CHAPTER - V
INSURANCE AND FINANCING OF
INDIA'S FOREIGN TRADE
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The Government of India set up the Export Risks Insurance Corporation (ERIC) in July 1957 in order to provide export credit insurance support to Indian exporters. It was transformed into Export Credit & Guarantee Corporation Limited (ECGC) in 1964. To bring the Indian identity into sharper focus, the Corporation's name was once again changed to the present Export Credit Guarantee Corporation of India Limited in 1983. ECGC is a company wholly owned by the Government of India. It functions under the administrative control of the Ministry of Commerce and is managed by a Board of Directors representing Government, Banking, Insurance, Trade, Industry, etc.

Export Credit Guarantee Corporation of India Limited was established in the year 1957 by the Government of India to strengthen the export promotion drive by covering the risk of exporting on credit. Being essentially an export promotion organisation, it functions under the administrative control of the Ministry of Commerce, Government of India. ECGC is the fifth largest credit insurer of the world in terms of coverage of national exports. The present paid-up capital of the company is Rs.390 crores, which was expected to be enhanced to Rs.500 crores by the year 2002.

Functions of ECGC

ECGC provides a range of credit risk insurance covers to exporters against loss in export of goods and services. It offers guarantees to banks and financial institutions to enable exporters to obtain better facilities from them. It provides Overseas Investment Insurance to Indian companies investing in joint ventures abroad in the form of equity or loan. The ECGC helps the exporters in the under mentioned ways:

1. It provides insurance protection to exporters against payment risks.
2. It provides guidance in export related activities.
3. It provides information on credit-worthiness of overseas buyers.
4. It provides information on about 180 countries with its own credit ratings.
5. It makes it easy to obtain export finance from banks/financial institutions.
6. It assists exporters in recovering bad debts.

The covers issued by ECGC can be divided into four groups:

1. Standard policy: It is issued to the exporters to protect them against payment risks involved in exports made on short-term credit. The policy is issued for the same purpose to the exporters with small exports.
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(2) Specific policies: These are designed to protect Indian firms against payment risks of loss involved in:

(a) Export on deferred terms of payments,

(b) Services rendered to foreign parties and

(c) Construction works and turn key projects undertaken a broad;

(3) Financial guarantees: These are issued to banks in India to protect them from the loss involved in their extending financial support to exporters at the pre-shipment as well as post-shipments stages; and

(4) Special schemes: They are many special schemes like Transfer guarantee (meant to protect banks which had confirmed letters of credit opened by foreign banks); insurance cover for buyer’s credit, line of credit, overseas investment insurance and exchange fluctuation risk insurance.

The above policies are being discussed in detail.

(I) Standard Policy:

The commonly known as the standard policy is the Shipments (Comprehension Risks) Policy. It is the one ideally suited to cover risks in respect of goods exported on short-term credit, i.e. credit not exceeding 180 days. This policy covers both commercial and political risks from the date of shipment. It is issued to exporters whose anticipated export turnover for the next 12 months is more than Rs.50 Lakhs. (The appropriate policy for exporters with an anticipated turnover of less than Rs.50 lakhs is the Small Exporters Policy.)

Risks covered under the policy:

Under the Shipments (Comprehensive Risks) Policy, the Corporation covers, from the date of shipment, the following risks:

(a) Commercial Risks:

(b) Insolvency of the buyer.

(b) Failure of the buyer to make the payment due within a specified period, normally 4 months from the due date.

(c) Buyer’s failure to accept the goods, subject to certain conditions.

Political Risks:

(a) Imposition of restriction by the Government of the buyer's country or any Government action, which may block or delay the transfer of payment made by the buyer.
(b) War, civil war, revolution or civil disturbances in the buyer's country.

(c) New import restrictions or cancellation of a valid import license.

(d) Interruption or diversion of voyage outside India resulting in payment of additional freight or insurance charges which, cannot be recovered from the buyer.

(e) Any other cause of loss occurring outside India, not normally insured by general insurers, and beyond the control of both the exporter and the buyer.

Shipments Covered:

The shipments (comprehensive risks) policy is meant to cover all the shipments that may be made by an exporter, on credit terms during a period of 24 months ahead. In other words, an exporter is required to get the insurance as provided by the Policy for each and every shipment that may be made by him in the next 24 months on DP, DA or Open Delivery terms to all buyers other than his own associates. The policy cannot be issued for selected shipments, selected buyers or selected markets.

Shipments against letters of credit:

Unless they are confirmed by banks in India, payment under irrevocable Letters of Credit are subject to political risks. Exporters, therefore, get them also covered under the policy. Such shipments, which are excluded from the scope of the policy, can be covered under it if an exporter so desires. Lower premium rates are applied to them because they do not involve commercial risks and only the political crisis has to be covered.

For shipments made against irrevocable Letters of Credit, an exporter has an option to obtain either political risks cover only, or cover for comprehensive risks, i.e., for all political risks and the risk of insolvency or default of the bank opening the irrevocable Letter of Credit. In either case, cover will be provided by the Corporation only if the exporter agrees to get all the shipments made against irrevocable Letter of Credit covered under the policy. Cover will not be available for selected transactions.

Shipments to associates:

Shipments to associates i.e., foreign buyers in whose business the exporter has a financial interest, are normally excluded from the policy. They can, however be, covered against political risks under the policy, if an exporter so desires. Where the associate is a public limited company, in which the exporter's share holding does not exceed 40%, cover can be provided against insolvency risks in addition to all the political risks.

Shipments on consignment basis:
Shipments which are made to an overseas agent under an agreement that he will receive the goods as an agent of the exporter and remit the proceeds on the their being sold by him, are excluded from the scope of the policy. However, if an exporter wants it, the Corporation can get them included under the policy. Cover will be provided only against political risks, since the agent acts for the exporter. If however, goods are sold to ultimate buyers on credit terms, comprehensive risks cover can be provided for sales to such ultimate buyers if the exporter wants such cover.

**Shipments made by air:**

Where shipments are made by air, the buyers are often able to obtain delivery of the goods from the airlines before making payment of the bills or accepting them for payment, as the case may be. If the buyer fails to make the payment subsequently as per the contract, the risk of loss will not be covered under the policy if premium has been paid on the shipment for DP or DA terms of payment. An exporter credit limit on such buyers on Open Delivery terms and also pays premium at rates applicable to Open Delivery terms.

**Additional cover for shipments to government buyers:**

All shipments made to Government buyers are covered under the policy against political risks. The exporter has, therefore, to declare such shipments to the Corporation and pay premium at rates applicable for covering political risks. The Corporation's specific approval should be obtained where the country is in the list of restricted cover countries. This cover does not extend to commercial risks like default or non-acceptance of goods. If an exporter wants these risks also to be covered, then he should write to the Corporation asking that risk number (XI) described in the policy be also covered. In his letter, the exporter should give information about name and address of the buyer, the status of the buyer and the details of the contract. If the Corporation approves the request, the shipment concerned will be covered against comprehensive risks, if the exporter pays premium on those shipments at rates applicable for comprehensive risks. It may be noted that Corporation will consider the following as Government Buyers:

(i) a department of the Central Government and

(ii) If the buyer be a Government body like a Board, State Government, Municipality or Government owned Corporation Companies, if the performance of the contract is guaranteed by the Central Government.
Contract cover:

The Standard Policy provides cover only for the post-shipment stage, i.e., from the date of shipment. Cover for pre-shipment losses i.e. losses which may be sustained by a exporter due to impossibility of exporting goods already manufactured or purchased for reasons like ban on export of the item, restrictions on import of the items into the buyer’s country or war, civil war, etc., are not covered under the policy because the risk is very low in respect of raw materials, primary products, consumer goods or consumer durables which can easily be resold. Where, however, the export involves an item which is manufactured to the non-standard specifications of a buyer, cover can be provided for the pre-shipment risks by means of an endorsement to the standard policy.

Shipments made on credit exceeding 180 days:

The policy is meant to provide cover for shipments involving a credit period not exceeding 180 days. In exceptional case, however, cover may be granted for shipments with longer credit period, provided that such longer credits are justifiable for the export items concerned.

(II) SPECIFIC POLICIES:

The Standard Policy is a whole turnover policy designed to provide a continuing insurance for the regular flow of an exporter's shipments of raw materials, consumer goods and consumer durables for which credit period does not exceed 180 days. Contracts for export of capital goods or turnkey projects or construction works or rendering services abroad are not of repetitive nature and they involve medium/long-term credits. Such transactions are, therefore, insured by ECGC on a case-to-case basis under specific policies.

All contracts for export on deferred payment terms and contracts for turnkey projects and construction works abroad require prior clearance of authorised dealers, EXIM Bank or the Working Group in terms of powers delegated to them as per exchange control regulations. Applications for the purpose are to be submitted to the authorised dealer (the financing bank) which will forward applications beyond its delegated power to the EXIM Bank. Proposals for Specific Policy are to be made to ECGC after the contract has been cleared by the authorised dealer, EXIM Bank or the Working Group, as the case may be.

Specific Policy for supply contracts may take any of the following forms:

(i) Specific Shipment (Comprehensive Risks) Policy

(ii) Specific Shipments (Political Risks) Policy
(iii) Specific Contract (Comprehensive Risks) Policy and
(iv) Specific Contract (Political Risks) Policy

Specific Shipments (Comprehensive Risks) Policy provides cover against all the risks covered under the Standard Policy in respect of shipments to be made under the contract in question. It will therefore, be the appropriate policy for an exporter to take if the payments are open to both commercial and political risks. Where the commercial risks are absent, e.g. where the payments are guaranteed by a bank or by the Government of the overseas country, the exporter may opt for the Shipments (Political Risks) Policy for which the Premium rate will be lower than that for the Comprehensive Risks Policy.

Contract Policy differs from Shipments Policy in that the former provide the exporter not only with post-shipment cover that a shipments Policy provides but also with some pre-shipment cover. In case shipments could not be made due to any of the risks covered or due to restriction on export of the goods from India, the loss in respect of unshipped goods will also be covered under contract Policies. Premium rates for contract policies will be higher than for shipments policies.

To be eligible for cover under specific policies, the terms of payment for the export contracts should be in line with customary practices in the international markets. At least 15% of the contract value should be payable before shipment including an advance payment of at least 5%. The balance amount should be repayable in equal semi-annual installments commencing six months after the date of shipment or mean date of shipment. Where the contract provides for supply and erection of a complete plant, the first installment may fall due after six months from the date of commissioning of the plant. The credit period should not normally exceed 5 years. Longer credit period may be approved only in the case of exceptionally large projects if the circumstances of the case justify it. Adequate security should be obtained in the form of government guarantee or bank guarantee.

In order to be sure of the cover, exporters should get in-principle approval of the Corporation and obtain the premium rates well before concluding contracts. If the terms and conditions undergo any change subsequently, the Corporation should be kept informed of the same.

Specific Policies are issued if the Corporation approves proposals which are to be made on the forms specified for the purpose. The entire premium is payable in advance. Installment facility may be granted for payment of a part of the premium if the contract value is very large and if the shipments are spread over a relatively long period, but the entire
premium will have to be paid by the time the last shipment is made. Interest will be charged for the installment facility.

Insurance Cover for Buyer's Credit and Line of Credit:

Buyer's Credit is a credit extended by a bank in India to an overseas buyer for the specific purpose of enabling the buyer to pay for machinery and equipments that he may be importing from India for a specific project. A Line of Credit is a credit extended by a bank in India to an overseas bank, institution or government for the purpose of facilitating import of a variety of listed goods from India into the overseas country. A number of importers in the overseas country may be importing the goods under the Line of Credit.

ECGC has evolved schemes to protect the lending banks from certain risks of nonpayment. These covers take the form of an agreement between the lending bank and ECGC and are issued on a case-to-case basis.

To be eligible for cover, a Buyer's Credit or a Line of Credit should not be higher than 85% of the value of the goods to be exported. Credit terms and the length of the credit period should be in conformity with what is appropriate for the export of the items to be exported. There should be adequate security for the repayments to be made by the borrower.

Cover can be granted either for political risks or for comprehensive risks. Political risks covered under the scheme are following:

(i) The occurrence of war between the country of the overseas party and India.

(ii) The occurrence of war, hostilities, civil war, revolution, rebellion, insurrection or other disturbances, whether as the same kind as here in before enumerated or not in the country of overseas party.

(iii) The operation of law or of an order, decree or regulation having the force of law which in circumstances outside the control of the Lender and/or the Overseas Party, prevents, restricts or controls, the transfer of the sums due to the lender by the Overseas Party under the Financial Agreement.

Where the Corporation agrees to provide comprehensive risks cover, the risk of protracted default of the borrower to pay the amounts due under the loan agreement and insolvency of the borrower, where applicable, will be covered in addition to the political risks mentioned above. The premium rates applicable to comprehensive risk cover will naturally be higher than that for political risks cover.
At least 20% of the total amount of premium payable for the cover should be paid in advance. The balance amount of premium may be paid on a quarterly basis in proportion to the amount of credit disbursed.

**Services Policy:**

Where Indian companies conclude contracts with foreign principals for providing them with technical or professional services, payments due under the contracts are open to risks similar to those under supply contracts. In order to give a measure of protection to such exporters of services, the Corporation has evolved four types of policies:

(i) Specific Services Contract (Comprehensive Risks) Policy:

(ii) Specific Services Contract (Political Risks) Policy:

(iii) Whole turnover Services (Comprehensive Risks) Policy; and

(iv) Whole turnover Services (Political Risks) Policy

Specific Policy, as its name indicates, is issued to cover a single specified contract. It is issued to provide cover for contracts which are large in value and extend over a relatively long period. Whole turnover policies are appropriate for exporters who provide services to a set of principals on a respective basis and where the period of each contract is relatively short. Such policies are issued to cover all contracts that may be concluded by the exporter over a period of 24 months ahead.

The Corporation would expect that the terms of payment for the services are in line with customary practices in international trade in these lines. Contracts should normally provide for an adequate advance payment and the balance should be payable periodically based on the progress of work. The payments should be backed by satisfactory security in the form of Letters of Credit or bank guarantees.

Services policies are designed to cover contracts under which only services are to be rendered. Contracts under which the value of services to be rendered forms only a small part of a contract involving supply of machinery or equipments will be covered under an appropriate specific policy for supply contracts.

**Construction Works Policy:**

Construction Works Policy is designed to provide cover to an Indian contractor who executes a civil construction job abroad. The distinguishing features of a construction contract are that
(a) the contractor keeps raising bills periodically throughout the contract period for
the value of work done between one billing period and another;

(b) to be eligible for payment, the bills have to be certified by a consultant or
supervisor engaged by the employer for the purpose and

(c) that, unlike bills of exchange raised by suppliers of goods, the bill raised by the
contractor does not represent a conclusive evidence of debt but are subject to
payment in terms of the contract which may provide, among other things, for
penalties or adjustments on various counts.

The scope for disputes is very large. Besides, the contract value itself may only be an
estimate of the work to be done, since the contract may provide for cost escalation, variation
contracts, additional contracts, etc. It is, therefore, important that the contractor ensures that
the contract is well drafted to provide clarity of the obligations of the two parties and for
resolution of disputes that may arise in the course of execution of the contract. Contractors
will be well advised to use the standard conditions of contract (International) prepared by the
Federation International Des Ingenieurs conseils (FIDIC) jointly with the Federation
International du Batiment et des Travaux Publics (FIBTP).

The Construction Works Policy of ECGC is designed to protect the contractor from
85% of the losses that may be sustained by him due to the following risks:

(a) Insolvency of the employer (when he is a non-Government entity):

(b) Failure of the employer to pay the amounts that become payable to the
contractor in terms of the contract, including any amount payable under an
arbitration award.

(c) Restriction on transfer of payments from the employer's country to India after
the employer has made the payments in local currency.

(d) Failure of the contractor to receive any sum due and payable under the contract
by reason of war, civil war, rebellion, etc;

(e) Failure of the contractor to receive any sum that is payable to him on termination
or frustration of the contract if such failure is due to its having become
impossible to ascertain the amount or its due date because of war, civil war,
rebellion etc;
(f) Imposition of restrictions on import of goods or materials (not being the contractor's plant or equipments) or cancellation of authority to import such goods or cancellation of export license in India, for reasons beyond his control; and

(g) Interruption or diversion of voyage outside India, resulting in his incurring in respect of goods or materials exported from India, of additional handling, transport or insurance charges which cannot be recovered from the employer.

(III) Guarantees to Banks:

Timely and adequate credit facilities, at the pre-shipment as well as post-shipment stage, are essential for exporters to realise their full export potential. Exporters may not, however, be able to obtain such facilities from their bankers for several reasons, e.g., the exporter may be relatively new to export business, the extent of facilities needed by him may be out of proportion to the equity of the firms or the value of collateral's offered by the exporter may be inadequate.

ECGC has designed a scheme of guarantees for banks with a view to enhance the creditworthiness of the exporters, so that they would be able to secure better and larger facilities from their bankers. The guarantees seek to achieve this objective by assuring the banks, that in the event of an exporter failing to discharge his liabilities to the bank, and thereby making the bank incur a loss, ECGC would make good a major portion of the bank's loss. The bank is required to be the co-insurer to the extent of the remaining loss. Any amount recovered from the exporter subsequent to payment of claims shall be shared between the Corporation and the bank in the same ratio, in which the loss was borne by them at the time of settlement of claim. Recovery expenses shall be first charged on the amounts recovered.

To meet the varying needs of exporters, the Corporation has evolved the following types of Guarantees:

(i) Packing Credit Guarantee
(ii) Export Production Finance Guarantee
(iii) Post shipment Export Credit Guarantee
(iv) Export Finance Guarantee
(v) Export performance Guarantee; and
(vi)  Export Finance (Overseas Lending) guarantee.

(vii) Packing Credit Guarantee:

Any loan given to an exporter for the manufacture, processing, purchasing or packing of goods meant for export against a firm order or Letter of Credit qualifies for Packing Credit Guarantee. Pre-shipment advances given by banks to parties who enter into contracts for export of services or for construction works abroad, to meet preliminary expenses in connection with such contracts are also eligible for cover under the guarantee. The requirement of lodgment of Letter of Credit, export order for granting packing credit advances is waived if the bank grants such advances in accordance with instructions of the Reserve Bank of India in that respect.

The guarantee is issued for a period of 12 months against a proposal made for the purpose and covers all the advances that may be made by the bank during the period to a given exporter within an approved limit. The bank is required to submit monthly declarations of advances and repayments and to pay premium at the rate of 10 paise per Rs.100 per month on the highest amount outstanding on any day during the month. The account has to be conducted by the bank with the usual care and prudence. Approval of the Corporation has to be obtained if the period for repayment of any advance is to be extended beyond 270 days from the date of advance. If the bank apprehends a loss, it is required to call back the outstanding advances and to take suitable action to prevent or to minimise the loss including any action suitable action to prevent or to minimise the loss including any action that may be suggested by the Corporation. The bank will be entitled to claim 66.2/3% of its loss from the Corporation if the entire amount due from the exporter is not recovered within a period of four months from the due date of repayment. The claim is payable if the Corporation is satisfied that the bank had conducted the account with normal banking prudence and has also complied with the terms and conditions of the Guarantee. Any amount that is recovered by the bank after the settlement of the Claim has to be shared between the Corporation and the bank in the same ratio in which the loss was originally borne by them.

To banks which undertake to obtain cover for packing credit advances granted to all its customers on all-India basis, the corporation issues Whole Turnover Packing Credit Guarantee (WTPCG). In consideration of the large volume of business offered for cover and widespread risks that will thus become available to it, the Corporation grants a higher percentage of Cover, lower premium rate and considerable reduction in procedural formalities. The bank is required to notify limits sanctioned by it to all its customers but is
not required to seek the approval of the Corporation for limits if they do exceed an agreed value, called the Discretionary Limit. The premium rate is 7 paise per Rs.100 per month, payable on the average out standings for the month. Administrative work for the bank is kept at the minimum.

Banks which opt for WTPCG will be eligible for similar concessions in respect of Export Production Finance Guarantee and Export Finance Guarantee also. These concessions are available also in respect of advances against contracts for supplies on deferred terms and for construction works, but the bank will have to obtain separate guarantees for such advances.

**Export Production Finance Guarantee:**

The purpose of this guarantee is to enable banks to sanction advances of the pre-shipment stage to the full extent of cost of production when it exceeds the f.o.b. value of the contract/order, the differences representing incentives receivable. The extent of cover and the premium rate are the same of Packing Credit Guarantee. Banks having WTPCG are eligible for concessionary premium rate and higher percentage of cover.

**Post-Shipment Export Credit Guarantee:** Post-shipment finance given to exporters by banks through purchase, negotiation or discount of export bills or advances against such bills qualifies for this guarantee. It is necessary, however, that the exporter concerned should hold suitable policy of ECGC to cover the overseas credit risks.

The premium rate for this guarantee is 7 paise per Rs.100, per month. The percentage of loss covered under the individual Post-shipment guarantee is 75.

This guarantee is also issued on whole turnover basis, offering a higher percentage of cover at a reduced rate of premium. The percentage of cover under the Whole turnover Post-shipment Guarantee is 85 for advances granted to exporters holding ECGC policy. Advances to non-policyholders are also covered with the percentage of cover being 60. The premium rate is 5 paise per Rs.100/- per month if advances against L/C bills are also covered under the Guarantee, otherwise it is 6 paise.

Individual Post-Shipment Export Credit Guarantee can also be had, even where an exporter does not hold an ECGC Policy for finance granted against L/C bills, provided that the exporter makes shipments solely against letters of credit. The Premium rate for this cover is 10 paise per Rs.100 per month on the highest amount outstanding on any day during the month and the percentage of cover is 75. Advances against bills under Letters of Credit.
open by banks in countries placed under restricted cover shall be subject to prior approval of the Corporation.

Export Finance Guarantee:

The guarantee covers post-shipment advances granted by banks to exporters against export incentive receivable in the form of cash assistance, duty drawback, etc.

The premium rate for this guarantee is 7 paise per Rs.100 per month and the cover is 75 percent, banks having WTPSG are eligible for concessionary premium rate and higher percentage of cover.

Export Performance Guarantee:

Exporters are often called upon to execute bonds duly guaranteed by an Indian Bank at various stages of export business. An exporter who desires to quote for a foreign tender may have to furnish a bank guarantee for the bid bond. If he wins the contract, he may have to furnish bank guarantees to foreign buyers to ensure due performance, or against advance payment, or in lieu of retention money, or to a foreign bank, in case he has to raise overseas finance for his contract. Further, for obtaining import licenses for raw materials of capital goods, exporters may have to execute an undertaking to export goods of a specified value within a stipulated time, duly supported by bank guarantees. Bank guarantees are also furnished by exporters to the Customs, Central excise or Sales Tax authorities for the purpose of clearing goods without payment of duty or for exemption from tax for goods procured for export. Exporters also furnish guarantees in support of the export obligations to Export Promotion Councils, Commodity Boards, and The State Trading Corporation of India, The Minerals and Metals Trading Corporation of India or recognized Export Houses.

An export proposition may be frustrated if the exporter's bank is unwilling to issue the Guarantee. The Export Performance Guarantee is aimed at meeting such situations. The Guarantee which is in the nature of a counter guarantee to the bank is issued to protect the bank against losses that it may suffer on account of guarantees given by it on behalf of exporters. This protection is intended to encourage banks to give guarantees on a liberal basis for export purposes.

Normally cover is extended up to 75 percent of loss, but in the case of guarantees in connection with bid bonds, performance bonds, advance payment and local finance guarantees and guarantees in lieu of retention money, the cover may be increased up to 90 percent subject to proportionate increase in premium.
While the premium rate for guarantee issued to cover bond relating to exports on short-term credit is 0.9% p.a. for 75% cover and 1.08% p.a. for 90% cover, it is lower for bonds, relating to exports on deferred credit and projects. The rate of premium is 0.8% p.a. for 75% cover and 0.95% p.a. for 90% cover.

In the case of Bid Bonds relating to exports on medium/long term credit, overseas projects, and projects in India financed by international financial institutions as well as supplies to such projects, ECGC is agreeable to issue Export Performance Guarantee on payment of 25% of the prescribed premium. The balance of 75% becomes payable to the Corporation by the bankers if the exporter succeeds in the bid and gets the contract.

**Export Finance (Overseas Lending) Guarantee:**

If a bank financing an overseas project provides a foreign currency loan to the contractor, it can protect itself from the risk of non-payment by the contractor by obtaining Export Finance (Overseas Lending) guarantee. Premium rate will be 0.9% per annum for 75% cover and 1.08% per annum for 90% cover. Premium is payable in Indian Rupees. Claims under the Guarantee will also be paid in Indian Rupees.

**(IV) Special Schemes:**

**Transfer Guarantee:** When a bank in India adds its confirmation to a foreign letter of Credit, it binds itself to honour the drafts drawn by the beneficiary of the Letter of Credit without any recourse to him provided such drafts are drawn strictly in accordance with the terms of the Letter of Credit. The confirming bank will suffer a loss if the foreign bank fails to reimburse it with the amount paid to the exporter. This may happen due to the insolvency or default of the opening bank or due to certain political risks such as war, transfer delays or moratorium which may delay or prevent the transfer of funds to the bank in India. The transfer guarantee seeks to safeguard banks in India against losses arising out of such risks. Transfer Guarantee is issued, at the option of the bank either to cover political risks alone, or cover both political and commercial risks. Loss due to political risks is covered up to 90% and loss due to commercial risks up to 75 percent.

Premium will be charged at rates normally applicable to the Corporation's insurance policy covering export of goods.

**Overseas investment insurance:** ECGC has evolved a scheme to provide protection for Indian Investments abroad. Any investment made by way of equity capital or untied loan for
the purpose of setting up or expansion of overseas projects will be eligible for cover under investment insurance.

The investments may be either in cash or in the form of export of Indian capital goods and services. The cover would be available for the Original investment together with annual dividends or interest receivable.

The risks of war, expropriation and restriction on remittances are covered under the scheme. As the investor would be having a hand in the management of the Joint venture, no cover for commercial risks would be provided under the scheme. For investment in any country to qualify for investment insurance, there should preferably be a bilateral agreement protecting investment of one country in the other.

ECGC may consider providing cover in the absence of any such agreement provided it is satisfied that the general laws of the country afford adequate protection to the Indian investments.

The period of insurance cover will not normally exceed 15 year in case of projects involving long construction period, cover may be extended for a period of 15 years from the date of completion of the project subject to a maximum of 20 years from the date of commencement of investment. Amount insured shall be reduced progressively in the last five years of the insurance period.

**Exchange Fluctuation Risk Cover:** The Exchange Fluctuation Risk Cover Scheme has been intended to provide a measure of protection to exporters of capital goods, civil engineering contractors and consultants who have often to receive payments over a period of years for their exports, construction works or services. Where such payments are to be received in foreign currency, they are open to exchange fluctuation risk as the forward exchange market does not provide cover for such deferred payments.

Exchange Fluctuation Risk cover is available for payment scheduled over a period of 12 months or more, up to a maximum of 15 years. Cover can be obtained from the date of bidding right up to the final installment.

At the stage of bidding, an exporter/contractor can obtain Exchange Fluctuation Risk (Bid) cover. The basis for cover will be a reference rate agreed upon. The reference rate can be the rate prevailing on the date of bid or rate approximating it. The cover will be provided initially for a period of twelve months and can be extended if necessary. If the bid is successful, the exporter/contractor is required to obtain Exchange Fluctuation (Contract)
cover for all payments due under the contract. The reference rate for the contract cover will be either the reference rate used for the Bid cover or the rate prevailing on the date of contract, at the option of the exporter/contractor. If the bid is unsuccessful 75 percent of the premium paid by the exporter/contractor is refunded to him.

The Exchange Fluctuation Risk (Contract) cover can be issued only if the payments under the contract are scheduled to be received beyond 12 months from the date of contract but in such case, the cover will apply for any installment falling due within 12 months as well. Cover will be available for all amounts receivable under the contract, whether it is payment for goods or services or interest or any other payment. Contracts coming under Buyer's credit and Line of Credit are also eligible for cover under the schemes. The exporter has also an option to terminate the contract at the expiry of the third year, by giving three months advance notice.

Cover under the schemes is available for payments specified in US Dollar, Pound Sterling, Deutche Mark, Japanese Yen, French Franc, Swiss Franc, UAE Dirham and Australian Dollar. However, cover can be extended for payments specified in other convertible currencies at the discretion of the ECGC.

Exchange Fluctuation Risk cover will normally be provided along with suitable credit insurance cover. There is, however, provision to grant the cover independently also in which case premium will be loaded by 20%.

The contract cover provides a franchise of 2 percent loss or gain within a range of 2 percent of the reference rate will go to the exporter's account. If loss exceeds 2 percent, ECGC will make good the portion of loss in excess of 2 percent but not exceeding 35 percent of the reference rate. In other words, losses up to 2 percent and beyond 35 percent of the reference rate will be to the exporter's account. If there is gain in excess of 2 percent of the reference rate, the portion which is beyond 2 percent and up to 35 percent will be turned over to the ECGC.

The rate of premium is 40 paise per Rs.100/- per year or 10 paise per Rs.100/- per quarter for the bid cover and the total premium is payable at the time of issue of the Policy. Premium for contract cover is also payable at the rate of 40 paise per Rs.100/- per annum. Ten percent of the total premium payable and premium for the first two years should be paid at the time of issue of the policy. Thereafter, the annual premium will have to be paid in such a manner that premium for the next two years is always kept paid to the corporation.
Operational Performance of ECGC

The Corporation continued to pose a good performance in the financial year 2001-02 and earned a net profit of Rs.46.04 crores. There was a marginal decline in ECGC's coverage of small term exports, during 2001-02.

In the Financial year 2001-02, Premium Income earned by the company grew to Rs.338.52 crores and the total claims paid were Rs.487.12 crores. Since inception to March 2002, the Corporation paid aggregate claims worth Rs. 2753.58 crores against aggregate premium of Rs. 2781.23 crores.

Figure 5-A

```
Total Claims Paid V/S Total Premium Income (1957-2002)

2781.23 2753.58

Rs. (Crores) 1500

2500

2000

1500

1000

500

0

[Diagram showing the comparison of total claims paid and total premium income]
```

[Legend: Premium □ Claims □ Recoveries]
TABLE 5.1

Value of Business Covered Sector wise during 1999-2002

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Policies &amp; Transfer Guarantees</td>
<td>23139</td>
<td>24633</td>
<td>23530</td>
</tr>
<tr>
<td>Policies-Project &amp; Term Exports</td>
<td>1815</td>
<td>574</td>
<td>360</td>
</tr>
<tr>
<td>Guarantee-Short Term Exports</td>
<td>148088</td>
<td>158962</td>
<td>157274</td>
</tr>
<tr>
<td>Guarantees-Project &amp; Term Exports</td>
<td>493</td>
<td>323</td>
<td>744</td>
</tr>
</tbody>
</table>


Figure 5-B

The ECGC's premium income comes from two sources which are export credit insurance to exporters by the corporation through banks (1/3 of its income) and credit guarantees to bank that lend to exporters for which it receives premium from the banks. In terms of a shoe, the corporation receives 2/3 of its premium income from a export credit insurance and 1/3 from credit guarantees. These two components have been on the increase for the past five years.
Globally, the credit insurance business has been going through rough weather, but interestingly it has still not affected the ECGC in some of its business like the short-term credit insurance. In the medium and long run however it would get affected as a corporation may not be able to underwrite big projects of huge value unless reinsurance cover is made available from global reinsurers who do not want to cover any risk for project exports in African, some Asian and Latin American countries. For large projects the reinsurance coverage is not available.

In guarantees to the Indian banks the claim-premium ratio has been adverse—about 147 percent. The banks do not provide pre-ship and finance guarantee these days due to exporters’ failure to export. If the banks are unable to recover the amount from the exporters, the ECGC has to pay to the bank. This has prompted the corporation to increase its premium rates. The corporation has kept its focus on small and medium-size exports intact. For exporters whose main business is in developing markets, the corporation has created a new premium structure and also reduced its premia.

The corporation has 30 offices in the country with over 14,000 exporters as its client base, yet it has to be vigilant has a number of new insurance companies and even banks are thinking of getting into the insurance business.

**EXPORT – IMPORT (EXIM) BANK OF INDIA**

The EXIM Bank of India which is wholly owned by the Government of India was set up in September 1981 by an Act of Parliament to finance, facilitate, and promote the foreign trade in India. As the principal institution it commenced its operations in March 1982 to coordinate the export and import financing institutions of the country. Its head office is located in Mumbai and is having a network of thirteen offices in India and overseas (Singapore, Budapest, Milan, Washington DC).

**Vision:**

The bank’s vision has evolved from financing, facilitating and promote in India as foreign trade to creating export capability by arranging, competitive financing at various stages of the export cycle. The bank has a vision to develop commercially viable relationships with a target set of externally oriented companies by offering them a comprehensive range of products and services, aimed at enhancing their internationalization efforts.
Services Provided By the EXIM Bank:

The EXIM Bank provides a range of analytical information and export related services. It's fee based services help identify new business propositions, source trade and investment related information, create and enhance presence through joint network of institutional linkages across the globe, and assists externally oriented companies in their quest for excellence and globalisation. Services include search for overseas partners, identification of technology suppliers, negotiating alliances, and development of joint ventures in India and abroad. The Bank also supports Indian project exporters and consultants to participate in projects funded by multilateral funding agencies.

As per the Bank's Annual Report 2002-2003 the major programmes of the EXIM Bank include:

(a) Export credits: this includes Lines of credit, buyer's credit, pre-shipment credit, supplier's credit, finance for consultancy and technology services, Cash flow finance for project export contracts, the refinance to commercial banks, guarantees.

(b) Services: These include the export marketing service, Advisory services (for projects funded by a multilateral agencies), knowledge building (dissemination of findings of research studies), Information services (country market and sectors studies), and Joint ventures facilitation.

(c) Promotional programs: These include promotion of Indian consultancy services through Africa project development facility, African management Services Company, Mekong project development facility, Southeast Europe enterprise development, China project development facility, South Asia enterprise development facility, private enterprise partnership (CIS. countries).

(d) Finance for export oriented units: this includes Project finance, equipment finance, working capital finance (short and medium term), overseas investment finance (equity finance/ equity participation in ventures overseas), refinance to commercial banks, export marketing finance, finance for export product development, Finance for research and development, Import finance, finance for software training Institute/ software technology Parks, and Finance for minor ports development.
EXIM Bank-Business Operations

The EXIM Bank’s business operations can be discussed under the following heads:

(i) **Projects, products and services exports:** During 2,002-2,003 110 export contracts amounting to Rs.65.31bn covering 45 countries, were secured by 59 Indian exporters with EXIM banks support. The contracts secured by the bank during the year included turnkey contracts, construction contracts, supply contracts, and consultancy contracts. The major turnkey contracts secured during the year included power projects in Iran, Oman And Tanzania; transmission line projects in Algeria, Bangladesh, Brazil, Ethiopia, Tunisia and UAE; gas development project in Tanzania; sulphur recovery project in Kuwait; and construction of the chilled water plant in UAE. The construction contracts where carried out in Turkey, Qatar, Saudi Arabia, Kuwait, Indonesia, Mauritius, UAE and Afghanistan. The supply contracts were secured in Egypt, Indonesia, USA, Europe and Srilanka, Iraq etc. The technical consultancy and services contracts were done in Nigeria, Mongolia etc. During 2,002-2,003, the EXIM bank sanctioned Rs.31.56bn by way of supplier’s credit, buyer’s credit, and finance for project exports. This exhibited a rise of 66 percent in sanctions over the previous year. Guarantees were sanctioned amounting to Rs.9.33bn(20022003) as against Rs.5.45bn in the previous year. These guarantees were related to overseas technical consultancy contracts, power generation and transmission contracts, construction contracts in crude oil, transmission, infrastructure and few supply contracts and export of vacation guarantees issued under the Foreign Trade Guarantee Program.

Lines of credit: the EXIM bank extends lines of credit (LOC’s) to overseas financial institutions, the regional development banks, sovereign governments and other entities overseas, to finance and promote India’s exports to its trading partners, especially the developing countries. LOC is a financing mechanism that provides a safe mode of non-recourse financing option to Indian exporters, especially to small and medium sized enterprises (SMEs) and serves as an effective market entry tool. During 2,002-2,003, the bank extended seven LOCs aggregating 257 million U.S. dollars to support exports of goods and services from India. These were extended to Banca Comerciala Romana(Romanian Commercial Bank,S.A.),Vneshtorgbank(Bank for Foreign Trade),Russian Federation;Eastern and South African Tarde and Development Bank(PTA Bank)-covering 16 countries in Eastern and Southern Africa;Seychelles Marketing Board,Seychelles;seven Iranian Commercial Banks viz.Bank Mellat,Bank Melli Iran,Bank Saderat Iran,Bank Sepah,Bank Tejarat,Bank of Industry&Mine,Export Development Bank of Iran;Hatton National Bank
The bank with the permission of the RBI can now cover under LOC all export goods permitted under the EXIM policy of the government of India. During 2,002-2,003 the largest ever LOC of 200 million U.S. dollars was with seven Iranian commercial banks.

(II) **Building export competitiveness:** The EXIM Bank offers a wide range of financing programs which are aimed at enhancing export, competitiveness of Indian companies. During 2,002-03, banks sanctioned amounting to Rs.34.39bn Under the program for enhancing export competitiveness.

Loans to export oriented units were sanctioned by the bank as term loans of Rs. 16.52bn to eighty Export oriented units including Rs.11.31bn by way of refinancing to commercial banks in respect of 37 units.

Under Production Equipment Finance Programme, 28 exporting companies were sanctioned Rs.3.09bn for financing acquisition of production equipment.44 companies were sanctioned long term working capital loans aggregating Rs.7.46bn.

The EOU's financed by the Bank belong to various sectors such as pharmaceuticals, capital goods, chemicals, denim, electronics, engineering goods, gems & jewellery etc.

The EXIM Bank as a Primary Lending Institution under the Technology Upgradation Fund Scheme (TUFS) for the Textiles and Jute Industries sanctioned loans worth Rs.1.27bn to 14 companies.

The EXIM Bank has extended financial of Rs. 23.8mn help to support R&D activities of three companies in the pharmaceuticals sector. With a view to help the increase the supply of trained manpower for the computer software industry the Bank has extended a finance of Rs.9.0mn to one of the Software Training Institute institutes in the year 2002-2003. The EXIM Bank also sanctioned Rs.150.5mn to five companies for strategic export market development plans directed towards developed nations in the computer software and agro& food processing sectors. The bank has also come forward to lend a helping hand to four companies for financing subsidiaries/join ventures abroad. It has sanctioned a loan of Rs.1.13bn in the year 2002-2003. These ventures were in the field of software, tea, pharmaceuticals, and consumer goods sectors in USA, Europe and China.

Under the Export Facilitation Programme the EXIM Bank has sanctioned Rs.1.93bn for port services. To finance the imports the Bank under the Bulk Import Finance
Programme, has sanctioned amount worth Rs.250mn in the year 2002-2003. Under the Import Finance Programme, six companies were sanctioned term loans of Rs.3.37bn in the year 2002-2003.

(III) New Initiatives:

The EXIM Bank is trying to tap the potential of the North-Eastern Region of India. It has established an office in Guwahati in January 2003 which identifies viable projects and export transactions, especially in the fields of agriculture sector. The Bank’s arrangement with the International Finance Corporation (World Bank Group) to utilize Indian consultants now includes South Asia Facility. Through this assistance can be rendered to the North-Eastern region of the country.

The EXIM Bank has set up an Agri Business Group to sustain the exports in the sector of agriculture. The Bank has concluded agreements with Ministry Of Food Processing, NABARD (National Bank for Agriculture and Rural Development) and APEDA (Agricultural and Processed Food Products Export Development Authority) to augment the agri-exports of the country. The Bank has also joined the Small Farmers’ Agri-Business Consortium (SFAC) to help the small farmers. The bank has organized seminars and investors conferences at Guwahati, Mumbai, Bangalore and Kolakatta to bring together potential investors, trade facilitators, policy makers and promotional bodies on one platform first to boost investment into the Agri Export Zones.

The bank has launched Export marketing service for Indian companies. It widens very support bars in terms of new buyers in various countries. The companies that have availed the service of the bank belong to sectors like textiles, cotton yarns, ayurvedic products etc. The bank provides assistance in searching overseas markets, facilitating placement of final orders etc. Global Trade Finance Private Limited (GTF), a joint venture, promoted by EXIM Bank, with Westdeutsche Landesbank Girozentrale(West LB), Germany and International Finance Corporation (IFC.), Washington DC has completed first full year of operations. Its objective is to promote market driven export-financing solutions for SMEs. GTF for the first time in India offers structured foreign trade financing products such as forfaiting and factoring. The bank’s other joint venture, Global Procurement Consultants Limited (GPCL) carried out consultancy assignments in Tanzania, Poland, Bosnia etc. GPCL Provides procurement related advisory and auditing services primarily for projects funded by the multilateral agencies in various developing countries.
The EXIM Bank has set up a Loan Recovery Group to proactively prevent slippage of standard assets into non-performing assets.

The bank is having regular interaction with the industry through an interactive website. The bank serves as the Secretariat of the Task Force constituted by the prime minister’s office to develop wide-ranging recommendations that would lead to a quantum increase in project exports.

(IV) Financial Performance: As on 31st March, 2003, the EXIM banks resources, including paid-up capital Rs.6.5bn and reserves of Rs.13.17bn aggregated Rs.123.19bn. This resource base includes bonds, certificates of deposit, commercial papers and foreign currency deposits/borrowings/long term swaps. The bank’s debt instruments continued to enjoy the highest rating viz.: ‘AAA’ from the rating agencies, CRISIL and ICRA. The bank has raised External Commercial Borrowings (ECBs) of 50 million U.S. dollars and 145 million U.S. dollars by way of borrowings from the commerce banks. The profit before tax and the after tax of the EXIM bank were at Rs.2.69bn and Rs. 2.07bn during the year 2,002-2,003 estimated to the previous year’s PBT and PAT of Rs.2.21bn and Rs.1.71bn respectively.

(V) Information and Advisory Services: The bank provides a wide range of information, advisory and support services which complement its financing programs. These services are provided on a fee basis to the Indian and overseas entities. These services include market-related information, sector and feasibility studies, technology supplier identification, partners search, investment facilitation and development of joint ventures both in India and abroad.


An Eximius Club has been set up by the time to provide information and advisory services to the members. The club focuses to improve the prospects of its members in securing projects funded by multilateral agencies. With a view to enlarging and networking with international organizations and other service providers, the bank has entered into cooperation agreements and MOUs with Board of Investment Mauritius; Board of Investment Sri Lanka; and Industrial Development Corporation of South Africa limited, South Africa.
The bank has initiated holding meetings annually with Asian ECAs (Export Credit Agencies) to exchange information and share ideas in a structured and manner. In 1996 at Bangalore the first meeting was held.

(VI) Promotional Programmes: The EXIM bank as an arrangement for sponsoring and part-financing Indian consultants for providing consultancy services to private sector SMEs in developing countries under technical assistance program of International Finance Corporation (IFC) Washington D.C. and other international agencies. During 2,000 to 2,003 the bank has sponsored two Indian consultants for projects under Mekong Project Development Facility and Southeast Europe Enterprise development. The bank has part-financed Indian consultants to execute short term consultancy assignments for IFC-Sponsored projects in China; southern countries of Asia covering Bangladesh, Nepal, Bhutan and Northeastern India and Armenia, Azerbaijan, Belarus, Georgia, Russia etc. The Eximius Center for Learning, Bangalore to during the year 2,002-2,003 has conducted to 25 programs which included specific business opportunities seminars. The center has conducted eight workshops on Corporate Treasury and Risk Management; Commercial and Legal aspects of International Contracting; Export Packaging-machine tools, textiles, garments and agriculture etc. the center has conducted programs on Business Opportunities in European Bank for Reconstruction and Development Funded projects in Mumbai and New Delhi.

(VII) Information Technology: The EXIM bank has tried to enhance the use of knowledge management tools, communication across its various constituents for better sharing of information, user empowerment and system intelligence capabilities. System up gradation was carried out in the areas of planning and budgeting; country analysis; industry analysis; risk measurement and analysis etc. To improve the Bank’s Agri-Business initiative, an agro-portal www.eximbankagro.com has been developed.

(VIII) Research and Analysis: The EXIM Bank has instituted an annual award for research in ‘international economics, trade and related financing’. This award seeks to promote research in international economics, trade and related financing by Indian nationals at universities and attended institutions in India and abroad. The bank has published for Occasional Papers related to IT enabled services, Horticulture products, factor movements, wage inequality etc. The Working Papers published by the bank during this year related to the pharmaceutical products, health insurance, etc.
(IX) Human Resources Management: as on 31st march, 2,003 the EXIM bank has a total staff of 167 in its service. It includes a professional staff (engineers, economists, bankers, chartered accountants etc.). During 2,002-2,003 126 officers attended the training programs and seminars on a variety of subjects which were related to the bank’s operations. The program’s included industrial finance, forex and financial derivatives and risk management etc.
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