Poverty - Environment Initiative (PEI) Lao PDR

Investment incentives for sustainable development: The case of Lao PDR

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Incentives and investment decisions

It would be wrong to suggest that investment incentives do not play a critical role in foreign direct investment (FDI) site selection. As globalisation renders capital more and more free to move, low income economies are increasingly of the view that unless generous incentives are offered, FDI providers will not flock in. This perspective is certainly paramount in Lao PDR. During the 2 week Ministry of Planning and Investment/UNDP-UNEP Poverty Environment Initiative/IISD stakeholder consultation in Vientiane, in January 2011, policy makers, stakeholders and donors commented on the importance of the maintaining the prevailing Laotian incentive mix to attract FDI and to counter balance the low investment attractiveness of the country given is weak institutional frameworks, lack of transparency, undeveloped infrastructure, low *ease of doing business* rating, nascent skill base and more. And as all developing countries are now completing on offering 'packages of investment incentives', Laotian policy makers are trapped in a Prisoners Dilemma. For incentives in competing geographies are beginning to offset one another and investors are stating that incentives don't play an important role in location decisions given that all geographies are offering them anyway.

This report discusses preliminary ideas on how Lao PDR might resolve this issue.

The Laotian incentive mix

As detailed in Articles 40 to 55 of the 2009 Investment Promotion Law of Lao PDR, **the Government of Lao PDR offer income tax holidays for timeframes between 1 to 10 years as per investment type and location.** In the case of the former, the law identifies 3 levels of 'promoted sectors' which cut across agriculture, industry, handicraft and services. (The criteria on which investment opportunities will be categories across the 3 levels is however, not detailed in the law). In the case of the latter – the investment location - the law outlines 3 levels of 'promoted zones' which prioritise investment in deprived areas where socio economic development has been lagging behind and where infrastructure is poor. In addition to these income tax holidays, investors are exempt from import and export dutires and have the flexibility to carry forward balance sheet losses into the next fiscal year for a period of 5 to 10 years. Moreover, income tax exemptions are also available for investment in education, energy, transport and healthcare as the cash-strapped Laotian government seeks to crowd in private investment to upgrade public services.

Then there are the **special conditions that apply to concession investments – hydropower, mining, agriculture, forestry and tourism** which are the biggest sectors of FDI to date.

Investments incentives for concession investments are negotiated case by case and no details of the final concession agreement are released for public scrutiny.

In the case of **hydropower**, Department of Energy Promotion and Development (EPD) of the Ministry of Energy and Mines offers investors baseline incentives in the form of free access to land (including areas to be flooded), a waiver on land conversion fees (US$15,000 per hectare[1]), a 'reasonable' tax holiday, a waiver on withholding taxes on net profit repatriated, waivers or reduced rates on import duty for materials, equipment and supplies, the unlimited use of foreign labour in both skilled and unskilled functions, extended concession periods of 25-30 years, waivers from other taxes and duties and offshore banking facilities[2]. Apart from the latter provision which might be considered necessary given that the Laotian Kip is not a freely convertible currency, Laotian stakeholders and its donor community need to question the rationale behind this incentive mix as it results in little return in terms of tax revenue, job creation, technology transfer or other such positive externalities that are typically expected from FDI. This policy mix also increases the governments' dependence on royalties which in the case of hydropower, will only begin to materialise many years down the line.

In the case of **mining**, the Department of Geology and Mines of the Ministry of Energy and Mines announces incentives in the way of land rental fees that cost US$ 0.5 to 1 per hectare per annum during the exploration and US$ 3 to 12 per hectare per annum during exploitation[3]! Prospection and operating licenses reach a maximum ceiling of US$ 100 per annum and a one per cent tax or complete waivers on import duties are commonplace[4]. Here again, Laotian stakeholders need assess if they are being adequately compensated by both foreign investors and state owned companies in the exploitation of their country's natural resources.

When it comes to mining related taxes and royalties however, the Government of Lao imposes an income tax rate of 20 to 30 per cent, taxes dividends at 10 per cent and imposes royalties between 2 and 5 per cent[5]. These rates are more in line with international market trends. But are investors indeed paying these contributions to the people of Laos? MMG Sepon is the only foreign investor to have publicly reported on its contributions to the Government of Lao PDR which amounted to US14 million across 2005 to 2010. Anecdotal evidence abounds that MMG Sepon is an isolated example of good practice. The Department of Geology and Mines have

[1] Direct communication, Laos Land Management Authority, January 2011
[2] Direct communication with the EPD and as detailed in http://www.poweringprogress.org/
[3] Direct communication and the unpublished draft report on the state of play in mining concessions provided by the Ministry of Geology and Mines, January 2011. The Ministry of Geology and Mines had surveyed the state of play in mining concessions in 2010.
[4] Lao PDR Minerals Law, 2009
[5] http://www.dgm.gov.la/

issued over 240 mining exploration licenses of which 69 are believed to be in exploitation phase but tax or royalty payments have not been received from any of them[6].

In 2009, the Government of Laos imposed a **moratorium on the issuance of new concession licenses** to take stock of ongoing acuities. Early evidence from these surveys indicates a high level of investor speculation propelled by the low and even no cost land concession fees. It is also likely that many concession holders might be holding on to their rights in view of resale when prices rise or indeed, using their mining licences for a range of other industrial projects. While land concession fees have been revised in the Lao PDR 2009 Decree on Land Concessions (US$ 80 per hectare per annum in the case of copper and USD 100 per hectare per annum in the case of gold), they remain well below international market rates.

The story is very similar in FDI in **agriculture and forestry.** Approximately 2040 concession contracts have been signed across federal and provincial levels and up until to 2009 moratorium on the issuances of concession licenses, the average fee rate for land concessions was US$ 2 to US$ 6 per hectare[7]! In an interview with IISD, the National Land Management Authority highlighted the urgent need for a land use management plan, a framework for reworking concession agreements, and the development of a land pricing index and more.

As a rule of thumb it is safe to assume that concession fees or rents associated with the lease of state or non-titled land are typically 12 to 30 per cent lower that commercial real estate prices. Land evaluation is a complex science which takes into account the dynamics of the domestic land and real estate market, the characteristics the land and its extractive and topographic resources, practices in land registration, the development and investment priorities of the country, the sector and purpose for which the land is to be used, access to capital, issues surrounding the acquisition of land and indeed inflation and interest rate and the wider monetary policies of the economy. As a result, different geographies are adopting different approaches to determining land and resource rents. In Queensland, Australia for example, the annual lease fees for non-titled land for 'primary production' is calculated at 17.5 per cent of the proceeding five year forecasted price of commercial land values[8]. In the USA, the leasing of areas designated as 'Indian land' for commercial and residential development in Arizona are commanding prices between $1400 and $6000 per acre per year[9]. India on the other hand calculates state land rental fees based on output and commercial viability and typically charges around 12 to 15 per cent of annual turnover[10]. In South Africa, the case is similar, concession fees for agriculture and tourism range from 10 to 13 per cent of annual turnover and can be

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[6] Direct communication. Ministry of Geology and Mines, January 2011.
[7] Direct communication, Lao PDR Land Management Authority, January 2011
[8] As prescribed under the Queensland Australia Land Regulation, 2009.
[9] Telephone interview with the
[10] India Band Equity Foundation, http://www.ibef.org/news/Policywatch.aspx

higher in the case of mining[11]. In several other African countries, in Liberia and Sierra Leone for example, there is reported evidence that concessions rate are similar to that of Lao PDR – around US$ 5 per hectare. Programmes are ongoing to revise these concession rates with additional stipulations on benefit sharing. For example in the case of agriculture, investors are obliged to make a proportion of the harvests available for sale to local communities.

The revised concession rates published in the Lao PDR 2009 Decree on Land Concessions can be found in Annex 2.

Rethinking incentives and their aims

The Government of Lao DPR has committed to ambitious goals in their 2011-2015 National Social Economic Development Plan which prioritises the Millennium Development Goals (MDGs) and targets leaving the Least Developed Country classification behind by 2020. A prerequisite for achieving this ambition will be increased and targeted government spending on public services and to provide the funds for this spending, revenue from FDI in terms of fees, taxes and royalties must flow in. How else can the cash-strapped government break the cycle of donor funding and generate income to reinvest in sustainable development? But how can revenues flow in when FDI providers are blessed with not only long tax holidays but also low or no cost land concession rates? **With such a policy mix, how does the Government of Lao PDR expect to raise revenues from FDI?** Should Laotian stakeholders not be questioning what positive externalities are being accrued through FDI and indeed if they are being fairly compensated for the exploitation of their country's natural resources? And indeed, the entire Laotian development community needs to urgently examine if the **necessary social and environmental safeguards are in place to ensure that investors will continue to find Lao PDR an attractive investment climate in the medium term?**

Responding to these questions require that Laotian policy makers re-haul the prevailing mix of investment incentives to increase revenues and positive externalities across sectors and provinces.

The first step in this direction is to **address if the natural resources and human capital of Laos is sufficiently attractive to crowd in investors if investment incentives – especially the double redundancy of tax holidays and the low/no cost land concessions - were eliminated?** Investors from China, Vietnam, Thailand, France and Australia which lead FDI portfolios have invested and are continuing to invest irrespective of the countries low rankings on investment

[11] The New Partnership for Africa's Development (NEPAD) Outcomes of the AU-NEPAD Infrastructure Ministerial Group Meeting http://www.nepad.org/news

risk indexes and ease of doing business rankings[12]. Anecdotal evidence suggests that investors from several other geographies would also be competing in the Laotian economy if their applications for establishment and exploration would be given due regard and even expedited. The large number of concessions awarded to date are in itself an indicator that the resources of Lao PDR are unique and of such high value that FDI will crowd in irrespective of what incentives were on offer. Investors, after all, will invest where the returns are the most lucrative. Given the unique geographical positioning of Lao PDR and its abundance of natural resources, would it not be reasonable to infer that the investment attractiveness of the country is sufficiently well established for Laotian policy makers to begin to ask for better returns on their assets? Given the country's investment and development status quo today, policy makers can certainly risk re-examining incentives and remodelling them to benefit both the investor and the Laotian economy.

Redesigning the Laotian incentive mix

This paper recommends that the **double redundancy of tax holidays and the no/low cost land concessions be eliminated.** Without this policy change, domestic capital for sustainable development will continue to be scarce. While concession fees have been revised in the 2009 Decree on Land Concessions, they remain well below international market prices.

In addition to ensuring that state coffers remain empty, tax holidays can induce investors to close and sell their businesses at the end of the tax holiday, only to re-establish as a new entity that will quality for continued tax holidays in the years ahead[13]. Tax holiday also open loopholes that allow investors to channel profits from existing profitable corporations to those receiving tax holidays and so avoid paying taxes on both investments.

This does not mean to say that Lao PDR must offer no investment incentives at all. Rather a fresh mix of incentives needs to be designed that will:

- Reward responsible and sustainable performance.
- Crowd in domestic investors.
- Maximise the potential for business linkages and embed the investor in the domestic economy.

[12] Laos is positioned at 171 in the World Bank/IFC index on the ease of doing business. http://www.doingbusiness.org/rankings

[13] IISD discussed this issue with policy makers at the Ministry of Geology and Mines and the Electricity Promotion Department who agreed that this might arise in Lao PDR in the years to come as the country seeks to diversify its target investment sectors to include manufacturing and services.

- Ensure environmental protection and social cohesion across the provinces.
- Improve the investment climate and reduce costs and risks for investors.

As a first step, a **uniform corporate income tax rate could be introduced for both domestic and foreign investors.** The ongoing Lao PDR tax reforms (to be published in June 2011) are expected to introduce a uniform income tax rate of 25 per cent, which will be a welcome step in the right direction. At present, foreign investors are taxed at 25 per cent and domestic investors at 35 per cent.

Tax deductions on investment in public services (such as roads) and capital assets (such as plants, buildings and technical laboratories) is another sensible incentive as these assets will remain in the country when the investor decides to leave. It also offers a low-cost strategy for channelling investment towards improving infrastructure and public services.

Investors also appreciate the possibility to depreciate assets and governments across the world now offer options on accelerated depreciation. This incentive allows depreciation at a faster schedule than that which is available for the rest of the economy. This can be done in many ways including higher first year depreciation allowances or increase depreciation rates. This strategy helps free up capital for possible re-investment in the host economy in the medium term.

As the momentums for construction and infrastructure expansion increases and Laos PDR embarks on establishing special export zones, policy makers could contemplate **tax credits, tax allowances or even financial assistance for green buildings and green infrastructure.** (Tax credits allow a percentage of the investment to be deducted from taxes owed, while investment allowances allow a fixed percentage of an investment to be deducted from taxable profit). Green buildings typically cost around 20 per cent more than their energy inefficient and material-intensive alternatives. Could not incentives be offered to cover the differential? Singapore, South Korea, State of California, the Province of Ontario, Germany, and the UK were the ground breakers in linking investment incentives to green infrastructure. These have ranged from power purchase agreements and renewable energy obligations on the purchase of electricity from renewable energy sources, subsidies for the use of 'greener' building materials, tenders that gave preference to suppliers with a proven track record on environmental management and corporate social responsibility, subsidies for meeting increased capital costs of energy efficient buildings, linking employee performance and salary appraisals to good environmental management and energy house-keeping and the establishment of public-private partnerships for green infrastructure. For example the Arlanda Express in Sweden (the train link between Stockholm Arlanda Airport and the Stockholm city centre) was built and is being operated on a public private partnership where environmental management and energy efficiency are key priorities.

Given that education, research and development, re-skilling and up-skilling are signalled out as priorities in the National Socio-Economic Development Plan 2011-2015, it is **critical to invite FDI providers to participate in building Laotian human capital.** How feasible would it be for the Laotian government to step in and meet the training costs in the first 2 to 4 years of establishment? Or can the government co-fund research chairs and exchange programmes at universities, the National Science Council and other such high education institutions? Or can tax credits and investment allowances be linked to the training of given numbers of high skilled professionals? Such provisions will play a critical role in skills and technology transfer in the medium term. It will also help upgrade the Laotian export mix to include value added goods and high skilled services. China employs a range of similar incentives to ensure continued up-skilling and technology transfer. Indeed more stringent requirements on technology transfer and patient sharing are built into establishment conditions in most of China's development zones.

Investors can also be encouraged to **move beyond compliance on their environmental and social performance.** Could the Government of Laos meet the certification costs of international standards such as ISO 14001 and ISO 26000? Or provide tax deductions on the same? The State of Karnataka in India employs similar incentives to encourage green infrastructure and environmental impact mitigation in the development and maintenance of its industrial parks.

Examples of incentives used by competitor economies can be found in annex 3.

A word of caution however when designing investment incentives. It will be important to develop **market models to study the play out of externalities and transfer pricing given the youth of Lao PDR's fiscal and monetary framework**. The Laotian Stock Exchanges was launched only 3 months ago and state budgets are not published nor debated at the National Assembly. It is also critical to recognise that all incentives are prone to abuse and opportunity to do so should be blunted to the greatest extent possible.

To achieve the goals of the National Socio Economic Development Plan 2011-2015, the objectives of providing investment incentives will need to **move beyond crowding in FDI to levelling the playing field for domestic investors.** For it is domestic investors that create the linkages and reinvest in the host economy when foreign players are long gone. In the context of Lao PDR domestic investment should not be limited to state owned enterprises or state participation in high capital ventures. Entrepreneurial and investment opportunities for 'made in Lao PDR', home-grown ventures, individual investors and micro enterprises need to be nurtured. The tools to enable this – the decentralisation of investment decisions to provincial governments, provisions on the establishment of special export zones and provisions for calling lists (whereby provinces are given the opportunity to identify and crowd in investment for project of local significance) are already provided for in the 2009 Lao PDR Law on Investment Promotion.

It is also critical that investment incentives should **seek to reward sustainable enterprise**. If incentives can be linked to environmental protection, rural development, skills building, and initiatives to improve social cohesion, and these incentives are coupled by increase transparency on the negotiation of investment and concession agreements, Government and people of Lao PDR will be on the trajectory to a sustainable future.

Annex 1: The Primary Determinants of Investment Attractiveness

IISD's work on sustainable investment across 2009 and 2011, which included engagement and advisory services to investors, companies and entrepreneurs seeking investment, investment promoters and investment policy makers in several countries, has enabled us to identify the following as key determinants of investment attractiveness:

Macro-economic determinants

- Income of skilled workers
- Size of the host economy markets
- Bilateral and multilateral trade agreements
- FDI friendly monetary policies
- Economic and political stability
- Requirements around environmental-impact assessment
- Stable rate of inflation
- Low restrictions on FDI
- Restrictions on foreign exchange and profit repatriation

Investment policies

- Positive ratings on ease of doing business indicators
- Access to information and the absence of red tape and discrimination in establishment and preliminary licensing
- Cleary defined priority investment sectors
- Non-discriminatory fiscal, financial and regulatory incentives
- Domestic/regional trade integration and targeted investment policies
- Flexibility between mandatory and discretionary incentives
- Financial incentives offered for headquarters and flagship (or anchor) investments
- Effective business linkages programmes that assist in the identification on domestic suppliers and contractors

- Policies of domestic capital participation and access to capital in the domestic economy
- Performance requirements that reduce costs and risk and the facilitate domestic business opportunities
- Incentives offered by export and economic zones
- Laws on competition (anti-trust)
- Patent regime
- Provisions and protection provided by intellectual property rights
- Provision for the resolution of investment disputes
- Policies and practices to curb bribery, corruption and facilitation payments
- Provisions to support infant industries
- Assistance provided by investment-promoters such as reduced red-tape and administrative delays in establishment, business linkages and aftercare services.
- Transparency in public procurement

Tax rates

- Corporate income tax rates
- Tax rates on concession investments
- Criteria on which royalties might be negotiated.

- Tax policies on lower import and export duties and value added taxes within economic and export zones.
- Options for accelerated depreciation

Tax deductions, allowances and credits, grants, cost participation and subsidies on aspects such as investment in public services (deemed necessary for the success of the investment), capital costs related to plant, factory and office infrastructure, utility costs, recruitment and employment costs. Work force and management training/up skilling costs and investment in R&D.

- Options for carrying forward balance sheet losses

Skills

- Size and demographics of skilled labour pool
- Investment in graduate education
- Western language-speaking capabilities
- The number of advanced education establishments offering programmes in key subjects such as
- Mathematics, IT, sciences, business administration, finance and engineering
- Labour laws providing for decent work and compliance with core labour standards of the ILO
- National laws and policies on upholding human rights
- The extent to which the domestic diaspora in return and investment in the economy
- Numbers of graduates educated overseas
- Conditions on the use of migrant labour
- Conditions on the 'import' of expatriate employees

Infrastructure in host economy

- Condition of physical infrastructure
- Telecommunications and broadband capabilities
- Reliable and cost effective electricity supply
- Programmes for energy management and efficiency

- Focus on energy-efficient buildings and the wider priorities on “green infrastructure”
- Ongoing infrastructure improvements and property developments
- Condition of public services including primary and secondary education, health care, transport, customs freight and cargo hubs

Geographical location

- Quality of the natural resource base
- Proximity to client markets
- Proximity to investor’s head quarters
- Time zones that allow for a 24-hour working day across global delivery locations
- Historical and cultural ties with client economies
- Trends in western sale consumption
- GDP per capita
- Size and growth of population

Annex 2: The revised concession rates published in the Lao PDR 2009 Decree on Land Concessions

Rates for leasing state land for industrial purposes				
No.	**Leasing Objectives**	**Leasing Rate per hectare per year (US Dollar)**		
		Area 1	**Area 2**	**Area 3**
1	Drug and medicine factory, medical equipment and Sanitation products production	100	200	300
2	Educational equipment, sport equipment, musical instruments and toy factory	100	200	400
3	Printing and newspaper factory	100	200	400
4	Construction equipment factory	100	200	400
5	Hydro-power station, electricity transmission station	100	300	500
6	Butchery factory, food processing, non-alcohol beverage, agricultural products, agricultural production equipment, handicraft	100	200	300
7	Cotton factory, textile and garment	200	300	600
8	Office supplies, automate equipment	200	300	600
9	Mechanic equipment factory, transport vehicles and spare parts	200	300	600
10	Motor production and assembly factory, electronic equipment, radio, television, communication tools	200	400	600
11	Coal-power plant	200	400	600
12	Metal processing factory; fuel, coal and metal base processing factory; metal products and cement factory	200	400	600
13	Wood latex factory, paper factory, leather factory	20	300	400
14	Recycling factory	100	200	400
15	Chemical processing factory, chemical products factory, plastic products factory	500	800	1000
16	Wood processing factory, wood and rattan products and furniture	500	1000	2000
17	Tobacco producing factory and alcohol beverage factory	1000	2000	3000

State land lease fees for service operation in tourist areas including cultural, natural and historical tourist areas				
No.	**Tourist areas**	**Lease rate US dollar per hector per year**		
		Area 1	**Area 2**	**Area 3**
01	Village level	70	100	200
02	District level	100	200	300
03	Provincial level	200	300	400
04	National level	300	400	500

State land lease fees for construction of public service facilities				
No.	**Objective of leasing**	**Lease rate US dollar per hector per year**		
		Area 1	**Area 2**	**Area 3**
1	Public service operation: public park, school, hospital, playground, and recreation centre	100	300	500
2	Building a house and apartment	300	500	1,000
3	Private service operation: bank, supermarket	500	10,000	50,000
4	Building town house, guesthouse, restaurant, hall, conference centre, office	1,000	5,000	10,000
5	Infrastructure development: telecommunication, market, public transport station, good transport station and warehouse	3,000	5,000	10,000
6	Private service operation: hotel, resort, entertainment center	5,000	30,000	70,000

State land lease fees for building sport stadiums		
No.	Objective of leasing	Lease rate US dollar per hector per year

		Area 1	Area 2	Area 3
1.	Build general sport stadium	50	150	250
2.	Build horse racing park, car racing park	100	150	200
3.	Build a golf court	150	250	450

State land concession fees for agricultural activities

No.	**Objective of leasing**	**Lease rate US dollar per hector per year**		
		Area 1	**Area 2**	**Area 3**
1	Plantation of short-lived plants and food plants	5	10	15
2	Animal husbandries: cattle, buffalos, goats, sheep and others	5	10	20
3	Fruit free and perennial plants	5	10	20
4	Commercial plantation	6	10	20
5	NTFP and medical plants	7	15	25
6	Avian and small animal husbandries	10	15	25
7	Fisheries	10	20	30

State concession fees for plantations

No.	**Objective of leasing**	**Lease rate US dollar per hector per year**		
		Area 1	**Area 2**	**Area 3**
1	Commercial tree plantation (10 years harvest)	8	15	25
2	Fast grown tree plantation (below 10 years harvest)	10	20	30
3	Rubber tree plantation	30	40	50

State land concession fees for mining

No.	Type of mineral	Price of concession ($/ha/year)			
		Explore	Survey	Feasibility study	Exploit
1.	Precious and semi-precious stones				
	• Opal, Agate, Amethyst	1	1	2	300
	• Spinal, Garnit, Topaze…	1	1	2	500
	• Diamond, Ruby, Sapphire, Emerald, jade)	2	2	3	700
2.	Precious metals • Gold, Platinium • Silver	1	2	3	100
3.	Base metals • Lead, zinc • Copper	 1 2	 2 2	 3 3	 60 80
4.	Tin and tungsten	1	2	3	100
5.	Minor metal: Antimony, molybdenum, bismuth, mercury, aluminium	1	2	3	100
6.	Ferrous metals: • Iron, Manganese, Pyrite • Chromium, Nickel	 1 1	 2 2	 3 3	 70 80
7.	Industrial mineral: Alunite, Asbestos, Barite, Latalite, Kaolin, Limestone, Marble	1	2	3	50
8.	Construction materials: Sandstone, Andesite, granodiosite, …	1	2	3	50
9.	Evaporite Minerals: • Ptash • Halite • Gypsum	 0.5 0.5 1	 1 1 2	 3 3 5	 20 20 30
10.	Energy minerals • Peat • Coal: + Anthracite + Lignite	 0.5 1 1	 1 2 2	 2 3 3	 30 70 70
11.	Ground water, mineral water, natural thermal water	0.5	1	3	20
12.	Oil and gas	Based on contract between the government and a company			

State land concession rates for casinos		
No.	Objective of	Land lease rate in US dollar per hector per year

	concession	Area 1	Area 2	Area 3
1.	All kinds of casino	200,000	400,000	800,000

Annex 3: Investment Incentives offered by Competitor Geographies

This annex was compiled to demonstrate how different geographies are using investment incentives to attract investment in sectors of interest to Laotian stakeholders. It reflects current practice rather than best practice in the use of incentives for sustainable development.

Investment Incentives Offered by South Africa

South Africa offer a range of tax deduction and training allowances, as detailed in the Income Tax Act 2009. The cost of these incentives in terms of foregone revenues is estimated to be around ZAR 5.6-billion. The target sector is business process outsourcing.

Investors in "greenfield" projects (using new assets) and "brownfield" projects (expansions or upgrades of existing projects) that **involve capital of more than R200-million but less than R1.6-billion**, can apply for a tax allowance equal to between 35% and 55% of a project's value. The incentive, which will run until 31 December 2015, offers a maximum of R900-million in tax breaks for greenfield projects, and a maximum of R550-million in tax breaks for brownfield projects.

Investors will also be able to deduct ZAR 36 000 per employee as part of a training allowance, with the maximum training allowance for a single company ranging from ZAR 20-million to R30-million.
The qualifying criteria for these incentives include compliance with energy efficiency standards, participation in voluntary energy efficiency initiatives and the employment of South African Nationals.

A bonus incentive of up to 30% is available for investors that exceed certain job creation targets.

Investment incentives offered by Bangladesh

As outlined in the 2009 National Budget Statement published by the National Board of Revenue, investors are offered tax holidays in the

- Dhaka & Chittagong Divisions: 100% in first two years: 50% in the year three and four: and 25% in the year five.
- In the more under developed areas of Rajshahi, Khulna, Sylhet, Barisal Divisions and three Chittagong Hilly Districts: 100% for first three years, 50% for next three years, 25% for year seven.

Investors are also offered accelerated depreciation allowances at the rate of 50%, 30% and 20% for the first, second and third years respectively, on the cost of plant and machinery.

Businesses exporting 80% or more of goods or services qualify for duty free import of machinery and spares, bonded warehousing, and 90% loans against letters of credit and funds for export promotion. (Note that companies located outside export processing zones are allows to sell 20% of output in the domestic market on foregoing import export duties and the payment of other associated charges.

Permanent resident permits are awarded on investing US$ 75,000 and citizenship on investing US$ 500,000.

Investment incentives offered by Zambia

In 2009, Zambia began to increase transparency around tax revenues and incentives. While an overarching list of incentives are offered to all investors, additional benefits are awarded to the target sectors: mining, agriculture, manufacturing and tourism.

The overarching incentives offers to all investors are:

- Corporate income tax rate of 35%.
- Reduced corporate tax of 15 % on farming, fertiliser production and non-traditional exports.
- Duty free importation of most capital equipment for the mining and agriculture sectors.
- Companies listed in the Lusaka Stock Exchange qualifies for a 2 percent discount on corporate income tax for the first year. Companies in which Zambian nationals make up more than 1/3 of the shareholding qualify for a 7 percent discount.
- A 'wear and tear' allowance of 50% on fixed and mobile assets in farming, manufacturing or tourism, awarded in the first 2 years following purchase. Buildings in the same sectors receive an allowance of 10 percent of cost in the first year and 5 percent of cost per year in subsequent years.
- Firms can carry forward of losses over 10 years in copper and cobalt mining, 5 years in other minerals and mining activity, 5 years in other non-mining activities, agriculture and non-traditional exports.
- Dividends are tax free for the first five years of operation.
- Exemptions from value added tax up to 5%.

Incentives targeted at investment in agriculture include:

- Corporate tax rate of 15%
- A 'farm works allowance' of 100 percent of expenditure on removing stumps, clearing, prevention of soil erosion, bore holes, aerial and geophysical surveys and water conservation;
- As 'establishment allowance' of 10 percent of the cost of capital expenditure on growing of coffee, banana plants, citrus fruits or similar plants.
- Capital expenditure on farm improvements is tax deductible.

Incentives offered to the mining sector include:
- Corporate tax rate of 30%
- Balance sheet losses can be carried forward for 10 years
- Withholding tax rate of 15% on interest, rent, consultancy, royalties and dividends.
- Duty free importation of capital equipment and utility vehicles.

Investment incentives offered by Egypt

The investment incentives offered by Egypt, as described in the 2009 Egypt investment Law is targeted at investment in agriculture, education, healthcare, renewable energy, tourism and information and communication technology related services:

- Corporate tax rate of has been reduced from 42% to 20%.

- Tax holiday of 5 years for projects financed or co-financed by the Egyptian Social Development Fund
- A tax holiday of 10 years on projects focusing on the reclamation and cultivation of barren and desert lands or either of them, livestock production, bee-keeping and fish farming.

- Incentives offered to investors in Special Economic Zones (SEZ) include a 10% corporate tax rate, integrated custom administration, tax administration, dispute settlements, licensing, and Egyptian certificates of origin for SEZ – based exporters, allowing them to make use of Egypt's international trade agreements.

Investment incentives offered by South Korea

KOTRA , the Korean Trade-Investment Promotion Agency offers mutually incentives in the form of tax deductions, grants, low cost industrial sites and financial assistance for training and up skilling. Investment Consulting Center (ICC) of Invest KOREA provides free consulting services on accounting, legislation, headhunting, and property.

Tax rebates:
Foreign companies investing in industry support services or high tech manufacturing and R&D that targeted by the Ministry of Strategy and Finance, or foreign investment in manufacturing, logistics, R&D, leisure & hotel businesses based in foreign investment zones or free economic zones are eligible for tax rebates on corporate, income, local, and dividend income taxes for five to seven years. Tax rates differ cross zones and industries.

Customs duty reduction or exemption is also available on capital goods whose import declaration is completed within three years from the date of investment notification.

Grants:
Investors owning 30% of equity and invest at least USD 10 million in an industry support service or high-tech business, greenfield investment, manufacturing, R&D, and construction with significant prospect of job creation are eligible for the grants.

FDI on the establishment of the regional headquarters are also eligible for grants.

Business investment in green and clean technologies are eligible for grants that will be awarded based on the potential 'spill over' of skills and the transfer of technologies. The size of investment project does not enter into eligibility criteria.

KOTRA also offers grants of 5% of total capital for projects that forecast higher than average multiplier benefits.

Low cost industrial sites:
Low cost leases on land are available to FDI providers in stand-alone type foreign investment zones, complex-type foreign investment zones, free trade zones, and free economic zones. Each zone also offers a number of fiscal incentives linked to the size of capital. For examples stand- alone type free trade zones offer a five year tax abatement, exemption from rent and tariff on capital goods, as well as various subsidies, if they

make a minimum investment of US$ 30 million in manufacturing, USD 20 million in tourism, USD 10 million in logistics, USD 2 million in R&D.

Financial support for training and up skilling:
The government of Korea offers financial assistance to meet the training and education and employment of domestic staff, the construction of education facilities within a foreign investment zone or to enhance the living environment within it. Investors with a foreign equity stake is at least 30 percent or in which a foreign company or individual investor is the largest shareholder are eligible to apply.

Investment incentives offered by Vietnam

The Vietnam Common Law on Investment provides for 2 major levels of investment incentives:

Location 1 with extremely difficult socio-economic conditions
Location 2 with difficult social economic conditions.

Each of these locations provide a complex web of tax holidays, value added tax exemptions, reduction on import duties, reduction on royalties, and land tax reductions. Investment in location 2 is also exempt from land rent fees for 7 years while location 1 investors are provided with rent free land for 10 years. In addition,
high technology parks and economic zones qualify location 1 incentives while industrial parks qualify for location 2 preferences.

At the federal level, Vietnam claims to levy a 25% corporate tax rate for foreign investors though no reference is made to domestic players. Firs time investors are however subject to a reduced tax rate of 10% to 20% for the first 10 to 15 years of operation. Investors may also transfer losses during 5 years.

The fiscal cost of these incentives is estimated to cost 2.3% of the country's GDP during the economic downturn of 2009. By comparison, the US state and local government incentives equal about 0.4 to 0.5 per cent of US GDP[14].

[14] Thomas K. P. Investment Incentives and the Global Competition for Capital, Palgrave Macmillan, 2010 backed up by ddirect communication with the Vietnam Trade Promotion Desk, Geneva, Switzerland, in February 2011.