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FISCAL INCENTIVES IN NIGERIA: Lessons of Experience

CENTRAL BANK OF NIGERIA

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List of Acronyms

AAI:	Action Aid International
ACGSF:	Agricultural Credit Guarantee Scheme Fund
ACSS:	Agricultural Credit Support Scheme
bbl:	Per Barrel
bpd:	barrel per day
CA:	Capital Allowance
CAC:	Corporate Affairs Commission
CACS:	Commercial Agricultural Credit Scheme
CBA:	Cost Benefit Analysis
CBN:	Central Bank of Nigeria
CCA:	Customs Controlled Area
CIP:	Critical Infrastructure Programme
CIT:	Company Income Tax
CITA:	Companies Income Tax Act
COFINS:	Contribuição para o Financiamento da Seguridade Social
CPI:	Corruption Perception Index
DMBs:	Deposit Money Banks
DPR:	Department of Petroleum Resources
DTI:	Department for Trade and Industry
ECOWAS:	Economic Community of West African States
EEG:	Export Expansion Grant
EPZ:	Export Processing Zone
EPZs:	Export Processing Zones
EPZA:	Export Processing Zone Authority
FDI:	Foreign Direct Investment
FIRS:	Federal Inland Revenue Service
FMARD:	Federal Ministry of Agriculture and Rural Development
FMF:	Federal Ministry of Finance
FMFA:	Federal Ministry of Foreign Affairs
FMI:	Federal Ministry of Interior
FMSD:	Federal Ministry of Solid Minerals Development
FWD:	Farm Works Deductions
GDP:	Gross Domestic Product

GEAR:	Growth Employment and Redistribution
IBA:	Industrial Building Allowance
IDA:	Investment Deduction Allowance
IDP:	Interest Drawback
IMF:	International Monetary Fund
IPA:	Investment Promotion Act
IPPA:	Investment Promotion and Protection Agreement
ITC:	Investment Tax Credit
ITA:	Investment Tax Allowance
JV:	Joint Venture
KIA:	Kenya Investment Authority
KRA:	Kenya Revenue Authority
LNG:	Liquefied Natural Gas
MAN:	Manufacturers Association of Nigeria
MDA:	Mining Deductions Allowance
METR:	Marginal Effective Tax Rate
MFCT:	Ministry of the Federal Capital Territory
MFTZ:	Manaus Free Trade Zone
MIDP:	Motor Industry Development Programme
MOU:	Memorandum of Understanding
MUB:	Manufacture under Bond
MYTO:	Multi Year Tariff Order
NAFDAC:	National Agency for Food & Drugs Administration and Control
NBS:	National Bureau of Statistics
NCS:	Nigeria Customs Service
NCOC:	Nigerian Copyright Commission
NERC:	Nigerian Electricity Regulatory Commission
NEPC:	Nigerian Export Promotion Council
NIMASA:	Nigerian Maritime Administration and Safety Agency
NIPC:	Nigerian Industrial Promotion Council
NIPPA:	National Investment Promotion and Protection Act
NIRSAL:	Nigerian Incentive-Based Risk Sharing System for Agricultural Lending
NIS:	Nigeria Immigration Service
NNPC:	Nigerian National Petroleum Corporation
NOTAP:	National Office for Technology Acquisition and Promotion
NPC:	National Planning Commission

OECD:	Organization for Economic Cooperation and Development
OLS:	Ordinary Least Square
OSIC:	One-Stop Investment Center
PCN:	Pharmacist Council of Nigeria
PIA:	Petroleum Investment Allowance
PIT:	Personal Income Tax
PPT:	Petroleum Profit Tax
PSC:	Production Sharing Contract
QCE:	Qualifying Capital Expenditure
R & D:	Research and Development
RENA:	National Network of Investment Agencies
REPETRO:	Regime Aduaneiro Especial de Exportação e Importação de Bens Destinados às Atividades de Pesquisa e de Lavra das Jazidas de Petróleo e de Gás Natural
SEZ:	Special Economic Zone
SIP:	Strategic Investment Programme
SIPRI:	System of Investment Promotion
SMEDP:	Small and Medium Enterprise Development Programme
SON:	Standards Organization of Nigeria
SSR:	Social Security Reductions
SUFRAMA:	Superintendência da Zona Franca de Manaus
TC:	Technical Cost
TIC:	Tanzania Investment Center
TJN:	Tax Justice Network
TRE:	Tax Remissions Export
UNCTAD:	United Nations Conference on Trade and Development
VAT:	Value Added Tax
ZIPA:	Zanzibar Investment Promotion Agency

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FISCAL INCENTIVES IN NIGERIA: Lessons of Experience

ABSTRACT

The study adopts case study methodology to analyze fiscal incentives in Nigeria drawing lessons of experience from emerging as well as developing economies. The study reveals that fiscal incentives were very successful in countries with strong institutions, good infrastructural facilities, adequate regulatory and legal framework as well as good enabling environment[2]. These factors have ameliorated the cost of doing business and attracted investments to those countries. Similarly, it was noted that in addition to strong institutions and good infrastructure, fiscal incentives would enhance economic growth and development if well anchored and articulated in developing countries. Furthermore, granting fiscal incentives such as provision of infrastructural facilities, tax credit for car manufacturers, insurance cover, special custom regimes, locational incentives and rebate, provision for carry forward losses for a period of ten years, elimination of bureaucratic bottle neck and official red-tapism to promote investments was common in most countries; evidence suggests that their effectiveness depended on a well-structured Cost Benefit Analysis (CBA). However, the implementation of fiscal incentives in Nigeria is undermined by weak institution, weak macroeconomic environment, poor infrastructural facilities, inadequate policy monitoring/evaluation, poor regulatory/supervisory framework, corruption, country risk and unfavorable political climate. Nevertheless, the most striking challenges are the lack of transparency and fairness in the process of taking decisions on fiscal incentives in Nigeria.

2. The enabling environment is the term used to describe the broader system within which individuals and organizations function and one that facilitates or hampers their existence and performance (UNDP, 2008).

1.0 INTRODUCTION

Prior to the Great Depression of 1930s, governments' focus in economic management was largely laissez-faire, an economic philosophy that is strongly opposed to government intervention. With the emergence of the Keynesian economic model after the 2nd World War, there was a paradigm shift from the hitherto invisible price mechanism to government intervention in the economic system. Government intervenes through the process of legislation, regulation and the use of fiscal policy mechanism aimed at smoothing the pro-cyclical trajectory in the economy. The Keynesian doctrine became widely acceptable for ensuring steady growth, full employment and price stability as well as repositioning the private sector as engine of growth through the provision of incentives to attract private sector investment in targeted sectors of the economy.

Incentives have become increasingly recognized globally, as most countries of the world, irrespective of their stages of development, now employ a wide variety of incentives in pursuing their economic goals. The application of incentives now exists virtually in all sectors of the economy namely industrial, agriculture, manufacturing, petroleum, solid minerals, energy, tourism and others. There are different kinds of incentives; the three basic categories of these incentives are financial, fiscal, and regulatory which are considered by most governments. The financial incentives are public–support mechanisms in the form of grants or repayable subsidies, it is common with developed countries, while developing countries prefer fiscal incentives because of the fact that they are easily affordable in promoting investment and do not require up-front use of government funds. The regulatory incentives on the other hand are in the form of concessions, exemptions from labour or environmental standards and subsidized infrastructure which are also applicable in most countries.

The mechanism for assessing and choosing appropriate fiscal incentives has been through the use of cost benefit analysis (CBA) approach. The approach is also employed for determining the usefulness of incentives. Other approaches include marginal effective tax rate (METR), motivation survey methods, and business surveys. In charting a course for fiscal incentives

implementation, governments tend to consider factors such as social benefits, positive externalities, revenue losses and other indirect costs such as administrative and corruption, among others. Some policy issues could crop up at the point in the implementation process of the fiscal incentives. Such policy issues include the application of non-discriminatory principle to regulate incentives and conditions of incentives. There is also the issue of incentive asymmetry between developed and developing countries, with biases in investment flow, particularly where competition exists among similar types of investments. Other issues are institutional challenges such as infrastructure, country risk, unfavorable political climate, and regulatory challenges that pose unwarranted additional burdens on investors. Nevertheless, the most striking challenges are the lack of transparency and fairness in the process of taking decisions on fiscal incentives in most developing countries. This is because most incentive decisions could induce corruption, rent-seeking behaviors and in some circumstances are detrimental to the development of competitive markets and economic development, (Oman, 2000).

In light of Nigeria's efforts at providing conducive environment for foreign direct investment (FDI) inflow, protect the existing investments from unfair competition, stimulate the expansion of domestic production capacity and growth of industries, the Federal Government has continued over the years to provide incentives to attract both local and foreign direct investments into various sectors of the economy. These are mainly fiscal (tax/non-tax) and regulatory.

The main objective of the study is to explore the implementation of fiscal incentives in Nigeria drawing lessons of experiences from emerging as well as developing economies. In this regard, attempt would be made in examining the challenges to the effectiveness of fiscal incentives with a view to proffering policy measures for improvement in the key sectors of the economy including manufacturing, agriculture, oil and gas, telecommunications, and power. It is believed that the outcome of this study would provide the basis for policy makers in making incentives more beneficial to the economy. It will also further provide an expansion of knowledge in the area of packaging fiscal incentives while the outcome could bring a substantial social change in terms of benefits to the public. This

study employs case study methodology in some selected countries, taking samples from developing and emerging economies on the applicability of fiscal incentives. The case studies will provide comparative analyses of fiscal incentives among these countries, and would form a basis for lessons of experience for Nigeria.

The rest of the paper is organized into seven sections. Following this introduction, section two discusses theoretical and empirical literature, while section three focuses on fiscal incentives formulation and implementation in Nigeria. Section four provides a brief discussion on the case study methodology that is used in the paper while section five examines selected country experiences. Section six identifies the gap and lessons for Nigeria. Section seven provides policy recommendations and conclusions.

2.0 REVIEW OF LITERATURE

2.1 Theoretical Review

Fiscal incentives have become an important element of economic policy stimulation used in most countries, especially in developing economies to attract domestic and foreign investment. They are measurable economic advantages that governments provide to specific enterprises or groups of enterprises, with the goal of steering investment into preferred sectors or regions or for influencing the character of any given investments. According to the United Nations Conference on Trade and Development (UNCTAD, 2000), fiscal incentives are preferred by developing countries because they serve as measures for reducing the burden on investment undertakings, and a means to induce foreign investors to invest in specific sectors or locations in an economy.

In addition, fiscal incentives are common in developing countries because the incentives have no direct drain on the government resources (Phillips 1996) Generally, fiscal incentives are used to increase the after tax returns of companies in form of tax holidays and depreciation allowances. They are supposedly regarded as economic policy, which government uses to direct investment to certain preferred Sectors of the economy. They can also be

described as fiscal benefits when viewed as tax concessions or non-fiscal benefits in the form of grants, loans or rebates to support business development or enhance competitiveness.

Literally, fiscal incentives comprised tax and non-tax incentives. While tax incentives provide indirect support to investors in the form of tax breaks, access to subsidized credit and lower customs tariffs among others, non-tax incentives offer direct support to investors in the form of construction and rehabilitation of infrastructure and facilities.

Fiscal incentives are sometimes classified into two different types– statutory and effective. While the former are specialized tax reductions granted to qualified investment projects distinct from other reductions applicable to investment projects in general, the latter is described as special tax provision granted to qualified investment projects which have the effect of lowering the effective tax burden(Zee, Stotsky & Ley, 2002).

According to Zahir (2003), incentive for investment is associated with lots of benefits if allowed to operate. Some of the benefits that are derivable from a successful incentive regime include, among others, offering incentives to boost those sectors that are strategically crucial for promoting export, generating employment, developing skill and adding value to domestic activities. Aside from these benefits, they have their inherent costs. The distortive nature of fiscal incentives on investment choices among sectors or activities represents the cost of fiscal incentives or tax revenue losses. A related cost to fiscal incentives is the cost of enforcement and compliance, which increases along with the complexity of the fiscal incentives system. The general lack of fairness in the application of targeted incentives undermined compliance and subsequently increased enforcement efforts.

The work ability of incentives depends on some factors namely: the circumstances of the economy, the competence of the tax administration, the type of investment being encouraged and the budgetary constraints of the government. Therefore, an effective and efficient incentive must have the ability to stimulate investment in the desired sector or location, with minimal revenue leakage, and provides minimal opportunities for tax planning, it must be transparent and easy to understand, and must have specific policy goals.

Incentives must not be subject to frequent change, and must provide investors with certainty over its application and longevity. It must be developed, implemented, administered and monitored by a single agency, and must have low administrative costs for both governments and firms. In addition, it must be followed-up and monitored in order to ensure that the incentive criteria are met.

Historical experience of the efficacy of incentive schemes also provides, with some caution, the following key policy lessons:

- Incentives need to be carefully designed to achieve a specific policy goal. Poorly targeted tax incentives prove ineffective and expensive to administer. Tax holidays, while being easy to administer, are a good example of a poorly targeted incentive.

- Moderate tax incentives that are targeted to new investment in machinery, equipment and R&D, and that provide up-front incentives, are more likely to be cost effective in stimulating desired investment. These can have powerful signaling effects without significant loss of revenue. Investment tax credits and allowances provide specific and targeted policy tools to achieve this.

- Reducing corporate tax to a level comparable with other countries in the region is a sound tax incentive'. However, reductions beyond the level found in capital exporting countries (say, below 20-30 per cent) often bring about greater revenue losses than increases in investment.

- Removing taxes on imported inputs used in the production of exports (not across the board) removes a serious disincentive to export production. Such a move eliminates the distortion in international prices created by import tariffs and provides an incentive for firms to respond to the relative cost advantages of the home economy.

- Duty drawbacks provide a good example of an incentive which

supports exports. Such schemes, however, require a competent tax administration, and

- In situations where reducing unemployment is a major policy objective, it is important to bear in mind that many tax incentives (such as accelerated depreciation) can work in the opposite direction by favoring capital-intensive investments. Incentives can be created, however, to explicitly encourage labor intensive production, among others.

Kuewuni (1996) argues that fiscal incentives by their nature represent revenue loss to the government, and where incentives are not properly focused, the revenue loss could be severe. This is because government would have deprived itself of the revenue that would have been generated. However, the major problem is that investment incentives especially those that are targeted to minimize revenue loss can be difficult to administer because tax authorities are required to determine those investments that meet the specified criteria at the onset. Such targeted incentives, if they are not well monitored, could turn-out to be a potential source of corruption and waste of resources in the form of rent-seeking behavior. Fiscal authorities are advised to devote sufficient measures to prevent firms from using incentives to facilitate tax avoidance and evasion(Eisner, Albert & Sullivan, 1984).

Holland and Vann (1996) maintained that developing and transitional countries offer incentives for purpose of promoting investment. This relates to real investment in productive activities rather than investment in financial assets or portfolio investment. The incentives are often directed to foreign investors on the ground that there is sufficient domestic capital for desired level of economic development and that international investment brings with it modern technology and management techniques. While some countries grant fiscal incentives in the form of accelerated depreciation of capital assets and reinvestment (industry, commercial sector), tax credits and tax deductions, in other countries they are mostly typified to include; exemptions or reduced corporate income tax rates, tax holidays or corporate tax reduction/exemptions granted for a limited duration. In comparative terms, the cost of accelerated depreciation relative to tax revenue foregone is normally lesser than tax holidays or investment

allowances/credits.

Fiscal incentives also include establishment of free-zone which could either be in the form of duty-free zones or special economic zones. Duty-free zones enjoy exemptions from customs duties, while special economic zones enjoy other tax privileges not granted in other parts of the host country. Investors in duty-free zones receive other tax privileges, especially in export processing zones, while special economic zones enjoy customs privileges. Duty-free zones and export processing zones (EPZs) are intended to facilitate the trans-shipment of goods, and the processing of imported materials or components for export. Exemptions from the Value Added Tax (VAT) and customs duty are granted on imported inputs, because those taxes would normally be refunded on export. Personal Income Tax (PIT) or Social Security Reductions (SSR)[3] are special tax exemptions given to certain categories of 'expatriate' executives and employees from their payroll taxes or they are taxed at lower rates than other resident individuals such as the granting of additional allowances in the form of accommodation, children's education, home leave, etc.

Some countries provide exemptions from sales taxes, such as VAT as an inducement to foreign investors. These include import-duty exemptions on capital goods, equipment or raw materials, parts and inputs related to the production process; tax credits for duties paid on imported materials or supplies; and exemptions from customs duties constitute another important incentives used to influence investment decisions. Thus many investors consider this type of incentive as the most valuable type of investment incentive. Also, export tax exemptions and duty drawbacks are other basic incentives for export industries. The overall targets of any fiscal incentives are on specific sectors, notably manufacturing, petroleum, power, infrastructure, tourism, health and transportation, and in some cases education, specific regions (geographic locations) that are in less developed areas, including exports.

Experiences have shown that an average investor expects that, in addition to the enabling environment which, government offers in assisting investment opportunities in the countries, some sort of fiscal incentives by way of waiver of duties or tax exemptions are provided as part of government contributions.

3. These are only applicable in countries with social security programmes.

However, other investors consider profitability as more important than the issue of fiscal incentives. Such investors choose to invest because of their strong belief in viability and profitability. The moment the two ingredients namely viability and profitability are not in the right mix, such investors may decline their intentions to invest. This is regardless of whether or not there are planned or existing fiscal incentives to attract investment (Oman, 2000). For some investors, the concerns may be deficient legislation or onerous regulations; this alone could make investors to decline to invest even though there are generous fiscal incentives in place.

The majority of the existing literatures are skeptical about the role of incentives in the decision to invest and by extensions the ability of incentives to affect investment patterns. The International Monetary Fund (IMF) viewed that tax incentives do not stimulate investment significantly, and that when they do, the cost often outweighs the benefits. Firms consider a myriad of factors when deciding whether to invest or not, weighing the perceived levels of both risks and return with specific projects. Major factors include confidence in the future, demand projections, interest rates, political and economic stability and the possible trend in competitors' behavior. Firm surveys briefly show that incentives provided by governments are not particularly important in determining the decisions to invest. In some countries, investors may be required to apply for incentives, while in other countries, these incentives may be granted automatically once the decision to invest is made. However, a number of investors have confirmed that even when incentives are not considered as an important factor in their decisions to invest, they would still ask for them anyway because incentives have a way of improving their bottom lines(UNCTAD,2000).

2.2 Empirical Review

Empirical literatures in developing countries, though relatively scanty, are divided on the effect of fiscal incentives on investment. Some approaches including investors' motivation survey methods have been used to determine whether incentives are effective in encouraging investments. A few works employ a descriptive or case study approach rather than econometric analysis, simply explains the difficulty inherent in obtaining sufficiently reliable and broad data set.

For instance, Shah (1995) looks at the effect of fiscal incentives in a variety of countries using different methodologies including calculation of marginal effective tax rates (METR) and business survey. The conclusion from the study is that fiscal incentives turn ineffectual either due to the fact that a particular incentive offer are not very valuable to firms or because the preconditions for investment determination are not met. The study tends to conclude that conditions such as a relatively stable macroeconomic environment and efficient public infrastructure are more effective than granting tax holidays. Thus, the balance of evidence suggests that for many developing countries, fiscal incentives do not effectively counterbalance unattractive investment climate conditions such as poor infrastructure, macroeconomic instability, and weak governance and markets.

Recent econometrics studies on the effect of foreign direct investment incentives (FDI), in particular, fiscal preferences suggest that fiscal incentives have become more efficient determinant of international direct investment flows (Taylor, 2000). However, there are scenarios where FDI projects are driven by investment incentives rather than economic fundamentals of the host country. The reason is that these investors are likely to be relatively footloose and could easily decide to move on to the locations offering even more generous incentives before the expected benefits in the other locations are realized.

An existing body of empirical work also looks specifically at the efficacy of incentives in driving additional FDI, for example, Shah and Slemrod (1995), UNCTAD (2003), Well and Allen (2001) and Zee et. al. (2002) realized that investors' survey, econometric studies or case studies remain the primary tools used to assess the efficacy of FDI incentives. These studies found that various firms look at numerous factors when considering investment decisions. They consider factors such as the size of the market, regulatory policies, natural resource endowments and human capital availability. These fundamentals have shown from both surveys and econometrics studies that fiscal incentives play an insignificant role in determining the motivation to invest. Available surveys further show that tax incentives are 'good to have, but not a deciding factor.

Well and Allen (2001) conclude that experience strongly suggests that the fiscal investment incentives are popular in developing countries yet they have not been effective in making up for fundamental weaknesses in the investment climate. In fact, it seems that multinationals give more credence to simplicity and stability in the tax system than generous tax rebates, especially in an environment with great political and institutional risks. The main argument for tax incentives is that they can make non-viable investments profitable. However, regions/countries try to attract investment by successive round of tax reductions.

Despite the lack of evidence to support the efficacy or efficiency of fiscal incentives, governments still continue to offer them. The question is why is this so? Well and Allen (2001) argue that tax incentives offer an easy way to compensate for other government-created obstacles in the business environment. In other words, fiscal incentives respond to government failure as much as market failure. However, it is practically hard and takes longer time to tackle investment impediments such as low skills base, regulatory compliance costs, among others than to put in place a grant or tax regime to help counter balance these impediments. Fiscal incentives remain the second-best solution to providing a subsidy to counteract an existing distortion, since agency problems exist between government agencies responsible for attracting investment and those responsible for the more generic business environment. Whilst investment-promotion agencies can play an important role in coordinating government activity to attract investment, they also often argue for incentives without taking account of the costs borne by the economy as a whole.

An in-depth review of the nexus between incentives and investment shows mixed results. While some scholars are in favor of a positive link, others do not find any empirical evidence to support such conclusion. A number of empirical studies have found significant negative relationships between fiscal incentives and investment in both developed and developing countries (Auerbach &Hines, 1988 and Lucas, 1993). In their studies on the relationship between FDI and the cost of capital, where it is made to consist of relative wage rate, transportation costs and the fiscal incentives in the form of tax expenditure provisions offered by the host countries. They found a negative relationship, though foreign investors invest in developing countries mainly to

serve the host countries' markets. The hypothesis postulated is that countries with higher per capita GDP and higher GDP growth rate are more likely to receive larger amount of FDI compared to others.

Overall, empirical evidence showed that the size of the market and the market are potentially proxied by the level of GDP and that the GDP growth rate has affected FDI inflows rather than fiscal provisions. OECD (1995) concluded that on balance, fiscal incentives are not likely to affect significantly the decision of investors to undertake FDI. Contrariwise, Nishat and Anjum (1998), found a positive relationship between FDI and fiscal incentives offered by the host countries. The theoretical model used Cobb Douglas production function, based on two choices, which are the minimization of total cost condition and the efficient combination of inputs. The regression result confirmed that a highly significant coefficient of the cost of capital tariff and infrastructure suggest an effective role of the government in particular and fiscal provisions in promoting investment in the host country.

Further econometric evidence also suggests that tax incentives may have boosted FDI, but with no effect on total investment. Klemm and Van Parys (2009) use a set of African, Caribbean and Latin American Countries to test for tax competition in tax incentives and to explore the effects of tax incentives on FDI and total investment. They found that FDI increases with tax incentives when tax holidays are offered. However, there is no strong effect on total gross fixed capital formation or economic growth, suggesting that FDI crowds-out other investments. Other empirical analysis from several authors indicated mixed but related results. DeMooij and Ederveen (2003) found that investments in developed countries respond strongly to incentives. This implied that investment incentives are likely to work in developed countries rather than in the developing nations. Klemm (2009) found that investments, which responded significantly to incentives in some developing countries, had a smaller elasticity of less than one compared to those in developed countries with larger elasticity coefficient. It, thus, shows that incentives have smaller impact on investment in developing countries.

Within the subnational government, a number of state and local governments make use of economic development incentives to stimulate job creation and business growth processes in their jurisdictions. The

widespread use of incentives has generated interest in the effect that fiscal incentives enhances employment growth. However, the empirical evidence on the effects of incentives on the growth of establishments was measured in terms of actual employment change that occurred during the period in question. Carlton (1983) found that the number of economic development incentives offered by a state does not affect the location and employment decisions of new firms though the effects of incentives were measured using a business climate index that includes non-incentive factors. Walker and Greenstreet (1991) in their studies found that economic development incentives have a positive effect on firm location decisions, although incentive programs do not affect the growth of existing businesses. The findings of Todd and Kraybill(2002) revealed that incentives have a substantial positive effect on announced employment growth. The findings further show that establishments that received incentives usually overestimate their announced employment targets more than establishments that did not receive incentives.

In other empirical findings, Well and Allen (2001) posited that export-oriented investments are more sensitive to tax incentives. The result of the empirical findings asserts that targeted incentives seem to be a more cost-effective way of promoting investments. However, the findings of Hassett and Hubbard (2001) showed that investment incentives create significant distortions by encouraging inefficient investments. Therefore, in the course of implementing fiscal incentives, significant attention must be paid to the efficiency costs of investment incentives as it could lead to a low economic growth. McLure (as cited in Smith, 1990) found that low inflation remains the best investment incentives because a good macroeconomic environment contributes better to economic growth than investment incentives. Generally, the author suggests that the best incentives for attracting investment include stable macroeconomic policy stance and general security of the investment, among others. Alongside, the cost of initiating the incentives in terms of revenue losses must not be greater than the benefit derivable.

In furtherance to the existing literature, fiscal incentives cannot be successfully implemented without incurring some administrative costs and revenue losses. This is because any of the incentives policy put in place will

require constant monitoring so as to prevent leakages and therefore are additional burden on tax authorities. But where excessive tax incentives are granted, these could complicate the administration of the fiscal incentives and end up encouraging corruption. It could also result in time and resource wastage as lots of these resources may need to be devoted to ensuring compliance at regular intervals. Due to the likely impacts, some countries have tended to forgo the idea of granting fiscal incentives because of the high indirect costs of sustaining them. The forgone cost could instead be deployed to support research and development especially where it is observed that the processes are costly and unbearable.

Overall, Bernstein and Shah (1995) concluded that selective tax incentives such as investment credits, investment allowances and accelerated depreciation were more cost-effective for the fiscal authority in promoting investment than selected CIT rates' reductions. In general, tax incentives lead to revenue losses, create loopholes for tax avoidance and further erode the tax base, complicate tax administration and make revenue collection less efficient. In addition, it causes distortions in resource allocation, impairs transparency and accountability, and rarely delivers favorable results in the short to long run horizon.

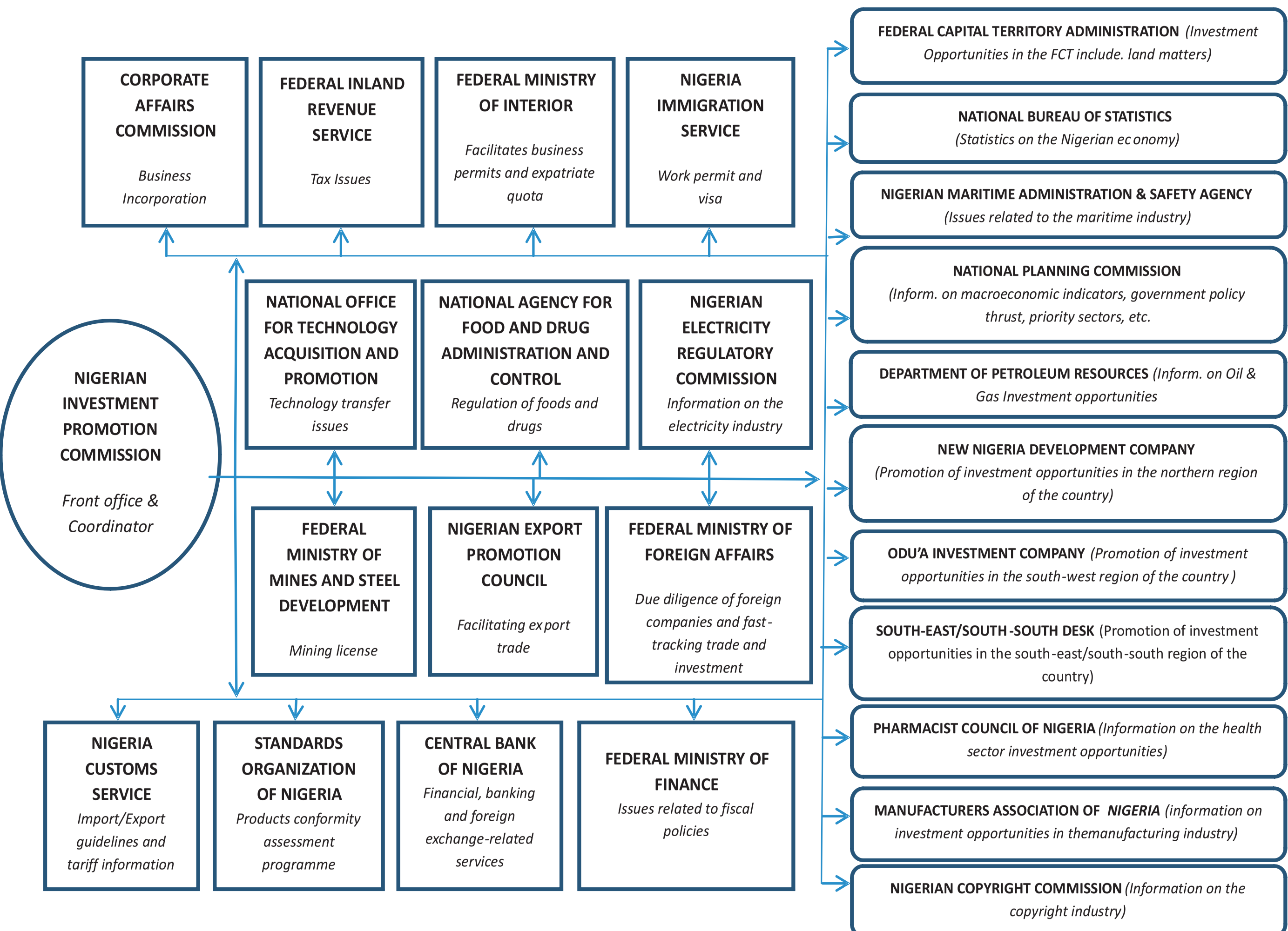
3.0 FISCAL INCENTIVES IN NIGERIA

3.1 Institutional Framework for Implementing Fiscal Incentives

The institutional framework for effective management of fiscal incentives for investment is vested with the One-Stop Investment Center (OSIC). The OSIC is an inter-ministerial 'committee' which comprises The Nigerian Investment Promotion Council (NIPC), Corporate Affairs Commission (CAC), Nigeria Immigration Service (NIS), Nigeria Customs Service (NCS), Federal Inland Revenue Service (FIRS), National Office For Technology Acquisition and Promotion (NOTAP), National Agency For Food and Drug Administration and Control (NAFDAC), Standards Organization of Nigeria (SON), Federal Ministry of Solid Minerals Development (FMSD), Federal Ministry of Foreign Affairs (FMFA), Federal Ministry of Interior (FMI), Nigerian Electricity Regulatory Commission (NERC), Nigerian Export Promotion Council (NEPC), Nigerian

Maritime Administration and Safety Agency (NIMASA), National Planning Commission (NPC), Department of Petroleum Resources (DPR), Nigerian Copyright Commission (NCoC), Manufacturers Association of Nigeria (MAN), Pharmacist Council of Nigeria (PCN), National Bureau of Statistics (NBS), Ministry of The Federal Capital Territory (MFCT), Federal Ministry of Finance (FMF),Central Bank of Nigeria (CBN) and three regional bodies responsible for investment promotion at their respective regions (Odu'a Investment Company, South-east/South-south desk and the New Nigeria Development Company). The chart below illustrates the various agencies and their responsibilities.

Figure 1: A workflow schema for the One-Stop Investment Center (*Referrals by NIPC to various agencies)*



3.2 Nigeria's Experience with Fiscal Incentives

In line with modern tax regimes, aimed at boosting investment and economic development through private sector initiatives, fiscal incentives in Nigeria cut across various sectors of the economy that are considered crucial to rapid economic growth. These incentives can be classified as both general and sector specific incentives.

3.2.1 General Incentives

These are incentives that are applied to stimulate and attract both foreign and domestic investments in all sectors of the economy and they include;

3.2.2 Pioneer Status:

This is a tax incentive exempting qualifying companies in certain industries and service sectors from paying company income tax in their formative years so as to enable them make appreciable profit for re-investment into the business. This comes in form of seven year tax holiday for industry in economically disadvantaged areas such as lack of access roads, pipe borne water, electricity, telecommunication and transportation while five-years for industries in areas with the necessary infrastructure. To qualify, a joint venture or wholly foreign owned company and an indigenous company must have incurred a capital expenditure of not less than N5.0 million and N150,000.00, respectively. Also, the application for pioneer status is expected to be submitted within one year of commencement of operations. There are currently 71 industries that are eligible for pioneer status in the country.

TABLE: 1 SECTORAL GRANT OF PIONEER STATUS INCENTIVES 2005-2011

Sectors	Years/ No. of Companies						
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Services	-	1	7	6	8	10	6
Manufacturing	9	25	29	12	28	27	18
Agro/Agro Allied	-	11	5	3	4	5	3
Construction/Engineering	1	-	1	1	4	6	3
Communication/Telecoms	1	10	2	-	-	-	6
Oil and Gas	-	-	3	1	4	5	7
Chemicals/Petrochemicals	1	3	2	-	-	-	-
Solid Minerals	-	1	-	-	1	1	3
Tourism	-	4	4	-	-	4	1
Pharmaceuticals	-	5	1	-	-	-	4
Infrastructure	-	6	-	-	-	-	-
Total No. of companies	**12**	**66**	**54**	**23**	**49**	**58**	**51**
Employment Generation	**5,597**	**5,890**	**9,956**	**2,355**	**63,686**	**14,771**	**17,704**
Total Investment (N' Billion)	**2.1**	**11.0**	**4.8**	**0.5**	**338.2**	**621.6**	**446.2**

Source: Nigerian Investment Promotion Council

3.3 Parameters for Accessing Pioneer Status by Companies

The Nigerian Investment Promotion Commission considers the following parameters in granting pioneer status to companies.

Employment Generation: In processing pioneer status for any prospective investors, job creation is one of the criteria. The company is expected to provide jobs in the economy as well as show evidence for capacity building, transfer of technology as well as develop local know-how for indigenous employees to boost entrepreneurship and investment in the economy.

Value Addition: This involves the transformation of primary product into finished goods within the economy without necessarily assembling those goods in Nigeria. The value addition a business creates in the production process is weighted and scored in the granting of pioneer status. The higher the value addition, the more acceptable in the issuance of pioneer status.

Local Content: The Nigerian local content simply focusses on the promotion of value addition in Nigeria through the utilization of local raw materials, products and services in order to stimulate the growth of indigenous capacity. This item is considered in the granting of pioneer status by the Nigerian Industrial Promotion Council (NIPC).

Export Potential: In the determination for the granting of pioneer status, the export potential is taken into consideration on the belief that such investment will generate inflow of foreign exchange into the economy.

Corporate Social Responsibilities: is the potential that a company would contribute to the sustainable development in the community in which it is established. Such corporate responsibilities include; building of schools, provision of

portable water, electricity, road network etc. for the host community. It is a set of standard by which companies subscribe in order to make its impact on the society.

Investment in infrastructure: Is an incentive granted to I ndustries that provide certain facilities that should have been provided by the government, access roads, pipe borne water and electricity. Twenty per cent (20 per cent) of the cost of providing these infrastructures where they do not exist is tax deductible (NIPC, 2009).

Investment in Economically Disadvantaged Areas: A 100 per cent tax holiday for seven years is granted to a pioneer industry in economically disadvantaged local government of the Federation. Such a company is also entitled to 5 per cent depreciation allowance in addition to the initial capital depreciation allowance.

Companies Income Tax: It is used to encourage potential and existing investors and entrepreneurs. The current rate for all sectors of the economy excluding petroleum is 30 per cent.

Local Value Added: To encourage local fabrication and production of goods within the economy with greater local content, a 10 per cent concession for five (5) years is granted essentially to engineering industries.

Access to Land: Any company incorporated in Nigeria is allowed to have access to land right for the purpose of its operations in any state of the Federation. Land lease is usually for a term of 99 years unless the company stipulates a shorter duration (NIPC, 2009).

Investment Promotion and Protection Agreement (IPPA) In an effort to foster foreign investors' confidence in the Nigerian economy, government enters into bilateral investment

promotion and protection agreements with countries that do business with Nigeria. This is to grant safety of the investment of the contracting parties in the event of war, revolution, expropriation or nationalization. It also grants investors the transfer of interest, dividends, profits and other incomes as well as compensation for dispossession or loss (NIPC, 2009).

Capital Allowance: Allows companies to write off the capital cost on qualifying assets for tax purposes in a given accounting period. The rate is restricted to 75 per cent of assessable profit per annum for companies in the manufacturing sector and 66 per cent for others, except those in the agro-allied industries. Companies in the agro-allied industries are granted 100 per cent on leased assets, while an additional investment allowance of 10 per cent is granted on leased assets for agricultural plants and equipment. Below are the current rates applicable in respect of capital allowances (see table 2)

TABLE 2: APPLICABLE CAPITAL ALLOWANCES IN NIGERIA

Qualifying Capital Expenditure (QCE) in Respect of	Initial Allowance (per cent)	Annual Allowance (per cent)
Building Expenditure	5	10
Industrial Building Expenditure	15	10
Mining	20	0
Plant excluding furniture and fittings	20	10
Furniture and Fittings	15	10
Motor Vehicle Expenditure	25	20
Plantation Equipment expenditure	20	33
Housing Estate Expenditure	20	10
Ranching and Plantation Expenditure	25	15
Research and Development Expenditure	25	12
Public Transportation Motor vehicle	30	-

Source: NIPC, 2009

. **Tax Relief for Research and Development:** Industrial establishments are expected to engage in research and development for the improvement of their processes and products. Up to 120 per cent of expenses on (R&D) are tax deductible, provided that such (R&D) activities are carried out in Nigeria and related with the businesses from which income is derived. Also, 140 per cent is allowed as R&D on local raw materials. However, where the research is long-term, the expenses on R&D is taken as capital expenditure and written off against profit. The results of such research would be patented and protected according to international property rights (NIPC, 2009).

In-Plant Training: Industries with in-plant training facilities are entitled to a two per cent tax concession over a period of 5 years.

Minimum Local Raw Material Utilization: Attainment of a targeted minimum utilization level of local raw material qualifies an industry for a 20 per cent tax credit for a five-year period. See table 3:

TABLE 3: LOCAL RAW MATERIAL MINIMUM UTLIZATION LEVEL BY SECTORS.

Sectors	Agro-Allied	Engineering	Chemicals	Petrochemicals
Utilization Level (per cent)	70	60	60	70

Source: NIPC, 2009.

3.4 Sector Specific Incentives

3.4.1 The Oil and Gas Industry

Given the importance of oil and gas sector to the Nigerian economy, it became imperative to design fiscal incentives that would encourage investment in the sector, in order to maximize its potential and government revenue. These incentives as provided by the subsisting fiscal regime in the sector include;

3.4.1.1 Incentives in the Memorandum of Understanding (MOU)

Tax Inversion: This is a strategy that allows the companies under the Joint venture (JV) to enjoy reduced tax rates as a result of the reduction in operational cost arising from per unit cost efficiency. The tax inversion rate is currently 35 per cent and it's only applicable to producers with operating cost below US$1.70 per barrel contingent upon a smooth production not impeded by quota restrictions, interruptions arising from sabotage and/or community disruption.

Restriction on Penalty Charges: Penalties are not exempted on operating cost below US$2.30/bpd for companies producing more than 175,000 billion barrel per day (bpd) and operating cost below US$3.00/bpd for companies producing below 175, 000 bpd.

Minimum Guaranteed Notional Margin: This is designed to guarantee a definite profit margin after tax and royalty payments for the Joint Venture (JV) companies on their equity crude or NNPC crude intake regardless of market conditions. The margin is applied as follows;

- Company's Equity Crude: US$2.50 per barrel was increased to US$2.70 per barrel for companies that incurred capital investment cost above US$2.00 per barrel; while
- NNPC Crude: US$1.25 per barrel was increased to US$1.35 per barrel for capital investment cost above US$2.00 per barrel.

  Thus, the margin is contingent upon the Technical Cost (TC) of operations not exceeding the fiscal technical cost of $4.00/bbl (4.00 US$ per barrel) (Omoregbe, 2005). Furthermore, it is expected that if the market price of crude oil is below US$15.00/bbl., the minimum guaranteed margin decreases by US$0.18 for every US$1.00 drop and increases by US$0.10 for every US$1.00 increase if the price is above US$19.00/bbl.

3.4.1.2 Incentives in the Petroleum Profit Tax (PPT) Act and other Acts

Capital Allowance (CA): As outlined in the PPT Act, capital allowance is claimable on four categories of assets or qualifying capital expenditure (QCE) items.

- Capital Expenditure on Plant, Machinery and fixtures;
- Capital Expenditure on Pipelines and storage tanks;
- Capital Expenditure on Building construction or works of permanent nature on buildings; and
- Capital Expenditure on Drilling activities like acquisition of rights in or over petroleum deposits, searching, discovering and testing deposits and construction of any works or structure likely to be of little use when petroleum operation ceases.

Capital Allowance include;

- **Annual Allowance:** This is granted to companies in respect of the depreciation to the QCE to encourage crude oil exploration. This is computed on a straight line basis by writing off 20 per cent of the cost of the asset annually in the 1st to 4th year and 19 per cent in the 5th year. The balance of 1per cent remains in the books until the asset is sold. However, capital allowance deductions in any accounting period are limited to the extent that the actual tax payable by the company is not less than 15 per cent of the assessable tax in the absence of capital allowances (Atuokwu, 2009).
- **Petroleum Investment Allowance (PIA):** It is a one-off allowance available to the JV companies as well as the indigenous or sole risk operators and claimable in the

accounting period in which an asset with QCE was first used. The PIA rates are applicable on graduated basis as follows;

- On-shore Operations are 5 per cent of the asset cost
- Off-shore Operations

  Water depth of up to 100 meters – 10 per cent;

  Water depth of between 100 - 200 meters - 15 per cent;

  Water depth of beyond 200 meters - 20 per cent

- PSC Companies that signed their contract agreements prior to 1st July 1998- 50per cent

o **Investment Tax Credit (ITC):** This is a tax-offset, which is deductible from assessable tax and claimable by the PSC companies in deep water exploration and production that signed their contract agreements prior to 1st July 1998. The applicable rate under the Deep Offshore and Inland Basin Production Sharing Contract Act is currently 50 per cent for companies with QCE.

o **Investment Tax Allowance (ITA):** Is granted to PSC Companies that signed their contract agreements after 1St July 1998. It is computed by applying 50 per cent flat rate on QCE which is added to capital allowance and deducted from assessable profit.

o **Balancing Allowance:** This is an allowance granted to petroleum companies if the tax written-down-value exceeds the income received on disposal of a QCE asset.

o **Provisions for Losses**: Losses can be carried forward and recouped from future profits indefinitely for the companies.

- **Concessionary Profit Taxes:** These are reduced tax rates granted to PSC companies in order to encourage and increase investments and cushion the effect of high cost and risks involved in the upstream sector/deep offshore waters (water depths over 200 meters) and the inland basin areas. New companies in the onshore waters are also granted reduced tax rates to encourage operations. The applicable rates are;

- PPT at 50.0 per cent instead of 85.0 per cent for the duration of the PSC in deep offshore waters

- PPT at 65.75 per cent instead of 85.0 per cent for the first five years for new companies in onshore operations.

- Royalties for deep shore PSC are graduated according to water depth as against the 20 per cent for onshore waters as follows;

  - 200 – 500 meters water depth---------------12.00per cent
  - 501-800 meters water depth ---------------- 8.00 per cent
  - 800 – 1000 meters water depth -------------4.00per cent
  - Beyond 1000 meters water depth ----------0.00per cent
  - Inland basins ------------------------------------10.00per cent (Atuokwu, 2009)

3.4.2 The Gas Sub-Sector

The incentives in the gas sub sector are embedded in the PPTA, Companies Income Tax Act (CITA) and gas policy. While the gas policy mainly provides for incentives that would encourage investments in gas utilization so as to eliminate gas flaring, the MOU, Gas Finance (Miscellaneous Tax Provision) Act of 1998, PPTA and CITA provide incentives for both upstream and downstream gas operations, including gas utilization. Below are the fiscal incentives available for gas operations.

Gas Transmission, Distribution and LNG Projects

- **Income Tax**: A CIT rate of 30.0 per cent instead of the PPT rate of 85.0 per cent is applicable to transmission and distribution companies, while a PPT of 45 per cent is applicable to LNG projects;

- **Capital Allowance**: This is a tax deductible and applicable at 20.0 per cent annually in the 1st – 4th year of operation, 19 per cent in the 5th year and 1per cent in the books for transmission and distribution companies, while for LNG projects it's applicable at 33 per cent per annum on straight-line basis in the 1st -3rd year with 1per cent in the books;

- **Investment Tax Credit:** This is also tax deductible and its applicable at 5.0 per cent for companies in the first two phases and 10.0 per cent for LNG projects;

- **Royalty**: This is applicable at 7.0 per cent onshore operations and 5.0 per cent offshore operations for all phases;

- **Tax Holiday:** This is a period of exemption from tax payments granted a company in its formative years under a pioneer status in Nigeria, so as to enable it make appreciable profit for re-investment into the business. The applicable period is 3 years renewable for another 2 years on the basis of satisfactory performance by transmission and distribution companies.

Upstream Gas Utilization: This is defined as activity involved in the separation of oil from petroleum in the reservoir for usable products, or the delivering of the gas to designated points for use by downstream users and includes gas production (Atuokwu, 2009). Section 10A of the PPTA as amended, specified the fiscal incentives in this phase as follows:

- o **Allowable Deductions:** All funds invested in the separation of crude oil and gas from the reserves into suitable products are considered as part of the oil field development and taken as deductibles for tax purposes. Capital investment on facilities and equipment used to deliver associated gas in usable form at utilization or transfer points is treated, for tax purposes, as part of the capital investment for oil development, though section 11c of the PPTA provides that capital employed in improvement, as distinct from repairs, is not an allowable deduction (Atuokwu, 2009);

- o **Capital Allowances:** Capital allowances, operating expenses and basis of tax assessment, which can serve as reimbursable expenses against oil income are subject to the provisions of the Petroleum Profit Tax Act (PPTA) and the Nigerian National Petroleum Corporation (NNPC) revised MOU with the joint ventures.

Gas Utilization (Downstream Operations): This is defined under Section 28G (3) of Company Income Tax Act (CITA) (as amended) and Section 4 of the Finance (Miscellaneous Tax Provisions) Act, 1998 as the marketing and distribution of natural gas for commercial purposes, including the establishment of power plants, liquefied natural gas plants, gas to liquid plants, fertilizer plants, and gas transmissions and distribution pipelines (Atuokwu, 2009). The incentives applicable in the sub-sector include;

- o **Tax Holiday:** This is applicable as in the upstream gas utilization.

- **Petroleum Investment Allowance (PIA):** A company is qualified to make a claim of 35 per cent PIA on Qualifying Capital Expenditure (QCE) if it did not take advantage of the tax holiday or 15 per cent if it had taken advantage of the tax holiday;

- **Accelerated Capital Allowances:** Allows greater deductions for capital allowance in the earlier years of an asset with a qualifying capital expenditure. It is applicable at 90 per cent on plant and machinery with 10 per cent retention in the books after the tax holiday period.

- **Tax Deductible Interest on Loans:** Applicable tax to companies is 30 per cent CIT instead of the 85 per cent PPT and interest on loans for gas projects is to be tax deductible provided that the prior approval had been obtained from the Federal Ministry of Finance before taking the loan;

- **Tax Free Dividends**: All dividends distributed during the tax holiday are not taxable provided that the downstream investment is in imported capital or plant and machinery that is not less than 30 per cent of the companies' equity share capital.

- **VAT Exemptions on Plant and Machinery:** VAT is charged at 0 per cent for plants, machinery and equipment purchased for gas utilization.

3.4.3 Power Sub-Sector

To harness the potentials of the power sub sector, certain fiscal incentives have been put in place to encourage investors into the sector. The incentives as outlined by the Nigerian Electricity Regulatory Commission (NERC) and Nigerian Investment and Promotion Council (NIPC) include;

New Multi Year Tariff Order (MYTO): The Nigerian Government provides a 15-year commercial tariff path for the electricity industry with minor and major bi-annually review arising from changes in inflation rate, exchange rate, gas prices etc. The review is also done every five years so as to ensure adequate returns on investments. The MYTO is based on the building

blocks approach, which combines the positive attributes of rate of return regulation and price caps.

Tax Holiday: It is used to encourage enhanced return for the expansion of the business during the formative years of a company. Manufacturers of electrical products, including parts or equipment for other appliances, electrical wires, transmission cables or cable sets etc. are exempted from the payment of income tax or given a period of graduated tax holiday of 10-20 years based on the amount of investment ranging between US$50 million and US$200 million, see table 1.

TABLE 4: GRADUATED INCENTIVES IN THE POWER SECTOR

Level of Investment	Tax holiday	In-Plant-Training
Up to US$50 million	10	5
US$50 million – US$100 million	12	7
US$100 million – US$150 million	15	10
US$150 million – US$200 million	18	12
US$200 million	20	15

Source: Nigerian Investment Promotion Council

Corporate Income Tax (CIT): All companies in the industry are subjected to 30 per cent corporate income tax, however, independent power generation companies utilizing gas, coal and renewable energy sources are entitled to 50.0 per cent reduction in CIT on net profits for five year after expiration of the tax holiday.

Import Duty Exemption: Zero per cent (0per cent) import duty is granted on power generation equipment that uses Nigerian gas as source of power as well as machinery, spares and consumables for the installation and commissioning of projects before the start of the business, excluding test runs.

Tax Relief for Research and Development (R&D): Companies are expected to improve their products and services through research and development. Up to 150 per cent of the

expenses on research and development in the electricity industry is tax deductible for both existing and new companies.

Tax Concession on Nigerian Employees: Companies are encouraged to hire and train indigenous employees through the tax concession on in-plant training initiative. Companies that engage in manufacturing in the power sector are granted 20.0 per cent tax deduction on the cost of local staff employed, directly or through contracts, based on a minimum of 100 employees. A 2 per cent tax concession between 5 and 15 years based on the quantum of investment is also granted to these companies for in-plant-training.

Incentives for Providing Infrastructure: Companies in the electricity industry are also encouraged to invest in the provision of infrastructure that should have been provided by the government through specified tax incentives. Tax concession to the tune of 35.0 per cent of the cost of the infrastructure facility is granted and distributed over a five-year period. The tax concession is capitalized during the period of the tax holiday.

3.4.4 Manufacturing Sub-Sector

A number of fiscal incentives have been mapped out by government to stimulate the growth in the manufacturing sub-sector and reposition it as the engine of growth in the economy. The goal is to achieve both social and economic benefits, among which increased investment, industrialization, job creation, value addition, local content development etc. The incentives in the sector include:

Capital Allowance: The rate of capital allowance per annum is restricted to 75.0per cent of assessable profit for companies in themanufacturing sector.

Reduced Company Income Tax: Companies with turnover of less than N1.0 million in the manufacturing sector pay CIT of 20 per cent instead of 30 per cent in the first five years of

operations. Also, dividends from such companies are tax free for the first five years. In addition, dividends from manufacturing companies in the petrochemical and liquefied natural gas sub-sector are tax free.

Reinvestment Allowance: Manufacturing companies that incur qualifying capital expenditure for approved expansion of production capacity, modernization of production facilities and diversification into related products are entitled to a generalized capital investment allowance on their capital expenditures.

Manufacture-In-Bond Scheme: The scheme is designed to encourage manufacturers to import raw material inputs and other intermediate products duty-free for production of exportable goods, backed by a bond issued by any recognized financial institution. The bond is discharged after evidence of exportation and repatriation of foreign exchange has been produced (NIPC, 2009).

All equipment for processing cassava flour for composite flour blending shall be imported duty free (effect from 31st March, 2012)

Corporate tax incentives rebate of 12 per cent shall be enjoyed by Bakers on attainment of 40 per cent cassava blend within a period of 18 months.

3.4.5 The Agricultural Sub-sector

The agricultural sector is central to Nigeria's economy; accounting for 40 per cent of the Gross Domestic Product (GDP) and providing employment for over 60 per cent of the labour force in order to encourage investment in agricultural sector the following incentives are applicable:

With effect from 31st January, 2012 agricultural machinery and equipment shall attract zero per cent (0 per cent) duty in order

to support the development of the sector

A five–year tax holidays for companies that are granted pioneer status;

Interests earned by financial Institutions on loans granted for agricultural trade or business are tax exempt;

Company is entitled to unrestricted capital allowances;

Machinery and equipment purchased for agricultural purposes are exempted from value Added Tax (VAT);

Losses can be carried forward indefinitely;

Agro-allied plant and equipment enjoy enhanced capital allowance of up to 50 per cent;

All agricultural and agro-industrial machines and equipment to enjoy 1 per cent duty;

Interest Drawback (IDP); under the IDP, farmers could borrow from lending banks at market–determined rates, while the programmes pay an interest rebate of a determined percentage (40.0 per cent) to farmers who repay their loans on schedule;

Agricultural Credit Guarantee Scheme Fund (ACGSF) administered by the Central Bank of Nigeria provides up to 75.0 per cent guarantee for loans granted by the commercial banks for approved agricultural activities;

Commercial Agricultural Credit Scheme (CACS), The Scheme was established in March 2009 by the CBN in partnership with the Federal Ministry of Agriculture and Rural Development (FMARD) to fast tract the development of commercial agriculture in the country. The applicable interest rate under the fund is retained at 9.0 per cent. The fund is disbursed

through the deposit money banks (DMBs).

Agricultural Credit Support Scheme (ACSS), the ACSS is granted at 14.0 per cent interest rate, while beneficiaries who fully repaid their loans on schedule are entitled for a refund of 6.0 per cent of interest paid.

The Nigerian Incentive-Based Risk Sharing system for Agricultural Lending (NIRSAL) is a five pillar programme to be addressed by an estimated US$ 500 million of CBN fund that will be invested as follows:

Risk–sharing Facility (US$300 million). This component would address banks' perception of high-risks in the sector by sharing losses on agricultural loans.

Insurance Facility (US$30 million). The primary goal is to expand insurance products for agricultural lending from the current coverage to new products, such as weather index insurance, new variants of pest and disease insurance etc.

Technical Assistance Facility (US$60 million). This is to equip banks to lend substantially to agriculture, producers to borrow and use loans more effectively and increase output of better quality agricultural products.

Holistic Bank Rating Mechanism (US$10 million). This mechanism rates banks based on two factors, the effectiveness of their agricultural lending and the social impact and makes them available for the public.

Bank Incentives Mechanism (US$100 million). This mechanism offers winning banks in Pillar four, additional incentives to build their long–term capabilities to lend to agriculture. This will be in terms of cash awards.

3.4.6 The Telecommunications Sub-sector

The statutory framework for investments provides specific measures that are meant to encourage investors, guides investments in the Nigerian telecom market. The government has provided an enabling environment to attract investors, with the introduction of a package of incentives in the telecommunication subsector. These include:

Pioneer status for five years under the industrial development income tax relief Act 1990 for interested investors who want to set up plants for the manufacture of telecom equipment in the country;

Exclusivity period for licenses (e.g. 5 years for GSM licenses, 3 year for long distance international gateway operators);

Import duty for all telecom equipment reduced from 25 per cent to 5 per cent for two years from August 2001;

A tariff structure which enables investors to recover their investment over a reasonable period of time;

Measures to ensure speedy clearance of goods at the ports etc.

The Nigerian investment commission decree of 1995 which regulates foreign investment, provides for the unconditional transferability of funds into and out of Nigeria, on the condition that this is done through an authorized agent;

Guarantee of long term loans at minimal interest rates for telecom operators;

Granting of exclusivity to telecom operators, typically to provide fixed telecom services for specified number of years. This implies some sort of monopoly status for the operators.

3.4.7 Export Incentives and Free Trade Zone

3.4.7.1 Export Incentives

Duty Drawback Scheme: This provides for refund of duties/charges on raw materials including packing and packaging materials used for the manufacture of products upon effective exportation of final products (NIPC, 2009). The scheme allows for a 60 per cent refund on duties/charges, which is automatically granted to the exporter at the initial screening by the Duty Draw Back Committee. The refund amount is liquidated after the final processing of the application, while the Committee is authorized to approve the request for claim of any payment where applicable.

Duty Drawback Facility: This scheme provides for both fixed and individual drawback facilities. The fixed drawback facility is for those exporters/producers whose export products are listed in the fixed drawback schedule to be issued from time to time by the Committee, (NIPC, 2009). On the other hand, the individual drawback is for producers/exporters that do not qualify under the fixed drawback facilities. It is therefore a straight forward traditional drawback mechanism under which duty is paid on all inputs. The duties are consequently rebated on inputs used for export production (NIPC, 2009).

Export Expansion Grant (EEG) Scheme: Is an incentive with the main objective of stimulating export oriented activities that will bring about significant growth in the non-oil export sector. The exporter shall be a manufacturer or merchant of product of Nigeria origin for the export market. The export must be registered with the Nigerian Investment Promotion Council (NIPC) and must have a minimum annual export turnover of N5.0 million and evidence of registration of products for export. The weighted eligibility criteria in assessing the EEG have four Bands: 25 per cent, 20 per cent, 10 per cent and 5

TABLE 5: THE WEIGHTED ELIGIBILITY CRITERIA FOR ASSESSING THE EEG SCHEME.

Eligibility Criteria	Weight
Local value added	25 per cent
Local content	20 per cent
Employment (Nigerians)	20 per cent
Priority Sector	10 per cent
Export Growth	20 per cent
Capital Investment	5 per cent
Total Weight	100 per cent

Source: NIPC, 2009

per cent (NIPC, 2009). The determination of export performance eligibility criteria is shown in table 5 above:

Export Development Fund Scheme: The scheme provides financial assistance to private sector exporting companies to cover part of their initial expenses in respect of the following export promotion activities:

- o Advertising and publicity campaigns in foreign markets;
- o Export market research and studies;
- o Production design and consultancy;
- o Participation in trade missions, buyer-oriented activities, overseas trade fairs, exhibitions and sales promotion;
- o Cost of collecting trade information; and
- o Backing up the development of export oriented industries (NIPC, 2009).

Trade Liberalization Scheme: This is an export liberalization incentive primarily geared towards export activities within the ECOWAS sub-region. The aim is to considerably enlarge intra-community trade activities in the region through the

elimination of tariff and non-tariff barriers in trade emanating from member countries. The scheme offers preferential access to the ECOWAS market from Nigeria.

3.4.8 Free Trade/Export Processing Zones

In order to create a business friendly environment, the Federal Government in 1991 passed an aggressive free zone law which allows interested parties to set up industries and businesses within the designated zones. This is with the objectives of exporting the goods and services manufactured or produced within the zones. Incentives include, tax holiday; unrestricted remittance of profits and dividends earned by foreign investors; no import or export licenses required; up to 100 per cent foreign ownership of enterprises; permission to sell up to 25 per cent of production in the domestic market; etc

The Oil and Gas Export Free Zone was established by Decree No. 8 of 1996. The Decree provides for an incentive-driven and attractive environment for business in the oil and gas sector. The objective of the zone is to motivate both foreign and local investors for increased investments in the oil and gas sector so as to increase the nation's oil reserves, enhance government take and provide basis for technological transfer. There are currently three oil and gas free zones in Nigeria with enhanced stacking and warehousing facilities for investors. They comprise, the Onne, Calabar, and Warri Oil and Gas Free Zones. Fiscal incentives in the zone include:

- All companies operating in the zones are exempted from payment of all Federal, State and Local Governments taxes, including rates and levies;
- All goods imported into the zones are duty free;
- There is 100 per cent guarantee on foreign capital, profits and dividends repatriation;
- There is no expatriate quota and foreign exchange regulation;
- There is no pre-shipment inspection for goods imported into the free zones;

- The operators in the zone are not required to process import or export License;
- Companies are to enjoy rent free land at the construction stage;
- There is no restriction on profits and dividend remittances by foreign investors;
- There would be no strike and lock-out for ten-years after the commencement of operations in a zone (Elebiju, 2008);
- There is 100per cent foreign ownership of company/investment.

4.0 METHODOLOGY

The paper employs the case study methodology to analyze fiscal incentives in Nigeria. Crowe, et al (2011) defines the case study research as an 'approach that generates an in-depth, multi-faceted understanding of a complex issue in its real-life context'. The case study methodology has been used to capture the explanations on 'how', 'what' and 'why' in the fiscal incentives issues. The 'how' means the way by which fiscal incentives interventions are implemented and received?', 'what gaps exist in the delivery or why one implementation strategy might be chosen over another?'

The crucial stages in this methodology include defining the case, selecting the case (s), collecting the data (through multiple sources), analyzing the data; interpreting data and reporting the findings'. At the core of the case study, the methodology adopted for this study include 'the need to explore new areas and issues where little theory of the complex issues of fiscal incentives is not available or where the measurement is unclear to describe the process or the effects of an event or an intervention, especially when such events affect many different parties' (Kohn, 1997). Thus the methodology provides not only on how, why and what questions, but evaluates the implementation process of fiscal incentives in Nigeria (Tellis,

1997; Zaidah, 2007). According to Johansson, (2003), the relevance of the case study methodology is, therefore, embedded in its ability to combine the different research strategies or methods of inquiry.

In this study, the case study methodology considers descriptive inferences as the most appropriate. The descriptive case study propositions are also implicitly comparative and allow for cross-case reference comparisons (Gerring, 2004). The case studies of the selected countries explain the individual development and implementation of fiscal incentives under the following outlines. Thus some selected countries namely; Brazil, Ghana, Indonesia, Kenya, Saudi-Arabia, South Africa and Tanzania are considered for the study.

In furtherance of the methodology, the criteria for the selection of countries can be categorized into general and specific reasons. The general criterion for choosing African countries is owing to the lingering challenges confronting the region in attracting foreign direct investment. A number of attempts have been made, but to no avail. This could be attributed to some factors that work against the business environment for foreign direct investment in Africa, particularly the issue of macroeconomic development. In addition, Africa's image as a high risk investment region needs to be overcome as the flow of foreign direct investment still remains highly sensitive to economic and political risks. As a result, the most popular instrument for attracting FDI is to introduce fiscal incentives as means of stimulating economic growth in Africa.

On the other hand, the specific criterion for selecting these countries is based on the uniqueness in the implementation of fiscal incentives. In South Africa, for instance, the choice is informed by the fact that the country is one of the largest economies in Africa and the highest recipient of foreign capital. It is thus imperative to explore the role of investment incentives in South Africa and see what lessons are available for Nigeria to learn. Similarly, Ghana is chosen based on the fact that the country has witnessed a relatively stable socio-political system within the West-African sub-region, thereby attracting substantial foreign investments. It is, thus, expedient to explore the country's fiscal incentives and see if the movement of companies out of Nigeria and other neighboring countries into Ghana is associated with the incentive schemes instituted in the country.

Saudi Arabia, Brazil and Indonesia have been chosen on account of their similarities with Nigeria as oil producing countries and for Nigeria to learn some useful lessons from these countries in boosting investments in the oil and gas sector. Generally, EPZs across countries are established to encourage production for export, thus, enjoying similar incentives. The incentives provided in the EPZs in the Amazon Basin Region are similar to that of Nigeria, except that the incentives in EPZs in Nigeria appear to be much broader than that of Brazil. While manufacturers operating within the EPZs in the Amazon are entitled to a 75.0 per cent reduction in income tax, the EPZs in Nigeria are not. In contrast, administrative licenses granted to operators in the Amazon EPZs are broader than those obtainable in Nigeria as they are largely streamlined to include other customs procedures.

Again, the choice of Kenya is also informed by its diverse physical features as a major source of tourist attraction with extensive infrastructure. The government has taken steps to enhance Kenya's economic competitiveness and made the place a desirable investment destination for investors. The key strengths that make the place a safe haven for investment is the excellent connectivity to major world-wide hubs and time zones that make it easy to work with most continents. The tourism industry, already one of the most successful in the world, continues to expand. Kenya's mineral resources though limited, are attractive and a potential source of valuable materials such as titanium. At present exploration of oil is ongoing off the Indian Ocean-Coast and other parts of the country. Kenya and Tanzania rank among the top tourist destinations in Africa with both the world's tallest free standing mountain (Mount Kilimanjaro) and the Zanzibar world heritage site both located in Tanzania; while the premier wild life park, the Samburu National Reserve, Mount Kenya (second highest in Africa after Kilimanjaro) and extensive coral reefs, fresh-water lakes and beautiful beaches are situated in Kenya.

5.0 CASE STUDIES OF COUNTRIES' IMPLEMENTATION OF FISCAL INCENTIVES

5.1 Brazil

The Brazilian government is making efforts at improving the climate for foreign investment as it seeks to develop a more market-oriented economy.

Import barriers have been reduced and many state-owned enterprises have been privatized. Over a decade ago, the federal government increased foreign investment and export incentives. State and municipal governments also continue to provide tax and other incentives for investments in their regions. Many local governments, especially those in the North and Northeast of Brazil, offer significant incentives to attract businesses to their regions. Some of the incentives include deferment or reduction of the state based value-added tax (VAT), free land or free building leases, and exemption from municipal service tax (ISS), in addition to the regional or industry-specific incentives.

There are three basic laws supporting investment incentives in Brazil. These are; (i) Law No. 4131/62 (Foreign Direct Investment Law) and Law No. 4390/64, (ii) Executive Order No. 55762/65, and (iii) the constitution of Brazil (Elisiode Souza, 2004). Investment promotion strategy began in Brazil in 1990 with the establishment of the Ministry of External Relations' System of Investment Promotion – SIPRI (Immigration Consulting Services, 2012). Also, in 1991, the Asuncion Treaty was signed between Argentina, Brazil, Paraguay and Uruguay with the ultimate aim of creating a common market. The Treaty later eliminated import/export duties and legalized a customs union among member countries in 1994 (Foreign Trade Information System, 2009). When Brazil amended its constitution in 1998, the distinction between local and foreign investors was eliminated. Since then, sectors that were hitherto restricted to foreign investors such as petroleum, telecommunications, mining and power was declared open to foreign investment (Encyclopedia of the Nations, 2012). Similarly, Amendment Act No. 123 of 2006 strengthens the principles guiding investment activities. The new Act thus created a special tax regime, which allows small companies to enjoy a simplified tax system and more favourable investment conditions (Elali&Zilveti, 2006).

In 2004, the Commission for the Promotion of Private Productive Investment, popularly referred to as the 'Investors Room' was established within the Presidency with the objective of facilitating domestic and foreign investment in Brazil. In addition, the Commission is made to coordinate the activities of public investment promotion institutions. These institutions include;

(I) Investment unit of the APEX-Brazil in the Ministry of Trade and Industry set up in December 2004 to promote foreign investment;

(ii) National Network of Investment Agencies (RENAI) which was set up in 2003 for state and regional investment promotion; and

(iii) Integrated System for Investment Promotion and Technology Transfer to the Enterprises (SIPRI), which is an information network for articulating investment strategies to attract investment (Immigration Consulting Services, 2012).

5.1.1 General Incentives

Overall, Brazil offers a lot of incentives as means of attracting investment and fostering the development of less developed regions in the country. A corporate income tax reduction of 12.5 per cent is granted to companies engaged in ventures considered to be a priority for the development of these underdeveloped areas. Such companies are also entitled to deposit of up to 30.0 per cent of the income tax due.

In order to promote technological development, agro-industrial technology development programmes allow for:

i. Accelerated depreciation and amortization of domestically produced equipment of twice the applicable depreciation rate;

ii. Deduction of research and development expenses for industrial and agriculture technology calculated on the total income tax due limited to 4.0 per cent;

iii. Withholding tax credit of 10.0 per cent on the cross border remittance of royalties, technical assistance and specialized services fee; and

iv. Reduction of 50.0 per cent of withholding taxes on remittances

of royalties and technical services fees, (Ernest & Young Terco, 2011).

Free trade zones are also created in Brazil. According to Ernest and Young Terco (2011), the Manaus Free Trade Zone (MFTZ) was created as a free trade area offering special tax incentives in order to attract investment to remote areas in the Amazon region. Foreign goods used in the Zone for consumption, manufacture, assembly, or for storage and re-export, are exempted from import duties, PIS and COFINS and federal VAT (IPI). In order to enjoy these benefits, however, a company must obtain prior approval from relevant authorities. Such approvals are usually granted for projects with minimal manufacturing process or those that meet other requirements in the tax legislation. They include:

i. Import Duty exemption for products for local consumption in the zone;

ii. Import Duty exemption for goods produced for the Western Amazon region;

iv. Import Duty reduction of up to 88.0 per cent is granted on raw materials that are imported through the Zone and used in the manufacturing of goods that are produced for the Brazilian market;

v. Federal VAT – IPI suspension for goods entering the Zone in addition to a suspension of import duties until goods leave the MFTZ;

v. Exemption of IPI for products manufactured outside the Zone and destined for the MFTZ; and

vi. Exemption of IPI for manufactured goods destined for domestic consumption in the MFTZ or in the Occidental Amazon region. However, only certain products benefit from this latter provision (Ernest and Young Terco, 2011).

5.1.1.1 Special Free Trade Zones

Special Free Trade Zones created by Federal decree were formed for foreign companies that invest in plants manufacturing goods for export. For the purposes of customs control, these Zones are not considered to be Brazilian territory. A maximum of 20.0 per cent of the products manufactured in the Zones may be destined to the Brazilian market. However, the following tax and customs exemptions are offered for a period of 20 years to companies operating in the zones:i.

I. Suspension of the Import duty, IPI, PIS, PIS-import, COFINS, COFINS-import and AFRMM;

ii. Exemption from customs and administrative restrictions and controls for certain goods imported or exported;

iii. Exemption from withholding tax due on payments for services rendered by foreign companies; and

iv. Exemption from corporate income tax payments during a period of 5 years (Ernest and Young Terco, 2011).

However, no Zone is currently operating in Brazil.

Similarly, export processing zones were created by state governments in order to reduce the existing regional differences and further promote country's development. Companies established as manufacturers of goods for export are exempted from import duties, social contributions on turnover and financial transactions tax. Warehouse spaces are also provided at concessionary rates. Also, companies that have gross revenue derived from exports in the preceding year equal to or higher than 70.0 per cent of total export revenue for the following two calendar years are entitled to a special tax regime for the acquisition of capital goods. Such companies will also be exempted from corporate income tax for a period of 5 years beginning from the date of establishment. (Ernest & Young Terco, 2011)

Double Taxation Agreement (Tax Treaties) purposely for the avoidance of double taxation was signed by Brazil government with a number of other

countries notable among are Argentina, Austria, Belgium, Canada, Chile, China, France, India, Israel, Italy, Japan, Korea, Mexico, Norway, South Africa and Spain (Franco Caiado Guerreiro & Associates, 2011).

5.1.2 Specific Incentives

5.1.2.1 Oil and Gas Sector

The Oil and Gas sector in Brazil was liberalized with the passage of the Petroleum Investment Law in 1997. The liberalization scheme has attracted a number of investments in the sector. In order to properly regulate the activities of the sector, the National Petroleum Agency (ANP) was established and incentives were provided by government to foster growth in the sector. Some of these incentives include the removal of state monopoly of oil and gas exploration and subsidy grants. The government has also put in place a special custom regime for importation of materials to be in the exploitation of petroleum and natural gas, which ensures that materials are duty free, Ernest andYoung Terco, (2011). The Brazilian government has adopted a Production Sharing Agreement (PSA) with investors in the Oil and Gas sector where the oil company bears all the costs and risks of exploration, evaluation, development and production. When oil is discovered in commercial quantity, the oil company is thus granted the right to recover costs, the right to the volume of production and the right to a profit based on an agreed sharing formula (Deloitte, 2011).

In order to foster the growth of the oil and gas industry, a special custom regime known as REPETRO (Regime Aduaneiro Especial de Exportação e Importação de Bens Destinados às Atividades de Pesquisa e de Lavra das Jazidas de Petróleo e de Gás Natural) was formed. The REPETRO is applicable to certain products listed in the Law. The REPETRO allows for the importation of raw material to be used in the industrialization process with import duty, PIS, COFINS and IPI suspension. In addition, it grants import duty, PIS, COFINS and IPI suspension upon importation of finished goods under the temporary admission regime (Ernest and Young Terco, 2011).

5.1.2.2 Manufacturing Sector

In the manufacturing sector, the Brazilian government introduced incentives such as tax benefits, credits and exemptions to stimulate the industrial sector so as to foster manufacturing and ensure economic growth. They include:

I. The *Inovar-Auto,* which was created solely for promoting technological development and innovation for automotive manufactures. This incentive grants tax credits to companies engaging in the manufacture of cars;

ii. The *Padis,* which was introduced in 2007 to improve technological development of the semiconductor industry. The Padis provides a reduced income tax for manufacturing companies as well as tax exemptions to purchase raw materials to companies in this industry; and

iii. The reduction of social security contribution rates from 2.5 per cent and 1.5 per cent to 2.0 per cent and 1.0 per cent, respectively, depending on the type of manufacturing company (KPMG, 2012).

5.1.2.3 Telecommunication Sector

Incentives are also provided for investors in the telecommunication sector. These incentives include the provision of credit and customs duties relief. Law No. 176 of 2001 exempted companies from the payment of taxes on industrialized products. Currently, the exemptions have been converted into reductions of the rates, and the percentage reduction is due to be gradually reduced (Foreign Relations Ministry Brazil, 2006).

5.1.3 Outcomes

An evaluation of the implementation of fiscal incentives in Brazil indicates that it has been successful in attracting investment and raising the level of exports in the country. Prior to the creation of the Free Zone, the entire area was remote and underdeveloped. With the implementation of fiscal incentives, however, the zone attracted a lot of manufacturing companies and has succeeded in increasing the exports of the country. This development largely resulted from the exemption granted on income tax. Notwithstanding the remote location and substandard infrastructure, the zone now has a strong industrial base and has attracted a significant number of immigrants to the region. In addition, goods manufactured within the region currently compete favorably with similar foreign products.

Also, the amendment of the constitution in 1995, which eliminated the restriction of foreign investors from investing in the petroleum, telecommunications, mining and power sectors, attracted more foreign investment. Thus, following the implementation of these policies, the contribution of exports of goods and services to GDP recorded a remarkable increase from 9.9 per cent in 2007 to 11.4 per cent in 2008 (OECD, 2012).

The Inovar-auto incentive in the manufacturing sector has been very instrumental for attracting foreign investment to automotive manufactures. The Brazilian auto sector is currently the 4th largest sales market globally. From the period 2005 to 2011, the market averaged 12.0 per cent annual growth (Price Waterhouse Coopers, 2012).

More job opportunities have also been created as there is a requirement for all companies, whether local or foreign to hire local (Brazilian) personnel as employees to a proportion of two-thirds, while the remaining one-third could be foreign employees. With the increase in the number of investors, more job opportunities have been created (Latin Lawyer, 2013).

In general, incentives in Brazil have generally impacted positively on the economy as evidenced by the performance of key macroeconomic indicators. For instance, the contribution of exports of goods and services to GDP improved significantly from 9.9 per cent in 2007 to 11.4 per cent in 2008. It declined to 9.0 per cent in 2009 and rose slightly to 9.3 per cent in 2010. Overall, the GDP grew consistently from 1.1 per cent in 2003 to 5.7 per cent in 2004. It declined to 3.2 per cent in 2005 and thereafter rose to 6.1 per cent in 2007. With global economic crisis in 2007, the growth rate of GDP declined to 5.2 per cent and -0.6 per cent in 2008 and 2009, respectively, but increased to 7.5 per cent in 2007 (OECD, 2012).

Though Brazil's tax incentives have performed very well, there still remain a few challenges. Some of these challenges include the difficulty in controlling the existing internal contraband which has led to violence and bribery of government officials (Byrne, 2002). This has hindered the full actualization of the potentials of incentives in the country. In addition, benefits of incentives provided in the Amazon and Northeast regions remain highly controversial as the two regions still remain at very different levels of development.

In addition, inadequate infrastructure limits the potential of the fiscal incentives to attract more investments. However, the Brazilian government in mitigating this, provides incentives to companies investing in the development of infrastructure. Such companies are exempted from payment of social contribution and federal contribution taxes on local acquisition and importation of machinery to be used for the development of infrastructure.

5.2 Ghana

The Internal Revenue Act, 2000 (Act 592) of Ghana provides wide-ranging incentives to create an enabling environment for investment in various sectors of the economy. The Internal Revenue Act, 2000 (Act 592) was amended in 2011 by Act 839 effective from March 9, 2012. The amendments resulted in extensions in the scope of tax holidays enjoyed by eligible investors. The Investment Promotion Act, 1994 (Act 478) also provides foreign investors the right to repatriate profits and other business proceeds, including loan repayments, interest, fees and charges. The Free Zones Act, 1995 further confers licensed enterprises the right to a 10-year profit tax holiday and a concessional maximum income tax rate of 8 per cent thereafter. This is a drastic reduction from the existing national corporate tax rate of 35 per cent. Enterprises covered by the Free Zones Act are also not subjected to direct and indirect duties with intermediate goods imported for exports manufacture under the free zone exempted from import taxes. The categories of incentives employed over the years include the following:

5.2.1 General Incentives

Companies involved in the export of non-traditional products (any exports outside cocoa, raw gold as well as unprocessed mineral products, timber/logs, coffee and electricity) enjoy a concessional tax rate of 8 per cent. Dividends due to both resident and non-resident shareholders are also subjected to a reduced tax rate of 8 per cent against the existing withholding tax of 10 per cent applicable to both interest and dividends. Exemptions are, however, granted on interest paid on government bonds and bonds of registered cooperative societies (UNCTAD, 2000). Interests due to resident financial institutions are exempted from withholding tax. A concessionary tax

rate of 20 per cent is also applicable on incomes generated by financial institutions from loans extended to farming enterprises and leasing companies. Companies involved in construction of residential or business premises enjoy a 5-year income tax holiday following the completion of such construction activities. Rural and Community banks also enjoy a reduced with-holding tax rate of 8 per cent payable after a 10-year tax holiday. Residents enjoy a further reduced withholding tax rate of only 5 per cent on royalties due to them while non-residents pay 10 per cent of the royalties paid to them as withholding tax. Non-residents further pay 15 per cent of their management/technical service fees as withholding tax and another withholding tax of 10 per cent on rental payments. Tax credits ranging from 1 per cent to 5 per cent of employee wages/salaries are granted to employers that engage fresh graduates(GIPC, 2010).

A 15 per cent tax rate applies on capital gains but a 30-year exemption exists for those arising from transactions on the Ghana stock exchange since 1990. Enterprises may also be entitled to foreign tax credits based on taxes levied on company income by countries that entered into tax treaties with Ghana. Investors also benefit from capital allowances granted to enable them recover their capital spending. This is aimed at encouraging capital investment and ranges from 10 per cent to 80 per cent depending on the corresponding asset classification. Losses arising from foreign currency exchange that are not capital in nature (not being incurred due to any debt claim or foreign currency holding) are deductible(GIPC, 2010).

5.2.2 Sectoral Incentives

A 25 per cent tax rebate is granted to enterprises engaged in manufacturing activities in regional capitals outside the two main cosmopolitan cities of Accra and Tema. The tax rebate is increased to 50 per cent for manufacturing enterprises located in other areas of Ghana. The above special locational tax incentives are also granted to enterprises involved in farming or agro-processing activities. From January 2004, agro-processing industries located within Accra and Tema enjoy 80 per cent tax rebates while those located within regional capitals excluding Upper West, Upper East and Northern region receive 90 per cent. Those located outside other regional capitals including Upper West, Upper East and Northern region are granted

100 per cent tax rebates. The above tax rebates are further complemented with tax holidays ranging from 5 to 10 years depending on the activity-type and intended to promote the growth of various agricultural activities such as fish farming, crop and livestock production. Enterprises in the export manufacturing, mining, information/communications technology, farming, agro-processing and tourism sectors are allowed to carry forward their losses incurred for the next five years. Companies involved in the hotel business are also granted a reduced income tax rate of 25 per cent.

Special tax incentives designed for the natural resource sector also include accelerated depreciation, carry-over of losses, exemption of plant accessories, machinery and equipment imported for mining operations from customs duty, and the capitalization of costs associated with mineral exploration and mining rights (Ali-Nakyea, 2011).

5.2.3 Outcomes

The special tax privileges granted to prospective investors have stimulated investments in Ghana. In addition to other distinctive treatments, the substantial reductions in tax rates and generous exemptions from taxes have helped to enhance investment returns in the country. The declining tax liabilities and the corresponding improvement in profits after-tax enhance enterprise cash flow resulting in additional funds for investment. The exemptions from import duties of imported accessories and the relief from payments of customs and excise duties of plant machinery and equipment have enhanced mineral operations in Ghana. From 50-55 per cent in 1975, corporate income tax was reduced to 45, 35 and 25 per cent in 1986, 1994 and 2011, respectively. From 6 per cent in 1975, the royalty rate was slashed to 3 per cent of the total value of minerals won in 1987. Today, Ghana has emerged the second largest producer of gold behind South Africa, the third biggest producer of manganese and aluminium, in addition to the substantial production of bauxite and diamonds; and low exploitation of limestone, salt, iron, kaolin and other mineral endowments (Ali-Nakyea, 2011).

The fiscal incentives provided over the years engineered investment boom and higher productivity levels in the mineral sector, specifically gold resulting in expansion of mining and exploration activities and the establishment of new

mining and sector support companies, including catering and transport companies, explosive manufacturers and mineral assay laboratories, among others. Over US$3 billion worth of foreign investment inflows was recorded in 1999. There are now more than 19 operating mines with over 128 local and foreign companies involved in exploration activities, especially in the gold sector. Over 30per cent of gross foreign exchange earnings now derive from the mining sector and the contribution is expected to substantially increase with the recent discovery of crude oil. Official reports indicated that newly mined gold accounted for US$545 million in 1997 (Akabzaa and Darimani, 2001; Ali-Nakyea, 2011). The expansion in economic activities resulting from the investment incentives led to broader tax bases that enhanced revenues. The country has continued to witness a growing influx of business enterprises from neighboring countries like Nigeria in view of the attractions in its investment climate coupled with the existence of more secured business environment which provides stabilizing conditions that promote private enterprise. This is in addition to the stability of the political and economic environment and the country's more impressive physical infrastructure and anti-corruption profile.

5.3 Indonesia

The Indonesia Ministry of Finance issues regulations to enable qualifying businesses to apply for fiscal incentives. However, the process of obtaining the requisite approvals appears slow because of the involvement of various governmental bodies. In addition, a verification committee is usually set up by the Ministry of Finance to review the strategic importance of the project to the Indonesian economy and to ensure that the laid down criteria are met, though in consultation with the President of Indonesia.

The introduction of fiscal incentives in Indonesia dates back to 1967 when the investment law (Act No. 1 and bye-law No. 11 of 1967) was first promulgated. The law granted a five-year tax holiday in respect of corporate taxes and withholding taxes on dividends for newly established foreign companies investing in some particular sectors or geographical regions. Incentives for foreign investment are regulated by Law No. 25 of 2007, and in September 2008, the Indonesian government further issued Government Regulation (GR) No. 62 of 2008, to provide legal backing for regional tax incentives to foreign

investors. In respect of exports, the Law No. 2 of 2009 regulates the granting of financing facilities for companies to undertake export activities (Ali Budiardjo, Nugroho & Reksodiputro, 2005).

5.3.1 General Incentives

In terms of general fiscal incentives, the following are considered for implementation by the fiscal authority:

(i) A 30.0 per cent tax investment allowance over a period of 6 years, equivalently 5.0 per cent per annum;

(ii) Accelerated depreciation and amortization (50.0 per cent depreciation rates for companies in economic development zones or those investing in priority sectors);

(iii) Carry forward losses of up to 10 years; and

(iv) A reduced withholding tax rate of 10.0 per cent for foreign investors. (Foreign Investment Representative Office, 2010)

In addition, tax holidays and rate reductions are also given to investors for new investment in high priority industries. Specifically, 5 to 10 years holiday is given for new companies and at the expiration of the holiday, a 50.0 per cent reduction in income tax is allowed for the next 2 years. VAT relief on import and transfer of capital goods as well as import duties on imported machines, goods and materials for the development or enhancement of industries connected to direct capital investment are part of incentives granted to attract investors (Ikhsan, 2006)

Bonded Zones (free trade zones) were established in Indonesia to process industrial goods and materials for export. These zones are exempted from import and excise duties, and VAT on luxury goods on the importation of capital goods and equipment including raw materials for the production process (Foreign Investment Representative Office, Indonesia, 2010).

5.3.2 Specific Incentives

5.3.2.1 Manufacturing Sector

In order to encourage domestic investors in the manufacturing sector, the Indonesian government provides insurance for export and payment failures. The insurance policy covers export payment and loan payment failures, which are extended to Indonesian companies investing abroad. In order to further encourage the exportation of manufactured goods by domestic investors, the following tax measures are put in place;

(i) The restitution of import where importation of goods and materials are to be used in the manufacturing of finished products exports;

(ii) Exemption from VAT and Sales Tax on luxury goods and materials sourced locally for the manufacture of goods for export; and,

(iii) Special concession granted to imported raw materials required for the production of export goods regardless of the availability of comparable domestic products in the country (Foreign Investment Representative Office Indonesia, 2010).

5.3.2.2 Oil and Gas Sector

Incentives in the Oil and Gas sector are also provided by the government to improve the performance of the sector. These include;

(i) VAT and tariffs on goods imported for the purposes of upstream oil and gas exploration are entirely borne by the government;

(ii) Investment credit of 17 per cent of the capital investment cost;

(iii) The Indonesian government provides a 110.0 per cent and 55.0 per cent investment credit for oil and gas investment, respectively for deep sea areas over 600ft. In addition, a 110.0

per cent investment credit for tertiary reservoir rocks is provided for the oil and gas sector. For water depth between 200-1500m, a 110.0 percent incentive is provided and for depths below 1500m, a 125.0 percent incentive is given. This is necessary because deep sea and rocky areas require huge investment (Indonesia Petroleum Association, 2012);

(iv) First Tranche Petroleum (FTP): 15.0 per cent of production is taken before cost recovery deduction; and

(v) Investors in the Oil and Gas sector are taxed based on a Production Sharing Contract (PSC), which is usually favorable to the investors. The PSC is a joint venture agreement between the Indonesian government and the oil companies. Currently, the net sharing after deduction of tax is 85/15 per cent for Oil and 65/35 per cent for Gas (Foreign Investment Representative Office, Indonesia, 2010).

5.3.2.3 Shipping Industry

The Indonesian government implemented the principle of cabotage in order to strengthen the country's shipping industry. Only Indonesian flagged vessels are allowed to transport passengers and goods within Indonesian waters. This measure has encouraged the use and development of domestic shipping companies, (Asian Legal Business,2011). Other incentives provided to other sectors include land and building tax relief of 50.0 per cent for new investors in the health sector and some specified regions.

5.3.3 Outcomes

Fiscal incentives in the oil and gas sector in Indonesia have resulted in a steady rise in gas production. According to the British Petroleum (BP) Statistical Review of World Energy (2013), Indonesia ranked 10th among gas producing countries in 2012. The country currently has the third largest gas reserves of the Asia Pacific regions, accounting for about 1.4 per cent of the entire global reserves. Next to Qatar, Indonesia is the currently the global second-largest exporter of liquefied natural gas (LNG).

Overall, the incentives provided by the Indonesian government have impacted positively on investment in the country. Consequently, the stock of Foreign Direct Investment (FDI) rose from US$53.22 billion in 2006 to about US$81.21 billion in 2011. Similarly, industrial and service sectors contributed the largest share in GDP, accounting for 46.0 per cent and 39.1 per cent of GDP, respectively, in 2011 (UNCTAD, 2012). The contribution of exports to GDP in Indonesia also improved significantly by 30.0 per cent in 2008 but later declined by 24.0 per cent following the global meltdown. Thereafter, it rose by 25.0 per cent over the level in the preceding period in 2010 (World Development Indicators, 2011). The GDP grew consistently from 3.6 per cent in 2001 to 6.3 per cent in 2008. It later declined steadily to 4.6 per cent in 2009 and thereafter rose to 6.5 per cent in 2011 (World Economic Outlook, 2012).

The performance of fiscal incentives on investment in Indonesia has been quite remarkable that it recorded an investment grade of Ba3, BB+ and BB+ from Moody, Standard and Poor and Fitch Standards, respectively (Siregar, 2012).

Though Indonesia has abundant reserves of gas, infrastructural challenges have, however, limited its ability to attain maximum efficiency and productivity in exploration and distribution. Similarly, to attract more investment, particularly foreign investment, better regulatory system and legal framework are required. Ikhsan (2006) noted that though the investment incentives in the country were adequate, there is need for the government to improve the investment climate, particularly as regards infrastructure especially in the oil and gas sector, before introducing tax incentives.

5.4 Kenya

The Kenyan Investment Authority (KIA) is the institution vested with the statutory responsibility of promoting and coordinating investments in Kenya. It was established in 2004 by the Investment Promotion Act (IPA) No. 6 of 2004 (Kenyan Investment Authority, 2004). Kenya's constitution provides guarantees againstexpropriation of private property for security or public interest and ensures that compensation is guaranteed. Similarly, the Foreign Investment Protection Act (FIPA) also guarantees capital repatriation, as well as remittance of dividends and interest (Kenya Embassy, Moscow).

5.4.1 General Incentives

Kenya offers a lot of incentives as a means of attracting investment. These incentives include:

i. Income Tax Deductions for local and foreign companies which are levied at 30.0 per cent and 37.5 per cent, respectively. Newly listed companies are levied between 20.0 - 27.0 per cent for 3 – 5 years after the year of listing, which is calculated as a percentage of the capital listed;

ii. Carry forward losses which have no time limit(Deloitte, 2012);

iii. Provision of Capital Investment Allowances (CIA) for companies investing in capital projects. Within the CIA, the Investment Deduction Allowance (IDA) was introduced in 1991 to encourage investment in physical capital. It is currently fixed at 100.0 per cent but attracts an extra 50.0 per cent for investments with values above Kshs.200 million operating outside the urban municipalities of Nairobi, Kisumu or Mombasa (Institute of Economic Affairs, 2012).

iv. Depreciation Allowance as follows: (i) 2.5 per cent on industrial buildings; (ii) 4.0 per cent on hotels; (iii) 12.5 per cent on plant and machinery; 25.0 – 37.5 per cent on motor vehicles, trucks and tractors; and (iv) 30.0 per cent on office equipment (King'etich, n.d.)

v. Import Duty Set-off allows import duty paid on the importation of capital goods to be set off against payable income tax (USA-Kenya Chamber of Commerce, 2008).

Incentives geared towards export promotion have been provided by the Kenyan Government. The main scheme is the Export Processing Zones (EPZs) which were established in 1990 with the enactment of the Export Processing Zones Act of Parliament Cap. 517. The EPZs which are managed by the Export Processing Zones Authority (EPZA) provide incentives to export-oriented investments. Companies operating within the EPZs enjoy the following incentives:

I. 10 year Corporate Tax holiday and thereafter 25.0 per cent tax;

ii. 10 year Withholding Tax holiday on remittance of dividends;

iii. Exemption from Import duties and VAT on raw materials and intermediate inputs;

iv. Exemption from Stamp duty; and,

v. 100.0 per cent investment deduction over 20 years on initial investment.

Currently, there are more than 40 companies operating in the EPZs and are mandatorily required to export at least 80.0 per cent of their products (Kenya embassy, 2005).Other incentives include the signing of a Double Taxation

Treaty by the Kenyan Government with a number of countries for the avoidance of double taxation. Countries that are engaged in such treaties with Kenya include Canada, Denmark, Germany, India, Norway, Sweden, United Kingdom and Zambia. Treaties by other countries, such as Italy, Tanzania and Uganda have been signed but not fully ratified (Kenya Revenue Authority).

5.4.2 Sectoral Incentives

In order to promote investment in the manufacturing sector, the Kenyan government introduced the following incentives:

i. The Manufacture under Bond (MUB) was introduced in 1986 in order to encourage both local and foreign manufacturers to increase production and exports. The MUB is administered by the Kenya Revenue Authority (KRA). Manufacturing companies operating under the programme are exempted from Import Duty and VAT on imported raw materials, as well as 100.0 per cent investment allowance on plant and machinery;

ii. The Tax Remissions Export (TRE) is granted to local manufacturers operating outside the EPZs in order to encourage them to increase production as well asexport. The scheme essentially involves refunds onVAT incurred by an investor on the purchase of raw materials and goods utilized in the production of goods for export. A tax remission certificate is then issued to manufacturers;

iii. The Duty Drawbackis granted to exempt payment of Import Dutyon goods imported for use in the manufacture of exports or goods to be transferred to a free port or an EPZ (Kenya embassy, 2005);and

iv. Industrial Building Allowance (IBA): This was introduced in 1974 as an incentive to encourage investment in buildings for industrial purposes. The IBA attracts 2.5 per cent and 10.0 per cent for investment in buildings used for manufacturing and hotels, respectively. This is usually calculated on a straight-line basis (Institute of Economic Affairs, 2012).

In the agricultural sector, the Farm Works Deductions (FWD) was introduced in 1985 to enhance capital accumulation and equipment modernization in the agricultural sector. It is also calculated on a straight-line basis for 5 years of income at a rate of 20.0 per cent (Institute of Economic Affairs, 2012).

In the mining sector, the major tax incentive provided for investors is the Mining Deductions Allowance (MDA). This is granted as a form of reduction in the capital expenditure of mining explorers. For the first year, it is calculated at a rate of 40.0 per cent, and thereafter 10.0 per cent for the next 6 years (Institute of Economic Affairs, 2012). Government is the process of reviewing its mining and mineral laws to provide for more incentives.

In addition to the general incentives provided by the Kenyan Government to attract investors, investors in tourism are entitled to waivers of Customs Duties and VAT, particularly those interested in building hotels. Investors in tourism are also allowed to import cars for personal use which are duty free (Tourism Investment Conference, 2007).

5.4.3 Outcomes

Fiscal incentives in Kenya as in other countries are meant to promote both local and foreign investment. The MDA has resulted in the reduction of cost of production for investors in the mining sector, thus, attracting more investors. Exploration has been diversified to include a wider range of mineral resources such as titanium. Similarly, exploration has been extended to different parts of the country including the Indian Ocean coast and more companies have been granted licenses for gold and base metal exploration.

The investment incentives granted in the agricultural sector have been instrumental in attracting investment as the sector has witnessed tremendous growth. Over 30.0 per cent of agricultural produce are exported, with output comprising about 60.0 per cent of total exports in Kenya. The sector currently contributes about 24.0 per cent of GDP. The Livestock sub-sector which is one of the largest within the agricultural sector currently accounts for almost 90.0 per cent of employment and 95.0 per cent of family incomes within the arid and semi-arid lands.

The investment incentives provided in the EPZs have had a positive outcome on investment. There are currently more than 40 EPZs with a large number of foreign investors. In 2003 the total number of companies operating in the EPZs was 66 and rose slightly to 68 in 2005. By 2007, the number increased to 72 and rose to 83 in 2009. Also, the EPZs have witnessed steady growth especially with the passage into law the African Growth and Opportunity Act (AGOA) which ensured duty-free access to the US. Currently, more than half of the manufactured products from the EPZs are exported to the US market under the AGOA.

Tax incentives in Kenya have, however, resulted in significant revenue losses. Revenue losses resulting from tax incentives have been estimated to be over Kshs. 100 billion (US$1.1 billion) annually. From the period 2003 to 2009, revenue loss as a percentage of corporate tax collected averaged 21.10 per cent. Similarly, revenue loss from trade related incentives, specifically, the EPZs, MUB and TREO as a percentage of total import duty averaged 37.30 per cent during the same period (Institute of Economic Affairs, 2012).

Overall, investment incentives in Kenya though laudable, have not attracted the expected and desired level of investment. The dismal level of investment notwithstanding the attractive investment incentives is as a result of the hostile investment climate caused by political stability, poor governance, corruption, insecurity and inadequate infrastructure. The major attractions for investors include access to local and regional market as well as favourable bilateral trade agreements (Tax Justice Network-Africa andAction Aid International, 2012).

5.5 Saudi Arabia

Saudi Arabia offers a range of investment incentives to attract both domestic and foreign investors. The country's interest in investment incentives became pronounced in April 2000 when the Kingdom issued Foreign Investment Regulations to replace the country's Foreign Capital Investment Code issued in 1979 (M. Al Amri & Co,2011). The existing investment incentives include the following:

5.5.1 General Incentives

Tax incentives are granted to attract investors to less developed regions. The tax concessions are granted for a period of ten years commencing from the start of any project located in the industrial cities of Al-Baha, Jazan, Al-Jouf, Ha'il, Najranand the northern borders region. The range of tax incentives include: 50 per cent discount of annual wages paid to indigene employees; 50.0 per cent discount on the annual training cost of indigene manpower. Additional discounts are extended where the amount of investment is in excess of one million Saudi riyals and also where more than five nationals are employed for not less than a year in administrative and technical jobs. The Human Resource Development Fund supports activities related to rehabilitation, training and employment of the Saudi labor force. Foreigners are given special concessions as they could hold 100 per cent share ownership of companies, including land.

5.5.2 Specific Incentives

5.5.2.1 Manufacturing

The incentives provided in the manufacturing sector include lower tax rates, exemptions from customs duties granted to exporters, duty-free imports of capital goods and essential inputs and VAT exemptions for exports, exclusion from customs duties of imported spare parts, equipment and machinery procured for projects development, provision of subsidies for technical and financial operations, provision of concessional loans, subsidies on land rents, elimination of restrictions on profit repatriation and encouragement of gainful equity participation (M. Al Amri& Co., 2011). Customs duties exemption exists for industrial establishments with respect to raw materials, machinery, machines and equipment including spare parts. Raw materials and semi-manufactured materials are provided to local plants and factories at discounted and competitive prices. Local manufacturers enjoy substantial protection as local products that meet international standards are granted quota and tariff protection as high as 20.0 per cent for a maximum of 5 years. For export promotion, the country also grants exporters exemptions from customs duties, in addition to a 50.0 per cent cut in port charges and a 10 day period of free storage. There is also tariff exemption on traded goods among members of the Gulf Cooperation Council (GCC).

In addition, exemptions from custom duties are granted to importers of raw materials, spare parts, equipment and machinery imported for production of manufacturing goods (Saudi Industrial Property Authority, 2011).

5.5.2.2 Petroleum, Oil and Gas

Petroleum and hydrocarbon-related companies enjoy tax regimes that are lower than the existing 25-45 per cent company income tax. A 15.0 per cent withholding tax is imposed on dividends payable to non-residents, while another 10 per cent withholding tax is imposed on management fees and royalties. However, citizens of the GCC countries are subjected to a religious wealth tax (Zakat) in place of an exemption from income tax (UNCTAD, 2000).

5.5.2.3 Agriculture and Other Sectors

A 10 year income tax holiday exists for investments in industrial and agricultural development provided foreign investors have equity participation in these business ventures. Another 5 year tax holiday is approved for investments in any other sectors that enjoy the blessings of joint-ownership with foreigners. For either of the above categories of tax holiday to be granted, it is required that citizens of the country must own at least 25 per cent equity in the business. New investments are encouraged in manufacturing, tourism, business services, information and communication technology, shipping, environmental protection and training; agricultural development, fisheries and animal husbandry; contract services, health care delivery including building and construction, operations and management of health facilities. There are no restrictions on repatriation of capital, however, tax exemptions are granted on personal income, and on foreign firms whose profits amount to 20.0 per cent. Losses are allowed to be carried forward in the balance sheet indefinitely. Foreign investors are given the right to benefit from funding by both local and international specialized institutions.

5.5.3 Outcomes

The overall fiscal incentives package has improved investments in Saudi Arabia as local and foreign investors are encouraged to invest in the economy. The interest-free loans granted to finance half the cost of new long-term investments and other incentives have stimulated additional private participation in the non-oil sector, thereby inducing industrial expansion. New factories have also located in several industrial cities manufacturing a wide range of products that were previously imported. The concessional loans scheme has also encouraged new investments in agriculture and other sectors thus transforming the Kingdom into a major commodity exporter.

The role played by the Saudi Arabian General Investment Authority (SAGIA) in providing information to foreign investors on investment opportunities in the Kingdom has also helped to promote domestic tourism and encouraged the private sector to improve investment in hospitality business and recreational

facilities like hotels and other services. The kingdom can now boast of a flourishing tourism sector. The right granted foreigners for sole ownership of business enterprises has also helped to improve industrial development in Saudi Arabia. This was in addition to the transfer of new technologies in diverse sectors. The Kingdom is now poised to facilitate further investments in industries, agriculture, oil/minerals and other sectors of the economy.

5.6 South Africa

The Government of South Africa mapped out its macroeconomic policy strategy under the Growth Employment and Redistribution (GEAR) document published in 1996. The GEAR proposed a wide range of policy reforms, the most important of which were gradual trade liberalization, deregulation of capital control, deficit reduction and stabilization of the exchange rate. Within this broad orthodox approach, the GEAR also included specific reference to the need for incentives to stimulate 'labor-intensive manufacturing investment' as there is a good case for subsidizing this sector in South Africa.

Following the GEAR, the government has adopted a cautious and well-informed approach on incentives, offering both up-front grant and tax relief incentives. There are also a number of parastatal lending institutions offering loans at sub commercial rates. The balance to spend is heavily skewed towards off-budget tax incentives and subsidized finance rather than on-budget grants. Since 1994, two ineffectual schemes - the General Export Incentive Scheme and the Tax Holiday Scheme – have been phased out and two significant new incentives targeted at the manufacturing sector – the Motor Industry Development Programme (MIDP) and the Strategic Investment Programme (SIP) – introduced in their place. The processes and procedures surrounding the implementation and execution of these two schemes were in line with international best practice based on international experience.

Basically, these incentives are classified under two categories namely general and specific.

5.6.1 General Incentives

Under the Income Tax Act of South Africa, the general incentives scheme grants companies with branches located in South Africa freedom from secondary taxes payable on declared dividends, and levied the taxes on such companies declaring the dividends and not the shareholders. Secondary tax is a tax on dividends by companies that are resident in South Africa. It is payable on the net amount, which is the dividend declared less the sum of dividend received or accrued during the dividend cycle. It is normally assessed independently of the liability due on corporate tax, making any company with tax losses that declares dividend to be liable to the secondarytax. Accordingly, from March 1993 to June 1994, secondary tax attracted 15.0 per cent, and from June 1994to March 1996, it attracted 25.0 per cent, while from March 1996 to September, 2007, it was 12.5 per cent. From October, 2007 to March 2012, it was 10.0 per cent, (UNCTAD, 2000).

The Motor Industry Development Programme (MIDP),which commenced in 1995, brought about the reduction in tariffs and the elimination of the requirements on local content as well as partial exemption from import duties. Exporters of automotive goods and services are exempted from VAT, while rebates exist on customs and excise duty on locally produced goods for exports. Duty credits are tradable and could be used to import local content duty-free, or sold to provide additional sources of revenue for exporters. Dividends are also exempted from income and withholding taxes on services sub-sector. Thus, manufacturing companies operating branches in South Africa but having effective management outside the country are also exempted from secondary taxes. Exemptions from withholding tax are equally granted on interest accruing to non-residents. To a large extent, exemptions from income tax are likewise granted on interests accruing to non-residents and on companies that are administered from abroad but having branches inside the country.

5.6.2 Specific Incentives

Strategic tax incentives were introduced in South Africa under the backing of the Revenue Laws Amendment Act 2002, which provided the basis for the introduction of strategic fiscal incentives to facilitate industrial investment

and promote job creation. The sectors that benefited from these incentives include:

5.6.2.1 Manufacturing

Under the manufacturing sector, investments are expected to be in excess of R50m for it to qualify for tax relief of up to 100per cent for investments into the sector, including information technology. The strategic investment project incentive covers all manufacturing activities with the exception of tobacco related products; computer related activities and consultancy in areas like hardware, software and data related activities including data processing and database management. The country also provides a 2-year tax holiday for newly established manufacturing companies, provided they meet certain criteria outlined for qualification under the scheme. These criteria include the ability of such companies to provide funding in excess of R3 million for investment in machinery, equipment, plants including buildings, land and construction. Such activities must be new and must not have started before the application for the scheme. Intending investors are allowed to acquire existing assets but they must make fresh investments in unexploited assets, amounting to the qualifying funding provided above. Thus, new investments that qualify for the scheme must fall under the eligible areas and must meet the guidelines provided by the Department for Trade and Industry (DTI).

Customs duties rebate and exemption of Value Added Tax (VAT) on imported goods, raw materials and components used in manufacturing, processing for exports are granted to all manufacturers and exporters located in the Customs Controlled Area (CCA) designated zones classified under the Industrial Development Zones (IDZs) programme and aimed at promoting manufacturing and competitiveness of the South African exports (Deloitte, 2010). Furthermore, companies could apply for a maximum tax holiday of six years if they undertake to use it within 10 years of approval and the tax holiday takes effect the same year the investment begins to yield income. The period of tax holiday must run consecutively, such that companies would not discount the years that losses are incurred. Preferential corporate income tax also exists for small business enterprises whose annual turnover does not exceed R14 million beginning from April 2010 to encourage

small and medium enterprises development in the country. The following income taxes exist: R0 – R57,000 (0 per cent); R57,001 - R300,000 (10 per cent); and over R300,001 = R24,300 + 28 per cent of amount greater than R300,000 (Deloitte, 2010).

5.6.2.2 Agriculture

A three-year accelerated depreciation of 50, 30 and 20 per cent is granted for specific sectors including agriculture over the period. Companies that attain a certain level of exports can import products free of import duties under a textile, clothing and footwear programme. Such companies are also allowed to use 30 per cent of their export value for textile importation. Under the Small and Medium Enterprise Development Programme (SMEDP), tax-free incentives are granted to small and medium enterprises that undertake new projects or expand ongoing projects in large-scale agricultural projects, aquaculture and agro-processing, including manufacturing, communication technology, tourism and bio-technology. Competitive, risk-related interest rates are also available for investors willing to invest or expand their investments in the agriculture, beverages and food based on the prime bank overdraft rate. Loans, suspense sales, equity and quasi-equity are also available for medium term finance requiring R1m to promote the establishment of permanent infrastructure in the agricultural and aquaculture sectors and establishing new or expanding on existing undertakings in the food and beverages sector (Deloitte, 2010).

5.6.2.3 Infrastructure

Under the Critical Infrastructure Programme (CIP), cash grant incentives are provided covering 10 per cent to 30 per cent of the cost of infrastructural development. New investments, including expansions in infrastructure like roads, power, railways, water, telecommunications and sewage systems are eligible investments under this scheme. The facility which is available to both public and private sector enterprises as well as municipal authorities is aimed at reducing costs to curtail risks for enhanced financial aid to boost investment in physical infrastructure (Deloitte, 2010).

5.6.2.4 Energy

Incentives in the energy sector are also on the way with a proposed tax deduction of 45c/kw hour saved, aimed at inspiring tax payers to implement energy conserving methods to promote energy efficiency.

5.6.2.5 Telecommunications

A 5 per cent depreciation allowance exists over a period of 20 years to provide relief for the depreciation of underwater telecommunication cables.

5.6.2.6 Tourism

A 15 per cent– 30 per cent tax exempt cash grant exists for qualifying investment cost up to a maximum grant of R30m in favour of new investments or expansion of existing facilities aimed at encouraging the growth of the tourism subsector. Competitive risk-related interest rates also exist based on the prime bank overdraft rate for investments not less than R1m. Loans, suspended sale agreements, equity and quasi-equity schemes are also available for medium-term to large-scale finance for the creation of new, or the upgrading and renovation of tourism facilities, including hotels, guest houses, lodges, cultural villages, conference and convention centers (Deloitte, 2010).

5.6.3 Outcomes

Fiscal incentives have had a mixed impact on investments in South Africa. The key macroeconomic policy document, the Growth, Employment and Redistribution (GEAR) Strategy under which the incentives are implemented had envisaged improvements in private savings (capital formation) and employment. However, these aspirations are yet to be meaningfully realized as FDI to South Africa which hovered around 1.5 per cent of GDP since 1993 remained below the 3 per cent average recorded for other middle-income countries. The latest Inward FDI Performance Index of the United Nations Conference on Trade and Development (UNCTAD) ranked South Africa at 103 out of the 141 economies surveyed (Kransdorff, 2010). Moreover, a larger chunk of the FDI was market-seeking instead of being directed at manufacturing and services, and largely driven by privatization rather than

incentive structures (Lewis, 2002; Barbour, 2005).

However, the MIDP programme has further enhanced investments in the motor industry and encouraged higher exports of motor vehicles with substantial investments by major vehicle manufacturers like BMW, Volkswagen and Toyota (Black and Mitchell, 2002). Exporters of motor vehicles are able to obtain relief from duties payable on intermediate goods that are essential for manufacturing exports, while the privilege given to exporters in the Industrial Development Zones (IDZ) to source for capital inputs duty free has provided additional impetus for the growth of manufacturing exports.

Notwithstanding the above positive impacts, the South Africa's fiscal incentives scheme has suffered from implementation problems occasioned by the poor awareness among potential investors of the existing incentives, especially the small and medium-scale enterprises. Only about 35 per cent of South Africa's small businesses are said to be aware of the existing incentives for which they are eligible (Kransdorff, 2010). The application and approval processes are also said to be excessively bureaucratic and complex, specifically for the small and medium-scale enterprises. Also, the cost of securing the incentives far outweighs the expected benefits. Contrary to the initial objective of supporting the labor-intensive manufacturing enterprises with some incentive, the incentives ended up benefiting the capital intensive industries (Kransdorff, 2010). The tax incentive schemes also failed to promote the economic development of poorer regions in line with the designed objectives as 78 per cent of the incentives were noted to have been absorbed by investors in the country's three wealthiest provinces of Gauteng, Kwazulu-Natal and the Western Cape.

The application and approval processes involved in the administration of the fiscal incentives in the country have been excessively bureaucratic and complex, specifically for the small and medium-scale enterprises, making the cost of securing the incentives to far out-weigh the expected benefits. Rent-seeking and corruption are some of the attendant problems associated with the operation of the scheme. The overall incentive programme was open to abuse of tax avoidance with free-riders benefiting at the expense of the country (Kransdorff, 2010).

5.7 Tanzania

It is the policy of the Government to encourage investments in all sectors of the economy. A number of tax incentives are granted to both local and foreign investors as a way of encouraging investments in Tanzania provided that investors satisfy certain conditions. Investment policy was in place since 1990 when the Government enacted the National Investment Promotion and Protection Act (NIPPA) 1990, which granted tax incentives to investors in the form of tax holidays for a specific period of time. Those who qualified for the incentives were given a Certificate of Approval under the Act. Holders of the certificates were also allowed to import plant, machinery and construction materials for investment projects without paying import duties for the whole period of the project implementation. In addition, investors were granted five years income tax holiday from the date of commencement of production.

The Tanzania Investment Center (TIC) established by the Zanzibar Investment Promotion Agency (ZIPA) Act of 1992 is vested with the statutory responsibility of promoting and coordinating private investment as well as granting approvals for incentives to eligibleinvestors, both foreign and domestic promoters.

5.7.1 General Incentives

Tax incentives are granted to investors in lead and priority sectors like infrastructure, mining, oil and gas and tourism through structured allowances and enhanced capital deductions. Thus, the range of incentives includes: 100 per cent capital allowances in computing gains and profits of an enterprise; import duty and VAT exemptions on projects and capital goods for key sectors like infrastructure, mining, oil and gas and tourism. They are also granted automatic permission to engage up to five foreign nationals including import duty draw-back scheme which provides for refund of duty charged on imported intermediate products for the production of export goods and those sold to foreign institutions.

All inputs that are imported for processing or manufacturing in areas designated as Export Processing Zones (EPZs) are exempted from import duty and other taxes; a 5 per cent import duty on equipment for projects in 'priority' sectors like agriculture, agro-based industries, mining, tourism, petroleum, gas

and infrastructure, manufacturing, natural resources, aviation, export processing, human resources development, building construction, special regions and telecommunications

Tax Incentives/Withholding Tax on Dividends Interest, Service and insurance premium are offered where a resident person pays dividends in the case of dividends of a Corporation listed on the Dares Salaam Stock Exchange at the rate of 5.0 per cent. In case of any other Corporation the rate is 10.0 per cent. Where a resident pays interest rent, or commuted pension to a resident withholder or interest paid to a non-resident with the rate of tax is 10.0 per cent. Where a resident who is conducting a mining business pays a service fee to another resident in respect of technical services provided wholly and exclusively for the business a withhold tax payable is at the rate of 5.0 per cent. For service fee or insurance premium with a source in the United Republic, to a non-resident the rate of withholding tax is 15.0 per cent.

Other incentives include the right to repatriate investment profits or dividends; settlement of foreign loans and other obligations; payment of royalties, fees, emoluments, other charges and benefits to foreign personnel; as well as the granting of strategic investor status with absolute right to special incentives for investors whose projects exceed US$20 million. Incentives are also offered to Special Economic Zones (SEZs) which relate to geographical areas that have potentials and comparative advantage to enhance domestic production and attract private investment. Specific incentives are also designed to promote economic activities in priority sectors that relate to these geographical areas. The SEZ Act exempts these economic activities from all taxes including customs duty and value-added tax.

5.7.2 Specific Incentives

There are specific investment-incentives offered to the agricultural sector. These include: import-duty exemptions on capital goods and farm inputs including fertilizer, pesticides and herbicides; encouraging investment allowances and deductions on agricultural machinery and implements (100 per cent capital allowance for costs relating to clearing of land and to irrigation systems, and 50 per cent capital depreciation allowance for agricultural machinery); deferment of VAT payment on project capital

goods; import duty draw-back on raw materials for inputs for export goods; VAT exemptions on agricultural exports and on domestically produced agricultural inputs; indefinite carry-over of business losses against future profit for income taxes; reasonable corporate and withholding tax rates on dividends (FAO, 2011).

Investment guarantees are also put in place against nationalization and expropriation. Investors and employees working in the country are granted free unconditional transfer of capital, profits, dividends and other benefits, and there are no restrictions on the repatriation of profits or disinvestments. Investors have the right to make transfer payments in freely convertible currency (Sitta, 2005).

5.7.3 Outcomes

The Export Processing Zone Authority (EPZA) has noted that the tax incentives given to multinational corporations operating in the EPZs and SEZs have created jobs and added value to local exports. 'For the last five years, EPZ investors have invested US$710 million and generated 15,100 direct jobs with over 70,000 indirect employments.' Given the huge infrastructural deficit, epileptic power supply, water problems and port congestions, the country needs additional incentives than what is prescribed in the EPZ Act in order to make it competitive at the global level. In contrast, the Action Aid International (AAI) and Tax Justice Network (TJN) have argued that the tax incentives are benefitting a few elites in the society, while at the same time, denying the government of revenue to fight poverty. The primary beneficiaries of Tanzania's tax exemptions and incentives are large domestic firms and foreign multinational companies.

The TJN report noted that the removal of these incentives could raise more revenue for essential public services. Therefore, government must ensure that excessive tax incentives are removed; transparency on the tax incentives be promoted and properly coordinated with the East African Community so as to avoid harmful tax competition. However, the World Bank, International Monetary Fund and African Development Bank and other multilateral creditors have also dismissed the notion that incentives attract FDI to countries like Tanzania. Overall, in Tanzania, tax incentives have given around

3.0 per cent of GDP in tax revenues on average with little to show in exchange (Meru, 2012).

6.0 CHALLENGES TO EFFECTIVENESS OF FISCAL INCENTIVES IN NIGERIA

It is of relevance to reiterate that Nigeria has made some achievements especially in the area of policy reforms, which were meant to create a conducive environment for private businesses to thrive. However, a careful analysis of policy implications and lessons for Nigeria in the preceding sections pose some questions. For instance, are fiscal incentives the only factor that can propel investment? What role can physical and social infrastructure, macroeconomic stability as well as strong institutions play in supporting fiscal incentives to promote investment, growth and employment generation in the country. These issues obviously present serious challenges some of which we highlight below.

6.1 The Infrastructure Challenge

The importance of physical and social infrastructure to the private sector is that they lower the cost of doing business and where they are deficient, not only foreign investors but also domestic ones tend to move their businesses elsewhere. A major challenge facing the Nigerian economy is inadequate physical and social infrastructure. Table 6 below which gives a summary of major indicators of physical and social infrastructure for Nigeria and five other countries[4] clearly shows that Nigeria's infrastructure significantly lags behind.

TABLE 6: SELECTED INDICATORS OF PHYSICAL AND SOCIAL INFRASTRUCTURE FOR NIGERIA AND FIVE OTHER COUNTRIES

2010 unless otherwise stated	Nigeria	Ghana	Malaysia	Saudi Arabia	South Africa	United States
Quality of port infrastructure *(1=extremely underdeveloped to 7=well developed and efficient by international standards)*	2.98	4.46	5.58	5.21	4.75	5.54
Functional Rail lines (total route-km)	3505	953	1,665	1,020	22,051	228,513
Air transport *(registered carrier departures worldwide)*	16,696	N.A.	240,468	163,438	210,296	8,934,001
Life expectancy at birth, total *(years)*	51.41	63.84	74.02	73.85	52.08	78.24
Mortality rate, infant *(per 1,000 live births)*	80.80	53.00	5.80	8.50	35.50	6.50
Mortality rate, under-5 *(per 1,000 live births)*	129.20	79.60	6.80	9.90	52.60	7.50
Access to electricity *(% of population) (2009)*	50.60	60.50	99.40	99.00	75.00	1,000.00
Electric power consumption *(kWh per capita)*	136.50	297.80	4,117.35	7,967.00	4,802.54	100.00
Electricity production *(Billions kWh)*	26.12	8.37	125.29	240.07	256.65	4,354.36
Renewable internal freshwater resources per capita *(cubic meters)*	1,360.24	1,213.66	20,097.61	85.46	885.61	9,043.88

Source: World Development Indicators

4. The countries where chosen as follows: The United States is the largest economy in the world, South Africa is the largest economy in Africa, Saudi Arabia is the largest oil economy similar to Nigeria, Malaysia began its quest for economic development at the same time with Nigeria while Ghana is the second largest economy in West Africa.

Nigeria must make concerted efforts to develop the nation's physical and social infrastructure to meet modern standards. Certain infrastructures that are critical to a nation's take-off such as power, transport and skilled labour cannot be left to the vagaries of government revenue. Furthermore, the reliance on so-called public-private partnership and other forms of private sector involvement in building critical national infrastructure will not create the desired pool of assets needed. In the immediate, government must drastically cut down the cost of governance and free resources in order to build world-class energy, transport and social infrastructure.

6.2 The Regulatory and Corruption challenge

Another Major challenge to attracting domestic and foreign investments is weak institutions and poor regulatory environment. Irrelevant, duplicative and more often than not, rent-seeking government agencies abound. These make it extremely difficult for potential investors to determine the sustainability and profitability of their investments. For instance, the Transparency International in its 2012 Corruption Perception Index (CPI), ranked Nigeria 139th out of 174. This is behind the United States (19th), Malaysia (54th), Ghana (64th), Saudi Arabia (66th) and South Africa (69th). Similarly, the 2013 Economist Intelligence Unit's Quality of Life index ranked Nigeria 80th out of 80 countries, again behind the United States (16th), Malaysia (36th), Saudi Arabia (38th) and South Africa (53rd). The World Bank Ease of Doing Business report also ranked the country 133rd out of 183 in terms of institutional quality and regulatory environment. This is compared with the United States (4th), Saudi Arabia (12th), Malaysia (18th), South Africa (35th) and Ghana (63rd).

In addition, owing to weak institutions and less-than-ideal governance at the three tiers of government, corruption has persisted both within the political office holders and within the bureaucrats. Such public sector inefficiency has been associated with poor private investments and growth (see Mauro, 1995;and Drury, Krieckhaus & Lusztig, 2006). For instance, where the regulatory institutions that protect rights such as that of intellectual properties as well as medium of seeking redress are weak, investors would be reluctant to respond to fiscal incentives no matter how attractive it is made. Unfortunately, in Nigeria and many other developing countries, it is more often than not, the case.

6.3 Weak Macroeconomic Structure

The mono-cultural nature of the Nigerian economy where oil revenue accounts for most of the revenue to the three tiers of government and the high import dependency also pose challenges to macroeconomic stability and thus, to the efficacy of fiscal incentives. Although the rule-based fiscal policy of oil price benchmark introduced in 2003 had somewhat helped to stabilize macroeconomic indicators, much still need to be done in order to insulate government budgeting from fluctuations in the international price of oil. This is important because the current arrangement cannot withstand a heavy external shock as was seen in the wake of the global economic crisis of 2008.A more serious challenge here however, is the utilization of the current oil revenue being earned. If the revenue could be ploughed back into critical infrastructure as suggested under the infrastructure challenge, private sector cost of doing business would be reduced and more investors would respond to fiscal incentives. In this regard, the Sovereign Wealth Fund (SWF) could achieve this through its infrastructure arm if properly managed.

7.0 LESSONS FOR NIGERIA

This section draws lessons for Nigeria from the implementation of fiscal incentives in other jurisdictions. The experience drawn would enhance the application of fiscal incentives in the various sectors of the Nigerian economy.

1. The Brazil (EPZ) has proper infrastructure, high grade logistics, efficient use of regional and local resources, integration with a diversified Brazilian industrial base and advantageous business environment. Also, tax suspension on importation or domestic procurement of goods and services are provided. The Nigerian government could improve her EPZ by emulating the Brazilian model through the provision of infrastructural facilities to attract investors.

2. The special custom regime for importation of materials to be used in the exploitation of petroleum and natural gas by the Brazilian government provides useful lessons for Nigeria. The adoption of a similar initiative by the Nigerian government will certainly encourage and promote investment in the oil and gas sector

3. One of the most important lessons to learn from Ghana is the use of locational tax incentives where a 25 per cent tax rebate is granted to enterprises engaged in manufacturing activities in regional capitals outside the two main cosmopolitan cities of Accra and Tema. This tax rebate has been increased to 50 per cent for manufacturing enterprises located in other areas. The above special locational tax incentives are also granted to enterprises involved in farming or agro-processing activities. Agro-processing industries located within Accra and Tema regions enjoy 80 per cent tax rebates while those located within regional capitals excluding Upper West, Upper East and Northern region are granted 90 per cent tax rebate. Those located outside other regional capitals including Upper West, Upper East and Northern region are allowed 100 per cent tax rebates. The use of locational tax incentives would encourage investors to take advantage of the existing raw materials in other parts of the country for manufacturing production. This may also serve as a means of promoting the spread of agro-processing industries in Nigeria given the availability of cheap agricultural products like cassava, cotton, cocoa and groundnuts, including livestock, fruits and other root crops.

4. The extension of tax holiday to ten years has attracted manufacturing companies to Ghana. Also companies involved in the export of non-traditional products enjoy concessional tax rate of 8 per cent. The reduction in corporate tax rate from the existing 30 per cent in Nigeria would likely encourage the growth of manufacturing exports. The incentives would also help to cushion the impact of the huge production cost imposed by the present decay in physical infrastructure.

5. In Ghana, rural and Community banks benefit from reduced tax rate of 8 per cent payable after a 10-year tax holiday. This initiative helps to ease financial exclusion and boosts credit expansion for further investment in the rural areas. Non-residents pay 15 per cent of their management/technical service fees as withholding tax and another 10 per cent on rental payments. Nigeria could implement reasonable tax exemptions on transactions in the Nigerian stock exchange in order to restore confidence againstcrash in the Nigerian stock market. The exemption from customs duty of plant accessories, machinery and equipment imported for mining operations, manufacturing and agricultural development has largely supported the growth of economic

activities in Ghana.

6. The Farm Work Deductions incentive provided in Kenya in order to modernize the agricultural sector and enhance output has attracted huge investment resulting in the sector contributing about 24.0 per cent of GDP and about 60.0 per cent of exports. Given that the agriculture is the mainstay of the Nigerian economy, incentives to boost agricultural output should be provided. The provision of Capital Investment Allowances in Kenya, particularly the Investment Deduction Allowance which is fixed at 100.0 per cent for investments above certain thresholds and located outside the three largest municipalities has been instrumental in ensuring that investments are evenly spread in the country. This is very important in ensuring even development in the country.

7. It is observed in most of the countries studied that bureaucratic bottle neck and official red-tapism have been drastically reduced to the barest minimum. These frameworks have instilled investor's confidence and avoid loss of time in the business transaction as well as unhealthy practices. These lessonswould reduce the menace of corruption and induce real time business transaction in the application of fiscal incentives in Nigeria.

8. It is instructive to note that the Motor Industry Development Programme (MIDP) of South Africa provides useful lessons for Nigeria in terms of the elimination of the requirements on local content. The adoption of a similar initiative by Nigeria will go a long way in promoting the automobile industry in Nigeria.

9. Saudi Arabia has special incentives to attract investors to less developed regions. Tanzania also provides such incentives for special economic zones which relate to geographical areas that have potentials and comparative advantage to enhance domestic production and attract private investment. Specific incentives are also designed by the country to promote economic activities in priority sectors that relate to these geographical areas with the SEZ Act exempting these economic activities from all taxes, including customs duty and VAT. Nigeria requires geopolitically sensitive incentive structure to promote spatial equity investment spread.

10. Saudi Arabia provides foreign investors with indigenous equity participation long-term interest-free loans to finance up to 50 per cent of the cost of a new industrial venture in addition to 10 years tax holidays to encourage private sector activities. This has enhanced the establishment of various industries and manufacturing concern producing a wide range of products which were previously imported. Nigeria can learn a great lesson from this initiative by designing similar schemes to diversify her economy.

11. The Indonesia government provides insurance cover for exports payment, loan repayment failures and all other forms of investment. The provision of insurance cover for investments in the manufacturing and exports sector in Indonesia has succeeded in attracting investments in those sectors, as evidenced by the outcome of investment indicators. Government guaranteeing and insuring investment will certainly encourage investors and also ensure the growth of investments. Care should however be taken on ensuring loan repayment failures as this may worsen moral hazard problems.

12. The Indonesian government provides investment credit of 110.0 per cent and 55.0 per cent, respectively for oil and gas exploration for deep sea areas over 600ft in order to support and encourage investment in such areas since they require huge capital. Nigeria can offer such incentives in order to encourage off-shore exploration. Similarly, Nigeria can learn from the Indonesian experience by providing incentives for companies who want to invest in the development of infrastructurein order to bridge the infrastructural gap, improve the investment climate and attract substantial investors to the oil and gas sector.

13. The provision of carry forward losses for a period of 10 years, which are given as incentives by the Indonesian government, allows companies to use a net operating loss in a particular year to offset a profit in future years. This incentive allows companies to report losses for up to a period of seven years after they had occurred, thereby minimizing the tax to be paid in a year when the company has high profits. This incentive has succeeded in attracting foreign investment in Indonesia. Nigeria can implement some lessons from this country as this allows both indigenous and foreign companies to operate even when the investment climate is difficult, and the provision of carry forward losses ensures that such losses are offset in the future when the

companies start recording profits.

14. Incentives monitoring structure (outfit) should be put in place to monitor and evaluate all incentive programmes with a view to modify and reforms those that are ineffective.

8.0 Summary and Conclusion

Fiscal incentives in addition to infrastructural development have been used by most countries studied to attract investment to different sectors of the economy. The various forms of incentives include, financial, fiscal and regulatory. Fiscal and regulatory incentives are widely used in the developing countries while advanced economies deploy financial incentives. Special tax incentives such as exemptions,carry-forward loss of up to 10 years and restriction of import where importation of goods and materials are used for manufacturing of finished goods as in Indonesia. Others are exemption from VAT and sales tax on luxury goods and locally manufactured goods for export. In Ghana, companies involved in export of non-traditional products enjoy a concessional tax rate of 8.0 per cent, interest due to resident financial institutions are exempted from withholding tax also rural/community banks are allowed a reduced tax of 8.0 per cent after 10 years tax holidays. These special incentives in addition to infrastructural development and security of live and property have significant influence on investor's decision to invest in a given region.Similarly, Investment by government by providing efficient physical infrastructural facilities improves the investmentclimate and cost of doing business as in the Brazil and other countries case study.

In order to attract foreign investment to Nigeria, the business environment should be addressed to reduce cost of doing business. The business environment is currently associated with poor physical infrastructure, security challenges and weak institution. Consequently, irrespective of the extent of tax exemption, waivers, tax credit and special custom regime it would be difficult to attract investors if these infrastructural challenges are not addressed.

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