END-USE PATTERNS OF EXTERNAL COMMERCIAL BORROWING IN INDIA

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External Commercial Borrowing (ECB) has become a major source of financing growth in India. ECB can be accessed under two routes, viz., (i) Automatic Route and (ii) Approval Route. Data it is competing with FDI as a source of capital inflows. The policy framework and phenomenon of ECBs is very complex. It is very challenging to study behaviour of ECB. This paper studies the trends and patterns of end- use ECBs during 2004-2014 in India.

The utilisation pattern of ECBs reveals that about 65 per cent of borrowings are utilized for import of capital goods, setting up new projects and modernization or expansion of existing units. With momentum in Indian investment abroad through joint ventures and wholly owned subsidiaries, the use of ECBs for financing overseas investment has also grown in significance. Overall growth rate of ECB is 7 per cent. Growth rate of refinancing, rupee expenditure, onward/sub-lending and oversea acquisition is 19%, 14%, 60% and 24% respectively and statistically significant. This indicates that corporates preference for using ECB as an alternative and supplementary source of foreign capital.

Key words: Commercial Borrowing, LIBOR, FDI, Interest Rate

1. INTRODUCTION

The rising access of the emerging market firms to international capital markets reflects the transformation of corporate financing led by cross-border movement of capital, deepening of global financial markets, strong inter-linkage across markets and institutional developments, particularly the mechanisms for risk assessment. Large access to international borrowings is also indicative of greater trade linkages and an enhanced exposure of firms to foreign currency transactions. Liberalisation of capital controls by developing countries coupled with a rising appetite for asset diversification by international investors has also created an environment for firms from developing

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countries to increasingly access the international capital markets. The above mentioned developments seem to have enabled them to circumvent the credit constraint imposed by the underdeveloped local capital markets, widened their choices of financing and facilitated borrowings at a reasonable cost.

A historical account of India's approach to external commercial borrowings (ECBs) reveals that during the period 1950s to the early 1980s, the domestic firms' reliance on international capital markets was restricted mainly to bilateral and multilateral assistance. In the 1980s, in the context of the widening current account deficit, the traditional external sources of financing were found to be inadequate and were supplemented with commercial borrowings from international markets including short-term borrowings. In the 1990s, the Indian corporates' access to international capital markets increased with the liberalisation of the external borrowings policy, the gradual withdrawal of capital account restrictions and improved credit ratings. During the current decade (2000s), the sustained growth of overseas borrowings and the overall private capital flows to India reflects the momentum in domestic economic activity, resilient corporate performance, a positive investment climate, a long-term view of India as an investment destination and the improved sovereign risk. Besides these factors, the prevailing higher domestic interest rate coupled with a higher growth rate has moderated the risk perception and created a natural inclination by the business houses to explore the possibility of mobilizing the fund through the external commercial borrowing (ECB) route so as to lower their interest burden. However, the choice is not so easy to implement. On the one hand there is a considerable complexity in terms of various factors that influence such an economic decision and on the other hand there is a very complicated policy document in the form of a circular by the Reserve Bank of India stipulating various conditions and covenants which need to be satisfied.

In the above backdrop of paradigm shift from official to private capital flows and the emergence of overseas commercial borrowings as an important component of capital flows, this paper attempts to analyse the overall trends of ECBs and end-use patterns of ECBs.

Plan of the study: Section II deals with the conceptual framework and the next section with the policy framework. Section IV is on literature review. Research methodology is laid out in Section V, followed by Section VI as empirical results and analysis; and Section VIII the conclusion.

2. CONCEPTUAL FRAMEWORK

Foreign currency borrowings raised by the Indian companies from source outside Indian are called External Commercial Borrowings (ECBs). These are commercial loans with minimum average maturity of 3 years. The ECBs include bank loans, buyers' credit, suppliers' credit, securitized instruments (e.g. floating rate notes and fixed rate bonds, non-convertible, optionally convertible or partially convertible preference shares), credit from official export credit agencies, commercial borrowings from the private sector window of multilateral financial institutions and investment by Foreign Institutional Investors (FIIs) in dedicated debt funds. ECB act as an additional source of funds for companies to finance its investment needs. Balance of payment and foreign exchange reserves position are two important drivers to decide the level of ECBs.

At present, Indian companies are permitted to access funds from abroad through four routes, viz., ECB, FCCB, preference shares and foreign currency exchangeable bonds (FCEB). ECB refer to commercial loans in the form of bank loans, buyers' credit, suppliers' credit, securitized instruments (e.g. floating rate notes and fixed rate bonds, non-convertible, optionally convertible or partially convertible preference shares) availed of from non-resident lenders with a minimum average maturity of 3 years. ECB can be raised only for specific purposes, such as investment in the import of capital goods, new projects, modernization/expansion of existing production unit, real sector in India. The industrial sector including small and medium enterprises (SME), infrastructure sector and specific service sectors namely hotels, hospitals and software.

FCCB are bonds issued by an Indian company expressed in foreign currency, principal and interest in respect of which are payable in foreign currency. Further, the bonds are required to be issued in accordance with the scheme viz., "Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993", and subscribed by a non-resident in foreign currency and convertible into ordinary shares of the issuing company in any manner, either in whole, or in part, on the basis of any equity related warrants attached to debt instruments. The ECB policy is applicable to FCCBs. The issue of FCCBs is also required to adhere to the provisions of Notification FEMA No. 120/RB-2004 dated July 7, 2004, as amended from time to time.

Preference shares (i.e. non-convertible, optionally convertible or partially convertible) for issue of which, funds have been received on or after May 1, 2007 would be considered as debt and should conform to ECB policy. Accordingly, all the norms applicable for ECB, viz. eligible borrowers, recognized lenders, amount and maturity, end use stipulations etc. shall apply. Since these instruments would be denominated in Rupees, the rupee interest rate will be based on swap equivalent of LIBOR plus the spread as permissible for ECBs of corresponding maturity.

FCEB means a bond expressed in foreign currency, the principal and interest in respect of which is payable in foreign currency, issued by an Issuing Company and subscribed to by a person who is a resident outside India, in foreign currency and exchangeable into equity share of another company, to be called the Offered Company, in any manner, either wholly, or partly or on the basis of any equity related warrants attached to debt instruments. The FCEB must comply with the "Issue of Foreign Currency Exchangeable Bonds (FCEB) Scheme, 2008", notified by the Government of India, Ministry of Finance, Department of Economic Affairs vide Notification G.S.R.89(E) dated February 15, 2008. The guidelines, rules etc. governing ECBs are applicable to FCEBs.

3. POLICY FRAMEWORK

ECB can be accessed under two routes, viz., (i) Automatic Route and (ii) Approval Route. Data on ECBs are collected by the RBI. Credit under ECB 'to India' includes disbursements under commercial borrowings and debits include repayment thereof. Credit under ECB 'by India' includes repayments of loans extended to non-residents and debit includes loans extended to non-residents. Major regulators governing the ECB in India are Exchange Controllable Department of RBI and ECB division in Department of Economic Affairs at Ministry of Finance. ECB policy aims at keeping maturities long, costs low and encourages infrastructure and export sector financing so as to ensure overall growth of the economy. ECB policy focuses on three aspects:

- Eligibility criteria for accessing external markets
- Total amount of borrowings to be raised and their maturity structure
- End use of the funds

Eligible Borrowers

1. Automatic Route:
   - Companies except financial intermediaries
   - Units in Special Economic Zones
   - NGOs engaged in micro finance activities

2. Approval Route:
   - Infrastructure or export finance companies such as IDFC, IL&FS, Power Finance Corporation, IRCON, Power Trading Corporation and EXIM Bank.
   - Bank and Financial institutions which participated in the textile or steel restructuring package.
   - NBFCs to finance import of infrastructure equipment for leasing.
   - Multistate Co-operative society engaged in manufacturing activities.

Recognized Lenders

There are several sources of internationally recognized lender like international banks, international capital markets, and multilateral financial institutions such as IFC, ADB, and CDC, export credit agencies, suppliers of equipment, foreign collaborators and foreign equity holders.

Overseas organizations and individuals with a certificate of due diligence from overseas bank adhering to host country regulations are allowed only under the automatic route. A "foreign equity holder" to be eligible as recognized lender under automatic route (under approval route) would require minimum holding of paid-up equity in the borrower company as set out below:

- For ECB up to USD 5 million- at least 25 percent is to be held directly by the lender.
- For ECB more than USD 5 million- at least 25 percent to be held by the lender and proposed ECB should not exceed four (seven) times the direct foreign holding (ECB liability-equity not exceeding 4:1(7:1)).

Amount and Maturity

Automatic Route:

Maximum amount of ECB in a financial year:-

- Companies other than those in hotel, hospital and software sectors – USD 750 million.
- Companies in service sector viz. hotel, hospital and software sector – USD 200 million.
- NGOs engaged in micro finance activities – USD 10 million.

Minimum maturity period:

- ECB up to USD 20 million – 3 year.
- ECB between more than USD 20 million and USD 750 million – 5 year.

In approval route, eligible borrowers under automatic route other than corporates in the service sector viz. hotel, hospital and software can avail of ECB beyond USD 750 million per financial year. Corporates in the services sectors viz. hotel, hospitals and software sectors are allowed to avail of ECB beyond USD 200 million in a financial year.

All-in-cost ceilings:

All-in-cost includes rate of interest, other fees and expenses in foreign currency except commitment fee, pre-payment fee, and fees payable in Indian Rupees. The payment of withholding tax in Indian Rupees is excluded for calculating the all-in-cost. The all-in-cost ceilings for ECB are reviewed from time to time. The following ceilings are applicable

Average Maturity Period	All-in-cost Ceiling over 6 month LIBOR
Three years and up to five years	350 basis points
More than five years	500 basis points

Banks quote the interest on ECB in format of London Interbank Offered Rates (LIBOR) plus Spread. So, cost of capital (CC) of ECB is 6 months LIBOR plus Spread. The LIBOR can be described as the wholesale cost of money in the London interbank money market. LIBOR is the average interest rate at which a select group of banks that participate in the London interbank money market can borrow unsecured funds from each other. There are many different LIBOR rates (maturities range from overnight to 12 months) for numerous currencies, including Eurodollars. The spread depends on cost of fund for the particular bank, its risk assessment about the prospective customer and the credit charge (profit margin). As such, the spread may vary from one bank to another and even one bank also has different spreads for different customers depending upon their financial health and rating. The spread on ECB depends on periods for which ECB has been taken. RBI has been regularly notified two spreads rate, one for three to five year ECB and another for above five year ECB. In general, the spread on three to five year ECB is lower than above five year ECB.

Impact on economic variables

In case of tightening of ECB norms, it will affect the economy in following way:

- Total capital flow in the economy will reduce
- Domestic credit take off will increase
- Upward pressure on the lending rate
- Rupee will depreciate vis-à-vis foreign currency
- Domestic liquidity especially the short term will reduce

In case of tightening ECB norms, capital inflows get controlled which in turn restricts the rupee to appreciate further.

4. LITERATURE REVIEW

Bhupal Singh (2007): This paper examines the macroeconomic factors that drive the Indian corporates' preference for overseas borrowings. Foreign borrowings by Indian corporates are characterised by a large number of companies accessing international capital markets for small size loans. The policy framework on foreign commercial borrowings has been effective in achieving a balanced maturity profile as also in channelising funds to productive sectors. It is observed that foreign borrowings by the corporates and import of capital goods display a close positive relationship. Since capital goods import is closely related to growth in industrial production, it implies that the demand for foreign borrowings by the corporates is generated by the underlying pace of real activity. Indian corporates' long-run demand for overseas commercial borrowings is predominantly influenced by the pace of domestic real activity, followed by the interest rate differentials between the domestic and international markets (indicating arbitrage) and the credit conditions. The real variable dominates the price variable in driving the demand for overseas commercial borrowings.

Satyajit Gupta (2009): demonstrated that ECB policy should be proactive so that Indian economy can have phenomenal growth. The economic boom was initiated by the information technology sector and followed by the resurgence in the manufacturing and service industries. While the boom was accompanied by substantial foreign direct investment, Indian enterprises have also accessed significant amounts of foreign debt. The cost of borrowing being higher in India compared with the international market, Indian companies started using the ECB route frequently.

Mora Sowjana and D. Satish (2009): observed through the case study named Tata Steel's ECB- the payoffs that, with the initiation of liberalization policies, the Indian financial markets had experienced remarkable changes and Indian companies started borrowing and investing abroad. Many Indian companies have raised substantial amounts of external borrowings through ECB for their long term requirements.

Ankita Chatterjee (2010): ECB is presently ubiquitous in the corporate world as a catena of business activities thrive on ECB transactions taking place in the country on a daily basis. The Indian capital market is one of the most prominent and formidable markets worldwide. As per records, from April 2006 to December 2006, ECB influx into India was a staggering USD 9 billion.

Umanath Kumarasamy (2012): the central bank of the country that controls foreign exchange reserves by implementing the policies and procedures, which affects the valuation of currency. The exchange rate can be adjusted by demand and supply of the foreign currencies. External commercial borrowing also affects foreign reserves and exchange rate. This paper found that foreign reserves and external commercial borrowing have mutual relationship.

O. P. Jagati (2012): In a country like India, where the interest on the domestic bank loan is distinctly higher than the overseas loan, there is a natural inclination by the business houses to explore the possibility of mobilizing the fund through the external commercial borrowing (ECB) route to leverage the interest burden. However, the choice is not so easy to implement as there is specific circular by the Reserve Bank of India stipulating various conditions and covenants which need to be satisfied before taking a call. This paper has made an attempt to highlight the issues which a company should look into before availing an ECB so that it could be structured in the best interest of the company.

5. DATA AND RESEARCH METHODOLOGY

Data Sourcs:

Data of ECBs, FDI, CB, ED have been taken from secondary source of database of RBI. Dataset of ECB and FDI has for financial year i.e. from April to March of next year, while data of CB and TED has for the year i.e. from January to December. The period of study is 2004 - 2014.

Growth Index

Growth index of ECBs means growth of ECBs with respect to base year ECB.

$GI_{ECB} = ECB_t/ECB_b*100$

GI_{ECB} = Growth index of ECB.

ECB_t = ECB at t year.

ECB_b = ECB at base year.

Base year = 2004

T = 2004, 2005,………, 2014

Growth Rate

The growth equation is measured as:

$$\mathbf{Y} = e^{\alpha+\beta t} \quad \text{..........................} (1)$$

Taking log of both sides and adding an error term;

$$\text{Log Y} = \alpha + \beta t + \mu t \quad \text{……....} (2)$$

Hère, Log Y = Natural log of ECB.

α = intercept term

β = slope or annual compound growth rate.

t = Time (2004 to 2014)

μt = Error term

6. EMPIRICAL RESULTS AND ANALYSIS

Overall Trends

We analyze below the trends in terms of basic data on ECB, Commercial Borrowings (CB), Total External Debt (TED) and Foreign Direct Investment (FDI).

Table 1 shows the sources of foreign capitals and overall trends of foreign capitals. The broad trend shows the supply of various forms of foreign capital has been increased manifold. In terms of growth index, the foreign capital in terms of ECB, CB, FDI and TED have been increased more than 110, 560, 640 and 290 percentage points respectively in 2014 w.r.t. base year 2004. This indicates the importance of foreign capital in the development of Indian economy (table 1).

Table 1 – Sources of Foreign Capitals (US $ Million)

Year	ECB	CB	FDI	External Debt(TED)	ECB	CB	FDI	TED
					Base Year = 2004			
2004	13020	22007	6051	112653	100	100	100	100
2005	17156	26405	8961	134002	132	120	148	119
2006	25531	2645	222826	139114	196	120	377	123
2007	30958	41443	34843	172360	238	188	576	153
2008	19413	62334	41873	224407	149	283	692	199
2009	21669	62461	37745	224498	166	284	624	199
2010	27086	70726	34847	260935	208	321	576	232
2011	36696	100476	46556	317891	282	457	769	282
2012	32046	120136	34298	360766	246	546	567	320
2013	33238	140182	36046	409421	255	637	596	363
2014	28384	146546	44877	440614	218	666	742	391

Source: RBI

Foreign capitals in term of ECB and FDI flows have declined during global financial crisis, but supply of other forms of external debt has increased. This is evident from table 1.

Table 2 shows the comparative position of ECB with reference to other sources of foreign capital such as commercial borrowing, external debt and FDI. The quantity of ECBs has been increased more than two times in 2014 since 2004 due higher domestic interest rate.

Table 2: Comparative Trends of ECB with FDI & TED

Year	ECB as % of CB	ECB as % of FDI	ECB as % of TED
2004	59.2	215.2	11.6
2005	65.0	191.5	12.8
2006	96.5	111.9	18.4
2007	74.7	88.9	18.0
2008	31.1	46.4	8.7
2009	34.7	57.4	9.7
2010	38.3	77.7	10.4
2011	36.5	78.8	11.5
2012	26.7	93.4	8.9
2013	23.7	92.2	8.1
2014	19.4	63.2	6.4

However, ECB as the percentage of commercial borrowing (CB) has been declined to 19.4% in 2014 from 59.2% in 2004. It is less than one-third. However, ECB as percentage of CB was more than 95% in 2006. This shows the growing importance of ECB among corporates during initial phase. The supply of ECB as percentage of CB has been sharply declined during global financial crisis period (i.e. mid-2007 to 2009) and in subsequent periods in percentage terms, but ECB in absolute terms after global financial crisis has increased. ECB was more than two times of FDI flows in 2004 have been declined to 63.2 percent in 2014. ECB is only 6.4 percent of India's total external debt.

Graphical Analysis

Figure 1, depicts the graphical trends in sources of these foreign funds. The growth rate is measured through a semi-log growth equation regressed on time, as this helps us in understanding the patterns and identifying the structural breaks.

Figure 1 - Source of Foreign Capitals (US$ Million)

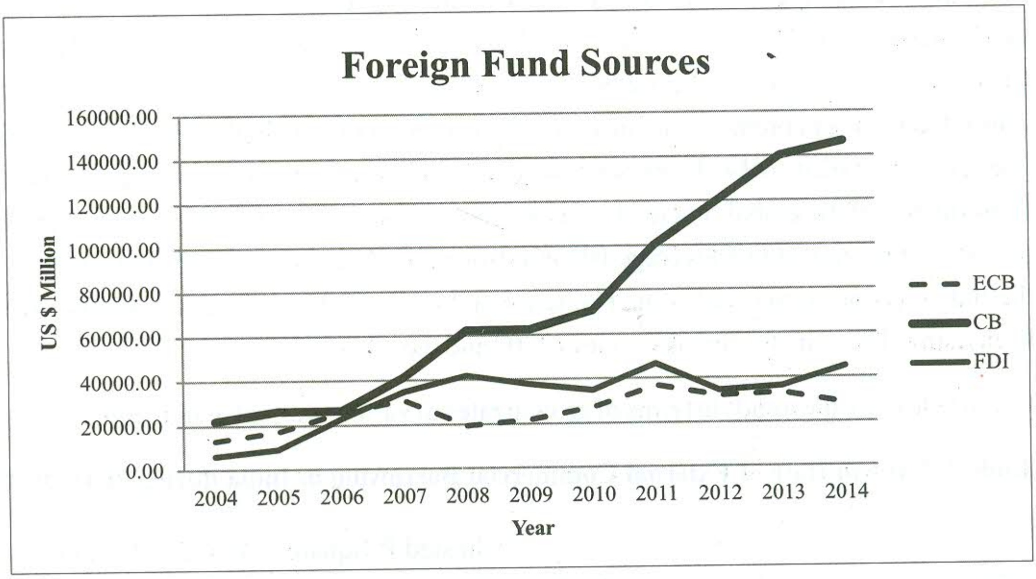
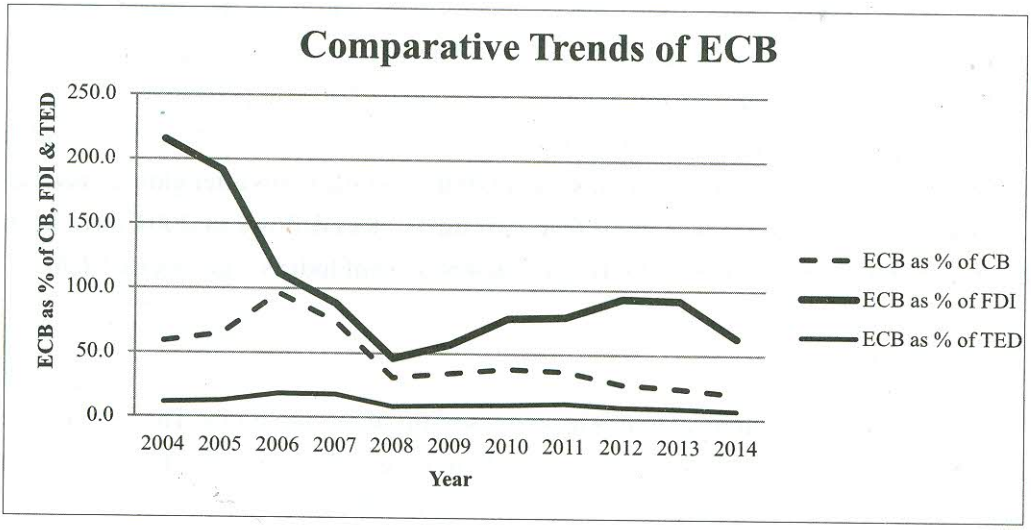


Figure 2: Comparative Trends of ECB



The pattern of commercial borrowing is clearly rising on the whole, since a a growing economy that has greater investment than its domestic savings. However, between the two sources FDI and ECB there is a competing pattern between the years 2006 and 2010. Clearly they are alternating during this period. In the latter phase ECB begins to decline. This reflect in the paptern of ratio in Table 2. The ratio of ECB to FDI starts from 2.1 and goes down to 0.62 in 2014. There is an evident dip in the year 2008. This appears to be a consequence of the global financial crisis. Global banks were 'de-leveraging' during this period after having unduly leveraged their position before the crisis. From 2009 onwards the Indian economy showed some resilience and while FDI was declining ECBs have been rising. There are two breaks – one at 2007 and the other at 2009.

Given below are the trends in terms of growth rates of various variables and ratios.

Table 3: Growth Rate of External Commercial Borrowing in India during 2004-2014

	Adjusted R Square	ACGR	P-Value
External Commercial Borrowing(ECB)	0.51	0.07*	0.01
Commercial Borrowing(CB)	0.97	0.21*	0.00
FDI	0.54	0.16*	0.01
ECB as % of CB	0.73	-0.13*	0.00
ECB as % of FDI	0.29	-0.08**	0.05

Source: Author Estimation

*at 1% level of significance and ** at 5% level of significance

The trend is evident that Commercial Borrowing is growing because there is a significant growth rate to the tune of 21% per annum. ECBs were growing at 7% and FDI at 16%. As a result the ratio ECB to CB and the ratio of ECB to FDI are declining at the rate of 13% and 8% respectively. However, after shock of global financial crisis, it seems that ECB has not been much favourable source of foreign capitals due to conditions and restrictions attached to ECB. Thus, ratio of ECB to CB has been continuously declining since 2008 (figure 2).

End-Use of External Commercial Borrowing in India:

1. **Domestic Investment (For Infrastructure Sector)** - includes
   - Import of capital goods.
   - New projects.
   - Modernisation/Expansion of existing production units in real sector - industrial sector including small and medium enterprises (SME) and infrastructure sector – in India.

Infrastructure sector is defined as (a) Energy (b) Communication (c) Transport (d) Water and sanitation (e) mining, exploration and refining and (f) Social and commercial infrastructure- hospitals, hotel, common infrastructure for industrial parks, SEZs, tourism facilities, fertilizer, cold storage, soil testing laboratories and cold chain.

2. **Local Rupee Expenditure-**
   - Indian companies in the manufacturing, infrastructure sector and hotel sector can avail of ECBs for repayment of outstanding Rupee loans availed of for capital expenditure from the domestic banking system and/or fresh Rupee capital expenditure provided they are consistent foreign exchange earners during the past three financial years and not in the default list/caution list of the Reserve Bank of India.
   - The overall ceiling for such ECBs shall be USD10 (ten) billion and the maximum ECB that can be availed by an individual company or group, as a whole, under this scheme will be restricted to USD 3 billion. Further, the maximum permissible ECB that can be availed of by an individual company will be limited to 75 per cent of the average annual export earnings realized during

the past three financial years or 50 per cent of the highest foreign exchange earnings realized in any of the immediate past three financial years, whichever is higher. Under the USD 10 billion scheme, ECB cannot be raised from overseas branches / subsidiaries of Indian banks.

3. Refinancing-

- The upfront payment initially is to make out of Rupee loans availed of from the domestic lenders and refinance such Rupee loans with a long-term ECB provided such ECB is raised within a period of 18/12 months from the date of sanction of such Rupee loans for the payment of spectrum allocation from the domestic lenders under automatic route and approval route respectively.
- The existing ECB may be refinanced by raising a fresh ECB subject to the condition that the fresh ECB is raised at a lower all-in-cost and the outstanding maturity of the original ECB is maintained.
- The cases where the existing ECB is proposed to be refinanced by raising a fresh ECB at a lower all-in-cost are considered under the approval route if the average maturity period of the fresh ECB is more than the residual maturity of the existing ECB.
- Under approval route, the payment for 3G spectrum allocation, initially met out of Rupee resources raised domestically from banks by the successful bidders and are still outstanding in telecom operator's books of account is allowed to be refinanced with a long-term ECB, till March 31, 2014.
- Under approval route, Indian companies which are in the infrastructure sector are permitted to utilise 25% (40% in case of power sector) of the fresh ECB raised by them towards refinancing of the Rupee loan/s availed by them from the domestic banking system.

4. Overseas Investment –

ECB proceeds can be utilised for overseas direct investment in Joint Ventures (JV)/Wholly Owned Subsidiaries (WOS) subject to the existing guidelines on Indian Direct Investment in JV/WOS abroad.

5. Acquisition under the Disinvestment Process–

Utilisation of ECB proceeds is permitted in the first stage acquisition of shares in the disinvestment process and also in the mandatory second stage offer to the public under the Government's disinvestment programme of PSU shares.

6. Micro Finance and Others-

- NGOs engaged in micro finance activities may utilise ECB proceeds for lending to self-help groups or for micro-credit or for bonafide micro finance activity including capacity building.
- Under automatic route and approval route, ECB can avail from direct foreign equity holders companies with a minimum average maturity of 7 years by companies in manufacturing, infrastructure, hotels, hospitals and software sector for general corporate purposes, which includes working capital subject to the certain conditions.
- Under approval route, the overall ECB ceiling for the entire civil aviation sector would be USD one billion and the maximum permissible ECB that can be availed by an individual airline company will be USD 300 million. This limit can be utilized for working capital as well as refinancing of the outstanding working capital Rupee loan(s) availed of from the domestic banking system.

End-Use of ECB not Permitted:

- On-lending or investment in capital market or acquiring a company
- Investment in real estate
- Working capital, general corporate purpose and repayment of existing rupee loan (except above mentioned).

The above policy framework has been provided in respect of the end-use pattern of the ECBs. The emphasis of the ECB policy has been traditionally on the use of funds for the import of capital goods, new projects, modernisation/ expansion of existing production units in the real sector. This is evident from table 4 that on an average, around 65 per cent of ECBs are utilised for the import of capital goods, setting up new projects and the modernisation or expansion of existing units. However the end use of ECBs for refinancing, rupee expenditure and oversea investment, in the recent past, is significantly increasing, which is an average, constitute more than 30 per cent of ECBs. The end use of ECB for oversea investment in the form of joint ventures and wholly owned subsidiaries is providing the Indian industry an access to new markets and technologies (table 4).

ECB flows for refinancing have been growing more than 1600 percentage point with reference to the base year. Higher growth is in recent past. ECB for import of capital goods is an important end-use of ECB; however ECB declined to almost 50 percentage points in 2014. In case of modernization and expansion, ECB has grown by more than 140 percentage points in 2011, but it declined by more than 25 percentage points in 2014. ECB for rupee expenditure reached at highest in 2011 by more than 370 percentage points. In case of onward/sub-lending, growth of ECB has been evident from 2011 and reached at highest growth index by more than 1100 percentage points in 2014. During second generation reform period, India started oversea investment by outward foreign direct investment in the form of green field investments and mergers and acquisitions. RBI permits for using of ECB for oversea investment. The end-use of ECB for oversea investment has been growing in all the years subsequent to base year and it reaches at highest level by growth of more than 3500 percentage points in 2013. In case of new project and others infrastructure projects, ECB flows are more than base year except in 2008 and 2009; this may be an impact of global financial crisis. The growth of end-use of ECB for new project has reached at highest level in 2011 by more than 260 percentage points. Others include micro finance, general corporate purpose and working capital. End-use of ECB is not much significant; however in recent past it has grown (table 5).

Table 4: Percentage Share of End-Use of External Commercial Borrowing in India during 2004-2014

Year	Refinancing	Import of Capital Goods	Modernisation	Rupee Expenditure	Onward/Sub-lending	Oversea Acquisition	Project/Infras tructure	Others	Total
2004	3.64	51.36	10.55	6.88	1.07	0.75	14.45	11.32	100
2005	24.00	15.73	**27.35**	4.44	0.19	1.46	24.54	2.29	100
2006	7.36	16.97	25.03	14.34	0.01	5.03	24.90	6.35	100
2007	4.46	31.87	20.96	7.29	0.00	9.82	22.94	2.65	100
2008	5.11	**69.69**	3.74	5.16	0.00	11.53	4.71	0.04	100
2009	6.63	32.94	17.41	20.47	0.00	6.47	16.00	0.09	100
2010	6.24	14.70	13.11	**22.98**	0.66	8.11	**33.07**	1.14	100
2011	6.53	19.84	15.52	19.89	1.09	4.89	32.20	0.03	100
2012	10.30	24.93	11.39	15.65	3.19	1.79	31.95	0.80	100
2013	17.35	20.82	7.12	12.02	4.58	**12.73**	19.44	5.94	100
2014	**33.19**	14.14	4.13	4.98	**7.25**	11.20	16.51	**8.60**	100
Av	11.3	28.5	14.2	12.2	1.6	6.7	21.9	3.6	

Source: Compiled on the basis of the information sourced from www.rbi.org.in.

Table 5: End-Use of External Commercial Borrowing in India during 2004-2014 (Base Year = 2004)

Year	Refinancing	Import of Capital Goods	Modernisation	Rupee Expenditure	Onward/Sub -lending	Oversea Acquisition	Project/Infr astructure	Others	Total
2004	100	100	100	100	100	100	100	100	100
2005	452.74	21.01	177.85	44.27	11.86	133.33	116.51	13.87	68.6
2006	207.58	33.91	243.58	213.94	1.31	689.38	176.86	57.62	102.6
2007	172.74	87.41	279.92	149.21	0.32	1847.32	223.68	33.03	140.8
2008	112.87	**108.91**	28.49	60.22	0.30	1235.92	26.19	0.31	80.3
2009	121.02	42.57	109.58	197.55	0.16	573.47	73.50	0.52	66.4
2010	163.25	27.21	118.25	317.79	58.21	1030.32	217.68	9.55	95.1
2011	293.86	63.16	**240.67**	**473.08**	166.67	1069.30	**364.54**	0.46	163.5
2012	443.18	75.96	168.96	356.16	465.77	373.79	346.13	11.11	156.5
2013	1016.39	86.36	143.73	372.28	910.56	**3623.45**	286.74	111.89	213.0
2014	**1736.98**	52.38	74.49	137.73	**1287.12**	2848.29	217.50	**144.67**	190.3

Source: Compiled on the basis of the information sourced from www.rbi.org.in and author estimation.

Table: 6 Regression Statistics of End-Use of External Commercial Borrowing in India

Variables	Adjusted R Square	Growth Rate	P Value
Total ECB	0.51	0.07	0.01
Working Capital	0.07	0.41	0.21
Refinancing	0.42	0.19**	**0.02**
Import of Capital Goods	-0.09	0.03	0.66
Modernisation	-0.10	-0.02	0.76
Rupee Expenditure	0.31	0.14**	**0.04**
Onward/Sub-lending	0.26	0.60***	**0.06**
Oversea Acquisition	0.44	0.24**	**0.02**
Project/Infrastructure	0.15	0.110	**.13**
Others	-0.10	-0.06	0.81

Source: Author Estimation

*at 1% level of significance, ** at 5% level of significance and *** at 10% level of significance

Overall growth rate of ECB is 7 per cent. End-use of ECBs for working capital, general corporate purpose and micro finance has positive growth rate but not statistically significant. Since ECB is not generally permitted to use for working capital and general corporate purpose and only permitted to use under certain conditions. Use of ECBs for Infrastructure purpose such as import of capital, modernization and new projects is not statistically significant. ECB is not considered as stable source of foreign capital as in case of FDI. It is only a supplementary source of foreign capital. However, growth rate of project is 15 per cent. Growth rate of refinancing, rupee expenditure, onward/sub-lending and oversea acquisition is 19%, 14%, 60% and 24% respectively and statistically significant. This indicates that corporates are using ECB as an alternative and supplementary source of foreign capital (table 6).

7. CONCLUSION

A relevant issue that arises is how effective the above policy framework has been in respect of the end use pattern of the ECBs. The emphasis of the ECB policy has been traditionally on the use of funds for the import of capital goods, new projects, modernisation/ expansion of existing production units in the real sector. It may be discerned from Table 3 that, on an average, 65 per cent of ECBs are utilised for the import of capital goods, setting up new projects and the modernisation or expansion of existing units. In the context of the end use of ECBs, there have been some new developments. First, with the momentum in Indian investment abroad through joint ventures and wholly owned subsidiaries to provide the Indian industry access to new markets and technologies, the end-use of ECBs was enlarged to include overseas direct investment, which has grown in significance. Second, ECBs are also being increasingly used for refinancing and rupee expenditure.

ECB is not freely accessible. There are numerous conditions, restrictions and procedural requirements with respect to borrower, lender, amount and maturity and end use of ECBs. On account of the procedural requirements, ECB have declining trends even though there is a low interest rate at global market. Therefore, ECB policy should be more liberalized and market prudent so that the corporates can raise foreign funds through ECB as per their requirements and fill the gap between investment and saving in India.

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