

PE: FIPB Abolished - To boost FDI?

Towards attracting greater inflow of foreign direct investment ('FDI') into India, the Union Cabinet has in its meeting held on May 24, 2017, approved the proposal for abolishing of the Foreign Investment Promotion Board ('FIPB'). In doing so, the government seeks to enable ease of doing business and help in promoting the principle of 'Maximum Governance and Minimum Government' espoused by the Finance Minister Mr. Arun Jaitley in his Budget Speech for 2017-18.

The FIPB was set up after India embarked on its first round of liberalization in 1991 and was tasked with approving foreign investment proposals. It was initially constituted under the Prime Minister's Office and subsequently shifted under the Department of Economic Affairs in the Ministry of Finance.

Currently, FDI in most sectors fall under the automatic route and only 11 sectors, including defence and retail trading, require government approval for FDI.

Scrapping of the FIPB intends to bring in place a single-window clearance system and FDI in sectors falling under the approval route would now be handled independently by administrative ministries of individual sectors in consultation with the Department of Industrial Policy and Promotion ('DIPP').

In relation to this, the Finance Minister has, in a briefing following the Cabinet meeting on Wednesday, clarified the DIPP will also issue the Standard Operating Procedure ('SOP') for processing of applications and decisions of the government under the extant FDI policy.

The Finance Minister has also stated that the proposals pending with the FIPB will go back to the ministries concerned. He further stated that the government will soon issue a notification that will lay down which ministry or department is responsible for clearing proposals in the 11 sectors where approvals for FDI are not through the automatic route.

It was also stated that timelines will be fixed for approving applications regarding FDI by competent authorities and a rejection by the department concerned would be difficult as it will now mandatorily require concurrence of the DIPP.

In a related development, the @makeinindia handle of the DIPP has, in a series of Twitter posts, stated that all FDI from Pakistan and Bangladesh and FDI proposals requiring approval in Private Security Agencies and manufacture of small arms would be approved by Ministry of Home Affairs.

ARA LAW View

The government's move to do away with the FIPB is certainly a welcome step in boosting the economy by fast tracking FDI. However, towards ensuring that the desired effect is achieved, the government must ensure that the administrative ministries are suitably equipped to deal with FDI applications received by them and the new approval mechanism is designed to be simple and transparent.

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