

# Standing Committee Report Summary

## Impact of FDI in multi-brand retail on MSMEs

- The Standing Committee on Industry presented its report on the impact of Foreign Direct Investment (FDI) in multi-brand retail on Micro, Small and Medium Enterprises (MSMEs) on August 8, 2013. The Committee was headed by Mr. Tiruchi Siva.
- **Assessment of impact of FDI:** The Committee was concerned that FDI in the retail sector may not have a beneficial impact on the MSME sector. Therefore, it suggested that the government or the Ministry of Micro, Small and Medium Enterprises should commission a survey to assess the impact of previous FDI policies on the MSME sector. The survey should focus on the impact of FDI in single brand retail and wholesale business on MSMEs.
- The government referred to a study on the impact of organised retail on the unorganised sector, commissioned by it and conducted by Indian Council for Research on International Economic Relations. The Committee recommended that the government should ascertain the methodology of the study and validate the estimates and figures, before taking a major policy decision based on this study.
- **Development of MSMEs' capability:** The Committee noted that MSMEs need to improve their capabilities in areas like design, technology, bar coding, packaging, quality management and skill development. It recommended an increase in budgetary allocations under the appropriate schemes to assist MSMEs towards this purpose.
- **Sourcing from small industries:** The FDI policy on previously mandated sourcing at least 30% of total procurement from 'small industries', i.e. units whose total investment in plant and machinery was below USD 1 million. The Committee opined that the definition of 'small industries' may limit this benefit only to a small section of MSMEs. A recent cabinet decision has raised this limit to USD 2 million.<sup>1</sup>
- The Committee recommended that afore-mentioned sourcing requirement should specifically be certified by the foreign retailer's auditor. Further, foreign retailers should be required to source 30% of each item from 'small industries', instead of meeting the requirement only on the basis of total procurement.
- Taking note of recent media reports that foreign retailers are demanding a dilution of sourcing norms, the Committee cautioned against any such dilution.
- **Outlets in small cities:** The FDI policy previously stated that in states or union territories (UTs) which do not have cities with population of more than 10 lakh (as per 2011 census), foreign retailers may set-up multi-brand retail outlets in and around cities of 'their choice'. The policy did not clarify if the term 'their choice' refers to the choice of the retailer or the state/UT government.
- The Committee felt that this provision was ambiguous and may allow foreign retailers to set-up multi-brand retail outlets even in or around smaller cities. A recent cabinet decision has clarified that that outlets may be set-up only in and around cities as decided by the respective state governments.<sup>1</sup>
- **Retail Regulatory Authority:** The Committee shared the concern expressed by various industry and trade associations' that large foreign retailers may put domestic retailers, MSMEs, farmers and consumers at a disadvantage. Hence, it emphasised the need for setting-up a Retail Regulatory Authority to prevent abuse of dominant position by foreign retailers.

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<sup>1</sup> "Review of the policy on Foreign Direct Investment (FDI) in Multi-Branded Retail Trading", Press Information Bureau, Ministry of Commerce and Industry, August 1, 2013.