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AN ANALYTICAL STUDY ON THE PERFORMANCE OF EXPORT CREDIT GUARANTEE CORPORATION OF INDIA LTD

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Introduction

The Export Credit Guarantee Corporation of India Limited (ECGC in short) is a company wholly owned by the Government of India based in Mumbai, Maharashtra.[1] It provides export credit insurance support to Indian exporters and is controlled by there and Industry (India) Ministry of Commerce. Government of India had initially set up Export Risks Insurance Corporation (ERIC) in July 1957. It was transformed into Export Credit and Guarantee Corporation Limited (ECGC) in 1964 and to Export Credit Guarantee of India in 1983.

Export Credit Guarantee Corporation of India is 51 years old, it was setup with the primary objective to provide export credit insurance and trade related services to exporters. ECGC of India Ltd was established in July, 1957 to strengthen the export promotion by covering the risk of exporting on credit.[2]

It functions under the administrative control of the Ministry of Commerce & Industry, Department of Commerce, and Government of India. It is managed by a Board of Directors comprising of representatives of the Government, Reserve Bank of India, banking, and insurance and exporting community. [3]

ECGC is the fifth largest credit insurer of the world in terms of coverage of national exports. The present paid-up capital of the company is Rs.900 crores and authorized capital Rs.1000 crores. [4]

Need for The Study

Payments for exports are open to risks even at the best of times. The risks have assumed large proportions today due to the far-reaching political and economic changes that are sweeping the world. An outbreak of war or civil war may block or delay payment for goods exported. Export credit insurance is designed to protect exporters from the consequences of the payment risks, both political and commercial, and to enable them to expand their overseas business without fear of loss.

Objectives of The Study

1. To study the role of ECGC in facilitating international business
2. To analyze the performance of various policies, guarantees, schemes provided by ECGC.

Research Methodology

Research Design

Research design is the basic plan which guides to collect relevant information accurately and economically for objectives set up for the research.

Source of Data

The data was collected from the basis of secondary sources. The secondary data has been collected from various sources such as various reports published by the ECGC, News Letters, Booklets issued by the ECGC, magazines, Journals, dailies, websites. Some other data has also been collected from other researchers, which already published. To collect the necessary data the researcher under work a practical study at ECGC of India of Ltd.

Period of the Study

The study covers the period 2007-2008 to 2016-2017, which encompasses a time span of 10 years. The export and import potential for ECGC definitely supports the growth of Indian economy along with global economy.

Tools of Analysis

In order to examine the various objectives of the study appropriate relevant mathematical and statistical tools such as:

1. Simple percentage
2. Standard Deviation
3. Co-efficient of variation and

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Limitations of The Study

The study has the following in evadable limitations

1. The study based only on the internal sources of the information supplied by the corporation.
2. The validity of the inferences drawn depends upon the data furnished by the corporation.

Review of Literature

1. The reasons forward excahnge rate foercast biased. A survey of recent evidence **-** This paper was done by **Charles Engel (2013)**. This paper considers the forward exchange rate unbiasedness is rejected in tests from the current floating exchange rate era. This paper surveys advances in this area since the publication of Hedrick's (1987) survey. It documents that the change in the future exchange rate is generally negatively related to the forward premium.

2. Comparing Forecast Performance of Exchange Models through ECGC**-** An attempt was made by **Lillie Lam (2014) (**Research Department, Hong Kong Monetary Authority) to study the topic. The paper investigates using Exchange rate – movement is regularly monitored by central banks for macro economic analysis and market surveillance purposes. Notwithstanding the pioneering study of Meese and Rogoff (1983), which shows the superiority of the random-walk model in out-of-sample exchange-rate forecast, there is some evidence that exchange rate movement may be predictable at longer time horizons.

3. The Nominal Exchange Rate Implication of Vat Harmonization In ECGC **-** This paper was done by **Dai Meixing (2015)** to study on the topic. The paper considers two-country cournot competition model, the implication of European VAT reform on the nominal exchange rate parities which will be pegged in the third stage of monetary union. As result of the reform, the deutschmark needs to be reevaluated so as to prevent generating systematic external disequilibrium of some other European countries, which is inconsistent with pegging nominal exchange parities of European currencies.

4. Nominal Exchange Rates and Monetary Fundamentals **-** This paper was done by **Nelson C.Mark and Donggyu Sul (2016)** to study on the topic. The paper reviews the long-run relationship between nominal exchange rates and monetary fundamentals in a quarterly panel of 17 countries extending from 1973 to 1995. Our analysis is centered on two issues. First biggest whether exchange rates are integrated with long-run determinants predicted by economic theory.

Introduction

The Export credit Guarantee Corporation of India limited is essentially an export promotion organization, seeking to improve the competitive capacity of Indian exporters by giving them credit insurance and guarantees support comparable to those available to their competitors from most other countries. It also provides policies for the minimizing risk in export business and guarantees the flow of finance from the banks to exporters.

Services of ECGC

The Covers Issued By ECGC Can Be Divided Broadly Into Four Groups

1. **Standard Policies –** Issued for exporters to protect them against payment risks involved in exports on short-term credit.
2. **Specific Policies –** designed to protect Indian firms against payment risk involved in (i) exports on deferred terms of payment (ii) service rendered to foreign parties, and (iii) construction works and turnkey projects undertaken abroad.
3. **Financial Guarantees –** issued to banks in India to protect them from risk of loss involved in their extending financial support to exporters at pre-shipment and post-shipment stages.
4. **Special Schemes** - such as Transfer Guarantee meant to protect banks which add confirmation to letters of credit opened by foreign banks, Insurance cover for Buyer's credit, etc.

Risks Covered Under The Standard Policies

1. Commercial Risks
2. Political Risks
3. Shipments Covered
4. Exclusion
5. Shipments Against Letter of Credit
6. Shipments to Associates

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Analysis and Interpretation

Table No – 4.1 Value of Business Covered Under Various Schemes(Rs. In crores)

Year	Standard Policies & Transfer Guarantees	Policies project and Term Exports	Guarantees Short Term Exports	Guarantees Project and Term Exports	actoring
2007-2008	20287.00	1184.00	144716.00	327.00	0.00
2008-2009	22972.00	1551.00	141365.00	843.00	0.00
2009-2010	23139.00	1815.00	148088.00	493.00	0.00
2010-2011	24633.00	574.00	158962.00	323.00	0.00
2011-2012	23530.00	360.00	157274.00	744.00	0.00
2012-2013	26411.00	737.00	237084.00	699.00	47.00
2013-2014	28117.00	1720.00	296870.00	1088.00	223.00
2014-2015	35695.59	1341.06	311913.73	1408.47	291.42
2015-2016	37421.57	1510.14	396865.33	1917.22	168.62
2016-2017	50420.60	1228.74	375260.82	1846.21	84.43
Total	**292626.76**	**12293.00**	**2368398.88**	**9688.90**	**814.47**
Mean	**29262.676**	**12293.3**	**236839.888**	**968.890**	
S.D	**83283.15**	**3498.64**	**4543.0**	**2757.50**	
C.V	**28.06**	**24.42**	**10.19**	**21.56**	

* S.D-Standard Deviation, C.V-Cumulative Variance

It is understand from the above table that value of business covered under standard policies and transfer guarantees was Rs.20,287 crores in the year 2009-2010 and its percentage share was 6.93. In the next following three years the value of business covered had an increasing trend. In the year 2016-2017 it amounted to Rs.50,420.60 crores by having a percentage of shares was 17.23 standard deviation showed an amount of Rs.83, 283.14 crores. The co-efficient of variation is 28.06% during the period of the study.

Business covered under policies to project and term exports were amounted to Rs.1184 crores in the year 2006-2007 and its percentage share was 9.63. The business covered in the year 2015-2016 was Rs.375260.82 crores as compared with Rs.396865.33 crores in the year 2010-2011 registering remarkable increase almost 100% over the previous year.

Value of business covered under guarantees to short term exports were amounted to Rs.1,44,716 crores in the year 2007-2008 and its percentage share was 6.11. In the next following four years the value of business covered had an increasing trend. In the year 2016-2017 it amounted to Rs.3,75,260.82 crores by having percentage share of 15.84.

The business covered under maturity factoring scheme were amounted to Rs.84.43 crores in the year 2016-2017.

Chart No – 4.1the Value of The Business Covered By Ecgc

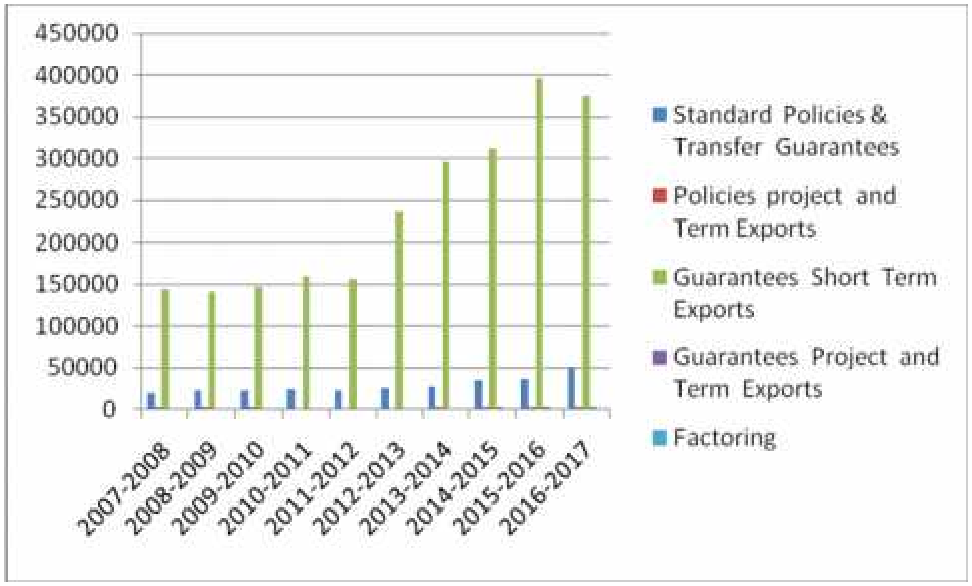

Table No – 4.2 Value of Premiun Income Under Various Schemes(Rs. In crores)

Year	Standard Policies & Transfer Guarantees	Policies project and Term Exports	Guarantees Short Term Exports	Guarantees Project and Term Exports	Factoring
2007-2008	75.78	12.50	171.69	5.49	0.00
2008-2009	86.62	11.89	192.18	6.01	0.00
2009-2010	87.88	12.70	200.78	5.41	0.00
2010-2011	96.73	8.70	218.66	6.36	0.00
2011-2012	101.02	6.76	224.97	5.77	0.00
2012-2013	110.66	8.91	245.37	8.62	1.09
2013-2014	118.62	9.16	302.47	10.62	4.61
2014-2015	145.09	7.45	344.24	12.83	5.93
2015-2016	160.01	9.96	388.27	15.83	3.26
2016-2017	190.94	10.17	396.69	17.98	1.88
Total	**1172.85**	**98.2**	**2685.32**	**94.92**	**16.73**
Mean	**117.285**	**9.82**	**268.532**	**9.492**	
S.D	**33.79**	**29.72**	**164.25**	**26.87**	
C.V	**28.45**	**30.27**	**29.31**	**28.31**	

* S.D-Standard Deviation, C.V-Cumulative Variance

It reveals that value of premium income under standard policies and transfer guarantees had amounted Rs.75.28 crores in the year 2007-2008 with percentage share of 6.42. In the next following years premium income of standard policies

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has an increasing trend by having 7.39, 7.49, 8.24, 8.61, 9.44, 10.11, 12.37, 13.64, 16.28% in the year of 2015-2016 respectively.

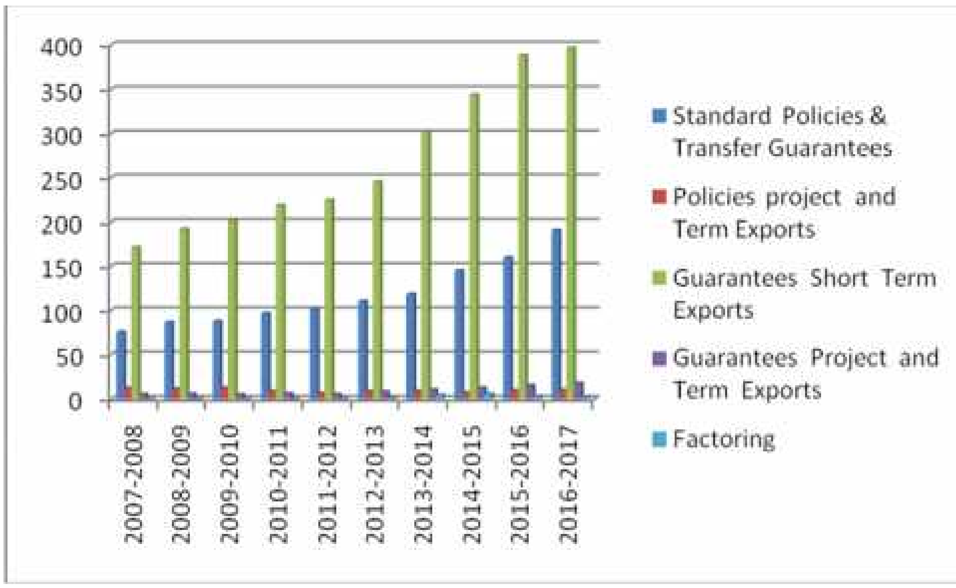
In the year 2007-2008 the premium income of policies to project and term exports amounted to Rs.12.50 crores by having a percentage share of 12.72. In the following years premium income had many fluctuations and in the year 2016-2017 the premium income was Rs.10.17 crores by having a percentage share of 10.35.

In the year 2007-2008 the premium income of guarantees to short term exports amounted to Rs. 171.69 crores by having a percentage share of 6.39. The next coming years the premium income had increased to 192.69, 200.78, 218.66, 245.37, 302.47, 344.24, 388.27 and 396.69 crores.

The premium income earned under guarantees to project and term export was Rs.5.49 crores in the year 2007-2008 and its percentage share was 5.78. In the following year it had fluctuation and it amounted to Rs.17.98 crores in the year 2016-2017 with a percentage share of 18.9.

The premium income earned under maturity factoring scheme was Rs.1.88 crores in the year 2016-2017.

Chart No – 4.2 The Value of The Premium Income



Findings, Suggestions And Conclusions

Findings

1. **Standard Policy:** Standard policy issued to exporters to protect them against payment risk involved in exports on short term credit and small exporters policy issued for the same purpose to exporters with small exports.
2. **Specific Policies:**Specific policies designed to protect Indian firms against payment risk involved in (a) exporters on deferred terms of payment (b) services endeared to foreign parties and (c) construction works and turnkey projects undertaken abroad.
3. **Financial Guarantees:** Financial guarantees issued to banks in India to protect them from risks of loss involved in their extending financial support to exporters at their pre shipment as well as post-shipment stages.
4. **Performance analysis of ECGC in the past ten years:** The analysis carried in this aspect brought out the following points:
    1. The value of business covered from all the scheme of the schemes of the corporation in the year 2016-2017 amounted to Rs.42,8840.8 crores as compared with Rs.4,37,882.88 crores in 2015-2016, registering a remarkable decrease of Rs.9,042.08 crores over the year.
    2. The main contribution to the growth came from guarantees to short terms exports, followed by short term policy.
    3. The total premium income from all the schemes of the corporation had amounted to Rs.617.66 crores. This was the highest as compared to the previous year.

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Suggestions

1. The minimum premium procured to small exporter policy is 0.3%. If the premium rate was reduced, the exporter will benefit most.
2. The period of policy issued to small exporters is for 12 months. If the period of policy is increased, it would be an advantage to an exporter.
3. On the rate of premium charged on comprehensive policy, opinion was equally divided. Some found to be very high, other found to be reasonable the method of calculation premium came in for criticism and all felt that there is a need for a change in the method of calculation.

Conclusion

The overall performance of the corporation in the year 2016-2017 was encouraging in spite of several countries continuing to be risk prone, necessitating a cautions under writing policy, but in the following years, the drastic slow down in Indian exports had a direct impact on the business of the corporation.

It is earnestly hoped that, Government of India would take all the necessary steps to strengthen the business of the corporation, without which it will be difficult to play its designed developmental role.

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