

POLICY

1. INDUSTRIAL POLICY

The Government's liberalisation and economic reforms programme aims at rapid and substantial economic growth, and integration with the global economy in a harmonised manner. The industrial policy reforms have reduced the industrial licensing requirements, removed restrictions on investment and expansion, and facilitated easy access to foreign technology and foreign direct investment.

Industrial Licensing

1.1 All industrial undertakings are exempt from obtaining an industrial licence to manufacture, except for (i) industries reserved for the Public Sector (Annex I), (ii) industries retained under compulsory licensing (Annex II), (iii) items of manufacture reserved for the small scale sector and (iv) if the proposal attracts locational restriction. [For procedure to obtain Industrial Licence refer to para 7.2].

Industrial Entrepreneurs Memorandum

1.2 Industrial undertakings exempt from obtaining an industrial license are required to file an Industrial Entrepreneur Memoranda (IEM) in Part 'A' (as per prescribed format) with the Secretariat of Industrial Assistance (SIA), Department of Industrial Policy and Promotion, Government of India, and obtain an acknowledgement. No further approval is required. Immediately after commencement of commercial production, Part B of the IEM has to be filled in the prescribed format. The facility for amendment of existing IEMs has also been introduced. [For procedure to file IEM refer to para 7.1].

Locational Policy

Industrial undertakings are free to select the location of a project. In the case of cities with population of more than a million (as per the 1991 census), however, the proposed location should be at least 25 KM away from the Standard Urban Area limits of that city unless, it is to be located in an area designated as an "industrial area" before the 25th July, 1991. (List of cities with population of 1 million and above is given at Annexure-V). Electronics, Computer software and Printing (and any other industry which may be notified in future as "non polluting industry") are exempt from such locational restriction. Relaxation in the aforesaid locational restriction is possible if an industrial license is obtained as per the notified procedure.

1.4 The location of industrial units is further regulated by the local zoning and land use regulations as also the environmental regulations. Hence, even if the requirement of the locational policy stated in paragraph 1.3 is fulfilled, if the local zoning and land use regulations of a State Government, or the regulations of the Ministry of Environment do not permit setting up of an industry at a location, the entrepreneur would be required to abide by that decision.

Policy Relating to Small Scale Undertakings

1.5 An industrial undertaking is defined as a small scale unit if the investment in fixed assets in plant and machinery does not exceed Rs 10 million. The Small Scale units can get registered with the Directorate of Industries/District Industries Centre in the State Government concerned. Such units can manufacture any item including those notified as exclusively reserved for manufacture in the small scale sector. Small scale units are also free from locational restrictions cited in paragraph 1.3 above. However, a small scale unit is not permitted more than 24 per cent equity in its paid up capital from any industrial undertaking either foreign or domestic.

1.6 Manufacture of items reserved for the small scale sector can also be taken up by non- small scale units, if they apply for and obtain an industrial license. In such cases, it is mandatory for the non-small scale unit to undertake minimum export obligation of 50 per cent. This will not apply to non-small scale EOUs that are engaged in the manufacture of items reserved for the SSI sector, as they already have a minimum export obligation of 66 per cent of their production. In addition, if the equity holding from another company (including foreign equity) exceeds 24 per cent, even if the investment in plant and machinery in the unit does not exceed Rs 10 million, the unit loses its small scale status. An IEM is required to be filed in such a case for de-licensed industries, and an industrial license is to be obtained in the case of items of manufacture covered under compulsory licensing.

1.7 A small scale unit manufacturing small scale reserved item(s), on exceeding the small scale investment ceiling in plant and machinery by virtue of natural growth, needs to apply for and obtain a Carry-on-Business (COB) License. No export obligation is fixed on the capacity for which the COB license is granted. However, if the unit expands its capacity for the small scale reserved item(s) further, it needs to apply for and obtain a separate industrial license. (For procedure to obtain COB licence, refer to para 7.2(d)).

1.8 It is possible that a chemical or a by-product recoverable through pollution control measures is reserved for the small scale sector. With a view to adopting pollution control measures, Government have decided that an application needs to be made for grant of an industrial licence for such reserved items which would be considered for approval without necessarily imposing the mandatory export obligation.

Environmental Clearances

1.9 Entrepreneurs are required to obtain Statutory clearances relating to Pollution Control and Environment for setting up an industrial project. A Notification (SO 60(E) dated 27.1.94) issued under The Environment Protection Act 1986 has listed 29 projects in respect of which environmental clearance needs to be obtained from the Ministry of Environment, Government of India. This list includes industries like petrochemical complexes, petroleum refineries, cement, thermal power plants, bulk drugs, fertilisers, dyes, paper etc. However if investment is

1.10 less than Rs. 500 million, such clearance is not necessary, unless it is for pesticides, bulk drugs and pharmaceuticals, asbestos and asbestos products, integrated paint complexes, mining projects, tourism projects of certain parameters, tarred roads in Himalayan areas, distilleries, dyes, foundries and electroplating industries. Further, any item reserved for the small scale sector with investment of less than Rs 10 million is also exempt from obtaining environmental clearance from the Central Government under the Notification. Powers have been delegated to the State Governments for grant of environmental clearance for certain categories of thermal power plants. Setting up industries in certain locations considered ecologically fragile (eg Aravalli Range, coastal areas, Doon valley, Dahanu, etc.) are guided by separate guidelines issued by the Ministry of Environment of the Government of India. [For procedure to obtain environmental clearance, refer to para 21.1].

2. FOREIGN DIRECT INVESTMENT

Government wishes to facilitate foreign direct investment (FDI) and investment from Non-Resident Indians (NRIs) including Overseas Corporate Bodies (OCBs), that are predominantly owned by them, to complement and supplement domestic investment. Investment and returns are freely repatriable, except where the approval is subject to specific conditions such as lock -in period on original investment, dividend cap, foreign exchange neutrality, etc. as per the notified

sectoral policy. The condition of dividend balancing that was applicable to FDI in 22 specified consumer goods, industries stands withdrawn for dividends declared after 14th July 2000, the date on which Press Note No. 7 of 2000 series was issued.

2.1 Foreign direct investment is freely allowed in all sectors including the services sector, except where the existing and notified sectoral policy does not permit FDI beyond a ceiling. FDI for virtually all items/activities can be brought in through the Automatic Route under powers delegated to the Reserve Bank of India (RBI), and for the remaining items/activities through Government approval. Government approvals are accorded on the recommendation of the Foreign Investment Promotion Board (FIPB), chaired by the Secretary, Department of Industrial Policy and Promotion (Ministry of Commerce & Industry) with the Union Finance Secretary, Commerce Secretary, and other key Secretaries of the Government as its members.

Automatic Route

(a) New Ventures

2.2 All items/activities for FDI/NRI/OCB investment up to 100% fall under the Automatic Route except those covered under (i) to (iv) of para 2.9.

Whenever any investor chooses to make an application to the FIPB and not to avail of the automatic route, he or she may do so.

Investment in public sector units as also for EOU/EPZ/EHTP/STP units would also qualify for the Automatic Route. Investment under the Automatic Route shall continue to be governed by the notified sectoral policy and equity caps and RBI will ensure compliance of the same. The National Industrial Classification (NIC) 1987 shall remain applicable for description of activities and classification for all matters relating to FDI/NRI/OCB investment:

Areas/sectors/activities hitherto not open to FDI/NRI/OCB investment shall continue to be so unless otherwise decided and notified by Government.

Any change in sectoral policy/sectoral equity cap shall be notified by the Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy & Promotion.

(b) Existing Companies

2.3 Besides new companies, automatic route for FDI/NRI/OCB investment is also available to the existing companies proposing to

induct foreign equity. For existing companies with an expansion programme, the additional requirements are that (i) the increase in equity level must result from the expansion of the equity base of the existing company without the acquisition of existing shares by NRI/OCB/foreign investors, (ii) the money to be remitted should be in foreign currency and (iii) proposed expansion programme should be in the sector(s) under automatic route. Otherwise, the proposal would need Government approval through the FIPB. For this the proposal must be supported by a Board Resolution of the existing Indian company.

2.4 For existing companies without an expansion programme, the additional requirements for eligibility for automatic approval are (i) that they are engaged in the industries under automatic route, (ii) the increase in equity level must be from expansion of the equity base and (iii) the foreign equity must be in foreign currency.

2.5 The earlier SEBI requirement, applicable to public limited companies, that shares allotted on preferential basis shall not be transferable in any manner for a period of 5 years from the date of their allotment has now been modified to the extent that not more than 20 per cent of the entire contribution brought in by promoter cumulatively in public or preferential issue shall be locked-in.

2.6 The automatic route for FDI and/or technology collaboration would not be available to those who have or had any previous joint venture or technology transfer/trade mark agreement in the same or allied field in India.

2.7 Equity participation by international financial institutions such as ADB, IFC, CDC, DEG, etc. in domestic companies is permitted through automatic route subject to SEBI/RBI regulations and sector specific cap on FDI.

2.8 In a major drive to simplify procedures for foreign direct investment under the "automatic route", RBI has given permission to Indian Companies to accept investment under this route without obtaining prior approval from RBI. Investors are required to notify the Regional Office concerned of the RBI of receipt of inward remittances within 30 days of such receipt and file required documentation within 30 days of issue of shares to Foreign Investors. This facility is available to NRI/OCB investment also. [For procedure relating to automatic approval, refer to para 8.1].

Government Approval

2.9 For the following categories, Government approval for FDI/NRI/OCB through the FIPB shall be necessary: -

- (i) All proposals that require an Industrial Licence which includes (1) the item requiring an Industrial Licence under the Industries (Development & Regulation) Act, 1951; (2) foreign investment being more than 24 per cent in the equity capital of units manufacturing items reserved for small scale industries; and (3) all items which require an Industrial Licence in terms of the locational policy notified by Government under the New Industrial Policy of 1991.
- (ii) All proposals in which the foreign collaborator has a previous venture/tie up in India. The modalities prescribed in Press Note No. 18 dated 14.12.1998 of 1998 Series, shall apply to such cases. However, this shall not apply to investment made by multilateral financial institutions such as ADB, IFC, CDC, DEG, etc. as also investment made in IT sector.
- (iii) All proposals relating to acquisition of shares in an existing Indian company in favour of a foreign/NRI/OCB investor.
- (iv) All proposals falling outside notified sectoral policy/caps or under sectors in which FDI is not permitted.

Areas/sectors/activities hitherto not open to FDI/NRI/OCB investment shall continue to be so unless otherwise decided and notified by Government.

Any change in sectoral policy/sectoral equity cap shall be notified by the Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy & Promotion.

2.10 RBI has granted general permission under Foreign Exchange Management Act (FEMA) in respect of proposals approved by the Government. Indian companies getting foreign investment approval through FIPB route do not require any further clearance from RBI for the purpose of receiving inward remittance and issue of shares to the foreign investors. Such companies are, however, required to notify the Regional Office concerned of the RBI of receipt of inward remittances within 30 days of such receipt and to file the required documents with the concerned Regional Offices of the RBI within 30 days after issue of shares to the foreign investors.

2.11 For greater transparency in the approval process, Government has announced guidelines for consideration of FDI proposals by the FIPB. The guidelines are stated in Annexure-III. The sector specific guidelines for FDI and Foreign Technology Collaborations are stated in Annexure IV. [For procedure relating to Government approval, refer to para 8.2].

Issue and Valuation of Shares in case of existing companies

2.12 Allotment of shares on preferential basis shall be as per the requirements of the Companies Act, 1956, which will require special resolution in case of a public limited company.

In case of listed companies, valuation shall be as per the RBI/SEBI guidelines as follows:

The issue price shall be either at :

a) The average of the weekly high and low of the closing prices of the related shares quoted on the Stock Exchange during the six months preceding the relevant date or b) The average of the weekly high and low of the closing prices of the related shares quoted on the Stock Exchange during the two weeks preceding the relevant date.

The stock exchange referred to is the one at which the highest trading volume in respect of the share of the company has been recorded during the preceding six months prior to the relevant date.

The relevant date is the date thirty days prior to the date on which the meeting of the General Body of the shareholder is convened.

In all other cases a company may issue shares as per the RBI regulation in accordance with the guidelines issued by the erstwhile Controller of Capital Issues.

Other relevant guidelines of Securities and Exchange Board of India (SEBI)/(RBI) including the SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997, wherever applicable, would need to be followed.

Foreign Investment in the Small Scale Sector

2.13 Under the small scale policy, equity holding by other units including foreign equity in a small scale undertaking is permissible up to 24 per cent. However there is no bar on higher equity holding for foreign investment if the unit is willing to give up its small scale status. In case of foreign investment beyond 24 per cent in a small scale unit which manufactures small scale reserved item(s), an industrial license carrying a mandatory export obligation of 50 per cent would need to be obtained.

Foreign Investment Policy for Trading Activities

2.14 Foreign investment for trading can be approved through the automatic route up to 51% foreign equity, and beyond this by the

Government through FIPB. For approval through the automatic route, the requirement would be that it is primarily export activities and the undertaking concerned is an export house/trading house/ super trading house/star trading house registered under the provisions of the Export and Import policy in force. The sectoral policy of trading activities is elaborated at S. No. 8 viz. Trading of Annexure IV (Sector Specific Guidelines for Foreign Direct Investment) of this Manual.

Other Modes of Foreign Direct Investments

2.15 Global Depository Receipts(GDR)/American Deposit Receipts (ADR)/Foreign Currency Convertible Bonds (FCCB): Foreign Investment through GDRs/ADRs, Foreign Currency Convertible Bonds (FCCBs) are treated as Foreign Direct Investment. Indian companies are allowed to raise equity capital in the international market through the issue of GDR/ADRs/FCCBs. These are not subject to any ceilings on investment. An applicant company seeking Government's approval in this regard should have a consistent track record for good performance (financial or otherwise) for a minimum period of 3 years. This condition can be relaxed for infrastructure projects such as power generation, telecommunication, petroleum exploration and refining, ports, airports and roads.

2.16 There is no restriction on the number of GDRs/ADRs/FCCBs to be floated by a company or a group of companies in a financial year. A company engaged in the manufacture of items covered under Automatic Route, whose direct foreign investment after a proposed GDR/ADR/FCCBs issue is likely to exceed the percentage limits under the automatic route, or which is implementing a project falling under Government approval route, would need to obtain prior Government clearance through FIPB before seeking final approval from the Ministry of Finance.

2.17 There are no end-use restrictions on GDR/ADR issue proceeds, except for an express ban on investment in real estate and stock markets. The FCCB issue proceeds need to conform to external commercial borrowing end use requirements; in addition, 25 per cent of the FCCB proceeds can be used for general corporate restructuring.

Preference Shares

2.18 Foreign investment through preference shares is treated as foreign direct investment. Proposals are processed either through the automatic route or FIPB as the case may be. The following guidelines apply to issue of such shares:-

- (i) Foreign investment in preference share are considered as part of share capital and fall outside the External Commercial Borrowing (ECB) guidelines/cap.
- (ii) Preference shares to be treated as foreign direct equity for purpose of sectoral caps on foreign equity, where such caps are prescribed, provided they carry a conversion option. If the preference shares are structured without such conversion option, they would fall outside the foreign direct equity cap.
- (iii) Duration for conversion shall be as per the maximum limit prescribed under the Companies Act or what has been agreed to in the shareholders agreement whichever is less.
- (iv) The dividend rate would not exceed the limit prescribed by the Ministry of Finance.
- (v) Issue of Preference Shares should conform to guidelines prescribed by the SEBI and RBI and other statutory requirements.

3. INVESTMENT BY NON RESIDENT INDIANS & OVERSEAS CORPORATE BODIES

3.1 For all sectors, excluding those falling under Government approval, NRIs (which also includes PIOs) and OCBs (an overseas corporate body means a company or other entity owned directly or indirectly to the extent of at least 60% by NRIs) are eligible to bring investment through the automatic route of RBI. All other proposals, which do not fulfil any or, all of the criteria for automatic approval are considered by the Government through the FIPB.

3.2 The NRIs and OCBs are allowed to invest in housing and real estate development sector, in which foreign direct investment is not permitted. They are allowed to hold up to 100 percent equity in civil aviation sector in which otherwise foreign equity only up to 40 per cent is permitted.

4. FOREIGN TECHNOLOGY AGREEMENTS

4.1 With a view to injecting the desired level of technological dynamism in Indian industry and for promoting an industrial environment where the acquisition of technological capability receives priority, foreign technology induction is encouraged both through FDI and through foreign technology collaboration agreements. Foreign technology collaborations are permitted either through the automatic route under delegated powers exercised by the RBI, or

by the Government. However, cases involving industrial licenses/ small scale reserved items do not qualify for automatic approval and would require consideration and approval by the Government. Automatic route for technology collaboration would also not be available to those who have, or had any previous technology transfer/trademark agreement in the same or allied field in India. Further, automatic approval for EOU/EHTP/STP units is governed by provisions under Para 5.2 and 6.2.

Automatic Approval

4.2 The Reserve Bank of India, through its regional offices, accords automatic approval to all industries for foreign technology collaboration agreements subject to (i) the lump sum payments not exceeding US \$ 2 Million; (ii) royalty payable being limited to 5 per cent for domestic sales and 8 per cent for exports, subject to a total payment of 8 per cent on sales over a 10 year period; and (iii) the period for payment of royalty not exceeding 7 years from the date of commencement of commercial production, or 10 years from the date of agreement, whichever is earlier (The aforesaid royalty limits are net of taxes and are calculated according to standard conditions). [For procedure for automatic approval, refer to para 9.1].

Payment of royalty up to 2% for exports and 1% for domestic sales is allowed under automatic route on use of trademarks and brand name of the foreign collaborator without technology transfer. In case of technology transfer, payment of royalty subsumes the payment of royalty for use of trademark and brand name of the foreign collaborator. Royalty on brand name/trade mark shall be paid as a percentage of net sales, viz., gross sales less agents'/dealers' commission, transport cost, including ocean freight, insurance, duties, taxes and other charges, and cost of raw materials, parts, components imported from the foreign licensor or its subsidiary/affiliated company. Payment of royalty up to 8% on exports and 5% on domestic sales by wholly owned subsidiaries (WOS) to offshore parent companies is allowed under the automatic route without any restriction on the duration of royalty payments.

Government Approval

4.3 For the following categories, Government approval would be necessary:

- (a) Proposals attracting compulsory licensing
- (b) Items of manufacture reserved for the small scale sector

- (c) Proposals involving any previous joint venture, or technology transfer/trademark agreement in the same or allied field in India. The definition of "same" and "allied" field would be as per 4 digit NIC 1987 Code and 3 digit NIC 1987 Code.
- (d) Extension of foreign technology collaboration agreements (including those cases, which may have received automatic approval in the first instance)
- (e) Proposals not meeting any or all of the parameters for automatic approval as given in para 4.2.

[For procedure for Government approval refer to Para 9.2]

4.4 The items of foreign technology collaboration, which are eligible for approval through the automatic route, and by the Government are technical know how fees, payment for design and drawing, payment for engineering service and royalty.

4.5 Payments for hiring of foreign technicians, deputation of Indian technicians abroad, and testing of indigenous raw material, products, indigenously developed technology in foreign countries are governed by separate RBI procedures and rules and are not covered by the foreign technology collaboration approval. Similarly, payments for imports of plant and machinery and raw material are also not covered by the foreign technology collaboration approval. For any of these items, entrepreneurs may contact the RBI.

5. 100% EXPORT ORIENTED UNITS/ EXPORT PROCESSING ZONES/ SPECIAL ECONOMIC ZONES

5.1a 100 per cent Export Oriented Units (EOUs) and units in the Export Processing Zones (EPZs)/Special Economic Zones (SEZs), enjoy a package of incentives and facilities, which include duty free imports of all types of capital goods, raw material, and consumables in addition to tax holidays against export.

5.1b 100% FDI is permitted under automatic route for setting up of industrial park/industrial model town/special economic zone in the country. To encourage investment in this sector, 100% income tax exemption for 10 years within a block of 15 years is also granted for the industrial parks set up during the period 1.4.1977 to 31.3.2006.

Automatic Approval

5.2 The Development Commissioners (DCs) of Export Processing Zones (EPZs) /Free Trade Zones (FTZS) /Special Economic Zones(SEZs) accord automatic approval to projects where

- (a) Activity proposed does not attract compulsory licensing or falls in the services sector except IT enabled services;
- (b) Location is in conformity with the prescribed parameters;
- (c) Units undertake to achieve exports and value addition norms as prescribed in the Export and Import Policy in force;
- (d) Unit is amenable to bonding by customs authorities; and
- (e) Unit has projected the minimum export turnover, as specified in the Handbook of Procedures for Export and Import.

All proposals for FDI/NRI/OCB investments in EOU/EPZ units qualify for approval through automatic route subject to sectoral norms. Proposals not covered under the automatic route would be considered and approved by FIPB. [For procedure for automatic approval, refer to para 10.1 & 10.5].

5.3 Conversion of existing Domestic Tariff Area (DTA) units into EOU is also permitted under automatic route, if the DTA unit satisfies the parameters mentioned above and there is no outstanding export obligation under any other Export Oriented scheme of the Government of India.

5.4 FDI upto 100% is allowed through the automatic route for all manufacturing activities in Special Economic Zones (SEZs), except for the following activities:

- a. arms and ammunition, explosives and allied items of defence equipments defence aircraft and warships;
- b. atomic substances;
- c. narcotics and psychotropic substances and hazardous chemicals;
- d. distillation and brewing of alcoholic drinks; and
- e. cigarettes/cigars and manufactured tobacco substitutes.

For services, norms as notified, would be applicable

Government Approval

5.5 All proposals which do not meet any or all of the parameters for automatic approval will be considered and approved by the

Board of Approval of EOU/EPZ/SEZ set up in the Department of Commerce.

6. ELECTRONIC HARDWARE TECHNOLOGY PARK AND SOFTWARE TECHNOLOGY PARK SCHEMES

6.1 In order to provide impetus to the electronics industry, to enhance its export potential and to develop an efficient electronic component industry, Electronic Hardware Technology Park (EHTP) and Software Technology Park (STP) schemes offer a package of incentives and facilities like duty free imports on the lines of the EOU Scheme, deemed exports benefits and tax holidays.

Automatic Approval

6.2 The Directors of STPs in respect of STP proposals; and the Designated Officers in respect of EHTP proposals accord automatic approval if:

- (a) items do not attract compulsory licensing;
- (b) location is in conformity with the prescribed parameters;
- (c) export obligation laid down in the respective EHTP scheme or STP scheme is fulfilled;
- (d) unit is amenable to bonding by the Customs, and all the manufacturing operations are carried out in the same premises and the proposal does not envisage sending out of the bonded area any raw material or intermediate products for any other manufacturing or processing activity.

All proposals for FDI/NRI/OCB investments in EHTP/STP units are eligible for approval through Automatic Route subject to parameters listed under para 2.9 [For procedure to obtain Automatic Approval, refer to para 11.2].

Government Approval

6.3 All proposals which do not meet any or all of the parameters for automatic approval need to be considered and approved by the Government. Government approval for FDI/NRI/OCB investment under EHTP/ STP need to be obtained through the FIPB in respect of proposals covered under paragraph 2.9 [For procedure to obtain Government approval, refer to para 11.3 & 11.4].

PROCEDURES

7. APPROVAL PROCEDURES

The description of activities seeking all industrial approvals including foreign direct investment are required to be given as per the National Industrial Classification of All Economic Activities (NIC), 1987, published by the Central Statistical Organisation, Ministry of Statistics and Programme Implementation, New Delhi. Copies of the publication can be obtained on payment from Controller of publications, 1 Civil Lines, Delhi-1 10054 or from any outlet dealing in Government Publications.

7.1 General Procedures

IEM:

- (a) All industrial undertakings exempt from the requirements of industrial licensing, including existing units undertaking substantial expansion, need to file information in the prescribed Industrial Entrepreneurs Memorandum, i.e. Form IEM. The form is available at all outlets dealing in Government Publications, Indian Embassies, the Entrepreneurial Assistance Unit (EAU) of the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion, Udyog Bhavan, New Delhi-110011, and can also be downloaded from the Web site of the SIA (<http://indmin.nic.in>).
- (b) The Memorandum (IEM) should be submitted to the EAU of the SIA in person or by post. A computer acknowledgement containing the SIA Registration Number (for future reference) will be issued across the counter immediately if delivered in person or sent by post if received through post. No further approval from SIA is required.
- (c) The IEM should be submitted along with a crossed demand draft of Rs.1000/- drawn in favour of "The Pay & Accounts Officer, Department of Industrial Development, Ministry of Industry", payable at the State Bank of India, Nirman Bhawan Branch, New Delhi up to 10 items proposed to be manufactured in the same unit. For more than 10 items, an additional fee of Rs 250 up to 10 additional items needs to be paid through crossed demand draft.
- (d) All Industrial undertakings also need to file information in Part

'B' of the Memorandum at the time of commencement of commercial production. The prescribed form is appended to Form IEM. This Part - B Memorandum has also to be filed with the EAU in SIA, but no fee is required.

- (e) No amendment/modifications are made to any IEM filed before 30th June 1998 except for clerical errors. Where any amendment/modification is sought to be made in such IEMs, a fresh memorandum in Form IEM, along with the prescribed fee has to be filed for which a fresh acknowledgement will be issued. An IEM would be cancelled/deleted from the SIA records if, on scrutiny, it is found that the proposal contained in the IEM is licensable.
- (f) In respect of IEMs filed in the new form made effective from 1st July 1998, amendments/modifications will be made on the request of the entrepreneur, as per the notified procedure.

7.2 Procedural Requirements for Licensed Sectors

Industrial Licence:

- (a) All industrial undertakings subject to compulsory industrial licensing are required to submit an application in the prescribed format, i.e. Form FC-IL). Licenses are granted under the provisions of the Industries (Development and Regulation) Act, 1951. The form is available in the EAU of the SIA, at all outlets dealing in Government Publications, Indian Embassies, and can also be downloaded from the Web site of the SIA (<http://indmin.nic.in>). Applications for the manufacture of chlorine and caustic soda, along with associated products should include information regarding the chlorine utilisation programme.
- (b) Application in Form FC-IL should be submitted to the EAU of the SIA, Department of Industrial Policy & Promotion, Ministry of Commerce and Industry, Udyog Bhawan, New Delhi - 110011. Approvals will normally be available within 4- 6 weeks of filling the application.
- (c) The application, in Form FC-IL, should be submitted along with a crossed demand draft of Rs.2500/- drawn in favour of the Pay & Accounts Officer, Department of Industrial Development, Ministry of Industry, payable at the State Bank of India, Nirman Bhawan, New Delhi.

Carry on Business (COB) Licence

- (d) A COB licence is required when a small scale unit exceeds

the prescribed small scale limit of investment in plant and machinery by way of natural growth and continues to manufacture small scale reserved item(s). Also, if exemption from Industrial licensing granted for any item is withdrawn, the industrial undertakings that are manufacturing such item(s) require COB licence. The application for COB licence should be submitted in prescribed form "EE" to the SIA, Department of Industrial Policy and Promotion, along with a crossed demand draft of Rs.2500/- drawn in favour of the Pay & Accounts Officer, Department of Industrial Development, Ministry of Industry, payable at the State Bank of India, Nirman Bhawan, New Delhi.

8. FOREIGN DIRECT INVESTMENT

Procedure for Automatic Route

8.1 The proposals for approval under the automatic route are to be made to the Reserve Bank of India in the FC (RBI) form. In a major drive to simplify procedures for foreign direct investment under the "automatic route", RBI has given permission to Indian Companies to accept investment under this route without obtaining prior approval from Reserve Bank of India. However, investors will have to file the required documents with the concerned Regional Office of the RBI within 30 days after issue of shares to foreign investors. This facility is available to NRI/OCB investment also.

Procedure for Government Approval

8.2 Foreign Investment Promotion Board

- (a) All other proposals for foreign investment, including NRI/OCB investment and foreign investment in EOUEPZ/STP/EHTP units, which do not fulfil any or all of the parameters prescribed for automatic approval, as given in paragraph 2.8, 3.1, and 3.2 are considered for approval on merits by the Government. All such proposals are considered for approval by the Foreign Investment Promotion Board (FIPB). The FIPB also grants composite approvals involving foreign technical collaborations and setting up of Export Oriented Units involving foreign investment/foreign technical collaboration.
- (b) Applications to FIPB for approval of foreign investment should be submitted in Form FC-IL. Plain paper applications carrying all relevant details are also accepted. No fee is payable. The

following information should form part of the proposals submitted to FIPB: -

- i) Whether the applicant has had or has any previous financial/technical collaboration or trade mark agreement in India in the same or allied field for which approval has been sought; and
 - ii) If so, details thereof and the justification for proposing the new venture/technical collaboration (including trade marks).
- (c) The application can be submitted with the EAU of the SIA, Department of Industrial Policy & Promotion, Ministry of Commerce and Industry, Udyog Bhavan, New Delhi - 110011. Applications can also be submitted with Indian Missions abroad who will forward them to the SIA for further processing.
- (d) Foreign investment proposals received in the SIA are placed before the Foreign Investment Promotion Board (FIPB) within 15 days of its receipt. The Board has the flexibility of purposeful negotiation with the investors and considers project proposals in totality in order to ensure optimum foreign direct investment into the country. The recommendations of FIPB in respect of project proposals involving a total investment of up to Rs. 6 billion are considered and approved by the Industry Minister. Projects with a total investment exceeding Rs. 6 billion are submitted to the Cabinet Committee on Economic Affairs (CCEA) for decision.
- (e) The decision of the Government in all cases is conveyed by the SIA normally within 30 days.
- (f) RBI has granted general permission under Foreign Exchange Management Act (FEMA) in respect of proposals approved by the Government. Indian companies getting foreign investment approval through FIPB route do not require any further clearance from RBI for the purpose of receiving inward remittance and issue of shares to the foreign investors. Such companies are, however, required to file the required document with the concerned Regional Offices of the RBI within 30 days after issue of shares to the foreign investors.
- (g) Similarly, for inward remittance and issue of shares to NRI/OCB up to 100 per cent equity also, prior permission of RBI is not required. These companies have to file the required documents with the concerned Regional Offices of RBI within 30 days after the issue of shares to NRIs/OCBs.

9. FOREIGN TECHNOLOGY COLLABORATION

Procedure for Automatic Approval

9.1 Applications for automatic approval for such foreign technology agreements should be submitted in Form FT (RBI) with the concerned Regional Offices of Reserve Bank of India. No fee is payable. Approvals are available within 2 weeks.

Procedure for Government Approval

9.2 All other proposals for foreign technology agreement, not meeting any or all of the parameters for automatic approval, and all cases of extension of existing foreign technical collaboration agreement, are considered for approval, on merits, by the Government. Application in respect of such proposals should be submitted in Form FC-IL to the Secretariat for Industrial Assistance, Department of Industrial Policy & Promotion, Ministry of Commerce and Industry, Udyog Bhavan, New Delhi. No fee is payable. The following information should form part of the proposals submitted to SIA:

- i) Whether the applicant has had or has any previous financial/technical collaboration or trade mark agreement in India in the same or allied field for which approval has been sought; and
- ii) If so, details thereof and the justifications for proposing the new venture/technical collaboration (including trade marks).

On consideration of the proposal by the Project Approval Board/ FIPB, decisions are normally conveyed within 4 to 6 weeks of filing the application.

10. 100% EXPORT ORIENTED UNITS AND UNITS SET UP IN EPZ/FTZ/SEZ

A.Procedure for Approval for EOUs

10.1 Applications in the prescribed form for 100 per cent EOUs should be submitted to the Development Commissioners (DCs) of the Export Processing Zones (EPZs) concerned for automatic approval and to the SIA for Government approval. The Form is printed in the Handbook of Procedures for Export and Import, 1997-2002 published by the Ministry of Commerce & Industry and is also available at all outlets dealing in Government Publications. The application should be submitted along with a crossed demand draft of Rs.5000/- drawn in favour of the "the Pay & Accounts Officer, Department of Industrial Development, Ministry of Commerce and Industry", payable at the State Bank of India, Nirman Bhavan Branch, New Delhi.

Procedure for Automatic Approval for EOUs

10.2 Applications in the prescribed form for 100 per cent EOUs should be submitted to the DCs of the EPZs. Wherever, the proposals meet the criteria for automatic approval, as given in paragraph 5.2, the DC of the EPZ would issue approval letters within 2 weeks.

Procedure for Government Approval for EOUs

10.3 Proposals not covered by the automatic route shall be forwarded by the DC to the Board of Approval (BoA) for consideration. On consideration of the proposal by the board, the decision would normally be conveyed in six weeks.

Procedure for foreign direct investment/NRI investment

10.4 For proposals not covered under Automatic Route, the applicant should seek separate approval of the FIPB, as per the procedure outlined in para 8.2 above.

B. Procedure for Approval for units located In EPZ/FTZ/ SEZ

10.5 Applications for setting up units in EPZs/SEZs be submitted to the concerned DC of the EPZ/SEZ. The Form is printed in the Handbook of Procedures for Export and Import, 1997-2002 published by the Ministry of Commerce and is also available at all outlets dealing in Government Publications. The application should be submitted along with a crossed demand draft of Rs.5000/- drawn in favour of the "the Pay & Accounts Officer, Department of Industrial Development, Ministry of Industry", payable at the State Bank of India, Nirman Bhavan Branch, New Delhi.

Procedure for Automatic Approval for units located in EPZ/FTZ/SEZ

10.6 Applications in the prescribed form for 100 per cent EOUs should be submitted to the DCs of the EPZs/SEZs. Wherever, the proposals meet the criteria for automatic approval, as given in paragraph 5.2 the DC of the EPZ/SEZ would issue approval letters within 2 weeks.

Procedure for Government Approval for units located in EPZ/FTZ /SEZ

10.7 Proposals not covered by the automatic route shall be forwarded

by the DC to the Board of Approval (BOA) for consideration. On consideration of the proposal by the Board, the decision would normally be conveyed in six weeks.

Procedure for Foreign Direct Investment / NRI Investment

10.8 All proposals for FDI/NRI/OCB investment in EPZ/EOU/SEZ are eligible for approval under Automatic Route subject to parameters listed in para 2.9. For proposals not covered under Automatic Route, the applicant should seek separate approval of the FIPB, as per the procedure outlined in para 8.2 above.

11. EHTP/STP UNITS

Procedure for Approval for EHTP/STP

11.1 Application, in the prescribed form, should be submitted to the concerned Directors of STPs or the Designated Officers of EHTPs for automatic approval, and to the SIA for Government approval. The application should be submitted along with a crossed demand draft for Rs. 5000/- drawn in favour of the "the Pay & Accounts Offer, Department of Industrial Development, Ministry of Industry", payable at State Bank of India, Nirman Bhawan, New Delhi. The form is available in any outlet dealing with Government Publications.

Procedure for Automatic Approval for EHTP/STP

11.2 Application, in the prescribed form, should be submitted to the concerned Directors of STPs or the Designated Officers of EHTPs for automatic approval. Wherever, the proposals meet the criteria for automatic approval, as given in paragraph 6.2, the approval letters are issued within 2 weeks. All other proposals shall be forwarded to the Inter Ministerial Standing Committee for consideration.

Procedure for Government Approval for EHTP/STP

11.3 Application, in the prescribed form, should be submitted to the Officer designated by the Ministry of Information Technology for the purpose. Such applications shall be forwarded by the Officer designated to the Inter Ministerial Standing Committee in the Ministry of Information Technology for consideration. On consideration by the Inter Ministerial Standing Committee, a decision would be normally conveyed within six weeks.

Procedure for Foreign Direct Investment / NRI Investment

11.4 All proposals for FDI/NRI/OCB investment in EHTP/STP Units are eligible for approval under Automatic Route subject to parameters listed in para 2.9. For proposals not covered under Automatic Route, the applicant should seek separate approval of the FIPB, as per the procedure outlined in para 8.2 above.

Procedure for Foreign Direct Investment in Industrial Park

11.5 As 100% FDI is permitted under automatic route for setting up of industrial park, the procedure mentioned in para 8.1 will be applicable for seeking requisite approval.

Procedure for availing Income Tax benefit for the Industrial Park

11.6 For availing 100% tax exemption available under section 80 IA of the Income Tax Act, 1961 for setting up, operating, operating and maintenance of Industrial Park, proposal has to be submitted in IPS-I form, available on this Department's website (<http://dipp.nic.in>), to the secretariat for Industrial Assistance. The proposals which meet the given criteria (please refer to Industrial Park Notification, 2002 available on the Department's website) are approved under automatic route. Otherwise, they are considered under non-automatic route by an Empowered Committee. Application for automatic approval has to be submitted in duplicate and for non-automatic approval in six sets. The approval in IPS-I form has to be accompanied with a demand draft of Rs.6000/- drawn in favour of "Pay & Accounts Officer, Department of Industrial Development, Ministry of Industry" payable at State Bank of India, Nirman Bhavan branch, New Delhi.

FACILITATION

12 INVESTMENT PROMOTION AND FACILITATION

Foreign Investment Promotion Board (FIPB)

12.1 The Government has revamped the FIPB and transferred it to the Industry Ministry. The FIPB is the nodal, single window agency for all matters relating to FDI as well as promoting investment into the country. It is chaired by Secretary, Industry (Department of Industrial Policy and Promotion). Its objective is to promote FDI into India: -

- (i) By undertaking investment promotion activities in India and abroad,
- (ii) Facilitating investment in the country by international companies, non-resident Indians and other foreign investors,
- (iii) Through purposeful negotiation/discussion with potential investors,
- (iv) Early clearance of proposals submitted to it, and
- (v) Review policy and put in place appropriate institutional arrangements, transparent rules and procedures and guidelines for investment promotion and approvals.

12.2 After its revamping, the FIPB has played a proactive role in promoting and attracting FDI into the country and further facilitating expeditious clearance to the proposals submitted to it. The FIPB has also decided to monitor implementation of mega projects to further facilitate investment and remove bottlenecks and as part of this exercise, to get studies commissioned through professional bodies and undertake other promotional measures.

Mailbox facility for filing of proposals for FIPB

12.3 A mailbox facility is available on the SIA website in the name of siaapplication@ub.nic.in for filing applications for FIPB.

13. FOREIGN INVESTMENT IMPLEMENTATION AUTHORITY (FIIA)

13.1 Government has set up the Foreign Investment Implementation Authority (FIIA) in the Ministry of Commerce and Industry. The FIIA will facilitate quick translation of Foreign Direct Investment (FDI) approvals into implementations, provide a pro-active one stop after care service to foreign investors by helping them obtain necessary

approvals, sort out operational problems and meet with various Government Agencies to find solutions to problems and maximising opportunities through a partnership approach.

13.2 Role

The FIIA shall take steps to:

- Understand and address concerns of investors;
- Understand and address concerns of approving authorities;
- Initiate multi agency consultations; and
- Refer matters not resolved at the FIIA level to high levels on a quarterly basis, including cases of projects slippage on account of implementation bottlenecks.

13.3 Functions

The functions of the FIIA shall be as under:

- Expediting various approvals/permissions;
- Fostering partnership between investors and government agencies concerned;
- Resolve difference in perceptions;
- Enhance overall credibility;
- Review policy framework; and
- Liaise with the Ministry of External Affairs for keeping India's diplomatic missions abroad informed about translation of FDI approvals into actual investment and implementation.

13.4 The modalities of functioning of FIIA shall be as under:

- i) The FIIA shall set up a Fast Track Committee (FTC) to review and monitor mega projects. It will nominate members of the FTC from representatives of various Ministries/agencies/State Government at the working level. The representative of the AM concerned shall act as the project coordinator and shall head the FTC. The FTC shall prescribe the time frame within which various approvals/permissions are to be given on a project to project basis. FTC shall also flag issues that need to be resolved by FIIA. Based on the inputs provided by FTC, the FIIA will give its recommendations on each project on the basis of which Administrative Ministries/State Government shall take action under their own laws and regulations.
- ii) The FIIA will initiate inter Ministerial consultations and

make appropriate recommendations to the competent authority, i.e. Ministry/Department concerned at the Central Government level and the State Government, as the case may be, on issues requiring policy intervention.

- iii) The FIIA will act as a single point interface between the investor and Government agencies including Administrative Ministries/State Governments/Pollution Control Board/DGFT/Regulatory Authorities/Tax Authorities/Company Law Board, etc.
- iv) The FIIA shall meet once every month to review cases involving investment of Rs. 100 crore or more, consider references received from the FTC, and monitor the functioning of various FTCs. It would also entertain any complaint regarding implementation bottlenecks from FDI approval holders regardless of the quantum of investment.
- v) The FIIA shall also make recommendations from time to time on any issue relating to the speedy implementation of FDI projects and also to provide transparency in government functioning with respect to FDI projects.

13.5 The Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy & Promotion shall function as the Secretariat of the FIIA.

13.6 Approval holders are requested to send their suggestions and problems, if any, to any of the following officers in SIA or FIIA's e-mail address at fiia@ub.nic.in :

- (i) Joint Secretary, SIA
- (ii) Director (FIPB & 100% EOUs)
- (iii) Director (FIIA)
- (iv) Director (100% EOUs and NRI Investment)
- (v) Director (Investment Promotion & Infrastructure Development Cell)
- (vi) Director (Industrial Licensing and Technology Collaboration)

(Contact addresses of these officers are available at the back of this publication)

The issues raised will be taken up with the concerned Department/ authorities and are discussed in the meetings of FIIA.

14. FOREIGN INVESTMENT PROMOTION COUNCIL (FIPC)

Apart from making the policy framework investor-friendly and transparent, promotional measures are also taken to attract Foreign Direct Investment into the country. The Government has constituted a Foreign Investment Promotion Council (FIPC) in the Ministry of Commerce and Industry. This comprises professionals from Industry and Commerce. It has been set up to have a more target oriented approach toward Foreign Direct Investment promotion. The basic function of the Council is to identify specific sectors/projects within the country that require Foreign Direct Investment and target specific regions/countries of the world for its mobilisation.

15. SECRETARIAT FOR INDUSTRIAL ASSISTANCE (SIA)

15.1 SIA has been set up by the Government of India in the Department of Industrial Policy and Promotion in the Ministry of Commerce and Industry to provide a single window for entrepreneurial assistance, investor facilitation, receiving and processing all applications which require Government approval, conveying Government decisions on applications filed, assisting entrepreneurs and investors in setting up projects, (including liaison with other organisations and State Governments) and in monitoring implementation of projects. It also notifies all Government Policy relating to investment and technology, and collects and publishes monthly production data for 209 select industry groups.

SIA's Promotional Activities

15.2 As an investor friendly agency, it provides information and assistance to Indian and foreign companies in setting up industry and making investments. It guides prospective entrepreneurs and disseminates information and data on a regular basis through its two monthly newsletters the "SIA Newsletter" and the "SIA Statistics" as also through its Website address, i.e. <http://indmin.nic.in>. It also assists potential investors in finding joint venture partners and provides complete information on relevant policies and procedures, including those, which are specific to sectors and the State Governments.

Entrepreneurial Assistance Unit (EAU) of the SIA

15.3 The Entrepreneurial Assistance Unit functioning under the Secretariat for Industrial Assistance, Department of Industrial Policy and Promotion provides assistance to entrepreneurs on various subjects concerning investment decisions. The unit receives all papers/applications related to industrial approvals and immediately issues a computerised acknowledgement, which also has an identity/reference number. All correspondence with the SIA should quote this number.

In case of papers filed by post, the acknowledgement will be sent by post. The Unit extends this facility to all papers/applications relating to IEMs, Industrial Licences, Foreign Investment, Foreign Technology Agreements, 100 per cent EOUs, EHTP, STP Schemes, etc.

15.4 The Unit also attends to enquiries from entrepreneurs relating to a wide range of subjects concerning investment decisions. It furnishes clarifications and arranges meetings with nodal officers in concerned Ministries/Organisations. The Unit also provides information regarding the current status of applications filed for various industrial approvals.

Investment Promotion and Infrastructure Development (IP & ID) Cell

15.5 In order to give further impetus to facilitation and monitoring of investment, as well as for better coordination of infrastructural requirements for industry, a new cell called the "Investment Promotion and Infrastructure Development Cell" has been created. The functions of the Cell include: -

- [a] Dissemination of information about investment climate in India;
- [b] Investment facilitation;
- [c] Developing and distributing multimedia presentation material and other publications;
- [d] Organising Symposiums, Seminars, etc. on investment promotion;
- [e] Liaison with State Governments regarding investment promotion;
- [f] Documentation of single window systems followed by various States;
- [g] Match-making service for investment promotion;
- [h] Coordination of progress of infrastructure sectors approved for investment/technology transfer, power, telecom, ports, roads, etc.;
- [i] Facilitating Industrial Model Town Projects, and Industrial Parks, etc.;
- [j] Promotion of Private Investment including Foreign Investment in the infrastructure sector;
- [k] Compilation of sectoral policies, strategies and guidelines of infrastructure sectors, both in India and abroad; and
- [l] Facilitating preparation of a perspective plan on infrastructure requirements for industry.

Project Monitoring Wing

15.6 Project Monitoring Wing, created within the IP&ID Cell in June 1998, has now been functioning under Foreign Investment Implementation Authority Section with effect from 27.7.2001. The functions of the Project Monitoring Wing are as follows:

- (i) Coordination with Central and State level Ministries/ Departments concerned and related agencies for tracking and monitoring approved projects, and compilation and analyses such information;
- (ii) Direct contact, wherever necessary, with entrepreneurs and updation of the information on projects, and provision of necessary assistance.

16. NODAL OFFICERS

16.1 The Department of Industrial Policy and Promotion has identified officers at the Deputy Secretary/Director level as Nodal officers for facilitation of all matters relating to the industrial projects pertaining to a State. For large projects involving sizeable amount of FDI, officers have been identified in the Department of Industrial Policy and Promotion and other departments concerned (e.g. the Ministry to which the investment proposal pertains) and the State Government to act as contact officers so that these projects can be implemented within the time schedule. The officers of the Project Monitoring Wing are in touch with the contact officers.

17. FOCUS WINDOWS

17.1 The Department of Industrial Policy and Promotion also has opened Country Focus Windows for countries with sizeable investment interest in India. At present, the Focus Window covers countries such as USA, Germany, France, Switzerland, Australia, Japan and Korea. For each focus window a senior officer in the Department provides facilitation and assistance.

17.2 SIA's publication 'India Investment Guide' is now available in the Japanese, German & French languages.

18. INTERNATIONAL CENTRE FOR ALTERNATIVE DISPUTE RESOLUTION

International Centre for Alternative Dispute Resolution (ICADR) has been established as an autonomous organization under the aegis of Ministry of Law, Justice and Company Affairs to promote settlement of domestic and international disputes by different modes of alternate dispute resolution. ICADR has its headquarters in New Delhi and has regional office in Lucknow and Hyderabad. More information on ICADR can be obtained from the website: <http://www.icadr.org>

19. PUBLICATIONS

SIA Newsletter

19.1 This is a monthly publication and covers information on data relating to Foreign Direct Investment, NRI investment, sectoral break-ups, countrywise break-up, all approvals accorded for Foreign Direct Investment, and NRI investment during the month, FDI inflows, and policy notifications issued during the month.

Annual issues of SIA Newsletter for 1999 and 2000 have been officially released and is now available and can be obtained on payment from Controller of Publications, 1 civil lines, Delhi - 110 054 or from any outlet dealing in Government publications.

SIA Statistics

19.2 This is also a monthly publication which contains data relating to Industrial Licences, approvals granted for setting up 100 per cent Export Oriented Units, details of approvals for Industrial Licences, EOUs, Foreign Technical Collaboration etc., monthly data on industrial production of 209 select industry groups, as well as policy announcements by Government during the month.

Annual issues of SIA Statistics have been officially released and is now available and can be obtained on payment from Controller of Publications, 1 civil lines, Delhi - 110 054 or from any outlet dealing in Government publications..

Other Publications

19.3 These publications include this Manual as well as sector specific publications, such as on the Cement industry, Engineering industries, Leather industries, etc. A set of publications relating to the Infrastructure sector with specific volumes on Ports, Roads, Power, Telecom, and Railways is also published. Other publications include information on Current taxation and duty structure, Entry options for business in India, and the like.*

All or any of these publications are available through the EAU of the SIA, the Investment Promotion and Infrastructure Development Cell, as also Indian Missions abroad. These can also be down loaded from the Website.

20. WEBSITE

(<http://dipp.nic.in>)

20.1 The Home page of the Website of the Department of Industrial Policy & Promotion has been created with the intention to convey information relating to the investment climate in India and contains the ready reckoner on Investing in India, Manual on Industrial Policy & Procedures, other publications, State Industrial Policies, forthcoming

promotional events, projects on offer, Investment Opportunity in selected sectors, profile of industries looked after by the Department, FIPB application status, downloadable forms etc. The Japanese, German, French, Italian & Spanish Versions of the manual is also available on the website. The earlier website of SIA is now available at <http://siadipp.nic.in>.

20.2 On line advisory services through Chat Room/Bullein Board are available during prescribed hours on Internet through and the website. Assistance for drafting and filing of all application with SIA is also provided.

20.3 Website is hyperlinked to the website of all Ministries/ Department(s) of the Central Government as well as State Governments, Banks, Financial Institutions and Industry Associations.

21. SUBMISSION OF MONTHLY PRODUCTION RETURNS

21.1 All industrial undertakings, whether exempt or not from compulsory industrial licensing, are statutorily required to submit a monthly production return in the proforma to the Deputy Director (Statistics), Industrial Statistics Unit, Department of Industrial Policy & Promotion, Room No. 326, Udyog Bhawan, New Delhi – 110 011
Fax: 011-301 4564/301 2626
Email: ipp_ddstat@ub.nic.in

every month regularly so as to reach him by the 7th of the following month positively. This information is used to compile various industrial growth which is time bound monthly exercise. A copy of the monthly production returns should also be submitted to the Concerned Administrative ministry/Department and to the concerned technical authorities viz. Iron and Steel Controller; Coal Controller, Directorate of Sugar; Directorate of Vanaspati, Vegetable Oils and Fats and Textile Commissioner, as the case may be.

21.2 In the case of small scale industrial undertakings, the monthly production return should be submitted to the appropriate State Government or Commissioner of Industries and to the Department of Small Scale and Agro & Rural Industries, Government of India along with a copy to the Small Industries Service Institute.

22. PROCEDURE FOR OTHER ENVIRONMENTAL CLEARANCES

22.1 Entrepreneurs are advised to approach Ministry of Environment and Forests, Paryavaran Bhavan, Phase II, CGO Complex, Lodhi Road, New Delhi- 110003.

23. INFORMATION ON EXPORTS AND IMPORTS

23.1 Exports and imports of plant machinery would be as per the existing Export-Import Policy in force. For any information or facilitation, entrepreneurs can contact the Directorate General of Foreign Trade (DGFT), Ministry of Commerce and Industry, Udyog Bhavan, New Delhi-110011.

24. EXTERNAL COMMERCIAL BORROWINGS

24.1 Applications may be submitted by the borrowers in the prescribed format to the Joint Secretary(ECB), Department of Economic Affairs, Ministry of Finance, North Block, New Delhi-110001. The policy and procedures are contained in the guidelines issued by that Ministry and are available on the SIA website.

25. COMPANY REGISTRATION

25.1 Information and details may be obtained from the Department of Company Affairs, Shastri Bhavan, New Delhi-110011 or the Registrar of Companies located in all State capitals.

26. GRIEVANCES AND COMPLAINTS

Business Ombudsperson

26.1 To facilitate expeditious redressal of grievances and attend to complaints relating to delays in grant and implementation of industrial approvals and facilitate their disposal, the Government has appointed a BUSINESS OMBUDSPERSON in the Ministry of Commerce & Industry. Additional Secretary & Financial Adviser, Ministry of Commerce and Industry, Udyog Bhavan, New Delhi-110011 has been nominated to act as Business Ombudsperson.

Grievances Officer & Joint Secretary

26.2 Grievances and complaints are also received by the Grievances Officer-cum-Joint Secretary, Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Udyog Bhavan, New Delhi-110011, either through post or through the mail box in the EAU of the SIA and at Reception of the Ministry of Commerce and Industry at Gate No.13 of Udyog Bhavan, New Delhi-110011. Any such communication is handled expeditiously and steps are taken to redress the grievance.

27. CITIZENS CHARTER

27.1 The Department of Industrial Policy and Promotion has also got its own Citizens Charter, which outlines general procedures and standards of performance expected from the Department.

ANNEXURE-I

**LIST OF INDUSTRIES RESERVED FOR
THE PUBLIC SECTOR**

1. Atomic Energy
2. Railway Transport.

ANNEXURE-II

**LIST OF INDUSTRIES FOR WHICH
INDUSTRIAL LICENSING IS
COMPULSORY under Industries
(Development & Regulation) Act, 1951**

1. Distillation and brewing of alcoholic drinks.
2. Cigars and cigarettes of tobacco and manufactured tobacco substitutes.
3. Electronic aerospace and defence equipment: all types.
4. Industrial explosives including detonating fuses, safety fuses, gun powder, nitrocellulose and matches.
5. Hazardous chemicals:
 - a. Hydrocyanic acid and its derivatives
 - b. Phosgene and its derivatives
 - c. Isocyanates and diisocyanates of hydrocarbon, not elsewhere specified (example: Methyl Isocyanate)
6. Drugs and Pharmaceuticals (according to modified Drug Policy issued in September, 1994 and subsequently amended in February, 1999)

Note: Manufacture of SSI reserved items by other industrial undertakings and location of industrial undertakings in relaxation of the notified locational policy will attract compulsory licensing.

GUIDELINES FOR THE CONSIDERATION OF FOREIGN DIRECT INVESTMENT (FDI) PROPOSALS BY THE FOREIGN INVESTMENT PROMOTION BOARD (FIPB)

(To be read with paragraph 2.11 of the Manual)

The following Guidelines are laid-down to enable the Foreign Investment Promotion Board (FIPB) to consider the proposals for Foreign Direct Investment (FDI) and formulate its recommendations.

1. All applications should be put before the FIPB by the SIA (Secretariat of Industrial Assistance) within 15 days and it should be ensured that comments of the administrative ministries are placed before the Board either prior to/or in the meeting of the Board.
2. Proposals should be considered by the Board keeping in view the time frame of 6 weeks for communicating Government Decision (i.e. approval of IM/CCFI or rejection as the case may be).
3. In cases in which either the proposal is not cleared or further information is required, in order to obviate delays presentation by applicant in the meeting of the FIPB should be resorted to.
4. While considering cases and making recommendations, FIPB should keep in mind the sectoral requirements and the sectoral policies vis-a-vis the proposal(s).
5. FIPB would consider each proposal in totality (i.e. if it includes apart from foreign investment, technical collaboration/industrial licence) for composite approval or otherwise. However, the FIPB's recommendation would relate only to the approval for foreign financial and technical collaboration and the foreign investor will need to take other prescribed clearances separately.
6. The Board should examine the following while considering proposals submitted to it for consideration.
 - i) Whether the items of activity involve industrial licence or not and if so, the considerations for grant of industrial licence must be gone into.
 - ii) Whether the proposal involves technical collaborations and if so - (a) the source and nature of technology sought to be transferred.
 - (iii) Whether the proposal involves any mandatory requirement for exports and if so whether the applicant is prepared to undertake such obligation (this is for items reserved for small scale sector as also for dividend balancing, and for 100% EOUs/EPZ units);
 - (iv) Whether the proposal involves any export projection and if so the items of export and the projected destinations;
 - (v) Whether the proposal has concurrent commitment under other schemes such as EPCG Scheme etc.
 - (vi) In the case of Export Oriented Units (EOUs) whether the prescribed minimum value addition norms and the minimum turn over of exports are met or not;
 - (vii) Whether the proposal involves relaxation of locational restrictions stipulated in the industrial licensing policy;
 - (viii) Whether the proposal has any strategic or defence related considerations, and
 - (ix) Whether the proposal has any previous joint venture or technology transfer/trademark agreement in the same or allied field in India, the detailed circumstance in which it is considered necessary to set-up a new joint venture/enter into new technology transfer (including trade mark), and proof that the new proposal would not in any way jeopardize the interest of the existing joint venture or technology/trade mark partner or other stake holders.
7. While considering proposals the following may be prioritised
 - (a) Items/activities covered under automotive route (i.e. those which do not qualify for automatic approval).
 - (b) Items falling in infrastructure sector.
 - (c) Items which have an export potential
 - (d) Items which have large scale employment potential and especially for rural people.

- (e) Items, which have a direct or backward linkage with agro business/farm sector.
- (f) Item which have greater social relevance such as hospitals, human resource development, life saving drugs and equipment.
- (g) Proposals, which result in induction of technology or infusion of capital.
8. The following should be especially considered during the scrutiny and consideration of proposals.
- (a) The extent of foreign equity proposed to be held (keeping in view sectoral caps if any - e.g. 24% for SSI units, 40% for air taxi/airlines operators, 49% in basic/cellular/paging, etc. in Telecom sector).
- (b) Extent of equity with composition of foreign/NRI (which may include OCB)/resident Indians.
- (c) Extent of equity from the point of view whether the proposed project would amount to a holding company/wholly owned subsidiary/a company with dominant foreign investment (i.e. 75% or more) joint venture.
- (d) Whether the proposed foreign equity is for setting up a new project (joint venture or otherwise) or whether it is for enlargement of foreign/NRI equity or whether it is for fresh induction of foreign equity/NRI equity in an existing Indian company.
- (e) In the case of fresh induction of foreign/NRI equity and/or cases of enlargement of foreign/ NRI equity in existing Indian companies whether there is a resolution of the Board of Directors supporting the said induction/enlargement of foreign/ NRI equity and whether there is a shareholders agreement or not.
- (f) In the case of induction of fresh equity in the existing Indian companies and/or enlargement of foreign equity in existing Indian companies, the reason why the proposal has been made and the modality for induction/enhancement [i.e. whether by increase of paid up capital/authorised capital, transfer of shares (hostile or otherwise) whether by rights issue, or by what modality].
- Cases pertaining to FIPB approvals, which involve increase in the non-resident equity within the approved percentage of non-resident equity in a joint venture company and enhancement of paid-up capital in a wholly owned subsidiary do not require FIPB approval provided the intent for increase in the amount of foreign equity is duly notified to SIA and formal documentation by way of intimation is made to SIA within 30 days of receipt of funds and allotment of shares (to non-resident shareholders).
- (g) Issue/transfer/pricing of shares will be as per SEBI/RBI guidelines.
- (h) Whether the activity is an industrial or a service activity or a combination of both.
- (i) Whether the item of activity involves any restriction by way of reservation for the small scale sector.
- (j) Whether there are any sectoral restrictions on the activity (e.g. there is ban on foreign investment in real estate while it is not so for NRI/OCB investment).
- (k) Whether the item involves only trading activity and if so whether it involves export or both export and import, or also includes domestic trading and if domestic trading whether it also includes retail trading.
- (l) Whether the proposal involves import of items which are either hazardous, banned or detrimental to environment (e.g. import of plastic scrap or recycled plastics).
9. In respect of activities to which equity caps apply, FIPB may consider recommending higher levels of foreign equity as compared to the prescribed caps, keeping in view the special requirements and merits of each case.
10. In respect of other industries/activities the Board may consider recommending 51 per cent foreign equity on examination of each individual proposal. For higher levels of equity up to 74 per cent the Board may consider such proposals keeping in view considerations such as the extent of capital needed for the project, the nature and quality of technology, the requirements of marketing and management skills and the commitment for exports.
11. FIPB may consider recommending proposals for 100 percent foreign owned holding/subsidiary companies based on the following criteria:
- (a) where only "holding" operation is involved all subsequent/ downstream investments to be carried out would require prior approval of the Government;

- (b) where proprietary technology is sought to be protected or sophisticated technology is proposed to be brought in;
 - (c) where at least 50% of production is to be exported;
 - (d) proposals for consultancy; and
 - (e) proposals for industrial model towns/industrial parks or estates.
12. In special cases, where the foreign investor is unable initially to identify an Indian joint venture partner, the Board may consider and recommend proposals permitting 100 per cent foreign equity on a temporary basis on the condition that the foreign investor would divest to the Indian parties (either individual, joint venture partners or general public or both) at least 26 per cent of its equity within a period of 3-5 years.
 13. Similarly in the case of a joint venture, where the Indian partner is unable to raise resources for expansion/technological upgradation of the existing industrial activity the Board may consider and recommend increase in the proportion/percentage (up to 100 per cent) of the foreign equity in the enterprise.
 14. In respect of trading companies, 100 per cent foreign equity may be permitted in the case of the activities involving the following:
 - (i) exports;
 - (ii) bulk imports with ex-port/ex-bonded warehouse sales;
 - (iii) cash and carry wholesale trading;
 - (iv) other import of goods or services provided at least 75% is for procurement and sale of goods and services among the companies of the same group.
 15. In respect of the companies in the infrastructure/services sector where there is a prescribed cap for foreign investment, only the direct investment should be considered for the prescribed cap and foreign investment in an investing company should not be set off against this cap provided the foreign direct investment in such investing company does not exceed 49 per cent and the management of the investing company is with the Indian owners.
 16. No condition specific to the letter of approval issued to a foreign investor would be changed or additional condition imposed subsequent to the issue of a letter of approval. This would not prohibit changes in general policies and regulations applicable to the industrial sector.
 17. Where in case of a proposal (not being 100% subsidiary) foreign direct investment has been approved up to a designated percentage of foreign equity in the joint venture company the percentage would not be reduced while permitting induction of additional capital subsequently. Also in the case of approved activities, if the foreign investor(s) concerned wished to bring in additional capital on later dates keeping the investment to such approved activities, FIPB would recommend such cases for approval on an automatic basis.
 18. As regards proposal for private sector banks, the application would be considered only after "in principle" permission is obtained from the Reserve Bank of India (RBI).
 19. The restrictions prescribed for proposals in various sectors as obtained, at present, are given in the annexure - IV and these should be kept in view while considering the proposals.

The Guidelines are meant to assist the FIPB to consider proposals in an objective and transparent manner. These would not in any way restrict the flexibility or bind the FIPB from considering the proposals in their totality or making recommendation based on other criteria or special circumstances or features it considers relevant. Besides these are in the nature of administrative Guidelines and would not in any way be legally binding in respect of any recommendation to be made by the FIPB or decisions to be taken by the Government in cases involving Foreign Direct Investment (FDI).

These guidelines are issued without prejudice to the Government's right to issue fresh guidelines or change the legal provisions and policies whenever considered necessary.

The above mentioned guidelines stands modified to the extent changes have been notified by Secretariat for Industrial Assistance from time to time.

SECTOR SPECIFIC GUIDELINES FOR FOREIGN DIRECT INVESTMENT

Sl.No.	Sector	Guidelines
1.	<p>Private Sector Banking</p> <p>Non Banking Financial Companies (NBFC)</p>	<p>49% from all sources on the automatic route subject to guidelines issued by RBI from time to time. Consolidated guidelines are given at Appendix-A</p> <p>a. FDI/NRI/OCB investments allowed in the following 19 NBFC activities shall be as per levels indicated below:</p> <ul style="list-style-type: none"> i. Merchant banking ii. Underwriting iii. Portfolio Management Services iv. Investment Advisory Services v. Financial Consultancy vi. Stock Broking vii. Asset Management viii. Venture Capital ix. Custodial Services x. Factoring xi. Credit Reference Agencies xii. Credit rating Agencies xiii. Leasing & Finance xiv. Housing Finance xv. Forex Broking xvi. Credit card business xvii. Money changing Business xviii. Micro Credit xix. Rural Credit <p>b. Minimum capitalisation norms for fund based NBFCs:</p> <ul style="list-style-type: none"> i) For FDI up to 51% - US\$ 0.5 million to be brought upfront ii) For FDI above 51% and up to 75% - US \$ 5 million to be brought upfront iii) For FDI above 75% and up to 100% - US \$ 50 million out of which US \$ 7.5 million to be brought upfront and the balance in 24 months <p>c. Minimum capitalisation norms for non-fund based activities: Minimum capitalisation norm of US \$ 0.5 million is applicable in respect of all permitted non-fund based NBFCs with foreign investment.</p>

Sl.No.	Sector	Guidelines
		g. Investment in housing finance institutions, which is also open to FDI as an NBFC
6.	Coal and Lignite	<p>i. Private Indian companies setting up or operating power projects as well as coal or lignite mines for captive consumption are allowed FDI up to 100%.</p> <p>ii. 100% FDI is allowed for setting up coal processing plants subject to the condition that the company shall not do coal mining and shall not sell washed coal or sized coal from its coal processing plants in the open market and shall supply the washed or sized coal to those parties who are supplying raw coal to coal processing plants for washing or sizing.</p> <p>iii. FDI up to 74% is allowed for exploration or mining of coal or lignite for captive consumption.</p> <p>iv. In all the above cases, FDI is allowed up to 50% under the automatic route subject to the condition that such investment shall not exceed 49% of the equity of a PSU.</p>
7.	Venture Capital Fund(VCF) and Company(VCC)	Offshore Venture Capital Funds/Companies are allowed to invest in domestic venture capital undertaking as well as other companies through the automatic route, subject only to SEBI regulations and sector specific caps on FDI.
8.	Trading	<p>Trading is permitted under automatic route with FDI up to 51% provided it is primarily export activities, and the undertaking is an export house/trading house/super trading house/star trading house. However, under the FIPB route:-</p> <p>i. 100% FDI is permitted in case of trading companies for the following activities:</p> <ul style="list-style-type: none"> ● exports; ● bulk imports with ex-port/ex-bonded warehouse sales; ● cash and carry wholesale trading; ● other import of goods or services provided at least 75% is for procurement and sale of goods and services among the companies of the same group and not for third party use or onward transfer/distribution/sales. <p>ii. The following kinds of trading are also permitted, subject to provisions of EXIM Policy:</p> <ol style="list-style-type: none"> a. Companies for providing after sales services (that is not trading per se) b. Domestic trading of products of JVs is permitted at the wholesale level for such trading companies who wish to market manufactured products on behalf of their joint ventures in which they have equity participation in India. c. Trading of hi-tech items/items requiring specialised after sales service d. Trading of items for social sector e. Trading of hi-tech, medical and diagnostic items.

Sl.No.	Sector	Guidelines
		<ul style="list-style-type: none"> f. Trading of items sourced from the small scale sector under which, based on technology provided and laid down quality specifications, a company can market that item under its brand name. g. Domestic sourcing of products for exports. h. Test marketing of such items for which a company has approval for manufacture provided such test marketing facility will be for a period of two years, and investment in setting up manufacturing facilities commences simultaneously with test marketing. i. FDI up to 100% permitted for e-commerce activities subject to the condition that such companies would divest 26% of their equity in favour of the Indian public in five years, if these companies are listed in other parts of the world. Such companies would engage only in business to business (B2B) e-commerce and not in retail trading.
9.	Investing companies in infrastructure/ service sector	In respect of the companies in infrastructure/service sector, where there is a prescribed cap for foreign investment, only the direct investment will be considered for the prescribed cap and foreign investment in an investing company will not be set off against this cap provided the foreign direct investment in such investing company does not exceed 49% and the management of the investing company is with the Indian owners. The automatic route is not available.
10.	Atomic minerals	<p>The following three activities are permitted to receive FDI/NRI/OCB investments through FIPB on exploitation of beach sand minerals (as per detailed guidelines issued by Department of Atomic Energy vide Resolution No.8/1(1)/97-PSU/1422 dated 6.10.98):</p> <ul style="list-style-type: none"> a. Mining and mineral separation b. Value addition per se to the products of (a) above c. Integrated activities (comprising of both (a) and (b) above. <p>The following FDI participation is permitted:</p> <ul style="list-style-type: none"> (i) Up to 74% in both pure value addition and integrated projects ii. For pure value addition projects as well as integrated projects with value addition upto any intermediate stage, FDI is permitted upto 74% through joint venture companies with Central/State PSUs in which equity holding of at least one PSU is not less than 26%. iii. In exceptional cases, FDI beyond 74% will be permitted subject to clearance of the Atomic Energy Commission before FIPB approval.
11.	Defence and strategic industries	Foreign Direct Investment, including NRI/OCB investment, is permitted up to 26% with prior Government approval subject to licensing and security requirements. Detailed guidelines for participation of private sector and foreign investors in this sector are given in Appendix-B
12.	Agriculture (including plantation)	No FDI/NRI/OCB investment is permitted other than Tea sector, where FDI is permitted up to 100% in Tea sector, including tea plantations with prior Government approval and subject to the following conditions:

Sl.No.	Sector	Guidelines
		<ul style="list-style-type: none"> ● Compulsory divestment of 26% equity in favour of Indian partner/Indian public within a period of five years, and ● Prior State Government approval required in case of any future land use change <p>The above dispensation would be applicable to all fresh investments (FDI) made in this sector.</p>
13.	Print media	Government has announced Print Media policy recently. The policy & guidelines in respect of this sector will be notified by the Ministry of Information & Broadcasting in due course.
14.	Broadcasting	<p>a) TV Software Production 100% foreign investment allowed subject to:</p> <ul style="list-style-type: none"> (i) all future laws on broadcasting and no claim of any privilege or protection by virtue of approval accorded, and (ii) not undertaking any broadcasting from Indian soil without Government approval. <p>b) Setting up hardware facilities, such as uplinking, HUB, etc.</p> <p>Private companies incorporated in India with permissible FII/NRI/OCB/PIO equity within the limits (as in the case of telecom sector FDI limit up to 49% inclusive of both FDI and portfolio investment) to set up uplinking hub (teleports) for leasing or hiring out their facilities to broadcasters</p> <p>Footnote: As regards satellite broadcasting, all T.V. Channels irrespective of the ownership or management control to uplink from India provided they undertake to comply with the broadcast (programme and advertising) code.</p> <p>c). Cable Network</p> <p>Foreign investment allowed up to 49% (inclusive of both FDI and portfolio investment) of paid up share capital. Companies with minimum 51% of paid up share capital held by Indian citizens are eligible under the Cable Television Network Rules (1994) to provide cable TV services.</p> <p>d). Direct-to-Home</p> <p>Company with a maximum of foreign equity including FDI/NRI/OCB/FII of 49% would be eligible to obtain DTH License. Within the foreign equity, the FDI component not to exceed 20%.</p> <p>e) Terrestrial Broadcasting FM</p> <p>The licensee shall be a company registered in India under the Companies Act. All share holding should be held by Indians except for the limited portfolio investment by FII/NRI/PIO/OCB subject to such ceiling as may be decided from time to time. Company shall have no direct investment by foreign entities, NRIs and OCBs. As of now, the foreign investment is permissible to the extent of 20% portfolio investment.</p> <p>f). Terrestrial TV</p> <p>No private operator is allowed in terrestrial TV transmission. In all the above cases automatic route is not available.</p>

Sl.No.	Sector	Guidelines
15.	Power	Up to 100% FDI allowed in respect of projects relating to electricity generation, transmission and distribution, other than atomic reactor power plants. There is no limit on the project cost and quantum of foreign direct investment.
16.	Drugs & Pharmaceuticals	FDI up to 100% is permitted on the automatic route for manufacture of drugs and pharmaceutical, provided the activity does not attract compulsory licensing or involve use of recombinant DNA technology and specific cell / tissue targeted formulations. FDI proposals for the manufacture of licensable drugs and pharmaceuticals and bulk drugs produced by recombinant DNA technology and specific cell / tissue targeted formulations will require prior Government approval.
17.	Roads & Highways, Ports and Harbours.	FDI up to 100% under automatic route is permitted in projects for construction and maintenance of roads, highways, vehicular bridges, toll roads, vehicular tunnels, ports and harbours.
18.	Hotels & Tourism	100% FDI is permissible in the sector on the automatic route. The term hotels include restaurants, beach resorts, and other tourist complexes providing accommodation and/or catering and food facilities to tourists. Tourism related industry include travel agencies, tour operating agencies and tourist transport operating agencies, units providing facilities for cultural, adventure and wild life experience to tourists, surface, air and water transport facilities to tourists, leisure, entertainment, amusement, sports, and health units for tourists and Convention/Seminar units and organisations. For foreign technology agreements, automatic approval is granted if i. up to 3% of the capital cost of the project is proposed to be paid for technical and consultancy services including fees for architects, design, supervision, etc. ii. up to 3% of net turnover is payable for franchising and marketing/publicity support fee, and iii. up to 10% of gross operating profit is payable for management fee, including incentive fee.
19.	Mining.	i. For exploration and mining of diamonds and precious stones FDI is allowed up to 74% under automatic route. ii. For exploration and mining of gold and silver and minerals other than diamonds and precious stones, metallurgy and processing FDI is allowed up to 100% under automatic route. iii. Press Note No. 18 (1998 series) dated 14.12.98 would not be applicable for setting up 100% owned subsidiaries in so far as the mining sector is concerned, subject to a declaration from the applicant that he has no existing joint venture for the same area and / or the particular mineral.
20.	Postal services	FDI up to 100% is permitted in courier services with prior Government approval excluding distribution of letters, which is reserved exclusively for the state.
21.	Pollution Control and management	FDI up to 100% in both manufacture of pollution control equipment and consultancy for integration of pollution control systems is permitted on the automatic route.

Sl.No.	Sector	Guidelines
22.	Advertising and films	<p>a) Advertising sector</p> <p>FDI up to 100% allowed on the automatic route</p> <p>b) Film sector</p> <p>(film production, exhibition and distribution including related services/products)</p> <p>FDI up to 100% allowed on the automatic route with no entry-level condition</p>
23.	Mass Rapid Metro Transit System	FDI up to 100% is permitted on the automatic route in mass rapid transport system in all metros including associated real estate development.
24.	Township Development	FDI up to 100% is permitted for development of integrated townships including houses, commercial premises, hotels, resorts, city and regional level urban infrastructure facilities such as roads and bridges, mass rapid transit system; and manufacture of building materials. Development of land and providing allied infrastructure will form an integral part of township's development. FDI in this sector would be permissible with prior Government approval. Detailed guidelines regarding investment in this sector are given at Appendix-C.
25.	Establishment & Operation of Satellites	FDI up to 74% is permitted with prior Government approval
26.	Lottery business, gambling & betting	Government has reiterated prohibition of foreign direct investment (FDI) / foreign technical collaboration (FTC) in any form in Lottery business, gambling & betting sector.

GUIDELINES FOR FOREIGN DIRECT INVESTMENT (FDI) IN THE BANKING SECTOR

1. Limit for FDI under automatic route in private sector banks
 - a. In terms of the Press Note no. 4 (2001 series) dated May 21, 2001 issued by Ministry of Commerce & Industry, Government of India, FDI up to 49% from all sources will be permitted in private sector banks on the automatic route, subject to conformity with the guidelines issued by RBI from time to time.
 - b. For the purpose of determining the above-mentioned ceiling of 49% FDI under the "automatic route" in respect of private sector banks, following categories of shares will be included.
 - (i) IPOs,
 - (ii) Private placements,
 - (iii) ADRs/GDRs, and
 - (iv) Acquisition of shares from existing shareholders [subject to (d) below]
 - c. It may be clarified that as per Government of India guidelines, issue of fresh shares under automatic route is not available to those foreign investors who have a financial or technical collaboration in the same or allied field. This category of investors require FIPB approval.
 - d. It may be further clarified that, as per Government of India guidelines, automatic route is not applicable to transfer of existing shares in a banking company from residents to non-residents. This category of investors require approval of FIPB followed by "in principle" approval by Exchange Control Department (ECD), RBI. The "fair price" for transfer of existing shares is determined by RBI broadly on the basis of SEBI guidelines for listed shares and erstwhile CCI guidelines for unlisted shares. After receipt of "in principle" approval, the resident seller can receive funds and apply to ECD, RBI for obtaining final permission for transfer of shares.
 - e. Under the Insurance Act, the maximum foreign investment in an insurance company has been fixed at 26%. Application for foreign investment in banks, which have joint venture/subsidiary in insurance sector, should be made to RBI. Such applications will be considered by RBI in consultation with Insurance Regulatory and Development Authority (IRDA).
 - f. Foreign banks having branch presence in India are eligible for FDI in the private sector banks subject to the overall cap of 49% mentioned above with the approval of RBI.
2. Limit for FDI in public sector banks
FDI and portfolio investment in nationalised banks are subject to overall statutory limits of 20% as provided under Section 3 (2D) of the Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970/80. The same ceiling would also apply in respect of such investments in State Bank of India and its associate banks.

3. Voting rights of foreign investors

In terms of the statutory provisions under the various banking acts, the voting rights, when exercised, which are stipulated as under:

Private sector banks – [Section 12 (2) of Banking Regulation Act, 1949]	No person holding shares, in respect of any share held by him, shall exercise voting rights <u>on poll</u> in excess of ten per cent of the total voting rights of all the share holders
Nationalised Banks – [Section 3(2E) of Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970/80]	No shareholder, other than the Central Government, shall be entitled to exercise voting rights in respect of any shares held by him in excess of one per cent of the total voting rights of all the share holders of the nationalised banks

State Bank of India (SBI) – (Section 11 of State Bank of India Act, 1955)	No shareholder, other than RBI, shall be entitled to exercise voting rights in excess of ten per cent of the issued capital (Government, in consultation with RBI can raise the above voting rate to more than ten per cent)
SBI Associates – [Section 19(1)&(2) of SBI (Subsidiary Bank) Act, 1959]	No person shall be registered as a shareholder in respect of any shares held by him in excess of two hundred shares.
	No shareholder, other than SBI, shall be entitled to exercise voting rights in excess of one per cent of the issued capital of the subsidiary bank concerned

4. Approval of RBI and reporting requirements

- (i) Under extant instructions, transfer of shares of 5 per cent and more of the paid-up capital of a private sector banking company, requires prior acknowledgement of RBI. For FDI of 5 per cent and more of the paid-up capital, the private sector banking company has to apply in the prescribed form to the Department of Banking Operations and Department in the Regional Office of RBI, where the bank's Head Office is located.
- (ii) Under the provisions of FEMA 1999, any fresh issue of shares of a banking company, either through the automatic route or with the specific approval of FIPB, does not require further approval of Exchange Control Department (ECD) of RBI from the exchange control angle. The Indian banking company is only required to undertake 2-stage reporting to the ECD as follows:
 - a. In the first stage, the Indian company has to submit a report within 30 days of the date of receipt of amount of consideration indicating the name and address of foreign investors, date of receipt of funds and their rupee equivalent, name of bank through whom funds were received and details of Government approval, if any.
 - b. In the second stage, the Indian banking company is required to file within 30 days from the date of issue of shares, a report in form FC-GPR together with a certificate from the Company Secretary of the concerned company certifying that various regulations have been complied with. The report will also be accompanied by a certificate from a Chartered Accountant indicating the manner of arriving at the price of the shares issued.

5. Conformity with SEBI Regulations and Companies Act provisions

Wherever applicable, FDI in banking companies should conform to the provisions regarding shareholding and share transfer, etc. as stipulated by SEBI, Companies Act, etc.

6. Disinvestments by Foreign Investors

In terms of regulation 10 and 11 of RBI Notification No. FEMA/20/2000-RB dated May 3, 2000 issued under FEMA 1999; disinvestments by foreign investors would be governed by the following:

- (i) Sale of shares by non-residents on a stock exchange and remittance of the proceeds thereof through an authorized dealer does not require RBI approval
- (ii) Sale of shares by private arrangement requires RBIs prior approval. RBI grants permission for sale of shares at a price that is market related and is arrived at in terms of guidelines indicated in Regulation 10 above

7. All commercial banks, which either have foreign investments or intending to have foreign investments, need to observe the above guidelines.

GUIDELINES FOR LICENSING PRODUCTION OF ARMS & AMMUNITIONS

In pursuance of the Government decision to allow private sector participation up to 100% in the defence industry sector with foreign direct investment (FDI) permissible up to 26%, both subject to licensing as notified vide Press Note No. 4 (2001 series), the following guidelines for licensing production of arms and ammunitions are hereby notified:

1. Licence applications will be considered and licences given by the Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, in consultation with Ministry of Defence.
2. Cases involving FDI will be considered by the FIPB and licences given by the Department of Industrial Policy & Promotion in consultation with Ministry of Defence.
3. The applicant should be an Indian company / partnership firm.
4. The management of the applicant company / partnership should be in Indian hands with majority representation on the Board as well as the Chief Executive of the company / partnership firm being resident Indians.
5. Full particulars of the Directors and the Chief Executives should be furnished along with the applications.
6. The Government reserves the right to verify the antecedents of the foreign collaborators and domestic promoters including their financial standing and credentials in the world market. Preference would be given to original equipment manufacturers or design establishments, and companies having a good track record of past supplies to Armed Forces, Space and Atomic energy sectors and having an established R & D base.
7. There would be no minimum capitalization for the FDI. A proper assessment, however, needs to be done by the management of the applicant company depending upon the product and the technology. The licensing authority would satisfy itself about the adequacy of the net worth of the foreign investor taking into account the category of weapons and equipment that are proposed to be manufactured.
8. There would be a three-year lock-in period for transfer of equity from one foreign investor to another foreign investor (including NRIs & OCBs with 60% or more NRI stake) and such transfer would be subject to prior approval of the FIPB and the Government.
9. The Ministry of Defence is not in a position to give purchase guarantee for products to be manufactured. However, the planned acquisition programme for such equipment and overall requirements would be made available to the extent possible.
10. The capacity norms for production will be provided in the licence based on the application as well as the recommendations of the Ministry of Defence, which will look into existing capacities of similar and allied products.
11. Import of equipment for pre-production activity including development of prototype by the applicant company would be permitted.
12. Adequate safety and security procedures would need to be put in place by the licensee once the licence is granted and production commences. These would be subject to verification by authorized Government agencies.
13. The standards and testing procedures for equipment to be produced under licence from foreign collaborators or from indigenous R & D will have to be provided by the licensee to the Government nominated quality assurance agency under appropriate confidentiality clause. The nominated quality assurance agency would inspect the finished product and would conduct surveillance and audit of

the Quality Assurance Procedures of the licensee. Self-certification would be permitted by the Ministry of Defence on case to case basis, which may involve either individual items, or group of items manufactured by the licensee. Such permission would be for a fixed period and subject to renewals.

14. Purchase preference and price preference may be given to the Public Sector organizations as per guidelines of the Department of Public Enterprises.
15. Arms and ammunition produced by the private manufacturers will be primarily sold to the Ministry of Defence. These items may also be sold to other Government entities under the control of the Ministry of Home Affairs and State Governments with the prior approval of the Ministry of Defence. No such item should be sold within the country to any other person or entity. The export of manufactured items would be subject to policy and guidelines as applicable to Ordnance Factories and Defence Public Sector Undertakings. Non-lethal items would be permitted for sale to persons / entities other than the Central or State Governments with the prior approval of the Ministry of Defence. Licensee would also need to institute a verifiable system of removal of all goods out of their factories. Violation of these provisions may lead to cancellation of the licence.
16. Government decision on applications to FIPB for FDI in defence industry sector will be normally communicated within a time frame of 10 weeks from the date of acknowledgement by the Secretariat for Industrial Assistance in the Department of Industrial Policy & Promotion.

GUIDELINES FOR FDI IN DEVELOPMENT OF INTEGRATED TOWNSHIP INCLUDING HOUSING AND BUILDING MATERIAL

Government vide Press Note No. 4 (2001 series) permitted FDI up to 100% for development of integrated townships, including housing, commercial premises, hotels, resorts, city and regional level urban infrastructure facilities such as roads and bridges, mass rapid transit systems and manufacture of building materials. Development of land and providing allied infrastructure will form an integrated part of township's development.

2. FDI in the development of integrated townships will be subject to the following guidelines:
 - i) The foreign company intending to invest, shall be registered as an Indian Company under Companies Act 1956 and will henceforth be allowed to take up land assembly and its development as a part of Integrated Township Development. All such cases would be processed by FIPB on the recommendation of Ministry of Urban Development & Poverty Alleviation and other concerned Ministries / Departments. Ministry of Urban Development & Poverty Alleviation will develop an exclusive cell to deal with such cases.
 - ii) The core business of the company seeking to make investment, should be integrated township development with a record of successful execution of such projects elsewhere.
 - iii) The minimum area to be developed by such a company should be 100 acres for which norms and standards are to be followed as per local bylaws / rules. In the absence of such bylaws / rules, a minimum of two thousand dwelling units for about ten thousand population will need to be developed by the investor.
 - iv) The investing foreign company should achieve clear milestones once their proposal has been approved.
 - a) The minimum capitalisation norm shall be US\$ 10 million for a wholly owned subsidiary and US\$ 5 million for joint ventures with Indian partner/s. The funds would have to be brought in upfront.
 - b) A minimum lock-in period of three years from completion of minimum capitalisation shall apply before repatriation of original investment is permitted.
 - c) A minimum of 50% of the integrated project development must be completed within a period of five years from the date of possession of the first piece of land. However, if the investor intends to exit earlier due to reasons beyond his control, it shall be decided by FIPB on a case-to-case basis.
 - v) Conditions regarding the use of land for commercial purposes, development charges, external development charges and other charges as laid down in Master Plan / Bylaws, preparation of layout and building plan, development of internal and peripheral development, development of other infrastructure facilities including the trunk services etc., will be the responsibility of the investor as per planning norms and standards on similar lines as those applicable to local investors. In the absence of such standards and norms, every State Government may decide their own conditions for which the Urban Development Plan Formulation and Implementation guidelines circulated by the Ministry of Urban Development & Poverty Alleviation may serve as a guiding principle.
 - vi) Land with assembled area for peripheral services such as police stations, milk booths will be handed over free of cost to the Government / local authority / agency as the case may be.

- vii) The Developer will retain the lands for community services such as (i) schools (ii) shopping complex (iii) community centres (iv) ration shop (v) hospital / dispensary. These services will be developed by developer himself and shall be made operational before the houses are occupied.
- viii) The developer, after properly developing playgrounds, park, will make it available to the local authorities free of cost.
- ix) The developer will ensure the norms and standards as applicable under local laws / rules.
- x) For companies investing in Special Economic Zones, Foreign Investment Promotion Board may accord exemption to any of the above mentioned conditions on a case-to-case basis. This will, however, be an interim measure till guidelines are evolved in due course in a need based manner.

**LIST OF CITIES WITH POPULATION OF 10 LAKHS (1 MILLION)
AND ABOVE ACCORDING TO THE PROVISIONAL
RESULTS OF 1991 CENSUS**

Name of the Cities

1. Greater Mumbai U.A.
2. Kolkata U.A.
3. Delhi U.A.
4. Chennai U.A.
5. Hyderabad U.A.
6. Bangalore U.A.
7. Ahmedabad U.A.
8. Pune U.A.
9. Kanpur U.A.
10. Nagpur U.A.
11. Lucknow U.A.
12. Surat U.A.
13. Jaipur U.A.
14. Kochi U.A.
15. Coimbatore U.A.
16. Vadodara U.A.
17. Indore U.A.
18. Patna U.A.
19. Madurai U.A.
20. Bhopal M.C.
21. Visakhapatnam, U.A.
22. Varanasi U.A.
23. Ludhiana M.C.

Note: U.A. = Urban Area
M.C. = Municipal Corporation