

**GOVERNMENT OF INDIA
COMMERCE AND INDUSTRY
LOK SABHA**

UNSTARRED QUESTION NO:1129

ANSWERED ON:04.03.2013

. SOURCING REQUIREMENT OF FDI IN RETAIL

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Will the Minister of COMMERCE AND INDUSTRY be pleased to state:

- (a) the details of criteria/norms of sourcing requirement from Micro, Small and Medium Enterprises (MSME) in respect of Foreign Direct Investment (FDI) in multibrand retail;
- (b) whether any investing firms have sourced from MSME so far and if so, the details thereof;
- (c) whether the FDI in multi-brand retail had led any adverse impact on the lives of the small retailers/traders in foreign countries like United States of America and Germany, etc. which are also likely to impact Indian retailers after the entry of big business houses like Walmart in the retail sector;
- (d) if so, the details thereof along with any study that conducted by the Union Government to tackle the above issue including the steps taken by the Government to safeguard the interest of small retailers/traders and their employment;
- (e) whether the Government has noticed that FDI in retail led to employment loss in the foreign countries like United States of America and Germany and likely to have similar impact in India; and
- (f) if so, the details thereof along with the steps taken by the Government to tackle the employment issue in India?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF COMMERCE & INDUSTRY (DR. S. JAGATHRAKSHAKAN)

(a): Government announced the decision to permit FDI, up to 51%, in multi-brand retail trading, vide Press Note No. 5 (2012 Series) dated 20.9.2012, subject to specified conditions, including, inter-alia, the following:

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. This valuation refers to the value at the time of installation, without providing for depreciation. Further, if at any point in time, this valuation is exceeded, the industry shall not qualify as a `small industry` for this purpose. This procurement requirement would have to be met, in the first instance, as an average of five years' total value of the manufactured/ processed products purchased, beginning 1st April of the year during which the first tranche of FDI is received. Thereafter, it would have to be met on an annual basis.

(b): Investors normally take time to study a new policy and its implications in the context of particular markets. The operation of the sourcing condition is envisaged only when foreign direct investment occurs in multi-brand retail trading.

(c) to (f) : While formulating the policy for allowing 51 per cent FDI in multi-brand, the Government was conscious of the livelihood concerns of the millions of small retailers. Studies of global experience have revealed that even in developing economies like China, Brazil, Argentina, Singapore, Indonesia and Thailand, where FDI is permitted up to 100%, local retailers have found innovative ways to co-exist along with organized retail and are integral to the organized retail chain. In Indonesia, even after several years of emergence of supermarkets, 99% of the fresh food retail and 70% of all food retail continues to be controlled by traditional retailers. In any case organized retail through Indian corporate entities is already allowed in India. The experience of the last one decade has shown that the small retailers have flourished alongside the large retail outlets. As per the Indian Council for Research on International Economic Relations (ICRIER) report, on "Impact of Organized Retailing on the Unorganized Retail Sector", submitted in 2008, there was no evidence of a decline in overall employment in the unorganized sector as a result of the entry of organized retailers. Further, there was competitive response from traditional retailers through improved business practices and technology upgradation. A majority of unorganized retailers were keen to stay in the business and compete, while also wanting the next generation to continue likewise and most were committed to remaining independent.

The safeguards incorporated in the policy on FDI in multi-brand retail trading are expected to benefit Indian producers, as also to meet the critical need to integrate Indian producers with the domestic and global markets. The consequential benefits, arising from the infusion of global best practices in management, along with global standards in quality, design, packaging and production, are expected to help build capacities of local producers, by making it worthwhile for them to scale-up their production, thereby creating a multiplier effect on employment and income generation. The increased level of activity, in the front-end, as well as in the back-end, resulting from greater FDI inflows, is expected to create significantly enhanced employment opportunities for rural and urban youth.