Why Foreign Direct Investment in Agricultural Retailing in India

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Abstract— **Today when Business and Financial services are the leading sector for the FDI projects in Asia-Pacific in 2012, with 923 projects in the sector. While there was a decrease in absolute terms, the sector increased its market share of FDI into Asia-Pacific from 21.92% in 2011 to 24.68% in 2012. Being an agrigrarian country does India really need FDI especially in agriculture sectors? There was also noticed a solid growth in FDI in transportation, warehousing and storage, with the number of projects increasing The foreign direct investment (FDI) inflows in agricultural services and machinery sector during April 2000 to June 2013 stood at US$ 1,620.65 million and US$ 337.21 million respectively, as per the data released by Department of Industrial Policy and Promotion (DIPP).Does it really help the farmersb in the absence of marketing of agricultural products in retailing? The present paper focuses to answer the question arises above in respect of need of FDI in agricultural retailing. A micro level survey (covering primary survey of 75 farmers from 4 villages each) in the agricultural marketing sector reveals that the farmers are likely to be benefited in absence of public sector marketing infrastructure. Farmers are extremely distressed and needs desperately some scope for marketing their produce with at least a reasonable margin which the Government till date has failed to provide.**

Keywords-Agriculture,FDI,Farmers,Retailing

I. Introduction

Indian economy experience growth for last two decades. The economy also experiencing regular changes in it's demographics, life style, domestic consumption pattern and consumerism. The retail industry in India, is growing at a great pace and is expected to grow many folds in near future. After globalization almost every state in Asia welcome foreign direct investment in retail business and it is growing its limits steadily. India is not an exception. Like other states India also allowing 100pecent FDI in various sector including agriculture(warehousing, storage etc.). However, organised retailing in the Indian agricultural sector is still in the stages of finding its feet. With change in new economic policy, the government is opening up to the idea of permitting Foreign Direct Investment (FDI) in the Indian retail sector. This move has boosted the investment climates in the Indian retail space which has very significant implications in economic development of a densely populated country like India. Studies on the impacts of foreign direct investment in agricultural retail marketing in India are scarce..This paper attempts to find out farmers view about possible impacts of such FDI in agricultural retail marketing through an empirical study.

II.Data of Source

The study is based on micro level survey covering 4 villages in Delhi (Bawana, Najafgarh, Karkardooma, and Balaswa) covering 25 farmers from each village. Overall 100 farmers views are taken together to come to a conclusion.

III.PRESENT SCENARIO IN AGRICULTURAL MARKETING

Agriculture is the backbone of Indian economy. The sector plays a vital role in the development of India with over 60 per cent of the country's population deriving their subsistence from it. Most of the industries also depend upon the agriculture sector for their raw materials. But agricultural market of India is highly fragmented and unorganised. This can proved by the data which says that 33% of fruit and vegetables in India is wasted and perishes in the journey from the farm to the fridge . India has only 5,300 cold storages, a figure that sits uneasily when placed against the 12 million small and medium retail outlets in the country.

Given the various changes like virtual collapse of rural credit in organized sector, especially for small and marginal farmers, continuous increase of input cost and stagnant crop price, profit potential of agricultural sector has declined substantially. Farmers are still kept on tenterhook, not knowing how to manage their economy, except to play it by years[3] (Gupta,2005). Today, an Indian farmer gets only a third of what the end-consumer pays for his produce. In times of bumper harvests and distress selling, he gets just a sixth. The windfall gains are for a series of intermediaries.If production is good then there is glut and prices fall. When there is crop failure farmers hardly get any compensation in terms of higher price.crops.

IV.PROBLEMS OF FARMERS IN THE PRESENT SETUP

A. Infrastructure

Agriculture retailing need a long chain in of logistic, which is absent in India leading to inefficient market mechanism in the economy. Very few investors show there interest in investing in logistics of the retail chain. It is very proud to say that India is the second largest producer of fruits and vegetables (about 180 million MT/annum), on the other hand it is very difficult to grasp that we have very limited integrated cold-chain infrastructure, with only 5386 stand-alone cold storages having a total capacity of 23.6 million MT. It is claimed by

CWC director BB pattanaik that in their corporate plan 2010-20 they would have constructed capacity exceeding 122 lakh tones (HT report dated November 25, 2013, pp.10).

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 as well as selling price. 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 agricultural retailing is almost nonexistent.

B. Intermediaries dominance on retailing of agriculture produce

Indian agriculture marketing is characterized by intermediaries. Where no transparency exist on there working. Non existence of transparency allow them to develop monopolistic character in the market. We all know that there is big difference between price paid to farmer and price received from consumer. As per the farmers they only receive 1/3rd of the total price paid by the final consumer (some time less then that). It is termediaries often flout *market* norms and their pricing lacks transparency., have developed a monopolistic and nontransparent character. 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.

C. State APMC Act

There is a big question mark on the existence of wholesale regulated markets, governed by State APMC Acts. Did government want that major portion of the price paid by consumer is taken away by long chain of middlemen? . Overall food based inflation has been a matter of great concern. The absence of retail marketing is the only factor of the above discussed problems.

D. Inefficient Government shield

At first the government provides subsidies for cultivation then provide subsidy for purchase of the same cultivated product, the bill on food subsidies is rising day by day but food inflation is still rising. It is a matter of great concern. Now it is urgent to review that for whom benefit such policies are framed and in actual who took the benefit

V. Analysis

One can not deny that agricultural retail market in India is in a very disadvantageous. It is suffering from lack of avenues to reach out to the domestic as well as world market. This may be due to the inability of farmers to access latest technology and improve its marketing interface. Development of organised retailing market either induced by indigenous capital or by foreign capital is very crucial where small and marginal farmers can supply their product directly to these big retailers (Indian or foreign).Due to lack of adequate infrastructure facilities and lack of proper storage facility farmers are forced to sell their products at very low price which sometimes cannot even cover their cost of production.The situation of overproduction or glut both becomes the cause of farmer's distress. The main cause is the lack of storage facility, failure of the Government mechanism to reach the farmers with minimum support price and virtual non-existence of organised marketing infrastructure.

The survey data presents that only 28 % farmers are able to meet their all house hold expenses through the sale of agriculture produce. Out of them only 6% farmers are satisfied with their agriculture income.

Table 1 Satisfaction level of farmers from their income

Scale value	Percentage
Dissatisfied	70
Highly unsatisfied	20
Unsatisfied	4
Satisfied	6
Fully Satisfied	NIL

Data Source: Author's field study(2013)

From the above table it is clear that most of our population from this sector is not satisfied from their income. This may result into migration of labour from agriculture sector to some other sector and ultimately reduction in production and higher food inflation

Table 2: Government initiative are sufficient toward retailing of agriculture products (N=100)

Scale value	Frequency	Percentage
Yes	**10**	**10**
No	**90**	**90**

The percentage and frequency scores given above indicate that most of the respondents are not satisfied by the efforts of government in the area of retailing of agriculture products.

Table 3: Responses of the entire population about factor responsible for low income

REASONS FOR LOW INCOME	Mean	SD
No initiative to fix price range (max. to min.)	2.73	1.35
No check on number of intermediate	3.06	1.37
No assurance to farmers for sale of their products	2.92	1.29
No subsidized facilities available after production	2.67	1.27

The mean score as shown in the table depicts that the main reason responsible for low income to farmers is long chain of intermediaries between producer and consumers. The increasing number of middlemen will also increase the gap between consumer and producer and this increasing gap will result into decreasing income. No assurance from any authority (government/private/foreign) is also selected as important reason for farmers lower level of income. Farmers says that if such assurance is available to them they may wait for better price for their product. It is clear from above data that inactive role of government is also critised by them by giving equal important to other two reasons responsible for their lower income.

Table 4: Interference of foreign buyer will help the farmers in increasing their income (N=100)

Scale Value	Frequency	Percentage
Yes	90	90
No	10	10

The percentage and frequency scores given above indicate that majority of respondents agree that if foreign buyers will enter into market their income will increase.

Table 5: FB should enter into the agriculture retail market

Impact of foreign buyer on market	Mean	SD
The monopoly of intermediates will reduce	3.27	1.33
Foreign entity will give tough competition to middlemen	3.02	1.4
Farmers will get competitive price	3.38	1.5
Gap between producer and consumer will reduce	3.39	1.43

The above table listed all the reasons which working as guiding force behind their acceptance for entry of foreign buyer . Among all the factors respondent give highest importance to the reason states that gap between producer and consumer will reduce if foreign buyer step into agreculture market. Which was earlier considered as major problem of farmers in present set up.

All the other respondents, who do not want that foreign buyer will enter into the agriculture market, listed their reasons as follows:

Table 6: Foreign entity should not enter into agriculture retail market

Foreign entity should not allowed to enter in agriculture market	Mean	SD
There is chance of monopoly of foreign entity	3.27	1.33
Foreign entity will impose quantity and quality measure on farmers	3.39	1.43
Farmers may be forced to produce which they want to buy.	3.38	1.5
Foreign entity will not guarantee to buy all the agriculture products of their area.	3.02	1.4

The respondents are of view that the entry of foreign buyer will not solve all the problems of present setup. On the contrary they may prove danger to the growth of agriculture sector by creating their monopoly through imposing their standards of quality and choice of crops to be produced.

Table 7: Government should allow entry of FDI in agriculture retailing (N=100)

Scale value	Frequency	Percentage
Yes	93	93
No	07	7

Even after realising the importance of FDI the majority of farmers are against the entry of FDI in agriculture retailing. Those respondent who were earlier in favour of existence of foreign buyer now denying the entry of FDI as they consider that their personal benefits are not important then over all community loss.

VI. Conclusion

It is evident from above discussion that if the entry of FDI is Permitting in agriculture retailing is likely to ensure adequate flow of capital into rural economy in a manner likely to promote the welfare of all sections of society, particularly farmers and consumers. It will bring about improvements in farmer income and agricultural growth and assist in lowering consumer price inflation. Apart from this, by allowing FDI in retail trade, India will significantly flourish in terms of quality standards and consumer expectations, since the inflow of FDI in retail sector is bound to pull up the quality standards and cost competitiveness of Indian farmers. But the fear of farmers is also not imaginary. We already had a bitter experience of such entry of foreign trader, therefore tailor-made entry of FDI should be allowed in agriculture retailing. This can be done by integrating into the rules and regulations for FD retailing certain inbuilt safety valves. To ensure that the foreign investors make a genuine contribution to the development agriculture retailing. Reconstituting the poverty stricken and stagnating rural sphere into a forward moving and prosperous rural sphere can be one of the justifications for introducing FDI in agricultural retailing but the government should put in place an exclusive regulatory framework. It will ensure that the retailing giants do resort to predatory pricing or acquire monopolistic tendencies.