FDI in Retail-The Next Big Step towards Growth

THE CII NATIONAL COMMITTEE on Retail recently submitted an industry analysis on the crucial issue of Foreign Direct Investment (FDI) in retail, a step towards opening up the organized retail sector to foreign companies.

The Department of Industrial Policy & Promotion (DIPP) has been very actively establishing a platform for discussion and providing a way forward on this issue. The CII submission was in response to the Discussion Paper circulated by DIPP on 'FDI in Multi-Brand Retail Trading to the industry, for inputs and suggestion. As per the current scenario, 51 per sent FDI is allowed in single brand retailing and 100 per cent in the Cash & Carry format.

CII Recommendations
For purposes of clarity, a distinction has been made between food and non-food retailing under multi-brand retailing. Food retail accounts for nearly 2/3 of the total retail market in India and comprises of staples, dairy, fruits and vegetables. Non-food retail comprises the balance 1/3 of the market and includes apparel, textile, footwear, hard consumer durables (appliances and electronics) and other specialty retail (e.g. furniture, furnishings, and sport goods).

1. FDI in multi-brand retail must be permitted.

- The sector is capital intensive and FDI will broaden the range of options available to raise capital.
- Entry of strategic investors will bring in global standards and best practices in logistics, inventory management, warehousing, merchandising, service and waste management.
- FDI would bring in more players and provide more options to the consumers and the suppliers (farmers and manufactures). Suppliers with improved competitiveness can look at expert opportunities.
- FDI in multi-brand retail should include both strategic and financial investors, including FIIs and private equity.

2. However, there should be a cap on investment, which should become higher with time.

The initial cap on investment could be pegged at 49% under the automatic route and 74% under the approval route, in order to balance the interests of various stakeholders. To ensure that only serious investors are encouraged, some restricting conditions around the exit (say, a minimum lock-9n period of 3 years) may be put on foreign investment in the food or non-food category.

3. FDI should be leveraged to create back-end infrastructure.

Improving the backend is key driver to profitability. It is only natural for retailers to invest in the back-end to improve their competitiveness. The investment in non-store assets could range from 30% to 60% (given the initial situation of the infrastructure). However, no stipulation should be prescribed for the back-end as it will happen automatically when front end retailing is open to international retail chains.
There is a clear need to distinguish between food and non-food for specifying stipulations on investments in back-end.

For food, the back-end constitutes a supply chain which includes logistics (transportation), handling, cold-chain for storage, contract farming, F&V sorting, grading and collection centers, as well as regional processing centers for items of mass consumption. It will also include training and development establishments to create a talent pipeline.

For non food, such as electronics, apparel, general merchandise, sports equipments, no substantial back-end infrastructure needs to be created, since the supplier will have his own manufacturing capabilities.

4. CII agrees with DIPP that only genuine players, who can bring in capital or expertise, should participate in the sector.

A possible means to ensure this in the food category is to provide a filter that only allows investors above a filter that only allows investors above a certain scale, or undertaking a minimum threshold of investment the scale and size of investors would differ by format since formats require greater scale and size (e.g. food retails) than others (e.g. books / furnishings). Thus, in the non-food category, there should not be any stipulated limit.

Further, restrictions on exit can be imposed in both categories. For food, minimum capitalization norms can be suggested, depending on the level of foreign investment.

5. CII recommends that no stipulation to employ rural youth be put, while retailers can be asked to develop training infrastructure to generate employment and employability.

Empirical evidence reveals that organized retails can create substantial employment opportunities. In India, modern retail has already created over

600,000 new jobs in the last decade, with the potential to create an additional 6.5 million jobs by 2018.

6. **CII also recommends maximum local sourcing from not only the SMEs but all local players.** For non food, local sourcing stipulations need not be applied, as the suppliers would set up their own manufacturing capabilities.

7. **In order to help small retailers CII feels that the Government should streamline the current regulations,** instead of adding new ones. This will also help small retailers run their business better and follow ethical practices and contribute to tax revenues.

Consumer rights should also be protected through various consumer laws, forums and civil courts. For this too, greater streamlining and proper enforcement of existing regulations should be ensured, rather than additions to them.

8. **CII also suggests streamlining and simplification of current procedures** for the Retails sector without introducing any additional regulation or regulator.

Indian retail is currently highly regulated. For instance, a hypermarket business requires over 30 licenses and approvals and is impacted by 40 different regulations, cutting across more than 15 central and local government bodies at various levels!

Similarly, small retailers are subject to many regulations – most of them at a local level. An additional regulatory structure would add to the burden of the retailers and increase the cost and complexity of monitoring and governance for the government.

The CII response to the Discussion Paper is a step towards liberalizing the sector, and to help it get much needed capital for growth. The response has also been submitted to the Planning Commission for its consideration.