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SMEs' ability to pay back goes up

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ECB announcement in line with Centre's push to tap foreign funds, says industry

Ahmedabad, October 4:

In a big boost to emerging entrepreneurs and start-ups, the RBI on Tuesday announced its decision allowing start-ups to raise external commercial borrowings (ECBs) up to $3 million or equivalent per annum.

Entrepreneurs look at ECBs as a competitive source of finance as compared to domestic funds. The RBI move is expected to improve the ability of start-ups to pay back loans and make their businesses more economically viable.

Significant role

In its Statement on Developmental and Regulatory Policies, the RBI recognised the potential of start-ups to play a significant role in economic growth and job creation by spurring innovation and injecting competition.

"Taking into account the available funding channels from overseas for start-ups, the Reserve Bank, in consultation with the Government of India, will allow such entities to raise ECB up to $3 million or equivalent per financial year, either in INR or in any convertible foreign currency or a combination of both. Guidelines will be issued by end-October 2016," the RBI statement said.

Sources said the move is designed to help the Centre's push to encourage entrepreneurship in the country and generate large employment opportunities through start-ups.

"The decision will open the minds of people to look outside Indian boundaries to raise funding. Also, we are seeing a large amount of foreign money seeking Indian projects. A push like this shows the government's intention to bring such money in India," said Anupam Jalote, Chief Executive Officer of the International Centre for Entrepreneurship & Technology (iCreate), a non-profit conceptualised by then Gujarat Chief Minister Narendra Modi in 2011 under the guidance of Infosys co-founder NR Narayana Murthy.

"A certain portion of the total project cost was already allowed for ECB. But by specifying a limit, such as $3 million, the RBI has increased the scope of definition of a start-up," said Jalote.

The IT industry, under which a large number of start-ups fall, welcomed the RBI decision.

"This opens a vast avenue for entrepreneurs to raise funds. Also, unlike earlier years when India was looked at as an outsourcing destination, it is now looked at as a place with new and forward-looking technologies and innovations. Such a move will surely boost the prospects for SMEs in the IT and ITeS fields," said Jaimin Shah, former president of the Gujarat Electronics and Software Industries Association (GESIA).

He added that in the IT space, the next level of growth would come from SMEs, who will drive most innovations.

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