Incentives for services exports likely

by Rakesh on September 9th 2010 and filled under Small and Medium Enterprise (SME)

After giving incentives mainly to manufacturer-exporters in the recent Foreign Trade Policy review, the Commerce Ministry will now rationalise the Served From India Scheme (SFIS) to give a helping hand to the $100-billion services exports sector. The Commerce Secretary, Dr Rahul Khullar, said, "It (the rationalisation process) means taking away incentives from some sectors and giving it to others." The SFIS, the main incentive scheme for the services exports sector, seeks to create a respected ‘Served From India' brand, instantly recognised globally. To expedite the rationalisation, the Ministry is in the process of finding out the important service exports sectors that are struggling. Inputs from the Services Exports Promotion Council (SEPC) and sectoral experts are being sought. "The exercise will be completed in a month. We will announce this as part of the package. It will be immediately incorporated in the Foreign Trade Policy," Dr Khullar said. As a first step, the Ministry recently excluded the telecom sector from SFIS benefits. SFIS provides Duty Credit Scrip equivalent to 10 per cent of free foreign exchange earned during the current financial year. This scrip can be used to import capital goods. However, this benefit is non-transferable, except within a group company. Also, these imports should relate to any service sector business of applicant. Dr Khullar said that due to fiscal constraints and the huge size of services exports, there is not much scope for providing major incentives. "Services exports are worth around $100 billion. Even if I were to give them an incentive of just one per cent, that would mean I have to find $1 billion or around Rs 5,000 crore for services. I don't have that sort of money to provide incentives for them. Notwithstanding that we do everything we can for services exports." He said the Government is in touch with embassies abroad to find out if services exporters are facing any obstacles. A reflection of this is the brouhaha over the US visa fee hike, he said, adding that the Government is actively interacting with services exporters to respond to their problems. Services exports grew from $90.1 billion in 2007-08 to $101 billion in 2008-09, but fell to $93.79 billion in 2009-10 due to the global slowdown. According to SEPC, the service export sectors that fared reasonably well were software, travel and tourism, transportation and insurance, but those that were hit due to the global slowdown included business and financial services. Experts say SFIS is an incentive only for service providers who need to import capital goods, but it does not benefit professional services providers as they generally do not need to import anything in connection with their services exports. Therefore, the Duty Credit Scrip should either be made transferable or professionals should be allowed to offset the scrip against their costs in getting knowledge and skill enhancement inputs. Similarly, the Government can also relax norms to allow companies that have services and non-services business to use the Scrip for non-services business.