

Sourcing norms for single brand retail likely to be reviewed

Rules for foreign investment in single brand retail might be tweaked again, if signals coming from the government and the industry are any yardstick. The Narendra Modi led central government, opposed to foreign direct investment (FDI) in multi- brand retail, seems to be planning to remove hurdles for international single- brand retailers, which are allowed up to 100 per cent FDI (with riders).

Even as some top international brands want to open fully owned businesses in India, mandatory sourcing norms have turned out to be the biggest hurdle for those into niche categories. According to a source, the government is willing to listen to their concerns.

Top executives of Swedish furniture maker IKEA and US- based smartphone giant Apple Inc are learnt to have met Commerce & Industry Minister Nirmala Sitharaman recently to discuss business prospects in India. During these meetings, both companies are said to have suggested an alternative route under which the government could achieve its objective of job generation —the very backbone of the sourcing norm — and the companies would not be compelled to compromise on their products' quality.

At present, though up to 100 per cent FDI is allowed in single- brand retail, only 49 per cent can come through the automatic route. The sourcing norms, which kick in beyond 51 per cent FDI, stipulate that companies source from India 30 per cent of the value of goods purchased, preferably from micro, small and medium enterprises (MSMEs), village and cottage industries, artisans and craftsmen.

In multi- brand retail, though the United Progressive Alliance government allowed 51 per cent FDI, subject to state approval, the National Democratic Alliance (NDA) leaders have maintained they are opposed to foreign investment in this segment. The current government has, however, not effected any change to the FDI rules for multi- brand retail. The UK's Tesco, in partnership with the Tata group, is the only foreign company to have entered multi- brand retail in India so far; its plans are limited to Maharashtra and Karnataka.

In fact, the previous government had in 2012 changed the mandatory sourcing norm for single- brand retail after IKEA made its application to invest € 1.5 billion in India.

The sourcing norm was changed from “ mandatory 30 per cent sourcing from Indian MSMEs, village and cottage industries” to “ mandatory 30 per cent sourcing from India, preferably from MSMEs, village and cottage industries....”. The rule change had followed the Swedish chain's representation to the government of the day that 30 per cent sourcing from Indian MSMEs was not feasible for the kind of products

EASIER ROUTE FOR RETAILERS

- Mandatory sourcing norms are the biggest hurdle for foreign single- brand retailers and the government is willing to listen to their concerns

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- Both companies seemed to have suggested an alternative route through which the government could achieve its objective of job generation, the backbone of the sourcing norms |This way, the companies will also not be compelled to compromise on quality of their product

(Business Standard)