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The Government of India Approves FDI in Multi-Brand Retail

Report Categories:

Policy and Program Announcements

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Report Highlights:

The Government of India recently approved up to 51 percent foreign direct investment in the multi-brand retail sector (stores like supermarkets that carry more than one brand) and 100 percent foreign direct investment in single-brand retail. The new policy contains several conditions designed to create employment and develop the food handling and processing sectors. While Indian firms are actively expanding the “modern” multi-brand retail sector, this announcement paves the way for participation by foreign firms. Some state leaders have opposed the policy and stated that they will not allow multi-brand retail in their states.

General Information:

Multi-Brand Retail Open to Foreign Investors Subject to Certain Conditions

On November 24, 2011, the Government of India announced that it had approved foreign direct investment in multi-brand retail subject to a number of criteria. The criteria include:

- Foreign direct investment will be allowed at up to 51 percent foreign equity subject to government approval. Officials also approved 100 percent foreign direct investment in single brand retail.
- A foreign company must invest at least \$100 million initially, at least 50 percent of which is required to be in back-end infrastructure, such as supply-chain operations.
- Investors will have to source 30 percent their products from “micro and small” industries with no more than \$1.0 million in capital investment.
- Foreign direct investment will only be allowed in retail stores operating in cities with populations of over one million. According to the Commerce Ministry, this will be 53 cities.

A new phase in the development of the Indian food retail sector?

Indian retail has traditionally been dominated by small (100-150 square feet) “kirana” stores that line the streets of nearly every Indian city. These stores typically specialize in a single item (tires) or category (food, hardware etc.) and serve a neighborhood, providing services like home delivery and credit for regular customers. Modern retail formats such as shopping malls, supermarkets or hypermarkets were virtually unknown in India up until a few years ago. Over the past five years, a number of Indian firms have entered the retail sector and the number of supermarkets and hypermarkets has grown steadily, albeit from a very small base. Several foreign retailers have developed wholesale operations in India, known as “cash and carry” formats under previous investment policies.

This new announcement should enable foreign investors and their local partners to move beyond wholesale formats and sell directly to consumers. However, while the federal government has established the policy, Indian states, through their local licensing and regulatory requirements will likely determine the number and location of stores. While some states have expressed support for the new policy, other state leaders have already indicated that they will not approve multi-brand foreign direct investment, citing concerns about its effect on employment.

The federal government is hopeful that the new policy will help to spur investment in food logistics, value chains and processing in India and reduce the amount of food that is lost to poor handling. Estimates of the amount of food that is lost annually in India vary, but there is a general consensus that a significant portion of India’s annual food supply does not reach the consumer because of poor handling. Reducing food losses is a key strategy in the government’s efforts to tame persistently high food

inflation. Additionally, the Ministry of Commerce estimates that the new policy could generate 1.7 million jobs in the front and back ends of the retail sector over the next five years in addition to new jobs in food processing and related industries.

Indian firms are already expanding the retail food sector through a number of formats ranging from small gourmet stores to large hypermarkets. Local stores and chains are creating new opportunities and venues for importers, foreign exporters, distributors, farmers and local food processors to reach consumers as supply chains and distribution systems develop. While an infusion of foreign capital and expertise could help to accelerate this process in states that allow foreign direct investment in multi-brand retail, expansion of the modern retail sector is expected to continue with or without foreign investment.

The full text of current FDI policy is available at: [CONSOLIDATED FDI POLICY](#)

Key contacts and further information:

The following reports may be of interest to U.S. stakeholders interested in India. These, and related reports prepared by this office, can be accessed via the FAS Home Page: www.fas.usda.gov by clicking on “Attaché Reports” and searching by the report number. Reports given below will provide additional information to exporters interested in the Indian market.

Report Number	Subject
IN1169	India Moves a Step Closer to FDI in Multi-brand Retail
IN1005	India: The Retail Food Sector
IN1111	Exporter Guide Annual

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