 9 out of 10 users in urban access it at least once a week. The 20-29 years age group is the single largest group of Internet users (around 30-35%). Those in the 20 to 40 years range (people who will continue to be economically active for the next 20 to 40 years), account for half of all internet users. Since this group has come of age in the digital world, is already in the working age segment, and can afford their own devices, they constitute a vital part of the digital economy expansion agenda.

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<sup>1</sup> <https://inc42.com/buzz/urbanclap-revenue-fy-nineteen/>

Tellingly, digital payment transactions on the Universal Payment Interface (UPI) platform rose from 0.1 million in October 2016 to 1.3 billion in January 2020.<sup>2</sup>

## 2.3 The impact of COVID-19 on the sector

Household and enterprise surveys as well as several newspaper reports show that the micro-enterprise sector has been hit particularly hard by the COVID-19 pandemic and associated containment measures (such as the national lockdown in April and May).<sup>3</sup> A six-month longitudinal survey of 1500 microenterprises by the Global Alliance for Mass Entrepreneurship (GAME) and LEAD at Krea University shows that 57% of enterprise had no cash reserves at all at the end of the lockdown, and another 17% could survive only a month. 60% had borrowed to stay afloat and 65% had dipped into savings. 58% were not aware of any government schemes to help them and only 14 per cent of the overall borrowing was from formal borrowing sources.<sup>4</sup> A much larger survey of 46,525 self-employed, MSME owners, corporate CEOs, employees and experts by the All India Manufacturers' Organisation showed that nearly 35% of MSMEs were considering shutting down operations.<sup>5</sup>

A recent report on Improving Dynamism and Accelerating MSME Growth in the post-COVID scenario recommends short-term fiscal measures to “survive”, as well as medium-to-long-term reforms to “Revive” the sector and help it “Thrive” (Global Alliance for Mass Entrepreneurship, 2020). Indeed, there is urgent need for bold action, particularly to reach the nano and micro end of the spectrum, since these are the entrepreneurs who are excluded from formal credit. **A system such as USENET can play a crucial role in ensuring that government packages reach the enterprises that are most in need of support to survive the crisis and revive subsequently.**

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<sup>2</sup> <https://indianexpress.com/article/opinion/columns/the-billion-standard-digital-payments-bank-accounts-6254962/>

<sup>3</sup> <https://www.livemint.com/news/india/india-s-micro-firms-face-a-credit-squeeze-11601303086600.html>, <https://www.livemint.com/news/india/small-firms-catch-the-deadly-iou-virus-11600871684728.html>

<sup>4</sup> <https://dashboard.massentrepreneurship.org/>

<sup>5</sup> <https://economictimes.indiatimes.com/small-biz/sme-sector/over-one-third-msmes-start-shutting-shop-as-recovery-amid-covid-19-looks-unlikely-aimo-survey/article-show/76141969.cms>

# 3

## The USENET Model

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### 3.1 What is USENET?

“USENET is intended as a “helping hand” for micro and small enterprises (MSEs) within the existing system. ”

The USENET scheme envisages establishment of around 18 lakhs Udyog Sahayak Enterprises (USEs) in three phases to service over 60 million MSEs in all parts of the country over a period of ten years.

USENET is a complete entrepreneurship model, with Gol catalysing the enablement of the factors that would lead to self-sustenance of the USEs. The proposal envisages Gol support in the form of investment grants and operational subsidy in the initial stages to catalyse the system. After six years programme support can be withdrawn and USENET is expected to be sustainable on its own.

It is envisaged as a service/transaction oriented model with a large bouquet of services made available to the MSEs at their doorstep (see next section). USEs will use all the existing digital technological platforms, of the government and private enterprises in the following areas – Compliance, Banking, digital marketing, e – governance and other services – to free the MSE entrepreneur’s time to focus on the business.

**USENET will drive the digitisation agenda of the Government in MSEs and enable real-time collection of data from this sector.**

The USENET system is not a substitute for reducing the complexity and volume of the regulatory and compliance process. Rationalisation, simplification, and digitisation are also vital to improving ease of doing business and effectively protecting labour, environmental and other standards. USENET is intended as a “helping hand” for micro and small enterprises (MSEs) within the existing system.

An Udyog Sahayak Enterprise is a mobile unit with a small home office. The infrastructure comprises of a computer/laptop, printer, scanner, web camera, broadband connectivity and suitable power backup for uninterrupted delivery of services. The infrastructure includes a motor cycle to visit MSEs. The GoI subsidy will be payable only ONCE and will be paid directly to the infrastructure supplier. The decision to upgrade the facilities will be taken by the USE based on the activity-levels and sustainability of the operations.

The U.K. Sinha Committee Report on MSMEs recommended that:

“Capacity building of the entrepreneurs is an essential pre-requisite for development of the sector as it equips the entrepreneurs with the necessary knowledge and wherewithal to function. The committee suggests establishment of Enterprise Development Centres (EDCs) within District Industries Centres (DICs) in each district.” (Reserve Bank of India 2019, p. ii)

While we agree with the need for capacity building of entrepreneurs, we believe that it will be difficult to train micro entrepreneurs because of two reasons – their capacity to absorb the latest technologies and the need to train large numbers. We recommend that it is better to train fresh graduates in digital technologies and make them provide the digital services as a dedicated support service and the micro entrepreneurs will evaluate and pay them. This way we need to train less numbers (because each USE is servicing 15 to 50 microentrepreneurs), train youth who are digitally inclined and lastly the microentrepreneur’s time is freed to focus on business scale-up.

## 3.2 Programme Implementation

A new SPV can be created under the MSME ministry to be the implementing agency that functions with the involvement of State-UT Administration/State Designated Agency (SDA)/ District Designated Agency (DDA). The functions of USENET SPV would be in perpetuity even after completion of the project for sustainability of USENET across the country. The main activities to be undertaken by USENET SPV, but not limited to, are as follows:

1. Develop a national level universal technological platform. This would comprise of some key performance indicators (KPIs) like: financial management, human resource management, MIS and reporting, service delivery, help desk, capacity building and integration of all other portals across all the States/UTs etc.
2. Act as co-ordinating agency for development, enablement, on-boarding and delivery of services centrally through the universal USENET technological platform. This will ensure a standard list of services that would be available at all MSEs, irrespective of the location.
3. Enable and manage the local language Help Desk for handholding of the USE.
4. Undertake capacity building and entrepreneurship training programme to cover all the existing USEs and new USEs in a periodical manner.
5. Undertake monitoring and assessment of programme periodically.
6. Support State/UT for creation of national and state branding. Design Reward and Recognition programs to motivate excellence among USEs.
7. Identify new services to be added to the network. Identify private and government entities trying to reach MSEs for selling their services and negotiate a favourable commission structure.
8. Roll out regular – quarterly - online SME business and employment surveys.

In case the State/UT requires support from a Third Party (TP) to set up and operationalize the USENET network in identified states/districts, Gol may engage a TP. These USEs under the rollout of such TPs would be compulsorily transacting through the universal USENET technological platform that would be developed and would comply with the revenue sharing guidelines of the project.

“ Each USE will be allotted a set of MSEs and will work with the set of selected MSEs on a continuing basis and will build a trust relationship with them. ”

It is recommended that the State/UT governments identify a new department for MSME and Employment with a cabinet rank Minister for the smooth implementation of the project. A nodal department under this new Department will be created to implement this USENET in the state. Which will function under the guidance of USENET SPV. The responsibilities of State/UT Administration are as follows:

- To issue necessary guidance for implementation and management of the project in the State/UT.
- To implement acquisition plan for identifying existing MSEs into the scheme.
- To collaborate with stakeholders to ensure that various services, training and capacity building initiatives are implemented in the State/UT.
- To ensure identification and enablement of additional G2C services on the universal service delivery platform.
- To enable integration of all State/UT portals including the utility service providers with the universal USENET technological platform.
- To increase sustainability of USENET units in the State/UT by undertaking various programs, schemes and activities with USENET SPV.
- To increase awareness and promote USENET as a career opportunity among graduates
- To review, monitor and assess the scheme on regular basis for smooth implementation and timely completion of rollout of USENET.
- To submit project status report to Central MSME ministry on monthly basis.

**Project Duration:** 10 Years. The project will be implemented in phases and each phase will require Gol support for six years. USENET envisages Gol support to USEs in the form of investment grants and operational subsidy in the initial stages to catalyse the system. **After six years the Government scheme support is withdrawn and the USE will operate on its own.**

Each USE will be allotted a set of MSEs and will work with the set of selected MSEs on a continuing basis and will build a trust relationship with them. We envisage an initial allocation of 15 MSEs per USE in the first year of operation and every year thereafter a few more will be added till each USE will reach a capacity of 50 MSEs that they have a relationship with.

The revenue sharing between the USE and the USENET SPV is at least 90% of the income from the commission on the transactions and balance 10% shall be apportioned to other stake-holders, leading to sustainability of USENET.

**USENET envisages development of an integrated universal technological platform, a National Digital Ecosystem for MSMEs (NDEM), that will be built on the principles of technology as a public good.** The NDEM will be available as a multi-tenant cloud based platform and will comprise of the following elements:

- Existing India stack elements such as Aadhar eKYC, UPI, Digital Locker
- Online double-entry book-keeping and registries to meet compliance requirements
- Access to a single mashed-up service to file all compliances through one composite application form that will get routed to individual departments and regulatory entities
- Access digital banking services
- Access to private digital service providers
- Access Digital compliance systems for GST and Income Tax etc
- Access to e-commerce portals for transactions

**The NDEM is an ecosystem and hence will provide for choice from multiple providers of the above services to improve service delivery to microenterprises.**

### **3.3 USENET services and the training necessary to deliver them**

The types of services that an MSE would need differs widely based on scale of operation as well as sector (rural/urban) and industry. Here we illustrate this with some examples. As mentioned earlier, enterprises with more than 10 or 20 workers constitute a small minority of all MSMEs. But their prospects for growth are strong because they have already achieved some scale. One concern that they have, which can be addressed via USENET, is staying compliant with respect to various government regulations such as taxes, company law requirements, labour laws, etc. On the other hand, services for informal enterprises (less than 10 workers) can include:

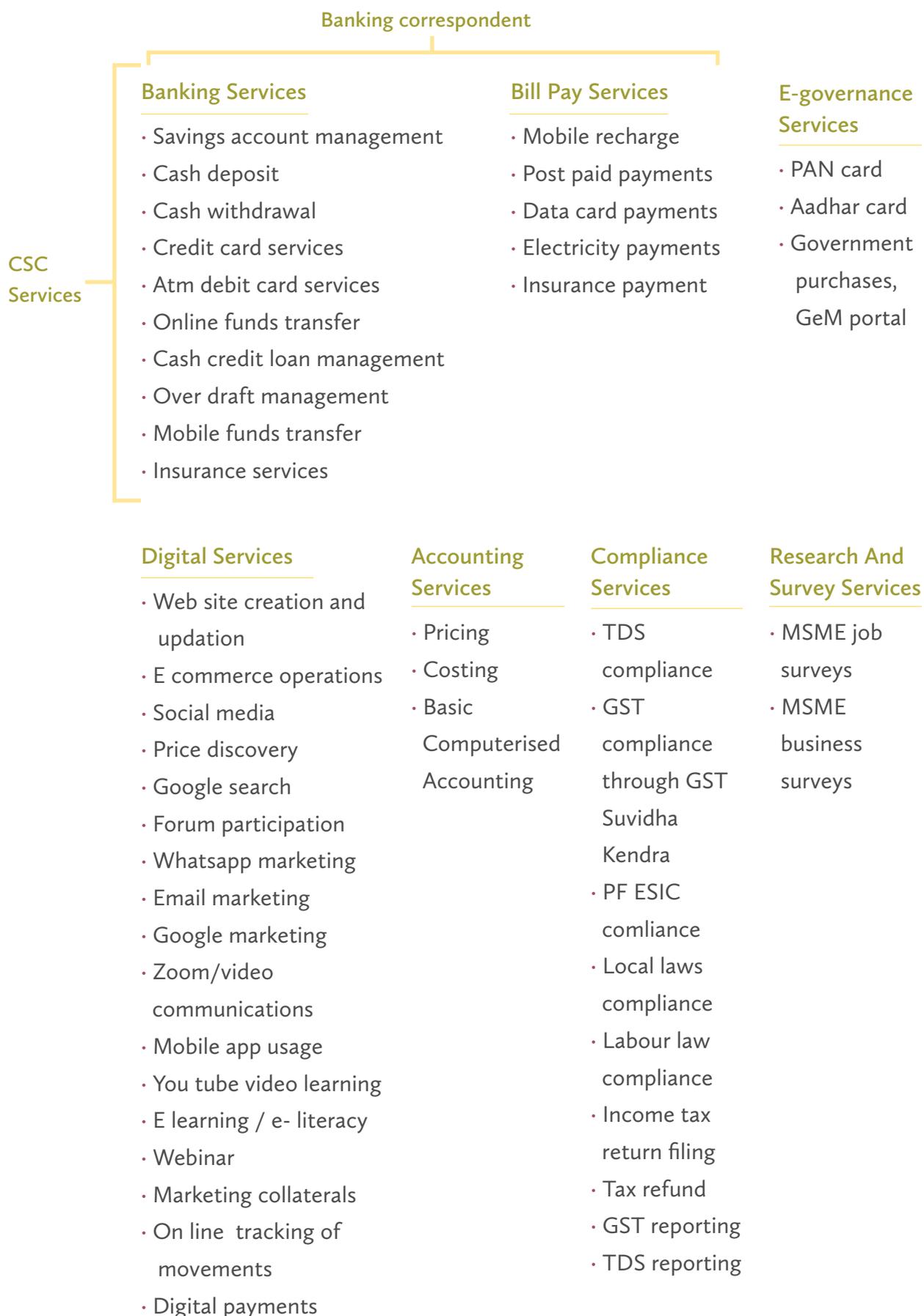
- Helping with digitalisation and entering the formal net
- Availing of government loans, subsidies or other benefits
- Ensuring compliance with local municipal and other licenses (e.g., street vending)
- Aiding partnership with digital marketing platforms such as UrbanClap, Swiggy etc.
- Aiding partnership with digital payment platforms

The existing training ecosystem can be used to deliver the necessary training to educated youth enabling them to become Udyog Sahayak Entrepreneurs. Two levels of USEs may be imagined. Youth with education up to 12th grade can be trained in relatively more basic operations that can assist informal microenterprises. Such youth are also relatively more in number, matching the relatively large proportion of informal enterprises. On the other hand, youth with graduate degrees can be trained to become USEs that work with relatively larger micro and small enterprises whose requirements will also be more complex (see Tables 3 and 4 for the nature of service provided by USE).

**Table 3:**  
Types of services an Udyog Sahayak Enterprise can provide to other micro-enterprises

| <b>USENET</b>   |   |  |   |   |
|---|---|--|---|---|
| <b>Compliances</b>  | <b>Digital platforms</b>  | <b>Government Schemes</b>  | <b>Licenses and permissions</b>   | <b>Labour matching</b>  |
| <ul style="list-style-type: none"> <li>- Tax registration and returns</li> <li>- Registers</li> <li>- Audits and inspections</li> </ul> | <ul style="list-style-type: none"> <li>- Identification and registration with platforms</li> <li>- Meeting quality standards and other compliances</li> </ul> | <ul style="list-style-type: none"> <li>- Communicating information on new schemes (loans, subsidies, etc.)</li> <li>- Hel with registration for schemes</li> </ul> | <ul style="list-style-type: none"> <li>- Securing vending licenses or other permissions</li> <li>- Navigating local municipal and police regulations</li> </ul> | <ul style="list-style-type: none"> <li>- Matching MSE employers to potential workers</li> </ul> |

Table 4: Detailed list of USENET services



“ *USENET should be designed with the aim of creating an environment in which women-owned micro-enterprises can scale-up and grow as well as educated women can become entrepreneurs operating USEs.* ”

While the detailed curriculum at both levels can be worked out in due course, the basic components of training should include fluency in local language, basic English speaking, reading, writing, digital literacy, financial literacy, and knowledge of municipal and other relevant local regulation regarding businesses. In addition to the above, graduates operating USEs dealing with formal sector enterprises or enterprises at the cusp of becoming formal will need to be trained in basic information on relevant regulation, compliances, and taxes, filing taxes and other compliances online, researching relevant experts for labour, environmental or other issues.

### 3.4 Creating an enabling environment for women entrepreneurs with USENET

The APU-GAME microenterprises report shows that in 2015, women-owned firms accounted for 20 per cent of all enterprises, 16 per cent of all workers, and 9 per cent of aggregate value-added. The proportion of women-owned enterprises that hire three or more workers is a mere 2.7 per cent compared to 6.3 per cent for men. Further, a much higher proportion of women-owned microenterprises are home-based. Large gender gaps are also observed in firm performance. In urban India gross value-added per firm for female entrepreneurs was only 46 per cent of male-owned firms, labour productivity was 62 per cent and assets owned 40 per cent. The corresponding ratios for rural India are 35 per cent, 44 per cent and 43 per cent (Azim Premji University – Global Alliance for Mass Entrepreneurship, 2019).

At the same time, a low labour force participation rate for women has consistently been the problem facing the Indian labour market. Particularly for educated women, the LFPR is lower and the rate of open unemployment is higher than for educated men. On the other hand, we have reached a situation of gender parity in terms of enrolment in higher education.

It is thus extremely important that USENET should be designed with the aim of creating an environment in which women-owned micro-enterprises can scale-up and grow as well as educated women can become entrepreneurs operating USEs. This can be achieved through measures such as:

- Reserving 33% of USENET grants for women-operated USEs initially, going up to 50% by Year 3. This will also foster greater participation of educated

women in the workforce. These could be young women graduates as well as other educated women in the community willing to take up the entrepreneurship opportunity.

- Giving priority to assisting women-owned or operated microenterprises (by targeting say 40% such enterprises in the total portfolio). This will also increase gender sensitivity and understanding of the specific problems faced by women entrepreneurs among male USEs.
- Specific focus on encouraging enterprises that help reduce the gender barriers – such as setting up of women child care centres, safer transportation enterprises that facilitate greater women mobility, working with public safety officials to ensure a safe environment for women to work outside the home.

### 3.5 How many jobs can be created? What is the return on investment?

USENET will result in direct employment generation for educated men and women who want to start Udyog Sahayak Enterprises. However, much larger employment generation is expected to occur indirectly, via growth of MSMEs that avail of USENET services. Further, USENET services will improve the ease of doing business and raise productivity for millions of microenterprises.

**Here we offer some estimates of this indirect job creation via scaling up of existing microenterprises. Since the sheer number of microenterprises is high, the potential for job creation is large, even with modest increases in firm size.**

Our estimates of job creation derive from the actual performance of this sector between 2010 and 2015 as determined from NSSO data. In this five year period, the output elasticity of employment (percent increase in employment with 1% increase in value-added) for microenterprises with less than 20 workers was around 0.1. In this period, GVA rose in nominal terms by around 10% per annum. Thus, an employment elasticity of 0.1 and a nominal annual growth of 10% constitutes the baseline scenario (once the effects of COVID-19 are out of the system). As this rate, 0.016 jobs per firm per year are created or in other words, 1.6 jobs per 100 firms per year. This amounts to 3.5 million new employment opportunities over 5 year (the observed rate of job creation in the data for 2010 to 2015). This is the baseline scenario.

“ An estimated 1 crore (10.3 million) jobs can be created over five years going up to nearly 6 crores (56.9 million) over 10 years. ”

With USENET we target two objectives – increased rate of output growth and increased employment elasticity. While employment elasticity itself cannot be a direct policy target, USENET can help by creating a more enabling and conducive environment for microenterprises to hire workers and retain them. This can reduce the predominance of dwarf or stunted firms by reducing barriers to employment growth. The assumption here is the microentrepreneurs would be interested in expanding their workforce if they had the peace of mind that ensuing regulatory requirements could be handled with the help of the Udyog Sahayak.

If, within two years of programme implementation, employment elasticity improves from the current 0.1 to 0.2 (still a low number) and a nominal rate of growth of 12% is achieved, this amounts to 0.05 new jobs per firm per year. Over time, the cumulative effect could improve elasticity still further, especially at the low end. Assuming that job creation improves from 5 in 100 firms hiring an additional worker, to 7.5 (in the 3rd year) and eventually to 12.5 (in Year 5) and 25 in 100 (in the 10th year), an estimated 1 crore (10.3 million) jobs can be created over five years going up to nearly 6 crores (56.9 million) over 10 years.

How much additional economic value do these jobs represent? In 2015, the annual GVA per worker in this sector for enterprises that had at least one hired worker was INR 138,000. Assuming a 5% annual inflation rate, this would come to around INR 173,000 per worker per year. A 12% rate of nominal growth of GVA per annum, at the above mentioned level of extra employment per year, would generate **2,16,000 crores of economic value at the end of 5 years and over 19 lakh crores at the end of 10 years.**

**With the above mentioned pace of job creation and additional economic value created, at the end of 5 years, government investment shows a return of 712% over 5 years and nearly 30 times over 10 years.** The return on investment is calculated as cumulative economic value of new jobs created as a ratio of cumulative government investment in the programme. Government spending per job created falls from Rs. 84,000 in Year 1 to Rs. 27,000 in Year 2 to Rs. 3000 in Year 10.

The online annexure (<https://cutt.ly/ijFpdHz>) provides the details for all the above calculations.

## 3.6 How USENET can achieve scale-up and improve productivity in the sector

Scaling-up of enterprise size at all levels of the size distribution, remains a key task for MSME policy. We need to put in place a strategy that can help 1 person businesses become 2 or 3 person businesses, 5 person firms become 10 person firms, and 50 person factory become a 100 person factory. This process will require compliance and regulatory reform, improvement of infrastructure, expansion of market access and removal of other well-known barriers to growth. **USENET can be an important part of this scaling-up strategy.**

Table 5 shows a snapshot of how important scale-up can be, even for the tiniest of enterprises. For example, labour productivity goes up more than 60% going from 1-3 workers to 6 to 9 workers. At these low levels of productivity, the welfare effects are quite large – we are talking about going from INR 7000 per worker to INR 12000 per work, a small effect in absolute terms but very consequential for the informal entrepreneur who is no longer near the poverty line.

**Rather than encourage the setting up of more one-person firms which have very low levels of productivity and compete with each other for local markets, we need to encourage scaling up that can enable the enterprise to connect digitally to larger markets and adopt technology that increases productivity.**

Scaling up of nano enterprises to micro level (from 1 or 2 workers to more than 5 workers) can be accomplished by merging existing enterprises or by firms hiring new workers (from the pool of the unemployed or from agriculture). Thus, there are two important effects:

1. Creation of new non-agricultural employment
2. Increase in productivity of existing employment

**Table 5: Levels of productivity and wage rates (rupees per month) across size classes in 2015**

| Size Class     | GVA per Enterprise | Labour Productivity | Wage Rate | Productivity-Wage |
|----------------|--------------------|---------------------|-----------|-------------------|
| One            | 7362               | 7362                | 5305      | 2057              |
| 2 to 3         | 15767              | 7514                | 5577      | 1937              |
| 4 to 5         | 49078              | 11369               | 6625      | 4744              |
| 6 to 9         | 88467              | 12654               | 6874      | 5780              |
| 10 to 19       | 161356             | 12251               | 6860      | 5391              |
| 10 to 19 (ASI) | 443688             | 32078               | 14273     | 17805             |

*Sources and notes: Reproduced from APU-GAME Microenterprises Report. Calculations based on NSS 73rd round unit level data*

Research shows that consulting or advisory mechanisms matter for Micro, Small, and Medium Enterprises (MSME) to upgrade to higher trajectories of performance. For these enterprises, irrespective of scale and capital intensity, the labour productivity (value added per employee) is the principal driver to asset creation and sustained performance. Three aspects are crucial for these enterprises to sustain higher productivity: (a) Robust Maintenance of Accounts, (b) Updating and learning through internet, and (c) Attainment of Compliances. As per NSSO data, for enterprises who maintain accounts gets 112 % more productivity than the ones who do no maintain accounts. If enterprises use internet, incremental productivity over those units who do not use the internet is 131 %. Having any type of registration for enterprise converts to 111 % gain in productivity over enterprise who have yet done any form of registration. These differential outcomes are not serendipitous. When we subject these numbers to inferential processes like Analysis of Variance, explained variation is significantly higher than that of random variation. Moreover, the inference is valid over scale of operation too.

Research also shows that most enterprises do not engage in three core aspects: accounts, Internet, and compliance. Literature and shared experiences point to the scenarios where these enterprises appear to be excluded from the ambit of professional services. At times these units may find these core activities as subsidiary in nature. This oversight may emanate from lack of awareness or

“ In small towns enterprises are likely to benefit from shared consulting services that upgrade the firm’s capabilities in asset and knowledge management, and compliances. ”

factors like shortage of resources. Quite important, as the data conveys this problem exists at mass scale, calling for out of box strategic solutions.

If these enterprises locate in dynamic industrial/business agglomerations, shared facilities may cater to a cluster of firms. However, this is a viable option only in major metro based business agglomerations. Unlike metro based agglomerations, in other spaces enterprises are likely to benefit from shared consulting services that upgrade the firm’s capabilities in asset management, knowledge management, and attainment of compliances.

### 3.7 Finance, Revenue and Sustainability

USENET has been designed to ensure delivery of online services through ICT. It is expected that the operations and management of the USENET Scheme will be self-sustaining based on the income generated through delivery of online services. All the aspects related to finance, accounting and expenditures for implementation of USENET would be managed by the SPV.

Studies of Banking Correspondents (BC) scheme and the CSC (Common Service Centers under the DeiTY for delivery of e governance services to the rural citizens) schemes have shown that sustainability of the USE will be the single key to success of this scheme. The sustainability of the USE is also key to the withdrawal of Gol support at the end of six years of each phase. The key assumptions and the basis for the financial model are as follows:

#### Revenue streams:

- There must be robust revenue streams for the USE.
- There must be multiple revenue streams paid by all the stakeholders to the USE.
- The stake holders are MSEs, private players using the USEs to reach their products and services to the MSEs and lastly the Government at the center and the state. Hence three revenue streams are envisaged – one from the MSE, one from Gol and the third from the commission earned from private players using the USE.
- Success of the USENET units depend upon the success and growth of the MSEs they support. Therefore, part of the revenue stream comes from the MSEs.

- Both the BC and CSC scheme have shown that a fully variable income model is not salutary to the performance of the USE. Without a part fixed income, the USE will be focussed only on their survival and not focus on the growth of the MSEs assigned to them.
- Hence in the first six years, USENET scheme envisages a monthly USENET fee by the MSE to the USENET unit supporting him/her. This fee contains two of the revenue streams of the USE.
- 50% of the monthly USENET fee will be reimbursed by Gol as Gol monthly operating subsidy for every MSE supported by the USENET unit.
- This Gol subsidy will be routed through the MSE who will pay and collect the subsidy from the USENET-SPV to ensure that the subsidy is not an entitlement of the USE but is earned consequent to their performance.
- The Gol subsidy will be directly transferred by the USENET-SPV every month on a fixed date automatically based on minimal online documentation by the MSE.
- The third revenue stream is the commission earned by the USENET unit from private players using the services of the USENET to provide their own products and services to the MSE. This commission is negotiated, accounted, collected and paid to the wallet of the USE after deducting a small %, by the USENET-SPV.
- The fixed USENET fee paid by the MSE will cover all the services delivered by the USE which do not have a commission pay out.
- One of the key complaints of the CSC scheme operators called VLE or Village Level Entrepreneurs is the delay in the payment by the CSC-SPV. Hence Mudra working capital loan is essential for the business continuity of the USENET units.
- Monthly income of at INR 10,000 is reached in this model by Year 2. Note that only 9% of CSCs earn an income above INR 10,000 per month, while 40% earn only INR 3000.

**Investments:**

- The initial investment of setting up the USENET cannot be raised by the unemployed USENET applicants fully. In the context of the economic slowdown and the Covid scenario, 50% of the initial fixed investment will be reimbursed by Gol.
- The entire initial investment in setting up the USENET-SPV and the USENET universal technology platform must be borne by Gol.

- USENET units will be set up as Micro Enterprises so that they understand the challenges faced by the MSEs they service and their own Micro enterprise becomes compliant to set an example for the MSEs.
- USEs will be given Mudra loans for working capital.
- USEs must invest their share to ensure that they have skin in the game and is the basis of the entrepreneurial mindset essential for the success of USENET.

#### **Operating costs:**

- The main operating costs of the USENET units are linked to the provision of online services to the MSEs including internet charges, maintenance and insurance of the hardware, the conveyance costs, financial costs of the working capital loan and the return on capital invested. The net surplus after all the costs is the earning of the USE.

#### **Capacity of USE:**

- The number of MSEs that a single USE can service is assumed to grow gradually from initial start of 15 MSEs. Every year a few more MSEs will be added and a few MSEs may drop out either due to their economic issues or due to lack of connect between the MSE and USE.
- Currently the maximum capacity of a single USE is assumed at around 50 and this is to be validated based on the time demand on the USE. This capacity will depend on the level of automation achieved in the USENET consolidated tech platform

#### **Ten year financial model for USENET units:**

- Table below gives the key assumptions and summary figures on the forecasted impact of USENET (Tables 6 & 7).
- The detailed financial model used to derive the surplus, along with Gov subsidy and ROI for the Government is available online.

**Table 6: Key project assumptions**

| Parameter   | Yr 1 | Yr 2 | Yr 3  | Yr 4 | Yr 5  | Yr 6 | Yr 7  | Yr 8 | Yr 9  | Yr 10 |
|---|------|------|-------|------|-------|------|-------|------|-------|-------|
| No of USEs<br>(in million)  | 0.5  | -    | 0.6   | -    | 0.7   | -    | -     | -    | -     | -     |
| MSEs serviced by<br>a single USE net of<br>attrition - from the year<br>of initiation | 15   | 21   | 26    | 31   | 35    | 39   | 43    | 46   | 49    | 52    |
| New jobs created per<br>MSE in the year (Rs<br>crores)                                | 0    | 0.05 | 0.075 | 0.1  | 0.125 | 0.15 | 0.175 | 0.2  | 0.225 | 0.25  |
| Gol spend on one time<br>capital grant (Rs crores)                                    | 2850 | -    | 3420  | -    | 3990  | -    | -     | -    | -     | -     |
| Gol spend on Annual<br>MSE fee subsidy<br>(Rs crores)                                 | 1350 | 1890 | 3960  | 5058 | 7848  | 9504 | 7056  | 8118 | 4410  | 4914  |
| Total Gol spend   | 4200 | 1890 | 7380  | 5058 | 11838 | 9504 | 7056  | 8118 | 4410  | 4914  |
| Economic value added per job created : Rs. 173000 per year per job                    |      |      |       |      |       |      |       |      |       |       |

*Gol = Government of India*

**Table 7 : 10-Year Impact forecast of USENET**

|   | unit       | 5th year | 10th year |
|---|------------|----------|-----------|
| Cumulative Gol spends   | Rs crores  | 30366    | 64368     |
| Micro enterprises impacted  | Million    | 43.6     | 80.9      |
| Cumulative jobs created   | Million    | 10.34    | 56.91     |
| Cumulative economic value created   | Rs crores  | 216288   | 19071133  |
| Gol spend multiplier = Cumulative economic value<br>added /Cumulative Gol spend |            | 7.1      | 29.6      |
| Gol spend per job creation  | Rs per job | 29360    | 11310     |
| Gol spend per MSE   | Rs per MSE | 6965     | 7956      |

## 3.8 Monitoring and Assessment

The USEs will be service delivery channel for various services to MSEs and would create ease to access services required to run their businesses. In order to achieve the objectives of USENET, a regular monitoring and assessment framework be established at various levels vis-à-vis mid-course corrections during the implementation.

We propose a framework of technological driven monitoring of the USENET through the universal technological platform, thereby making the service delivery of USENET accountable, transparent, efficient and traceable with a technology-driven relationship between all stakeholders.

The monitoring of USENET would be undertaken at National Level, State/UT level and District level. The State/UT and District level monitoring would be undertaken at grass root level for monitoring of last mile implementation.

To create an effective monitoring of USENET at all levels, it is proposed to create regular automated MIS reports at macro level for nation-wide monitoring and micro level for last mile monitoring. In this regard, a suitable software application would be developed by USENET -SPV, which in turn would consolidate the monitoring data received online from State/UT.

For smooth monitoring and assessment at all levels, USENET SPV would be required to generate automated MIS Reports and Monthly Progress Reports. Following responsibilities would be undertaken by USENET-SPV for monitoring and report generation:

- Compulsory online monitoring of all the USENETs through a Monitoring and Assessment module as a part of universal USENET technological platform and interfacing the same with e-Taal for national level monitoring.
- Generation of MIS reports and Dashboards for monitoring growth of the operations and employment of MSEs and providing regular MIS status reports for the MSME ministry, State/UT Government and DDAs
- The Nodal Officer at each level would be given an access to a panel that would display the health of the project at each level. Heads of DDDAs would be given a deeper access of the health of USENET units lying within the jurisdiction of the district.

- The State/UT and District teams under their respective State/UT and District administration would be required to update the reports and present the same to their respective officers on regular basis.
- The National Team along with USENET SPV would provide in depth gap analysis reports on services delivery trends on monthly basis and suggestions to all stakeholders for making USENET a self-sustaining model.

**At national level the rollout would be monitored & reviewed by a steering committee constituted by MSME Ministry.** The monitoring at State/UT level would be undertaken by a State Level Committee under the Chairmanship of the MSME state minister which will be supported by State/UT Level Resources and USENET SPV. The monitoring at the district level would be undertaken by DDAs supported by District Level Resources.

To create an effective framework of assessment at various levels, the implementation of USENET needs to be assessed during and post implementation of the network. It is envisaged that USENET SPV would undertake suitable impact assessment for assessing the rollout of the scheme during and post implementation of scheme.

The State/UT and District administration machinery would be required to support these assessments in terms of infrastructure support, inputs and direction of the assessments. It would be desirable that USENET SPV would hold brain storming sessions with the State/UT and District administration to chalk out an effective and insightful plan of assessments.

**Periodic Field Level Assessments:** It is proposed to assess the rollout through regular and periodic field level assessment during the implementation phase. The assessments would be done by State and District level resources with suitable geo-tagged application for the assessment. State/UT Administration would be required to monitor the assessments conducted by SLRs through regular field visits.

# 4

## Benefits of USENET to government and society at large

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### a. Supporting migrants who have returned home and reducing return migration

The COVID-19 pandemic has seen the largest movement of workers and families in independent India since Partition. Reverse migration from large cities to smaller towns and villages reached its peak in May 2020. Since then, workers have started returning to cities, even if they have safety concerns in doing so, because the employment situation in the villages is dire. Rural surveys indicate a large unmet need for MGNREGA work, a sure indicator of underemployment.

Under these circumstances, USENET can not only provide direct employment opportunities for educated youth, but it can also provide the crucial support needed to revive rural and small town microenterprises. **Government schemes announced for COVID relief, such as loans to weavers and other artisans, can reach a larger number of beneficiaries via USENET.**

### b. Formalisation and adoption of digital technologies

**USENET can help promote the spread of digitisation in the MSE sector thereby bringing these enterprises in to the formal system where they can better avail institutional credit, subsidies and other assistance.** A rise in formalisation has positive externalities for the rest of society as trust in the formal system grows when entrepreneurs recognise the benefits of registration and formalisation. Such trust is, at the moment, lacking in the economy, resulting in welfare losses due to higher transactions costs, exclusion from credit and other factor markets and failure to carry out mutually beneficial transactions due to over-reliance on personal relationships (resulting from lack of trust in the formal system).

### **c. Increased tax revenue and welfare**

A rise in incomes at the bottom of the enterprise distribution will have large effects on poverty alleviation because the vast majority of microenterprises earn incomes close to the poverty line. Second, in the middle to upper end of the MSE distribution, more enterprises will come into the GST net thereby increasing tax revenue.

### **d. Gathering real-time data on microenterprises**

Accurate, real-time data on the informal sector has never been available till now in India. As a result, GDP calculations rely on formal sector proxies to estimate informal sector growth over benchmark years (the years of the NSS informal enterprise surveys, last one being 2015). Relying on such proxies is not a good thing because it does not give a true picture of growth in the informal sector, particularly during exceptional periods such as the COVID-19 pandemic (and earlier during demonetisation). At such times, the informal sector is usually hit harder, so growth estimates that rely mostly on formal sector data are misleading.

**USENET can help create a database of real time statistics on employment and value-added in the microenterprise sector.**

# 5

## Learning lessons and avoiding potential pitfalls

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“ *An entrepreneurial model may be more sustainable than employee or volunteer model and remunerative incomes are key to attracting and retaining quality entrepreneurs.* ”

Existing service delivery models such as Banking Correspondents (BCs), Common Service Centres (CSCs operated by village-level entrepreneurs), Anganwadi and ASHA workers provide various lessons for the successful creation and operation of USENET.

Two big learnings are that an entrepreneurial model may be more sustainable than employee/volunteer model and that remunerative incomes are key to attracting and retaining quality entrepreneurs.

Learnings from BC model:

- Entrepreneurial quality and approach required.
- Single bank controls the destiny of BCs. Instead, multiple incomes from multiple sources required
- Capital costs are high. Grant model will cut the capital related cost.
- Regulatory control should be minimal and smart -allowing needed level of customer support and grievance redressal but not burdening the entrepreneur with restrictions that prevent availing of profitable opportunities.
- Assuming the BC is on a mobile model, he/she needs 1.12 lakhs of revenue to make Rs 5,000 per month or he/she needs 1.72 lakhs revenue to make 10,000 Rs per month.

Learnings from AWW / ICDS scheme

- USE is not to be conceived as a government employee because the resultant mindset is detrimental and security and employee benefit seeking.
- Do not conceive a single revenue stream like in AWW.
- Government cannot manage the system, it can create and facilitate.
- Remuneration must be significant to prevent attrition.
- Corruption must be eliminated through third party validation.
- Government cannot take responsibility for continuous training.

A Common Service Centre impact assessment study finds the following success factors:

- Viability and long-term sustainability of CSCs is aided if they provide a balanced mix of G2C and B2C services leading to the success of VLEs.
- Income is enhanced if reliable power and Internet are available, if CSC is the only source of income for VLE , if VLE is more educated, if VLEs have prior computer knowledge, if suitable training is given to VLE, if promotional campaigns are higher.

In addition to learning from the BC and CSC as well as Anganwadi and ASHA models the following is to be emphasised:

- Best practices as well as productivity enhancing tools can be propagated through the USENET system.
- The Udyog Sahayak is the “last-mile person” who links the micro-entrepreneur to relevant resources – they do not necessarily provide the expertise themselves.
- USENET assets can also double as educational tools.
- Withdraw from the scheme in 3-4 years will entail handing back of the assets. This can also be linked to performance.
- USE is itself an enterprise, so there will be co-learning
- Just in time learning will be available via online materials (videos for e.g., as developed for Anganwadi workers)

# 6

## Conclusion

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Revival and growth of the Indian economy after the COVID-19 pandemic will depend crucially on the performance of the MSME sector and in particular on the millions of nano and microenterprises which provide livelihoods to over a hundred million workers. Beyond the pandemic, the Indian microenterprise sector has chronically suffered from the proliferation of dwarf firms and an inability to scale-up. MSME policy thus needs to focus urgently and sharply on the problem of scale-up at all levels. This means enabling single person businesses to hire one or two workers, encouraging 4 or 5 worker businesses to grow and employ 10 people, assisting larger firms, with 15 or so employees to cross into the formal sector, and so on.

The Udyog Sahayak Enterprise Network (USENET) proposed here aims to create such an enabling environment for microenterprises. This is an entrepreneurial model wherein educated men and women will be supported by the Government to set up USEs. USEs will work with a stable portfolio of microenterprises, understanding their constraints and providing a bouquet of services and solutions tailored to their needs.

We propose a viable revenue model for USEs that will make them independent of government support in six years. In addition to direct job creation via setting up of USEs, the principal benefits of USENET are:

- Indirect job creation of millions of new opportunities in the microenterprise sector
- Scale-up and increased labour productivity
- Digitisation and formalisation
- Real time data on a crucial sector, that is missing thus far

USENET is an out-of-the-box solution that can be a game-changer in the MSME ecosystem.

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