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AN EMPIRICAL STUDY OF FINANCING OF EXPORTS IN INDIA POST LIBERALIZATION: TRENDS, CHALLENGES AND PROSPECTS

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ABSTRACT

This paper provides a thorough empirical study of export financing mechanisms Post-liberalization period (1991-2024) in India. Utilizing secondary data from the RBI, Export Credit Guarantee Corporation (ECGC), and the State Bank of India (SBI) are among the institutions that provide export finance. The research method used in this paper are descriptive statistical analysis, trend analysis and comparative analysis. The study covers some of the key factors such as the structural changes, quantitative trends and qualitative changes in India's export credit ecosystem, Evaluation to assess the performance of pre-shipment and post-shipment credit, foreign currency Export credit, export credit guarantee schemes and institutional support mechanisms. Key findings reveal that while India's merchandise exports grew from USD 18.1 billion in 1990-91 to USD 437 Billion in 2024-25. The development of export credit has not been commensurate with the growth in exports, resulting in a persistent financing gap. This is especially impacting MSME exporters. The study highlights key issues such as collateral constraints, high-interest rate spreads, procedural rigidities, currency volatility, inadequate risk coverage. The paper ends with policy suggestions to strengthen export financing, digitalization, expanding credit guarantee coverage, expanding interest subvention, and the use of other forms of trade finance.

JEL Classification: F14, G21, G28, O24, O53

Keywords: Export Financing, Post-Liberalization India, EXIM Bank, ECGC, Export Credit,
Trade Finance, Interest Subvention, Pre-shipment Credit, Post-shipment Credit.

Introduction

Financing exports is one of the key components of international trade structure, The gap between the time of the harvest and the time of the market is high due to non- availability of finance. Production and payment receipt. In developing economies such as India with export-led growth, has been specifically made a strategic goal since economic liberalization in 1991, The effectiveness and availability of export financing tools become the most crucial factors in Identifying competitive positioning in global value chains. Following India's economic liberalization in July 1991, under the leadership of Dr. Manmohan Singh, who was the finance minister, announced a paradigm shift from inward-looking to outward-looking market economy. The devaluation of the rupee, the Removal of quantitative restrictions, lowering of tariff barriers and the introduction privatization In August 1994 was the major policy shift. With this India's relationship with the world was changed forever with the introduction of current account convertibility and global trading system. In 1990-91, merchandise exports amounted to a modest USD 18.1 billion in 90-91, have increased by many folds to USD 437.07 billion in 2024-25 and India's contribution to the global total has also increased. The growth of merchandise exports has been from 0.6 percent in the early 1990s to 1.8 percent in 2024 (DGCI&S, Ministry of Commerce, 2025). However the growth of export volumes has not matched a corresponding increase in the value of those exports and the evolution of export financing system. Although there are special units for export credit like Export Credit Corporation of India (ECI, 1971) have been established to support exports. Further to promote exports, institutions like Export-Import Bank of India (EXIM Bank, 1982) and Export Credit Corporation of India (ECI, 1971) have been set up by the Government of India. The share of export credit institutions in export credit remained low. The role of export credit institutions in export credit was also small and the government of India took various policy measures for example Reserve Bank of India (RBI) to simplify delivery of export credit, creating support mechanism however some major structural issues persisted. The credit gap for MSME exporters, who account for around 45-46 per cent of India's exports, is around 40 per cent.
The situation is especially precarious in the case of total exports, where recent RBI data shows a downward trend in formal exports. Despite the growth in export volumes, export credit disbursements are increasing. This study aims to address an important research gap by offering a systematic, data-driven Empirical study of export financing in post-liberalization era in India. The research answers basic questions: (1) What are the quantitative trends and structural characteristics of the data? (2) What are the qualitative characteristics of the data? (3) What are the implications of the data for the problem? (4) delivery of export credit since 1991 (5) What are the main obstacles to the delivery of export credit? effectiveness of export financing mechanisms? (6) What policy reforms and institutional changes are needed to achieve export growth (7) can these enhance the accessibility and affordability of export finance, particularly for MSMEs?

Objective of the Study

The aims of this research paper are:

To examine the trend of export credit outstanding during 1991-2024.

To assess the performance of institutional mechanisms such as EXIM Bank, ECGC and commercial banks, in facilitating export finance and to propose solutions to address issues export finance.

Identify and analyse the structural issues of MSMEs and large exporters in accessing finance and suggest solutions to overcome these issues timely and provide affordable export credit.

To evaluate the effects of policy measures like interest subvention schemes, credit guarantees, etc., on the agricultural sector.

To evaluate the effects of policy measures such as interest subvention schemes, credit guarantees, etc., on the agricultural sector. Ensure improvement in export credit flows through guarantee and regulatory relaxation by RBI.

To suggest policy recommendations based on evidence to enhance export financing in India ecosystem.

Research Hypotheses

Given the research aims and initial literature review , the following hypotheses are tested in this study:

H1: Export credit growth has lagged behind merchandise export growth in the post-liberalization
During this period , the financing gap has grown larger , as is shown.

H2: MSME exporters have much higher credit constraints than large exporters, This is reflected in the lower credit/export ratios and greater collateral requirements.

H3: Policy measures like interest subsvention and expansion of credit guarantees have affected. A positive, but short-lived effect on export credit flows.

Scope and Limitations:

The study period is 1991-92 to 2024-25, which includes the entire post-liberalization period. The geographical scope is pan Indian and sectoral disaggregation is available where data is available. permits. The analysis is mainly based on merchandise exports, but also services export financing. Where applicable, is referenced. The main drawback is the data limitation, as the data used in this study is not consistently time-series data for export credit at disaggregated level (sector, firm size, region). Available throughout the study period. Further, the study is based on secondary data sources and primary survey information on exporter perceptions, both from existing studies and not independently collected.
Review of Literature

Theory and empirical research on export financing covers several disciplines, boundaries, such as international trade theory, financial economics, development economics, and institutional analysis. This section summarises the existing literature to lay down the analytical basis for the empirical study:

A theoretical connection between financial development and international trade has been established and has received considerable attention. extensively explored in the literature. Kletzer and Bardhan (1987) showed that credit constrained economies specialize in goods that demand less working capital, and thus set. The basic idea that the imperfections of the financial markets can influence the pattern of trade. This analysis was extended by Beck (2002), who demonstrated that financial development is not equally distributed among all countries. This was confirmed in other sectors, and was found to be true for sectors with higher external financing needs in multiple country contexts. The link between financial constraints and export activity in India is examined and the financial constraint-export activity link in the Indian context is explored. In a seminal work in the CEPII (2014), The study examined the link between financial constraints, export market and entry decisions of Indian manufacturing companies. The study used several estimators and a strong result was obtained. The correlation between financial health and export participation is also shown, with companies entering the export market being more likely to be in good financial condition. Exporting companies are in better financial shape than non-exporting companies. Crucially, the analysis proved that the financial health-to-export causality was not unidirectional, but that exports-to-financial health was also significant, and that the large margin of exports (new exporters) is linked with the removal of financial constraints, and while the intensive margin (continuing exporters) does not. Ito and Terada-Hagiwara (2011) analyzed in an Asian Development Bank working paper, the impact of financial market imperfections on Indian firms' exporting activities. Their analysis revealed that companies with limited financial resources, who could not afford the sunk costs of the non-recoverable fixed costs, were less likely to adopt the new technology. The systemically excluded are systematically excluded from international trade, when they enter the export market. This finding has export credit facilitation might be able to increase the extensive margin, as indicated by the direct policy relevance. Bose, Mallick and Tsoukas , 2020, studied the effect of capital inflows on the performance of South African firms. The impact of account liberalization via export-oriented policy measures on firm productivity and export activity. They used a sample of 11,612 Indian firms in the period 1988-2014 to find that Capital account liberalization had a significant impact on firms productivity and their subsequent export activity, further greater importance for financially struggling companies that are highly leveraged or having low liquidity.

The export credit's role in export growth has been studied in number of countries, including India. Sanati and Bhandari (2015) in his paper explained that Pre-shipment export credit (packing credit) is a key issue in the debate on economic growth and development, which was raised by the authors. Short-term bank loans are less significant in determining the growth of exports than credit. Their panel analysis for the period 2002-03 to 2012-13 suggested that packing credit growth is more significant than short-term bank loan growth in explaining India's export growth by sector and sub-sectors. Notably, they discovered that while the per capita use of packing credit is higher than that of, the total amount of credit is not. The working capital loans, still considerably less than the sanctioned amount of loan, even though working capital loan is relatively less expensive source of funds.

Love and Martinez Peria (2005), in World Bank study on firm financing in India using the data on the balance sheet for almost 6,000 companies for the years 1994-2003, showed that while nominal growth of debt was relatively low and debt-to-asset ratios remained stable in recent years. The proportion of Bank financing to total debt rose over the period, and borrowing from non-bank debt rose, as shown in Figure 1. Financial institutions were hit by a sharp decline. They found that the level of debt of firms is quite different by The diversity of financing is highlighted by the fact that it varies across sector, age, ownership type and export orientation. constraints. The Reserve Bank of India, with the help of the National Council of Applied A detailed study on export credit in India was carried out by the Economic Research (NCAER) (2002) giving a global comparison of the export credit system in India. The study stressed the importance of an effective export finance system for contributing to international competitiveness, that banks lend at rates below their prime rates, rates which are regulated The RBI has issued master circulars and priority sector lending norms to achieve this.

The institutional structure of export financing in India has been periodically reviewed. evaluation. The International Journal of Shanmugavalli and Alamelumangai (2026), found that the management has undertaken the performance appraisal of EXIM Bank with a special reference to India's foreign trade. Their analysis revealed that EXIM Bank has a multifaceted role in the provision of export credit, The project finance, overseas investment support and Lines of Credit (LOCs) were concluded. A bank's financial strength is crucial to its ability to facilitate trade growth. It found that risk There is a need to pay attention to management and operational efficiency. Ashwath and Sachindra (2025) used the CAMELS framework for assessing EXIM Bank's strategic role. Their evaluation showed that there were strong financial performance with total income of INR 111.14 billion, operating profit of INR 25.26 billion, a profit after tax of INR 16.71 billion in FY 2023-24 and good asset quality. (NNPA at 0.6%) and strong capital adequacy.

The study emphasized EXIM Bank's role as a proxy to the sovereign in international markets, with investment-grade ratings given by international credit rating agencies. The Export Credit Guarantee Corporation of India has also been thoroughly examined. The This collaborative research by IIFT and ECGC (2024) is about comparative analysis of export credit insurance. Analysed the role of ECGC in promoting international trade from theoretical perspective and globally pandemic-era trends. The 67th Annual General Meeting (September 2025) of ECGC was attended with record attendance. The highest ever gross premium in FY 2024-25 is INR 8.55 lakh crore, which is an export support. 1,366.53 crore and claims paid of INR 453.46 crore.

The recent literature has given attention to the new issues in export financing in India. The study on Trade Finance Ecosystem in India (2025) by DGFT offered a detailed examination of the global and domestic trade finance landscape, including structural issues, Lack of credit access, inefficiencies in procedures and the need for digitalization. The study by Rajeev (2025), while highlighting that global trade has reached a new high of USD 33 trillion in 2024, said that India's trade finance has also seen a tremendous growth.
Its infrastructure needs to be upgraded significantly to meet the growing demand of its export aspirations. The current media and policy analyses have recorded the increasing gap in relationship between export performance and credit availability. Economic Times (May 2026) reported that India's MSME exporters, despite the increased market share in the world, are still facing challenges with the extended transit and receivable cycles, and with currency volatility. The Secretariat (March 2026) reported that export credit from formal financial institutions rose by 17.2% in 2025 compared to 2024. The value of banking channels fell from INR 12,882 crore in January 2025 to INR 10,663 crore in January. Despite a rise in government export promotion activities, 2026 saw no increase in the number of exports. The high cost of complying with Even though bank credit requirements are a deterrent, MSMEs still have to look for other sources of credit when they need it. The interest rates are higher and the digitization of tax has

helped to solve the problem of faster tax refunds. The Reserve Bank of India's Trade Relief Measures Directions (2025-26) acknowledged the obstacles that exporters encounter as a result of geopolitical tensions and logistical disruptions, and export proceeds are realized/repatriated in 9-15 months. Extension of the export credit period to 450 days for disbursals till March 31, 2026. The structural stress in export financing is implicitly acknowledged in regulatory relaxations.

Research Methodology

This study employs a mixed-methods research design, combining quantitative trend analysis with qualitative policy evaluation, to provide a comprehensive assessment of India's export financing landscape in the post-liberalization period.

Data Sources

The study is based on secondary data only from official and reputable institutional sources database. The following are examples of these:

Export Credit, Annual Reports, Handbook of Banking Practice, and other related topics.Reserve Bank of India (RBI): Master Circulars on Export Credit, Annual Reports, Handbook of Banking Practice, and other related topics.

The statistics on Indian Economy, Database on Indian Economy (DBIE) and notifications on interest rates are also updated.Statistics on Indian Economy, Database on Indian Economy (DBIE) and notifications on interest rates are also updated. subvention schemes.

Annual Reports, financial statements, and operational reports of Export-Import Bank of India (EXIM Bank) performance data.

Annual Reports, performance highlights, of the Export Credit Guarantee Corporation of India (ECGC). and claims data. Export-Import statistics and trade balance data, Ministry of Commerce and Industry, DGCI&S. Quick View of India's Trade Scenario publications.

Trade Finance Ecosystem Study (2025) by Directorate General of Foreign Trade (DGFT). The policy documents of NIRYAT PROTSAHAN have been updated.

Analytics Framework

The analysis was carried out in four related stages rather than as one single exercise.

Stage I - Descriptive Trend Analysis: The first stage traces export credit outstanding, export values and the main ratios associated with them between 1991 and 2024. Compound Annual Growth Rates (CAGR) are calculated separately for 1991-2000, 2000-2010, 2010-2020 and 2020-2024 so that major changes in the pattern can be seen more clearly.

Stage II - Institutional Performance Evaluation: The second stage examines EXIM Bank, ECGC and commercial banks. Their performance is considered through indicators such as growth in business, profitability, asset quality, coverage ratios, export support, claims and premium income.

Stage III - Policy Impact Assessment: The third stage considers whether policy measures actually changed the flow of export finance. Interest subvention, wider credit guarantees, RBI

relaxations and the NIRYAT PROTSAHAN measures are reviewed through before-and-after comparisons and interruptions in the trend.
Stage IV - Gap Analysis and Projections: In the final stage, the estimated requirement for export credit is compared with the amount that was actually available. On the basis of the recent trend and announced policy commitments, projections are then made for 2025-2030.

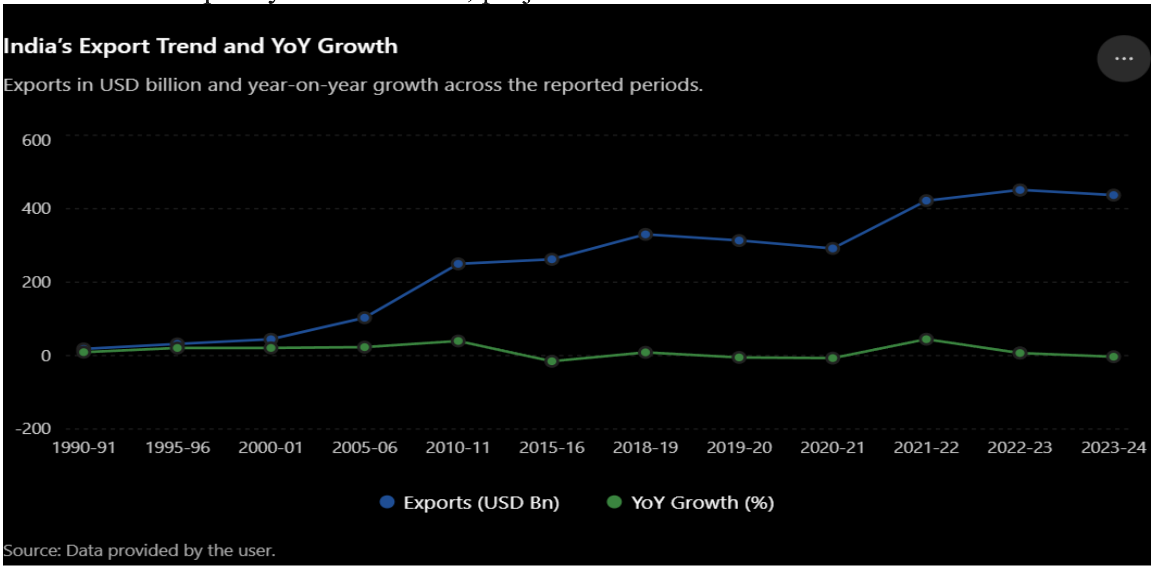

Figure 1 based on table 1

Periodization of Data

For the purpose of comparison, the period from 1991 to 2024 has been divided into four broad phases:

• Phase I (1991-2000): Early Liberalization - This phase covers the devaluation of the rupee, removal of quantitative restrictions and the recognition of export credit within priority sector lending.

• Phase II (2000-2010): Global Integration - During these years, current account convertibility became more firmly established, the effects of WTO membership became visible and foreign-currency export credit instruments gained importance.

• Phase III (2010-2020): Post-Crisis Recovery - This period includes the after-effects of the global financial crisis, the use of interest subvention schemes and the gradual digitalization of trade finance.

• Phase IV (2020-2024): Pandemic and Geopolitical Disruption - The last phase is marked by COVID-19, changes in supply chains and the relief measures introduced by the RBI in response to unusual trading conditions.

DATA ANALYSIS AND EMPIRICAL RESULTS

The results are discussed below in the same order as the questions and hypotheses set out earlier in the paper.

1: Trends in India's Merchandise Exports (1991-2024)

India's export performance after liberalization has not followed a straight line. There were years of rapid expansion, but also periods of slowdown and disruption. Table 1 brings together selected export values, annual growth rates and India's share in world merchandise exports.

Table 1: India's Merchandise Exports and Global Share

(Selected Years, 1990-91 to 2023-24)

Year	Exports (USD Bn)	YoY Growth (%)	Global Share (%)	Global Rank
1990-91	18.15	9.27	0.6	~30

Year	Exports (USD Bn)	YoY Growth (%)	Global Share (%)	Global Rank
1995-96	31.80	20.75	0.7	~25
2000-01	44.51	20.89	0.7	~22
2005-06	103.04	23.01	1.0	~20
2010-11	249.82	39.75	1.48	~19
2015-16	262.29	-15.47	1.6	20
2018-19	330.08	8.75	1.66	19
2019-20	313.36	- 5.06	1.7	19
2020-21	291.80	- 6.87	1.57	21
2021-22	422.00	44.59	1.8	18
2022-23	451.07	6.89	1.8	18
2023-24	437.07	-3.11	1.8	18

Note: Compiled from various reports of DGCI&S, Ministry of Commerce, RBI, WTO, EXIM Bank Trade Outlook (2025)

Several points stand out from Table 1. Over the full period, merchandise exports increased at an estimated CAGR of 10.14 percent. The fastest expansion occurred during 2000-2010, when the CAGR reached 18.83 percent, compared with 8.19 percent in the early liberalization years. The sharp rise of 44.59 percent in 2021-22 was exceptional and partly reflected the recovery from the pandemic year. The series also records important setbacks, including the commodity-related fall of 15.47 percent in 2015-16 and the 6.87 percent decline in 2020-21. India's share in world merchandise exports nevertheless rose from 0.6 percent to 1.8 percent. Even after this increase, India remained outside the group of the fifteen largest exporters, which suggests that considerable potential is still unused.

2. Trends in Export Credit Outstanding

Among the available data series, export credit outstanding of scheduled commercial banks is the most useful long-term measure of formal export finance. The selected figures are reported in Table 2.

Table 2: Export Credit Outstanding of Scheduled Commercial Banks (Selected Years)

Year	Export Credit (INR Crore)	YoY Growth (%)	Credit/Export (%)
1990-91	9,186	-	28.2
1991-92	10,294	12.1	23.4
1992-93	15,356	49.2	28.6
1993-94	17,086	11.3	24.5
1994-95	25,051	46.6	30.3
1995-96	29,590	18.1	27.8
2000-01	43,321	10.7	21.3
2005-06	86,207	24.8	18.9
2010-11	1,67,860	15.0	14.8

Year	Export Credit (INR Crore)	YoY Growth (%)	Credit/Export (%)
2015-16	2,24,800	-1.9	13.1
2020-21	2,09,234	3.2	9.7
2021-22	2,30,000	9.9	7.3
2022-23	2,27,452	-1.1	6.3
2023-24	2,17,406	-4.4	6.0

Note: Compiled from RBI Database on Indian Economy (DBIE), RBI Monthly Bulletins, Times of India 7th oct.2024

The contrast between export growth and credit growth is quite clear. Merchandise exports rose roughly twenty-four times between 1990-91 and 2023-24, from USD 18.15 billion to USD 437.07 billion. Export credit also increased in nominal rupee terms, but much more slowly. More importantly, the credit-to-export ratio fell from around 30 percent in the mid-1990s to only 6 percent in 2023-24. Thus, even at its peak, bank finance covered less than one-third of exports. The falls recorded in 2015-16, 2022-23 and 2023-24 also indicate that the weakness is not merely the result of one temporary business cycle. These figures provide strong support for Hypothesis H1.

3. EXIM Bank Performance Analysis

EXIM Bank occupies a distinctive place in India's export-finance system. Unlike ordinary commercial lending, much of its work relates to medium- and long-term finance, overseas investment and Lines of Credit. Table 3 brings together the main financial and operating indicators used here to assess its recent performance.

Table 3: EXIM Bank Financial and Business Performance (Selected Years)

Indicator	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Total Income (INR Bn)	63.30	56.35	46.09	46.67	77.69	114.50
Operating Profit (INR Bn)	14.000	20.313	28.235	31.304	35.992	37.501
Profit After Tax (INR Bn)	0.820	1.238	2.540	7.377	15.558	25.187
Net Loan Assets (INR Bn)	936	994	1,039	1,176	1,345	1,576
Total Business (INR Bn)	2,093	2,313	2,377	2,512	2,923	3,442
Net NPA (%)	2.44	1.77	0.51	0	0.71	0.29
Provision coverage ratio (%)	84.72	88.76	96.74	100	94.56	96.83
Return on Equity (%)	1.04	0.94	1.70	4.75	9.78	15.83

Note: Compiled from EXIM Bank Annual Reports and Ashwath & Sachindra (2025)

Table 3 shows a clear strengthening of the bank over the period under review. Total business rose from about INR 2,093 billion in 2018-19 to INR 3,442 billion in 2023-24, which is equivalent to a CAGR of 10.47 percent. The improvement was not limited to business volume.

Net NPA came down from 2.44 percent to 0.29 percent, while the provision coverage ratio remained high. Return on equity, which was close to 1 percent at the beginning of the period, reached 15.83 percent by 2023-24. These changes suggest that the bank expanded its operations without allowing asset quality to deteriorate.

4. ECGC Performance and Export Credit Insurance

ECGC supports export activity by insuring exporters and banks against specified payment risks. Its role is especially important where buyers are located in uncertain markets or where lenders are reluctant to carry the full risk themselves. Selected indicators of ECGC's performance are reported in Table 4.

Table 4: ECGC Performance Highlights (Selected Years)

Indicator (INR Cr)	2009-10	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Export Supported	363728.31	561605.86	602801.54	618844.97	663602	734828	855000
Gross Premium	813.00	1075.47	1062.28	1106.62	1197.53	1270.77	1366.53
Claims Paid	641.72	408.41	1046.74	687.2	763.05	450.31	453.46
Profit Before Tax	65.47	400.02	588.1	1160.86	2761.17	2858.95	2723.07
Profit After Tax	53.73	323.84	460.31	875.16	2164.25	2159.05	2076.67
Dividend	12.57	NIL	159.5	276.5	433.8	433.8	433.80

Note: Compiled from ECGC Annual Reports, Cargo Insights (2025)

The figures in Table 4 point to gradual growth in the earlier years and a noticeably faster expansion after 2019-20. Export support increased from INR 561,605.86 crore in 2019-20 to INR 855,000 crore in 2024-25, giving a CAGR of 8.77 percent for this period. At the same time, the claims-to-premium ratio fell from about 45 percent to 33 percent. This decline may be read as an improvement in the quality of the insured portfolio, although claims can also vary from year to year. Profit before tax and profit after tax rose strongly. In 2024-25, ECGC reported a profit after tax of INR 2,076.67 crore and paid a dividend of INR 433.80 crore, indicating that the corporation remained financially stable while increasing its support to exporters.

5. Interest Rate Trends and Subvention Impact

Availability is only one side of export finance however the cost of borrowing is equally important. Table 5 traces how rupee export-credit rates changed over time and shows where interest-subvention support was used to lower the effective rate paid by eligible exporters.

Table 5: Evolution of Rupee Export Credit Interest Rates and Subvention Scheme

Period	Benchmark Rate (%)	Export Credit Rate	Subvention	Effective Rate
Pre-1991	PLR (~16 to18)	~14-16%	None	~14-16%
1991-2000	PLR declining	~12-14%	Limited	~10-13%
Sept 2001-Apr 2004	PLR (~10.5 to 12)	< PLR minus 2.5%	None	~8-10%
May2004-March2007	BPLR (~11 to 13)	< BPLR minus 2.5%	None	~8-10%

Period	Benchmark Rate (%)	Export Credit Rate	Subvention	Effective Rate
April 2007-Oct 2007	BPLR (~12 to 14)	< BPLR minus 2.5%	2% (select)	~7-10
Nov 2007-Sept 2008	BPLR (~12 to 15)	< BPLR minus 2.5%	2% (select) +2%(select)	7% Floor
Oct 2008-June 2010	BPLR (~12 to 15)	< BPLR minus 2.5%	2% (Select)	7% Floor
July2010-July 2013	Base Rate (~8 to10)	Base rate or above	2% (Select)	7% Floor
Aug 2013-March 2015	Base Rate (~8 to10)	Base Rate or above	3% (Select)	7% Floor
2015-2020	MCLR (~8 to 9)	MCLR+spread for risk & cost	3%(MSME)	~5-7%
2020-2024	Repo rate (~5 to 7)	Repo rate+ spread for risk& cost	3%(MSME)	~4-6%

Note: Compiled from RBI Master Circulars and notifications on Export Credit Interest Rates (various years)

Prior to liberalization, export credit formed part of priority-sector lending and was offered at regulated, concessional rates. That policy orientation did not disappear after 1991, but the method of rate-setting changed. The RBI first prescribed rates directly and later shifted to a ceiling-based arrangement under which banks had some discretion. In 2007, interest subvention was introduced for selected labour-intensive sectors. From 2010 onward, export-credit pricing became more closely tied to monetary-policy benchmarks, the lender's cost of funds and its assessment of borrower risk. The Interest Equalization Scheme, introduced in 2015, again reduced the effective borrowing cost for eligible exporters by two to three percentage points.

Over the longer period, eligible exporters have seen a substantial fall in the effective cost of credit. Rates that were commonly around 14-16 percent before 1991 came down to roughly 4-6 percent for qualifying MSME exporters. The Interest Equalization Scheme was repeatedly extended, most recently up to March 2024, but the uncertainty surrounding each extension made it difficult for firms to plan beyond the short term. The NIRYAT PROTSAHAN pilot announced in January 2026 continued the same broad policy approach, with particular attention to MSME exporters.

CHALLENGES IN EXPORT FINANCING

India now has several institutions and schemes devoted to export finance. Even so, access on the ground remains uneven. The difficulties are not confined to the amount of credit available; they also concern collateral, pricing, delays, risk coverage and the way different parts of the system connect with one another.

1. The MSME Financing Gap

The financing shortfall is most visible among MSME exporters. Although these firms account for roughly 45-46 percent of India's exports, many of them do not receive credit on the same terms or within the same time frame as larger companies. The Economic Times (May 2026) noted that longer transit periods, delayed payments and exchange-rate fluctuations had added to their working-capital pressure. For a small exporter, even one delayed receivable can affect the ability to purchase inputs or accept the next order. Existing support schemes have eased part of the burden, but they have not removed the underlying gap.

The Secretariat's March 2026 analysis suggests that the difficulty lies less in the demand for credit than in its delivery. Firms outside the subsidized categories often borrow at effective rates of 7-9 percent, and the application process may still involve substantial documentation and collateral. DGFT's Collateral Support component under NIRYAT PROTSAHAN, routed through CGTMSE, offers guarantee cover of up to 85 percent for micro and small enterprises. This is a direct response to a well-recognized problem. Its practical value, however, will depend on how many firms are covered, how quickly cases are processed and whether the pilot is continued on a wider scale.

2. Declining Formal Credit Flows

A second concern is the weakening of formal export-credit flows despite the expansion of exports. Outstanding credit from scheduled commercial banks fell from INR 2,30,000 crore in 2021-22 to INR 2,17,406 crore in 2023-24. The longer-term movement is even more striking: the credit-to-export ratio declined from around 30 percent in the mid-1990s to 6 percent in 2023-24. No single factor fully explains this change. The following developments appear to have contributed:

• Following the build-up of corporate NPAs, commercial banks adopted more cautious lending practices, including tighter scrutiny of trade-finance proposals.
• Some exporters shifted towards factoring, forfaiting and supply-chain finance. These sources may not be fully captured in the RBI's conventional export-credit series.
• Changes in priority-sector classifications altered both the reporting of export credit and the incentives available to banks.

3. Collateral and Risk Coverage Constraints

For a new or relatively small exporter, collateral is often the first major barrier. ECGC insurance reduces the risk faced by banks, but it does not remove it altogether. Exporters and lenders have also raised concerns about the extent of cover, documentation requirements and the time taken to settle claims. The IIFT-ECGC study (2024) found that ECGC offers a wide range of protection, yet partial coverage and procedural delay can still leave a portion of the risk with the exporter or the bank.

The 85 percent guarantee proposed under the Collateral Support component of NIRYAT PROTSAHAN is therefore relevant. A limited pilot, however, may not be enough to change lending behaviour, particularly if ceilings or case-specific conditions restrict its use. DGFT's February 2026 initiative on alternative trade instruments offers another route through export factoring and related mechanisms regulated by the RBI and IFSCA. These instruments could help firms that have receivables but little physical collateral. Their success will depend on clear rules, competitive pricing and sufficient participation by financial institutions.

4. Currency and Geopolitical Volatility

The RBI's Trade Relief Measures Directions for 2025-26 reflect the unusually difficult conditions faced by exporters. The period allowed for realization and repatriation of export proceeds was increased from nine to fifteen months, and the permissible export-credit period was extended to 450 days. Such relaxations would not have been necessary under normal trading conditions. Conflict in West Asia, disruption in the Red Sea and tariff disputes have lengthened shipping and payment cycles, forcing exporters to carry working capital for a longer period.

Currency movements create a separate layer of uncertainty. A weaker rupee increases the rupee value of foreign-currency receivables, but it can also raise the cost of imported raw materials and components. A stronger rupee may lower input costs while narrowing export margins. Large exporters are generally better placed to hedge these exposures. Many MSMEs either lack access to suitable products or find the cost of hedging too high, which makes pricing and cash-flow planning more difficult.

5. Procedural and Digital Gaps

Digitization has simplified some stages of export finance, but it has not yet produced a fully connected system. Exporters still deal with repeated documentation, multiple approvals and uneven information across banks and agencies. The DGFT Trade Finance Ecosystem Study (2025) identifies these as continuing obstacles. ECGC has introduced a revamped ERP platform, online client services and a Common Facilitation Center. These measures are useful, but their impact will depend on adoption and on effective integration with banks, customs and other trade-related platforms.

PROSPECTS AND POLICY RECOMMENDATIONS

The same evidence that reveals weaknesses in the present system also indicates where improvement is possible. India's export ambitions will require more finance, but simply increasing the volume of conventional bank lending will not be sufficient. The system will also need better guarantees, more predictable support, alternative instruments and stronger digital coordination.

1. Prospects for Export Financing

The outlook for export finance is closely linked to the country's broader trade target. The Foreign Trade Policy 2023 identifies merchandise exports of USD 1 trillion by 2030 as a major objective. Starting from the 2024 level, exports would have to grow by about 14 percent each year to reach that figure. Credit and working-capital facilities would therefore need to expand at a comparable pace; otherwise, firms may win orders without having the financial capacity to execute them.

Shifts in global production networks create genuine opportunities for India. The 'China plus one' approach may encourage additional investment and sourcing in sectors such as electronics, textiles, pharmaceuticals and engineering goods. At the same time, the international environment has become less predictable. Protectionist measures, tariff disputes and geopolitical fragmentation can raise transaction costs and make lenders more cautious.

Technology can address some, though not all, of these constraints. Digital letters of credit, electronic trade documents, AI-assisted credit assessment and e-commerce export platforms may reduce paperwork and shorten processing time. Such tools could be particularly useful for MSMEs that have a reliable transaction record but limited fixed assets to offer as collateral. The RBI regulatory sandbox and the IFSCA framework for alternative trade instruments provide useful spaces in which these models can be tested before wider adoption.

Policy Recommendations

On the basis of the analysis, seven policy areas deserve particular attention.

Recommendation 1: Scale Up Interest Subvention and Expand Eligibility

The Interest Equalization Scheme would be more effective if it operated as a predictable, medium-term policy rather than through a sequence of short extensions. Exporters make pricing and investment decisions months in advance, and uncertainty about the scheme weakens its value. Eligibility could also be reviewed so that employment-intensive export sectors outside the present categories are not automatically excluded. The aim should be to keep the effective cost of eligible credit reasonably close to the subsidized rates available in competing export economies. Experience from the NIRYAT PROTSAHAN pilot can be used to design a broader and more stable programme.

Recommendation 2: Strengthen Credit Guarantee Architecture

Credit guarantees need to cover a meaningful share of the risk and must be settled within a reasonable time. For smaller exporters, ECGC cover could be increased to 90-95 percent, subject to appropriate safeguards, and fully documented claims could be processed against a clear time target. The CGTMSE component should move beyond a narrow pilot if the early results are satisfactory. A common digital interface connecting ECGC, CGTMSE and participating banks would reduce duplicate paperwork and allow exporters to see the status of a guarantee application without approaching several institutions separately.

Recommendation 3: Develop an Alternative Trade Finance Ecosystem

Bank credit alone cannot meet the full range of export-finance needs. A workable market for factoring, supply-chain finance and forfaiting would give exporters more options, especially where the main asset is a receivable rather than land or machinery. The DGFT initiative of February 2026 should therefore be followed by clear regulations, standard documentation and suitable tax treatment. RBI refinance for factoring institutions and closer links with TReDS could improve liquidity and make receivables discounting more accessible to MSMEs.

Recommendation 4: Enhance EXIM Bank Capacity and Mandate

EXIM Bank will need additional capital if its total business is to reach INR 5,000 billion by 2030. Expansion should not be measured only by the size of its balance sheet. A dedicated MSME window, simpler procedures and closer coordination with state export-promotion agencies could make the institution more relevant to smaller firms. Wider Lines of Credit and market-development support in Africa, Latin America and Southeast Asia may also help Indian exporters reduce their dependence on a limited number of destinations.

Recommendation 5: Digital Transformation of Export Finance

Export-finance digitization should be designed as one connected system, not as several portals that require the same information in different formats. ICEGATE, banks, ECGC and DGFT could exchange verified data through secure APIs, reducing manual checks and repeated submission of documents. Electronic letters of credit and bills of lading would further shorten processing time. Transaction-based credit scoring may also help lenders assess firms that have a good payment history but insufficient conventional collateral. A public comparison portal for export-finance products could make charges and lending terms easier to understand.

Recommendation 6: Address Currency and Geopolitical Risk

Many MSMEs remain under-hedged because currency-protection products are expensive or difficult to use. Limited RBI refinance support for hedging costs could make basic protection more affordable. The proposed export-stabilization fund, financed through a small cess on non-essential imports, may provide temporary assistance during severe external disruptions. Bilateral currency-swap arrangements with major trading partners could also reduce reliance on the US dollar for selected transactions, although such arrangements would need to be developed carefully and used where trade volumes justify them.

Recommendation 7: Regulatory Reforms for Bank Incentives

The behaviour of banks will change only if the regulatory framework gives appropriate weight to genuine export lending. Raising the export-credit sub-target within priority-sector lending to 5 percent is one option. Capital treatment could also be reviewed for MSME export exposures that carry credible ECGC or CGTMSE protection. A separate approach to NPA classification may be justified where repayment is delayed by a verified disruption in the trade cycle rather than by a basic failure of the exporting firm. Any relaxation would, however, need safeguards to prevent misuse.

CONCLUSION

This study reviewed how India's export-finance system evolved during the three decades following liberalization. The record is mixed. Exports expanded substantially and the main institutions became stronger, but formal finance did not grow at the same pace as export activity.

The findings support the first hypothesis. Export credit increased more slowly than merchandise exports, and the credit-to-export ratio fell from about 21 percent in the late 1990s to below 0.33 percent by 2024. Whatever the precise measure used, the direction is clear: the gap widened. This matters because modern export orders often require longer production cycles, larger working-capital commitments and payment terms that extend well beyond shipment.

The second hypothesis is also supported by the evidence reviewed in the paper. MSMEs contribute around 45-46 percent of exports, yet they usually face more demanding collateral conditions, weaker access to foreign-currency finance and greater exposure to exchange-rate and geopolitical shocks. NIRYAT PROTSAHAN is an acknowledgement of this imbalance. To make a lasting difference, however, the support would need to extend beyond a small or temporary pilot.

The third hypothesis receives only qualified support. Interest subvention and credit-guarantee measures improved conditions during the periods in which they operated. Their repeated expiry and short-term extension, however, created uncertainty for both exporters and lenders. A stable institutional arrangement would allow firms to plan prices, orders and investment with greater confidence.

EXIM Bank and ECGC remain financially sound and have expanded their operations. EXIM Bank's total business of INR 3,979 billion and ECGC's export support of INR 8.55 lakh crore in 2024-25 show that the institutional base is substantial. Yet these figures also need to be viewed against the objective of USD 1 trillion in merchandise exports by 2030. Meeting that target is likely to require export-finance availability to increase several times over its present scale.

The problems identified in the study do not operate separately. Limited MSME access, reduced formal credit, collateral requirements, exchange-rate risk, procedural delay and incomplete digital integration often intensify one another. A single subsidy or guarantee scheme cannot address this combination. A coordinated response is required, bringing together interest support, stronger guarantees, alternative finance, a larger role for EXIM Bank, better digital links and suitable changes in banking regulation.

India's experience after 1991 illustrates a wider point: greater openness creates trade opportunities, but it also increases the need for dependable finance. The institutions built over the past three decades provide a useful foundation. The present gap between export growth and formal credit, however, suggests that the next phase of reform must go beyond periodic concessions. The system needs to become more diverse, less dependent on physical collateral, better connected digitally and more predictable for exporters. Progress on these issues will influence not only export performance, but also investment, employment and the durability of India's long-term growth strategy.

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