PRESS RELEASE

The consolidated FDI policy document is a single reference point for investors and regulators. The first such consolidation was released in March, 2010 after which it has been updated every six months. This *'Circular 2 of 2011'*-is the fourth edition of the consolidated policy document.

2. The significant changes introduced in this edition of the Circular are:

(i) **Exemption of construction-development activities in the education sector and in old-age homes, from the general conditionalities in the construction-development sector:**

FDI into construction development activities in the education sector and in respect of old-age homes has been exempted from the conditionalities imposed on FDI in the construction development sector in general i.e. minimum area and built-up area requirement; minimum capitalization requirement; and lock-in period. These conditionalities perhaps posed a constraint to FDI coming into these areas since educational institutions like schools, colleges, universities etc. as well as old-age homes have their own special requirements which do not necessarily fit these conditionalities. This step should augment the educational infrastructure in the country and bring it up to global standards. Similarly, with growing urbanisation, there is an increasing demand for old-age homes to cater to the needs of senior citizens. The physical infrastructure in this area also is short of the requirements. Hence, it has also been decided to exempt old-age homes also from the general conditionalities applicable to the construction development sector.

(ii) **Inclusion of *'apiculture'*, under controlled conditions, under the agricultural activities permitted for FDI:**

FDI has been allowed upto 100% under the automatic route in apiculture under controlled conditions. Apiculture is an important agro-based industry and has the potential of bringing in high economic returns with comparatively low levels of investment. Being a decentralized activity, it does not bring pressure on land and can flourish as a household activity in villages. The activity has the potential of large scale income generation with some infusion of capital and technology. This liberalization would not only provide the desired thrust to the sector but would also bring in international best practices to upgrade the product and the methods of production.

(iii) **Inclusion of 'basic and applied R&D on bio-technology pharmaceutical sciences/life sciences', as an 'industrial activity', under industrial parks:**

FDI, up to 100%, under the automatic route, is permitted in existing and new industrial parks. Under the existing regime, industrial parks cover specified sectors.

The coverage has been expanded to specifically include research and development in bio-technology, pharmaceutical and life sciences, given the urgent need to augment research and development infrastructure in these areas as also expand the production facilities.

(iv) **Notification of the revised limit of 26% for foreign investment in Terrestrial Broadcasting/ FM radio:**

The foreign investment limit for FM radio has been enhanced to 26% from the earlier 20%. This change ensures conformity of the foreign investment limit in this sector with other similar activities in the Information & Broadcasting sector.

(v) **Liberalisation of conversion of imported capital goods/machinery and pre-operative/pre-incorporation expenses to equity instruments:**

Conversion of imported capital goods/machinery and pre-operative/pre-incorporation expenses to equity instruments had been permitted in the last Circular on FDI policy, effective 1 April, 2011. It was stipulated that such conversions must be made within a period of 180 days of the date of shipment of capital goods/machinery or retention of advance against equity and that payments made through third parties would not be allowed. This conveyed the sense that the onus of conversion is on the investor with no allowance for the FIPB process involved. This has been clarified through the present amendment, under which the time limit for making applications for such conversions will be 180 days. Further, payments for pre-operative/incorporation expenses can now be made directly by the foreign investor to the company or through a bank account, opened by the foreign investor, as provided under the FEMA regulations.

(vi) **Introduction of provisions on 'pledging of shares' and opening of non-interest bearing escrow accounts, subject to specified conditions:**

The policy has been amended to provide for pledge of shares of an Indian company which has raised external commercial borrowings, or that of its associate resident companies for the purpose of securing the ECB raised by the borrowing company, subject to conditions. The policy also now provides for opening and maintaining AD Category – I banks without the prior approval of RBI, non-interest bearing Escrow accounts in Indian Rupees in India, on behalf of non-residents, towards payment of share purchase consideration and/or for keeping securities to facilitate FDI transactions, subject to the terms and conditions specified by RBI. This will streamline the process for bringing in FDI and provide the investors with options.

3. The sectoral section of the policy has been re-arranged, to provide for grouping of services under 'financial services', 'other services' and 'information services'. The Circular has also been re-organised, with a view to grouping of similar subjects under common chapters. This is expected to significantly rationalise the organisation of the material in the Circular and further facilitate comprehension and readability.