

Prolonged war to hit Indian MSMEs hard: FISME chief



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Small businesses may witness disruption primarily in the supplies of polyester and chemicals

A large number of small businesses will be severely impacted if the war in Europe continues for another week, a lobby of Indian small enterprises said on Wednesday. In an interview, Federation of Indian Micro and Small & Medium Enterprises (FISME) president Animesh Saxena said that freight rates have gone up 10-15% in the past week of Russia's Ukraine invasion, and the raw material costs are expected to shoot up as well.

According to commerce ministry data, India's bilateral trade with Russia stood at \$8.1 billion in FY21, with Indian exports of \$2.6 billion and imports of \$5.5 billion.

"About 40% of the exports from India are from MSMEs. We have already started seeing the increase in the freight, sea as well as air, which were already almost four times from pre-pandemic days," he said.

The FISME president said that as the war intensifies and more cargo flights avoid conflict areas, transit and delivery times will increase and freight rates will go up.

Export sectors that will be most impacted include textiles, apparels, electronic goods, plastic and metal components, Saxena said. Other major exports to Russia include pharmaceuticals and machinery.

In terms of raw materials, small businesses may witness disruption primarily in the supplies of polyester and chemicals, driving up their prices. This comes in the backdrop of input costs of products from steel to cotton yarn remaining high, with the geopolitical crisis likely to make it worse for SMEs.

On payment issues due to some Russian banks cut out of Swift, the world's most widely used international payments network, Saxena said, "The payment crisis has already started. We are in touch with the government on the payment crisis specially and other safety issues."

"We are seeing how the things unfold. If the things are sorted out soon, it's OK; otherwise, it (prices) might spiral up."

MSMEs have been a major focus for the government amid the pandemic. Along with several measures to ease the regulatory framework and business environment for small businesses, the government in 2020 rolled out the Emergency Credit Line Guarantee Scheme (ECLGS) to support pandemic-hit businesses with the primary focus on MSMEs. The scheme was launched with an initial corpus of ₹3 trillion, but it has now been expanded to ₹5 trillion.

Saxena said that although these initiatives have supported MSMEs, the government should bring about a policy focus to formalize micro enterprises which are largely unorganized, with very little or no institutional financing at all.

Small enterprises are also concerned about any likelihood of sanctions or blockade by the US and European Union as a result of their continued trade with Russia, Saxena said.

On the broader situation of MSMEs in the country, he said that the sector has so far witnessed a recovery and was anticipating a faster pace of growth as the economy revives, but noted the worrying rise in raw material costs.

Calling for regulations regarding the pricing of raw materials used in industries, he said that in the past one year, cotton prices are up 80%, forcing several businesses to shut shop. He added that the budget announcement of a 35.4% increase in capital expenditure should be helpful for the sector in the long run. The Union Budget for FY23 pegged a capital expenditure of ₹7.5 trillion for the upcoming financial year, against of ₹5.54 trillion in FY22.