



**KHAITAN  
& CO** ADVOCATES  
SINCE 1911



5 November 2024

## **Extension and Modification to Interest Equalisation Scheme on Pre and Post Shipment Rupee Export Credit**

On 9 October 2024, the Reserve Bank of India (RBI) issued a notification revising the Interest Equalisation Scheme on pre and post shipment rupee export credit to eligible exporters announced by the Government of India (GoI) (Scheme). This update extends the Scheme until 31 December 2024, and introduces modifications aimed at refining its scope and applicability.

We have summarised the purpose, applicability and procedure for implementation of the Scheme, pursuant to the modifications proposed vide various notifications upto the notification dated 9 October 2024 (Amendment):

## BACKGROUND AND PURPOSE

GoI had announced the Scheme to be valid from 1 April 2015 and was initially valid for 5 (five) years up to 31 December 2020, with the purpose of the Scheme being to help the identified export sectors to be internationally competitive and achieve higher level of export performance. However, the Scheme has been continued thereafter, including 1 (one) year extension during the COVID-19 pandemic, and with further extensions and fund allocations. Under the Scheme, the eligible banks are required to completely pass on the benefit of interest equalisation, as applicable, to the eligible exporters upfront and submit the claims to RBI for reimbursement, duly certified by their external auditor.

Further, the Ministry of Commerce and Industry shall place the funds in advance with RBI for a requirement of 1 (one) month and reimbursement, that would be made on a monthly basis through a revolving fund system.

## APPLICABILITY OF THE SCHEME

**In relation to the lenders:** The scheme would be applicable to:

- (a) all scheduled commercial banks (excluding regional rural banks);
- (b) primary (urban) cooperative banks & state co-operative banks (scheduled banks having AD category-I licence); and

(c) Export Import Bank of India.

**In relation to the borrowers:** Prior to the Amendment, the Scheme was available to all exports under 410 tariff lines (at Indian Tariff Code (ITC) (Harmonized System of Nomenclature (HS)) code of 4 digits) as provided in Annexure A of the Scheme, including merchant exporters, and exports made by micro, small and medium enterprises (MSMEs) across all ITC(HS) codes. However, pursuant to the Amendment, with effect from 1 July 2024, the Scheme will only be eligible for MSME manufacturer exporters, and the benefit of Scheme will not be available to non-MSME exporters, and any claims by non-MSME exporters will not be entertained beyond 30 June 2024.

The eligible borrowers are required to meet the criteria of minimum processing for the goods to be called as 'Originating from India' and would be governed by provisions of Handbook of Procedures of Foreign Trade Policy.

The Scheme will not be available to those borrowers who for a particular segment, are availing the benefit under any production linked incentive scheme (PLI Scheme) of the government. Further, to clarify the Scheme will be available to the borrowers for segments other than for which they have availed benefits under any PLI Scheme.

## FEATURES OF THE SCHEME

### Interest Equalisation Rates:

Initially, the Scheme offered an interest equalisation rate of 2% for manufacturers and merchant exporters under the specified 410 HS lines and 3% for MSME manufacturers under any HS line. Pursuant to RBI's notification dated 29 August 2024 revising the Scheme, only MSME manufacturers will benefit from a 3% interest equalisation rate.

### Cap on Fiscal Benefits:

Under the Amendment, any fiscal benefits to the MSME manufacturer, on aggregate, has been restricted to INR 50,00,000 (Indian Rupees Fifty Lakhs), for the present fiscal

year 2024-25, till 31 December 2024 and the MSME manufacturers who have already availed equalisation benefits of INR 50,00,000 (Indian Rupees Fifty Lakhs) or more in the Financial Year 2024-25 till 30 September 2024, will not be eligible for any further benefit in the extended period till 31 December 2024.

Certain benefits of the Scheme can be summarised as below-

- (a) Enhances international recognition for various export sectors;
- (b) Improves export competitiveness on a global scale;
- (c) Provides lower-cost pre- and post-shipment export credit; and
- (d) Boosts export performance and business growth for eligible exporters.

#### PROCEDURES FOR PASSING ON THE BENEFIT OF INTEREST EQUALISATION TO EXPORTERS AND CLAIMING REIMBURSEMENT BY BANKS UNDER THE SCHEME

- (a) Borrower declaration: The borrower shall submit a self-declaration, as per the format provided in RBI notification on 'Interest Equalisation Scheme (IES) on Pre and Post Shipment Rupee Export Credit - Extension', dated 31 May 2022 certifying that: (i) the borrower is not availing any benefits under the PLI Scheme in the segment / sector for which this application for pre/post shipment credit under the Scheme; and (ii) the information furnished in the application is true and correct.
- (b) Interest rate adjustment:
  - (i) The banks shall reduce the interest rate charged to the eligible borrowers as per the Scheme.
  - (ii) The interest equalisation benefit will be available from the date of disbursement up to the date of repayment or up to the date beyond which the outstanding export credit becomes overdue. However, the interest equalisation will be available

to the eligible borrowers only during the period the Scheme is in force.

#### (c) Reimbursement Claims:

- (i) A sector-wise consolidated monthly reimbursement claim for interest equalisation should be submitted in original within 15 (fifteen) days from the end of the respective month, with bank's seal and signed by authorised person, in the prescribed format given in the Scheme, revised from time to time, to Principal Chief General Manager, Department of Cooperative Bank Regulation, Reserve Bank of India.
- (ii) The claims should be accompanied by an external auditor's certificate (with stamp and membership number) certifying that the claim for interest equalisation has been verified and found to be strictly in accordance with the provisions of the Scheme. Any claims for reimbursement will be considered for settlement only after receipt of the certificate.

#### (d) Transparency and Accountability:

- (i) The banks shall also be required to furnish information on prevailing interest rates, interest subvention provided, and net rates charged to each eligible borrower, to ensure complete transparency and increased accountability towards the operation of the Scheme.
- (ii) Based on an assessment undertaken for FY 2023-24, Director General of Foreign Trade (DGFT), the banks which have priced the loans covered under the Scheme at an average interest rate of greater than repo rate of + 4% (four percent) prior to subvention would be subjected to certain restrictions under the Scheme and shall be restricted from participating in the Scheme till they furnish an undertaking, in the format provided under RBI notification on 'Interest Equalisation Scheme (IES) on Pre and Post Shipment Rupee

Export Credit', dated 22 February 2024 to DGFT.

(e) Reimbursement Timing: The reimbursement of interest equalisation claim will be made as and when the funds are received from the GoI.

### COMMENT

The Amendment to the Scheme reflects a targeted approach to support MSME manufacturers while reducing the scope and funding available to non-MSME exporters. By extending the Scheme until 31 December 2024, and modifying key aspects such as eligibility and benefits caps, the RBI aims to ensure that the benefits continue to support

the most vital sectors of the Indian export economy.

These changes underscore a strategic shift towards maximising the impact of the Scheme on smaller, high-potential exporters and ensuring efficient fund allocation. It is to be seen if the Scheme is extended for a further period of time, as this will further assist and impact the relevant stakeholders to optimise their participation in the Scheme and leverage its benefits effectively.

- *Manisha Shroff (Partner), Dipayan Dash (Counsel), and Mayank Chaturvedi (Associate)*

For any queries please contact:  
[editors@khaitanco.com](mailto:editors@khaitanco.com)

## AMBITION STATEMENT

*"Our ambition is to be a respectable law firm providing efficient and courteous service, to act with fairness, integrity and diligence, to be socially responsible and to enjoy life. We should put greater emphasis on working in consonance with our aforesaid values than on maximizing earnings. Earn we should but with dignity and pleasure."*

Khaitan & Co is a premier full-service Indian law firm with 25+ practice areas, over 1,000 lawyers, including 200+ partners. To know more about us, please visit [www.khaitanco.com](http://www.khaitanco.com)