

# IMF praises reforms in Bangladesh

## The Washington-based lender recognises efforts to tackle macroeconomic pressures

REJAUL KARIM BYRON, from Washington

**T**HE International Monetary Fund's recent \$1 billion loan approval for Bangladesh under its extended credit facility (ECF) reflects the country's efforts in overcoming macroeconomic pressures, a top official of the donor said.

Anoop Singh, director of Asia Pacific Department of the IMF, said the lender has recently approved a three-year programme for Bangladesh, which is probably the largest ECF programme that has been granted so far.

"It is a recognition of very important steps that Bangladesh is taking, in both the short-term and medium-term," he told reporters at a press briefing at the headquarters of the IMF in Washington on Friday.

The global lender recently approved a loan to Bangladesh worth \$987 million to help the country overcome macroeconomic pressures and build a reserve buffer.

The amount represents the largest loan ever offered to a member country under the IMF's reformed concessional lending architecture, and is to be spread over seven equal instalments, with \$141 million to be made available immediately.

Bangladesh has been facing rising balance of payments pressures and declining foreign exchange reserves over the last year and a half, mainly due to increased demand for oil imports.

The country's balance of payments went into deficit last year and it is facing similar pressures in the current fiscal year, with global headwinds and firming oil prices now adding to these pressures.

Singh said inflation in Bangladesh has been higher than the target, and this is partly because of external pressures, oil prices, commodity prices, and macro policies.

He said the government has been moving in a number of fronts to raise potential growth. "And again, there, as I said earlier, infrastructure investment



Anoop Singh

is very important. It needs fiscal space."

"And among all the steps the government is taking, they are building up now the process of having a value-added tax, together with other tax reforms. So, I will say steps are being taken," he said.

On Asia and the Pacific economic outlook, global economic prospects have improved, and clearly, activity in Asia is gaining momentum, after the marked slowdown last year.

"Certainly, Asia remains exposed to serious downside risks, but we are saying that, as conditions stabilise in markets and activity gains momentum in Asia, overheating pressures could rise again, and therefore, policymakers face a difficult task of ensuring their support was stable, non-inflationary growth, and therefore may need to shift gears quickly, as overheating pressures begin to build again."

Singh said inflation is declining in many countries, but it remains above many implicit or explicit target ranges in parts of Asia. "Therefore we need to be concerned as overheating pressures build up."

Masahiko Takeda, deputy Director, and Jerry Schiff, deputy director of Asia and Pacific Department, were also present on the occasion.

# Govt to update arbitration law

## Reformed rules will spur foreign investments: law minister

STAR BUSINESS REPORT

**T**HE government is working to modernise the arbitration law to ease dispute resolution and attract investments, especially from foreign investors, said the law minister yesterday.

"We have rules that are age-old and need to update them," said Shafique Ahmed.

"Now, we are working to simplify the arbitration law in a way that it can play an effective role in resolving disputes among different organisations, especially business organisations."

"We have found that a mediator can settle an issue better than an arbitrator. We are working to train judges and senior advocates for the mediation system as well," he added.

Ahmed spoke at the dialogue on the "alternative dispute resolution (ADR) to promote trade and investment", organised by the Bangladesh International Arbitration Centre (BIAC) at Ruposhi Bangla Hotel in Dhaka.

The International Finance Corporation (IFC), UKaid and European Union were partners of the event.

Ahmed said the government is trying hard to ease the entire process of resolving cases out of court.

The minister said cases are piling up each year in the courts, creating a long and frustrating wait for justice.

"We hope BIAC will help bring in more reliability in the arbitration process and provide a more cost-effective, quick and efficient solution for companies, which otherwise would have to go Singapore to settle disputes."

He said that businessmen will be encouraged more to go for ADR in coming days, as the system is a win-win situation for both parties, and is a time and cost efficient option for them.



Left to right: Fabien Gelinas, law professor at McGill University of Canada; Toufiq Ali, BIAC chief executive; Md Tafazzul Islam, former chief justice; Mudassar Husain, former chief justice; Shafique Ahmed, law minister; Mahbubur Rahman, BIAC chairman; Latifur Rahman, former chief justice; Latifur Rahman, vice president of ICC Bangladesh; and Nina Pavlova Mocheva, a representative from IFC Washington, attend a dialogue on 'ADR to promote trade and investment', organised by Bangladesh International Arbitration Centre at Ruposhi Bangla Hotel in Dhaka yesterday.

Ahmed said the arbitration process could still end up in courts, if any aggrieved party does not accept a verdict in the end and prefers going to the court for a decree.

"Here mediation can be the best option for disputed parties," the minister said, adding that 97 percent of cases in Canada are settled through mediation.

Prof M Shah Alam, acting chairman of the Law Commission, said the Arbitration Act 2001 needs amendments and the government needs to make it business-friendly.

He also suggested formulation of a comprehensive law to spur investments from foreign investors. The law for arbitration should be amended to meet the needs of the investors.

In his paper, Fabien Gelinas, law professor of McGill University, stressed the need for ensuring protection for business contracts and property rights to encourage trade and investment

to any country.

He said the process should be faster than the difficult court procedures particularly to resolve trade disputes to bring confidence among foreign investors.

BIAC started its journey a year ago with a promise to help settle commercial disputes in a quick, transparent and cost-effective manner.

BIAC is a registered, not-for-profit organisation to provide an environment where clients can meet their arbitration needs effectively and efficiently. Its work revolves around the best ways to adapt arbitration to the fundamental changes in the economy.

Mahbubur Rahman, chairman of BIAC, said Bangladesh is already over-burdened with thousands of existing cases pending with courts. BIAC authority has prepared a set of rules to facilitate the arbitration system.

He said that with Bangladesh's increasing involvement with international trade, the country needed a cost-effective ADR facility.

Rahman mentioned that there are roughly 25 lakh cases pending before the lower judiciary and about 3.5 lakh cases before the Supreme Court.

"Many business-related cases can be disposed of through arbitration, relieving the pressure on the judicial system and helping business move promptly," he added.

Justice Latifur Rahman, former chief adviser of caretaker government, Nina Machova, representative of International Finance Corporation (IFC), Bangladesh, and Latifur Rahman, vice-president of ICC Bangladesh, were also present at the dialogue.

Judges, law professionals, and representatives of different chambers were present on the occasion.

# India says it remains attractive place to invest

AFP, New Delhi

**I**NDIA'S Finance Minister Pranab Mukherjee has defended the South Asian country as an attractive place to invest, despite controversial plans to make foreign companies retroactively liable for taxes.

Mukherjee sought to calm the row over proposed legislation to chase overseas firms for taxes on mergers involving Indian assets, saying investment decisions are not made solely on the basis of "tax concessions".

Deciding whether to put money into an economy is "based on what's the size of the market, whether the systems are transparent and what's the purchasing power of people", Mukherjee was quoted on Saturday by the Indian media as saying.

India, with its increasingly affluent population of 1.2 billion people, remains an attractive country in which to invest, he told an audience on the sidelines of meetings of the World Bank and the International Monetary Fund in Washington on Friday.

"From all these standpoints, India appears to be a good investment destination," he said.

India's cash-strapped government had been widely expected to plug merger tax loopholes in its budget last month.

But the retrospective nature of the legislation has stirred an international outcry at a time when India urgently needs big-ticket foreign investments to upgrade its dilapidated infrastructure and spur slowing economic growth.



Managing Director of Indian cellular network operator Uninor Sigve Brekke (C) beats a drum as he dances with employees after addressing a press conference in Hyderabad yesterday. Uninor is owned by a combination of Norwegian mobile services provider Telenor and India's second largest diversified real estate major Unitech Ltd. Telenor holds a 67.25 percent majority stake in the company.

conomic growth.

Vodafone -- India's biggest foreign investor -- faces a \$2.2 billion tax bill over its 2007 purchase of the Indian unit of Hong Kong-based Hutchison Whampoa.

It has threatened to take India to international arbitration.

The changes would allow India to tax the sale of Indian assets, even if both seller and buyer are foreign and the deal is concluded abroad, and has left firms facing prospects of massive bills they had not anticipated.

Mukherjee said no tax case

over six years old would be reopened under the legislation expected to be passed in coming weeks and promised "transparent" discussions with companies that object to the measure.

US Treasury Secretary Timothy Geithner told his Indian counterpart this week US businesses are worried about changes in India's tax rules and that they had "dampened enthusiasm about India's investment climate".

Mukherjee also insisted India has "an unwavering commitment to reforms" after media

reports quoted a top government advisor as saying there would be no liberalisation measures before the 2014 elections due to political disarray.

Reforms have been stalled by a string of corruption scandals and a slowing economy that have weakened the Congress-led government.

But Mukherjee said the government hopes to pass changes widening foreign investment possibilities in the banking, pension and insurance fields by the next parliamentary session at the latest.

# IMF raises \$430 billion for crisis firewall

AFP, Washington

**M**EMBERS of the International Monetary Fund will discuss future action plans Saturday after the IMF raised \$430 billion in new funds for crisis intervention, with China and other emerging economic giants taking part.

After weeks of seeking pledges for its "global firewall", the fund said Friday the BRICS group -- China, Russia, India and Brazil -- had helped put it over its goal.

"We have commitments that are north of \$430 billion. That almost doubles the lending capacity of the fund," IMF managing director Christine Lagarde said after meetings of the IMF and the finance chiefs of the Group of 20 economic powers.

The figure "signals the strong resolve of the international community to secure global financial stability and put the world economic recovery on a sounder footing."

The BRICS and a handful of middle-sized economies came in with \$68 billion at the end, though specific amounts were not mentioned.

That came on top of \$200 billion promised by the eurozone, \$60 billion from Japan, and \$15 billion each from Britain, South Korea and Saudi Arabia each pledged \$15 billion.

Smaller amounts from the Nordic countries, other European governments and Singapore filled out the total.

"We all agreed it was absolutely essential to have the firewall put up at this time," said Tharman Shanmugaratnam, chairman of the IMF's policy-making body.

But, he added, "The firewall is a necessary but far from sufficient condition to resolving the crisis. The real solution has to do with the fiscal and structural reforms that address the real causes of this crisis, particularly in Europe."

The fundraising, coming after the IMF has committed tens of billions of dollars to rescues of Portugal, Ireland and Greece,

was seen as a test of BRICS support for an organization they feel is overly dominated by Europe and the United States.

It came at a time when worries were mounting again that Spain and Italy could founder and require international support.

In meetings, according to an official at a Group of 24 emerging economies gathering Thursday, Lagarde stressed that the new funds were not dedicated to Europe but were there to help all IMF members.

That was reiterated in the IMF statement Friday.

Canada and the United States were among those declining to take part in the passing of the hat, and the IMF had to lower its original target of \$500 billion to \$400 billion when it realized the resistance of contributors.

Both Washington and Ottawa say Europe has enough of its own financial resources to stop the erosion of confidence.

Canadian Finance Minister Jim Flaherty said they did not want to add in funds that would likely go to Europe, and that other countries had the same worry.

Moreover, he said, the strong European weight on the IMF board led it to treat its eurozone clients differently from others.

"There is some discomfort with that quite frankly. There ought not to be particularly different treatment for anybody," he said.

"The reality is that the European countries are relatively wealthy. We have been saying for several years now that they need to step up to the plate and overwhelm this issue with their own resources."

The IMF's need for the funds nevertheless gave the BRICS room to flex their newfound power on the global economic and political stage.

Brazil's Finance Minister Guido Mantega gave voice to that when he complained stridently over the IMF quota system, which gives Europe and the US dominant voting power.