August 22, 2012

Dear Dr. Mayaram,

I am addressing this letter to you on behalf of Common Cause, a civil society organization dedicated to articulating the common problems of the people and securing redress for them. In its espousal of public causes over three decades, Common Cause has used the instruments of policy advocacy and public interest litigation to good effect.

Common Cause has greatly been exercised over the unchecked fraudulent operations of the so called direct selling and network/multi-level marketing companies, which entrap millions of unwary members of the public by holding out prospects of quick enrichment. Once enrolled as distributors/business associates, they are incentivized to prey on unsuspecting relatives and social acquaintances to extend the ‘downline’, which sustains the cash flow to the top of the pyramid.

Evidently, the underlying objective of thePrize Chits and Money Circulation Schemes (Banning) Act, 1978, which was enacted to curb such exploitation, has not been achieved. This failure is largely the result of the indifference or incapacity of the agencies charged with the responsibility of implementing the Act and overseeing its enforcement. It is heartening to note that there is now a growing realization that this state of affairs cannot be allowed to continue. We understand that the issues arising out of the said Act are to be addressed by the Finance Ministry and that to this end, the Department of Financial Services is to carry out studies on the operation of direct selling/multi-level marketing companies in order to understand the modalities and intricacies of their working.

We also gather that the agenda for the 180th meeting of the Foreign Investment Promotion Board, scheduled to be held on August 24, 2012, includes a discussion on multi-level marketing/direct marketing. We urge that this discussion should focus on an objective cost-benefit analysis of the approvals accorded to foreign companies to set up wholly owned subsidiaries in India, commencing with the approval accorded to Am-way Corporation of the USA vide Ministry of Industry, Department of Industrial Development, Secretariat for Industrial Approvals, letter no. FC.II: 471 (94) / 594 (94) dated August 26, 1994.

In our assessment, the quantum of foreign direct investment attracted by allowing the replication of the Amway Model will prove to be insignificant in comparison to the outflow by way of dividends and commissions to the promoters and their associates in the higher echelons of the hierarchy of distributors/selling agents put in place by these companies to market their over-priced goods and services. We also have to reckon with the high social and economic costs of an open-ended enrollment of distributors trapped in an unsustainable business model, which ensures the enrichment of the top of the pyramid at the expense of the base until its eventual collapse.

In this context, I am enclosing a copy of the letter that we have addressed to the Prime Minister regarding the regulation of multi level marketing companies.

I would request you to discuss the issues raised by us in the forthcoming meeting of the FIPB and keep us apprised of further developments in the matter.

With best regards,

Yours sincerely,

Kamal Kant Jaswal

Director

Dr. Arvind Mayaram,

Secretary to the Government of India,

Ministry of Finance,

Department of Economic Affairs,

North Block,

New Delhi – 110001