

Kelkar Committee may put SME Software Exporters out of Business: Skoch

New Delhi: 11 November 2002. The Kelkar Committee recommendations regarding the removal of benefits under 10A/10B, when implemented, will hit the Small and Medium Enterprises (SMEs) software exporters. The SME software exports clocked an impressive 41% growth in 2001-2002 compared to only 20% growth of overall industry amidst a slowing down environment. With removal of such benefits nearly 40% of the total 3300 SME software companies will be driven out of business over next two years, says a report by Skoch Consultancy Services. "SME units already face a problem of market access along with paucity of capital. Due to the 10A/10B benefits, they were in a position to somewhat fund their business through incremental investable resources thus generated. Now even that is proposed to be taken away," says Sameer Kochhar, CEO of Skoch Consultancy Services.

This move may also result in a direct job loss of as much as 100,000, and approximately 400,000 indirect jobs. SMEs are found to be the largest employer amongst all companies engaging 247,356 people compared to only 125,930 employees of the large companies, as per an earlier "Skoch Study of SMEs in Software Technology Parks of India (STPI) Ecosystem," released in August 2002. With the overall growth in the SME software exports, they had an export potential of \$14 billion by 2005 – this will go lower than \$8 billion in case 10A/10B benefits are withdrawn. SMEs have always been cash strapped with fewer means of scaling; they need more incentives and breaks rather than faced with withdrawal of tax holidays.

It is estimated that with SMEs have the potential to grow faster than the overall industry growth rate, but only if there is continuation of 10A/10B benefits. Equally important is the removal of mandatory custom bonding of units. The report recommends, among other things, the availability of a marketing fund to the tune of 5% of export value in the previous year to be given as cash incentive to SME units; continuation of 10A/10B benefits even in case of change of beneficial ownership of the company; and bringing ITeS definition of CBDT in line with WTO-ITA, besides including BPO as a new area.

The report cautions, that in case government does go ahead ignoring the benefits to SME software exporters, it would only accelerate the movement of Indian companies to rather attractive destinations like Singapore, which is offering single window clearance along with a simplified equal participation in equity up to Singapore \$800,000. Such ventures receive help in patenting business processes and methodologies, tax holiday on a case to case basis, funds and subsidies for overseas expansion through their international expansion initiative and reimbursement of expenses incurred on training of the local staff. Keeping this in view, nearly 200 Indian companies have already moved to Singapore and the trend is only likely to get accelerated.

About Skoch:

Skoch is an independent industry analysis and strategy consulting company based out of Gurgaon. It engages with several Fortune 500 as well as SME companies world-wide and carries out periodic studies and research in the Asia-Pacific region. For further information, please contact skoch@skoch.org