

# Sustainable Growth: LEVERAGING TAX POLICY IN AFRICA

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Generating significant investment returns will solve the world's biggest needs. Specifically, a nexus exists between the growth of frontier markets in Africa and the world's most confounding challenges. The majority of foreign direct investment (FDI), whether deployed by multinationals, venture capitalists, private equity, or other investment vehicles, will be diverted from least-developed economies because of risks, both real and imagined. FDI in low-carbon, clean-energy infrastructure can promote sustainable development while achieving high rates of return for investors.

Tax policies, can stimulate investments for sustainable livelihoods; foreign companies might select where to establish a presence based on tax incentives. A targeted approach that draws FDI into low-carbon emitting technologies offers promise for a new energy future for the developing world and a healthier global environment for the planet.

Many African nations are revising their corporate tax policies to try to attract FDI into clean-energy and related sectors. This brief will highlight a regional, global, ecological, and social problem and provide political and financial recommendations.

## ***Broadening the Lens***

As mainstream emerging markets move to become high-income economies, it makes sense to look at countries that are still in an embryonic stage of development.<sup>1</sup> The Standard & Poor's Frontier Markets index returned an annualized 37 percent return over the past five years and provide a low-correlation with returns of emerging and developing economies.<sup>2</sup> Investors and host governments need a radical paradigm shift to capture these

opportunities. Domestic political leaders should establish bold incentive policies to attract FDI. Investors should cultivate an investment approach that embraces the nexus between the need and the market.

The investment community and political leaders must move past the limits of either vibrant growth or sustainable development. A mindset that considers a broader array of elements, while embracing the tension between opposing ideas to create new alternatives that take advantage of many possible solutions, forms the backbone of this investment and policy overview. The transition to a low-carbon economy, water scarcity, resource degradation, and related sustainability issues will increasingly provide much of the shape and direction of the social, economic, and political landscape. The path of least resistance, both in terms of technological feasibility, cost, and expertise, is the continued use of coal resources, the destruction of forested areas, and the production of energy from other high carbon-emitting generation facilities. Unless a low-carbon energy infrastructure is put in place today, high carbon-emitting energy sources will continue to account for around 80 percent of energy consumed in 2030.

## ***Africa: A Comparative Analysis***

The world's poorest countries, especially those in sub-Saharan Africa, have attracted little FDI. In 2004, sub-Saharan African nations attracted only \$13 billion, mostly in the extractive and commodity sectors.<sup>3</sup> Examining the numbers after removing the oil-producing countries (Chad, Nigeria, Congo, Sudan, Angola, Equatorial Guinea, and Gabon), FDI for all of Africa totaled only \$4 billion.<sup>4</sup> This meager \$4 billion represents



“Let us choose to unite the power of markets with the authority of universal ideas.”

Kofi Annan

less than 1 percent of the world's FDI, despite the fact that Africa contains over 10 percent of the world's population.<sup>5</sup>

Frontier markets in Africa are undermined by a dearth of liquidity, volatility and political instability, abject poverty, hyper-inflations, crime, poor regulation, and endemic corruption. These qualities create both subjective negative perceptions and objective financial risks. As a result, instead of the world's poorest

countries receiving the bulk of FDI, the middle-income countries attract the most FDI. For example, in 2004, Brazil's FDI totaled more than \$18 billion—almost double that of the entire continent of Africa.<sup>6</sup> A basic foundation—political stability, guarantees against expropriation, and reasonably stable currency—must be in place before the vast majority of foreign investors will consider investing in developing countries

(extractive sectors are the exception). FDI does enter some conflict zones—notably, in the diamond and oil industries—but it mainly goes into more stable areas. Investors also look to reliable power, electricity, and access to clean water, health care facilities, roads, communications, and airports.<sup>7</sup> Finally, potential foreign investors will look to ease of entry through ports and to clear and stable tax laws.<sup>8</sup>

### ***FDI and Africa: Historical Skepticism***

Opportunities in clean energy investment are immense, but Africa, the continent with the largest number of frontier markets, has a history of cynicism towards foreign investment and linkages with the global economy. The continent's colonial past has significantly and understandably affected its view of foreign entities. Outsiders may still be equated with exploitation in the minds of citizens. A number of international economists and notable non-governmental organizations (NGOs) also express criticism of FDI. One such criticism is that international firms—such as Firestone in Liberia—with their vast resources, encroach on and eventually squeeze out local firms that have no real chance of competing.<sup>9</sup> A number of domestic rubber plantations in Liberia have been unable to compete with the breadth of Firestone's financial and physical resources. International firms are often charged by NGOs with exploiting local labor, or not tapping into local labor and local suppliers.<sup>10</sup>



These criticisms apply in the Liberian context, as Firestone Liberia has routinely been sanctioned by local and international environmental NGOs for local water contamination and illegal deforestation. Finally, critics of FDI's role in promoting development note the potentially destabilizing effect on domestic currencies when outflows occur and emphasize that multinational companies exist to make a profit, a motive that often diverges

from the developmental needs of the host country.<sup>11</sup> Reluctance to accept FDI has led some African countries to construct domestic barriers to foreign capital.<sup>12</sup> These barriers include: national interventions, such as the expropriation of foreign investment; Africanization, in which ownership is seized by local government from foreign

owners; explicit preference and special treatment of domestic investors; and legal obstacles, such as the reservation of certain sectors for domestic enterprises (e.g., Liberia investment law currently reserves 26 sectors for domestic firms), the restriction of foreign ownership, and the imposition of local employment requirements on foreign firms.<sup>13</sup> Countries may also have indirect barriers to FDI, including: bureaucratic obstacles, delays in customs or visa approval, unclear regulatory standards, a corrupt legal system, or unstable infrastructure.<sup>14</sup> While problems with infrastructure and the legal system are not intentional, bureaucratic obstacles may be the state's attempt to impede foreign operation.<sup>15</sup>

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However, not all African countries are resistant to foreign investment; in fact, Uganda, Tanzania, Angola, Ghana, and Kenya have all seen significant increases in FDI due to active promotion and FDI facilitation.<sup>16</sup> A World Bank study revealed that, despite the difficult environments in which foreign enter-

prises operate (i.e., environments high in macroeconomic instability, corruption, crime, and/or technological unreliability), foreign firms are more productive and make a greater contribution to local development than domestic firms.<sup>17</sup> The World Bank study also showed that foreign firms employ more workers than local firms, report more revenue to the government for tax purposes, invest more into local infrastructure, are more likely to have formal training programs for their employees, and are more likely to provide medical care or medical insurance to their workers than local firms.<sup>18</sup> The recent research indicates that FDI increases productivity through investments into both physical capital (e.g., infrastructure, internet connectivity, technology resources, roads, bridges) and human capital (e.g., education, training).<sup>19</sup> It leads to increased employment, the transfer of new technologies, and the infusion of new and innovative management and leadership practices.<sup>20</sup> These study results undermine a number of the common criticisms of FDI and directly disprove others.

Since the 1970s, when FDI inflows totaled less than \$1 billion per year, FDI in Africa has increased to \$9 billion per year in 2000.<sup>21</sup> However, Africa's share of both the total world and developing-country FDI has decreased since the 1970s and FDI remains concentrated in a few select countries.<sup>22</sup> In the past ten years, Nigeria, South Africa, and Angola were the recipients of 55 percent of Africa's total FDI.<sup>23</sup> Over the same period, the twenty-four African countries that were the lowest recipients accounted for less than 5 percent of the continent's FDI.<sup>24</sup> Recent World Bank and UNCTAD (United Nations Conference on Trade and Development) findings indicate that FDI builds a foundation for solid economic growth.<sup>25</sup> Importantly, it has the potential to vastly increase the export productivity of local enterprises through linkages with international firms.<sup>26</sup> Economic models produced by William Davidson Fellows at the University of Michigan indicate that a 1 percent increase in countries export growth leads to 15 percent increases in economic growth.<sup>27</sup> Experiences in East Asia and India, where hundreds of millions people have been lifted from poverty during the last three decades, bear these theories out.

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### *International Policy Framework for Clean-Energy Investment*

A lack of energy infrastructure (also known as energy poverty) is a primary impediment to development efforts in education, health, and governance and subverts the attraction of global FDI in developing economies. Indeed, more than 2.4 billion people worldwide lack daily modern energy services, and 1.6 billion people lack electricity in their homes.<sup>28</sup> 50 percent of the world's global energy demand will come from these fast-growing economies by 2030.<sup>29</sup> Policy and investment experts estimate \$100 billion must flow into developing economies by 2030 to meet the challenges of sustainable development.<sup>30</sup> Nicholas Stern, a prominent UK economist, and other development experts cite even larger investment and trade flows for adaptation capacity while avoiding the most serious consequences of climate change.<sup>31</sup>

The role of investment in facilitating sustainable development and alleviating global poverty is recognized in the 8th United Nations' Millennium Development Goal, which calls for a partnership that fully integrates the least-developed countries into the global economy through FDI and trade.<sup>32</sup> The UN's World Economic Situation and Prospects reported that Africa

experienced investment growth of 5.1 percent in 2007.<sup>33</sup> If Africa is to reach the 7 percent growth target set by the United Nations Development Program to halve the number of people in poverty by 2015 while transitioning to a clean-energy infrastructure, the countries in the region must aggressively increase investment and participation in the global economy.

International cap-and-trade regimes, renewable fuel/energy portfolio standards, energy efficiency regulations, and related



climate polices, both domestically and internationally, underly investment incentives. World leaders met in 1992 at the Earth Summit in Rio and made a pledge to fight global climate change, with a major goal of stimulating clean-energy investments in sub-Saharan Africa. From that pledge, the United Nations Framework Convention on Climate Change was born.<sup>34</sup> This Convention

set an intergovernmental framework for combating global warming through outlining the obligations of governments and the international community. Realizing that the non-binding Convention carried limited legal force, the United Nations responded with the 1997 Kyoto Protocol, a legally binding instrument that set objectives for limiting and reduc-

ing greenhouse-gas emissions. A crucial aspect of the Kyoto Protocol is founded on a market-driven approach to sustainable development. The Clean Development Mechanism (CDM) is an initiative that simultaneously promotes sustainable development and mitigates climate change.<sup>35</sup> The CDM allows developed countries to meet any emission-reduction commitments by investing in clean-energy projects in developing countries. The CDM generates investment in developing countries, largely from the private sector, and promotes the transfer of environmentally friendly technologies to those countries.<sup>36</sup>

The carbon markets, which include the CDM, grew in value to an estimated \$30 billion in 2006.<sup>37</sup> Long-term, analysts are projecting a carbon commodity market of \$3 trillion by 2050.<sup>38</sup> FDI flows to clean-energy projects in the frontier markets will stand at the forefront of this burgeoning market and present an enormous opportunity for investors. In the U.S., state initiatives and pending federal legislation before the Senate include

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However, the carbon commodity market is virtually absent in Africa. Of the approximately 2,260 CDM projects and project proposals around the world, only 30 are located in sub-Saharan Africa.<sup>39</sup> The Nairobi Framework was initiated in 2006

to address this gaping disparity by focusing on the development of small-scale projects. In 2007, however, sub-Saharan Africa still lagged far behind the rest of the world in its participation in the CDM. Implementing the CDM in Africa will empower local enterprises to develop innovative leap-frog technologies—such as solar, geothermal, wind, and hydro-

electric—that supply clean energy and reduce greenhouse-gas emissions.

### ***Policy Design: Recommendations for Africa***

Africa's sustainable development transformation will occur slowly. Many of Africa's hard infrastructure constraints to investment (international transport, electricity, network of domestic suppliers) will remain binding in the medium term. In contrast, Africa has the potential to confound the hard infrastructure handicap by turning itself into a center of excellence in sustainable development. Every tax policy lever must pull in investment to overcome hard infrastructure constraints, capacity issues, and investor perception. Employment incentives and exports in the clean-energy sector should be utilized. Corporate tax reduction provisions in priority sectors and priority areas, which have been successfully utilized in Malaysia, Ghana, and Botswana are important elements in designing an effective program. Policies



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that accelerate the Clean Development Mechanism should be adopted.

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#### *a. Trade-Related Measures*

The provision of tax incentives regarding import and export taxes for the transition to a low-carbon economy should be sweeping and stable. Investors should be granted a 100 percent exemption from payment of direct and indirect duties and levies on all imports for production and exports of clean-energy technologies. The removal of all import and export tariff barriers (import duties for industrial and manufacturing are presently 20 percent) for clean-energy will go a long way towards accelerating the needed technological innovations to create jobs, increase linkages with the global economy, increase growth, and protect the environment. A number of countries in Africa have an incentive to remove their present import tariffs as the clean technologies that they need are not manufactured, financed, and invented in its economy. Because of their duty-free access to the American and European markets under AGOA and the Everything-But-Arms Initiative, the frontier markets in Africa have the potential to generate significant inward investment in this sector.

Additionally, countries should begin awarding three-year corporate income tax exemptions for the relocation of companies involved in the export of clean technology and environmental goods and services. The removal of tariff and non-tariff barriers through the reform process helps to establish a win-win-win (developed, developing, environment) collaborative arrangement.

#### *b. Corporate Tax Provisions*

Establishing a native market for clean technologies (i.e., solar, geothermal, wind, tidal) is critical to facilitate the diffusion of clean energy. A number of sectors critical to the process of sustainable development should be given priority through corporate tax reductions of ninety-percent of present rates. Clean-energy investments in the manufacturing, agricultural, infrastructure,

and power generation sectors are optimal for priority sector classification. Investments intending to generate energy or develop biomass sources, for instance, should be granted an income tax exemption of 90 percent of statutory income for five years. For purposes of this incentive, biomass sources would be delineated and apply to palm oil mill or estates waste; rice mill waste; sugar cane mill waste; timber sawmill waste; paper recycling mill waste; municipal waste; and, bio-gas. An investment in a solar manufacturing facility provides another example. Assuming a minimum investment of \$1 million, the enterprise would also be granted a corporate tax reduction of 90 percent on the current rate of thirty-five percent. An investment in wind generation, for domestic sources or for export, again assuming a minimum investment of one million, would be granted a corporate tax reduction of 90 percent on the current rate. Additionally, clean-energy investments in specified economic zones should be granted a one hundred percent exemption from income tax on profits for ten years, after which the tax rate should not exceed eight percent.

Tax incentives to encourage employment are also extraordinarily important in attracting needed FDI while alleviating poverty and enhancing skill capacity. New investors in identified clean-energy sectors should receive a corporate tax discount of 3 percent if the investor employs between 100 and 200; 5 percent if the investor employs between 201 and 400; 7 percent if the investor employs between 401 and 900; and, 10 percent if the investor employs more than 900. Renewable energy incentives through feed-in tariffs, renewable fuel and portfolio standards, domestic cap-and-trade legislation, building code innovations, and investment and production tax credits, may be a part of future package of policies designed to amplify reforms.

#### *Conclusion*

There is potential to develop clean-energy strategies that mitigate carbon emissions, provide extensive energy sources, contribute to the alleviation of poverty, and also generate substantial investment returns. The long unmet needs for energy in impoverished communities could be addressed in ways that encourage development while helping to mitigate global climate change. Skeptical frontier market governments in Africa should dismantle the barriers they have to FDI. Global capital must look past the negatives to see the hidden opportunities many of these markets provide. Dismantling obstacles and actively facilitating and promoting FDI will both increase capital flows to the frontier markets of Africa and contribute to the sustainable development of our planet. **BLB**

## APPENDIX

Countries	Tax incentives	Custom Incentives	Insight	Other
<b>Nigeria</b>	<ul style="list-style-type: none"> <li>— Concession of 10 percent to “pioneer” companies in disadvantaged areas, providing a tax holiday of five to seven years.</li> <li>— Companies involved in local raw material development; local value added; labor intensive processing; export oriented activities; and, in-plant training.</li> <li>— 30 percent concession for industries that attain local raw material utilization (five years).</li> <li>— 15 percent for labor intensive production (over one-thousand).</li> <li>— 10 percent local value added concession.</li> <li>— 20 percent of the cost of providing basic infrastructure.</li> </ul>	<ul style="list-style-type: none"> <li>— 25 percent import reduction for manufacturing.</li> <li>— No excise duty.</li> <li>— 10 percent concession for export activities.</li> <li>— Incentives for a host of export activities.</li> <li>— Significant regime for oil and gas sector.</li> </ul>	Well-developed regime	Significant capital allowances for agriculture.
<b>Cote d’Ivoire</b>	<p>*As part of the 2006 new tax schedule, the GOCI introduced, on August 26, 2006, fiscal measures to reduce company tax burden and stimulate economic activity. These measures include:</p> <ul style="list-style-type: none"> <li>— The reduction of the corporate income tax from 35 to 27 percent, effective December 31, 2006.</li> <li>— The awarding of three year corporate income tax exemption and free tax registration for the relocation of companies that left the country as a result of the crisis.</li> <li>— The code includes incentives, such as tax breaks, for larger investments and for invest exemption from income tax and other taxes.</li> <li>— Exemption, related to mining and oil from the value added tax on equipment, materials and the first consignment of spare parts, except when there are equivalent products either made in Cote d’Ivoire or available in country at similar cost.</li> </ul>	<ul style="list-style-type: none"> <li>— Single and preferential five percent import duty (customs and import duties) on equipment and materials as well as the first loading of spare parts for an investment within the lower and upper limits.</li> </ul>		
<b>Ghana</b>	<ul style="list-style-type: none"> <li>— If “critical to Ghana’s economic expansion” investors may be offered specific incentives to establish or expand their activities.</li> <li>— Tax rebates of 25 percent to manufacturing industries establishing in regional capitals other than Accra and Tema, and of 50 percent to manufacturing industries establishing outside regional capitals.</li> <li>— Tax incentives to encourage investment in specific geographic locations, primarily in areas outside the main urban centers.</li> <li>— Income from a company selling or letting out premises is income tax exempt for the first five years of operation.</li> <li>— Rural banks and cattle ranching are exempt from income tax for 10 years.</li> <li>— The government lowered the corporate tax rate to 25 percent from 32.5 percent in 2004 and 28 percent in 2005 in 2006.</li> </ul>	<ul style="list-style-type: none"> <li>— GIPC law allows for import and tax exemptions for plant inputs and machinery (and parts thereof) imported for the purpose of the investment. Specifically, chapters 82, 84, 85, and 89 of the Customs Harmonized Commodity and Tariff Code zero-rates (i.e. does not levy import duty) these production.</li> <li>— Except for free zone enterprises operating under the Free Zone Act, which are required to export 70 percent of their products, investors are not required to export a specified percentage of their output.</li> <li>— All investors operating under the Free Zone Act are entitled to a ten year corporate tax holiday.</li> </ul>	Well-developed regime	A capital allowance in the form of accelerated depreciation is also applicable in all sectors except banking, finance, commerce, insurance, mining, and petroleum.

<p><b>South Africa</b></p>	<ul style="list-style-type: none"> <li>— Offers six investment incentives for manufacturing. Foreign Investment Grants may provide up to 15 percent of the value of new machinery and equipment to a maximum of R3 million (approximate \$430,000) per entity for relocation to South Africa.</li> <li>— The Skills Support Program provides up to 50 percent of training costs and 30 percent of worker salaries for a maximum of three years to encourage the development of advanced skills.</li> <li>— The Strategic Investment Project program offers a tax allowance of up to 100 percent (a maximum allowance of R600 million (approximate \$86 million) per project) on the cost of buildings, plant and machinery, for strategic investments of at least R500 million (approximate \$70 million).</li> <li>— The Critical Infrastructure Facility supplements funds up to 30 percent of the development costs of qualifying infrastructure projects.</li> <li>— The Small and Medium Enterprise Development Program offers a tax free grant of up to R3.05 million (approximate \$435,000) to manufacturers with assets of less than R100 million (approximate \$14 million) for a maximum of three years – the first two years of the grant is based on the investment in operating assets and the third year on the level of employment generated.</li> <li>— To encourage investors to establish or relocate industry to areas throughout South Africa, the country's various provinces have development agencies that offer incentives. These vary from province to province and may include reduced interest rates, reduced rental cost for land and buildings, cash grants for the relocation of plant and employees, reduced rates for basic facilities, railage and other transport rebates, and assistance in the provision of housing.</li> </ul>	<ul style="list-style-type: none"> <li>— Industrial Development Zones provide duty-free import of production-related materials and zero VAT on materials sourced from South Africa, along with the right to sell into South Africa upon payment of normal import duties on finished goods.</li> <li>— A host of export incentives include in Code.</li> </ul>		
<p><b>Sierra Leone</b></p>	<ul style="list-style-type: none"> <li>— Tourism exempt between one–five years. Duty Free Concession for new construction, extension or renovation of an existing one, applicable to building materials, machinery or equipment that is not easily available in Sierra Leone for the period of construction or rehabilitation.</li> <li>— Tea and Rice exempt for first 10 years.</li> <li>— Zero percent sales tax for plant and machinery.</li> </ul>	<ul style="list-style-type: none"> <li>— Malaria and HIV Drugs exempt from duty.</li> <li>— Five percent for plant and machinery.</li> <li>— Five percent duty raw materials.</li> <li>— Vehicles to support operations: zero–four years – five percent; Over four years – 10 years – 20 percent; and, Above 10 years – 30 percent.</li> </ul>	<p>Moving towards western standards</p>	
<p><b>Angola</b></p>	<ul style="list-style-type: none"> <li>— Incentives apply to high priority sectors such as agriculture, manufacturing, energy, water housing and fisheries.</li> <li>— Incentives may include exemption from industrial and capital gains taxes for up to 15 years and from customs duties for up to 6 years.</li> <li>— The profits yielded from investments carried out in Zone A, Zone B and Zone C are exempt from the payment of industrial tax for a period of 8, 12 and 15 years, respectively.</li> <li>— The sub-contractors hired for the execution of the investment project are also exempt from the payment of industrial tax levied on the price of works carried out in Zone C and for the same period of time.</li> </ul>	<ul style="list-style-type: none"> <li>— Exempt from the payment of customs duties and fees, except from the stamp duty and fees levied on the provision of services and on the goods and equipment used in the launching and development of an investment operation, including heavy and technological vehicles.</li> <li>— Investments in goods incorporated or consumed directly in the production of other goods are further exempt from the payment of customs duties and fees.</li> </ul>	<p>Investments between the equivalent of \$50,000.00 and \$250,000.00, according to their nature, location and relevance for regional or local economy.</p>	

<p><b>Cape Verde</b></p>	<p>— A 100 percent tax exemption on all dividends during the first five years of operation (after 5 years the tax rate is 10 percent); tax exemption on dividends and income when reinvested; and tax exemption on amortization and interest.</p> <p>— Protection of investor's rights and property; free expatriation of dividends and income.</p> <p>— Total exemption from corporate income tax during the first 10 years of operation, after ten years, the combined tax rate will be no more than 15 percent.</p> <p>— Tax exemption on dividends and profits paid to shareholders for the first 10 years of operation (after 10 years, the maximum rate will be 15 percent); exemption from indirect taxes.</p>	<p>— Deduction of income tax during the first 5 years (this period may be extended up to 10 years, as long as the enterprise begins producing 50 percent of its exports or re-exports in Cape Verde by the fifth year of export operations); duty free imports; and no export taxes.</p> <p>The following sectoral incentives apply to enterprises, except free-zone enterprises, involved in a specific sector:</p> <p>a. Industry: exemption from income tax for three years; tax deduction on income reinvested; and duty free imports.</p> <p>b. Tourism: duty free imports; exemption from income tax for 5 years; exemption from property transfer taxes; interest subsidy, loans and guarantees.</p> <p>c. Fisheries: duty free imports; interest subsidy, loans and guarantees; subsidy for training.</p>	<p>Substantial advantages in areas such as light manufacturing, tourism, fisheries, transportation, and communications.</p> <p>Favors investments that are either export-oriented or diversify geographically and technologically the country's industrial base.</p>	
<p><b>Togo</b></p>		<p>— While there are two physical EPZ sites, investors may locate outside of these areas and still enjoy EPZ status.</p> <p>— Togo has adopted the WAEMU policy framework, including the common external tariff. This has led to a low average external tariff and to the absence of significant non-tariff barriers and major export restrictions.</p>	<p>The government is seeking high-profile forums in which to promote its investment opportunities, particularly in the free trade zone.</p> <p>Togo is participating in zone-wide plans to harmonize and rationalize regulations governing economic activity. A common charter on investment is one of the projected elements of that effort.</p>	
<p><b>Guinea-Bissau</b></p>	<p>— Company investing in tourism can benefit from tax free operations for 6 years. Help in facilitating all the necessary documentation is offered, price for buying land is favorable, and administrative obstacles are eliminated in this process.</p> <p>— By investing in an important field of business for development of Guinea-Bissau, the companies can benefit some tax reduction of 50 percent for the 6 years.</p> <p>— Business investing in know-how and human resources; business protecting the environment and business investment in infrastructure in other small cities (not in the capital) of Guinea-Bissau and investment in important fields for the development of Guinea-Bissau are eligible.</p>	<p>— Business investment, oriented in exportation, gets back from the government 10 percent of total value of goods exported in a business year, for 6 years. Also business increasing national production of goods to reduce the importation of such goods from abroad is beneficiary of the same percentage for the mentioned 6 years.</p>		

<b>Burkina Faso</b>	<p>Escalating incentives:</p> <p>Schedule A applies to investments of less than 20 million CFAF (roughly \$34,000) made by companies producing, preserving, or processing goods that generate at least three permanent jobs. It exempts a company from customs fees (and from internal fiscal taxes if the equipment is locally made) that are normally due on the equipment and first set of spare parts that a company imports at the outset of the investment.</p> <p>Schedule B applies to investments of at least 20 million CFAF made by companies that produce, preserve, or process goods that create at least seven permanent jobs.</p> <p>Schedule C applies to investments of at least 500 million CFAF (about \$835,000) that create at least 50 permanent jobs. It provides for the same incentives as in Schedule A and B at the outset of the investment.</p> <p>Schedule D applies to companies that provide services requiring a minimum investment of 10 million CFAF (about \$17,000) and that create at least seven permanent jobs.</p> <p>Schedule E applies to companies providing services that require a minimum investment of 500 million CFAF (about \$835,000) and that generate at least 30 permanent jobs.</p>	<p>— When an exporting company is formed, the Code provides a 50 percent reduction in registration fees. At the outset of the investment, it provides for total exemption from customs taxes on imported construction materials, production equipment, and specific vehicles and materials related to the production process or those which have been recognized as such by the National Investment Commission.</p> <p>During the production phase, it provides for:</p> <p>— Permanent total tax exemption on raw materials and supplies directly used in production or as non-recyclable packaging;</p> <p>— A total and permanent exemption from the licensing tax, stock and shares income tax, apprenticeship tax, transfer tax, and forfeit tax;</p> <p>— A 50 percent permanent reduction from the commercial and industrial profit tax. (This rate increases to 75 percent if at least 80 percent of the total raw materials used during processing consist of local raw materials.)</p>	<p>The 1992 Investment Code was substantially revised in 1995 and 1997 to make it more attractive. It now establishes six incentive schedules.</p>	
<b>Benin</b>			<p>Embassy Cotonou is unaware of performance incentives targeting foreign investors.</p>	
<b>Senegal</b>	<p>— Significant investment incentives, firms must invest above 100 million CFAF (approximately \$200,000) or in activities that lead to an increase of 25 percent or more in productive capacity.</p> <p>— New enterprises are eligible for five years' exonerations from Senegal's payroll tax (eight years from investments outside of Dakar). Investors may also deduct up to 40 percent of retained investment over five years.</p> <p>— However, for companies engaged strictly in "trading activities," defined as "activities of resale in their existing state products bought from outside the enterprises," investment incentives might not be available.</p> <p>— Exoneration from the Minimum Personal Income Tax and from the Business License Tax is granted to investors who use local resources for at least 65 percent of their total inputs within a fiscal year.</p> <p>— Enterprises that locate in less industrialized areas of Senegal benefit from exemption of the lump-sum payroll tax of three percent, with the exoneration running from 5 to 12 years, depending on the location of the investment.</p>	<p>— All qualifying investments benefit from the "Common regime," which includes two years of exoneration from duties on imports of goods not produced locally for small and medium sized firms, and three years for all others. Also included is exoneration from direct and indirect taxes for the same period.</p> <p>— Enterprise Franchised'Exportation" (EFE) custom status, which is directed at export-oriented firms.</p>	<p>French companies are the largest foreign investors, and U.S. direct investment is about \$100 million.</p>	

<p><b>Niger</b></p>	<ul style="list-style-type: none"> <li>— Regime A: Promotional regime, for investments of 25 million CFA francs (\$35,000) or above.</li> <li>— Regime B: Priority regime, for investments of 50 million CFA francs (\$70,000) or above.</li> <li>— Regime C: Conventional regime for large businesses with investments of at least 2 billion CFA francs (\$2.8 million).</li> </ul>		
<p><b>Mali</b></p>	<ul style="list-style-type: none"> <li>— Companies benefiting from the new code could be exempted from paying duties on imported equipment and machinery. They could also get tax exemption on the use of local raw materials.</li> <li>— The investment code offers incentives to companies that reinvest profits to expand existing business or diversify in another relevant sector.</li> <li>— The code also encourages the use of locally sourced inputs which could lead to a tax exemption. Local value added is one criteria used for approving investment projects and in calculating a tax exemption period.</li> <li>— Incentives include income tax exemptions for 5-8 year periods, reduced-energy prices, and the installation of electric power lines to areas lacking energy.</li> <li>— Employers who hire young graduates can pay reduced rates of social security taxes.</li> </ul>	<ul style="list-style-type: none"> <li>— Any company, domestic or foreign, that plans to export at least 80 percent of its production is entitled to tax-free status.</li> </ul>	<p>The Investment Code was revised in 2005 to include more incentives.</p>
<p><b>Guinea</b></p>	<ul style="list-style-type: none"> <li>— 1987 Investment Code created an advantageous regime for investments in high priority sectors and industries, such as small and medium enterprises, export-oriented enterprises, value-added activities, or investments in less-developed zones of Guinea.</li> <li>— High-priority sectors can also find income tax exemptions, discounts on social security payments for Guinean employees during the first five years of operations, and a 50 percent income tax reduction in the requirements for investors to maintain favorable regime status are covered below.</li> <li>— SMEs benefit from the following specific advantages: exemption from the payment of the minimum income tax for a period of three fiscal years from the start date of operations; and tax on profits at the preferential rate applicable to self-employed craftsmen, or at a rate equal to two thirds of the normal rate if this is lower, for a period of five fiscal years from the start date of operations.</li> </ul>	<ul style="list-style-type: none"> <li>— Exemption from import duties and turnover taxes on the importation of equipment, material and machines necessary to implement their investments (excluding vehicles for personal transport) during the period of initial investment or during a period of expansion.</li> <li>— Raw material imports are subject to a one-time, 6 percent import tax and are exempted from all other taxes (except the VAT) without time limit. Each year the customs service determines the amount of raw materials eligible for these benefits.</li> <li>— For a period of one fiscal year following the completion of the above benefits, commercial/industrial/company (<i>c/i/c</i>) tax base is reduced by 50 percent. For the second fiscal year following the completion of the same benefits, the <i>c/i/c</i> tax base is reduced by 25 percent.</li> <li>— During the first five years of operation, exporting firms can be exempt from the corporate income tax on the amount of profits that are equal to the proportion of export sales to total sales up to a ceiling of 60 percent. The normal corporate tax on profits is 35 percent.</li> <li>— Value-adding enterprises may deduct from taxable income an amount equivalent to twenty of the value of the Guinean-origin materials consumed during each of the first five fiscal years of operation.</li> </ul>	<p>Benefits on a case-by-case basis according to the Investment Code.</p>

<p><b>The Gambia</b></p>	<p>— Special Investment Status shall be conferred to investments of fixed assets over 100,000, outside free trade and in priority areas listed in code.</p> <p>Investors upon whom “special investment” status has been conferred shall be awarded Special Investment Certificates, which entitle them to benefit from the following incentive package for a period of five years:</p> <p>a. Exemption from withholding tax and tax on dividends;</p> <p>— Exemption from the sales tax on the items mentioned in paragraph (b);</p> <p>— Exemption from the turnover tax;</p> <p>— Preferential treatment for land allocation for the site of the proposed investment and the provision of infra-structural facilities;</p> <p>— Special and attractive scheme of accelerated depreciation as set out in the Second Schedule to the Investment Promotion Act.</p>	<p>— Exemption from customs duties and sales tax on importation of capital equipment, machinery, appliances, furniture, and fittings to be used in establishing the investment.</p> <p>— Exemption from customs duty and sales tax on approved quantities of semi-furnished products, spare parts, raw materials and supplies and consumables involved in the production process.</p>	<p>Apart from these specific incentive packages, others can be negotiated with the Agency depending on the strategic nature of the investment.</p>	
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## ENDNOTES: *Josh Tetrick*

<sup>1</sup> <http://www.usnews.com/articles/business/personal-investing-guide/2008/01/04/frontier-markets-offer-a-wild-ride.html>

<sup>2</sup> *Id.*

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

<sup>5</sup> *Id.*

<sup>6</sup> UNCTAD FDI DATABASE, <http://www.unctad.org/Templates/Page.asp?intItemID=3198&clang=1>.

<sup>7</sup> UNCTAD (United Nations Conference on Trade and Development). 2000. *Investment Policy Review: Uganda*.

<sup>8</sup> *Id.*

<sup>9</sup> JOHN DUNNING ET AL., *MULTINATIONAL ENTERPRISES IN THE GLOBAL ECONOMY*, Workingham (2008) <http://www.pearson.ch/Higher-Education/FTPenticeHall/1471/9780201175301/Multinational-Enterprises-And-The-Global.aspx>.

<sup>10</sup> “Is Africa’s Skepticism of Foreign Capital Justified? Preliminary Evidence from Firm Survey Data in East Africa,” with Vijaya Ramachandran and Manju Kedia Shah, in Magnus Blomstrom, Edward Graham, and Theodore Moran (eds.), taken from *Does Foreign Direct Investment Promote Development?*, Institute of International Economics, Washington DC, May 2005.

<sup>11</sup> *Id.* at 343.

<sup>12</sup> *Id.* at 341.

<sup>13</sup> *Id.* at 344-45.

<sup>14</sup> *Id.* at 346.

<sup>15</sup> *Id.*

<sup>16</sup> UNCTAD FDI Database.

<sup>17</sup> World Bank’s Regional Program on Enterprise Development (RPED) on 300–400 manufacturing firms in Kenya, Tanzania, and Uganda

<sup>18</sup> *Id.*

<sup>19</sup> *Id.*

<sup>20</sup> *Id.*

<sup>21</sup> FDI Database.

<sup>22</sup> *Id.*

<sup>23</sup> *Id.*

<sup>24</sup> *Id.*

<sup>25</sup> Theodore H. Moran, *Does Foreign Direct Investment Promote Development? New Methods, Outcomes and Policy Approaches* 363 (Peterson Institute 2005).

<sup>26</sup> *Id.* at 338.

<sup>27</sup> William Davidson Institute at The University of Michigan Conference 2006.

<sup>28</sup> *Id.*

<sup>29</sup> *See generally*, Nicholas Stern, *The Economics of Climate Change: The Stern Review* (Cambridge University Press 2007).

<sup>30</sup> *Id.*

<sup>31</sup> *Id.*

<sup>32</sup> The Millennium Development Goals Report (2008), <http://www.un.org/millenniumgoals/pdf/The%20Millennium%20Development%20Goals%20Report%202008.pdf>.

<sup>33</sup> World Economic Situation and Prospects (2006), <http://www.un.org/esa/policy/wess/wesp2006files/wesp2006.pdf>.

<sup>34</sup> United Nations Framework Convention on Climate Change Home Page, <http://unfccc.int/>

<sup>35</sup> *Id.*

<sup>36</sup> *Id.*

<sup>37</sup> Point Carbon Home Page, <http://www.pointcarbon.com>.

<sup>38</sup> *Id.*

<sup>39</sup> *Id.*