FDI data can't be taken on face value; RBI needs to regenerate it: Experts

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New Delhi

POINTING out discrepancies in FDI data, a study by two renowned experts has suggested that the RBI should regenerate foreign fund inflows and outflows data with detailed information at least for the past five years with a view to providing a more realistic picture of overseas investments.

Foreign direct investment (FDI) inflows database cannot be taken on its face value due to various shortcomings, the study outlined. "While the annual aggregates do not provide adequate guidance regarding year-to-year changes, the sectoral reporting has some serious limitations .... Besides these weaknesses in reporting, FDI in India must also be read in light of dis-investments and repatriation of capital, which are adversely impacting on the gross inflows to a significant and growing extent," it added.

The report was prepared by KS Chalapati Rao, professor (retd), Institute for Studies in Industrial Development (ISID), and Biswa-jit Dhar, professor, Jawaharlal Nehru University.

The data limitations on FDI inflows include "delayed reporting, duplicate reporting, incorrect entries, notional inflows, inappropriate industrial classification and round-tripping by large global corporations."

It said that FDI data reporting has to be improved drastically in order to properly understand the contribution of the overseas investments. The study also suggested that along with a review of the FDI policy, the reporting mechanism should be reviewed to make the data on inflows facilitate drawing of "meaningful inferences and to provide guidance to policy makers and other national and international analysts."
FDI FIGURES INFLATED, DISTORTED: REPORT

Study says net FDI fell 1.1% in FY17 to $35.6b ■ Reported numbers for FY14, FY16 and FY17 are $45.1b, $55.6b and $60.1b, respectively

For a few dollars more
- The impressive figures could be a result of duplicate reporting, incorrect entries and distorted statistics, among others, and hence cannot give the true picture of the actual fund flow
- A report by the Institute for Studies in Industrial Development (ISID) has found that since a large chunk of FDI is going for acquisition of existing shares, they do not create any asset in the country
- Further, the government has been focused more on FDI inflows and has ignored repatriation of capital outflow by foreign investors while compiling data
- The report noted that annual fund inflows are being balanced to a significant extent by repatriations and disinvestments (share sale by foreign firms)

A separate study by the ISID found that net FDI inflows fell by 6.7% in FY17 to $35.6 billion, while the government had claimed a 1.1% rise. The report noted that the reported figures are inflated by double-counting, incorrect entries and distorted statistics, among others, and hence cannot give the true picture of the actual fund flow.

The ISID report also pointed out that FDI inflows are being used to acquire existing shares, which do not create any asset in the country. Further, the government has been focused more on FDI inflows and has ignored repatriation of capital outflow by foreign investors.

The report noted that annual fund inflows are being balanced to a significant extent by repatriations and disinvestments (share sale by foreign firms). It also highlighted the issue of double-counting, where the same investment is counted multiple times.

The ISID report further noted that while the reported FDI inflows have increased, the actual investment in the country has not increased proportionally. It also highlighted the need for better data collection and analysis to provide a more accurate picture of the actual fund flow.
When Keyman’s ₹75-cr inflows in 2007 got reported as ₹7,500-cr in 2015!

In the case of DeCour, the high-profile Singapore-based hedge fund, the authors found the FDI data reported as a $3.5 billion investment by it in FY13 at a time it was in the process of exiting the country. There were, naturally, no entries in Tatara’s filings with the ministry of corporate affairs for the entire period. These shares, it appears, were allotted to underwrite FDI in DeCour, so, in the case of Tatara, the study points out that out of the $8.4 billion invested between March 2013 and September 2016,around $5.9 billion was reported by the department of industrial policy and promotion (DIPP) only after a year—that is, the July-September 2017 quarter. Thus, the reporting being prompt, equity inflows in 2016-17 would have been inflated by 201 per cent.

After re-examining the data, according to the 25 Make-in-India thrust sectors, the authors conclude, “We have only looked at Tatas, the share of manufacturing sector fell substantially...and was concentrated heavily in automotive and allied industries, which may have been among the top recipients for many years.”

Also, according to them,

When Keyman’s ₹75cr inflows in 2007 got reported as ₹7,500cr in 2015!

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<th>Figures a bit off</th>
<th>FDI not so robust</th>
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<td>FDI inflows show no uptick in 2007; it’s up by 15.5% in FY16</td>
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<td>Foreign Investment</td>
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<td>75% of GDP</td>
<td>4.6</td>
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<td>FDI in 2007</td>
<td>15,600</td>
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<td>Foreign Investment Services</td>
<td>30</td>
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<td>Tatas’ incentive being offered to welcoming FDI into India</td>
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Report total proposed FDI inflows

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<td>Ford India</td>
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<td>Walmart India</td>
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<td>Tata Motors</td>
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<td>Boeing India</td>
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the quality of FDI into India is also misleading. A large share of the inflows refers to acquisition/bonding/property that is not really creating net equity capital, rather is add to 8. While the increase in equity inflows during 2016-17 was $1.567 billion, the increase in acquisition of equity was as much as $13.238 billion.

The high share of acquisition/bonding/property in FDI in also a cause for concern. In 2016-17, about 96% of FDI inflows were non-equity.

The distortions, however, also go the other way, and 13.6% with a corresponding drop in the foreign exchange.

THE CITY POLICY

When Keyman’s ₹75cr inflows in 2007 got reported as ₹7,500cr in 2015!

The authors acknowledge that the data inflows are an important current government strategy. recalling the role of syncrocapital, the Authors conclude that the current government should assume control over the Reserve Bank of India and the Reserve Bank of India’s role as an effective and independent entity.

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4. https://twitter.com/TOIBusiness/status/1019173896640258048


14. https://www.newsr.in/n/Business/1zj8wiHpA0/FDI-data-cannot-be-taken-on-face-value.htm