

# Bangladesh a lucrative destination for investors

Japan Tobacco's regional chief talks to *The Daily Star*

STAR BUSINESS REPORT

**T**HE entry of Japan Tobacco International (JTI) into Bangladesh through its \$1.47 billion acquisition of Akij Group's tobacco business would attract more international investors to the country, said a top official of JTI.

"The acquisition should give a strong signal to international investors that Bangladesh is a place to do business and make investment," said Jorge Da Motta, regional president of JTI for the Asia-Pacific.

In November last year, Japan Tobacco, the third largest publicly traded tobacco company in the world, completed the acquisition, which is the biggest-ever single foreign direct investment in Bangladesh.

Bangladesh has been referred to lately as a new Asian tiger, as the economy is growing consistently at a pretty high rate, said Da Motta.

"The government is certainly very pro-business. The way Bangladesh's economy has been managed has been appreciated by different global stakeholders. It is looking very, very positive."

According to Da Motta, the Bangladesh government is already doing a lot of work to attract FDI and it seems that things are heading in the right direction.

"I think we need to move beyond the perception of Bangladesh only as a home of readymade garments. The diversification of the economy is going to be a key thing to play for. We need to sell this country's biggest asset: it's people."

"Obviously, mobilising the population has got to be the answer to Bangladesh's growth," he told *The Daily Star* in an interview in Dhaka on Thursday.

He said making it easier to do business is a big thing. In the global ranking of Ease of Doing Business, Bangladesh is quite a long way down the list.

"We need to look at what is possible in



Jorge Da Motta

terms of reforms and what could be changed in order to encourage and speed up and make it easier for FDI. I believe Bangladesh can move quite a few notches up with quick-win initiatives."

Da Motta was appointed in his current position in October last year and is responsible for all marketing, people and sales operations in the region.

Before he began his career with JTI more than 14 years back, the South African-Belgian national held a series of senior positions within several multinationals, including Kimberly Clark, SAB Miller and Frito-Lay.

He started his career in 1982, when he joined Cadbury in South Africa as a marketing trainee.

The acquisition outright makes JTI

the second-largest company in the Tk 33,000-crore cigarette market in Bangladesh.

The government is set to receive more than Tk 25,000 crore as revenue from the sector in the current fiscal year.

Bangladesh is the eighth largest cigarette market in the world with annual consumption of nearly 8,000 crore units and the market had about 2 percent compound annual growth rate in the last five years.

The country has been of interest for quite a long time for JTI and the seed was sown when Akij Group began manufacturing and marketing one of JTI's brands.

"Akij has got some good brands. The business is profitable. All of this offers us a good ground to tap into and take the business further. In summary, it really fits with our global strategy on growth and

expansion of our footprint," Da Motta said.

He said he has no doubt that the people would be the biggest asset for JTI Bangladesh as well. JTI is upbeat about its business potential in Bangladesh as the country has a large market, the economy is growing, and the government is pro-business.

"We are very excited to be here," he said.

JTI has been the fastest growing tobacco company for the last 20 years in the world whereas its footprint was relatively small two decades ago.

"Expanding our footprint across the world and starting benchmarking against our bigger competitors was a key part of our growth plan. In this respect, Bangladesh ticks the box," he said. "It's a developing country with a large population. The tobacco market has historically been quite large."

He said the JTI business in Bangladesh has started off really well.

There is no job cut and the total headcount in terms of people at JTI Bangladesh is around 15,000, directly and indirectly.

When asked what the company is going to do to improve the market situation, he said investing and focusing on quality in people and brands are the cornerstone of JTI's success. "We have a big workforce. I think investing in the workforce, skills and training will deliver some great results."

JTI looks to improve the processes to make them more efficient and will invest in brands, factories and in the whole supply chain to deliver Japanese quality in this market.

About export potential from Bangladesh, Da Motta said right now the company's focus is very much on making sure that the domestic business is well-supplied and looked after.

"Going forward, there is no reason to believe that JTI Bangladesh can't actually play a role in a global sourcing footprint, both from a leaf and a finished goods point of view. This will come in time."

Long before the acquisition took place, the JTI Foundation was already involved

in Bangladesh in a few projects such as improving sanitation in Dhaka and positively impacting the livelihoods of 3,600 families – or around 16,200 individuals – living in the Bhashantek's low-income community.

It is also undertaking other projects which focus on improving disaster resilience in disadvantaged communities in four urban slums in Dhaka and Khulna, which includes 5,250 households comprising about 26,000 people.

Another project under implementation is to improve sanitation for low-income communities in Dhaka and Chittagong, where an estimated 21,000 inhabitants will benefit from the project upon completion.

"It is a good thing for us to invest and to make a positive impact in societies in which we operate. And Bangladesh is no exception," Da Motta said.

"We are reviewing the community investment portfolio and will be looking at some other needs around us that make sense to get involved in."

JTI, a member of the Japan Tobacco Group of Companies, is recognised as a top employer in more than 50 countries and employs close to 45,000 people.

Speaking about further investment plans in Bangladesh, Da Motta said it is constant.

"We will invest in our people and quality and that can be a significant investment."

There are many challenges in the market. Illegal trading of cigarettes is a big challenge for the sector because of which the government loses a lot of revenue.

JTI, as a legitimate industry player, strongly supports the government in its effort to fight against illicit trade in tobacco. This phenomenon if not addressed properly can become very big, like in some other countries, Da Motta said.

"In order to ensure a steady flow of government revenue from the sector, understanding how much can be tolerated in terms of tax, pricing and relative consumer affordability is critically important."

## Fire breaks out in BB vault in Barishal No major damage

OUR CORRESPONDENT, Barishal

**A** fire broke out inside a coin vault of Bangladesh Bank's Barishal branch yesterday morning, which was doused within 10 minutes without reports of major damage.

The central bank's officials said security personnel realised around 10am that a fire had erupted inside the locked vault on the first floor.

They used fire extinguishers to put it out, just minutes before fire fighters arrived on the scene.

One of the firefighters present at the spot blamed faulty wiring. His initial assessment suggests two wall-mounted ceiling fans, a table, a chair and a filing cabinet had been damaged. Faruqe Hossain Shilder, deputy assistant director of district fire fighting unit, praised the security personnel's response.

He said they had formed a three-member team, headed by an assistant director, to investigate the incident. Another seven-member body, headed by a general manager, was formed by Bangladesh Bank to do the same, confirmed the branch's executive director, Manoj Kanti Bairagi.

## RISING INEQUALITY Cross-party MPs for budgetary redress

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**S**TEPS to address the rising inequality should get priority in the upcoming budget otherwise the masses will be deprived of the benefits of the current steady economic growth, said the All-Party Parliamentary Group.

Addressing a pre-budget dialogue at state guesthouse Padma in Dhaka on Sunday, the cross-party forum of parliamentarians which monitors events in Bangladesh also emphasised ensuring good governance and imposing progressive tax on the rich.

"The high economic growth is not adequately benefiting a large part of the people because of the rising inequality where the Gini index increased by 0.93 percent from 2010 to 2016," said TIM Zahid Hossain, senior policy adviser to the group.

In Bangladesh, the income of some five percent of the population equals to that earned by the rest which indicates an uneven distribution of wealth, he said while presenting a keynote paper.

Qazi Khiliquzzaman Ahmad, chairman of Palli Karma-Sahayak Foundation, also recommended taking initiatives to reduce the income inequality.

"If we cannot reduce income inequality, then a higher per capita income and higher GDP growth rate will not make any sense to the people," he said.

The group said the per capita income and the Gini coefficient were increasing at the same pace in Bangladesh, meaning the growth was accelerating income inequality.

It said the income inequality resulted from a combination of the inability to widen the tax net, impose progressive tax and increase government expenditure on education, health, rural development and social protection.

According to a finance ministry study, 45-65 percent of assets in Bangladesh's economy were yet to be brought under the tax net.



AF NESARUDDIN

**B**ANGLADESH has an estimated population of more than 16 crore, but the number of registered taxpayers (e-TIN holders) is roughly 38 lakh and the number of taxpayers who filed returns is about 18 lakh. These figures obviously are not satisfactory. So, the expansion of the tax network has been one of the priority items on the action plan of our tax administration for the last few years. The ultimate goal of the plan is to bring all or most of the potential taxpayers within the fold of tax assessment. This is clearly a long as well as continuous process.

The agenda of expanding the tax network is approached mainly in two ways. The first thing is the tax administration gathers relevant information about potential taxpayers through enquiry, formal survey or other dependable source and initiates necessary action on the basis of the gathered information. Some positive result from this process is coming regularly. But this is not enough nor very remarkable. These efforts have to be continued more vigorously.

The second way is to create an awareness and motivation among the potential taxpayers so that they spontaneously file tax returns when they have a taxable income. This awareness-building programme is carried out by the National Board of Revenue (NBR) through holding of tax fairs and tax week in the month of November each year.

During the fair, tax-related service is offered by the tax officials and public response to these efforts of the NBR is also quite good. A large number of tax returns, including new ones are filed every year during the fair. But when it comes to assessment in a tax circle, the situation is quite different. The taxpayers do not encounter a friendly atmosphere in a tax circle. The actual progress of assessment is also often unjust and arbitrary. The assessee is discouraged and wants to keep a distance from the tax office. This

is one of the main reasons for a low rate in voluntary registration or voluntary submission of tax return by new taxpayers.

The NBR should take effective measures to create a taxpayer-friendly atmosphere in tax circles so that taxpayers feel assured of getting a just treatment in tax circles. Only then the existing and the potential taxpayers will be genuinely motivated for voluntary compliance, which will contribute to the expansion of the tax net.

Discussions are underway on how to present a unique and overwhelming budget in 2019. The important focus is to widen the tax net and keep the pressure on taxpayers at a tolerable level. While doing this, the tax assessment, payment and related procedures have to be simplified. The tax fair obviously raises awareness and encourages taxpayers to submit return in simple form, but this is probably not enough.

If we revisit the background of the "Universal Self-Assessment" system introduced in 2007, we will come to know that this was introduced to motivate taxpayers to pay tax voluntarily.

According to the present system, all tax returns filed under section 82BB as "Universal Self-Assessment" system are subject to audit and in reality, some of them are picked up by choice for audit although presumably at random. But steps have been taken to keep some of the returns out of audit if certain conditions are met.

First of all, the condition of 15 percent higher income than the total income assessed in the immediately preceding assessment year is obviously too stiff when 5 percent growth in any business is a big challenge in recent time. So, majority of the taxpayers are not able to enjoy the facility of audit exemption. The conditions could be liberalised more to extend the facility to a large section of taxpayers.

In fact, the power to audit the tax returns is being misused by tax authorities in many cases causing unnecessary harassment to taxpayers. Moreover, according to the amendments made to this section in 2017, processing of self-assessment returns has become very lengthy and complicated. In reality, a very large number of the returns are subjected to scrutiny each year. This is against the basic principles of self-assessment and acts as a discouraging factor for the taxpayers.

It was also expected that if the taxation system can be simple and modern, the existing limited manpower can devote more attention to bringing potential new taxpayers under the tax net. If the existing manpower is bogged down with existing taxpayers, the tax evaders will get the advantage of it or the entire efforts for

improving the direct tax collection will be less rewarding and failing to meet the government's ultimate revenue collection target.

Similarly, under the section 82C, tax deducted at source in specific cases would have been the final discharge of tax liabilities as per the original design of the section. But the latest amendments to the section, through the Finance Act 2016 have changed this concept altogether. The section now provides that the tax deducted at source, in case of specific source of income, would be the minimum tax. There will be normal assessment for that source of income and if the assessed tax exceeds the tax deducted at source, the excess has to be paid. But if assessed tax is lesser than the tax deducted at source, there will be no refund. This is obviously discouraging for the taxpayers.

If the finance minister, according to his judgment, thinks that these systems of "Universal Self-Assessment" and special provision of assessment under section 82C are not workable and not bringing the expected results, these systems should be completely deleted.

In general, tax returns are filed together with audited accounts (in case of corporate taxpayers), evidence of tax payments and other relevant information and supporting evidence. If the return is selected for audit, more information, documents and evidences are asked from taxpayers to satisfy the assessing officer. If the audited accounts submitted are

reliable in the judgment of assessing officer, assessments are completed. But in most of the cases, what happens in reality is the audited accounts are rejected under some pretext or otherwise and the assessing officer by using his discretionary power estimates the income at his will and deducts the expenditure also at his will and concludes the assessment raising a huge tax demand.

Many officers argue that this is the general procedures and insist the taxpayers to resort to such practices. Then the negotiation starts for arriving at the conclusion putting the taxpayers in uncertainty. This is really unfair, unrealistic and not conducive to a friendly tax environment.

Well, such a practice of estimating income and expenses can be resorted to when there is sufficient and clear-cut evidence of tax evasion and the assessee does not maintain any books and records. The possibility of involvement of corruptions cannot also be ruled out in any way. Some income tax practitioners also extend their support to such practices distorting the spirit of fair and transparent assessment process.

To be fair, in some cases, appeals results can make some remedies but sufferings of the taxpayers are still a lot. This needs to be revisited to ensure a tax-friendly environment for the sake of improving the overall collection of revenue.

People throng the opening of a weeklong income tax fair at GEC Convention Centre in Chattogram on November 13 last year. The National Board of Revenue takes up awareness building programme by holding tax fair and tax week in the month of November every year.

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