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'Indian SMEs ready to take off'

Chandrakant Salunkhe, president, Small & Medium Business Development Chamber of India, talks to Sumit Sharma about the problems the sector has been facing and the solutions his organisation has sought

Over the past decade or so how have SME exports grown? Which segments among SMEs lead in exports and overseas presence with JVs or offices overseas?

Exports from the SME sector have witnessed unprecedented growth since the turn of the new millennium. This has mostly been fuelled by the performance of sectors such as garments & knitwear, leather, auto-components, drugs & pharmaceuticals, processed foods, gems & jewellery, information technology, etc. India's export has grown at a healthy rate in last couple of years. It has increased by almost \$160 billion last year and is expected to touch \$500 billion by the end of 2013.

Manufacturing accounts for most of SME exports. India exports manufactured goods worth \$20 billion of which SMEs contributed \$4.5 billion in 2010. SMEs contribute to 95 per cent of all industry establishments, 34 per cent of exports and 35 per cent of manufacturing sector.

What can India do to help SMEs increase and diversify exports? Which segments can potentially be leaders?

The government has launched a new scheme - 'Buyer's Credit' facility - under the National Export Insurance Account (NEIA), to help exporters venture into new markets and help them diversify exports. The facility can be used by sovereign governments and government-owned entities overseas to finance import of projects from India on deferred payment terms. The project exports include civil construction, infrastructure projects, turnkey projects, process and engineering consultancy.



The manufacturing sector leads here, followed closely by IT, garments & knitwear and leather. There is potential for export of processed food, as there is a huge demand for such items in Europe and other western countries.

Are there any policies or issues that hamper SMEs from realising their full export potential?

There are various issues the government needs to pay urgent attention to, so as to help SMEs realise their full potential. First, with the introduction of a base rate, banks have abolished concessional rates for exporters, which was available under the prime lending rate regime. The export credit rate in India is above the international benchmark. Second, banks should consider lowering the high service charges and incidental expenses on SME exporters. Export Credit Guarantee Corp should cover 95 per cent of the default amount, as was being done during the stimulus package. Also, WTO agreements have hurt SMEs, as these pacts have reduced export subsidies and tariffs. Also, transaction costs of exports are still high and should be brought down.

We also note the non-availability of

dollar loans for export finance. Since February 2010, when the RBI announced a reduction in interest rates for foreign currency loans to LIBOR (London Interbank Offered Rate) + 2 per cent, banks have been refusing PCFC (Pre-shipment Credit in Foreign Currency) loans to the export sector, particularly to MSME. Prior to reductions, PCFC loans were extended at interest costs of 3.90 per cent but with the refusal of banks to provide dollar loans at the said rates, the credit costs (in rupee loans) have more than doubled.

What does India need to do, to be as prolific as, say, China in exporting almost every household and daily use items to the West?

The main thrust should be development of clusters in rural areas where cottage and micro industries could produce household items to meet international standards. For this, the government should help them with finance and technical assistance to install latest machinery, processes and make available necessary raw materials at affordable prices. There should also be a focus on mass production and quality control.

How much does rise in domestic interest rates and currency fluctuations affect SME exports?

SME exporters are small and many of them are not aware of the various hedging mechanisms to take care of currency fluctuations. Therefore, many lose their profit due to currency fluctuations. The increase in interest rates also affects their manufacturing costs and makes them uncompetitive in exports.

Has the sector overcome the global economic slowdown of 2008-09 that may have impacted exports to the West?

When compared to other countries, India's SMEs have weathered the economic slowdown well and are at the take-off stage now through innovative products and services. ♦