

US Olive Branch to Iran?

by Barrister Harun ur Rashid

We may not expect a rapid breakthrough in their relations given the deep-seated suspicion and resentment. In my view, an attempt to establish normal relationship too fast could be counter-productive as the conservative leaders in Iran rejected previous offers from the US for a government-to-government dialogue.

THE US made a surprise overture to end its 18 year stand-off with Iran. On 18 June in a landmark speech to the Asia Society in New York, the Secretary of State Ms. Madeleine Albright offered to normalise relations with Iran with what she called a series of "confidence-building steps".

Since 1980, it was the first time a US Secretary of State had held out the prospect of normalising relations with Tehran. It may be recalled that the US severed diplomatic ties after the Iranian revolution in 1979. The Shah of Iran, a friend of the US, was toppled by the revolution and thereafter 52 US diplomats were taken as hostages in the US Embassy in Tehran. They were released in January 1981 after President Ronald Reagan was elected defeating President Jimmy Carter.

The question that arises is: why does the US wish to normalise relations with Iran after having sidelined it as an international "pariah" for so long? I would argue that there are a number of compelling reasons for forging a new relationship with Iran.

Till now the US perceives Iran as a "terrorist" country because of its "support" for terrorism and imposed sanctions on Iran. It accuses Iran of supporting "Hamas" Palestinian Group who are out to wreck the peace deal made with Israel by Chairman Yasser Arafat. The US accuses Iran of serious violations of human rights, in particular to Bahai community in Iran and is concerned of its efforts to develop long-range missiles and acquire nuclear weapons. The US's policy is to

isolate Iran as far as possible from the international community and it endeavoured its efforts to cut Iran out of Caspian Sea energy deals. The US is pressuring the Central Asian Republic countries to develop alternative pipeline routes to bypass Iran and transport oil and gas to Turkey. Iran's recent agreement with Turkmenistan to set up a pipeline through Iranian territory was not to the liking of the US.

Likely Reasons for the Change of Heart

The US realises that its attempt to isolate Iran by imposing sanctions has not worked. Iran is being wooed by Europe and Russia. Furthermore Iran has now a moderate and pragmatic leader in President Khatami. Under his leadership Iran has been able to mend its relations with Arab countries in the region. Some of the domestic policies under President Khatami are encouragingly liberal. The process of establishing a civic society in Iran has begun in earnest. Iran has become an influential power on its own right in the region and there is the increasing acceptance by the US strategists that Iran can not be diplomatically isolated any more.

US is aware that sooner or later the UN sanctions on Iraq will be lifted. Iraq could again pose a threat to the peace and security of the Persian Gulf area and the US needs another country as a counterpoint to Iraq's possible misadventure. Iran with its strong armed forces can be used as a countervailing

power to Iraq. (Iran fought a war with Iraq for eight years —1980-1988). The US Secretary of State's statement that Iran could be included in "multilateral efforts to protect international security" gives a signal that the policy of isolation of Iran is over. Till now the security in the Persian Gulf area has been maintained without Iran's participation. The US realises that such security arrangements cannot continue for a long period without Iran's involvement.

Another concern of the US is the on-going civil war in Afghanistan. It could be a threat to international peace and security. Iran opposes the rule of Taliban, the fanatic group who controls two-thirds of Afghanistan. Iran is believed to be backing Massoud-Dostam group who is waging a war with Taliban from northern areas of Afghanistan and Iran's co-operation is imperative to reach a peaceful settlement among the warring factions in Afghanistan.

The on-going civil war in Afghanistan with its borders with China, Pakistan, Iran and three of the countries of the Central Asian Republics —Turkmenistan, Uzbekistan and Tajikistan — is a major concern to the US and European countries as the turmoil in part is an ethnic conflict. The civil war could engulf the same ethnic groups in other neighbouring

countries. Another anxiety is that across the border of Afghanistan, Tajikistan witnessed a struggle for political power for some time between the government and a conservative Islamic group whose leader took refuge in Afghanistan. Iran and Russia became mediators to defuse the situation. The destabilisation of this area could hurt Europe and the US knows that Iran can play a key role in the maintenance of stability of the region.

Tehran in the past was opposed to the peace deal struck between Palestinian leader Arafat and Israel. Iran perceived the deal as "sell out" to Israel without any tangible benefits to Palestinian people. Tehran's decision to acquiesce to any agreement Palestinian leader Yasser Arafat works out with Israel is a good news for the US.

Finally another sign of change the US perceives is the constructive role by Iran against drugs within its borders. Furthermore Iranian treatment of more than two million Afghan and Iraqi refugees received "high marks" from the US.

On the economic side, the US sanctions has kept away its firms from lucrative business deals in Iran and there is a strong lobby to the US administration to ease the sanctions as more and more European and Russian firms are entering into

business contracts with Iran. The US firms are missing out on potentially profitable Iranian markets. US friends and allies do not support the sanctions now than before. The largest trade partner with Iran, Russia and French firms are conducting normal business with Iran. In the light of these developments, US now seeks to develop commercial ties with Iran. The bottom line is that US sanctions have acted against their own interests.

Furthermore, a serious disagreement erupted between the US and European Union (EU) on the effects of sanctions on EU firms. Under US law, foreign firms which enter into a commercial contract over a certain amount (one billion dollars) with Iran could be barred from doing any business in the US. The recent French Oil company's agreement to explore offshore areas of Iran drew wrath from the US and the company was being penalised. The US administration under pressure from European Union had agreed not to proceed with the penalty for any European firm.

Iran's Policy Shift

There is a policy shift in Iran after the last Presidential election (23 May 1997) which brought Seyyed Mohammad Khatami — a moderate — to power. He has slowly put in place much-needed reforms in

the administration and in society. President Khatami appointed for the first time a woman as the head of a ministry. There is much more press freedom now than before. The President is fighting with the conservatives who hold the majority in the Majlis (Parliament) to introduce social and cultural freedoms. Though the conservatives have a majority in the Majlis, they do not reflect the overwhelming desire of the Iranian people for change.

The foreign policy under the Iranian leadership is forward looking and is directed towards neighbour relations with the industrialised countries. The proposed visit by the Italian Prime Minister Prodi to Iran is a manifestation of the growing warm relations between Iran and EU countries.

Under leadership of President Khatami, Iran held the Islamic Summit in Tehran on 9 December 1997 which was participated by all the Arab leaders including Chairman Arafat. The presence of Arab leaders in Tehran was unthinkable a few years ago. By holding the Summit, Tehran was able to remove distrust and suspicion on its exporting "Islamic revolution". Arab monarchies and Sheikdoms and there is now a growing mutual understanding between Iran and Arab countries based on trust and confi-

dence. Iran acknowledges that for its economic progress foreign investment is a necessity. The US sanctions continue to hurt Iran in economic terms. First, money is not pouring into the country from foreign investors and even affluent Iranians living overseas are reluctant to invest in the country in this environment. Secondly, gas and oil technology which is necessary to modernise Iranian oil installations is not available to Iran. (Iran is a major exporter of oil and petrochemicals.) It is imperative that the domestic conditions in Iran should be stabilised leading to economic growth.

President Khatami realises that some kind of understanding with the US has to be reached in order to strengthen its economic power and to be able to play a key role in the region and in world affairs. In fact it was President Khatami who in a televised statement proposed to the people of the US exchanges between US and Iranian academics, writers and athletes to promote a better understanding between the two nations. (It is interesting to note that in Soccer's World Cup in Lyon, France Iran defeated US by 2 to 1). President Clinton has supported cultural and academic exchanges with Iran and eased travel restrictions to the US by many Iranians.

Conclusion

There appears to be a recognition among the leaders of the US and Iran that they need each other in the backdrop of an emerging security profile in the region. Furthermore economic interests propel them to explore

ways to build confidence in each other. As the US Secretary of State said: "The gap between us remains wide. But it is time to test the possibilities for bridging this gap." US officials acknowledged the administration was making its most comprehensive attempt to date to reach out to "new" Iran. Both of the countries see political and economic advantages in normalising their relations.

The US administration, in my view, has to take first the initiative to change its negative policy towards Iran. It must lift sanctions and delete Iran's name from the list of so-called "terrorist" countries. Recently it was reported that the Iranian Ambassador to Washington Hadi Nejad-Hosseini called for a change in the US policy which he said was locked in a "cold war mentality" and "unrealistic". Furthermore the administration should also ensure that Israel and its Jewish lobby in the US do not put a spanner to complicate the process of normalising ties between the two countries.

We may not expect a rapid breakthrough in their relations given the deep-seated suspicion and resentment. In my view, an attempt to establish normal relationship too fast could be counter-productive as the conservative leaders in Iran rejected previous offers from the US for a government-to-government dialogue. It is important to remember that in the matter of the foreign policy, the spiritual leader Ayatollah Khamenei has the last word and not President Khatami.

The writer is former Bangladesh Ambassador to the UN in Geneva.

BUDGET

Some Missed Reforms Opportunities

by M Mushtaq Ahmed, FCA

The restriction imposed on acceptability of certificates issued by auditor-chartered accountants facilitating quick and smooth self-assessment of a variety of tax payers, specially expatriate firms, is putting things back to square one and guaranteeing delays and rent seeking in this type of assessment.

IT is very surprising as well as disheartening that the Finance Bill 1998 very conveniently strode past and ignored some very important recommendations which were being constantly projected in various seminars, presentations and writeups. Some were aimed at removing the very pressing negative features of the ongoing policy — by converting import taxes into income taxes and imposing taxes on losses. This needs very serious consideration of the tax planners.

Headaches for expatriate contractors, consultants: The saga of confusion continues surrounding the applicability of Rule 38A (determining the finality of 2.5 per cent tax on receipts for contractors, suppliers and service-renderers) vs Rule 39 (determining the finality of 4 per cent tax on receipts for expatriate oil and gas contractors and subcontractors). While a clarification or a suitable amendment was awaited, here comes a new set of rules [vide Rule 16/Section 82C(4)] prescribing final tax payment of 1.5 per cent, 2.5 per cent or 3 per cent on receipts by the same set of contractors and suppliers greatly aggravating that confusion in the application of these three sets of rules in practice.

Banking shambles: While outlining allowable avenues for investment of 7.5 per cent tax-paid untaxed/undeclared income, repayment of defaulted industrial loans only has been considered leaving out a large list of non-industrial defaulted loans. Inclusion of repayment of all other types of defaulted loans would have certainly helped in accelerating the much-needed loan recovery drive.

The non-taxability of banks' interest on nonperforming

if there are repeat imports in a year — it seems the intention is that this withholding takes place each time one imports? Why will there be no refunds in cases where the importer suffers net operating losses?

This type of proposed treatment of advance taxes as final taxes in pursuit of accelerated revenue collection shakes the very foundation of the taxation policy — by converting import taxes into income taxes and imposing taxes on losses. This needs very serious consideration of the tax planners.

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loans (interest suspended) established by Finance Act 1997 with effect from 01 January 1996 (corresponding to tax assessment year 1997-98) has not been given the required retrospective effect. As a result, interest suspense of crores of Taka unjustifiably taxed since 1982 is still being constantly pursued for collection by the tax department while, on the other hand, contested by banks at two levels of appeals after paying a total of 45 per cent of disputed tax upon the rejection of appeals for waivers at a tremendous burden on their cash flows. The provision of not treating suspended interest (interest on bad loans fallen due, but not actually realised from the customers or borrowers) as income should have been given retrospective effect to provide relief to already problem-laden banks from the burden of contesting and litigating for quashing off such illogically imposed huge taxes in earlier years which nobody is going to pay.

No attention has been given to the expiry/extension of the deadline of 31 December 1998 (corresponding to tax assessment year 1999-2000) for allowing provision for banks' bad and doubtful debts keeping the huge amount of paperwork, persistent creation of nonrealisable tax demands and the time-killing chase of over-enthusiastic tax officers since over the past 16 years intact 1982. The 3 per cent rate of allowable bad debts should have been allowed to continue indefinitely until all the banks fully meet their provisioning requirements to avoid further accumulation of colossal amounts of bad loans not provided for in the books of the banks.

Against a widespread demand of special tax rates for offshore banking units, a reduction of 5 per cent corporate tax rate has been allowed only to locally-listed banks, insurance companies and financial institutions thereby discriminating against such foreign institutions that are not and cannot be thus listed in Bangladesh.

These measures and indications are sure to put a spanner in the somewhat and somehow moving wheels of the country's lacklustre banking reform.

Uneven level operating field to the leasing sector: While income from mutual funds has been granted indefinite tax holiday, no attention has been paid to companies engaged in leasing as part of their business operations (tax holiday has been given to "leasing companies" and not to "companies engaged in leasing"). When allowing tax holidays to the leasing sector in 1985, the term leasing "company" was used in the relevant SROs to indicate entitlement unless the existing provisions for granting similar tax holidays to industrial units or undertakings. Accordingly, while various industrial "units" under one limited company are being allowed the tax holiday a "leasing unit" under another similar limited company is denied the same tax holiday. This unjustified application of the law needs immediate clarification by issuance of a small SRO/notification considering the increasing importance of the sector in augmenting capital financing in our resource-starved economy.

Chartered Accountant-certified assessment not liked by the tax department: The restriction imposed on acceptability of certificates issued by auditor-chartered accountants facilitating quick and smooth self-assessment of a variety of tax payers, specially expatriate firms, is putting things back to square one and guaranteeing delays and rent seeking in this type of assessment. It is extremely unfair to impose that such a return cannot show any loss, income less than the previous year's or any refunds due. What "entrepreneur conducts" business on these parameters? Putting this kind of conditions tantamounts to curtailment of fundamental commercial rights of doing business in any country. Again, undermining the work and certification of chartered accountants this way is a direct insult to the profession of the country and the sacrifice of their prestige at the altar of revenue collection. The work of our chartered accountants is nationally as well as internationally recognized, accepted and respected. If the chartered accountants' certificates are proved to be wrong very severe penalties of up to two and a half times the tax evasion have already been reinserted in the law this year. This penal provision can be invoked and erring chartered accountants can be taken to task as being done by the Securities and Exchange Commission.

Tax holiday becomes unpredictable: Inclusion of dividends (distribution of profits) in the approved areas of investment of 30 per cent tax-exempt profits by tax holiday companies is sure to distract entrepreneurs from investing in approved se-

curities or in expansion of their tax holiday industrial undertakings and encouraging to cash the tax-exempt profits by way of dividends. On the other hand, a firm announcement of the government policy regarding continuation or scrapping the tax holiday scheme is badly awaited by national as well as expatriate investors in view of the deadline of its expiry on 30 June 2000.

Capital allowances being curtailed: The sudden replacement of the age-old depreciation allowances of the sum of 25 per cent initial depreciation and 22.5 per cent (for double shifts) or 30 per cent (for triple shifts) normal depreciation, that is, a total of 47.5 per cent or 55 per cent of the cost of plant, machinery and equipment newly installed for the first time in Bangladesh by the curtailed/reduced 35 per cent normal depreciation, as mentioned in the budget speech, certainly deserves to be explained and justified to the tax payers. This is bound to upset financial projections of many investors.

Expenses of foreign head offices charged to their Bangladesh branches hang in suspense: For nurturing branches the world over, the head offices are required to incur certain expenses. Allocation of head office expenses between branches the world over is then made on certain established principles and certified by the respective head office auditors. This basis is then accepted by the tax authorities without giving rise to the exercise of any discretionary powers and putting the branches under fiscal hardship. Our tax laws do not have any such pro-

visions. As a result, these branches operating in Bangladesh are unnecessarily undergoing hardship and becoming victims of the whims of the tax authorities. For encouraging foreign companies to establish branches in Bangladesh, the announcement of a specific provision was expected in our tax laws allowing the deductibility of such proportionate head office expenses related to branches in Bangladesh, but it never came.

Garment buying houses being harassed: Foreign garment buying houses working only as liaison offices of foreign buyers, with meeting all their local operational expenses fully from funds sent therefor by their respective head offices, and actually doing no business by themselves and thereby earning no income in Bangladesh should have been exempt from being presently unjustifiably taxed under section 18(2)(a) of Income Tax Ordinance 1984.

Be prepared for unfair salary taxation, tax on tax! The reinsertion of the provision, after seven years, of age-old imposition of tax on tax on salaried employees that we got rid of since the assessment year 1992-93 (income year starting July 1991), where taxes on their salaries are paid by their employers as part of perks, and increasing and equating 20 per cent of income addition on unfurnished accommodation with

existing 25 per cent on fully furnished accommodation provided by employers resulting in an income addition for both at the higher rate of 25 per cent are simply bewildering. This is going to create human resource development and brain drain problems for employers of our country — already they are being unjustly taxed on all perks over the paltry annual sum of Taka 72,000 allowed for perks for each employee.

When do we recognise "stock options"? In almost all advanced countries and in many developing countries, including our neighbouring countries, the tax laws have recognised the need of defining the term "stock options" and clearly determining the point of time when such stock options are to be treated as the recipients' income and taxed accordingly. This comes into play when corporate employers offer their own stocks to their employees, under a variety of circumstances, as an incentive for better performance and corporate allegiance. Such stocks are being increasingly offered to Bangladeshi executives and employees serving progressive multinational companies. It is high time such stock options are properly included in the definition of salary in the Income Tax Ordinance to ensure their proper taxation without any controversies.

The author is a tax consultant.

Bangladesh University of Engineering & Technology
Dhaka

WANTED

Applications are invited from the bonafide citizens of Bangladesh with requisite qualifications and fitness to fill up the following posts of this university.

1. Office of the University Engineer

a) One permanent post of Executive Engineer (Electrical) in the scale of Tk 7,200-10,840/=

Prescribed Qualification:

The candidates must have a degree in Electrical Engineering from a recognised university plus 5 years experience or a Diploma in Electrical Engineering from a recognised university or board plus 15 years experience.

b) One permanent post of Store Officer in the scale of Tk 3400-6625/=

Prescribed Qualification:

The candidates must have a Diploma in Mechanical or Electrical Engineering with experience in maintenance of stores.

Candidates having foreign degree/degrees will have to submit equivalence certificate to be obtained from Bangladesh University of Engineering and Technology, Dhaka with their applications.

10 (ten) complete sets of application [stating full bio-data, present & past service with pay scale & date] with the attested copies of all certificates, testimonials, transcripts and marksheets are to be submitted to the Registrar of this University along with Crossed Postal Order/Pay Order/Bank Draft of Tk 25 (twenty-five) in favour of the Comptroller of this University.

Candidates already in service must apply through proper channel.

Last date for submission of application : 30 July, 1998/15 Srabon, 1405

GD-525 Registrar

Technical Management in Small Enterprises

by A M M Aabad

Every year, before the new budget, there are loud representations for easing the taxes and levies. The solutions lie elsewhere — technical management at the micro level.

SEVERAL thousand small enterprises in Bangladesh produce a large variety of goods for use as raw materials and finished products, including daily consumable items. A large number of these companies operate with a small staff of a couple of dozen members; and many of these small business firms could be categorised under small or cottage industry.

Two yardsticks stand out immediately: poor management efficiency (systems loss), and lack of quality control (QC). Such semi-professional operating conditions result in several drawbacks: higher cost of production; inability to compete with the big manufacturers, local or multinational; and loss of competitive edge in the export field. Every year, before the new budget, there are loud representations for easing the taxes and levies. The solutions lie elsewhere — technical management at the micro level.

With changing market conditions, the government is acting more and more as a facilitator, and provider of the infrastructure services. The rules and regulations are trimmed to suit the small business units, and background services are arranged for training, orientation, R&D support, and financial support services. Cooperation with the UN and donor agencies are arranged, and the support of relevant NGOs are coordinated.

In Bangladesh, the NGO den-

sity is one of the largest in the world. But the majority of these useful field agencies are focussed on poverty alleviation programmes. Very few NGOs are assisting the small business units in the private sector.

Lately the handicraft, fish, poultry and dairy farms have been getting some attention, with visible positive results. The penetration of rural electricity is hugely helpful. But in the technical and engineering sectors, the entrepreneurs badly need elementary guidance in good management and engineering practices.

Some examples are in order. One I purchased an electrical 2-pin plug for use at home. The plug won't go into the standard 2-pin sockets, as the distance between the two pins was not correct. It is too elementary an issue to be missed by the small manufacturer. What was wrong, no engineer in the company or the boss was a technician or mechanic with years of hands-on experience but no manufacturing experience, and the literacy level being inadequate for appreciation of the theories involved behind practical work?

There is a very large number of illiterate or semi-literate human resources available, as seen in several professions, such as the motor workshops, and component assembly units at home.

Take the case of plastic covered electrical flexible wires used for maintenance and temporary works at home. The safety factors and the specula-

tions have to be strictly monitored. A number of these brands are of inferior quality and hazardous. Sometimes low voltage telephone wires are sold for use in 220V electrical circuits. The markings on the product or package are inadequate. The monitoring and inspections are substandard. The consumer has to be protected, and the manufacturers controlled from releasing inferior products into the market.

Two factors are pulling in opposite directions: the tendency to make a cheaper product and make quick profit; and the indifference to maintain QC at a certain minimum level, and disregard or unawareness of good engineering or technical practices.

Both the public and the private sectors can set up a network of institutions to reduce or remove the above deficiencies. There is no sign that this important background service has been carefully planned and implemented above, in close cooperation with the apex bodies or associations of the small business units are operating with unbelievable indifference towards QC. How many of such registered firms have been approached with technical services at subsidised rates?

BCSIR is doing a good job, but its field arms have to be extended and expanded to reach lower levels of the small scale enterprises. The latter will not come to BCSIR voluntarily, so the agency's promotional and motivation staff will have to reach cottage door steps. Or a similar institute may be set up to take care of the services mentioned above, in close cooperation with the apex bodies or associations of the small business units are operating with unbelievable indifference towards QC. How many of such registered firms have been approached with technical services at subsidised rates?

It is high time for Small and Cottage Industries Corporation to introduce the awareness campaign, followed by the service; otherwise Bangladesh's export potentiality will remain confined inside the files.

The Annual Development Plans and the 5-Year Plans fail

Government of the People's Republic of Bangladesh

Office of the Executive Engineer, RHD
Barisal Road Division, Barisal

Cancel Notice

Cancel Notice for Tender Notice No 216 BRD/1997-98 under Barisal Road Division, Barisal.

The Cancel Notice is hereby issued due to unavoidable circumstances of the Tender Notice No 216 BRD/1997-98 under Barisal Road Division, Barisal which was invited and circulated vide this office Memo No 1688 (20) dt 10-5-98 E, 1689(20) dt 10-5-98E and Corrigendum Notice Memo No 1863(20) dt 26-5-98E & 2073(20) dt 9-6-98E. Those who have purchased the abovementioned tender schedule, can purchase the same work tender schedule by showing that money receipt on free of cost when that work will be invited.

DFP-14435-28/6
G-1528

Executive Engineer RHD, (CC)
Barisal Road Division.

BCIC Tender Notice

বিসিআইসি'র পণ্য শিলায়নে জাতীয় অগ্রগতির ধাতীক

Managing Director, Chittagong Urea Fertiliser Ltd, Rangadia, Chittagong invites sealed tender from bonafide manufacturers/suppliers against Tender Enquiry No. CUFL/PUR/97-98/56(8) dated 20.6.98 for purchase of Conveyor Belt. Tender documents will be available at the cost of Tk 200.00 (two hundred) only (non-refundable) per set up to 20.7.98 during office hours in the following offices (1) BCIC, 30-31, Dilkusha C/A, Dhaka (2) BCIC branch office, 06, Agrabad C/A, Chittagong & (3) CUFL Accounts Department, Rangadia, Chittagong. Tender will be received in the Purchase Department, CUFL, Rangadia, Chittagong and BCIC branch office, 06, Agrabad C/A, Chittagong up to 11:30 AM on 21.7.98 and will be opened simultaneously at both the places immediately thereafter. CUFL Management reserves the right to accept or reject all tenders.

BCIC 539-25/6/98
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Manager (Purchase)
for: Managing Director