Government plans to raise FDI cap for CCEA nod

New Delhi: Foreign direct investments into India are set for a more liberal regime whereby companies will require only an FIPB approval for investments up to Rs 1,000 crore. Clearance from Cabinet Committee of Economic Affairs (CCEA) will be mandatory only for investments above Rs 1,000 crore.

At present, any investment proposal above Rs 600 crore requires an approval from the CCEA over and above the FIPB nod. The FIPB clears FDI proposals below Rs 600 crore and the finance minister approves it.

The relaxation in rules will also help existing foreign companies who can now pump in additional investments in their Indian operations or outfits without seeking a government approval as long as it is within the Rs 1,000 crore limit.

Once the new rules kick in, companies such as beverages giant Coca Cola need not go to CCEA for every investment they want to make. Press Note 7 of 1999 had made it mandatory for any foreign company that was to invest more than Rs 600 crore to go to the then Cabinet Committee on Foreign Investment. Subsequently, the responsibility was transferred to the CCEA.

The finance ministry has written to the Department of Industrial Policy and Promotion about reviewing the Press Note. The proposal is likely to be take up when the DIPP carries out the next FDI policy review, sources told ET. The DIPP is still working on the norms related to indirect foreign holding in sectors where there are FDI caps.

Sources said the limit that was set when the country was just opening its doors to foreign investment now needed to be increased. Moreover, the fact that these investment proposals have to be vetted by the CCEA not only makes the process longer, but also burdens the agenda of the committee that has to ponder on larger economic policy issues. They said the FIPB approval requirement for companies which come in after the CCEA clearance also was unnecessary, as in some cases the amounts are as low as Rs 50 crore.

In 2007-08, the country received FDI of $24.5 billion as against $15.58 billion in 2006-07, showing a growth of about 56%. In 2005-06, the growth was even sharper at 184%, up from $5.5 billion in 2004-05.

Mauritius, the US, UK and Singapore are the biggest investors in the country. In terms of sectors that attracted the highest amount of foreign investment in the last financial year, financial and non-financial services topped the list. This was followed by computer hardware and software, housing and real estate, telecom and construction.

Source: The Economic Times: May 19, 2008