



Foreign Investment Promotion Board

Why in news?

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Union Cabinet has approved the 'phasing out' of Foreign Investment Promotion Board (FIPB).

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What is FIPB?

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- The FIPB was set up in the early 1990s as an inter-ministerial mechanism to vet investment proposals from abroad.

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- Finance Minister promised in his 2017 Budget speech to abolish the FIPB.

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- The Department of Industrial Policy and Promotion under the Commerce Ministry is now expected to formulate a standard operating procedure to process FDI applications in 11 sectors that are still not in the automatic FDI approval list.

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- The department would have to be consulted by line ministries, which have been empowered to take 'independent' decisions on investments proposed in their domains.

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- The government hopes that as a result red-tapism will shrink, ease of doing business will improve and investors will find India more attractive.

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What are the shortcomings?

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- The decision is more of a symbolic gesture.
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- Over 90% of investment flowing in already does not require an FIPB nod as it comes in through the automatic route.
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- Even where FDI limits have been raised significantly, there are rules attached that officers need to interpret for each case.
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- FIPB may have delayed clearances at times. Yet, it is not the FIPB but the complicated rules that have been responsible for a less enthusiastic response from foreign investors in some sectors.
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- e.g For instance, global insurers can hold up to 49% ownership in Indian ventures but only if Indians retain management and control over these entities. This rule has inhibited deal-making.
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- Despite allowing 100% FDI in food retail, rules prohibit foreign players from using a small fraction of their shelf space for non-food items.
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- This, in a sector that can create millions of jobs and boost farm incomes.
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- Archaic land acquisition and labour laws also continue to make it difficult for large factories to come up.
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- The efficacy of this move will be determined by the ability of individual ministries to exercise 'discretionary' powers without fear, favour or the cover provided by a collective decision-making body.
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- Bureaucrats are likely to remain cautious till the government carries out changes it has promised to the anti-corruption law to protect them from the wrath of auditors and investigative agencies for bona fide decisions taken in the line of duty.
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Source: The Hindu

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