INSURANCE COVERS AND
GUARANTEES
ISSUED

- Part - I: Short Term Guarantees.
- Part - II: Analysis of Term Export Guarantees.
PREFERENTIAL treatment is expected from banks in matters of financing the needs of exporters. As in the case of other borrowers, however, the main consideration of any banker in financing an export transaction remains the same, namely, the safety of its funds. Thus at times banks have been found, hesitating in providing credits to the exporters for the want of satisfactory security and undue risks involved in this type of financing. The Export Credit Guarantee Corporation (ECGC) seeks to solve this difficulty via its guarantees. The Corporation issues guarantees in favor of banks which entitle them to claim from it the major portion of any loss incurred by them due to the insolvency or protracted default of exporters. Thus protected against possible losses, the banks are enabled to lend to the export sector with greater confidence and on a liberal basis.

4.2 A well knitted system of guarantees is essential to ensure the smooth flow of funds from banks to the export sector, and the same has been successfully extended by the ECGC over the years. The detailed description of the nature of guarantees introduced and their terms and conditions have already been presented in Chapter II. We propose to analyze the quantum of guarantees
issued by the ECGC during period under review in this Chapter. Like that of the previous Chapter, it also has two parts. While Part-I deals with the short term guarantees, term guarantees constitute the subject matter of Part-II.

PART - I

SHORT TERM GUARANTEES

4.3 An aggregate picture of the progress witnessed in respect to the issuance of short term financial guarantees has been presented in Table 4.1. During the period of 28 years, as covered through the table under reference, there has been galloping increase in the value of advances covered under ECGC's guarantees. Thus, during the year 1960 only a negligible amount (Rs. 0.1 million) of advances were covered by such guarantees; this sum rose to about Rs. 1,20,462 million during the year 1987. This clearly means an increase of 12,04,61,600 per cent over a period of 28 years or an average per annum increase of 43,02,200 per cent. The strategic reason for this relatively high increase has been the single fact that the negligible absolute base of 1960.

MICRO ANALYSIS

YEAR WISE DRIFTS

4.4 Year wise, an erratic trend is observed in the value of advances covered through short term guarantees. In relative terms these variations have been between a decline by one per cent
Short Term Financial Guarantees

Amount in Rupees Million (Thousands)


Years

Guarantees
during the year 1983 and an increase by 5,300 per cent during the year 1961. In absolute terms, the highest increase took place during 1986 when the amount rose to Rs. 1,17,466 million from Rs. 80,730 million during 1985, reflecting an increase of 46 per cent. On the whole, two points are worth mentioning. First, excepting the year 1981 there has been a consistent rise in the value of advances covered by ECGC's Guarantees. Second, in the initial years the progress was rather slow on account of its being awfully busy in devising necessary mechanics for giving effects to the planned operations. Since 1962, though there has been continual progress, yet the progress has been in descending order. In percentage terms the growth was higher in the early years and lower in later years. If we divide the whole duration of 28 years into four periods of 7 years each, we find that the maximum increase took place during the first period (1960-66) (3,91,600 per cent or an average of 55,943 per cent per annum) when the amount rose from Rs. 0.1 million in 1960 to Rs. 392 million during 1966. It was followed by the second period (1967-73) (an increase of 1,334 per cent or an average increase of 190.6 per cent per annum), third period (1974-80) (an increase of 280 per cent with the average of 40 per cent per annum) and, fourth period (1981-87) (an aggregate increase of 102 per cent with the average of 14.6 per cent per annum). In 1987, the progress however received a minor set back when the value of advances covered by ECGC's guarantees reduced by 3 per cent over the previous year of 1986.
SCHEME WISE CLASSIFICATION

4.5 The scheme wise classification of ECGC's short-term financial guarantees is highlighted in Table 4.2. This classification has been further sub-divided for five points with the objective of providing an indepth analysis. Sub periods then being: 1960 (Year of the inception of this scheme), 1966 (Position after 7 years), 1973 (Position after 14 years), 1980 (Position after 21 years) and 1987 (Position after 28 years).

4.6 Short term guarantees appeared on the ECGC's portfolio in 1960 under the Scheme titled 'Packing Credit Guarantee'. During this year the value of advances covered under it remained negligible at Rs. 0.1 million. In the year 1966 two more schemes namely, 'Post-Shipment Guarantee' and 'Export Finance Guarantee', came to be introduced; these guarantees could not occupy a dominant place in ECGC's total assistance. By 1973 the Packing Credit Guarantee Scheme continued to enjoy the pride of foremost importance accounting for as high a share as 93 per cent of the total value of guarantees issued by ECGC. It came to be followed by Export Production Finance Guarantee Scheme (with 4.3 per cent share), Post-shipment Guarantee Scheme (with 1.9 per cent share), and Export Finance Guarantee Scheme (with 0.8 per cent share). In 1980, the scheme of Post-shipment Guarantee registered a good progress and its share in the total increase to 19.4 per cent. However, the Packing Credit Guarantee Scheme maintained its first place with 80 per cent share in total. The shares of other two schemes reduced to a negligible proportion during the year under analysis. The Export Finance Guarantee Scheme thus
accounted for only 0.27 per cent and Export Production Finance Guarantee Scheme claimed bare 0.23 per cent. Almost a similar pattern is observed during the year 1987. The Packing Credit Guarantee Scheme claimed for the maximum share (70.6 per cent), followed by Post-shipment Guarantee Scheme (29.17 per cent). The shares of Export Finance Guarantee and Export Production Finance Guarantee Scheme, however stood at 0.20 per cent and 0.03 per cent respectively.

4.7 If we compare and contrast the shares of different schemes, it is noticed that in an increase of nearly Rs. 1,20,462 million in the value of advances covered, the Packing Credit Guarantee Scheme accounted for about Rs. 85,045 million or nearly 71 per cent; Post Shipment Guarantee Scheme claimed nearly Rs. 35,141 million or over 29 per cent; Export Finance Guarantee Scheme totaled at Rs. 238 million or 0.2 per cent, and Export Production Finance Guarantee at Rs. 38.3 million or 0.03 per cent.

PART - II

ANALYSIS OF TERM EXPORT GUARANTEES

MACRO TRENDS

4.8 The aggregate picture of term export guarantees has been presented vide Table 4.3. It is obvious form the contents of this table that the ECGC started providing term guarantees with effect from the year 1976. During this year the amount of advances covered via term guarantees stood at over Rs. 181 million; this amount rose to nearly Rs. 370 million during 1987. From this it
is amply clear that in relative terms the business of more than 100 per cent during the 12 years period: 1976-87. Alternatively stating it gives an average increase of about 9 per cent per annum.

MICRO ANALYSIS

YEAR WISE DRIFTS

4.9 The year-wise pattern reflects wide fluctuations in the value of advances covered under the term guarantees, these having ranged between a decline by 100 per cent and an increase by 2,630 per cent in a duration of one year. The highest increase, both in terms of percentage as well as amount, has been noticed during 1983 when the value of advances covered rose from Rs. 0.60 million during 1982 to Rs. 1,646 million during 1983, registering an increase of 2,630 per cent. During 1977, 1980 and 1986 no such guarantees came to be issued. From the rest, negative progress was witnessed during the year 1979, 1982, 1984 and 1985. The year 1978, 1981, 1983 and 1987 were characterized by positive and upward trends.

INSTITUTION WISE CLASSIFICATION

4.10 Aside ECGC, commercial banks, IDBI, and EXIM Bank are also empowered to issue financial guarantees, the data contained in Table 4.3 only pertains to ECGC. Saving the ECGC other institutions extend primarily non-financial guarantees. It is only under special circumstances that the financial guarantees are issued by
them. To substantiate, the IDBI and commercial banks provided term financial guarantees only during the years 1968-69 and 1976-77. While in former year, the IDBI and commercial banks provided financial guarantees worth Rs. 0.6 million each, these accumulated to a sum equivalent to Rs. 287 million each in the latter. In rest of the years the guarantees provided by these institutions were non-financial by nature.

4.11 The details of the nature of guarantees issued by EXIM Bank are not available in its Annual Reports. And the clarifications sought by the author from the executives of the EXIM Bank reveal that they wish to concentrate on financial activities. Under the circumstances, all requests for financial guarantees are dealt as if the same are for financial assistance.

4.12 On the basis of above, it is clear that the sole institution for issuance of term export guarantees for all practical purposes is ECGC.

SCHEME WISE DETAILS

4.13 The aforesaid Table also depicts the schemes wise distribution of export guarantees. As may be perused, ECGC’s entire schemes broadly falls in two categories, namely, Guarantees for Lines of Credit and Guarantees for Buyer’s Credit. The Scheme of Guarantee for Buyer’s Credit came into operation during the year 1976 in which advances worth over Rs. 181 million were covered through such guarantees. When the total period of 12 years is visualized, then ample variations are observed. It was only
during five specific years, namely, 1976, 1979, 1982, 1983 and 1987 that the guarantees came to be issued. The advances covered ranged between Rs. 30.5 million in 1982 and Rs. 1075.4 million in 1987. Almost an identical trend is observed in the scheme of Guarantee for Line of Credit. This scheme became operative with effect from the year 1978. And, guarantees were issued during the years 1978, and 1981 through 1985. The advances covered ranged between Rs. 29.8 million in 1982 and Rs. 1592.8 million in 1984, no guarantee was however issued thereafter.