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**Building an Investment Tax  
Incentives database:  
Methodology and initial  
findings for 36 developing  
countries**

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Luisa Dressler,  
Martin Wermelinger**

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## OECD Working Papers on International Investment

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# Building an investment tax incentives database: Methodology and initial findings for 36 developing countries

by

Alessandra Celani, Luisa Dressler and Martin Wermelinger<sup>\*</sup>

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The OECD has constructed an Investment Tax Incentives database which compiles granular details on corporate income tax (CIT) incentives for investment. This paper presents the methodology used to develop the database and insights from an initial data collection in 36 developing countries. The paper describes a classification to structure quantitative and qualitative information on investment tax incentives across three dimensions: design features, eligibility conditions and their legal basis. The data reveal that tax exemptions are the most widely used CIT instrument across the 36 countries and identifies notable differences between the incentives used within and outside of Special Economic Zones (SEZs). In 80% of countries covered, at least one tax incentive supports an area related to the Sustainable Development Goals.

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Authorised for release by Mathilde Mesnard, Acting Director, OECD Directorate for Financial and Enterprise Affairs

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# Executive summary

Investment tax incentives are frequently used across the world. These tax incentives have the potential to promote and attract investment with positive effects on output and productivity, while contributing to the Sustainable Development Goals (SDGs) (UN, 2015<sup>[1]</sup>). If poorly designed they may be of limited effectiveness and could result in windfall gains for projects that would have taken place in the absence of the incentive. Striking the right balance between an efficient and attractive tax regime for domestic and foreign investment and securing the necessary revenues for public spending and development is a particular concern in developing countries. Detailed mapping of incentives contributes to identifying the successful design of investment incentives as their effectiveness and costs are strongly linked to design and context.

The OECD Investment Tax Incentives database systematically compiles quantitative and qualitative information on the design and targeting of investment tax incentives in developing countries, using a consistent data collection methodology across countries. For each tax incentive regime the database includes information on three key dimensions: instrument-specific design features, eligibility conditions and governance features.

This Working Paper defines the scope of the database (Section 2. ), introduces classifications of key incentive dimensions to provide a structured understanding of how incentive instruments apply across the world (Section 3. ) and provides initial findings from the database (Section 4. ). The database focuses on corporate income tax (CIT) incentives introduced through national-level legislation. As of July 2021, the database includes investment tax incentives in 36 developing countries in Eurasia, the Middle East and North Africa, Southeast Asia and Sub-Saharan Africa.

The following key insights can be drawn on how investment tax incentives apply across the 36 economies.

## Full tax exemptions are the most widely used instrument

- Two-thirds of all countries in the database have at least one incentive in place that allows investors to fully exempt their income from paying CIT over a limited period of time (temporary exemption), while about 25% of all countries grant at least one permanent tax exemption on income from certain sub-sectors, locations or from specific sources (e.g. export income).
- Tax exemptions offered on a temporary basis are the most widely used instrument both within and outside Special Economic Zones (SEZs), but they tend to apply for a longer time on average in SEZs (median length: ten years), as opposed to outside SEZs (median length: six years).
- When looking at the full array of incentive instruments, the distribution is highly skewed towards full tax exemptions in SEZs. This contrasts to the situation outside of SEZs, where the use of different instruments is more equally distributed. Outside SEZs, tax allowances and reduced rates are as often used as exemptions.



- Income-based tax incentives, such as tax exemptions, provide tax relief based on earnings and not specifically based on new investment. Therefore, they increase the likelihood of benefiting highly profitable firms and providing windfall profits to those that may invest even in the absence of incentives. They may therefore have less influence on investment activities.

#### **Tax allowances are also often used**

- About 64% of all countries in the database grant at least one tax allowance scheme to investors. These allowances most often target qualifying capital expenditures (e.g. expenses to acquire machinery and equipment), but can also relate to current expenditures (e.g. allowance for training expenditures).
- Tax allowances are relatively more often used outside of SEZs than inside, with 64% of all countries granting at least one tax allowance regime to investors outside and only 21% to investors inside SEZs.
- Tax allowances typically target specific types of capital investments or activities that can be associated with countries' sustainable development objectives, such as skills development and the low carbon transition.

#### **Investment tax incentives hinge upon specific eligibility criteria, which vary widely across countries**

- Investment tax incentives typically include specific criteria to define eligibility of a project to benefit from tax relief. Eligibility conditions used across the countries in the database touch upon a variety of areas, referring for example to the sector of activity, geographic location, an investor or project characteristic, or a specific sustainable development objective.
- The countries included in the database most often use conditions related to specific sectors or SEZs; i.e. countries specify in which sector an investment must take place to benefit from the tax relief, or whether the incentive is granted only to investors within a SEZ.

#### **Although sector conditions exist in most countries, almost any sector can often benefit from tax incentives**

- Although most countries specify sub-sectors or sectors in the eligibility condition of tax incentives, they do so very broadly (e.g. the entire manufacturing or agricultural sector can benefit from the incentive). This illustrates that sector-based incentives often benefit a significant number of investors and do thus not extensively limit the scope of their applicability.
- Few countries specify sector conditions narrowly, i.e. limiting tax relief to a small set of sub-sectors. In these cases, they often target sub-sectors of high economic importance to the country as measured in terms of their exposure to exports. This could be a sign of countries targeting incentives to further support highly specialised export activity, or a sign that countries successfully focused development policy to these activities.

## **Tax incentives often target some sustainable development objectives, particularly exports and employment creation**

- Investment tax incentives sometimes include dedicated eligibility conditions and design features to promote investment with the objective of generating positive spillovers on exports, employment, productivity and other objectives related to the SDGs.
- One-third of all tax incentive schemes included in the database promote at least one sustainable development objective (101 incentives out of 298) and are used in 29 of the 36 countries.
- Over half of the countries included in the database use tax incentives with specific eligibility conditions and design features to boost exports, while 12 of 36 countries use incentives with the objective of creating employment and improving job quality.
- Other SDG clusters – including those associated with skills development, improving environmental outcomes, local supply linkages, and gender equality – are more rarely observed objectives targeted by the developing countries covered in the database. The low importance attributed to these objectives is likely linked to the development status of the countries in the database.

## **The governance of investment tax incentives is often complex**

- The data show that many countries scatter incentive provisions across several laws, such as the income tax law, the investment law or the SEZ law. Around 40% of countries provide investment tax incentives through one legislative piece (15 out of 36), often the income tax law or tax code (10 out of 36).
- Similarly, several authorities are involved in governing investment tax incentives, e.g. the Ministry of Finance, the Ministry of Economy, the Investment Promotion Agency (IPA), other line ministries, and SEZ authorities. There are many countries in which multiple authorities share responsibility. The Ministry of Finance is the sole granting authority in about a third of countries. Granting authority of mapped investment tax incentives is most often shared between the Ministry of Finance and IPA or the SEZ Authority.
- Such complexities and overlapping responsibilities can result in limited transparency and accountability, may reduce the effectiveness of the policy and can increase discretionary and profit-shifting behaviours.

## **Possible future analysis**

These key insights were derived from a first look at the data, future work could further develop this analysis and explore the policy implications of investment tax incentives policy, as follows:

- **Focus on SEZs:** A dedicated case study could further analyse the differential tax treatment of investors within and outside of SEZs and its potential contribution to investment or to sustainable development.
- **Focus on regional country groupings:** Analysis by regional groupings could contribute to important policy discussions around tax and tax incentive competition and help identify opportunities for cross-country regional cooperation. Indicators building on this database, such as forward-looking effective tax rates (Box 2), could be used for cross-country comparisons.

- **Focus on effectiveness of incentives:** Additional analysis could investigate the impact of tax incentives on investment in detailed sectoral activities to better assess to what extent and which type and design features of incentives are effective in boosting investment. Such analysis could also take a more qualitative twist and focus on the extent to which incentives that target sustainability objectives are actually effective in achieving progress against these objectives.

Some of the proposed areas for future research are planned activities under the ongoing broader collaboration between the Investment Division of the OECD Directorate for Financial and Enterprise Affairs and the Tax Policy and Statistics Division of the OECD Centre for Tax Policy and Administration focusing on transparency and analysis of investment incentives.

# 1. Introduction

Investment tax incentives are frequently used with the aim of promoting investment in specific activities, sectors and regions or increasing investment overall. Investment tax incentives to attract private investment are used globally, particularly in developing countries, yet their net benefits are often poorly understood. Tax incentives offer the possibility of attracting investment, with potential positive spillovers on output, employment and productivity or other objectives related to the Sustainable Development Goals (SDGs). However, their effectiveness in practice may be limited, and they can also reduce revenue-raising capacity, create economic distortions, may erode the principle of equity, increase administrative and compliance costs, and potentially trigger harmful tax competition.

Forgone government revenue due to tax incentives limits efforts to mobilise domestic resources, and thereby slows down progress towards the SDGs. Tax revenues are a key source of public finances, crucial for delivering the public goods and services that are often underdeveloped in developing countries, such as skills development and education, health, and infrastructure. Forgone revenue is of particular concern when the tax incentives do not attract additional investment, but rather result in windfall gains to investors for projects that would have taken place in the absence of the incentive. Limiting the use of wasteful and redundant tax incentives is therefore crucial.

Following the economic crisis caused by the COVID-19 pandemic, governments with sufficient fiscal space may consider expanding the use of investment tax incentives to support recovery and rebuild investment flows. On the other hand, countries may seize the opportunity to reduce wasteful tax expenditures to free up public revenue. Ongoing discussions around potential changes to the international tax rules under consideration of the OECD/G20 Inclusive Framework on BEPS, in particular the discussion around rules to ensure a minimum level of effective taxation across countries, may have an impact on the use of tax incentives by governments to attract investment in the future.<sup>1</sup>

The wide use of incentives globally, along with concerns about their net impact, is an important policy concern for national governments and the international policy community. The policy challenges related to investment tax incentives have been discussed in IMF, OECD, UN, and World Bank (2015<sub>[2]</sub>). Existing guidelines and principles provide some direction on how to efficiently design and implement investment tax incentives (Box 1). However, a structured understanding of how incentives apply across the world, including transparent and detailed information on their scope, design features and countries' targeting strategies, is still lacking. Granular and comprehensive data are indispensable to improving our understanding of existing tax incentive policies and enhancing the analysis of their impacts, particularly given that their effectiveness and costs are strongly design- and context-specific.

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<sup>1</sup> Consideration of these issues is not within the scope of this paper.

Under the OECD Declaration on International Investment and Multinational Enterprises, adhering countries declare that they shall “endeavour to make such measures [investment incentives] as transparent as possible, so that their importance and purpose can be ascertained and that information on them can be readily available”. Accessible and clear information on available incentives, as well as regular tax expenditure reporting, support the efficient use of investment tax incentives.<sup>2</sup> In the current context of declining investment flows, achieving transparency on investment incentives remains crucial, not least as developing countries seek to facilitate investment and attract untapped investment sources.

This working paper contributes to improving the transparency of investment tax incentives. It describes the methodology developed to construct the OECD Investment Tax Incentives database and presents insights from an initial data collection in 36 developing countries, mostly from regions in which the OECD has existing programmes on investment. The paper defines the scope of the database and develops classifications for systematic and cross-country comparable data collection. These classifications are based on (i) design features of key incentive instruments (such as the length of tax exemptions, the degree of CIT reductions, and the rate and applicability of tax allowances and credits), which are crucial to understanding the channels and the extent to which incentives provide relief from taxation; (ii) eligibility conditions (e.g. sector or location conditions, other investor- or project-specific characteristics, sustainability outcome criteria), which define who qualifies for tax relief and describe a country’s targeting strategies; and (iii) the legal basis and granting authority of incentives, which provides first information on governance structures.

The new database increases the scope and granularity of currently available databases. Earlier analyses of investment tax incentives have focused on individual countries or regions, or on higher level cross-country comparisons.<sup>3</sup> Existing cross-country comparisons, for example, a database on investment tax incentives collected by the World Bank (Andersen, Kett and Von Uexkull, 2017<sup>[3]</sup>) and the joint work of the IMF, OECD, UN, and World Bank for the G20 Development Working Group (2015<sup>[2]</sup>), rely on indicators that measure the prevalence of different incentive instruments available in a country or sector.<sup>4</sup> Collecting information on these dimensions is a first step to understanding how investment tax incentives apply across the world but has its limitations. The present work seeks to move beyond a high-level approach, by creating more comprehensive and more detailed data on the availability and application of investment tax incentives and by deriving comparable indicators. The new data will enhance transparency of what incentives are offered across countries, and provide insights on the relationship between design features, effectiveness, and revenue forgone (Box 3).

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<sup>2</sup> Tax expenditures resulting from incentives are inherently less visible than direct public expenditures, which reduces accountability and makes them prone to pressures from special interest groups and could result in inefficient policy design (IMF, OECD, UN, World Bank, 2015<sup>[2]</sup>). Transparency and evaluation support efficient use of public funds.

<sup>3</sup> Data collection has been conducted by both international organisations and scholars. Next to the World Bank’s Global Tax Incentives Database covering 150 countries in 2016 (Andersen, Kett and Von Uexkull, 2017<sup>[3]</sup>) only a few other cross-country databases are available. These cover tax incentives that specifically target R&D (OECD, 2020<sup>[13]</sup>), mining activities (IGF and OECD, 2018<sup>[32]</sup>) and training and education (OECD, 2015<sup>[7]</sup>). In addition, the OECD has conducted regional mapping of investment tax incentives in MENA (OECD, 2008<sup>[34]</sup>; OECD, 2021<sup>[28]</sup>) and Southeast Asia (OECD, 2019<sup>[30]</sup>). (Abbas and Klemm, 2013<sup>[23]</sup>) analysed data on tax incentives in 50 developing economies.

<sup>4</sup> Forward-looking effective tax rates (ETR) including incentives are the focus of several papers (Abbas and Klemm, 2013<sup>[23]</sup>; Abramovsky, Klemm and Phillips, 2014<sup>[24]</sup>; Wiedemann and Finke, 2015<sup>[25]</sup>; Ghazanchyan, Klemm and Zhou, 2018<sup>[29]</sup>). With the exception of Wiedemann and Finke (2015<sup>[25]</sup>), these analyses provide a limited discussion of the targeting of incentives and associated eligibility conditions. See Box 2 for more details on ETRs.

The OECD Investment Tax Incentives database will increase the policy relevance of tax incentive analysis, particularly if more countries are added in the future. Improved insight into the use of tax incentives and how their performance depends on their design and targeting strategies can foster the analysis of their impact and help policymakers to make smarter use of tax incentives to attract and facilitate sustainable investment, mobilise revenues, while reducing their negative effects. It also serves to foster policy dialogue and advocacy on transparency of investment tax incentives across investment and tax policy communities at the OECD, the OECD/G20 Inclusive Framework on BEPS and beyond.

The following sections of this working paper are organised as follows. Section 2. provides key concepts and the scope of the OECD Investment Tax Incentives Database. Section 3. introduces classifications that were developed to structure the information collected on the design features, eligibility conditions and legal basis of tax incentives across countries. Section 4. provides first insights based on descriptive statistics from the database.

### Box 1. International guidelines and principles relating to investment tax incentives

The OECD Declaration on International Investment and Multinational Enterprises includes investment incentives among its four elements but only incorporates the need for transparency about incentive practices. The OECD and other international organisations have developed principles and options for the effective use of investment tax incentives. In 2003, the OECD Committee on International Investment and Multinational Enterprises agreed on a Checklist for foreign direct investment (FDI) incentive policies (OECD, 2003<sup>[4]</sup>). The Checklist allows for a qualitative assessment of the costs and benefits of using incentives to attract FDI, provides operational criteria for limiting wasteful effects, and identifies the potential pitfalls and risks of excessive reliance on incentive-based strategies. In 2011, the OECD's Task Force on Tax and Development developed a set of principles to enhance the transparency and governance of tax incentives for investment in developing countries (OECD, 2013<sup>[5]</sup>). Both the checklist and the principles are reflected in the 2015 update of the OECD Policy Framework for Investment (PFI), but not in the OECD Investment Declaration (OECD, 2015<sup>[6]</sup>). A joint 2015 IMF-OECD-UN-World Bank report to the G20 Development Working Group, as well as the World Bank's Global Investment Competitiveness Report 2017/18, laid out options for effective and efficient use of tax incentives for investment in low income countries (IMF, OECD, UN, World Bank, 2015<sup>[2]</sup>).

In the context of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS), countries are collaborating to tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax environment, including on preferential tax regimes. For example, under BEPS Action 5, the OECD Forum on Harmful Tax Practices (FHTP) conducts peer reviews of the implementation of the Action 5 minimum standard (OECD, 2015<sup>[7]</sup>). The FHTP's peer reviews focus on those preferential tax regimes that provide benefits to income from geographically mobile activities, such as financial and other service activities, including the preferential treatment of intangibles. Preferential regimes designed to attract investment in plant, building and equipment are outside the scope of the FHTP's review process. The incentives collected in the context of the OECD Investment Tax Incentives database are not necessarily discussed within the FHTP and although some of them may be in scope of the FHTP's work, the data will not be used as part of the peer review process.

Finally, ongoing discussions on a two-pillar approach to address the tax challenges arising from digitalisation, could lead to agreement to introduce rules to ensure a minimum level of effective taxation of MNEs. Such changes to the international tax system may affect tax incentive policy-making across countries in the future.

## 2. Scope and methodology of the database

Investment tax incentives include a broad variety of incentive instruments and design provisions. The OECD Investment Tax Incentives database systematically compiles detailed quantitative and qualitative information of investment tax incentives across countries using a consistent data collection methodology.

This section describes the scope of the database coverage as well as the boundaries of the current data collection, where a balance is sought between including relevant detail and keeping a general structure that makes comparison possible. Section 2.1 defines the concept of tax incentives for the purpose of this work. Section 2.2 delimits the scope in terms of which tax incentives are included, while Section 0 presents the country and time coverage. Finally, Section 0 details how the data was collected.

### 2.1. Defining investment tax incentives

No consensus exists on how tax incentives should be defined. Typically, tax incentives are described as targeted tax provisions that yield a tax treatment that deviates from the standard tax treatment in a country with the objective of encouraging a certain behaviour. Tax incentives may take different forms but share several common features: (i) they are *targeted*, i.e. available only to a specific group of taxpayers, for example, based on their specific activity, sector, location or any other investor- or project-specific characteristics; (ii) they result in reduced or postponed tax liability for the taxpayer and consequently forgone tax revenue for the government, everything being equal; and (iii) they aim to incentivise a certain behaviour.

Tax incentives may have different objectives. Investment tax incentives are defined as those that aim to encourage investment, including attracting foreign direct investment (FDI). For the present work, investment tax incentives are defined as:

*Targeted tax provisions that constitute a deviation from the standard tax treatment in a country resulting in reduced or postponed tax liability with the objective of promoting investment.*

This definition takes a country-specific perspective and sets the benchmark tax treatment at the national level (i.e. standard tax treatment in the country). Thereby, it defines incentives as tax provisions that deviate from this national benchmark, i.e. from the standard tax rules that apply at the country level to taxpayers irrespective of their sector of economic activity or any other investor- or project-specific characteristics. This definition does not aim to establish a cross-country benchmark when evaluating what tax provision constitutes a tax incentive and what does not. Typically, standard tax systems differ across countries, meaning that investors may receive more generous standard tax treatment in one country compared to another. Such cross-country differences in the standard tax treatment will not be considered a tax incentive in the context of this work which instead considers only deviations from the country-specific benchmark.

In practice, this means that tax incentives are defined in relative terms (i.e. defining preferential tax treatment relative to the standard treatment in a country) rather than in absolute terms (i.e. defining preferential treatment as the most generous tax treatment across countries). For example, consider that country A taxes all business at a 10% CIT rate, while country B taxes manufacturing activities at a 20% CIT rate, but other activities at a standard 25% rate. While country A taxes manufacturing activities at a lower level in absolute terms (the 10% standard rate in country A is lower than the 20% preferential rate in country B), only the tax treatment of manufacturing in country B is considered a tax incentive in the context of this work.<sup>5</sup>

This definition of investment tax incentives relative to a country-specific standard tax system constitutes a challenge when comparing incentive data across countries, as such comparison also requires information on the standard tax system. An identical tax incentive can yield very different effects across countries, when accounting for the country-specific standard tax treatment. Developing comparable indicators that relate a country's tax incentive policy to its standard tax system features can help overcome such challenges. The forward-looking corporate effective tax rate (ETR) is one such indicator, synthesising the complex preferential and standard tax treatment into one comparable measure to evaluate the overall effective taxation of an investment, see Box 2 and (Celani, Dressler and Hanappi, 2022, forthcoming<sup>[8]</sup>).

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<sup>5</sup> Data collected on investment tax incentives would include the reduced CIT rate for manufacturing in country B, but not the tax treatment of manufacturing at standard CIT rate in country A.



## Box 2. Assessing tax relief from targeted investment tax incentives through corporate effective tax rates

A detailed database describing how tax incentives apply across countries is a significant first step towards increasing transparency and understanding of countries' tax incentive policies. Another relevant and complimentary component is to establish a comparable measure of how strongly and via what channels do specific instruments and design features provide relief from taxes due.

Measuring and comparing the generosity of investment tax incentives is not straightforward for at least two reasons:

- First, tax incentive design features are complex and typically differ across multiple dimensions (described in Section 3. ), including the channel through which a tax benefit applies. For example, how does the tax benefit of a 10% tax allowance on capital expenditure compare to that of a 5 year full tax exemption?
- Second, investment tax incentives apply in relation to the standard tax treatment in a country, which itself can vary substantially across countries. For example, the standard CIT rate may be higher in one country than in others. As a result, comparing available tax incentives without reference to the country's underlying tax treatment provides partial insight into their generosity. Consider the case where two countries apply an identical tax allowance, but one has a relatively higher standard CIT rate than the other. Although identical incentives apply across both countries, the effective taxation can be substantially different for an equivalent investment project that yields an identical pre-tax return because of different standard tax systems.

Forward-looking ETRs address these challenges by synthesising preferential and standard tax treatment into a single comparable measure that evaluates the level of effective taxation on a stylised investment project. ETRs summarise both the complex design features of the incentive and relate them to the main standard tax system features of the country. In particular, effective average tax rates (EATRs) measure the percentage of an investment project's discounted lifetime profit that is paid in taxes and are a useful indicator to analyse investment decisions at the extensive margin, that is, discrete decisions between mutually exclusive, comparable investment projects (e.g. location decisions).<sup>6</sup> Thereby, forward-looking ETRs can be used to provide complementary information on countries' tax incentive policies, comparing the generosity of the main tax incentive instruments identified in the OECD Investment Tax Incentives database for a standardised investment project.

The analysis of ETRs based on the OECD Investment Tax Incentives database can also usefully feed into the development of practical policy guidance and reform options. ETRs can be used to evaluate the effects of countries' tax incentive policies. Challenges in evaluating the overall effect of tax policy on incentives to invest remain because investment decisions are not only driven by the level of effective taxation. Additional relevant elements may include the targeting of tax incentives, salience of an incentive, and the broader institutional framework as well as sensitivity of specific sectors and investors to taxation. Forthcoming work will address these questions in more detail (see Box 3 on future activities). Evaluating forward-looking ETRs based on legal provisions also stops short of assessing behavioural responses to incentives, such as information on take-up, i.e. whether the specific tax incentive provision is actually used by investors and, if it is used, to what extent.

The ETR analysis builds on the standard analytical framework for calculating forward-looking ETRs as developed by Devereux and Griffith (2003<sup>[9]</sup>) and Klemm (2012<sup>[10]</sup>) and applied in prior OECD work (Hanappi, 2018<sup>[11]</sup>; OECD, 2021<sup>[12]</sup>).

Source: Based on (Celani, Dressler and Hanappi, 2022, forthcoming<sup>[8]</sup>).

## 2.2. Scope

Governments promote investment through a variety of targeted policies, including tax incentives or non-tax incentives (e.g. financial support such as grants and subsidised loans). Figure 1 describes the scope of the current OECD Investment Tax Incentives database (in dark blue).

The current work exclusively covers incentives provided through the tax system, and in particular the CIT. It does not incorporate tax incentives provided through other tax types, e.g. value added tax or sales tax, withholding taxes, personal income tax, or property or land tax.<sup>7</sup> Non-tax incentives are not in the scope of the current work either, but are at the centre of future planned activities (see Box 3).

Investment tax incentives may target businesses of a certain size. The present database exclusively covers investment tax incentives that are either not conditional on business size, or are granted to large investors only. The definition of what constitutes a large investor is necessarily country- and instrument-specific and most criteria involve thresholds related to a minimum number of employees, turnover or investment size.<sup>8</sup> Tax incentives targeted towards SMEs are not covered but will figure in future planned activities (see Box 3). SMEs are important for their contribution to employment, innovation, economic growth and diversity. However, in some countries the taxation of SMEs takes the form of simplified business taxation, such as a tax on turnover, and not CIT, which is beyond the scope of this data collection.

The database covers both expenditure-based and income based tax incentives for investment with a focus on tangibles, such as investment in machinery and equipment, buildings or other structures. It also covers tax incentives for targeted current expenditures<sup>9</sup> (i.e. for specific activities). For example, a government may grant tax incentives to deduct expenses for training employees at double the cost for CIT purposes. Although not directly related to immediate capital formation, the incentive promotes an investment in skills that, if successful, could increase productivity and competitiveness of businesses. As such, investment tax incentives covered in this database do not only involve incentives for capital investments but also those to encourage (foreign) businesses into specific activities. Where relevant, the database may also cover tax incentives for intangible assets, e.g. R&D and intellectual property assets. OECD measurement work on this topic can be found in the OECD Corporate Tax Statistics database and the OECD R&D Tax Incentives database.<sup>10</sup>

<sup>6</sup> Effective marginal tax rates (EMTRs) provide a complementary view to EATRs to evaluate investment decisions at the intensive margin, that is, on how much to invest once the location has been defined.

<sup>7</sup> As summarised in Box 3, a related project on transparency of investment incentives – transparency is developing a typology of investment incentives more broadly, which including other tax types (e.g. VAT) and non-tax related incentives.

<sup>8</sup> By contrast, tax incentives for SMEs are defined as those that relate to a *maximum* number of employees, turnover or the size of an investment.

<sup>9</sup> Current expenditures relate to operational expenses that are typically immediately deductible for accounting and tax purposes, i.e. in the same year in which the expenses occur. Targeted current expenditure here refers to activities that business undertake to reach a certain objective, such as training employees, R&D, exporting, making production cleaner and others. Capital expenditure, in terms of accounting, relates to expenses in the acquisition of capital assets or an investment that has a life of more than one year. Capital expenditures are often not immediately tax deductible, rather they are deducted over the lifetime of an asset following specific fiscal depreciation schedules.

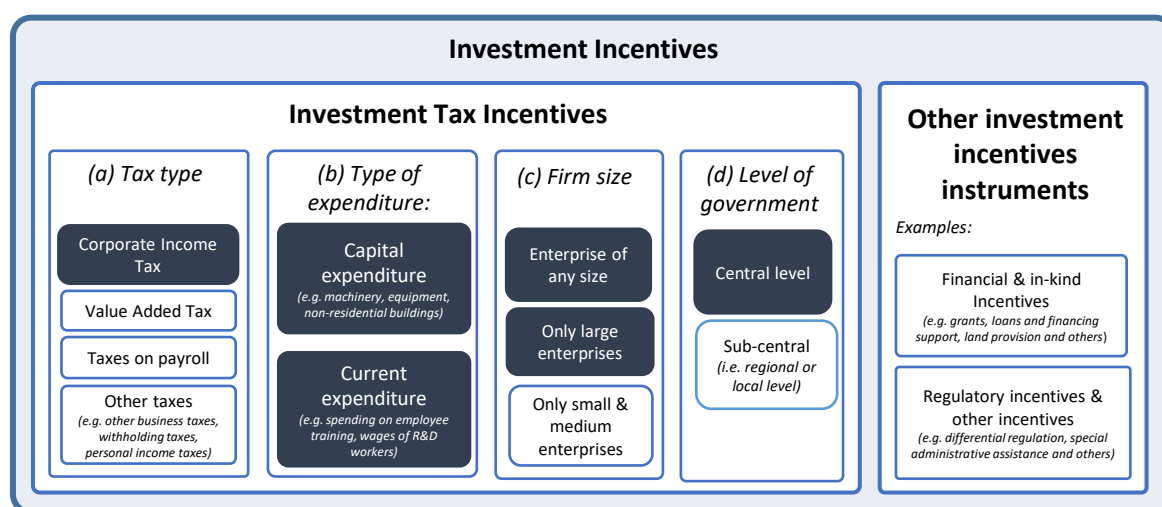
<sup>10</sup> Since 2007, the OECD has worked to extend the international evidence on tax incentives for R&D and innovation (<https://oe.cd/rdtax>) and has developed methodologies and data infrastructures in this area. This includes indicators on direct government support for business R&D and on expenditure-based R&D tax incentives (Appelt, Galindo-Rueda and González Cabral, 2019<sup>[27]</sup>; González Cabral, Appelt and Hanappi, 2021<sup>[31]</sup>). This work is now being extended to cover income-based tax incentives for R&D and innovation. The STIP Compass is a joint European Commission and

Only tax incentives introduced at the central government level are included in the database. Tax incentives at the sub-central government level — e.g. introduced by states, regions or cities — are not included. The database covers tax incentives introduced through primary legislation (e.g. tax code, investment laws) or secondary legislation such as ministerial or presidential decrees. Incentives introduced via discretionary arrangements between governments and investors are beyond its scope.<sup>11</sup> Tax incentives are included independently of which government agency is responsible for approval.

Finally, the data collected is based on legal provisions, i.e. tax incentives that are made available through law in a country. They do not include behavioural responses to the incentives, such as information on take-up, i.e. whether and to what extent the specific tax incentive provision is actually used by investors.

**Figure 1. OECD Investment Tax Incentives database: incentives within and outside of scope**

Blue = within the scope of the OECD Investment Tax Incentives database; white = Beyond scope.



Specifically, the OECD Investment Tax Incentives database focuses on four CIT incentive instruments, which are the most widely used CIT-based instruments in the countries surveyed so far: reduced rates, tax exemptions, investment tax allowances and investment tax credits (Table 1).<sup>12</sup>

OECD database that compiles qualitative information on R&D and innovation policies, covering both tax and non-tax incentives (EC and OECD, 2020<sup>[33]</sup>).

<sup>11</sup> Incentives are sometimes negotiated on an ad hoc, discretionary basis with investors (e.g. through bilateral contracts). In these cases, the tax incentive provided is generally not specified in legal documents. This database includes only tax incentives prescribed in legal text.

<sup>12</sup> Additional corporate income tax incentives may apply, but are beyond the current scope of the data collection.

**Table 1. Main corporate tax incentive instruments covered in the database**

Incentive instrument	Definitions for the purpose of this work
Reduced rate	A reduced rate refers to a CIT rate that is set below the standard rate. Reduced rates may apply on a temporary or permanent basis.*
Tax exemption	Tax exemptions provide a full or partial exemption of qualifying taxable income. They may apply on a temporary or permanent basis.* Qualifying taxable income may refer to income from specific sources (e.g. export income) or may not be restricted to particular income sources.
Tax allowance	Tax allowances are deductions from taxable income that relate to capital or current expenditures with a specific target (e.g. activity, business, location or sector). Certain tax allowances for capital expenditures may apply in addition to standard deductions and allowances (i.e. effectively allowing total deductions that exceed the original investment cost to be claimed – enhanced deductions), while others accelerate the standard capital expenditure deduction schedule (e.g. first year allowances, targeted depreciation schedules). Qualifying current expenditure typically relate to current expenditures for certain activities (e.g. spending on training, R&D activities, exporting), while qualifying capital expenditures are generally asset-specific (e.g. machinery, buildings, equipment).
Tax credit	Tax credits are deductions from the amount of taxes due that relate to capital or current expenditures with a specific target (e.g. activity, business, location or sector). Qualifying current expenditure typically relate to current expenditures for certain activities (e.g. spending on training, R&D activities, exporting), while qualifying capital expenditures are generally asset-specific (e.g. machinery, buildings, equipment).

Note: \*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. 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.

### Box 3. Broader project context and planned future activities

The OECD Investment Tax Incentives database is the cornerstone of a broader OECD work stream on investment incentives.

An expansion of the database in terms of country coverage is ongoing. The expansion is tentatively planned for (but not limited to) the 22 developing countries listed in Annex A. Updating of entries for currently covered countries and adding a time dimension on available incentives is currently not planned, but could be envisioned depending on stakeholder interest.

Additional activities under the OECD work stream on investment incentives include:

- A complementary analysis to the present work that produces additional and comparable indicators evaluating the generosity of investment tax incentives collected through the database, via forward-looking effective tax rates (ETRs), see details in Box 2.
- Forthcoming work will also look in detail at country case studies, will analyse the role of incentives in investment activities and outcomes related to the SDGs.
- A related project will expand the scope of the database to include other tax types (e.g. VAT), and non-tax investment incentives, such as financial and regulatory incentives, in selected countries. Such instruments may be used as an alternative to, or in conjunction with, CIT incentives to promote investment, so that the extension will provide a broader view on the use of incentives and further advance transparency.
- Additionally, new indicators evaluating the level of transparency of investment incentives across countries are envisaged, such as evaluating how easily accessible information on benefits and selection process is to investors. Transparency depends on a variety of factors related to the legal basis of incentives (e.g. consolidating incentives into a statutory provision, see Section 3.3), clear and transparent eligibility conditions, and others. Transparency is fundamental to promote international investment flows and provide the information needed to evaluate them (e.g. cost-benefit analysis of incentives).

Note: These planned future activities are funded by the Government of Switzerland and the European Commission.

## 2.3. Country coverage

As of July 2021, the database covers investment tax incentives in 36 developing countries, including Sub-Saharan Africa (20 countries), Eurasia (6 countries), Southeast Asia (5 countries), North Africa, and the Middle East (4 countries) (Table 2).

**Table 2. OECD Investment Tax Incentives Database: country coverage as at July 2021**

Angola (AGO)	Eswatini (SWZ)	Madagascar (MDG)	Rwanda (RWA)
Armenia (ARM)	Ethiopia (ETH)	Malawi (MWI)	Senegal (SEN)
Azerbaijan (AZE)	Georgia (GEO)	Mauritius (MUS)	South Africa (ZAF)
Belarus (BLR)	Ghana (GHA)	Moldova, Republic of (MDA)	Tanzania, United Republic of (TZA)
Botswana (BWA)	Indonesia (IDN)	Morocco (MAR)	Thailand (THA)
Brunei Darussalam (BRN)	Jordan (JOR)	Mozambique (MOZ)	Tunisia (TUN)
Cambodia (KHM)	Kenya (KEN)	Myanmar (MMR)	Ukraine (UKR)
Côte d'Ivoire (CIV)	Lao People's Democratic Republic (LAO)	Namibia (NAM)	Zambia (ZMB)
Egypt (EGY)	Lesotho (LSO)	Nigeria (NGA)	Zimbabwe (ZWE)

The July 2021 version of the database includes tax incentives encoded in law or regulations available to investors in 2020. More precisely, the database covers tax incentives with a valid legal basis at the time the country was added to the database, capturing the most recent information available at the time of data collection.<sup>13</sup> For example, a country that entered in September 2020 includes tax incentives valid at that time. Data collection for the first 36 countries occurred between June 2020 and January 2021. Annex A presents details on the exact date of the data collection for each country.

## 2.4. Data collection process

### *Original national legislation as the starting point for data collection*

The data was collected through desk research using national legislation and other specialised data sources. The preferred data source, and starting point for the data collection, was national legislation in its original language (if in English, French or Portuguese) or official translations of the legislation. This data source was available in the majority of countries covered.<sup>14</sup> When official translations were not available, data collection relied to a greater extent on other information sources, such as documents produced by the country's Investment Promotion Agency (IPA), international tax guides, and other relevant country reports.<sup>15</sup> The use of original national legislation ensures that details of incentive design features and

<sup>13</sup> Transforming this database into a time series on available incentives is currently not planned, but could be envisioned depending on stakeholder interest. To include a time dimensions, the data could be updated to a fixed date in time at which point the tax incentives were in force (e.g. 1 January or 1 June) to enhanced comparability across countries.

<sup>14</sup> Official translations refer to translated legislation made public by national governments or international organisations (e.g. Investment law translations published in UNCTAD's Investment Policy Hub). Unofficial translations provided by other government agencies (e.g. IPA) were also used. International Bureau of Fiscal Documentation (IBFD) Country Tax Guides were used to identify the name of main legal instruments in each country

<sup>15</sup> Often, information on tax incentives is publicly and freely available, including through online tax summaries published by global accounting firms, such as PricewaterhouseCoopers' "Worldwide Tax Summaries" and Ernst and Young's

eligibility conditions reflect the legal basis and are complete, while these may be partially reported in secondary sources.

Identifying the legal basis of each investment tax incentive will facilitate eventual database updating and potential data validation, e.g. via country-level consultations and multi-stakeholder dialogue. In certain cases, country representatives participated actively in data collection by sharing documentation on tax incentives or participating in data validation.

### ***Distinguishing country- and incentive-level indicators***

Countries often operate multiple investment tax incentives in parallel. A key novelty of the OECD Investment Tax Incentives database is that it compiles detailed information on each investment tax incentive offered within a country, including those that apply in parallel and may overlap.<sup>16</sup> Overall, the July 2021 version of the database includes 298 tax incentives available across the 36 countries included. The data is presented through incentive-level indicators or summarised into country-level ones (Box 4).

With the purpose of standardising data collection, the database defines an investment tax incentive *entry* as a specific combination of key dimensions that define a tax incentive, combining information on the instrument (e.g. tax exemption, tax allowance, or other) and eligibility conditions. Both dimensions are explained in Section 3. Consider, for example, a special economic zone (SEZ) under which qualifying investors can opt between benefiting from a tax exemption or a tax allowance. This incentive scheme would be represented as two *entries* in the database: one tax exemption and one allowance, both with the eligibility condition to be located in the specific SEZ. Now, consider the case where the same scheme offers tax exemption of different lengths (e.g. between 5 and 10 years). These would be grouped under the same incentive *entry* (exemption with SEZ condition).

Finally, all indicators used in the context of this work are based on legal provisions, i.e. tax incentives that are made available by a country. They do not include behavioural responses to the incentives, i.e. whether the incentive has generated additional investment, nor do they provide information on take-up, i.e. whether and to what extent the specific tax incentive provision is actually used by investors. Nor does the information inform about the extent to which the specific incentive instrument provides tax relief with respect to the baseline tax treatment. Additional details and a discussion of how the key design features affect tax relief is discussed in (Celani, Dressler and Hanappi, 2022, forthcoming<sup>[8]</sup>), see Box 2 for more details on this work.

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“Global Tax Guides”. When translations were not available for national legislation (7 out of the 36 countries), tax summaries were cross checked with IPA investor guides to determine which tax incentives are available.

<sup>16</sup> Data collection tracks the eligibility conditions required to qualify from each tax incentives (see section 3.2). For certain investors, the required eligibility conditions to benefit from more than one tax incentive may overlap. For example, consider a new textile business that benefits from an investment allowance, available to any manufacturing capital expenditures, as well a temporary reduced rate during the first 5 years after it starts operations. Legal provisions may specify tax benefits that cannot be accumulated, however this is beyond the current scope of the database.

#### Box 4. Main indicators and their limitations

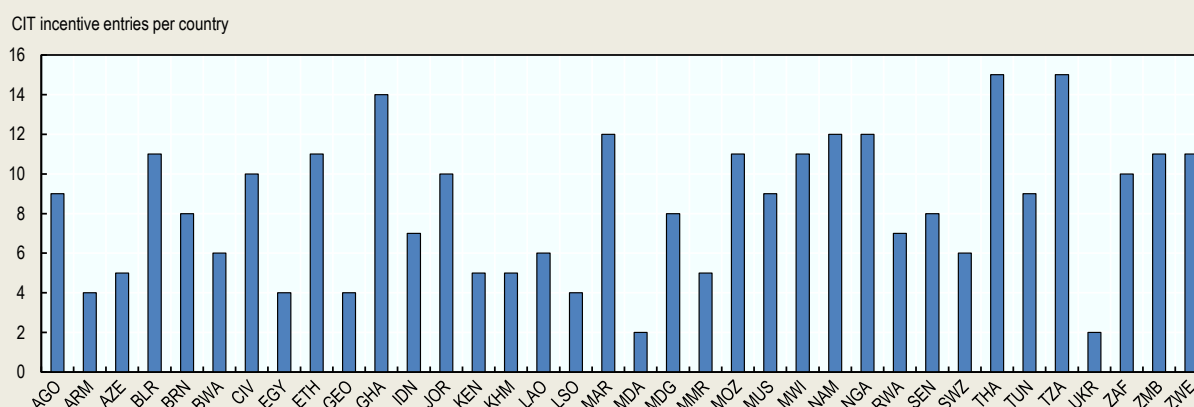
The analysis provided in this paper alternates between indicators at **country-level** (i.e. counting the number of countries with *at least one incentive entry* of a certain characteristic, resulting in a single indicator per country) and at the **incentive-level** to provide a more complete picture of tax incentive policymaking with a comparable group of tax incentives (e.g. incentives within SEZs).

Figure 2 provides a first overview on the database, presenting the number of incentive entries available in each covered country. It shows that tax incentive policymaking varies widely across countries. However, it should be noted that providing a large number of incentives within a country is not necessarily tantamount to providing extensive or widely targeted relief. However, it should be noted that providing a large number of incentives within a country is not necessarily tantamount to providing extensive or widely targeted relief. Similarly, even if countries provide only a small number of different tax incentives, the simple count does not inform whether they apply widely or narrowly in a country.

**Country-level indicators** inform on whether specific tax incentive policy characteristics are widely implemented across countries and where countries differ. For example, they can be used to identify the countries that provide at least one tax allowance to investors (Figure 5) or at least one tax incentive targeting the textile sub-sector (Figure 7). Such indicators, however, are restrictive in the sense that they do not allow for an assessment of the overlapping characteristics of eligibility conditions of tax incentives within a country, e.g. if a country has multiple tax incentives targeting the same sector.

**Incentive-level indicators** delve into the analysis of tax incentive characteristics at the *entry* level and allow for the teasing out of more granular information; for example, the most frequently used features of tax incentives, specific targets and design features and combinations thereof. Information at the *entry* level enables a more comprehensive and detailed analysis of countries' investment tax incentive policies. For example, it facilitates moving beyond counting the number of countries that provide incentives within an SEZ and discovering whether countries provide different incentive schemes inside zones (e.g. if the country operates multiple zones) and the range of benefits offered (e.g. the maximum and minimum duration of a tax holiday). The number of entries per country reflects the classification and data collection method as well as the tax incentive design option of a country. Therefore, incentive-level indicators should be interpreted with care.

Figure 2. Number of investment tax incentives available per country



Note: Figure presents the number of CIT incentives with the database scope described in section 2.

Source: OECD Investment Tax Incentives database, July 2021 version, based on information on 36 countries, i.e. 298 corporate income tax incentive entries.



## 3. Key classifications: Bringing structure to the data

The database includes a variety of different instruments, as discussed in Section 2.2. Their design and implementation can vary significantly and a systematic approach to collecting data is crucial for comparability reasons both across countries and across instruments within a country. This section introduces the classification chosen for the data collection of the Investment Tax Incentive Database, which provides a structured understanding of how incentive instruments apply across countries.

Information on each CIT incentive is classified across three key dimensions (Figure 3): instrument-specific design features, eligibility conditions and their legal basis. The three dimensions are described in detail in Sections 3.1 to 3.3.

**Figure 3. Key dimensions of the Investment Tax Incentives Database**

A. Design features	B. Eligibility conditions	C. Legal basis
How does the tax incentive reduce taxation?	Which investors and projects qualify to receive the tax incentive?	How is the tax incentive governed?
<i>e.g. tax incentive instrument; (if temporary tax exemption) duration in years; reduced CIT rate; sunset clause.</i>	<i>e.g. sector conditions, SEZ condition, region conditions, outcome conditions, investment size condition.</i>	<i>e.g. legal provision introducing the tax incentive; granting authority.</i>

### 3.1. Design features

The key design features of investment tax incentives describe how relief from taxation applies and depend on the specific instrument through which they apply. Table 3 classifies the design features of the four tax incentive instruments described in Table 1. Additional features may be relevant in a specific country or circumstance, but are beyond the current scope. Additional details and a discussion of how the key design features affect tax relief is discussed in (Celani, Dressler and Hanappi, 2022, forthcoming<sup>[8]</sup>). See Box 3 for more details on this work.

For **reduced CIT rates**, key design features include the applicable rate, qualifying income (i.e. profits eligible for preferential treatment) and time limitations. Reduced rates may apply on a temporary or permanent basis. Temporary here refers to incentives that provide preferential treatment over a limited period in time by their design, i.e. describing a specific period in which the reduced rate applies. It does not make a reference to the temporary nature of the incentive's legal basis in cases where sunset clauses apply. Permanent here refers to incentives that do not explicitly limit the period of the preferential treatment, even if a sunset clause applies to the legal basis. For temporary rate reductions, the duration of the incentive, is described, as well as if a specific tax treatment applies at the end of the incentive period. For example, in certain cases, a preferential rate compared to the standard rate may apply following a temporary rate reduction.<sup>17</sup>

For **CIT exemptions**, relevant design features relate to income that qualifies for the exemption, the degree to which that income is tax-exempt (e.g. 50% or 100% of the qualifying income) and whether the exemption applies on a permanent or temporary basis (see definitions of temporary and permanent above). If an exemption is temporary, additional features include the duration of the exemption and the tax treatment that applies afterwards. If the tax treatment after a temporary exemption or reduced rate differs from the standard tax treatment in a country, it is reported jointly with the original preferential treatment, as a single tax incentive entry.<sup>18</sup>

For **tax allowances** and **tax credits**, relevant design features relate to the qualifying expenditures. The qualifying expenditures may be capital or current expenditures.<sup>19</sup> In countries that are covered, qualifying *capital* expenditure is generally specific to certain capital assets or asset combinations (such as machinery and equipment, buildings or land), while qualifying *current* expenditure commonly is *activity-specific* (such as spending on training of workers, promoting exports at trade fairs, etc.). The tax benefit accruing from allowances and credits depends on the share of the capital or current expenditures deductible from taxable income (i.e. tax allowance rate) or from taxes due (i.e. credit rate).

Tax credits and tax allowances on capital expenditure apply in the context of standard allowances and deductions. In some cases they are added on top of standard deductions, which may result in deductions that effectively exceed the initial expenditure. In others, they are not added but accompanied by an equivalent reduction in the standard deductions. These interactions with the standard tax system affect the tax benefit received and the effective tax rate of investors (Box 2) and are therefore collected as part of the database. For current expenditures taxpayers are also sometimes allowed to claim total deductions that exceed their original expenditure. For example, a double deduction of training spending (i.e. a 200% tax allowance on worker training).

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<sup>17</sup> Consider a country with a standard CIT rate of 25% that offers an incentive providing a 5% reduced rate for five years and a permanently reduced rate of 15% after the five year period.

<sup>18</sup> Permanently reduced rates associated to different eligibility conditions are registered as different data entries,

<sup>19</sup> Current expenditure relates to operational expenses that are immediately deductible for accounting and tax purposes from taxes due, i.e. in the same year in which the expenses occur. Capital expenditure, in terms of accounting, concerns expenses in the acquisition of capital assets that has a life of more than one year or more. Unlike current expenditures, capital expenditures are often not immediately tax deductible, rather they are deducted over the lifetime of the asset following specific depreciation schedules.

**Table 3. Classification of the most common design features by tax incentive instrument**

Instrument	Key design feature	Feature detail
Reduced CIT rate	Qualifying income	All income Income from specific sources
	Degree of reduction	Applicable rate (in %)
	Duration	Permanent Temporary (duration in years)
	Tax treatment after incentive	Standard CIT rate Permanently reduced rate in % (applied after end of incentive period)
CIT exemption	Qualifying income	All income Income from specific sources
	Degree of exemption	0-100% of qualifying income
	Duration	Permanent Temporary (duration in years)
	Tax treatment after incentive	Standard CIT rate Permanently reduced rate in % (applied after the end of the incentive period)
Tax Allowance	Qualifying expenditure	All capital expenditure Specific capital or current expenditure
	Allowance rate	0-100% of qualifying expenditure
	Interaction with standard deductions and allowances (only capital expenditure)	Enhancement Acceleration relative to standard depreciation schedule
Tax Credit	Qualifying expenditure	All capital expenditure Specific capital or current expenditure
	Credit rate	0-100% of qualifying expenditure

Note: Based on the main instruments and design feature identified through the OECD Investment Tax Incentives database.

Besides these instrument-specific design features, other provisions are relevant across instruments (Table 4). Ceilings establish a cap on the amount of tax benefits that can be granted.<sup>20</sup> Sunset clauses are provisions in a law or regulation stating that sections of it cease to have effect after a specific date, unless further legislative action is taken to extend them.<sup>21</sup>

Carryover provisions allow unused tax breaks to be carried forward, or backward. For example, an investment tax credit that can be carried forward for five years can be used to reduce the taxes owed in the tax year in which investment takes place and the following four years after it occurs. Unused tax benefits could also be refundable to the taxpayer.

**Table 4. Provisions that are not necessarily instrument-specific**

Instrument	Key design feature	Feature detail
All covered instruments	Benefit limitations	Ceilings Sunset clauses
	Treatment of unused claims	Carry forward provisions Refundability

<sup>20</sup> Alternative minimum taxes apply in certain covered countries and which may result effectively in a cap on tax benefit received even when no incentive-specific ceiling applies.

<sup>21</sup> Well-designed and implemented sunset clauses create a natural break that strengthens a firm's incentive to accelerate investment immediately and avoids extensive revenue losses to the government. They also provide opportunities for periodic evaluation, for example to improve efficiency of the incentive, alignment with the intended policy objective and help identifying and winding down incentives that are no longer needed. On the other hand, sunset clauses also introduce an element of uncertainty to investors and increase the complexity of the tax system.

## 3.2. Eligibility conditions

Eligibility conditions for receiving an investment tax incentive are a list of criteria that must be met by taxpayers to receive a tax benefit. Eligibility conditions relate to *which* businesses or investment projects qualify for an investment tax incentive and can help describe a country's targeting strategy.

Eligibility conditions may touch upon a variety of areas, summarised in Table 5. They can refer to sector and location conditions. For example, some incentives are available for investment in the manufacturing sector only, others in the tourism or mining sector. Incentives can also be unrelated to sectors, but be available only if the investment takes place in a specific region or a SEZ. Eligibility conditions can also restrict incentives to certain investor characteristics, such as investor ownership structure (e.g. only majority-owned foreign businesses or publicly-listed ones may be granted the incentive) and stage of the business life-cycle of the firm (e.g. new entrant or established business). They can also build on project characteristics, such as a minimum project investment value, or project outcomes (e.g. increasing the business' energy efficiency). Annex B provides additional details on certain eligibility criteria.

Investment projects may be subject to multiple eligibility conditions at the same time. For example, a tax incentive may be conditional on the investment's location with an SEZ, the sector of economic activity and upon achieving a certain level of trade orientation (e.g. exporting 50% of sales).

**Table 5. Classification of most common eligibility conditions**

Eligibility condition	Description
Sector condition	Specific sectors or sub-sectors that are eligible to receive preferential tax treatment (positive list) or are ring-fenced as non-eligible to receive preferential tax treatment (negative list).
Geographic regions	Cities, regions, and other geographical area groupings (e.g. less developed regions, coastal regions) that receive preferential tax treatment.
Special Economic Zone (SEZ) Condition*	Clearly demarcated geographical areas within which business activity is subject to a difference regulatory regime from that prevailing in the rest of the economy, often including tax and non-tax incentives (e.g. provision of infrastructure, regulatory incentives).
Listed company	Requirements for businesses to be publicly listed at the stock exchange in the country where the investment occurs.
Ownership condition	Requirements for business' capital origin (i.e. to have a minimum or maximum stake of domestic or foreign ownership in the company capital) or other form of firm structure (e.g. cooperatives).
Outcome condition	Requirements for the investor to achieve a certain performance relating to: <ul style="list-style-type: none"> <li>– Improving environmental outcomes (e.g. increased energy efficiency, use of renewable energy sources, or others).</li> <li>– Trade promotion (e.g. selling a minimum percentage of their total outputs abroad).</li> <li>– Skills development and job creation (e.g. spending a minimum amount on education and training of workers, minimum number of employees)*</li> <li>– Fostering local linkages (e.g. sourcing inputs from local SMEs and providing knowledge or technology transfers to domestic suppliers)</li> <li>– Other outcome conditions (incentives that foster productivity and innovation, investment that contributes to economic development, minimum share of employees with disabilities)</li> </ul>
Investment size condition	Requirement for firms to have a (a) minimum investment project value or (b) a minimum number of employees to qualify for an incentive.
New entrant condition	Tax incentive eligible for businesses within the first year(s) of establishment.
Established investors condition	Tax incentive eligible for existing companies seeking to expand their business operations. These investments expand the productive capacity of established businesses.
Special investor status	Tax incentive eligible for businesses or investment projects with a special status, generally provided through a certificate, granted based on other conditions. Examples include pioneer certificates, investment promotion documents and others. Certificates required for investors or businesses are not considered.

Note: Based on the main eligibility conditions identified through the OECD Investment Tax Incentives database. See Annex B for additional details. \* In the context of the present work, *Special Economic Zones* is used generically to refer to all types of economic zones, including: Special Economic Zones, Industrial Zones, Free Zones, Development Zones, Export Processing Zones, Technology Parks and others. \*\* Minimum spending on training (or other activities) refers to a minimum spending threshold for eligibility to receive support.

### ***Additional details on classifying eligibility conditions***

Sector conditions may narrowly target specific productive activities (e.g. memory chip production) or be relatively broad (e.g. entire manufacturing sector in a country). Sector conditions are generally defined based on economic activity classifications that define which activities can benefit from an incentive, which are often national classifications and may not be directly comparable across countries. For the purpose of the present work, a tailored sector classification was developed with direct correspondence to the International Standard Industrial Classification of All Economic Activities (ISIC) rev. 4 (Table A B.1, Annex A).<sup>22</sup>

The tailored sector classification is based on two levels of disaggregation (i.e. two-tiers): 15 sectors (tier one) that are disaggregated into 36 sub-sectors (tier two). Sub-sectors divide the agriculture, mining and manufacturing sectors into sub-sectors that compose them.<sup>23</sup> Sector conditions based on national classification were matched to the approximate sector and sub-sector groups within developed sector classification. See Annex B for more details.

An identified sector or sub-sector condition does not imply that all of the economic activities in the group benefit from the tax incentive. For example, a tax incentive may have a sector condition that targets all crop production, while another incentive may apply only to cereal production. However, both are assigned a *Crop, animal production, and related service activities* sector condition.

In some cases, sector conditions also specify which sectors cannot benefit from a tax incentive (i.e. a negative list). Certain tax incentives combine positive and negative sector lists. For example, a CIT exemption could be available to investment projects in manufacturing (i.e. manufacturing is on the positive list), but tobacco and alcoholic beverage production are excluded (i.e. both sub-sectors are on the negative list).

Certain conditions may require that investments take place within a specific geographic location to benefit from a tax incentive. The conditions may target geographic regions (e.g. cities, provinces or other area groupings, such as coastal regions) or SEZ. SEZs are geographically delimited areas within which governments facilitate investment through tax and non-tax incentives such as regulatory incentives, infrastructure, etc. SEZs may be of different size (e.g. ranging from a single factory to the size of a city or greater) and, for the purpose of the present work, refer to different types of zones (SEZs, Free Zones, Export Processing Zones and others) depending on their locations and intended outcome. Therefore, countries may operate more than one SEZ regime each referring to a specific type of zone.

Ownership conditions require a specific ownership structure of the investing business (e.g. a minimum capital stake from domestic investors or a majority foreign-owned business, cooperative and other), while listed company conditions make a tax incentive conditional on being listed on a national stock exchange.

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<sup>22</sup> ISIC revision 4 is a United Nations industry classification system widely used in classifying data according to type of economic activity. In relation to correspondence, one exception applies: electricity generation from renewable sources is distinguished from the remaining activities in electricity, gas, steam and air conditioning supply.

<sup>23</sup> For example, sector conditions relating to the agriculture, forestry and fishing sector (sector 1) were collected based on the specific sub-sector that the condition applies to: crop and animal production activities (sub-sector 1.1), forestry and logging (1.2), or fishing and aquaculture (1.3).

Outcome conditions require companies to achieve certain performance results to be eligible to benefit or continue benefiting from a tax incentive, and can include a diverse set of conditions.<sup>24</sup> They are linked to the resulting characteristics of the investment project, rather than the characteristics of the qualifying investor. For example, a company could be required to achieve a minimum export share (e.g. export 70% of sales) each year to benefit from a reduced CIT rate or create a minimum number of new jobs to benefit from a tax exemption.

Investment size conditions define a minimum level of investment that is required by a company to benefit from the incentive. Investment size conditions can be defined by the national currency or a foreign currency (e.g. US Dollar or Euro). Business stage conditions may exclusively target new business entrants or established businesses.<sup>25</sup> Finally, special investor status incentives operate under various titles and generally apply in combination to other eligibility conditions.

### 3.3. Legal basis

The legal basis of investment tax incentives includes details on the legal provision that introduces the tax incentive, as well as the information on the incentive's granting authority. Table 6 summarises the type of data collected on the legal basis.<sup>26</sup>

Tax incentives may be introduced through many different legal provisions depending on the country's legal framework, which may be through either primary legislation (i.e. codes and laws, such as the income tax law, SEZ laws, and investment law) or secondary legislation (e.g. decrees and regulations). Typically, primary legislation are laws that are passed by the Parliament, while secondary legislation (also called delegated legislation) grants additional law-making powers to other branches of government (e.g. implementing agencies). The database maps each tax incentive to its respective legal provision.

In some cases, several provisions govern one tax incentive. Under legal basis, the ITID covers information on the main legal provision that set the basis for introducing an incentive and the provisions that inform of the details that define the generosity of tax relief (e.g. degree of rate reduction, length of relief). It does not necessarily register all complementary regulations and decrees that may give additional conditions for their application. For example, there are cases where the income tax law describes the specific design feature of a tax incentive (e.g. 5 year tax exemption) as well as a location condition (e.g. within an SEZ), while a separate special economic zone law specifies the sectors that can invest within the zone or benefit from the tax incentive. In such cases, the legal basis refers to the provision detailing the tax benefit (in this example, the income tax law), rather than the complementary provisions that indirectly define additional eligibility conditions.<sup>27</sup>

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<sup>24</sup> These include floors that establish a minimum level expenditure on specific activities (e.g. spending on training-related activities) or characteristics of production (e.g. a minimum value added to revenue ratio from production) or of the business to benefit from preferential treatment.

<sup>25</sup> Businesses may benefit only once from certain investment tax incentives generally in immediate period after they are established or the tax incentives could apply on each new investment project made. Collected data indicates that this new business condition is correlated to tax incentive instruments (i.e. expenditure-based incentives more likely to apply on each new investment project), but not exclusively.

<sup>26</sup> The quality of the legal drafting and tax administration capacity are not currently assessed.

<sup>27</sup> Tax incentives introduced by laws that amend the Income Tax Law, Tax Code or Tax Acts are registered referring to the latter.

The database also collects information on the granting authority responsible for assessing and evaluating the eligibility of respective companies in obtaining a tax incentive if applicable. Granting authorities can include the Ministry of Finance, the Tax Administration, or the country's IPA. These administrative bodies typically have the power and authority to grant or revoke an investment incentive. Annex B presents the complete list of legal provisions and granting authorities identified for the 36 countries covered.

**Table 6. Classification of data on legal basis**

	Description
Legal instrument	Tax incentives introduced through primary legislation (i.e. national laws or acts) or secondary legislation (i.e. non-statutory provisions, such as decrees, regulations and others).
Granting authority	Authority to grant tax incentives may lie with the Ministry of Finance, other ministries (such as the Ministry of Economy, Industry, Trade or others*), the IPA or other authorities, such as an SEZ board, other special boards and councils (e.g. Economic Development Board).

Note: Based on the main legal basis, traits identified through the OECD Investment Tax Incentives database. \*Other authorities may also include tax authorities such as the tax commissioner general who works in consultation with the Ministry of Finance in granting tax incentives.

# 4. Key insights from the database

Incentives vary with respect to the use and design of instruments, targeted sectors, locations and activities, as well as in the number of incentives offered in each country (Box 4). A detailed understanding of how countries design incentives is a critical step towards identifying their effectiveness and efficiency, and their potential contribution to sustainable development outcomes.

This section provides insights on how investment tax incentives apply across the 36 developing economies currently covered in the OECD Investment Tax Incentives database. It first provides an overview of high-level findings (Section 4.1) and then further elaborates on specific aspects of key design features, including sector-based incentive targeting (Section 4.2), incentives in SEZs (Section 4.3) and targeting investment incentives for sustainable development (Section 4.4).

## 4.1. Overview of the database

### ***Most countries use sector and location conditions to target tax incentives***

Eligibility conditions are criteria that investors must meet in order to benefit from an investment tax incentive. Countries use different targeting strategies when applying these conditions: they may refer to sectors and locations of investment (i.e. within an SEZ or specific geographic region of the country), investment size and ownership, or specific activities (e.g. supplier development or employee training) in which the investor must engage to be eligible for the incentive. Conditions may also overlap. Section 3.2 provides an overview and definitions of the key eligibility conditions in the database.

Among all eligibility conditions, targeting sectors is used most often: all 36 of the 36 developing countries covered in the database provide at least one investment tax incentive that specifies in which sector investments must take place in order to benefit from the tax relief (Figure 4, Panel A and further discussed in 4.2). The second most frequently used criteria is that investments must take place within Special Economic Zones (SEZs), described in details in section 4.3. SEZs are dedicated geographic areas that are often governed under specific laws and regulations to facilitate investment attraction and typically include a wide variety of investment incentives, moving beyond tax. About 78% of the countries covered (or 28 of the 36 countries) provide tax incentives for investments in SEZs. In contrast to the comprehensive SEZ approach, about half of the countries provide tax incentives for investments that are located in other specific geographic areas, often less developed regions within the country, considered in particular need of investment to stimulate new economic activity.

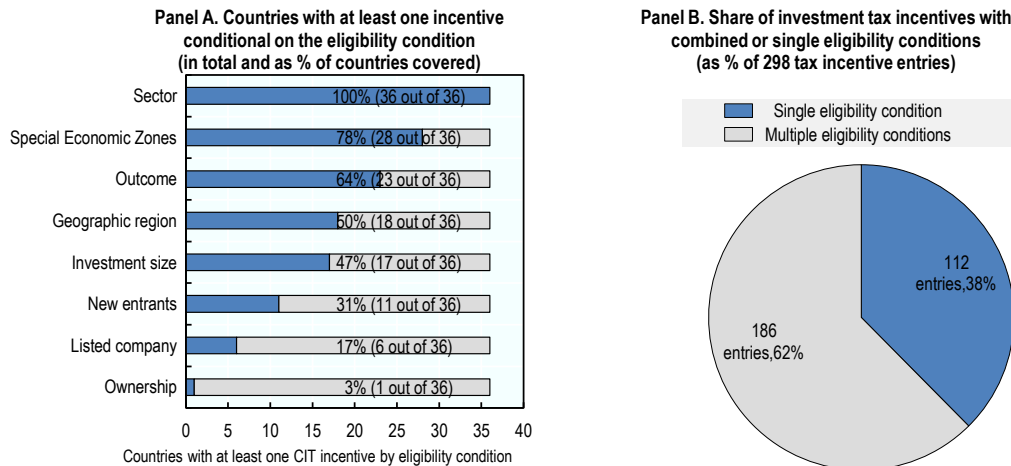
Beyond their objective to promote investment, tax incentives are often also implemented for wider economic policy or development goals, for example to improve the country's trade integration or other sustainability impacts of investment. Certain tax incentive design features can be linked to intended policy objectives, such as through outcome conditions: 23 of the 36 countries make use of at least one outcome-based incentive.<sup>28</sup> Outcome conditions relate to the results or outcomes of an investment, while other eligibility conditions in Figure 4 refer to characteristics of the qualifying business (e.g. sector, location,

<sup>28</sup> Outcome conditions may also be referred to as *merit-* or *performance-based* conditions with preferential regimes.



ownership). These may include the requirement that the investing business source a share of inputs from local suppliers, export a share of its production or generate a certain number of jobs through the investment. Section 4.4 further discusses how outcome conditions and other design features could link to investment in various sustainable development policy clusters.

**Figure 4. Investment tax incentives involve various eligibility conditions that are often combined**



Note: Please refer to Table 5 in Section 3.2 for the definitions of eligibility conditions. Single eligibility condition means that incentives are conditional on one eligibility condition only; multiple eligibility conditions mean that incentives conditional on more than one eligibility condition. Source: OECD Investment Tax Incentives database, July 2021 version, based on information on 36 countries, i.e. 298 corporate income tax incentive entries.

As discussed above, across the 36 countries covered in the database, a total of 298 standalone investment tax incentives were identified. While panel A of Figure 4 provides a first overview of the most commonly used incentives across the 36 countries – counting the number of countries with *at least one incentive by eligibility condition* – it is not informative in terms of the extent to which all 298 incentives available in these countries involve eligibility conditions (see Box 4 for a discussion on country- vs. incentive-level indicators). However, it should be noted that at incentive-level, the sector and SEZ conditions also stand out as the most widely used, accounting for 83% and 23% of the 298 incentives, respectively. Incentive-level measures provide an indication of the frequency with which certain eligibility conditions are observed, while the country-level measures indicate their prevalence across countries. For example, SEZ conditions are used in 78% of countries but represent only 23% of the tax incentives given that countries generally only have one or two incentives with these conditions.

Investment tax incentives typically require multiple eligibility conditions to be satisfied at the same time. Examining the 298 incentives available across all countries covered, 62% (or 186 of the 298 tax incentives) come with multiple eligibility conditions (Figure 4, Panel B). This means that investors are required to fulfil at least two of the above discussed eligibility criteria to benefit from the incentive. For example, an incentive is granted in Ghana to investors in the manufacturing sector (Criteria 1) if the investment takes place outside of the capital area, in less developed regions (Criteria 2).<sup>29</sup> Another example is from Moldova, where tax exemptions are provided in an SEZ (Criteria 1) for newly-entering businesses (Criteria 2) that invest above USD 1 million (Criteria 3).<sup>30</sup> On the other hand, about 39% (or 117 of 298) of the investment

<sup>29</sup> Reduced rate granted based on Ghana's Income Tax Act 2015 (Act 896).

<sup>30</sup> Moldova's Tax Code Article 49 provides a 3-year tax exemptions to newly-entering businesses investing at least USD 1 million in Free Economic Zones. The tax exemption increases to 5 years for investments above USD 5 million.

tax incentives are only subject to one single eligibility condition. They target investors through only one criterion, most often exclusively via a sector condition (e.g. investors in the agricultural sector in Tanzania benefit from a tax allowance for investment in machinery and the construction of buildings).<sup>31</sup>

Finally, investment tax incentives may be granted to businesses that have received some form of 'special investor status' or hold special certificates (often called pioneer certificates, investment certificates, or preferred investor status). More than half of all countries (or 17 of the total 36) provide at least one investment tax incentive conditional on some form of special investor status.<sup>32</sup> Special investor status may grant certain taxpayers access to special regimes, including in relation to CIT, based on confirmation of fulfilling clear-cut criteria; for example, a list of well-defined and targeted sectors in which investment needs to take place or an outcome condition linked to the number of jobs a business must commit to create through the investment.

In some cases, however, the 'special investor status' is applied to investors on a relatively discretionary basis, i.e. through less clearly-defined criteria. For example, Eswatini's Ministry of Finance may grant 'Development Enterprise Status' to businesses deemed 'beneficial to the economy', which provides them with incentives *in addition* to those specified in the tax law, but without clearly defining how the selection is made.<sup>33</sup> Overall, clear-cut and transparent rules-based eligibility criteria facilitate their verification (i.e. based on achieving those criteria) reducing the risk for discretion (IMF, OECD, UN, World Bank, 2015<sup>[2]</sup>). In addition, certain clear-cut criteria may strengthen the link to intended policy objectives or outcomes (Section 4.4).

### ***Tax exemptions and allowances are the most commonly used instruments across countries***

Tax incentives can take the form of different instruments. Table 1 in Section 2.2 describes the four corporate tax incentives covered by the database: reduced rates, exemptions, allowances, and credits. Table 3 provides additional detail on the typical design features for the four instruments collected.

Temporary full tax exemptions are the most widely used form of tax incentive among the countries covered (Figure 5, Panel A): 25 of the 36 countries included in the database have at least one incentive in place that provides a full CIT exemption to investors over a limited period of time (e.g. 5 to 6 year exemption of income from manufactured of machinery and equipment in Ethiopia). Ten countries covered in the database provide full tax exemptions that are permanent, but these only apply to income from certain sources (e.g. Lesotho permanently exempts income from manufacturing exports from the CIT).<sup>34</sup> There are only a few examples where countries use partial tax exemptions, whereby part and not all income is exempt from taxation (Panel B). Partial tax exemptions apply, for example, to investors holding an investment promotion document in Azerbaijan, where 50% of income is exempt from taxation while the standard rate applies to the remaining 50%.<sup>35</sup>

<sup>31</sup> Tanzania's Income Tax Act 2004 (Chapter 332, Third Schedule Classification and Pooling of Depreciable Assets Act No.15).

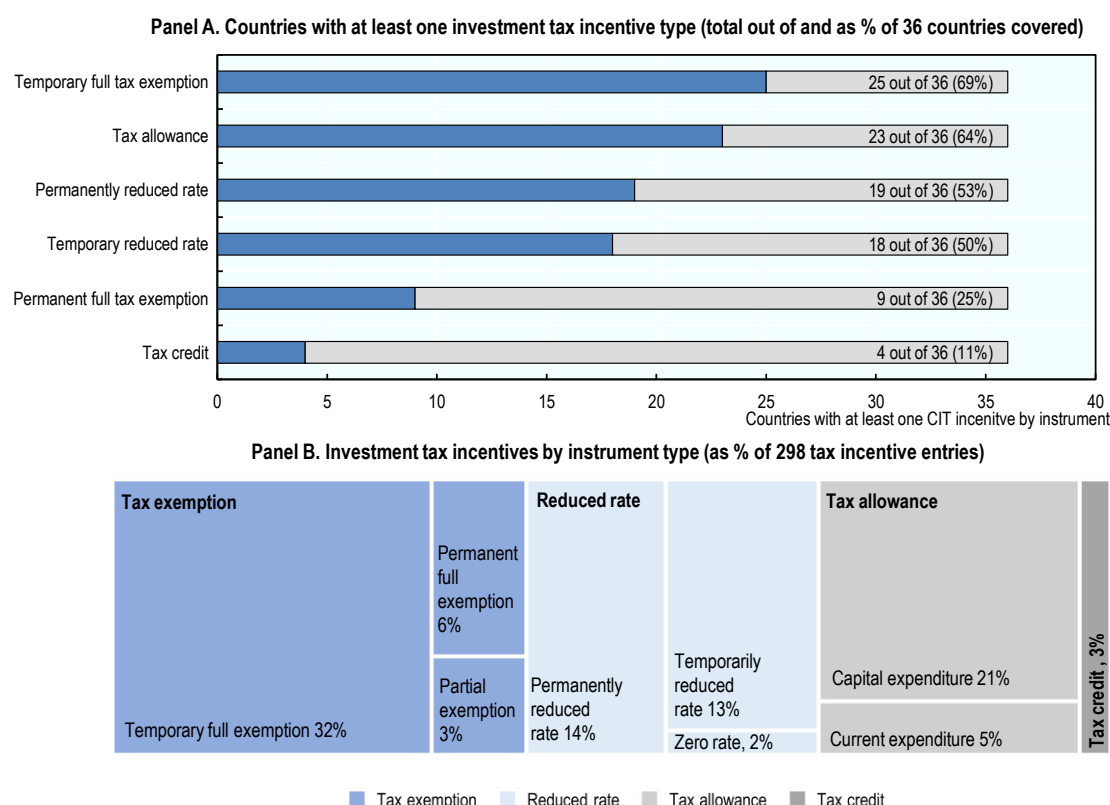
<sup>32</sup> In covered countries, special status generally provide tax relief offered on a temporary basis to approved investment, but may also provide permanent benefits, such as permanently reduced CIT rates to holders.

<sup>33</sup> Section 69(2) of Eswatini's Income Tax Order of 1975 states that the Minister of Public Finance may grant benefits to new businesses deemed "beneficial to the development of the economy", nominating them as a "development enterprise" through the issue of a "development approval order".

<sup>34</sup> Lesotho Income Tax Act 1993 (Third Schedule, Section 10).

<sup>35</sup> Investors with an investment promotion document in Azerbaijan benefit from a seven year 50% tax exemption (Tax Code of Azerbaijan, Article 106.1.17.).

**Figure 5. Full tax exemptions and tax allowances are the most widely used instruments**



Note: Please refer to Table 1 in Section 2.1 and Table 3 in Section 3.1 for the definitions of corporate income tax incentive instruments and design features. Panel B subdivides tax allowances into those based on capital and current capital expenditure. Partial exemptions include both temporary and permanent full exemptions. Zero rates include both temporary and permanent 0% rates.

Source: OECD Investment Tax Incentives database, July 2021 version, based on information on 36 countries, i.e. 298 corporate income tax incentive entries.

While tax exemptions are more often provided on a temporary basis, reduced CIT rates are at least as often permanent as they are temporary: 19 of the 36 countries have at least one incentive that reduces the CIT rate permanently and 17 have at least one reduced CIT rate that is temporary (Figure 5, Panel A). The same holds when evaluating the data at the instrument-level: 14% of all 298 tax incentives covered in the database are permanently reduced rates, while 14% are temporarily reduced rates. Unlike for tax exemptions, where the majority are full exemptions, these incentives typically reduce CIT rates only partially and not to zero percent (Panel B).<sup>36</sup>

When tax incentives provide a temporary tax benefit, as is the case for temporary exemptions and temporarily reduced rates, they are sometimes combined with other incentives that apply at the end of the relief period: about 20% of the temporary incentive schemes identified in the database are followed by an additional incentive (considered as design features of the temporary tax incentive). For example, a

<sup>36</sup> Incentive schemes often use the term ‘tax holidays’ when referring to temporary full tax exemptions or temporary zero CIT rates. This paper avoids the term ‘tax holiday’ as the two different incentive instruments referring to tax holidays have distinct implications on the channels through which effective taxation is reduced and potentially different interactions with other tax allowances that may apply; see (Celani, Dressler and Hanappi, 2022, forthcoming<sup>[8]</sup>) for a discussion.

business that is granted a temporary exemption may continue to benefit from a permanently reduced CIT rate. In Madagascar, mining companies that invest more than USD 50 million benefit from a tax exemption offered on a temporary basis, while also receiving a permanently reduced rate for their mineral processing activities.<sup>37</sup> In Lao PDR, businesses operating within the Savan-Seno SEZ receive a 2-8 year full tax exemption and are taxed at an 8-10% permanently reduced rate after this period.

Tax allowances are also widely used: 23 of the 36 countries grant at least one tax allowance scheme to investors (Figure 5, Panel A). Tax allowances are provided for qualifying capital expenditures (e.g. acquiring machinery and equipment) or qualifying current expenditures (e.g. allowances for training expenditures) (Panel B). As such, tax allowances are often associated with activities supporting countries' sustainable development objectives as mentioned above and further discussed in Section 4.4.

Overall, income-based tax incentives (exemptions and reduced rates) represent 70% of all 298 investment tax incentives covered, while expenditure-based incentives represent only 30% (Figure 5, Panel B). The existing literature has suggested that expenditure-based incentives have a higher likelihood of promoting *additional* investment. By reducing the cost of investing they may make the marginal investment profitable when this would not otherwise be the case in the absence of the incentive. On the other hand, income-based tax incentives provide tax relief based on secured earnings, benefiting only already profitable projects, but do not result in additional profitable projects. Therefore, income-based incentives may have less influence on investment activities (IMF, OECD, UN, World Bank, 2015<sub>[2]</sub>).<sup>38</sup>

### ***Incentive provisions are often scattered across several laws and introduced and administered by multiple authorities***

Countries covered by the database typically define benefits provided by investment tax incentives in primary legislation,<sup>39</sup> such as income tax laws (27 of 36 countries), SEZ laws (14 of the 36 total) or investment laws (11 out of 36) (Figure 6, Panel A). Two thirds of these countries introduce incentives exclusively through laws (24 of 36 countries, not included in the figure). For example, Kenya consolidated all its CIT incentives in the Income Tax Act, while CIT incentives in Egypt are detailed in its Investment Law.

In other cases, governments provide details on tax benefits through secondary legislation such as regulations and decrees (for at least one incentive in 9 of the 36 countries). For example, in Indonesia, the Income Tax Law, SEZ Law and Investment Law provide the legal basis for introducing CIT incentives, as well as Government and Ministry of Finance regulations which provide further details on the precise design features and eligibility conditions of the tax incentive instruments.

Prescribing investment tax incentives in primary legislation (i.e. laws) ensures that the legal basis governing the tax incentive is approved by the legislature which in turn, ensures a higher level of parliamentary and public scrutiny of the approved legislation (IMF, OECD, UN, World Bank, 2015<sub>[2]</sub>). Providing all details of tax incentives through laws increases transparency and accountability of their granting and governing bodies. (OECD, 2013<sub>[5]</sub>). Laws and their official translations are generally also more accessible to investors than specific secondary regulation.

<sup>37</sup> The special regime applies to mining investments above MGA 50 billion at 2005 prices (*Loi pour les grands investissements dans le secteur minier malagasy* 2002, article 5).

<sup>38</sup> This argument must be qualified to the extent that investment tax incentives are never provided by countries in isolation, and it is likely that income-based tax incentives influence investment activities in the context of tax and tax incentive competition across countries.

<sup>39</sup> Primary legislation comprises laws passed by the Parliament, while secondary legislation (also called delegated legislation) grants additional law-making powers to other branches of government (e.g. implementing agencies).

Consolidating tax incentives into the tax code or a single law could further increase their transparency and accessibility to investors. It may be difficult for investors to obtain a full overview of all incentives offered if they are scattered across multiple laws and regulations, potentially resulting in additional costs to investors (e.g. requiring specialised tax advice, possibly only affordable to larger investors). Furthermore, the use of multiple provisions regulating tax incentives can increase complexity and increases the risk of overlapping provisions, which can increase rent-seeking behaviour and profit-shifting. For example, businesses operating in a certain sector and location could be eligible for more than one tax incentive.<sup>40</sup>

Many countries introduce investment tax incentives through various pieces of legislation (23 of the 36 countries), while a number have consolidated their incentives in a single law (12 of 36) of which most (10 of the 15) have consolidated tax incentives in the tax law. Three other countries provide investment incentives only through investment law. Certain countries have dedicated laws or acts for investment incentives, such as Brunei Darussalam (Investment Tax Incentives Order 2001) and Mozambique (Code of Fiscal Benefits 2009).

Consistent with the use of various laws providing the complete design features of investment tax incentives, they are also granted by multiple authorities. Information on granting authorities is available in 28 of the 36 countries covered by the database (Figure 6, Panel B). For around a quarter of the tax incentives mapped (72 out of 298), the granting authority is not made explicit in the introducing legislation.

Typically, the Ministry of Finance grants incentives that are defined in tax laws or secondary legislation under the tax law (e.g. in South Africa or Zimbabwe). In 25 of the 28 countries, the Ministry of Finance is the granting authority with respect to at least one tax incentive (i.e. multiple authorities may grant incentives, but the Ministry of Finance is responsible for at least one of them) and in 4 of these 20 countries (Brunei Darussalam, Botswana, Ghana and Lesotho), the Ministry of Finance is exclusively responsible for granting incentives.

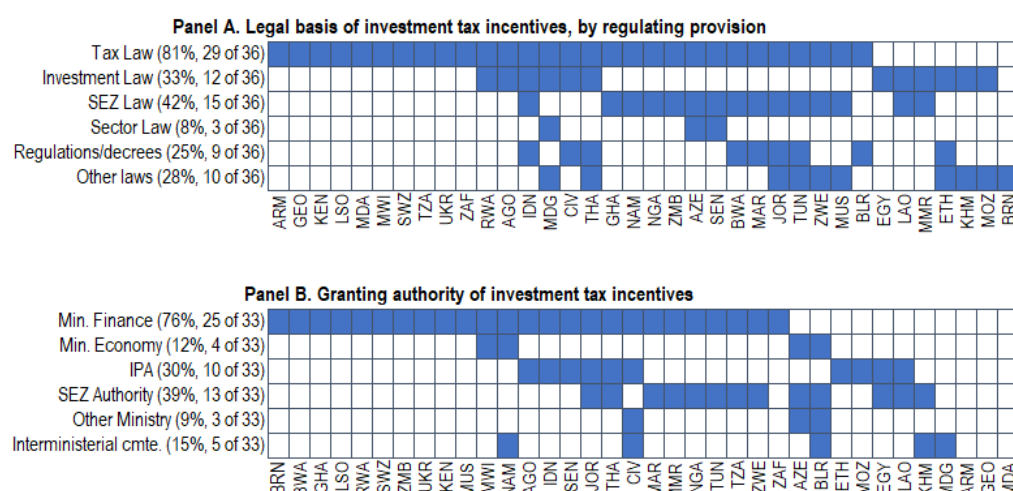
In most countries, however, various authorities are involved in granting investment tax incentives. For example, in Egypt, the Investment Promotion Agency (General Authority for Investment and Free Zones, GAFI) grants incentives including in Free Zones, but the Suez Canal Authority grants incentives in the Suez Zone. In Thailand, the Board of Investment (BOI), the Thai agency mandated to develop and implement the country's investment promotion strategy (i.e. the IPA) grants most of the investment incentives, while the Ministry of Finance is responsible for overseeing the tax allowances for training expenses.

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<sup>40</sup> The extent to which businesses could benefit from multiple tax incentives at the same time is not assessed in this work as depends to a great extent on benefiting business' characteristics.

**Figure 6. Investment tax incentives are often legislated through several laws and granted by multiple authorities**

Blue squares indicate that a country (x-axis) has at least one corporate income tax incentive introduced through the corresponding legal basis (panel A, y-axis) and granting authority (panel B, y-axis)



Note: Panel A. Other legal basis includes laws and acts not specified above and unclassified legal bases. Please refer to Table A.B.2 for an overview of the categorisation. Panel B. Information on granting authority is available for 31 of 36 countries and 211 of 298 corporate income tax incentive entries. IPA = Investment Promotion Agency.

Source: OECD Investment Tax Incentives database, July 2021 version, based on information on 36 countries, i.e. 298 corporate income tax incentive entries.

## 4.2. Sector-based incentives: an in-depth look

Sector-based conditions are the most widely used eligibility conditions of investment tax incentives granted by developing countries included in the database (see Section 4.1, Figure 4). Sector targeting is sometimes used to contain the fiscal costs of tax incentives and to benefit only those projects, sectors and sub-sectors that are considered most in need or likely to create social and economic spillovers, such as skills and SME development or integration in global value chains. Targeting through eligibility criteria deserves attention as it may increase distortions and administrative costs and erode the principles of equality (IMF, OECD, UN, World Bank, 2015<sup>[2]</sup>).

Countries may target sectors broadly (i.e. broad sector targeting), by granting incentives to investors active in an entire sector (e.g. the entire manufacturing or agricultural sector). They may also narrowly define sector conditions where eligibility to receive the incentive is limited to either a small set of sub-sectors, such as the chemical, plastics and pharmaceuticals sub-sectors, or only very specific segments of sub-sectors, such as bioplastics or solid state hard drive production (i.e. narrow sector targeting). The database contains a breakdown into sector and sub-sector for agriculture, mining and quarrying and manufacturing activities based on ISIC rev 4. Annex B provides additional details on how broad and narrow targeting is defined in this section.

***Although sector conditions exist in most countries, almost any sector can benefit from tax incentives***

The OECD Investment Tax Incentives database shows that many countries make use of tax incentives with explicit reference to sectors or sub-sectors in which investors can benefit from incentives (Figure 4,

Panel A). However, when targeting sectors they often do so by covering a broad set of manufacturing, agricultural and mining activities (Figure 7).<sup>41</sup> Thus, the concept of *sector targeting* as an eligibility condition is somewhat misleading, as in reality most sub-sectors within a sector end up benefiting from the tax incentives.

Broad targeting is particularly common in manufacturing. Among the 36 developing countries covered in the database, about half (20 countries) have at least one incentive that is available to investors across *all* manufacturing sub-sectors, i.e. the entire manufacturing sector is covered.<sup>42</sup> Another two have at least one tax incentive that targets *almost all* manufacturing sub-sectors: Indonesia explicitly targets 14 of the 16 manufacturing sub-sectors specified in the classification used, and Morocco does so for 13 (see Annex B for details on sector classification).

Broad targeting is also widely applied in the agriculture and mining sectors. Of all covered countries, about half (or 15 countries) apply broad incentive targeting to these sectors, i.e. all three agricultural and all mining sub-sectors benefit from at least one tax incentive. Moreover, most of these also have at least one incentive in all manufacturing sub-sectors. That is, tax incentives cover all economic sectors besides services in these countries.

Looking at activities within the primary sector, agriculture (crops and animals, forestry and fishing) is supported in almost all countries through the CIT system. For example, in crop and animal production at least one tax incentive is provided in 31 of the 36 countries. Mapped investment incentives for agriculture generally include tax allowances to support the acquisition of equipment (e.g. tractors) and infrastructure for farming. Eswatini, Kenya, Malawi and Zambia have broad tax allowances to accelerate the cost-recovery time of capital investments in farm improvements such as barns and fences.<sup>43</sup> Other countries provide tax exemptions on certain segments of agricultural sub-sectors (e.g. Mauritius exempts certain fishing activities), certain ownership structures (e.g. Georgia exempts farming cooperatives from CIT) or for agriculture investments in less developed regions (e.g. a five year exemption for moderately developed areas in Myanmar). Armenia and Azerbaijan permanently exempt their crop production from the CIT.<sup>44</sup>

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<sup>41</sup> Investment tax incentives with sector conditions may include incentives of any instrument type covered in the database (i.e. tax exemptions, reduced CIT rates, tax allowances and credits).

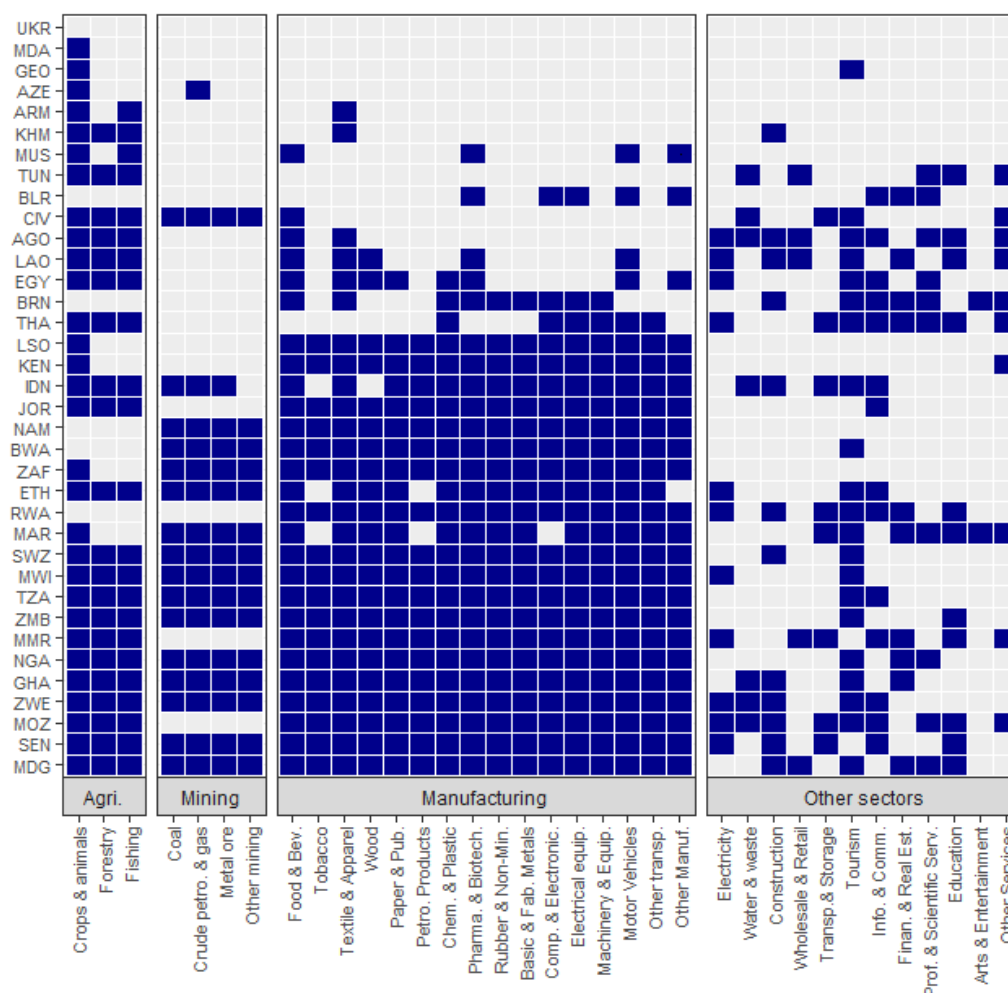
<sup>42</sup> That is, broad here refers to incentives that apply to income resulting from agricultural, mining and manufacturing activities.

<sup>43</sup> Kenya provides an initial capital allowance of 50% in the first year of use and 25% per year on a reducing balance thereafter (Second Schedule, Tax Laws (Amendment) Act No. 2 of Kenya, 2020).

<sup>44</sup> Limited analysis of agriculture-specific CIT incentive design is available (OECD, 2020<sup>[13]</sup>; Bulman et al., 2021<sup>[26]</sup>).

**Figure 7. Countries providing investment tax incentives with sector conditions**

Blue squares indicate that the country (y-axis) has at least one corporate income tax incentive with a sector condition targeting the corresponding sector or sub-sector (x-axis)



Notes: Agri. = Agriculture. See Annex B for additional information on sector classification.

Source: OECD Investment Tax Incentives database, July 2021 version, based on information on 36 countries, i.e. 246 corporate income tax incentive entries with sector conditions.

In addition, the tax regime applicable to agriculture may vary across countries, the size and legal structure of agricultural business, with the CIT system not necessarily being the main one. For example, simplified taxes (e.g. taxes on turnover) or personal income tax for individual entrepreneurs may apply in the sector in certain economies (OECD, 2020<sup>[13]</sup>).

In mining, broad targeting is less common than in agriculture, but still about half of the countries included in the database offer tax incentives in all four mining sub-sectors, i.e. coal, metal ore, crude petroleum and gas, and other mining activities. Broad targeting in mining involves both tax allowances for mining machinery and equipment (e.g. in Botswana, Senegal, and South Africa), as well as permanently reduced CIT rates. Morocco applies a 20% CIT rate to mining companies that export, while the standard rate is



25%.<sup>45</sup> The beneficial treatment of mining is often not recommended as good practice given that natural resources are location-based and investments are likely to take place even without incentives (IMF, OECD, UN, World Bank, 2015<sup>[2]</sup>). Tax incentives benefiting fossil fuel industries, such as coal and oil, may also not align with countries' environmental and climate policy objectives (OECD, 2021<sup>[14]</sup>).<sup>46</sup>

Among other sectors, the tourism sector benefits most often from tax incentives (22 of the 36 countries). In tourism, temporary tax exemptions in SEZs or for specific regions are often used. These often provide tax incentives for tourism infrastructure, such as for the construction of hotels and other leisure facilities. A similar caveat on the use of incentives for tourism purposes applies as mentioned above to the extent that tourism and cultural services are location-specific.

It should be noted that white cells in Figure 7 refer to specific sectors or sub-sectors that are not explicitly targeted by a tax incentive with a sector condition in the respective country. However, these 'white' sectors in Figure 7 can benefit from incentives that are not sector-specific. For example, in Ukraine, businesses founded by persons with disability benefit from a tax exemption or in Indonesia, publically listed companies benefit from reduced rates, in both cases, independent of the sector they operate in.<sup>47</sup> In that sense, Figure 7 does not capture the effect of the broad sector targeting of tax incentives on specific sectors.

The finding that most countries widely target a broad set of sectors should be put into perspective:

- Investment tax incentives generally apply in **combination with other eligibility conditions** rather than as a standalone conditions to investors. For example, broad manufacturing sector conditions more often apply in combination with an SEZ condition. In Namibia, all export-oriented manufacturing activities within Export Processing Zones can benefit from tax exemptions, excluding only fish and meat processing activities.<sup>48</sup> Tax allowances that accelerate access to standard capital allowances often apply exclusively within a sector, but no other eligibility conditions apply.
- On the other hand, countries may operate several tax incentives with **overlapping sector targeting**. This in turn can allow businesses to benefit from multiple tax incentive schemes at the same time. For example, Namibia provides several incentives that benefit the manufacturing sector very broadly: a 10 year reduced CIT rate, as well an initial allowance for investment in buildings.<sup>49</sup>

<sup>45</sup> Botswana has tax allowances for mining that allow investors to immediately expense 100% of their investment cost in the first year following investment.

<sup>46</sup> An extensive literature exists on mining tax incentives and more generally, on natural resource incentives. The IGF Mining Tax Incentives Database covers a range of mining tax incentives in 21 developing economies and was produced by the IGF and OECD (IGF and OECD, 2018<sup>[32]</sup>). The OECD Inventory of Support for Fossil Fuel Subsidies includes information on tax expenditures on fossil fuel extraction, including through CIT incentives (OECD, 2021<sup>[14]</sup>).

<sup>47</sup> Prior to 2015, Ukraine put incentives in place targeting the development of key industries such as information and communication services, but these were repealed in 2015 (OECD, 2016<sup>[36]</sup>).

<sup>48</sup> Newly-registered manufacturing businesses benefit from a reduced 18% tax rate for a 10 year period, in addition to a 20% tax allowance that applies in the first year that the building is used (Income Tax Act of Namibia 1981, section 17 and Schedule Four).

<sup>49</sup> Registered manufacturing businesses Income Tax Act of Namibia 1981, Section 17.

- Broad sector **targeting may also come with some sub-sector carve-outs**. For example, a CIT exemption available to investment projects in all the manufacturing sector may carve out weapons production or tobacco and alcoholic beverages production. Outside manufacturing, mining and quarrying is sometimes carved out, together with certain services (e.g. financial and insurance activities, electricity). For example, Tunisia's widely applicable tax exemption available to all newly-established companies carves out the mining sector, financial and real estate services, energy (except renewables) and telecommunications.<sup>50</sup> Sector carve-outs are only identified for a limited number of investment tax incentives (46 of 298 incentives in 19 out of 36 countries).
- On the other hand, **certain tax incentives apply horizontally** and do not target sectors but rather activities (e.g. training employees or exporting). For example, a tax allowance in Lesotho allows investors in any sector to claim a deduction that is 125% of the value of all training expenditure when calculating taxable income.<sup>51</sup> Such horizontal tax incentives do not have sector conditions attached to them and therefore are not represented in Figure 7, but all businesses may still benefit from them. While such horizontal incentives do not target sector explicitly, they may impact different sectors in different ways. Sectors producing tradable goods benefit more from tax incentives for exporting (e.g. tax allowances for spending on export promotion, tax exemptions on export income).

Sector conditions can be very broad or narrow. Accordingly, it could be argued that some tax incentives with broad sector conditions can be close to a form of horizontal targeting in that they target wide segments of the economy. This can make such a classification a less useful dimension for analysing the targeting strategy of a tax incentive.

***When sector conditions are narrowly defined, they often target sub-sectors of high economic importance to the country***

Unlike most countries covered in the database, some use tax incentives to narrowly target certain activities in the primary and manufacturing sectors. Narrow targeting here relates to incentives that come with a sector condition, but which do not cover all industries within a sector (Annex B). Countries may prefer to target narrowly, instead of providing incentives broadly to all activities within a sector, if their development or upgrading takes an important part of their economic strategy. Narrow sector targeting may also contribute to a smaller share of investors qualifying for a certain incentive, reducing the potential forgone revenue resulting from an incentive. The benefits and costs of narrow as opposed to broad sector targeting are currently not extensively developed in the tax incentive literature.

Concerning agriculture, five countries (Armenia, Azerbaijan, Georgia, Lesotho, and Moldova) limit tax incentives to just one or two industries. For mining Azerbaijan targets a subset of mining industries only. For example, Azerbaijan's Special Economic Regime is available only to export operations in the oil and gas industry. In manufacturing, nine countries covered in the database limit tax incentives with sector conditions to a limited number of industries. For example, Lao PDR provides tax incentives to various targeted manufacturing industries, such as shoes and bag manufacturing, amongst others.

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<sup>50</sup> Tunisia's tax exemption scheme for new businesses offers an eight year tax exemption, with a full exemption during the first five years (2019 Finance Law, Article 13). The tax incentive was reduced to a five year exemption as of 2021.

<sup>51</sup> Namibia allow for a deduction of 125% or 175% (within SEZs) of training expenditures, respectively. Indonesia, Mozambique and Botswana allow for 200% deduction of training expenditures.

A number of countries that exclusively apply such narrow targeting grant tax incentives to those sectors that are currently economically important, when measured in terms of their exposure to exports. Figure 8 provides an additional indicator measuring the importance of activities eligible for narrowly targeted sectors by tax incentives within the broader sector's export value.<sup>52</sup>

Figure 8 shows along the horizontal axis, as a percentage, the contribution of the narrowly targeted activity as a share of the sector's exports expressed in USD. Thus, the percentages capture the representative size of eligible sub-sectors (squares in blue in Figure 7) in relation to the parent sector's exports. For example, if just food and beverages were targeted by a tax incentive, the percentage would capture the USD value of the country's food and beverage exports as a share of its total manufacturing exports. Figure 8 describes how the scope of incentives overlaps with countries exporting activities, but does not aim to evaluate the success or detail of countries' targeting strategies.

Narrow sector targeting, on the one hand, may be a sign of countries directing their tax incentive policy towards highly specific economic activities, with the objective of reducing fiscal costs, or to support newly established industries. On the other hand, countries may also narrowly target sub-sectors that represent a large share of the economy and where the objective of providing incentives is less straightforward. For example, a country may opt to target the textile and apparel sub-industry specifically, but still incur significant fiscal costs if the economy is oriented toward this sub-industry. However, establishing the direction of causality requires analysing this correlation more precisely and over time: was the incentive with narrow sector condition successful in boosting the growth of the sub-sector and as result, its importance increased? Or were the incentives introduced when the sub-sector was already established? In the first, the high share could represent the effectiveness of the incentive, while the second, could be a sign of redundancy.

In agriculture, Azerbaijan, Georgia, and Moldova apply narrow targeting to specifically benefit crop and animal production, but this sub-sector accounts for all exports in the agricultural sector (the share is 100%), as these countries do not export forestry or fishing products. In Lesotho, crop and animal production benefits from a reduced rate and accounts for 70% of the country's exports in the agricultural sector. Overall, agricultural goods represent a relatively small share of these countries' total exports, around 4% of total exports, apart from Moldova.

Similar results are observed in manufacturing: Morocco, Indonesia and Cambodia restrict their sector-based incentives to a limited number of activities in the manufacturing sector. However, sub-sectors that are eligible for incentives are responsible for more than 90% of exports of manufacturing in Morocco and Indonesia, and 75% of all manufacturing exports in Cambodia. These high shares result from different underlying export and incentive design patterns. In Morocco and Indonesia, sector-targeting of manufacturing sub-sectors remains relatively broad: the majority of manufacturing sub-sectors are eligible to benefit from tax incentives, with only a few sub-sectors not being eligible (i.e. tobacco and wood, both in Morocco and in Indonesia). By contrast, Cambodia stands out by implementing a very narrow targeting of just one manufacturing sub-sector (namely textiles and apparel), but this sub-sector comprises almost 80% of all exports in Cambodia's manufacturing sector.<sup>53</sup> In manufacturing, Armenia and Belarus also narrowly target manufacturing sub-sectors, but these largely represent non-exporting sub-sectors (i.e. shares <20% in Figure 8).

Motivations for narrow targeting can only be understood when the country-specific context is taken into account. In Armenia, the narrow tax incentive supports a highly specialised and traditional local sub-sector

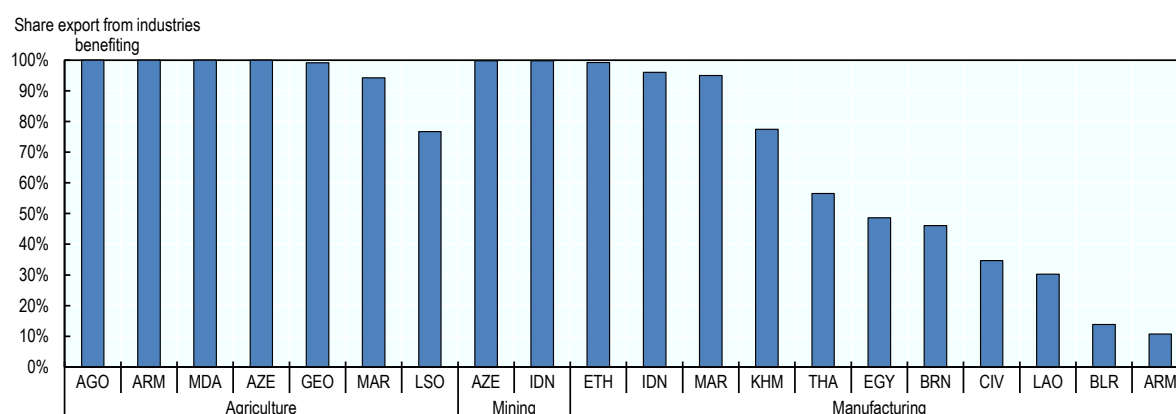
<sup>52</sup> Export value is used as a proxy for the sector's value added given that cross comparable data was not available at sub-sector disaggregation needed for certain countries.

<sup>53</sup> Cambodia's SEZs target investors in garment and footwear manufacturing, as well as their supporting industries or contractors. Cambodia's Qualified Investment Project regime, by contrast, is not sector-specific, but certain sectors are carved-out including tourism and financial services among others.

segment: the production of handmade carpets, which benefit from a tax exemption. Belarus narrowly targets high-tech industries, such as medical technologies and aerospace technologies, as well as automotive components. While these are not currently high exporting sectors, they align with the country's development strategy.

**Figure 8. Investment tax incentives that narrowly target sectors can cover a significant share of exports in many countries**

Share of total exports in agriculture, mining and manufacturing that are eligible for a sector-based corporate income tax incentive that narrowly targets activities within these sectors



Note: The percentage measures the contribution of narrowly targeted industries to the total USD value of exports in the respective sector-country pair displayed along the horizontal axis. Broadly speaking, narrow targeting describes corporate income tax incentives that come with a sector condition, but that do not cover all specific industries within a sector (more details are provided in Annex B.) To construct percentages, UN COMTRADE export data (denominator) was matched to ISIC Rev. 4 (numerator) using the Classification by Broad Economic Categories. Export data from 2019 or the latest available year was used.

Source: OECD Investment Tax Incentives database, July 2021 version, based on information on 36 countries, and OECD STAN Bilateral Trade Database by Industry and End-use Category (BTDIxE).

Despite certain limitations, the indicator in Figure 8 can contribute to further evaluating differences in sector targeting of incentives across countries and with additional sub-sector break downs, could also be used for comparison to identify industry clusters targeted by countries.

### 4.3. Incentives within Special Economic Zones: an in-depth look

The present work classifies as SEZs various types of zones that exist across countries, including for example, Special Economic Zones, Industrial Zones, Free Zones, Development Zones, and Export Processing Zones. The common denominator being that investment in these zones benefits from differential treatment compared to the rest of the country, including through regulations and economic policies.<sup>54</sup> Table 5 in Section 3.2 provides additional detail on definitions.

<sup>54</sup> SEZs exist under various names and target different types of investment. Export processing zones (EPZs), for example, are areas where manufacturing firms that export their products enjoy preferential (tax) treatment compared to the rest of the economy.

SEZs are often established to attract foreign investment, particularly in developing countries. Investors in SEZs do not always establish value chain linkages with the rest of the economy, but if they do, they can trigger economic growth and positive effects on the economy as a whole (Wang, 2013<sup>[15]</sup>; Chaurey, 2017<sup>[16]</sup>).

Investment tax incentives are a widely used policy tool within SEZs (UNCTAD, 2019<sup>[17]</sup>). All 36 countries included in the database operate SEZs and 28 of these countries grant some form of CIT incentive with the Zones (see Section 4.1, Figure 4). Tax incentives within SEZs often have different characteristics from other incentives provided; this section highlights such differences.

SEZs use tax exemptions much more strongly than any other type of tax incentive instrument. The distribution of how investment tax incentive instruments are used in SEZs (Figure 9) shows that tax exemptions are by far the most widely used instrument: 64% of all countries with SEZs grant at least one full tax exemption on a temporary basis to firms that settle in the zone, while 25% grant at least one permanent one. Reduced rates are less often used in SEZs, but are still available in a third of all included countries. On the contrary, expenditure-based exemptions, such as tax allowances and tax credits, apply much less often within SEZs (in 11% and 4% of countries respectively). Looking at tax policy outside the zones, the distribution is much less skewed towards specific incentive instruments: while most countries grant at least one temporary or permanent tax exemption (61% and 17% respectively), still 64% of all countries in the database also grant at least one tax allowance, and 44% at least one temporarily reduced rate (44% provide a permanently reduced one).

More precisely, comparing the use of specific incentive instruments within and outside SEZs reveals symmetries in the use of tax exemptions (Figure 9). Both within and outside SEZs, about 60% of the countries covered in the database make use of temporary full tax exemptions, while around 20% use full tax exemptions even permanently.

While exemptions outside SEZs are often tied to specific sectors or locations (e.g. lagging regions), eligibility to benefit from these exemptions inside a SEZ is often conditional on exporting (15 of 28 countries within SEZs and 8 of 36 outside SEZs). Targeting exports within SEZs takes the form of either granting preferential tax treatment to income from export revenue (5 of 28 countries) or requiring that businesses achieve minimum levels of exports to qualify for the incentive within the SEZ (i.e. an outcome condition, 12 of 28 countries).

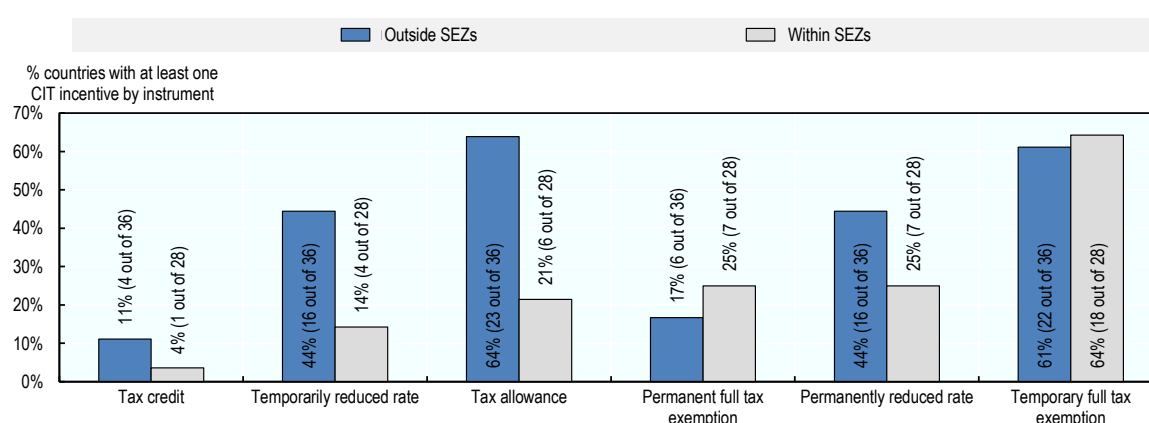
The two design options may contribute to promoting exports (see Section 4.4), but target different types of exporting businesses. The first targets all businesses proportionate to their exporting activities (i.e. both small and large exporters), while the second only targets highly export-oriented businesses. For example, Belarus' Free Export Zones temporarily exempt the export income of all businesses operating within the zone. In Madagascar, only businesses that export at least 95% of their output are fully exempt from CIT for five years, while others with fewer exports cannot benefit from the incentive. While both incentives target exports, the policy's objective and eventual beneficiaries could differ significantly, as could the effectiveness of the two approaches.

In respect of reduced CIT rates, differences can be observed inside and outside SEZs: reduced rates are more likely outside rather than inside SEZs (Figure 9), but the extent of these rate reductions is relatively greater within SEZs on average. Temporarily reduced rates below the standard CIT rate are observed outside SEZs in 16 countries, while this policy instrument is only observed in 4 of the 27 countries offering incentives within SEZs. Yet, within SEZs, permanent deviations from the CIT rate are still frequently observed; 7 of 28 countries (or 25%) make use of permanently reduced rates inside SEZs compared to 16 of 26 countries (or 44%) outside SEZs. Although permanently reduced rates are used less often across countries within SEZs, they tend to be more generous: on average, equivalent to 45% of the countries' standard CIT rate inside SEZs and 56% of the standard CIT rate outside of SEZs.

Expenditure-based tax incentives, particularly tax allowances, are often used outside of SEZs, but much less used within SEZs. In total, 23 of the 36 included countries (64%) provide at least one tax allowance outside SEZs, but only 6 of 28 countries do so inside SEZs. Tax credits (another form of expenditure-based incentive) are rarely observed in general, both within and outside SEZs: only Mozambique uses tax credits within its Rapid Development Zones and Armenia, Côte d'Ivoire and Nigeria use them outside SEZs.

Section 4.2 discussed how developing countries more often opt for income-based (reduced rates and exemptions) rather than expenditure-based incentives (credits and allowances), not least because their implementation may require fewer administrative resources and technical expertise, which are often constrained in developing countries.<sup>55</sup> Driven by investor preferences, strong competition among SEZs to attract investment may be a reason for the proliferation of generous income-based incentives at the expense of more targeted expenditure-based incentives. Tax allowances and credits are often considered more efficient in fostering specific policy goals through incentives and more effective in attracting *additional* investment, reducing the likelihood of windfall gains to investments that would have occurred anyway in the absence of the incentives (IMF, OECD, UN, World Bank, 2015<sup>[2]</sup>). However, SEZs are often oriented toward attracting new FDI, in particular export-oriented investment, which could make investment more sensitive to the absolute level of taxation of the host country (Mutti and Grubert, 2004<sup>[18]</sup>; Azermar and Desbordes, 2010<sup>[19]</sup>).

**Figure 9. Investment tax incentives by instrument: within and outside SEZs**



Note: Please refer to Table 3 in Section 2.1 for the definitions of investment tax incentive instruments.

Source: OECD Investment Tax Incentives database, July 2021 version, based on information on 36 countries, i.e. 298 corporate income tax incentive entries (67 incentive schemes within SEZs in 27 countries and 232 incentive schemes outside SEZs in 36 countries).

<sup>55</sup> It is also worth noting that SEZs often have relatively specialised and well-appointed administrative resources that may be able to implement the more complex, expenditure-based incentives. In spite of this, allowances are not often used in SEZs.

***Full tax exemptions offered on a temporary basis are provided for relatively longer periods in SEZs***

Considering tax policy at the incentive- and not the country-level confirms that tax exemptions remain the most widely used instrument both within and outside SEZs, with 42 and 76 schemes, respectively. Permanent exemptions apply equally often within and outside of Zones. However, if exemptions are temporary they are often considerably more generous within SEZs, in terms of the duration for which they provide tax relief. Figure 10 shows the distribution and density of full tax exemptions offered on a temporary basis outside (59 of 232 incentives) and inside (37 of 67 incentives) SEZs, observing the maximum number of years for which an exemption is available under a given scheme:

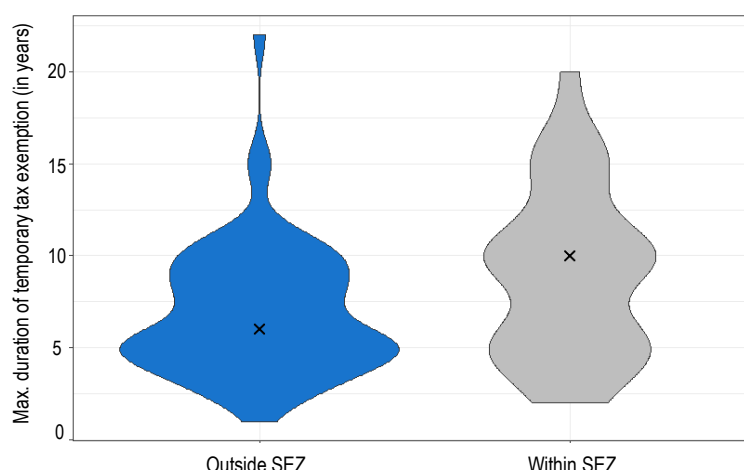
- The median number of years during which a tax exemption applies is ten years within SEZs and six years beyond SEZs (black cross in Figure).
- Within SEZs, full tax exemptions offered on a temporary basis that provide around ten years of tax relief are as common as exemptions providing five years of relief (wide body at the five and ten year marks on the right side of the figure). The longest tax exemption length mapped was of 20 years (i.e. Zanzibar Free Port in Tanzania).
- On the contrary, outside SEZs, the bulk of full tax exemptions offered on a temporary basis provide five years of relief (wide body at five year mark on the left side of the figure). However, a few tax exemptions outside SEZs provide tax relief for extended periods. For example, projects above USD US\$ 2.1 billion in pioneer industries in Indonesia may be eligible to benefit from a full tax exemption for up to 20 years with an additional transition period of a 50% partial tax exemption for up to two years.

Providing more generous tax exemptions within SEZs compared to the rest of the country raises the question as to why investors within SEZs receive tax relief for a longer period of time in the median than those outside the zones, particularly given that they enjoy additional benefits in the form of regulatory concessions, infrastructure development, or preferential economic policies. Evaluating the effectiveness of tax exemptions in SEZs is therefore of particular importance.

The discussion about the duration of exemptions provides only a first snapshot comparing one dimension that affects tax relief. Follow-up analysis could use more complex indicators, such as the forward-looking effective tax rate, to summarise multiple dimensions that all affect the generosity of tax relief provided by one instrument, compare the generosity across incentive instruments, and evaluate the effects on taxation in the context of country-specific baseline tax systems.

**Figure 10. Full tax exemptions apply for longer periods on average within compared to outside SEZs**

Distribution of maximum duration of full corporate income tax exemptions offered on a temporary basis outside (left) and inside (right) SEZs



Note: The cross shows the median duration of full corporate income tax exemptions offered on a temporary basis, while the width of the violin plots indicate the density of observations. For each tax exemption scheme, the maximum years of exemption is used.

Source: OECD Investment Tax Incentives database, July 2021 version, based on information on 36 countries, i.e. 91 temporary full corporate income tax exemptions (33 within SEZs and 60 outside of SEZs).

#### 4.4. Targeting investment for sustainable development

Investment tax incentives are sometimes used to stimulate and attract investment with the objective of generating positive spillovers on exports, employment, productivity and other objectives related to the SDGs. Public policies and, in this context, investment tax incentives require careful consideration to ensure that these benefits actually materialise and outweigh their potential costs such as reduced revenue-raising capacity, economic distortions, administrative and compliance costs, increased opportunities for tax avoidance and the effects of excessive tax competition.

##### ***Some tax incentives are conditional on promoting certain SDG clusters***

In some countries, tax incentives include dedicated eligibility conditions and design features to promote objectives related to various SDG policy clusters. Identifying these conditions and design features allows for an assessment of the extent to which objectives related to the SDGs explicitly feature in countries' targeting strategies for tax incentives. It will also facilitate follow-up analysis to study whether incentives are effective in supporting sustainable development and the attainment of the SDGs.

Table 7 first lists the specific sustainable development policy clusters (column 1), namely investments supporting skills development, employment and job quality, gender equality, improving environmental outcomes, promoting exports, and fostering linkages with local suppliers.<sup>56</sup> The table further identifies how

<sup>56</sup> Another important cluster where investment tax incentives may contribute to the SDGs is in the area of productivity and innovation. OECD measurement work on this topic can be found in the OECD Corporate Tax Statistics and the OECD R&D Tax Incentives Database.



countries target these respective clusters, either through eligibility conditions or the design features of tax incentives (columns 2-5). All conditions and features listed in the table are used by at least one country included in the database.<sup>57</sup>

Related SDG clusters (column 1) reflect six sustainable development clusters that summarise the areas through which investment may contribute to achieving the SDGs, as well as economic growth more broadly. The clusters build on those identified in the OECD FDI Qualities Indicators and the draft FDI Qualities Policy Toolkit and reflect areas through which investment may contribute to the achievement of the SDGs. Two additional clusters relate to countries' integration in global value chains (GVCs), an important channel for economic growth, especially for developing economies.<sup>58</sup> Annex B presents details on the sustainability objectives associated with sustainable development clusters.

Outcome conditions (column 2) describe specific merit- or performance-based conditions that investors must meet in order to benefit from the incentive, including for example, environmental and social outcomes. Outcome conditions were identified as a means of targeting all SDG clusters considered in the database and are used by all types of tax incentive instruments, be it reduced rates, exemptions, allowances or credits. As mentioned in Section 4.1, 23 of the 36 countries make use of at least one incentive that includes an outcome condition associated with SDG clusters. Of all 298 incentives covered in the database, 21% include some form of outcome condition and typically apply jointly with other eligibility conditions.

Among the countries included, outcome conditions are most often used to promote exports (13 of 36 countries use at least one incentive with an export condition) and are most frequently used within SEZs. (Section 4.3). In practice, investors may only benefit from tax relief if a certain percentage of their output is exported. For example, a country may tax businesses that export at least 50% of their output at a reduced rate, while the standard CIT rate applies to other exporters and non-exporters. A few countries also use outcome conditions relating to the number of jobs or share of employees with disabilities. For example, Jordan grants a lower CIT rate to manufacturing businesses in which at least 15% of the workforce are female or disabled Jordanian nationals.

Certain tax incentives with outcome conditions may support achieving SDGs as they make the tax incentive conditional on reaching various policy outcomes, which may strengthen the link between the policy and intended policy objective. On the other hand, associating multiple conditions and policy objectives under one instrument, provides for blunt targeting in particular if thresholds to benefit from an incentive are set at a low level in one dimension. Outcome conditions apply more often in combination with tax exemptions than with other tax incentive instruments: half of the incentives with an outcome condition were tax exemptions, but tax exemptions represent only a third of the overall incentives in the database. This may be a sign that countries aim to strengthen the design of otherwise widely-applicable income-based incentives since they often make incentives indirectly conditional on certain expenditures and activities to achieve the outcome.

However, implementing outcome conditions adds substantial administrative costs as they require careful monitoring of beneficiaries to ensure that the outcome has been met and avoid fraudulent behaviour; for example, to ensure that a required number of jobs were effectively created. Depending on the outcome condition defined, effective monitoring may require close coordination with other government agencies (e.g. cross-checking with social security information on jobs created) or continued evaluation of progress

<sup>57</sup> Other countries may target SDG clusters through different channels and outcome conditions. As such, this table is likely to evolve as more countries are included in the database.

<sup>58</sup> The OECD FDI Qualities Indicators (OECD, 2019<sup>[22]</sup>) and the draft FDI Qualities policy toolkit(<https://www.oecd.org/investment/business-investment-sdgs.htm>) present policies and institutional arrangements that can contribute to enhancing the impact of FDI to improve the sustainable development impacts of investment, among which are investment tax incentives. The FDI Qualities policy toolkit together with a Companion Guide for Donors' Engagement is expected to be published in 2022.

toward targets. Such monitoring requires resources and administrative capacity, which may be scarce in developing countries. Furthermore, outcome conditions are generally based on reaching thresholds that themselves risk being defined arbitrarily or could potentially reflect captive interests and may not be fulfil the concept of *additionally* (i.e. only accounting for outcomes that would not have been generated in the absence of the incentive).

Besides outcome conditions, the targeting of specific sectors (column 3) can also support SDG clusters. Investments in some sectors are directly associated with intended sustainability objectives. This is the case for investment in renewable energy production. For example, Senegal provides tax allowances to promote investment in electricity generation from solar energy and wind.

Next to eligibility conditions, the specific design of tax incentive instruments can also explicitly link to SDG clusters, particularly where qualifying income (for income-based incentives, see column 4) or qualifying expenditure (for expenditure-based incentives, column 5) takes SDG related objectives into consideration. For example, some countries offer tax relief on capital assets (e.g. machinery and equipment, buildings) to be used in a specific activity, such as for building a new training facility, that could support certain SDGs. For current expenditures, preferential tax treatment may explicitly apply to specific types of expenditure involved in a certain activity (e.g. spending on training personnel). For example, Botswana, Indonesia and Mozambique allows expenditures on employee training to be deducted at 200% of the actual cost for tax purposes. Lesotho, Namibia and South Africa also provide incentives for enhanced deduction of training expenditures, but at lower rates. Morocco taxes income from exports at a reduced CIT rate (20% instead of 31%).

**Table 7. Targeting sustainable development through eligibility conditions and design dimensions of investment tax incentives**

(1) Sustainable Development Areas	Eligibility Conditions		Design Features	
	(2) Outcome condition	(3) Sector condition	(4) Preferential treatment for certain qualifying income	(5) Preferential treatment for certain qualifying expenditure
Employment & job quality	(a) Employ a minimum number of workers; <sup>1</sup> (b) Create a minimum number of new jobs; (c) Employ a minimum share of workers with disabilities; (d) Pay an average wage at a certain level.			(a) Wages of newly created employment.
Skills development	(a) Reach a minimum level of expenditure on training and education.			(a) Expenditure on training and education of employees; (b) Wages of trainees and apprentices; (c) Training expenditure for women workers re-entering the workforce ; (d) Expenditures related to building training facilities.
Gender equality	(a) Employ a minimum share of female workers.			
Improving environmental outcomes	(a) Ensure some or a certain level of energy efficiency improvement;	(a) Electricity generation from renewable energy sources; (b) Waste management.		(a) Acquisition of machinery for electricity production from renewable energy sources for own use; (b) Improving the energy performance of machinery or buildings (e.g. via building retrofitting).
Promoting exports	(a) Achieve a minimum export share in sales.		(a) Income from exports; (b) Income from transit trade.	(a) Export promotion expenditure <sup>2</sup> .
Fostering 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 for inputs sourced from SMEs.

Notes: Eligibility conditions and design features listed in the table are used by at least one country included in the database. The list may evolve in the future when country coverage extends.

<sup>1</sup> Employ a minimum number of workers is considered both as an outcome condition (i.e. given that it is an *ex-post* outcome of the investment), as well as an investment size criteria.

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

Source: OECD Investment Tax Incentives database, July 2021 version, based on information on 36 countries.

***Tax incentives that target specific areas of the SDGs often aim to enhance competitiveness, promote exports and create jobs***

Relating design features and eligibility requirements to specific areas of the SDGs in Table 7 reveals that about a third of all tax incentive schemes included in the database promote at least one SDG cluster (101 incentives out of 298) and are used in 28 out of 36 countries. Half of the countries included in the database use tax incentives with specific eligibility conditions and design features to promote exports (Figure 11, Panel A). Incentives for export promotion are often observed in SEZs: one third of tax incentives within SEZs promote exports (22 of the 67 tax incentives in 15 countries). Other countries use tax incentives to promote exports outside SEZs (11 countries). Tax incentives are further used with the explicit objective to create employment and improve job quality: 12 of 36 countries do so. Other areas for the SDGs – including those associated with skills development, improving environmental outcomes, local supply linkages, and gender equality – are more rarely observed.

Developing economies may target policy clusters that focus on the expansion of productive capacity and job creation to mobilise overall private investment and to support economic growth. Countries with less robust investment climates may be hesitant to make incentives conditional on supporting social and development outcomes in light of international competition to attract FDI, which is further increased by the drop in capital flows to developing countries following the COVID-19 recession (OECD, 2020<sup>[20]</sup>). At the same time, investment that supports social and environmental objectives is much needed also in developing countries as enshrined in the current SDGs. Such advances can also contribute to improving their investment climate more broadly. Further analysis is needed to evaluate the effectiveness of SDG-related tax incentives in advancing intended objectives (Box 3).

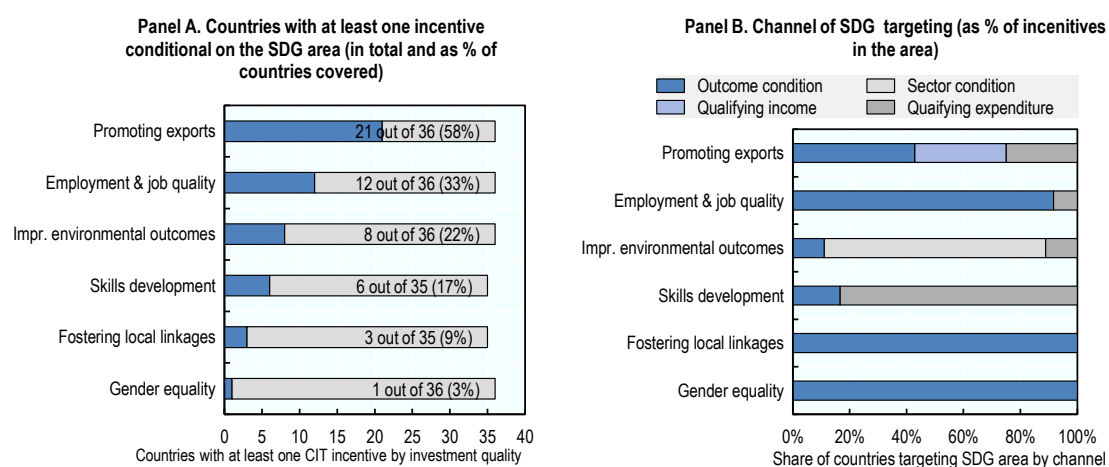
Around a quarter of the incentives that explicitly promote SDG clusters target more than one cluster. For example, South Africa had a tax allowance scheme for manufacturing investors that was conditional on improving energy efficiency (i.e. utilise modern energy efficient equipment or increase energy savings by 10%) and spending at least 2.5% of the wage bill on skills development.<sup>59</sup> Associating multiple areas of the SDGs cluster and aiming to pursue multiple policy objectives with one single instrument, risks bluntly target the underlying policy rationale. Often, other instruments may be more appropriate to target the underlying market failure more directly.

Included countries mainly target SDG clusters through one main design or eligibility condition (Figure 11, Panel B). For example, skills development is mainly targeted through preferential tax treatment of relevant qualifying expenditures. Export promotion occurs mainly through outcome conditions (e.g. requirements for minimum export orientation), although targeting income from exports is also used.

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<sup>59</sup> South Africa's 12I Tax Allowance Incentive was available to investors until 31 March 2020 and has since been withdrawn. Note that additional requirements applied to qualify for tax allowance were according to investment size and used a point-based system (also targeting innovation, development of business linkages, SME sourcing and business location).

**Figure 11. Export promotion is the most widely targeted sustainable development areas**



Note: See Table 7 in Section 3.3 for definitions of outcome categories.

Source: OECD Investment Tax Incentives database, July 2021 version, based on 298 corporate income tax incentives (101 incentives schemes promoting SDG clusters and 197 without).

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## Annex A. OECD Investment Tax Incentives database country coverage

In July 2021, the OECD Investment Tax Incentives database includes 36 countries. Table A A.1 presents the details for the month of data collection for the 36 countries. An expansion of the coverage is tentatively planned for 22 additional countries (Table A A.2).

**Table A A.1. OECD Investment Tax Incentives database: country coverage in July 2021**

Country coverage by region and data entry period

Region	Country	Data Entry
Sub-Saharan Africa	Angola (AGO)	July 2020
	Botswana (BWA)	July 2020
	Côte d'Ivoire (CIV)	September 2020
	Eswatini (SWZ)	December 2020
	Ethiopia (ETH)	August 2020
	Ghana (GHA)	August 2020
	Kenya (KEN)	January 2021
	Lesotho (LSO)	December 2020
	Madagascar (MDG)	August 2020
	Malawi (MWI)	November 2020
	Mauritius (MUS)	August 2020
	Mozambique (MOZ)	July 2020
	Namibia (NAM)	August 2020
	Nigeria (NGA)	August 2020
	Rwanda (RWA)	November 2020
	Senegal (SEN)	September 2020
	South Africa (ZAF)	July 2020
	Tanzania, United Republic of (TZA)	October 2020
	Zambia (ZMB)	September 2020
	Zimbabwe (ZWE)	October 2020
Middle East & North Africa	Egypt (EGY)	December 2020
	Jordan (JOR)	December 2020
	Morocco (MAR)	December 2020
	Tunisia (TUN)	December 2020
Europe & Central Asia	Armenia (ARM)	February 2020
	Azerbaijan (AZE)	February 2020
	Belarus (BLR)	February 2020
	Georgia (GEO)	February 2020
	Moldova, Republic of (MDA)	February 2020
	Ukraine (UKR)	November 2021
East Asia & Pacific	Brunei Darussalam (BRN)	March 2020
	Cambodia (KHM)	January 2021
	Indonesia (IDN)	April 2020

Region	Country	Data Entry
	Lao People's Democratic Republic (LAO)	January 2021
	Myanmar (MMR)	January 2021
	Thailand (THA)	January 2021

**Table A A.2. Tentative database country coverage expansion by late 2021**

Algeria (DZA)	Congo, Democratic Republic of (DRC)	Paraguay (PRY)	Uruguay (URY)
Argentina (ARG)	Dominican Republic (DOM)	Philippines (PHL)	Vietnam (VNM)
Brazil (BRA)	Gambia (GMB)	Russian Federation (RUS)	West Bank and Gaza (PSE)
Cameroon (CMR)	India (IND)	Saudi Arabia (SAU)	
Cabo Verde (CPV)	Liberia (LBR)	Sierra Leone (SLE)	
China (CHN)	Malaysia (MYS)	Singapore (SGP)	

## Annex B. Additional on classifications used in the database

This annex presents additional details on key classifications used in the OECD Investment Tax Incentives database.

### Eligibility conditions

#### *Sector conditions*

The OECD Investment Tax Incentives database uses a sector classification adapted for this purpose and with direct correspondence to the International Standard Industrial Classification of All Economic Activities revision 4 (ISIC Rev. 4). This is expected to facilitate eventual future sector condition disaggregation. Sector conditions vary widely from country to country and are often based on the national economic activity classification, which may not be directly comparable across countries. The closest match was used when the national classification or terminology used in the legislation does not have a direct or explicit correspondence to the ISIC Rev. 4.

The sector classification used for the database compiles information on 15 sectors which can be disaggregated into 36 sub-sectors. Only three sectors are further divided into sub-sectors: agriculture (3 sub-sectors), mining (4 sub-sectors), manufacturing (16 sub-sectors) and electricity generation (2 sub-sectors) (Table A B.1). Other sector are not subdivided into sub-sectors and therefore, sector and sub-sector are equivalent for certain economic activities. Electricity generation and transmission sector distinguishes between generation from renewable and other within this sector, however electricity generation from renewable sources does not have a direct correspondence ISIC Rev. 4 code.<sup>60</sup>

For the purpose of this work

- **Broad targeting** refers to sector conditions that apply to all sub-sectors within an sector where this information is available (i.e. agriculture, mining, or manufacturing). For example, consider a tax allowance for machinery used in mining activities (i.e. any type of mining activities).
- **Narrow targeting** refers to sector conditions that apply to a specific sub-sectors or sub-sector segments within an economic sector. For example, an incentive available only to the Textile and Chemical industries, but no other industries within the manufacturing sector.

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<sup>60</sup> Instead the sector class 3510 includes generation of electric energy including from renewable and non-renewable fuels.

Countries may target sub-sectors more narrowly than the 36 sub-sectors listed in Table A B.1. In this case, the approximate parent sub-industry is registered. For example, targeting air and spacecraft manufacture, rather than the entire transport equipment industry. An incentive for cereal crops is registered with a condition for *Crop, animal production, and related service activities*. Furthermore, certain sector eligibility conditions refer to assets *to be used in specific production activities*. For example, preferential treatment of *buildings used for housing machinery used in manufacturing* are attributed a manufacturing sector condition. Incentives for the construction of hotels or resort complexes are assigned an *Accommodation and food services* sector condition.

Countries may carve-out certain economic activities from tax incentives that apply with broad sector conditions or without sector conditions. For example, policies may carve out the manufacture of alcoholic beverage production from benefiting from an incentives for the manufacturing sector. Or an investment allowance may apply without positive sector targeting, but apply based on a negative sector list that carves out for example, the financial sector as eligible to benefit from the incentive.

Table A B.1. Sector groups included in the database

Sector (Tier 1)	Sub-sectors (Tier 2)	Sub-sector short label	Correspondence to ISIC Rev. 4 codes
(1) Agriculture and fishing	Crop, animal production, and related service activities	Crops & animals	1
	Forestry and logging	Forestry	2
	Fishing and aquaculture	Fishing	3
(2) Mining and quarrying	Mining of coal and lignite	Coal	5
	Extraction of crude petroleum and natural gas	Crude petro. & gas	6
	Metal ore mining	Metal ore	7
	Other mining and quarrying	Other mining	08 and 09
	Food and beverages	Food & Bev.	10 and 11
(3) Manufacturing	Tobacco	Tobacco	12
	Textile, apparel, and leather	Textile & apparel	13, 14 & 15
	Wood and wood products	Wood	16
	Paper products and printing	Paper & pub.	17 and 18
	Coke and refined petroleum products	Petro. products	19
	Chemicals and plastics	Chem. & plastic	20
	Pharmaceuticals and biotechnology	Pharma. & bio-tech	21
	Non-metallic mineral products	Rubber & non-met.	22 and 23
	Basic and fabricated metals	Basic & fab. metals	24 and 25
	Computer, electronic and optical products	Com. & electronic	26
	Electrical equipment	Electrical equip.	27
	Machinery and equipment	Machinery & equip.	28
	Motor vehicles, trailers and semi-trailers	Motor vehicles	29
	Other transport equipment	Other transp.	30
	Other manufacturing activities	Other manuf.	31, 32 and 33
(4) Electricity, gas, steam and air conditioning supply	Electricity generation from renewable sources	Renew. electricity	No correspondence*
	Electricity, gas, steam and air conditioning supply, except electricity generation from non-renewable sources	Other electricity	35, except from renewable sources
(5) Water supply; sewerage, waste management and remediation activities	Water supply; sewerage, waste management and remediation activities	Water & sewage	36, 37, 38 and 39
(6) Construction	Construction	Construction	41, 42 and 43
(7) Wholesale and retail trade	Wholesale and retail trade	Wholesale & Retail	45, 46 and 47
(8) Transportation and storage	Transportation and storage	Transp. & Storage	49, 50, 51, 52 and 53
(9) Accommodation and food services	Accommodation and food service	Tourism	55 and 56
(10) Information and communication	Information and communication	Info. & Comm.	58, 59, 60, 61, 62 and 63
(11) Financial and insurance activities	Financial and insurance activities	Finan. & Real Est.	64, 65, 66 and 68
(12) Professional, scientific and technical activities	Professional, scientific and technical activities	Prof. & Scientific Serv.	69, 70, 71, 72, 73, 74 and 75
(13) Education	Education	Education	85
(14) Arts, entertainment and recreation	Arts, entertainment and recreation	Arts & Entertainment	90, 91 and 93
(15) Other services	Other service activities not included in other groups	Other Services	77-82, 84, 86-88, 94-96

Source: Authors based on ISIC Rev. 4 (UN, 2008<sub>[21]</sub>).

## Legal basis

Tax incentives may be introduced through different legal provisions that may either be primary legislation (i.e. within laws, such as tax laws, SEZ laws, and the investment law) or secondary legislation (e.g. decrees and regulations). Table A B.2 lists the type of introducing provisions used by at least one of the 36 countries included in the database and groups them by regulation type and sub-type. Column 3 includes a summary list of the provisions included in each type and sub-type.

**Table A B.2. Legal instruments introducing tax incentives, by provision type**

Provision Type	Sub-type	Provisions included
Primary Legislation	Tax Law	Company Income Tax Act Income Tax Act/Order Direct Tax Law Finance Law General Tax Code
	Investment Law	Investment Code Investment Law Investment Promotion Law/Act Private Investment Law Promotion of Investment Act
	SEZ Law	Economic Activity Parks Law Export Processing Zones Act Free Zone Act/Law Free Zone Law Industrial Park Proclamation Special Economic Zones Act/Law
	Sector Law	Mining Code
	Other legislation	Tax Incentives Law Code of Fiscal Benefits Development Agency Act Economic Development Board Act Industrial Development Act Investment Incentives Order Investment Promotion Authority Act
Secondary Legislation	Regulations	Government Regulation Investment Regulation Ministry of Finance Regulation
	Decrees	Presidential Decree Royal Decree Sub-decree
	Decisions	Investment Board Decision Investment Council Decision

## Sustainable development clusters

SDG clusters considered in Table 7 are based on the sustainability clusters developed under the OECD FDI Qualities Indicators (OECD, 2019<sup>[22]</sup>) and the draft FDI Qualities policy toolkit.<sup>61</sup> The FDI Qualities sustainability clusters include policies on employment, improving job quality, skills, gender equality and reducing carbon footprint.

Two additional clusters were added to adapt the framework to the investment tax incentive context which relate to integration in global value chains (GVCs): promoting exports and fostering local linkages. Furthermore, the reducing carbon footprint FDI Qualities cluster was adapted to include a broader concept of environmental issues going beyond carbon footprint. Table A B.3 summarises the objectives and supported SDG-linked outcomes that each of the sustainable development cluster seeks to advance.

**Table A B.3. Sustainable development clusters and key supported outcomes**

SDG clusters	Supported outcomes
Employment & job quality	Create of jobs and promote effective participation of groups at a disadvantage in the workforce. Job quality is essential to ensure that employees can work productively.
Skills development	Promote human capital and skills, directly through in-house worker and manager training, and indirectly through knowledge transfers to suppliers.
Gender equality	Support effective participation of women in the workforce and equal opportunities at all work levels.
Improving environmental outcomes	Promote low-carbon energy transition, protect environmental quality and improve environmental impact.
Promoting exports	Enable productivity growth through participation and access to foreign markets.
Fostering local linkages	Support the development of linkages with domestic firms, including SMEs, to enhance knowledge spillovers.

Source: Authors based on OECD (2019<sup>[22]</sup>).

<sup>61</sup> The draft FDI Qualities policy toolkit can be found online at <https://www.oecd.org/investment/business-investment-sdgs.htm>.

# Annex C. OECD Working Papers on International Investment

[www.oecd.org/investment/working-papers.htm](http://www.oecd.org/investment/working-papers.htm)

## 2021

2021/5 - Extreme capital flow episodes from the Global Financial Crisis to COVID-19: An exploration with monthly data

2021/4 – Analysing sectoral capital flows - covariates, co-movements and controls

2021/3 - The future of investment treaties – possible directions

2021/2 - Business responsibilities and investment treaties

2021/1 - Assessing the effectiveness of currency-differentiated tools: The case of reserve requirements

## 2020

2020/1 - The most favoured nation and non-discrimination provisions in international trade law and the OECD codes of liberalisation

## 2019

2019/3 - Drivers of divestment decisions of multinational enterprises - A cross-country firm-level perspective

2019/2 - The Broad Policy Toolkit for Financial Stability: Foundations, Fences and Fire Doors

2019/1 - The Determinants of Foreign Direct Investment - Do Statutory Restrictions Matter?

## 2018

2018/1 Societal benefits and costs of International Investment Agreements: A critical review of aspects and available empirical evidence

## 2017

2017/5 Adjudicator Compensation Systems and Investor-State Dispute Settlement

2017/4 Have currency-based capital flow management measures curbed international banking flows?

2017/3 Addressing the balance of interests in investment treaties: The limitation of fair and equitable treatment provisions to the minimum standard of treatment under customary international law

2017/2 The balance between investor protection and the right to regulate in investment treaties: A scoping paper

2017/1 Foreign direct investment, corruption and the OECD Anti-Bribery Convention

## 2016

2016/3 State-to-State dispute settlement and the interpretation of investment treaties

2016/2 Investment policies related to national security



2016/1 The legal framework applicable to joint interpretive agreements of investment treaties

## 2015

2015/3 Currency-based measures targeting banks - Balancing national regulation of risk and financial openness

2015/2 Investment Treaties over Time - Treaty Practice and Interpretation in a Changing World

2015/1 The Policy Landscape for International Investment by Government-controlled Investors: A Fact Finding Survey

## 2014

2014/3 Investment Treaties and Shareholder Claims: Analysis of Treaty Practice

2014/2 Investment Treaties and Shareholder Claims for Reflective Loss: Insights from Advanced Systems of Corporate Law

2014/1 Investment Treaty Law, Sustainable Development and Responsible Business Conduct: A Fact Finding Survey

## 2013

2013/4 Temporal validity of international investment agreements: a large sample survey of treaty provisions

2013/3 Investment treaties as corporate law: Shareholder claims and issues of consistency

2013/2 Lessons from Investment Policy Reform in Korea

2013/1 China Investment Policy: an Update

## 2012

2012/3 Investor-state dispute settlement: A scoping paper for the investment policy community

2012/2 Dispute settlement provisions in international investment agreements: A large sample survey

2012/1 Corporate greenhouse gas emission reporting: A stocktaking of government schemes

## 2011

2011/2 Defining and measuring green FDI: An exploratory review of existing work and evidence

2011/1 Environmental concerns in international investment agreements: a survey

## 2010

2010/3 OECD's FDI Restrictiveness Index: 2010 Update

2010/2 Foreign state immunity and foreign government controlled investors

2010/1 Intellectual property rights in international investment agreements

## 2006

2006/4 OECD's FDI regulatory restrictiveness index: Revision and extension to more economies

2006/3 Interpretation of the Umbrella Clause in Investment Agreements

2006/2 Investor-State Dispute Settlement in Infrastructure Projects

2006/1 Improving the System of Investor-State Dispute Settlement: An Overview

## 2005

2005/3 Corporate Responsibility Practices of Emerging Market Companies - A Fact-Finding Study

2005/2 Multilateral Influences on the OECD Guidelines for Multinational Enterprises

2005/1 Transparency and Third Party Participation in Investor-State Dispute Settlement Procedures

## **2004**

2004/6 Mobilising Investment for Development: Role of ODA - The 1993-2003 Experience in Vietnam

2004/5 ODA and Investment for Development: What Guidance can be drawn from Investment Climate Scoreboards?

2004/4 Indirect Expropriation and the Right to Regulate in International Investment Law

2004/3 Fair and Equitable Treatment Standard in International Investment Law

2004/2 Most-Favoured-Nation Treatment in International Investment Law

2004/1 Relationships between International Investment Agreements

## **2003**

2003/2 Business Approaches to Combating Corrupt Practices

2003/1 Incentives-based Competition for Foreign Direct Investment: The Case of Brazil

## **2002**

2002/2 Managing Working Conditions in the Supply Chain: A Fact-Finding Study of Corporate Practices

2002/1 Multinational Enterprises in Situations of Violent Conflict and Widespread Human Rights Abuses

## **2001**

2001/6 Codes of Corporate Conduct: Expanded review of their contents

2001/5 The OECD Guidelines for Multinational Enterprises and other corporate responsibility instruments

2001/4 Public policy and voluntary initiatives: What roles have governments played?

2001/3 Making codes of corporate conduct work: Management control systems and corporate responsibility

2001/2 Corporate Responsibility: Results of a fact-finding mission on private initiatives

2001/1 Private Initiatives for Corporate Responsibility: An Analysis

## **2000**

2000/5 Recent trends, policies and challenges in South East European countries

2000/4 Main determinants and impacts of FDI on China's economy

2000/3 Lithuania: Foreign Direct Investment Impact and Policy Analysis

2000/2 Investment Patterns in a Longer-Term Perspective

2000/1 Bribery and the business sector: Managing the relationship

## **1999**

1999/3 Rules for the Global Economy: Synergies between Voluntary and Binding Approaches

1999/2 Deciphering Codes of Corporate Conduct: A Review of their Contents

1999/1 Southeast Asia: the Role of FDI Policies in Development

## **1998**

1998/1 Survey of OECD work on international investment