Human Rights Impact Assessment: Investment and Services

Workshop
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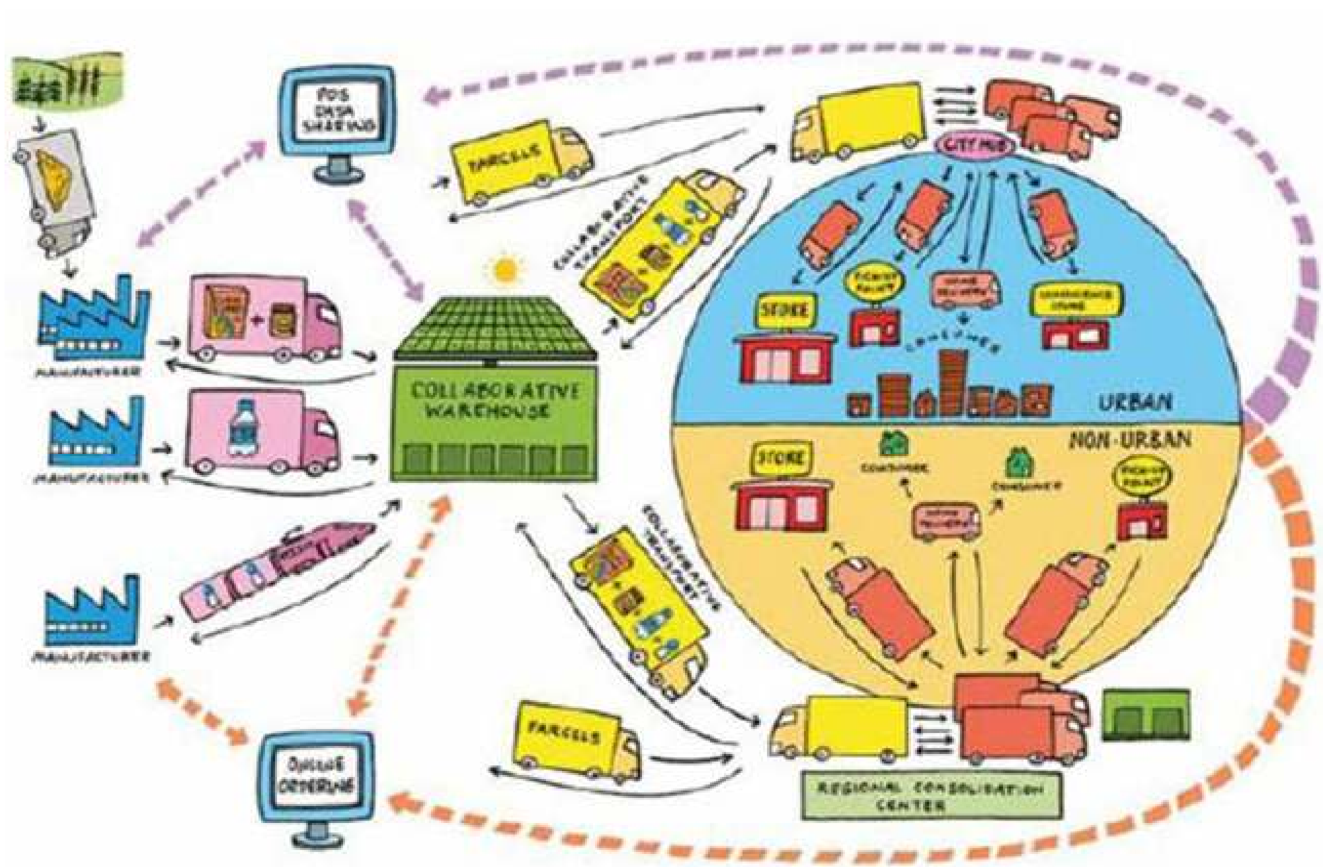
11th, April 2011

Structure of the supply chain

- **Consumers**: Rural India = > 70 % of all Indian house-holds; close to 2/5 of the country's total consumption pie.
- **Retail** (**organised retail: currently 5%** = same as in '07)
  - **12 Mio. retailers** (now 14,4 Mio. according to projection?), 80% = small, family owned shops; 4% = size > 46 m2
  - **3 – 4,3 Mio. street vendors**
- **Food industry**: **25,725 registered units** in 2007; 2 % of India's agriculture + food produce is processed
- **Farmers** (2001) **119 Mio. farms**
  - average farm size: 1,3 ha.
  - 6,5% of farms own 37 % of land; 81 % of farms own 39% of land

Supply chain of the future



Global Commerce Initiative (food companies and retailers): **Collaborative warehouses** of food companies**, collaborative transport** to cities and regional collection centres >>> „reduce costs by sharing costs"

Key Trends I

- **Rural retailing**
- **Collaborative model for international products**

  Joint ventures = preferred model for new entrants

  e.g. Bharti Group's JV with Wal-Mart
- **Collaboration for back-end resource sharing (!)**

  Retailers **share private label, logistics (!), warehouses and hiring details** on a transactional payment model. E.g. Future Group, the Aditya Birla Group, the RPG Group and the Reliance Group have come together to reduce their operational costs and improve margins.
- **Increasing market reach**

  Expansion in Tier II, III and IV cities

Source: IBEF

Key Trends II

- **Innovation in new retail formats**

  Reliance Retail will open small employee-friendly retail outlets at the premises of large corporate organisations.
- **Direct sourcing arrangements**

  in order to offer **quality products at prices that are lower than the market price**, to secure a larger number of clients (remark: business model)
- **Focus on private labels**

  Increased focus on high-margin verticals, such as private labels (India: 10-20%)

Source: IBEF

Retail revolution?

- "The Ministry of Commerce and Industry has proposed **100 per cent FDI for multi–brand retail outlets**, the approval for which is awaited."
- "In the next phase of the retail revolution in India, **retail companies are expected to tap the rural segment** as their key driver of growth."
- "**FMCG players are focusing on the rural market** as it constitutes over 33 per cent of India's FMCG consumer base."

>> Create image of „shining food retail"!

Source: IBEF (India Brand Equity Foundation)

India's specificities in food retail I

- Stores have been set up right from the beginning in **rural areas**.
- **Fruit & vegetables** have been sold right from the beginning.

- **Slower growth than expected?**
  - **"Excellent food retailing system"** that was established by the neighborhood Kirana (stores that continue to meet all the requirements of daily needs)
  - **High costs** in setting up chains

India‘s specificities in food retail II

- **Fruit & vegetables:** share of supermarkets is no more than 5% (true in Bangalore and Hyderabad, less in Mumbai)
- **Reliance**: has decided not to compete with local vendors (F&V).

- Collaborative models as a way out? New dynamic with 100% FDI in retail allowed?

APMC: Direct Purchase I

- **APMC model agreement 2003**:
  - Most States have reformed APMC Act encouraging establishment of Private Market Yards and Direct purchase from Farmers (Northern Region, 2006)
  - Retailers are (partly) buying from APMC only because **they don't have back-end logistics in place.**
- Are APMC markets the **main marketing channel for small farmers**? Where do street vendors and small shops buy their products?

APMC: Direct Purchase II

- **Wal-Mart** sources around 35 to 40 per cent of its produce directly from approximately 130 small and marginal farmers.
- **Metro** procures F&V mainly from traders and markets.
- **Reliance and More** have set-up collection centers near the farms (F&V). Farmers are the largest suppliers. Includes substantial numbers of marginal and small farmers too.
- **Metro, Reliance, More**: no “exclusive” suppliers, day to day orders

Oxfam survey: F& V supply chain I

- **Survey: F&V supply chains**
  - Companies: Metro, Reliance, More
  - Cities: Hyderabad, Mumbai, Bangalore
  - **58 suppliers**
    - **36 farmers** (22 small farmers, 10 medium farmers, 4 large farmers)
    - **22 traders**
  - **44 employees**
  - **22 key informants** from the market, government and NGOs
- **Study period**: July – Sep 2009
- **Published**: 2010

Oxfam survey: F&V supply chain II

- **Results of interviews with suppliers**:
  - Supermarket quantities requirements are still small and less attractive to larger farmers
  - (+) quality based pricing (one of key reasons)
  - (+/-) no long term contract farming
  - (-) intransparent pricing
  - (+) expansion of business channels
  - (+) regular order, travel time saved, receipt of money in time
  - (-) Metro sends back produce which doesn‘t meet their quality standards (are sold on local markets)

Oxfam survey: F & supply chain III

- (+/-) Reliance and More **offer lower than the market rate** or some time equal to market rate (**because**: collection centres are near the farm, suppliers save on transportation costs and packaging)
- *(-) **Reduced inflow of produce** to APMC market, **poorer quality of the produce** coming to the market, affecting margin and benefits. All the supermarkets (Reliance, Spencer, More, ITC-Choupal and Heritage) have set-up collection centers (one case in* Hyderabad, *Vonitamamidi APMC)*

Oxfam survey: F & supply chain IV

- (-) A Metro manger: difficult to ask suppliers to comply with their CoC (no binding contract with Metro). So in F&V **supply farmers were exempted from following the CoC**.
- **Land workers**: (-) No trade unions, no payment of minimum wages, work on demand, bad treatment, discrimination in the wage rates paid to female and male land workers
- (?) Fruits are imported based on the need and demand.
- (-) **Not interested in** "how F&V are produced, who are behind this, how are they treated, what goes in the production and how far are they safe, etc."

Threats resulting from FDI in retail I

- **Street vendors/ small shops:**
  - Are the first to feel the impact, esp. in the neighbourhood of shopping malls and stores
  - Survey in Mumbai after establishment of shopping malls: 71% suffered income losses (F&V, food, electronic device, textiles, shoes)
  - ICRIER 2008: shops in the direct neighbourhood would be most affected and may be forced to give up their business (market share of organised retail: 25-30%)
  - Supermarket chains create fewer jobs
  - Retail sector = social safety net!

Threats resulting from FDI in retail II

- **Food industry**
  - **Experience**: processed food in emerging economies = 65% of turnover of supermarket chains
  - **But**, 90% of food bought by consumers is not processed
  - Very **low level of food processing** (2%)
  - Very few efficient, modern production structures existing in Indian food industry
  - Will increased demand by supermarkets be met by increased imports or will increased demand incentivise massive investment in the food sector?

Threats resulting from FDI in retail III

- **Farmers**
  - **Reliance model?:** development of a few capital intensive production plants with good transport infrastructure connections in a few states
  - **Driving changes in the regulatory framework** having detrimental effects for small farmers? (APMC regulation etc.)
  - Forcing a **dual agriculture system**
  - “Get modern or get out”? Alternative outlets!
  - **Experiences in other DCs**: cooperation with small farmers, when they are predominant, it is a governmental requirement or is linked to product

Recommendations

- **Policy space to govern food retail is key**
- EU-India-FTA food retail liberalisation **will reduce this policy space.** Therefore, no liberalisation of retail services as part of an FTA.
- **Effective regulation = key** for economic, social and sustainable development
- **Gradual phasing in** according to advances in the development of the agriculture and food sector
- **Better development results** in agriculture are to be expected from domestic policies helping to **increase investments in small scale farming and productivity in a sustainable manner**