



INDIA WELCOMES FDI IN MULTI-BRAND RETAIL

September 2012

The much awaited news arrived on a Friday, hopefully, ending a protracted controversy. The Indian Government opened its economy to FDI in multi-brand retail on September 14, 2012, subject to specific conditions. At the end of 2011, the Cabinet had approved a proposal to introduce FDI in this sector which was rolled back due to protests by numerous political parties. Following an exhaustive consultative process with the state governments, the Government has now re-introduced the proposal with certain modifications to increase its acceptability to various stakeholders.

(a). Foreign investors can establish operations only in those states which support FDI in multi-brand retail. As on date, certain states including Delhi, Assam, Maharashtra, Andhra Pradesh, Rajasthan, Uttarakhand, Haryana and Manipur support this move to liberalize the sector.

(b). The retail outlets must be set up in cities with a population of more than 1 million (as per the 2011 Census). In states with no such cities, the outlets may be set up in the city of choice, preferably the largest city. This is to ensure that the impact of the proposal is contained to urban areas, without any adverse impact on the rural areas.

(c). At least 50% of the FDI has to be for backend infrastructure which includes capital expenditure on all activities, excluding that on front-end units, land cost and rentals. The Government has fixed a three year timeframe for setting up the back-end infrastructure which will include investment made towards processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, ware-house, agriculture market produce infrastructure etc.

(d). Minimum 30% procurement should be from Indian small industries.

The nuances are still to be worked out. To that end, the Government will constitute a high-level group under the Minister of Consumer Affairs to study various issues concerning internal trade and shall make suitable recommendations.

The Government needed to give a fillip to reforms and by revoking its end 2011 suspension in this sector has definitely sent a positive signal by allowing multi-brand retail. Of course, the discretion lies on the state governments for effective implementation. The states will have to work together with all the stakeholders and ensure that the reforms do not remain mere rhetoric but are converted into reality, while balancing the interests of the rural businesses. It will not be easy but is definitely attainable.

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