

# Update

## RBI opens door for MFIs through ECB

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## *Update*

The end of 2011 seems to be a good start for the Micro Finance Industry in India and all clouds seem to have been faded away as the Reserve Bank has finally taken up the task to emancipate the Micro Finance Industry by issuing directions in its favour with all its might. This time it has opened the ECB route where the MFIs have been permitted to raise ECB up to **USD 10 million** or equivalent during a financial year, under the Automatic Route.

The Reserve Bank of India ("**RBI**") on review of the existing ECB guidelines in consultation with the Government of India has issued directions under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and it has been decided vide Circular RBI/2011-12/304 A.P. (DIR Series) Circular No. 59 dated December 19, 2011<sup>1</sup> that MFIs may be permitted to raise ECB up to USD 10 million or equivalent during a financial year for permitted end-uses, under the Automatic Route with immediate effect.

RBI's guidelines on ECB for MFIs are as under:

### **Eligible borrowers to avail ECBs:**

MFIs registered under the Societies Registration Act, 1860;

MFIs registered under Indian Trust Act, 1882;

MFIs registered either under the conventional state-level cooperative acts, the national level multi-state cooperative legislation or under the new state-level mutually aided cooperative acts (MACS Act) and **not** being a co-operative bank;

Non-Banking Financial Companies (NBFCs) categorized as 'Non Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs)

Companies registered under Section 25 of the Companies Act, 1956 and involved in micro finance activity.

<sup>1</sup> <http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=6876&Mode=0>



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### Recognized lenders of ECBs:

Types of MFI	Recognized lenders
NBFC-MFIs	<ol style="list-style-type: none"><li>1. Multilateral institutions, such as IFC, ADB etc.</li><li>2. Regional financial institutions;</li><li>3. International banks;</li><li>4. Foreign equity holders; and</li><li>5. Overseas organizations.</li></ol>
Companies registered under Section 25 of the Companies Act and engaged in micro finance activities	<ol style="list-style-type: none"><li>1. International banks;</li><li>2. Multilateral financial institutions;</li><li>3. Export credit agencies;</li><li>4. Foreign equity holders;</li><li>5. Overseas organizations; and</li><li>6. Individuals</li></ol>
Other MFIs	<ol style="list-style-type: none"><li>1. International banks;</li><li>2. Multilateral financial institutions;</li><li>3. Export credit agencies;</li><li>4. Overseas organizations; and</li><li>5. Individuals</li></ol>

NB: ECB funds should be routed through normal banking channels.

### Obligations of the designated AD and permitted end-use of ECB proceeds:

The designated AD shall:

1. ensure that the ECB proceeds are utilised for lending to:
  - self-help groups or;
  - for micro-credit or;
  - for bonafide micro finance activity including capacity building
2. certify the status of the borrower as eligible and involved in micro finance and ensure at the time of draw down that the forex exposure of the borrower is fully hedged

Further, vide the same circular the ECB limits for Non-Government Organisations



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(NGOs) engaged in micro finance activities has been raised up to USD 10 million or equivalent per financial year under the automatic route as against the present limit of USD 5 million or equivalent per financial year.

It clearly is a positive step as it provides MFIs with another funding option. But at the same time this wouldn't be a cakewalk as not many foreign investors will be keen on offering funds to Indian microfinance companies at a time when this sector is going through a crisis and many firms have opted to restructure their debts.