

OECD-India Investment Roundtable

India's Investment Policies and Outlook

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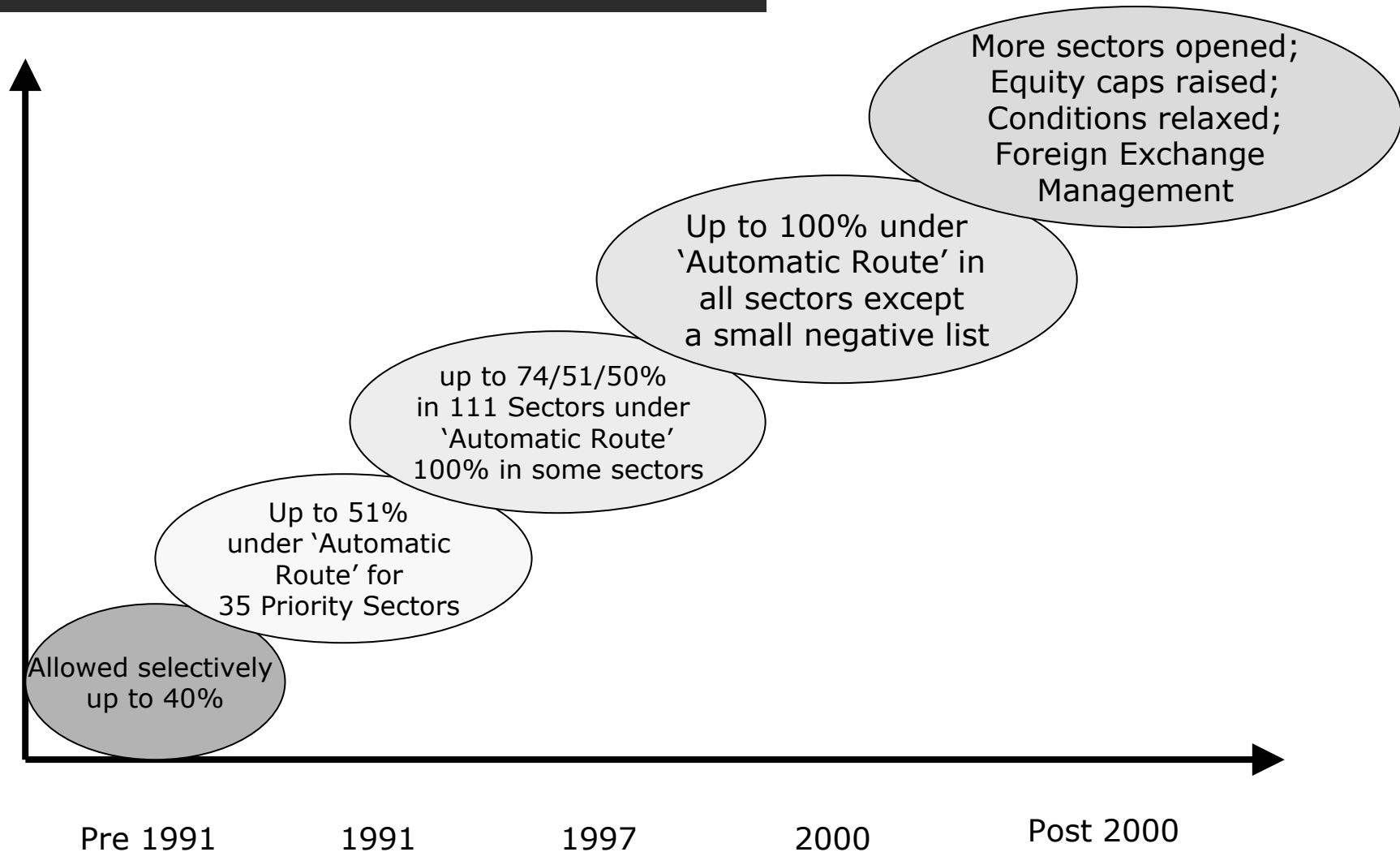
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Economic Reforms- Some Milestones

- Abolition of industrial licensing, except in few 'strategic' sectors
- Foreign Direct Investment up to 100% allowed in most sectors under the 'Automatic Route'
- Rationalization of both indirect and direct tax structure
- Portfolio investments by foreign institutional investors allowed in both equity and debt markets
- Rupee made fully convertible on trade account
- Removal of quantitative restrictions on imports
- Financial sector reforms and decontrol of interest rates
- The Fiscal Responsibility and Budget Management (FRBM) Act enacted in 2003

Liberalisation of FDI Policy

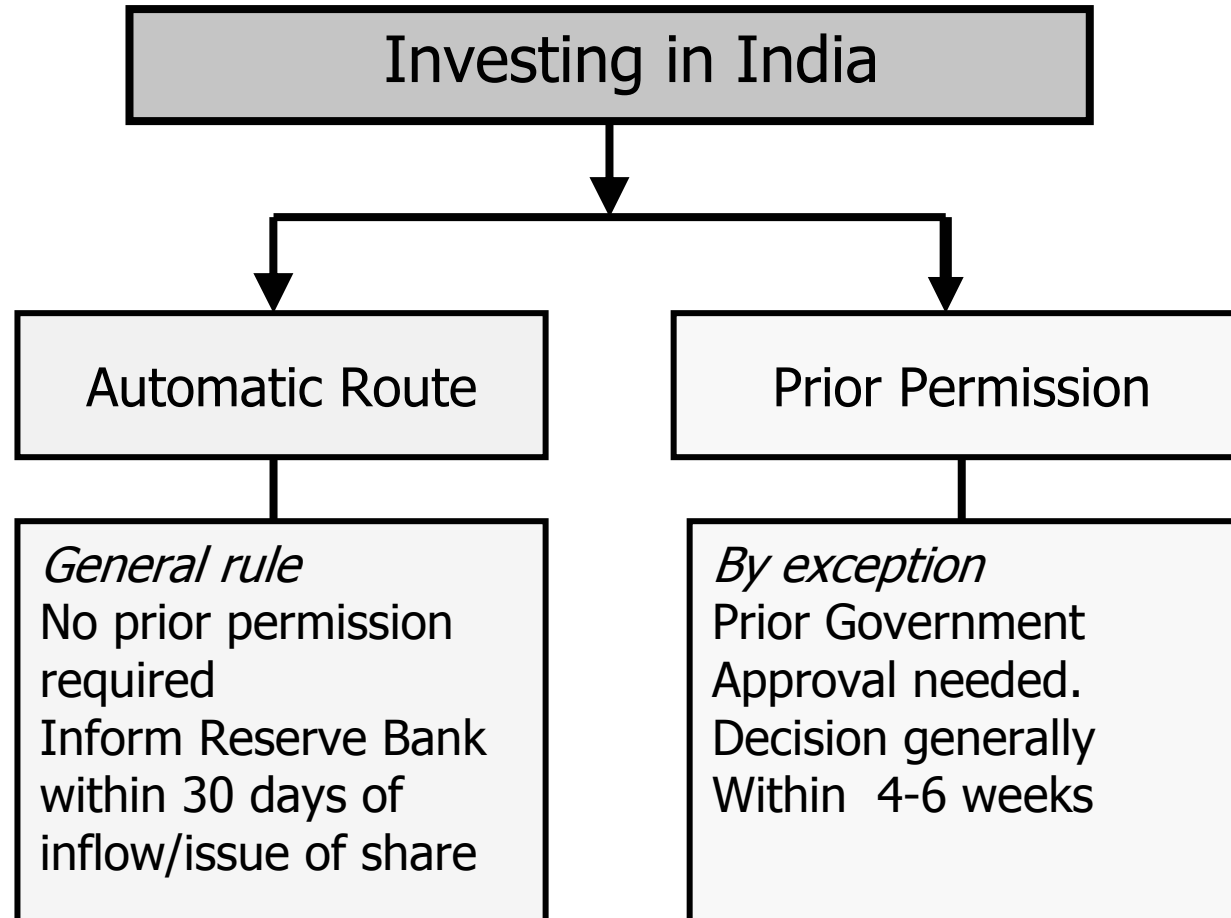
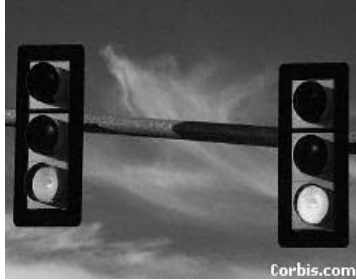


FDI Policy in India

- FDI up to 100% under 'Automatic Route' except
 - ♦ Activities requiring compulsory licensing
 - ♦ Investor having joint venture in same or allied field
 - ♦ Limits specifically imposed under sectoral policies
- National Treatment to investments
- Foreign technology collaboration also encouraged
 - ♦ Royalty up to prescribed limits can be paid under 'automatic route'
 - ♦ No limits on period of royalty payment under automatic route



Investing in India – Entry Routes



Other Policies on Investment

- Original investment, profits and dividends can be freely repatriated
- Investors can acquire immovable property to the extent of their business needs
- Capitalisation of royalty payable, and External Commercial Borrowings (ECBs) allowed
- Outward investment policies also liberalised
 - ♦ Indian Corporates can invest in entities abroad up to 100% of their net worth
 - ♦ Outward investment US\$ 3 billion in last two years
- Bilateral Investment Promotion and Protection Agreement with 57 countries.
- Double taxation Avoidance Agreement with 63 countries



Industrial Licensing Policy

- Deregulation of industrial sector
 - ◆ Prior to 1991 investment decisions were subject to Government directives
 - ◆ Progressive deregulation and decontrol
- Industrial license is now required only for
 - ◆ 6 industries under compulsory licensing
 - ◆ Manufacturer of items reserved exclusively for Small-Scale Sector
 - ◆ Project is to be located around large cities
- No industrial license is required for remaining items
- Atomic Energy and Railway transport: only sectors reserved for Public Sector



Telecommunications: Policy Initiatives

Policy Measures

- 1991: Telecom equipment manufacturing delicensed
- 1992: Cellular phone services opened to private sector
- 1994: National Telecom Policy (NTP)- private sector participation in basic services
- 1997: Telecom Regulatory Authority of India set up
- 1999: Migration from fixed license fee to revenue sharing regime
- 2000: National Long Distance service opened to competition
- 2002: International Long Distance & Internet telephony opened to competition
- 2004: Broadband Policy announced

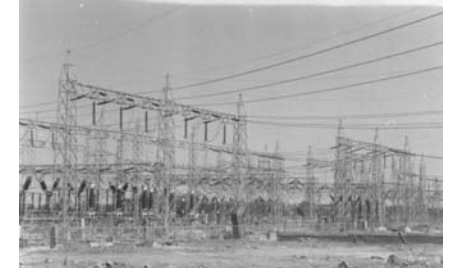


Results

- Cellular subscribers increasing @ 2 million every month
- Sharp decline in tariff further boosting demand
- Mobile phones set to reach 200 million in next 3-4 years

Power: Policy Initiatives

- Investment Policies
 - ♦ FDI up to 100% allowed under 'Automatic Route' for all activities, except nuclear power
 - ♦ Tax and duty concessions for Mega Power Projects
 - ♦ No industrial license required
- The Electricity Act, 2003
 - ♦ Thermal generation delicensed, captive generation freely permitted
 - ♦ Power trading recognised as a distinct activity
 - ♦ Introduces competition in market
- Independent Regulation
 - ♦ Central Electricity Regulatory Commission
 - ♦ State Electricity Regulatory Commissions – set up in 23 States
- Additional capacity of 1000,000 MW required in next 10 years



Roads and Highways

- National Highways Authority of India (NHAI) set up
 - ◆ Central Road Fund to mobilize cess fund and leverage for market borrowings
- Investment Policies
 - ◆ FDI up to 100 per cent permitted under the 'Automatic Route'
- Public Private Partnership through BOT toll-based and annuity based structures
- Investment Incentives
 - ◆ Corporate tax holiday for a block of 10 years out of 20 years
 - ◆ Duty-free import of specified modern high capacity equipment for highway construction
- National Highways Development Programme: Over 14,000 km of highways under implementation
 - ◆ Another 10,000 km being taken up under BOT



Changing Role of Government

- **'Facilitator'** of private investment by creating an enabling environment
- **'Provider'** of gaps in critical infrastructure to encourage investment
- **'Partner'** of the private sector in 'public-private' partnerships
- **'Investor'** in social sectors such as health, education, etc., to serve the needs of society



Public Private Partnerships in Infrastructure

- **Objective**

- ♦ To encourage private participation in infrastructure development

- **Criteria**

- ♦ Roads, railways, seaports, airports, power, water supply, sewerage, international convention centres
- ♦ Project must be implemented by an entity with at least 40% private equity
- ♦ Total Government support, central or state or their agencies, not to exceed 20% of total project cost

- **Funding**

- ♦ Viability gap funding: Government support to reduce project cost and help achieve financial viability
- ♦ Funding in instalments, contingent on achieving predetermined milestones
- ♦ At least 15% of funding to be disbursed after project is fully functioning



PPP Examples: Roads Sector

- **The SPV model**
 - ♦ NHAI invests around 30 per cent of the project as equity
 - ♦ Rest of the equity by private sector partner and/or from the market
 - ♦ 11 projects taken up through the SPV route
- **BOT-Annuity based projects**
 - ♦ Private concessionaire is responsible for construction and maintenance of the project
 - ♦ NHAI pays the concessionaire a semi-annual payment
 - ♦ Concession contract is awarded to the bidder quoting the lowest annuity amount
 - ♦ Under this approach, Government bears the traffic risk
 - ♦ Eight projects taken up under this route



India Investment Outlook

- Liberal and transparent investment policies, including FDI Policy
- Among the top 5 'Reformers' in 2003 - *World Bank*
- 3rd most attractive investment destination: *ATKEARNEY FDI Confidence Index 2004*
- Among the top 3 investment 'hot spots' for the next 4 years: *UNCTAD & Corporate Location*
- Most preferred BPO destination - *ATKEARNEY*
- Indian economy expected to continue growing at 5% per annum till 2050: *Goldman Sachs*



Thank You

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