

# Interest subsidy plan for exporters up for revamp

## Move after FinMin sought justification

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With the finance ministry seeking “justification” for continuing the Interest Equalisation Scheme (IES) for exporters, the commerce department is exploring ways to revamp it to ensure the scheme meets the objectives outlined during its launch nine years ago.

The scheme is currently set to expire on December 31.

IES is an interest subvention initiative under which banks offer reduced interest rates to exporters on their pre- and post-shipment rupee export credits. Lenders are then compensated by the government.

Launched in 2015 for five years, the scheme aimed to alleviate stress among exporters, particularly in labour-intensive sectors, as well as micro, small and medium enterprises (MSMEs). Since then, it has been periodically extended.

“We are working on a revamped IES that more convincingly demonstrates due diligence regarding labour intensiveness and ensures benefits are properly passed on. Overall, the goal is to determine whether the scheme is serving the objectives outlined by IES,” said a source familiar with the matter.

The finance ministry has been of the opinion that the scheme enhances the profitability of exporters rather than their competitiveness, according to another source.

As a result, the scheme’s effectiveness is being reassessed, considering factors such as the overall cost of finance for exporters, utilisation of available funds, the correlation between export realisation and the subvention provided, and its impact on the growth of loans for exporters in sectors covered by the scheme.

Exporters, particularly MSMEs, believe the scheme has been helpful because credit costs for them are quite high. In some cases, the cost of credit has posed a bigger concern than freight costs.

Ajay Sahai, director-general and chief executive officer of the Federation of Indian Export Organisations, said that before making a decision on the extension, it will be crucial to take a holistic view.

“One should examine international key rates — India



## OVERHAULING EXPORT SCHEME

■ Launched in 2015 for 5 years, the scheme aimed to alleviate stress among exporters

■ Commerce department plans IES revamp to ensure objective alignment

■ Scheme offers interest relief on pre- and post-shipment export credit

■ IES aimed at MSMEs, labor-intensive sectors to ease export costs

■ Recent changes cap benefits, limiting MSME exporters to ₹50 lakh annually

■ Over 75% of beneficiaries under the scheme were MSMEs in FY24

vis-à-vis other countries — and conduct a comparative study. It is essential to consider not only profitability but also whether IES mitigates the disability factor faced by exporters. In this case, the scheme helps insulate against the high cost of credit. Overall, it is beneficial for exporters and should continue,” Sahai said.

However, over the past year, the benefits under the scheme have been diminishing. Initially, the scheme applied to 416 identified tariff lines and to all MSME manufacturer-exporters across all export lines.

In June, the government extended IES until September 30, but it was limited to MSME exporters, excluding other exporters covering 410 tariff lines.

The scheme was then extended for another three months, but fiscal benefits for each MSME, on aggregate, were capped at ₹50 lakh for 2024-25 until December 2024. Previously, benefits to individual exporters were capped at ₹10 crore per annum.

The commerce department has also been advocating for the inclusion of both MSMEs and non-MSMEs with the scheme’s extension.