

STUDY TOUR REPORT NO. 22

C.P.U.No. 845

COMMITTEE ON PUBLIC UNDERTAKINGS

(2001-2002)

(THIRTEENTH LOK SABHA)

STUDY TOUR REPORT

ON

**EXPORT CREDIT GUARANTEE CORPORATION OF
INDIA LIMITED**

Laid in the Lok Sabha on 19.12.2001

Laid in the Rajya Sabha on 19.12.2001

LOK SABHA SECRETARIAT

NEW DELHI

December, 2001 / Agrahayana 1923(S)

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COMPOSITION OF COMMITTEE ON PUBLIC UNDERTAKINGS
(2001-2002)

CHAIRMAN

Prof. Vijay Kumar Malhotra

MEMBERS

LOK SABHA

2. Shri Prasanna Acharya
3. Shri Mani Shankar Aiyar
4. Prof. S.P.Singh Baghel
5. Shri Sudip Bandyopadhyay
6. Shri Ram Tahal Chaudhary
7. Shri Ajay Singh Chautala
8. Shri Shiv Raj Singh Chauhan
9. Shrimati Sangeeta Kumari Singh Deo
10. Shri C.K. Jaffer Sharief
11. Shri K E Krishnamurthy
12. Shri Vilas Muttemwar
- *13. Shri C.P.Radhakrishnan
14. Shri Tarit Baran Topdar
15. Shri Dinesh Chandra Yadav

RAJYA SABHA

16. Shri Suresh Kalmadi
17. Shri K. Kalavenkata Rao
18. Shri Jibon Roy
19. Shri B.P.Singhal
20. Smt. Ambika Soni
21. Shri C.P.Thirunavukkarasu
22. Shri Ranjan Prasad Yadav

SECRETARIAT

1. Shri John Joseph. Additional Secretary
2. Shri S. Bal Shekar, Director
3. Shri Raj Kumar, Under Secretary
4. Shri Tirthankar Dae, Sr. Executive Assistant

* Elected w.e.f 29th November, 2001 vice Shri Rajiv Pratap Rudy ceased to be Member of the Committee consequent upon his appointment as Minister w.e.f 01.9.2001.

INTRODUCTION

In pursuance of the procedure adopted under Rule 281 of the Rules of Procedure and Conduct of Business for laying the Study Tour Reports on the Tables of both the Houses of Parliament, I, Chairman, Committee on Public Undertakings have been authorised by the Committee to lay the Study Tour Report on their behalf, lay the Study Tour Report of the Committee on their discussions with the officials of Export Credit Guarantee Corporation of India Ltd. (ECGC).

2. The Committee held discussions with the officials at Pune on 4.6.2001. A copy of the tour programme is annexed (Annexure-I).
3. The Committee considered and approved the Report at their sitting held on 18th December, 2001.
4. The Committee wish to express their thanks to ECGC for providing facilities during the visit of the Committee and for supplying necessary material and information required in connection with the Study Tour.
5. They would also like to place on record their sense of appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

New Delhi
18 December, 2001
27 Agrahayana, 1923(S)

PROF. VIJAY KUMAR MALHOTRA
CHAIRMAN
COMMITTEE ON PUBLIC UNDERTAKINGS

**STUDY TOUR NOTES OF THE COMMITTEE
ON PUBLIC UNDERTAKINGS**

**Discussion with the officials of Export Credit Guarantee
Corporation of India Limited on 04.08.2004 at Pune**

A INTRODUCTORY

At the outset, the Convenor, Committee on Public Undertakings made opening remarks and then requested the Chairman & Managing Director, Export Credit Guarantee Corporation of India (ECGC) to introduce himself and his colleagues to the Committee. The Convenor, COPU also requested him to give a brief account of the working of ECGC.

2 After introduction of officials of the company, the CMD, ECGC informed the Committee that the Export Credit Guarantee Corporation of India Ltd. (ECGC), known until 1983 as Export Risks Insurance Corporation (ERIC), was set up by the Government of India in the year 1957 to provide export credit insurance facilities. On commencing operations, ERIC offered standard policies to Indian exporters which provided credit insurance to Indian exporters as envisaged in the Kapoor Committee Report. In 1959, it introduced specific policies to cover specific large value transactions on medium and long term credits. It diversified into Guarantee business in 1980 when it introduced the packing credit guarantee to cover the advances granted by banks to Indian exporters at the pre-shipment stage. In order to bring its name in line with the diversification in business, the name was changed to Export Credit and Guarantee Corporation Ltd. in 1984. Subsequently, cover for medium/long

term exports was introduced in the form of construction works policy. Special schemes to cover banks and financial institutions against the risks of granting finance to the buyer through buyers' credit and line of credit were introduced in 1976. Subsequently, in 1978, the overseas investment insurance cover was introduced to protect investments made overseas in the form of equity and/or loans by Indian investors. The name of the Corporation was changed to Export Credit Guarantee Corporation of India Ltd. in 1983 to bring the identity of the organisation into a sharper focus among the international credit and investment insurers.

It was also informed by the CMD, ECGC that the Corporation had prepared a Corporate Plan for 9th Plan period i.e. 1997-98 to 2001-2002. Action had also been initiated to prepare the Corporate Plan and marketing plan for the five year period from 2002-2003 to 2006-2007.

The CMD also informed that currently, the objectives before ECGC in terms of financial achievement and efficiency factors were being followed up by those set out in the Memorandum of Understanding (MOU) for the year 2001-2002 signed with the Government.

B. ROLE AND OBJECTIVE

3. ECGC has been endowed with the mission of supporting "the Indian export industry by providing cost effective insurance and trade related services to meet the needs for the Indian export market". To this effect, the objectives the Corporation has set for itself, inter-alia, include, encouraging, facilitating

and developing trade between India and other countries, providing adequate export insurance cover comparable to similar covers available to exporters in other countries, providing the Indian Banks with export credit guarantees, providing investment insurance to Indian investors undertaking investments in foreign countries, and introducing new product lines so as to diversify into trade related services.

4. When asked about the major achievements made by the Corporation in the past few decades in meeting the objectives of providing the nation's export trade and providing insurance cover to the export market, ECGC informed the Committee as follows :

- (i) " ECGC's cover has been major factor which made it possible for Indian exporters to maintain their foothold in certain "difficult" countries which have been facing serious balance of payment problems over the years. These countries which have been traditional markets for India's exports would have been lost but for the cover provided by ECGC. ECGC had to pay heavy claims but the markets have been preserved for the future benefits of Indian export trade. Over Rs.570 crore have been blocked in Iraq, Uganda, Sudan, Angola, Cuba, Tanzannia, Mozambique, Zambia, Sierra Leone, Vietnam, Nicaragua, Ethiopia, Seychelles and few other countries due to transfer delays.
- (ii) Almost the entire export finance granted to Indian exporters by banks in India is supported by ECGC Guarantee cover. But introducing its innovative schemes of bank guarantees for advances made to exporters at the pre-shipment stages, it has been made possible for banks to grant facilities on easier terms than what would have been possible on their own. All the banks (nationalised, private sector and foreign) barring a few are availing of ECGC pre-shipment guarantee.
- (iii) While export finance guaranteed by ECGC is available for almost 100% of the exports, only a part of the actual exports are covered under the credit insurance policy of the Corporation for various reasons. The total value of exports for which ECGC provided cover under policies has been steadily increasing over the years. The total value of exports covered has grown from Rs.9066 crore in 1991-92 to Rs. 24692 crore in 2000-

2001 (P). The percentage of exports covered in 2000-2001(P) is 12%. A large percentage of exports like exports of minerals and oil, export of gems and jewellery mainly to associates or family members, exports under confirmed letters of credit, etc., fall outside the purview of credit insurance. No reliable estimate could be made about the percentage of such exports. However, it is estimated that about 40% of Indian exports only come under the insurable category.

(iv) Project exports which started in the late seventies owe their existence very much to ECGC's policies and guarantees. It was largely because of the cover provided by ECGC that our banks were able to provide the necessary financial support to Indian contractors.'

5. On the question of organisational restructuring, finance etc., the Committee have been informed that in view of the onset of globalisation and liberalisation of the Indian economy, ECGC felt the need to search for new strategies to work effectively in the changed business environment. In this context ECGC commissioned the services of an international management consultant namely, M/s. Coopers and Lybrand in March, 1997 to study its entire business operations and to equip itself to face the future challenges. The consultant submitted final recommendations in December, 1997. As recommended, the organisational structure was changed from a product-oriented one to a customer-oriented one. On the basis of the recommendations made by the Consultant, the corporation took steps for streamlining its core business process to achieve enhanced operational efficiency and improve customer satisfaction.

6. When enquired about the implementation of recommendations suggested by the Consultant, the Committee have been informed as under :-

*In terms of the recommendations of the Consultant, the new business strategy envisaged by the Corporation is wider, with a sharper focus on

customers and intensive use of information technology. The Consultant's recommendations included streamlining of Corporation's core business processes to achieve enhanced operational efficiencies and improved customer satisfaction, introduction of new products and adaptation of the existing products to meet the specific needs and requirements of the market, rationalisation of available manpower resources for its optimum utilisation, upgrading of delivery interfaces through expansion of branch network and by introduction of other delivery channels including the electronic medium, diversification into such business activities that could generate synergy with the core business of the Corporation.

Out of the various recommendations made by the management consultant, ECGC had identified 239 for implementation. Of these, 192 recommendations have been implemented. The implementation of the remaining 47 recommendations which require a longer time frame for implementation and those related to information technology are in progress."

7. When the Committee desired to know whether IRDA will have any impact on ECGC, the Company informed as follows -

"ECGC has taken a decision to seek registration with IRDA as a non-life insurance company. The registration with IRDA is going to have a significant impact on the Corporation and its operations, especially in the matter of application of actuarial principles to its accounting practices - the requirement of maintaining solvency margins, income recognition, provisions to be made for incurred claims and claims incurred-but-not-reported (IBNR), etc."

C. BOARD OF DIRECTORS

8. The composition of the Board of Directors of ECGC is given below :

"The Chairman/CMD of the Board shall be appointed by the President of India.

Besides the Chairman/CMD, the Board shall have not less than 3 and not more than 13 part-time Directors, all to be appointed by the President, as follows :

- 3 Government Directors (Ministry of Commerce, Ministry of Finance and RBI);
- 1 Chairman of GIC;

- 1 Chairman/CMD of Exim Bank,
- 2 CMDs of public sector banks;
- 1 President of Federation of Indian Exporters Organisation;
- 1 Chairman of any one of the Export Promotion Councils' ; and
- 4 to be nominated by the Government from among persons connected with exports (exporters).

9. It has been informed to the Committee that the Board of Directors has adequate powers to deal with operational matters and other issues relating to functioning of the Corporation. The powers delegated to the CMD and other senior officers of the Corporation are reviewed by the Board from time to time. It has also been informed that four posts in the Board of Directors representing RBI, EXIM Bank, FIEO and EPC have been vacant.

10. When the Committee enquired to know since when these four posts have been vacant, the Committee have been informed as under :

RBI	vacant since 01.03.2001
Exim Bank	- vacant since 01.05.2001
FIEO	vacant since 22.02.2001
EPC	- vacant since 22.03.2001

It has also been informed to the Committee that the proposals for filling up the first three posts have been submitted to the Ministry of Commerce. Regarding the fourth post, information of the term, etc., of the current Chairman of various EPCs are being collected to prepare our proposal. The proposal in this regard will be submitted within two weeks.

D. POLICIES/SCHEMES

11. The various policies/schemes presently offered by ECGC include:- Standard Policies relating to shipments viz. Comprehensive Risks Policy and Political Risks Policy, Small Exporters Policy, Contract Policies viz. Comprehensive Risks Policy and Political Risks Policy; Specific policies mainly for non-repetitive transactions; Exchange Fluctuation Risk Scheme; and Financial Guarantees.

12. Detailing the salient features of various insurance policies/schemes, ECGC stated the following in a written reply :

“1. Shipments Comprehensive Risk Policy

1. All the shipments made by the exporter during the policy period are to be covered under the policy. Exporter may exercise his option to include or exclude shipments made against Letters of Credit, shipments to associates and shipments on consignment basis to his own agent.
2. Policy covers commercial risks, namely insolvency and default of the foreign buyer and political risks, namely, war, exchange transfer delays, ban on imports etc.,
3. For covering commercial risks, availability of credit limit on the buyer should be ensured before making shipments. Application for this purpose should be made on Form No.144 at least 3 weeks prior to the date of shipment.
4. Countries facing problems due to political risks, are placed in restricted cover. Exporters are informed about the status of these countries from time to time. For covering exports to these countries specific approval has to be taken from ECGC.
5. All shipments made during a month should be declared to ECGC alongwith premium by 15th of next month (e.g. January shipments by 15th February).

6. If payment is not received within 30 days from due date, ECGC should be informed immediately.
7. The policy is issued for a period of 24 months. To continue the cover, exporter should submit renewal proposal in time.

II. Small Exporters Policy :

1. The policy is issued for a period of 12 months.
2. Shipment needs to be declared on quarterly basis.
3. Declarations are to be submitted every month for all payments remaining overdue by more than 60 days from the due date.
4. Normal percentage of cover is 95% where the loss is due to commercial risks and 100% of the loss is covered by way of the political risks.
5. The normal waiting period for claims is two months under the policy.

III. Specific Policies :

1. Contract for exports for capital goods on turnkey projects or construction works rendering services abroad are covered on a case to case basis under Specific policies.
2. ECGC has evolved a scheme of Buyers' Credit and Line of Credit to cover lending banks from certain risks of non-payment.
3. Exports of services such as technical or professional services can seek cover under ECGC's services policies.
4. Construction works policy is designed to provide cover to an Indian contractor who executes a civil construction abroad

IV. Guarantees to Bank :

ECGC has various types of guarantees in order to cover the various facilities offered by banks to the exporters.

1. Banks are offered Packing credit Guarantee to cover the packing credit advances granted to its customer. Banks can choose either an Individual Packing Credit Guarantee (IPCG) to cover only those accounts for which they desire cover or a Whole Turnover Packing Credit Guarantee (WRPCG) which covers the packing credit advances granted to all its customers

2. Similarly, Banks can choose either Individual Post Shipment Finance Guarantee (IPSG) or a Whole Turnover Post Shipment Finance Guarantee (WTPSG) to cover its financing at post shipment stage against foreign bills.
3. To cover banks who may be required to furnish performance guarantees on behalf of its exporter clients, Export Performance Guarantee (EPG) is offered

The whole turnover guarantee issued to banks to cover the advances given to its exporter clients is subject to certain exclusions. Under these guarantees, for covering accounts classified by the bank as health code 1 or as standard asset, a notification about sanctioning of the limit has to be sent within 30 days of sanction.

For covering accounts with health code 2 or substandard, a discretionary limit is fixed and banks can grant advances up to this limit by notifying the limit sanctioned.

In respect of accounts beyond discretionary limit, prior approval of ECGC has to be obtained.

For covering advances with health code 3 or above or 'assets classification doubtful' or 'inuring' prior approval of ECGC is necessary. Further, ECGC is maintaining a Specific Approval List (SAL) containing names and addresses of the exporters to whom advances under the guarantees have been granted by a bank which can be covered only if the Corporation has given its approval in writing. The list provided to banks is an important source of information for identifying exporters who have defaulted. The list is mainly aimed at advising banks to exercise caution while dealing with such exporters. The bank is expected to inform the Corporation as soon as it comes to know that

- a) An exporter is in financial difficulties; and/or
- b) There have been certain changes in the circumstances which have a bearing on the risks insured.

The bank must take all such steps that are required to prevent or minimise losses, including if necessary, the institution of legal proceedings against the exporter. The bank is expected to realise all the securities that were obtained from the exporter while giving the packing credit advances. If a claim is paid by the Corporation under any of the guarantees, the bank must take all necessary steps to recover the

advance from the exporter and/guarantor or from any other sources from where such recoveries may be effected.

V. Special Schemes :

- a) Overseas investment insurance scheme has been designed to provide protection for Indian investments abroad.
- b) Exchange fluctuation risk cover has been designed to protect the deferred payments to be received in foreign currency which are open to exchange fluctuation risks.

The experience under the short term policy and short term guarantee schemes have been satisfactory. The long term covers, by and large, have not proved to be profitable mainly because of the claims arising out of the Gulf war. Since inception ECGC has earned a premium income of Rs.2448.38 crore and paid claims worth Rs 2140.77 crore, while the recoveries effected are Rs.385.02 crore.

The global experience with regard to insurance schemes for export has been somewhat similar to our experience in the sense that when there is a major crises like Gulf war, substantial payments are to made "

13. It has also been informed by ECGC that the Company has plans to complement its present set of standardised products with customer – specific products involving product exclusion, customer exclusion, terms of payment exclusion etc

14. When asked about the new products/schemes introduced/planned to be introduced by ECGC, it has been informed that the Company has introduced the following modifications in its existing schemes in order to make it more suitable to the needs of its customers:

- a) Enhancement in 'no claim bonus' from the existing 30% to 40% in stages of 5% and the procedure for withdrawals of the 'no claim bonus' on payment of claims has been modified.
- b) Small exporters policy has been revised raising the limit from Rs.25 lacs to Rs.50 lacs.
- c) Board of Directors have approved the modification of cover on associates which is now awaiting Government clearance.
- d) To bring large exporters and to retain them under its fold, ECGC has made modifications in its standard policy. Exclusion of commodities from its cover provided the business offered is sizeable has been permitted and a special discount in premium based on either the premium paid or volume of business offered has also been provided.
- e) Option has been given to gem and jewellery exporters to exclude their gem exports and cover only jewellery exports on whole turnover basis under its short-term policies issued to exporters.

15. ECGC has also taken some steps to enter new areas of business. It has tied-up with M/s. Dun & Bradstreet India Ltd. (D&B) to make forays into the business of information selling. Under its alliance with D&B, the Corporation, makes available D&B products to exporters through its branch network. It has also jointly launched a website (www.indianexportregister.com) with D&B to provide information on Indian exporters and their products and to provide registration for credit information, credit insurance and debt collection services from ECGC and D & B.

ECGC has also gained admission to the 'Credit Alliance' promoted by COFACE of France. Credit Alliance provides various services to its members, like credit information services, underwriting, marketing and debt collection services etc. ECGC is examining the possibility of expanding to related areas of business like export factoring, etc.

16. On being asked about the problems being faced by ECGC in covering any of the nation's export products under the insurance covers/schemes,

ECGC has stated the following :

"ECGC has experienced difficulties in covering certain commodities such as software exports, gem & jewellery exports and in offering cover for large value exports which are of national importance. The share of gem & jewellery exports in the total exports from the country has been increasing over the years. However, due to the peculiar nature of this trade, the business covered by ECGC under its policies has been low even though export finance to this sector is fully guaranteed by the Corporation.

There are certain export transactions of large value which are of national importance. But due to the nature of credit risks involved, these are beyond the capacity of the credit insurance system. World over, promotion of exports in national interest is done by providing credit insurance on National Account by various governments when Export Credit Agencies (ECAs) find it difficult to provide cover. The Corporation has taken up with the Government of India the setting up of National Insurance Account to support such transactions."

D FINANCIAL MATTERS

17. The details of the surplus/deficit on cash basis for the last ten years (1991-92 to 2000-2001) in various schemes is given below :

(RS. IN CRORE)

Year	Premium income		Claims		Recoveries		Surplus/(Deficit)	
	Policy	Gtee	Policy	Gtee	Policy	Gtee	Policy	Gtee
1991-92	37.17	52.35	53.46	51.89	32.54	2.21	18.24	2.67
1992-93	42.49	62.81	63.65	41.49	16.71	2.37	(4.45)	23.49
1993-94	53.08	81.51	112.23	81.33	10.61	26.96	(47.44)	27.14
1994-95	60.95	103.89	159.86	67.66	20.70	31.82	(78.21)	68.15
1995-96	74.26	133.08	127.83	93.24	6.52	40.85	(46.85)	80.89
1996-97	85.35	151.81	97.01	106.02	2.31	27.33	(9.35)	72.92
1997-98	87.98	177.18	81.89	183.87	5.00	15.45	41.09	8.76
1998-99	98.51	188.19	40.36	80.72	1.61	5.81	59.78	123.28
1999-00	100.58	206.19	29.42	105.00	7.02	16.26	76.18	117.45
2000-01(P)	105.00	225.00	38.23	178.30	4.03	12.19	72.80	60.80

Figure in bracket shows deficit.

18. Detailing the factors responsible for increase/decrease in profit/loss,

ECGC stated the following:

"The premium income under both policies and guarantees has been registering a steady growth. The guarantee scheme has shown a surplus in all the years between 1991-1992 to 2000-2001 (P). However, the policy schemes have registered deficits in the years 1992-93, 1993-94, 1994-95, 1995-96 and 1996-97. The main reason is on account of large value claims paid on account of Iraq. In 1992-93, Rs. 41.13 crore. Claim was paid under long term policies, of which Iraq accounted for as much as 67% of the claims paid. In 1993-94, claims amounting to Rs. 45.44 crore was paid under short term policy, mainly on account of exports to Angola as a result of civil war. In the years 1994-95, 1995-96 and 1996-97, the Corporation had paid claims amounting to Rs. 146.47 crore, Rs. 106.97 crore, Rs. 54.44 crore respectively on account of Iraq under the long term policies. In addition to the above it may also be noted that the recoveries made have been varying from year to year, especially on account of recovery of blocked funds due to transfer delay.

19. The Committee have been informed that ECGC suffered a major setback in the early nineties mainly due to payment of certain high value claims on account of Iraqi projects and that the credit accumulated since then has been cleared in the last ten/eleven years.

20 In this regard, when the Committee wanted to know the total amount of claims paid to exporters/banks on account of Iraqi projects and the steps taken by the corporation to recover the claim amounts, the Company informed as follows :

The total amount of claims paid to exporters/banks on account of Iraqi projects stood at Rs. 785 crore. Currently, ECGC has not recovered any amounts of claims paid on Iraq. The repayments may be forthcoming only after the UN Sanctions are lifted.

The Corporation has been making efforts to recover the amounts of blocked funds in various countries through various measures. These efforts include debt collection arrangements, investment route, bilateral negotiations etc. It has been receiving support from the Government of India and Indian Missions in the countries where the funds are blocked.

21. The performance of the Corporation in achieving the targetted 'risk value', collection of premium and recovery of the claim amounts paid in the last ten years from 1991-92 to 2000-2001 is detailed in the table below:

(Rs. In crores)

Year	Risk value covered		Premium collected		Claims paid	Recovery made
	Target	Ach	Target	Ach		
1991-92	62095	55027	104.36	88.51	105.35	34.75
1992-93	82118	88095	102.25	105.10	105.14	18.08
1993-94	112998	88950	125.54	135.49	193.59	37.77
1994-95	137488	118929	151.87	264.84	227.52	52.62
1995-96	144754	130118	207.83	207.34	220.87	47.37
1996-97	157000	161554	280.00	235.98	203.03	29.84
1997-98	186000	189564	340.00	285.18	235.76	20.45
1998-99	187500	189731	287.00	295.70	121.05	7.42
1999-00	201480	173536	318.00	305.77	134.42	23.28
2000-01(P)	187000	185882	343.00	330.00	212.53	18.22

It is observed from the table that in the last ten years, ECGC has been unable to achieve the annual targets set for coverage of risk value as well as collection of premium amounts. Further, recovery of the claim amounts paid by

the Corporation in each of the last ten years has been very meagre which does not auger well for the financial strength of the Corporation.

22. When enquired about the reasons for shortfall in achieving the targets the Corporation informed the Committee as under :

*ECGC has achieved the target with respect to premium income in the years 1992-93, 1993-94, 1994-95, 1995-96 and 1996-99. However, in the remaining years ECGC had achieved the target in the range of 88% to 95% except for 1997-98. ECGC had set high targets, with the intention being that the attempt to reach such targets would ensure constant and appreciable growth rates in the achievement each year, inspite of the constantly escalating base. In the years 1991-92, 1996-97, 1997-98, 1999-2000 and 2000-01 (P), while the targets have not been achieved, it may be observed that the growth rate in actual performances have been in the order of 43.26%, 14.28%, 11.90%, 11.89%, 3.39% and 7.6% respectively. Further, there are constraints in the growth of its business due to factors such as

- (i) Exports against advance payment and confirmed L/C are beyond the purview of our cover;
- (ii) Covering L/C shipment under policy is optional for exporters,
- (iii) Shipments to associates, consignments etc. are selectively covered;
- (iv) Software, Gem and Jewellery are beyond the purview of cover of ECGC, and
- (v) Exports to Restricted Cover Countries are selectively covered

ECGC has adopted a multi-pronged strategy in its concerted effort to substantially increase the business. It is taking all possible steps to further attract greater number of large exporters into its fold modifying the current schemes to suit the needs of large exporters. Also, through regular seminars, meetings, personalised service and customers based market segmentation, ECGC is reaching out to more and more exporters.

The Corporation's experience in the area of recovery of commercial claims paid has not been very good. In order to speed up the recovery of claims under policies, an ABC analysis of commercial

claims have been carried out and assistance of the Debt Collection Agencies (DCA) have been sought. Policyholders have also been advised to initiate steps for recovery at default stage itself through DCA. In case of Political Risk claims, ECGC is exploring all possible ways to effect the recoveries, directly or in association with the GOI and through the diplomatic channels, through debt collection arrangement, re-scheduling of dues, through commodity routes and outright sale. Under guarantees, ECGC is vigorously following with the concerned banks and is persuading them to take action to speed up the recovery particularly for 'A' category cases, when the recovery chances are high (due to availability of security). It also encourages speedy processing of compromise requests received from the clients.

Through its vigorous efforts, Corporation has been able to effect recoveries in Angola, Tanzania, Vietnam, etc. in respect of Blocked Funds due to Transfer Delays amounting to Rs. 8.65 crore, Rs. 35 crore and Rs. 9.52 crore respectively."

23. About the modalities on the basis of which ECGC rates the foreign countries/buyers of export products for providing insurance cover to the exporters, the Company stated the following:

"ECGC has adopted a seven fold classification (A1, A2, B1, B2, C1, C2, D) of countries based on an objective scoring methodology. To classify a particular country in a group for determining the premium rates, the following factors are considered viz. Economic risk rating, political risk rating, experience of ECGC, economic and political relations with India and experience with other credit insurers.

Under the guarantees issued to the banks, ECGC also adheres to the system of classification of accounts under the Asset classification system as per the RBI guidelines. Under these guarantees, for covering accounts classified by the bank as health code 1 or as standard asset, a notification about sanctioning of the limit has to be sent within 30 days of sanction.

For covering accounts with health code 2 or substandard, a discretionary limit is fixed and banks can grant advances up to this limit by notifying the limit sanctioned. In respect of accounts beyond discretionary limit prior approval of ECGC has to be obtained.

For covering advances with health code 3 or above or 'assets classification doubtful' or 'nursing', prior approval of ECGC is necessary.

Banks are also required to seek the prior approval of the Corporation for granting advances to an exporter whose name is on the 'Specific Approval List' (SAL) of the Corporation."

24. The details of ECGC's coverage of the Country's exports is given below:

YEAR	(Rs. in crore)		
	TOTAL EXPORTS	EXPORT INSURED BY ECGC	PERCENTAGE OF INSURED EXPORT TO TOTAL EXPORT
1996-97	117925.00	20348.00	17%
1997-98	129285.00	20286.00	16%
1998-99	141604.00	22872.00	16%
1999-2000	162025.00	24708.00	15%
2000-2001 (PROV)	201674.00	24882.00	12%

25. It has been informed that the guarantees extended by the Corporation for export finance, cover practically 100% of the exports.

Presently, ECGC is the only organisation in India which provides export credit insurance and guarantee facilities.

26. When enquired about the action initiated by the corporation on defaulted exporters/policyholders, the Company informed as under :

"ECGC maintains a Specific Approval List (SAL) which contains names and addresses of the exporters who have defaulted to banks under the Guarantees issued to them. The list is mainly aimed at advising banks to exercise caution while dealing with such exporters. Advances granted to exporters who appear on the Specific Approval List are only covered by the Corporation under its guarantees provided the Banks have sought the prior approval in writing from the Corporation for granting such advances."

D. INVESTMENT OPERATIONS :

27. The Committee have been informed that the income generated by ECGC through collection of premium as well as income from investments are applied mainly for settlement of claims and ploughing back new investments, apart from meeting its requirements for administrative expenses. ECGC had been following the safest course of investments till date. The investments of ECGC are presently in the form of Term Deposits and Certificate of Deposit with banks and financial institutions and a small amount has been invested in UTI's US-64.

28. Details of interest earned on investments and rate of return during the last 3 years are given below :

(Rs. In crore)

	As on 31.3.1999	As on 31.3.2000	As on 31.3.2001
Term Deposit	248.40	669.45	1129.95
Certificate of Deposit	594.29	481.80	301.77
US-64	67.25	67.25	67.25
Total	907.94	1218.50	1498.97

Income Earned	81.80	120.77	149.75
Return on Investment (ROI)	10.56%	11.30%	11.34%

F Liability Underwriting

29. Presently, ECGC's capital base is Rs. 340.00 crore and the maximum liability is Rs. 40,000 crore. The maximum liability (ML) of the Corporation is the sum total of the ML of all the credit insurance policies issued to the exporters plus the ML of all the guarantees issued to the banks. It is envisaged that the maximum liability is likely to grow with the growth in exports and advances granted by the banks. A study by the National Council of Applied Economic

Research (NCAER) had recommended that the capital should be about 2% of the maximum liability. The Government of India, having appreciated the matter, had agreed to increase the capital base in stages to Rs. 500 crore by the end of the ninth plan period. It has agreed to provide a further sum of Rs. 50 crore towards the capital of ECGC i.e. from the present level of Rs. 340 crore to Rs. 390 crore during 2001-2002.

G. AUDIT OBSERVATIONS:

30. The C&AG in its Report (No. 3 of 2001) had observed that ECGC suffered a loss of premium of Rs. 1.04 crore owing to the decision to retrospectively extend the benefit of reduced premium for the Line of Credit (LOC) for US \$ 10 million issued by Exim Bank to the Government of Ghana on account of up-gradation of the country rating of Ghana from Group 'D' (high risk-premium rate 8.64%) to Group 'C' (premium rate 6.05%). The C&AG also pointed out that the decision to charge reduced rate of premium on account of the revision of the country categorisation of Ghana, which went against the consistent policy of the company was prompted due to pressure from the Ministry of Commerce, Indian High Commissioner to Ghana, Exim bank and the sole exporter under the LOC viz. Mohan Export (India) Limited

31. When the Committee wanted to know the factual position in the matter, ECGC stated the following facts:-

Exim Bank had sought cover from ECGC for the LOC extended to Government of Ghana for an amount of US \$10 million. The Corporation had agreed in the month of June, 1995 to cover the same and had

quoted the premium at 8.64% as applicable to Group 'D' countries (as Ghana was in Group 'D' at that point of time)

Exim Bank and M/s. Mohan Exports India Limited (MEL) had represented to the Corporation that the rate of premium quoted by ECGC was too high and exports were becoming uncompetitive and they had sought reduction in premium rate. The matter was examined and the exporter was advised that reduction in premium rate was not possible. MEL had also referred the matter to the Ministry of Commerce, Govt. of India.

On the basis of review of the countries undertaken during September, 1995 and in consultation with FIEO, exporters and Government of India, 18 countries were upgraded. Ghana was among the 19 countries. It was upgraded to Group 'C' with effect from November, 1995.

Consequent upon up-gradation of Ghana a request was made by Exim Bank and MEL in December 1995 that the Corporation should consider giving benefit of up-gradation in Ghana to Group 'C' so that the incidence of premium on LOC, is reduced and the exports could take place. Though the agreement between Exim Bank and GOG was signed on 14.06.1995, there had been no disbursement under the LOC till then.

The Corporation had in February, 1996 received a reference from the Ministry of Commerce seeking our comments on the issues raised by the High Commissioner of India in Ghana (HCI). The Corporation had, after examining the issues raised by High Commission of India (HCI) had given its specific comments to the MOC that the reduction in premium as sought by HCI was not possible.

The Corporation had received the two directions from the GOI as under

- (i) GOI had vide their letter dated March 13, 1996 given direction that as a special case the premium rate charged by ECGC should be at the rate applicable to Group 'B' countries (in spite of Ghana being in Group 'C' at that time) for LOC. GOI had desired that necessary action in the matter be taken expeditiously and the action so taken be intimated to the GOI.
- (ii) While the implications that would arise if the direction of GOI was implemented were being examined, the Corporation received another direction from the GOI vide their letter dated March 18, 1996 that:

- (a) Direction conveyed earlier in the matter be kept in abeyance and
 - (b) The matter be thoroughly examined for placing before the Board of Directors in their meeting scheduled on March 22, 1996 or thereafter.
- (iii) A comprehensive proposal on the subject may be forwarded to the GOI for their consideration.

On March 22, 1996, at the meeting of the Board of Directors the matter regarding requests viz

- (a) Exim Bank's request for giving the benefit of retrospective effect to Group 'C' ; and
- (b) Direction of GOI for further concession of giving the benefit of premium being charged at the rates applicable to Group 'B' countries was examined and the implications were deliberated upon.

After giving due weightage to the increasing trade between Ghana over the years and also to promote exports, after perception and due assessment of the risk and on considering the fact that no disbursement under LOC in question had taken place, a view emerged that while reduction in premium rate was not possible, logically it would be in order to give the benefit of up-gradation in Ghana (from Group 'D' to Group 'C') for the LOC. It was agreed to extend the benefit of up-gradation of Ghana to the cover issued by the corporation in respect of the said LOC which entailed reduction in the amount of premium by Rs. 1.04 crore.

Further concession of giving the benefit of premium rates applicable for 'B' Group countries was not agreed, as it was felt by the Board of Directors that granting of such a concession to a single transaction without laying down any objective criteria would not be proper especially when the benefit of such concession went to a single exporter apart from the consequential loss of premium."

**RECOMMENDATIONS/OBSERVATIONS
OF THE COMMITTEE**

RECOMMENDATION NO. 1

**NEED FOR URGENT IMPLEMENTATION OF THE
REMAINING RECOMMENDATIONS OF THE CONSULTANT**

The Committee note that ECGC is entrusted with the mission of supporting the Indian Export Industry by providing cost-effective insurance and trade related services to meet the needs for the Indian Export Market. They also note that with the onset of globalisation and liberalisation of the Indian Economy, ECGC is likely to face competition in future from other players entering into the business of export credit insurance. The Committee note that ECGC commissioned the services of an international management consultant to study its entire business operations to equip itself to face the future challenges. They were informed that out of a number of recommendations made by the management consultant, ECGC had identified 239 recommendations for implementation and of these, 192 have so far been implemented. The Committee are firmly of the opinion that ECGC should take all necessary steps to gear itself adequately to face the new challenges. They, therefore, recommend that urgent steps should be taken for

implementing the remaining 47 recommendations so that the Company is able to adopt new strategies to work effectively in the changed business environment

RECOMMENDATION NO. 2

APPOINTMENTS TO BOARD LEVEL POSTS IN ECGC

The Committee note that four posts in the Board of Directors representing FIEO, RBI, EPC and EXIM Bank have been vacant from the early part of this year. The Committee earnestly feel that at the present juncture, the company needs the experience and expertise of professionals who can steer the company in the desired direction. They, therefore, recommend that the Government should appoint such professionals in the Company's Board of Directors representing various organisations without any further delay so that the Company can utilise their accumulated wisdom for rejuvenating it at this critical juncture. The Committee also wish to be informed of the action taken in this regard.

RECOMMENDATION NO. 3

NEED FOR SETTING UP OF NATIONAL INSURANCE ACCOUNT FOR PROMOTION OF EXPORTS

The Committee note that ECGC has transformed itself from a single-product organisation to a multi-product organisation so as to cater to the requirements of a large number of customers and to give a fillip to its business. They also note that ECGC has diversified into new areas of business allied with its core business of credit insurance like export factoring, information services, etc. However, the Committee note there are certain export transactions of large value which are of national importance that could not be provided credit insurance by ECGC, in view of the nature and extent of credit risks involved. These transactions of national importance are actually beyond the capacity of the credit insurance system in the country. They have come to understand that world over, promotion of exports in national interest is done by providing credit insurance on National Account by various Governments, when Export Credit Agencies (ECAs) find it difficult to provide cover. The Committee, therefore, urge the Government of India to take immediate steps towards setting up the required

National Insurance Account to support such transactions under intimation to this Committee. They earnestly feel that such a step will definitely help in the promotion of exports which are of national importance.

RECOMMENDATION NO. 4

NEED FOR MAKING EFFORTS FOR RECOVERING THE BALANCE AMOUNT

The Committee note that although ECGC is generally able to meet its financial obligations and also generate reasonable profit from its premium income and recoveries play a significant role in strengthening its financial base.

The Committee have been given to understand that the amount estimated as recoverable out of the claims paid by ECGC so far is around Rs. 87 crore and annually ECGC recovers about Rs. 20 crore. They have also been given to understand that ECGC has paid claims of Rs. 570 crore due to transfer delay in a number of countries. The Committee are really astonished to note that out of this, Iraq alone accounts for Rs.403 crore. Though these amounts are not considered as recoverable, there is still hope of recovering part of this amount when the situation improves in these countries. The Committee are happy to note that ECGC has been successful in recovering amounts from Tanzania, Angola and Vietnam in respect of blocked funds due to transfer delays amounting to Rs. 8.65 crore, Rs. 35 crore and Rs. 9.52 crore respectively.

The Committee recommend that efforts should be made

through bi-lateral through other suitable methods to recover the balance amount.

RECOMMENDATION NO. 5

NEED TO EXPAND THE CAPITAL BASE OF ECGC

The Committee note that the capital base of ECGC at present is Rs.340 crore and against this capital base, the total exposure in terms of maximum liability underwritten by ECGC is about Rs. 40,000 crore. Thus ECGC is now assuming risks disproportionate to its capital base. In order to meet this situation, the Government has agreed to increase the capital base in stages to Rs. 500 crore by the end of Ninth Plan period. The Government has already agreed to provide a further sum of Rs. 50 crore towards the capital of ECGC during 2001-2002. The Committee feel that this contribution by Government should be increased to reach a capital base of Rs. 500 crore during this financial year itself, as originally planned to be accomplished by the end of the Ninth Plan period.

TOUR PROGRAMME ACTUALLY PERFORMED BY THE
COMMITTEE ON PUBLIC UNDERTAKINGS TO
PUNE, BANGALORE, MYSORE AND OOTACAMUND
FROM 4TH JUNE, 2001 TO 11TH JUNE, 2001

(MEMBERS ASSEMBLED AT PUNE)

DATE & DAY	TIME	VISIT & DISCUSSION
4.6.2001 (Monday)	1000 hrs	Discussion with the Officers of New India Assurance Co. Ltd.
	1200 hrs	Discussion with the Officers of Hindustan Antibiotics Ltd.
	1400 hrs	Discussion with the Officers of Export Credit Guarantee Corps. (ECGC) Ltd.
(NIGHT HALT AT PUNE)		
5.6.2001 (Tuesday)	1345 hrs	Departure for Bangalore by IC-917
	1615 hrs	Arrival Bangalore
(NIGHT HALT AT BANGALORE)		
6.6.2001 (Wednesday)	1000 hrs	Discussion with the Officers of Hindustan Teleprinters Ltd. (HTL Ltd)
	1430 hrs	Departure for Mysore by Road (Approx. 140 km)
	1800 hrs	Arrival Mysore
(NIGHT HALT AT MYSORE)		
7.6.2001 (Thursday)	0930 hrs	Discussion with the Officers of Indian Tourism Devp. Corpn. (ITDC)
	1200 hrs	Discussion with the Officers of Shant Earth Movers Ltd.
(NIGHT HALT AT MYSORE)		
8.6.2001 (Friday)	0700 hrs	Departure for Ootacamund by Road (Approx 120 km)
	8500 hrs	Arrival Ootacamund
	1745 hrs	Discussion with the Officers of NTC (TN&P) Ltd.
(NIGHT HALT AT OOTACAMUND)		

9.6.2001
(Saturday)

0930 hrs Discussion with the Officers of
Hindustan Photofilms Mfg. Corpn. Ltd.

1200 hrs Discussion with the Officers of
Food Corporation of India Ltd.

(NIGHT HALT AT OOTACAMUND)

10.6.2001
(Sunday)

0900 hrs Departure for Bangalore by Road

1300 hrs Arrival Bangalore

(NIGHT HALT AT BANGALORE)

11.6.2001
(Monday)

0930 hrs Discussion with the Officers of
Rashtriya Chemicals & Fertilizers Ltd.

DISPERSAL

ANNEXURE - II

COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS
WHICH VISITED PUNE, BANGALORE, MYSORE AND OOTACAMUND
FROM 4TH TO 11TH JUNE, 2001

S. NO.	NAME	DATE OF JOINING	DATE OF LEAVING
1.	Prof Vijay Kumar Malhotra, Chairman	5.6.2001 Bangalore	11.6.2001 Bangalore
2.	Prof. S. P. Singh Baghel	4.6.2001 Pune	9.6.2001 Ootacamund
3.	Shri Sudip Bandyopadhyay	3.6.2001 Pune	12.6.2001 Bangalore
4.	Shri Ram Tatal Chaudhary	3.6.2001 Pune	11.6.2001 Bangalore
5.	Shri C K Jaffer Sherief	6.6.2001 Bangalore	6.6.2001 Bangalore
6.	Shri Rajiv Pratap Rudy	5.6.2001 Bangalore	6.6.2001 Bangalore
7.	Shri Taril Baran Topdar	5.6.2001 Bangalore	11.6.2001 Bangalore
8.	Shri Suresh Kalmadi	3.6.2001 Pune	4.6.2001 Pune
9.	Shri K. Kalavankata Rao	7.6.2001 Mysore	11.6.2001 Bangalore
10.	Shri Jibon Roy	3.6.2001 Pune	7/8.6.2001 Mysore / Bangalore
11.	Smt Ambika Soni	3.6.2001 Pune 6.6.2001 Bangalore	4.6.2001 Pune 8.6.2001 Ootacamund
12.	Shri Ranjan Prasad Yadav	3.6.2001 Pune	6.6.2001 Bangalore
SECRETARIAT			
1.	Shri S Bal Shakar, Director		
2.	Shri L. N. Gaur, Under Secretary		
3.	Shri Raj Kumar, Under Secretary		
4.	Shri Tirthankar Das, Sr Executive Asslt.		

ANNEXURE-III

**LIST OF OFFICIALS OF EXPORT CREDIT GUARANTEE
CORPORATION OF INDIA LIMITED WHO WERE PRESENT DURING
DISCUSSION WITH THE COMMITTEE ON PUBLIC UNDERTAKINGS
AT PUNE ON 04.06 2001**

- | | | |
|----|----------------------|--------------------------------|
| 1. | Shri P.M.A Hakeem | Chairman and Managing Director |
| 2. | Shri S. Prabhakar | General Manager |
| 3. | Shri M. Valdyanathan | General Manager |
| 4. | Shri D.S.N.Murthy, | General Manager |