

Finance ministry bats for easier FDI rules

The finance ministry is pushing for further easing of rules for foreign direct investment but is not completely in favour of a proposal on putting in place composite FDI caps, arguing that the proposed rules may make life cumbersome for investors.

A senior official in the ministry said the department of economic affairs (DEA) is seeking an overhaul of the rules, especially those related to the definition of a foreign investor. Currently, any company with majority foreign holding is treated as an overseas investor and requires government approvals.

The official said DEA is in favour of an approval only for proposals for investment in strategic areas, or those where licences are still required. Additionally, the requirement should be retained in case of investee companies to ensure that the FDI rules are not flouted.

"It should not be the case that a cement company, with over 51% foreign stake, has to come to the government to set up another subsidiary that will set up a cement plant in a new location," said the official, arguing in favour of the DEA proposal.

Other government officials, however, said that DEA is yet to formally circulate the proposal or discuss it with other ministries. "We will take a call when the proposal comes. But it does not seem to be creating loopholes that can be exploited by overseas investors to flout Indian rules," said an officer in another ministry dealing with FDI issues.

PUSH FOR OVERHAUL

➤ The finance ministry is not entirely in favour of composite FDI caps

➤ The proposal on composite cap is meant to ensure that all sources of foreign investment – FDI, FII and private equity, among others – are calculated together

➤ The department of economic affairs (DEA) seeks an overhaul of the rules, especially those defining a foreign investor



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The move comes at a time when a new committee has been set up to ease rules.

The DEA officer, however, argued that the department of industrial policy and promotion's proposal on a composite FDI ceiling may not be in the best interests of companies as it takes away flexibility. Interestingly, however, DEA has not officially opposed to the move being pushed by DIPP, the agency responsible for framing FDI policy.

The proposal on composite cap is meant to ensure that all sources of foreign investment - FDI, FII and private equity, among others - are calculated together. The rules are proposed to be put in place prospectively, which means companies that have already received approvals do not need to go back to the government.

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