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DECODING OF FDI IN RETAIL SECTOR IN INDIA

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Abstract

The retail industry in India, the most promising sunrise sectors in the economy has a tremendous potential. Foreign Direct Investment (FDI) is an impetus for Indian Retail sector. The advantages of allowing FDI in retail sector outweigh the disadvantages attached to it. FDI in retail can expand markets with lower transaction and transformation costs by adopting advanced supply chain and benefit consumers and farmers. Despite the country's wide speculation on the plight of small retailers, India needs to co-exist and grow with organized and unorganized retail sector.

Keywords: *FEMA, FDI, OCBs, VCF, LLPs, Retail Industry, Transformation Costs, Supply Chain.*

Introduction

Meaning of terms – FDI and Retail

FDI is Foreign Direct Investment by a foreign company into other country than origin through acquisition of local company or establishing a new business operation with capital inflow (from foreign entities) invested in allowed segments/sectors.

FDI is governed by the FDI policy of Govt. of India and the provision of Foreign Exchange Management Act (FEMA) 1999. Ministry of Commerce and Industry, Govt. of India is the nodal agency for monitoring and reviewing the FDI policy on continued basis and changes in sectoral policy, sectoral equity cap.

Retail is a sale to the end consumer, an interface between the producer and individual consumer buying for personal consumption, sold at a margin of profit.

Organized Retailing consists of licensed retailers who are registered for sales tax, income tax, etc. while Unorganized Retailing consists of traditional formats of low-cost retailing which accounts for almost 96% of total retail.

Eligible Investors for FDI in India

A non-resident entity can invest in India, as per FDI policy. Pakistan citizen or entity is not allowed. Bangladesh citizen or an entity can invest only under government route. Non-resident in Nepal and Bhutan as well as citizens of Nepal and Bhutan are permitted to invest in the capital of Indian companies on repatriation basis. OCBs (overseas corporate bodies) can invest through Government route as per FDI policy and approval from Govt. of India; and with prior approval of RBI for investment through Automatic route.

Form of FDI Investments in India

Any Indian company can issue capital against FDI. FDI is not allowed in agriculture/plantation activities, print media, real estate business.

FDI in Partnership Firm/Proprietary Concern

A non-resident Indian or person of Indian origin is not allowed to invest in a firm or proprietorship concern engaged in any agricultural/plantation activity or real estate business or print media. Investment can be on non-repatriation basis.

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