

# India central bank examining Wal-Mart allegations

NEW DELHI, INDIA: India has asked its central bank to examine allegations that US retail giant Wal-Mart has illegally invested in Indian supermarkets since 2010, the Press Trust of India reported Thursday.



India's commerce ministry asked the Reserve Bank of India to look into allegations that Wal-Mart broke foreign exchange laws and secretly invested US\$100m in a local supermarket chain, PTI said, citing a government official.

"Since the RBI is the focal point for foreign remittances, the matter has been referred for examination," a senior official in the ministry, who declined to be named, told PTI.

Calls by AFP to the commerce ministry were not answered.

An official at Prime Minister Manmohan Singh's office told AFP that Singh had received a letter from a lawmaker accusing Wal-Mart of making illegal investments and had asked the commerce ministry to examine the matter.

K. Muthu Kumar, officer on special duty to the prime minister said: "The letter alleged that Wal-Mart circumvented regulations to invest in India".

"We have forwarded the letter to the commerce ministry and are waiting to ascertain the facts," he added.

The unwelcome attention could put a dampener on Wal-Mart's plans to open its first retail outlet in India within the next 18-24 months, after Singh's government passed an order in September allowing foreign supermarkets to operate in the country.

According to *The Economic Times* newspaper, the letter was written by M.P. Achuthan, a member of the Communist Party of India who sits in the upper house of parliament.

The lawmaker alleged that Wal-Mart secretly invested in India's retail sector by using a fraudulent holding company named Cedar Support Services Ltd. and demanded that the government "undo this illegal investment immediately".

He also asked Singh to ban the retail giant from ever operating in India again.

A report by the Indian television channel CNBC TV18 said that Wal-Mart invested US\$100m in March 2010 in Cedar, by buying convertible debentures that give the US retailer a 49% stake in the real estate consultancy.

According to the report, Cedar, originally named Bharti Retail Holdings, then allegedly used the funds to operate its retail subsidiary Bharti Retail, apparently violating India's regulations on foreign direct investment.

A Wal-Mart spokesperson told PTI, "we are in complete compliance with India's FDI laws. All procedures and processes have been duly followed and details filed with relevant Indian government authorities, including the RBI".

Wal-Mart and Bharti Enterprises, the parent company of Cedar, currently manage a chain of wholesale supply outlets in India, under a 50-50 joint venture agreement, permissible under Indian law.

Although India recently allowed foreign retailers to set up shop in the country, just a third of India's 29 states have welcomed the news, with the others fearful of its impact on hundreds of thousands of small storeowners.

## **Wal-Mart denies breaking India investment rules**

Meanwhile, Wal-Mart on Friday denied accusations it broke rules banning foreign investment in Indian supermarkets while the government said no formal inquiry had been ordered.

Any investments were "in complete compliance with India's foreign direct investment laws" and all "processes have been duly followed and details filed with relevant Indian government authorities", a Wal-Mart spokeswoman told AFP.

India's commerce ministry said it asked the central bank to look into the allegations by a lawmaker that Wal-Mart broke foreign investment laws and "clandestinely" invested US\$100m in a local supermarket chain.

However, a senior ministry official told AFP on condition of anonymity that media reports a government "probe has been ordered is too strong a word", adding: "I would not call it a probe, rather an examination."

Communist lawmaker M.P. Achuthan, whose party opposes foreign investment in the US\$500bn retail sector, made the charges in a letter last month to Premier Manmohan Singh's office.

It forwarded the complaint "as a matter of routine" to the commerce ministry under whose domain the sector falls, the ministry official said.

The ministry sent on the letter "for examination by the Reserve Bank because the allegations involved remittances", said the commerce ministry official.

The focus on Wal-Mart's Indian investments comes as its operations elsewhere globally have come under attention. Earlier this year, Wal-Mart's Mexican unit faced accusations of bribing officials to boost its market position.

Achuthan also charged that two years ago a Wal-Mart unit "illegally" invested in debt securities of a holding company that owns Bharti Retail, which runs more than 200 Easyday supermarkets throughout India.

These securities, the lawmaker said, could be converted into a 49% equity stake in the holding company, part of the business empire built by India's telecom tycoon Sunil Bharti Mittal.

The alleged infraction of Indian rules took place when a government ban was in place preventing overseas investments in "multi-brand" retailers, stores selling more than one brand of goods.

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