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Ms. Anjali Bansal  
Co-Chairperson  
Working Group on Capital Availability for Growth  
Government of India

Dear Ms. Bansal,

The Bombay Chamber of Commerce and Industry welcomes the opportunity to contribute to the deliberations of the Working Group on Capital Availability for Growth under the High-Level Committee for Viksit Bharat.

At a critical juncture in India's economic trajectory, the availability, accessibility, and cost of capital will be decisive in determining the pace at which the country can achieve its growth ambitions. While India has made significant progress in attracting foreign investment, industry experience indicates that persistent regulatory frictions, procedural complexities, and sector-specific constraints continue to limit the full potential of foreign capital inflows.

Drawing on valuable inputs shared by our esteemed members who are industry leaders across sectors, this paper presents a set of targeted, actionable recommendations aimed at unlocking greater volumes of stable, long-term foreign capital. These recommendations focus on:

- Enhancing foreign capital inflows (FDI, FPI, ECBs, and other instruments)
- Regulatory/procedural reforms for smoother cross-border flows
- Sector-specific ideas to attract long-term foreign investment
- Key challenges in accessing foreign funds.

The Chamber strongly believes that incremental reforms will not suffice. A calibrated yet bold approach to regulatory simplification, policy stability, and investor facilitation is essential to position India as a truly frictionless and globally competitive investment destination.

The recommendations outlined in this paper are intended to support decisive policy action and fast-track implementation. We look forward to continued engagement with the Working Group to help translate these proposals into impactful outcomes aligned with the vision of Viksit Bharat.

Yours sincerely,



Rajiv Anand

Established 1836.

## Key Recommendations for Working Group on Capital Availability for Growth under the High-Level Committee for Viksit Bharat

### A) ENHANCING FOREIGN CAPITAL INFLOWS (FDI, FPI, ECBs, AND OTHER INVESTMENT INSTRUMENTS)

India's ambition of achieving Viksit Bharat by 2047 requires a step-change in the scale, diversity, and stability of foreign capital inflows. While policy liberalisation has progressed, further structural reforms are necessary to attract long-term, low-cost global capital. At the same time, the evolving global landscape—marked by geopolitical tensions, economic fragmentation, and increased competition for capital from developed economies—necessitates a more strategic and targeted approach.

#### 1. Expanding the Scope and Attractiveness of FDI

- Expand automatic route coverage across sunrise and capital-intensive sectors such as defense, semiconductors, space, data centers, green hydrogen, and financial services.
  - Extend tax exemptions for Sovereign Wealth Funds (SWFs) and Pension Funds (PFs) beyond infrastructure and NBFCs to include digital economy, green technology, and advanced manufacturing.
  - Enable majority ownership flexibility and reduce approval dependencies.
  - Develop Plug-and-P lay manufacturing zones, especially coastal SEZs integrated with logistics and ports.
  - Facilitate foreign participation in MSMEs and mid-market enterprises to address the “missing middle.”
  - Leverage India's dual advantage as both a **China+1 manufacturing hub and a large domestic consumption market** to attract diversified FDI.
  - Focus on **capital-intensive global investment trends**, particularly in **AI, semiconductors, robotics, biotechnology, and data centres**, supported through expanded PLI-type fiscal incentives.
  - Build **reliable infrastructure (energy + logistics)** as a core enabler of investment attractiveness.
  - Periodically review and expand recent relaxations under **Press Note 3**, especially for non-sensitive sectors.
  - Leverage **FTAs and PTAs (especially with the EU and UK)** to attract export-oriented manufacturing FDI integrated into global supply chains.
  - Undertake a **comprehensive review of FDI in services**, including gradual liberalisation in legal, accounting, and multi-brand retail sectors.
  - Address **net FDI erosion** by analysing drivers of outflows such as disinvestment, PE exits, and profit repatriation.
  - Strengthen **state-level ease of doing business**, especially land, labour, and compliance frameworks.
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## 2. Strengthening FPI Flows and Capital Market Depth

- Rationalise capital gains taxation and Securities Transaction Tax (STT).
  - Provide clarity and stability in tax treatment.
  - Expand the Fully Accessible Route (FAR) to include corporate bonds.
  - Simplify FPI onboarding and KYC processes (LEI-based registration, digital signatures).
  - Introduce light-touch regulatory regimes for long-term investors.
  - Consider temporary market-support measures during volatility.
  - Recognise that FPI flows are driven by **valuation, global risk appetite, currency stability, and interest rate differentials**.
  - Avoid restrictive capital controls even during global volatility.
  - Address **high transaction costs and dual taxation (STT + capital gains)** to improve investor returns.
  - Expand FAR bond lists periodically to **increase India's weight in global bond indices**.
  - Maintain **macroeconomic stability and a flexible exchange rate regime** to sustain investor confidence.
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## 3. Deepening Corporate Bond Markets

- Provide full tax exemption on interest income for non-residents investing in IFSC-listed bonds.
- For Foreign Investors: There may be exemptions on WHT or reduced tax rates on interest payments. Issuing bonds through International Financial Services Centres (IFSCs), such as GIFT City, can offer favourable tax treatment and streamlined regulatory compliance.
- Extend tax exemptions to municipal bonds.
- Encourage long-tenor and infrastructure-linked instruments.
- Promote rupee-denominated and inflation-indexed bonds.
- Align bond market development with **global index inclusion strategies** to attract passive foreign flows.
- Enable digital platforms for global access by developing infrastructure for cross-border issuance and trading through integrated digital channels. Some Key measures include:
  - Develop digital platforms for FPIs covering e-KYC, subscription, trading, and settlement.
  - Integrate with international depositories like Euroclear, Clearstream for post-trade services.

- Use blockchain/DLT to boost transparency, shorten settlement, and enable cross-border regulatory compliance.
  - Align platforms with global standards (ISO 20022, FATF, IOSCO) to ensure trust and compliance.
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#### 4. Reforming ECB Framework and Foreign Currency Access

- Relax end-use restrictions and allow broader deployment of ECBs.
  - Reintroduce concessional withholding tax regimes.
  - Allow short-term ECBs with refinancing flexibility.
  - Expand trade credit frameworks to include services.
  - Promote rupee-denominated ECBs with hedging support.
  - Address **high currency hedging costs**, which remain a key deterrent to foreign debt inflows.
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#### 5. Unlocking New Investment Channels

- Develop infrastructure and sector-focused investment platforms.
  - Expand InvITs and REITs.
  - Introduce sovereign-backed foreign currency bonds.
  - Promote USD-denominated instruments.
  - Encourage ESG and climate-linked finance.
  - Capitalise on **rising global demand for digital and green infrastructure investments**, especially in data centres and clean energy ecosystems.
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#### 6. Incentive Structures for Strategic Sectors

- Extend PLI schemes to advanced manufacturing, AI, biotech, and specialty sectors.
  - Reintroduce tax incentives for infrastructure development.
  - Provide **targeted support to global value chain sectors** such as textiles, electronics, and machinery through export incentives and capital access.
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## **B) REGULATORY AND PROCEDURAL REFORMS TO FACILITATE SMOOTHER CROSS-BORDER CAPITAL FLOWS**

Reducing friction in cross-border investment requires a paradigm shift toward simplification, predictability, and trust-based regulation.

### **1. Tax Certainty and Treaty Clarity**

- Reinforce acceptance of TRC as primary evidence.
  - Strengthen advance ruling mechanisms.
  - Ensure prospective tax changes.
  - Improve certainty in **Advance Pricing Agreements (APAs)**.
  - Consider **state-to-state dispute settlement mechanisms** as interim investor protection tools.
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### **2. Enforceability of Contractual Obligations to maintain Investor Confidence**

- Lack of adherence to signed contracts leads to investor mistrust around the sanctity of agreements. It also devalues the credibility of the sovereign globally, sullies India's reputation and jeopardises future investment plans and pipeline.
- Once the projects are announced, sanctity and provisions of the contracts must be upheld by the central, state and local governments. These should be legally enforceable. Adequate safeguards must be built in the form of continuity and stability, irrespective of political changes, and clear penalties for breach or threats to cancel approved contracts.
- Foreign investors have highlighted the enforcement of contracts as one of their biggest concerns, and a faster dispute resolution mechanism would also reduce litigation for the government.

### **3. Simplification of Regulatory Frameworks**

- Review FEMA (Non-Debt Instruments) Rules.
  - Move toward principle-based regulation.
  - Harmonise FDI, FPI, and ECB frameworks.
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### **4. Single-Window and Digital Transformation**

- Establish integrated digital platforms across regulators.
  - Enable real-time tracking and defined timelines.
  - Upgrade FIRMS portal.
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## 5. Enabling Global Investment Structures

- Permit omnibus structures in GIFT IFSC.
  - Relax Section 9A conditions.
  - Enable INR and foreign currency escrow mechanisms.
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## 6. Operational and Transaction-Level Reforms

- Align valuation norms with transaction agreements.
  - Permit flexible deal structures (swap, deferred consideration).
  - Simplify compliance and reporting.
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## 7. Institutional Strengthening

- Establish policy clarification units and **FPI ombudsperson**.
  - Enhance SEBI–RBI coordination.
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## 8. International Investment Frameworks

- Expand implementation of the new model **Bilateral Investment Treaty (BIT)** announced in 2025 across key partners (EU, UK, Middle East).
  - Join the **World Trade Organization Investment Facilitation for Development Agreement** to improve transparency and administrative efficiency.
  - Leverage investment treaties to enhance investor protection and confidence.
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## C) SECTOR-SPECIFIC STRATEGIES TO ATTRACT LONG-TERM FOREIGN INVESTMENT

### 1. Infrastructure, Logistics, and Real Assets

- Recognise logistics as core infrastructure.
  - Promote PPP models and viability gap funding.
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## 2. Manufacturing and Global Value Chains

- Develop integrated clusters and coastal zones.
  - Strengthen Tier 2/3 supply chains.
  - Promote shipbuilding, MRO, industrial equipment.
  - Use FTAs to integrate into **global supply chains serving Europe, the UK, and partner markets.**
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## 3. Energy, Climate, and Resource Security

- Enable investments in power, oil & gas, and critical minerals.
  - Create green investment fast-track channels.
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## 4. Financial Services and Capital Markets

- Liberalise FDI in asset management, insurance and pensions.
  - Promote GIFT IFSC.
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## 5. Technology, Digital Economy, and Innovation

- Promote investments in AI, fintech, and digital infrastructure.
  - Enable global listing frameworks for startups.
  - Strengthen **data flow frameworks, IP protections, and mobility provisions under FTAs.**
  - Promote India as a **global hub for high-value services exports** (IT, fintech, digital health, engineering design).
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## 6. MSMEs and Inclusive Growth

- Enable structured foreign capital access.
  - Promote cross-border SME partnerships.
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## 7. Agriculture, Healthcare, and Strategic Sectors

- Enable FDI in agriculture and agri-logistics.
  - Promote medical equipment, circular economy, fertilisers.
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## 8. Emerging High-Potential Sectors

- Defence manufacturing (leveraging rising global defence spending and export potential).
  - E-commerce and digital platforms (supported by logistics and payments infrastructure).
  - Data centres and AI infrastructure ecosystems.
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## D) KEY CHALLENGES IN ACCESSING FOREIGN CAPITAL

Despite strong fundamentals, several structural and operational challenges persist:

### 1. Policy Uncertainty and Trust Deficit

- Concerns around retrospective taxation and policy reversals.
  - Need for **stable, long-term industrial and fiscal policies**.
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### 2. Regulatory Complexity and Overlaps

- Multiple regulators and inconsistent interpretations.
  - Overlap between FEMA, sectoral regulations, and state laws.
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### 3. Procedural Delays and Execution Frictions

- Lengthy approval timelines and documentation burdens.
  - Inefficiencies in FIRMS portal and NCLT processes.
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#### 4. Tax and Litigation Risks

- Ongoing **sectoral litigations (e.g., insurance GST and income tax disputes)** creating uncertainty.
  - Withholding tax complexities and treaty interpretation disputes.
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#### 5. Currency and Hedging Costs

- High INR hedging costs impacting debt inflows.
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#### 6. Financial Market Limitations

- Shallow bond markets and limited long-tenor instruments.
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#### 7. Legal and Contract Enforcement

- Slow judicial processes and arbitration delays.
  - Weak enforcement increasing risk premiums.
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#### 8. Sector-Specific Constraints

- Real estate: title complexity, state-level variations
  - Private equity: approval requirements for advisory entities
  - Infrastructure: long gestation and financing gaps
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#### 9. Operational Challenges

- Compliance burdens and KYC duplication.
  - Inconsistent regulatory interpretation across agencies.
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## 10. Global Structural Challenges

- Shrinking global FDI flows due to **geopolitical fragmentation**.
  - Increasing competition from **developed economies for global capital**.
  - External shocks such as **tariffs and energy price volatility** affecting investor sentiment.
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## CONCLUSION

India stands at a defining moment in its economic trajectory. While global liquidity remains available, capital allocation is becoming increasingly selective, favouring economies that combine policy stability, infrastructure readiness, and global integration.

This global landscape underscores the need for India to move beyond incremental reforms toward a **cohesive, globally competitive capital framework**.

Key priorities include:

- Leveraging FTAs and global supply chains.
- Building infrastructure for next-generation sectors (AI, green energy, digital).
- Ensuring tax certainty and regulatory predictability.
- Reducing transaction costs and easing capital flows.
- Strengthening institutional coordination.

A time-bound and coordinated implementation of these reforms will enable India to **attract sustained, high-quality foreign capital**, strengthen its financial ecosystem, and accelerate its journey toward becoming a globally competitive, investment-friendly economy aligned with the vision of Viksit Bharat.