

# FDI IN RETAIL SECTOR- A BOON TO FARMERS IN INDIA

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## **ABSTRACT**

*India to the world known as an agrarian nation and it is completely true that about 65% of Indian population is engaged in agriculture. Indian economy cannot do well without its lion's share coming from it. But the state of affair of Indian farmers is still not very progressive as expected.*

*FDI in retailing can be taken a rescue work for Indian farmers to free them from the clutches of n- numbers of middlemen; it is a ray of hope that will take them away from darkness of exploitation to light of progress. The purpose of this paper is to highlight that how FDI in retail will work wonder forever exploited and suppressed community of farmers in emerging India.*

**Keywords:** Farmers, FDI in retailing, Agriculture, Intermediaries

## **INTRODUCTION**

Indian farming is inherently one of the riskiest economic activities agricultural production is unstable because of its dependence on weather and inherent biological uncertainties in managing crops. Agriculture is an important sector in India and it not only contributes to the national income but also provides livelihood to about 2/3<sup>rd</sup> of the population of the country. The fluctuation in agriculture is impelling on other sectors of the economy due to its forward and backward linkages.

FDI will generate foreign capital and foreign players in India that will widen the sphere of retailing not only domestically but globally. 1991 reforms have mushroomed FDI destination in various sectors in Indian economy like insurance, banking, outsourcing, IT, manufacturing, telecommunication Construction and transportation, which has lead to series of development in all these sectors and made them stand in global platform. India is second most sought after destination for FDI after China.

FDI opens up new frontiers to the farmers as today the present state of affairs regarding farmer in India is dissatisfactory, the endless and unnecessary chain of middleman takes away the fruits of the agriculture, from its deserving party i.e. farmers. Farmers suffer as the middlemen add to the profit margin and provide the farmers with the price which is sometimes even below its cost of production. Suicidal cases among farmers are an alarming issue and needs to be urgently taken care of by the government

### **Paradigm shift in FDI- retailing perception**

FDI in retailing has undergone a facelift since its initial stage. The government of India has allowed 51% FDI in retailing.

FDI in retailing is also gone sea change as it has seen many up gradation in policies by GOI; retailing is a sector which has the highest connectivity as it reaches out from the top to the bottom of the society. Indian corporate houses like Raheja, Tata, reliance, Birla and Singhanian have already entered into this money making business. Now foreign players are eyeing on Indian retail sector.

Indian economy in world scenario is growing faster and agriculture is major sector that contributes in our economy. Traditionally India is an agrarian country; food sufficiency is maintained by farmers by constantly engaging themselves in agriculture irrespective of fair rewards for their efforts. Indian food chain is a defective one because of which after 65 years of independence farmers still live in the darkness of poverty, illiteracy, inequality and negligence. The devils are many and endless adding to their plight is a vicious chain of middlemen. Retailing can be taken as a complimentary sector to agriculture and new formats in retailing will bring about new horizon of growth and prosperity to farmers in India. New policies regarding FDI in retailing is going to be proved a major catalyst in upliftment of economy of farmers and country.

Now government in July 2011 has recommended 100% in single brand and 51% in Multi brand retail outlet that will transform retailing sector from unorganized to organized. Foreign retail giants like Wal mart, Carrefour, Tesco, Metro AG etc. are eyeing on the ever promising Indian retailing through FDI. They will also try to elimination long supply chain in distribution process in India and they will purchase on large scale directly from farmers and offer good prices.

### **OBJECTIVES**

1. To highlight the changing view regarding FDI in retail sector.
2. To know how FDI in retail will eliminate intermediaries between farmers and retailers.
3. To study how FDI in retail sector benefit the Indian farmers

### **RESEARCH METHODOLOGY**

The research paper is an attempt of exploratory research, based on secondary data sources from reference books, magazines, journal, research papers and internet

#### **Some of the key note views are here:**

1. Dr Kalam views FDI as beneficial to the rural community only if the farmers have the bargaining capacity when dealing with the multinationals. This is possible through co-operative farming that would negate the ill-effects of small sized land holdings.
2. Montek Singh Ahluwalia, Reuters, Deputy of planning commission of India-He also said that spending on infrastructure will improve the supply chain of agriculture and ensure better deals for farmers. It is well known that there is huge price gap between

what farmers sell their goods at and what a retailer pays for it. The whole cream in between is taken by the middlemen. And a drop in prices over time in prices of products due to ruling out of commissions would help to keep inflation in control as well. He said it would be shameful for India to not pass a policy that China had passed 20 years ago. And the policy requires approval so that states can go ahead and implement it. E.g. Punjab has already admitted that FDI in retail will be good for farmers. Moreover, states have a right to veto the policy.

### **Farmers say on FDI: The rise of farmers' tide**

Various farmer associations in India have announced their support for the retail reforms. For example:

- Shriram Gadhve of All India Vegetable Growers Association (AIVGA) claims his organization supports retail reform. He claimed that currently, it is the middlemen commission agents who benefit at the cost of farmers. He urged that the retail reform must focus on rural areas and that farmers receive benefits. Gadhve claimed, "A better cold storage would help since this could help prevent the existing loss of 34% of fruits and vegetables due to inefficient systems in place." AIVGA operates in nine states including Maharashtra, Andhra Pradesh, West Bengal, Bihar, Chattisgarh, Punjab and Haryana with 2,200 farmer outfits as its members.
- Bharat Krishak Samaj, a farmer association with more than 75,000 members says it supports retail reform. Ajay Vir Jakhar, the chairman of Bharat Krishak Samaj, claimed a monopoly exists between the private guilds of middlemen, commission agents at the sabzi mandis (India's wholesale markets for vegetables and farm produce) and the small shopkeepers in the unorganized retail market. Given the perishable nature of food like fruit and vegetables, without the option of safe and reliable cold storage, the farmer is compelled to sell his crop at whatever price he can get. He cannot wait for a better price and is thus exploited by the current monopoly of middlemen. Jakhar asked that the government make it mandatory for organized retailers to buy 75% of their produce directly from farmers, bypassing the middlemen monopoly and India's sabzi mandi auction system.
- Consortium of Indian Farmers Associations (CIFA) announced its support for retail reform. Chengal Reddy, secretary general of CIFA claimed retail reform could do lots for Indian farmers. Reddy commented, "India has 600 million farmers, 1,200 million consumers and 5 million traders. I fail to understand why political parties are taking an anti-farmer stand and worried about half a million brokers and small shopkeepers." CIFA mainly operates in Andhra Pradesh, Karnataka and Tamil Nadu; but has growing members from rest of India, including Shetkari Sanghatana in Maharashtra, Rajasthan Kisan Union and Himachal Farmer Organisations.
- Prakash Thakur, the chairman of the People for Environment Horticulture & Livelihood of Himachal Pradesh, announcing his support for retail reforms claimed FDI is expected to roll out produce storage centers that will increase market access, reduce the number of middlemen and enhance returns to farmers. Highly perishable fruits like cherry, apricot, peaches and plums have a huge demand but are unable to tap the market fully because of lack of cold storage and transport infrastructure.

Sales will boost with the opening up of retail. Even though India is the second-largest producer of fruits and vegetables in the world, its storage infrastructure is grossly inadequate, claimed Thakur.

**Channels of procurement by major food retailers**

Devil with its web exist in the form of middlemen and agent, they exist almost all supply chain, you name the agricultural produce and the devil exists, here the true reaper of it does not get the yield.

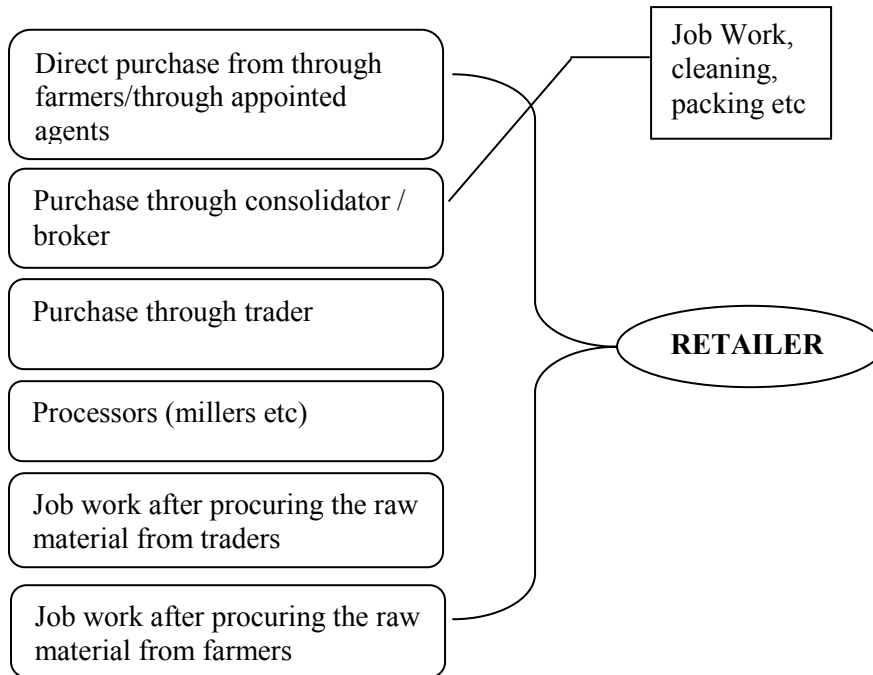
<u>Retailers</u>	<u>grains</u>	<u>Pulses</u>	<u>Oil</u>	<u>Fresh Fruit</u>	<u>Vegetables</u>	<u>Processed</u>	<u>Milk</u>
smart	processor-90 Appointed agents	Processor-80 appointed agent-20	Processor-90 Appointed agents10	Appointed agent30 Traders70	Appointed agent80 Traders20	Processor 80 Traders25	Trareds-100
Home store Indian retail	Consolidator -60 Trader-40	Consolidator -60 Trader-40	Processor-100	Consolidator -60 Trader-40	Consolidator -70 Trader-30		Processor -100
Mother dairy	Trader-100	Processor-50 Trader-50	Processor-90 Trader-10	Agent-60 Trader-40	Agent-60 Trader-40	Processor-80 Trader-20	

Source: Organised Agri food retailing in India, NABARD, and January 2011.

The above table proves that there exists long chain of middlemen to procure agricultural produce which is complicated, time consuming and cost increasing. It also shows that above mentioned retailers procures material which shows in percentage from the intermediaries.

This long chain comprises of processor, agent, consolidators and traders that result in more cost and leading to more price. Mainly because of lack of short supply chain in distribution of agriculture product because of this, wastages of food grains fruits, vegetables, spices and pulses. India wastage 2% of total agricultural produce if this can be controlled farmers can benefit in terms of more income.

**Conventional chain of agricultural produce which is as follows:**



**Organised** retailing is a tool to overcome the problem of wastage of farm produce and they also purchase farm product directly from farmers by eliminating long supply chain in distribution of farm goods as per the survey the farmer will get 10-30% of agricultural produce, that will definitely improve the economic conditions of farmers in rural India, giving them fair returns and prosperity.

Suryamurthy, in an article in [The Telegraph](#), claims farmer groups across India do not support status quo and seek retail reforms, because with the current retail system the farmer is being exploited. For example, the article claims.

- Indian farmers get only one third of the price consumers pay for food staples, the rest is taken as commissions and markups by middlemen and shopkeepers.
- For perishable horticulture produce, average price farmers receive is barely 12 to 15% of the final price consumer pays
- Indian potato farmers sell their crop for Rs. 2 to 3 a kilogram, while the Indian consumer buys the same potato for Rs. 12 to 20 a kilogram.

**Supply chain of agriculture in retailing:**

Organized retail will offer the small Indian farmer more competing venues to sell his or her products, and increase income from less spoilage and waste. A Food and Agricultural Organization report claims that currently, in India, the small farmer faces significant losses post-harvest at the farm and because of poor roads, inadequate storage technologies, inefficient supply chains and farmer's inability to bring the produce into retail markets

dominated by small shopkeepers. These experts claim India's post-harvest losses to exceed 25%, on average, every year for each farmer.

Unlike the current monopoly of middlemen buyer, retail reforms offer farmers access to more buyers from organized retail. More buyers will compete for farmers produce leading to better support for farmers and to better bids. With less spoilage of staples and agricultural produce, global retail companies can find and provide additional markets to Indian farmers. [Walmart](#), since its arrival in India's wholesale retail market, already sources and exports about \$1 billion worth of Indian goods for its global customers.

Not only do these losses reduce food security in India, the study claims that poor farmers and others loose income because of the waste and inefficient retail. Over US\$50 billion of additional income can become available to Indian farmers by preventing post-harvest farm losses, improving transport, proper storage and retail. Organized retail is also expected to initiate infrastructure development creating millions of rural and urban jobs for India's growing population. One study claims that if these post-harvest food staple losses could be eliminated with better infrastructure and retail network in India, enough food would be saved every year to feed 70 to 100 million people over the year.

**Indian retail market (at current market prices)**

Segments	Total retail market (Rs billion)			Organised retail market (Rs billion)		
	2006	2007	Share in 2007	2006	2007	Share in 2007
Clothing & accessories	1,135	1,313	9.5%	214	298	38.1%
Food and grocery	7439	7,920	62.0%	58	90	11.5%
Footwear	137.5	160	1.1%	52	77.5	9.9%
Electronics	481	575	4.0%	50	71	9.1%
Catering services (F&B)	570	713	4.8%	39.4	57	7.3%
Home & office improvement	406.5	455	3.4%	37	50	6.4%
Telecom	216.5	272	1.8%	17.4	27	3.4%
Entertainment	380	456	3.2%	15.6	24	3.1%
Jewellery	602	694	5.0%	16.8	23	2.9%
Books, music & gifts	133	164	1.1%	16.8	22	2.8%
Watches	39.5	44	0.3%	18	21.5	2.7%
Pharmaceuticals	422	488	3.5%	11	15.4	2.0%
Beauty & wellness	38	46	0.3%	4	6.6	0.8%
<b>Total</b>	<b>12,000</b>	<b>13,300</b>		<b>550</b>	<b>783</b>	

Source: Images India Retail Report

**RECOMMENDATION**

1. Farmers occupy the most vulnerable condition in our economy, their interest must be protected and exploitation on them must be uprooted right from the grass root level.
2. The Government should provide support of legal framework to safeguard the interest of farmers and consumers.
3. Rural infrastructure must be developed in order to give boost to rural as well as retail development

## **CONCLUSION**

1. Farmers to get 10-30% higher remuneration.
2. Opening up of retail sector to FDI would help to improve rural infrastructure, reduce wastages of farmers' produce and enable farmers to get better prices for their crops.

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