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GOVERNMENT'S CLARIFICATION ON FDI POLICY ON SINGLE BRAND RETAIL TRADING FOR GOODS PROCURED FROM SEZ

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Introduction

Under the extant Foreign Direct Investment (FDI) policy, 100% FDI is permitted under the automatic route in Single Brand Retail Trading (SBRT) entities, subject to their compliance with the local sourcing requirements, whereby an SBRT entity having FDI of more than 51% must ensure that 30% of the value of goods are procured from India. The Department for Promotion of Industry & Internal Trade (DPIIT) on 25 February 2020 issued a clarification around the FDI policy of the Government of India on SBRT as contained in para 5.2.15.3 of Press Note 4 (2019) as outlined below:

Key Issues Clarified - Goods procured from SEZ's by the single brand retail traders, to qualify local sourcing norms

- On 25 February 2020, with a view to provide greater flexibility and ease operations for the SBRT entities, DPIIT has clarified that sourcing of goods from units located in a Special Economic Zone (SEZ) in India would qualify as sourcing from India, as per the FDI policy.

- The Government further elucidated that goods sourced from SEZ's would qualify the local sourcing requirement of 30% mandatory sourcing from India for proposals involving FDI beyond 51%, subject to Special Economic Zones Act, 2005 (as amended from time to time) and other applicable laws, rules and regulations.

- For the sake of abundant caution, it is clarified that goods proposed to be sourced by an SBRT entity, from such units located in SEZ's in India must be manufactured in India.

- The Government's clarification is in sync with the current market practice and while FDI in an SBRT is governed by provisions of in para 5.2.15.3 of Press Note 4 (2019), however, the responsibility for compliance with all the conditions enumerated in the FDI policy and as notified under the Foreign Exchange Management Act, 1999 (FEMA) would continue to vest in the manufacturing entity.

In tune with the 'Make in India' campaign and the FDI policy of the Government of India read with Press Note 4 (2019), this clarification will in turn spur the country's exports in coherence with the Government's commitment to transform India into a global manufacturing destination.

Comments

The FDI equity inflows into India from April-September 2019 grew by 15% to USD 26 billion (about INR 1,82,000 crore) and the proposed clarification augers well for further increase in foreign exchange inflows. It will encourage foreign investment in the SBRT entities and would usher in the much-needed impetus for boosting the country's economy.

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