Credit for exporters

Interest Equalization Scheme must be extended

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India's exports touched a record $776 billion in 2022-23, almost double the figures from 2013-14. Despite this impressive growth, exporters, particularly MSMEs, face significant credit challenges.

The Interest Equalization Scheme (IES), which offers subsidies to exporters for pre- and post-shipment rupee export credit, provides an 'interest equalisation rate' of 2 per cent for certain manufacturers and merchant exporters, and 3 per cent for MSME manufacturers.

However, the scheme is set to expire. The recent memorandum of understanding (MoU) signed between FIEO and Stenn, a global online platform for financing SMEs, highlights the growing need for liquidity among exporters. While Stenn offers financing at 6 per cent to 12 per cent annually, these rates are higher than the subsidised ones under the IES.

The Federation of Indian Export Organisations (FIEO) is advocating a five-year extension of the scheme. Data from the Ministry reveals a significant gap between the growing export potential and the availability of affordable credit, asserting that extending the IES will help Indian exporters remain competitive globally by bridging this gap and ensuring they have continued access to affordable financing.

EXPORT CREDIT GAP

A significant factor impacting the export sector is the gap between exports and the credit available to support these activities. According to data from the Ministry of Commerce and Industry and the Reserve Bank of India (RBI), while India's exports stood at approximately $776 billion for FY23, the packing credit disbursed was a mere $50 billion, representing 6.44 per cent, with an outstanding balance of only $19 billion, or 2.45 per cent, as of March 31, 2023. This disparity highlights a critical issue: exporters, particularly MSMEs, are not receiving the financial support they need to fuel their export operations. The limited access to export credit not only hampers growth but also puts India's ambitious export targets at risk.

The extension of the IES would primarily benefit MSME exporters. MSMEs account for over 50 per cent of the country's

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production and a significant portion of its exports. The IES, by reducing the cost of credit, ensures that MSME exporters can remain competitive in global markets.

The scheme is not limited to MSMEs; it also supports manufacturers and merchant exporters from identified sectors. Extending the scheme would benefit key industries such as textiles, pharmaceuticals, engineering goods, and electronics. The textile industry, with $34 billion exports in FY24, is projected to grow significantly, aiming to reach $350 billion by 2030, of which $100 billion is the projected export.

Pharmaceuticals exported $27.85 billion in FY 2023-24, while engineering goods, accounting for about 25 per cent of India's global exports, are major foreign exchange earners. Electronics exports are expected to touch $120 billion by FY26, making these sectors crucial beneficiaries of the scheme's extension.

By providing them with affordable credit, the government can ensure that these industries remain competitive, enabling them to tap into new markets and expand their global footprint. Additionally, with global supply chains undergoing transformation and India positioning itself as an alternative manufacturing hub, extending the IES would give Indian exporters the financial support they need to capitalise on this opportunity.

As India seeks to enhance its position in global trade, providing exporters with the financial tools they need through the IES is a critical step towards ensuring sustainable finance and inclusive sector growth.

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