Retail FDI will Grow on Farmers

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Multi-brand retail FDI must be measured by benefits for consumer and economy, not just for farmer

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The recent decision of the government to allow FDI in multi-brand retail trade has attracted heated debate and emotive reactions. Though the main consideration for allowing FDI in retail is not its benefit for farm sector, the debate has predominantly focused on threats and benefits to the country's farmers and the farm sector. Interestingly, the main stakeholders, i.e., farmers, have not reacted much to the policy decision and response of various states has been purely on party lines.

A few farmers' organisations have come openly in support of this move. The majority view, as appearing in media, is that FDI in retail will have adverse effect on farmers. Instances of exploitation of farmers by MNCs in some countries are quoted to prove the point that entry of MNCs will be harmful for our farmers, particularly small ones. It is argued that giants like Wal-Mart will use their monopsonistic power to keep farm prices low and disrupt long and time-tested channels of trade.

The main mechanism adopted by organised retail for sourcing supply of farm goods is direct procurement of produce from farmers with or without contract farming. Past experience in India, though confined to select pockets, shows that this has helped some farmers in getting higher net income for their produce. Studies by reputed researchers have found that (a) in some cases, private firms favour large-sized farms rather than small farms, (b) in some cases, the firm leaves the field after a few years, and (c) sometimes, terms and conditions are not honoured by either party. None of these indicate harm done to farmers; in fact, benefits denied to farmers are quoted as adverse effect.

It is apparent from the debate that both benefits and threats are being exaggerated and the real context for assessing impact on farmers is missed. Farming and farmers today are suffering much more from marketing imperfections and inefficiencies than anything else. Marketing legislation, regulatory framework and infrastructure have not kept pace with the changing requirements and environment. Marketing of agricultural produce, being a state subject, is governed by APMC Acts of respective states that has become very restrictive. The Act require that "all agricultural produce brought into or processed within a market area shall pass through the principal yard or sub-yard and shall not be bought or sold at any other place in the market area or no such person shall carry on business and trade in agriculture produce into market area except one who holds the licence issued by the market committee".

These provisions do not allow direct marketing from producer to buyer (including the consumer) and necessitates the produce pass through a chain of intermediaries. There are further restrictions imposed by the Essential Commodities Act relating to volume of business and pan-India movement of produce. Even after a decade of model APMC Act developed by the central government for bringing changes in the Act, no state has brought significant change in APMC Act to permit alternative models of marketing due to strong opposition from trading communities and middlemen in each state. This so-called 'unorganised' class is quite organised to thwart any attempt to bring reforms to market.

FDI in organised trade, superimposed from above, has the potential to create pressure for market reforms

No political party in any state takes the risk of annoying them. The net result of this is that price spread in farm commodities is getting larger without any real value addition and middlemen are cornering substantial share of increase in prices paid by consumers. A move like FDI in organised trade, superimposed from above, has the potential to create a lot of pressure for market reforms by demonstrating benefit of vertical integration of retail with farm and through direct purchase of farm produce from the field. This indirect contribution of FDI in organised retail will be a great service to India's farmers.

Some farmers will definitely benefit from FDI in retail and some are already benefiting from organised trade. The experience of other developing countries, where organised retail and FDI are present for long and have reached peak levels, shows that their benefit reaches a maximum of 10-15% farmers. Therefore, it will be wrong to expect FDI and organised retail as a panacea for overcoming deficiencies of agricultural marketing.

The potential of FDI in retail to benefit some farmers should not deflect our attention from various measures that are urgently needed to integrate supply chain, remove disconnect between retail and farm prices, and impart benefit of scale to agricultural marketing. Given the vastness and diversity of Indian agriculture, the country needs multiple approaches including APMC mechanism, new models and upscaling of successful experiences such as cooperative milk marketing, along with organised retail, to impart efficiency, competitiveness and modernisation to agricultural marketing. All states, in particular, need to promote producers' association, producers' companies and cooperative marketing societies to improve bargaining power of producers in marketing and to raise the share of producers in value addition in marketing, which is getting bigger and bigger.

Finally, it is concluded, that growth in organised retail with or without FDI will directly benefit a small percentage of Indian farmers and the apprehension of harm on farm sector is unfounded. At worst, it could be benign for the sector. As the effect of FDI in organised retail on farm sector is not a significant factor for deciding desirability of FDI in organised retail, this decision should be guided by other factors such as effect on consumers and the overall economy.

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