Emerging Trends in Indian Multi-brand Retail Market - Challenges and Strategies

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1. Introduction

FDI in Multi-brand retailing is prohibited in India. FDI in Single-brand Retailing was, however, permitted in 2006, to the extent of 51%. Since then, a total of 94 proposals have been received till May, 2010. Of this, 57 proposals were approved. An FDI inflow of US $ 194.69 million (Rs. 901.64 crore) was received between April, 2006 and March, 2010, comprising 0.21% of the total FDI inflows during the period, under the category of single brand retailing. The proposals received and approved related to retail trading of sportswear, luxury goods, apparel, fashion clothing, jewellery, hand bags, life-style products etc., covering high-end items. Single brand retail outlets with FDI generally pertain to high-end products and cater to the needs of a brand conscious segment of the population, mainly attracting a brand loyal clientele, which often has a pre-set positive disposition towards the specific brand. This segment of customers is distinctly different from one that is catered by the small retailers/*kirana* shops.

FDI in cash and carry wholesale trading was first permitted, to the extent of 100%, under the Government approval route, in 1997. It was brought under the automatic route in 2006. Between April, 2000 to March, 2010, FDI inflows of US $1.779 billion (Rs. 7799 crore) were received in the sector. This comprised 1.54% of the total FDI inflows received during the period. Trade is an important segment in India's Gross Domestic Product (GDP). As per the National Accounts, released by the Central Statistical Organisation (CSO), GDP from trade (inclusive of wholesale and retail in organised and unorganised sector), at current prices, increased from Rs. 4,33,963 crore in 2004-05 to Rs. 7,91,470 crore, at an average annual rate of 16.2 per cent. The share of trade in GDP, however, remained fairly stable at little over 15 per cent in last four years[1]. The share of the private organised sector in total GDP from trade was 23.2 per cent in 2008-09 and it grew at 15.0% during the year. The share of the retail trade in GDP remained stable at 8.1 per cent during this period.

Though the data on volume of turnover by retail is not separately maintained, commodity composition of private consumption expenditure provides reasonable estimates of the size of the retail sector.

As per the National accounts, private final consumption expenditure, increased from Rs. 19,26,858 crore in 2004-05 to Rs. 32,26,826 crore in 2008-09, at an average rate of 13.8 per cent per annum[2]. However, expenditure on some items like transport and communication; expenditure on food in hotels and restaurants; expenditure on rent, fuel and power; and expenditure on education and recreation are distinct from trade. Private consumption expenditure adjusted for items which could be considered a close approximation to trade, increased from Rs. 11,92,405 crore in 2004-05 to Rs. 19,93,380 crore in 2008-09, at an average rate of 13.7 per cent[3].Rate of growth of GDP at current market prices during this period at 14.5 per cent, was higher than this growth.

Table A: Private Final Consumption Expenditure-commodity Composition (Rs. in crore)

Item	2004-05	2005-06	2006-07	2007-08	2008-09
Food and Beverages	763,345	852,798	947,856	1,070,794	1,182,211
Clothing & Footwear	127,608	150,633	188,276	202,797	213,344
Rent, Fuel and Power	250,986	277,310	311,915	356,197	415,436
Furniture and Appliances	64,944	76,458	93,401	111,536	121,984
Medical Care	95,560	105,244	115,900	127,648	140,584
Transport and Communication	378,217	418,363	477,521	521,858	608,048
Recreation, Education and Culture	65,327	73,348	82,778	97,962	110,954
Miscellaneous Goods and Services	180,871	204,195	259,562	336,564	434,265
Total Private Consumption Expenditure	1,926,858	2,158,349	2,477,209	2,825,356	3,226,826

[1] Quick Estimates of National Income, 2008-09, Central statistical Organization
[2] Quick Estimates of National Income, 2008-09, Central Statistical Organization
[3] Estimates of Retail Trade by ICRIER at Rs. 11,308 billion in 2004-05 are close to these estimates.

Estimated Trade Sales[4]	1,192,045	1,339,646	1,538,827	1,771,252	1,993,380

When seen at constant 2004-05 prices, however, private final consumption expenditure increased from Rs. 19,26,858 crore in 2004-05 to Rs. 26,51,786 crore in 2008-09, at an average rate of 8.3 per cent per annum. Private consumption expenditure adjusted for items like transport and communication etc , increased from Rs. 11,92,045 crore in 2004-05 to Rs. 16,67,286 crore in 2008-09, at an average rate of 8.8 per cent. Rate of growth of GDP at constant market prices during this period at 8.4 per cent was lower than the growth of private consumption expenditure that could be attributed to trade.

Table B: Private Final Consumption Expenditure-commodity Composition (1999-2000 prices, Rs. in crore)

Item	2004-05	2005-06	2006-07	2007-08	2008-09
Food and Beverages	763,345	820,702	851,630	912,807	937,064
Clothing & Footwear	127,608	158,249	194,922	210,720	209,361
Rent, Fuel and Power	250,986	259,624	270,039	283,040	292,771
Furniture and Appliances	64,944	74,133	85,917	98,474	102,148
Medical Care	95,560	101,101	105,657	108,278	117,067
Transport and Communication	378,217	397,148	427,332	464,794	521,957
Recreation, Education and Culture	65,327	71,128	76,085	86,159	90,780
Miscellaneous Goods and Services	180,871	209,554	254,083	319,085	380,638
Total Private Consumption Expenditure	1,926,858	2,091,639	2,265,665	2,483,357	2,651,786
Estimated Trade Sales	1,192,045	1,316,391	1,432,667	1,582,125	1,667,286

The National Accounts do not provide disaggregated data of retail turnover originating from the organised or unorganised sector. As per the study on "Impact of Organised Retailing on the Unorganised Sector" by ICRIER, organised retail accounted for 4.1 per cent of the total retail turnover in 2006-07[5].

2. Challenges & Area of Concern

A number of concerns have been expressed with regard to opening of the retail sector for FDI. The first is that the retail sector in India is the second largest employer after agriculture. As per the latest NSSO 64th Round, in 2007-08 retail trade employed 7.2%[6] of total workers and provided job opportunities to 33.1 million persons[7]. The share of employment in the broad sector of trade, hotels and restaurants in 2007-08 was significantly higher compared to its share in 1993-94 for both males and females, in rural, as well as urban areas[8]. More than 2/3rd of the total employment, in the broad category of trade, hotels and restaurants, is in the retail sector.

Table C: Share of Persons Working in Trade, Hotels and Restaurants (Percent)

	Rural		Urban	
	Male	**Female**	**Male**	**Female**
2007-08	**7.6**	**2.3**	**27.8**	**12.8**
Of which in Retail Trade	**5.6**	**1.7**	**18.8**	**8.6**
1999-2000	**6.8**	**2.0**	**29.4**	**16.9**
1993-94	**5.5**	**2.1**	**21.9**	**10.0**

A *second* concern is that it would lead to unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed outlets, leading to large scale displacement of persons

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[4] Excluding expenditure on Rent, fuel and power; Transport and communication; Recreation, education and cultural activities; and expenditure on Food in hotels and restaurants

[5] ICRIER study- Impact of Organized Retailing on the Unorganized Sector-May, 2008

[6] NSSO, Report No 531, Employment and Unemployment Situation in India, 2007-08

[7] Estimates using NSSO- Principal and Subsidiary employment ratio and population in 2007-08

[8] Share of employment in retail trade as per the 2004-05 NSSO Survey, was estimated at 7.3%, marginally higher than its share as per 2007-08 Survey.

employed in the retail sector. Further, as the manufacturing sector has not been growing fast enough, the persons displaced from the retail sector would not be absorbed there.

A *third* argument is that the Indian retail sector, particularly organised retail, is still under-developed and in a nascent stage and that, therefore, it is important that the domestic retail sector is allowed to grow and consolidate first, before opening this sector to foreign investors.

3. Limitations of the Present Setup

There has been a lack of investment in the logistics of the retail chain, leading to an inefficient market mechanism. Though India is the second largest producer of fruits and vegetables (about 180 million MT), it has a very limited integrated cold-chain infrastructure, with only 5386 stand-alone cold storages, having a total capacity of 23.6 million MT., 80% of this is used only for potatoes. The chain is highly fragmented and hence, perishable horticultural commodities find it difficult to link to distant markets, including overseas markets, round the year. Storage infrastructure is necessary for carrying over the agricultural produce from production periods to the rest of the year and to prevent distress sales. Lack of adequate storage facilities cause heavy losses to farmers in terms of wastage in quality and quantity of produce in general, and of fruits and vegetables in particular. Post-harvest losses of farm produce, especially of fruits, vegetables and other perishables, have been estimated to be over Rs. 1 trillion per annum, 57 per cent of which is due to avoidable wastage and the rest due to avoidable costs of storage and commissions[9]. As per some industry estimates, 25-30% of fruits and vegetables and 5-7% of food grains in India are wasted[10]. Though FDI is permitted in cold-chain to the extent of 100%, through the automatic route, in the absence of FDI in retailing; FDI flow to the sector has not been significant.

Intermediaries dominate the value chain. They often flout *mandi* norms and their pricing lacks transparency. Wholesale regulated markets, governed by State APMC Acts, have developed a monopolistic and non-transparent character. According to some reports, Indian farmers realize only 1/3rd of the total price paid by the final consumer, as against 2/3rd by farmers in nations with a higher share of organized retail[11]. A study commissioned by the World Bank attributes the export non-competitiveness of India's horticulture produce to its weak supply chain. The study shows that the average price that the farmer receives for a typical horticulture product is only 12–15 per cent of the price the consumer pays at a retail outlet[12].

There is a big question mark on the efficacy of the public procurement and PDS set-up and the bill on food subsidies is rising. In spite of such heavy subsidies, overall food based inflation has been a matter of great concern. The absence of a *'farm-to-fork'* retail supply system has led to the ultimate customers paying a premium for shortages and a charge for wastages.

The MSME sector has also suffered due to lack of branding and lack of avenues to reach out to the vast world markets. While India has continued to provide emphasis on the development of MSME sector, the share of unorganised sector in overall manufacturing has declined from 34.5% in 1999-2000 to 30.3% in 2007-08[13]. This has largely been due to the inability of this sector to access latest technology and improve its marketing interface.

Table D: GDP from Organised and Unorganised Manufacturing (Rs. crore)

	1999-2000	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Organized	173003	312622	360409	428533	488578
Unorganized	91110	140981	159334	189115	216552
Share of Unorganized Manufacturing in total GDP from Manufacturing sector	34.5	31.1	30.7	30.6	30.7

4. Need for Investments in Agriculture Infrastructure and Linked Retail Sectors

It is estimated that India will need substantial investment to develop infrastructure for supporting retail development. A significant portion of this will need to be earmarked for up gradation of the supply chain for fruits & vegetables. A major portion of his investment is expected to come from the private sector, for which an

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9 CRISIL Research, 2007

10 Annual Report 2006-07, Ministry of Agriculture, Department of Agriculture and Cooperation.

11 ICRIER Report on Impact of Organized Retailing on the Unorganized Sector, May 2008

12 Mattoo, A., D. Mishra, and A. Narain. 2007. *From competition at home to competing abroad: A case study of India's horticulture*

13 National Accounts Statistics, 2009

appropriate regulatory and policy environment is necessary. An 11th Plan working group has estimated a total investment of Rs. 64,312 crore in agricultural infrastructure. A storage capacity gap of 35 million tonnes has been assessed, requiring an estimated investment of Rs. 7,687 crore during the 11th Plan.

A number of views have been expressed regarding the subject of FDI in the retail trade sector. Various issues have also been raised on the possible approach to opening the retail trade sector for FDI.

i. Competition within the host country sector is a critical driver of improvements in sector performance as a result of FDI.
ii. However, FDI's potential for impact can be greater because of the combination of scale, capital, and global capabilities which allow MNCs to close existing large productivity gaps more aggressively.
iii. FDI can be a powerful catalyst to spur competition in industries characterized by low competition and poor productivity. Examples include the cases of consumer electronics in Brazil and India, food retail in Mexico, and auto in China, India, and Brazil.
iv. Competition is also key to diffusing FDI-introduced innovation across an industry. In Brazilian food retail, high competitive intensity caused by informal players forced all modern retailers to rapidly increase productivity; in Mexican and Brazilian auto cases, increasing competition from imports induced foreign players themselves to increase their productivity.
v. Increasingly, foreign direct investment is integrating developing countries into the global economy, creating large economic benefits to both the global economy and to the developing countries themselves. Industry restructuring enables global growth as companies reduce production costs and create new markets. For the large developing countries, integrating into the global economy through foreign direct investments improves standards of living by improving productivity and creating output growth. The biggest beneficiaries from this transition are consumers - both global consumers that reap the benefits from global industry restructuring, and consumers in the host countries that see their purchasing power and standards of living improve.
vi. FDI can be a powerful catalyst to spur competition in the retail industry, due to the current scenario of low competition and poor productivity. It can bring about:
    - *Supply Chain Improvement*
    - *Investment in Technology*
    - *Manpower and Skill development*
    - *Tourism Development*
    - *Greater Sourcing From India*
    - *Up gradation in Agriculture*
    - *Efficient Small and Medium Scale Industries*
    - *Growth in market size*
    - *Greater Productivity*
    - *Benefits to government: through greater GDP, tax income and employment generation*
vii. The retail sector is severely constrained by limited availability of bank finance. The Government and the RBI need to evolve suitable policies to enable retailers in the organized and unorganized sector to expand and improve efficiencies.
viii. A National Commission should be set up to study the problems of the retail sector which should also evolve a clear set of conditionalities on foreign retailers on procurement of farm produce, domestically manufactured merchandise and imported goods. These conditionalities must state minimum space, size and other details like construction and storage standards.
ix. Entry of foreign players must be gradual with social safeguards so that the effects of labour dislocation can be analyzed and policy fine tuned. Foreign players should initially be allowed only in metros.
x. Manufacturing sector in India must be developed to address the dislocation of existing retailers.

5. Findings

- FDI in Multi Brand Retail Sector is a strong case for FDI in modern retailing as entry of modern foreign retailers through joint ventures in India would help develop backward linkages to sources of supply and thus develop a domestic supply chain capable of meeting international standards.
- Review of the existing policy as part of general strategy of promoting labour intensive manufacturing by the same retailers is also suggested.
- Fears of large adverse effects on existing retailers are grossly exaggerated especially since modern domestic retailing has begun in any case.
- Allowing FDI in joint ventures is likely to provide access for domestic suppliers to international retailing which purely domestic modern retailers may not be able to offer.

- FDI be allowed in retail trade as it would speed up the growth of organized retail formats.
- Gradual opening of the retail sector over a period of 3-5 years to give domestic industry enough time to adjust to the changes.
- In the initial stage, FDI up to 49% could be allowed to enable domestic players to enter into joint ventures have access to investment, technological know-how and best management practices while retaining management control.

The 2010 study has observed that organized retail, which now constitutes a small four per cent of the total retail sector, is likely to grow at a much faster pace of 45-50 per cent per annum and quadruple its share in total retail trade to 16 per cent by 2011-12.[14] However, this represents a positive sum game in which both unorganized and organized retail not only coexist but also grow substantially in size.

Unorganized retailers in the vicinity of organized retailers experienced a decline in their volume of business and profit in the initial years after the entry of large organized retailers. The adverse impact on sales and profit, however, weakens over time. There was no evidence of a decline in overall employment in the unorganized sector as a result of the entry of organized retailers. The rate of closure of unorganized retail shops in gross terms was found to be 4.2 per cent per annum, which is much lower than the international rate of closure of small businesses. The rate of closure on account of competition from organized retail was found to still lower, at 1.7 per cent per annum. There was competitive response from traditional retailers through improved business practices and technology up gradation.

Consumers definitely gained from organized retail on multiple counts. Overall consumer spending has increased with the entry of the organized retail. While all income groups saved through organized retail purchases, the lower income consumers saved more. Thus, organized retail is relatively more beneficial to the less well-off consumers. Proximity is a major comparative advantage of unorganized outlets.

There was no evidence of an adverse impact by organized retail on intermediaries. There is, however, some adverse impact on turnover and profit of intermediaries dealing in products such as, fruit, vegetables, and apparel. Over two-thirds of the intermediaries planned to expand their businesses, in response to increased business opportunities opened by the expansion of retail.

Farmers were found to benefit significantly from the option of direct sales to organized retailers. The average price realization for cauliflower farmers selling directly to organized retail was about 25 per cent higher than their proceeds from sale to regulated government *mandis*. The profit realization for farmers selling directly to organized retailers was about 60 per cent higher than that received from selling in the *mandis*. The difference was even larger when the amount charged by the commission agent (usually 10 per cent of sale price) in the *mandi* is taken into account.

Large manufacturers have started feeling the competitive impact of organized retail through price and payment pressures. Manufacturers have responded through building and reinforcing their brand strength, increasing their own retail presence, 'adopting' small retailers, and setting up dedicated teams to deal with modern retailers. The entry of organized retail is transforming the logistics industry. This will create significant positive externalities across the economy. Small manufacturers, however, did not report any significant impact of organized retail.

6. Experience of FDI in Retail Trade in China[15]

- FDI in retailing was permitted in China for the first time in 1992. Foreign retailers were initially permitted to trade only in six Provinces and Special Economic Zones. Foreign ownership was initially restricted to 49%.
- Foreign ownership restrictions have progressively been lifted and, and following China's accession to WTO, effective December, 2004, there are no equity restrictions.
- 'Wholesale and retail projects' forms part of the Catalogue for Encouraged Foreign Investment Industries.
- Retail trade in China has been growing since 1992.
- Employment in the retail and wholesale trade increased from about 4% of the total labour force in 1992 to about 7% in 2001. The number of traditional retailers also increased by around 30% between 1996 and 2001.
- In 2006, the total retail sale in China amounted to USD 785 billion, of which the share of organized retail amounted to 20%. [16]

[14] *The expected growth, however, has not taken place*
[15] FICCI-ICICI Property Service Report, February, 2005
[16] Impact of organized retailing on the unorganized sector – ICRIER study May, 2008

- Some of the changes which have occurred in China, following the liberalization of its retail sector, include[17]:
  - Over 600 hypermarkets were opened between 1996 and 2001
  - The number of small outlets (equivalent to 'kiranas') increased from 1.9 million to over 2.5 million
  - Employment in the retail and wholesale sectors increased from 28 million people to 54 million people from 1992 to 2001
- China is witnessing robust economic growth and increasing urban and rural incomes are fuelling consumption level in this vast and complex retail environment. According to Euromonitor, retail sales in China, which amounted to nearly USD 554 billion in 2003, were expected to grow rapidly to reach USD 900 billion by 2010. [18]
- China's retail sector registered growth in 2007. The nominal growth of China's retail sales of consumer goods accelerated to 16.8% in 2007, up from 13.7% in 2006. Total retail sales amounted to 8,921 billion Yuan, of which the wholesale and retail trade sector grew nominally by 16.7%, to reach 7,504 billion Yuan.
- China's promising consumer market has led to huge foreign interest. FDI in the country's retail and wholesale trade climbed in 2007. There were 6,338 new foreign retail and wholesale enterprises in 2007, up by 35.9% year-on-year. The actual utilized foreign direct investment value amounted to 2.68 billion US dollars, up by 49.6%. China's retail and wholesale trade sector has witnessed impressive growth in foreign direct investment, among others.

7. Rationale for FDI in Retail Trading

The Agriculture sector needs well-functioning markets to drive growth, employment and economic prosperity in rural areas of the country. Further, in order to provide dynamism and efficiency in the marketing system, large investments are required for the development of post-harvest and cold-chain infrastructure nearer to the farmers' field. FDI in front end retailing is imperative to fund this investment. Allowing FDI in front end retail operations will enable organized retailers to generate sufficient cash to fund this investment. Investment in organized retail by domestic players will be ineffectively deployed if FDI is delayed. International retailers should be mandated to bring with them technology and management know-how which will ensure that investment in organized retail works to India's advantage. In order to provide dynamism and efficiency in the marketing system, large investments are required for organized retailing, linked with the back end of the value chain. FDI in front-end retailing is imperative to derive full advantage of the value chain for the producer and the consumer. International retailers will bring with them technology and management know-how that will finally impact our whole retail sector through the adoption of best practices.

There is a need to ensure that issues of cost and quality, relating to consumers, are adequately addressed. This could be achieved through stabilizing prices and reducing inflation, which, in turn, could be achieved through direct buying from farmers, improving supply chain inefficiencies to lower transit losses, improved storage capabilities to control supply/demand imbalances, better quality and safety standards through farmer development and increased processing of produce.

Similarly, there is a need to address issues relating to farmers, through removal of structural inefficiencies. This could be achieved through liberalized markets, with direct marketing and contract farming programmes, from which farmers could profit, as also more predictable farm-gate prices, steadier incomes and better access to evolving consumer preferences through private investors, especially the organized retail sector. There is also a need to improve post-harvest management, which could be achieved through investments in supply chains and cold storage to minimize losses and improving processing, as also value addition for better farm incomes. Further, there is a need for yield improvement, which could be achieved through use of contract farming to disseminate technological know-how, working with farmers to promote awareness about soil quality, pesticides and fertilizer usage, grading, sorting capabilities and increasing availability of low interest credit for farmers.

FDI in retail, may, therefore, be an efficient means of addressing the concerns of farmers and consumers, as referred to above. The private sector, especially organized retail, is best suited to make investments of this magnitude. Permitting foreign investment in food-based retailing is likely to ensure adequate flow of capital into the country & its productive use, in a manner likely to promote the welfare of all sections of society, particularly farmers and consumers. Opening FDI in retail could also assist in bringing in technical know-how to set up

[17] The benefits of modern trade to transitional economies – CII - PwC study, 2008
[18] The benefits of modern trade to transitional economies – CII - PwC study, 2008

efficient supply chains which can act as models of development. It would also help bring about improvements in farmer income & agricultural growth and assist in lowering consumer prices /inflation.

National Accounts Data, sourced from the Central Statistical Organization, reveals that the rates of growth of the private organized sector and private unorganized retail trade have virtually converged over the four years ending 2008-09. The rate of growth of the private organized sector decelerated from 27% in 2005-06 to 15% in 2008-09, while the rate of growth of the private unorganized retail sector remained more or less stable, from 15.6% in 2005-06 to 14.9% in 2008-09. As per the data available from CMIE, profit before and after tax of the companies engaged in retail trade as proportion to their total income became negative in 2007-08 and remained so in 2008-09. Profit before and after tax as percentage to sales also turned negative in 2007-08 and 2008-09. This may, perhaps, be due to both-competition from unorganized retail, as also entry of other players. A year-wise comparison of the Profitability ratios of organized retail shows that the Profit After Tax, net of PE & OI (Prior Period, Extraordinary income/expenses and Other incomes), as a percentage of sales, which stood at 1.09% in the financial year ending March, 2003, declined to 0.50 in the financial year ending March, 2007 and turned negative in the financial years ending March, 2008 and March, 2009, standing at -5.60 and -6.35 respectively.

It is therefore clear that organized retail cannot have a cake walk and will face a growing challenge from the unorganized retail sector. It is possible that the unorganized retail sector may be re-inventing itself, through new and improved practices, to meet the challenges posed by organized retail. It is also evident that without addressing the gaps in the value chain, organized retail will neither be profitable nor make any great difference to the economy.

Keeping in view the large requirement of funds for back-end infrastructure, there is a case for opening up of the retail sector to foreign investment. At the same time, in the Indian context, there is a view that this may be more appropriately done in a calibrated manner. We must ensure that the FDI does make a real contribution to address the inadequacies of back-end infrastructure. Alongside, we need to address the challenge of integrating the small retailer in the value chain.

8. Challenges & Issues for Resolution

Should FDI in multi brand retail be permitted? If so, should a cap on investment be imposed? If so, what should this cap be?

To develop the retail trade in food grains, other essential commodities and multi-brand retail in general; should FDI be leveraged for creating back-end infrastructure? To ensure that foreign investment makes a genuine contribution to the development of infrastructure and logistics, should it be stipulated that a percentage of the FDI coming in (say 50%) should be spent towards building up of back end infrastructure, logistics or agro processing?

It is necessary to encourage only genuine players in this sector and avoid a situation where retail outlets are run through working capital support from financial institutions. Should a minimum threshold limit for investment in backend infrastructure logistics be fixed? If so, what should this financial threshold be?

To develop our rural sector, should conditionalities be put on the FDI funded chains relating to employment? For example, should we stipulate that at least 50% of the jobs in the retail outlets should be reserved for the rural youth?

Similarly, to develop our SME sector through local sourcing, should we stipulate that a minimum percentage of manufactured products be sourced from the SME sector in India?

How best can small retailers be integrated into the upgraded value chain? Can they be provided access to the logistics/ supply chain set up by the FDI funded retailers? Should it be stipulated that a minimum percentage of the latter’s sales should be made to retailers through special wholesale windows?

As a part of a calibrated reform process, should foreign investment for such stores be initially allowed only in cities with population of more than 10 lakhs (2001 census)? As there may be difficulties faced with regard to availability of real-estate in such cities for setting up such ventures, should an area of 10 kms around the municipal/urban agglomeration limits of such cities be included within the definition of the city?

Will any of the conditionalities mentioned above be inconsistent with our commitments under the agreement on TRIM at WTO? If not, to ensure national treatment, can such conditionalities be extended to all retail chains in India above a certain size? Will such extended conditionalities be consistent with Article 301 of the Constitution?

What additional steps should be taken to protect small retailers? Should an exclusive legal and regulatory framework be established to protect their interests? Is a Shopping Mall Regulation Act required? Does this require intervention at national level or should this be left to the States?

The present public distribution system provides a valuable safety net to vulnerable sections of society. To ensure that the integrity of the PDS system is not weakened and buffer stock is maintained at the desired level, should Government reserve the right of first procurement for a part of the season or put in place a mechanism to collect a certain amount of levy from private traders in case the level of buffer stock falls below a certain level?

How should compliance be ensured with the above stipulations? Should a centralised agency, to be nominated by the State Governments concerned, be empowered to grant permissions to every outlet to be opened? The onus of proving compliance with these conditions could rest with the concerned retail chain. The chains could submit an annual statement to such State Government agency providing proof of compliance. Should this agency be empowered to monitor compliance of the present cash and carry outlets too?

The penalty for non compliance could include cancellation of approvals as well as denial of future permissions for such activities. What additional penalties could be levied? Should civil penalties be imposed? Or criminal? Or both?

Recommendations:

- Permit FDI in retail
- Remove Bottlenecks in the supply chain
- Relax SSI Reservation
- Remove distribution constraints
- Organize market for real estate
- Increase land supply

Modernization of wetmarkets through public-private partnerships.

i. Facilitating cash-and-carry outlets, like Metro, for sale to unorganized retail and procurement from farmers, as in China.
ii. Encouraging co-operatives and associations of unorganized retailers for direct procurement from suppliers and farmers.
iii. Ensuring better credit availability to unorganized retailers from banks and micro-credit institutions through innovative banking solutions.
iv. Facilitating the formation of farmers' co-operatives to directly sell to organized retailers.
v. Encouraging formulation of "private codes of conduct" by organized retail for dealing with small suppliers. These may then be incorporated into enforceable legislation.
vi. Simplification of the licensing and permit regime for organized retail and move towards a nationwide uniform licensing regime in the states to facilitate modern retail.
vii. Strengthening the Competition Commission's role for enforcing rules against collusion and predatory pricing.
viii. Modernization of APMC markets as modelled on the National Dairy Development Board (NDDB) Safal market in Bangalore.