01.04.2011

Govt relaxes FDI norms to increase inflow of overseas capital

To increase FDI inflows, the Department of Industrial Policy and Promotion has provided greater flexibility in its policies, including allowing overseas firms in existing joint ventures to operate simultaneously in the same business segments. Earlier, overseas companies needed the prior approval of their Indian partners.

The DIPP has also allowed companies to prescribe a formula for transforming convertible instruments (such as debentures, partly paid shares and preferential shares, among others) into equity at market conversion, but in accordance with the guidelines of FEMA and SEBI. According to the current norm, companies are required to specify upfront the price of convertible instruments.

Under the new norms, Indian companies have been allowed to issue equity against import of capital goods.

The rules also liberalized the conditions for seeking foreign investment for production and development of agriculture seeds and planting material.

The facility of conversion of capital goods import into equity was earlier available only to companies raising external commercial borrowings (ECBs).

The government has made these changes in its third Consolidated FDI Policy Circular, a ready reckoner on foreign investment, which was released on Thursday.

Under the present dispensation, a foreign player who entered India before January 12, 2005 has to take government approval and "demonstrate" that fresh investment in the same field would not affect the interest of his domestic joint venture partner. The changes will help foreign investors who entered JVs after this date.

"It is expected that this measure will promote the competitiveness of India as an investment destination and be instrumental in attracting higher levels of FDI and technology inflows into the country," the Circular said.

Commenting on the issue, Department of Industrial Policy and Promotion (DIPP) Secretary R P Singh said that in the present business environment, this provision was unfair and was also hindering the growth of manufacturing sector.

"It (the provision) was discriminatory...we feel that some of the Indian companies were unfairly blocking the new companies to come up and they were trying to seek rent out of this, which we thought was unfair," Singh said.

Last year, a discussion paper was released by the DIPP on the need for a review of this condition.

Further simplifying the policy, the government has also classified companies into two categories -- "companies owned or controlled by foreign investors" and "companies owned and controlled by Indian investors".

The government has done away with the earlier categorisation of "investing companies", "operating companies" and "investing-cum-operating companies".

On this matter, DIPP said: "The guidelines have been redrafted in a manner that makes them simpler and easier to read. There is no change in the policy."

During the 11-month (April-February) period this fiscal, FDI inflows into India declined by 25% to USD 18.3 billion. India has received $144 billion of foreign direct investment since 1991, when it first opened the economy to foreign inflows.

“FDI Policy is part of the ongoing efforts of procedure simplification and FDI rationalisation,” the Commerce and Industry Minister, Mr Anand Sharma, said.