ABSTRACT

International finance has now become an important source of funds of both short term and long term nature for the corporation in India. The decision to raise funds in India or abroad is a question of cost and easy availability and the capital structure requirements of the corporates. In India, with the recent economic and financial reforms, markets have become free and competitive and Globalised. The FIIs and FFIs, including foreign security firms are allowed to operate in Indian financial markets. The convertibility of the rupee on current account facilitated the inflows and outflows of funds. The policy of Foreign Direct Investment has been liberalised in India so as to promote that investment both in Equity and Debt subject to some limits. FDI as distinguished from portfolio investment has the connotation of establishment a ‘lasting interest’ in an enterprise that is resident in an economy other than that of the investor. The Government has put in place a policy framework on Foreign Direct Investment, which is transparent, predictable and easily comprehensible. The framework is embodied in the circular on consolidated FDI policy, which may be up-to-date every year, to capture and keep pace with the regulatory changes, effected in the interregnum.

KEYWORDS

INTRODUCTION

FDI investments are permitted through financial collaborations, through private equity or preferential allotments, by way of capital market through Euro issues, and in joint ventures. At the macro-level, a country which has a large external debt prefers to issue Equity or Equity linked instruments. These would reduce the debt servicing burden and improve the credit rating of the country. India is not having a large external debt and bulk of its external debt is in the form of medium and long-term debt. Indian Government encouraged the companies to go for foreign borrowings and in particular, Equity. Currently FDI is allowed in financial services, including the growing credit card business. These services include the non banking financial services sector. Foreign investors can buy up to 40% of the equity in private banks, although there is condition that stipulates that banks must be multilateral financial organizations.

The major effort of the Government to attract FDI in India was outlined in the Industrial Policy Statement of 1991. Since then there was a sustained growth of Direct Investment inflows from U.S.$97 Million in 1990-91 to U.S.$ 3904MILLION IN 2001-02 AND U.S.$4660 million in 2002-03.Companies registered in Mauritius, U.S.A, U.K, Germany and Japan account for the bulk of the FDI .Industry-wise , the major areas or Industry groups are computers, engineering and services. They rose from a low amount of U.S. $ 4 million 1991-92 to a high of U.S.$ 38.24 million in 1994-95.Following Asian currency Crises in 1997-98 there was a net outflow in 1998-99, after which was a revival of inflow to reach U.S.$ 11377 million in 2003-04. There was a decline in2008-09 due to worldwide recession.

MEANING

FDI is that investment which is made to serve the business interests of the investor in a company, which is in different nation distinct from the investor’s country of origin.

‘FDI’ means investment by non-resident entity/person resident outside India in the capital of an Indian company under schedule 1 of Foreign Exchange Management(Transfer or Issue of Security by a person Resident Outside India) Regulations 2000 (Original notification is available at FEMA notification).

A parent business enterprise and its foreign affiliate are the two sides of the FDI relationship .Together they comprise an MNC. The parent enterprise through its foreign direct investment effort seeks to exercise substantial control over the foreign affiliate company.’ Control’ as defined by the UN, is ownership of greater than or equal to 10% of ordinary shares or access to voting rights in an incorporated firm for an equivalent criterion.

OBJECTIVES AND SCOPE OF THE STUDY
The following important objective and scope of FDI are discussed below:

- It helps in the economic development of the particular country where the investment is being made.
- It is one of the major external sources of financing for most of the countries that were growing from an economic prospective and it has also been observed that foreign Direct Investment has helped several countries when they have faced economic hardships.
- It also permits the transfer of technologies.
- It is done basically for the purpose of raising capital inputs.
- It also assists in the promotion of the competition within the local input market of the country.
- The country that gets Foreign Direct Investment from another country can also develop the human capital resources by getting their employees to receive training on the operation of the particular type of business.
- The profit earned through FDI can be used for the purpose of making contributions to the revenues of corporate taxes of the recipient country.
- It helps in the creation of new jobs in a particular country and also helps in increasing the salaries of the workers.
- It enables them to get access to a better lifestyle and more facilities in life.
- It has been noticed that FDI allows for the development of the manufacturing sector of the recipient country.
- It also brings in advanced technology and skill set in a country.
- There is also some scope for new research activities being undertaken.
- It assist in increasing the income that is generated through revenues realised through taxation.
- It also plays a crucial role in the context of rise in the productivity of the host countries.
- In case of countries that make foreign investment in other countries this process has positive impact as well. In case of these countries, their companies get an opportunity to explore newer markets and thereby generate more income and profits.
- It has also opens up the export window that allows these countries the opportunity to cash in on their superior technological resources. It has also been observed that as a result of receiving foreign direct investment from other countries.
- It has been possible for the recipient countries to keep their rates of interest at a lower level.
- It becomes easier for the business entities to borrow finance at lesser rate of interest.
- The biggest beneficiaries of these facilities are the small and medium –sized business enterprises.
- FDI helps the countries over all growth expansion at international level.
FACTORES DETERMINANTS OF FDI

- Size and growth aspect of the country.
- Availability and quality of human resources.
- Availability of natural resources.
- Availability of cheap labour.
- Economics of scale.
- International diversification.
- New sources of demand.
- Debt position of the country.
- Globalisation and liberalisation policy of the country.
- The capital market condition of the country.
- Competitions in the world market.
- Currency values of the participating countries.

INVESTMENTS BY NON-RESIDENTS

Investments in India by non residents may take the shape of

- Investment in securities.
- Investment in capital of partnerships and proprietorships and
- Acquisition of immovable properties.

Non-residents can make investments in India only under general or specific permission from the RBI. Investments by non-residents are subject to the policy guidelines framed by the Government of India from time to time, in line with its industrial policy. However, investments by non-residents of Indian origin or nationality are allowed more liberally in order to give them wide investment opportunities. Investment in securities by non-residents is governed by the foreign Exchange Management (Transfer or Issue of security by a person Resident outside India) Regulations, 2000. The regulations provide for non-resident investments of the following types:

A. Investment in shares and convertible debentures:
   - Foreign Direct Investment
   - Portfolio Investments

B. Investments in other securities.

PROHIBITED INVESTMENTS
Non-Resident investment is prohibited in the following activities:

- Business of chit fund.
- Nidhi company.
- Agricultural or plantation activities.
- Real estate business.
- Trading in Transferable development rights

FOREIGN DIRECT INVESTMENT SCHEME (FDI)

Apart from the general prohibition on any investment listed above, FDI is prohibited in the following sectors:

- Retail Trading
- Atomic Energy
- Lottery Business
- Gambling and Betting
- Housing and Real Estimate Business
- Agriculture (excluding Floriculture, horticulture, Development of seeds, Animal husbandry, Pisciculture and cultivation of vegetables, mushrooms etc. Under controlled conditions and services related to agro and allied sector) and plantations (other than Tea plantations)

In sectors other than those prohibited above, investments can be made either with the specific prior approval of the government of India, Ministry of Finance, Foreign Investment Promotion Board (FIPB) or under the Automatic Route of Reserve Bank.

AUTOMATIC ROUTE

FDI up to 100% is allowed under the automatic route in all activities / sectors except the following which require prior approval of the Government:

- Activities/items that require an industrial license.
- Proposals in which the foreign collaborator has an existing financial/technical collaboration India in the same field.
- Proposals for acquisition of shares in an existing Indian company in: Financial services sector and where securities & Exchange Board of India (Substantial acquisition of shares and takeovers) Regulations, 1997 is attached.
- All proposals falling outside notified sectoral policy/caps (listed in Table 31.1) or under sectors in which FDI is not permitted.

RECENT POLICY AND MEASURES

- Government eases FDI in 15 major sectors.
Townships, shopping complexes & business centres-all allow up to 100% FDI under the auto route. Conditions on minimum capitalisation & floor area restrictions have now been removed for the construction development sector.

Indians defence sector now allows consolidated FDI up to 49% under the automatic route. FDI beyond 49% will be considered by the Foreign Investment Promotion Board. Govt approval route will be required only when FDI results in a change of ownership pattern.

Private sector Banks now allow consolidated FDI up to 74%.

Up to 100% FDI is now allowed in coffee/ rubber/cardamom/palm oil olive oil plantations via the automatic route.

100% FDI is now allowed via the auto route in duty free shops located and operated in the customs bonded areas.

Manufacturers can now sell their products through wholesale and/ or retail, including through e-commerce without Government approval.

Foreign Equity caps have now been increased for establishment & operation of satellites, credit information companies, non-scheduled air transport & ground handling services from 74% to 100%.

100% FDI allowed in medical devices.

FDI cap increased in insurance & sub-activities from 26% to 49%.

FDI up to 49% has been permitted in the pension sector.

Construction, operation and maintenance of specified activities of Railway sector opened to 100% foreign Direct Investment under automatic route.

FDI policy on construction Development sector has been liberalised by relaxing the norms pertaining to minimum area, minimum capitalisation and repatriation of funds or exit from the project. To encourage investment in affordable housing, projects committing 30% of the total project cost affordable housing have been exempted from minimum areas and capitalisation norms.

Investment by NRIs under schedule 4 of FEMA (Transfer or issue of security by person’s resident outside India) Regulations will be deemed to be domestic investment at par with the investment made by residents.

Composite caps on foreign investments introduced to bring uniformity and simplicity is brought across the sectors in FDI policy.

100% FDI allowed in white Label ATM operations.

**TYPES OF INVESTORS**

A. **Individual**

- FVCI
- Pension/Provident Fund
- Financial institutions

B. **Company**
C. **Foreign Institutional Investors**

- Private Equity Funds
- Partnership/ proprietorship firm.
- Others.

**STEPS INVOLVED IN INVESTMENT**

- Identification of structure.
- Central Government approval if required.
- Setting up or incorporating the structure.
- Inflow of funds via eligible instruments and following pricing guidelines.
- Meeting reporting requirement of RBI and respective Act.
- Registrations / Obtaining key documents like PAN etc.
- Project approval at state level.
- Finding ideal space for business activity based on various parameters like incentives, cost, availability of man power etc.
- Manufacturing projects are required to file industrial Entrepreneurs memorandum (IEM), some of the industries may also require industrial license.
- Construction/ renovation of unit.
- Hiring of manpower.
- Obtaining license if any,
- Other state & central level registrations.

**INCENTIVES**

A. **CENTRAL GOVERNMENT INCENTIVES**

- Investment allowance (additional depreciation) at the rate of 15% to manufacturing companies that invest more than INR 1 million in plant and machinery available till to 31.03.2015.
- Incentives available to unit’s set-up in SEZ, NIMZ etc and EOU.
- Exports incentives like duty drawback, duty exemption / remission schemes, focus product & market schemes etc.
- Area based incentives like unit set-up in north east region, Jammu & Kashmir, HimachalPradesh, and Uttarahand.
- Sector specific incentives like M-SIPS in electronics.

B. **STATE GOVERNMENT INCENTIVES**
Each state government has its own incentive policy, which offers various types of incentives based on the amount of investments, project location, employment generation etc. The incentives differ from state to state and are generally laid down in each state’s industrial policy.

The broad categories include: stamp duty exemption for land acquisition, refund or exemption of value added tax, exemption from payment of electricity duty etc.

**SPECIAL DISPENSATION ENVISAGED FOR NRI INVESTMENT IN THE FOLLOWING**

- Construction development.
- Ground handling 7 Air transport services.
- NRI investing on non repairable basis.
- FDI from NEPAL & BHUTAN is allowed in Indian rupees.

**SECTORES WITH CAPS**

- Petroleum refining by PSU(49).
- Teleport (setting up of up-linking HUBs/ Teleports), Direct to home (DTH), Cable.Networks (Multi-system operators (MSO) operating at national, state or district.level and undertaking upgradation of networks towards digitalisation and address ability) Mobile TV and Head end-in-the-sky Broadcasting service (HITS)-(74%).
- Cable Networks (49%).
- Broadcasting content services-FM Radio (26%) Up linking news and current affairs TV.channels (26%).
- Air transport services-scheduled air transport (49%) , non-scheduled air transport.(74%).
- Print Media dealing with news and current affairs (26%).
- Ground handling services-Civil aviation (74%).
- Satellite- establishment and operation (74%).
- Private security agencies (49%).
- Private sector Banking –Except branches or wholly owned subsidiaries (74%).
- Public sector banking (20%).
- Commodity exchanges (49%).
- Credit information companies (74%).
- Infrastructure companies in securities market (49%).
- Insurance and sub-activities (49%).
- Power exchanges (49%).
- Defence (49% above 49% to CCS).
- Pension sector (49%).
SECTORES REQUIRING CENTRAL GOVERNMENT APPROVAL

- Mining and Mineral separation of titanium bearing minerals and ores- up to 100%.
- Defence –Beyond 49% & up to 100%.
- Publishing/Printing of scientific and technical magazines/specialty journals/periodicals-up to 100%.
- Publication of facsimile edition of foreign news paper-upto 100%.
- Print Media-Publication of newspaper and periodicals dealing with news and current affairs –up to 26%.
- Print Media – Publication of Indian editions of foreign magazines dealing with news and current affairs –upto 26%.
- Air transport service-scheduled, and regional Air transport service – Beyond 49% & up to 100%.
- Investment by foreign airlines- up to 49%.
- Satellites-establishment and operation –up to 100%.
- Telecom services-Beyond 49% & up to 100%.
- Trading-SBRT-Beyond 49% & up to 100%.
- Pharma -Brownfield- Beyond 74% & up to 100%.
- Banking-Private sector-Beyond 49% & up to 74% Banking-Public sector-Up to 20%.
- Private security agencies –Beyond 49% & Up to 74%.
- Broadcasting content service.
- FM Radio-up to 49%.
- Unlinking of news & current affairs TV Channels-up to 49%.

SECTORS UNDER AUTOMATIC ROUTE

- Agriculture-100%.
- Plantation sector-100%.
- Mining and Metal ,and non metal ores-100% Mining- Coal & lignite-100%.
- Manufacturing-100%.
- Food product retail trading-100%.
- Broadcasting carriage services 9Telports, DTH, Cable networks Mobile TV, HITS-100%.
- Broadcasting content service –up-linking of non-news & Current affairs TV Channel/Down-linking of TV channels/Down –linking of TV Channels-100%.
- Airports-Greenfield -100%.
- Airport-Brownfield- 100%.
- Air Transport service –Non-schedules -100%.
- Air Transport service-Helicopter services/ seaplane services-100%.
- Ground Handling services-100%.
CONCLUSIONS

Improving global sentiment and a growing conducive environment in India are increasingly facilitating foreign investor’s role in the country currently. Several other factors being attributed to the revival in foreign direct investments (FDI) in the country include liberal investment policies and reforms, innovative, and technologically advanced products being manufactured in India and low cost and effective solution. India has been ranked in the third place in global foreign direct investment this year.

Flow of foreign direct investment has been grown faster over recent past. Higher flow of FDI over the world always reflects a better economic environment in the presence of economic reforms and Investment-oriented policies. Higher an inflow of FDI to a country largely generates employment in the nation. FDI in manufacturing sector creates more employment opportunities than to any other sector. Over recent years most of the countries over the world have made their business environment investment friendly for absorbing opportunities by attracting more investable funds to the country. The policies have framed by the central and state government recently will be more helpful for improving FDIs and Liberalisation of external trade became an important element of the reform process.

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