

## How the Budget can bring a smile to SMEs

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One sector that would no doubt be banking on the Budget to provide the much-needed economic stimulus is that of the small and medium enterprises (SMEs), observes Anurag Jain, Partner, BMR Advisors.

“The pressures of ever-increasing competition, shrinking margins, increasing mechanisation and withdrawal of protectionism have left the SME sector severely affected in the current slowdown,” he adds, during the course of a recent pre-Budget interaction, over the email, with Business Line.

The measures should ideally be two-pronged, says Jain. “They should be aimed at ensuring easier availability of funds to the SMEs, and should also help in increasing their competitiveness by extending fiscal incentives.”

While it would be unrealistic to expect the Finance Minister to accommodate all of the demands of SMEs in this year’s Budget, it is essential that some concrete steps are taken to alleviate the problems faced by the large number of SMEs, which form a significant part of the economy, he argues.

Excerpts from the interview

### **On funding**

SMEs face difficulty in accessing funds from banks and financial institutions at a reasonable cost on account of the tough requirements for security that are insisted upon. This naturally leads to the SMEs not being able to take up capacity expansion or modernisation, and also leads to erosion of cost-competitiveness.

SMEs are, thus, unable to compete in the current liberalised environment. A comprehensive policy to effectively deal with this problem would be surely welcome. Another possible method to at least partially tackle this problem would be to create a specific Technology Fund to help SMEs acquire newer technologies.

The Finance Minister can also consider increasing the support given under Marketing Development Assistance, given the fact that the existing assistance is grossly inadequate compared to the substantial value of exports. The allocation could be possibly based on a percentile of exports for the last year as opposed to a fixed amount.

### **On the direct taxes front**

While the debate on the merits of extension of tax holidays to various sectors continues to rage, the Finance Minister should seriously consider continuing/ extending such tax incentives for at least the SMEs. Thus, for example the tax holiday enjoyed by the export-oriented units should be continued with respect to SMEs for a few more years to ensure additional funds in their hands for expansion and modernisation.

Another welcome step would be to raise the monetary limits provided for auditing and maintenance of accounts for small enterprises under Income-tax Act. This would reduce the compliance cost for SMEs in addition to freeing up management time to concentrate on growing the business. It may also be useful to incentivise foreign investment/ debt in the sector to enable units to hire better managerial talent, and to effectively use modern technology.

### **On the indirect taxes**

The influx of cheap imports has added to the woes of the SME sector. With such cheap imported goods flooding the market, there are no takers for the comparatively higher-priced Indian goods. Perhaps a protectionist policy towards SMEs needs to be carried on for a little while longer. The Finance Minister could consider reduction in excise duties for SMEs, as well as increase the import duties on competing foreign goods.