

FOREIGN DIRECT INVESTMENT

FDI is a source of external finance which means that countries with limited amounts of capital can receive finance beyond national borders from wealthier countries. FDI is considered to be an ingredient in economic growth.

RETAIL SECTOR

The Retail Industry is the sector of economy which is consisted of individuals, stores, commercial complexes, agencies, companies, and organizations, etc., involved in the business of selling or merchandizing diverse finished products or goods to the end-user consumers directly and indirectly.

SINGLE BRAND RETAIL IN INDIA: THE CHANGE HAS ARRIVED

Single Brand retail is one in which a single item is sold across all outlets. Such as Reebok, Titan, Puma etc.

Policy before 2011:

FDI upto 51% was allowed with prior government approval in retail trade of single brand products subject to certain conditions.

The Change:

The government has finally permitted 100% FDI in single brand retail under government approval route subject to the following conditions:

- Products to be sold should be of “Single brand” only.
- Products should be sold under the same brand internationally i.e. products should be sold under the same brand in one or more countries other than India.
- Single brand product retail trading would cover only products which are branded during manufacturing
- The Foreign investor should be the owner of the brand.
- In respect of proposals involving FDI beyond 51%, mandatory sourcing of atleast 30% of the value of products sold would have to be done from Indian Small industries/ village and cottage industries, artisans and craftsmen. The compliance of this condition will be ensured through self-certification by the company, to be subsequently checked, by statutory auditors, from the duly certified accounts, which the company will be required to maintain.

MULTI BRAND RETAIL IN INDIA

Marketing of similar and competing products by the same organisation under different and unrelated brands. For e.g.: Walmart, Big Bazaar

Policy before 2011:

FDI in Multi brand was not permitted in India.

The Change:

Decision has been taken by the Government to permit FDI in all products subject to following conditions:

- FDI in Multi Brand retail trade is permitted upto 51% with government approval.
- Fresh Agricultural produce including fruits, vegetables, flowers, grains, pulses, fresh poultry, fishery, and meat products may be unbranded.
- Minimum amount to be brought in as FDI by the Foreign Investor would be US\$100 Million.
- Atleast 50% of total FDI brought in shall be invested in back-end infrastructure. 'back-end infrastructure' will include capital expenditure on all activities, excluding that on front-end units; for instance, back-end infrastructure will include investment made towards processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, ware-house, agriculture market produce infrastructure etc. Expenditure on land cost and rentals, if any, will not be counted for purposes of back end infrastructure.
- At least 30% of the value of procurement of manufactured. Processed products purchased shall be sourced from Indian 'small industries' which have a total investment in plant & machinery not exceeding US \$.1.00 million.
- Self-certification by the company, to ensure compliance of the conditions stated above, which could be crosschecked, as and when required. Accordingly, the investors shall maintain accounts, duly certified by statutory auditors.
- Government will have the first right to procurement of agricultural products.
- Retail trading, in any form, by means of e-commerce, would not be permissible, for companies with FDI, engaged in the activity of multi-brand retail trading.

FDI IN RETAIL SECTOR: A WIN WIN MOVE

1. Better Infrastructure:

Due to inbuilt inefficiencies and wastage in distribution and storage, a major chunk of food production does not reach consumers. Food often rots at farms, in transit or in antiquated state run warehouses. Cost- conscious organized retail companies will avoid waste and loss making food available to the weakest and poorest segment of Indian society while increasing the income of small farmers.

2. Prevent labour exploitation:

Indian small shops employ workers without proper contracts, making them work long hour. Many unorganized small shops depend on child labour. A well regulated retail sector will help curtail some of these abuses. They will get better working conditions and better wages.

3. Existence of unorganized retail market will not be hampered:

The unorganized retail market is as large as 95% and also the traditional market is very deep rooted in our economy. The kirana stores will always have their place in the map due to their location.

4. Curb Inflation:

FDI in retail sector will transform the way perishable agricultural produce is acquired, stored, reserved and marketed and thus help control India's persisten food inflation. The gap between farm gate prices of agricultural produce and the retail prices in India are amongst the highest in the world.