

4 Assessing use and design of investment incentives

This chapter looks at tax incentive design and policy goals within ECOWAS and compared to peer regions, based on an analysis of CIT incentives in selected ECOWAS Member States. The analysis is based on comparable data from the OECD Investment Tax Incentive Database, covering CIT incentives across 52 developing and emerging countries.

ECOWAS governments offer a range of tax incentives in an effort to attract private investment and direct it into certain sectors and locations or encourage certain activities. While tax incentives may promote investment with potential positive effects on output, employment, productivity, or other objectives related to the Sustainable Development Goals (SDGs), their net benefits are often not well understood. Tax incentives reduce revenue-raising capacity, and can create economic distortions, increase administrative and compliance costs, and increase tax competition. Striking the right balance between a tax regime that supports domestic and foreign investment and securing the necessary revenues for public spending is a challenge for policymakers, particularly in developing countries, where corporate income tax (CIT) revenues are often an important source of public finances.

This chapter looks at tax incentive design and policy goals within ECOWAS and compared to peer regions, based on an analysis of CIT incentives in seven ECOWAS Member States – Côte d'Ivoire, Gambia, Ghana, Liberia, Nigeria, Senegal, and Sierra Leone. The analysis is based on comparable data from the OECD Investment Tax Incentive Database, covering CIT incentives across 52 developing and emerging economies (Box 4.1). Granular and comprehensive data are indispensable to improve our understanding of existing tax incentive policies and to enhance the analysis of their impacts, particularly given that their effectiveness and costs are strongly design- and context-specific. Analysis on incentive design can inform assessments of whether incentives support positive economic, social and environmental spillovers, and at what costs.

Box 4.1. OECD Investment Tax Incentives Database

To better understand how tax incentives are used across countries, the OECD Investment Tax Incentives Database (ITID) systematically compiles quantitative and qualitative information on the design of CIT incentives, using a consistent data collection methodology. For each tax incentive, it includes information along three dimensions: instrument-specific design features, eligibility conditions and legal basis. This allows for cross-country comparisons on how countries design their tax incentives and what types of business and project characteristics they target. As of October 2022, the database covered 52 developing economies in Eurasia, the Middle East and North Africa, Southeast Asia, Sub-Saharan African and includes five LAC economies. Celani, Dressler and Wermelinger (2022^[1]) present the methodology and key classifications underlying the OECD ITID as well as its scope. The regional groups and corresponding countries included in this report the following:

- *Association of Southeast Asian Nations (ASEAN)*: Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Thailand, Viet Nam.
- *Eastern Partnership (EaP)*: Armenia, Azerbaijan, Georgia, Moldova, Ukraine.
- *Economic Community of West African States (ECOWAS)*: Cote d'Ivoire, Gambia, Ghana, Liberia, Nigeria, Senegal, Sierra Leone.
- *Latin America and the Caribbean (LAC)*: Argentina, Brazil, Dominican Republic, Jamaica, and Paraguay.
- *Southern African Development Community (SADC)*: Comoros, Democratic Republic of the Congo, Eswatini, Lesotho, Madagascar, Mozambique, Mauritius, Malawi, Namibia, Tanzania, South Africa, Zambia, Zimbabwe.

Source: Celani, Dressler and Wermelinger (2022^[1]), <https://doi.org/10.1787/62e075a9-en>; OECD (2022^[2]), www.oecd.org/investment/investment-policy/oecd-investment-tax-incentives-database-2022-update-brochure.pdf.

Investment tax incentives: opportunities and challenges

In a context of low and stagnant foreign direct investment (FDI) to ECOWAS Member States, most governments consider investment tax incentives (primarily tax but also financial, in-kind and regulatory benefits) as a key tool to promote FDI. The benefits and costs of granting tax incentives are not always clear. In the best case, tax incentives can attract investors that would not otherwise enter the market, help correct market failures, and encourage positive spillovers of investment on the economy, society or for the environment. In the worst of cases, incentives result in windfall gains to projects that would have materialised also without the incentive, encourage rent-seeking behaviour and contribute to economic distortions, while costing the state significant resources in revenue forgone, which could be used to advance development aims. Assessing the benefits of incentives and whether they outweigh their direct and indirect costs is not always straightforward.

Whether tax incentives are effective at attracting investors or encouraging positive investor behaviour depends on the country context including the wider investment climate, the investor and project sensitivity to incentives over other location determinants, and the design of the incentive regime (Box 4.2). Investment tax incentives are one, and often not the determining, factor for firms' investment location decisions, and cannot compensate for a weak investment climate (Van Parys and James, 2010^[3]; Klemm and Van Parys, 2012^[4]). Governments nonetheless often use incentives in place of more difficult reforms, for example, as a way around inefficient tax administration burdens faced by businesses. According to one estimate, firms spend on average nearly 270 hours to comply with taxes in ECOWAS (double the time spent in OECD countries). This incentivises firms to seek, and governments to grant, tax exemptions to avoid such long and costly procedures. However, this perpetuates unequal treatment of tax payers that might create distortions (PwC, 2020^[5]; ECOWAS-UEMOA, 2022^[6]).

Box 4.2. Context matters for tax incentive effectiveness

In addition to incentive design (covered throughout this chapter), the effect of tax incentives on investment depends on the characteristics of the investor and country-specific context. Some investors appear to be more sensitive to incentives than others. Projects that privilege low-cost production sites, including some export-oriented manufacturing, and investors that are highly mobile can rank incentives high on factors for location decisions. Other investors, such as those interested in the domestic market or natural resources, appear less swayed by incentives (James, 2014^[7]; Andersen, Kett and von Uexkull, 2018^[8]).

But investor response varies by country. Several empirical studies found no effect of tax incentives on FDI attraction in many countries in sub-Saharan Africa (Klemm and Van Parys, 2012^[4]; Van Parys and James, 2010^[3]; Ghrara and El Morchid, 2022^[9]). In many developing countries, the quality of infrastructure and the regulatory framework are cited by investors as more important factors in determining their investment location decision than tax benefits (UNIDO, 2013^[10]; IMF-OECD, 2017^[11]). While lower effective tax rates are associated with higher FDI flows, this effect is significantly stronger in countries with good investment climates, and can have almost no effect in economies with weak investment climates, underlining the importance of wider reforms for FDI attraction (James, 2014^[7]).

In general, evidence suggests that while tax benefits can play a role in some investment decisions, they may not be the most effective or efficient policy instrument to stimulate investment (IMF-OECD-UN-World Bank, 2015^[12]). Competition between countries means that many incentives are overly generous, with costs outweighing the marginal impact on investment (Chai and Goyal, 2008^[13]). This makes monitoring and evaluating incentive policy key.

Across sub-Saharan Africa, the scope of CIT incentives has contributed to an overall narrowing of the CIT base (Keen and Mansour, 2009^[14]; Abbas and Klemm, 2013^[15]). Statutory CIT rates in the selected ECOWAS countries are between 25 and 30%, which is similar to other developing and emerging regions covered by the database (OECD, 2023^[16]; Tax Foundation, 2022^[17]). Yet, incentives can reduce these rates substantially, and many companies may be eligible for them. Analysis of effective average tax rates (EATRs) in seven Sub-Saharan African countries found that tax incentives reduce EATRs by 30% on average in the sectors considered. The most generous tax treatment is typically offered within SEZs, where tax incentives on average lowered EATRs by 65% compared to the standard tax treatment. In some specific cases, including in Eswatini and Mauritius, tax incentives can reduce EATRs to nearly zero (Celani, Dressler and Hanappi, 2022^[18]).¹

Meanwhile, tax revenues are a key source of public finances, crucial for delivering public goods and services, including infrastructure, education and skills development – factors that also affect the country's investment climate. Extensive tax relief for investment projects might limit mobilising domestic resources necessary for progressing towards the SDGs. Among West African Economic and Monetary Union countries (UEMOA) the average tax-to-GDP ratio is 13.4% (2019), below the 20% regional target set by the IMF, and has not risen over the past decade (IMF, 2021^[19]).

The estimated costs of tax incentives are often not transparent, due in part to limited reporting. In the median country in Africa where data are available, tax expenditures (estimated revenue forgone) from CIT incentives represent around 0.2% of GDP. This is similar to rates in Asia and Europe, however the impact on total taxes is greater, as CIT revenues (as a percentage of total tax revenues) are almost four times as high as in Europe. According to data from the Global Tax Expenditures Database (GTED) and OECD revenue statistics, about a quarter of African countries for which data are available have tax expenditures that are almost double the median rate, suggesting a substantial impact on government finances in terms of forgone revenue (OECD, 2022^[20]). The GTED also suggests that in several ECOWAS Member States

VAT and excise tax incentives cost more in revenue forgone than CIT incentives (Redonda, von Haldenwang and Aliu, 2022^[21]). This shows the importance of looking at the full scope of tax benefits available to investors in considering both the costs of incentives and their policy goals.²

Many governments are aware of the costs of incentives and unclear benefits, but face high pressure to offer generous tax incentives, internally from firms lobbying for advantages and externally from other countries with expansive incentive packages. This makes analysis on the scope, goals and design of incentives key, as improving design can help limit redundancies and encourage positive spillovers. Conditioning incentives on specific outcomes or promoting these outcomes through other eligibility criteria, while limiting the generosity of some incentives can be an important step in this regard. While outcome conditions can promote positive spillovers of investment, they require careful monitoring to ensure that the outcome has been met. This necessitates resources, administrative capacity, and close coordination with other government agencies. It is expected that the global minimum tax, agreed by 138 jurisdictions, will also help curb harmful tax competition, and encourage better incentive design (Box 4.4).

Tax incentive design in ECOWAS: insights from the OECD ITID

Tax incentive design is a key factor determining the benefits and costs of incentives. It relates to how the incentive reduces taxation (the instrument, the qualifying income and expenditures it applies to, and other features, Box 4.3), eligibility conditions (which investors and projects qualify to receive the incentive), and governance (how the incentive is awarded to investors) (Celani, Dressler and Wermelinger, 2022^[11]). These policy design choices determine incentive targeting, investor uptake and behaviour, the extent to which incentives contribute to stated policy goals, and at what cost. The OECD ITID provides insights into how seven ECOWAS Member States use and grant incentives, which policy goals can be derived from incentive design, and how these practices compare with other regional groups. This analysis should be considered in conjunction with other chapters of this review, including how incentives factor into investment promotion strategies and whether incentives are prevalent in sectors already receiving FDI.

Box 4.3. Common tax incentive instruments

Investment tax incentives provide favourable deviations from the standard tax treatment for a specific group of corporate taxpayers, based on sector, activity, location or other investor- or project-related characteristics. Most countries provide preferential CIT treatment through four main instruments:

Tax exemptions provide a full or partial exemption of qualifying taxable income, which may refer to all of a business' income or income from particular sources (e.g. export income).

Reduced rates provide CIT rates below the standard (statutory) rate for qualifying taxable income.

Tax allowances and **tax credits** allow firms to deduct a certain share of qualifying capital or current expenditure from taxable income (tax allowances) or directly from taxes due (tax credits). Qualifying capital expenditures are generally asset specific (e.g., machinery, buildings, equipment). Qualifying current expenditure tends to be activity specific (e.g., spending on training, R&D, exporting). Tax allowances on capital expenditure can accelerate or enhance the deduction of capital costs. Tax allowances that accelerate the deduction of capital costs allow for the faster recovery of the cost of an asset, while tax allowances that enhance deductions apply in addition to standard capital deductions and result in deductions that effectively exceed the initial capital cost. Tax allowances on current expenditures and tax credits can result in deductions that effectively exceed original expenses (for example, a 200% tax allowance on employee training).

The first two instruments (tax exemptions and reduced rates) are **income-based incentives**; they provide tax relief based on earnings. Tax allowances and credits are **expenditure-based incentives** because they lower the cost of capital or certain spending.

Source: Celani, Dressler and Wermelinger (2022^[1]) <https://doi.org/10.1787/62e075a9-en>.

Full tax exemptions are prevalent in ECOWAS Member States

While income-based incentives (i.e. CIT exemptions and reduced rates) are widely used across developing economies, these incentives are not always effective in attracting new investment, and have substantial costs – including forgone tax revenue, economic distortions and increased tax competition – which could outweigh their benefits (IMF-OECD-UN-World Bank, 2015^[12]; James, 2014^[7]; Zee, Stotsky and Ley, 2002^[22]). Income-based incentives disproportionately benefit projects that are already profitable early in the tax relief period, making projects that would materialise without the incentive even more profitable (Box 4.3). Full tax exemptions are particularly costly, and can result in a race-to-the-bottom tax competition with other economies over mobile foreign investment, while potentially generating windfall gains for projects that would have taken place in absence of the incentives (Klemm and Van Parys, 2012^[4]; James, 2014^[7]). Tax exemptions and reduced CIT rates are likely to be particularly affected by the global minimum tax (Box 4.4).

There is evidence suggesting potential positive effects of expenditure-based incentives on investment in certain conditions (House and Shapiro, 2008^[23]; Appelt, González Cabral and Hanappi, 2022^[24]). Because expenditure-based incentives directly target investment expenses, they reduce the cost of capital, making investments more profitable at the margin (IMF, OECD, UN, World Bank, 2015^[25]). The benefit for the company depends on the size of the investment it undertakes and can also be linked to specific activities and policy objectives (e.g. R&D, skills development etc.). These incentives therefore lend themselves to improving the positive impact of investment on sustainable development (OECD, 2022^[26]). Additional research is required to assess impacts in different contexts. Expenditure-based incentives typically have higher administrative costs, and if not well designed can favour existing companies more than new

ventures with low profits (UN-CIAT, 2018^[27]; Morisset and Pirnia, 1999^[28]). All incentives require comprehensive monitoring and evaluation to assess their costs and benefits.

Box 4.4. Tax incentives and the global minimum tax for MNEs

The recently agreed Global Minimum Tax for large MNEs places multilaterally limits to tax competition that contribute to the erosion of domestic tax bases. Pillar Two of the two-pillar solution agreed by 138 members of the Inclusive Framework on Base Erosion and Profit Shifting requires large MNEs (with revenues above USD 750 million) to pay a 15% minimum effective tax rate in all jurisdictions in which they operate. This means that if there are affiliates of an in scope MNEs with an effective tax rates (ETR) below 15%, top-up taxes may be due. In the absence of tax reform or other policy actions, governments could potentially forgo such revenues arising from low-taxed profit in their jurisdiction that would be collected by other jurisdictions.

As more countries are moving to implement the global minimum tax, it is important for ECOWAS Member States to analyse the implications of the global minimum tax on domestic tax systems. The GloBE Rules will not affect all jurisdictions, MNEs and tax incentives in the same manner. The impact of the GloBE Rules on tax incentives will depend on their design, on the jurisdiction's tax system (its baseline tax system and its use of base narrowing provisions), and on the characteristics of MNEs and the activities they perform in the jurisdiction.

The impact of the GloBE Rules will strongly depend on the design of tax incentives. OECD analysis shows that income-based incentives for in-scope MNEs will be strongly affected, whereas expenditure-based incentives are less likely to be affected, with some incentives such as accelerated depreciation for tangible assets affected only to a limited extent. The new rules allow a carve-out for profits associated with economic substance (the substance-based income exclusion, SBIE), which allows 5% of the value of tangible assets and payroll to be subtracted from the profits to which the top-up tax applies. This means that tax incentives that are successful in attracting tangible assets and generating employment will be less affected from the minimum tax.

Governments are strongly advised to consider the implications of the minimum tax on their tax incentives. It will be important to ensure coordination across ministries on this issue given the fast pace of action of reform in this area.

Source: (OECD, 2022^[20]), <https://doi.org/10.1787/25d30b96-en>.

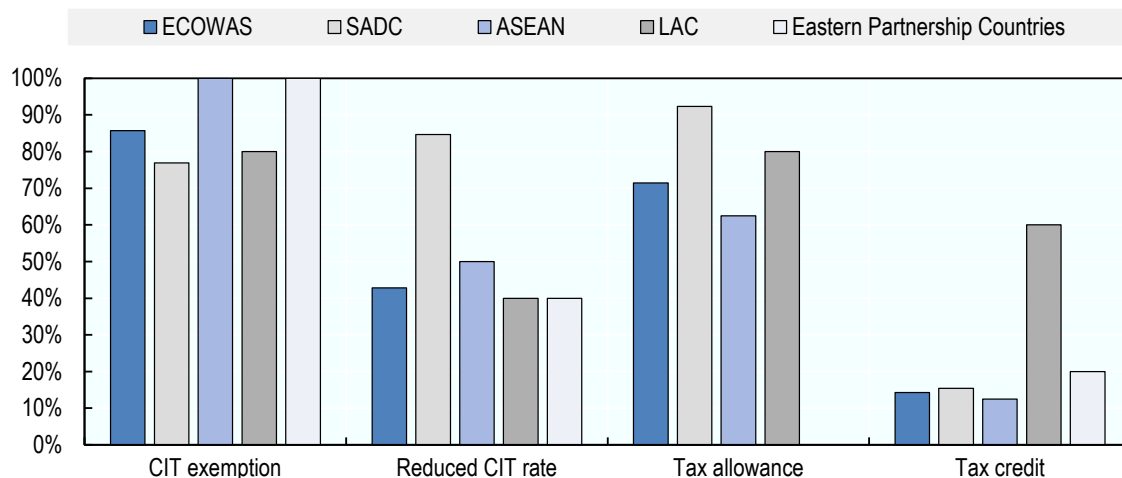
Most of the ECOWAS countries considered offer CIT exemptions (Figure 4.1). Income-based CIT incentives (CIT exemptions and reduced CIT rates) are frequently used in ECOWAS and amount to 61% of registered incentives. Full CIT exemptions are available in all but two of the countries considered, and account for over a third of all incentives offered in the region. Sierra Leone only offers full CIT exemptions, some of which are permanent. All other countries examined provide a mix of income and expenditure-based incentives (i.e. tax allowances and credits) and three (Côte d'Ivoire, Nigeria and Liberia) grant mostly or only expenditure-based benefits. Countries in ECOWAS are as likely to have expenditure-based incentives as in ASEAN, for example. They are less likely to use tax allowances than SADC or LAC countries covered in the database. Typically, expenditure-based incentives are more commonly used by countries with higher income levels given their greater capacity requirements in terms of administration and compliance monitoring, although exceptions exist.

While many countries (across regions) offer permanent low CIT rates for certain sectors, these benefits are costly in terms of revenue forgone as well as potential long-term economic distortions. Stability is

important to investors, but when incentive recipients gain permanent preferential treatment vis-à-vis competitors, incentives can become a tool for rent-seeking (Abramovsky et al., 2018^[29]) (Lent, 1967^[30]). Permanently reduced rates should be assessed for generosity compared to the statutory rate. Temporary incentives, and especially full CIT exemptions, also have costs and risks, including that firms may leave the jurisdiction when the incentive expires. Some firms may also seek to continue receiving the incentive after their benefit has lapsed, such as by incorporating a new firm that qualifies for the tax exemption, resulting in de-facto permanent incentives (IMF-OECD-UN-World Bank, 2015^[12]).

Figure 4.1. Income-based incentives are prevalent in ECOWAS

% of countries in region offering at least one incentive



Note: See Box 4.1 for information on countries covered in each regional group. The number of registered incentives in each region is: 128 (SADC), 69 (ECOWAS), 78 (ASEAN), 19 (EaP), 35 (LAC).

Source: OECD ITID, April 2023, based on 52 economies and 464 CIT incentive entries.

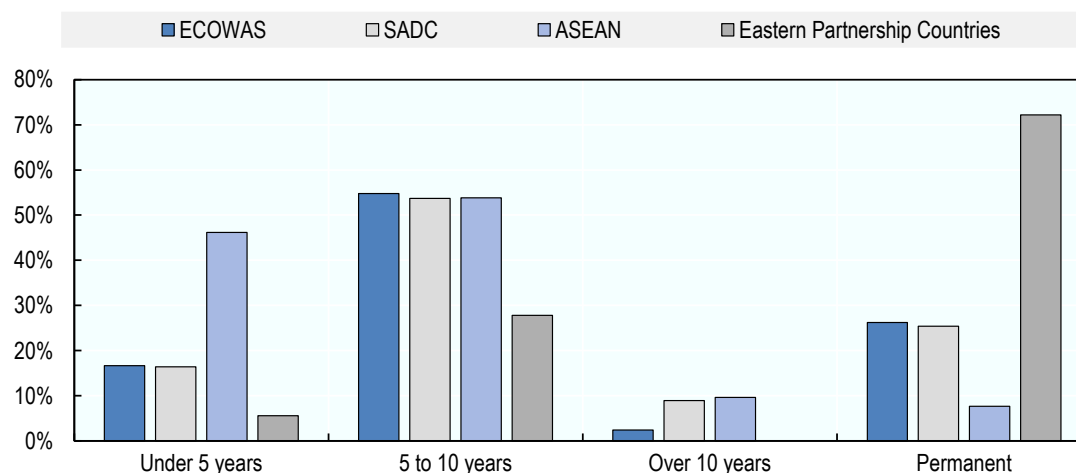
Income-based incentives granted in selected ECOWAS Member States are mostly temporary; for example, in Nigeria export-oriented firms are fully exempt from CIT for three years. More than half of income-based incentives in the ECOWAS Member States are granted for periods of five to ten years. More than one-quarter are granted permanently (Figure 4.2). The duration of incentives is similar to SADC and ASEAN, though ASEAN offers more short-term incentives (under five years) and very few permanent benefits. The trend across incentives is similar across ECOWAS; most of the seven countries considered offer all or most income-based incentives for up to ten years. Three countries offer permanent income-based incentives (Ghana, Senegal and Sierra Leone). For example, Ghana offers permanently reduced CIT rates for certain manufacturing companies and hotels, and for income from exports of non-traditional goods.³ Senegal's income-based incentives all apply on a permanent basis and include partial CIT exemptions for exporters and renewable energy, and reduced CIT rates in economic zones.

Sunset clauses, which stipulate an end date to an incentive policy unless legislative action is taken to extend the benefit, can help contain the cost of incentive regimes. Indeed time-bound incentives may be easier to remove, as politically it is often more difficult for governments to end incentives than to introduce new ones. Moreover, they can facilitate monitoring and evaluation, as the merits of an incentive can be assessed after a fixed period to determine whether the incentive should be continued, reformed or left to expire, particularly if evaluation requirements are in the law. Lastly, there is some evidence that expenditure-based tax incentives with sunset clauses have a greater effect on investment attraction than permanent benefits, since investors are encouraged to act quickly to enjoy the benefit (Wen, 2020^[31]; US Department of the Treasury, 2010^[32]). However, governments must clearly communicate if incentives are

time-bound, as sunset clauses can introduce an element of uncertainty for investors. Based on the OECD ITID, only two incentives offered by the ECOWAS Member States covered in the database have sunset clauses: a three-year tourism tax exemption in Sierra Leone; and an enhanced tax allowance on qualifying assets for manufacturing and service sectors in Liberia.

Figure 4.2. Most income-based incentives granted for 5-10 years, many are permanent

Duration of income-based incentives, as a share of total number of income-based incentives in each region (as covered by the database)

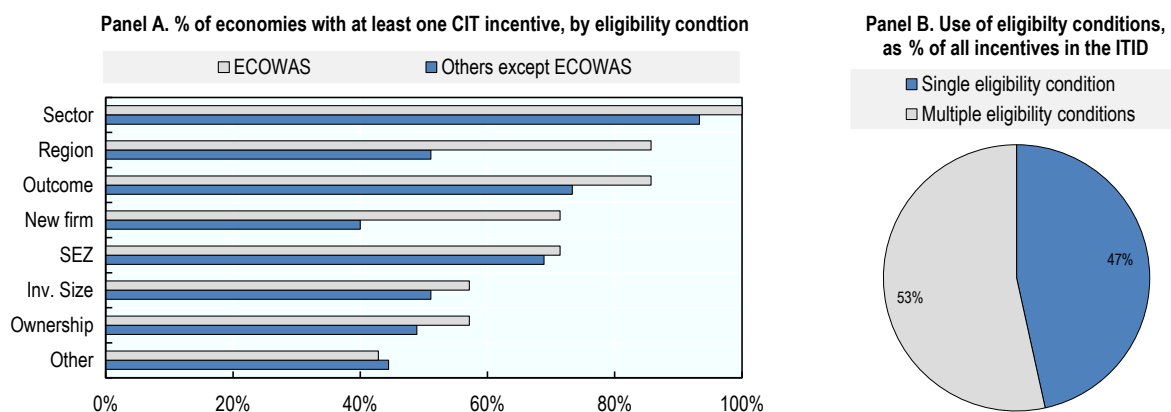


Note: See Box 4.1 for information on countries covered in each regional group. The graph reflects durations of CIT exemptions and reduced CIT rates. The number of income-based incentives reflected in each region is: 42 (ECOWAS), 67 (SADC), 52 (ASEAN), 18 (EaP).
Source: OECD ITID, April 2023, based on 52 economies and 464 CIT incentive entries.

Eligibility conditions suggest a focus on large investors in key sectors

Incentive eligibility conditions are criteria that businesses or investment projects must meet to receive a tax benefit. Incentive policies often tie tax support to investment in specific sectors or locations, or certain investor or project characteristics (e.g., majority foreign-owned, minimum project investment value, new entrant). Incentives are also often conditional on certain investor activities (e.g. training, R&D) or outcomes (e.g. job creation, energy efficiency) (Celani, Dressler and Wermelinger, 2022^[11]). Among the ECOWAS Member states covered, sector-related criteria are by far the most common: all ECOWAS countries examined have at least one CIT incentive requiring investors to operate in a certain sector (Figure 4.3, Panel A). The use of sector-based conditions is also commonly observed in other regions. More than half of all incentives covered in the OECD ITID require investors to meet multiple eligibility conditions (Figure 4.3, Panel B). Most often, sector conditions are combined with location, outcome or minimum investment size conditions.

Figure 4.3. Nearly all incentives target certain sectors, most require multiple eligibility conditions



Note: See Box 4.1 for information on countries covered in each regional group. Panel B reflects CIT incentives registered in the OECD ITID with at least one eligibility condition. The number of incentives that have specific eligibility criteria is 69 (ECOWAS) and 395 (Other developing economies). Shares do not add up to 100% because incentives can have multiple eligibility criteria.

Source: OECD ITID, April 2023, based on 52 economies and 464 CIT incentive entries.

Overall, many incentives in ECOWAS are fairly broadly targeted, available to investors in many sectors and regions. Location-based incentives tend to be available for investors in most parts of the country. In some cases, the set of eligible recipients is limited to large investors, but minimum investment thresholds can also cast a wide net. When large segments of the economy are eligible for incentives, it is harder to monitor uptake and compliance, and to evaluate if incentives are benefiting firms or activities that would not develop without the incentive.

In some cases, broad targeting (for example of sectors) can ease distortions to competition. The EU, for example, prohibits narrow sector targeting of incentives geared to support regional development to promote fair competition (under EU State Aid rules). Incentives are by their nature distortionary, and therefore should ideally be limited to address market failures, which tend to be more specific than the scope of sectors and activities eligible for incentives in ECOWAS, and indeed most countries covered by the database. Broad targeting also raises questions as to the extent to which incentives are used instead of wider tax policy reform. Incentives are costly for public finances, and will necessitate lower public spending, higher debt, or higher taxes elsewhere. Broad incentives may cost similar amounts of revenue compared to reductions in standard tax rates, which may be less complex to administer and comply with. Incentives are not effective as a replacement to other policies to improve the investment climate, including good governance (OECD, 2015^[33]).

Sector-based eligibility conditions are widely used

All of the seven ECOWAS Member States covered offer incentives conditional on sector of activity. Most of these define eligible sectors in a positive list (the focus of this section), although some carve out certain activities as eligible to benefit from the incentive, for example, mining and extraction. Sector targeting can be broad (e.g. the incentive is available to investors active in all sub-sectors within a sector, e.g. the entire manufacturing or agricultural sector) or narrow (only available to a specific set of sub-sectors (e.g. a tax exemption for automobile manufacturers in Ghana).

Most sector-based incentives in the selected ECOWAS countries support investors in agriculture (41% of all incentives), followed by manufacturing (36%) and services (32%) (Figure 4.4). This means that incentives are available to investors operating in these broad sector categories or in a subset of industries. The only sub-sector supported by every country is crops and animals. For manufacturing, the sub-industries most frequently supported by incentives are food and beverage, textile and apparel, rubber and

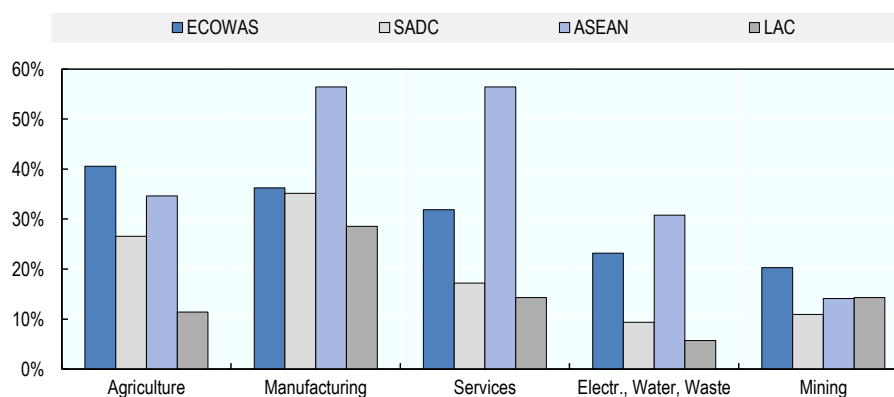
non-minerals, metals, and motor vehicles. All of the selected ECOWAS Member States offer some incentives for service sectors, though far fewer incentives (as a percentage of the total incentives offered) target services compared to ASEAN countries. Service sub-sectors most often supported in ECOWAS are tourism, ICT, finance and real estate, and construction.

Around a quarter of sector-based incentives in the ECOWAS Member States target extractive industries (including coal, oil and gas, metal ore and other mining). Of the seven countries covered, only Côte d'Ivoire does not offer incentives for extraction as it recently repealed a five-year tax exemption for income from mining activities. Most incentives are accelerated allowances to support high initial capital costs, but some countries provide full CIT exemptions for petroleum refineries (Sierra Leone), solid mineral mining (Nigeria), and petroleum exploration and mining of precious stones (Gambia). While incentives during exploration periods and other taxes including royalty rates are often important for investors in extractive industries, full CIT incentives for mining generally appear to be both ineffective at attracting additional investment, and inefficient (i.e., costs are greater than benefits). Because extractive industries are location-specific, incentives are less likely to sway investment location decisions. Mining investors are not as easily able to relocate to other jurisdictions with greater tax benefits than more mobile investors less tied to the location (IGF-OECD, 2018^[34]; James, 2014^[7]). CIT exemptions then bring substantial rents to companies that may have invested even without the incentive.

Just under half of the incentives with sector-related criteria target multiple sector categories (e.g. agriculture and manufacturing) at once, usually two or three. Most of these incentives have other eligibility criteria, including investment in a particular location or economic zone (which might accept a variety of industries), or a minimum investment value. Several incentives are available to broadly defined priority sectors, with other conditions to benefit. For example, in Nigeria the government sets a list of “pioneer industries”; companies in these sectors with large-scale investment plans can apply to receive CIT exemptions. By comparison, ASEAN countries also grant most sector-based incentives to investors in multiple sector categories, while the LAC countries covered in the database mostly target their sector incentives to just one sector (e.g. only the manufacturing sector or manufacturing sub-sectors). Narrower sector targeting can be a means to contain costs of incentives by focusing only on sectors or sub-sectors considered most likely in need of support or able to create social and economic spillovers (Celani, Dressler and Wermelinger, 2022^[11]).

Figure 4.4. Sector-based incentives favour agriculture, manufacturing and services

% of incentives registered in the OECD ITID



Note: See Box 4.1 for information on countries covered in each regional group. The number of registered incentives in each region is: 128 (SADC), 69 (ECOWAS), 78 (ASEAN), 19 (EaP), 35 (LAC). Incentives can be specific to one or more sub-sectors within these five sector categories, or are available to any investor that falls under the broad category. Shares do not add up to 100% as incentives can target multiple sectors.

Source: OECD ITID April 2023, based on 52 economies and 464 CIT incentive entries.

Investment location and size are also key conditions

Investment location is the next most frequently used eligibility criteria among the selected ECOWAS economies, including requirements related to specific geographic regions (in six out of seven countries) or special economic zones (in five out of seven countries). Among ECOWAS Member States examined, every country but Sierra Leone incentivises investments in designated locations, often to promote investment in under-developed areas. For example, Nigeria provides a tax allowance for capital expenditure on infrastructure facilities (water, electricity) for businesses in rural areas (defined as areas located more than 20km away from government-supplied infrastructure). Several location-based tax incentives are available to eligible investors that locate anywhere outside of the capital city, for example in Côte d'Ivoire and Senegal.

A minimum investment size requirement is used in four out of the seven ECOWAS Member States. Most incentives in ECOWAS that target by investment size require firms to meet both a minimum investment value and employment requirement (overall job creation or commitment to hire a certain number or percentage of nationals). Other regions covered in the database also tend to link minimum investment value to employment requirements, though in the SADC, EaP and ASEAN countries covered fewer countries use investment value requirements combined with employment outcome conditions. Some ECOWAS countries link minimum investment requirements to most of their CIT exemptions (Gambia and Sierra Leone). This could be a means to tie the benefit – which as noted earlier is unrelated to the amount of capital invested – to physical presence in the country. While such criteria can ensure a minimum expenditure in the host country, they require administrative resources to monitor if the criterion was met. However, the other risks associated with CIT exemptions persist (James, 2014^[7]).

Outcome conditions focus on export promotion and employment

Outcome-related criteria require companies to achieve certain performance results to be eligible for a tax incentive. They are linked to the outcome of the investment, rather than the characteristics of the qualifying investor (Celani, Dressler and Wermelinger, 2022^[1]). For example, around half of the ECOWAS Member States considered offer at least one incentive that requires a minimum share of exports in total sales. Many incentives in the region are also linked to job creation, either through a requirement that the firm must employ a specific number of national (or overall) employees, or less precise commitments to contribute to job creation.

Outcome conditions can be designed to promote positive social and environmental spillovers or other economic goals. For example, in Eswatini, investors in SEZs are required to pay wages that are 90% above the minimum wage to receive a tax exemption. South Africa granted a tax allowance on machinery and training costs if the project meets a combination of (mostly) quantifiable criteria related to energy efficiency, innovation, SME procurement and local linkages.⁴ Several countries in ASEAN and SADC, offer incentives conditional on a certain share of domestic value added to firm output or revenue. In the ECOWAS, as across other regions, outcome conditions are most often used for CIT exemptions. This may be an effort to improve the design of these instruments, perhaps reducing the risk that footloose investors use tax exemptions without contributing to economic substance in the country. However, often outcome conditions are vague or based on non-quantifiable criteria (e.g., contributes to job creation or beneficial to the national economy), leaving ample room for discretionary approval of incentives by awarding authorities. Performance criteria also require monitoring to ensure that the outcome has been met, which requires public resources, administrative capacity, and often coordination with other government agencies (e.g., cross-checking with social security information on number of jobs created or salary).

Many incentives designed to support economic and other development goals

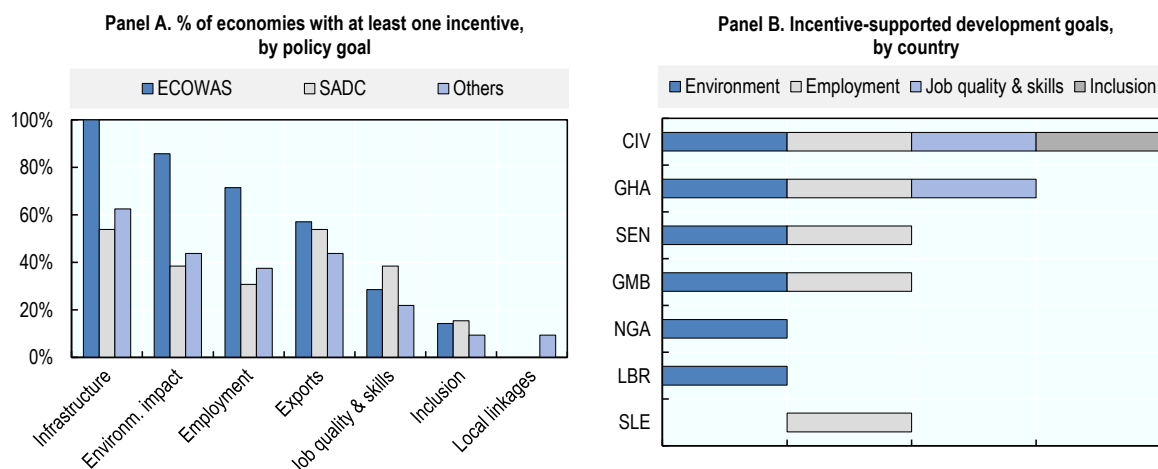
Many countries use investment incentives in an effort to advance certain economic, social, environmental and other goals. As noted, this can be through incentive eligibility conditions that require investors to meet certain performance criteria (e.g. job creation) or operate in certain sectors (e.g. renewable energy), or by designing the incentive to reduce the costs of certain activities (e.g. R&D, training), and increasing the revenues associated with others (e.g. exports). While incentives have the potential to contribute to these goals, the costs of administering and monitoring compliance with stated performance criteria can be high. Furthermore, tax policy or other types of incentives (such as grants or in-kind subsidies) are not the only way to encourage the industrial development or influence investor behaviour, and tax incentives should at most be complementary to other policy tools (OECD, 2022^[26]).

Based on analysis on design features and eligibility conditions of incentives in the selected ECOWAS Member States, the main goals of incentives offered are to encourage infrastructure development (supported by 25% of incentives, used in all seven countries), employment and job creation (22%, in five countries), and exports (14%, in four countries) (Figure 4.5, Panel A). Other goals include promoting the green transition (supported by 13% of incentives, used in six countries) and extraction of natural resources (13%, in five countries), while few seek to improve working conditions and skills (3%, in Côte d'Ivoire and Ghana) or advance social inclusion (1%, in Côte d'Ivoire), and there are no incentives that promote linkages with the local economy. Some ECOWAS countries also have incentives to support innovation or research and development, which is not illustrated in the figure. In contrast to SADC and other regions, ECOWAS Member States use incentives more often to support job creation and infrastructure.

These findings show that most of the seven ECOWAS Member States tie at least some of their incentives to sustainable development aims (Figure 4.5, Panel B). However, this does not necessarily mean that incentives are designed foremost to support those aims, or that they are either successful or the most effective way to do so. For example, employment requirements can be a means to limit tax benefits to only large firms. These firms might create more jobs but might not need the fiscal incentive in order to do so, creating windfall profits for firms that already have market power at the expense of government revenue forgone and potentially fair competition.

Conversely, more targeted incentives could encourage types of employment that might not occur otherwise. Several countries in the region provide examples: Ghana offers an enhanced deduction for salaries of recent Ghanaian graduates of tertiary institutions. Côte d'Ivoire offers tax credits for hiring nationals with a proven handicap, and for new hires in non-fixed term contracts. Fiscal benefits could also incentivise firms to undertake activities they might not otherwise do, such as training and R&D. Nigeria offers an allowance for any organisation engaged in R&D for commercialisation, and the Gambia has a reduced CIT rate for domestic firms in technology or R&D that (among other conditions) have a skills development programme to train Gambians in the IT field. Monitoring and evaluation are key to assess if these incentives support stated goals, and at what costs (including administration costs). Higher administrative costs for implementing more targeted incentives may also be a reason why these types of incentive are less prevalent in the region.

Figure 4.5. Many incentives in ECOWAS support development goals



Note: See Box 4.1 for information on countries covered in reach regional group and Annex A for indicator methodology. The total number of incentives in each region is: 69 (ECOWAS), 128 (SADC), and 267 (other developing regions). Panel B indicates that countries support respective development goals with at least one CIT incentive.

Source: OECD ITID April 2023, based on 52 economies and 464 CIT incentive entries.

Incentive governance is split between Ministry of Finance and IPA

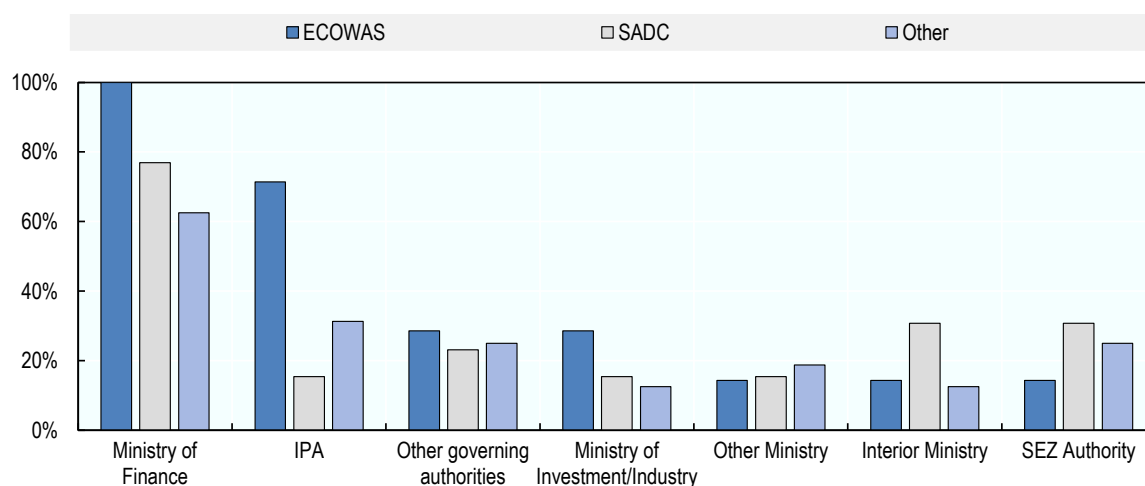
Governance of incentives includes how tax benefits are authorised in laws or regulations and awarded to investors. It also concerns whether incentives are transparent, and whether eligibility conditions to receive incentives are clear and specific, or based on interpretation and approval from administering authorities. Governance also involves how compliance with incentive conditions is monitored and incentive policies evaluated ex-post.

All ECOWAS Member States under consideration grant tax incentives through the Ministry of Finance, although some Member States grant incentives also through Investment Promotion Agencies or other governmental bodies (Figure 4.6). The Ministry of Finance is often best placed to grant incentives and monitor their costs. Other ministries or agencies may be more inclined to offer fiscal benefits as they are not in charge of tax collection or necessarily aware of the state's fiscal needs (James, 2014^[7]). Besides Gambia, all ECOWAS countries examined introduce incentives in the tax law (64% of registered incentives), although some countries also use other legislation, such as investment laws (8%), SEZ laws (7%) or regulations (4%). There is broad international consensus that consolidating all tax incentives in tax laws enhances transparency and reduces potential redundancies and confusion over the administering authority (IMF-OECD-UN-World Bank, 2015^[12]).

Similar to other regions, almost all countries covered in the database (except Sierra Leone) also grant some incentives through other government agencies, most often the investment promotion agencies (IPAs), other ministries (e.g. ministry of investment or industry), and SEZ authorities. In four ECOWAS countries, different agencies share responsibility for granting at least one incentive. Different agencies can bring valuable insights for incentive design, monitoring and evaluation. But without effective coordination incentives may overlap, be inconsistent, or work at cross-purposes (IMF-OECD-UN-World Bank, 2015^[12]). Administration of incentives by multiple authorities with overlapping responsibilities, can also increase opportunities for aggressive tax planning by investors.

Figure 4.6. ECOWAS countries grant tax incentives through the Ministry of Finance but some countries grant incentives also through IPAs and other government bodies

% of economies with at least one CIT incentive per governing authority



Note: See Box 4.1 for information on countries covered in each regional group. The number of incentives for which the details of granting authorities are available in each region is 63 (ECOWAS); 107 (SADC); 250 (Other).

Source: OECD ITID, April 2023, based on 52 economies and 464 CIT incentive entries.

Most CIT incentives in the selected ECOWAS Member States are transparent, in that eligibility criteria to receive the benefit are clearly stated in laws and regulations and tend to be specific (e.g. lists of eligible sectors). However, as in other regions, in some instances, qualifying expenditure eligible for tax allowances and credits is vague, leaving room for interpretation or confusion. Moreover, there are some incentives that are less transparent due to vaguely defined eligibility criteria (e.g. contributing to economic development and job creation), and in some cases investors are eligible for additional tax benefits not specified in laws.

When granting authorities have wide discretion to determine who can receive incentives and the extent of benefits, it increases the risk of rent-seeking behaviour and corruption, as well as unfair competition between firms (IMF-OECD-UN-World Bank, 2015^[12]). The OECD ITID also only covers CIT incentives introduced in legal texts, many countries grant incentives on an ad hoc negotiated basis with investors (e.g., through bilateral contracts); these are by their nature non-transparent. Further analysis is required to assess governance across the full life cycle of the incentive, including monitoring and evaluation.

Assessing the impact of incentives: next steps

For governments, better understanding of whether incentives contribute to policy goals, and at what costs, requires comprehensive monitoring and evaluation (M&E), although this requires data and resources that are often not available. Short of more in-depth cost-benefit analysis, governments can do more to track incentive goals and use. An important first step to create accountability and transparency is identifying and describing all available incentives, their policy goal, and legal reference in publicly available documents. This is particularly important if different agencies are involved in granting incentives. Governments can regularly assess if stated goals of tax incentives, align with investment promotion strategies and national development goals (Chapter 3).

As a next step, information on incentive uptake and characteristics of beneficiary firms can provide important insights into how incentives are used, and if incentives appear to be supporting projects most in

need. Many ECOWAS Member States, as in other regions, require that firms apply to receive benefits. Though this can introduce a risk of discretionary awarding of incentives, if based on clear and specific eligibility criteria, incentive applications could form the basis of initial monitoring. More in-depth monitoring of firm compliance with the terms of the incentive (for example, jobs created, value of exports), can assist in determining if the incentive is contributing to development goals.

To compare how these benefits measure against costs, tax expenditure reports are key to estimate revenue forgone. However, challenges to tax expenditure reporting include the type of data the tax authorities collect, lack of coordination across agencies involved in granting tax incentives, data that is not yet digitised, and challenges with both data and human resources in the Ministry of Finance (ATI-CEPIDOS, 2022^[35]). In addition, some incentives are by their nature more difficult to monitor. Beneficiaries of tax exemptions may not have to file tax returns, complicating assessments of costs in terms of revenues forgone (Klemm, 2009^[36]).

Some countries in ECOWAS are conducting tax expenditure reporting and have put in place dedicated teams to conduct fiscal evaluation (ECOWAS-UEMOA, 2022^[6]). Some countries have also conducted specific evaluations. With support from a private analytical firm, the government of Côte d'Ivoire estimated the impact of a five-year CIT exemption for a gold mine, finding that the mine was profitable even without fiscal benefits, and the substantial loss in forgone revenue was not justified (IGF-OECD, 2018^[34]). Côte d'Ivoire repealed its CIT exemptions for mining in 2020.

However, according to a recent ECOWAS report, no study yet includes any social or economic effects of incentives, and expenditure reports seem to be intended as much to justify continued use of incentives as to study their costs (ECOWAS-UEMOA, 2022^[6]). These reports are also often not published or drafted to be made accessible to by a wider audience. Of particular interest for future analysis is how tax incentives affect the effective tax rates of firms – a first step towards evaluating costs of incentives – and which incentives appear most effective at promoting positive development outcomes, beyond investment attraction.

ECOWAS could play an important role in supporting incentive monitoring and evaluation, as well as to promote transparency and good governance in incentive policies. The ECOWAS Secretariat has engaged in efforts to support tax expenditure reporting in member states. (One such programme, West African Tax Transition Support Programme (PAFT), funded by the EU, provides capacity building on evaluation of tax expenditure, focuses mostly on VAT). As part of this, there have been calls to develop a harmonised regional framework for assessing tax expenditures across ECOWAS, including economic and social effects of tax incentives (not just revenue forgone). This would also allow for comparisons across countries based on a common methodology (ECOWAS-UEMOA, 2022^[6]).

Greater coordination at the regional level on tax incentive use could help reduce tax competition, promote evaluation of costly policies, and provide guidelines for good governance and transparency. Article 23 of the Supplementary Act to the ECOWAS Treaty Adopting Community Rules on Investment suggests that Member States avoid competition for the attraction of investments through incentives or other means that distort regional competition for investments. Furthermore, the ECOWAS Investment Policy notes that “the relatively aggressive use of financial and non-financial incentives to attract investment in the region has often induced unhealthy competition amongst the Member States. The lack of harmonisation or, at least, overall consistency in investment-incentives schemes across the common market has adversely affected, at times, the regional investment climate. Another negative outcome of so-called ‘race to the bottom’ tendencies is the heightened economic and social costs that are attributable to forgone national government tax revenue.” (ECOWAS Commission, 2018^[37]).

Notes

¹ Forward-looking corporate effective tax rates (ETRs) are a way of measuring the extent to which tax incentives affect tax costs and influence business investment and location decisions. Forward-looking ETRs are a useful indicator to compare the impact of tax incentives on effective taxation. The composite Effective Average Tax Rate (EATR) is constructed as a weighted average across finance- and asset-specific EATRs. It is a synthetic tax policy indicator reflecting the average tax contribution a firm makes on an investment project earning above-zero economic profits over its lifetime. The EATR is a useful indicator to compare the generosity of distinct types of preferential tax treatment relative to the standard tax treatment and to assess tax relief from investing in one as opposed to another sector, region or country or to assess the relief provided through specific incentive designs everything else being equal.

² Data from the Global Tax Expenditures Database (GTED) and OECD revenue statistics. Available data from the GTED also suggest that in several ECOWAS Member States other tax incentives, including VAT and excise taxes (on fuel for example), cost more in revenue forgone than incentives on CIT or other taxes on income (Redonda, von Haldenwang and Aliu, 2022^[21]). In ECOWAS, VAT harmonisation has been a particular challenge (IMF, 2021^[19]). This shows the importance of looking at the full scope of tax benefits available for investors in considering both the costs of incentives and their policy goals, and would merit further research and analysis. The GTED data covers 18 jurisdictions in Africa, 12 jurisdictions in Asia-Pacific, 33 jurisdictions in Europe and North America and 14 jurisdictions in the LAC region. OECD Revenue Statistics cover 29 jurisdictions in Africa, 23 in Asia-Pacific, 32 in Europe and North America and 26 jurisdictions in LAC.

³ The definition of permanent here refers to incentives that do not limit by design the period of the preferential treatment even if sunset clauses apply to the legal basis. Sunset clauses may apply to both temporary and permanent incentives. The definition of temporary here refers to incentives that provide preferential treatment over a limited period in time by design, i.e. a specific period in which a tax exemption or reduced rate applies. It does not make a reference to the temporary nature of the incentive's legal basis, e.g. in cases where sunset clauses apply.

⁴ This tax allowance in South Africa was introduced in the Income Tax Act, Section 12I, and got repealed in March 2020.

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Annex A. Additional details on classifications

The ITID considers policy area being targeted by evaluating whether a specific design or eligibility condition of the tax incentive relates to one of six policy goals (Table 1). The policy areas identified in the ITID build on those identified in the OECD FDI Qualities Indicators (OECD, 2022^[38]) and the FDI Qualities policy toolkit (OECD, 2022^[39]).

Table 1. Targeting sustainable development through eligibility conditions and design dimensions of investment tax incentives

Column 1 lists policy areas identified in the ITID. The table identifies how economies target these respective clusters, either through eligibility conditions or the design features of tax incentives (columns 2-5).

(1) Sustainable Development Areas	(2) Outcome condition	(3) Sector condition	(4) Preferential treatment for certain qualifying income	(5) Preferential treatment for certain qualifying expenditure
Employment & job creation	(a) Create a minimum number of new jobs;			(a) Wages of newly created jobs; (b) Wages of recent graduates; (c) Wages of employees, including for women or workers with disabilities.
Environmental impact	(a) Ensure some or a certain level of energy efficiency improvement.	(a) Electricity generation from renewable energy sources; ¹ (b) Waste management.		(a) Acquisition of machinery for electricity production from renewable energy sources; (b) Improving the energy performance of machinery or buildings (e.g. via building retrofitting).
Job quality and skills	(a) Reach a minimum level of expenditure on training and education; (b) Pay an average wage at a certain level.			(a) Expenditure on training and education of employees; (b) Wages of trainees and apprentices; (c) Training expenditures for women re-entering the workforce or workers with disabilities; (d) Expenditures related to building training facilities.
Local linkages	(a) Source a minimum share of inputs from the local market; (b) Source a minimum share of inputs from local SMEs.			(a) Expenditures on inputs sourced from SMEs.
Promoting Exports	(a) Achieve a minimum export share in sales.		(a) Income from exports; (b) Income from transit trade.	(a) Export promotion expenditure. ²
Social Inclusion	(a) Employ a minimum share of female workers;			(a) Wages of female workers or workers with disabilities;

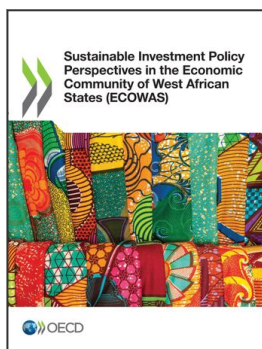
	(b) Employ a minimum share of workers with disabilities; (c) Founding members of a company must be people with disabilities.			(b) Training expenditures for women re-entering the workforce or workers with disabilities.
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Notes: Eligibility conditions and design features listed in the table are used by at least one economy included in the database. The list may evolve in the future when economy coverage extends.

¹ Includes only tax incentives benefiting electricity generation from renewable energy sources, but not electricity generation from non-renewable sources. Tax incentive may be part of a broader special regime that benefits other sector of the economy.

² Refers to expenses incurred for the purpose of seeking opportunities and promoting the export of goods or services produced in the economy (e.g. publicity and advertisements abroad, export market research, participation in trade fairs amongst others).

Other policy goals commonly targeted with tax incentives relate to infrastructure and innovation. Infrastructure can relate to a broad set of areas, including transport, utilities (e.g. electricity or gas distribution, water and sewage disposal structures), construction or ICT. CIT incentives promoting innovation commonly target R&D-related costs (e.g. wages of R&D employees, current costs of R&D projects, assets) or income (e.g. income from R&D or registered patents).



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