Promote alternative investment funds for SMEs: analysts

Star Business Report

THE contribution of alternative investment funds in providing finances to micro, small and medium enterprises is very low in Bangladesh because of regulatory barriers, weak infrastructure and a lack of financers, analysts said yesterday.

They said institutional investors lack determination to invest in the alternative investment funds. On the other hand, foreign investors term the fund repatriation system complex.

An alternative investment is a financial asset that does not fall into one of the conventional investment categories. It includes private equity or venture capital, hedge funds, digit returns because of liquidity pressure in the financial market which ultimately creates difficulties in getting investment in the equity markets, he said.

"On the other hand, people also don't have knowledge on the potential of investments in the MSMEs," he added.

They spoke at a roundtable styled "Creating Blended Finance Architecture for Catalysing Impact Investment in Bangladesh" at Brac Centre Inn in Dhaka.

The event was jointly organised by the Business Finance for the Poor in Bangladesh (BFP-B), ACACIA Socially Responsible Investment Management, Venture Investment Partners Bangladesh, and Truvalu.

mobilise resources for the funds."

She said alternative investment funds should not only go to the SMEs but also to startups.

Afsana Islam, private sector development adviser of the Department for International Development of the UK, said a platform is needed to discuss and find solutions for the alternative investments for the MSMEs and to raise issues with regulators collectively to solve them.

If there is any major challenge, the donors can help find the solution, she added. Md Mahmoodul Hoque, a director of the Bangladesh Securities and Exchange Commission, said there are 17 fund managers but only two alternative funds are registered.

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Analysts attend a roundtable styled "Creating Blended Finance Architecture for Catalysing Impact Investment in Bangladesh" at Brac Centre Inn in Dhaka yesterday.

managed futures, art and antiques, commodities, and derivatives contracts.

"There is ample demand for funds in the MSMEs but they don't know about alternative investment funds," said Sharawwat Islam, managing director of Truvalu.enterprises.

"So, they run for banks loans."

She said the MSMEs lack understanding about private equity, while business environment and legal framework are not conducive for small businesses.

"Enough influence and support is not available to encourage local institutional investors to invest in an impact fund," said Azad Chowdhury, CEO of the Alternative Investment Management of Social Transformation Enabling Projects.

"So, they don't want to invest in the segment."

The debt market-driven investments are paying double-enterprises.

Hasan Imam, chairman of Bangladesh SME Corporation Ltd, said the MSME sector faces many problems: the number of MSMEs is large, they are geographically dispersed, and there is no national database on their financial transaction.

"Banks don't have branch presence, workforce or technology to process and monitor the huge micro and small enterprises loans."

"But, the sector needs funds. The alternative investment funds should be promoted."

Tina Jabeen, investment adviser of Startup Bangladesh of the ICT Division, said people lack knowledge about alternative investment funds, so many of them do not want to invest in the segment.

"However, high net worth individuals have money. So, fund managers should go to them to

"The reason is high net worth individuals are reluctant to invest in private equity funds and venture capitals. They should come forward."

Higher stamp duty on the fund is another barrier, he added.

Feisal Hussain, team leader of the BFP-B, said local investors should come forward to invest in alternative investment funds as foreign investors do not want to be the first ones to do so.

"Foreigners want to see the commitment of local investors."

Repatriation process is not easy for investors and there is limited financial instruments, Sharawwat Islam said.

Amirul Islam, a joint director of Bangladesh Bank, however, said the central bank has clear guidelines on repatriation of funds, so there is no barrier to getting the money back.

Zia Uddin Ahmed, chairman of VIPB Asset Management, also spoke.

Frequent changes in tax regime to bring no good

Md Abdur Rouf

AN article with the title "One single VAT registration for taxpayer is way forward" published on July 21 in Star Business and authored by Mr Snehasish Barua has attracted my attention. The article is well written. The author has dealt with a very timely concern of VAT arena. Expressing my full agreement with the views of the author expressed in the article, I would like to put forward a few ideas which may serve as an addendum to Mr Barua's article. However, only one piece of information given in the article needs to be corrected. Under 'Higher product cost' sub-paragraph, the author viewed that if supplementary duty (SD) is imposed on soft drinks at depot stage following its imposition at manufacturing stage, the price shall go higher. It may be mentioned here that there is no SD at trading stage under the new VAT law. Under the 1991 VAT law too, there was no SD at trading stage. Depot falls under trading stage.

In the article, the author has furnished a very good example of a company that produces electronic items, furniture and household goods. The company has three factories, four warehouses, one central depot, seven divisional depots and more than 100 retail stores around the country totaling about 115 establishments. Citing a few consequences of multiple registrations, the author has recommended for similar central registration mechanism that was in force under the 1991 VAT law or mechanism that was in the 2012 VAT law before its amendment through Finance Act, 2019. The author has finally raised three questions and sought guidelines.

Let us see the central registration mechanism under the 1991 VAT law and under the 2012 VAT law before and after the Finance Act, 2019. Under the 1991 VAT law, entities of three categories would have been entitled to obtain central VAT registration; such as: (a) when a manufacturer manufactures at one place and sells through multiple places; (b) when a commercial importer following import sells through multiple places; and (c) when a service renderer renders service through multiple places. Multiple manufacturers and traders without commercial importers were not included in this regime. Earlier times, the National Board of Revenue (NBR) was empowered to issue central registration. Later the power was vested upon the divisional officer. Under the 1991 VAT law, there was another mechanism called similar goods method under which a manufacturer or importer could pay final stage VAT at the centre and could sell the goods through own sales centres, dealers or agents without payment of further VAT. The NBR was empowered to allow such method on application of the registered entities. So, we see that there were provisions under the 1991 VAT law under which manufacturers, importers and service renderers could pay VAT centrally. In the late 1990s and in the early 2000s such method was liberally allowed. From 2009 when talks surfaced regarding the enactment of a new VAT law to the implementation of the new VAT law on July 1, 2019, such mechanism was discouraged, so to say was not allowed, saying the new VAT law will accommodate all easier things.

When the new VAT law was enacted in 2012, the registration regime was basically central, one RJSC (Registrar of Joint Stock Companies) registration, one TIN (Taxpayers Identification Number), and one BIN (Business Identification Number) was adopted as the basic principle of VAT registration. However, it was also provided that if any branch or centre keepsaccounts or records separately, it may takeseparate unit registration. Thus, it was perceived that compliance under the Companies Act 1994, the Income Tax Ordinance 1984 and the VAT and SD Act, 2012 shall come to one line. This was broader than the methods enshrined in the 1991 VAT law as mentioned above.

After the amendment of the new VAT law through the Finance Act, 2019 provisions stand that if any entity carries on economic activities of identical or similar goods or services or both from two or more places and if the books and accounts are maintained centrally, it may apply for central registration. Mr. Barua has elaborately mentioned this method in his article and the consequences associated with this. This method is a departure from two earlier methods discussed above.

If I am asked to evaluate the above three methods of central VAT registration conceptualised during the last 28 years, my opinion goes in favour of the second one i.e. one RJSC, one TIN, and one BIN principle with a few exceptions. We are talking about the ease of doing business. If entities are asked to keep same accounts for the compliance of three laws, certainly it goes in favour of ease of doing business since their compliance cost and complexity shall be reduced. We are talking about procedure simplification. The preamble of the new VAT law provides that the objective of enactment of the new VAT law is simplification of tax collection procedure inter alia. If I ask the readers which one of the above three is easy to understand, I am confident that most of the opinion shall go in favour of the method number 2 i.e. one RJSC, one TIN, and one BIN principle. Under such mechanism, VAT evasion shall become difficult since multiple agencies shall look at the same data and records.

We need to keep in mind the basic purposes of VAT registration. By registering the entities under VAT law, first we list the entities capable of paying VAT. Second, we bring the entities under a network so that they can not evade VAT. Third, we develop data for future use. To attain all these objectives one RJSC, one TIN, and one BIN is the best method. Gradually, we need to integrate our tax management system and data with other agencies and other sectors of the economy. Three issues raised by Mr Barua at the end of his article, in my opinion can be better addressed by keeping proper books and records. Those are fundamental rights of the people. Whatever procedure is developed, those must not be thwarted.

It is learnt that the NBR is contemplating formulation of a guideline regarding central registration. May we request to give these ideas some thought. Frequent change of any regime is challenging for the subjects to comply. Any regime requires to be formulated following thorough deliberation, so that once formulated it does not require frequent changes.

The author is a specialist at a World Bank-financed VAT-related project. The views expressed are his own. He can be reached at roufvat@gmail.com.

Getting under the hood of Amazon's auto ambitions

Reuters, Detroit

AMAZON.COM Inc is expanding its transportation prowess to do virtually everything short of building a car.

While Amazon founder and CEO Jeff Bezos has said little publicly about the company's ambitions in the sector, the strategy is aimed at leveraging Amazon's strengths in logistics, cloud computing and digital services together with new interests in related fields from robotics to manufacturing, according to more than two dozen people, including Amazon executives and industry executives familiar with the strategy, and a Reuters analysis of Amazon's patent activity.

With these new investments and alliances up and down the auto supply chain - and by hiring key auto industry veterans and amassing a robust patent portfolio - Amazon is positioning itself to challenge corporate customers and partners ranging from United Parcel Service Inc to Uber Technologies Inc.

For a graphic on Amazon's transportation ecosystem, click tmsnrt.rs/2MlqUSR

Businesses such as Amazon Web Services and Fulfillment by Amazon started as internal efforts to cut costs and improve efficiency in serving consumers, and later expanded to corporate customers. However, companies working closely with Amazon also risk losing business to the online retailer as its transportation expertise grows, according to some analysts and industry insiders.

Corporate customers "should be very scared" of Amazon's move into the dashboard, said John Ellis, a transportation consultant and former global technologist at Ford Motor Co. As consumers pay less attention to horsepower and more to streaming content and services, he expects more consumers "won't really care whether you're in a Ford or a Chrysler or a Chevrolet or a BMW."

Ned Curic, a former Toyota Motor Corp executive recruited by Amazon to oversee Alexa Auto in 2017, said in a written response to Reuters that the company is "always looking

Amazon founder and CEO Jeff Bezos

for ways to more closely integrate Amazon services if we think it'll bring value to the customer."

A Reuters analysis of more than 5,000 patents granted to Amazon from December 2016 through May 2019 by the U.S. Patent and Trademark Office indicates at least 210 of those patents cover transportation-related topics from drones to automated ground vehicles. The auto-related patent push outpaced tech rivals Apple Inc and Alphabet Inc's Google, whose sister company Waymo is a self-driving pioneer.

Amazon was granted several patents that involve the transport of passengers, including a 2017 patent to provide an on-demand network of self-driving vehicles - a potential competitor to Uber, Lyft Inc and Waymo, as well as major auto customers such as Volkswagen, Ford and General Motors Co.

Patents do not always evolve into specific businesses and processes, Amazon said.

"Like many companies, we file a number of forward-looking patent applications that explore the full possibilities of new technology. Patents take multiple years to receive and do not necessarily reflect current developments to products and services," an Amazon spokesman said in a statement.

The patent push comes with a boost in Amazon's transportation-related investments. Since February, it has joined other major investors in providing nearly $2 billion in funding to three high-profile startups: electric truck maker Rivian Automotive, self-driving systems developer Aurora and food delivery firm Deliveroo.

In the past two years, Amazon has built out its transportation ecosystem further with the acquisition of three startups — Dispatch, Canvas and Tapzo — while investing hundreds of millions of dollars in at least nine others, including Shuttl, an Indian company developing an app to help commuters find seats on buses.

Amazon's business partners in the sector include automotive suppliers such as Aptiv, Panasonic Corp and Nvidia Corp, big transportation providers such as Uber and Avis, and self-driving heavy truck startups Embark and China's TuSimple.

The company, through its $33 billion Amazon Web Services unit, also is rapidly expanding its business with corporate customers, notably through two major cloud-based initiatives this year with Ford and VW.

The strategic alliance with VW, which includes German supplier Siemens AG, aims to create an "industrial cloud" to digitally connect the automaker's far-flung manufacturing operations - 122 plants worldwide - and up to 30,000 supplier factories, according to Jonathan Allen, head of professional services in AWS' global automotive practice.

Volkswagen in March said AWS cloud-based services, including machine learning and data analytics, would help the automaker to "increase plant efficiency and uptime, improve production flexibility and increase vehicle quality."

AWS has been one of Amazon's fastest-growing, highest-margin businesses and provides a platform for corporate customers - from BMW and Toyota to Avis and Formula One - to manage, analyze and in some cases monetize data.

Gavin Sherry, CEO of Ford's Autonomic web services subsidiary, said the No. 2 U.S. automaker can learn a lot from Amazon, which is working with Autonomic and Ford to build a cloud-based platform for the transportation industry.

US, China wrap up trade talks after Trump tweetstorm


REUTERS

US Trade Representative Robert Lighthizer gestures towards Treasury Secretary Steven Mnuchin as he chats with Chinese Vice Premier Liu He before they pose for a family photo at the Xijiao Conference Center in Shanghai yesterday.

AFP, Shanghai

CHINESE and US negotiators held their first face-to-face talks Wednesday since agreeing to a trade war truce last month, but the short meeting in Shanghai was overshadowed by a Twitter tirade from President Donald Trump.

Washington and Beijing have so far hit each other with punitive tariffs covering more than $360 billion in two-way trade in a row centred on demands for China to curb the alleged theft of American technology and provide a level playing field to US companies.

US Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin shook hands and exchanged pleasantries with Vice Premier Liu He Wednesday morning.

The group then went behind closed doors for around four hours in the first face-to-face negotiations since Trump agreed to a truce with his Chinese counterpart Xi Jinping in June following a breakdown a month earlier.

The talks were relatively brief and the group emerged later, a little earlier than expected, for a group photo before the US trade officials left for the airport without speaking to reporters.

Lighthizer and Mnuchin arrived in Shanghai on Tuesday and joined Chinese officials for dinner and informal discussions -- just as Trump took to Twitter to lambast what he said was a lack of willingness by Beijing to broker a fair deal.

"My team is negotiating with them now, but they always change the deal in the end to their benefit," Trump wrote Tuesday.

This time the US leader said Beijing was supposed to start buying US agricultural products but they have shown "no signs that they are doing so".

"That is the problem with China, they just don't come through," he added.

Trump had previously accused China of reneging on its commitments when previous talks broke down in May.

Analysts said his remarks would do little to ease the already-tense relationship between Washington and Beijing.

"Whatever shred of optimism markets had about the ongoing trade negotiations were dealt as a severe blow when President Trump flew off the handle again," said Stephen Innes, managing partner at VM Markets Singapore.

"(The tweets show) Trump seems eager to get a deal, that shows his weakness," said Shanghai-based professor Shen Dingli.