
**TECHNICAL MONITORING GROUP ON FOREIGN DIRECT INVESTMENT:
FIRST ACTION TAKEN REPORT**

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Technical Monitoring Group on Foreign Direct Investment: First Action Taken Report

I. Constitution of the Group

The Committee on Compilation of Foreign Direct Investment (FDI) in India submitted its Report to the Government in October 2002. As a follow up of the submission of the Report, Shri V. Govindarajan, Secretary, DIPP, Government of India advised to constitute a Technical Monitoring Group (TMG) for speedy implementation of the recommendations made by the above Committee. The TMG was constituted by Department of Industrial Policy and Promotion (DIPP) with the representatives from Reserve Bank of India (RBI), DIPP, Department of Economic Affairs (DEA), Department of Company Affairs (DCA) and National Informatics Centre (NIC) with the following terms of reference.

Terms of Reference

The terms of reference of TMG were as follows:

1. Review the availability of data for the list of items identified for inclusion in FDI statistics;
2. Take steps for inclusion of available data on immediate basis;
3. Take steps to devise appropriate reporting systems in areas where data are presently not readily available;
4. Create appropriate linkages with SEBI, DEA, Banking and Insurance Division, DIPP, NIC, CMIE, etc. for strengthening the data sources and data collection methods;
5. Recommend on FDI registration for strengthening compliance to compulsory reporting requirements;
6. Lay down the periodicity and timeliness for data collection and reporting; and
7. Suggest suitable legal framework for the proposed data collection methods.

III. Functioning of the Group

The TMG met four times in New Delhi on November 20, 2002, December 10, 2002, January 10, 2003 and April 23, 2003 to deliberate on the various issues relating to the terms of reference referred to earlier. The TMG received technical support from the officials of RBI and DIPP. Officials from NIC, DCA and DEA also participated in the deliberations and provided technical inputs to TMG.

IV. Approach

In line with the terms of reference the broad approach of the TMG was to resolve various operational problems associated with the compilation of the FDI statistics to make it comparable with the international best practice. The main focus of TMG in this context was

to identify various components of FDI, which are operationally feasible and to capture these components in a specified institutional framework and within a specified time period. In addition, the TMG focused on compilation process of the identified components such as (a) reinvested earnings by FDI entities, (b) “other capital” in the form of inter-corporate debt transactions, and (c) equity capital of branches of foreign banks operating in India. The components of FDI identified by TMG and the compilation procedure are discussed below.

(a) Components of FDI Identified by TMG

TMG identified the following 14 items, which are required to be included in FDI statistics in order to make the data internationally comparable.

1. Equity Capital

a. Equity in unincorporated entities, **b.** Non-cash acquisition against technology transfer, plant and machinery, goodwill, business development and similar considerations. **c.** Control Premium **d.** Non-Competition Fee.

2. Reinvested Earnings

a. Reinvested Earning of incorporated entities, **b.** Reinvested Earning of unincorporated entities, **c.** Reinvested Earnings of indirectly held direct investment enterprises.

3. Other Capital

a. Short-term and long-term borrowings, **b.** Trade Credit, **c.** Suppliers credit, **d.** Financial-leasing, **e.** Financial derivatives, **f.** Debt securities, **g.** Land and buildings.

Actions were taken by DIPP and RBI to institutionalise the inclusion of these items. The revised data on FDI include all items indicated under equity capital (except non-cash acquisitions) and reinvested earnings (except reinvested earnings of indirectly held direct investment enterprises). Data under ‘other capital’ relate to short-term and long-term borrowing, trade credit (more than 180 days), suppliers’ credit (more than 180 days), and financial leasing only. Data on short-term trade credit (up to 180 days) have not been included, as these data are not captured separately through the present reporting system. Attempts are being made to capture these data through revised FC-GPR form as well as through integrated forex management system (IFMS).

It may be mentioned that the data on reinvested earnings and equity capital of foreign bank branches in India will be revised on an annual basis, as these are collated from the Balance Sheet data. The data on ‘Other Capital’ currently included in (ECB) will be updated on a quarterly basis - coterminous with quarterly BoP Statistics.

(b) Compilation Procedure

The compilation procedure to work out (a) reinvested earning by FDI entities, (b) “other capital” in the form of inter-corporate debt transactions, and (c) equity capital of branches of foreign banks operating in India is discussed below.

Reinvested Earnings

The main source of this information has been the annual survey conducted by the Department of Statistical Analysis and Computer Services (DESACS), RBI, on foreign assets and liabilities (including reinvested earnings) of corporates and unincorporated bodies. The population for this survey is constituted by entities, which seek approval from the RBI or Government of India (GoI) for FDI or joint venture abroad. The latest survey (conducted in 2001-02) had a population size of about 7,000 entities. As this survey relates to both assets and liabilities, the entities included in the population cover companies that are involved in joint ventures abroad, accessing portfolio investment, accessing external commercial borrowings, etc. other than FDI companies. Out of the total population of 7,000, around 2,500 companies responded to the questionnaire of which around 1,400 were FDI companies. Reinvested earnings of these companies were calculated by apportioning (according to the non-resident equity holdings) the current appropriation to unencumbered reserves and net profit after tax and dividend. This formed the reinvested earnings of the companies covered under DESACS survey.

Given the inadequate response to the survey, other sources of information were also explored to improve the coverage. Available balance sheet information on 60 non-respondent FDI companies was collected from the Company Finance Division (CFD) of DESACS. Reinvested earning figures of these companies were compiled with the available balance sheet information through the same method as in the case of companies covered under the DESACS survey.

In the next stage, the Center for Monitoring Indian Economy (CMIE) was approached to access the balance sheet information of the FDI companies, which neither responded to the survey nor the balance sheet information was available with CFD. Information relating to more than 200 such companies was available with CMIE and the same was purchased. Reinvested earning figures of these companies were compiled with the available balance sheet information through the same method as in the case of companies covered under the DESACS survey.

A list comprising nearly 600 large non-respondent companies was given to the Bombay Stock Exchange (BSE). Information received from the BSE does not provide detailed non-resident holdings as well as appropriation to unencumbered reserves. In certain cases, information on net profit and dividend remitted abroad/dividend declared are also not available. Given these shortcomings, data provided by BSE could not be utilised to calculate reinvested earnings.

Reinvested earnings with respect to branches of foreign banks have been calculated from the annual accounts of these banks. Though the net profits after tax and provisions are available in the account, figures relating to dividend remitted abroad are not available. Reinvested earnings have been calculated as profit net of appropriation to encumbered reserves.

Reinvested earnings has been compiled on the basis of information collected from DESACS Survey, CFD database, CMIE database and balance sheets of branches of foreign banks operating in India consisting about 1,700 FDI entities.

“Other Capital”

“Other Capital” covers the borrowing and lending of funds – including debt securities and suppliers’ credit - between direct investors and subsidiaries branches and associates. At present, FC-GPR is not capturing these details separately. However, some of these details are available in the ECB database. In the present ECB reporting system, there is one column to identify the borrower of ECB whose creditor is holding 10 per cent or more equity capital or not. However, it does not specifically indicate whether the equity holding is in the borrower company or in any other Indian company.

An exercise was carried out to identify the pairs of creditor and borrower who are having direct investor and direct investment enterprise relationship with the help of detailed pairs of direct investor and direct investment enterprise database collected through the Survey of India’s Foreign Liabilities and Assets. As the response to the Survey is not encouraging, all such pairs could not be identified in the ECB database. However, with the identified direct investor and direct investment enterprise pairs, the following transactions between borrower and creditor were treated as “Other Capital”. Components of “Other Capital” that has been captured from the existing ECB database are given in the table below.

“Other Capital” Component	Data Availability
Trade Credit (more than 180 days) (includes Suppliers’ Credit)	Available in the ECB Database
Financial Leasing	Available in the ECB Database
Loans	Available in the ECB Database

Equity Capital of Branches of Foreign Banks Operating in India

The current reporting system on FDI only captures FDI inflows in the form of equity investment in corporate entities. Since foreign banks operating in India are branches of foreign banks, they are unincorporated bodies in India. Therefore, FDI inflows with respect to branches of foreign banks are not captured under the present system. FDI inflows in the form of equity capital of branches of foreign have been captured by increment in equity capital during the year. This information has been obtained from balance sheets of individual banks.

V. Revised FDI Figures

On the basis of the compilation process discussed above, the final picture that emerges from the above is as follows.

FDI inflows for the fiscal year 2000-01 and 2001-02 as currently published by RBI stood at US \$ 2,342 million and US \$ 3,905 million, respectively. With the additional components of FDI compiled under the recommendation of the TMG, the FDI figure for the above-mentioned years have been revised to US \$ 4,029 million and US \$ 6,131 million, respectively.

The following table provides the detailed break-up of FDI inflows to India as derived through the above mentioned compilation procedure.

Table 1 : Foreign Direct Investment Inflows

(US \$ Million)

Item/Year	2000-01	2001-02
I. FDI as Currently Published by RBI	2,342	3,905
II. Additional Components Captured by TMG (A+B+C)	1,687	2,226
A. Banking Capital of the Branches of Foreign Banks	58	190
B. Reinvested Earnings {(i)+(ii)+(iii)}	1,350	1,646
(i) Corporate Sector - Compiled through Survey	605	749
(ii) Corporate Sector - Compiled through Balance Sheet information obtained from CMIE & other sources	389	436
(iii) Branches of Foreign Banks	356	461
C. Other Capital (Inter-company Debt Transactions)	279	390
III. Total Foreign Direct Investment Inflows into India	(I+II) 4,029	6,131

Note: (1) Reinvested earnings (item II.B) have been calculated on the basis of information on about 1,700 FDI entities.

(2) "Other capital" (item II.C) includes only inter-company debt transactions such as short-term and long-term borrowings, financial leasing and inter-corporate loan available in ECB database.

The internationally comparable figures on FDI in India would now appear as follows (Table 2) :

Table 2 : Revised FDI Inflows into India

(US \$ million)

Item/Year	2000-01	2001-02
I. Equity Capital	2400	4095
II. Reinvested Earnings	1350	1646
III. Other capital	279	390
IV. Total	4029	6131

VI. Conclusion

The figures on FDI indicated above are provisional. Finer data on FDI would be disseminated when reporting system is stabilized to capture data on trade credit, venture capital, financial derivatives etc. Nevertheless, the present coverage is significantly wider than the earlier practice of disseminating FDI data covering the equity capital only. The TMG would continue to function till the remaining items identified by it are included in the FDI compilation. The revision of FDI data will not affect the overall BoP position. However, RBI would make appropriate changes in the current account as well as capital account transactions of BoP. The BoP statistics would be modified accordingly. The Report of the Committee on Compilation of Foreign Direct Investment of India and also First Action Taken Report of the TMG may be placed in the website of RBI and DIPP. For wider dissemination, RBI & DIPP may consider a joint Press Release at the earliest on revised FDI data, as well as methodology of compilation of such data in line with international best practices.