

Prospects for Agricultural Investment

Continued sluggish private investment in Indian agriculture and agribusiness since the early 1990s, despite sustained high growth in consumer incomes and food demand, suggests that policy and infrastructure factors have been a deterrent to new investment. Historically, extensive policy intervention in markets and industries has created disincentives and risks for investments in agriculture, including farmers and agribusinesses, and particularly large-scale vertically integrated agribusinesses.

During much of the 1990s, agricultural trade and price policies resulted in taxation of agricultural production despite substantial and rising farm subsidies. At the same time, movement, storage, and private marketing restrictions for agricultural commodities, scale restrictions on agribusinesses, high taxes on processed products, the high cost of credit, and complex food laws were among the disincentives and risk factors facing investors. This uncertainty was compounded by weak transport and power infrastructure and lack of key market services such as market information, risk management tools, and grading/inspection systems. Through the late 1990s, public investment in agriculture remained sluggish despite rising food demand, while more public funds went to meet the rising cost of subsidies on food grains and farm inputs.

Since 2000, however, there is evidence that the policy environment is improving and that investment in agriculture and agribusiness is beginning to strengthen. Movement and storage restrictions on essential commodities are less common, plant scale limitations have been largely removed, State marketing laws are beginning to permit development of private marketing channels, and taxes on agricultural products are being reduced and simplified. And, although power, transport, and other infrastructure problems will likely be solved only in the longer term, private investment is seemingly on the rise. Private investment in food marketing ventures has increased noticeably in the last several years (table 9). These new ventures collectively amount to \$10-\$20 billion over the next 5-7 years to develop supply chains and “front-end” retail outlets. This activity represents a turnaround in investor confidence.

Recent investment in India’s food marketing sector includes a number of ventures by foreign investors, including a Wal-Mart collaboration with the Indian conglomerate Bharti. Since India does not permit foreign direct investment (FDI) by multi-brand retailers, foreign investment has taken the form of wholesale (or “cash and carry”) trading enterprises, or partnerships with Indian “franchisees” who own the retail outlets. Other than multi-brand retailing, all other areas of agricultural processing and marketing are open to FDI. While the FDI restrictions on retailing may be deterring some foreign investment in agricultural marketing, the increased activity in chain food retailing by many of India’s largest domestic companies indicates their confidence in a supportive policy environment.

While there is evidence that the investment climate is improving for agriculture and agribusiness and that private investment is beginning to respond, it is unclear how quickly or how much agricultural productivity and marketing efficiency will respond. If rapid income growth is sustained, the growth and diversification of food demand will likely continue to outpace production

for the next several years, leading to continued pressure on domestic food prices and demand for imports. However, given India's extensive land and water resources and low current farm yields, there is scope to expand output of many farm products and become more globally competitive in the longer term.

Table 10

Growth of India's chain food retailing industry, 2007

Retailer	Year entered	Ownership	Formats	Outlets/plans	Locations
Nilgiri's	1971	Local (Part ownership by Actis, UK)	Supermarkets, convenience stores	40; plans for 500 stores by 2010	Major cities in south India
Trinethra & Fabmill	1986	Local (Aditya Birla Group)	Supermarkets, convenience stores	170	Major cities in Andhra Pradesh, Tamil Nadu, Karnataka, and Kerala
Margin Free	1994	Local Cooperative (Consumer Protection and Guidance Society)	Discount stores, supermarkets	350	Major cities in Kerala, Tamil Nadu and Karnataka
Spencers	1996	Local (RPG Group)	Hypermarkets, supermarkets, convenience stores	97; plans to add 50 hypermarkets by 2008	Major cities in South India
Subhiksha	1997	Local (Subiksha Trading Services Pvt. Ltd.)	Discount stores	520; plans for 1,200 stores all over the country by 2007/08	Major cities in Tamil Nadu, Andhra Pradesh, and Pondicherry, and Delhi region
Foodworld	1999	Local (Subsidiary of Dairy Farm International)	Supermarkets	55; plans to expand in south India	Bangalore, Hyderabad
Trumart	2001	Local (Pyramid Retail)	Supermarkets, convenience stores	29; plans for 90 stores by end of 2007	Maharashtra and Gujarat; Bangalore, Chennai, Hyderabad, and Kolkata
Food Bazaar	2002	Local (Future Group)	Hypermarkets, supermarkets	90; Plans for 250 stores by 2010	National (major metros and large cities)
Metro Cash & Carry*	2003	Foreign (Metro AG, Germany)	Wholesale "cash & carry"	3; plans to add 15-18 new outlets by 2009	Bangalore, Hyderabad, Mumbai, Kolkata, Chennai
My Dollar Store	2004	Local (Franchisee of My Dollar Store of the U.S.)	Convenience stores	50; plans for 400 stores by 2010	Nationwide
Shoprite	2004	Local (Subsidiary of Shoprite (PTY) Ltd., South Africa)	Hypermarket	1; plans to add 2-3 new outlets by 2007	Mumbai
Star India Bazaar	2004	Local (Trent; division of Tata Group)	Hypermarket	3; plans to add 23-	Nationwide

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Table 10—Continued

Retailer	Year entered	Ownership	Formats	Outlets/plans	Locations
Reliance Retail	2006	Local (Reliance Industries Ltd.)	Hypermarkets, supermarkets, convenience stores	230; plans for 3,000 stores, 2,500 supermarkets and 500 hypermarkets by 2010	Nationwide
Spinch	2006	Local (Wadhawan Retail)	Supermarkets	89; plans to add 1,500 stores in 90 cities by 2010	Nationwide
Max Hypermarkets	2007	Local-foreign joint venture (Spar International, Neth.)	Hypermarkets	Plans to develop 7 stores by 2009	Nationwide
Bharti ¹	2007	Local (Bharti Enterprises)	Hypermarkets, supermarkets	Plans to invest \$2.5 billion by 2014	Nationwide
Bharti Walmart	2007	Local-foreign joint venture (Wal-Mart USA)	Wholesale "cash & carry"	Plans for 15 stores by 2014	Nationwide

¹Retail partner of Walmart.

Source: U.S. Department of Agriculture. Foreign Agricultural Service. 2006; updated from various press reports.