Foreign Direct Investment in Indian Retail Sector: A Bane or Boon for Farmers

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Indian economy has emerged as one of the fastest growing economies in the world. The opening up of FDI in the retail sector will affect agriculture a lot as 70 percent of the retail business deals in food items. It may give better prices to the farmers and earnings may increase as the role of the mediators would be curtailed. Now, the question arises whether it will benefit to about 92 million small and marginal farmers. Though losses of perishable items which are between 35 to 40 percent may be checked through cold-storage facilities, FDI in retail will lead to leaving the farmers to the mercy of the multi-nationals as they will fix the price of the products being procured from them. The farmers may not be able to sell their entire product which is currently being undertaken by government agencies. Though the share of agricultural sector in Gross Domestic Product (GDP) has declined still it is considered a decisive driver for growth in GDP. Despite various programmes and schemes of the government, agriculture is a key area that needs comprehensive reforms. The fact is that the problems of Indian agriculture are deep and need a lot of attention. The opening up of retail sector for the foreign investors has led to a fresh debate on its viability as it will affect the farmers the most. The history of every developed country reveals that every developing economy has to develop agriculture first before becoming industrially developed. An attempt has been made in this paper to highlight challenges faced by them and pros and cons of FDI in retailing.

Introduction

Agriculture has been and will continue to be the mainstay of the Indian economy engaging about 60 percent of the population. Though the share of agricultural sector in GDP has reduced from 58 percent (1951-52) to about 14 percent (2011-12), still it is considered a decisive factor to achieve target growth. Food grains production registered a record increase. India ranks first in milk production and second largest producer of fruits and vegetables in the world.

However, agriculture though a key area has not been subject to comprehensive reforms in India. Adequate and timely credit to the farmers is indispensable for agricultural development. Over the years, there has been a significant increase in the access of rural cultivators to institutional credit and simultaneously, the role of informal agencies including money-lenders has declined. Even then, farmers have to depend on outside sources of finance for meeting their essential needs. As a result, most of them are heavily involved in debts and cannot afford to spend money for making improvements in land (Sahu & Rajshekhar, 2000). They are forced to sell their produce to the latter at reduced prices for repayment.

Foreign Direct Investment (FDI) up to 51 percent in multi-brand retail will have a lot of impact on agriculture as 70 percent of the retail business is in food. It may give better prices to the farmers and earnings may increase as the role of the mediators would be curtailed. Now, the question arises whether it will benefit about 92 million small and marginal farmers. The fact is that the problems of Indian agriculture are deep and need a lot of attention. Though losses of perishable items which are between 35 to 40 percent may be checked through cold-storage facilities, FDI in retail will lead to leaving the farmers at the mercy of the multi-nationals as they will fix the price of the products being procured from them. The farmers may not be able to sell their entire product which is currently being undertaken by government agencies (Sengupta, 2012).

The opening up of retail sector for the foreign investors has led to a fresh debate on its viability as it will affect the farmers the most. The history of every developed country reveals that every developing economy has to develop agriculture first before becoming industrially developed (Malik, 2000). Agricultural sector should be fully equipped to compete with the global challenges. In the light of the above, an attempt has been made to find out the real problems and challenges for farmers on which the government should focus.

Primary objectives of this study were to a) identify opportunities and challenges, if any, for farmers in the process of seeking agricultural finance, b) find out the means to meet the additional requirements of finance by the farmers, and c) know the expectations of the farmers and the measures to meet them.

Method

The study is confined to 320 borrowing farmers selecting 80 farmers from each sample district of Haryana State applying ‘Multi-stage Stratified Random Sampling Technique’. In order to make the sample analytical, more purposeful and representative of borrowing farmers in Haryana, they were grouped into four categories as marginal farmers, small, medium and large farmers. The primary data has been collected through questionnaires filled by the loanee-farmers of the State which included questions relating to their problems, experiences and expectations. The collected data has been analyzed by using various statistical techniques such as t-test, chi-square, rank correlation etc.

Results

Problems being faced by borrowers in getting loans from commercial banks. Majority of farmers (59.4%) have expressed that they face problems in obtaining loan from the banks due to various reasons as presented in the following Table 1.

Sr. No.	***Problem***	***Test Value = 1.5***		
		Mean	Mean Difference	t-value
1	Difficulty in collecting record from Patwari / BDO	2.795	1.295*	42.714
2	More paper work	2.563	1.063*	23.622
3	Lack of desired security	2.300	0.800*	15.645
4	Expensive Process	2.300	0.800*	15.989
5	Non-cooperative attitude of Employees	1.532	0.032	0.562
6	Lack of awareness about the various schemes for credit	1.521	0.021	0.271
7	Commercial banks are not situated nearby	0.553	-0.947*	-21.016

*Significant at 1 % level

Table 1 shows that ‘Difficulty in collecting record’ has been found to be the most common problem being faced by the respondents followed by reason of ‘More paper work’. ‘Lack of desired security’ and ‘Complicated process’ are found to be another problems.

Reasons for refusing loans by banks. Sometimes, farmers are refused to give the loans when they contact any bank to meet their credit requirements. An attempt has been made to identify the reasons for the refusal of credit by the banks (Table 2).

Sr. No.	Reason	Test Value = 1.5		
		Mean	Mean Difference	t-value
1	Inability to provide security	2.156	0.656*	18.100
2	Previous loan outstanding	2.097	0.597*	13.418
3	Non-availability of funds in Bank	1.759	0.259*	4.718
4	Unwillingness to bribe officials	1.469	-0.031	-0.845
5	Inability to comply with formalities	1.378	-0.122*	-3.425
6	Cumbersome procedure	1.306	-0.194*	-5.748
7	Personal differences with bank officials	0.900	-0.600*	-14.583

*Significant at 1 % level

Table 2 shows that 'Inability to provide security' has been found to be the most important reason for the refusal of loan to the farmers.

Timeliness of loans. Availability of loans in time is very important for farmers. The cost factor in agriculture cannot be viewed as the simple interest cost quoted by the banks. Rather, it should to be evaluated in terms of the interest costs as well as other incidentals, a farmer incurs in the course of securing the loan amount. The incidentals herein comprise of the monetary expenses a farmer is obliged to pay and the time loss because of the visits to be made to the bank branch. Table 3 shows that 54.7 percent marginal farmers availed loan amount after a fortnight while in case of large farmers the percentage is just 35.3 percent. It may be due to the reason that large farmers have more and easy access to the banks.

Time (in weeks)	Type of Farmers				
	Marginal	Small	Medium	Large	Total
1-2	10 (18.9)	22 (22.0)	13 (15.9)	26 (30.6)	71 (22.2)
2-3	29 (54.7)	46 (46.0)	36 (43.9)	30 (35.3)	141 (44.1)
3-4	9 (17.0)	19 (19.0)	27 (32.9)	16 (18.8)	71 (22.2)
More than 4	5 (9.4)	13 (13.0)	6 (7.3)	13 (15.3)	37 (11.5)
Total	53 (100.0)	100 (100.0)	82 (100.0)	85 (100.0)	320 (100.0)

Table 3 Time taken to obtain loan after filing application (category-wise). Note: Numbers in parentheses are percentages to total

Credit requirements and gaps. Farmers need credit for allied activities also in addition to agricultural purposes. To examine the requirements of farmers, they were asked to give preferences if additional finance is made available to them as per their expectations. 'Construction of irrigational channels' ranked first followed by 'land development purposes (Table 4).

Sr. No.	Purposes	Mode	Rank
1	Construction of Irrigational Channels	1	1
2	Land Development purpose	2	2
3	Experiment with commercial crops	3	3
4	Purchase of auxiliary equipments support system	4	4
5	Livestock	5	5
6	Construction of Farm House	6	6

Table 4. Requirement ranking by respondents regarding additional funds.

Sources used to meet the additional requirements. The credit requirement of the farmer borrowers has been assessed on the basis of information sought from them. 31.9 percent respondents were unable to get the loan sanctioned as per their demand (Table 5). Therefore, they have to use other sources to meet their additional requirements. Borrowing from private moneylenders has been found to be most important source used to meet the additional credit requirements.

Sr. No.	Source	Test Value = 1.5		
		Mean	Mean Difference	t-value
1	Borrowing from money lenders	2.025	0.525*	9.853
2	Borrowing from friends & relatives	1.747	0.247*	4.726
3	Reduction in use of inputs	1.522	0.022	0.549
4	Postponing investment	1.441	-0.059***	-1.621
5	Liquidating assets	1.269	-0.231*	-6.776

*Significant at 1 % level
***Significant at 10 % level
Table 5. Other sources used to meet the additional requirements.

Delay in refund of loans. Banks often face difficulties due to irregular repayment. It causes paucity of funds and consequently further disbursement of loans is held up and becomes uncertain. It is evident from the large amount of overdue in banks. Hence, it would be essential to find out the reasons responsible for the delay in repayment or non-payment of loans. Table VI indicates that 'Inadequate income' has been found to be the dominating reason for delay. 'Increase in cost of production' is the second followed by 'Natural calamity' (Table 6).

Sr.No.	***Reason***	***Test Value = 1.5***		
		Mean	Mean Difference	t-value
1	Inadequate income	2.475	0.975*	25.977
2	Increase in cost of production	2.122	0.622*	17.970
3	Natural calamity	1.938	0.438*	10.514
4	Promises of loan-waiving by political parties	1.741	0.241*	5.287
5	Actual Loan-waiving by Government	1.638	0.138*	3.222
6	Expenses on Education of children	1.356	-0.144*	-4.069
7	Expenses on medical treatment of any family member	1.306	-0.194*	-5.651
8	Pressure of money lenders/commission agents to repay their loan first	1.266	-0.234*	-5.138
9	Expenditure on Marriage or other social ceremonies	1.175	-0.325*	-9.171
10	Misapplication/diversion of loan	1.128	-0.372*	-11.896
11	Expenses on Litigation	1.119	-0.381*	-11.749
12	Hard repayment schedule	0.947	-0.553*	-14.621
13	Willful default	0.700	-0.800*	-18.681

*Significant at 1% level
Table 6. Reasons for delay in refund of loans.

Facilities expected by the farmers. Farmers expect various facilities from the credit supplying agencies. To know the expectations of the farmers about the facilities provided by the banks, the respondents were asked to give preferences to the following facilities generally provided by the banks mentioned in the following Table 7. 'Simplified procedure' has been ranked the first expectation. Provision of quick service' ranked as the second.

Sr. No.	***Expectation***	***Mean***	***Mode***	***Rank***
1	Simplified procedure	3.034	1	1
2	Provision of quick service	2.853	2	2
3	Reduction of interest rates	3.297	3	3
4	Increase in repayment period	4.134	4	4
5	Supply of loan amount as desired	3.981	5	5
6	Exemption in recovery of loans in case of crop failure due to natural calamity	4.706	7	6*
7	Change in the periodicity of installments in case of long term loans	5.891	7	7

*Being the same mode of Sr. No.6 and 7, rank is given on the basis of mean of variable

Conclusion

Opening up the retail sector to FDI in India has always been controversial in the past. Although, evidence from the United States suggests that FDI in organized retail could help to tackle inflation particularly with wholesale prices. It also expected that technical know-how from foreign firms such as warehousing technologies and distribution system will contribute in improving the supply chain in India especially for agricultural produce. Experience shows that India is benefited a lot by opening door to large scale investment in the other sectors like telecommunications and IT industries. But, there are challenges too. Farmers are facing numerous problems in seeking institutional finance to meet their needs. FDI in retail will lead to leaving the farmers to the mercy of the multi-nationals as they will fix the price of the products being procured from them. The farmers may not be able to sell their entire product which is currently being undertaken by government agencies.

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