Subsidy cuts in Indian budget may disappoint investors

REUTERS, New Delhi

INDIA may slash its food and fuel subsidy bill by about $8 billion in next week's budget, two sources said, but despite the impressive headline, the cut is not as radical as free market champions had hoped for in Prime Minister Narendra Modi's first full budget.

Most of the 20 percent cut in the budget for subsidies results from lower global oil prices rather than structural changes, with the government's appetite for reform tempered by a heavy local election defeat in New Delhi this month.

"The total subsidy bill could come down to around 2 trillion rupees ($32 billion)," a senior government official, who has direct knowledge of the matter, told Reuters. That calculation was echoed by another source privy to budget discussions.

Fuel subsidies are expected to drop by around two-thirds to 220-230 billion rupees in the fiscal year that starts on April 1, thanks above all to a halving of international oil prices to around $60 a barrel.

The sources said Indian Finance Minister Arun Jaitley was likely to set the total budget for subsidies at about $32 billion, down from $40 billion in the current financial year.

It will be the first full budget presented since Modi's Bharatiya Janata Party swept to power in India last May. It produced an interim budget in July that was largely designed by the outgoing Congress party government.

The numbers imply four-fifths or $6.5 billion of the total subsidy savings will come from lower fuel subsidy costs. Other subsidy costs will only be cut by around 5 percent.

That could disappoint investors, who see the Feb. 28 budget as a test of Modi's stomach for unpopular reforms, with some critical that he has not moved faster to revive the economy.

"The direction of subsidy reduction is perfect but we need more to be done," said Deven Choksey, managing director at Mumbai brokerage K.R. Choksey Securities, who called for more welfare schemes, including fertilisers, to shift to direct cash payments to avoid fraud.

The sources suggested that the focus on savings would be on cutting waste rather than more radical free market efforts some policy advisers have been lobbying for.

According to calculations described by the first source, lower oil prices combined with measures to deregulate fuel prices and clamp down on fuel benefit fraud will account for four-fifths of the savings.

The launch of direct transfer of funds into bank accounts of over 100 million households earlier this year for subsidised cooking gas alone is expected to contribute over one billion dollars towards overall savings next year.

Nearly 100 billion rupees ($1.6 billion) of the savings could come from clamping down on corruption in fertiliser distribution and adjusting food subsidies, he said.

The officials said the thrust of the budget was to improve the economic environment by trying to spark consumer demand and investment without overshooting a fiscal deficit target of 3.6 percent of GDP.

Lower subsidy costs would help the government increase funding for Modi's dream projects like railways, roads, solar power and support to exports while honouring deficit commitments closely watched by ratings agencies.

India's vast but decrepit state railways have sought to nearly double spending on new infrastructure to 500 billion rupees in the upcoming rail budget for 2015/16, a senior Railways Ministry source said.

Modi and his Bharatiya Janata Party ideologically support weaning voters off distorting subsidies. But Modi needs to win state elections to implement that agenda in parliament, and a resounding defeat in the high-profile Delhi state poll this month may force him to reconsider some proposals.

"The finance minister will have to meet investors' expectations without inviting a political backlash," said the second official. Modi is expected to quietly delay implementation of a food aid law passed by the last government that would widen distribution of ultra-cheap grains to two-thirds of the population.

REUTERS/FILE

A farmer sprays a mixture of fertiliser and pesticide onto his wheat crop on the outskirts of the western Indian city of Ahmedabad.

Walmart to raise wages for 500,000 US workers

BBC, New York

US retail giant Walmart - the nation's largest private employer - has announced plans to raise wages for more than 500,000 hourly employees at its US stores.

Walmart said that it would raise salaries for 40 percent of its staff, as well as increasing its base hourly wage to $9 - $1.75 above the US minimum wage.

By 1 February 2016, all current workers will earn at least $10 per hour.

The retailer has recently been under pressure from labour groups.

In a blog post to workers, Walmart's chief executive Doug McMillon acknowledged that a tough economic environment combined with shifting consumers habits had made Walmart institute some changes, which could have been detrimental to workers.

"We ... made a few changes aimed at productivity and efficiency that undermined the feeling of ownership some of you have for your business," he wrote.

"When we take a step back, it's clear to me that one of our highest priorities must be to invest more in our people this year."

Shares in Walmart fell 2.8 percent in early trading on news of the employee programme.

A coalition of workers known as OUR Walmart - which is backed by traditional US labour unions - have been staging one-day strikes over the past two years demanding the retailer raise wages and improve its scheduling for workers, among other concerns.

Emily Wells, one of the leaders of OUR Walmart and a Walmart employee earning $9.50 per hour in Florida, said in a statement: "We are so proud that by standing together we won raises for 500,000 Walmart workers, whose families desperately need better pay and regular hours from the company we make billions for."

In addition to raising the base wage for many workers, Walmart also said it would increase the wages paid to supervisors, as well as work to find ways to be able to schedule worker shifts further in advance.

It also said it would invest in worker training programmes, to encourage Walmart employees to advance within the organisation.

According to the Associated Press, with the wage changes, the average wage for a full-time worker at Walmart will rise to $13 per hour from $12.85, and $10 per hour from $9.48 per hour for a part-time worker.

BBC

Walmart has been under pressure from labour groups to raise wages and change scheduling practices.

AFP

Shigenori Suzuki, *centre*, an employee of Japanese food company Kagome, runs with the company's newly developed tomato dispenser "Tomatan" during a pre-event International Friendship Run in Tokyo yesterday ahead of this weekend's Tokyo Marathon. The "Tomatan" is a backpack that can be loaded with six mid-sized tomatoes, enough, say the makers, to power runners through this weekend's Tokyo Marathon.

US judge rules AmEx limits on stores anti-competitive

AFP, New York

A US judge Thursday ruled that American Express policies barring merchants from steering customers to lower-cost credit cards results in higher prices and violates antitrust law.

US District Judge Garaufis concluded that the US credit-card giant crossed a line in barring some 3.4 million merchants who accept its cards from steering customers to other credit card brands that charge merchants less for transactions.

The ruling hands a victory to US and state officials in the five-year-old case.

Because of AmEx's extensive market penetration among retailers and the high cost of entry to the credit-card business, AmEx has "the power to repeatedly and profitably raise their merchant prices without worrying about significant market attrition" from merchants who dump the card, Garaufis said.

In addition, the judge found evidence that AmEx's actions had real effects on consumers, noting that merchant prices have "risen dramatically" as a result of the company's anti-steering policies.

Garaufis said he would consider a remedy for the violation following additional legal briefing by both sides.

The decision marks a victory for the Justice Department and 17 states, which in 2010 sued AmEx, Visa and MasterCard, challenging each company's anti-steering rules.

Bangladesh's entry into impact investment

DURREEN SHAHNAZ

GROWING up as a daughter of a high ranking civil servant in Bangladesh, I have distinct memories of my father's trip to Paris every year in the 1980s. To me it was exciting -- Papa was seeing Paris -- the most romantic city in the world. To him it was a dreaded trip because it was Donor Consortium that brought him to France to beg for donor money for Bangladesh.

I remember my father sadly referring to himself as the 'official beggar of the country'. His begging would put in place the much needed public sector goods and services such as food, health care, medicine and education for millions. No matter how good the ultimate goal of the 'begging' was, the process was demeaning and unsustainable. It went on the same way year after year.

Fast forward 30 years later, some of the good that did come out of the donor money is the creation of multiple infrastructures by the government and non-government bodies in Bangladesh that gave rise to parallel economies along with the traditional private/export sector such as microcredit, village health programme, education and healthcare for the poor.

Bangladesh's enabling regulatory environment has resulted in a vibrant development landscape with development giants like BRAC, Grameen Bank, ASA as well as over 26,000 smaller NGOs and 600 microfinance institutions. The unprecedented efforts of these institutions to galvanise the country's development agenda have put Bangladesh on track to achieve five of the eight Millennium Development Goals.

According to the 2013 report by the Social Progress Imperative (SPI), Bangladesh produced another 'development surprise' in the Saarc region, ranking 99 among 132 countries -- a relatively strong performance when compared with Nepal (101), India (102) and Pakistan (124).

The efforts, launched by the NGOs and microfinance institutions, may have had their birth with the assistance of donor funding but there is an increasing awareness that there is, without doubt, more to be achieved in terms of responsible, equitable growth and sustainable impact for Bangladesh by Bangladeshis.

Disturbingly, Bangladesh's economic progress has been uncorrelated with equitable social progress so far. The World Bank measured Bangladesh's GINI Coefficient at 32 percent (higher than less industrialised countries such as Albania, Niger, and Serbia) and the country was ranked 111 out of 148 countries on the Gender Inequality Index in 2012. This is exemplified by Bangladesh's readymade garment sector, which employed over 4.4 million workers in 2013, of which an estimated 85 percent were women. Although this 'feminisation' of the industry was interpreted as an indicator of female emancipation, it occurred under an extremely exploitative context. Weak labour laws resulted in most RMG factories falling short on social compliance, demonstrating the failure to provide the female workforce with basic human rights.

> *Impact investing refers to investments that are intended to create positive social impact beyond financial return, advocating that the two are not necessarily mutually-exclusive*

Incidents like the collapse of Rana Plaza magnify the need to have holistic approach to growth where financial gains accompany creation of social good and where social and development goals can be achieved in a financially sustainable manner (i.e. not relying on grant funding). This means we can no longer ignore the fact that there has to be more of a connection between the private sector and the development sector, and growth has to be achieved by both sectors working together.

If Bangladesh is to achieve its goal to become a middle income country by its 50th anniversary of Independence, is it possible for us to say the country will be a leader in sustainable development where lasting economic growth is accompanied by sustainable social and environmental returns?

By embracing the world of impact investing, Bangladesh can access to substantial private capital to address the issue of inequitable growth and drive forward the development agenda.

Impact investing refers to investments that are intended to create positive social impact beyond financial return, advocating that the two are not necessarily mutually-exclusive. The practice of grant making and donor funding has traditionally been considered separate from investing in both objective and approach, but the emerging field of impact investing creates the opportunity for a productive collaboration between these two disciplines.

The goal of impact investing is not to substitute these mechanisms, instead to tap into a much larger pool of commercial capital, endowments and fiduciary investments that can augment the impact of traditional sources of mission-oriented capital. Estimated by the World Economic Forum to reach $1 trillion by 2020, impact investing has the potential to introduce a whole new spectrum of private sector investors into Bangladesh and massively redirect private capital towards magnifying development efforts across the country.

However, providing a supply of impact-oriented capital solves only one side of the problem. Aligning the capital with demand would involve identifying and supporting, among others, social enterprises (defined as mission-driven for profit companies or market-driven not-for-profit companies), which use business methods to achieve a social or environmental mission.

Nobel Peace Prize winner Muhammad Yunus has set the stage by launching Yunus Social Business, which uses an incubate and finance methodology to bridge the gap between social enterprises and philanthropic lenders and donors. However, social business has its limitations as it dictates how much the private sector can make in financial returns. If we want effective private sector involvement we can not dictate how much businesses should or should not make in profit and what should be done with the proceeds. The focus has to be on achieving and measuring the social and environmental outcomes and allowing financial returns to go hand in hand with it. This approach works, and this is an effective way in making everyone from investors and entrepreneurs to beneficiaries a part of the process. We are seeing incredible results of impact investing across Asia, and now we need to allow the impact investing to take off in Bangladesh.

Innovative models such as Hathay Bunano, which focuses on rural livelihood creation, Waste Concern which promotes waste recycling and sustainable development and the social enterprise arm of Kazi & Kazi Tea are redefining the dominant narrative of pure business and pure philanthropy, recognising the increasingly blurring lines between the two.

However, sustainable social entrepreneurship remains a nascent concept in Bangladesh as there are few investment-ready social enterprises that have the capacity to effectively infuse capital and achieve tangible impact, and existing high-impact organisations rarely self-identifying as social enterprises. This indicates a need not only to nurture the space, but also to educate these organisations on the benefits of attracting private capital to expand their operations and deepen their impact.

The role of field-builders in the space is to catalyse both sides of the equation to ensure Bangladesh is truly ready to embrace impact investing. The supply side involves designing inclusive 'on-ramps' for investors with varying risk-return appetites and designing innovative financial products that re-endogenize social considerations into investment decisions. Nurturing the demand side of the equation entails the development of a pipeline of high-impact business models that are investment-ready and can effectively deploy this capital. This will enable impact investors to scale innovative new models that can drive, support and accelerate positive change in a sustainable way, taking Bangladesh to the next level in its development story.

Catalysing the impact investing space could help Bangladesh not only harness the potential of private capital to advance the development agenda, but also serve as a voice for progress in the region and beyond. While the donor funding is still essential in catering to many basic needs of the country, the time is right for some of these funds, coupled with constructive public policy, to be diverted to create the infrastructure for impact investing and creating the path for equitable and sustainable growth where the private sector and the development sector can effectively and efficiently come together.

British Council is bringing together a policy gathering around the social enterprise space this week. I hope this will be the beginning of many discussions on how we make Bangladesh be known as the country of 26,000 NGOs as well as 100,000 social enterprises. Let's begin the work.

The writer is founder of Impact Investment Exchange Asia and Shujog -- two Singapore-based organisations leading the impact investing work and movement in Asia.