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WORKING PAPER

Role of Short-Term Export Credit Insurance to Exporters and Banks by ECGC in facilitating Exports from India

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Working Paper Series



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Role of Short-Term Export Credit Insurance to Exporters and Banks by ECGC in facilitating Exports from India*

Vijay Prakash Ojha⁽¹⁾, *Ashish Kumar*⁽²⁾, *Shalu Vashisht*⁽³⁾

Abstract

A key risk faced by exporters in the Indian economy is that of default in payment by foreign buyers. On the other hand, commercial banks too have to bear the risks in lending credit to exporters. ECGC covers both these risks and charges premium in return to foster exports in the Indian economy. ECGC's role in providing export credit insurance to banks (ECIB) is as important as that in insuring the exporters against non-payment by foreign buyers. In this context, this study is a comprehensive assessment of the role of ECGC in furnishing short-term export credit insurance (ECI) to exporters and to banks with a view to boosting the export performance of exporters while simultaneously expanding its own business.

The methodology of the study consisted of two phases of research. The first phase comprised of (i) Desk Research, (ii) Focus Group Discussions (FGD) with ECGC officials, (iii) Database Development, (iv) Designing of Survey Instrument, (v) Pilot Testing. The second phase was dedicated mainly to a Primary Survey of 103 ECGC policy holding exporters, 100 non-policy holding exporters and 78 banks.

The primary survey of the exporters identifies the key factors considered important for ECGC policy adoption as including geographical differences among places of origin of exports, pressure from international competition and characteristics of the product. Moreover,

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policyholder exporters have reportedly performed relatively better than non-policyholder exporters in terms of both average domestic and export sales. To increase ECGC policy adoption among exporters, removing procedural obstacles to ensure faster approvals and smoother claims settlement emerged as the topmost suggestion. Other important suggestions include introducing flexible premium rates and discounts, expanding credit limits, removing restrictions on coverage of risky destination markets and expanding credit limits.

The primary survey of banks identified the most important factors which motivated them to take an ECGC cover as protracted default of the exporter followed by insolvency of exporters. On the other hand, the key reasons for low adoption of ECGC policies among banks have been found to be lack of funds, procedural obstacles and unavailability of the features of the cover specifically desired by the banks. The key suggestions for ECGC Limited to improve the reach and use of its policies to increase its ECIB business are similar to those for enhancing policy adoption among exporters. These include faster approval, smoother process of claim settlement, reducing the premium amount, increasing the risk cover, raising awareness of its policies by providing relevant information through online and offline channels and introducing customized policies for the banks.

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

Keywords: Export Credit Insurance Trade, Exports, Commercial Banks, Indian Economy



Section 1: Introduction

1.1 Export Credit Insurance and Export Finance

Increasing globalisation over the past few decades has meant that a country's economic growth is determined not only by the performance of its domestic economy but that of the global economy as well. Trade *per se* is risky and uncertain and international trade is even more so, given the additional risks faced by exporters due to non-payment by foreign buyers, foreign exchange fluctuations, political disturbances in importing countries etc. For promoting exports, it is therefore imperative that exporters are protected against these risks. Shielding exporters against these foreign trade risks essentially entails two functions: one is furnishing export credit insurance (ECI) to exporters against default inpayment by foreign buyers, and the other is providing export credit insurance to banks (ECIB) and other financial agencies which lend credit to exporters to fulfil the latter's working capital requirements. In many countries, both these functions are performed by what are called export credit agencies (ECA)². In India, the key ECA is the wholly government-owned ECGC Limited at Mumbai. In India and other countries of the world, ECAs have become a crucial facilitator of exports which nowadays are a vital component of the economic growth of nations.

1.2 Role of Export Credit Insurance in Export Promotion

Export credit insurance (ECI) schemes are widespread both in developed and developing countries. Many nations have designed export credit insurance schemes as a policy instrument to protect their exporters from the adverse trade effects arising from market failures in signalling risks from uncertainties in international finance, exchange rates, politics etc. Generally, these schemes are either directly given by public institutions or banks or by other agencies on the government's behalf. In 2020, MLT (medium and long-term) export credit insurance provided by Berne Union ECAs covered approximately 13.6 per cent of total global cross-border trade. Over 110 national ECAs (including credit and insurance providers) compete on a global scale to assist their domestic exporters in a sluggish trading environment (Dawar, 2019).

² In some countries, the ECA, apart from providing insurance covers to exporters and banks, also combines the role of banks and financial agencies to directly furnish export finance to the exporters.



During the current global slowdown, many exporters have suffered the devastating impact that bad debts have had on their businesses; many have gone bankrupt or into receivership for financial reasons. A major benefit of ECI schemes is that policyholders can use these policies as collateral to obtain bank loans or funding at lower interest rates, helping them improve their overall competitiveness in the global market. In brief, ECI protects exporters and banks against the risk of non-payment by their buyers due to the following:

- Commercial risks, including prolonged default or delayed payments, insolvencies, bankruptcies, liquidation, and winding-up.
- Political risks, including credit risks related to government buyers and government-related risks such as regulatory changes, import-export licence restrictions, confiscation, war, riot, civil war, etc.

There are two broad categories of credit insurance under which ECI falls. Export credit insurance covers are differentiated with respect to the tenure of the credit granted. On the basis of this differentiation, there are two types of export credit insurance policies.

- Short-term (ST) policies
- Medium & Long Term (MLT) policies.

1) **Short-term (ST) Policy:** ST export credit insurance covers are the most common form of export credit insurance, which covers for a period of less than a year, generally less than 365 days. Most short-term export credit insurance, which are in the form of insurance policy covers are provided by the private, but in the case of a few countries such as India, ST covers are also provided by public sector organizations.

2) **Medium and Long-Term Policy:** Medium- and long-term (MLT) credit insurance provides cover up to 15 years. MLT exports refer to exports of engineering goods and the execution of turnkey projects and civil construction contracts abroad collectively. MLT exports include project exports and also exports of goods.

1.2.1 Role of ECI in Boosting International Trade: The Theoretical Framework

ECI strengthens the position of exporters in the international market. A study done by De Nederlandsche Bank (DNB) shows that each euro invested in insuring exports generates over €2.50 in total exports. The International Monetary Fund (IMF), the World Bank, and some other nations within the Organisation for Economic Co-operation and Development (OECD) also



support the argument that ECI has developed sustainable lending strategies and plays a vital role in promoting corporate social responsibility.

Export credit insurance providers of countries around the world are likely to be overprotective towards their exporters. Policies of such institutes can disrupt the level playing field for exporters across countries. To prevent this from happening, there are international treaties which regulate these organisations across nations to frame their export credit insurance policies in a manner consistent with a level playing field for exporters across nations

1.3 Role of Export Credit in Export Promotion

Small firms have to necessarily bear high average costs because of their low turnover. Moreover, the exporters among them face acute difficulties in accessing export credit. Small firms are therefore inevitably put at a competitive disadvantage in international trade, even if they have high productivity (Berman and Héricourt, 2010, Minetti and Zhu, 2011, Forlani, 2014, Muûls, 2015). Such disadvantages suffered by a vast number of small exporters can be removed only by putting in place an export credit support system which overcomes the market bias against them.

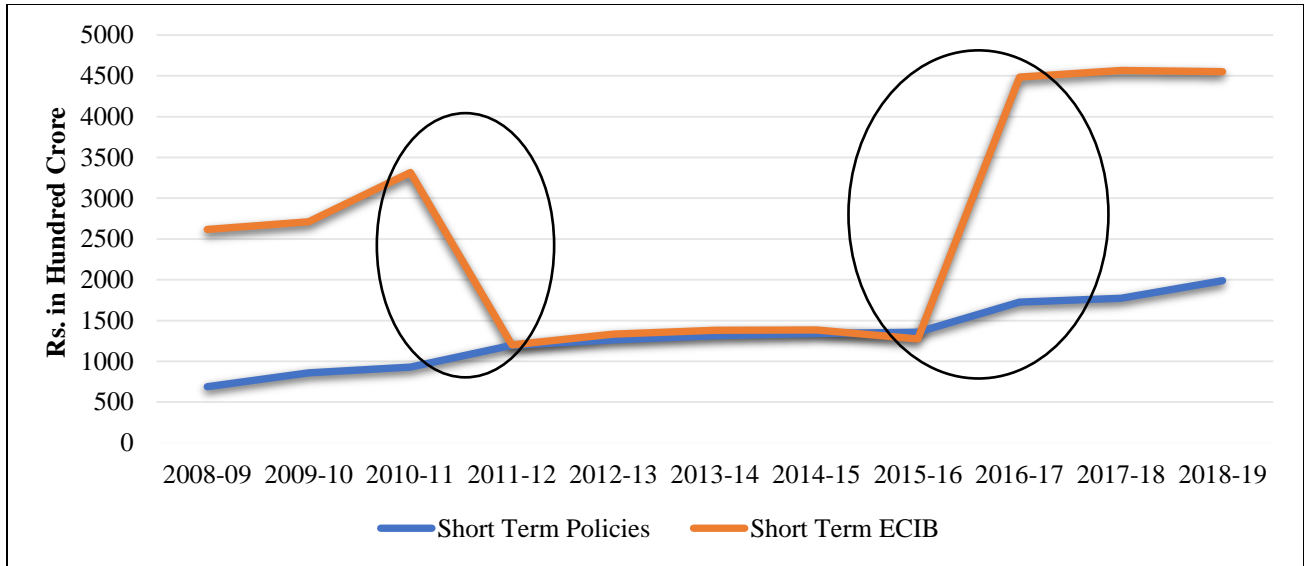
However, some studies suggest the contrary. It is generally believed that export credit support is a catalyst for the global trade system, but to compete for contracts overseas, public resources maybe used by governments to provide subsidies disguised as export finance to exporters. In other words, while export credit subsidies may be used justifiably to address international financial market failures, they can also be indefensibly overused by countries to provide undue advantage to their exporters. In the latter case, the result will be subsidy wars, in which exporting countries waste resources in an unhealthy competition against one another (Dawar, 2019) and end up shaking the very foundation of free trade.

1.4 Motivation of the Study

As already mentioned, ECGC offers insurance to both exporters and banks, and charges a premium in return for covering their risks. 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. In Figure 1.1, it is evident that short-term ECIB (Export Credit Insurance for Banks) seems to be a major component of the total value of business covered, but, at the same time, appears to be more volatile in nature. Due to the declining credit disbursement by banks (resulting from an increase in NPAs), ECGC's business in terms of sale of ECIBs has been affected, leading to a decline in ECGC's ECIB business. Hence, there is a need to look for the reasons for this sudden

fall between 2011-12 to 2014-15 in the value of business covered by short-term ECIBs and the reasons for the gap between the value of business from exporters and banks covered by ECGC in the other years.

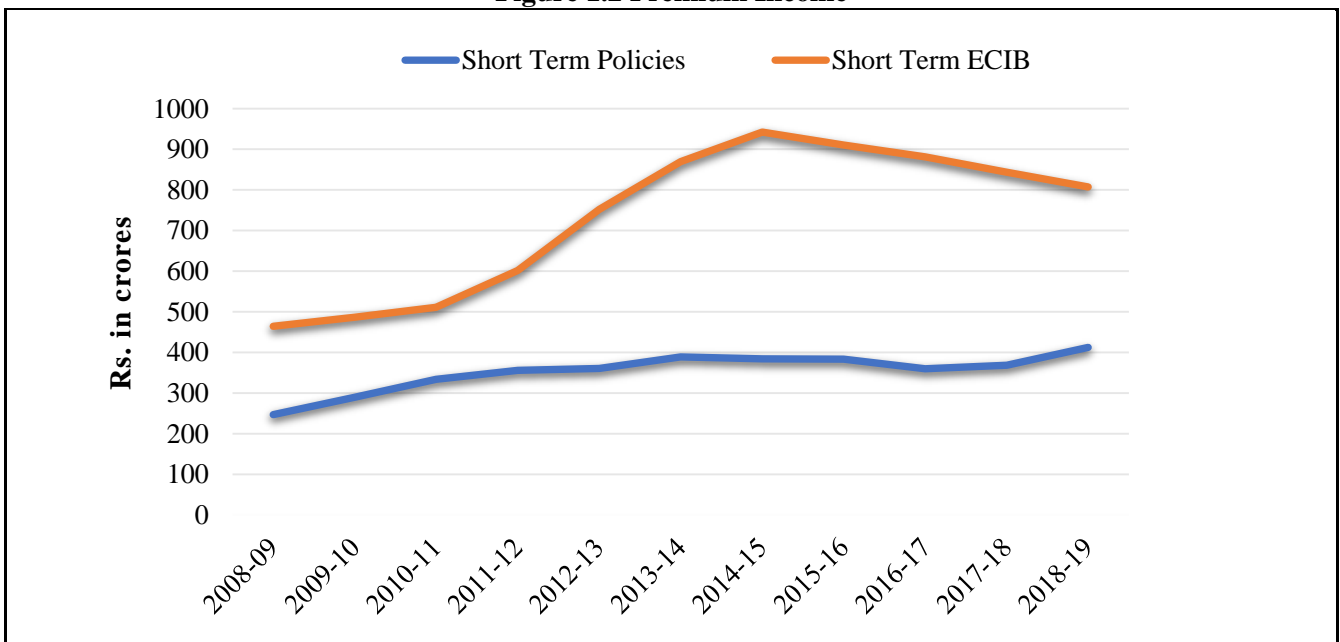
Figure 1.1 Value of Business Covered



Source: ECGC Data

It is evident from Figure 1.2 that a major part of the premium income of ECGC comes from short-term ECIB. However, the share of short-term policies in total premium income earned by ECGC has slowly increased.

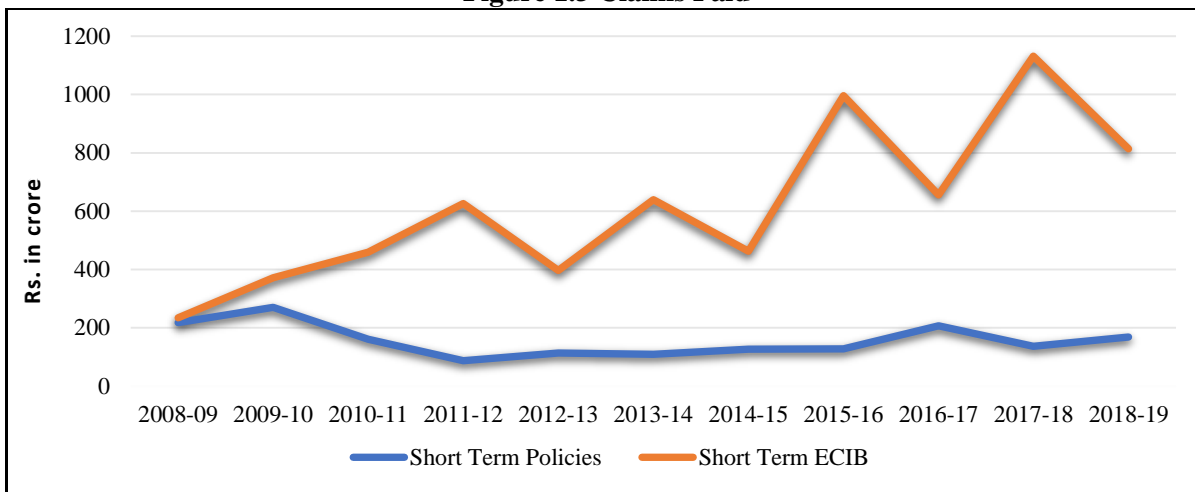
Figure 1.2 Premium Income



Source: ECGC LIMITED Data

Figure 1.3 clearly shows that notwithstanding the many periodic variations in claims paid on account of short-term ECIBs, these are much larger than the claims paid for short-term policies for exporters. Moreover, claims paid to short-term policies have declined sharply since 2009-10.

Figure 1.3 Claims Paid



Source: ECGC LIMITED Data

Thus, the three charts above clearly show that short-term ECIBs are the most prominent in terms of business for ECGC, and the fluctuations in the various business indicators of ECGC seem to be governed by variations in the indicators of short-term ECIB. Since short-term ECIBs are the major contributors to ECGC’s business, it is important to find out the major reasons responsible for the sudden fall between 2011-12 to 2014-15 in insurance cover taken by the banks while lending credit to exporters. Moreover, it is important to understand the reasons for why short-term insurance policies purchased by exporters have been falling since 2009-10.



Section 2: Objectives of the Study

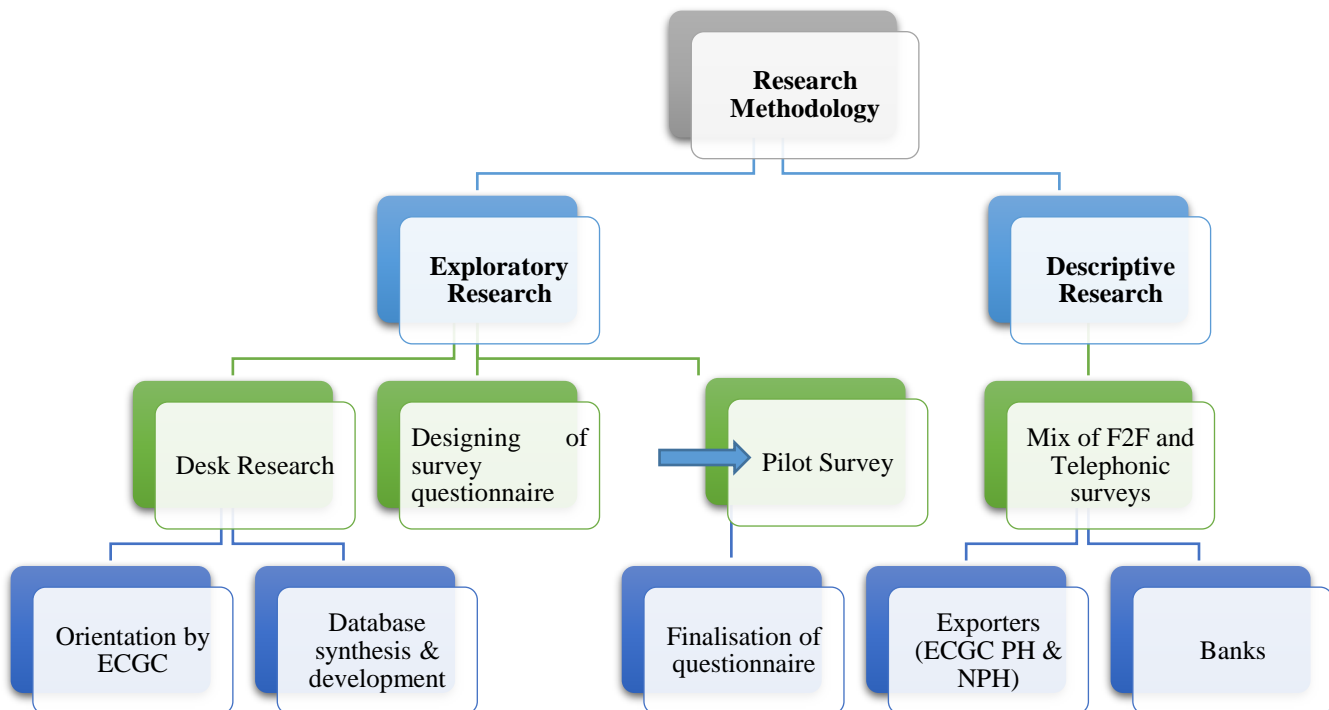
Given the backdrop of short-term insurance policies procured by exporters having a smaller share relative to that of ECIB in the value of business covered by ECGC, and a declining trend in the purchase of both these policies, the following objectives were formulated for this study:

- To explore the reasons for why there is a declining trend in the purchase of short-term insurance policies by the exporters.
- To provide suggestions on how ECGC can improve the marketability of its short-term policies for exporters in the future with a view to expand its own insurance business and enhance exports in the economy.
- To investigate the reasons for the variations and the declining trend in ECIB.
- To make recommendations on how to increase the ECIB business, which is the major chunk of ECGC's insurance business.

Section 3: Methodology

In view of the objectives of the study articulated above, the research approach that was followed for its execution is enunciated in the diagram below:

Figure 3.5 Research Approach



Source: Created by Authors

As can be seen in figure 3.1, the methodology is divided into two phases comprising of : (i) Phase I: Exploratory Research and (ii) Phase II: Descriptive Research.

Phase I: Exploratory Research

Exploratory research was carried out at the beginning of the survey to develop an understanding of the subject matter. This was a very important phase in the research as it led to the construction of the base for the entire survey. The following stages were covered in this phase.

Step I: Desk Research

Secondary research was conducted to get an understanding of the details of ECGC schemes, policy holders, beneficiaries, its guidelines, and other aspects. A review of relevant reports/documents/papers etc., was also done.

Step II: Orientation by ECGC

After the completion of desk research, a brief discussion with ECGC officials was conducted to develop a deeper understanding about the subject matter. Subsequent to the completion of the desk research a brief discussion with ECGC officials was held. This proved immensely helpful in drawing up the survey questionnaires.

Step III: Database Development

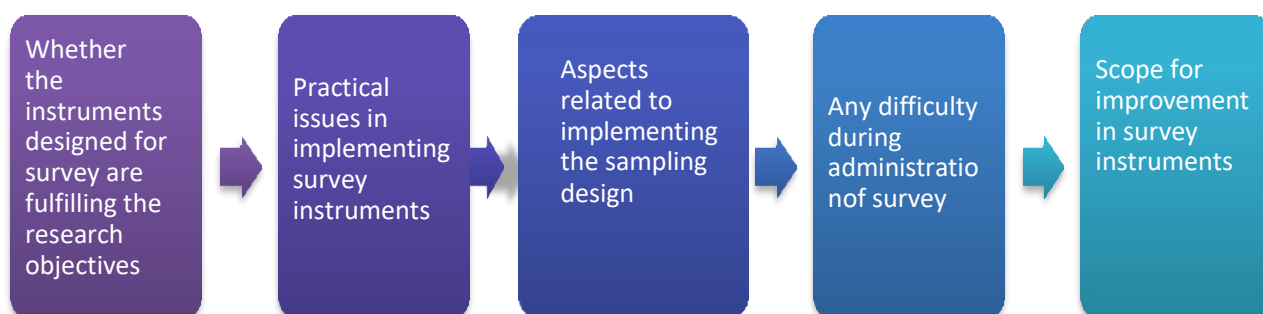
Database of policy holder firms and non-policy holder firms was provided by ECGC. Firm database spanning across selected industry sectors was provided before the launch of the survey. Based on the database provided, the target respondents were contacted to schedule appointments for conducting the main survey.

Step IV: Designing of Survey Instrument

Based on the objectives of the study and the survey perspective provided by ECGC, questionnaires were prepared in consultation with the latter. Similarly, survey guidelines and other instruments were also prepared.

Step V: Pilot Testing

A small sample of target groups (6 stakeholders including exporters and banks) was selected to pilot and pre-test the survey mechanisms, sampling design and survey instruments before these were finalised and used in the main survey stage. The pilot survey was conducted with actual respondents at their offices. The key purposes of this pilot survey were to examine the following:



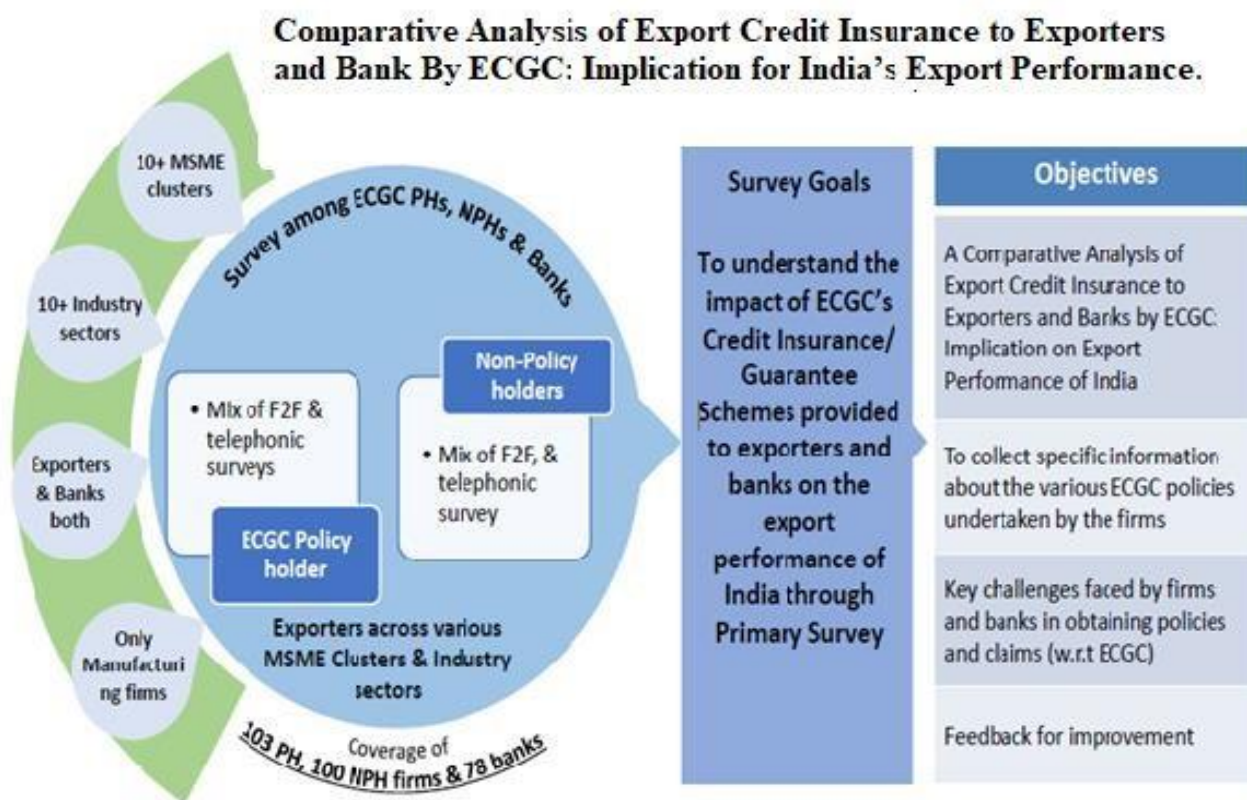
Source: Created by Authors

Three general types of pre-tests were done before commencement of the survey work.

- Whether it has adequately covered the survey objectives.
- Ease of administering the questionnaire
- Whether the respondents were able to understand the questions

Phase II: Descriptive Research

Figure 3.2 Summary of Survey Design



Source: Author’s Creation

After a thorough understanding of the subject matter in the exploratory phase and finalising the survey instruments based on pre-testing, descriptive research was conducted by collecting primary data related to various aspects of the functions of ECGC.

As both exporters and banks are stakeholders in this study, the primary survey has been conducted for exporting firms across ten *plus* MSME clusters and ten *plus* industry sectors as well as for banks. A total of 281 respondents (exporters and banks) were interviewed. Of these 203 were exporting

firms, which in turn comprised of 103 ECGC policyholders and 100 non-policyholders. Apart from the exporting firms, 78 banks were interviewed in the primary survey.

Starting with a database provided by ECGC with respect to industry clusters and sectors, a multi-stage sampling procedure in which, first, clusters were selected and, second, sample units within the chosen clusters were selected, was followed in conducting the primary survey. Further, a mix of purposive and snowballing sampling techniques were adopted to select the respondents. The sample sizes as per the different states are shown in Table 3.1, and according to the sectors are given in Table 3.2

The questionnaire in the primary survey was designed in such a way that the responses by the exporters and the banks provide useful insights about the role played by export credit insurance in facilitating exports, challenges faced in availing export credit insurance by the exporters and the banks, and other related aspects.

Table 3.1 Sample Size Achieved: State-wise

State	Overall	Policy Holders	Non-Policy Holders	Banks
Maharashtra	74	16	43	15
Delhi	43	27	3	13
Uttar Pradesh	37	19	8	10
Tamil Nadu	36	7	27	2
Punjab	20	6	4	10
Karnataka	15	7	8	0
Rajasthan	15	7	0	8
Telangana	12	3	0	9
Gujarat	10	3	4	3
West Bengal	10	8	2	0
Kerala	8	0	0	8
Jharkhand	1	0	1	0
Grand Total	281	103	100	78

Source: Created by IIFT



Table 3.2 Sample Size Achieved: Sector wise

Sector-wise	Overall	Policy Holders	Non-Policy Holders
Textile and ready-madegarments	69	38	31
Engineering goods	37	17	20
Chemical and pharmaceuticals	31	18	13
Leather and leather products	20	11	9
Gems and Jewellery	12	2	10
Spices	5	0	5
Tea and coffee	5	3	2
Agriculture and Plantation	2	1	1
Cotton	1	1	0
Other sectors	21	12	9
Grand Total	203	103	100

Source: Created by IIFT

The next two sections segregate the survey findings in two parts. Section 4 deals with the perspective of exporters (policy holders and non-policy holders) while section 5 spells out the outlook of banks.

Section 4: Performance of ECGC Policies: Evidence from Primary Survey of Exporters

4.1 Profile of Exporters

This section provides an elaborate profile of exporters with respect to various significant characteristics.

4.1.1 Geographical Coverage of Exporters

Overall, about 30 per cent of exporters were covered from Maharashtra, followed by Tamil Nadu and Delhi. The maximum number of policy holders were from Delhi, Uttar Pradesh and Maharashtra whereas the maximum number of non-policyholders were from Maharashtra and Tamil Nadu.

Table 4.1 Geography-wise Classification of Exporters

[All figures from the third row downwards are in percent]

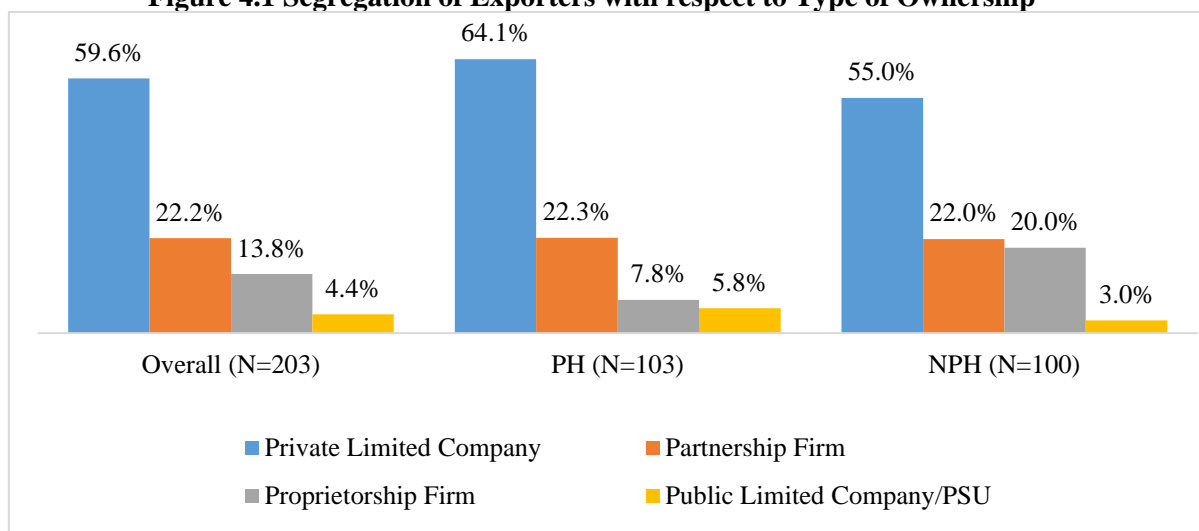
Geographical Coverage	Overall	PH	NPH
Number	203	103	100
Maharashtra	29.1	15.5	43.0
Tamil Nadu	16.7	6.8	27.0
Delhi	14.8	26.3	3.0
Uttar Pradesh	13.3	18.4	8.0
Karnataka	7.4	6.8	8.0
West Bengal	4.9	7.8	2.0
Punjab	4.9	5.8	4.0
Rajasthan	3.4	6.8	0.0
Gujarat	3.4	2.9	4.0
Others	2.1	2.9	1.0

Source: Primary Survey

4.1.2 Classification of Exporting Firms according to Type of Ownership

Overall, about 60 percent firms were private companies. The remaining were partnerships (22.2 per cent), proprietorships (13.8 per cent) and public companies (4.4 per cent).

Figure 4.1 Segregation of Exporters with respect to Type of Ownership



Source: Primary Survey

4.1.3 Size-wise Classification of Exporters

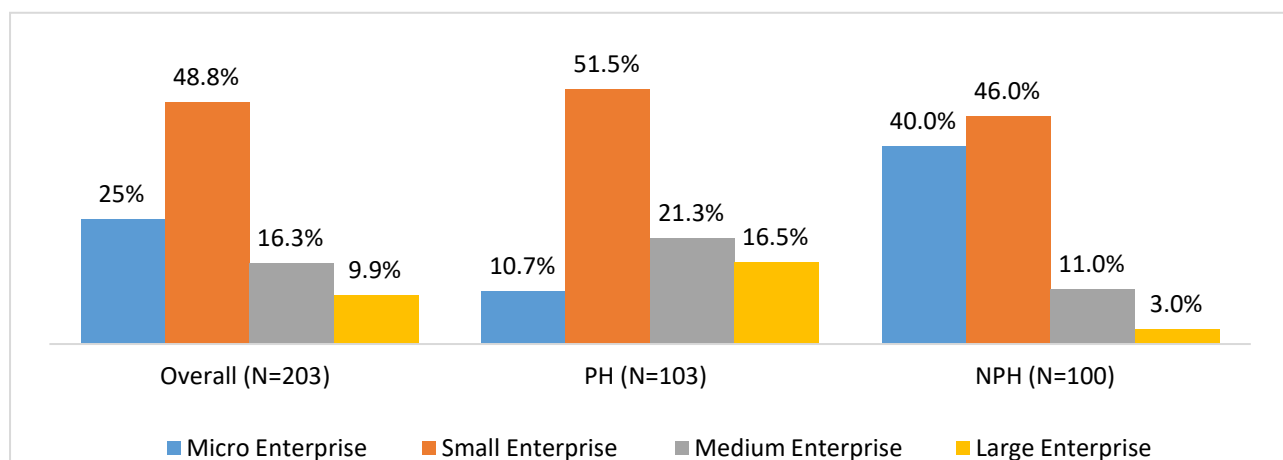
Based on investment in plant and machinery excluding land, exporters were segregated into micro, small, medium and large enterprises.

- Micro Enterprise – Investment in plant and machinery does not exceed Rs 1 crore and turn over does not exceed Rs 5 crore
- Small Enterprise – Investment in plant and machinery does not exceed Rs 10 crore and turnover does not exceed Rs.50 crore
- Medium Enterprise – Investment in plant and machinery does not exceed Rs 50 crore and turnover does not exceed Rs.250 crore
- Large Enterprise – Investment in plant and machinery exceeding Rs.50 crore and turnover exceeding Rs 250 crore

Overall, 50 per cent were small-sized enterprises followed by micro (25.1 per cent), medium-sized (16.3 per cent) and large-sized (9.9 per cent).

Among policy holding exporters, slightly more than 50 per cent of the firms were small-sized while, in the case of non-policy holding exporters, 46 per cent of the firms were small-sized.

Figures 4.2 Size-wise Segregation of Exporters



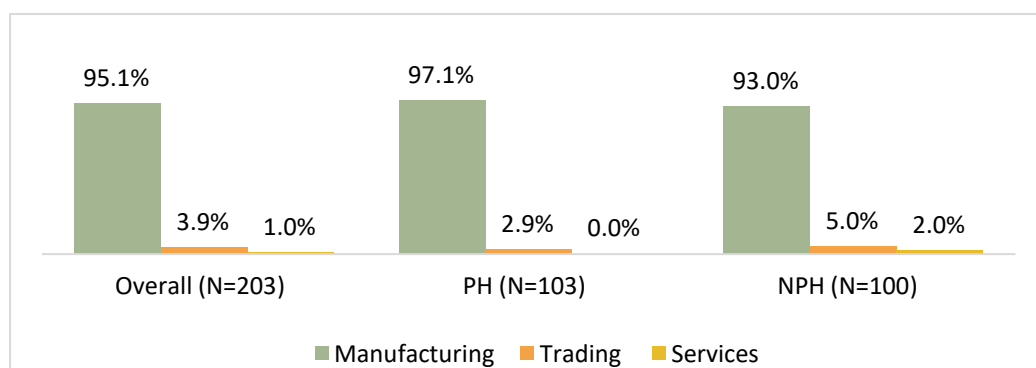
Source: Primary Survey

4.1.4 Industrial Activity-wise and Sector-wise Classification of Exporters

In terms of activities involved, about 95 per cent exporters were from manufacturing sector while the remaining were from the trading sector (3.9 per cent) and the services sector (1 per cent).

Among policy holders and non-policy holders, nearly 97 per cent and 93 per cent of the exporters were from manufacturing sector respectively.

Figure 4.3 Activity-wise Segregation of Exporters



Source: Primary Survey

Around 33 per cent of the exporters were from the textile and ready-made garments sectors, 18 percent from the engineering goods sector, 15 per cent from the chemical and pharmaceuticals sector and 10 per cent from the leather and leather products sector.

Table 4.2 Industrial Sector-wise Segregation of Exporters

[All figures from the third row downwards are in percent]

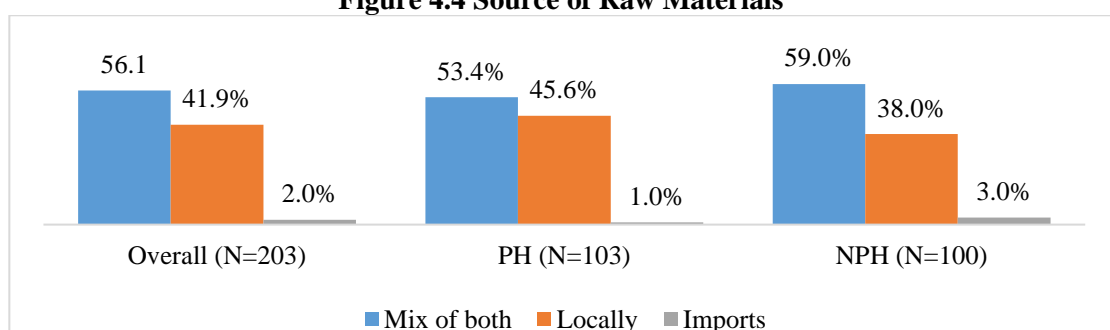
Sector wise	Overall	PH	NPH
Number	203	103	100
Textile and ready-made garments	34.0	36.9	31.0
Engineering goods	18.1	16.5	20.0
Chemical and pharmaceuticals	15.3	17.5	13.0
Leather and leather products	9.9	10.7	9.0
Gems and Jewellery	5.9	1.9	10.0
Spices	2.5	0.0	5.0
Tea and Coffee	2.5	2.9	2.0
Agriculture and Plantation	1.0	1.0	1.0
Cotton	0.5	1.0	0.0
Other Sectors	10.3	11.6	9.0

Source: Primary Survey

4.1.5 Source of Raw Materials

Over 56 per cent of the firms sourced raw materials both locally and *via* imports while nearly 42 percent sourced raw material locally.

Figure 4.4 Source of Raw Materials

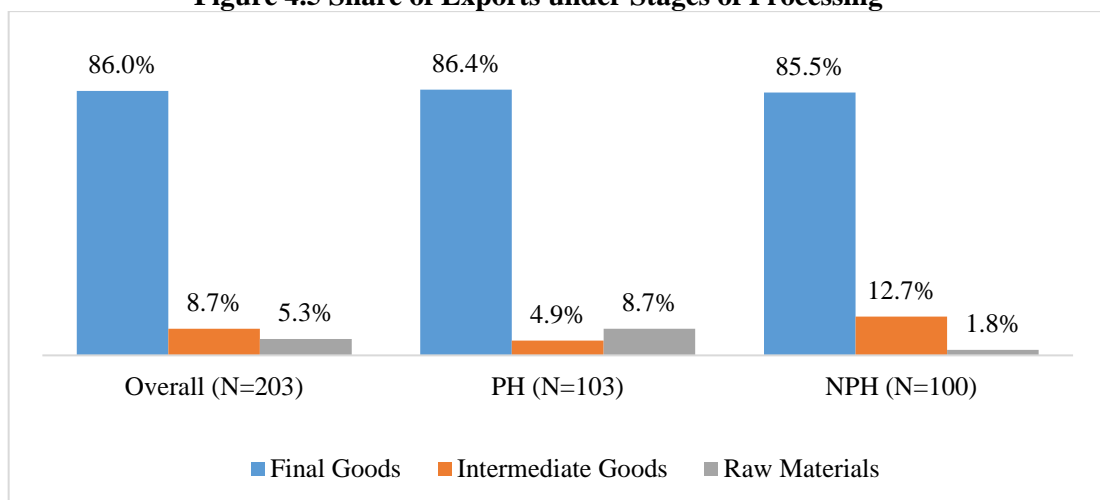


Source: Primary Survey

4.1.6 Share of Exports under various Stages of Processing

In terms of share of exports under different stages, overall, 86 per cent exporters export finished goods, and 9 percent export intermediate goods. Exporters of final goods were the dominant category among both policy holders and non-policy holders.

Figure 4.5 Share of Exports under Stages of Processing



Source: Primary Survey

4.1.7 Riskier Transportation Mode

Close to nine out of ten exporters considered sea transportation as the riskiest transportation mode, followed by road transport and air transport.

Table 4.3 Risk Ranking of Transportation Modes

[All figures from the third row downwards are in percent]

Type of firm	Overall	PH	NPH
No of sample exporters	203	103	100
Sea Transport	88.2	88.3	88.0
Road Transport	7.4	10.7	4.0
Air Transport	3.9	1.0	7.0
Rail Transport	0.5	-	1.0

Source: Primary Survey

4.1.8 Major Export Destinations/Countries

Exporters were also asked about their key export destinations/countries. The top three destinations/countries were the US, the United Kingdom and the UAE across both policyholder and non-policyholder exporters.

Table 4.4 Major Export Destinations/Countries

[All figures from the third row downwards are in percent.

Because of Multiple Responses the figures in any column do not add up to 100]

Major Export Destination	Overall	PH	NPH
Number	203	103	100
America	45.8	55.3	36.0
United Kingdom	33.5	41.7	25.0
United Arab Emirates	28.6	21.4	36.0
Australia	15.8	17.5	14.0
China	15.3	15.5	15.0
France	12.8	21.4	4.0
Sri Lanka	11.3	7.8	15.0
Germany	13.8	16.5	11.0
Canada	13.3	14.6	12.0
South Africa	9.9	11.7	8.0

[Column wise top 5 values are highlighted]

Source: Primary Survey

4.1.9 Year-wise Average Domestic and Export Sales of Firms

Based on reported financial information by exporters, the domestic and export sales of firms were calculated. On an average, the domestic sale of the policy holder exporters was Rs.897.55 crores in FY 2018-19; this declined to Rs.706.69 crores in FY 2019-20 and further to Rs.308.23 crores in FY2020-21. Similarly, the average export sales of firms in FYs 2018-19, 2019-20 and 2020-21 were Rs.70.59 corers, Rs.62.99 corers and Rs.51.47 corers respectively.

Among non-policy holders, average domestic sale was Rs.337.49 corers in FY 2018-19, Rs.310.02 corers in FY 2019-20 and to Rs.253.92 corers in FY 2020-21 while their average exports for the three years were Rs.21.47 corers, Rs.20.60 corers and Rs.17.15 corers respectively.

Exporters were asked about the share of online sales. This was 8.1 per cent overall with the share being 4.3 per cent among policy holder exporters and about 12.1 per cent among non-policy holder exporters.

Table 4.5 Domestic and Export Sales of Exporters

Particular	FY 2018-19 (Avg.)	FY 2019-20 (Avg.)	FY 2020-21 (Avg.)
Policyholder Exporters			
Domestic sales (Rs. corers)	897.55	706.69	308.23
Export sales (Rs. corers)	70.59	62.99	51.47
Non-Policyholder Exporters			
Domestic sales (Rs. corers)	337.49	310.02	253.92
Export sales (Rs. corers)	21.47	20.60	17.15

Source: Primary Survey

4.1.10 Segregation of Manpower and Proportion of Female Workers

The total average number of workers among policy holder exporters was in the range of 306-315 during last three financial years of which female workers accounted for 10-12 per cent. The corresponding figures for non-policy holder exporters were 106-114 and 10-11 per cent respectively.

Table 4.6 Average Number of Workers and Proportion of Females

Particular	FY 2018-19	FY 2019-20	FY 2020-21
Policyholder Exporters			
Total Manpower (Avg Nos.)	306	318	315
Proportion of female to male workers(per cent)	10.7	11.4	12.3
Non-Policyholder Exporters			
Total Manpower (Avg Nos.)	107	114	106
Proportion of female to male workers(per cent)	9.7	10.7	11.0

Source: Primary Survey



4.2 ECI Requirement, Challenges and Risk Management Practices

This section provides insights regarding export credit insurance requirements, factors influencing export performance, challenges in obtaining policies from ECGC and the credit risk insurance management practices followed by exporters.

4.2.1 Importance Level of Factors for Requirement of ECI Policies

During the survey, respondents were asked to rank the factors that determine their requirement for export credit insurance policies on a 5-point scale where 1 was not important and 5 was extremely important. To interpret the results, the sum of “extremely important” and “very important” is termed “important” while the sum of “slightly important” and “not important” is termed as “unimportant”. In between what remains unchanged is “moderately important”.

The three main factors that determine a firm’s requirement for an ECI policy among policy holders were the following :

- Geographical differences³ while exporting (97.1 percent)
- Pressure from international competitors (95.2 percent)
- Characteristics of the products (95.1 percent)

Among non-policyholders, the three main factors were:

- Regulatory requirement in foreign market (93 percent)
- Country of export (89 percent)
- Geographical differences while exporting and free trade agreements (88 percent each)

³ Market sizes, cultural similarities and distance have historically been the major determinants of trade between countries.

Table 4.7 Importance Level of Factors for Requirement of ECI Policies

[Figures in percent]

Factors driving Requirement of export credit insurance (ECI) policies	Policyholders (N=103)			Non-Policyholders (N=100)		
	Important	Moderately Important	Un-important	Important	Moderately Important	Un-important
Geographical differences while exporting	97.1	1.9	1.0	88.0	9.0	3.0
Pressure from international competitors	95.2	1.9	2.9	80.0	9.0	11.0
Characteristics of the products	95.1	3.9	1.0	86.0	10.0	4.0
Regulatory requirement in foreign market	94.2	4.9	1.0	93.0	4.0	3.0
Country of Export	94.1	3.9	2.0	89.0	8.0	3.0
Requirement of user industry	92.3	5.8	1.9	82.0	9.0	9.0
Being part of international value chain	92.2	3.9	3.9	80.0	9.0	11.0
Overcome tariff barriers	92.2	3.9	3.9	85.0	13.0	2.0
Free Trade Agreements	90.3	7.8	2.0	88.0	11.0	1.0
Pressure from domestic competition	88.4	5.8	5.9	78.0	11.0	11.0

[Note: “Important” means sum of “Extremely important” and “Very important” while “Unimportant” means sum of “Slightly important” and “Not important”]

Source: Primary Survey

4.2.2 Importance Level of Factors that Influence Export Performance

The exporters were also asked about the importance of factors that affected their export performance. Among policyholder exporters, the most important factors that affected export performance were free trade agreements (90.3 per cent), regulatory requirement in foreign market (89.3 per cent) and geographical differences while exporting (84.5 percent). Pressure from domestic competition (70.8 percent) and being part of international value chains (78.7 percent) were the least important factors. For non-policy holder exporters, regulatory requirement in foreign market (92 per cent), free trade

agreements and characteristics of the products (89 per cent each) topped the list while being part of international value chain (76 per cent) was at the bottom.

Table 4.8 Importance Level of Factors that Influence Export Performance

[Figures are in percent]

Factors driving Export Performance	Policy holders (N=103)			Non-Policy holders (N=100)		
	Important	Moderately Important	Un-important	Important	Moderately Important	Un-important
Free Trade Agreements	90.3	4.9	4.9	89.0	9.0	2.0
Regulatory requirement in foreign market	89.3	8.7	2.0	92.0	7.0	1.0
Geographical differences while exporting	84.5	12.6	2.9	88.0	11.0	1.0
Overcome tariff barriers	83.5	12.6	3.9	88.0	11.0	1.0
Characteristics of the products	83.5	12.6	3.9	89.0	7.0	4.0
Pressure from international competitors	82.6	12.6	4.9	86.0	11.0	3.0
Country of Export	82.5	15.5	2.0	86.0	11.0	3.0
Requirement of user industry	81.6	16.5	2.0	88.0	7.0	5.0
Being part of international value chain	78.7	16.5	4.8	76.0	14.0	10.0
Pressure from domestic competition	70.8	19.4	9.7	86.0	10.0	4.0

[Note: “Important” means sum of “Extremely important” and “Very important” while “Unimportant” means sum of “Slightly important” and “Not important”]

Source: Primary Survey

4.2.3 Importance of Various Factors in Obtaining Policies from ECGC (PH)

Policyholder exporters were asked to rank the importance of various factors in obtaining policies from ECGC on a similar 5-point scale.

The factors were cost, time-related issues, and market-related aspects. Within each sub-section, the following factors were considered most important:

- Cost factors: Availability of finance within enterprise (100 per cent)



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- Time-related issues: Time for ascertainment of loss (98 percent)
- Market-related factors: Dominance of established players and transportation time and cost (95.2 percent each)

Table 4.9 Factors in Obtaining Policies from ECGC

[N=103, All figures in percent]

Obtaining policies from ECGC by Policyholders	Important	Moderately Important	Un-important
Cost factors			
Availability of finance within your enterprise	100.0	0.0	0.0
Innovation cost	95.2	4.9	0.0
Premium charged	91.2	7.8	1.0
Availability of finance from outside sources	90.3	8.7	1.0
Blocked funds other than ECGC policies (LCs, Loans etc.)	90.3	8.7	1.0
Time related issues			
Time for ascertainment of loss	98.1	1.9	0.0
Time taken to obtain ECGC policy/Credit Limit	96.1	3.9	0.0
Issues with closure of policy	95.1	4.9	0.0
Time taken to obtain claims	92.2	5.8	1.9
Issues with time for filing claim	91.3	8.7	0.0
Market factors			
Market dominated by established players	95.2	2.9	1.9
Transportation time and cost	95.2	2.9	2.0
Problems entering new market	95.1	3.9	1.0
Currency risk	94.2	3.9	2.0
Government policy constraints	88.3	9.7	2.0

[Cell highlighted in green colour represents row-wise highest value]

Source: Primary Survey

4.2.4 Importance Level of Risks while Opting for ECGC Policy (PH)

Further, policy holder exporters were asked about the importance accorded to various risks while opting for ECGC policies. 98.1 percent of exporters mentioned that the risk of buyer default ranked the highest while opting for ECGC policies, followed by insolvency of LC-opening bank (97.1 per cent) and insolvency of the buyer (97.1 percent).

Table 4.10 Risks while Opting for ECGC Policy

[N=103, All figures in percent]

Key risks while opting for ECGC policies	Important	Moderately Important	Un-important
Protracted default by the buyer	98.1	1.0	1.0
Insolvency of LC (Letter of Credit) opening bank	97.1	1.9	1.0
Insolvency of the Buyer	97.1	2.9	0.0
Inconvertibility	96.1	3.9	0.0
Repudiation risk	94.2	5.8	0.0
Transfer Delay Risk	94.2	5.8	0.0
Expropriation Risk	94.1	5.8	0.0
Diversion of shipment	91.3	6.8	1.9
Non-payment by LC (Letter of Credit) opening bank	91.3	8.7	0.0
Contract frustration due to war, civil war, etc.	88.3	9.7	1.9
Import restrictions	86.4	12.6	1.0

[Note: “Important” means sum of “Extremely important” and “Very important” while “Unimportant” means sum of “Slightly important” and “Not important”]

Source: Primary Survey

4.2.5 Risk Level Association even after Obtaining ECGC policy (PH)

Policy holder exporters were also asked about the level of risk associated with several aspects even after obtaining an ECGC policy. The risk level was initially measured on a 5-points scale but later the levels of risks were re-aggregated into three categories, where “High Risk”(which means sum of “extremely high risk” and “very high risk”), “moderate risk” and “no risk” (which means sum of “slight risk” and “no risk”). Factors identified as having the highest risk were issues with letter of credits given by importers (96.2 per cent) followed by risky destination market (restricted cover countries) (94.2 per cent) and exchange rate fluctuations (93.2 per cent). A few other risks such

as sample approval, single-window approval and banking information were also mentioned by respondents.

Table 4.11 Risk Level after Obtaining ECGC Policy

[N=103, All figures in percent]

Key risks associated even after taking ECGC policy	High Risk	Moderate Risk	No Risk
Issues with letters of credit given by importer	96.2	2.9	1.0
Risky destination market (restricted cover countries)	94.2	3.9	1.9
Exchange rate fluctuation	93.2	5.8	1.0
Commercial disputes including quality disputes raised by the buyer	92.2	5.8	1.9
Causes inherent in the nature of goods	90.3	8.7	1.0
Blocked funds other than ECGC policies (LCs, Loans etc.)	89.3	7.8	2.9
Failure on the part of the foreign buyer to obtain importor exchange authorisation	88.3	10.7	1.0

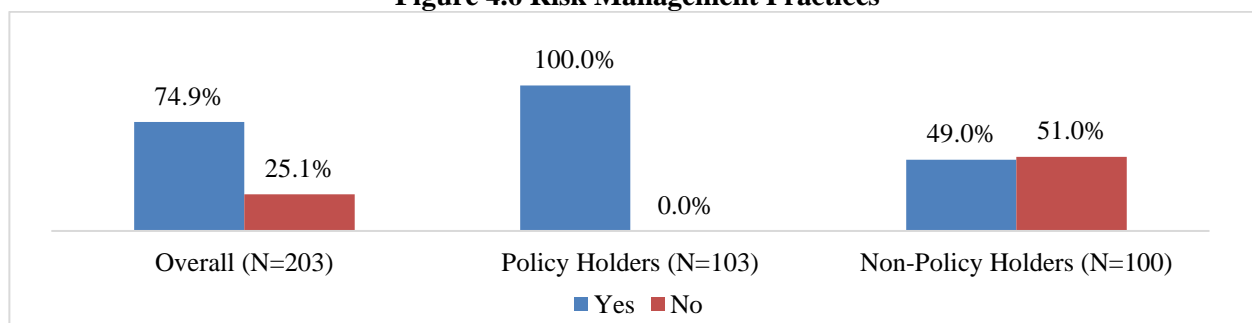
[Note: “High Risk” means sum of “extremely high risk” and “very high risk” while “no risk” means sum of “slight risk” and “no risk”]

Source: Primary Survey

4.2.6 Risk Management Practices

During the survey, respondents were asked whether their firms have any risk management mechanism in place. Three-fourths of all the exporting firms practice risk management. In the case of non-policyholders, roughly half (49 per cent) had adopted risk management practices while the remaining did not do so (51 per cent).

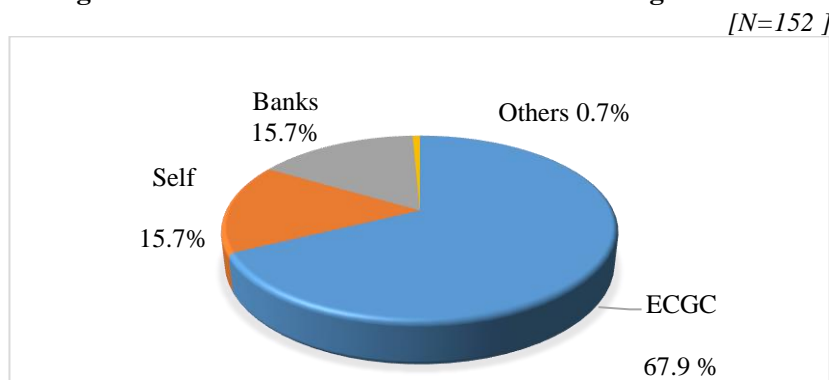
Figure 4.6 Risk Management Practices



Source: Primary Survey

Respondents who said that their firms manage risk involved in exporting (N=152) were further asked about the mechanism chosen to minimise risk. About 68 per cent firms use ECGC insurance policies to cover their non-payment risks. For covering their finance-related risks⁴, 15.7% exporters resorted to banks and 15.7% did it through self-management mechanism. Remaining were others.

Figure 4.7 Mechanism Preferred for Risk Management



Source: Primary Survey

Exporters that were using ECGC policy covers were asked about the type of risk management they practiced before they adopted ECGC policy (N=103). Among such exporters, 81 per cent were not using any risk management practice, while 12 per cent were managing their finance-related risks through banks and remaining 8 per cent by arrangements of their own.

4.2.7 Reasons for not Practicing Risk Management and/or not Obtaining ECI (NPH)

Respondents were asked the reasons for not practicing risk management and/or not obtaining export credit insurance policies (fully or partially) by the firm.

The top three reasons for not practicing risk management and/or not obtaining export credit insurance policies (fully or partially) were the following:

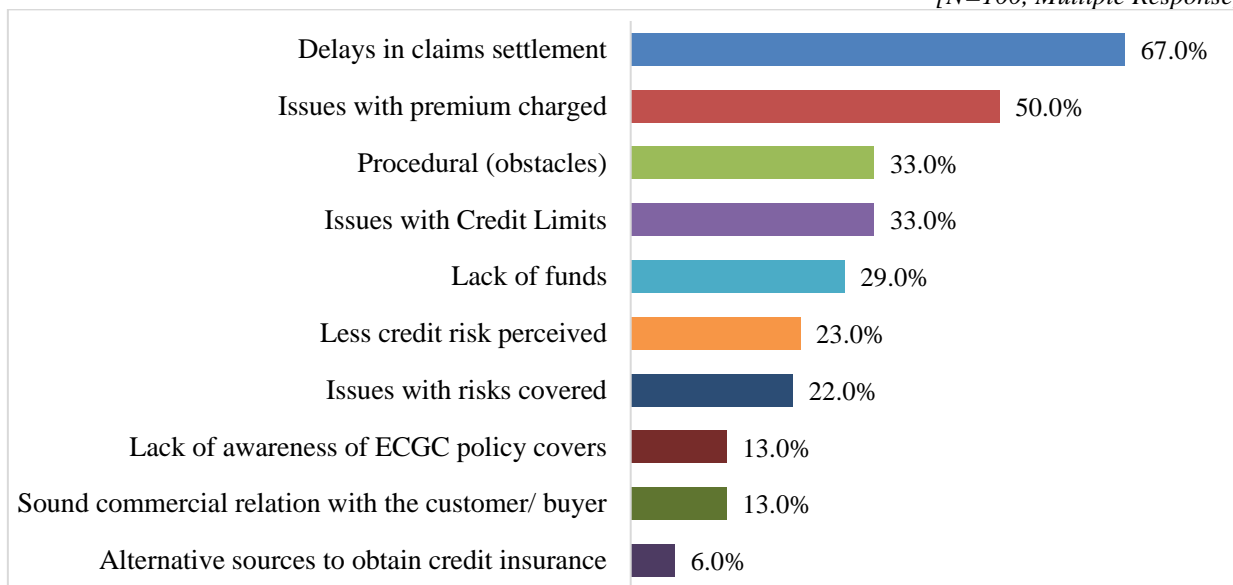
- Delays in claims settlement (67 per cent)
- Issues with premium charged (50 per cent)
- Procedural obstacles and issues with credit limits (33 per cent)

⁴ ECGC covers the risk of non-payment to exporters directly through its insurance policies. On the other hand, banks provide finance to exporters for which ECGC provides insurance cover to the former.

Other reasons given were lack of funds, perceived lower risk, issues with risk covered, etc.

Figure 4.8 Reasons for not Practicing Risk Management

[N=100, Multiple Response]



[Because of Multiple Responses the percentage figures do not add up to 100.]

Source: Primary Survey

4.3 ECGC Policies, Claims, Sources of Information and Export Performance

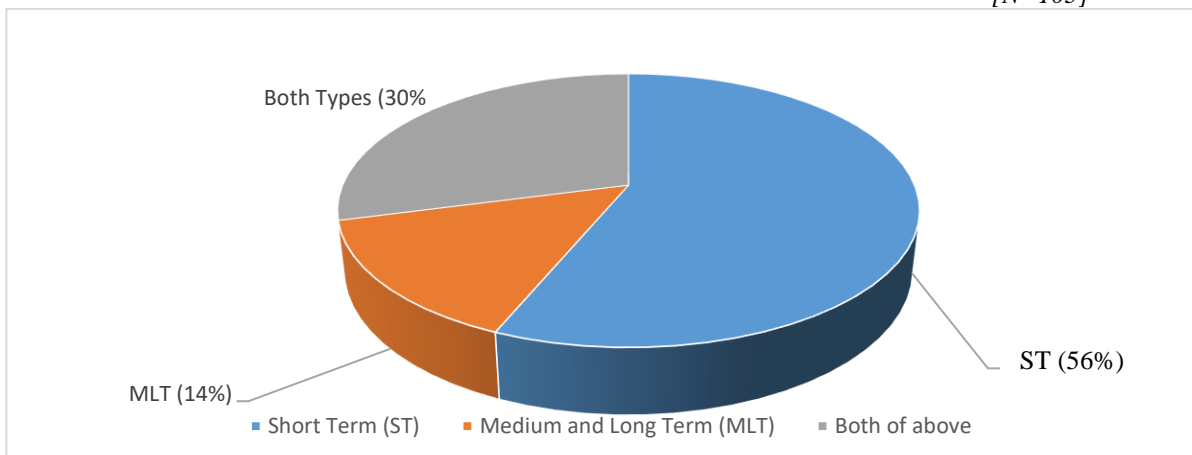
This section includes details about the type of ECGC policies taken, claims taken, actual versus expected improvement due to ECGC cover, sources of information of ECGC policies and factors and measures to improve the use and reach of ECGC policies.

4.3.1 ECGC Policies Status and Type of Policies Undertaken (PH)

Among policyholders, it was found that each exporter continued/renewed policies for 3 to 4 years in the observed period of 5 years. Over half the policy holders (56 per cent) have taken short-term policies while 30 per cent have taken both types of policies.

Figure 4.9 Type of Insurance Cover Taken

[N=103]



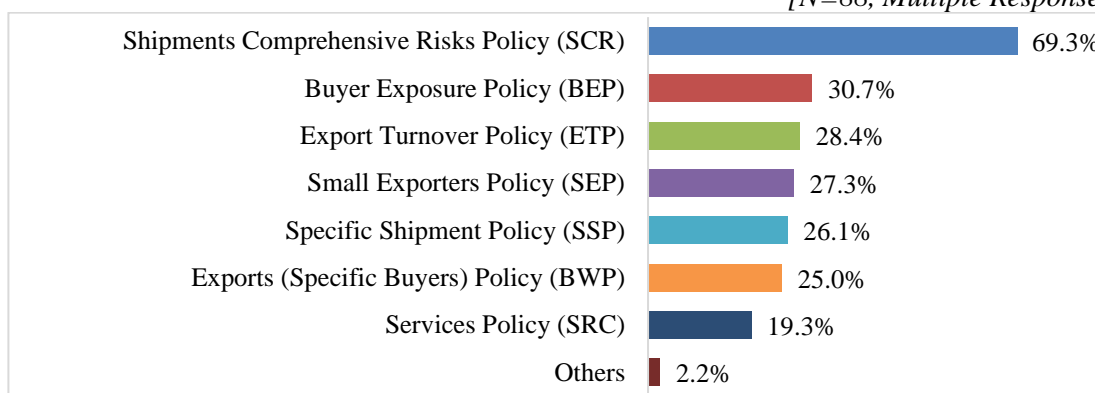
Source: Primary Survey

Further, exporters that have taken short-term or both types of policies (N=88) were asked about the type of short-term insurance cover they had taken from ECGC in the last five years.

Seventy per cent of exporters had taken shipment comprehensive risk policy followed by buyer exposure policy (31 per cent), export turnover policy (28 per cent), small exporter’s policy (27 per cent), etc.

Figure 4.10 Type of Short-term Insurance Cover

[N=88, Multiple Response]



[Because of Multiple Responses the percentage figures do not add up to 100.]

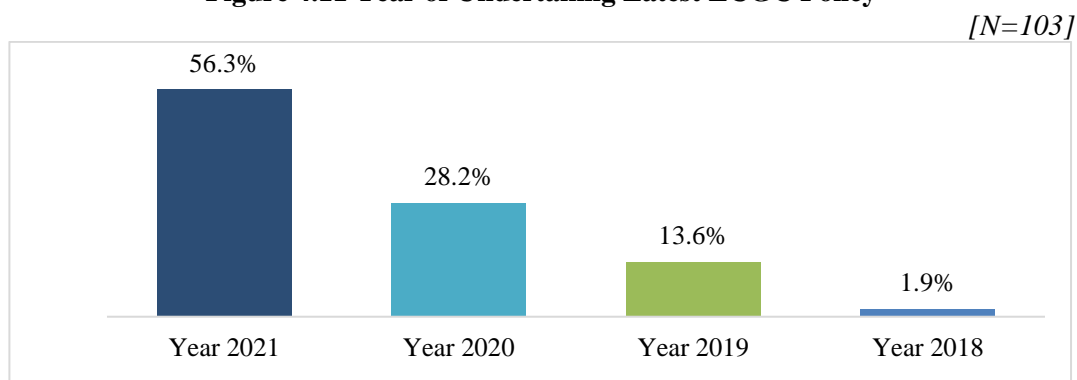
Source: Primary Survey

4.3.2 Year of Undertaking Latest ECGC Policy, Premium and Claims (PH)

Exporters were also asked about the year in which latest policy was taken, average premium charged, and amount claimed. Over half the exporters had taken their latest ECGC policy in the year 2021

(56.3 per cent), followed by the years 2020 (28 per cent) and 2019 (14 per cent). This demonstrates the ECGC's endurance or a favourable relationship between time and policy taken by the exporter. It demonstrates a rising trend over 2018-2021.

Figure 4.11 Year of Undertaking Latest ECGC Policy



Source: Primary Survey

On an average, the premium charged for latest policy was Rs.6,61,079 and the claimed amount was Rs 1,88,14,235. Year-wise details are provided below.

Table 4.12 Year-wise Premium Charged and Claimed Amount

Year of undertaking latest ECGC Policy	Premium Charged (in Rs.)		Claimed Amount (in Rs.)	
	N	Amount	N	Amount
N	92	6,61,079	17	1,88,14,235
2021	49	7,88,260	11	1,86,81,091
2020	28	5,51,946	5	2,27,10,000
2019	13	5,06,154	0	--
2018	2	80,000	1	8,00,000

[The remaining exporters did not disclose the premium and claimed amount]

Source: Primary Survey

4.1.11 Expected versus Actual Improvement through ECGC Policy Cover (PH)

Exporters were asked about the expected and actual improvement through ECGC policy cover. Along with improvement at the individual level, the gap in expected versus actual improvement due to an ECGC policy cover was also measured (Table 4.13).

The highest gap between expected and actual improvement was recorded with respect to increase in employment (41.7 per cent) followed by improvement in business turnover (40.9 per cent) and product diversification (36.9 per cent). The lowest gap between expected and actual improvement was recorded in developing existing markets (24.2 per cent), improvement in global market share (26.3 per cent) and exploring new markets (26.2 per cent).

The main new markets (N=20) mentioned by exporters were South Africa (25 per cent), Canada (20 per cent), Australia and New Zealand (15 per cent each), and America, France, Spain and Sri Lanka (10 per cent each).

Table 4.13 Expected versus Actual Improvement through ECGC Policy Cover (PH)

[N=103, All figures in percent]

Expected vs. Actual improvement through ECGC Policy Cover	Expected Improvement			Actual Improvement			GAP (Expected – Actual)
	High	Moderate	No	High	Moderate	No	
Increase in Employment	95.1	2.9	2.0	53.4	35.0	10.7	41.7
Improvement in Business Turnover	95.2	2.9	1.9	54.3	33.0	11.6	40.9
Product Diversification	94.1	2.9	2.9	57.2	32.0	9.7	36.9
Increasing Production	97.1	1.9	1.0	59.3	30.1	9.7	37.8
Maintaining Relationships with Existing Buyers	96.1	1.0	2.9	61.1	29.1	8.8	35.0
Improvement in Profitability	94.2	3.9	2.0	59.2	29.1	10.7	35.0
Improvement in Productivity	92.2	5.8	2.0	58.2	29.1	11.7	34.0
Minimising cost	93.2	2.9	3.9	59.2	28.2	11.6	34.0
Increasing exports	95.1	2.9	2.0	62.1	25.2	11.7	33.0
Improving quality of exports	97.1	1.0	1.9	65.0	24.3	9.7	32.1
Minimising risks	95.2	1.9	2.9	62.1	21.4	15.5	33.1
Exploring New Markets	94.2	4.9	1.0	68.0	20.4	10.7	26.2
Improvement in Global Market Share	94.2	3.9	2.0	67.9	19.4	11.7	26.3
Developing existing markets	96.1	2.9	1.0	71.9	18.4	8.7	24.2

[Note: “High Improvement” means sum of “Extreme improvement” and “High improvement” while “No improvement” means sum of “Slightly improvement” and “No improvement” Expected Improvement = Expected High-Actual High] Source: Primary Survey

Figure 4.12 New Markets Explored

[N=20, Multiple Response]



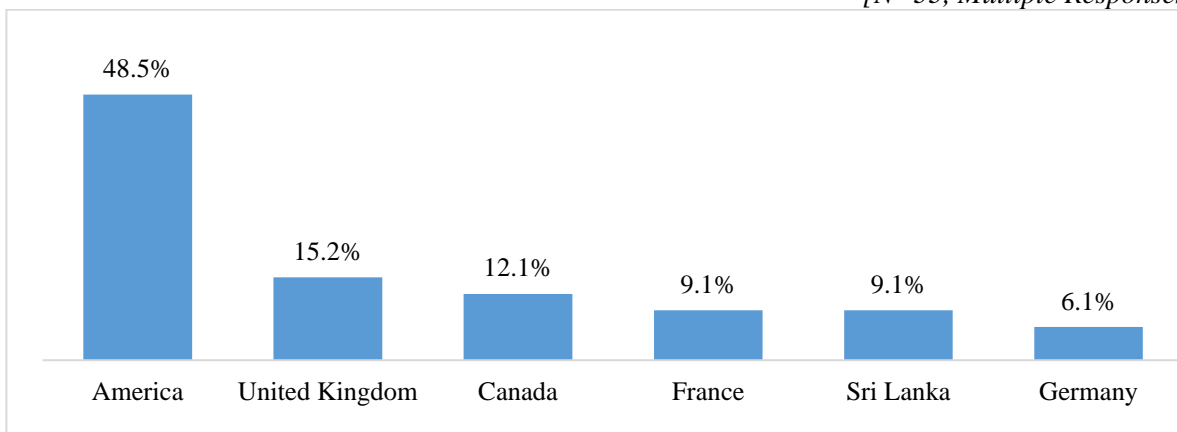
[Because of Multiple Responses the percentage figures do not add up to 100.]

Source: Primary Survey

About 32 per cent of the respondents identified existing markets they sought to develop. These were the America (48.5 per cent), the United Kingdom (15 per cent), Canada (12 per cent), France and Sri Lanka (9 per cent each) and Germany (6 per cent).

Figure 4.13 Developing Existing Markets

[N=33, Multiple Responses]



[Because of Multiple Responses the percentage figures do not add up to 100.]

Source: Primary Survey

4.1.12 Sources of Information on ECGC Policies (PH)

Respondents were asked to specify the information sources that played a vital role in their decision to take ECGC policies. The key sources of information, category wise, were the following:

- Marketing efforts by ECGC: Visits by ECGC officials



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- Internal sources within firm or business group: procurement and marketing staff
- External sources: competitors, clients or customers
- Generally available information: professional conferences, meetings, and publications

Table 4.14 Sources of Information on ECGC Policies

[N=103, All figures in percent]

Sources of information	Important	Moderately Important	Unimportant
Marketing efforts by ECGC LIMITED			
Visits by ECGC officials	95.1	1.9	2.9
Conferences and Seminars organised by ECGC	93.2	5.8	1.0
ECGC Stalls in Fairs and Exhibitions	93.2	3.9	2.9
Advertisements in Newspapers and Magazines	93.2	4.9	1.9
Conferences & Seminars organised in association with ECGC	90.3	7.8	2.0
Internal sources within the firm or business group			
Procurement staff	95.2	3.9	1.0
Marketing staff	95.2	3.9	1.0
Production staff	94.2	4.9	1.0
Management staff	94.1	4.9	1.0
External Sources			
Competitors	98.1	1.0	1.0
Clients or customers	98.0	1.9	0.0
Banks	96.2	3.9	0.0
Suppliers of equipment, materials, and components	96.2	3.9	0.0
Consultancy firms	86.4	12.6	1.0
Higher education institutions/Research institutions	85.4	12.6	2.0
Generally available information			
Professional conferences, meetings, and publications	94.2	4.9	1.0
Internet or computer-based information networks	93.2	5.8	1.0
Fairs and exhibitions	90.3	7.8	2.0

[Note: “Important” means sum of “extremely important” and “very important” while “unimportant” means sum of “slightly important” and “not important” Moderately important:

Moderately important: is considered as not extreme or excessive, i.e., within due or reasonable limits]

Source: Primary Survey

4.3.5 Issues that need to be addressed to Improve ECGC policies

Both policy holder and non-policy holder exporters were asked about the issues that need to be addressed to improve ECGC policies.

Among policy holders, ensuring timely availability of insurance cover (100 per cent) was considered most important, followed by coverage of risk according to the nature of goods exported (99 per cent) and cost differences in terms of premiums charged with respect to other insurance providers (98.1 per cent).

Among non-policy holders, the extent of risks covered (100 per cent) was found extremely important, followed by timely availability of insurance cover, and coverage of risk according to nature of goods exported and ease in obtaining claims (99 per cent each) etc.

Table 4.15 Issues that need to be addressed to improve ECGC policies

[All figures in percent]

Importance of factors to improve ECGC policies	Policy holders (N=103)			Non-Policy holders (N=100)		
	Important	Moderately Important	Un-important	Important	Moderately Important	Un-important
Timely availability of insurance cover	100.0	0.0	0.0	99.0	1.0	0.0
Coverage of risk according to nature of goods exported	99.0	1.0	0.0	99.0	1.0	0.0
Cost differences in terms of premiums charged w.r.t other insurance providers	98.1	1.9	0.0	87.0	10.0	3.0
Ease in obtaining claims	97.1	2.9	0.0	99.0	1.0	0.0
Availability of timely information about import entities/export destinations	97.1	2.9	0.0	98.0	2.0	0.0
Extent of risks covered	97.1	2.9	0.0	100.0	0.0	0.0

[Note: “Important” means sum of “Extremely important” and “Very important” while “Unimportant” means sum of “Slightly important” and “Not important” Moderately important: is considered as not extreme or excessive, i.e., within due or reasonable limits] Source: Primary Survey

4.3.6 Suggested Measures to Improve the Reach and Use of ECGC’s Policies

Exporters were asked an open-ended, unaided question to suggest measures that ECGC could take to improve the reach and use of its policies to benefit firms and increase exports. Faster approval and a smoother claim settlement process emerged as the top suggestions (49 per cent) followed by better pricing, discounts and risk cover for exporters (41 per cent), and flexible premium rates and policy terms (14.3 per cent) etc.

Table 4.16 Suggestions for ECGC

[All figures from the third row downwards are in percent.

Because of Multiple Responses these figures in any column do not add up to 100]

Suggestions for improvements	Overall	PH	NPH
N	203	103	100
Faster approval & smoother process of claim settlement	49.3	53.4	45.0
Offer better pricing, discounts & expanded risk covers	41.4	34.0	49.0
Flexible premium rates & policy terms	14.3	12.6	16.0
ECGC should improve customer service	7.9	7.8	8.0
Raise awareness about ECGC policies	7.9	5.8	10.0
Notify poor performance of importers/exporters	1.0	1.0	1.0
Others	14.8	14.6	15.0
No suggestion	22.7	17.5	28.0

Source: Primary Survey

In the case of policy holders, faster approval and a smoother claim settlement process emerged as the top suggestions followed by better pricing, discounts and expanded risk cover for exporters, and flexible premium rates and policy terms etc. However, 17.5 per cent of respondents gave no suggestion.

For non-policy holders also, faster approval and a smoother claim settlement process emerged as the top suggestions followed by better pricing, discounts and expanded risk cover for exporters, and flexible premium rates and policy terms etc. However, 28 percent of non-policyholders offered no suggestion.

4.4 Summary of the Findings

To sum up, the primary survey reveals that average domestic and exports sales of both policy holding and non-policy holding exporters have declined continuously over the past three years. Among the factors that have dampened the business outlook and hindered the growth of exporting firms is the coronavirus pandemic that disrupted global supply chains and shrank global demand. Other important findings of the study are given below:

Benefits of Policy Adoption

- Policyholders appear to have performed better relative to non-policyholders in terms of average domestic as well as export sales.
- Moreover, policyholders have also been able to employ about thrice the people employed by non-policyholders on average (Table 4.6), even though in our sample, the percentage of small-sized firms was higher among policy holders, i.e., 51.5 per cent, compared to 46 per cent among non-policy holders (Figure 4.2). This could be because the higher sales of policyholders necessitated more workers to operate machines as well as conduct other business operations.
- The survey also looks at areas whether the actual improvement in the performance with respect to various parameters of policy holders met their expectations from taking an ECGC policy cover. The lowest gap between expected and actual improvement was recorded in developing existing markets, increasing their share in the global market share and exploring new markets. The highest gap between expected and actual improvement was recorded with respect to increase in employment followed by improvement in business turnover and product diversification (Table 4.13).
- It, therefore, may be concluded that the export credit insurance services offered by ECGC did provide enough protection against the various commercial and political risks of an integrated world market, enabling them to both improve their export performance and increase their global market share.

Outreach of ECGC

- Given the role played by visits of ECGC officials, procurement staff and marketing staff of firms or business groups, participation in professional conferences, meetings and publications and word of mouth publicity through clients and customers in



increasing the off take of policies, ECGC needs to use these to increase its reach (Table 4.14).

Suggestions to Increase ECGC Policy Adoption

- Policyholders have mentioned that geographical differences among the countries while exporting is one of the top factors that influence export performance. Same factor has headed the list for requirement of ECI policies. However, for non-policyholders, regulatory requirements in foreign markets as well as the free trade agreements are among the leading influences on export performance (Table 4.7 and Table 4.8).
- For obtaining ECGC policies, time and cost of transportation is the most important factor under the market-related factors (Table 4.9). However, risky destination markets where coverage is restricted remains one of the major worries of policyholders even after availing of the ECGC policy (Table 4.11).
- The major problems that need to be resolved to attract exporters currently not opting for ECGC insurance policies are issues with premium charged and credit limits, restrictions on the coverage of risky destination market, delays in claims settlement and procedural obstacles (Figure 4.8).
- Credit limits may be increased to help a larger number of exporters to improve their export performance.
- Coverage of risks needs to be extended especially for causes inherent in the nature of the goods and risky destination markets by framing policies that help exporters enter such markets with ease.
- ECGC may also offer better pricing, discounts, flexible premium rates and policy terms to enhance policy adoption among exporters, thereby expanding its own business. Increased policy adoption by exporters, in turn, will boost their export performance and eventually foster exports from India.
- There is a strong need felt for timely availability of insurance cover followed by its faster approval for all exporters – policyholders as well as non-policyholders.



Section 5: Profiling of Banks

5.1 Introduction

A major contributor to ECGC's business is its provision for export credit insurance for banks (ECIB), which has in the recent past shown a steady decline. To understand the reasons for the decline in ECIB, a primary survey was conducted through face-to-face and telephonic structured interviews of officials of selected bank branches that avail ECGC cover. Both public and private sector banks have been included in the survey. A separate set of questionnaires was used for bank respondents. A pilot survey was conducted before launching the comprehensive primary survey to validate survey instruments and methodology, before the field survey was launched. The field survey was conducted through prior appointments with target respondents between August 6 and September 10, 2021.

Seventy-eight banks participated in the survey. The primary survey was designed to collect detailed data on the following variables:

- Geographical coverage of banks
- Segregation of banks according to type of ownership, i.e., public sector banks and private sector banks.
- International exposure of the bank
- Modes of providing services
- Export credit services provided by banks
- Unique features of a bank as a provider of export credit
- The number of years banks have been availing credit insurance cover from ECGC Limited
- Classification of enterprises to which banks provide export credit
- Key Sectors to which Bank provides export credit
- Share of exports credit provided by banks at different stages of the manufacturing process.
- The volume of loans to exporters and rise in the number of NPAs
- Approach to address the decline in the total volume of loans to exporters



5.2 Overview of the Banks' Survey

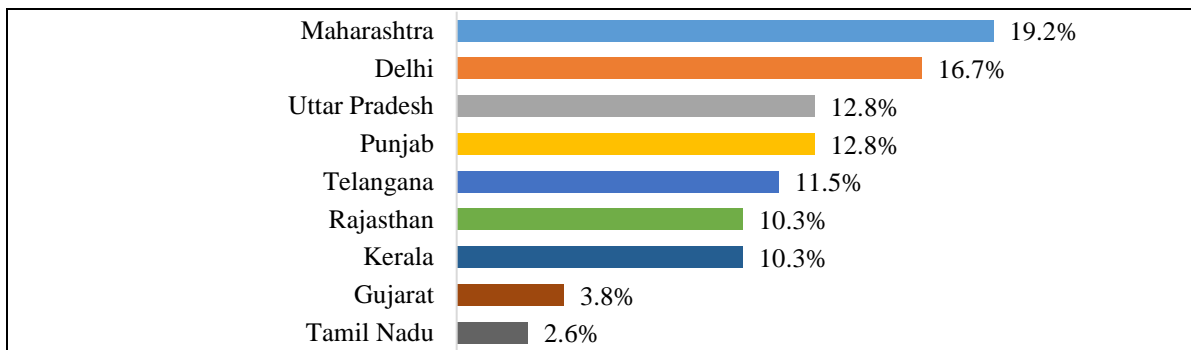
In this section, an overview the commercial banks in the business of providing loans to exporters is provided.

5.2.1 Geographical Coverage of Banks

Of the selected banks, about 19 per cent of banks/branches were in Maharashtra, 17 per cent in Delhi and 13 per cent each in Uttar Pradesh, and Punjab.

Figure 5.1 Geography-wise Coverage of Banks

[N=78]



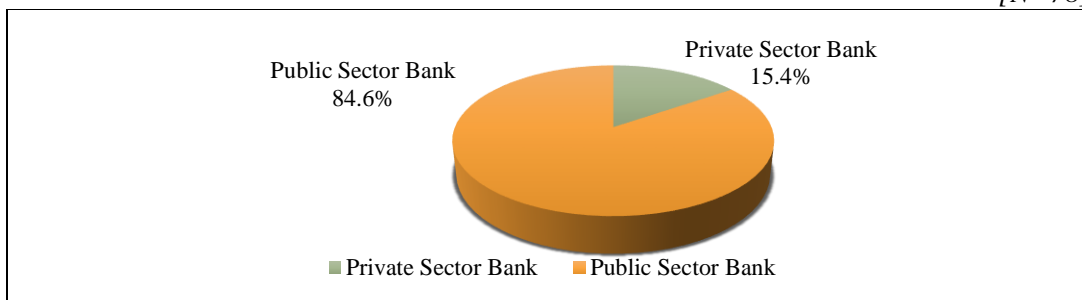
Source: Primary Survey

5.2.2 Classification of Banks as per Type of Ownership

Of the total banks surveyed, about 84.6 per cent were public sector banks while the remaining 15.4 percent were private sector banks.

Figure 5.2 Banks as per Type of Ownership

[N=78]



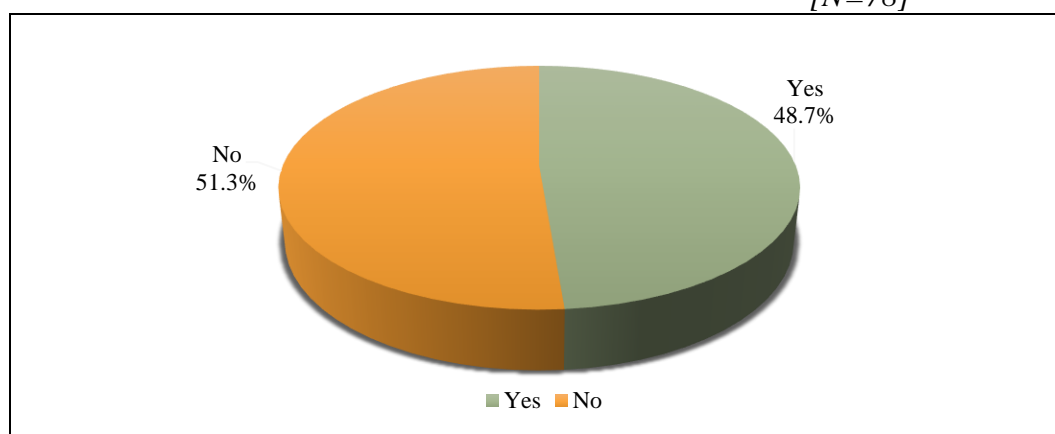
Source: Primary Survey

5.2.3 International Exposure of the Banks

In terms of international work experience, about half the banks (48.7 percent) had international work experience (Figure 5.3). Moreover, on an average each bank has about nearly 27 years of international work experience.

Figure 5.3 International Work Experience of Bank

[N=78]



Source: Primary Survey

Table 5.1 List of Banks that provide export credit services

Name Of Bank	Location	State	Private/ Public
Bank Of Baroda	Ghaziabad	Uttar Pradesh	Public Sector Bank
Canara Bank	Sector-18 Noida	Uttar Pradesh	Public Sector Bank
Punjab & Sind Bank	Saban Bazar Ludhiana	Punjab	Public Sector Bank
Karnataka Bank	Main Branch Millar Ganj Ludhiana	Punjab	Private Sector Bank
Punjab National Bank	Millar Ganj Ludhiana	Punjab	Public Sector Bank
Punjab National Bank	Pnb House Industrial Area Ludhiana	Punjab	Public Sector Bank
Bank Of India	Clock Tower Ludhiana	Punjab	Public Sector Bank



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Union Bank of India	Ghaziabad	Uttar Pradesh	Public Sector Bank
State Bank of India	Bahkapeta BranchHyderabad	Telangana	Public Sector Bank
State Bank of India	Overseas BranchHyderabad	Telangana	Public Sector Bank
Karur Vysya Bank	Sanath Nagar Branch Hyderabad	Telangana	Private SectorBank
Union Bank of India	Vlp Hyderabad Madhopur	Telangana	Public Sector Bank
Union Bank of India	R P Road BranchHyderabad	Telangana	Public Sector Bank
Uco Bank	Jubilee Hills Hyderabad	Telangana	Public Sector Bank
State Bank of India	Sp Road Branch,Hyderabad	Telangana	Public Sector Bank

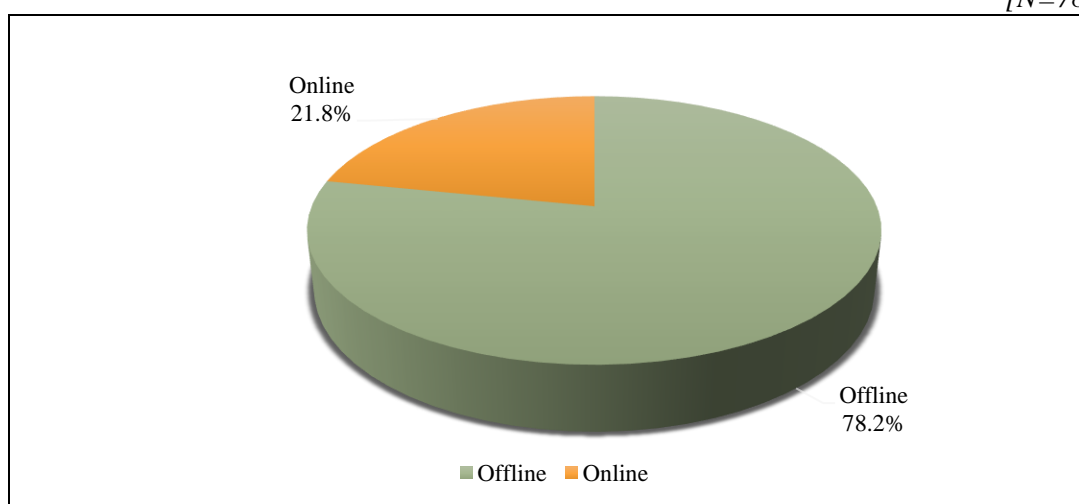
Source: Primary Survey

5.2.4 Modes of Providing Services

Slightly more than 75 per cent of the banks/branches deal in offline mode while around 22 percent deal in online mode (mostly through bank websites). Further, in terms of online sales share, about 4.5 percent of total bank sales are done through the online mode.

Figure 5.4 Mode of Bank Services

[N=78]

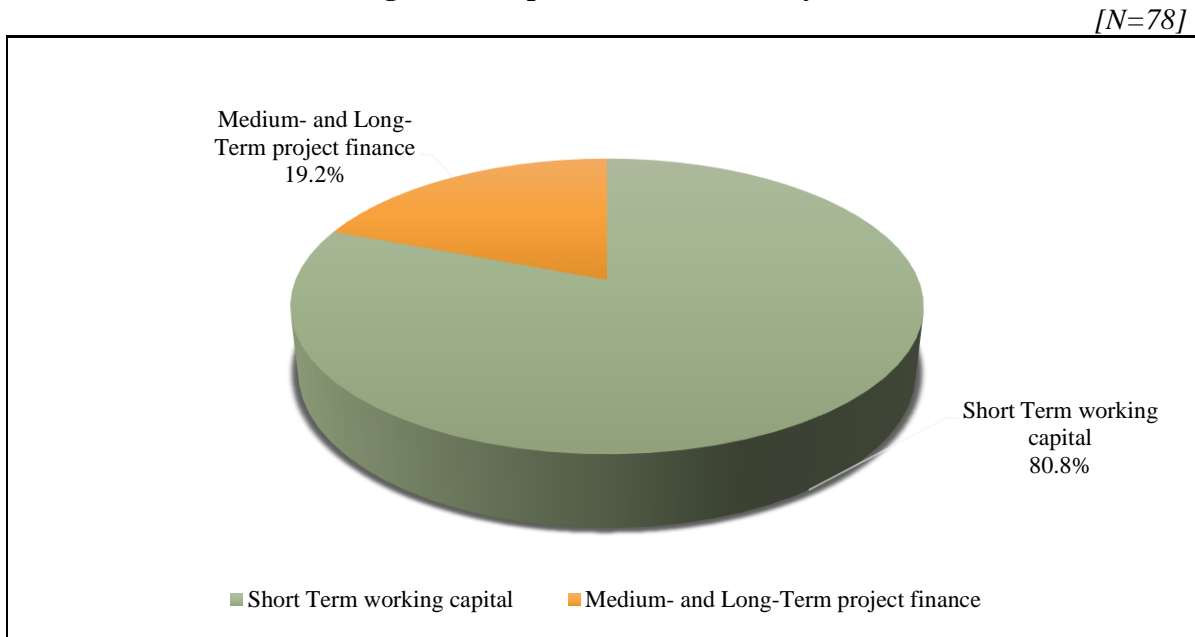


Source: Primary Survey

5.2.5 Export Credit Services Provided by Banks

About 80.8 percent banks provide short-term working capital services while the remaining provide medium- and long-term project finance to loan-seeking exporters.

Figure 5.5 Export Credit Services by Banks



Source: Primary Survey

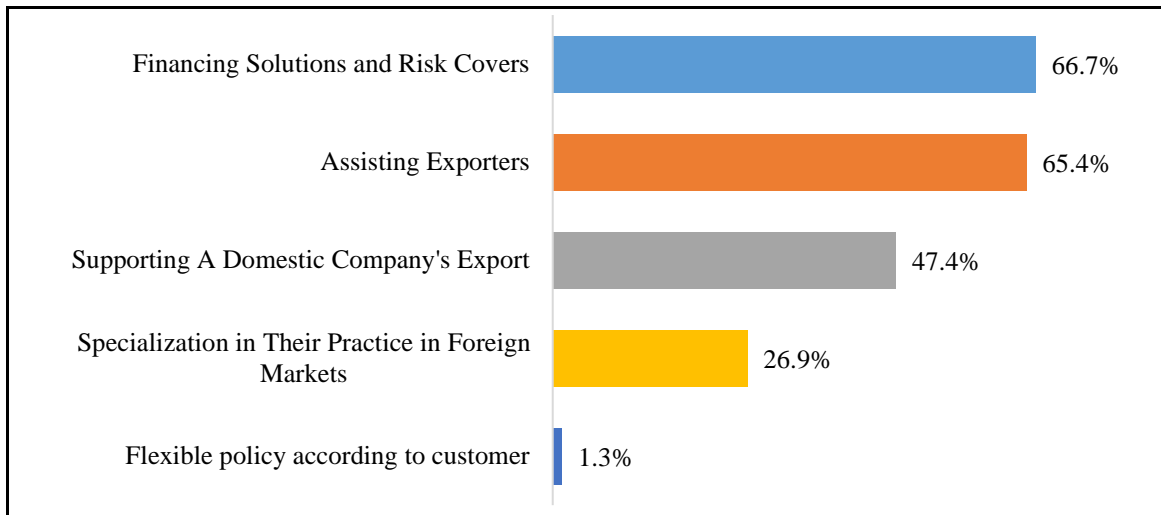
5.2.6 Special Features of Bank as a Provider of Export Credit

In response to a question on the special features of export credit offered by each bank branch selected for the study, two-thirds of the respondents said that financing solutions and risk cover, followed by assisting exporters and supporting a domestic company's exports were their unique features.



Figure 5.6 Features of Bank as a Provider of Export Credit

[N=78, Multiple Response]



[Because of Multiple Responses the percentage figures do not add up to 100.]

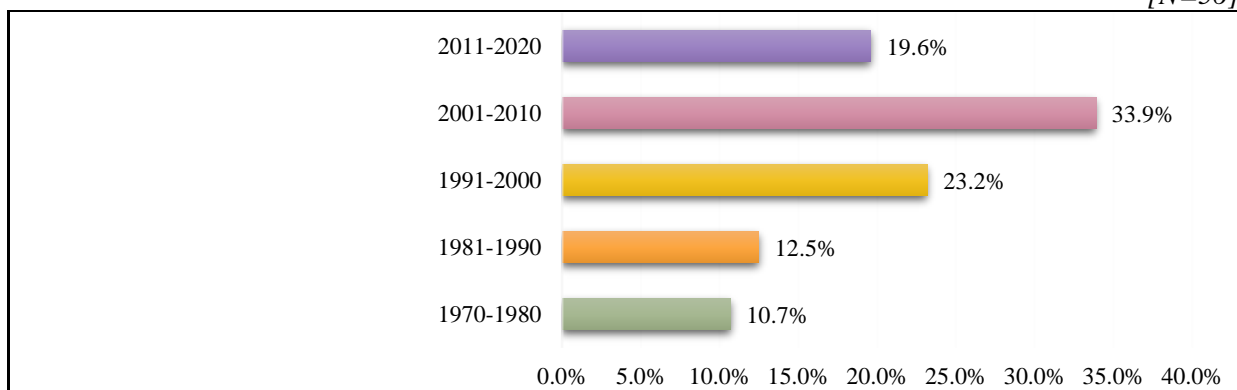
Source: Primary Survey

5.2.7 Number of Years Banks have been Availing ECIB Cover from ECGC

The average number of years banks have been availing ECIB cover from ECGC Limited is 22 years. The figure below presents the portion of banks that started availing ECIB cover in last few decades. Since 2001-2010, approximately 34% of banks have obtained ECIB coverage from ECGC, followed by 1991-2000 (23.2%), 2011-2020 (19.6%), and so on.

Figure 5.7 Years from which banks availing ECIB cover from ECGC

[N=56]



Source: Primary Survey



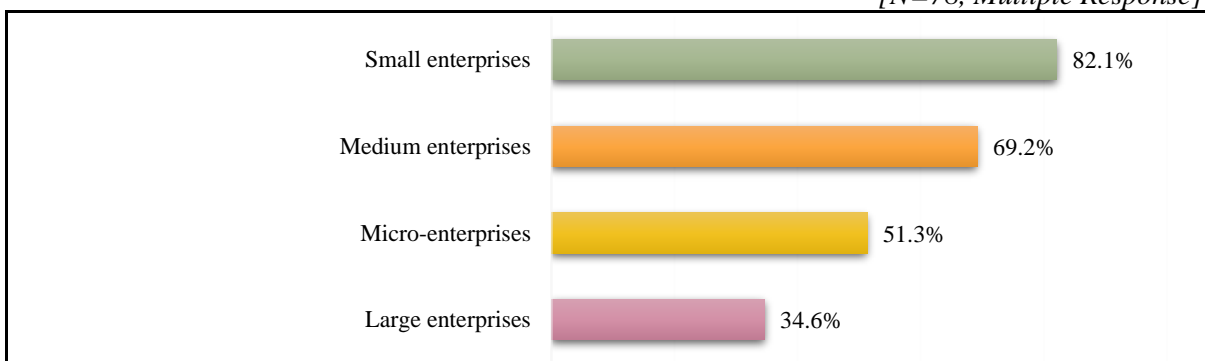
5.3 Support of Banks to Export Businesses

5.3.1 Classification of Enterprises to which Banks Provide Export Credit

Slightly over 82 percent of the banks provide services to small-sized enterprises, 69.2 percent to medium-sized enterprises, 51.3 per cent to micro enterprises, and 34.6 per cent to large-sized enterprises.

Figure 5.8 Size of enterprise wise segregation

[N=78, Multiple Response]



Source: Primary Survey

About 28 per cent of banks' exporter clients did not avail the export credit insurance services of ECGC, and 16 per cent of banks' exporter clients availed export credit insurance services from an insurer other than ECGC. It demonstrates the potential buyer for ECGC to expand its ECI business by focusing on bank clients who do not opt ECI.

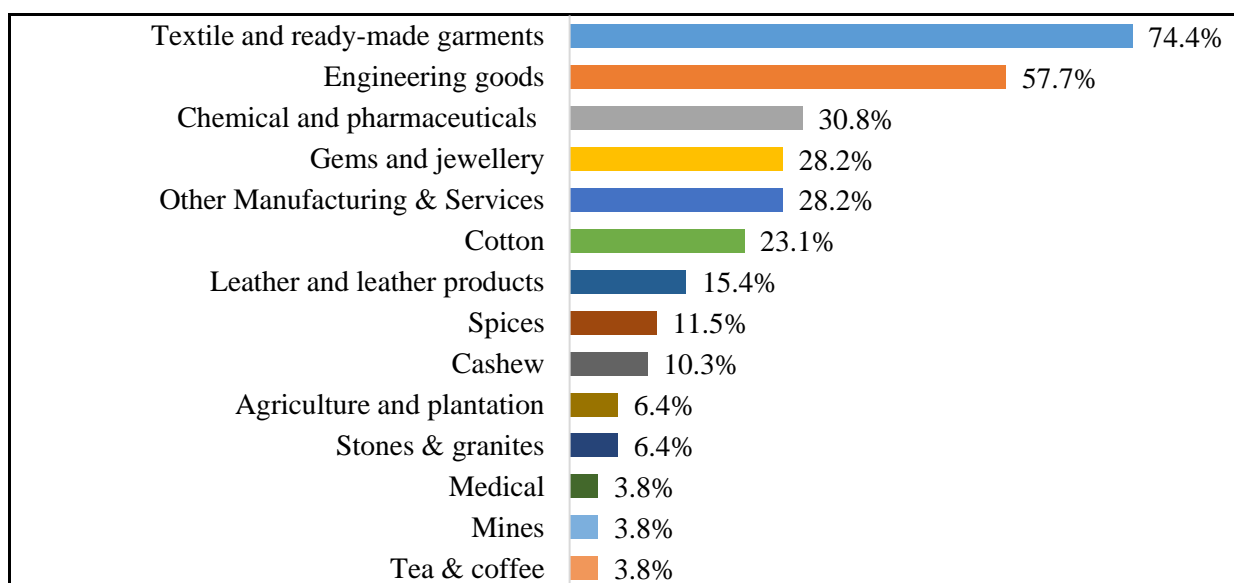
5.3.2 Key Sectors to which Banks Provide Export Credit

Respondents were asked to name the top 5 sectors to which their bank provides export credit. The top sectors that emerged were textile and ready-made garments (74.4 per cent), engineering goods (57.7 per cent), chemical and pharmaceuticals (30.8 per cent), gems and jewellery (28.2%), and other manufacturing and services (28.2%).



Figure 5.9 Key Sectors to which Bank Provides Export Credit Services

[N=78, Multiple Response]



[Because of Multiple Responses the percentage figures do not add up to 100 .]

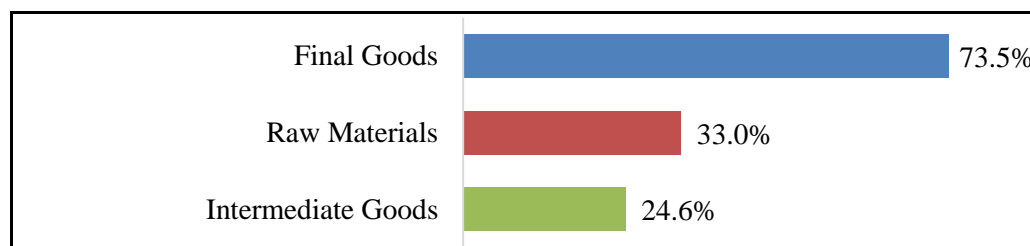
Source: Primary Survey

5.3.3 Share of Export Credit Provided by Banks for Different stages of manufacturing process

Banks provided the maximum credit for final goods exports (74 per cent) followed by raw materials (33 per cent) and intermediate goods (24.6 per cent).

Figure 5.10 Share of exports credit under stages of processing

[N=78, Multiple Response]



[Because of Multiple Responses these percentage figures do not add up to 100.]

Source: Primary Survey

5.3.4 Volume of Loans to Exporters and NPAs

Respondents were asked about the volume of loans provided to exporters by their branch as well as the volume of NPAs. The average volume of bank loans to exporters in FY 2018-19 was Rs 439.45 crores declined to Rs.284.58 crores in FY 2019-20 and further to Rs.202.93 crores in FY 2020-21.

Similarly, the average volume of NPAs of banks in FY 2018-19 was Rs.15.19 crores, which increased to Rs.15.50 crores in FY 2019-20 and further to Rs.16.04 crores in FY 2020-21.

Table 5.2 Average Volume of NPAs of the bank

Year	N	FY 2018-19	FY 2019-20	FY 2020-21
Average Volume of Loan provided to Exporters by the banks (Rs. in crores)	38	439.45	284.58	202.93
Average Volume of NPAs of the bank (Rs. in crores)	63	15.19	15.50	16.04

[Remaining respondents did not give any response]

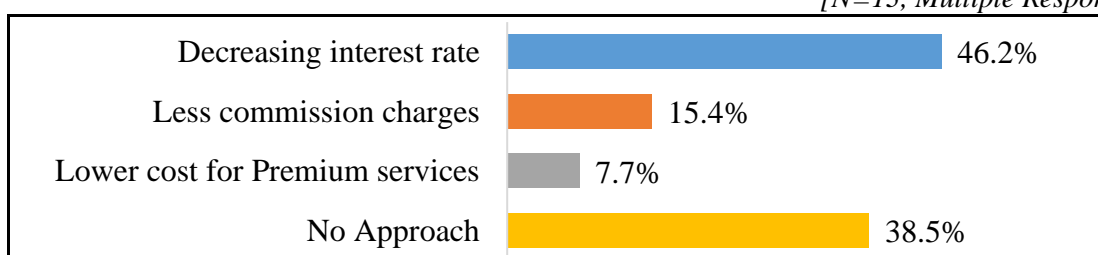
Source: Primary Survey

5.3.5 Approach to Address the Decline in the Total Volume of Loans to Exporters

Respondents were asked an open-ended direct question on the approaches they adopted to address the decline in the total volume of loans to exporters. The most common approach taken by banks was to decrease the rate of interest (46.2 per cent) followed by charging lower commission charges (15.4 per cent) and lower cost for premium services (7.7 per cent) while the remaining about 39 per cent banks did not follow any particular approach.

Figure 5.11 Approach to Address Decline in the Volume of Loans

[N=13, Multiple Response]



[Because of Multiple Responses these percentage figures do not add up to 100.]

Source: Primary Survey

5.4 Factors and Risks while Obtaining Cover from ECGC Limited

This section details the importance of various factors associated with obtaining ECGC cover by banks as well as a review of key risks and reasons for not opting for ECGC cover in recent times.

5.4.1 Importance Level of Factors in Obtaining ECGC policies

Respondents were asked about the importance of various factors in obtaining ECGC policies on a 5-point scale where 1 was not important and 5 was extremely important. Further to depict the result compactly, sum of "extremely important" and "very important" were termed as "important", while the sum of "slightly important" and "not important" were termed as "unimportant". In between the response of "moderately important" was kept as it was.

- About 97 percent of respondents mentioned that indirect risk protection to banks due to ECGC cover availed by the exporter client on their overseas buyers was the most important factor followed by relief to banks in capital provisioning due to ECGC cover (94.9 per cent) and indemnification through ECGC claim (93.6 per cent).
- About 95 percent mentioned eliminating capital loss in case of default as the most important factor followed by the time taken to obtain ECGC cover (93.6 per cent), delay in approval (93.6 per cent), and selective approval (91 per cent), etc.
- At least 85 per cent of banks had accorded high importance to all the listed factors in obtaining ECGC policies.

Table 5.3 Importance attached to factors in obtaining ECGC policies by Banks

[N=78, All figures in percent]

Parameter	Important	Moderately Important	Un-important
Risk related issues			
Indirect risk protection to the bank due to ECGC cover availed by the exporter client on his overseas buyers	97.4	1.3	1.3
Relief to the bank in capital provisioning due to ECGC cover	94.9	5.1	0.0
Indemnification through ECGC claim	93.6	6.4	0.0
Time-related issues			
To eliminate capital loss in case of default	94.8	3.8	0.0

Time taken to obtain ECGC cover	93.6	5.1	0.0
Issues of limit approval	93.6	3.8	1.3
Specific approvals	91.0	7.7	0.0
Time for ascertainment of loss	89.8	7.7	0.0
Issues related to limit acknowledgment	89.7	9.0	0.0
Time taken to obtain claims	87.2	9.0	0.0
Issues with Time for filing claim	85.9	10.3	1.3

[Note: "Important" means the sum of "Extremely important" and "Very important" while "Unimportant" means the sum of "Slightly important" and "Not important"]

Source: Primary Survey

5.4.2 Importance Level of the Risks while Obtaining ECGC Insurance Cover by Banks

During the survey, respondents asked about the level of importance of different risks while obtaining ECGC cover. About 97 per cent said that protracted default of the exporter was the most important factor followed by the insolvency of exporters (94 percent).

Table 5.4 Importance of risks while obtaining ECGC insurance cover by Banks

[N=78, All figures in percent]

Parameter	Important	Moderately Important	Un-important
Protracted default of the exporter	97.4	2.6	0.0
Insolvency of exporters	93.6	6.4	0.0

[Note: "Important" means the sum of "Extremely important" and "Very important" while "Unimportant" means the sum of "Slightly important" and "Not important"]

Source: Primary Survey

5.4.3 Reasons for opting against availing ECGC’s ECIB cover in Recent Times

Respondents were asked about the various reasons for not opting for ECIB cover in the recent past and asked to rate reasons for their not doing so.

- The highest proportion of respondents said that they opted against availing ECIB (fully or partially) due to lack of funds (96 per cent), followed by procedural obstacles (95 per cent), and unavailability of the features of the cover (94 per cent),
- Among other significant reasons were issues with the premium charged (92 per cent), reluctance of borrowers to bear the cost of the premium (92 per cent), and delays in claim settlement (92 per cent).

Table 5.5 Reasons for not opting for ECI Cover

[N=78, All figures in percent]

Parameter	Important	Moderately Important	Un-important
Lack of funds	96.1	1.3	2.6
Procedural obstacles	94.9	2.6	2.6
Specific Features of the insurance cover desired by the Banks not available	93.6	6.4	0.0
Issues with the premium charged	92.3	6.4	1.3
The reluctance of borrowers to bear the cost of the premium	92.3	6.4	1.3
Delays in claims settlement	92.3	7.7	0.0
Issues with approvals	91.0	7.7	1.3
Alternative sources to obtain credit insurance	88.5	7.7	3.9
Less credit risk perceived	88.5	9.0	2.6
Issues with risks covered	84.6	15.4	0.0
Bank mergers	66.6	6.4	27.0

[Note: "Important" means the sum of "Extremely important" and "Very important" while "Unimportant" means the sum of "Slightly important" and "Not important"]

Source: Primary Survey

5.4.4 Expected and actual improvement in performance of banks after availing ECGC cover

The respondents were asked about the gap in the expected vs. actual improvement in the performance of banks after obtaining ECGC cover.

- The highest gap between expected and actual improvement in the performance of banks after obtaining ECGC cover was observed in the effective risk management (37 percent), followed by increase in the number of bank customers (36 percent) and then increase in the value of export credit going to existing customers (31 percent).

Table 5.6 Expected and Actual Improvement in Performance after ECGC Cover

[N=78, All figures in percent]

Expected vs. Actual improvement	Expected Improvement			Actual Improvement			GAP (Expected – Actual)
	High	Moderate	None	High	Moderate	None	
It is an effective risk management tool	94.8	3.8	1.3	57.7	32.1	10.3	37.1
Increase in the number of bank customers	91.0	2.6	6.4	55.2	34.6	10.3	35.8
Increase in the value of export credit going to existing customers	88.4	5.1	6.4	57.7	25.6	16.7	30.7

[Note: "High Improvement" means the sum of "Extreme improvement" and "High improvement" while "Noimportant" means sum of "Slightly improvement" and "No improvement"]

Source: Primary Survey

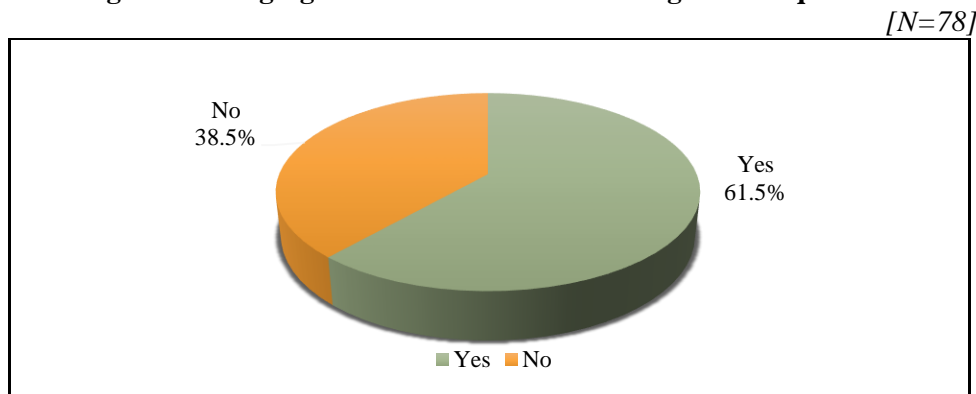
5.5 Impact of Mergers or Acquisitions (M&A) on ECI Business

This section looks at the impact of mergers or acquisitions on the banking sector and the export credit insurance business.

5.5.1 Segregation based on mergers or acquisitions

About 61 per cent branches of the different banks that participated in the survey had undergone mergers or acquisitions (M&A).

Figure 5.12 Segregation of banks based on mergers or acquisition

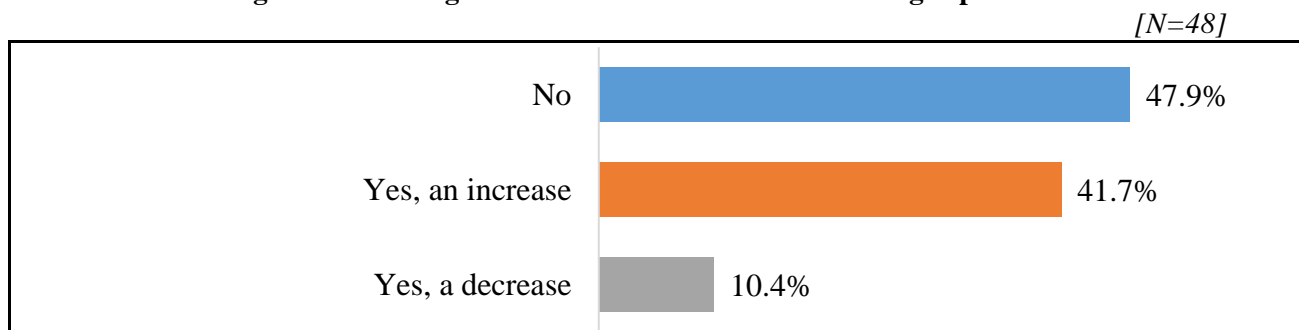


Source: Primary Survey

5.5.2 Change in the Number of Customers Seeking Export Credit due to Mergers

Respondents who said that their banks (N=48) had undergone mergers and acquisitions (M&A) were further asked if they had observed a change in the number of customers seeking export credit due to these M&A. Close to half of the respondents (48 per cent) said that there was no change in the number of customers seeking export credit, whereas 42 per cent of respondents said there was an increase and 10 per cent said there was a decline.

Figure 5.13 Change in the number of customers seeking export credit



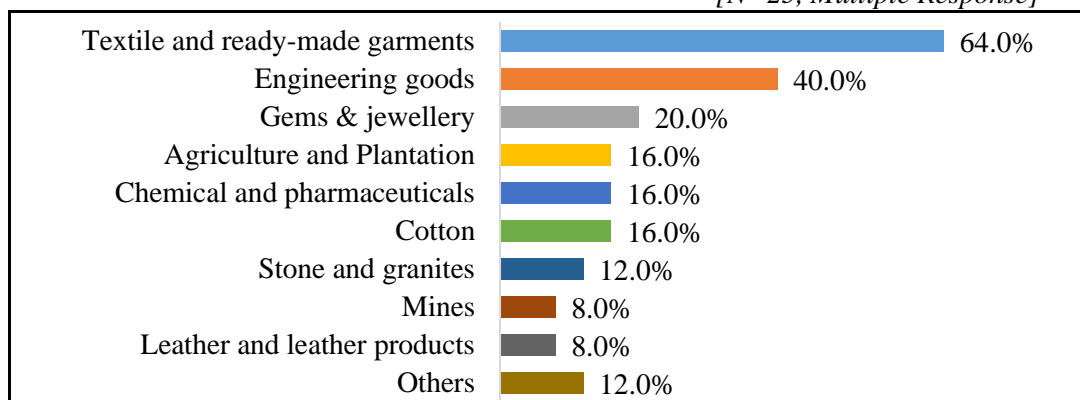
Source: Primary Survey

5.5.3 Export Sectors that have Sought Loan Modifications after Mergers and Acquisitions

Respondents (N=25) that said that there was a change in the number of customers seeking export credit after mergers or acquisitions (M&A) were further asked to name the top three sectors that sought loan modifications after M&As. The top three sectors were textile and ready-made garments (64 per cent), engineering goods (40 per cent), and gems and jewellery (20 per cent).

Figure 5.14 Sectors that have sought loan modifications

[N=25, Multiple Response]



[Because of Multiple Responses the figures in any column do not add up to 100]

Source: Primary Survey

5.5.4 Changes in Banks' Experience after Mergers or Acquisitions

Respondents were asked to rate their banks' experience on various aspects after M&As. A major share of respondents said that there were positive effects, especially in terms of operating efficiency (92 per cent), productivity (81 per cent), and profitability (81 per cent) due to M&As.

On the other hand, there was a mixed response about the rise in export credit NPAs as 40 per cent of respondents said NPAs would increase, 31 per cent said it would decrease while 29 per cent said it would remain the same (Table 5.7).

Table 5.7 Change in bank experience

[N=78, All figures in percent]

Change in bank experience w.r.t	Increased	Decreased	No Change
Operating efficiency	91.7	2.1	6.3
Productivity	81.3	10.4	8.3
Profitability	81.3	10.4	8.3
Exposure amount of significant accounts	64.6	8.3	27.1
The rise in export credit NPAs	39.6	31.3	29.2

Source: Primary Survey

More than half of the banks (54 per cent) said that choices available to customers increased as, while 38 per cent felt that M&As had no impact a result of M&As. Only 8 per cent felt choices available to customers had decreased.

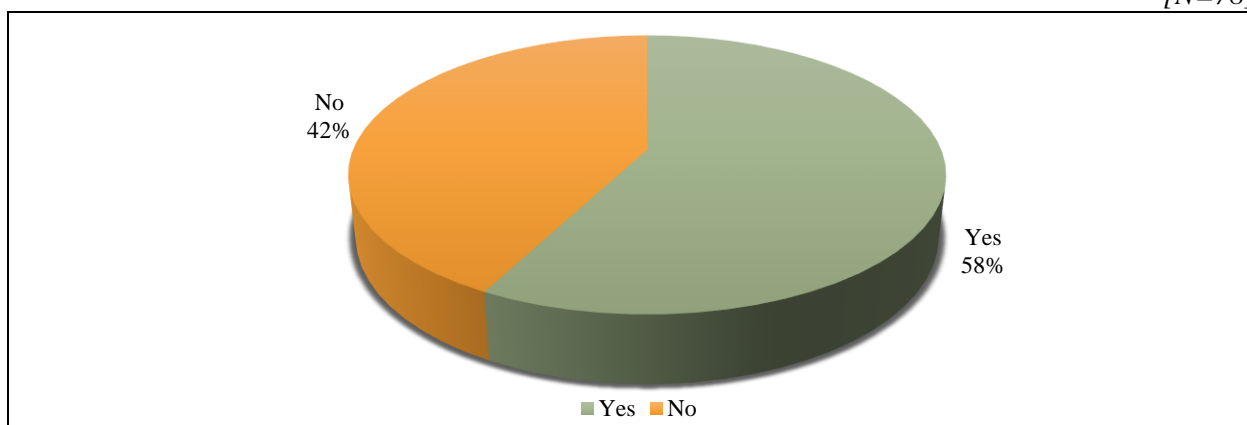
In addition, 48 per cent of respondents said that the merger had impacted market share, 40 percent said it had affected competition, 19 per cent felt that it increased the communication gap between the banks and their clients, and 33 per cent said that there were none of these changes observed due to mergers.

5.6 Impact of Pandemic on ECI Business

About 58 percent of respondents confirmed that the pandemic had impacted their banks and ECI’s business.

Figure 5.15 Pandemic impacted the bank

[N=78]



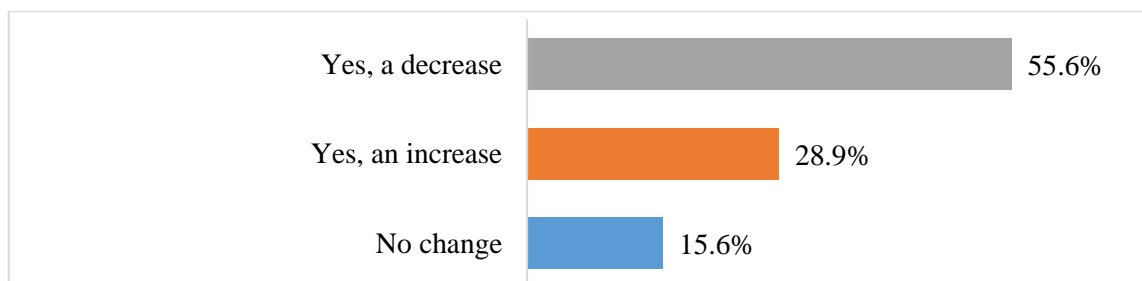
Source: Primary Survey

5.6.1 Change in Number of Customers Seeking Export Credit after the Pandemic

Over half of the respondents (56 per cent) who said their banks had been affected by the pandemic (N=45) also mentioned that the number of their customers seeking credit had decreased, 29 percent said that there was an increase and 15 per cent reported that there had been no change.

Figure 5.16 Seen change in the no. of customers seeking Export credit

[N=45]



Source: Primary Survey

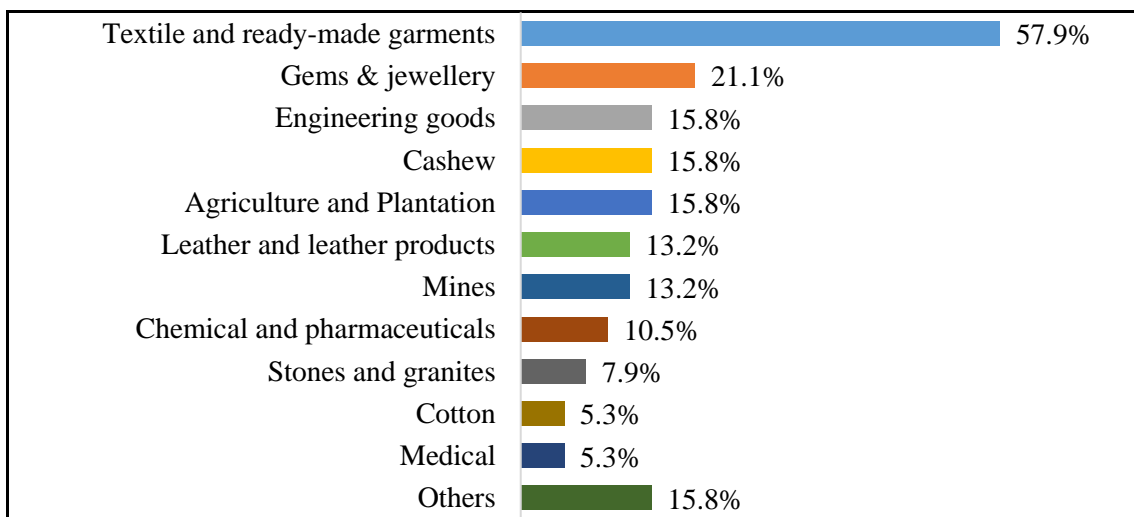


5.6.2 Sectors that had Sought Loan Modifications after the Pandemic

Respondents who said that there was a change in the number of customers seeking export credit after the pandemic (N=38) were further asked to name the three sectors that sought the maximum number of loan modifications. These were textiles and ready-made garments (58 per cent), gems and jewellery (21 percent) and engineering goods, cashew, agriculture, and plantation (16 percent each).

Figure 5.17 Sectors that have sought loan modifications

[N=38, Multiple Response]



[N=38, Because of Multiple Responses these percentage figures do not add up to 100]

Source: Primary Survey

The survey also revealed that about 18 per cent of exporters shut down their businesses due to COVID-19 either temporarily or permanently.

5.7 Approach to Cost-cutting in Response to Expected Lower Profits by Banks

Forty percent of the 45 banks who thought their business had been adversely impacted by the pandemic expected lower profitability due to it. Further, banks which expected their profitability

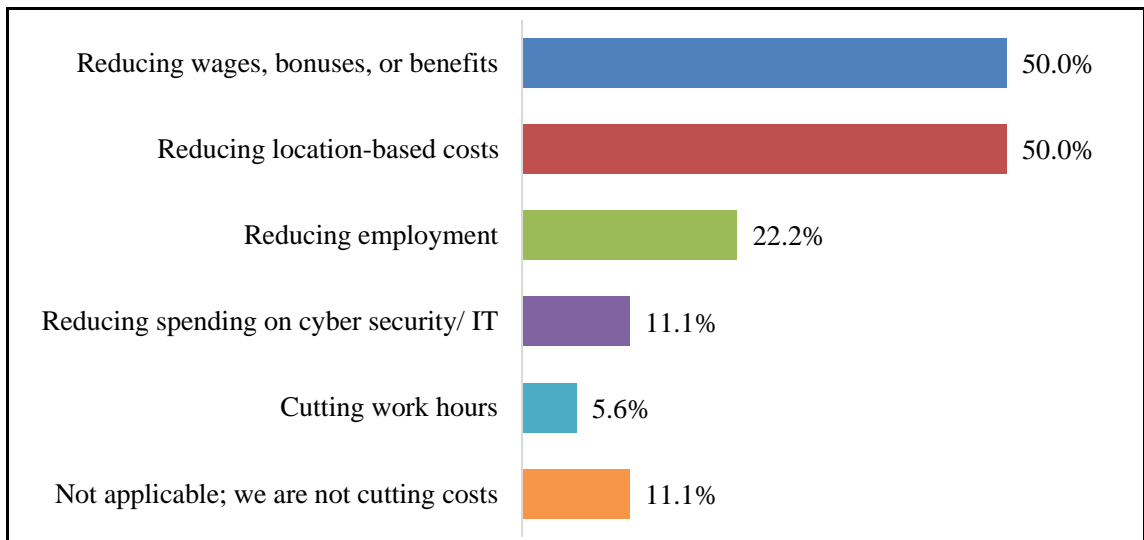


to decrease (N=18) due to the pandemic were further asked about the approaches taken by them to cut costs in response. The main approaches followed by them were the following:

- Reducing wages, bonuses, or benefits and reducing location-based costs (50 per cent each)
- Reducing employment (22 per cent)
- Reducing spending on cyber security/IT (11 per cent)

Figure 5.18 Approach to Cost-Cutting in Response to Expected Lower Profits by Banks

[N=18, Because of Multiple Responses these percentage figures do not add up to 100]



Source: Primary Survey

5.8 Suggestions from Banks for ECGC to Increase their ECIBs

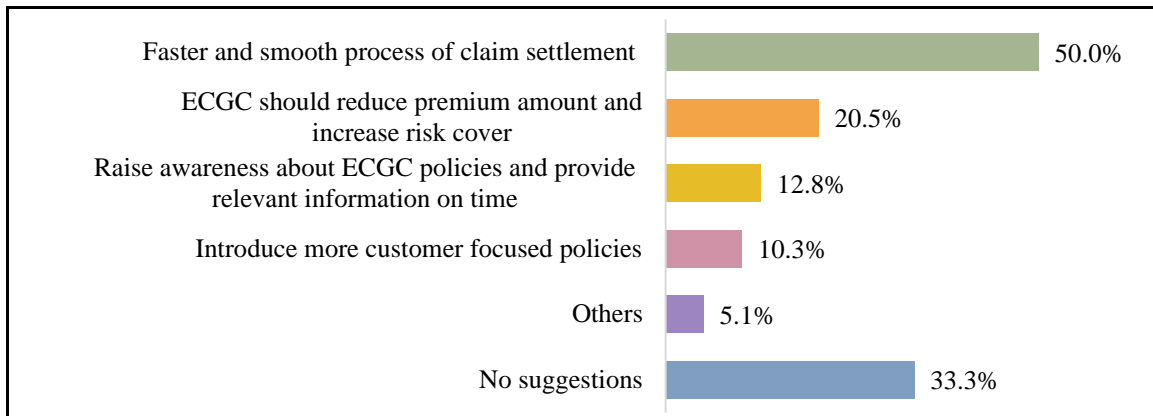
Respondents were asked an open-ended unaided question to suggest measures to ECGC to improve the reach and use of its policies. Faster approval and a smoother claim settlement process emerged as the top suggestion for ECGC (50 per cent) followed by a reduction in premium and increase riskcover by ECGC (21 per cent), increasing awareness of ECGC policies and providing relevant information through online and offline channels on time (13 per cent), and the introduction of more customer-focused policies (10 per cent). About 33 percent of the respondents did not offer any suggestion.



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Figure 5.19 Suggestions to ECGC to improve reach and use of its policies

[N=78, Because of Multiple Responses these percentage figures do not add up to 100]



Source: Primary Survey



5.3 Summary of Findings

- **Types of Banks:** To sum up, 78 banks participated in the survey, of which an overwhelming proportion (86 per cent) were public sector banks. Of all the banks surveyed, roughly half had international work experience.
- **Low Policy Adoption:** The survey also reveals that only a very small proportion of a bank's exporter clients used ECGC policies. Roughly 28 per cent of bank clients did not use ECGC's export credit insurance services and 16 per cent used an insurer other than the ECGC. This partly explains the decline in the business short-term (ST) insurance policies.
- **Scope of Business:** The key sectors to which banks provided export services include textiles and ready-made garments, engineering goods, chemical and pharmaceuticals, and gems and jewellery. Clearly, there is a scope to extend insurance coverage to other sectors.
- The key reasons for banks not opting for ECGC cover include the following:
 - ✓ Lack of funds with banks
 - ✓ Unavailability of the features in the insurance cover specifically desired by banks
 - ✓ Issues with premium charged and the reluctance of borrowers to bear the cost of the premium
 - ✓ Time-related issues in obtaining ECGC policies by banks
 - ✓ Delays in claim settlement
 - ✓ Procedural obstacles
- **Mergers & Acquisitions and Covid-19:** Two major factors that affected banks during the period were mergers and acquisitions and the Covid-19 pandemic. While most respondents felt that mergers had resulted in improved operating efficiency, productivity and profitability, about 58 per cent of the respondents said that pandemic had had an adverse effect on both banks and the ECI business. There was a decrease in the number of customers seeking export credit. Roughly 18 per cent of exporters had shut down their business during the pandemic either temporarily or permanently.
- **Measures Adopted to address the Decline:** According to the respondents, most banks resorted to lowering interest rates, lowering commission rates and reducing premium service fees to address the decline in the total volume of loans to exporters.
- **Suggestions:** The major suggestions made to improve the attractiveness of ECGC's policies were to put in place a faster approval and a smoother claims settlement process. Besides, lowering premiums, increasing risk coverage, and raising awareness of ECGC's insurance products and policies could help increase their business.



Section 6: Conclusion and Recommendations

6.1 Introduction

ECGC Limited, the leading provider of export credit insurance to exporters and banks, has recently accomplished a number of remarkable goals in the promotion of exports in the Indian economy. Its export credit insurance (ECI) policies have not only aided a large number of Indian exporters, but also indirectly facilitated export financing by banks. The study's main focus therefore is on the short-term credit insurance policy requirements of Indian exporters and banks. The methodology of the study comprised mainly of a primary survey conducted through structured face-to-face and telephonic interviews of 103 ECGC policyholder and 100 non-policyholder exporters, across ten *plus* MSME clusters across ten *plus* industry sectors, and of 78 banks with a view to analyse the reasons behind the declining trend in the adoption of short-term insurance policies by the exporting firms and in the export credit insurance taken by banks (ECIB). Additionally, secondary data analysis was employed to fill in the gaps in the information obtained from the primary survey. From the findings of the study, useful policy suggestions to enhance export credit policy adoption by the exporter and the banks have been drawn.

6.2 Key Findings from the Primary Survey of Exporters

- **Types of Exporters Firms:** About half of primary survey respondents among exporters were small-sized firms, the remaining consisting of a mix of micro, medium and large firms. Respondents included exporters in the textiles and garments sector, engineering goods, chemicals and pharmaceuticals, leather and leather products, etc., with textiles and garments firms accounting for a third of the sample.
- **Major Export Destinations:** The three major export destinations for exporters were the United States, the United Kingdom and the United Arab Emirates. Roughly 90 per cent of exports rated sea transport as being the riskiest mode of transport, followed by road and air transport.
- **Key factors to Increase Policy Adoption:** Exporters were asked to rank the factors they considered to be the most important in deciding on whether to purchase an ECI policy. Among the policyholders, the top three considerations cited before deciding on ECGC policy adoption were geographical differences among places of origin of exports, pressure from international competitors and characteristics of the product.



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For non-policyholders, regulatory requirements in the foreign markets, the differences across destination countries, geographical differences while exporting and existence of free trade agreements were the major reasons for not purchasing ECGC policies.

Factors that were the least important included pressure from domestic competition and being part of international value chain in the case of policyholders; for non-policyholders, being part of a global chain was the least important.

Policyholder exporters were also asked which aspects relating to cost, time and the market conditions for exports were most important while deciding to opt for an ECGC policy. These were availability of finance within enterprises among cost factors and the time required to assess the loss among time-related issues. The dominance of established players in the market and the time taken for and cost of transportation were the major market related factors.

- **Types of Risk:** The most important risks that exporters sought protection against through ECGC policies were the risk of buyer default, followed by insolvency of the LC-opening bank and insolvency of the buyer. Among the risks remaining even after obtaining an ECGC policy, the maximum risks were associated with letters of credit given by importers, risky destination markets and exchange rate fluctuations. Other risks mentioned were those related to sample approvals, single-window approvals, and banking information.
- **Risk Management Practices:** 75% of the firms had adopted formal risk management practices – all firms among policyholders and half of the non-policy holders. Of firms that did adopt risk management practices, taking an ECGC policy was the mechanism used by seven out of 10 firms. For finance-related risks the exporters depended on banks or practiced self-management.

The primary survey also revealed that, among exporters using an ECGC policy cover, 81 percent had not adopted any risk management practices before taking the policy. Twelve percent managed their finance-related risks through banks and the remaining eight per cent by arrangements of their own.

Among non-policyholder exporters, the top three reasons for not practising risk management and/or not obtaining export credit insurance policies (fully or partially) were issues with premium charged and credit limits, delays in claim settlement, and procedural obstacles.



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- **Benefits of Policy Adoption:** Policyholder exporters have performed relatively better than non-policyholder exporters in terms of both average domestic and export sales. Moreover, they have, on an average, been able to employ about three times the number of people employed by non-policyholders, perhaps because higher sales necessitated more manpower to operate the machines as well as conduct other business operations.

The gap between expected versus actual improvement as a result of taking an ECGC policycover was the lowest in developing new markets, improving global market share, and exploring new markets. The highest gap was with respect to increase in employment, improved business turnover and product diversification.

- **Spreading Awareness about ECGC Policies:** Information sources that played a vital role in encouraging exporters to take ECGC policies included the following:
 - ✓ Marketing efforts by ECGC Limited including personal visits by ECGC officials, conferences and seminars organised by ECGC and stalls in fairs and exhibitions.
 - ✓ Internal sources within the firm or the marketing staff of the business group to which the firm belongs.
 - ✓ External sources such as competitors, clients or customers, banks, suppliers of equipment, materials, and components
 - ✓ Generally available information gathered through professional conferences and meetings, and from publications, the internet or computer-based information networks.
- To improve ECGC's reach and the offtake of its policies the top suggestions were faster approvals and a smoother claims settlement process. Equally important suggestions were better pricing, discounts and increased risk cover for exporters, flexible premium rates and policy terms.
- Both policyholder and non-policyholder exporters also underlined the need for timely availability of insurance cover and for coverage of risk according to the nature of goods exported to improve adoption of ECGC's policies.

Additionally, non-policyholder exporters mentioned coverage of risks to a greater extent than what exists currently as an expected improvement in ECGC policies.



6.3 Key Findings from the Primary Survey of Banks

- **Digital Presence of Banks:** In terms of providing services, slightly more than 75% of banks deal in the offline mode⁵ while 22 percent use the online mode (mostly through bank websites). Further, in terms of online sales share, about 4.50 percent of total bank sales are done online. Overall, about 80 per cent provide short-term export credit services while the remaining provide medium-and long-term project finance to their customers.
- **Stages of Production:** Most banks provide export credit mostly to finance final goods, Few banks were found to be providing credit to exporters of raw materials, and intermediate goods.
- **Types of Firms:** They provide export credit services to small-sized, medium-sized, micro-sized, and large-sized enterprises.
- **Special Features of Banks:** Special features of the banks furnishing export credit were providing financing solutions and risk covers to assist exporters.
- **Major Sector:** The key sectors to which banks provide export credit services are textiles and ready-made garments, engineering goods, chemical and pharmaceuticals, and gems and jewellery.
- **Key Factors in Obtaining ECGC Policies:** In terms of importance attached to the factors for obtaining ECGC policies by banks, about 97 percent of respondents mentioned that indirect risk protection to the banks due to ECGC insurance cover availed by the exporter client against their overseas buyers was the most important factor in obtaining ECGC policies, followed by relief to banks in capital provisioning due to ECGC cover and indemnification through ECGC claims.

When asked to assess the importance of factors while deciding on the purchase of ECGC policies, about 95 percent respondents mentioned the help provided by ECGC policies in eliminating capital loss in case of default as the most important factor followed by the time taken to obtain ECGC cover and issues of limit approval and specific approval,

⁵ Offline mode means that their website provides only information on various export credit related services. However, the entire procedure is carried out in offline mode



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The most important risk factors which motivate Banks to take an ECGC policy were protracted default of the exporter followed by insolvency of exporters.

- **Reasons for Low Adoption of ECGC Policy by Banks:** The key reasons for banks for not opting for ECI (fully or partially) were lack of funds followed by procedural obstacles and unavailability of the features in the insurance cover desired specifically by the banks.
- **Impact of Bank Merger:** About 61% of the banks that participated in the primary survey had undergone mergers or acquisitions (M&A). Of these about 48% said that there was no change in the number of customers seeking export credit while 42% mentioned that there was an increase in the number of customers. Only 10% of them reported a decline in the number of customers as a consequence of M&As.

In addition, 48 per cent of respondents said that the bank mergers had impacted the market share, 40 per cent felt that it had an adverse effect on competition, and 19 per cent said that it had widened the communication gaps between the banks and their clients; 33 per cent said that there were none of these changes due to the mergers.

A major share of respondents said that there were positive effects in terms of improving operating efficiency (92 per cent), productivity (81 per cent), and profitability (81 per cent). In response to a question about a possible rise in export credit NPAs, 40 per cent of respondents said it would increase, 31 per cent said it would decrease and 29 per cent said it would remain the same.

More than 50% of the banks included in the survey felt that that customers' choices for export credit services had increased (54 per cent) while 38 per cent said they remained the same after M&As. Only 8 percent of the respondents said that the choices available to customers decreased as a consequence of M&As.

The top three sectors that sought loan modifications following a merger or an acquisition were textiles and ready-made garments (64 per cent), engineering goods (40 per cent) and, gems and jewellery (20 per cent).

- **Impact of the Pandemic:** About 58 per cent of respondents confirmed that the pandemic had affected their banks and their export credit finance business. Further, fifty-six per cent of these 45 banks said that the number of customers seeking export credit had decreased while the remaining banks said that there was either an increase (29 percent) or no change (15 percent) in that number.



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Respondents who said that there was a change in the number of customers seeking export credit after the pandemic (N=38) also mentioned that the three sectors that sought the maximum number of loan modifications were textile and ready-made garments (58 percent), gems and jewellery (21 percent) and engineering goods, cashew, agriculture and plantation (16 percent). Further, it was found that about 18 per cent of exporters had shut down their businesses due to the COVID-19 either temporarily or permanently.

Forty percent of the 45 banks who said their banks had been affected by the pandemic expected lower profitability. Further, these banks expecting lower profitability (N=18) were also asked about the various approaches taken by them to cut costs in response.

The top three approaches to cut costs as reported by the respondents were reducing wages, bonuses, or benefits and reducing location-based costs (50 per cent each), reducing employment (22 per cent), and reducing spending on cyber security/IT (11 per cent).



6.4 Recommendations for short-term credit insurance policies for exporters

1. **Extending Support across Various Sectors:** Most of ECGC's export credit support is focused on sectors like textiles and ready-made garments, engineering goods, chemicals and pharmaceuticals, and leather and leather products. ECGC should expand and diversify its insurance support to other sectors such as marine products, plastic goods, granite, tea, etc. by understanding the concerns and needs of exporters in these sectors and framing policies to address the common and specific risks faced by them.
2. **Provision of a Digitalized Framework:** It has been found from the survey that a very small proportion of sales is done through an online mode by both exporters as well as banks. As there is an increasing trend towards digitalization in the world, there is a need to build an online platform for all stakeholders. By providing a digitalised framework to its clients, ECGC Limited may enhance its business from all clients including exporters and banks,
3. **Policy and Procedure Related Suggestions**
 - ✓ ECGC should provide for timely availability of insurance cover to exporters.
 - ✓ ECGC also needs to ensure a faster approval and smoother claim settlements processes.
 - ✓ ECGC should consider offering better pricing, discounts, and flexible premium rates and policy terms to persuade more exporters to adopt insurance policies to enhance its own business and also to boost India's export performance.
 - ✓ The coverage of risks needs to be extended to include the greater riskiness inherent in the nature of goods exported by many exporters and to facilitate easy entry for them into riskier destination markets, by framing appropriate goods-specific and/or destination-specific export insurance policies
 - ✓ Overall credit limits may be increased to aid a larger number of exporters and thereby foster India's exports.



6.5 Recommendations for credit insurance policies taken by banks (ECIB)

- 1. Increasing Exporters Understanding of ECGC Policies:** ECGC can increase awareness about its policies among exporters through personal visits, by organising conferences and seminars and arranging stalls in fairs and exhibitions.
- 2. ST and M< Credit Services by Banks:** The primary survey conducted for this study shows that about 80 percent of the insurance policies of the ECGC purchased by its customers are for short-term (ST) export credit facility while the remaining 20% are for medium-and long-term (M<) project finance.
- 3. Export Credit Services at Various Processing Stages:** Most banks provide export credit mainly to finance final goods exports, followed by raw materials, and intermediate goods. This finding underlines the need for a diversified policy framework which will also include raw material and intermediate goods exporters. If ECGC provides additional insurance policies to cover risks associated with raw material and intermediate goods exports, it will encourage the banks also to provide export credit to the firms which export these goods.
- 4. Factors Affecting Adoption of ECGC Policies by Banks:** In buying ECGC cover, the most important factors are the indirect risk protection to banks and elimination of capital loss in case of default. Given this finding, ECGC could increase its ST-policy business by focusing on factors such as capital provisioning through insurance cover and indemnifying through ECGC claims. The key reasons for banks not opting for the ECI (fully or partially) were lack of funds, procedural obstacles, unavailability of the features in the insurance cover specifically desired by the banks. ECGC needs take more care in designing the features of its insurance policies for the banks to accommodate the latter's needs. ECGC should also take measures such as simplifying its procedures, providing doorstep services, and digitizing its services.
- 5. Impact of Mergers and Acquisitions (M&A) of Banks on Export Credit:** Almost half of the banks/branches that have undergone M&As said that there was no change in the



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number of customers seeking export credit, whereas of the remaining respondents most have seen an increase while a few have observed a decline. A high share of respondents said that there were positive effects especially in operating efficiency, productivity, and profitability. However, a significant number of them said that M&As had impacted banks' market share unpredictably. On the question of the impact of M&A on export credit NPAs there was a mixed response. This finding suggests that M&A may have had varied impacts across different sectors. Based on this finding, ECGC may expect a rise in business if the magnitude of the positive impact of M&As is greater than its negative impact.

6. The three sectors seeking maximum loan modifications after M&A of banks were the following:
 - ✓ Textile and ready-made garments (64 per cent)
 - ✓ Engineering goods (40 per cent)
 - ✓ Gems & jewellery (20 per cent)

To facilitate this loan modification by the banks, ECGC may provide incentives by making appropriate adjustments in its own insurance policies.

7. **Covid-19 and Banks' Export Credit Business:** The primary survey shows that pandemic had adversely affected banks' export credit business. Most of them said that the number of customers seeking export credit had decreased and about 18 per cent of exporters had to shut down their businesses due to the COVID-19 either temporarily or permanently. As mentioned earlier, banks have taken several measures to address this decline. Since the fall in the number of customers seeking export finance is likely to translate to a decline in the ECIB business of ECGC, ECGC therefore needs to roll out more attractive insurance packages to encourage banks to provide more export credit to more exporters.



6.6 Summary

Export credit insurance empowers exporters to better manage their business by reducing their burden of credit management. This in turn helps them to increase their export volumes. In order to enhance its business and extend its support to exporters and banks, ECGC supports around 20% of the merchandise exports from the country through its various insurance schemes/products. It covers export transactions destined for more than 200 countries of the world. In recent years, ECGC has introduced the following products/measures to increase customer satisfaction and awareness in order to increase its support to Indian exports:

- ECGC had reduced its premium rates by an average of 17% w.e.f. April 1, 2016, so as to lower the transaction cost of exporters and thereby increase their competitiveness in the global market.
- ECGC has opened its office at International Financial Service Centre, GIFT City, Gandhinagar to provide foreign currency covers to its customers. It has also introduced new insurance products like the Export Factoring Facility which provides a package of benefits comprising of finance against receivables, fulfillment of working capital needs and maintenance of sales ledger for transaction with a specific buyer to meet the growing demand of Indian MSME exporters.
- More than 90% of ECGC customers belong to the MSME sector. In order to support this sector, direct insurance covers are extended liberally despite the sector posing a higher risk owing to lack of adequate experience in handling of international trade transactions. Further, the insurance covers issued to banks enable MSMEs to obtain bank finance even if they are unable to provide adequate collateral. Moreover, ECGC provides a higher percentage of insurance covers and other operational relaxations for the MSMEs. It has also designed exclusive products to meet the requirements of Micro and Small exporters.
- ECGC has introduced a new scheme under its Whole Turnover Export Credit Insurance for Banks (WT-ECIB) to offer enhanced cover of 90% to small exporters having aggregate export credit working capital limit up to ₹20 crore. This is aimed at encouraging the banks to lend affordable and adequate export credit to small exporters,



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enabling them to explore new markets/new buyers and to diversify their products portfolio competitively.

- ECGC has signed an MoU with the Ministry of MSME for implementing a scheme called Capacity Building of First Time Exporters (CBFTE) for MSMEs, which is an integral component of the broader International Cooperation Scheme (ICS) launched by this Ministry. The objective of the CBFTE scheme is to enable the Micro and Small Enterprises (MSE) to promote their products and services in the international markets through incentivization at various stages of the business cycle. Under the CBFTE scheme, refund of premium up to Rs 10,000/- in a financial year, is allowed to the exporters eligible for the Small Exporter's Policy.
- ECGC had successfully played a counter-cyclical role by providing extended discretionary powers and by relaxing procedural compliance requirements to the exporters and banks during the COVID lockdown period. This helped to sustain its customers, maintain the flow of export credit, and stabilize the export credit market. Banks have been granting export credit for the working capital needs of the export community all over the world. The same is true of banks in India. Moreover, in the context of India, banks mostly cater to the needs of new and small exporters. Challenges in providing credit to small exporters can sometimes be particularly daunting leading to a decline in the banks' lending to these exporters which in turn is bound to have a diminishing impact on the business of the ECGC. It is therefore in ECGC's interest to help banks overcome their challenges.

Banks play an essential part in establishing the necessary trust between buying and selling agents for them to execute transactions in the global market. This importance of banks in the activity of exporting is eminently reflected in the data on the value of business covered by ECGC. Export Credit Insurance Business (ECIB) turns out to be the major contributor to the business of ECGC. This study attempted to identify the key reasons for the declining trend in ECIB through a primary survey. Out of the 78 banks surveyed from the different states of India, most of them were from the public sector. Most of these banks provide export credit services to MSMEs. A significant portion of these banks provide short-term working capital export credit services while remaining provide medium and long-term export credit services. The unique features of the banks with respect to



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export credit were providing financing solutions and risk covers to assist firms in improving their export performance. The key sectors to which banks were providing export credit services were textile and ready-made garments, engineering goods, chemical and pharmaceuticals, and gems and jewellery.

The major risks for which ECGC covers are obtained by the banks are protracted default and insolvency of the exporters. On the other hand, two key reasons for banks not observing the ECI Credit limits (fully or partially) were: lack of funds and procedural obstacles. More than half of the banks/branches that participated in the survey had undergone mergers or acquisitions. Further, close to half of the banks that have undergone mergers or acquisitions said that there was no change in the number of customers seeking export credit. A high share of respondents said that there were positive effects especially in operating efficiency, productivity, profitability. On the other hand, there were mixed responses (*yes* and *no*) on whether there was a rise in export credit NPAs. Moreover, the banks said that they were adversely impacted by the pandemic as the number of customers seeking export credit had significantly decreased during that time. To address this decline in business, the various cost-cutting responses of banks included reducing wages, bonuses, or benefits and lowering location-based costs, and reducing employment.

The key suggestions for ECGC Limited to improve the reach and use of its policies to increase its ECIB business therefore include faster approval and a smoother process of claim settlement. ECGC Limited must also reduce the premium amount and increase the coverage of risks, raise awareness of its, provide relevant information through online and offline channels on time and introduce more customer-focused policies.



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