

THE LISBON INTERNATIONAL & EUROPEAN TAX LAW SEMINARS

Nº13/2025

CORPORATE TAX INCENTIVES IN AFRICA AND
FOREIGN DIRECT INVESTMENTS AND OTHER
OBJECTIVES

Theophilus Tawiah

Supervisors

Professor Rita de la Feria

Dr Virág Blazsek



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ISSN: 2795-4676

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Publisher

**CIDEEFF – Research Centre in European,
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Introduction

Tax Incentive remains a topical issue in the international tax system in the light of Pillar Two which seeks to address the challenges arising from the digitalisation and the globalisation of the economy.¹ Corporate tax incentives have been used by African countries for many years, preceding the independence of these countries. Like other developed countries, African countries grant corporate tax incentives with the view of achieving specific goals. Do these countries achieve these objectives for the corporate tax incentives? The narrative has predominately been about corporate tax incentives being loss of revenue and harmful tax competitions for countries and as a result are unjustified in granting them to these multinationals. Corporate tax incentives have social benefits which are often not assessed by countries. The incentives can confer benefits to society which is beyond the private benefits gained by the multinational companies and foreign investors. For African countries to assess the future of these corporate tax incentives, the social benefits should also be considered.

This Chapter considers the use of corporate tax incentives to achieve specific objectives and whether these objectives are achieved. Firstly, Section 4.1 explores the various definitions for foreign direct investment and the forms that it may take. Secondly, Section 4.2 examines the theoretical basis of foreign direct investment. Thirdly, Section 4.3 focuses on corporate tax incentives specifically, foreign direct investment in Africa. It examines the interactions between these incentives and the FDI. The interactions assess whether these objectives of attracting foreign direct investment are achieved by the African countries. Fourthly, Section 4.4 sets out the methods for measuring foreign direct investments in Africa. In Section 4.5, a critical examination is made of foreign direct investments trends in Africa. Section 4.6 argues that the key determinants for foreign direct investment are political, economic and legal determinants and proffers the key determinants for foreign direct investment in Africa. Section 4.7 is to evaluate whether corporate tax incentives lead to economic growth in Africa. In Section 4.8, corporate tax incentives are explored to determine whether they help these Africa countries achieve employment for their citizens by virtue of these incentives. Finally, Section 3.9 examines

¹ OECD (2022), *Tax Incentives and the Global Minimum Corporate Tax: Reconsidering Tax Incentives after the GloBE Rules*, OECD Publishing, Paris

whether corporate tax incentives broaden the tax bases which result in tax revenue for these countries. It argues that contrary to the narrative of revenue forgone, a well-structured design of corporate tax incentives can lead to more tax revenue, insofar as these corporate tax incentives are monitored.



Definitions of Foreign Direct Investment (FDI)

Various definitions have been offered by different international institutions and academics for Foreign Direct Investments (FDI). Foreign Direct Investment is defined as any measurable advantages accorded to specific enterprises or categories of enterprises by (or at the direction of) a government, in order to encourage them to behave in a certain manner.²

FDI is an investment involving a long-term relationship reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate).³ FDI creates a lasting interest in or effective management control over an establishment.⁴ The International Monetary Fund defines Foreign Direct Investment as an international investment made by one economy's resident entity, in business operations of an entity resident in a different economy, intending to establish a lasting interest.⁵ The take of the World Trade Organization on Foreign Direct Investment (FDI) is that FDI follows when an investor based in one country referred to as the home country acquires an asset in another country otherwise known as the host country, to manage that asset.

One key aspect that sets aside Foreign Direct Investment from portfolio investment in foreign stocks, bonds, and other financial instruments is the managerial involvement it entails. Years down the line, the International Monetary Fund (IMF) set out an alternative definition of FDI. According to the IMF, FDI can be weighed as the ownership of 10 percent or more of the ordinary shares or voting stock of an enterprise which is usually considered

² UNCTAD, Tax Incentives and Foreign Direct Investment: A Global Survey, ASIT Advisory Studies Nº. 16 (UN, New York and Geneva, 2000)

³ Benchmark Definition of Foreign Direct Investment, third edition (OECD, 1996), and International Monetary Fund, Balance of Payments Manual, fifth edition (IMF, 1993).

⁴ World Bank, 'Development Education Program (Depweb): Beyond Economic Growth Student Book' (2004) <<http://www.worldbank.org/depweb/english/beyond/global/glossary.html#24>>

⁵ International Monetary Fund, 'Glossary of Foreign Direct Investment Terms' (1993) <<https://www.imf.org/external/np/sta/di/glossary.pdf>>

to indicate significant influence by an investor.⁶ Nonetheless, this assertion varies from country to country. The laws and policies of countries control the level of shareholdings of foreigners in local enterprises.

FDI has also been defined as the net inflow of investment commenced to acquire a lasting management interest thus, 10% or more of the voting stock in a firm conducting business in any other economy except the investor's home country.⁷ The ten percent (10%) threshold frequently denoted is highly recommended to guarantee statistical consistency across countries. This criterion has advanced to the stage where an investment must meet the ten percent (10%) voting share threshold to qualify as FDI, aimed at ensuring uniformity in statistical analysis across countries.⁸ FDI creates 'lasting interest' due to the presence of a long-term relationship between the direct investor and the enterprise, in addition to the significant degree of influence of the management of the enterprise.⁹ The above-stated definitions were derived from different theories and schools of thought. An in-depth understanding of the various theories of FDI will help appreciate the various definitions yielded by these global institutions.

FDI can be distinguished from Foreign Portfolio Investment (FPI). FPI involves investing in financial and security assets of companies that are resident in a different jurisdiction.¹⁰ The FPI is when investors or investment entities are not located within the territory of the country in which they are investing for the purpose of obtaining a financial return, and which does not result in participating in management of the enterprise, ownership, or legal control.¹¹ FDI is mainly driven by long-term realisation of financial returns from a company in a foreign country, whereas FPI aimed at realising short-term advantages and regularly adjusts to changing short-term circumstances in the host country.

FDI has three mechanisms which are equity financing (equity participation); reinvesting earnings and intra-company loans.¹²

6 International Monetary Fund, 'International Statistics Yearbook' (2000) <<http://www.imf.org/external/data.htm>>

7 OECD, *Benchmark Definition of Foreign Direct Investment* (4th edn, OECD 2008).

8 UNCTAD, 'UNCTAD Training Manual on Statistics for FDI and the Operations of TNCs- FDI Flows and Stocks' (2009) Vol. 1

9 Lipsey, Robert. E, Feenstra, Robert C., Hahn, Carl H., George N., and Hatsopoulos, *The Role of Foreign Direct Investment in International Capital Flows* (University of Chicago Press 1999)

10 <https://corporatefinanceinstitute.com/resources/career-map/sell-side/capital-markets/foreign-portfolio-investment-fpi/>

11 S. Chaudhuri and U. Mukhopadhyay, *Foreign Direct Investment in Developing Countries: A Theoretical Evaluation*, Springer India 2014

12 Definitions and Sources: World Investment Report 2007: Transnational Corporations, Extractive Industries and Development https://unctad.org/system/files/official-document/wir2007p4_en.pdf

FDI can be classified as an inbound or outbound investment. Inbound FDI measures investments made in a country from another country. This is where foreign national and multinational companies in a foreign country make investments in another State. This can be by the foreign investors establishing a subsidiary or an external company or a branch in the country and injecting capital into the business. It could also be a merger and acquisition in the country by the foreigners.

On the other hand, outbound FDI refers to investments made by nationals or residents of a State in another country. This can also take a variety of forms such as a Merger and Acquisition transactions or creating a subsidiary or branch in a foreign country. It can be a resident company of a State investing additional capital into an existing foreign branch or subsidiary or consent to it to retain profits rather than return dividend to the parent company.



Theoretical Basis of Foreign Direct Investments

There is an interesting history behind several theories of Foreign Direct Investment (FDI). Foreign Direct Investment theory can be traced back to the primary work of Smith in the year 1776¹³ and Ricardo in 1817.¹⁴ However, the theories were related to international specialisation of production and not international capital movement. It is finally resolved that the Foreign Direct Investment theory is based on three commingled theories, the international capital market theory, the firm theory, and the theory of international trade.¹⁵ The FDI theories can be categorised into two economic perspectives; macroeconomy and microeconomy.

The macroeconomy theory views FDI as a type of cross-border capital flow between home and host countries. This can be reflected in the balance of payment statements of countries, the interests obtained from the capital flows and stocks, and respective revenues gained from such investments.¹⁶ The focal points in this theory are the flux of financial capital, the accumulated stock value held by investing firms, and the income generated from these investments.¹⁷ Macroeconomic determinants that influence a host country's ability to attract Foreign Direct Investment include economic growth rate, GDP, infrastructure, natural resources, market size, and political stability.

The microeconomic theory attempts to justify the motivations for investment across national boundaries from the standpoint of the investor.¹⁸ It considers the implications

13 P.L. Makoni, 'An Extensive Exploration of Theories of Foreign Direct Investment' (2015) Risk Governance & Control: Financial market and institutions Vol. 5 Issue 2.

14 P.L. Makoni, 'An Extensive Exploration of Theories of Foreign Direct Investment' (2015) Risk Governance & Control: Financial market and institutions Vol. 5 Issue 2.

15 O.C. Popovici and A. Cantemir Calin, 'FDI Theories: A location-based Approach' (2014) The Romanian Economic Journal N°.53

16 R.E. Lipsey, *Home-and Host-Country Effects of Foreign Direct Investment* (University of Chicago Press 2004)

17 R.E. Lipsey, *Home-and Host-Country Effects of Foreign Direct Investment* (University of Chicago Press 2004)

18 V. Denisia, "Foreign direct investment theories: An overview of the main FDI theories" *European Journal of Interdisciplinary Studies*, 2(2), (2010). 104-110. -2

to investors, home country and the host country of the operations of the multinationals rather than investment flows and stock.¹⁹

Capital Market Theory

One of the theories classified under the macroeconomic theories is the Capital Market Theory. This theory is also called the 'currency area theory'. According to Aliber, foreign investment commonly evolved because of capital market imperfections.²⁰ Another school of thought postulated that FDI was the consequence of variations between source and host country currencies.²¹ Investors are more attracted to invest in weaker currency countries. This is because they can take advantage of the differences in the market capitalisation rate as compared to strong currency countries.²² This theory is best applied in developed countries such as the United States of America, United Kingdom, and Canada. It is argued that the Capital Market Theory are not relevant to developing countries with suppositional capital markets and heavily regulated foreign exchange rates.²³ This narrative is quite questionable, it may depend on the risk inclination of the foreign investor. Some investors have invested in Africa despite the persistent depreciation of currencies across the region.

It has been critiqued that this theory fails to provide a justification for the investment between two developed States that have currencies of similar strength.²⁴ Further, the importance of this theory has raised a question because it cannot explain investment of a developing country's (weaker currency) Multinational National Companies in a developed country (stronger currency).

Location-based Theory

This is a simplified theory that justifies the influence of location on Foreign Direct Investment. It accentuates that a host country's locality is distinguished by definite factors that may attract or drive back investment. This theory explains that investors

19 R. Lipsey, "Home and Host Country Effects of FDI", Lidingö, Sweden (2002)

20 R.Z. Aliber, *A Theory of Direct Foreign Investment* (The International Corporation, MIT Press, Cambridge 1970).

21 D. Nayak and R.N. Choudhury, 'A Selective Review of Foreign Direct Investment Theories' (2014) ARTNet Working Paper Series N°. 143.

22 R.Z. Aliber, *A Theory of Direct Foreign Investment* (The International Corporation, MIT Press, Cambridge 1970).

23 S. Lall, 'Multinationals and Market Structure in An Open Developing Economy: The Case of Malaysia' (1979) *Weltwirtschaftliches Archiv*, vol. 115, N°.2. and S. (1976). "Theories of direct private foreign investment and multinational behaviour", *Economic and Political Weekly*, Special Issue, vol. 11, N°. 31-33.

24 D. Nayak, Dinkar and R.N. Choudhury (2014). A selective review of foreign direct investment theories. ARTNet Working Paper Series N°. 143, March 2014, Bangkok, ESCAP.

will venture into FDI in countries based on the country's national wealth, such as the level of the endowment of natural resources, local market size, availability of labour, and infrastructure, and Government policies.²⁵ It has been deduced from this theory that the rate of FDI flows between two countries is higher, if the countries are analogous geographically, economically, and culturally. However, the flows of FDI are more intricate than just about commonalities between countries.

Institutional FDI Fitness Theory

This Foreign Direct Investment school of thought concentrates on a country's ability to attract, absorb, and retain Foreign Direct Investment. This theory implies that for a country to attract investors, the country must be able to adapt or meet the internal and external expectations of the investors.²⁶ This theory rests on four fundamental pillars: Government, market, education, and socio-cultural factors. These pillars are in the form of a pyramid with socio-cultural factors at the base of the pyramid. Education is above the socio-cultural factor on the pyramid. Education is necessary for this FDI theory as educated human capital enhances information processing ability.

On the other hand, the markets account for this theory's economic and financial aspects in the form of physical capital and financial capital.²⁷ The government, being the fourth pillar is noted to play the highest role in this theory. The promulgation of effective regulation is required to manage market fitness. Government fitness encompasses economic openness, a low degree of trade and exchange rate intervention, low corruption, and greater transparency.²⁸ Investors shy away from countries with hostile and unfavourable laws and policies as they increase the risk burden on their investments.²⁹ The theory of institutional FDI fitness has been tested and applied in Africa. FDI inflows in Africa can be attributed to economic openness, GDP, growth rate, internal rate of return, and credit availability.³⁰

25 O.C. Popovici and Adrian Cantemir Calin, 'FDI Theories: A location-based Approach' (2014) The Romanian Economic Journal N°.53

26 S.K.S Wilhems and Morgan Stanley D. Witter, 'Foreign Direct Investment and its Determinants in Emerging Economies' (1998) African Economic Policy Paper.

27 S.K.S Wilhems and Morgan Stanley D. Witter, 'Foreign Direct Investment and its Determinants in Emerging Economies' (1998) African Economic Policy Paper.

28 O.C. Popovici and A.C. Calin, 'FDI Theories: A location-based Approach' (2014) The Romanian Economic Journal N°.53

29 S. K.S Wilhems and M.S. D. Witter, 'Foreign Direct Investment and its Determinants in Emerging Economies' (1998) African Economic Policy Paper.

30 P.L. Makoni, 'An Extensive Exploration of Theories of Foreign Direct Investment' (2015) Risk Governance & Control: Financial market and institutions Vol. 5 Issue 2.

Eclectic Paradigm Theory

This is a well-known theory of Foreign Direct Investment propounded by Dunning.³¹ This states that FDI emerges if a firm has an ownership-advantage (a patent) coupled with a location-advantage (such as low production costs and large market dimension) and an internalisation-advantage (such as economies of mutually supporting activities).³² This theory integrates ownership, location, and internalisation. The theory postulates that for an investor to engage in foreign direct investment, the advantages of Ownership, Location, and Internalisation must be appealing to embark on the FDI. A firm gets an ownership advantage due to its ownership of tangible or intangible assets such as trademarks, patents, information, and technology.³³

The location advantage component of the Eclectic theory deals with economic geography; the advantage of investing in a place due to the natural or acquired characteristics of the location.³⁴ This theory proposes that it is more profitable to use the ownership advantages for the use of the firm itself than to sell or lease the assets to foreign firms through licensing or management contracts. This is the internalisation advantage of the Eclectic theory.³⁵ The theory hence maintains that Foreign Direct Investment is the outcome of firms holding ownership advantages that the firms may want to utilise in foreign locations, which they cannot advantageously do except through internalisation.³⁶

Production Cycle Theory

This theory was formulated by Vernon, and it describes changes in the trade position of a country in the long run.³⁷ The underpinning narration for this theory explains certain types of FDIs made by US companies post second world war in Western Europe in the manufacturing industry. Vernon asserts that there are four stages of production

31 J.H. Dunning, 'Towards an Eclectic Theory of International Production' (1980) *Journal of International Business Studies* Vol. 11 N°. 1.

32 C. Bellak & M. Leibrecht, "Do Low Corporate Tax Rates Attract FDI? - Evidence from Central-and East European Countries" *Applied Economics*, 41:21, 2691-2703

33 E.E. Marandu and Tebo Ditshweu, 'An Overview of the Key Theories of Foreign Direct Investment: The Way Forward' (2018) *Advances in Social Sciences Research Journal* Vol.5, N°.12.

34 E.E. Marandu and T. Ditshweu, 'An Overview of the Key Theories of Foreign Direct Investment: The Way Forward' (2018) *Advances in Social Sciences Research Journal* Vol.5, N°.12.

35 P.L. Makoni, 'An Extensive Exploration of Theories of Foreign Direct Investment' (2015) *Risk Governance & Control: Financial market and institutions* Vol. 5 Issue 2.

36 R. Nayyar, 'Traditional and Modern Theories of Foreign FDI' (2014) *International Journal of Business and Management Invention* Vol. 3 Issue 6.

37 R. Vernon, "International Investment and International Trade in the Product Cycle," *The Quarterly Journal of Economics*, Volume 80, Issue 2, May 1966, Pages 190–207

cycle: innovation, growth, maturity and decline.³⁸ The primary step for US multinational companies is to create new products for the domestic consumption and export the surplus in order to serve the foreign markets.

The product has a life cycle in three stages. The first stage is where the product is sold on the internal market as a modern product. The product based on standardization and scale economies is exported during the second stage and at the third stage, the company reduces costs by establishing subsidiaries in other countries to search for cheaper inputs and lower production costs.

38 V. Denisia, "Foreign Direct Investment Theories: An Overview of the Main FDI Theories" (2010) European Journal of Interdisciplinary Studies, 53-59



Corporate Tax Incentives and Foreign Direct Investment in Africa

FDI in Africa has grown significantly and played a crucial role in the continent's economic development. Investment flows to Africa were reported to be US\$83 billion in 2021.³⁹ Africa was not a major beneficiary of FDI flows and was behind other regions of the world. On an annual basis, the region's share of global FDI inflows was 2.6 per cent in the 1980-89 period; 1.9 per cent in the 1990-1999 period; and 3.2 per cent in the 2000-2009 period.⁴⁰ In Chapter 2 of this thesis, the typology of corporate tax incentives in Africa was examined. The full extent of tax incentives in these African countries were analysed. It was noted that all the Fifty-Four Africa countries have various tax incentives with the aim of attracting investments among others. It is in cinch with one of the rationales we noted in Chapter 1 for granting corporate tax incentives is to attract FDIs. Do these tax incentives influence FDIs in these countries? There are various academic perspectives on the role of corporate tax incentives and FDI.

It has been posited that corporate tax incentives do not have bearing on the FDI a country is able to attract. As an influence in attracting FDI, incentives are minor as compared to other primary factors such as the size of the market, availability of mobile resources and raw materials that are relevant to the companies.⁴¹ Foreign investors tend to place weight on these factors of productions before considering any tax incentives which may exist in the State.⁴² There is no clear correlation between lower corporate tax rates and FDI flows in Africa.⁴³ Statistics from the World Bank suggest that despite the several corporate tax incentives in Africa, there is decline in FDI. For the period 2015 to 2019, the amount of FDI inflows to the Sub-Saharan African countries reduced from 2.64%

39 [Investment flows to Africa reached a record \\$83 billion in 2021 | UNCTAD](#)

40 J.C. Anyanwu, Determinants of Foreign Direct Investment Inflows to Africa, 1980-2007, Working Paper Series N° 136, African Development Bank, (2011) Tunis, Tunisia.

41 UNCTAD, Tax Incentives and Foreign Direct Investment: A Global Survey, ASIT Advisory Studies N°. 16 (UN, New York and Geneva, 2000)

42 UNCTAD-DTCI. Incentives and Foreign Direct Investment, Geneva and New York: UN Publications, E.96.II.A.6, 1996

43 C. Azemar & A. Delios, "Tax Competition and FDI: The Special Case of Developing Countries" Journal of the Japanese and International Economies, 2008, 22(1) 85-108

in 2015 to 1.7.3% in 2019.⁴⁴ That said, an increase or a high corporate tax rate can be detrimental to net inflows of FDI into Africa.⁴⁵

Wilson argues that there is a correlation between corporate tax incentives and FDI. That with the assumption of perfectly mobile capital, when a government increases its tax rate, net return on capital located there falls and capital chooses to relocate elsewhere.⁴⁶ Feld and Heckemeyer asserted that taxation has a positive impact on FDI that a country is able to attract.⁴⁷ They found that FDI is decidedly sensitive to tax rates, with a median tax semi-elasticity of 2.49 (mean of 3.35) and this finding was based on analysis of 704 primary estimates.⁴⁸ A different view is advocated by Hong who suggests that taxes induce the selection of a direct or indirect investment paths.⁴⁹ This is based on the fact the investment are made directly to destinations and the tax rates adopted by a country may influence treaty shopping.⁵⁰ The greater the effective average tax rate between host country and home county, the more FDI enters the home country directly.⁵¹ Finally, it has been put forward that corporate tax incentives can have a substantial adverse effect on FDI inflows into an economy in the long run and important positive impact on FDI inflows in the short term.⁵²

Further, there are various positions by academics on the effect of corporate tax incentives on FDI. Some argue that the type of incentive can have a positive relationship with the FDI attracted by a country. That is, different corporate tax incentives have distinct effects on cost of capital. Tax holiday in question is believed to drive FDI in low-income-

44 A.B. Abille & S. Mumuni, Tax Incentives, Ease of Doing Business and Inflows of FDI in Africa: Does Governance Matter? *Cogent Economic & Finance*, 2023. 11:1, 2164555

45 A.B. Abille & S. Mumuni, Tax Incentives, Ease of Doing Business and Inflows of FDI in Africa: Does Governance Matter? *Cogent Economic & Finance*, 2023. 11:1, 2164555

46 J. Wilson, Theories of Tax Competition, *National Tax Journal*, 52(2), 1999, 269-304

47 L. P. Feld & J. H. Heckemeyer, "FDI and Taxation: A Meta-study. *Journal of Economic Surveys*" (2011) 25(2), 233–272

48 L.P. Feld & J.H. Heckemeyer, "FDI and Taxation: A Meta-study" *Journal of Economic Surveys*" 2011, 25(2), 233-272

49 S. Hong, "Tax Treaties and Foreign Direct Investment: A network approach", *International Tax and Public Finance*, 2018, 25(5), 1277-1320

50 J.M. Mintz & A.J. Weichenrieder, *The Indirect Side of Direct Investment: Multinational Company Finance and Taxation* (MIT Press, 2010)

51 D. Erokhin, Tax Effects on Foreign Direct Investment- Just a Rerouting, *World Economy*, 2023, 46, 2808-2834

52 A.B. Abille & Others "Modelling the synergy between fiscal incentives and foreign direct investment in Ghana" *Journal of Economics and Development* Vol. 22 Nº. 2, 2020 pp. 325-334; See also, S.N.K. Appiah-Kubi, K. Malec, & et al, "Impact of Tax Incentives on Foreign Direct Investment: Evidence from Africa" *Sustainability* 2021, 13(15), 8661

countries.⁵³ Specific tax incentives in a country which investors respond to incorporate an undertaking and capitalise it, can be argued that FDI been realised. This assumption is the case if credence is given to the definition of FDI. For example, as discussed in Chapter 2, South Africa has headquarters and treasury management company regimes to attract the establishment of investment holding and/or group finance companies. The regime has various tax benefits for foreign investors who establish investment holding or group finance companies in South Africa. If foreign investors respond to the regime, by investment in the stated companies, there is a positive relationship between the incentives in the regime and FDI. On the other hand, certain incentives have been argued not to have effect on FDI in a country. Tax concessions offered by African countries by research showed that it does not lead to FDIs⁵⁴. The correlation between tax concession and the resultant flow of FDI is adverse.⁵⁵

Interactions between Corporate Tax Incentives and Foreign Direct Investments

Indirect Interactions

Tax is used to raise revenue to finance public expenditure to promote economic growth and development.⁵⁶ Corporate tax incentives can have indirect interactions with Foreign Direct Investment (FDI).⁵⁷ The factors that foreign investors consider when making investments in another country is mixed. Corporate tax incentives are not always the primary factors for multinational companies when choosing investment locations, they can still contribute to influencing FDI decisions. Investors do not make FDI decisions based on a single factor like tax regimes alone; rather, they consider a constellation of economic, political, and institutional variables. For example, studies have shown that countries with high corruption levels or weak governance structures may struggle to attract FDI,

53 A. Klemm; S. van Parys, "Empirical Evidence on the Effects of Tax Incentives" *International Tax Public Finance* 2012, 19, 393-423

54 S.N.K. Appiah Kubi, K. Malec et al, "Impact of Tax Incentives on Foreign Direct Investment: Evidence from Africa" *Sustainability* 2021, 13, 8661

55 S.N.K. Appiah Kubi, K. Malec et al, "Impact of Tax Incentives on Foreign Direct Investment: Evidence from Africa" *Sustainability* 2021, 13, 8661

56 V. Tanzi & H. Zee, "Tax Policy for Developing Countries" *Economic Issues* N^o. 27, 2001 International Monetary Fund

57 A. Pirlot, "A Legal Analysis of the Mutual Interactions between the UN Sustainable Development Goals (SDGs) & Taxation (October 10, 2019). in: C. Brokelind & S. van Thiel (eds.), *Tax Sustainability in an EU and International Context* (2020) IBFD, pp. 87-111

regardless of how favourable their tax policies may be.⁵⁸ Similarly, a well-educated workforce or strategic geographical location may offset less favourable tax policies in certain contexts.⁵⁹ Assuming the governments utilise these tax measures to achieve FDIs, there will be a positive interaction between tax and the FDI. The connection between taxation and FDI in Africa is completely precarious. It is based on strong assumptions that the tax incentives granted within a tax system will realise FDI in a positive direction. Contrariwise, the assumption is that when government can use less or no tax incentives, they will discourage FDI. For example, when corporate tax rates are raised high from 19% to 45% in a country, it may discourage the level of investments and hence lower FDIs.

The effect of corporate tax incentives on FDI has been over simplified. The interaction is purely not overly connected to the use of the tax incentives. The indirect interaction between FDI and corporate tax incentives is contingent on other variables, such as the investment climate, distributive effects and governance structure⁶⁰ and the ease of doing business can influence the interaction between the FDI and the incentives indirectly. FDI is influenced by primarily the possibility of high value in growing markets, coupled with the likelihood of funding these investments at relatively low rates of interest in the host country.⁶¹

The indirect interaction between FDI and Corporate tax incentives depends on the degree of these variables in a country. Countries in Africa with good investment climates⁶² such as infrastructures, stable democracy, political system and high doing business index are likely to attract FDI if they have corporate tax incentives regime. South Africa is considered to have better infrastructure and good investment climate, thus coupled with corporate tax incentives regimes, they are likely to attract FDI not as a result of the incentives but due to other institutional factors. On the other hand, an African country with poor economic infrastructure, bad ease of doing business index and unstable political governance problem, may not attract the level of FDI despite having corporate tax incentives regime. This explains the drop in FDI for countries such as Zimbabwe, Sudan and Togo because of political instability and poor infrastructure. The FDI figures for such countries are in the millions of United Dollars compared to countries with relatively stable

58 A.G. Goswami, A. Mattoo & S. Saez, "Exporting services: A developing country perspective". World Bank Publications (2011).

59 OECD FDI Qualities Indicators: Measuring the Sustainable Development Impacts of Investment (2019), OECD Publishing.

60 D.C. North, "Institutions", Journal of Economic Perspectives, Vol. 5 N°. 1, (1991) pp. 97-112

61 M. Kransdorff, "Tax Incentives and Foreign Direct Investment in South Africa" Consilience: The Journal of Sustainable Development Vol. 3 Iss. 1 (2010), pp. 68-84

62 D.C. North, Institutions, Institutional Change, and Economic Performance, Harvard University Press (1990), Cambridge, MA.

democracy and good infrastructure. South Sudan had FDI of US\$ 67.5M in 2021 and an increase to US\$121.5M in 2022 but FDI fell into negative 6.3M in 2023⁶³ despite having incentive regimes. Togo recorded negative US\$136M in 2021, negative US\$ 173M in 2022 and US\$34M in 2023.

Direct & Positive Interactions

Corporate tax incentives can have a direct and positive interaction with an FDI a jurisdiction in Africa attracts. By direct and positive, it means that as particular tax incentives are given by a country, there is corresponding increase in the level of investments in that country. The positive and direct interactions are not applicable to all types of corporate tax incentives within a tax system. Reduced corporate tax rates has been argued to encourage FDI inflows.⁶⁴ As discussed in Chapter 2 of this thesis, the selected countries such as Ghana, Nigeria, Kenya, South Africa and Botswana offer varied corporate tax incentives with the view of attracting FDI. We noted that some of the incentives are specific, general and discretionary corporate tax incentives. The corporate tax incentives have been offered targeting different taxpayers depending on the designs of the incentives. They ranged from preferential tax rates, special economic zones, depreciation and capital allowances, tax losses and export processing zones among others. Out of the Fifty-Three (53) African countries, thirty-four (34) countries have special economic zones⁶⁵ which comprises of corporate tax holidays, preferential tax rate ranging from 10% to 15% depending on the country. Findings have been made that there is a substantial and statistically noteworthy relationship between the indices and FDI inflows, and between specific tax system attributes and FDI inflows.⁶⁶ This position has been asserted that the FDI are considerably affected by reduced corporate income tax in Africa.⁶⁷ The disparity between the different types of FDI is crucial because the different parts may react differently to corporate tax incentives.⁶⁸ Efficiency seeking FDIs in terms of export oriented manufacturing sectors,

63 <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=SD>

64 H. Zee, J. Stotsky, E. Ley, "Tax Incentives for Business Investment: A Primer for Policy Makers in Developing Countries, World Development 2002; 30 (9) 1497-1516

65 [Special economic zones drive economic diversification in Africa | UNCTAD](#)

66 R.S. Simmons, "An empirical study of the impact of corporate taxation on the global allocation of foreign direct investment: A broad tax attractiveness index approach" Journal of International Accounting, Auditing and Taxation, 12(2), 105–120.

67 S. N. K. Appiah-Kubi, K. Malec, J. Phiri, M. Maitah, Z. Gebeltová, L. Smutka, V. Blazek, K. Maitah, J. Sirohi, "Impact of tax incentives on foreign direct investment: Evidence from Africa" Sustainability, 13(15), (2021) 8661.

68 A.J. Auerbach and K. Hassett, Taxation and Foreign Direct Investment in the United States: A Reconsideration of the Evidence" In A. Giovannini and J. Slemrod (eds), Studies in International Taxation, Chicago University Press

have been considered to be more responsive to corporate tax incentives.⁶⁹ For example, Ghana introduced Free Zone regime in 1996 with the Ghana Free Zone Authority as the licensing authority.⁷⁰ It has 253 active companies operating in the free zone regime.⁷¹ The underlying ownerships in these companies are a mixed of wholly owned subsidiaries, joint ventures and Ghanaian owned. The investments in the free zones are by way of equity or retained earnings and merger & acquisitions. The regime has attracted direct and positive investments as a result of the corporate tax incentives. The Ghana Free Zones attracted investments of \$174M; US\$137.71m; 149.77M and US\$182.69M in 2021, 2022, 2023 and 2024 respectively.⁷² Export valued made by these licenced enterprises were US\$1,927.57M; US\$1,903.55; US\$1,768.19M and US\$2,192.40 in 2021, 2022, 2023 and 2024, respectively.

Also, targeted corporate tax incentives which are granted by Kenya to companies that manufacture human vaccines which were exempt from tax but changed to 10% effective 1 January 2024,⁷³ is likely generate investments in Kenya by the incorporation of companies for that purpose, thus contributing to FDI.

Direct & Negative Interactions

Although some scholars have argued on the merit of corporate tax incentives offered by countries in attracting FDI, that narrative is not straight forward. Corporate tax incentives can have direct and negative interactions with FDI in African countries. By negative and direct, they mean that the more corporate tax incentives are granted by a country, the less effect on the ability to attract FDI. That is, there is an inverse relationship between the corporate tax incentives and FDI inflows in the country. Empirical studies have confirmed the negative link between corporate tax rate and FDI inflow.⁷⁴ Corporate tax incentives lead to temporary gains rather than long-term commitments.⁷⁵ Initially,

69 H. Grubert & J. Mutti, "Do Taxes Influence Where U.S. Corporations Invest" National Tax Journal, 2000 Vol. 53, N°. 4, pp. 825-839

70 Free Zones Act 1995, Act 504

71 Ghana Free Zone Authority (GFZA) has 254 active companies as of 4 October 20224 Confirmed from a list of excel spreadsheet shared with me by the GFZA

72 This based on data supplied by the Ghana Free Zone Authority (GFZA)

73 C. Mutava, Kenya - Corporate Taxation, Country Tax Guides IBFD (accessed 7 July 2024).

74 C. Azémar & A. Delios "Tax competition and FDI: The special case of developing countries" J. Japanese Int. Economies 22 (2008) 85 108; see also S. Stöwhase, Tax-rate differentials and sector specific foreign direct investment: Empirical evidence from the EU, FinanzArchiv: Public Finance Analysis, Mohr Siebeck, Tübingen, vol. 61(4) 2006.

75 J. Morisset & N. Pirnia, "How Tax Policy and Tax Affect Foreign Investment Direct Investment Research Working Paper 2509, The World Bank and International Finance Corporation Foreign Investment Advisory Service December 2000

these corporate tax incentives may attract FDI, but the long-term costs and potential for negative impacts often diminish the benefits. The undertakings might leave the country once the tax concession being enjoyed comes to an end, and this might lead to economic instability. If they do not leave the country, they might create other corporate structures or new legal entities and apply for same tax concessions. In effect, as a result, of the abuse of the corporate tax incentives, the countries are in effect, the losers and no tangent FDI for the country. It has been posited that the corporate tax incentives are not only likely to have a negative direct effect on fiscal revenues but also recurrently create considerable openings for unlawful behaviour by tax administrators and companies.⁷⁶

For example, empirical research conducted in Nigeria to assess the relationship between corporate tax incentives and its ability to promote investments concluded that an important negative relationship exists between fiscal incentives and FDI in Nigeria.⁷⁷ It was suggested that addressing bottlenecks such as deficiency in infrastructure, low-quality institutions, and poor regulations could bolster FDI in Nigeria rather than corporate tax incentives regimes.⁷⁸

76 J. Morisset & N. Pirnia, "How Tax Policy and Tax Affect Foreign Investment Direct Investment Research Working Paper 2509, The World Bank and International Finance Corporation Foreign Investment Advisory Service December 2000

77 B. Fowowe, "Financial liberalization in Sub-Saharan Africa: What do we know?" J. Econ. Surv. 2013, 27, 1–37

78 B. Fowowe, "Financial liberalization in Sub-Saharan Africa: What do we know?" J. Econ. Surv. 2013, 27, 1–37



Measurement of Foreign Direct Investments in Africa

Foreign Direct Investment is measured globally using two internationally agreed methods. African countries adopt these methods to determine the values of FDIs. The methods are the asset/liability principle or presentation and the directional principle or presentation.⁷⁹

a) Asset/Liability Principle

This approach of measuring Foreign Direct Investment deals with balance of payment statistics, international investment positions, and some components of national accounts statistics. The data derived from these statistics provide the total aggregate of foreign direct investment assets and liabilities in an economy.⁸⁰ These statistics incorporate all the funds running through any Special Purpose Enterprises (SPEs) and capital flowing through operating subsidiaries of Multinational Enterprises (MNEs) for the parent companies.⁸¹ Nonetheless, this method of measuring FDI does not reflect the direction of influence or control as the data used does not present a suitable foundation for analysis by partner country or industry. The asset/liability measurement method can lead to an overstatement of foreign direct investment amounts for individual economies and regional and global totals. Using this measurement method can distort the real origin and destination of FDI if funds are to pass through non-resident SPEs or other types of subsidiaries.⁸²

b) Directional Principle

This measurement method is used to analyse the economic impact of Foreign Direct Investment from the direction and control viewpoint. The directional measurement principle

⁷⁹ Central Statistics Office, 'Two Methods of Measuring Foreign Direct Investment' (2023) <Two Methods of Measuring Foreign Direct Investment - Central Statistics Office> accessed 6 May 2024

⁸⁰ OECD, *Benchmark Definition of Foreign Direct Investment* (4th edn, OECD 2008).

⁸¹ OECD, *Benchmark Definition of Foreign Direct Investment* (4th edn, OECD 2008).

⁸² OECD, *Benchmark Definition of Foreign Direct Investment* (4th edn, OECD 2008).

demonstrates inward, outward, and reverse investments.⁸³ The Direct measurement principle may also show investments in fellow enterprises. This may depend on whether the controlling parent company of the resident fellow enterprise is a resident or non-resident of the economy recording the investments.⁸⁴ Information on resident SPEs is shown separately in the core accounts with the full geographic and industry breakdown.⁸⁵

83 OECD, *Benchmark Definition of Foreign Direct Investment* (4th edn, OECD 2008).

84 OECD, *Benchmark Definition of Foreign Direct Investment* (4th edn, OECD 2008).

85 OECD, *Benchmark Definition of Foreign Direct Investment* (4th edn, OECD 2008).



Examination of Foreign Direct Investments Trends in Africa

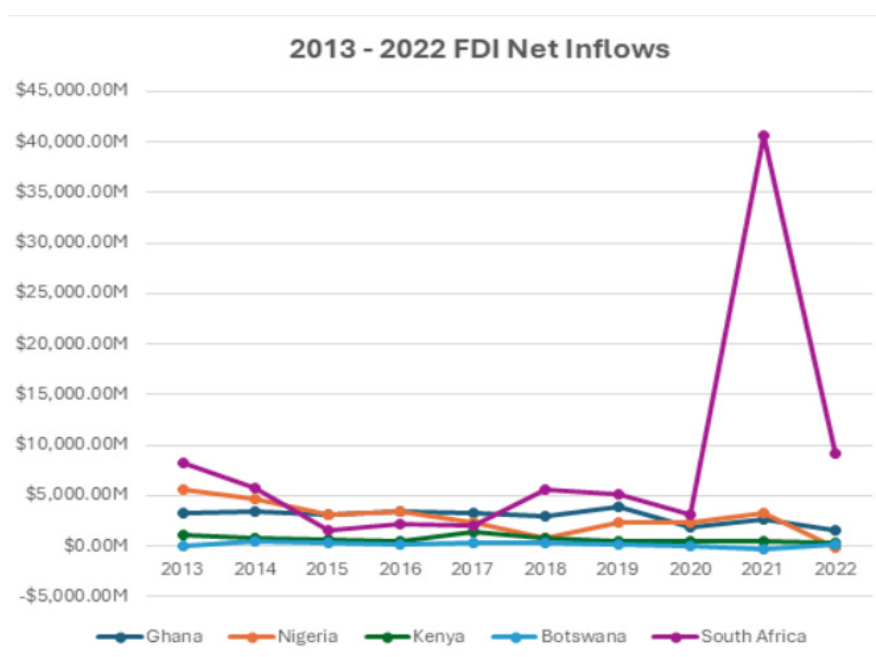
Africa has had a long history of granting corporate tax incentives to foreign companies with the aim of attracting FDI. The presumption has always been that the incentives will stimulate investments into these countries. At this section, a critical examination will be had to FDI trends in Africa, focusing on the selected countries for the thesis. Although, most African countries do not have tax expenditures reports, information on tax expenditures for the selected countries will be compared with the FDI to construct the relationship between FDI and tax expenditures in Africa. The limitation is that FDI figures are on wholistic investments in these countries. Similarly, the tax expenditures on these countries do not have complete information on granted corporate tax incentives. In view of that, it was convenient to examine FDI values with the total tax expenditures for these countries.

FDI Analysis: Ghana, Nigeria, Kenya, Botswana and South Africa

Country	2013 (US\$)	2014 (US\$)	2015 (US\$)	2016 (US\$)	2017 (US\$)	2018 (US\$)	2019 (US\$)	2020 (US\$)	2021 (US\$)	2022 (US\$)
Ghana	3,227, 000,0 00.00	3,363, 389,44 4.44	3,192, 320,5 30.79	3,485, 333,3 69.28	3,254, 990,0 00.00	2,989, 035,0 00.00	3,879, 831,4 69.70	1,875, 782,9 53.47	2,612, 789,79 2.55	1,510, 872,0 58.18
Nigeria	5,562, 857,9 87.47	4,693, 828,63 1.90	3,064, 168,9 04.45	3,453, 258,4 07.98	2,412, 974,9 16.23	775,2 47,40 0.00	2,305, 099,8 11.70	2,385, 277,6 65.92	3,313, 210,00 0.00	-186,7 92,42 8.93
Kenya	1,118, 825,0 00.19	820,93 7,598. 36	619,7 24,46 5.02	469,5 33,31 0.68	1,346, 085,3 45.22	767,7 61,50 6.73	469,9 40,26 6.78	426,3 05,18 9.43	463,34 8,935. 68	393,5 83,09 2.14
Botswana	67,13 6,806. 16	515,18 4,471. 02	378,5 54,18 1.53	142,5 22,59 8.30	260,5 75,12 9.35	285,9 55,06 1.93	93,60 7,130. 03	31,79 2,610. 41	- 319,05 5,857. 57	216,4 59,29 1.05
South Africa	8,232, 518,8 15.62	5,791, 659,02 0.10	1,521, 139,9 45.31	2,215, 307,0 20.40	2,058, 579,9 11.05	5,569, 462,3 50.15	5,116, 098,4 43.49	3,153, 552,5 69.39	40,658, 789,1 44.94	9,194, 808,4 15.59



Graph on FDI movements: Ghana, Nigeria, Kenya, Botswana and South Africa



Tax Expenditure of the Selected Countries: Ghana, Nigeria, South Africa, Kenya and Botswana

Country	Year	TE (local currency)	USD Equivalent	TE/GDP	TE/TR
Ghana	2022	4.8 billion	580.80 million	0.78%	5.94%
	2021	3.48 billion	599.61 million	0.76	5.74%
	2020	4.30 billion	760.35 million	1.12%	NA
	2019	4.68 billion	896.86 million	1.34%	10.90%
	2018	4.26 billion	929.91 million	1.42%	10.78%
	2017	NA	NA	NA	NA
	2016	NA	NA	NA	NA
Nigeria	2022	2.62 trillion	6.15 billion	1.3%	NA
	2021	6.79 trillion	17.82 billion	3.85%	NA
	2020	5.84 trillion	16.29 billion	3.79%	NA
	2019	4.41 trillion	14.38 billion	3.03%	NA
	2018				
	2017				
	2016				

Country	Year	TE (local currency)	USD Equivalent	TE/GDP	TE/TR
South Africa	2022	263.02 billion	16.08 billion	3.96%	NA
	2021	243.38 billion	16.47 billion	3.93%	15.57%
	2020	263.76 billion	16.02 billion	4.75%	21.07%
	2019	253.01 billion	17.51 billion	4.51%	18.64%
	2018	224.11 billion	16.93 billion	4.60%	16.39%
	2017	228.02 billion	17.11 billion	4.90%	17.81%
	2016	195.29 billion	14.66 billion	4.48%	NA

Kenya	2022	393.62 billion	3.34 billion	2.88%	19.83%
	2021	292.92 billion	2.67 billion	2.42%	16.55%
	2020	238.58 billion	2.24 billion	2.23%	15.57%
	2019	260.73%	2.56 billion	2.55%	16.87%
	2018				
	2017				

Botswana	Data is not available
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Source: GTED⁸⁶

Ghana

FDI has played a considerable role in the development of Ghana's economy. Ghana grants corporate tax incentives with the aim of attracting FDIs. This objective is premised on the narrative that foreign capital enhances the productive capacity of a country, encourages transfer of technology and skills to the host country, provides employment, tax revenues and later helps assuage poverty, among other benefits.⁸⁷ The relationship between corporate tax incentives and FDI have remained unclear. From 2013 and 2015, Ghana recorded FDI inflows that were stable at an average of about \$3.26 billion annually. FDI inflows remained largely stable over this period with an increase of 4.2% in 2014 and a decrease in 2015 at 5.1%. Despite these changes, the country was able to maintain overall stable levels of investment probably because investors were still confident in certain sectors of the economy. Between 2016 and 2019, FDI inflows were less stable, with an annual average of \$3 billion. FDI inflows increased in Ghana by 9.2 % in 2016, signalling increased investor interest. However, the trend reversed in 2017, as inflows dropped from \$3.485 billion to \$3.255 billion, a 6.6% decline. In 2018, the decline in FDI inflows continued with an 8.2% decrease indicating some economic, market or political

⁸⁶ A. Redonda, C. von Haldenwang & F. Aliu, Global Tax Expenditures Database (GTED) (1.3.0) 2024 [Data set]. Zenodo.

⁸⁷ D. T. Wang, F.F. Gu, D.K. Tse, and C.K. Yim, "When does FDI matter? The roles of local institutions and ethnic origins of FDI" International Business Review 22 (2013) 450–465

challenges. Despite this decline, 2019 saw a considerable recovery as FDI once again rose by 29.8% to reach an all-time high of \$3.879 billion in Ghana; indicating that there might be new, sizable projects or the economic environment is potentially more appealing for investors. The highest peak in FDI inflows occurred in 2019.

Economic disruptions in 2020-most probably driven by the COVID-19 pandemic saw FDI inflows drop dramatically by 51.6% from \$3.879 billion to \$1.88 billion, while the drastic decline was the worst so far since 2013. Nevertheless, Ghana recovered in 2021 as FDI inflows rose to \$2.61 billion, representing a strong recovery. This recovery may largely have been informed by heavy investments in the services, mining, manufacturing, and construction sectors as a means of economizing and attracting more capital in a largely shrinking global outlook. Unfortunately, this level was not maintained, as the FDI inflows decreased once more in 2022 to \$1.51 billion, a 42.2% drop. This trend might signal some lingering global investment climate issues or certain local economic problems. Despite these ups and downs, the fact that Ghana attracts larger FDI at least during recovery periods has, so far, underlined the part played by investor confidence in this country.

The narrative by the Government of Ghana is that tax incentives help achieve FDI. This is primarily why Ghana Investment Promotion Centre must track the level of FDI in the country, although institutions such as the Ghana Free Zones Authority and the Bank of Ghana have a keen interest in the measurement of the values of FDIs. A critical examination of tax expenditures from 2018 to 2022 about the relationship between FDI and tax expenditures disclosed that the tax expenditures do not respond proportionately to the level of FDI on year on year. In 2018, tax expenditures were US\$929.91 Million with a corresponding FDI of US\$2.99 Billion. In 2019, tax expenditures were US\$896.81 Million against FDI of US\$3.9 Billion. The years 2020, 2021 and 2022 had tax expenditures of US\$760.35 Million; US\$599.61 Million and US\$580.80 Million respectively, with corresponding FDI values of US\$1.9 Million, US\$2.6 Million and US\$1.5 Million respectively. These tax expenditures do not relate to only corporate tax incentives. It is the makeup of all tax incentives granted by the tax system. The limitation of the data on the tax expenditures is that it excludes general tax incentives provided by tax legislations. Thus, tax expenditures could have been higher if general tax incentives were included in the methodology. It is unclear whether the FDIs attracted by Ghana for the period were as a result of the tax incentives. However, it has been argued that specific incentives such as free zones were able to attract direct and positive FDIs.

Nigeria

Nigeria also grants corporate tax incentives to foreigners with the aim of attracting FDI. Does the grant of the corporate incentives achieve FDI in Nigeria? Over the 10-year period, 2013 proved to be Nigeria's highest year ever for FDI inflows (\$5.562 billion). That

peak marked a period of solid investor sentiment and was probably due to favourable economic conditions, political stability, and growth opportunities in key sectors of the economy. However, the high level of investment could not be sustained in the following years. In 2014 FDI inflows decreased by 15.6%, indicating that external factors such as global economic uncertainties or domestic challenges might have begun influencing investor sentiment. The downturn continued into 2015, with a further 34.7% reduction in inflows, demonstrating a rising reluctance to invest among foreign investors in Nigeria.

This declining trend in the previous years underwent a reversal in 2016 as FDI inflows increased by 12.7 %, from \$3.064 Billion to \$3.453 Billion. The recovery hinted that investor confidence in the country had started increasing, possibly because of measures the government initiated to improve the business environment. However, the recovery was short-lived, as inflows dropped sharply in 2017 by 30.1%, signalling renewed economic or political challenges. The decline steepened dramatically in 2018, with FDI plummeting by 67.9%, marking one of the most significant reductions in foreign investment during this period. This sharp drop could have been influenced by a combination of factors, such as macroeconomic instability, regulatory concerns, or investor perceptions of political risk. However, a turnaround was registered in the period from 2019 to 2021 as FDI inflows increased each year. FDI inflows increased by a notable 197.2% in comparison with the previous year displaying a sudden revival in investor interests, which could be because of positive economic reforms. FDI inflows rose by 3.5% in 2020, marking a consecutive year of inflow growth even though COVID-19 presented an unprecedented challenge to the world throughout the year. Inflows increased by a further 38.9% in 2021, seeing Nigeria attracting considerable foreign investments once again.

In 2022 the momentum was disrupted and recorded a dramatic fall with FDI inflows hitting their lowest in a decade. Posting a net negative inflow of \$186.79 for 2022, Nigeria had a 105.6% decline in foreign inflows which was the most dramatic move seen in the 10 years. This unprecedented drop in foreign investment underscored significant economic challenges facing the country.

Given the level of FDI attracted by Nigeria for the past ten years, it offered more tax expenditures than the FDI values achieved. In 2019, tax expenditure was US\$14.3 Billion whereas FDI value was US\$2.9 Billion. In 2020, FDI achieved US\$2.3 Billion compared to tax expenditures of US\$16.29 Billion. Similar trend in 2021 and 2022 where tax expenditures were US\$17.83 Billion and US\$6.15 Billion correspondingly with FDI at US\$3.3 Billion and 0.186 Billion respectively. This shows that the level tax incentives given by Nigeria with the objective of attracting FDI is counterproductive. Although FDI has been achieved, it is unclear whether the tax incentives contributed to it.

Kenya

Kenya is not an exception in granting tax incentives to attract FDI. In Chapter 2 of this thesis, it was noted that there are various corporate tax incentives granted by Kenya among others to attract FDI. Trend analysis of FDI from 2013 to 2022 was undertaken to examine the flow of FDI in Kenya. The FDI is juxtaposed with the level of tax expenditure for relevant years where data is available.

FDI inflows stood at \$1.12 Billion in 2013, marking a relatively good year for investment in the country. However, the performance in 2013 could not be maintained or improved, as FDI inflows declined over the following three years, decreasing by an average of 25.1% annually until 2016. At the end of this downward trend in 2016, FDI inflows dropped to \$469.54 Million, indicating significant challenges in attracting foreign investments during this period. This decline could be a result of various factors, including macroeconomic instability, political uncertainties, or global market shifts that made foreign investors more cautious about committing capital.

In 2017, FDI inflows surged from \$469.54 Million to \$1.346 Billion, representing an astonishing 186.7% increase. This sharp and sudden recovery indicated renewed interest by foreign investors, arguably driven by positive policy reforms, improvement in the business climate, or recovery in key segments of the economy. The rebound could also be due to favourable global economic conditions for emerging markets or even specific government efforts towards the attraction of foreign capital. However, the recovery was brief, and from 2018 to 2020, FDI inflows started falling again. In 2018, FDI inflows declined by 43% to indicate restored troubles. The decline continued in 2019 with a decrease of 38.8%, indicating the prevalent barriers in maintaining investor confidence. The declining FDI trend was slower in 2020, reducing from \$469.94 Million to \$426.31 Million representing a 9.3% decline in FDI inflows, probably caused by the global economic upsets due to the COVID-19 pandemic. This decline could be related not only to domestic economic factors but also to external shocks, that has made investors more cautious.

There was a modest improvement in 2021 when FDI inflows surged by 8.7%, pointing toward some recoveries when the world was just coming out of the global pandemic, but this improvement was moderate to show that foreign investors were gradually getting their confidence in the market. Unfortunately, this positive momentum did not cross over into 2022, as FDI inflows again declined, falling from \$463.35 Million to \$393.58 Million, a decline of 15.1%. This may mean that, though some improvement had been achieved over the years, there is probably some underlying issues with the economy; either economic instability, policy uncertainty, or even fluctuations in global markets, which has continued to affect Kenya's ability to attract sustained foreign investment.

Having looked at the FDI trends, the relationship with tax expenditure is established. In 2019, FDI was 469.94 Million with a corresponding tax expenditure of US\$ 2.56 Billion.

FDI in 2020 was US\$426.3 Million compared to tax expenditures of US\$2.24 Billion. In 2021, FDI values were recorded at US\$463.3 Million whereas the tax expenditure was US\$2.67 Billion. In 2022, tax expenditures were US\$3.34 Billion with FDI at US\$393.6 Million. Data on the tax expenditure on Kenya is limited to a four-year period unlike the ten-year period for the FDI. This analysis discloses that there is a negative relationship between the corporate tax incentives granted and the level of FDI attracted by the country. The total tax expenditure is more than the level of FDI attracted. This negates the narrative that tax incentives attract FDI. Thus, the level of FDI attracted by Kenya is not proportionate to the tax expenditures.

Botswana

FDI inflows were modest at \$67.14 Million in 2013. The next year proved to be an outstanding year as FDI inflows reached \$515.18 Million in 2014, up by an astonishing 667.3%. This huge rise in foreign investment could be attributed to a combination of factors such as improved investor confidence, economic reforms, or sector-specific opportunities which attracted significant foreign capital. The jump may also be indicative of the success of governmental efforts to position the country as a destination attractive to foreign investors. Despite the massive growth in 2014, the momentum did not hold for the next couple of years. FDI inflows declined by 26.5% in 2015, reflecting that a period of rapid growth like that can be followed by challenges such as market correction or lower investor interest. In 2016, the decline was higher as FDI inflows reduced by a much bigger margin at 62.4%. That could be for many reasons, perhaps because of global economic factors, local political or regulatory challenges, or a downturn in key industries that had previously drawn foreign investment.

In 2017, Botswana marked an increase in its FDI inflows reaching an increase of 82.8%. This recovery could suggest that investor confidence had returned, either because the government had made efforts to address challenges or because the business climate had improved. In 2018, there was also growth although slow, continued, with a further increase in FDI inflows of 9.7%. By the end of 2018, total FDI inflows amounted to \$285.96 Million, reflecting a period of relative stability in the attraction of foreign investment. Unfortunately, this upward trend did not last as FDI inflows recorded a sharp decrease from 2019 through 2021. During the year 2019, it recorded a fall in inflows by 67.3% and started to go downward. After that, in 2020, it continued to decline strongly, with FDI declining by 66%, likely as a product of the disruption within the global economy brought by the COVID-19 pandemic. The most dramatic fall was seen in 2021, when the level of FDI inflows decreased by 1103.6%, representing the most severe decline over the whole period. This drastic decline could be due to multiple factors such as economic contraction, investor uncertainty, and even capital outflow or disinvestments by foreign companies. FDI

inflows saw a strong rebound in 2022, recovering from -\$319.06 million inflows in 2021 to \$216.46 million inflows. This was a sharp rebound, meaning the country managed to regain some confidence of the investors. The rebound might have been driven by efforts for economic stabilisation, targeted incentives to foreign investors, or improvement in key sectors that had earlier suffered.

Botswana does not have tax expenditure information, and therefore, it is difficult to establish the relationship between the FDI and tax expenditure. The non-availability of tax expenditure may suggest that possibly more tax incentives are being granted than the FDI attracted by Botswana. It may also be that FDI figures are more than the tax expenditure granted. The availability of data on tax expenditure will help with plausible conclusion.

South Africa

South Africa also uses corporate tax incentives to drive FDI among other objectives. A trend analysis of FDI inflow for South Africa is constructed to understand the values. The data of FDI related to 2013 to 2022. Also, the FDI information will be compared with the tax expenditures for the period. The data on South Africa in respect of tax expenditure spans from 2016 to 2022. During the three-year period from 2013 to 2015, FDI net inflows revealed a downward trend. FDI inflows in the year 2013 reached as high as \$8.232 Billion, an indication that in that year international investors were keen about the country. However, this was an unsustainable momentum because inflows declined by 29.6% the following year to \$5.792 Billion in 2014. In 2015, the decline went further as FDI inflows dropped drastically by 73.7%. The drastic decline of foreign investments in the first half of the 10-year period might be due to a combined impact of world economic turmoil, local political or economic instability, or sector-specific downturns that made the country less attractive to foreign investors.

Between 2016 and 2019, inflows of FDI gradually recovered, reflecting that efforts toward economic stabilization or an improved business climate were finally beginning to pay off. By 2019, FDI inflows has reached \$5.116 Billion approaching nearly inflows before the steep declines earlier in the decade. However, despite the gradual recovery in those 3 years, FDI inflows experienced a slight setback in 2017, as the FDI inflows declined after 2016, thus indicating that this route to pick up momentum in foreign investment was not smooth. This recovery period probably reflects a combination of improved investor confidence, economic reforms, and opportunities in key industries that helped reignite foreign interest in the country. However, this recovery was disrupted in 2020 as FDI inflows fell once more. Compared to \$5.116 Billion in 2019, the inflow in 2020 went as low as \$3.153 Billion, an unfavourable fall of 38.4%. This sudden decline could be attributed to the global economic effect of the COVID-19 pandemic, which disrupted global investment flows and generally made foreign investors wary, hence capping the capital inflow into the country.

Despite this decline, the country still recorded a phenomenal and quickest rebound in the next year. In 2021, FDI inflows surged by an astonishing 1,189.5%, an unprecedented rise in foreign investment. The sharp increase may be due to a quick bounce from pandemic-related disruptions, a boost in investor confidence, or substantial investments in key sectors of the economy. The astonishing recovery in 2021 was followed by another sharp fall towards the end of 2022. Compared with the abnormally high FDI inflow of \$40,659 Million in 2021, it dropped to \$9,195 Million in 2022, thus a fall of 77.4%, representing a huge drop in the FDI inflows. The drop was probably due to a combination of factors such as global economic instability, re-ordering of investor priorities, or other internal economic problems that made it impossible for the country to sustain such a high level of foreign investment. While substantial, inflows in 2022 were lower, underscoring the volatility of FDI and the importance of maintaining a stable and conducive environment to attract long-term foreign investment.

Tax expenditure trends in South Africa from 2013 to 2022 had shown negative relationship between FDI and tax incentives granted. That is, FDI and tax expenditure values do not move in the same direction. In 2016, total tax expenditure was US\$14.66 Billion whereas FDI values stood at US\$2.22 Billion. In 2017 and 2018, total expenditures were US\$17.11 Billion and US\$16.93 Billion respectively with FDI values at US\$2.06 Billion and US\$5.57 Billion correspondingly. In 2019, total expenditure was US\$17.51 Billion with FDI values at US\$5.12 Billion. The situation in 2020 was not different, FDI was US\$3.15 Billion compared with total tax expenditure at US\$16.02 Billion. There was a sharp departure in 2021 when FDI was higher than the total tax expenditure. FDI values were US\$40.66 Billion with corresponding total tax expenditure of US\$16.47 Billion. In 2022, total tax expenditure recorded was US\$16.08 Billion whereas FDI was US\$9.19 Billion.

The analysis of FDI and tax expenditure trends in South Africa points to FDI being attracted by the country, however, the reason for the FDI is not as a result of the tax incentives granted. Most of the FDI in South Africa has been market or resource oriented.⁸⁸ South Africa has vast natural resources, and it has been suggested that resources continued to receive the majority of share of FDI since 1994.⁸⁹ The country has more tax incentives than it is able to attract as FDI. Although South Africa has vast corporate tax incentives, uncompetitive tax policy has been ascribed to have contributed to the FDI dearth.⁹⁰

88 M. Kransdorff, "Tax Incentives and Foreign Direct Investment in South Africa" *Consilience: The Journal of Sustainable Development* Vol. 3 Iss. 1 (2010), pp. 68-84

89 J. Leape & L. Thomas, "Foreign Direct Investment in South Africa: the Initial Impact of the Trade, Development and Cooperation Agreement between South Africa and European Union". London: Centre for Research into Economics and Finance in South Africa, London School of Economics.

90 M. Kransdorff, "Tax Incentives and Foreign Direct Investment in South Africa" *Consilience: The Journal of Sustainable Development* Vol. 3 Iss. 1 (2010), pp. 68-84



The Key Determinants of Foreign Direct Investments in Africa

As seen in Section 4.5 above, tax incentives are not the main drivers for investments on the continent. Investors consider a wide range of factors in deciding to invest in a country, and tax is not always the priority on the investment checklist. Multinational companies seeking to invest in a country consider what I classify as legal and regulatory, economic and political determinants.

Legal and regulatory determinants are the legal framework of a country that investors and multinational companies consider before they decide to invest or carry out business. Legal and regulatory determinants involve the rule of law, legal certainty and respect for fundamental human and economic rights. Countries with robust legal and regulatory regime are likely to attract more FDI. It has been posited that law and order can certainly influence FDI inflows into a country.⁹¹ Investors will consider a country with better legal and regulatory environment with lower corporate tax incentives than a country with more tax incentives but poor legal and regulatory regime.⁹² The legal and regulatory regime is the top consideration for multinational companies seeking to invest in Africa. This has been confirmed by a study to the effect that rule of law has significant effects on FDI flows to African countries.⁹³ Some examples of the matrix considered by investors within the legal and regulatory regime are respect for contracts, judicial independence, regards for property rights, efficient court system.⁹⁴

Economic determinants on the other hand are economic variables that investors consider in a country's economy to make investment decisions. It has been argued that

91 M. Busse and C. Hefeker, "Political Risk, Institutions and Foreign Direct Investment" *European Journal of Political Economy*, Vol. 23, N°. 2, Elsevier B.V. 2007, pp. 753-56

92 A. Rodríguez-Pose and G. Cols, "The Determinants of Foreign Direct Investments in Sub-Sahara Africa: What Role for Governance?" *Regional Science Policy & Practice*, Vol. 9, N°. 2, Wiley Subscription Services, Inc, 2017, pp.63-81

93 A.G. Yagoub & R.S. Abdulrazak, "The Impact of Governance on FDI to African Countries" *World Journal of Entrepreneurship, Management and Sustainable Development*, Vol. 8, (2), 2012 pp. 162-169

94 X. Zhang & W. Liu, "The Rule of Law and Foreign Direct Investment", *Advances in Economics, Business and Management Research*, 2021, Vol. 203, pp. 118-122

economic determinants are important in attracting FDI.⁹⁵ The economic variables are exchange rate, interest rate, inflation, market size, gross domestic product; infrastructure and supply of labour.

Political determinants are political factors that influence the attractiveness of investments into a country.⁹⁶ Factors such as the governance system, corruption, internal conflict (religious and ethnic conflicts), institutions and bureaucracies can impact the level of locational decisions by multinational companies. Countries with very good political determinants can attract positive FDIs. By the same token, countries that are characterised by poor democratic credentials, high level of corruptions and higher degree of bureaucracy are good destination for investments by multinationals.

Major considerations for multinational companies when considering investments in Africa are discussed below:

a) Exchange Control Regime

Firstly, multinational companies and foreign investors consider exchange control regime of an investment destination as important. Exchange control are law, directives and policies that the State uses to supervise the transfer of foreign currencies within their jurisdictions.⁹⁷ Exchange control is a legal and regulatory issue. Exchange control impacts trade through a host of avenues, including the domestic prices of imports, transaction costs, the volatility of exchange rate, portfolio diversification and intertemporal trade.⁹⁸ Countries with liberalised exchange control are able to attract more investments and FDI. This allows businesses to trade, transfer foreign currency without many restrictions. A foreign investor is interested in how easy it is to return capital or dividend after investments in a country. Some multinational companies based on their business model set up a legal entity in an African country and import from the parent company or subsidiary to resell in the country and its neighbouring countries.⁹⁹ Restricted exchange control hinders international transfers and makes the countries unattractive. Regardless of the abundance of corporate tax incentives in a country, if exchange control regime is very bad, investors will not be attracted to that country.

95 I. Çeviř & B. Çamurdan, "The Economic Determinants of Foreign Direct Investment in Developing Countries and Transition Economies" *The Pakistan Development Review* (2007) 46(3), 285–299.

96 V. Arel-Bundock, "The political determinants of foreign direct investment: a firm-level analysis" *International Interactions*, 2016 43(3), 424–452. See also E. Triarchi, & J. Marangos, "The Political Determinants of Inward FDI" *Panoeconomicus*, 2024)71(4), 489–523.

97 N.T. Tamirisa, Exchange and Capital Controls as Barriers to Trade, WP/98/81 IMF 1998

98 N.T. Tamirisa, Exchange and Capital Controls as Barriers to Trade, WP/98/81 IMF 1998

99 This can be under a toll manufacturing and/or contract manufacturing arrangement.

Multinational companies and foreign investors apply attention to the exchange control laws. The vast majority of African countries have legislations dealing with exchange controls. For example, in Ghana the Foreign Exchange Act 2006 Act 723¹⁰⁰ deals with exchange of foreign currency in respect of international payment transactions and foreign exchange transfers. Section 31 of the Foreign Exchange Act empowers the Bank of Ghana (Central Bank) to make rules for the purposes of exchange control.¹⁰¹ The exchange control regime is considered liberal, and foreign investors can transfer money through approved commercial banks provided there are underlying documentations for the transfer.¹⁰² Similarly, Nigeria has foreign exchange law which empowers the Central Bank of Nigeria with the consent of the Finance Minister to issue guidelines to control the procedures for transactions in foreign currency.¹⁰³ South Africa despite the existence of corporate tax incentives, has a strict exchange control regime. This possibly has accounted for FDI of US\$67.97 Billion as against total expenditure of US\$114.78 Billion from 2016 to 2022.

b) The Court System and Damages Award ability

Secondly, the court system and the ability of the court to award good damages is a key attraction for investments in Africa. These are legal and regulatory considerations for the investors. The judicial system of a country can be a catalyst for investments by multinational corporations. The effectiveness of a country's judicial system can affect its good impression on FDI. Studies have demonstrated that MNEs from countries with low (high) judicial independence are more likely to invest in countries with low (high) judicial independence.¹⁰⁴ It has been submitted that there are positive relationships between FDI inflow and three judicial institutions which are judicial neutrality, judicial fairness, and protection of property rights.¹⁰⁵ A well-operational judicial system facilitates to maintain a levelling position for all investors.¹⁰⁶

100 Foreign Exchange Act (Ghana) 2006 Act 723

101 Section 31 of the Foreign Exchange Act, 2006 Act 723

102 Section 15(3) of the Foreign Exchange Act, 2006 Act 723

103 Section 1(2) of the Foreign Exchange Act (FEA)

104 Q.H. Beazer and D.J. Blake, "The conditional nature of political risk: how home institutions influence the location of foreign direct investment" *Am. J. Pol. Sci.* 2018 62 (2), 470–485

105 J.L. Staats and G. Biglaiser, "Foreign direct investment in Latin America: the importance of judicial strength and rule of law" *Int. Stud. Q.* 2012 56 (1), 193–202. See M.N. Tag, Judicial institutions of property rights protection and foreign direct investment inflows, *International Review of Law and Economics*, Volume 65, 2021, 105975

106 N.M. Jensen, "Economic Reform, State Capture, and International Investment in Transition Economies," *Journal of International Development*, 2002, 14 (7), 973–977.

African countries with negative narratives about their court systems do not engender trust with multinational companies, and they resort to international arbitration in London and New York. They want to see judicial independence, assertiveness of the judges, respect for the rule of law, and respect for sanctity of contracts. Also, multinational companies examine the ability of the court to award very good damages for breach of contracts. They assess whether there are judicial limitations of the ability of a court to award that which is commensurate with the breach of contract.

Despite the level of corporate tax incentives granted within a country, if investors are not attracted by the court system, they are not likely to invest in that country.

c) Investors' Property Rights Shields

Thirdly, multinational companies and foreign investors consider the ability for them to own assets in the investment destinations. Property rights cover ability of foreigners to own lands, shares in a company and intellectual properties. Multinational companies and foreigners are interested in the effective protection of their property rights in the investment countries.¹⁰⁷ African countries with restriction in foreign investors being able to own lands or imposes local content participation. A growing trend in Africa is the imposition of local content and local participation regulations to reserve ownership in shares in certain sectors to citizens of that country. These restrictions impose necessary legal requirements for joint ventures with citizens of the country. In the same vein, undertakings are requirements to employ key personnel in top positions who are local residents and purchase goods or services from local vendors to be in compliance with the requirements for local content and local participations. For example, Ghana has introduced local content and local participation regulations in the upstream oil and gas, downstream petroleum, power and mining sectors.¹⁰⁸ In the downstream petroleum sector, the local content regulations reserve retail and market of petroleum products which are the principal businesses of Vivo Energy, Shell, BP and Total to local residents.¹⁰⁹ This implies that these international cooperations are forced out of business without remedy. These actions of the States send signals to investors and make such countries unattractive to FDI.

Although many African countries have bilateral investments agreements and local legislations to offer assurances to investors of non- expropriation of their investments or assets, investors have regard to the global views on governments actions which may

107 M.N. Tag, "Judicial institutions of property rights protection and foreign direct investment inflows" *International Review of Law and Economics*, Volume 65, 2021, 105975

108 There is a growing trend of local content and participation regulations in Ghana. See Petroleum (Local Content Regulations, 2013 (L.I. 2204) which was amended by (Local Content and Local Participation) (Amendment) Regulations, 2021. (L.I 2435). Most recent is

109 National Petroleum Act 2005, Act 691 as amended

lend itself to nationalisation or expropriation in a subtle manner. The Nigerian Investment Promotion Commission (NIPC) Act prohibits nationalisation or expropriation of a business or assets except it is in the national interest or for a public purpose.¹¹⁰

Also, the multinational companies are keen on protection of intellectual properties rights. Countries in Africa that are low in respect of protection of intellectual property rights are not able to attract the right investments. It has been submitted that countries with stronger IPR protection effect FDI inflows into developing economies.¹¹¹

d) Market Extent and Demand Potentials

The existence of corporate tax incentives in an African country is not a key priority for multinational companies and foreign investors than the size of the market and demand consideration for their products or services. Market and demand potentials consideration for foreign investors and multinationals are economic determinants. Vast majority of research have identified that the market size is a significant determining factor of FDI influxes.¹¹² Larger markets and demand driven populations are determined by gross domestic product (GDP) or population size, and this leads to FDI because of potential high local sales.¹¹³ An Economist considers the GDP's market size is a necessity aspect of FDI flows of countries.¹¹⁴ They argue that there is a positive correlation between the economic size and FDI.¹¹⁵

African countries with bigger markets and higher purchasing power are able to attract FDI, and this creates an environment for companies to achieve higher returns on their capital and improved profits from their investments. The GDP per capital for Nigeria, Ghana, South Africa, Botswana and Kenya are varied. The GDP per capital for Nigeria is US\$1,109.90, South Africa US\$5,974.91, Botswana US\$7,875.31, Ghana is US\$2,229.90 and Kenya is US\$1,983.10.¹¹⁶ GDP per capita, agriculture value-added as a percentage

110 Section 25 of the Nigerian Investment Promotion Commission Act Chapter (Decree N° 16 of 1995) N117

111 M. Watkins & M.Z. Taylor, "Intellectual Property Protection and US Foreign Direct Investment in Emerging Economies" *Journal of Intellectual Property Rights* 2010 15. 415-428

112 I.A. Moosa, *Foreign Direct Investment: Theory, Evidence and Practice*, Palgrave Publishers 2002.

113 F. Schneider, B.S. FREY Economic and political determinants of foreign direct investment. *World Development*, 1985, 13, pp.161-175.

114 R.A. Siregar & A. Patunru, "The Impact of Tax Incentives on Foreign Direct Investment in Indonesia" *Journal of Accounting Auditing and Business*, Vol 4 N° 1 2021

115 A. Chakrabarti "The Determinant of Foreign Direct Investment: Sensitivity Analyses of Cross-Country Regression" *Kyklos* 54(1) pp 89-114

116 <https://www.voronoiaapp.com/economy/African-Countries-GDP-per-Capita-Mapped-1362> (accessed on 26 Dec 2024)

of GDP have positive and statistically substantial impacts on FDI inflows in developing countries.¹¹⁷ African countries with large population sizes are likely to be high investment destinations for multinational companies that prioritise the market size for their products and services. Nigeria, South Africa, Kenya and Ghana are among the top 15 countries by population size.¹¹⁸ Nigeria has the largest population of 232,679,478, with South Africa having 64,007,187, Kenya 56,432,944, Ghana 34,427,414.¹¹⁹ Algeria, South Africa, Morocco, Nigeria, Egypt perform well in terms of GDP compared to the Africa regional average. South Africa has a GDP of US\$ 403.05 billion, Egypt US\$380.04 billion; Algeria US\$260.13 billion; Nigeria US\$199.72 billion and Morocco US\$ 157.09 billion.¹²⁰ These countries have a large market size and investors will consider them due to the demand for their products and services, rather than tax incentives. These market sizes in these African countries allow the multinational companies to enjoy economic of scales.¹²¹ Sizable markets are associated with lower transaction costs for undertakings in that country.¹²²

e) Exchange Rate and Currency Strength

Another consideration that multinational companies and foreign investors place premium on investing in Africa is a country's exchange rate trends and the strength of its currency. Exchange rate is an economic determinant in respect of FDI. Exchange rate volatility can affect the degree of FDI attracted into an African country.¹²³ The exchange rate can influence both the volume of FDI and how it is distributed across countries. The correlation between exchange rates and FDI can be intricate, and the effect of exchange rate volatility on FDI have been largely researched. It has been posited that exchange rate can be two variables with real exchange rate and exchange rate classification.¹²⁴ Exchange

117 S. Sabir, A. Rafique & K. Abbas, Institutions and FDI: evidence from developed and developing countries. *Financ Innov* 5, 8 (2019).

118 <https://www.worldometers.info/population/countries-in-africa-by-population/> (accessed on 27 Dec 2024)

119 <https://www.worldometers.info/population/countries-in-africa-by-population/> (accessed on 27 Dec 2024)

120 <https://www.imf.org/external/datamapper/NGDPD@WEO/DZA/MAR/NGA/EGY/AFQ/ZAF>

121 R.E. Lucas, "On the determinants of foreign direct investment: Evidence from East and South-East Asia" *World Development*, 1993 21, pp.391-4

122 S. McMillan, Foreign direct investment in Ghana and Cote d'Ivoire. (In: Chan, S. ed., *Foreign direct investment in a changing global political economy*. New York: St. Martin's Press, (1995). p.150-165.)

123 L.S. Goldberg, Exchange Rates and Foreign Direct Investment, Princeton Encyclopedia of the World Economy (Princeton University Press) <https://www.newyorkfed.org/medialibrary/media/research/economists/goldberg/ERandFDIArticleGoldberg.pdf>

124 E. Arbatli, "Economic Policies and FDI Inflows to Emerging Market Economies," International Monetary Fund Working Paper 2011

rate classification is considered to have a more significant impact on FDI whereas the real exchange rate does not extensively affect FDI.¹²⁵ The Persistent fluctuation of exchange rate of an African country can have a negative relationship with FDI. The analysis of exchange rate instability for 61 developing countries between 1970-1995 found a negative connection.¹²⁶ Volatility in exchange rate affects the strength of a country's currency against the major foreign trading currencies such as the Dollars, Euros and Pound Sterling. It impacts on the asset prices, costs of domestic labour and capital.¹²⁷ In contrast, it has been suggested that the correlation between exchange rate volatility and FDI is restricted, but it is likely to favour a positive relationship between FDI inflows and exchange rate volatility.¹²⁸ In the context of Africa, I submit that exchange rate lends toward a negative relationship, and the FDI inflows.

Most African countries are import driven, without substantial exports which often lead to balance of payment deficits. These imports are undertaken on large scale by small businesses and individual traders. Multinational companies depending on their business model engage in imports. This can be done by setting up presence in an African country, but in substance import their products from an affiliate or the parent company to resell to the domestic market and sometimes the neighbouring countries. Thus, where the exchange rate profile of an African country is volatile, the multinational companies and investors are not incentivized to invest in those countries. For example, exchange rate volatility in South Africa, Nigeria and Ghana has adverse bearing on FDI, although a stable exchange rate can promote FDI inflows.¹²⁹ Nigeria's devaluation of the Naira is most populous on the continent. The formal exchange rate in Nigeria (Nigerian Naira per US\$) was Circa NGN 430 per US\$ in October 2022 whereas it stood around 1700 NGN per US\$ in November 2024.¹³⁰ African countries that seek to stabilise exchange rate by adopting sound fiscal and monetary policies will foster growth, increase wide participation of the private sector in economic activity and hence secure significant FDI.

125 E. Arbatli, "Economic Policies and FDI Inflows to Emerging Market Economies," International Monetary Fund Working Paper 2011

126 L. Serven, "Real exchange rate uncertainty and private investment in developing countries", World Bank Policy Research Working Paper, 2823, 2002.

127 T. Ito, T. Bayoumi, P. Isard, and S.A. Symansky, Exchange Rate Movements and Their Impact on Trade and Investment in the APEC Region (International Monetary Fund, 1996)

128 D.O. Cushman, "Real Exchange Rate Risk, Expectations, and the Level of Foreign Direct Investment," Review of Economics and Statistics, Vol. 67 (May), 1985 pp. 297-308; See also R.E. Caves, Sanjeev Mehra, 1986 "Entry of Foreign Multinationals into U.S. Manufacturing Industries," in *Competition in Global Industries*, ed. by Porter Michael E. (Boston, Mass.: Harvard Business School Press).

129 M.A. Dagume, Exchange Rate Volatility and Macroeconomic Variables in South Africa, International Journal of Economics and Financial Issues, June 2022

130 <https://mitsloan.mit.edu/centers-initiatives/cde/currency-conundrums-volatile-african-exchange-rates-and-what-can-be-done>

Although, exchange rate volatility remains a challenge for African countries for the purpose of FDI, it is not all sectors that this remains a problem. It has been discovered that exchange rate volatility had different effects on different sectors over time.¹³¹ Ghana's cedis also depreciated by 54% in 2022 against the major trading foreign currencies.

Certain sectors which are capital intensive such as the mining, petroleum sector, power sectors and the free zones are given exclusion to retain proceeds in foreign currencies in both current and offshore. In view of that, the effect of the instability of the exchange rates on these sectors varies.

f) Political Governance infrastructure and Political stability

The political government and stability of an African country is a key determinant for FDI inflows. Political stability is defined broadly to include absence of social chaos, ethnic warfare, chieftaincy disputes and civil strife. Political governance infrastructure is the whole governance architecture including how the political leaders are elected, the functions of the political institutions and the respect for rule of law. The determinant for FDI is a political one. Multinational companies and foreign investors consider the governance system and political stability of an African country before FDI are made. Countries with stable democracy which involves elected government, rule of law and respect for political institutions attracts more FDIs in Africa. It has been submitted that political stability has a strong bearing on FDI flows in Africa.¹³² Some have argued that political stability is one of the most important determinants of FDI in Africa.¹³³

Countries with stable political settings allow for the contract enforcement, protection of property rights, and steady application of laws which boost investor confidence.¹³⁴ On the contrary, a State characterized by unstable government and civil unrest deter FDI by creating an unpredictable business climate. African countries prioritizing stable governance and robust institutions were more successful in attracting and retaining foreign investments.¹³⁵ Others have asserted that foreign investors pay close attention to political conditions in host countries, as those conditions can impact business expenditures

131 M. Hanusch, H. Nguyen, Y. Algu, "Exchange Rate Volatility and FDI Inflows: Evidence from Cross-Country Panel Data" The International Bank for Reconstruction and Development / The World Bank, N^o., 2018

132 D. Wheeler and A. Mody, "International Investment Location Decisions: The Case of US Firms" Journal of International Economics, 1992, 33, pp. 57-76

133 J. Sachs and S. Sievers, "FDI in Africa," Africa Competitiveness Report 1998, Geneva: World Economic Forum, 1998

134 J. Kiptoo, "The Influence of Political Stability on Foreign Direct Investment (FDI)," International Journal of Developing Country Studies, CARI Journals Limited, 2024. vol. 6(1), pages 74-86.

135 J. Kiptoo, "The Influence of Political Stability on Foreign Direct Investment (FDI)," International Journal of Developing Country Studies, CARI Journals Limited, 2024. vol. 6(1), pages 74-86.

and the prospect of expropriation.¹³⁶ Ghana, South Africa, Botswana, Kenya and Nigeria are ranked as among the world as having stable democracies.¹³⁷ With the democratic credentials these countries are able to attract FDI based on the size of their economy and other market opportunities that exist there. Countries in Africa with poor democratic credentials such as Gabon, Niger, Burkina Faso and Sudan are not likely to be a preferred destination for FDI. For example, Gabon, South Sudan, Togo, Somalia recorded negative FDI values from 2019 to 2023.¹³⁸

The capacity of African countries to be considered as stable hinges on a number of concerns. Although the countries wish to have a government system that serves their own aspirations, there are possibly competing foreign policies by colonial masters. Also, there are changing worldwide and regional geopolitics that are deteriorating international associations for democracy promotion in Africa. These foreign influences on the continent give it an awful narration. These conditions affect the overarching ability of Africa to attract the level of FDIs hence FDI shifting to other emerging continents.

g) Colonial Relations, Structures and Influence

Colonial framework and controls have effect on the level of FDI that a country can attract. Historical colonial ties and structure are positively related to inward FDI from colonisers to former colonies.¹³⁹ Countries in Africa have had the history of being colonised by developed countries particularly France, United Kingdom, Portugal, Netherlands, Belgium and Spain. The colonies developed most, although at the expense of their colonies. Most of these countries gained independence after the Second World War and they entered its postcolonial phase.¹⁴⁰ Some of the countries had different colonial matters in their history. For example, Ghana had been colonised by Netherlands, Portugal until later stage the United Kingdom. These had been the patterns in most of the African countries. The colonial structures continue to be corridors for FDIs into these countries.¹⁴¹ These countries have similar institutional structure, language and sometime religious

136 V. Arel-Bundock, "The political determinants of foreign direct investment: a firm-level analysis" *International Interactions*, 2016 43(3), 424–452

137 [Country Rankings – The Global State of Democracy 2024](#) (access 31 December 2024)

138 <https://databank.worldbank.org/reports.aspx?source=2&series=BX.KLT.DINV.CD.WD&country=>

139 K.W. Glaister, N. Driffield & Y. Lin, "Foreign Direct Investment to Africa: Is There a Colonial Legacy?" *Manag Int Rev* 60, 315–349 (2020). <https://doi.org/10.1007/s11575-020-00415-w>

140 A. Mlambo, African Economic History and Historiography, *Oxford Research Encyclopedia of African* (2018, August 28). *History*. Retrieved 23 Jun. 2025, from <https://oxfordre.com/africanhistory/view/10.1093/acrefore/9780190277734.001.0001/acrefore-9780190277734-e-304>.

141 G. Jones & T. Khanna, "Bringing history (back) into international business" *Journal of International Business Studies*, 37, 2006, 453–468

patterns and business practices with their colonial masters. This makes it easier to trade and hence business investment in the other jurisdiction.¹⁴² By utilising common languages and cultures, it is easier to invest in a joint venture or acquire a business in the colonial nations.¹⁴³

142 B.L. Kedia, & T. V. Bilgili, When history matters: The effects of historical ties on the relationship between institutional distance and shares acquired. *International Business Review*, 24, 2015

143 Y. Luo, R. Tung, “International expansion of emerging market enterprises: A springboard perspective” *J Int Bus Stud* 38, 481–498 (2007). <https://doi.org/10.1057/palgrave.jibs.8400275>



Corporate Tax Incentives and Economic Growth

African countries give corporate tax incentives to multinational companies and local residents to stimulate economic growth. Do these countries achieve economic growth by the grant of corporate tax incentives? Economic growth is defined as an expansion in the quantity or quality of the many goods and services that people produce.¹⁴⁴ Increases in industrial goods, workforce, technology, and human capital can all influence economic growth. It is central to shaping people's complete living conditions. Economic growth is the foundation of enhanced prosperity and as a result the achievement of economic growth is key objective for most States.¹⁴⁵ The rate of growth can be influenced by tax policy choices through the impact that taxation has on economic decisions and through beneficial fiscal expenditures.¹⁴⁶ The relationship between economic growth and FDI has been asserted not to be constant. Several research have found a positive correlation between FDI inflows and economic growth in the host countries.¹⁴⁷ The estimated coefficients for the impact of FDI on economic growth range from significantly positive in the case of FDI flows.¹⁴⁸ International institutions have alluded that FDIs have the propensity to raise productivity, enhance exports and transferability skills and technology and continue the long-term economic growth in developing countries.¹⁴⁹ It should be noted that the corporate tax incentives given to the multinational companies stimulate additional output and increase

144 M Roser, P Arriagada, J Hasell, H Ritchie and E Ortiz-Ospina (2023) - "Economic Growth" Published online at OurWorldinData.org. Retrieved from: <<https://ourworldindata.org/economic-growth>> [Online Resource]

145 G.D. Myles, "Economic Growth and The Role Of Taxation - Disaggregate Data" Organisation for Economic Co-operation and Development ECO/WKP (2009) 56

146 G.D. Myles, "Economic Growth and The Role Of Taxation - Disaggregate Data" Organisation for Economic Co-operation and Development ECO/WKP (2009) 56

147 Nunnenkamp, Peter & Spatz, Julius, "Foreign direct investment and economic growth in developing countries: how relevant are host-country and industry characteristics?" Kiel Working Papers 1176, Kiel Institute for the World Economy (IfW Kiel) 2003.

148 R. Ram, Rati and H. Zhang (2002). Foreign Direct Investment and Economic Growth: Evidence from Cross-Country Data for the 1990s. *Economic Development and Cultural Change* 51(1): 205–215.

149 UNCTAD (2008) World investment report: global value chains: investment and trade for development

tax revenue. The corporate tax incentives broadened the tax base of an economy which eventually promote economic growth.¹⁵⁰

Although the relationship between the corporate tax incentives and the level of economic growth remains mixed, corporate tax incentives are able to attract investments and businesses into the various sectors of the economy. Chapter 2 of the thesis provided a clear map up of the incentives that exist in Africa and was noted that the tax incentives provided are specific, sectorial, discretionary, and locational incentives, among others. Based on the objectives of those corporate tax incentives they can promote exports for the countries by encouraging import substitution, develop agriculture and drive businesses to regional capitals or districts that ordinarily, companies are not incentivized to have business presence. These activities by the companies in response to the corporate tax incentives create a spillover effect on the country, thereby creating economic growth.¹⁵¹ The spillover effects from the FDIs allow the African countries to attract infrastructure projects, factories, roads, hospitals, community centres, and recreational facilities. These projects are built by the indigenous and these tend to put money into the pocket and create a better economy for them hence improving their quality of life and standard of living. For example, South Africa Anglo American has invested R32 billion in its mining communities to improve education, youth development, infrastructure, healthcare, SMMEs and supplier development over a period of five years.¹⁵² Newmont Ahafo Development Foundation which is a not-for-profit organization owned by Newmont Ghana Gold Limited between 2018 to 2022, undertook infrastructure and non-infrastructure projects worth over US\$2 million.¹⁵³ The social benefits of FDIs to the citizens outweigh the cost of the tax expenditure and can be argued that the corporate tax incentives are warranted.

Economic growth is assessed by the change in a State's gross domestic product (GDP) at a steady price. Economist established criterions including a measure of a change in gross domestic product per capital as a measure of economic growth.¹⁵⁴ The size of a country's economy is measured by the total production of goods and services in the economy. It is believed that the role of accumulation of capital in term of physical and human lead to economic growth because capital respond to economic incentives by virtue

150 M. I Latif, H. Rahman, Ahmad, F. Ahmad, M.M. Khurshid & M. N. Shafique, Estimation of Laffer Curve: Evidence from Pakistan. *Sarhad Journal of Management Sciences*, (2019) 5(1)

151 A. Boly, S. Coulibaly and E.N Kéré, Tax Policy, Foreign Direct Investment and Spillover Effects, 2019 Working Paper Series N° 310, African Development Bank, Abidjan, Côte d'Ivoire.

152 <https://southafrica.angloamerican.com/our-difference/hidden-transformation/mine-community-development> (accessed on 6 Jan 2025)

153 <https://nadef.org/projects/non-infrastructure-projects/> (accessed on 6 Jan 2025)

154 D.N. Shaviro "Rethinking Tax Expenditures and Fiscal Language" 2004 57 Tax Law Review 187

of economic policy.¹⁵⁵ The selected African countries have relatively seen increase in GDP from 2013 to 2022. Ghana has recorded GDP of US\$ 68.82 Billion in 2013 to US\$74.26 Billion in 2022. Kenya recorded GDP of US\$61.67 Billion in 2013 and US\$113.42 Billion. The tax to GDP ratios for the selected countries are not proportionate for year-on-year increments. The table below summaries the GDP and Tax to GDP for the selected countries.

Table on Tax GDP and GDP of the Selected Countries¹⁵⁶

Ghana	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GDP (US\$ billions)	68.82	54.78	49.41	56.16	60.41	67.30	68.34	70.04	79.52	74.26
Tax to GDP Ratio (%)	10.70	11.30	11.70	11.10	11.60	12.20	12.00	11.30	12.20	12.30

Kenya	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GDP (US\$ billions)	61.67	68.29	70.12	74.82	82.04	92.20	100.38	100.66	109.70	113.42
Tax to GDP Ratio (%)		15.20	14.80	15.00	15.10	14.40	15.10	14.30	13.30	

Nigeria	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GDP (US\$ billions)	520.12	574.18	493.03	404.65	375.75	421.74	474.52	432.20	440.84	472.62
Tax to GDP Ratio (%)										

Botswana	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GDP (US\$ billions)	14.27	15.47	13.53	15.08	16.11	17.03	16.73	14.96	18.75	20.32
Tax to GDP Ratio (%)	26.70	27.10	26.30	21.60	23.90	21.70	21.10	22.30	22.20	19.60

South Africa	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GDP (US\$ billions)	400.89	381.20	346.71	323.59	381.45	405.26	389.33	338.29	420.12	405.27
Tax to GDP Ratio (%)	22.40		22.90	23.30	23.90	24.30	24.10	24.00	24.10	24.10

The GDP values cannot be directly attributed to the corporate tax incentives granted by these countries. Presumptively, as the economy grows in size as a result of influx of multinational businesses and foreign investors it results in transfer of technology and skills. Technology transfer enables the African economics to improve their systems and

¹⁵⁵ R.M. Solow, "A Contribution to the Theory of Economic Growth" 70 Quarterly Journal of Economics 1965, 65; R.M. Solow, "Technical Change and the Aggregate Production Function" Review of Economics and Statistics 1957 312

¹⁵⁶ <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2023&locations=KE&start=2013>
GDP and Components - IMF Data

skills and eventually led to economic growth.¹⁵⁷ Most African countries have legislation to compel multinational companies to register the technology transfer with a local government agency. The multinational companies must ensure there is transfer of the technology to the local workers within specific time frame. Cases in point are that Nigeria and Ghana have laws to ensure that these agreements for technology transfers are registered with National Office for Technology Acquisition and Promotion (NOTAP) and the Ghana Investment Promotion Centre (GIPC).¹⁵⁸ Despite the tax revenue forgone for the corporate tax incentives, the incentives generate net social benefits.

157 Advancing Technology Transfer for Sustainable Development in Africa Revisiting Africa's Technology Transfer Landscape in the wake of COVID-19 UN Economic Commission for Africa https://www.uneca.org/sites/default/files/TCND/STIF2023/Advancing_Technology_Transfer.pdf

158 National Office for Technology Acquisition and Promotion Act, Cap, N62 Laws of the Federation 2004 and Ghana Investment Promotion Centre 2013 Act 865



Corporate Tax Incentives and Employment Outlook

Employment creation is another objective for which African countries grant corporate tax incentives. Do these African countries achieve this objective for granting corporate tax incentives? In a circumstances of growing tax competition between countries, many tax policymakers endeavour to stimulate economic activity, create employment and boost salaries using corporate tax incentives.¹⁵⁹ The phenomenon of governments granting tax incentives to businesses is quite common in many countries and has gained prominence in the African continent. In most developing countries, a major compelling factor is the attraction of foreign direct investment with the view of creating employment and spearheading economic growth in the country.¹⁶⁰ The assumption is that a sacrifice in revenue in the interim will provide an incentive for investment, accelerate growth of the economy, and finally be repaid through increased tax revenue.¹⁶¹

Corporate tax incentives as seen above can have a positive effect on Foreign Direct Investment. The abundance of natural resources and expansive human resource potential amidst a thriving political framework enables Africa to attract some degree of FDIs. It has been asserted that FDI is positively and significantly related to employment.¹⁶² When more multinational companies and foreign investors response to corporate tax incentives granted by African countries by establishing legal presence in these countries, it creates employment opportunities for the local citizens and expatriates. Increase in foreign direct investment account for direct contribution to employment growth, drawing in surplus

159 C. Carbonnier, C. Malgouyres, L. Py, C. Urvoy, "Who benefits from tax incentives? The heterogeneous wage incidence of a tax credit" *Journal of Public Economics* 206 (2022) 104577

160 A.E. Bazó, "Developing countries that desire the benefits of foreign capital, the benefits of increasing employment, and the technological advancement it brings, are compelled today to grant concessions to foreign investors" Electronic copy available at: <https://ssrn.com/abstract=1319815>

161 A.E. Bazó, "Developing countries that desire the benefits of foreign capital, the benefits of increasing employment, and the technological advancement it brings, are compelled today to grant concessions to foreign investors" Electronic copy available at: <https://ssrn.com/abstract=1319815>

162 R. Craigwell, "Foreign Direct Investment and Employment in the English and Dutch-Speaking Caribbean" ILO Subregional Office for the Caribbean February 2006

workforce from the agriculture sectors.¹⁶³ The employment opportunities can be in the formal and informal sectors. The results of a research concluded that there a positive consequence of tax policy reforms and investment promotion activities on employment creation.¹⁶⁴ Targeted FDI promotion in developing countries reduces information asymmetries and lower bureaucratic burden to attract FDI, thereby creating circa 68 percent more jobs for multinational companies affiliates in targeted sectors than non-targeted sectors.¹⁶⁵ It has been concluded that there was a significant positive relationship between tax incentives and employment in Gabon.¹⁶⁶ However, it was interesting to note that not all the tax incentives were effective on job creation and hence there was the need for further analysis on the design and implementation of tax incentives.

Chapter 2 of this thesis disclosed that Africa countries offer variety of corporate tax incentives. The corporate tax incentives may be specific, general or discretionary incentives. Most of these types of incentives can have their specific objective(s) and creation of employment may be a collateral objective. Specific and sector corporate tax incentives can help attract FDI into Africa but may not necessarily have a positive relationship with the degree of employment. It will however be able to create employment for these countries. The design of the corporate tax incentives may include specific employment related incentives which are expected to induce job creation. For example, South Africa and Ghana have specific incentives to stimulate job creation. South Africa on 1 January 2014 introduced employment tax incentive to enhance job creation for new entrants in the market by providing a subsidy to employers for the cost of hiring young workers.¹⁶⁷ A total of tax credit of ZAR4.8 billion were claimed by undertakings in 2019 to 2020 fiscal year.¹⁶⁸ An analysis of the effect of South Africa's Employment Tax Incentive (ETI) on employment upon its introduction showed a positive relationship. It is pertinent to note however that a comparative analysis of the jobs created with its associated cost showed an alarming percentage (app. 92%) of deadweight loss created as a result of the implementation of this subsidy which could be attributed to larger firms who claimed the subsidy yet were

163 R. Craigwell, "Foreign Direct Investment and Employment in the English and Dutch-Speaking Caribbean" ILO Subregional Office for the Caribbean February 2006

164 A. Rahman, "Investment Climate Reforms and Job Creation in Developing Countries: What We Do Know and What We Should Do? Policy Research Working Paper 7025" Washington D.C: Trade and Competitiveness Global Practice Group, World Bank Group Sept 2014

165 T. Harding & B.S. Javorcik, "Roll out the red carpet and they will come: Evidence form the Indonesian manufacturing sector" Labour Markets and Economic Development, London, Routledge 2011

166 M. E. Bertrand, "Impact of tax incentives on employment in Gabonese SMES: empirical evidence from a sample of SMEs in Grand Libreville" *Open Journal of Business and Management*, 12, (2024) 2308-2328

167 Employment Tax Incentive Act, 26 of 2013 (South Africa)

168 J. Budlender and A. Ebrahim, "Has the Employment Tax Incentive Created Jobs? sa-tied.wider.unu.edu

not creating any new jobs.¹⁶⁹ In the case of Ghana, it provides additional tax deductions for businesses that employ qualified fresh graduate who have graduated from a tertiary institution for the first time, whether or not that person was previously employed.¹⁷⁰ This incentive can create employment if businesses take advantage of it. There limitation is that these employment tax incentives remain unknown by vast majority of companies.

Specific tax incentives such as the free zones and special economic zone can create positive and direct employment. Data from Ghana Free Zones Authority showed that with an investment of US\$192million it created jobs of 38,786 in 2024 with a similar trend of US\$180 million with a corresponding 36,231 employment. In an empirical study on the impact of location tax incentives on the growth of rural economy in Ghana, it was evidenced that there was a positive relationship between employment creation and tax incentives in the long run and that a percentage change in tax incentives resulted in a higher percentage (57.9%) increase in employment creation.¹⁷¹ These job creation has an impact of payroll tax for the countries in their revenue mobilisation drive. Some of the corporate tax incentives have specific statutory requirements to employ a certain number of citizens.¹⁷² These conditions to employ specific employment level is monitored by the relevant government agencies.

Based on the above, despite the tax revenue forgone, Africa countries are able to generate jobs for their citizens when there is increased FDI.

169 A. Ebrahim, M. Leibbrandt, V. Ranchhod “The effects of the Employment Tax Incentive on South African employment.” WIDER Working Paper 2017/5. (2017) Helsinki: UNU-WIDER.

170 Schedule 6 Para. 8 of the Income Tax Act 2015 Act 896 (as amended)

171 E. Amankwaah, N. Mensah, & N. O. Baidoo, “The impact of location tax incentives on the growth of rural economy: evidence from Ghana” *Future Business Journal*, 2022 8:54

172 Section 34 of the Ghana Investment Promotion Act 2013 Act 865



Corporate Tax Incentives and Revenue Mobilisation

While it may be seen that tax incentives lead to revenue loss,¹⁷³ other scholars have argued that contrary to that notion, tax incentives can lead to an increase in tax revenue. Tax incentives encourage investment, which can have a significant knock-on effect that boosts the economy. The country's citizens will have more purchasing power as a result of economic growth, which will raise demand for new products and services. Increased investment may also result in higher government tax revenue, either directly from investor taxes such as taxes paid after the tax holiday period or indirectly through higher tax revenue collected from suppliers, customers, and employees.¹⁷⁴ Other schools of thought have argued that the cost of forgone direct revenue would be zero if incentives were exclusively applied to investments that would not have otherwise occurred,¹⁷⁵ implying that there are instances where tax incentives have zero effect. An analysis of tax expenditure and tax revenue for Ghana, Nigeria, Kenya and South Africa shows periods where tax expenditure and tax revenue had both negative and positive correlations.

Country	Year	Tax Expenditure (US\$)	Tax Revenue (US\$)	Tax Expenditure/Tax Revenue
Ghana	2018	929.91M	8,626.25M	10.78%
	2019	896.86M	8,228.07M	10.90%
	2021	599.61M	10,446.17M	5.74%
	2022	580.80M	9,777.78M	5.94%

¹⁷³ S. Munongo, O.A. Akanbi and Z. Robinson, Do tax incentives matter for investment? A literature review, Zenodo. (2024) Available at: <https://zenodo.org/records/1292066> (Accessed: 29 November 2024).

¹⁷⁴ Design and Assessment of Tax Incentives in Developing Countries: Selected Issues and a Country Experience (United Nations 2018)

¹⁷⁵ A. Klemm, Causes, Benefits, and Risks of Business Tax Incentives (International Monetary Fund 2009)

Country	Year	Tax Expenditure (US\$)	Tax Revenue (US\$)	Tax Expenditure/Tax Revenue
Nigeria	2019	14,380.00M	17,139.79M	83.90%
	2020	16,290.00M	13,032.17M	125.00%
	2021	17,820.00M	15,484.56M	115.08%
	2022	6,150.00M	22,668.63M	27.13%
Kenya	2019	3,340.00M	19,798.46M	16.87%
	2020	2,670.00M	17,148.36M	15.57%
	2021	2,240.00M	13,534.74M	16.55%
	2022	2,560.00M	12,909.73M	19.83%
South Africa	2017	17,110.00M	96,069.62M	17.81%
	2018	16,930.00M	103,294.69M	16.39%
	2019	17,510.00M	93,937.77M	18.64%
	2020	16,020.00M	76,032.27M	21.07%
	2021	16,470.00M	105,780.35M	15.57%

In Ghana, an analysis of tax expenditure and tax revenue for four years gives grounding to the claims of academic literature that emphasises that tax expenditure leads to revenue loss. In 2018, Ghana had the highest tax expenditure among the four years at \$929.91M and recorded a tax revenue of \$8,626.25M. In 2021 and 2022, where tax expenditure was significantly down, tax revenue was at its highest recording a tax expenditure to tax revenue ratio of 5.74% and 5.94% for 2021 and 2022 respectively. This signalled that tax revenue goes up when tax expenditure goes down. In Nigeria, an analysis of tax expenditure and tax revenue from 2019 to 2022 shows an unusual trend. Tax expenditure increased from 2019 to 2020 while tax revenue dropped but in 2021 where tax expenditure increased again, tax revenue also increased. The unusual trend continued where tax expenditure significantly dropped by 65.5% but tax revenue was at the highest for the years under review.

Kenya on the other hand told a different story when compared to that of Ghana and Nigeria. Analysis of tax expenditure and tax revenue data from 2019 to 2022 showed that as tax expenditure decreases, tax revenue also decreases. From 2019 to 2021, tax expenditure and tax revenue had a positive correlation until 2022 when the trend was slightly distorted. Similarly in South Africa, an analysis of tax expenditure and tax revenue from 2017 to 2021 showed tax expenditure behaved in a different pattern than that of Ghana. For instance, in 2020, the lowest tax expenditure and the lowest tax revenue were recorded. Also, 2019 recorded the highest tax expenditure but did not record relatively good tax revenue. For the 2017, 2018 and 2021 years under review, a trend of decreased tax expenditure producing increased tax revenue was seen. The year 2021 recorded the highest tax revenue with a low tax expenditure.

In contrast with the general academic notion that tax expenditure leads to revenue loss, analysis of data from Ghana, Kenya and South Africa showed that it is not always the case. There were instances in Kenya and South Africa where an increase in tax expenditure did not yield a decrease in tax revenue and there were also instances where a decrease in tax expenditure resulted in a decrease in tax revenue and vice-versa. This result could support the claim that tax expenditure may not be the main contributing factor to the rise and fall in tax revenue and perhaps there may be other factors affecting the increase and decrease of tax revenue.¹⁷⁶

Corporate tax incentives are considered as costs and may not have direct relationship to tax revenue. Corporate tax incentives can be costly regarding revenue, generating comparatively little new investments per dollar revenue cost and requiring increases in other distortionary taxes.¹⁷⁷ The State suffers the loss of tax revenue which but for the incentives would have been due to the State.¹⁷⁸ This impacts the ability of a country to provide public goods and services to its citizen. This may have accounted for a shift of the tax burden from CIT to a less mobile tax-base like consumption.¹⁷⁹ Due to the fact that the tax incentives are often set out in law and may be general but not targeted, it becomes difficult to assess the costs of the incentives to revenue impact. In developing countries where corporate incentives are frequent, they often do not tax expenditure report. If they do have tax expenditure, it fails to capture undocumented tax incentives given to multinational companies.

176 A.S. Gupta, *Determinants of Tax Revenue Efforts in Developing Countries* (International Monetary Fund 2007)

177 E. Gugl and G.R. Zodrow, "International Tax Competition and Tax Incentives in Developing Countries," in J. Alm, J. Martinez-Vazquez, and M. Rider (eds), *The Challenge of Tax Reform in a Global Economy* (Springer, 2006), pp 167-91

178 D. Brunori, *Principles of Tax Policy and Targeted Tax Incentives*, 29 ST. & Local Government Review, 50, 59 (1997)

179 P. Calcagno & F. Hefner, *Economic Development Tax Incentives: A Review of the Perverse, Ineffective and Unintended Consequences*, in *For YOUR OWN GOOD: Taxes, Paternalism and Fiscal Discrimination in the Twenty- First Century* 225-27 (Adam J. Hoffer & Todd Nesbit eds., 2018).



Conclusion

Foreign Direct Investment forms an intrinsic part of the international economy and the development of nations. Corporate tax incentives granted by African countries are able to attract FDI if they are monitored and well designed. The key drivers for FDI are peculiar to their economic structure and circumstances of these countries. The incentives help also achieve economic growth, revenue mobilisation and employment. The corporate tax incentives have social benefits which are often disregarded in the tax competition narratives. Corporate tax incentives should not be abolished on the basis of tax competition but should be relooked at if the social benefits outweigh the private benefits to multinational companies and investors.