FISME's views on

Measures to boost Exports especially from MSMEs

A. Immediate intervention sought

i. Replacement of DEPB with Duty Credit Advance Licence Scheme (proposed)

In a highly competitive world, it is extremely difficult to export a product in international market with local taxes. All countries have tax reimbursement schemes for exports. The phasing out of Duty Entitlement Pass Book (DEPB) scheme has had a huge impact on exporters' ability to compete. The downfall of exports could be directly linked to DEPB phase out. Especially in case of MSMEs, the Advance Licence route is not workable as smaller quantities cannot be imported. The brand rate route of Duty Drawback scheme is too cumbersome and time consuming for them claim refund. There is an urgent need to find a suitable replacement for DEPB.

We propose a Duty Credit Advance Licence. It is similar to Advance Licence where quantity and both import duty element is mentioned. In the proposed scheme, instead of quantity, an exporter is entitled to import any item duty free equivalent of the total duty element suffered. It could also be made transferable. It is far more transparent than DEPB. The main features of the scheme are enclosed as Annexure-A.

ii. Inland Freight subvention

North Indian states – housing export clusters of engineering and auto components, leather, textiles and garments, handicrafts, furnishings etc, suffer from excessive pricing of inland haulage charged by Indian Railway's monopoly organization CONCOR. A Regulator may be needed to fix the charges as in case of telecom or electricity transmission to arrive at a competitive and fair freight. That is the fair which should be charged from exporters. Should the government needs to support OCNCOR, it could provide budgetary support.

iii. Market access Support: Pharmaceuticals

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Though Indian pharma companies have huge potential to make inroads in foreign markets, the excessive registration costs are a big deterrent for smaller companies. Support for registration charges would reduce the sunk cost of exploring new markets and help expand Indian drugs and pharma supplies.

B. Export Support Initiatives:

i. Broadening MSME exporters Base

Mega MSME Export Support Programme

- A structured export support programme on the lines of CBI-Netherland; President's Obama's flagship National Export Strategy-NEI
- Identification of export worthy MSMEs, but not exporting in targeted sectors such as Engineering, Chemicals/ Pharma, Electronics, Textiles, Leather etc.
- Interventions:
  - Deputation of short-term experts at MSMEs for training, handholding and capacity building for human resources; systems development
  - B2B linkages through (overseas) market development offices & Trade fairs/ delegations
  - Export finance and back office support

ii. Developing market intelligence

Creation of Market intelligence challenge Fund to finance:

- Product specific studies
- Country specific studies
- Short term specific interventions to address impediments such as for Logistics, Commercial, TBTs/ NTBs; Standards etc.,

iii. Developing SME Marketing arms

a. Establishing Export Development Companies (EDCs)
   - A Pvt. limited co. floated collectively by at least 10 MSMEs or cluster units (of same/ similar products/customer segment/country specific or by an association)

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- ¼ operating cost to be borne by group of MSMEs, ¾ by govt. for three years up to a Max. Rs. 50 lac

b. Trading houses for SMEs

- Incentivize Trading Houses in Private sector for exports of MSME products especially labour intensive sectors with competencies of market development and international trade.
- Vitalize public sector entities like NSIC, PEC etc. through disruptively innovate organizational changes-inducting beneficiary participation in excess of 50%.
- 5% export incentive could be given to them towards operational cost

iv. Initiative 4: Development of forward linkage

Capacitating Industry Associations to set-up offices in select markets (e.g. ASEAN, Africa...)

- Permanent outposts in market of interest
- Supply of Political-Economic-Market intelligence from specific market segment
- Identification of norms, standards & procedures
- Creation of linkages with institutions, BDS/ consultants...
- Facilitating trade delegations, participation in trade fairs, setting up companies and hiring
- Having space to incubate SMEs in initial entry
- ¼ cost to be borne by MSMEs, ¾ by govt. for 3 years (max. 2 crore)

C. Niryat Bandhu – a multi-ministry grievance redressal mechanism

- An institutional mechanism to address the issues of exporters related to DGFT, Ministry of Commerce, Ministry of Finance and States etc.
- The mechanism could be two tiered: regional and national.
- Associations including of MSMEs, should be member of the group
- Affected exporters could enlist their problems with Niryat Bandhu directly or through associations. The cases could be plead by exporters themselves or through their association representatives,

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- DGFT/Jt DGFTs are to chair the meetings. Agenda and minutes of the meetings could be placed in public domain.

D. Rejuvenating Board of Trade

- Board of Trade has become largely dysfunctional. There is a need to revive and rejuvenate the Board to discuss export strategy, continuously monitor progress of execution and suggest course correction.
- Surprisingly, in spite of contributing towards half of India's exports, SME bodies are seldom given representation. SME bodies should be given due representation.

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Annexure

Duty Credit Advance Licence

1. We may call the scheme as 'DCAL' (Duty Credit Advance Licence)
2. To be Issued on post export basis
3. CIF Value of advance licence should not exceed 75% of FOB Value
4. Should be freely transferable
5. Basis of calculation as per 1-I-O norms
6. Import of any of the item listed in advance licence to the extent of duty credit is permissible irrespective of CIF Value
7. Scheme is WTO compatible as it directly correlate the use of input in the export product but flexibility is given due to post export basis scheme to import item(s) required after post export
8. Basis of operation of scheme
   Item of export : X
   Fob Value : Rs1000
   Qty of Export : 1 Unit

Items Allowed as per I-O norms	Qty	CIF Value	Rate Of Duty	Amount of Duty
1 O	0.800kg	RS. 500	20%	100
2 P	0.100kg	Rs. 100	5%	5
3 Q	0.100kg	Rs. 150	10%	15
4 R	0.100kg	Rs. 50	15%	7.5
	1.100Kg	Rs. 800		127.5

Hence Duty Credit available for utilization is Rs.127.50 for input of any or all item.

The Duty Credit Scheme ensures no variations in receipt of export benefits taken into consideration while calculating export price. The fixed Duty credit and/or cif value is the limiting factor. At the same time flexibility is allowed to import one or all the item of exempt material so that benefits of duty on exempt material import of which is not possible/feasible can be availed by import of other item.

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