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Another step towards economic reforms - FDI Policy liberalisation

Dear All

With the objective of combating the Current Account Deficit (CAD), the Cabinet Committee on Economic Affairs (CCEA) announced on 1 August 2013 reforms in the FDI Policy to attract more foreign investment into the country. Summary of key reforms are summarised below:

1. "Control" - the definition of control has been amended to align it with definition under other laws and make it more business realistic : To ensure that "effective" control lies in the hands of resident Indian citizens with respect to sectors which are subject to FDI caps and conditionalities, "control has been redefined to mean *"the right to appoint majority of the directors or to control the management or policy decisions in that company by virtue of their shareholding or management rights or shareholders agreements or voting agreements"* .

2. To keep the Government's commitment of making Multi Brand Retail Trading

(MBRT) attractive to foreign investors, further relaxations have been introduced. These include the following:

- It has been clarified that commitment towards mandatory investment in back-end infrastructure shall be limited to 50% of the minimum FDI of US$ 100 mn to be brought in the first tranche

- To address the concern on sourcing from small and medium enterprises, which organically outgrow the US$ 1 mn plant and machinery investment condition, Government has decided to increase limit of investment in plant investment to US$ 2 mn. Further, the small industry status would be seen at the time of initial arrangement, and if such small industry outgrows the US$ 2 mn investment limit, sourcing from such vendors would continue to qualify towards meeting the mandatory 30% sourcing norm

- Sourcing from procurements from agricultural cooperatives and farmer's cooperatives would qualify for meeting the sourcing requirements

- State that have given a go-ahead for Multi Brand Retail Trading have been allowed to nominate cities with population of less than 1 million as per 2011 census to set up of Multi Brand Retail outlets

3. FDI up to 49% has been permitted under automatic route in Single Brand Retail Trading.

4. Further to decision taken during the high powered meeting chaired by the Prime Minister on 16 July 2013, the Cabinet has approved FDI enhancement in the following sectors:

	Sector	Existing		Proposed	
		Cap	Route	Cap	Route
1.	Petroleum and Natural Gas and Refining (PSU)	49%	FIPB	49%	Automatic
2.	Commodity Exchanges	49%*	FIPB	49%	Automatic
3.	Power Exchanges	49%*	FIPB	49%	Automatic
4.	Stock Exchanges, Depositories, Corporation	49%*	FIPB	49%	Automatic
5.	Asset Reconstruction	Up to 49%	FIPB	Up to 49%	Automatic

	companies	49% to 74%	FIPB	49% to 100%	FIPB
6.	Credit Information companies	Up to 49%	FIPB	74%	Automatic
7.	Single Brand Retail trading	Up to 49%	FIPB	Up to 49%	Automatic
		49% to 100%	FIPB	49% to 100%	FIPB
8.	Telecom services****	Up to 49%	Automatic	Up to 49%	Automatic
		49% to 74%	FIPB	49% to 100%	FIPB
9.	Courier Services	100%	FIPB	100%	Automatic
10.	Tea Sector including tea plantation	100%**	FIPB	100%	FIPB
11.	Defence Production	26% (No FII investment)	FIPB	Above 26%***	CCS
12. Test Marketing window has been removed since it has lost its relevance since opening up of the retail sector					
*- FDI -26% - FIPB, FII - 23% - Automatic route					
** - Divestment of 26% to Indian partner within 5 years					
*** - Cabinet Committee on Security (CCS) may approve proposals on case to case basis beyond 26% which are likely to result in access to modern and "state of the art" technology in the country					
**** - All telecom services including Telecom Infrastructure Providers Category-I, viz. Basic, Cellular, United Access Services, Unified license (Access services), Unified License, National/ International Long Distance, Commercial V-Sat, Public Mobile Radio Trunked Services (PMRTS), Global Mobile Personal Communications Services (GMPCS), All types of ISP licences, Voice Mail/Audiotex/UMS, Resale of IPLC, Mobile Number Portability services, Infrastructure Provider Category-l (providing dark fibre, right of way, duct space, tower) except Other Service Providers					

The above-mentioned changes shall be applicable once Department of Industrial Policy and Promotion (DIPP) - the nodal body for formulation of FDI policy notifies the changes through Press Note.

We shall keep you posted on the latest developments in this regard

If your interest lies in a specific area or subject, do advise us so we can send you only the relevant alerts. For any additional information, please reach out to your PwC relationship manager or write in to ***pwctrs.knowledgemanagement@in.pwc.com***

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