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Role of ECGC in Export Performance of Firms in the MSME Sector of India

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Role of ECGC in Export Performance of Firms in the MSME Sector of India*

Vijay Prakash Ojha⁽¹⁾, Areej Aftab Siddiqui⁽²⁾, Biswajit Nag⁽³⁾, Kashika Arora⁽⁴⁾

Abstract

In India, it is the ECGC Limited that plays the most important role in providing export credit insurance (ECI) to exporters and banks. ECGC provides ECI to exporters mainly to cover their risks of default in payment by foreign buyers and to banks to cover their risks in lending the credit needed by exporters to fulfil their export commitments, and charges premium in return. Providing insurance cover to exporters helps them directly, and furnishing ECI to banks assists them indirectly, but equally importantly, to enhance their exports. This study, however, is focused on evaluating the former role of ECGC in boosting the export performance of micro, small and medium enterprises (MSME) in India.

An empirical investigation in the form of a dynamic panel analysis is undertaken for the ten MSME-specific sectors focusing on the impact of ECGC cover on exports while considering the issue of endogeneity by taking lagged export propensity (i.e., value of exports as a proportion of sales) as a dependent variable to capture the path-dependency of exports. Sectors are classified into three categories, namely, ECGC cover impacting export propensity, export propensity impacting ECGC cover and both ECGC cover and export propensity reinforcing each other. Two sectors belong only to the first category, while two other sectors belong only to the second

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category. The remaining six sectors belong to both first and third categories. It follows that sectors in the second and third categories need maximum attention from ECGC.

Subsequently, an econometric analysis using firm-level data to perform efficiency analysis for two years 2007-08 & 2017-18 is done. By segregating firms according to MSME classification, the stochastic frontier analysis is used to explore the impact of the interaction of exports and ECGC cover on the technical efficiency of firms. The analysis shows that when firms simultaneously export and spend on ECGC cover their technical efficiency improves. Conversely, the top-most efficient firms are largely export-oriented and rely the most on ECGC cover.

Finally, based on the findings of the primary survey of the MSMEs conducted to study the impact of ECGC cover on their export performance, the following policy recommendations have been made. These recommendations include, firstly, creating awareness of various ECGC policies through social media, appointing agents for recommending ECGC policies and creating a system of replying to queries companies might have regarding specific requirements of policies. Secondly, to increase the share of insurable export credit, ECGC needs to introduce new insurance products & policies with the changing times and market dynamics. Thirdly, procedural simplification must be done to reduce the time taken for the issuance of policies which must appear to be customer-friendly. Fourthly, possibilities of tie-ups of exporters with reputed export consulting firms or consultants, logistics companies, transport operators along with industry associations like ACMA, EEPC, Chemexcil, Rubber Industries Association, etc, for better marketing of exports need to be explored. Once such tie-ups materialize, ECGC can consider introducing special credit insurance schemes for members of such reputable industry associations. This would eventually expand business for both exporters and the ECGC. Lastly, the increase in digital presence can be complemented by issuing online policies and providing a selection opportunity to the customer for considering policies as per his need and his ability to pay premium.

JEL Codes: F13, F14, F36, G28, G32, H81

Keywords: MSME, Technical Efficiency, Insurance Policy, Export Credit Insurance Trade



1. Introduction

1.1 Trends in ECGC Policies/Insurance covers

With a strong belief in exports being a major driver of a country's economic growth and development, many countries in the world have set up their own Export Credit Agencies (ECAs), in order to support and promote their respective export industries. These ECAs have devised comprehensive Export Credit Insurance Schemes, which serve as a major policy tool to mitigate the risks faced by exporters in international markets due to financial, economic and political uncertainties and instabilities and thus enhance their abilities to export. Generally, such export credit insurance covers are either directly provided by public entities or by banks or some agencies on behalf of the government.

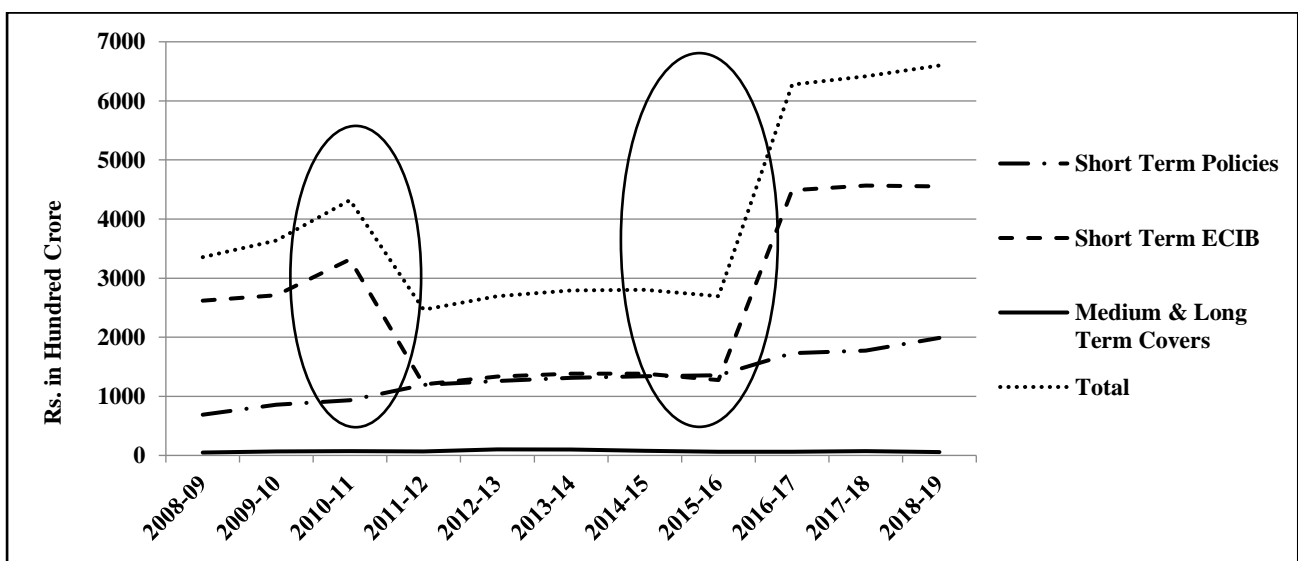
Export credit insurance schemes are there both in developed and developing countries. One such institution set up by the Government of India (GoI) in 1957 to promote exports from the country by providing credit risk insurance and related services for exports is ECGC Limited (ECGC), formerly known as Export Credit Guarantee Corporation of India Ltd., wholly owned by GoI. ECGC helps Indian exporters to improve their competitiveness by providing them services like export credit insurance covers for possible credit risks in exporting goods and services. Also, ECGC provides cover to banks and financial institutions against the export credit extended by them to the exporters. Exporters need short-term, medium-term and long-term credit insurance covers depending upon the type of exports they specialise in. The study will cover the businesses of ECGC in different types of insurance covers.

ECGC offers coverage to both banks and exporters and charges premiums in return for insuring their risks. The trends in the value of business covered by ECGC, the premium charged, and claims paid by it over a period of 10 years have been summarised in the form of various charts.

- **Value of Business Covered:** In figure 1.1 it is very evident that the share of the value of Medium-and-long term (MLT) covers in the total value of business covered by ECGC is very small and somewhat stagnant over the period 2008-09 to 2018-19, while the share of the value of short-term policies in the total value of business covered is large and rising continuously over this period of past ten years. However, Short Term ECIBs (Export Credit Insurance for Banks) seem to be a

major component of the total value of business covered, and as shown in figure 1.1, not only are the short term ECIBs more fluctuating in nature but also seem to be the cause of fluctuations in total value of business covered. In other words, banks are availing more the facility of ECGC insurance cover than the exporters. So, we need to look for the reasons of firstly, this sudden fall in 2011-12 and equally sudden rise in 2015-16 in the value of business covered by short term ECIBs and, secondly, for the gap between the value of ECGC insurance provided to exporters and banks.

Figure 1.1 Value of Business Covered

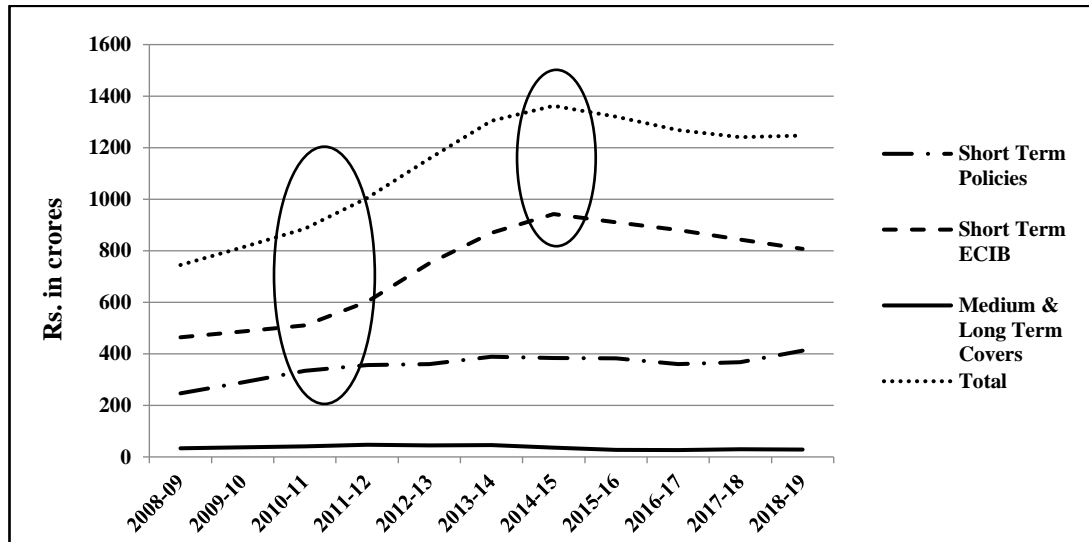


Source-ECGC Data

- Premium Income:** In figure 1.2, it is observed that a major part of the total premium income of ECGC is coming from short term ECIBs, which is a corollary of the fact highlighted in figure 1.1, namely, the short term ECIBs form a major part of the total value of ECGC business covered. Moreover, there is big jump in the share of short-term ECIBs in the total premium income suddenly in 2010-11. The share of short-term policies in the total premium income is much lower than that of short term ECIBs and also more or less stagnant during the ten-year period, from 2008-09 to 2018-19. Finally, the share of medium- and long-term insurance covers in the total premium income earned by ECGC is miniscule and stagnant during the period, 2008-09 to 2018-19. Hence, reasons - political, economic, or other - must be sought for the sudden increase in premium income earned from short term ECIBs since 2010-11. This can possibly shed light on the more substantive question of how can premium

income earned by ECGC be increased by increasing the insurance coverage through other short, medium and long term ECGC policies.

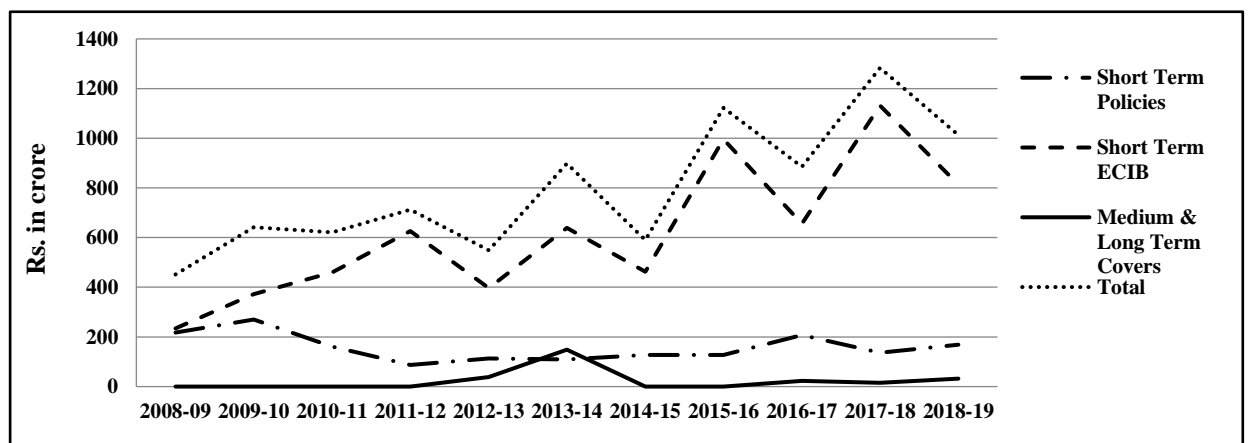
Figure 1.2 Premium Income



Source-ECGC Data

- Claims paid:** Figure 1.3 shows that the total value of claims paid by ECGC has a rising trend but with wide fluctuations. These fluctuations appear to be the result of similar fluctuations seen in claims through short term ECIBs, as this type of claim accounts for the majority of the total value of claims on ECGC. The percentage of the former in the latter is 52% (i.e., 234.19 / 451.42) in 2008-09, 88% (i.e., 626 / 713.03) in 2011-12, and 89% (i.e., 995.52 / 1122.84) in 2015-16 and finally reaches 80% (i.e., 813.39 / 1013.31) in 2018-19. On the other hand, claims paid on account of short-term policies are much less in value and declined sharply since 2009-10.

Figure 1.3 Claims Paid



Source-ECGC Data



Thus, the above three charts clearly show that Short-term ECIBs are the most important in terms of business for ECGC, and thus various business indicators of ECGC fluctuate as per the fluctuations in the business indicators of Short Term ECIBs. In order to understand the impact of ECGC on the export performance of the Indian economy it is very important to analyse and expound the major commercial and political reasons responsible for sudden rise and fall in export insurance covers taken by exporters and how can their confidence be boosted so that they can enhance their export performance by insuring their export credit risks.

1.2 Context

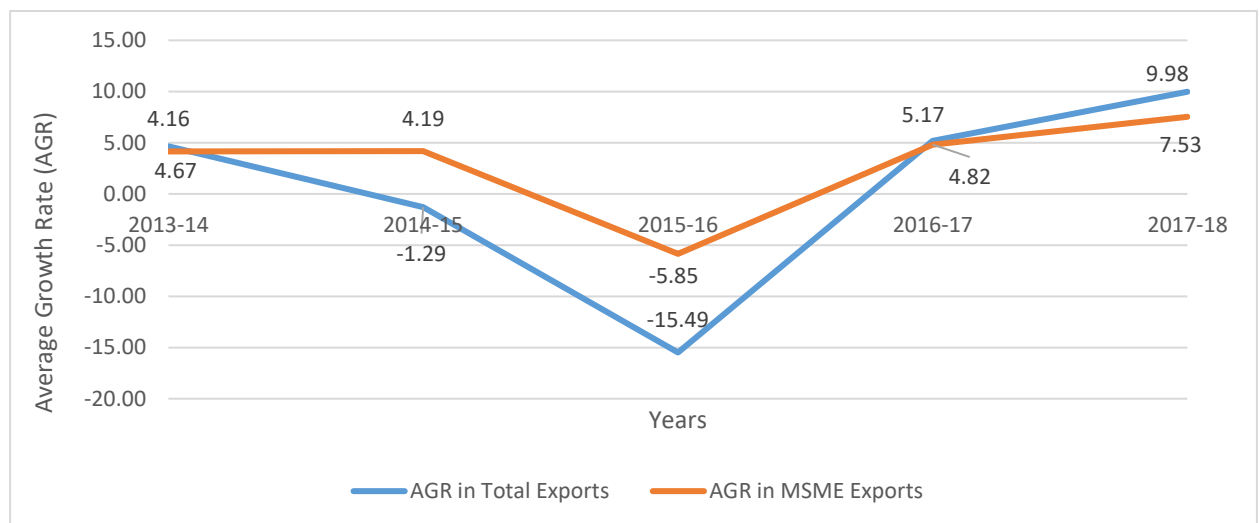
The export business of India is doing well both in the goods and services sector and in 2013 Indian exports accounted for approximately one-fourth of the Indian GDP, though this share of exports in GDP recently dropped to one-fifth. Amiti and Weinstein (2011) argue that financial frictions affect international transactions more strongly than the domestic ones. Risks arising from the vagaries in the domestic product and financial markets is an underlying feature of any business. At the same time, businesses engaged in global trade are not only exposed to local risks but also the international risks, like international financial crisis, currency appreciation/depreciation risks, political risks, etc. Hence, existence of agencies like ECGC to protect exporters from these risks for promotion of Indian exports is necessary. ECGC generally insures losses due to credit risks that may be arising due to commercial or political uncertainties, and, in addition to offering insurance protection to exporters, it assists exporters in various ways. ECGC provides cover to banks and financial institutions against the loans given to the Indian exporters for export purposes and thus facilitates export finance to exporters by banks. It provides guidance in export related activities in various ways, such as, by holding workshops/seminars for exporters and banks, furnishing information on credit worthiness of overseas buyers, creating a platform for assessing country risk to facilitate market selection.

This research study aims at analysing the impact of such export credit insurance schemes provided by ECGC on the export performance of India using both primary and secondary data. The research analyses which sectors are availing the services of ECGC the most and answer the question of whether there are there any significant improvements in export performance of the sectors or firms availing the ECGC services in comparison to those who are not doing so.

1.2.1 Trends in MSME’s Growth

The role of micro, small and medium enterprises (MSMEs) in the economic and social development of India is well established. As per the NSSO survey 2015-16, the total number of MSMEs in India are around 6.30 crore (which is 98.50% of all the industrial units in India) employing over 111 million persons. With almost 51 percent of the MSMEs based in rural areas, the sector contributes towards the economic empowerment and social inclusion of the marginalized through the generation of employment. It is the second largest employer after agriculture. The MSME sector accounts for 45 % of total industrial production, 40% of total exports and contributes 30% of the country’s GDP. The figure 1.4 shows the trend in growth of MSME exports is in line with the total exports of the country. The MSME exports grew by 4.19% in 2014-15, which declined to -5.85 % in 2015-16. During the same period, total exports also declined from -1.29% to -15.49%. During 2016-17 and 2017-18 there was positive growth in case of both MSME exports and total exports.

Figure 1.4 Export growth of MSMEs in comparison to total exports



Source- RBI and DGCIS

As per the Index of Industrial Production (IIP), there are approximately 21 sectors and over 7,500 commodities produced by the MSMEs. The significance of the sector is evident from the government’s numerous initiatives to boost its growth for overhauling the entire MSME ecosystem towards making it more robust, competitive, and resilient in the national as well as the global scenarios.



The MSME sector has demonstrated remarkable resilience in the face of trailing global and domestic economic circumstances. The major challenges facing this sector require targeted policies and institutional interventions in the areas of infrastructure development, formalisation, technology adoption, backward and forward linkages, credit gap reduction and timely payments to MSMEs and their effective implementation. Government interventions have so far tended to be supply-side oriented and unable to effectively meet the challenges arising due to demand conditions in the market.

However, from the aspect of exporting goods and services in the international market, this sector faces several challenges, such as, limited information about products & services in demand in the foreign markets, difficulties in obtaining access to affordable trade finance, high logistics costs – airport, shipping costs and other transport-related costs, time-consuming and cumbersome documentation process required to comply with foreign and domestic market regulations, etc.

Impediments in accessing credit handicap the ability of MSMEs to connect to global value chains (GVCs). Access to insured trade credit is a dire need to meet the challenges posed by hard bargaining by buyers for steep discount, default in payments, higher cost of production, tighter lending norms against uninsured payments and others. In such scenarios, financial instruments such as Trade Credit, Trade Credit Insurance, Cash in Advance and others help MSMEs to certain extent².

1.3 Trade effects of Export Credit Insurance Schemes: Review of Literature

The theoretical argument for the likely favourable effects of export credit insurance on exports is a simplistic one. Export credit insurance can be informally thought of as a reduction in both fixed and variable trade costs, which would imply an increase both in the extensive and the intensive margins of international trade in standard new trade theory models with heterogeneous firms (Melitz, 2003). Reduction in costs for exporters would naturally enhance their competitiveness.

Empirically, the role of public export credit insurance in supporting export activity cannot be said to be sufficiently well researched. However, there are several significant firm-level studies on this topic which demand attention.

² RBI estimates on access to formal credit.



In a two-stage estimation, Manova (2008) finds that credit constraints reduce firm-level exports of US firms, limit export product variety, and increase product churning for countries with less developed financial markets. Bellone *et al* (2010) link financial factors to a firm's export behaviour for a set of French manufacturers. In addition to differences in productivity, heterogeneity in financial constraints helps to explain the selection of firms into exporters and non-exporters.

Moser *et al* (2008) estimate the effect of public export credit insurance in a static and dynamic panel model for Germany and find a statistically and economically significant positive effect of public export credit insurance on exports. Moreover, political risk turns out to be an important obstacle for exports in this model. Egger and URL (2006) also find a mildly positive effect of public export credit insurance on exports. Using disaggregated panel data for goods exports from Austria over the period 1996 to 2002, they show that public export credit insurance has a less than proportional positive effect on international trade volume. They predominantly affect the country's structure of foreign trade but leave the industry specialisation almost unchanged.

Chor and Manova (2012) studied the collapse of international trade flows during the global financial crisis using detailed data on monthly US imports. They show that credit conditions were an important channel through which the crisis affected trade volumes. Countries with higher interbank rates and thus tighter credit markets exported less to the US during the peak of the crisis. This effect was especially pronounced in sectors that require extensive external financing, have limited access to trade credit, or have few collateralizable assets. Their quantitative estimates for trade volumes underscore the large real adverse effects of financial constraints on exports and the potential gains from policy intervention to resolve these constraints. Policies for export credit insurance are studied more directly by Heiland and Yalcin (2021). They argue that support to credit-constrained exporters comes mostly from state credit insurance as private financial agents are limited in their abilities to provide insurance due to costs of risk diversification, liquidity management, and coordination among creditors.

Moreover, government's greater effectiveness in recovering claims in foreign countries endows the state with a cost advantage in dealing with the risks involved in large export projects. These hypotheses were tested using monthly firm-level data combined with official transaction-level data on covered exports of German firms. Suggestive evidence was found that positive effects on trade are due to mitigated financial constraints: State credit insurance



schemes benefit firms that are dependent on external finance, if the value at risk which they seek to cover is large, and at times when refinancing conditions in the private financial market are tight. Similar results are found in another empirical study on Germany by Felbermayr *et al* (2013). By exploiting the sectoral structure of a rich three-way panel data set of German exports, they find a robust export-increasing effect of insurances, which is larger for export markets with poor financial institutions and in sectors that rely more on external finance.

Badinger and Url (2013) analyse a cross-section of 178 Austrian exporting firms, some of which acquired insurance covers for the year 2008, and found that there are economically and statistically significant positive effects of export credit insurance usage on firm-specific export performance. Findings of various other studies are supportive of this positive relationship between export credit insurance usage and export performance. (Berman and Héricourt, 2010, Forlani, 2014, Muûls, 2015, Minetti and Zhu, 2011).

Extension of trade credit to exporters by financial intermediaries is not discrimination-free. Financial intermediaries usually require a strong balance sheet or particular collaterals before providing credit to exporters. Such requirements may disfavour less productive firms and firms in industries with less collateral (OECD, 2013, USITC, 2010, Manova, 2013). Smaller firms may be particularly disadvantaged in accessing external financing (Riding *et al.*, 2012, Ang, 1991, Beck and Demirguc-Kunt, 2006, Carpenter and Petersen, 2002). The less productive, less collateralised, and smaller firms may need trade credit to engage freely in trade but are unable to obtain it. Hence, they restrict their trade to “safe” counter-parties (Eck *et al.*, 2015).

The least productive firms are forced to abstain from international trade altogether. Also, as trade finance tends to dry up during financial crises, facilitating trade finance via insurance may become especially important in such times (Ahn *et al.*, 2011). Recently, Lodefalk, *et al* (2018) found how credit insurance improves firms’ exports, jobs and value added by using uniquely detailed and exhaustive transaction-level panel data on credit insurance and granular information on trade as well as on exporters and foreign buyers, by performing difference-in-difference matching estimations. Overall, the evidence suggested a causal link between credit insurance and firm export performance.

Summing up, there are strong theoretical reasons, along with some supportive empirical evidence, to assume that public export credit insurance help to overcome market failures related to asymmetric information by providing credit insurance where no private markets exist. Credit insurances, therefore, mitigate financial constraints, facilitate the provision of trade credit to



exporters and their customers, and reduce uncertainty and trade costs, such that one would expect an effective system of public export credit insurances to promote international trade both at the intensive and extensive margin.

However, in the Indian case, studies examining the impact of credit insurance schemes on exports have been rather scarce; they are scarcer for exports of medium and small enterprises. This study, therefore, deals with the question of their effectiveness as a tool for promoting international competitiveness and exports.

1.4 Objectives

1. To classify sectors and markets for Indian exports with a view to identify the market for insurable exports.
2. To analyse the export orientation of firms in developing their competitive positions in the world from the standpoint of nature of risks undertaken and challenges faced in reaching out to foreign markets.
3. To identify and examine the determinants of ECGC usage by firms in India.
4. To critically examine the impact of ECGC insurance cover on export performance of firms.
5. To compare the performance of ECGC with its peers on select identified parameters and operational environment.
6. To evolve a comprehensive strategy for ECGC to improve its effectiveness and availability of insurance covers to export-oriented firms.

1.5 Methodology and Data Sources

For this study, research on primary and secondary data was carried out. Export performance was considered as a function of the rise in values of exports and also in terms of accessing new markets by the exporting firms. To identify the determinants of ECGC usage by firms in India, a primary survey using in-depth interviews/surveys was carried out. The primary survey was extremely helpful in analysing the export orientation of firms and the risks faced by them. From the responses in the primary survey, the impact on export performance of ECGC policies and a comprehensive strategy for ECGC has been elicited. The phase-wise methodology is as follows:



1.5.1 Phase 1: Secondary data research

- After the classification of MSMEs, the contribution of Indian MSMEs in the production of top exporting sectors was ascertained.
- Analysing the trends and patterns of ECGC insurance covers to exporters.
- The composition and destination of Indian exports and the sectors for which ECGC insurance covers are mainly preferred were identified.
- At the sectoral level, with the use of descriptive statistics, the export performance of all those sectors availing the benefits of ECGC and those sectors were compared for different years.
- Trade competitiveness indicators, mainly the intensive and extensive margins were used to analyse the export performance of different sectors.
- Secondly, the empirical investigation in the form of a dynamic panel econometric analysis was undertaken for the sectors considered for the assessment of the impact of ECGC cover on exports. Lagged export propensity was included as a dependent variable to capture the path-dependency of exports.
- Further, the sectors were classified into three categories, namely — ECGC cover impacting export propensity, export propensity impacting ECGC cover and both ECGC cover and export propensity reinforcing each other. This made possible an informed and focussed discussion on policy making for individual sectors.
- Also, the stochastic frontier analysis was used to compare the technical efficiency of MSME firms undertaking ECGC cover with those who were not.
- The extent of reliance on ECGC cover of the top efficient forms was compared with that of the least efficient.

1.5.2 Phase 2: Primary data research

In-depth interviews/surveys with various MSME exporters and ECGC officials were conducted to understand:

- The sector-wise and state-wise MSME clusters.
- The size of firms and the distinction between policy & non-policy holders.
- The factors linking export credit and export performance by exports.



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- The factors determining the usage of ECGC policies by collecting specific items of information about the various ECGC policies undertaken by the firms.
- The major challenges faced in obtaining the claims.
- The awareness and availability of ECGC policies
- The details of insurance schemes impacting export performance of MSMEs.
- Credit risk management practices
- Feedback from policyholders and non-policyholders for improvement in various ECGC policies.
- Policy prescriptions and action plans for ECGC to boost the potential of Indian MSMEs to export.

1.6 Analysis and Recommendations

- Based on a detailed analysis of the information collected during research, recommendations have been made for addressing the challenges faced in attempting to improve MSME's export competitiveness.
- Policy measures have been suggested to ECGC to make the credit insurance covers more attractive for enhancing exports especially for the MSME sectors.



2. Exports and Markets for Insurable Exports

2.1 Trends and Pattern of MSME Sectors

Although the use of export credit insurance is associated with reduction in fixed costs in terms of effort, administrative procedures, and costs of obtaining information, it is plausible to assume that these costs are less relevant for larger firms (Badinger and 2013) but are important for smaller firms. Also, the effects of financial constraints tend to be more severe for MSMEs. Hence, export insurance can provide greater relief to these enterprises (Chauffour and Farole, 2009). Further, as export insurance covers mainly commercial and political risks, which are greater for the medium, small and micro firms, it aids mostly these MSMEs in increasing the probability to export their products to a foreign destination (Natasha et.al, 2018).

2.1.1 Assessment of growth of sector wise exports insured by ECGC

According to the data provided by ECGC on Short-term Policy holders, MSMEs pertaining to the sectors that have been insured are presented in table 2.1, where the maximum export growth pertains to Engineering goods, chemical & allied products, handicrafts and agriculture and allied products.

Table 2.1 Growth in Value of sector wise exports insured by ECGC

Sector	CAGR (2007-2017)
Agriculture and allied products	10.6%
Engineering goods	13.23%
Chemicals and allied products	12.07%
Textile & articles	6.59%
Leather and leather manufactures	6.46%
Handicrafts	11.35%
Gems & jewelry	7.09%
Miscellaneous	9.36%



2.1.2 Trade Margins

Export credit insurance can be informally thought of as leading to a reduction in both fixed and variable trade costs, which would imply an increase both in the extensive and the intensive margins of international trade in standard new trade theory models with heterogeneous firms (Melitz, 2003). Using these concepts, export growth for different trade margins is explained for the MSME sectors.

2.2 Identification of India's Export Sectors

The sector-wise classification of MSMEs is neither given by the Ministry of MSMEs upfront, nor has there been any recent primary survey pertaining to MSMEs which could aid in picking out the sectors. However, the definition of expenditure on plant and machinery given by the Ministry of MSMEs is used to firstly classify firms belonging to manufacturing sector according to the MSME definition of June 2020, where these firms are aggregated into various sectors.

The major sectors chosen for the analysis at NIC 2-digit classification are: (i) Manufacture of food products, (ii) Manufacture of textiles, (iii) Manufacture of chemicals & chemical products, (iv) Manufacture of pharmaceutical products, (v) Manufacture of Base metals, (vi) Manufacture of rubber & plastic products, (vii) Manufacture of computer, electronic & optical products, (viii) Manufacture of electrical equipment, (ix) Manufacture of machinery and equipment and (x) Manufacture of motor vehicles and trailers.

2.2.1 Data and Variables

The analysis pertains to a 10-year period, from 2007-08 to 2017-18 with sector-wise firms as the cross-section for each of the ten years leading to a panel data. The dependent variable in this regression analysis is the export intensity (i.e., value of exports as a proportion of sales) of firms the main explanatory variable of interest is expenditure on other insurance premium as a proportion of sales. This variable according to CMIE pertains to expense incurred on paying insurance premium to ECGC. All variables are sector-specific and listed in table 2.2.

Table 2.2 Description of Variables

S.No.	Dependent Variable (Regressand)	Description
1.	Export Intensity (EXPINT _{it})	Value of Exports as a proportion of sales
	Explanatory Variables (Regressors)	Description
1.	Other Insurance premium (ECGC _{it})	Expenditure on insurance premium as a proportion of sales
2.	Import intensity of capital goods (IMPCG _{it})	Expenditure on import of capital goods as a proportion of sales
3.	Import intensity of final goods (IMPF _{it})	Expenditure on import of final goods as a proportion of sales
4.	R&D intensity (R&DINT _{it})	Expenditure on research & development as a proportion of sales
5.	Import intensity of raw material (IMPRM _{it})	Expenditure on import of raw material as a proportion of sales

2.2.2 Empirical Specification

It is the ECGC Ltd. which mostly provides export credit insurance to Indian exporters against non-payment risks. The first explanatory variable, therefore, is “other insurance premium (ECGC_{it})”, which is exporters’ expenditure on ECGC insurance premium as a proportion of sales.

In studying the impact of taking ECGC covers for exports through a regression analysis, there arises an endogeneity issue wherein the sectors with greater exports are more likely to apply for the ECGC cover overtime. This creates a measurement error and because of this, to estimate dynamic models of panel data, the differenced Generalized Method of Moments (GMM) from Arellano and Bond (1991) is used. Because the effects of an economic policy unfold over time, it is important to analyse economic policymaking in a dynamic framework.

Hence, we include a lagged dependent variable, export intensity, among the explanatory variables on the right-hand side. By including a lagged dependent variable, the standard estimators become inconsistent, and the consistent estimators can be found using the GMM estimator. The dynamic panel specification that we estimate is as follows:

$$EXPINT_{i,t} = \alpha_1 EXPINT_{i,t-1} + \alpha_2 ECGC_{it} + X_{it}\beta + \delta_i + \varepsilon_{it} \dots (1)$$

where $EXPINT_{i,t}$ represents export intensity for sector i at time t . $ECGC_{it}$ represents the ratio of expenditure on insurance premium to sales. X_{it} represent control variables to test the robustness of the model. δ_i represent the individual fixed effects specific to each sector and it is constant in time. ε_{it} is random disturbance term.

For estimating equation (1) by GMM, the first step involves removing the individual effects by creating a differenced version of equation (1):

$$\begin{aligned} (EXPINT_{i,t} - EXPINT_{i,t-1}) &= \alpha_1 (EXPINT_{i,t-1} - EXPINT_{i,t-1}) + \alpha_2 (ECGC_{i,t} - ECGC_{i,t-1}) \\ &+ \beta (X_{it} - X_{it-1}) + (\varepsilon_{it} - \varepsilon_{it-1}) \dots (2) \end{aligned}$$

In the differenced equation (2), there still exists the problem of correlation between the errors and the independent variables, which has to be corrected by instrumenting. Since finding valid external instruments is not easy, GMM draws instruments from within the dataset, as lags of the instrumented variables. More precisely, the instruments used are the lagged values of the dependent variables and the lagged values of the independent variable in case of endogeneity. The normal assumption to be imposed is the exogeneity of instruments confirmed by Sargan test.

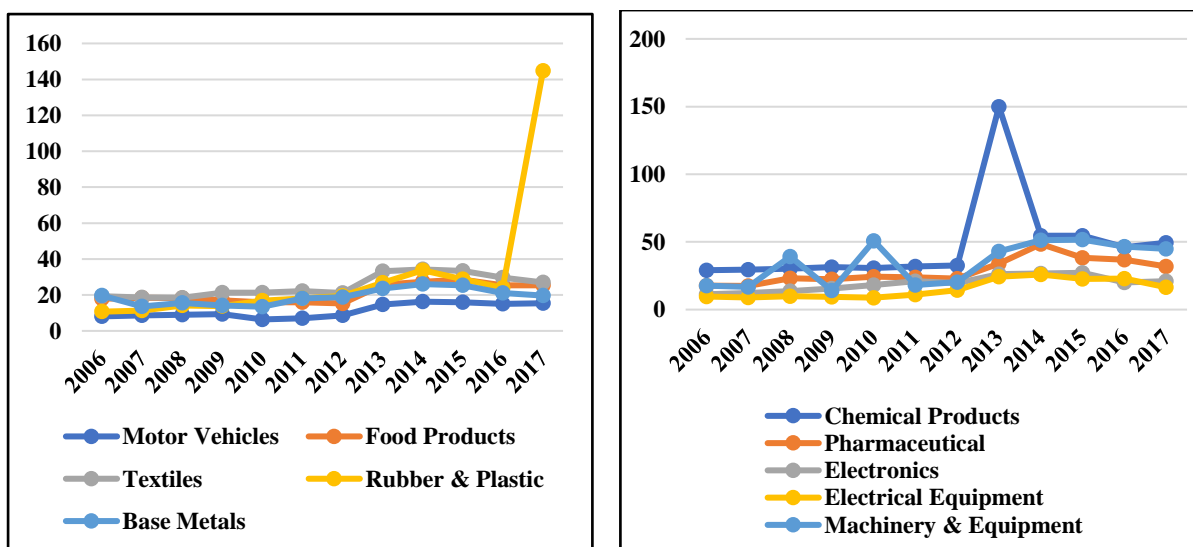
2.3 Descriptive Analysis

Table 2.3 provides the mean values of the various indicators used for analysing ten different sectors corresponding to the maximum number of MSME firms. Considering first the dependent variable, on an average the export intensity ($EXPINT_{it}$) is relatively higher for the following three sectors: manufacture of pharmaceuticals (sector iv), textiles (sector ii) and rubber &

plastics (sector vi). On the other hand, export intensity was least for manufacture of electrical equipment (sector viii) and motor vehicles (sector x). Turning to the explanatory variables, the expenditure on other insurance premium variable (ECGC_{it}) capturing the effect of expenditure on ECGC cover, on an average was high for manufacture of textiles (sector ii), pharmaceuticals (sector iv) and food products (sector i). This indicates that sectors with high export intensity on an average tend to undertake more amount of ECGC cover and/or sectors that are already taking ECGC cover tend to export more.

In figure 2.1, the export intensity of different sectors is presented. Among all the low-tech (sectors i and ii) and medium-tech (sectors iii, v, vi, viii, ix and x) sectors, almost a similar pattern is observed over the 10-year period. Moreover, it is the export of rubber & plastic, a medium-tech sector, which shows a clear jump in 2017. Both the low-tech sectors, i.e., textile and food sectors, also had high exports during the same time-period. Among the medium-tech sectors³, chemicals and chemical products (sector iii) has the maximum export intensity. On the other hand, medium-tech sectors, such as, electrical equipment comprising of electric circuits, motors, generators (sector viii) and high-tech sectors like electronics, computer & optical products (sector vii) have a low export intensity throughout the ten-year period.

Figure 2.1 Export Intensity of Sectors

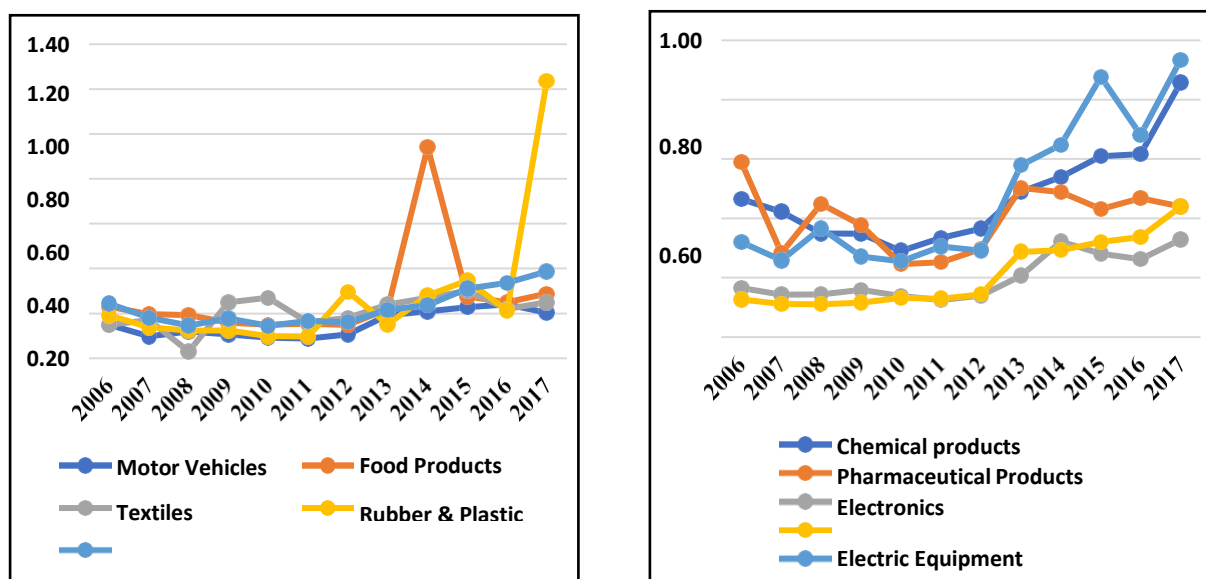


Source-Prowess, CMIE

³ OECD classification of technology industries <https://www.oecd.org/sti/ind/48350231.pdf>

In figure 2.2, the sectoral performance in terms of undertaking ECGC cover captured through expenditure on other insurance premium variable is presented. As can be seen, low-tech sectors like food and textiles spend the most on ECGC cover. Among medium-tech sectors, a rising trend can be observed for all the sectors, especially for machinery & equipments and chemical products. Rising trend is also seen for both the high-tech sectors - electronics and pharmaceuticals. Thus, except for the medium-tech machinery and equipment sector which has a low export intensity despite high expenditure on other insurance premium, sectors with relatively high export intensity also spend more on the other insurance premium variable.

Figure 2.2 Sectoral expenditure on ECGC Insurance Premium



Source-Prowess, CMIE

Taking account of the other variables, (from Table 2.3) the import intensity of capital goods for the manufacture of machinery and equipment is maximum on an average whereas it is the lowest for the manufacture of food products. Both the import of capital and final goods relates to the import of technology embodied goods. Hence, it is important to look at the import intensities of final goods of the ten sectors. The import intensity of final goods is on an average maximum for manufacture of computer and electronics and is the lowest for manufacture of food products. For import intensity of raw materials too, the highest position is occupied by the computer and electronics sector also imports the maximum raw material inputs, indicating that this sector is heavily dependent on imports for its exports to increase.

The figure 2.3 below, presents the average expenditure on import intensity of raw material, capital and final goods over the time period considered. As can be seen, the import intensity of

raw material input is highest among the sectors (especially for chemical products, base metals and electronics sector), except for the capital input for machinery & equipment sector.

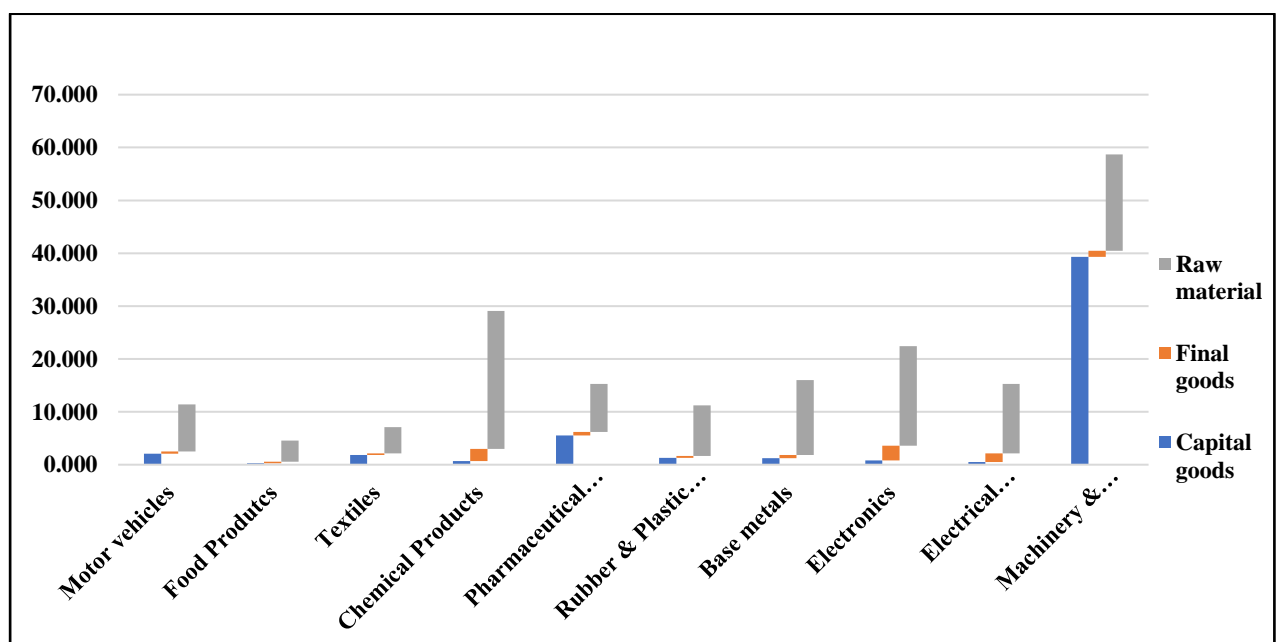
In terms of R&D intensity, the pharmaceutical sector has the maximum value (Table 2.3).

Finally, the foreign ownership share variable reveals that on an average, out of all the ten sectors, the textile sector has the maximum number of foreign firms among the MSMEs. The automobiles sector has the maximum number of domestic firms among the MSMEs.

Although, most of the MSMEs corresponding to different sectors have maximum number of firms incorporated after 1991, it is the pharmaceutical sector with most of the firms incorporated before 1991. However, some firms, such as small-sized or young firms, may be disadvantaged, even if highly productive, either due to the small scale of their current production and trade, which can result in high or even prohibitive average fixed costs in foreign trade, or because of their inability to access external financing (Berman and Héricourt, 2010, Forlani, 2014, Muûls, 2015, Minetti and Zhu, 2011).

On the other hand, being part of a multinational enterprise (MNE) reduces the incentive to use export insurances, as these firms become resource-rich and also due to intra-firm information flows and improved access to information on foreign markets and trading partners.

Figure 2.3 Sectoral Average Expenditure on Imports Intensity of Inputs



Source-Prowess, CMIE

Table 2.3 Summary Statistics-Mean Values

(Blocks having the blue background contain highest values along rows)

Variables	(i) Manufacture of food products	(ii) Manufacture of textiles	(iii) Manufacture of Chemical & chemical Products	(iv) Manufacture of Pharmaceutical Products	(v) Manufacture of Base metals	(vi) Manufacture of rubber & plastic products	(vii) Manufacture of computer, electronic &optical products	(viii) Manufacture of electrical equipment	(ix) Manufacture of machinery and equipment	(x) Manufacture of motor vehicles, trailers
Export Intensity (<i>Dependent Variable</i>)	0.1432	0.1612	0.1527	0.1663	0.1073	0.1607	0.1337	0.0805	0.1168	0.0926
<i>Explanatory Variables:</i>										
Expenditure on other insurance premium	0.0018	0.0092	0.0015	0.0023	0.0013	0.0015	0.0014	0.0011	0.0016	0.0013
Import intensity of capital goods	0.0019	0.0120	0.0022	0.0324	0.0069	0.0068	0.0057	0.0026	0.1328	0.0172



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Import intensity of final goods	0.0018	0.0019	0.0075	0.0038	0.0035	0.0019	0.0190	0.0085	0.0040	0.0037
R&D intensity	0.0003	0.0016	0.0023	0.0447	0.0004	0.0002	0.0077	0.0010	0.0018	0.0010
Import intensity of raw material	0.0274	0.0320	0.0838	0.0531	0.0796	0.0508	0.1299	0.0691	0.0614	0.0735
Age Dummy D=1, incorporated after 1991, 0=incorporated before 1991	0.5685	0.5419	0.5563	0.5380	0.6292	0.6277	0.6621	0.5969	0.6115	0.6281
Ownership (foreign Share)	7.9963	14.4771	10.7163	13.2957	12.8300	10.4316	7.1063	6.9294	6.8630	6.4223



2.4. Assessment of sector wise exports insured by ECGC

The dynamic panel analysis is mainly conducted to remove the endogeneity issues from the data on exports and other insurance premium variable. The inclusion of the lagged value of the dependent variable helps to better deal with the autocorrelation of the disturbances in the panel estimation, with time-invariant sector characteristics correlated with explanatory variables, and with some regressors that may be predetermined variables rather than strictly exogenous ones. It also helps to infer if there exists export path-dependency (i.e., aggregate exports in various products tend to last once they have started) of firms.

The Sargan test for the over-identification of restrictions, i.e., for checking the validity of instruments reveals that this model does justice to the data. Thus, Table 2.3 provides the estimation of results for ten different sectors with dependant variable taken as the export intensity. The past values of exports certainly impact the present values of exports, as stated by Reinstaller and Reschenhofer (2015), the path-dependencies in systems of production having a dual role of not only being a source of structural lock-in, but also a potential starting point for new developments, could be an important source of competitiveness for traded commodities in the form of learning-by-exporting. In this way, the major sectors like the manufacture of textiles and food products harness the maximum benefit from learning-by-exporting capabilities and techniques. And, thus, any further increase in their export propensity induces them to undertake ECGC cover even more.

For the present regression analysis, we have considered, *inter alia*, lagged values of the expenditure on other insurance premium variable, ECGC, to capture the effect on the sectoral export intensity to the maximum possible extent.

For sectors like manufacture of chemical & chemical products and rubber & plastic products, the lagged value of export intensity has come out to be negative and correlation between ECGC variable and export intensity has come out to be positive, this indicates that rather than the past experience of exporting, it is the present impact of ECGC variable that prods higher export intensity in these sectors. Therefore, the government casts export credit insurance as a useful tool to foster domestic export industries and thereby the economy (In Young, 2014).



For the other six sectors namely, manufacture of pharmaceutical products, base metals, electrical equipment, electronics & computer, machinery & equipment and motor vehicles, the path dependency is significantly positive and even the impacts of both the current and the lagged ECGC variables on export intensity are found to be positive and significantly so. Therefore, for these sectors, the relationships between these variables reinforce each other to promote larger expenditure on ECGC cover and higher export intensity.

The extent of import intensity of capital goods provides clues about the firm's affordability of inputs and its performance in financial terms. In any case, finance must be sought for employment of physical capital which necessarily entails risks. Hence capital usage depends on firms' ability to take loans which, in turn, is related to the extent of collateral that a firm can provide to cover risks of default (Bester, 1985). Except for manufacture of pharmaceuticals, textiles and base metals, all other sectors have positive correlation between import intensity of capital goods and export intensity.

The import intensity of raw materials and final goods indicate the firm's position in the value chain. That is, higher the firms on the value chain, the greater is their export intensity and greater the willingness to diversify exports and hence higher will be their usage of export insurances. For sectors like rubber & plastics, base metals and machinery & equipment, the import intensity of both final goods and raw material inputs is positive as well as significantly high, and so is the coefficient of ECGC which is positively and significantly correlated with export intensity.

Finally, for the R&D intensity, the possible explanation is that technologically more advanced firms have a higher motivation for using export credit insurances as these are more likely to boost their export performance. Thus, for the sectors like pharmaceutical, base metals, computer and electronics and machinery & equipment having statistically significant and positive association with exports, the impact of ECGC on export intensity is significantly positive and increasing.

Table 2.4 Result of Dynamic Panel Analysis

Variables	(i) Manufacture of food products	(ii) Manufacture of textiles	(iii) Manufacture of Chemical & chemical Products	(iv) Manufacture of Pharmaceutical Products	(v) Manufacture of Base metals	(vi) Manufacture of rubber & plastic products	(vii) Manufacture of computer, electronic & optical products	(viii) Manufacture of electrical equipment	(ix) Manufacture of machinery and equipment	(x) Manufacture of motor vehicles, trailers
EXPINT_{it} (-1)	0.508*	0.532*	-0.008*	0.091*	0.187*	-0.029	0.401*	0.392*	0.006*	0.296*
IMPCG_{it}	0.747*	-0.019	0.494***	-0.272*	-1.001*	0.578	0.749*	0.837*	0.020*	0.018**
IMPG_{it}	2.375*	0.819**	0.019	0.392*	1.801*	29.189*	-0.548*	0.018	1.711**	1.671*
ECGC_{it}	-0.017		24.344*			0.049		8.448**	51.712*	27.344*
ECGC_{it} (-1)				0.581*	4.116*		4.138*			
ECGC_{it} (-2)		0.001*								
R&DINT_{it}	-0.573	-0.001*	-1.223	0.133*	27.250*	-5.989*	0.170	-1.486	27.107*	-0.566**
IMPRM_{it}	0.027*	0.562*	-0.361	0.690*	0.482*	1.340*	0.568*	0.386*	0.542*	0.428*
Prob(J- statistic) Sargan test	0.242	0.318	0.929	0.256	0.557	0.237	0.543	0.423	0.119	0.410

(*, **, *** values are at 1%, 5% & 10% level of significance)



2.5 Summary

ECGC is a Government of India (GoI) enterprise for providing export credit insurance covers against credit risk in exports of goods and services. By doing this, it has helped significantly in promoting exports in India. However, there is scope for fine tuning of its policies towards different sectors so as to be more effective in fostering overall export growth in India. In this chapter while highlighting the export growth taking place at both intensive and extensive margins for different sectors, we see that sectors like textile & clothing, base metals, electrical machinery and motor vehicles show positive growth at intensive margin mainly for the category of “existing products growing in the established markets”. And it is mainly leather, base metal, electric machinery, motor vehicles and chemical sector showing growth at the extensive margin. Further, a dynamic panel regression model is employed to estimate the impact of expenditure on ECGC insurance cover, import intensity of capital goods, import intensity of final goods, import intensity of final goods and R&D intensity on the export intensity of ten exporting sectors.

Turning to results of the regression analysis of the impact of expenditure on ECGC cover on sectoral export propensity or *vice-versa*, the Table 2.5 provides the summary where the greater and significant coefficients of these variables are taken.

Table 2.5 Sector-Wise Summary

Sectors	ECGC cover impacting export propensity	Export propensity impacting ECGC cover	Both ECGC cover and export propensity reinforce each other
Manufacture of Food Products		✓	
Manufacture of Textiles		✓	
Manufacture of Chemical & chemical Products	✓		
Manufacture of Pharmaceutical Products	✓		✓
Manufacture of Base metals	✓		✓
Manufacture of rubber &	✓		

plastic products			
Manufacture of computer, electronics & optical products	✓		✓
Manufacture of electrical equipment	✓		✓
Manufacture of machinery and equipment	✓		✓
Manufacture of motor vehicles, trailers	✓		✓

Thus, the sectors which need to get the maximum attention in terms of policymaking belong to the fourth column where both ECGC cover and export intensity impact each other positively for further growth. Although sectors in the third column are highly-export intensive, a robust targeting by ECGC can be done to further increase their exports. For the sectors which are highly dependent on ECGC cover, mainly chemicals & chemical products and manufacture of rubber & plastics need to be carefully covered by ECGC owing to the immense risks they face from foreign buyers.

This leads to the need to formulate sector-specific policies aiming at facilitating and promoting export performance by careful consideration of the intricacies involved. Every sector is different in terms of relying on export credit insurance, as can be seen from the analysis. The other aspects which are intertwined are in the form of readiness of claim re- payment, credit limit, premium charged etc. The targeting of sectors and providing export credit insurance facilities for their different segments of supply chain can be another way, for example, storage related insurance covers for pharmaceutical sector, helping in inventory management for machinery related sectors and providing coverage of foreign exchange risks. These innovative approaches can be easily adopted by ECGC policies.

3. Firm efficiency and Exports of Indian MSMEs: An Econometric Analysis

3.1 Estimation of the Determinants of the Efficiency of the MSME Firms

The present section deals with the Stochastic Frontier Analysis (SFA) undertaken to identify and estimate the influence of the various factors, including, especially, export credit insurance, that impact the efficiency of MSME firms. We present here the bare bones of this SFA discussed in its entirety in the research papers on the significance of export credit insurance as a determinant of technical efficiency of firms by Arora and Siddiqui (2021) and Arora, Siddiqui and Nag (2020).

A two-stage approach is adopted in this analysis where, in the first stage, firm technical efficiency scores are estimated for the sample of MSME firms using a stochastic frontier production function. In the second stage, the estimated technical efficiency scores are regressed against hypothesized explanatory variables to estimate the technical inefficiency effects model. The explanatory variables (quantitative and categorical) in this regression are the following: (1) age of the firm (learning by doing hypothesis), (2) firm ownership type (domestic or foreign), (3) intensity of expenditure on marketing & advertising, (4) disembodied technology imports intensity, (5) R&D expenditure intensity, (6) export dummy capturing exporting or non-exporting type of firm, (7) interaction of export dummy (6) with spending on other insurance premium variable, (8) forex earning as a proportion of the total income of the firm, (9) raw material imports intensity, (10) capital goods imports intensity. The econometric estimation used firm-level data taken from the Prowess IQ, online corporate database (Centre of Monitoring Indian Economy) for the years 2007-08 and 2017-18.

3.2 Results of the Stochastic Frontier Analysis (SFA)

The medium sized firms in 2007-08 and micro and small firms in 2017-18 improved their technical efficiency by exporting. For micro firms in 2007-08, exports did not improve technical efficiency. But when all these MSME firms simultaneously exported and spent on other insurance premium (a proxy for ECGC cover), their technical efficiency significantly improved both in 2007-08 and 2017-18. Thus, this interaction of ECGC cover and firms doing exports implies that by purchasing insurance cover provided by ECGC, the MSMEs help themselves to increase their technical efficiency.

The comparison of mean values of key variables for the top 25% and bottom 25% of firms in terms of technical efficiency for year 2007-08 suggests that the highest average technical



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efficiency among the top 25% of efficient MSMEs was for medium firms followed by small and then micro firms. Further, the top 25% efficient firms among MSMEs tend to export more (i.e., they have a larger number of exporting firms), are larger in size, have higher forex earning (as a proportion of total income) and raw material import intensity, spend low on marketing & advertising per unit of sales. Most importantly, the most efficient firms have both higher exports earnings and spend more on other insurance premium. On the other hand, the bottom 25% of the efficient firms among MSMEs are less export oriented and thus spend less on insurance premium

In 2017-18, the highest average technical efficiency among the top 25% of efficient MSMEs was for micro firms followed by medium and then small sized firms. Also, the efficient firms were the export-oriented firms (micro & small firms dominate over medium sized firms) with higher expenditure on insurance premium. Medium sized firms earned maximum forex earnings. But the bottom 25% of efficient firms (small firms being least efficient), despite spending more on royalty and technical know-how fees, were less export oriented and did not spend much on insurance premium.

From the above account of the key results of the SFA, it follows that ECGC credit insurance not only facilitates better export performance by MSMEs but also helps them to improve their technical efficiency.

4. Constraints on the Performance of ECGC policies: Evidence from Primary Survey

4.1 Role of a Primary Survey

The key role of a primary survey in the execution of a study is to obtain and analyze first-hand information which can be procured through direct observation, especially, though not necessarily, when the problem under focus does not have a rich source of published information. In any case, for an understanding of issues at the local level, it is best to conduct a unit level analysis based on firm-level first-hand information. Thus, to develop an understanding of the impact of various export credit insurance schemes on export performance of MSMEs, this chapter mainly focuses on specific information about the various ECGC policies undertaken by the firms and the major challenges faced in deriving benefits from them.

To carry out this survey, ten major MSME clusters (Mumbai/Pune/Maharashtra, Chennai, Kerala, Delhi/NCR, Rajasthan, Hyderabad, Bangalore, Kolkata, Ahmadabad/Gujarat, Chandigarh/Punjab) focusing on ten major sectors, namely, (i) food products, (ii) textile and clothing, (iii) chemical and chemical products, (iv) pharmaceuticals, (v) base metals, (vi) rubber and plastic products, (vii) computer & electronics, (viii) electric equipment, (ix) machinery and equipment and (x) motor vehicles and trailers, were considered.

The section begins with a brief description of the survey design and the nature of the MSMEs participating in the survey. This is followed by a discussion on how export performance can be improved through enhanced usage of ECGC export credit insurance. This discussion extends further to identification of other factors which can promote the usage of ECGC policies. Most important, this discussion is based on specific information collected through the primary survey about the various ECGC policies undertaken by the firms and the major difficulties encountered in obtaining their benefits. While determining the awareness and the availability of ECGC policies, this section also delves into the details of how credit insurance schemes impact export performance of MSMEs, credit risk management practices, feedback from policy holders and non-policy holders for improvement in various ECGC policies. And finally, there are suggestions, based on the survey research findings, to ECGC on policy formulations for the Indian MSMEs.

4.2 Survey Design

A multi-stage sampling procedure was adopted to select target MSMEs for this survey. A mix of purposive and snowballing sampling techniques were adopted for the selection. Total sample of 300 companies ⁴was covered across the nation from pre-selected geographies (Table 4.1). The respondents are the senior managers or any other senior officials of the company who have a holistic knowledge about the various aspects related to undertaking of ECGC policies.

Table 4.1 Sample Size

State/Sector	Food	Textiles	Chemicals	Pharmas	Metals	Rubber & Plastic	Electronics	Electrical equipment	Machinery & Equipment	Automobiles	Total
Andhra Pradesh	2	1		1	1				2		7
Assam	1										1
Chhattisgarh										1	1
Goa			2								2
Gujarat	3	3	10	8	1	4			5	1	35
Haryana	7		1	1				1	1	3	14
Karnataka	3	1		1		1		2	4	1	13
Kerala	9	1				6			1		17
Madhya Pradesh	1		1	1							3
Maharashtra	12	8	7	11	4	8	17	12	22	12	113
Punjab	1			1	1	1		1			5
Rajasthan	1	3		2	6				1		13
Tamil Nadu		5	2	2	6	2			3	4	24

⁴ We acknowledge the data collection support provided by Genesis Management & Market Research Pvt. Ltd(GMMR).

Telangana	3	1	1		1					2	8
Uttar Pradesh		3				5	1	2			11
West Bengal	5			1	2	1		1	1		11
Delhi	6	6	1	2		1		2		2	20
Jammu and Kashmir				1							1
Puducherry			1								1
Total	54	32	26	32	22	29	18	21	40	26	300

Source: Primary Survey

The state-wise coverage can be seen in Table 4.1, which shows that maximum MSMEs belonged to Maharashtra with majority of firms belonging to machinery and equipment sector. Also, it is observed that as high as 72% were non-policy holders in Maharashtra as compared to only 28% companies holding some policies. This shows that in the state of Maharashtra, ECGC needs to pay attention to increase the number of policy holders. The situation is better in Tamil Nadu, Uttar Pradesh followed by Karnataka, Rajasthan, Gujarat, and Kerala.

Table 4.2 Questionnaire Analysis

Section A: General Information about firms	<ul style="list-style-type: none"> • Company details • Factors driving ECI policies & export performance • Credit risk insurance management practices • Reasons for not obtaining ECI polices
Section B: Specific information about ECGC policies	<ul style="list-style-type: none"> • Usage • Risks identified • Importance of ECGC policies in increasing export performance
Section C: Availability of information about ECGC policies	<ul style="list-style-type: none"> • Sources of Information

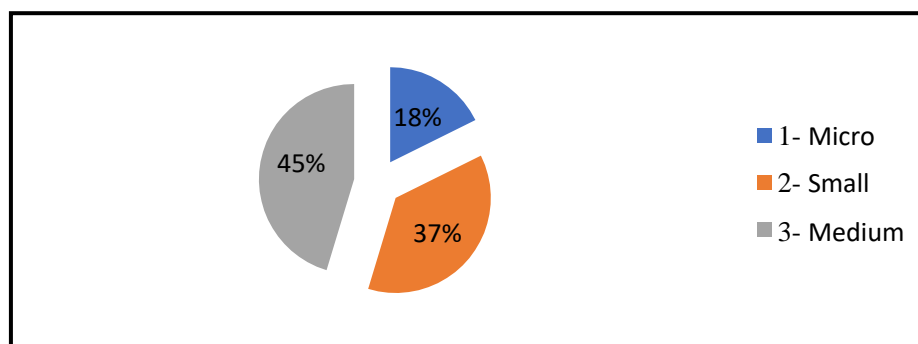
Section D: Important factors & challenges in obtaining ECGC policies	<ul style="list-style-type: none"> ● Important Factors ● Challenges faced by the firms ● Factors to improve policies
Section E: Policies, claims and export performance	<ul style="list-style-type: none"> ● Improvement in the Quality/Quantity of Output ● Usage of claims ● Performance improvement

The questionnaire consists of five sections (Table 4.2). Both qualitative and quantitative questions were asked to the respondents. Section A includes firm-specific information along with the importance of factors driving export credit insurance (ECI) policies and export performance, credit risk management practice, and the reasons for not obtaining ECI policies. Section B provides specific information about ECGC policies, involving its usage, identifiable risks associated with it and the importance of these policies in increasing exports after participation in international trade. In section C, firms are asked about the availability and awareness of existing ECGC policies. Section D identifies the important factors and challenges faced in obtaining ECGC policies. And finally, section E describes the relation between policies, claims and export performance.

4.3 Category of Firms and Related Details

This section provides the information on firms’ key characteristics such as company details on being policy and non-policy holders, sectoral distribution and sector-wise comparison of firms.

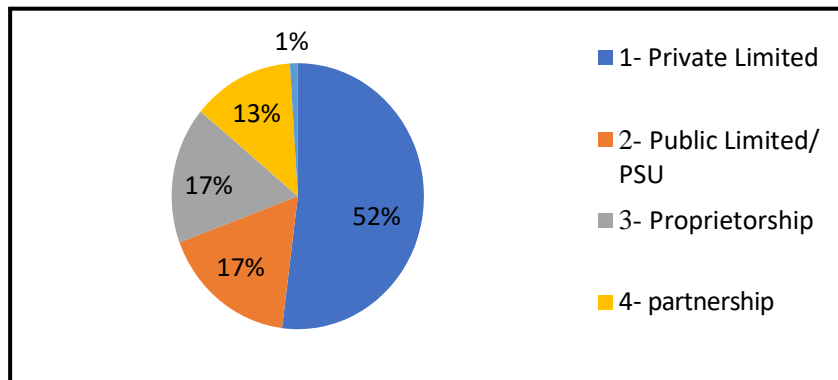
Figure 4.1 Size of Firms



Source: Primary Survey

Starting with characterising the firms according to their size, Figure 4.1 shows that the largest number of firms were of medium size (45%) followed by small (37%) and micro sized firms (18%).

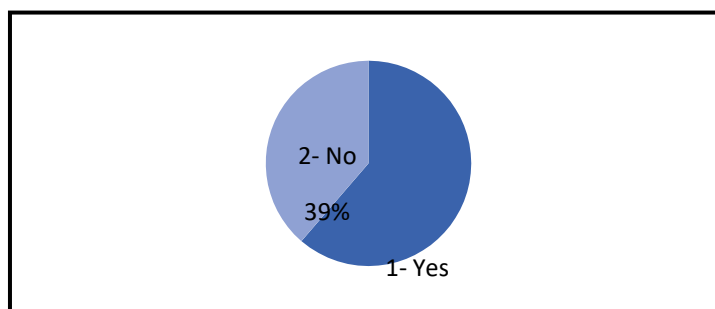
Figure 4.2 Types of Organization



Source: Primary Survey

The types of organisations as seen in Figure 4.2 shows that out of the total sample covered, as many as 52% companies were private limited followed by public limited/PSUs and proprietorships forming 17% each of the total number of companies.

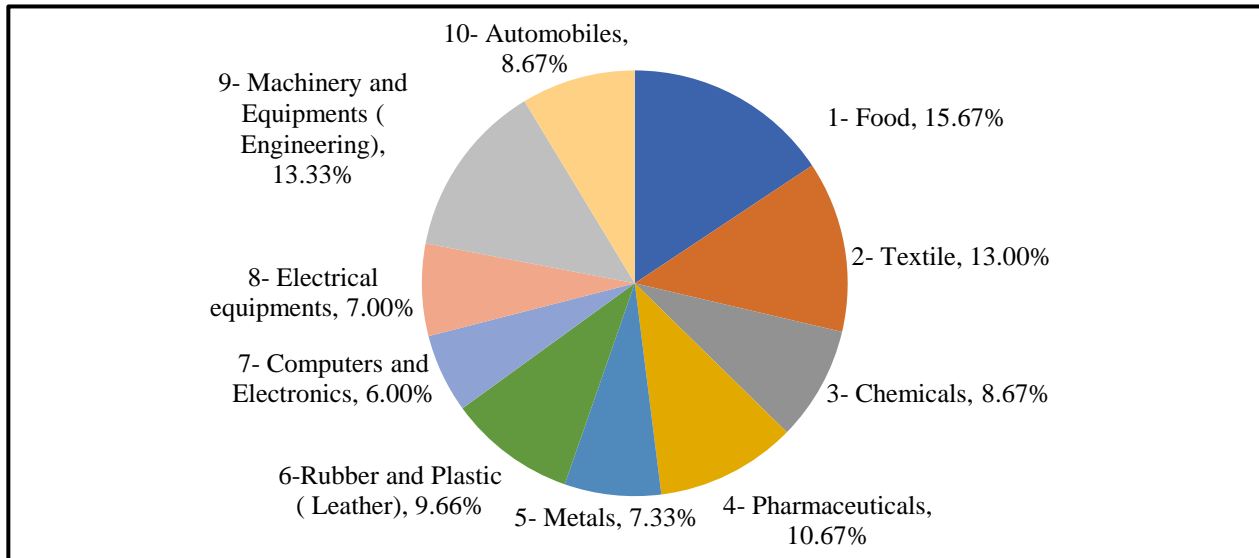
Figure 4.3 Whether ECGC Policy Holder or Non-Policy Holder



Source: Primary Survey

Next, Figure 4.3 presents the proportion of policy and non-policy holders, where out of the total sample covered, 61% were ECGC Policy holders whereas 39% were not holding any type of ECGC policies.

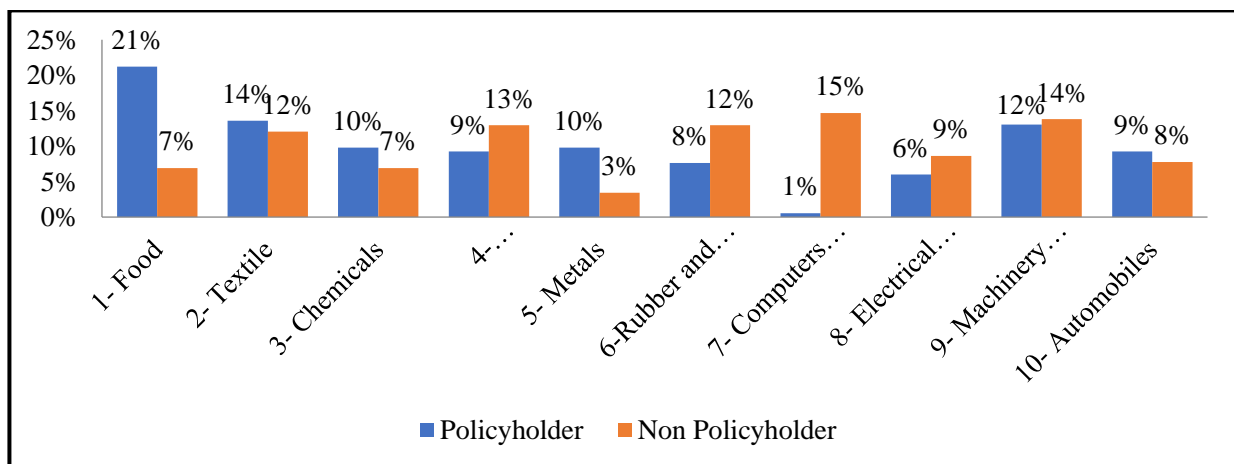
Figure 4.4 Sector wise Coverage



Source: Primary Survey

Figure 4.4 presents the sector-wise firms share in the total sectors covered in the survey. As can be seen, the maximum MSMEs belonged to food, textiles, machinery and equipment, pharmaceuticals, rubber and plastic and automobiles sectors.

Figure 4.5 Sector-wise Comparison between Policyholders and Non-Policyholders

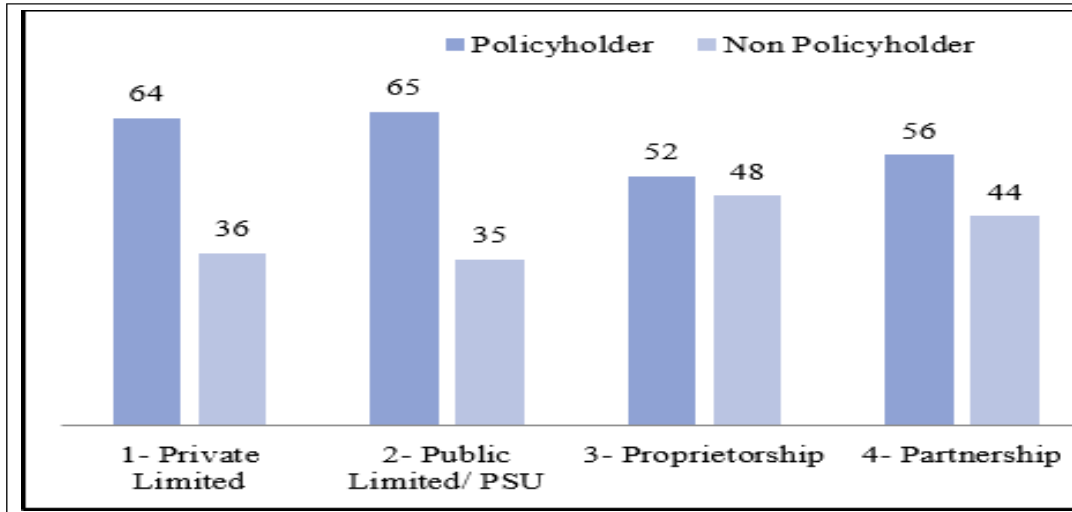


Source: Primary Survey

The sector wise comparison between policyholders and non-policyholders as shown in figure 4.5 reveals that the maximum percentage of ECGC policy holders (21%) were from the food sector, followed by textile sector (14%). The percentage of non-policy holders exceeded that of policy holders in computers and electronics, electrical equipment, machinery and engineering equipment, and pharmaceuticals. Indeed, in computers and electronics sector the

percentage of non-policy holders was as high as 15% as compared to that of only 1% for policy holders.

Figure 4.6 Comparison across Types of organization (in %)



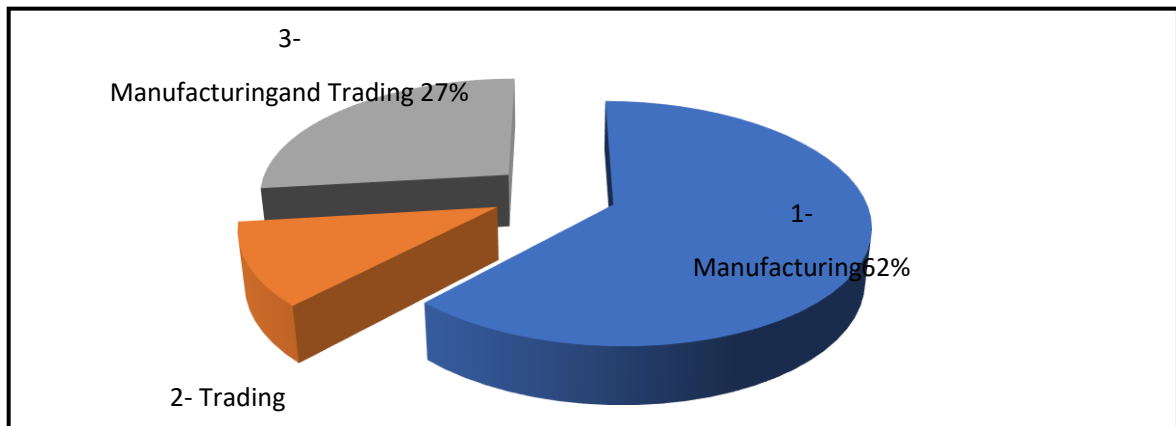
Source: Primary Survey

Figure 4.6 shows the comparison between policy and non-policy holders for the type of organisation where the total public limited /PSUs covered for the study, 65% of the companies were policy holders whereas 35% were non-policy holders. Almost same trend was noticed for private limited companies followed by partnership firms.

Also, from the above chart it is clear that in case of proprietorships nearly half of the units were policyholders and rest were non-policy holders. Thus, the number of policy holders exceed non-policy holders for every type of organisation surveyed in this study.

4.4 Identification particulars of the organization

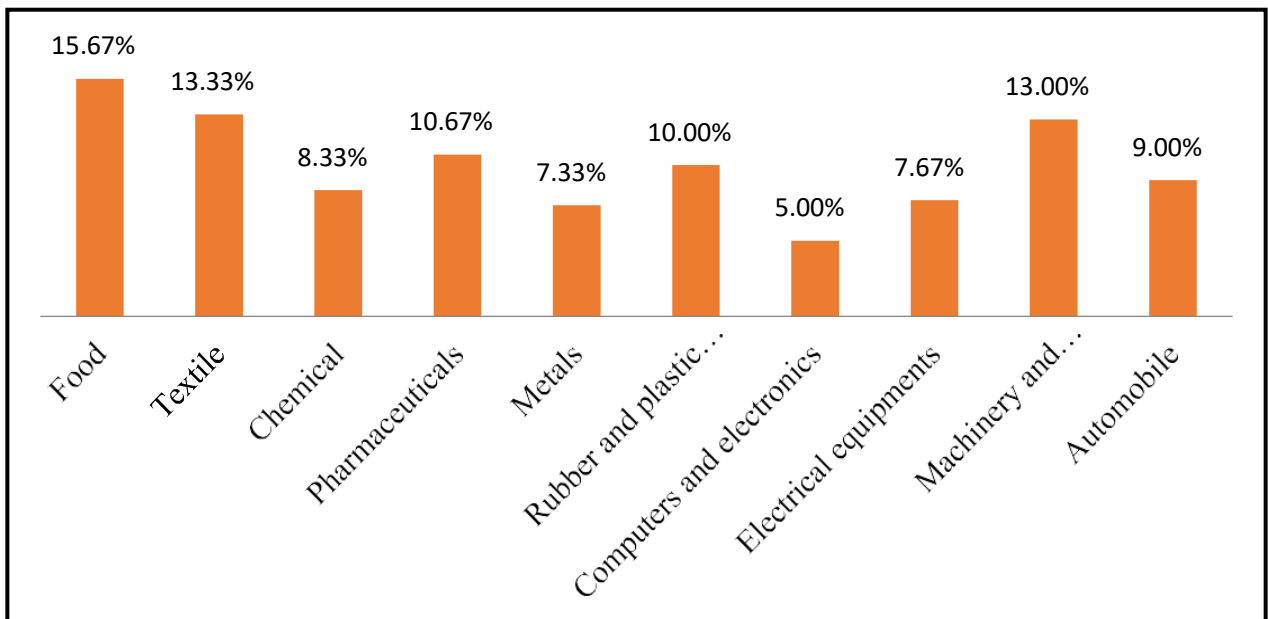
Figure 4.7 Activity of the organisation



Source: Primary Survey

The MSMEs were found to be mostly involved in manufacturing activity (62%). Whereas there were only 27% firms involved in both manufacturing as well as trading activities, only 11% were doing only trading activity.

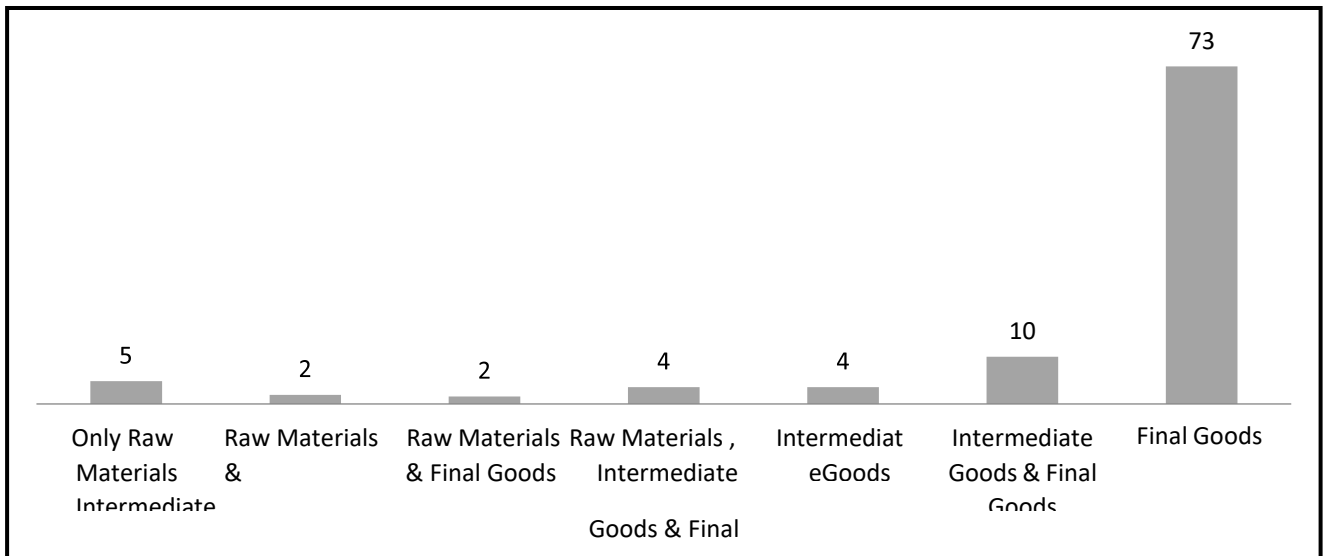
Figure 4.8 Sector-Wise Shares in Total Value of Exports



Source: Primary Survey

The sector-wise export (Figure 4.8) trend shows that food sector witnessed maximum export share (in total value of exports) of around 16% followed by textiles (13.33%) and machinery and equipment (Engineering) at 13%. Computers and electronics sector showed the minimum export share of 5%.

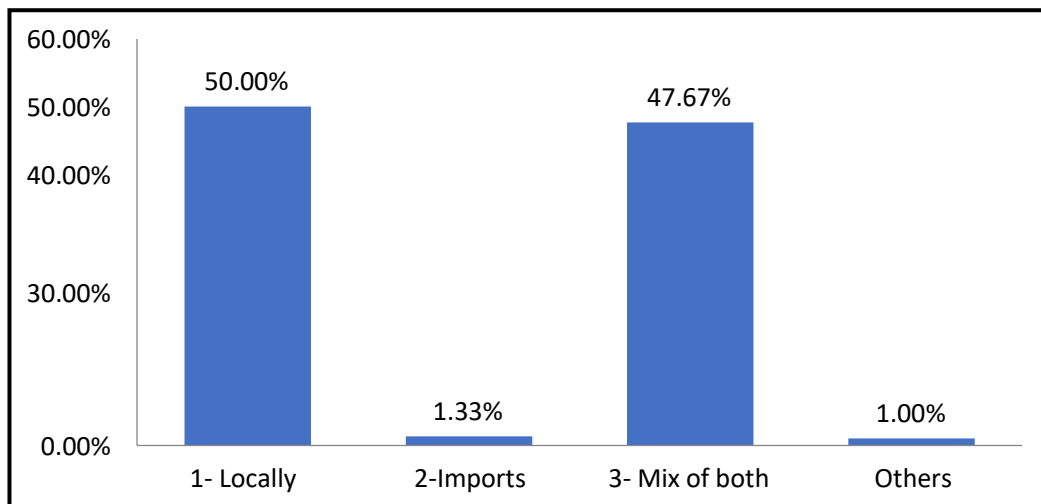
Figure 4.9 Exports According to stages of processing (%)



Source: Primary Survey

After considering the sector-wise export share, the export share according to the different stages of processing reveals that export of final goods by all these firms was high as 73% while 10% of them were exporting intermediate goods. Only, 5% of the responding companies were exporting raw materials. However, raw materials, intermediate goods & final goods together were exported by 4% companies.

Figure 4.10 Sourcing of Raw Materials



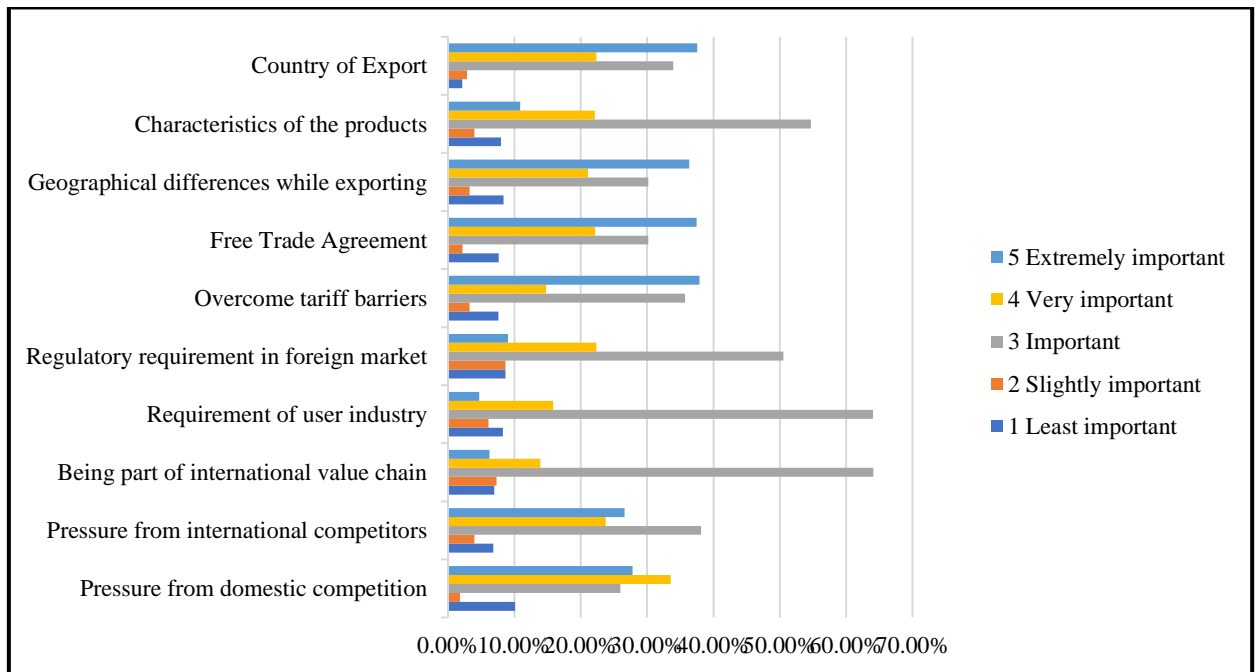
Source: Primary Survey

The sourcing of raw materials plays an important role as can be seen from Figure 4.10 below, 50% of the firm's sourced raw material from local sources completely, while only 1.33% were imported. This shows that demand for local raw materials is considerable in all the sectors. Even though

companies are using imported raw material, they are relying only partially on imported raw materials.

4.5 Factors driving export credit insurance policies and export performance

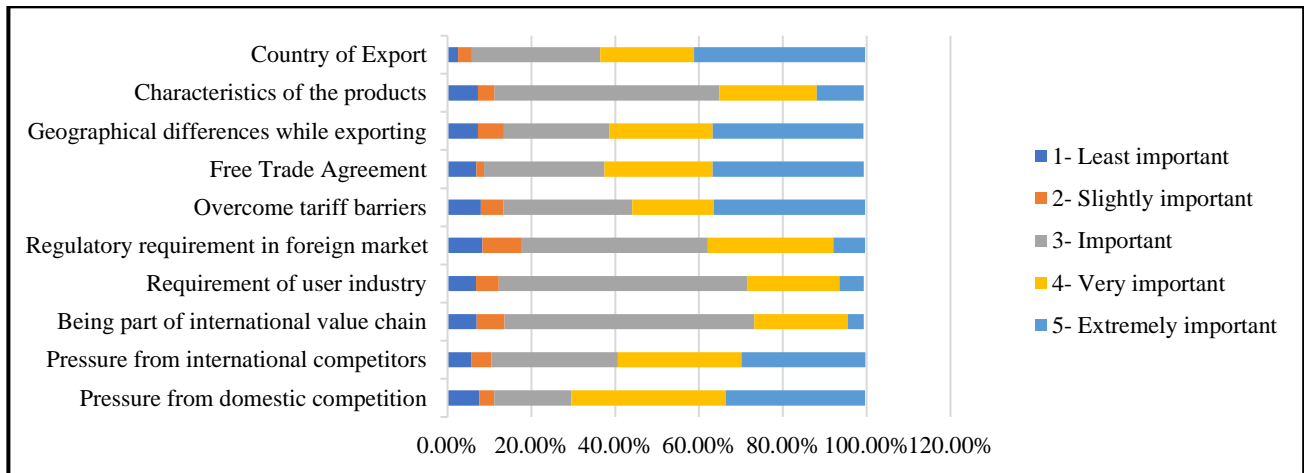
Figure 4.11 Factors Driving Demand for Export Credit Insurance Policies



Source: Primary Survey

Figure 4.11 presents the factors driving the demand for export credit insurance policies. As can be seen, the three dominating drivers are the overcoming of tariff barriers (37.90%), country of export (37.55%) and free trade agreements (37.40%). And the least important factors are regulatory requirements in foreign markets (8.66%) and pressure from domestic competition (10.11%). Thus, reducing tariff barriers (enhancement in the ease of doing trade) and selection of countries of exports can greatly boost the demand of ECGC credit insurance policies.

Figure 4.12 Factors driving export performance



Source: Primary Survey

For MSMEs the most important factor driving export performance (Figure 4.12) relate to the selection of countries of exports (40.79%) followed by overcoming of tariff barriers (36.10%) and free trade agreements (36%). Also, the least important factor in this regard was the regulatory requirements in foreign markets (8.30%).

From Figures 4.11 & 4.12, it can be inferred that the most important factors driving the demand of export credit insurance policies and export performance are the same. This indicates the possibility of a positive association between these two aspects of the exporting activity of the MSMEs.

4.6 Credit Risk Insurance Management Practice

The next feature depicts the mode of transportation deemed risky by the MSMEs.

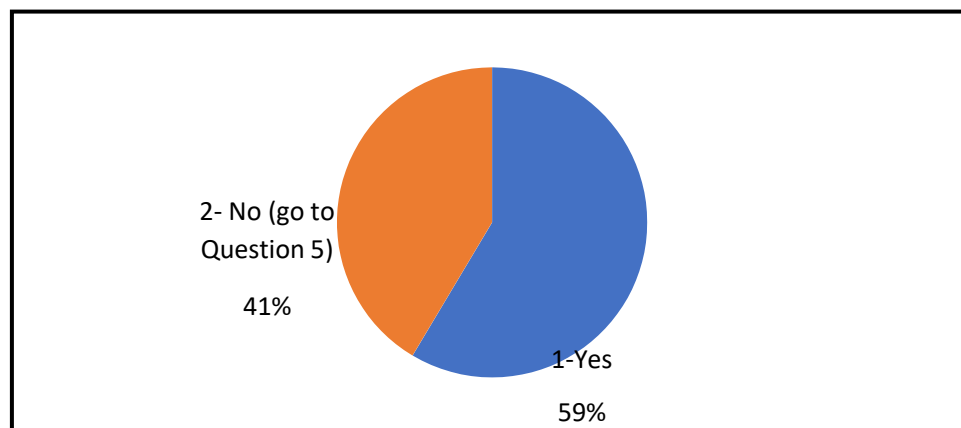
Table 4.3 Riskier transportation mode (%)

Sr. No.	Mode of Transport	Frequency (in %)
1.	Air	24
2.	Water	57
3.	Road	9
4.	None	10

Source: Primary Survey

As can be witnessed from Table 4.3, water transport is considered the riskiest by 57% of the respondents due to various reasons, namely, natural calamities like storms, long hours of traveling to reach the destination causing serious damage to the goods etc. Then there exists fear of piracy by attackers and the resulting theft of the cargo. Also, exporters through sea transport have to adhere to the detention period. Air transport was also considered risky by 24% of the companies due to the fear of missing cargo in the transit. This mode also being expensive is not preferred by many. However, only 9% of the respondents considered road transport risky due to the possible risks of road accidents, fear of leakage and spillage of the goods. Finally, 10% were of the opinion that if we take all necessary precautions, none of the transport mode is risky.

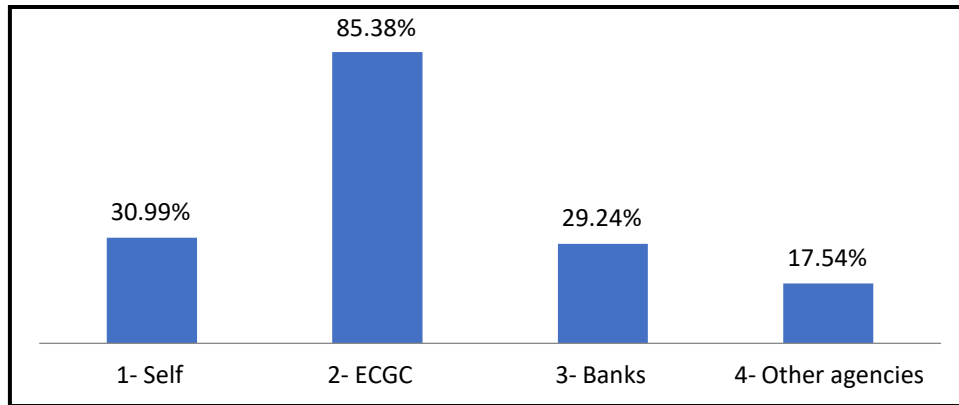
Figure 4.13 Whether Risk Management Practiced by The Firm



Source: Primary Survey

The association of risk with exports to different countries gives rise to the need of ECGC policies by the firms. Firstly, we determine how many firms practice risk management. As can be seen from Figure 4.13, around 59% of the firms practice formal risk management mechanisms whereas 41% did not adopt formal risk management methods.

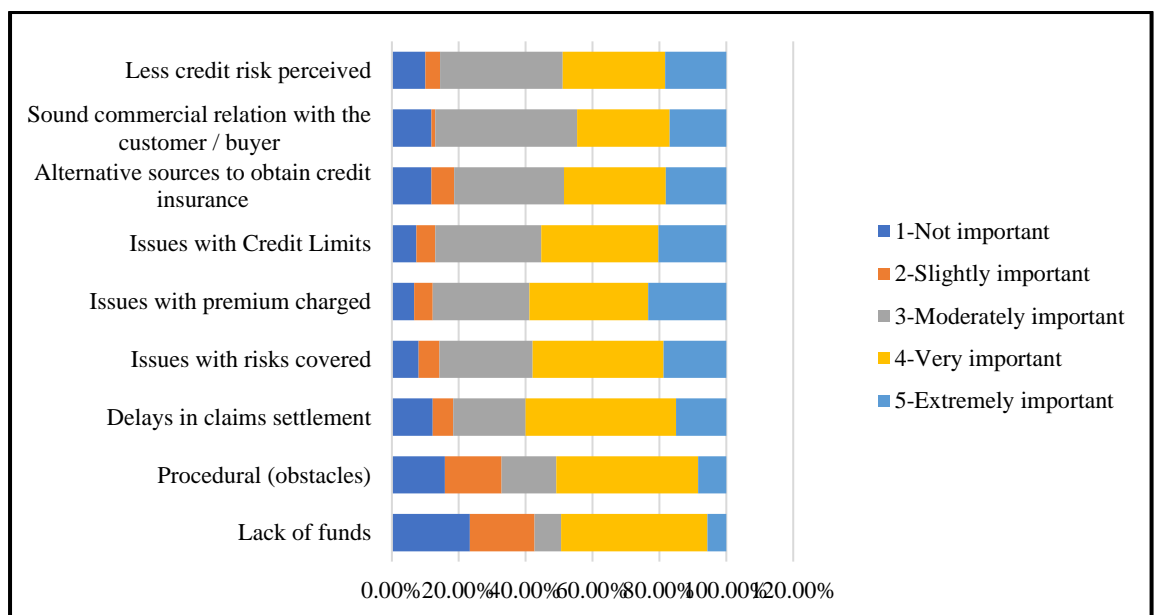
Figure 4.14 Sources Chosen by the Firms to cover Risks



Source: Primary Survey

Figure 4.14 shows the sources chosen by the firms in mitigating risks. To cover risks such as non-payment risks, around 85.38% chose ECGC policies. To cover their finance risks, 30.99% of the firms found their own way (and mentioned “self” as their source for covering risks), 29.24% of the firms chose banks⁵, 17.54% relied on other financial agencies.

Figure 4.15 Reasons for Not Obtaining Export Credit Insurance Policies



Source: Primary Survey

⁵ Banks are not direct sources of risk coverage chosen by firms. Banks, on the other hand, provide indirect coverage as they cover financial risks.

In Figure 4.15 it is witnessed that the major reasons for not obtaining export credit insurance policies were the issues pertaining to premium charged, credit limits and the risks covered.

4.7 Specific information about ECGC policies

This section provides information on the usage of ECGC policies.

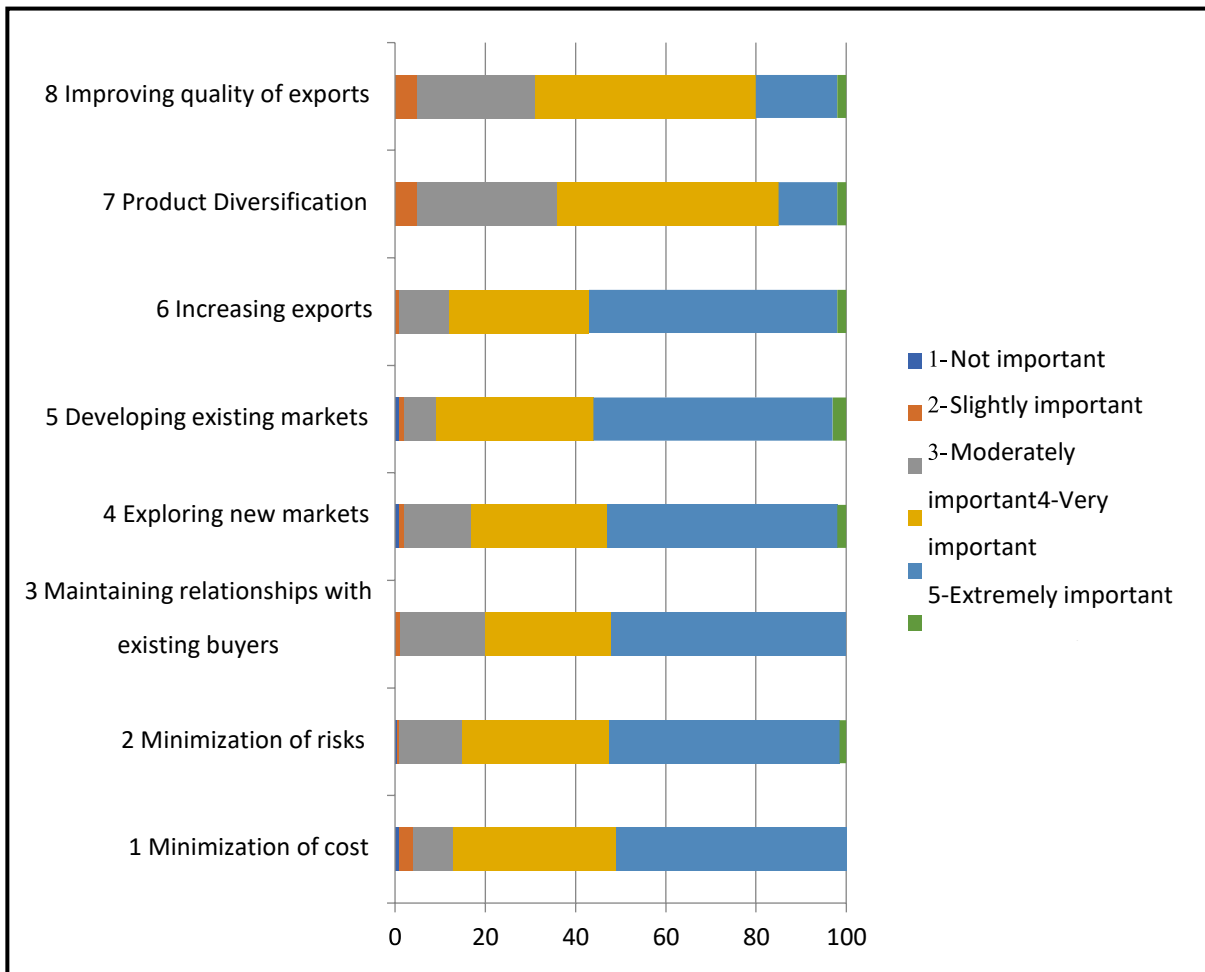
Table 4.4 Usage of ECGC policies (in %)

Agreement / Disagreement	Minimization on of cost	Minimization of risks	Maintaining relationships with existing buyers	Exploring new markets	Developing existing markets	Increasing exports	Product Diversification	Improving quality of exports
Yes	63	69	64	69	70	69	32	35
No	37	31	36	31	30	31	68	65

Source: Primary Survey

From Table 4.4, it can be seen that 70% of the companies agreed that ECGC policies are useful for developing and consolidating the existing markets. This was followed by other uses of ECGC policies such as increasing exports, exploring new markets and minimization of risks.

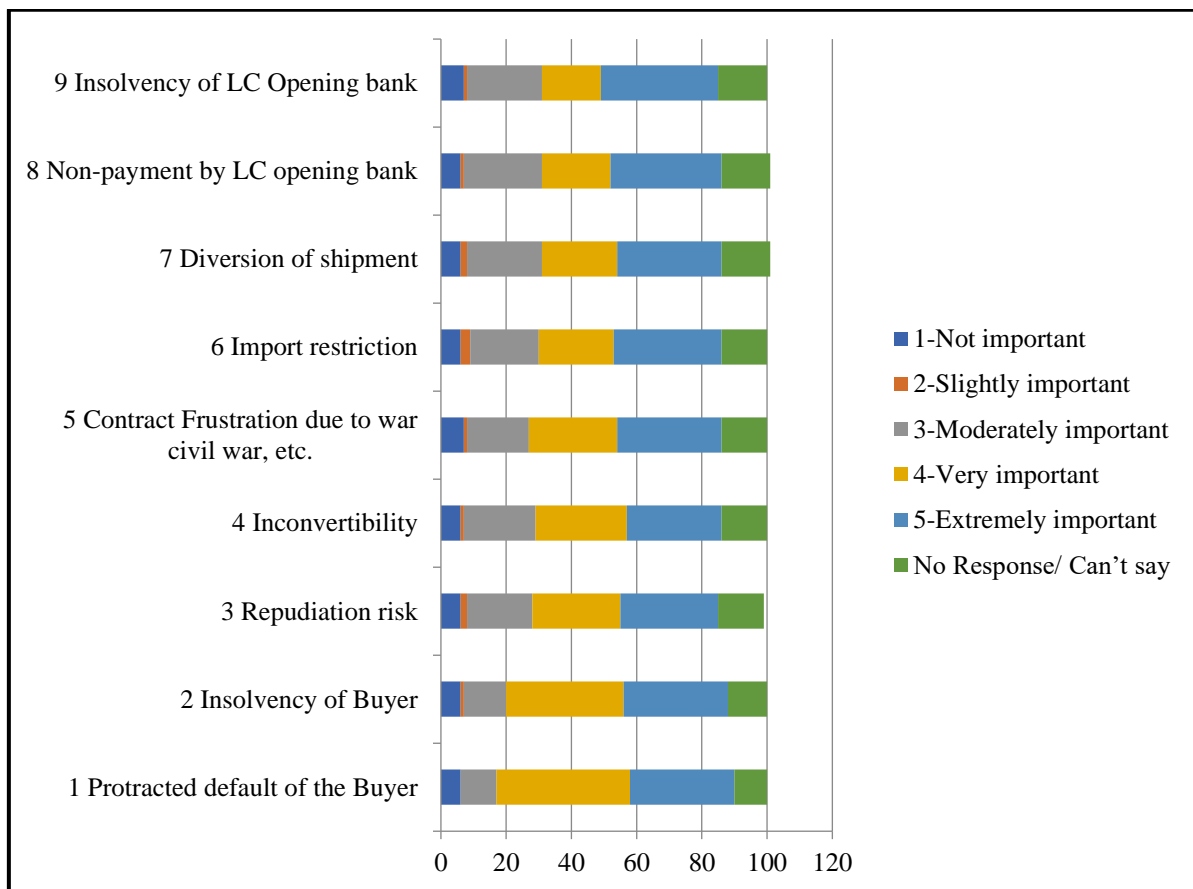
Figure 4.16 Important Considerations for ECGC policies



Source: Primary Survey

After ascertaining the number of firms agreeing to use the ECGC policies, Figure 4.16 highlights the importance of ECGC policies for specific factors. Thus, developing existing markets, increasing exports, and maintaining relationships with existing buyers emerge as the top three important for considerations for ECGC policies.

Figure 4.17 Importance of Risks Considered for Using ECGC Policies



Source: Primary Survey

Besides detailing the factors responsible for undertaking ECGC policies, we focus on risks considered while opting for ECGC policies. In this matter, Figure 4.17 indicates that most of the firms considered insolvency of LC Opening bank and Non-payment by LC opening bank to be extremely important.

Table 4.5 Importance of Credit Insurance Policies for Increasing Exports After Participating in International Trade

Factors	Policy Importance Rating (Mean)	Export Improvement Rating (Mean)
1. Risk Mitigation	18.6	18.4
2. Cost Minimization	17.8	17.8
3. Increase in production	17.4	17.6
4. Increase in quantity of exports	17.8	17.8
5. Improvement in quality of exports	17.4	17.4
6. Increase in buyer base of the existing markets	17.4	17.4
7. Increase of new buyers of new markets	17.0	17.2
8. Extending the product range	17.4	17.4
9. Hiring a greater number of workers	17.2	17.4

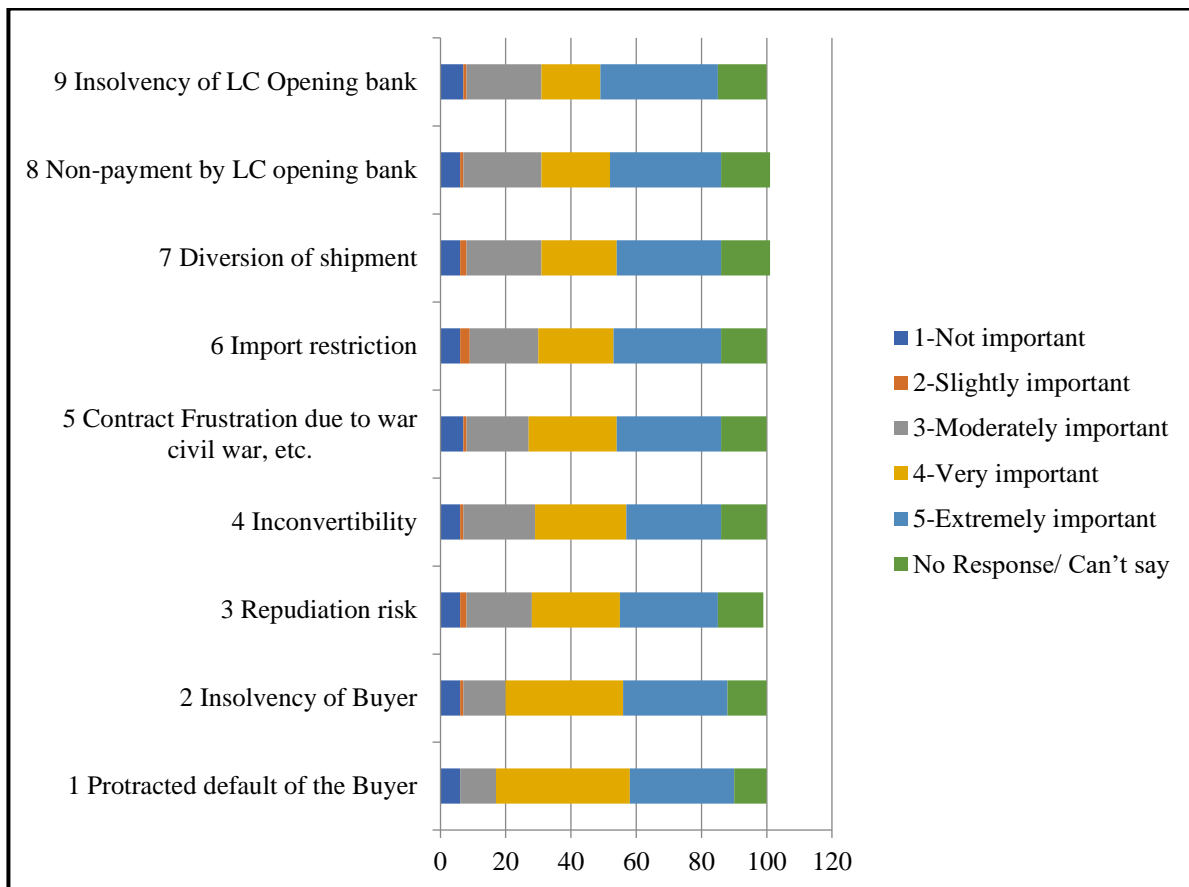
Source: Primary Survey

After participation in international trade, majority of the MSMEs (from Table 4.5) indicate that the mean of the important factors such as risk mitigation and cost minimization were the most important factors for which export credit insurance policies were taken with a view to increase exports. Also, same factors were important in further improving the export performance after participating in international trade.

4.8 Availability of information on ECGC

This section presents the sources of information that made firms aware about the ECGC policies.

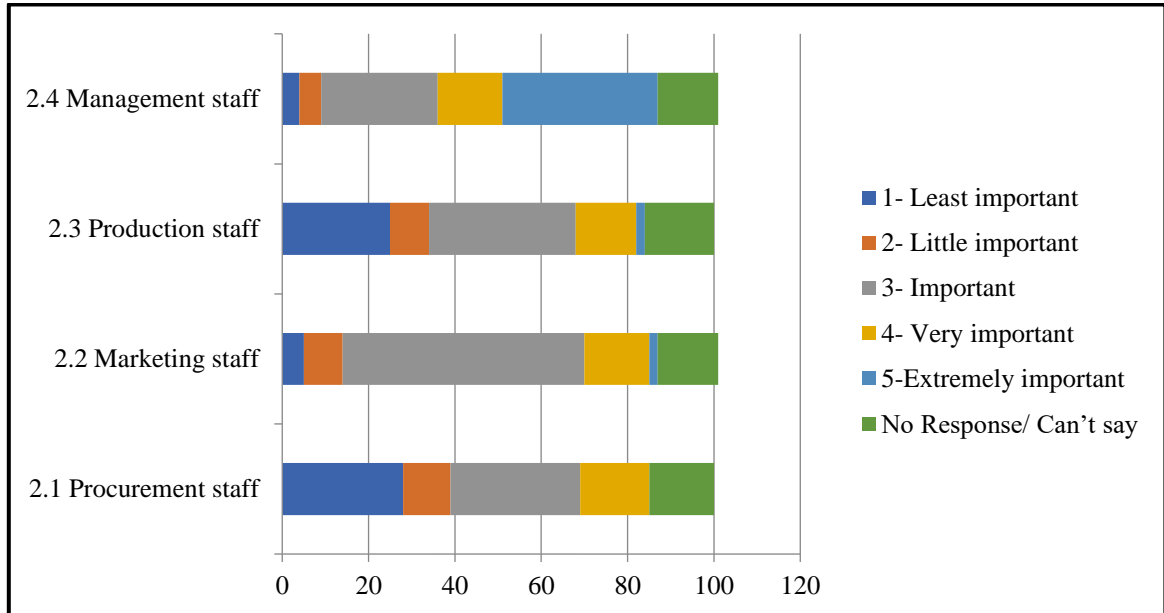
Figure 4.18 Marketing Efforts by ECGC (in %)



Source: Primary Survey

Starting first with the marketing efforts by ECGC, it is observed that ECGC needs to pay greater attention towards marketing efforts as in the last three years ECGC officials were not seen to be an important source of information. Hence, ECGC is well advised to spread awareness about its credit insurance policies through five major publicity modes (i) Visits by ECGC officials, (ii) Conferences and Seminars organized by ECGC, (iii) Conferences and Seminars organized by other agencies in association with ECGC, (iv) ECGC stalls in Fairs and Exhibitions, (v) Advertisements in Newspapers and Magazines.

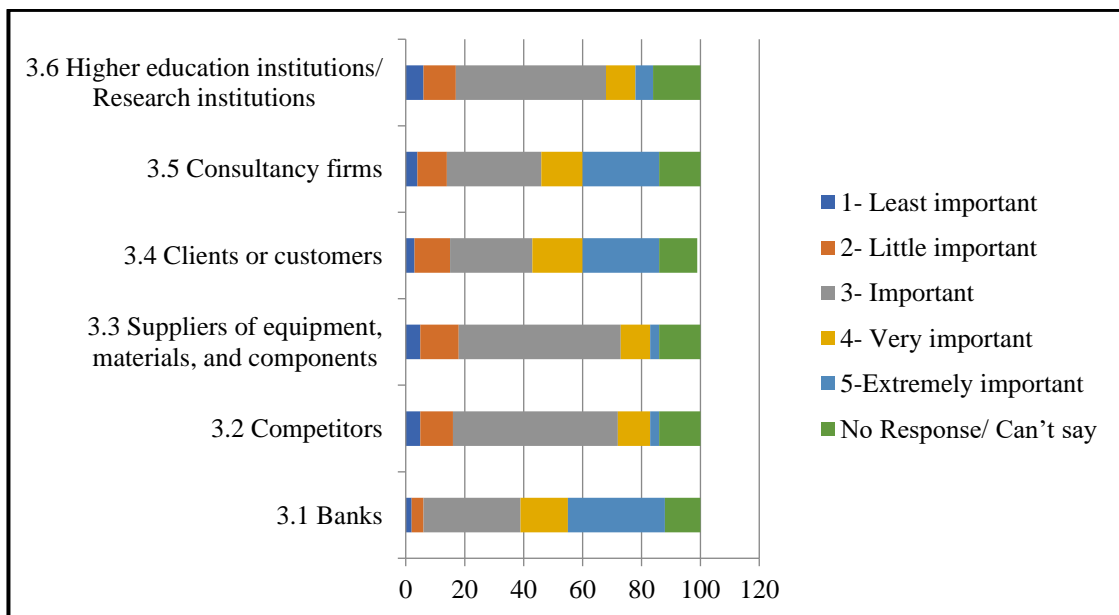
Figure 4.19 Internal Sources Within the Firm or Business Group (in %)



Source: Primary Survey

Figure 4.19 presents the factors relating to internal sources for the awareness of ECGC policies. Factors such as management staff and marketing staff were considered to be the most important internal sources of information within a firm or business group.

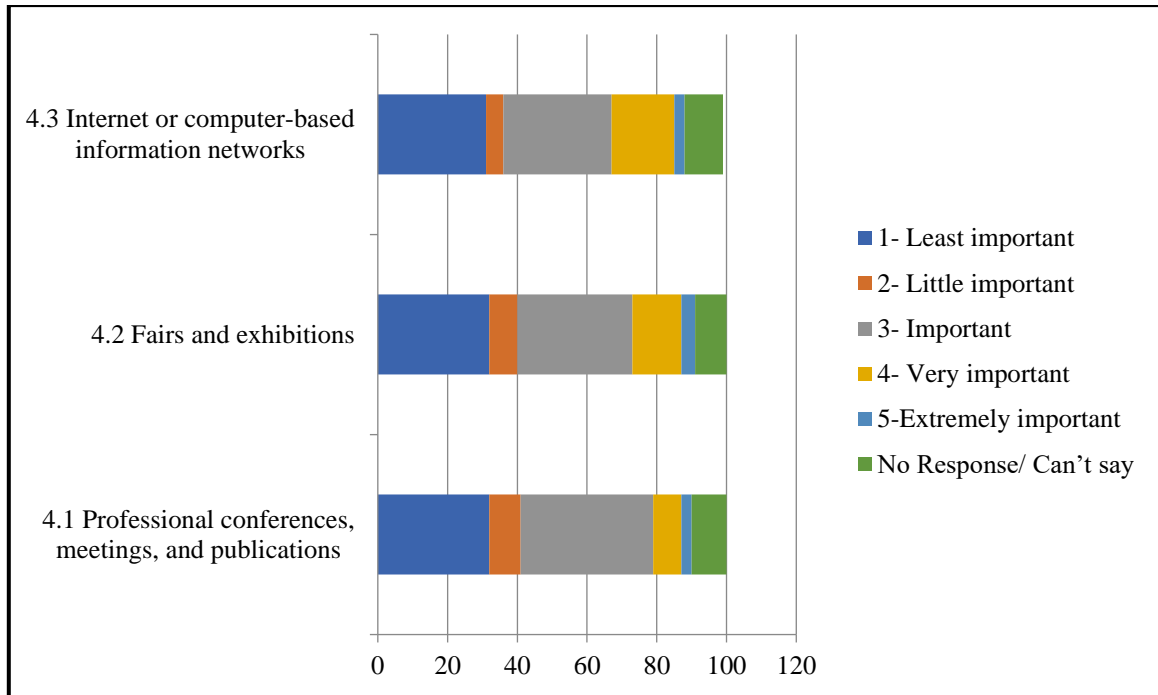
Figure 4.20 External Sources of Information (In %)



Source: Primary Survey

As shown in Figure 4.20, out of all the external sources of information, banks were found to be the most important followed by clients or customers and consultancy firms.

Figure 4.21 Publicly Provided Information (in %)



Source: Primary Survey

For publicly provided information, ECGC needs to make optimum use of professional conferences, meetings, and publications, fairs and exhibitions and internet or computer-based information networks (see Figure 4.21). For making information available regarding various ECGC policies and their importance no such channel played any important role in the last three years.

4.9 Important factors & challenges in obtaining ECGC policies

This section mainly deals with difficulties and challenges faced in general by the MSMEs and, specifically, while obtaining policies from ECGC.

Table 4.6 Factors considered in obtaining policies from ECGC

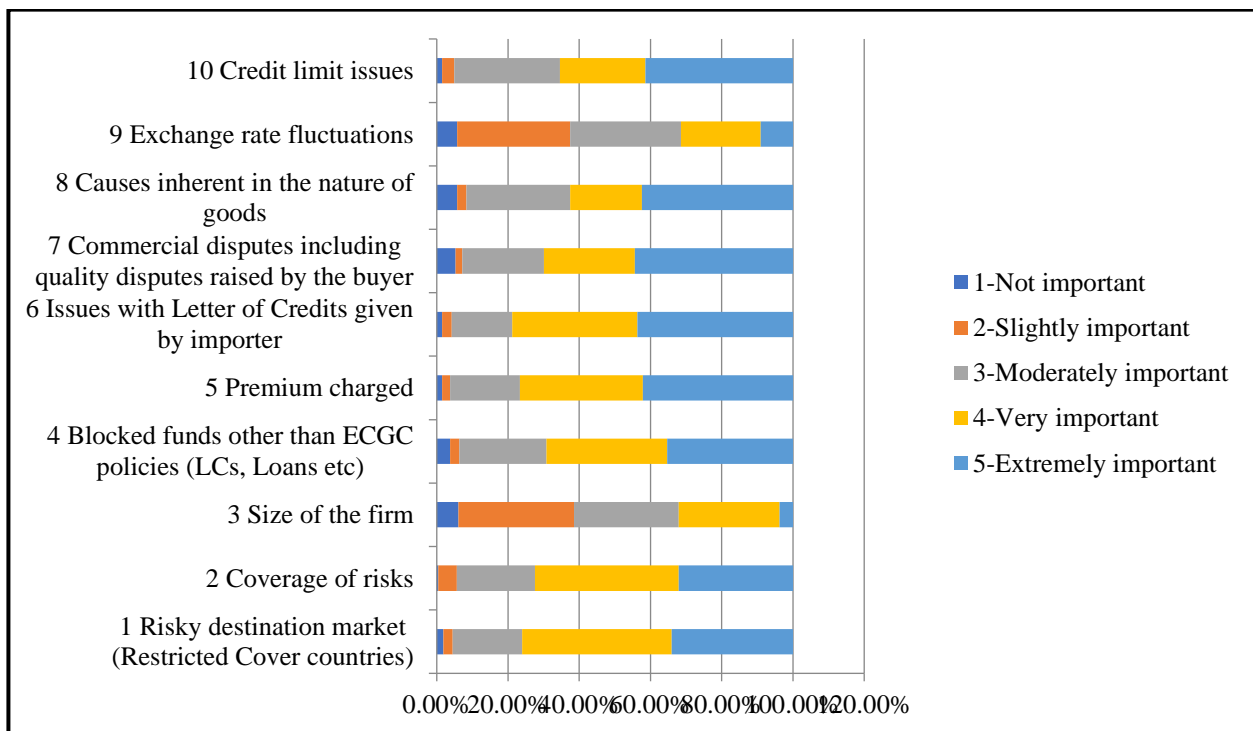
Importance for obtaining ECGC Policies	Importance in General (mean)	Importance for obtaining ECGC Policies (mean)
1 Cost factors	19.61%	19.42%
1.1 Availability of finance within your enterprise	19.92%	19.70%
1.2 Availability of finance from outside sources	19.85%	19.78%
1.3 Innovation cost	19.92%	19.77%
1.4 Premium charged	19.85%	19.70%
1.5 Blocked funds in essentials other than ECGC policies (LCs, Loans etc.)	19.92%	19.77%
2 Time related issues	19.68%	19.58%
2.1 Time taken to obtain claims	19.78%	19.85%
2.2 Time taken to obtain ECGC policy / Credit Limit	19.93%	19.85%
2.3 Time for ascertainment of loss	19.92%	19.70%
2.4 Issues with Time for filing claim	19.85%	19.85%
2.5 Issues with Closure of policy	19.92%	19.85%
3 Market factors	19.89%	19.68%
3.1 Market dominated by established players	19.92%	19.77%
3.2 To overcome problems in entering new markets	19.92%	19.85%
3.3 Government policy constraints	19.85%	19.85%
3.4 Currency risk	19.93%	19.85%
3.5 Transportation time and cost	19.92%	19.84%

Source: Primary Survey

As can be seen from Table 4.6, from the various factors considered, market factors on an average dominate and are most important. And, out of these market factors, currency risk factor is the most important. Among time related factors, which is second most important, time taken to obtain ECGC policy / Credit Limit is the most important.

Also, as far as various factors in obtaining policies from ECGC are concerned, the market factors on an average dominate, out of which, factors such as currency risk, transportation time and cost, and overcoming problems in entering new markets are the important ones. The ordering of the importance (i.e., mean values) of these general factors and that of the factors specifically related to obtaining ECGC policies are similar.

Figure 4.22 Difficulties/Challenges faced even after obtaining ECGC policy



Source: Primary Survey

After obtaining the ECGC policies, the types of challenges faced by MSMEs (from Figure 4.22) are mostly the issues with letters of credit given by importer, commercial disputes including quality disputes raised by the buyer, premium charged, credit limit issues and causes inherent in the nature of goods.

Table 4.7 Risk Analysis and Its Relationship with Challenges

Factors	Yes	No
Risky destination market (Restricted Cover countries)	19.53%	20.00%
Coverage of risks	19.30%	20.00%
Size of the firm	19.41%	19.82%
Blocked funds other than ECGC policies (LCs, Loans etc)	19.53%	19.81%
Premium charged	19.41%	18.71%
Issues with Letter of Credits given by importer	19.53%	19.82%
Commercial disputes including quality disputes raised by the buyer	19.30%	19.82%
Causes inherent in the nature of goods	19.30%	19.82%
Exchange rate fluctuations	19.30%	19.82%
Credit limit issues	19.17%	19.82%

Source: Primary Survey

For the firms practicing formal risk management (see Figures 4.13 & 4.14), the mean level of importance of challenges faced by these firms after obtaining ECGC policies show that risky market destinations, blocked funds and issues with LCs given by importers are the issues which matter the most to the MSMEs (Table 4.7).

Table 4.8 Importance of the factors to improve ECGC policies

Factors	Importance (Mean)
1. Timely availability of insurance covers	9.6
2. Cost differences in terms of premiums charged	17.4
3. Ease in obtaining claims	17.6
4. Availability of timely information about import entities / export destinations	17.2
5. The extent of risks covered	17.6
6. Coverage of risk according to nature of goods exported	16.8

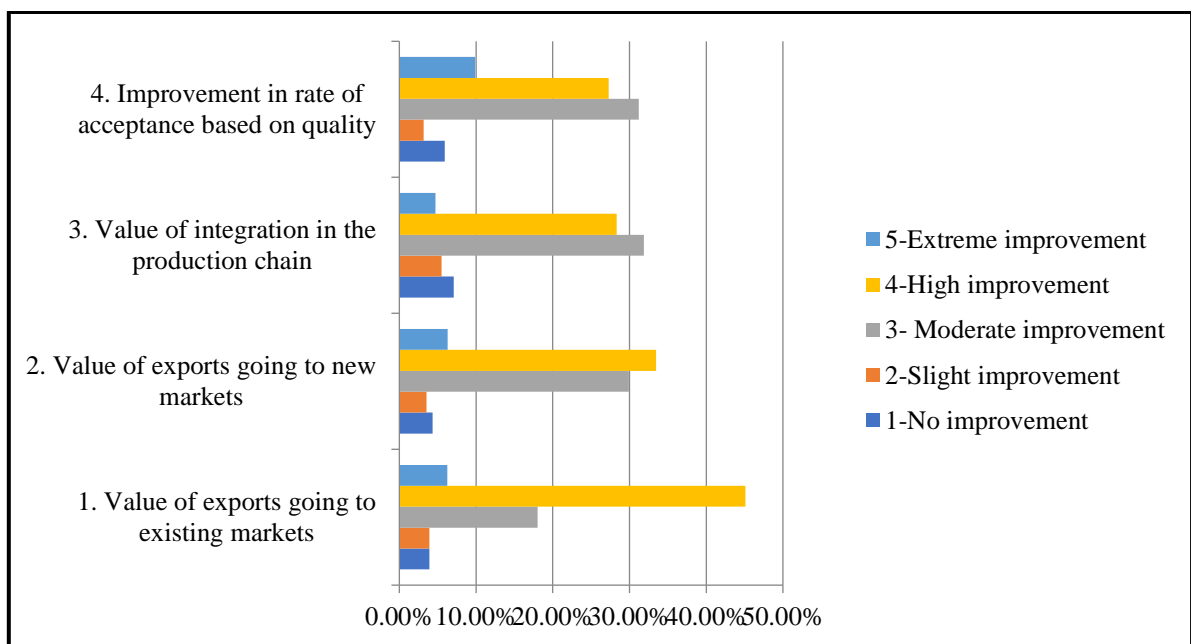
Source: Primary Survey

The last question of this section deals with factors to improve ECGC policies. As can be seen from Table 4.8, on an average, MSMEs want improvement in the factors such as the extent of risks covered, ease in obtaining claims and cost differences in terms of premiums charged.

4.10 Policies, claims and export performance

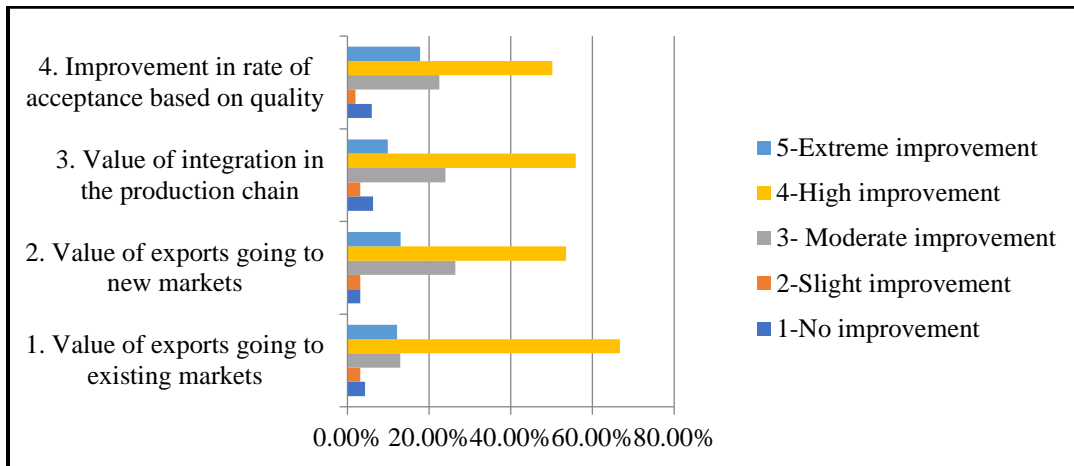
This section deals with information related to ECGC policies, claims and the performance of the firm in terms of quantity and quality of production and that of exports.

Figure 4.23 Improvement in Production Efficiency Without/Before ECGC Policies



Source: Primary Survey

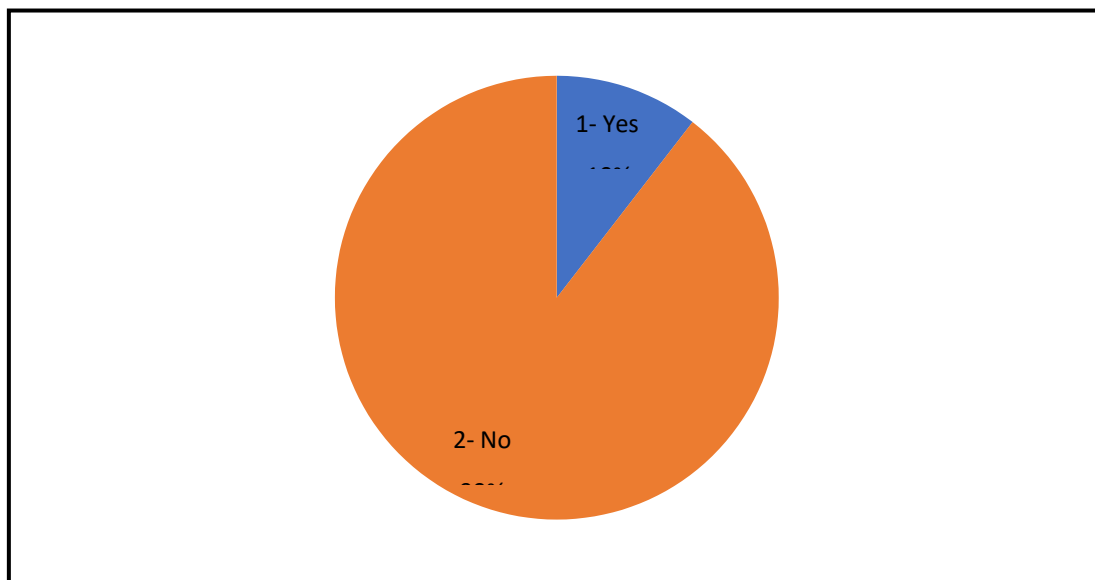
Figure 4.24 Improvement in Production Efficiency after Usage of ECGC Policies



Source: Primary Survey

The comparison of Figures 4.23 & 4.24 reveals that there is a high improvement in the value of exports going to existing markets and new markets, value of integration in the production chain and also for quality betterment. Respondents who could not perceive any improvement after obtaining ECGC policies were very few.

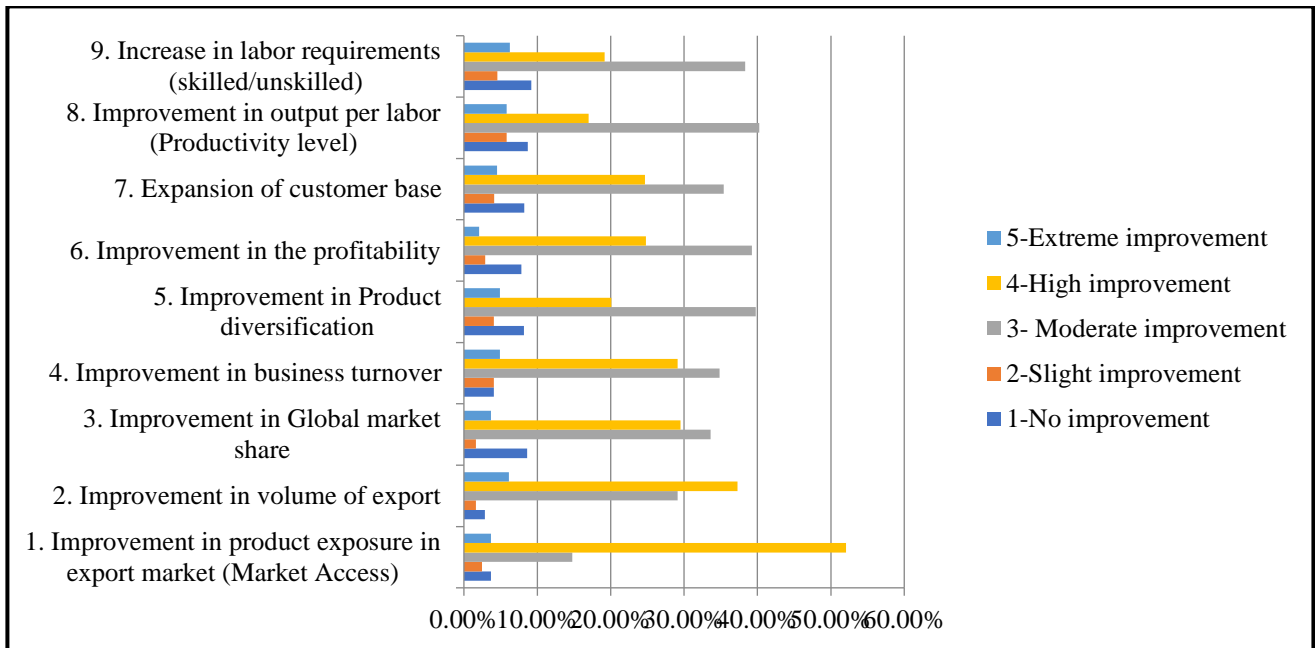
Figure 4.25 Companies Availing Claims in The Last Five Years From ECGC



Source: Primary Survey

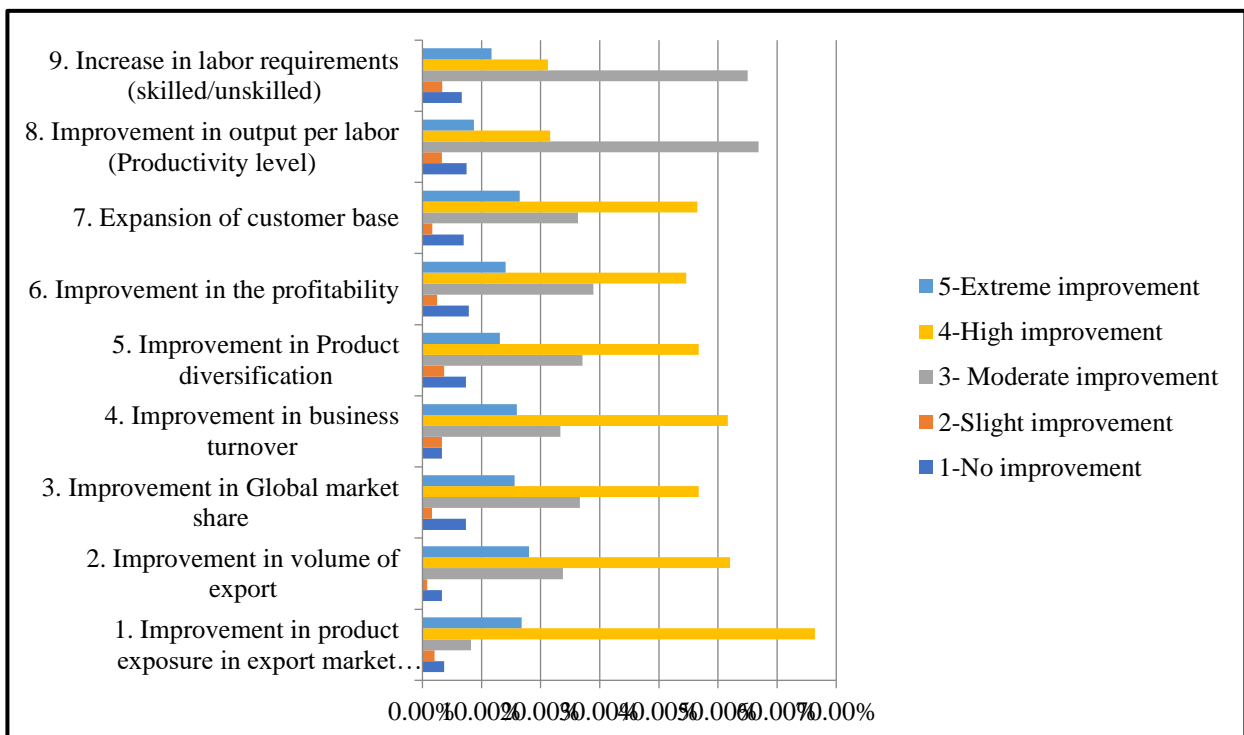
Next, we sought information regarding the claims received. As can be seen from the Figure-4.25, almost 90% of the companies never availed any claim from ECGC in the last five years whereas only 10% availed claim.

Figure 4.26 Improvement in Firms' Performance without/before ECGC Policies



Source: Primary Survey

Figure 4.27 Improvement in Firms' Performance after ECGC Policies



Source: Primary Survey

Finally, in this section the improvement in firm’s performance in terms of metrics other than the production efficiency before and after using the ECGC policies is ascertained. The comparison between Figures 4.26 & 4.27 depicts that maximum increase in improvement after utilization of ECGC policies can be seen for product exposure in export markets (Market Access), for business turnover and in export volume.

4.11 Comparative export performance

This section presents few notable differences among the policy holders and non-policy holders in terms of the factors enhancing the export performance. As far as export performance of policy holders is concerned, factors such as country of export, geographical differences while exporting and free trade agreement are deemed extremely important factors as shown by their mean importance levels. According to the non-policy holders, pressure from domestic and international competitors were most important factors on an average.

Table 4.9 Export performance of policyholders versus non-policyholders

Sr. No.	Factor	Policy Holder (mean)	Non-Policy Holder (mean)
1	Pressure from domestic competition	25.86%	25.89%
2	Pressure from international competitors	23.43%	18.88%
3	Being part of international value chain	10.79%	11.40%
4	Requirement of user industry	11.79%	11.11%
5	Regulatory requirement in foreign market	14.32%	16.67%
6	Overcome tariff barriers	24.80%	15.93%
7	Free Trade Agreement	26.33%	17.99%
8	Geographical differences while exporting	27.16%	16.22%
9	Characteristics of the products	15.34%	11.80%
10	Country of Export	27.07%	14.29%

Source: Primary Survey

Thus, for non-policyholders the most compelling factors affecting export performance do not show the requirement of ECGC polices upfront. Direction to the ECGC to further attract MSMEs into using ECGC policy covers is better revealed in Table 4.9 on the mean importance levels of the factors that can improve ECGC policies.

4.12 Findings of the Primary Survey

The primary survey focussed on major MSME clusters, covering ten major sectors, to obtain concrete and comprehensive information on issues and challenges faced in obtaining ECGC policies, the kind of risks faced in exporting and the extent to which they are covered by ECGC policies and the impact of ECGC insurance covers on export performance. The major findings of the primary survey are enunciated below.

- **Expanding the scope of ECGC export credit insurance policy business:** Only 61% of the MSME firms were holding ECGC policies indicating a vast scope for further increasing the number of ECGC policyholders. The percentage of policyholders was highest for the food sector followed by textile and machinery & equipments sector. Computers and electronics sector had the least number of policyholders among all other sectors covered in this study. Maximum number of MSMEs were situated in Maharashtra with majority of firms belonging to machinery and equipments sector. Furthermore, it was observed that as high as 72% were non-policyholders in Maharashtra as compared to only 28% companies holding some insurance policy. This shows that in the state of Maharashtra, ECGC can find scope for increasing the number of policyholders and hope to achieve encouraging results. The export credit insurance policy holding seems to be better in Tamil Nadu, Uttar Pradesh followed by Karnataka, Rajasthan, Gujarat, and Kerala. Additionally, it emerges from the primary survey that the percentage of policyholders exceeded that of non-policyholders most in case of public limited companies, less for private limited ones, even less for partnerships, and least in case of proprietorships.
- **Need for Sector-specific ECGC policies:** The survey found that the sector-wise shares in the total value of exports of MSMEs pertained to food sector (15.67%) followed by textile (13.33%) and machinery and equipments (13%) sector. A few MSME units have mentioned in the primary survey that ECGC policies are not economically viable for commodities having low margins like onions, sugar, potatoes, grapes etc. But for high-value items having greater margins, e.g., cashew nuts, peanuts, dry fruits, engineering products, electronics, ECGC policies have been reported to be worthwhile.
- **Risk management practice:** Only 59% of the firms practiced formal risk management. For sources chosen by firms it was found that to cover risks such as non-payment risks, around 85% firms opted for ECGC policies. To cover their finance risks, 30.99% of the firms found their own way (and mentioned “self” as their source for covering risks), 29% of the firms chose banks, and 18% relied



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on other financial agencies. For the firms practicing formal risk management, the responses on the importance of challenges faced by these firms after obtaining ECGC policies show that risky market destinations, and issues with LCs given by importers are the most serious problems for the MSMEs.

- **Factors driving export performance:** The factors leading to improvement in export performance as reported by the respondents were mainly related to the selection of countries for export, reduction in tariff barriers and the creation of free trade agreements. The same three factors are cited to be the factors driving the demand for export credit insurance policies. Moreover, 70% of the companies agreed that ECGC policies served well as risk-minimizing instruments and thus as facilitators for the development of existing markets and finding of new markets, which in turn led to an enhancement of their export capabilities. Most firms also perceived significant improvement after obtaining ECGC policies in the value of exports going into existing and new markets, value of integration in the production chain, and in quality enhancement. This indicates the possibility of a positive association between adoption of ECGC insurance covers and increase in exports. In fact, maximum improvement after utilization of ECGC policies is reported for product exposure in export markets (Market Access), export volumes, and business turnover.
- **Important factors considered for ECGC policy adoption:** For participating in international trade, risk mitigation and cost minimization were the topmost important factors for which export credit insurance policies were utilized by firms for increasing exports. The kind of risks that motivated firms to opt for ECGC policies are related to protracted default in payment by the buyer due to reasons such as his insolvency, repudiation risk, non-payment by LC opening bank, insolvency of LC opening bank. Market-related factors were reported to be the most important considerations for ECGC policy adoption. Among the market-related factors are: currency risk, overcoming problems in entering new markets and markets dominated by established players, transportation time and cost. Also important are cost factors. Among them are availability of finance from outside sources, funds blocked in essentials other than ECGC policies (LCs, Loans etc.), premium charged. Other factors of importance were increase in the quantity of exports, buyer base of the existing markets and the new markets and in the number of new buyers.
- **Barriers to ECGC Policy Adoption:** The major deterrents for usage of ECGC insurance cover are firms' constraint on funds, issues pertaining to premium charged, credit limits, the risks covered, and procedural obstacles. Moreover, excessive time taken for obtaining ECGC export



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credit insurance policies, for settlement of claims, and issues with closure of policies were reported to be the top three time-related deterrents in the adoption of ECGC policies.

- **Threats/Challenges Faced by firms in Exporting:** After obtaining ECGC policies, the major threats/challenges faced by firms were commercial disputes including quality related disputes raised by the buyer, issues with letters of credit given by importer, the premium charged and credit limit issues were found to be significant impediments in exporting.
- **ECGC's outreach to exporters:** Besides the utilization of ECGC funds, the awareness of its policies and their positive implications were also examined through this survey. It emerged that the management staff was regarded as the most important internal source of information within the firm or business group. Also, banks were found to be the most important external source of information followed by clients or customers and consultancy firms in spreading the information about ECGC policies. However, the marketing efforts of ECGC were not found to be adequate.

6. Conclusion and Policy Implications

6.1 Scope and Methodology of the study

This study is dedicated to evaluating the role of ECGC in the export performance of India employing a firm-level analysis with special focus on the MSME sector. The study begins with expounding the role of ECGC, the type of insurance policies it provides and the trend and pattern of the value of its business covered, insurance premium received and the amount of claims money paid. Along with this, the relevant literature covering export financing and export credit insurance schemes impacting export performance of different sectors in different countries is analysed. The methodology of the study includes both secondary data analysis and research based on a primary survey. In the secondary data analysis, a stochastic frontier model was developed to compare the technical efficiency of MSME firms undertaking ECGC cover with those who were not. Subsequently, the extent of reliance on ECGC cover of the top efficient firms was compared with that of the firms which were least efficient. Further, a primary survey using in-depth interviews/surveys was carried out, to identify the determinants of the demand for ECGC's export credit insurance by MSME firms in India. Primary survey was extremely helpful in analysing the export orientation of firms and the risks faced by them. From the responses of the primary survey, the impact of ECGC's policies on export performance of MSMEs has been assessed. This assessment in turn has shown the way forward in formulating a comprehensive strategy for ECGC.

6.2 Findings of the study

By considering the sectoral export propensity impacted by ECGC insurance cover or vice-versa, the regression analysis shows that the sectors which need to get the maximum attention in terms of policy making are those in which both ECGC insurance cover and export intensity impact each other positively and thus help in accelerating export growth. And these sectors are pharmaceuticals, base metals, computer, electronics & optical products, electrical equipments, machinery & equipments and automobiles & trailers. Food and textile are already highly export intensive sectors. That, however, does not mean that they have already reached the peak of their potential. ECGC can do a lot to help them to further increase their exports.



The firm-level regression analysis conducted in this study revealingly identifies export credit insurance as one of the determinants of the technical efficiency of Indian firms. Further, it shows that when all these MSME firms simultaneously export and spend on other insurance premium (a proxy for expenditure on ECGC insurance cover), their technical efficiency (TE) significantly improves. This, however, can imply bi-directional causation. In other words, the cause-and-effect chain may be working in either one or both of the following two opposite ways. The MSMEs, engaged in international trade, obtained ECGC insurance cover so as to increase their TE to become internationally more competitive, or, conversely, the firms were purchasing ECGC insurance cover to enable them to increase their exports, which in turn lead to improvements in their TE because of exposure to foreign competition. Both the cause-and-effect chains may be true, but the latter one is more likely if we take into account the results of the primary survey of this study.

A comparison of mean values of the key variables for the top 25% and bottom 25% of firms in terms of technical efficiency was undertaken in this study. It revealed that the top 25% of MSMEs are mostly medium-sized, export-oriented firms spending on ECGC insurance cover. Put another way, it means that export orientation and spending on ECGC insurance cover has helped medium-sized firms to be at the top in terms of technical efficiency. These firms spend considerable amounts of funds for purchase of ECGC

The primary survey conducted in this study has clearly shown that the maximum number of MSMEs belonged to the food and textile sectors. Factors such as country of export, overcoming of tariff barriers and the support of free trade agreements served extremely well as enhancers in their export performance.

For the sectors which are highly dependent on ECGC cover to improve their export intensity, mainly rubber & plastics and chemical & chemical products need to be carefully covered by ECGC owing to the immense risks they face in foreign markets.



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According to the results of the primary survey, for the MSMEs, engaged in international trade, two top-most concerns were risk mitigation and cost minimization⁶, which they addressed primarily by purchasing ECGC insurance covers. Most important, the MSME respondents in the primary survey reported high improvements in the value of exports going to existing markets, new markets, value of integration in the production chain and also the enhancement in the quality of production after obtaining ECGC policies. Improvement after obtaining ECGC policies was also reported for volume of export, product exposure in export markets (Market Access), and in business turnover.

6.3 Policy Implications

- **Extending Support across Various Sectors:** Corrective sector-wise and sector-specific ECGC policies with varying premiums and benefits need to be framed. The sectors which need to get the maximum attention in terms of policy making are pharmaceuticals, base metals, computer, electronics & optical products, electrical equipment, machinery & equipment's and automobiles & trailers.
- **Increasing the share of ECGC business:** To increase the share of insurable export credit, ECGC needs to include in its policy package (product range) new products & policies in tune with the changing times and market dynamics.
- **Simplified and customer friendly policies:** ECGC can simplify its procedures so that even small exporters can take advantage of its policies and do something similar to what KSURE (Korea Trade Insurance Corporation, Korea Rep.) has done for Korean exporters. KSURE keeps in close contact with its customers, offers useful management and personalized consulting services, and has even opened a Trade Sure Consulting Centre for supporting SMEs exports. ECGC can diversify its services to our MSME exporters in an analogous manner.

⁶ ECI policies help to reduce costs by allowing traders to trade safely on open terms rather than using costly Letters of Credit. It enables exporters to sell to new customers and expand into new geographies where the exporter does not have much information on the Buyers Credit History. It contributes to cost reduction by making more loans available at low interest rates to import raw materials and disembodied technology.



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Moreover, the time taken for issuance of policy needs to be reduced and should be issued in 2-3 days at the most. In general, procedures in obtaining ECGC policies need to be simplified and made more customer-friendly.

- **Tie-ups with exporting consulting firms:** The possibilities of tie-ups of exporters with reputed export consulting firms or consultants, logistics companies, transport operators along with industry associations like ACMA, EEPC, Chemexcil, Rubber Industries Association, etc, for better marketing of exports need to be explored. Once such tie-ups materialize, ECGC can consider introducing special credit insurance schemes for members of such reputable industry associations. This would eventually expand business for both exporters and the ECGC.
- **Extension of services to the exporters:** As also revealed through our primary survey analysis, concrete steps need to be taken by ECGC to increase its spread of services to our exporters for exporting to all possible destination countries. This will not only boost the export performance of MSMEs but also help in raising the value of business covered for ECGC.
- **Coverage of Foreign exchange fluctuation risks:** ECGC, like the ECAs in the rest of the world, is a state-owned entity but, unlike the latter, does not protect its customers from the potential risk of foreign exchange fluctuations. Many of the leading Export Credit Agencies of the world, whether they belong to developed countries or developing countries, cover their exporters (especially SMEs) from risk of foreign exchange rate fluctuations in addition to commercial and political risks. KSURE of Korea, for example, provides foreign exchange rate insurance to SMEs and mid-size companies. ECGC and SERV do not protect their customers from the potential risk from fluctuations in foreign exchange rate. ECGC should consider taking steps in future to cover risk arising from foreign exchange rate fluctuations in addition to various commercial and political risks covered by them.
- **Raising awareness of ECGC Policies:** ECGC should create an awareness of its various policies through social media, appointing agents for recommending ECGC policies to exporters and for clearing any queries companies might have



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regarding specific requirements of policies.

- **Provision of a Digitalised Framework:** The increase in digital presence of ECGC can be complemented by issuing online policies and providing a selection opportunity to the customer as per his specific exporting risks cover needs and capabilities to pay insurance premiums.

In this way, export credit insurance can be made to not only help exporters boost their international sales, but also empower them to easily bear the burden of credit management so as to smoothly run their businesses.



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