

International Business News

ADB sees 'mild recovery' next year

AFP, Nusa Dua, Indonesia

The Asian Development Bank (ADB) called Monday for a fundamental "rebalancing" of regional economies in response to the global crisis, while predicting a "mild recovery" next year.

Bank President Haruhiko Kuroda said the region would record only 3.4 percent growth this year but could expect a rebound to around 6.0 percent growth in 2010, as he opened the ADB's board of governors annual meeting in Bali.

"With strong national and regional efforts and a mild recovery expected in the global economy next year, developing Asia and the Pacific should bounce back to about 6.0 percent growth in 2010," he said.

"These are positive signs, therefore this should not be a time of despair."

He outlined a huge expansion in the ADB's lending plans to help stimulate developing economies across Asia, after shareholders agreed last week to triple the bank's capital base in response to the global downturn.

The bank will increase its overall lending assistance by more than 10 billion dollars in 2009 and 2010, including three billion to meet "urgent needs stemming from the crisis," Kuroda said.

Fiat aims to create global car giant with GM tie up

AFP, Milan

Fiat chief executive Sergio Marchionne on Monday outlined a plan to create a new global car giant that would link up with General Motors' European operations after rescuing bankrupt Chrysler.

"From an engineering and industrial point of view, this is a marriage made in heaven," Marchionne told the Financial Times in an interview published Monday ahead of talks with German ministers on his proposal, which he wants completed by the end of May.

Fiat's share rose by more than six percent to 8.02 euros on the Milan stock exchange on Monday after news of the plan was released.

Opel of Germany forms the core of GM's European operations, which also include Vauxhall in Britain and Saab in Sweden, and Marchionne will need the backing of the German government for his ambitious plan.

The Fiat boss said the Italian carmaker and Opel would form a publicly traded company with revenues of about 80 billion euros (106 billion dollars) and sales of six or seven million vehicles a year -- putting it on a par with Volkswagen, the world's second biggest maker behind Toyota of Japan.



Prestige Ameritech employee Saengdara Phanvilay inspects a machine that produces Encompass ProGear disposable surgical masks in Richland Hills, Texas, on Sunday. The Texas-based company has increased production of the masks from two shifts working five days a week to 24 hours a day, seven days a week due to increased demand from the recent swine flu outbreak.

China Eastern sells two Airbus jets to raise cash

AFP, Shanghai

China Eastern Airlines said Monday it had agreed to sell two Airbus A340 jets for 590 million yuan (86 million dollars) to improve its cash flow, but added it would lease the planes back.

The nation's third largest carrier by fleet size said it sold the two planes to China's Bank of Communications Financial Leasing Co Ltd, in a statement filed with the Shanghai Stock Exchange.

China Eastern said last month it hoped to receive more financial support from Beijing after receiving seven billion yuan in aid, but that the government had not yet made any commitments.

The airline said it intended to channel the proceeds from the sale of the aircraft into its operations.

It will pay about 17 million yuan for each aircraft per quarter to lease them back over the next five years, the carrier said.

China Eastern suffered a net loss of 15.3 billion yuan last year due to falling passenger numbers, rising fuel costs and bad bets on fuel hedging contracts.

German retail sales plunged 1.5pc in March

AFP, Frankfurt

German retail sales plunged by 1.0 percent in March from the previous month, figures released on Monday by the national statistics office showed, as rising unemployment hit consumer sentiment.

Analysts polled by Dow Jones Newswires had forecast a much more modest drop of 0.2 percent in Europe's biggest economy.

On a 12-month basis, retail sales shed 1.5 percent, the Destatis statistics service said, even though March 2009 had two more working days than the same month a year earlier.

Among non-food products, German shoppers nonetheless picked up more cosmetics and pharmaceutical items, the data showed.

Mail-order and Internet sales were also stronger.

But the sharp drop increases the chances that the European Central Bank will cut its main interest rate to a record low of 1.0 percent on Thursday to give the recession-hit 16-nation eurozone economy a further boost.

COLUMN

Microcredit at a crossroad

SABIHIDDIN AHMED

Microfinance is now accepted worldwide as one of the potent tools of poverty alleviation. The awarding of the Nobel Prize to Dr Muhammad Yunus and Grameen Bank has rekindled interest in this form of banking services to the extent that the UN and even the multi-lateral funding institutions are considering it as an effective tool for poverty reduction. However there has always been a group of strident critics who continue to debunk the claim of the Micro Finance Institutions (MFIs) in this respect. It would therefore be worthwhile to try to analyse this form of service in an impassioned way.

One can start by looking at how it works. Obviously the main instrument is microcredit or small loan, which is offered to clients at a fixed service charge to be repaid in equal instalments over a fixed period of time. The loan is collateral-free. Some MFIs stress group liability while others give this loan on an individual basis but who should however be a member of a group. The criteria for membership is simple, a cap on the amount of asset they own makes them equal in each other's eyes. However the products or instruments the MFIs now offer have expanded to include small business/enterprise loans, hardcore poor loans, supplementary loans to members within the same family. Importance is given to savings, and in addition to the mandatory savings, members are offered a variety of other savings products that they can avail of on a voluntary basis.

Some MFIs have instituted insurance schemes at very low premiums to protect the borrowers in the event of sudden death where the outstanding amount including interest is written off. Members are also entitled to taking recourse to a security fund where they can contribute a fixed amount, say Tk 10 per week where on maturity after eight or ten years they or their nominee in the event of their death are entitled to six times the principal amount, male members get three to four times after four years.

The main critique against this form of credit is the service charge or the rate of interest charged. This usually varies from 12 percent to 16 percent among different MFIs. The principal and the interest are calculated over the period the loan is given, which is to be repaid as a fixed amount on a weekly or monthly basis. The bone of contention lies here.

Critics point out that whereas the service charge or the rate of interest is declared to be around 12 percent to 16 percent, the effective rate comes out to be around 25 percent to 30 percent. This is true, but what one misses in this calculation is the fact that those people who are left out of the institutional banking sector because of their inability to furnish any collateral as well as the hassle of paperwork and the shuttling between the bank branches and their place of abode, MFIs reach these services at the doorstep of the beneficiaries through the field workers. Moreover since the loan is to be paid on a weekly or monthly basis (in some cases of business or enterprise loan), the burden on the member is tolerable. This becomes evident when one looks at the repayment rate of the MFIs, which varies between 90 percent and 100 percent. The lesson here is that the poor who have so long been denied credit are now using this tool to augment their lot. They do so by utilising the credit in income generating activities (IGA) that also contribute to employment generation.

How far microcredit has helped in the reduction of poverty or in other words helped the poor to graduate out of poverty is a matter of debate since credit alone cannot



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on its own significantly contribute to poverty alleviation. Improvement of infrastructure, availability of adequate health services, access to safe drinking water and sanitation are all contributing factors. What is significant however is that easy access to credit can be the determining catalyst for change in the lives of the poor. Even if as alleged, some of the money is used for consumptive expenditure, the sense of being, of belonging becomes strong, raising one's self-confidence.

Another significant criticism against this form of credit is the allegation that microcredit is making the poor more indebted, that because of the mushroom growth of MFIs, the poor take recourse to multiple loans thus making them worse off than before. On the one hand, there is pressure on the field staff of these organisations to deliver in terms of meeting the target of both loanee and outstanding loan. And on the other hand, the poor get ensnared in perpetual indebtedness where sometimes they have to flee their hearth and homes to escape the burden. Thus the much touted claim of microcredit as a tool of poverty alleviation is put to question. This, on top of the allegation of crass resort to abuse by the institutions to force repayment. That the ultra-poor do not come into the microcredit net is an accepted fact because the pressure on the field workers to ensure repayment rate forces them to enrol as members, those persons who have the ability to repay. Thus the relevant question today is whether microcredit does deliver what it has so far been claimed to do. Or is a rethinking necessary?

However one thing is certain, that microcredit has over the years brought about a massive impact on the socio-economic condition of the poor and the disempowered. And this is markedly so among the women, who had been and still remain among the most vulnerable in our society. This has been possible to a large extent on the easy access to finance that microcredit has been able to deliver even in the remotest villages in Bangladesh. To the poor such access is in one form

empowerment, and the fact that the majority beneficiaries are women gives them the power to say 'no' to be used (treated) as chattels by the traditional power brokers including the male members of the family. In fact the extent to which microcredit has been able to break the shackles of our rural women can be gauged from a simple observation.

That 20 years back when one used to traverse the rural roads of Bangladesh, one hardly used to see any woman, and if by chance one would accost anyone, she would either hide behind a tree or cover her face by her 'anchol' (sari). Now there is hardly any rural bazaar where one would not find women selling their wares in the market, haggling with the men over the price. And this change momentous as it is, has been brought about by simply enabling the women to have access to easy credit that microcredit offers. Thus one can say that microcredit has had a significant impact on the socioeconomic landscape of the country in terms of poverty reduction as well as empowerment.

Another significant aspect that is not brought into calculation is the overwhelming fact that there is over Tk 200 billion liquidity in the economy of the country as cumulative outstanding in the field due to MFI operations that has become the backbone of the rural economy. Such a huge amount of money circulating in the economy and that too in the countryside has become the core driver of the economy in the rural areas. Its total impact is phenomenal. Nevertheless as stated earlier, microcredit has reached a crossroad. If it is to deliver on its purported aim of poverty alleviation then the regulatory and apex bodies have to take a more active role in its operation. And the foremost of it should be to devise some means and formulate regulations to assign specific areas of operations to the MFIs to avoid overlapping that is eating into the vitals of the very foundation of microcredit. The MFIs, I am certain would be willing to share their knowledge and expertise in this regard.

Given that the MFIs are now spread all over the country, this outreach can be uti-

lised to deliver more financial services to the doorstep of the people. Since the experience of microcredit has shown that the poor are credit worthy, the central bank might consider allowing the MFIs to take deposits, thereby encouraging the vast majority of the people to come within the purview of the formal banking practice. This should be able to garner massive cash resources, creating vast liquidity in the market that can be channelled into productive investment. Of course, this would entail certain regulatory mechanisms to be put in place to protect the interest of the depositors, but I am certain this could be worked out between the MFIs and the central bank.

Since agriculture remains the backbone of our economy, the MFIs because of their outreach can also be used as service providers or outlets for providing financial services to the small and medium farmers at their doorstep. The central bank has taken the first step by asking the formal banking sector to allocate a part of their fund as agricultural loan. Knowing the hassle and difficulty of the farmers in accessing these loans the central bank can consider making it mandatory for the banks to go into partnership with the MFIs to provide this service. In fact this partnership can be broadened to include SME loans to be provided and monitored at the borrowers' level through the MFIs.

It is therefore irrefutable that microcredit has and will continue to play a vital role in the socio-economic development especially in poverty alleviation. There are certain problems that need to be addressed: like for instance the question of overlapping, the channelling of available credit to more economic activities that should require more intensive monitoring and whether MFIs can offer more advisory services to their clients. The MFIs have always innovated to respond to any predicament, now the public bodies need to respond to the demand of the times for this concept to contribute its full potential.

The writer is a former civil servant and diplomat, and the deputy president of ASA.

GLOBAL CRISIS

Obama to crack down on business taxes

AP, Washington

US President Barack Obama plans to propose changes to tax policy certain to be unpopular with corporations with international divisions and individuals who use tax havens. Obama also plans to ask Congress for 800 new federal tax agents to enforce his broad requests.

Obama's two-piece plan, to be announced at the White House on Monday, would eliminate some tax deductions for companies that earn profits in countries with low tax rates, as well as consider U.S. citizens who use tax havens such as the Bahamas or Cayman Islands guilty of violating U.S. tax laws. If Obama wins congressional approval for the changes -- and he faces a challenge on Capitol Hill -- it could deliver \$210 billion in tax revenue over the next decade.

Treasury Secretary Timothy Geithner was to join Obama for the 11am comments.

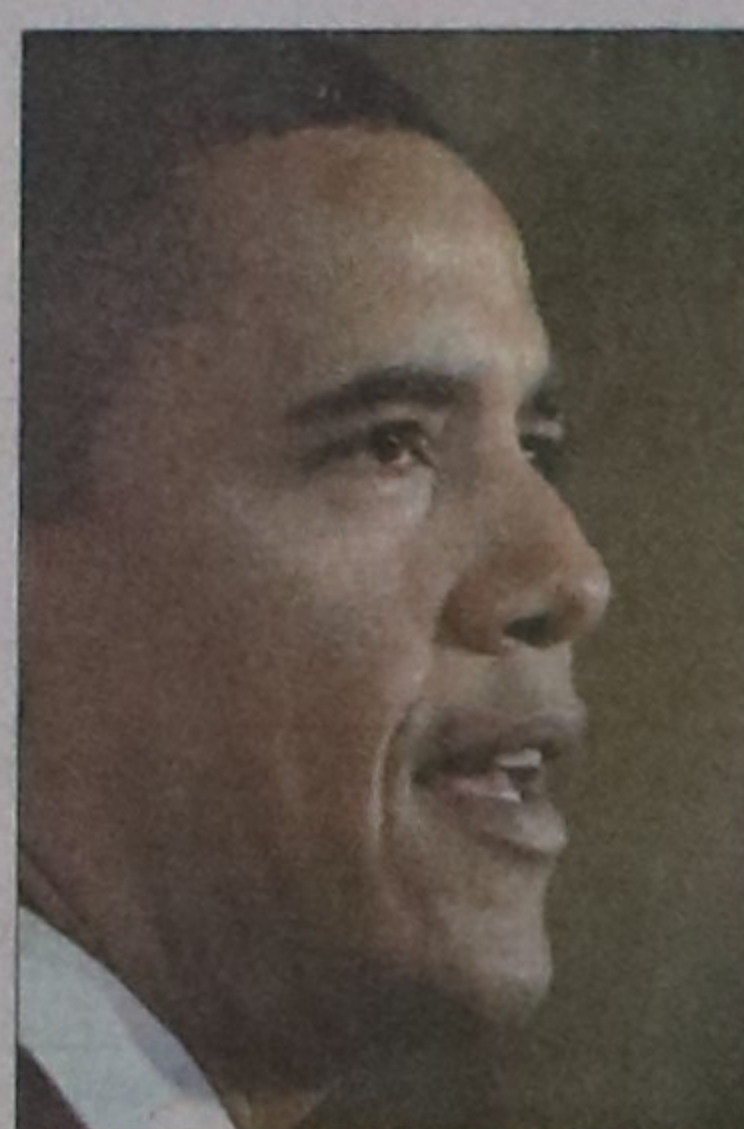
Officials described the administration's plan ahead of the announcement on the condition of anonymity so they wouldn't

upstage the president's remarks. However, they acknowledged the political challenges facing the plan. The administration won't seek a complete repeal of overseas tax benefits and, although the rule changes are narrower than some anticipated, business leaders still oppose them as a tax hike. Obama aides countered that the plan is a step toward a massive overhaul of international financial regulations the president has promised.

In exchange, Obama said he was willing to make permanent a research tax credit that was to expire at the end of the year and is popular with businesses. Officials estimate that making the tax credit permanent would cost taxpayers \$74.5 billion over the next decade.

But administration aides said 75 percent of those tax credits paid workers' wages; given the struggling economy, aides were reluctant to do anything that could add more Americans to the unemployment rolls.

It was small comfort. Companies who shelter profits in international accounts stand to



lose billions if Obama's plan becomes law. Under the existing regulation, those companies pay taxes only if they bring the profits back to the US. If they keep the profits offshore, they can defer paying taxes indefinitely -- and many do.

Obama's plan wouldn't go into effect until 2011; Obama has said he does not want to tinker with tax

revenues until his \$787 billion stimulus plan has run its course. The proposals, however, were far from complete, and aides said this was just one piece of the administration's plan for sweeping overhaul.

First up: Companies won't be able to write-off domestic expenses for generating profits abroad. For instance, administrative tasks performed in New York for a London office would not be tax deductible in the United States.

Administration officials depicted the move as a way to close unfair tax loopholes that encouraged companies to send jobs overseas. They argued that if it costs the same amount to do business in, say, Ireland as in Iowa, why not do it entirely in Des Moines? Officials said Obama would characterise the move as a way to keep jobs in the United States and fight a system that is rigged against US companies who keep their entire business operation domestic.

Obama also planned to ask Congress to crack down on tax havens and implement a major

shift in the way courts view guilt. Under Obama's proposal, Americans would have to prove they were not breaking US tax laws by sending money to banks that don't cooperate with tax officials. It essentially would reverse the long-held assumption of innocence in US courts.

If financial institutions cooperate with Washington and disclose details when asked, Americans could invest anywhere they like.

Obama officials also said they would close a Clinton-era provision that would cost \$87 billion over the next decade by letting US companies "check the box" and treat international subsidiaries as mere branch offices. Officials said it was meant as a paperwork shortcut that is now a widely used and perfectly legal way to avoid paying billions in taxes on international operations.

The White House said that in 2004, multinational corporations enjoyed an effective tax rate of 2.3 percent in the United States because of such allowances. Aides said that was the most recent year available for analysis.