

TERMS OF REFERENCE

1. Executive Summary of ECGC

ECGC, headquartered in Mumbai, has 60 Branch Offices & 5 Regional Offices spread across India. ECGC endeavors to support Indian Export Industry with its experience, expertise and underlying commitment to progress and advance of India's exports.

ECGC is a premier Export Credit Agency (ECA) of Government of India providing credit insurance covers to exporters against non-payment risks by the overseas buyers due to Commercial and Political reasons. It also provides insurance covers to banks against risks in export credit lending to the exporter borrowers. ECGC has an authorized capital of ₹5,000 crore and a paid-up-capital of ₹2,000 crore as on 31st March, 2019 (₹2500 crore as on 31st December, 2019). The net worth as on 31st March, 2019 stands at ₹4,463 crore.

The Vision

The vision of ECGC is to excel in providing export credit insurance and trade-related services.

The Mission

The mission of ECGC is "to support the Indian export industry by providing cost effective insurance and trade related services to meet the needs of the Indian export market".

2. Overview of ECGC

a. Background

i. Brief Write up on the Scheme

Substantial part of exports is done on credit terms and payments are received after a specified period of time. As such, during any such export transaction, the exporters have to face commercial risks of insolvency or protracted default of buyers. The commercial risks of a foreign buyer going bankrupt or losing his capacity to pay are

aggravated due to the political and economic uncertainties. Export credit insurance is designed to protect exporters from the consequences of the payment risks, both political and commercial, and to enable them to expand their overseas business without fear of loss. ECGC's credit insurance covers mitigate the risk for Indian exporters and making them more competitive in world trade.

ECGC also provides Export Credit Insurance to Banks (ECIB) to protect the Banks from losses on account of export credit at the Pre and Post-Shipment stage given to exporters due to the risks of insolvency and/or protracted default of the exporter borrower. The ECIB covers enable Banks to extend adequate finance to Indian exporters on liberal terms. ECGC's support to the Indian economy can be evidenced particularly during stressful times. Its support to the export industry during the Gulf war of 1991 and banking sector during the global financial meltdown in 2008 have cemented its position as a systemic institution of national importance.

The systemic role of ECGC in the context of Working Capital lending to exporters has never been more pertinent than in the present stress scenario in the banking industry. The total numbers of accounts covered were more than 19,000 during the financial year 2018-19. In all, 33 banks covering around 3000 branches had been supported in their endeavor of lending to exporters. Here again rendering to employment intensive sectors were predominantly covered.

The number of distinct exporters availing ECGC's policies as on 31st March, 2019 was 8449 and total number of policies in force was 12325 with a total Maximum Liability of ₹44,077.51 crore. More than 85% of exporters benefited are Small exporters (the exporters with export credit working capital limit up to ₹ 80 crore).

Both the above (Policy and ECIB) product covers Short Term (ST) transactions of exports. ST transactions are those where the payment against export transaction is received within 12 months from the date of exports.

Medium and Long Term (MLT/Project Exports) exports refer to export of engineering goods on deferred payment terms (credit period for

more than one year) and execution of turnkey projects and civil construction contracts abroad collectively. ECGC has issued more than 140 covers to 45 Exporters covering a business of ₹5,787 crore.

ii. Objectives

In order to further its mission, ECGC has set before itself the following objectives:

1. To encourage, facilitate external trade of India.
2. To protect the Indian exporter against unforeseen losses which may arise due to failure of the buyer, bank or problems faced by the country of the buyer through cost effective credit insurance, covers in the form of Policy and Investment Insurance services comparable to similar covers available to exporters in other countries.
3. To facilitate availability of adequate bank facilities (funded / non-funded) to the Indian exporters by providing credit surety insurance cover for the banks at competitive rates.
4. To achieve improved performance in terms of financial and operational efficiency indicators.
5. To develop world class expertise in credit insurance and ensure continuous innovation and achieve the highest customer satisfaction through delivery of quality services and
6. To create awareness among the customers by continuous publicity and promotion.

iii. Implementation Mechanism

ECGC operates Credit Insurance covers for the benefit of exporters (Policy) and Banks (ECIB – Export Credit Insurance for Banks). The schemes cover short-term (ST) as well as medium and long-term (MLT/project exports) export transactions. ECGC, headquartered at Mumbai, has 60 Branch Offices & 5 Regional Offices spread across India.

iv. **Scheme Architecture**

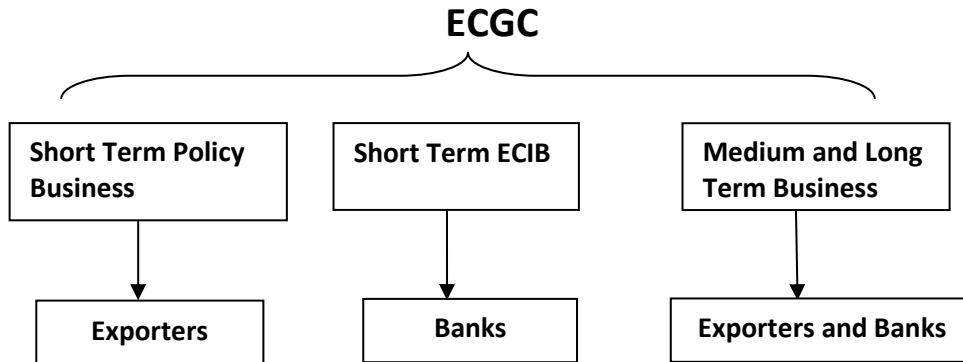


Figure - Business architecture of ECGC scheme

v. **Name of Sub-schemes** - ECGC Limited - Capitalization

vi. **Year of commencement of the scheme:** 1957

vii. **Present status with coverage of scheme:** Operational

viii. **Sustainable Development Goals served:**

1. **Promotion of India's Export:** ECGC's support to the Indian exports enables the manufacturing and service industry to compete in the International Market by providing cost effective export credit insurance backup (*reference objectives 2 &3*).
2. **Overall Economic Growth:** ECGC endeavors to support Indian Export Industry with its experience, expertise and underlying commitment to progress and advancement of India's exports thus, providing impetus to the growth of Indian economy (*reference objective 1*).
3. **Industry Innovation & Infrastructure:** ECGC is one of the few Export Credit Agencies in the world providing support to the pre and post - shipment credit by banks on short-term as well as medium and long term credit period (*reference objective 5*).

ix. **National Development Plans served**

1. **Growth:** ECGC endeavors to support Indian Export Industry with its experience, expertise and underlying commitment to progress and advancement of India's exports thus providing impetus to the growth of Indian economy, and protect/generate employment (*reference objective 1*).
2. **Technology and Innovation:** ECGC is one of the few Export Credit Agencies in the world providing support to the pre - and post - shipment credit by banks on short-term as well as medium and long term credit period.

3. **Sustainable Development:** In order to maintain the sustainable growth/development of National exports, ECGC in consultation with different Trade Bodies and Agencies, promotes credit insurance culture in India which helps in making robust growth in India's exports (*reference objective 6*).

b. Budgetary Allocations in the last five years:

| Component | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 (as on 31 st January, 2020) |
|-----------------------|---------|---------|---------|---------|--|
| Capital (₹ In crores) | 100 | 150 | *50 | *500 | *500 |

* CCEA has approved infusion of ₹2000 crore towards paid up capital in 3 years period from FY 2017-18 to FY 2019-20. So far, ₹1050 crore has been received and balance amount of ₹ 950 crore is yet to be received.

c. Summary of past evaluation

| Year of Evaluation | Agency Hired | Recommendation Accepted | Recommendation Rejected |
|--------------------|--------------|---|-------------------------|
| 2012-2017 | CRISIL | <ol style="list-style-type: none"> 1. The exporter community is wide spread across industries, with a mix of manufacturing and trading only activities. It would be appropriate for ECGC to study the specific requirement of each of these sub-sectors/segments of exporter community and customize the products accordingly. 2. To improve average recovery rate of the Company from existing 6-7% to 15-25% of International Credit Insurer, ECGC needs to adopt the international best practices to improve its share of recovery. 3. Government capital infusion will provide the much needed reinforcement to face the risks of credit insurance and at the same time support exporters and banks in growing their exports and export credit portfolio respectively. | Nil |

| | | | |
|-----------|--------|--|-----|
| 2017-2022 | CRISIL | <ol style="list-style-type: none"> 1. ECGC needs to expand its business coverage, for which there would be a requirement to increase operating expenditure for marketing and increasing outreach. 2. Taking greater/complete exposure to large buyers, beyond prudential limits, to promote exports. 3. Encourage Bank lending to small exporters by providing 100% risk cover with the help of NEIA. | Nil |
|-----------|--------|--|-----|

3. Methodology

a. Approach

Methodology adopted: ECGC operates through its 60 branch offices and 5 regional offices across different states in the country. The Head Office of the Company is situated in Mumbai, Maharashtra. The company offers Credit Insurance covers for the benefit of exporters (Policy) and banks offering export finance facilities to exporters (ECIB – Export Credit Insurance for Banks). The Company had more than 33,400 covers in force with a Maximum Liability of ₹97,871 crore as at the end of the financial year on 31.03.2019. The total Risk Value covered during the FY 2018-19 stood at ₹6,59,926 crore, being 32% of the total merchandise exports of the country during the given financial year.

The schemes cover short-term as well as medium and long-term export transactions. The business coverage under the Policy covers has historically been reflective of the growth in the overall merchandise exports of the country (refer Table 1). The business portfolio in the policy sector consisted of more than 13,400 policies in force covering a value of ₹1,98,872 crore. The major coverage has been to Europe and North America for high risk transactions like open delivery and longer credit periods. Major sectors covered were employment intensive sectors like Engineering Goods, Cotton, Textiles and Chemicals & Pharmaceuticals.

Based on the trend in the risk value of the policy business vis-à-vis the coverage of Indian exports, the growth in policy business is projected (P) at around 11% in FY2021-22.

(Amount in ₹ Cr.)

| Financial Year | ECIB Risk Value | Policy Risk Value | Indian Merchandise Exports | Policy RV / Indian Exports | ECIB RV / Indian Exports |
|----------------|-----------------|-------------------|----------------------------|----------------------------|--------------------------|
| 2016-17 | 4,48,604 | 1,72,788 | 22,73,526 | 7.60 | 19.73 |
| 2017-18 | 4,56,684 | 1,77,349 | 19,56,515 | 9.06 | 23.34 |
| 2018-19 | 4,55,267 | 1,98,872 | 23,07,726 | 8.62 | 19.73 |
| 2019-20 (P) | 5,11,000 | 2,65,000 | 23,85,000 | 11.11 | 21.43 |
| 2020-21 (P) | 5,52,000 | 3,28,000 | 26,32,000 | 12.46 | 20.97 |
| 2021-22 (P) | 6,02,000 | 3,98,000 | 29,06,000 | 13.70 | 20.72 |

Table 1 – ECGC Risk Value projection and its share in Indian Merchandise exports

Similarly, the growth trend in the ECIB sector is driven by the growth in export credit volume juxtaposed with the overall merchandise exports performance. The total numbers of accounts covered under the ECIB covers were around 20,000 active exporters covering a risk value of ₹4,55,267 crore. In all, 33 banks having a network of around 3000 branches were supported in their endeavor of export lending to exporters.

Keeping the above trend in mind along with the fact that while the growth in export credit has been muted in the recent past, green shoots are visible with the implementation of reforms in the banking sector in the recent years and as a result, a surge is foreseen in the export credit disbursement in the next five years. Accordingly, the projection of growth in risk value in the sector has been based on the synergy of the exports and export credit.

On an overall basis, the coverage of total risk value covered by the company (comprising of risk value of both Policy and ECIB covers) as a % of total merchandise exports is expected to increase from 30% during FY 2018-19 to around 40% in FY 2021-22.

- b. **Sample size, sample selection process & tools used:** The study is proposed to be conducted through mixed method. This would include a specific questionnaire circulated to a sample of exporters and bankers, not less than 10% and not exceeding 15% of total customer base of around 20,000 exporters, selected on cluster sampling method. These 60 clusters would be defined on the basis of major export centers falling under the service network of the company. Since the clusters are proposed to be selected at

random, the results could be generalized to the whole exporters. This primary data obtained would be correlated with the secondary data primarily obtained from various sources including internal data using statistical forecasting tools for the projected figures for the upcoming years.

4. Objectives of the Study

a. Performance of the scheme:

The performance of the scheme is to be assessed based on the following category of indicators including expected output as specified by Niti Aayog:

1. Output refers to the direct and measurable product of program activities, often expressed in physical terms or units.
2. Outcomes are the collective results or qualitative improvements brought about in the delivery of these services.

Please refer to Annexure 1 for the output / outcome details of ECGC for the financial year 2020-21.

b. Additional Parameters

- i. **Coverage of beneficiaries:** The beneficiaries of the ECGC schemes are the Indian exporters across all geographical locations and turnover categories.
- ii. **Implementation Mechanism:** ECGC operates Credit Insurance covers for the benefit of exporters (Policy) and banks (ECIB – Export Credit Insurance for Banks) financing the exporters. The schemes cover short-term as well as medium and long-term export transactions. ECGC, headquartered at Mumbai, has 60 Branch Offices & 5 Regional Offices spread across India.
- iii. **Training / Capacity building of administrators / facilitators:** While ECGC acts as the administrator of the scheme through its network of 65 regional and branch offices across the country, it provides various in-house and external training programs to its approximately 100 field officers, as facilitators, to guide and enable the exporters / banks to obtain and service suitable insurance cover from ECGC.
- iv. Any exporter holding a valid Import Export Code (IEC) and complying with other norms laid down by Director General of Foreign Trade (DGFT) are eligible for ECGC insurance covers. For the ECIB cover, the export finance portfolio of the banks issued to their exporter accounts are eligible. Accordingly, out of approximately 80,000 exporters in

India, around 20,000 exporters availed the services of ECGC products and services during FY 2018-19. The company strives to achieve maximum customer satisfaction owing to the huge settlement of claims to banks in order to increase its customer base. The total claims paid during the financial year 2018-19 to both banks and exporters have been at the highest ever at ₹1,013 crore. In addition, provisions of ₹5,877 crore have been set aside for future payouts. The company has targeted to increase its customer base to 21,000 by FY 2021-22.

- v. The customer base comprising of Banks (including private Banks) and exporters are made aware about ECGC products by conducting export awareness meetings with respect to training and skill development across its service network, particularly medium and small exporters for export promotion and employment generation with a view to increase share of exports in GDP. About 200 meetings were conducted across the service network of the company for this purpose during FY 2019-20.
- vi. **IEC activities:** None
- vii. **Asset / service creation & its maintenance plan:** Strengthening Indian exports by providing cost effective credit insurance to exporters and banks.
- viii. **Benefits:** ECGC contributes to the exporting community through various export promotion measures by providing cost effective export credit insurance services to the exporters against overseas nonpayment risks & banks against the export finance lending risks.
- ix. **Convergence with the scheme of own ministry:** ECGC contributes to the mandate of its parent ministry, Ministry of Commerce, by facilitating external trade from India.

c. Gaps in achievement of outcomes

ECGC currently covers around 9% of the direct exports through its Policy covers offered to exporters against non-payment risk on overseas buyers. While exact dataset is not available to assess the quantum of addressable market after excluding oil exports, LC-backed transactions and exports to subsidiaries or associate companies, around 40% of Indian exports can be potentially covered through Policy covers of the company. Annually 5500 fresh policies for the exporters have been targeted.

d. Key challenges

- i. Reduced credit disbursal by banks,
- ii. Increase in Non-Performing Assets (NPA) in the banking sector.
- iii. Slowdown in global trade.

e. Vision for the future

Road map for ECGC to increase support to 45% of India's Exports and work as a catalyst to India's ambitious target of 1 trillion exports by 2024.

f. Input Use Efficiency

- I. The Maximum Liability (ML) of the covers issued by ECGC has nearly touched around 100% of its benchmark capacity of ₹.1,00,000 crore.
- II. Capital infusion of ₹2,000 crore was approved by CCEA in ECGC during the period 2017-18 to FY2019-20.
- III. Even after considering the above capital infusion, the maximum liability in FY 22 will be around 25 times the projected net worth in FY22, posing a considerable risk on ECGC's ability to meet solvency requirements and support contingencies that will arise from the increased risk exposure. It is highlighted here that the prudent level of capital-risk ratio is 20 times only.
- IV. Hence, fresh capital is required to maintain the solvency ratio of ECGC to enable support to exports to emerging and challenging markets across the globe.

g. In addition to the above, the following points are to be evaluated by the agency:

- 1) Evaluate the support given by ECGC to exporters and a milestone based road map for further increasing the market share.
- 2) Evaluate the existing ECGC business proposition with similar international business models with at least 5 international peers of similar capacity as ECGC.
- 3) Evaluate the issue of dividend payment by ECGC.

A similar exercise was done during the year 2012-13 and 2017-18. The evaluation was done by CRISIL Limited for the XI plan to XII plan. In the same context, it is proposed to call for quotes for this evaluation from reputed agencies that are having satisfactory/sufficient experience on similar activities.

Timeline

The report has to be submitted by the agency within six weeks from the date of appointment.