Financial Express

Back-end story

Date: 11/01/2012 | Edition: Delhi | Page: 10 | Source: Arpita Muicherji | Clip size (cm): W: 12 H: 36

Clip: 1 of 1

THE FINANCIAL EXPRESS

MUMBAI | WEDNESDAY | JANUARY 11 | 2012

LOGISTICS

Back-end story

Poor infrastructure is a big impediment to retail sector expansion

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FOREIGN direct investment (FDI) in multi-brand retail still remains off limits in India. But what is forgotten in the recent debate on FDI is that an efficient and well-oiled infrastructure network can go a long way in attracting investment in the sector. Back-end infrastructure is a key determinant of FDI inflows.

India's poor infrastructure can be a big impediment to retail sector expansion. Its creaky infrastructure has failed to match up with economic growth and increase in trade in the liberalisation period. The country has the world's second largest road network after the US and about 65% of its freight traffic is carried on road, still the national highways/expressways constitute just 2% of the road network and they carry 40% of the road traffic.

Moreover, India is still in the second- and third-party logistic provider mode while fourth-party logistic models have become global standards for logistic providers. Distribution of most food items involves high cycle time and wastage (as high as 40% across the supply chain) during transportation and storage. Inspite of government incentives, private companies are not keen to set up seamless supply chain networks and the distribution infrastructure is the weakest in the fruit and vegetables chain.

The absence of reforms in the agriculture and supply chain segment has already made investments in the retail sector unenviable. Investments that have trickled in the sector in the last ten years have failed to make the desired impact due to shoddy infrastructure facilities. Road congestion, inadequate cold storage facilities, archaic laws and lack of incentives have come in the way of improving the quality of infrastructure network. The long gestation period of infrastructure-related projects have also resulted in fewer investments.

A Planning Commission study on the logistics sector in India found out that India incurs around 14% of its GDP as cost in logistics compared to around 9% in the US and 11-12% in the European markets. Also, the cost of air freight in China is lower than in India. In India, more time is taken to clear customs than in Russia and China.

A recent study by Icrier and IIM (Calcutta) on *Facilitating trade and Global Competitiveness: Express Delivery Services in India* argues that express delivery companies can play a crucial role in setting up the supply chain. The study found that there are several barriers to investment in the supply chain. According to the study conducted by Icrier amongst the small, medium and large EDS/courier companies, airport infrastructure and related issues are perceived as the biggest barriers by the large companies.

For smaller companies, corruption on roads and the bureaucracy seem to be the main barriers. For inter-state transportation, a typical goods carrier has to get clearance from around seven different agencies, including the sales tax department of respective states, regional transport officers, state excise departments, forest departments and civil sup-

by multiple ministries/departments at the Centre, state and local levels; this has resulted in cumbersome and fragmented regulations. Some years back, a study sponsored by the Transport Cooperation of India also assessed that check-post delays can cost Indian economy \$600 million a year. The study also found that the cost of the additional fuel consumption in India due to poor road conditions and check-post delays is about \$5 billion.

An efficient logistics infrastructure reduces the cost of transportation and thereby contributes directly to retail network development.

The government wants foreign retailers to invest 50% of the FDI in back-end infrastructure. However, without addressing the logistic sector's problems, any retail chain will find it difficult to comply with mandatory requirements while dealing with the complex regulations. The government needs to modernise the logistics chain and improve the transport infrastructure.

The private sector has responded positively to the reforms so far. In the past few years, private and foreign investments in logistics have increased manifold. The logistics sector accounted for around 14% of the cumulative FDI inflows between April 2000 and March 2011. Despite such attempts, the supply chain is still fragmented.

The government also wants foreign retailers to source from small and medium enterprises. So, there is a need to reach out to them by providing latest technology, relaxing investments norms and putting infrastructure proposals on the fast track. However, going by the recent moves where some reform proposals have been either ignored or turned down by the legislatures, the present bottlenecks would continue for some time.

The implementation of the goods and services tax has been postponed several times. Although measures are taken to encourage private investment in roads and airports, hardly any measure has been taken to have a 'green channel' and reduce delays at border crossings or create a dedicated space for courier cargo and cold storage at airports.

Unless barriers to goods carriage are removed, the benefits of infrastructure