Mr. Chairman,
Distinguished delegates and friends:

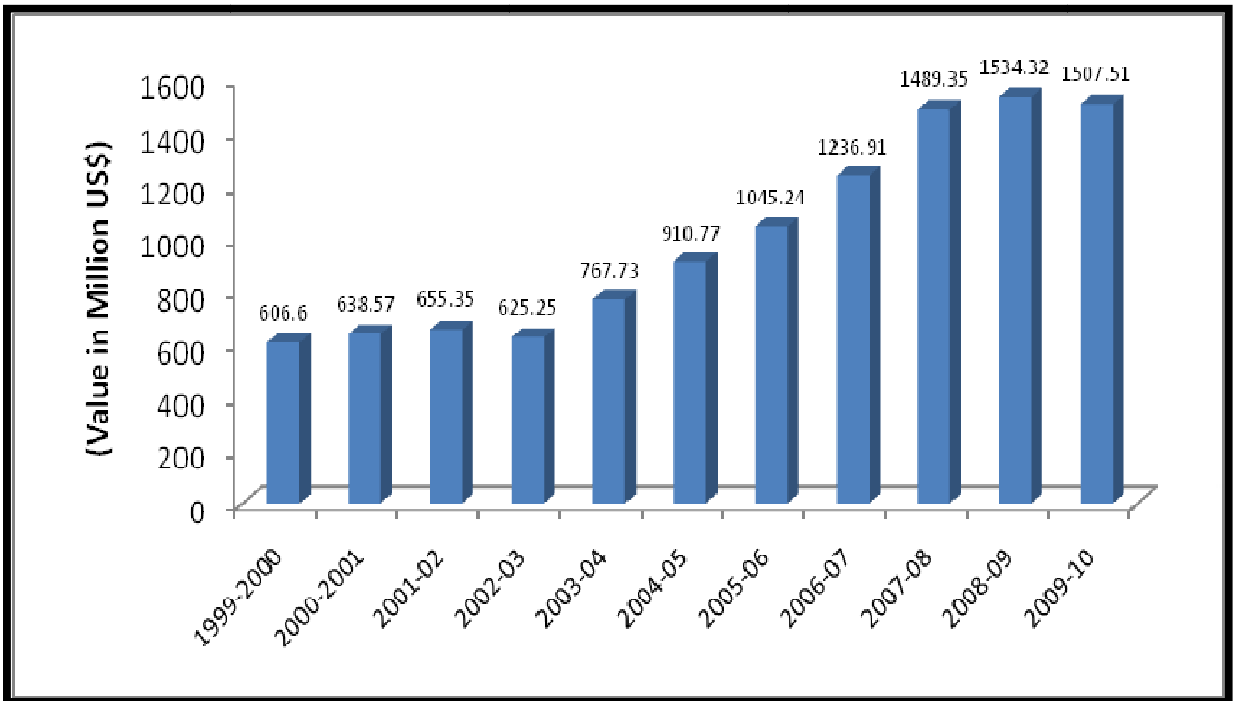
It gives me immense pleasure to have the opportunity to address this august gathering in this session on ‘Increased Competitiveness through Innovative Financial Mechanisms’ focusing on a case study on Manufactured Goods.

The financial market turmoil in 2007 and 2008 had led to the most severe financial crisis since the Great Depression and left large repercussions on the real economy. The Market sentiment and the demand fell to new lows.

Although India could scrape through the long term ill effects and speedily bounce back from the crisis primarily due to its self reliant agro based economy, it was affected, when it came to export trade.

SME sector in India manufactures diverse range of products, estimated to a staggering over 8000 distinct products. The sector has over 10.5 million units in both manufacturing and service enterprises. SME sector contributes to 40% of the manufacturing sector valued at US$ 300 bn, 34% of the total exports and provides employment to around 35 million people.

The export performance by the leather sector, largely representing by SMEs was affected only by a small margin, thanks to its traditional focus on European markets. The fluctuation in the international currencies like US$ and the Euro however dampened the sentiment. It was a new learning process for the industry about the benefits of Globalization on one hand and the cascading card house effect on the other, when the large economies got affected.



Footwear exports growth in the last decade

There went a change in the buying patterns, quality and quantities, besides scamper for new export markets, as traditional buying nation were affected. Indian footwear sector's reliance on the comparatively lesser affected European market blunted any serious dent in its performance, but awakening it for the preparedness against any such steep trade variances in the future.

The financial turmoil changed the lending pattern by banks, who in their process of risk minimization, insisted of stiffer collateralization. While the big corporate and the larger MNCs rallied back faster with Government and institutional supports, the affliction lasted longer for the SMEs, particularly because higher cost of trade finance in the post crisis scenario.

The Government of India acted swiftly, by bringing in an interest subvention on rupee credit on exports bringing in some relief to the exporters. "Performance and Credit Rating Scheme" for the Small Scale Industries, by, six rating agencies CARE, CRISIL, FITCH, ICRA, ONICRA and SMERA helped the banks to assess the potential of their clients better.

With infrastructure costs heavy, the leather industry has to jostle with new generation IT and software sector for land and resources, the latter often emerging the winner. The Government embarked on supporting the industries endeavor in establishing dedicated leather product clusters in different parts of India on liberalized terms. To promote modernization and expansion of the manufacturing sector, promotional policies including assistance in procurement of machinery is encouraged by the Government.

Trade promotion and facilitating agencies like the Council for Leather Exports assist in organizing exhibitions abroad, participating in leading shows around the world, organizing BSMs and helping industry access experts and expertise from around the world, besides being the interface between the industry and the Government in realizing favorable policies for the industry.

Designated financial institutions like the Small Industries Development Bank of India and most nationalized banks, including rural co-operative banks have specially crafted policies to assist the growth of the SME sector.

Several institutions like the Central Leather Research Institute, The Government College of Engineering & Leather Technology, Footwear Design and Development Institute, Freya, National Institute of Fashion Technology etc. help in providing fashion and technology inputs required by the industry.

Under the Market Access Initiatives special emphasis has been laid on covering new markets, particularly focused on Latin Americas and Africa.

The industry being a large employment provider besides being an important export segment has been declared a 'Focus Sector' by the Government, thus providing a continued support to the industry.

Challenges:

Support in the Infrastructural, financial, technological and marketing areas can assist the sector to grow vigorously. While it may not be difficult for a large steel mill to obtain tens of thousands of acres land it may still be difficult to obtain an acre for an SME industry. The same can be said for all other above stated resources. Clusters have been an immense help in the growth of the sector, wherever tried. Such effort should be promoted.

Whenever the banks and financial institutions shy away from the sector, private lenders entrap the sector with exorbitant interest rates rendering to the latter's fatality. While the corporate sector gets debts restructuring and interest waivers from the banks, the SME sector seldom enjoy any such benefit during any crisis. Adequate fund flow at affordable borrowing terms and rationale collateralization are a must for the survival of the sector.

ITC can work on national and international issues concerning tariff barrier and trade barrier harmonization through national representation at the WTO. It can assist by procuring and sharing the best effluent management techniques and assist in attaining ideal carbon credits.

To sum up I would like to end with "SMEs are the life line of productivity with lesser investment and high employment potential and should be promoted globally."