

Eliminating tax holiday

Does it accelerate investment?

DR. JAMALUDDIN AHMED

DIFFERENT forms of tax incentives can be grouped into a number of categories: Tax holidays, investment allowances and tax credits, timing differences, reduced tax rates, and free economic zones. Each of these have their own merits and demerits. Experience of developed and industrial countries does not reveal a success story on the issue of tax incentives in attracting investment, especially, Foreign Direct Investment (FDI). Several studies in this area formed an opinion that tax incentives cannot overcome the more fundamental problems such as the sufferings from negative economic, political condition, weak governance and corruption that inhibit investment.

Tax holiday also increase administrative problem because tax authorities usually do not monitor company books during the period in which a firm is exempt from taxes. As a result, there remains scope for manipulation of asset purchases, depreciation charges, and other accounts during the tax holiday period to reduce reported income, and thus taxes, after the end of the tax holiday period.

Whatever the source of leakage in tax revenues -- direct or indirect -- it means that the taxes of those entities not granted tax holidays have to be higher than otherwise in order for revenue needs to be met. Higher general tax rates impose disincentives on the other investors and on recipi-

ents of incentives once the tax holiday has expired. To the extent that taxes influence investment decisions, the result may be less investment in non-supported activities. Moreover, differential tax rates -- low on investment with incentives and correspondingly high on others -- further the feeling among tax payers that the tax system is unfair, encouraging tax payers to manipulate the allocation of profits and to cheat on the reporting gains.

Arguments in favour of tax holidays are many in the developing countries. These may be

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The second is the hidden nature of costs arguing that tax holidays are often attractive to bureaucrats because the costs are not easily measured. Although a tax holiday amounts to subsidies, they are not paid out as such, but comprise incomes foregone. Thus although the ministry of finance is reluctant to give tax holidays, they prefer them to subsidies.

Third is the relative ease of instituting tax holidays. Creating

in response to the crisis. Policy makers feel that they are at least doing something.

Fourth is the Company Interests. The managers will ask for incentives, whether they influence the decision or not. However, tax sparing treaties allow investors to reap full benefits of any tax holidays they would receive.

Fifth is the power of individual stories. The stories of investors who "got away" seem to have an inordinate impact on decisions. For example, business leaders visiting different countries identify tax incentives of similar

(1961) found that a tax concession headed the governments' choice in attracting FDI while private investors did not consider tax concession to attract FDI. Study of Aharoni (1966) that income tax exemption is the least stimulant in attracting FDI and those investors who consider, do it only marginally. In the words of one of the investors in the survey: "Tax exemption is like a desert; it is good to have, but it does not help very much if the meal is not there." In the recent years, several investors' surveys explore the effectiveness of tax policies on FDI using alternative

95 percent of manufacturing and other companies that are eligible for a tax holiday, are private limited companies owned and managed by family members and 80 percent of the companies who took advantage of tax holiday are whitening their black money by showing inflated fictitious profits. The tax incentive has not been found successful in narrowing the gap of industrial growth among different regions. Fiscal incentives for industrial growth and thereby increase in creation of job in the economically backward regions has not been achieved. Survey of 174 annual reports in the Dhaka Stock Exchange (2003) indicate that the tax holiday had created tax haven for the tax evaders. Among 124 manufacturing companies 76 of them are enjoying tax holiday and the balance have already enjoyed this benefit and now showing loss. Out of other 26 companies excepting banks and financial institutions 9 are enjoying tax holiday. Out of the 76 manufacturing 58 showed profit in their tax holiday unit and 18-recorded loss. Among the 9 non-manufacturing companies 6 recorded profit and balance, 3 incurred loss.

Critics argue that it also contributed to the widening of income inequality and creating economic distortions. Most companies, through creative accounting, misused the advantage of tax holiday showing profit during holiday period and on completion of the said period the unit is shown as making loss and the company receives sanction for new unit. Time has come to assess the effectiveness of tax incentives and tax holidays in attracting foreign direct investment including also local investment or is it a window for turning black money white, through the application of creative accounting in Bangladesh.

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grouped into six categories. The first one originates from struggle for bureaucratic power and agency problems. Often pressures for tax holidays have come from a country's investment authority, as has happened in Bangladesh, Indonesia and other countries. There are several reasons for this but important are: first, the investment authority is charged with promoting investment but not with collecting revenue. If tax holiday attracts any investors at all, the authority benefits; on the other hand, the cost are carried by the ministry of finance and not charged against the performance of the investment agency, in case of Bangladesh, the Bol. Second, an invest-

ment institution seeks power and is likely to survive only to the extent that it has control over something of value to investors. It is difficult to build political or economic stability by decree or by law and in most countries it is difficult to reduce red tape. Market size is a given, at least for the medium term, and domestic politics may constrain the implementation of other policies that are attractive for foreign firms. Political crises, such as in Bangladesh, Pakistan, Indonesia and India in the early and late 1990s and terrorist attack in the USA, are especially difficult to remove. On the other hand, it takes little more than a stroke of pen to introduce tax incentives as many developing countries do when foreign investment falls off

industries in those countries, such as the semi conductor industries in Malaysia, Indonesia and South Korea. Policy makers and their advisers seem to have been strongly influenced by similar cases of investment that was lost, or at least seemed to be lost, because incentives were large enough.

And the sixth argument, in keeping with neighbours is often phrased in terms of remaining competitive with neighbouring countries. The competing countries very carefully follow the others in the regional market. Tax incentives may also have encouraged greater use of capital relative to labour. It can be demonstrated that the tax holiday effectively lowers the cost of capital to the firms enjoying the holiday.

Empirical findings: One of the very first surveys was conducted by Barlow and Wender in 1955 by interviewing 247 US companies on strategies to invest abroad and found only 10 percent of the companies listed favourable foreign taxes as conditions for FDI. The other survey conducted by Robinson

samples or asking more detailed questions, for example, Ernst & Young (1994), Fortune/Deloitte Touche (1997), Japan External Trade Organization (1995). All these surveys confirm that if tax policy matters in FDI, it is not the most influential factor in the site selection of multinationals. In the Fortune/Deloitte Touche survey, taxes ranked 13th out of 26 factors. Most econometric studies tend to confirm the result of the surveys that investors are mostly influenced in their decisions by market and political factors and that tax policy appears to have little effect on location of FDI for example, Root and Ahmed (1978), Agodo (1978), Shah and Toye (1978) and Lim (1983).

The most striking conclusion of a survey was that foreign investors, almost without exception, stated that taxation concessions and pioneer status did not play a significant role and the most part, played no role at all in bringing them to Singapore (Hughes et al 1969).

In Bangladesh, for the past 30 years the National Board of Revenue has been granting tax holiday and other fiscal incentives in different forms. Nearly

Marketing strategies in mobile telecom

Is it creating value?

MUSTAFIZUR R KHAN

THE mobile phone customers have never been happier in the country because of choices in service providers. So far the market was dominated by three networks. Grameen, CityCell and Aktel. The operators provided virtually the same product and pricing. In 2004-2005, two compelling new players, entered the market. Like all other industry the establish players seldom see any threat to new entrants. The usual reasoning can be listed as steep learning curve, established customer base, efficient distribution model and strong brand presence etc. Will this be enough to stop the redistribution of market share for mobile phone operators?

History

Lets analyse the mobile phone history to highlight three very distinctive market entry strategies. Citycell not very far back dominated as a pioneer with a premium positioning in the market. The product was positioned for the elites to be used as a privilege. Now the brand holds the third position in the market. Grameen Phone entered the market in 1997 with clear strategy of bringing the phone to masses. Currently, it has the biggest customer base and the most extensive network. Aktel was the third entrant placed between Grameen Phone and Citycell. The brand appealed to the young professionals. During its brand launch, Grameen phone was experiencing network congestion with over capacity. Aktel moved in with the positioning of offering stable network and access to uninterrupted service. AKTEL took the second position in the market. Lastly Sheba came with nothing unique to offer until the brand transformed into Bangla Link.

Competition

At this point of competition, mobile phone usage is pervasive. Sometime in future the market will hit the plateau for new users. The competition will then look inwards to get market share and classic marketing phenomenon will initiate, PRICE WAR. With any technology driven market, the product differentiation is minimal with continuous pressure of being

commoditise. The only way to avoid price war is to continually offer value to consumers, thus giving them a reason to buy. Right now the mobile phone users see very little product differentiation in terms of real value. So the companies are using promotions to push the sales figure. Promotion is never a growth strategy but a temporary tactic for spiking quarter sales. Let's take a quick look at Bangla Link's market entry strategy.

Earlier, the Sim Card was one of the main switching costs for the mobile phone users. Bangla Link removed it by subsidising handsets with low sim card price. They had to penetrate the market with aggressive marketing strategy to spare no reaction time for the industry. Some people may point it as suicide but Bangla Link saw this as an investment. It is about

When this young group joins the work force, Bangla Link will be able to command loyalty and help its bottom line.

So far its marketing strategy is sound but it will be interesting to see how it competes in future. Currently all the players are quietly building their network capabilities. Once the extensive network coverage is in place, the market can expect the next wave of innovative service offerings with competition intensifying even more.

Future

The current mobile market is divided in two groups: prepaid and postpaid. Prepaid has become the main service adoption for large segment of value seeking customers. At the end of the day, Bangladesh is an emerging economy where staying connected is the only real reason for many users.

In anticipation of the eminent fight for market share, all the players forgot its initial core and loyal customer segment, the post paid users. This segment is loyal yet do not see any reward for their blind following. All the present marketing efforts are geared towards increasing the prepaid user base. Prepaid is important growth strategy but not at the expense of postpaid users.

competing for the future.

Secondly, it is quickly extending its network facility within the country. Bangla Link understands that to make a permanent dent in the market, it must challenge the present market leader. Grameen Phone's main competitive advantage is its extensive network.

Thirdly, it focused on SMS by pushing 1000 free sms through its package offers. At the same time it extended the validity of pre-paid cards to six months and one year. Most of the prepaid cardholders are value-oriented users, with growing portion being young users.

The young are defined as innovator in marketing terms. They are the first people to adopt new technology and use it as a life style product. Any company that wants to hold the key to future market share must tap into the younger user base for product adoption. This group talks less and type more, a habit they adopted from using the Internet. Bangla Link is trying to ensure that young users associate with the brand as saviour, someone who helped them in their tough times.

So to prosper here, business should adopt economies of scale that means extending network facility to broaden the market. It also means companies should concentrate less on variety and more on fulfilling customer's basic need. Especially in present context as the threat of substitute is all too evident.

For growth strategy a business needs to imagine new user base. So it matters how broadly a company approaches a market. If the product has to be redefined for the market, the business must do it. But while developing the distinct value for each target group, the carriers must develop insight into group's unique needs. In that respect the carriers have to think really hard before taking the present packages to villages for significant product adoption. One may argue that Grameen Phone is already targeting this group, but the question is how unique is their product offering.

In recent product launch DJUIICE with remarkable success positioned itself with its target market. Yet the young urban users

did not have exclusive right to the package offer. In Singapore, Singtel provides special package just for students subject to verification. If the package is available to everyone, then the brand gets diluted. The value gets lost, as the target group does not feel special. All the players really need to customise their promotion, from mass marketing to mass customisation. And make sure that the brand or the product is distinct in each target market.

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bilities will also allow a carrier to examine the usage, characteristics, and behaviour patterns of its subscriber base systematically and to identify ways of boosting the value of particular segments. By capturing the inbound and outbound calling profile of each customer, for instance, the carrier can identify how and when he or she uses the phone and can then tailor offers to stimulate new usage patterns and to boost retention. If a customer, say, never calls between the hours of 10 AM and 11 AM, offers providing free on-network calls during this period has been shown to stimulate additional usage not only for that hour but also throughout the day. Further, these customers' perception that they are receiving increased value reduces their chances of churning, and the shift in network usage away from the peak-usage hours helps limit capital expenditures.

So the phone companies should take a fresh look at customer loyalty and create value on reward basis. The clients can pick up points for talk time, a viable method for building loyalty, similar to airlines mileage programme. At least it will help to reduce the customer defection rate and establish a switching cost for the user.

As of now the competition has very little to show for, most of the offering is smoke screen. In terms of real value, the customers have yet too see anything. Currently users can download ring tones, send customised greetings and adopt various phone packages. But none of these will lead to continuous consumption pattern, like talking. Nobody will send continuous greeting, or download ring tones every day. The current market trend is about product proliferation that is further confusing the clients. What is the real value? Extending validity for prepaid card is real value, not how much you can charge in the card. The phone companies are perhaps moving in the wrong direction to establish product differentiation. Time has come to develop real value with mass customisation and rethinking of established marketing strategies.

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MUHAMMAD HABIBUR RAHMAN

A Daughter's concern for her dad

Does the morning show the day?
Morning often does not show the day.
That day the weather was perfectly alright
The morning was also sunny and bright

If you had not had a very careful eye
You could miss the little cloud
In the north-eastern sky.

Suddenly within a twinkle of an eye
The dark patch covered the whole sky
With thunder-burst again and again
A storm burst out with an outpouring of rain.

The little girl got worried and told her mother
About her deep concern for her father:
"Mum, dad is getting forgetful and old
And this time he will surely catch cold
If he gets wet, and he will be down with fever.
And you know he did never
Get tired telling me the same story again and again.
But when in this pouring rain,
Forgetful as he was, he did not take his umbrella
If he gets fever who'll tell me the story of Cinderella?"

Her dad got back home dry and fit like a fiddle.
While he was standing in the middle
The daughter's concern for her father
Was elaborately told to him by her mother.

Hearing all that the happy father
Chirpily said to the mother:
"Oh, what a wonderful daughter, she has filled up my heart."
Her mother parried: "Who did drain and empty out your heart?"

The husband raised his eyebrows and looked at her wife
Otherwise a terrifically good partner in his life.

He was a little curious: "What on earth is the matter?"
Is this woman a little jealous of her daughter?
Without any answer, he just gave her a smile
Rather a little quizzical smile.

She could only look on her husband's half hidden profile...
She was musically happy
She was whimsically happy
And she happily mused
And got herself terribly amused.
And she thought of him as much
And she thought of her as much
Her daughter loves the man she loves so much.

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