# Local Sourcing Norms for FDI in Single Brand Retail

written by Pawan Khatri | July 9, 2019

## Existing FDI

## Policy on Single-Brand Product Retail Trading

As per the existing policy Foreign Direct Investment in Single-Brand Product Retail Trading ("SBRT"), 100% FDI is allowed via the automatic entry route.[1] However, in case the foreign investment is beyond 51%, there is a mandatory requirement of sourcing of 30% of the value of goods locally, preferably from MSMEs, village and cottage industries, artisans and craftsmen, in all sectors. The said requirement would have to be met, in the first instance, as an average of 5 years' total value of the goods purchased, beginning 1st April of the year of the commencement of the business i.e. opening of the first store. Thereafter, it would have to be met on an annual basis.

## Union Budget 2019 and its notional aftermath

The Finance Minister recently announced in the Union Budget 2019 that the local sourcing norms will be eased in case of SBRT.[2] However, the budget lacks any clarity on how and up to what extent will the local sourcing norms be relaxed. Such lack of clarity has made the stakeholders longing for details and specifics of the relaxed norms.

There were a wide range of speculations post the Union Budget Speech, ranging from the 30% local sourcing requirement to go away completely[3] or to be reduced to a great extent resulting in relief for big foreign companies having a high retail presence around the world.[4]

On the other side, DPIIT Secretary Ramesh Abhishek was recently reported stating[5] –

"*There will be no relaxation in the mandatory 30 per cent local sourcing norms*"

"*We will do stakeholder consultation and try to make it more simple for retailers to comply with the provisions of sourcing. There will be no change in the 30 per cent requirement*"

However, the Department for Promotion of Industry and Internal Trade (DPIIT) is yet to issue a notification or a press release on the relaxed norms which could bring out more clarity on what relaxation was actually being referred in the Union Budget Speech.

## Conclusion

The key objective of the SBRT policy is an enhancement of exports on account of global supply chain integration. Thus, as long as the stakeholders adhere to the fundamental spirit of policy, additional conditions like local sourcing are detrimental to their interest. India witnessed a decline in FDI equity inflows for the first time in six years in 2018-19[6], by 1% to $44.4 billion from $44.8 billion in the previous fiscal. This makes it clear that the government's attempt to attract FDI is failing despite schemes like Make in India. And in all probability expectations of drastic increase in FDI are bound to fail if the government does not take measures to ease the FDI policy in SBRT by either relaxing the local sourcing norms or completely doing away with it. The government will have to bring around a clearer and less

ambiguous policy to ensure the domestic interests are secured and in the meanwhile foreign investors are not disappointed.

[1] https://dipp.gov.in/sites/default/files/rs53_0.pdf
[2] https://www.livemint.com/budget/news/union-budget-2019-live-updates-1562297269692.html
[3] https://economictimes.indiatimes.com/industry/services/retail/local-sourcing-rule-likely-to-go-away-in-single-brand-retail/articleshow/70119433.cms
[4] https://www.livemint.com/budget/news/relaxing-local-sourcing-norms-would-be-a-huge-relief-for-apple-experts-1562337339615.html
[5] https://www.business-standard.com/article/pti-stories/will-hold-consultations-on-relaxing-local-sourcing-norms-for-single-brand-retailers-dpiit-secy-119070800668_1.html
[6] https://tech.economictimes.indiatimes.com/news/startups/local-sourcing-rule-for-foreign-investment-in-single-brand-retailing-may-go-or-get-diluted/70121257

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[1] https://dipp.gov.in/sites/default/files/rs53_0.pdf
[2] https://www.livemint.com/budget/news/union-budget-2019-live-updates-1562297269692.html
[3] https://economictimes.indiatimes.com/industry/services/retail/local-sourcing-rule-likely-to-go-away-in-single-brand-retail/articleshow/70119433.cms
[4] https://www.livemint.com/budget/news/relaxing-local-sourcing-norms-would-be-a-huge-relief-for-apple-experts-1562337339615.html
[5] https://www.business-standard.com/article/pti-stories/will-hold-consultations-on-relaxing-local-sourcing-norms-for-single-brand-retailers-dpiit-secy-119070800668_1.html
[6] https://tech.economictimes.indiatimes.com/news/startups/local-sourcing-rule-for-foreign-investment-in-single-brand-retailing-may-go-or-get-diluted/70121257

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