

**"Project Formulation Survey" under the
Governmental Commission on the
Projects for ODA Overseas Economic
Cooperation in FY2012**

Summary Report

Myanmar / Vietnam

**ODA Feasibility Study for VAT collection
and management system**

March, 2013

BMC International / Kaihatsu Management

Consulting Inc. Joint Venture

This report is a summary of a project formulation survey conducted by the contractor, under the Governmental Commission on the Project for ODA Overseas Economic Cooperation, commissioned by the Ministry of Foreign Affairs of Japan in Fiscal Year 2012. It does not necessarily represent the official views of the Ministry of Foreign Affairs of Japan.

Introduction

It is necessary for countries to enhance its taxation and revenue administration capacities to promote robust economic development and to graduate from foreign aid dependency. Many developing countries with transitional economies depend heavily on indirect tax for revenue. Value Added Tax (VAT) is an ideal source of revenue.

Recently, Myanmar and Vietnam attracted the attention of investors across the globe by promoting economic reform. However, the capacity of the taxation system in both countries is insufficient. Both these countries do not know the amount of tax that they need to collect. Myanmar is planning to simplify its taxation system and make it more efficient by transforming the complicated Commercial Tax to VAT. The country is seeking external support to complete this transition. In Vietnam, the collection capacity of the present VAT needs to be improved to cover the revenue lost from lower corporate tax and ASEAN Free Trade Area (AFTA) tariff

The survey aims to examine the feasibility of supporting the developmental efforts of the governments of Myanmar and Vietnam by introducing the BMC tax collection and management system using official development assistance (ODA) finance. This study also aims to develop a marketing strategy for the governments to install this system by using their own resources and tax revenues, which could increase after the intervention.

Chapter 1:

Current situation and development needs of the target countries

<Myanmar>

Economic development in Myanmar has been sluggish for decades, partially owing to the long-term economic sanctions imposed on the military government. Nominal GDP per capita is at US\$831, which is the lowest among the member countries of the Association of Southeast Asian Nations (ASEAN). One of the most serious problems faced by the Myanmar government since a long time has been the high fiscal deficit. The government compensates for the deficit by printing currency, which could lead to high inflation. Tax revenue remains at 4% of GDP, the lowest in the region. Therefore, the capacity of tax administration needs to be enhanced to increase tax revenue. In Myanmar, Commercial Tax is enforced instead of VAT. Currently, the government is attempting to simplify and rationalize the tax system to attract investment in the current trend of economic globalization.

In January 2013, the first official donor coordination forum was held in Myanmar, which concluded with the approval of the “Nay Pyi Taw Accord” for ensuring better public service delivery. One of the main topics that were discussed in the forum was tax reform. The government expressed its commitment towards cooperation and its expectation to international development partners to increase their fiscal management support.

< Vietnam >

Although Vietnam achieved tremendous economic growth in the 1990s, 70% of the population is still engaged in the agriculture sector, which has low productivity. The income gap between the urban rich and the rural poor has been increasing. To improve the livelihood of the poor rural population, steady foreign investment and industrialization through healthy reform of state enterprises is required. The revenue source to realize such reform depends on cooperation between the state enterprises and custom revenue. However, under the current competitive business environment, the government needs to lower corporate tax and tariff rates, and establish an alternative revenue resource from individual assets and consumption. In Vietnam, tax reform began in the late 1980s and VAT was introduced in 1999. Several reform measures were taken, and some initiatives such as the self-declaration system and digitization of procedures have recently been introduced. Despite such efforts, Vietnam continues to face problems such as the insufficient capacity of the General Tax Department (GDT), inefficiency of the network, complicated procedures, and staff corruption.

The government decided to reduce corporate tax in phases to support the private sector and tackle the recent recession. However, the government needs to collect the leaked VAT by employing more stringent measures to offset the reduction in corporate tax.

The government of Japan has been extending support for tax administration in Vietnam through a technical cooperation project since 2005.

Chapter 2:

Possible applicability of the BMC's products and technologies, and prospects for future business development

(1) Products and business development of BMC

BMC International Co., Ltd. (hereinafter BMC) started manufacturing and selling high-performance calculators in 1976. The company would import Apple computers and export PC peripherals. Since 1987, BMC has been developing cash registers and specializing in the development, manufacture, and sales of "Fiscal Cash Register," which collects VAT for nations that are implementing "Fiscal regulation." BMC's products have been introduced in over 20 countries, and these products have improved the taxation system of those countries.

BMC's main product, the tax collection system, helps in the prevention of tax evasion by installing the cash register and POS. BMC has already marketed this product in Europe, South America, and Africa. BMC is the only company that offers this product, and the company continues to be competitive by offering the latest version of the product, which, besides the built-in normal cash registers, supports plug-in external devices to the sales control system.

(2) ODA in the business plan

Since tax revenue can be significantly increased without raising taxes, the system has been installed mainly in developed countries, where VAT has already been introduced and POS and cash registers are widely used. Although this business in the developed countries has already reached a stage of maturity, the number of enquiries from developing countries that want to raise tax revenue has been increasing. However, in developing countries, special conditions need to be fulfilled to promote business, such as securing a budget to cover long periods until the actual effectiveness of the system to increase revenue can be realized, necessity to develop an industrial foundation for sales, and installation and maintenance of equipment since the market is underdeveloped.

The system can be easily disseminated in developing countries, if the cost required at the early stage of the installment, which is usually a bottleneck for the government and retailers, is covered by ODA. The system also enables governments to increase revenue to fund socioeconomic development. Besides a consistent increase in tax revenue, the system leads to higher sales; however, fierce competition has made it difficult for SMEs to acquire market share at this stage. It is important to be selected as the first introductory device for sustainability of the business. Thus, BMC is exploring the possibility of using ODA for the initial introduction and installation of the system in developing countries.

(3) Survey results and planned business structure

The results obtained from the survey are as follows;

<Survey result in Myanmar>

Survey items	Results of the survey
1. VAT law and implementation plan	SDC can be used because Commercial Tax is enforced in the same manner as VAT. The government showed an interest in introducing the system and fiscal law. Examples of fiscal laws in other countries are examined.
2. Market survey	Rapid market growth is expected if the fiscal law is executed because the rate of use of POS is very high in target segments of business, although small retail shops barely use POS or cash registers.
3. Machine operating environment	Telecommunication infrastructure is not sufficient; however, sufficient for SDC communication.
4. Business partner	The importer and integrator for SDC (including POS software developer) are already identified. There is only one mobile communication company, which is owned by the government. The

	data center is under construction and will be used, if so decided by the parties. There is no accreditation organization and it should be established.
5. Pilot installation	Pilot installation is conducted at a petrol station. The data and results were reported to the government. Data is still being collected.

<Survey result in Vietnam>

Survey item	Results of survey
1. VAT law and implementation plan	The standard VAT rate is 10% with three other special rates. Invoice system is standardized. The awareness for VAT refund is high in the business community. Since the government is implementing taxation reform, they showed a great interest in SDC.
2. Market survey	Rapid market growth is expected if the fiscal law is executed because the rate of use of POS is very high in target segments of business, although small retail shops barely use POS or cash registers.
3. Machine operating environment	Communication infrastructure is feasible for operating SDC communication.
4. Business partner	The importer and integrator for SDC (including POS software developer) are already identified. There are several mobile communication companies. Use of the existing data center has been discussed with a large company that owns a facility. There are several private certification centers that can be used for accreditation.
5. Pilot installation	Pilot installation at a shop in HCMC. Data is still being collected.

Based on the above results, a mid- to long-term business plan has been developed, as presented in the table below.

<Myanmar>

	Phase 1	Phase 2	Phase 3
Schedule	~1 year	~3 years	~5 years
Number of units	2,000	~10,000	~30,000

Area	Yangon (and other cities)	Nationwide	Nationwide
Set-up sites	1,000 petrol stations (supermarkets, hotels, and restaurants, if possible)	Large-sized petrol stations, supermarkets, hotels, and restaurants	Others
Cost	250million JPY (100 million JPY in case local server is used)	200million JPY	600million JPY
Financial support	ODA?	Myanmar Government	Myanmar Government

< Vietnam >

	Phase1	Phase2	Phase3
Schedule	~1 year	~3 years	~5 years
Number of units	2,000	~30,000	~100,000
Area	Hanoi and HCMC	Nationwide	Nationwide
Set-up sites	Large-sized petrol stations, supermarkets, hotels, and restaurant	Large-sized retail shops	Others
Cost	150million JPY (100 million JPY in case local server is used)	600million JPY	2billion JPY
Financial support	ODA?	Vietnam Government	Vietnam Government

Chapter 3:

Expected development impact and effect on business development of the BMC in the target countries through proposed ODA projects

A complicated taxation system, weak tax administration, and chronic fiscal deficit (owing to a weak tax base) lead to fiscal problems, which, in turn, hinder economic development. Governments that depend heavily on loans for public services face the risk of long-lasting inflation and a debt crisis. Developing countries also often face problems of budget management owing to a lack of data and staff capacity. Many countries need assistance to tackle these challenges.

The removal of the ASEAN Free Trade Area (AFTA) tariff in 2015 and economic globalization have compelled Myanmar and Vietnam to increase their tax revenue and restructure their indirect tax system. The BMC tax collection and management system has a high potential to address the development issues face by these countries. The system not only supports higher tax revenue but also enhances tax administration.

Chapter 4: Proposals for formulating ODA projects

The pilot operation needs to be conducted on a larger scale to start the business at Phase 2 in which the system can be used sustainably. A larger number of samples are required in wider areas. Set-up sites need to be identified and other processes such as data processing and test connecting with the tax tabulation system need to be conducted. If the cost of conducting these activities is financed by ODA, the mid- to long-term business plan will have a solid foundation and the impact of development will be felt steadily. The activity plans and the necessary inputs required in Phase 1 have been summarized below.

(1) Target: In Myanmar, 1,000 petrol stations. In Vietnam, 1000 large-sized retail outlets such as petrol stations, hotels, supermarkets, and restaurants.

(2) Purpose: To pave the way for generating actual business by confirming the effectiveness and legal environment through a pilot operation. To accumulate know-how and support sustainable operations.

(3) Input:

Input	Item
Facility	Data Server (including facility)
	PC Server (with coding software)
Equipment	SDC-mob2,000 units
Technical Support	Set-up
	Training for server operator
	License (Coding software)
Total	

Myanmar/Vietnam

ODA Feasibility Study for “VAT collection and management system”



Company/Study site

- Company : BMC International Co.,Ltd.
- Address: Osaka city
- Site ▪ C/P organization : Myanmar Internal Revenue Department, Vietnam General Department of Taxation

Development Needs

<Myanmar>

- Delay of democratization and economic development
- Low rate of fiscal revenue to GDP and fiscal deficit
- Low awareness of taxation in general public

<Vietnam>

- Weak governance, corruption of tax administration
- Adverse effect of invoice system
- Insufficient capacity of taxation system and IT

Technology/Products

- Latest VAT collection and management system
- Simple and low cost unit connectable to POS/ECR
- Anti-corruption device with high security and full automation system
- Experience in 20 countries
- Total support with drafting law, training, data analysis etc

Proposed ODA project and expected impact

- Contribute to increase fiscal revenue by VAT through pilot introduction of the BMC's system
- Support sustainable operation by the government's own budget
- Strengthen stabilization of economic foundation to support development through increment of tax revenue

Business plan

- Strengthen market competitiveness by support of ODA
- Strengthen trust of the company when starting business in new countries

