UNIT 5
FOREIGN CAPITAL

FDI: Foreign Direct Investment

FDI is when a company takes controlling ownership in a business entity in another country. With FDI, foreign companies are directly involved with day to day operations in the other country. This means they aren't just brining money with them, but also knowledge, skills and technology

FDI in India

FDI is an important monetary source for indias economic development. Economics liberalization started in India in the wake of the 1991 crises and since then, FDI has steadily increased in the country. India today is a part of top 100 club on ease of doing business and globally ranks number 1 in the greenfield FDI ranking.

Routes through which India gets FDI

Automatic Route: The nonresident or Indian company does not require prior nod of the RBI or government of India for FDI.

Govt. Route: The government's approval is mandatory. The company will have to file an application through Foreign Investment Facilitation portal, which facilitates single window clearance. The application is then forwarded to the respective ministry which will approve/reject the application in consultation with the Dept. for promotion of industry and internal trade(DPIIT), Ministry of Commerce. DPIIT will issue the standard operating procedure (SOP) for processing of applications under the existing FDI policy.

Sectors which comes under up to 100% automatic route category are

Infrastructure company in securities market - 49%
Insurance up to 49%
Medical devices up to 100%
Pension 49%
Petroleum refining by PSUs – 49%
Power Exchanges – 49%

Sectors which comes under the up to 100 government route category are

Banking and Public sector – 20%
Broadcasting content services -49%
Core Investment Company - 100%
Food products retail trading - 100%
Mining & minerals separations of titanium bearing minerals and ores - 100%
Multi brand retail trading - 51%
Print media – 100%
Satellite – 100

FDI Policy and Process (Regulations)

Since 1991 the regulatory environment and the process to get FDI has consistently been eased to make it investor friendly, catapulting India into the position of one of the fastest growing economies of the world. It has been ranked 9th in terms of FDI inflows for 2016 by UNCTAD among the top attractive destinations for inbound investments in the world. The government with intent to attract and promote foreign investments has put in place FDI regulations in India with a framework that is transparent, predictable and easily comprehensible.

Foreign investment into a domestic entity on a strategic basis is subject to FDI policy in India. The GOI through Department of Industrial Policy & Promotion (DIPP) formulates consolidated the process of FDI on a yearly basis which is a defined framework for FDI. Most recently, reforms were made for FDI policy in India 2019.

Foreign investors can invest directly in India either on their own or through joint ventures in virtually all the sectors except in a very small list of activities where foreign investment is prohibited.

FDI is the majority of the sectors is under the automatic route i.e allowed without any requirement of seeking regulatory approval prior to such investment. Thus, the process to get FDi is most sectors don’t require prior approval from the GOI. Eligible investors can invest in most of the sectors of Indian Economy on a automatic basis.

Procedure for Government approval

Foreign Investment Faclitaion Protal the new online single point interface of the GOI for investors to facilitate FDI. This portal is designed to facilitate the single window clearrnace of applications which are through approval route. Upon receipt of the FDI application, the concerned administrative ministry shall process the application as per the SOP

FDI Reporting Requirements

Within 30 days of receipt of money from the Foreign investor, the Indian company will report t the Regional office of RBI under whose jurisdiction its registered office is located.

Within 30 days from the date of issue of shares a report in Form FC-GPR together with the following documents should be filed with the Regional office of RBI.

- Certificate from the company secretary of the company accepting investment from persons resident outside
- Certificate from statutory auditors or chartered accountant indicating the manner of arriving at the price of the shares issued to the persons resident outside India

(FII) FOREIGN INSTITUTIONAL INVESTMET

Foreign institutional investor means an institution established or incorporated outside India which proposes to make investment in Indian in Securities, real property and other investment assets. In India foreign institutional investor refers to outside companies investing in the Indian Financial Markets.

India opened its stock market to FII in September 1992. Since 1993, India received portfolio investment from foreigners in the form of FII in equities.

In order to trade in India equity market, all FII must register with the Securities and Exchange Board of India (SEBI) which is the regulator for the securities market in India

One who propose to invest their proprietary funds or on behalf of broad based funds or of foreign corporate and individuals and belong to any of the under given categories can be registered for FII.

- Pension Fund
- Mutual fund
- Investment trust
- Insurance or reinsurance companies
- Endowment funds
- University funds
- Charitable trust
- Asset Management companies
- Nominee companies
- Institutional portfolio managers
- Rustees
- Power of Attorney holders
- Bank

Advantages of FII

- FII will enhance the flow of capital into the country

- These investors generally prefer equity over debt. So this will also help maintain and even improve the capital structures of the companies they are investing in.
- They have a positive effect on the competition in the financial markets
- FII help with the financial innovation of capital markets
- These institutions are professionally managed by asset managers and analysts. They generally improve the capital markets of the country

Disadvantages of FII

- The demand for the local currency (rupee) increases. This can cause severe inflation in the economy.
- These FIIs drive the fortune of big companies in which they invest.t But their buying and selling of securities have a huge impact on the stock market. The smaller companies are taken along for the ride.
- Sometime these FIIs seek only short term returns. When they pull their investments banks can face a shortage of funds.

FOREIGN INVESTMENT PROMOTION BOARD

The FIPB was a national agency of government of India, with the remit to consider and recommend foreign direct investment which does not come under the automatic route. It was found in August 1991.

Role of FIPB

The FIPB is a government body that offers a single window clearance for proposals on FDI in India that are not allowed access through the automatic route. FIPB comprises of secretaries drawn from different ministries with Secretary, Dept of Economics Affairs, MOF in the chair. This inter ministerial body examines and discusses proposals for foreign investment in the country for sectors with Caps, sources and instruments that require approval under the extant FDI policy on a regular basis.

The Ministry of Finance, considers the recommendations of the FIPB on proposals for foreing investment up to 1200 crores. Proposals involving foreign investment of more than 1200 crore require the approval of the Cabinet Committee On Economic Affairs (CCEA).

FIPB is mandated to play an important role in the administration and implementation of the government's FDI policy. It has a strong record of actively encouraging the flow of FDI into the country through speedy and transparent processing of applications, and providing on line clarification. In case of ambiguity (uncertainty) or a conflict of interpretation, the FIPB has always stepped in with an investor friendly approach.

The e-filling facility is an important initiative of the secretariat of the FIPB to further enhance its efficiency and transparency of decision making. Any suggestions to improve the e-filing system and FIPB procedure are welcome.

Functions of FIPB or FIPC

- To ensure that the foreign investment proposals are cleared quickly
- To continuously look over the foreign direct investment polices and to communicate with the agencies such as the administrative ministries in order to establish transparent guidelines that help in promoting FDI min the various sectors of the country.
- To review that the proposals that have been approved by the Board are being implemented
- To communicate with the non government, government and industry bodies in order to promote the flow of foreign direct investment into the country.
- To take up activities that encourage investment such as getting in touch with and also inviting foreign companies to invest in the country
- To communicate with the foreign investment promotion council which has been set up in the ministry of industry?
- To identify the various sectors that require foreign direct investment
- To take up various other activities that help in bringing more foreign direct investment into the country
- To give its recommendations to the Indian government in order to encourage foreign direct inve3stment into the country.