**‘COMMENTARAO’ IN “TELEGRAPH” OF November 26 2012**

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| “FOR FARMERS TO GET MORE - **FDI in multi-brand retail” by SL Rao**  FDI in multi-brand retail has nothing to do with agricultural development. It enhances the negotiating ability of large retail chains. If they sell fresh vegetables and fruits, they will buy from present trade channels. But the traditional small retailers who will be hurt will the ones in the vicinity; not the 5 million or more retailers in India. The proposal to create a new regulator presumably to ensure fair competition is superfluous. Competition can be ensured by the Competition Commission. |

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Fruits and vegetables are also sold in such retail stores, along with other fresh products like breads, cakes, pastries, etc. These latter might be branded; fruits and vegetables would be sorted for quality and pre-packed but not branded except as being from that store. Some stores are recognized for the quality of their fruits and vegetables; it might be because they are organically grown, or as in the growing Namdhari chain of stores, very fresh.  Retail chains are large buyers. Manufacturers of packaged goods are delighted to have them because of the quantities they buy over a year. These retailers have high bargaining power because of their size of purchases. They are able to negotiate especially low prices, credit, on-time delivery so that the chain has to lock up less money in inventory. And .  The old style retail stores as in India, usually staffed by the family that owns them, do not have such bargaining power. For manufactured products, the old style retailer does not get specially low prices. He might still hold loyalty from his customers because of convenient location near residences, free delivery, credit, etc. But in competition, most old style retailers will lose many customers for manufactured packaged goods to the new retail chains who can cut prices because they paid lower prices.     There is no doubting that these new retail chain stores are convenient. They will take much business away from neighboring small family run retail stores. These will retain some old loyal customers and others out to make small purchases for which they do not want to stand in a checkout queue in a supermarket.  However, India is a huge country. With over 5 million shops and establishments, most shops will not die. In any case the new retail chains will be confined to a few states and some large cities. Meanwhile, the old retailers will modernize themselves, form cooperative chains to derive the purchasing clout that they will get from combined volumes, and compete effectively with the new stores. Over time the family’s young will become educated and move to better paying employment. There may not be any large-scale sudden disruption.  Thus, in the next decade, FDI will not be of much consequence for most Indian retailers. I have worked many streets in Indian markets for almost thirty years and studied them for many years especially in NCAER. The Indian retailer runs a tight operation, holding a wide range of products and pack sizes and in many cases giving credit, free delivery and procuring unavailable products at short notice. Retailers make low margins and do not cost the services of the whole family in their prices. Some retailers will combine to form cooperatives and be able to negotiate better rates, adding to their competitiveness. Only retailers in the vicinity of the new modern retail stores may lose business/  Fresh fruits and vegetables have long supply chains. Retailers buy in markets every day. There are mobile retailers who vend fresh vegetables and fruits from door to door. Others locate themselves in a specified place every day with their wares. There are also larger stores that sell fresh vegetables and fruits.  If farmers are to get better prices they need a different set of conditions than what exist now. Fruits and vegetables suffer from poor storage and transport. Between the producer in the farm and the consumer, there are many operations: pre and post-harvest operations, assembling, grading, storage (in many cases cold storage), transportation and distribution. Forward linkages to more distant markets include transportation, storage, processing, packaging and retailing to the consumers. These have to be provided, or improved, and the regulatory mechanisms made to work in the farmers’ interests.  The chain of trade intermediaries between the farmer and the consumer is long-pre-harvest contractor, commission agents, primary and secondary wholesalers, retailers. After keeping a part of the price, they leave little for the farmer. Surveys show that this is between 40 and 60% of what the consumer pays.  Any speculative profits (due to bandhs, lorry strikes, etc), accrue to these intermediaries who take advantage of the local shortages. The farmer does not benefit.  There are a few markets that provide a direct contact between the farmer and the consumer. In these the farmer earns a much higher share of the consumer prices. However, in most cases wholesalers and other intermediaries make a lot of money, not farmers.  Farmers bring their produce to markets in the hope that they will get better prices than if they sell to contractors or intermediaries. But rarely is there an open auction, bringing transparency to price determination. Prices are decided on a one-on-one basis, and to the farmers’ detriment.  Much needs to be done to improve the return to the farmer, , calling for institutional mechanisms, laws and investments. Markets must be more strictly regulated. Open auctions must be made the norm. The estimated 30% that perishes (unsubstantiated estimate but such damaged goods are also sold), can be brought down by better roads, storage, cold stores, and lorry transport on a regular basis. This will bring more buyers and sellers to the markets. Market infrastructure needs great improvement with loading and weighing facilities kept in good condition, apart from adequate and protected storage. Information to neighbouring villages on market arrivals each day and the ruling auction prices must be set up through internet connections.  If there is less perishing of products, fewer intermediaries, the farmer can pay for these services of information, cold and normal storage, etc. Since government has demonstrated incapacity in providing these facilities, or even to plan, implement and operate them, conditions must be created to enable private investment. This will happen if markets are better regulated and transparent in price determination.  Chains that have come up in the last few years (Reliance, Spencers, the now closed Subhiksha, etc) have not created these facilities. Policies must encourage and stimulate private investment in agricultural supply chains and information systems. It does not need FDI or retailers to come and do it. It can be done by any investors.  Now the hyperactive Minister offers another absurd proposal-a Regulator for multi-brand retail. Instead government should encourage cooperatives of retailers to bargain prices with manufacturers and let the CCI regulate for competition.   FDi in retail does not deserve the preeminent place its proponents have given it in reforms. We need a change in attitudes, and conditions that enable private investment and a transparent market determined price. (1284) | | |