

Foreign Investment Promotion Board (FIPB)

Why in news?

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Finance Minister promised that the Foreign Investment Promotion Board (FIPB) would be phased out in 2017-18.

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What is FIPB?

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- The FIPB (Foreign Investment Promotion Board) is the designated institution which considers the FDI proposals that require government approval.

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- FIPB is under the Department of Economic Affairs, Ministry of Finance and the Finance Minister is in charge of the FIPB.

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- FIPB can give recommendations of FDI proposals below Rs 5000 crore to the Minister of Finance for consideration.

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- It comprises of the Secretaries of main Ministries of Government of India.

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- The Secretary of Department of Economic Affairs is the Chairperson of the FIPB.

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- Secretaries of DIPP, Department of Commerce, Secretary of Economic Relations, Ministry of External Affairs, and Secretary of Ministry of Overseas Indian Affairs are members of FIPB.

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What are the functions of the FIPB?

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- To quickly approve the foreign investment proposals.
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- To review the FDI policies and to communicate with other agencies such as the Administrative Ministries in order to set up guidelines that are transparent and which encourage FDI into the various sectors.
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- To look over the implementation of the various proposals those have been approved by it.
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- To take up such activities that encourage FDI into the country.
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- To communicate with government, non-government and industry in order to increase the flow of FDI onto the country.
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- To identify the various sectors that requires FDI.
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What is the need for dismantling FIPB?

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- The concept of the approval route is against the “minimum government” rule.
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- Retaining the approval route mechanism indicates that despite our relatively good experience with liberalisation of capital inflows, we rely on centrally planning the economy.
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- The approval mechanism creates artificial entry barriers between two applicants who satisfy the conditions listed in the policy.
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- It makes the system vulnerable to regulatory discretion and induces unpredictability.
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- The practice of seeking approvals and exemptions from conditions, engenders ad-hocism and cronyism.
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- This has adverse implications for the administration of an impartial and rule of law-driven regulatory regime governing capital controls.
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What are the disadvantages of removing FIPB?

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- Even after dismantling FIPB, the approval regime would continue with sectoral departments being in charge of granting approvals to FDI inflows.
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- If this is true, then dismantling the FIPB without simultaneously abolishing the approval route will be counterproductive.
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- It will end up increasing the costs associated with the approval process, as it will require investors and the Indian investee firms to deal with multiple touch-points in the administration.
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What are the advantages?

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- It is the first step on the road to rationalising our FDI regime.
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- This must be complemented with a single comprehensive law governing capital inflows in India.
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Source: Business Standard

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