

Foreign direct investment into Africa and the role of taxation –

**A case study of Ghana and Rwanda, with a focus on the influence of taxation
incentive policies and regulations currently in force**



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“Next to being shot at and missed, nothing is really quite as satisfying as an income tax refund.”

F.J. Raymond

Declaration:

This study is entirely my own work.

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Catherine Laurá-Jeán Cullen

Abstract:

Currently Africa is one of the fastest growing economic regions in the world with an array of opportunities for investing that extend from consumer-facing industries to agriculture. Given the muted global economic conditions that have persistently prevailed since the 2007/2008 deterioration in worldwide economic growth; investors, the world over, are seeking investment opportunities that are as yet untapped, and have the potential to provide above average returns. Despite many developing countries presenting various investment challenges, among which include a lack of adequate infrastructure or difficult business conditions when it comes to starting and operating a business, to name but a few, investors are often taking a long-term view when committing capital to these countries. Many of the countries in sub-Saharan Africa are classified within a sub-category of developing countries referred to as frontier economies. These economies are producing growth rates that often surpass both the more advanced developing countries such as China, as well as the growth rates of the developed world.

This study evaluates the investing landscape in Africa, with particular focus on the countries of Ghana and Rwanda. An in-depth analysis of each country's taxation system and the areas within those systems that may affect the foreign direct investment decision is undertaken. The study then goes on to compare each of the respective country's taxation laws and policies, specifically in regard to taxation incentives, to the laws and policies currently applicable in South Africa. This is performed with the aim of investigating possible improvements that may assist in enlarging the selected country's taxation revenue. Further, it is also the intent of this study that the solutions proffered for the improvement of the policies and regulations currently in place will assist in increasing the transparency with which the systems operate. When taken in unison these suggested amendments would sanguinely work towards enhancing the overall experience of investors – both domestic and foreign.

After a broad introduction to the investing landscape in Africa coupled with how taxation relates to the decision to invest in a particular location, Chapter one expatiates on the

questions an investor may contemplate in the event of intending to invest in Africa. This establishes the foundation for the design of the research objectives as well as the study approach, specifically in regard to the selection of countries.

At present most of the foreign direct investment that flows to Africa goes to the larger economies, however these investment flows are forecast to diversify to many of the other African countries on offer, mainly due to these countries' high economic growth levels, improved political stability and governance. Chapter two provides further insight into the reasons behind Africa's recent growth spurt and the rise of frontier economies, specifically those located in sub-Saharan Africa – Ghana and Rwanda both fall within this definition – as well as the reasons behind these economies' ascendance and anticipated future growth prospects.

The design of taxation systems is closely monitored by both domestic and foreign investors alike, and as such has the ability to influence the volume and location of investor's capital flows. In an effort to counter possible negative primary investment factors that are likely to hold significant influence over the investment decision, many governments in developing countries structure taxation incentives in a manner that attempts to overcome these shortfalls. Chapter three proceeds with a comprehensive review of taxation incentives as they operate in general; together with a brief description of the most commonly utilized variations of these specific incentives. This chapter provides the necessary background to understanding the incentives that are currently operational in Ghana and Rwanda as well as South Africa, which are discussed later in the study.

Following on from this discussion Chapter four explores the current investment climate and opportunities available in each of the respective countries coupled with a brief history of each. Both countries have made considerable progress recently in the achievement of a more stable and transparent investment environment, while offering investors a range of investment opportunities that are producing positive returns. As such they are both viewed as desirable destinations for the location of investment capital, however ongoing scrutiny of the yearly

amendments in the relative Budget Speeches and changes in taxation laws and policies that may affect the placement of capital is essential in order to adequately manage risk and reward possibilities.

Chapter five and six respectively provide a brief overview of each country's Budget Speech for the fiscal year as well as an examination of the individual country's taxation Acts. The focus of each chapter is specifically on the sections within the individual country's Budget Speech and taxation Acts that may be of consequence to an investor.

In conclusion, Chapter seven presents a comparative analysis of the South African taxation system including current taxation incentives offered, with the systems in place in Ghana and Rwanda. This chapter finds that the current system of taxation incentives offered by both Ghana and Rwanda to be lacking in transparency for an array of reasons. In addition to a lack of transparency, each country has proved to be enormously generous in the granting of incentives in relation to the benefits being realized. The chapter introduces a range of possibilities that could be customized to each country's individual requirements. Consideration has been given to the level of advancement of each system and suggestions made that would provide the least possible disruption to the functioning of the system while at the same time enhancing the efficiency and effectiveness of the outcome for both investors and the host country.

Despite these two countries having achieved a large degree of success in the attraction of foreign direct investment thus far, without constant and in-depth analysis and adaptation of the policies and regulations governing the attraction and retention of investment capital, this capital will migrate elsewhere. Ultimately with both these countries possessing so much potential for growth and positive returns to both the investors and the countries themselves, it would appear futile to overlook the idea of implementing change that will create long-term benefits, even if this change comes with a degree of short-term discomfort.

Acknowledgement:

“Both abundance and lack exist simultaneously in our lives, as parallel realities. It is always our conscious choice which secret garden we will tend... when we choose not to focus on what is missing from our lives but are grateful for the abundance that’s present — love, health, family, friends, work, the joys of nature and personal pursuits that bring us pleasure — the wasteland of illusion falls away and we experience Heaven on earth.”

Sarah Ban Breathnach

In acknowledgement of My Creator and all the gifts He continuously bestows upon me; both in the past, present and future; for which I will never be able to evince adequate gratitude, but for which He continues to so generously confer - this study is dedicated.

It is my fervent aspiration to always set the bar higher, even when the path is fraught with disappointment and frustration - may His grace and wisdom guide me and inspire me, thereby allowing me to have the courage and strength to follow His lead always.

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TABLE OF ABBREVIATIONS:

Abbreviation:	Description:
ABFA	Annual Budget Funding Amount
AEC	African Economic Community
AETR	Average Effective Taxation Rates
AIS	Automotive Investment Scheme
AMU	Arab Maghreb Union
ANC	African National Congress
APDP	Automotive Production and Development Programme
ASEAN countries	Indonesia, Malaysia, Philippines, Singapore and Thailand
BBSDP	Black Business Supplier Development Programme
BEE	Black Economic Empowerment
BoP	Balance of Payments
BPS	Business Process Services
BRIC countries	Brazil, Russia, India and China
CCA	Customs Controlled Area
CD	Customs Division
CDM	Clean Development Mechanism
CEN-SAD	Community of Sahel-Saharan States
CEPS	Custom, Excise, and Preventative Service
CER	Certified Emission Reduction
CET	Customs and Excise Tax
CG	Commissioner General
CGT	Capital Gains Taxation
CIF	Cost, Insurance and Freight
CIP	Critical Infrastructure Programme
CIS	Co-operative Incentive Scheme

CIT	Corporate Income Taxation
CMT	Cut, Make and Trim
COMESA	Common Market for Eastern and Southern Africa
CTCIP	Clothing and Textile Competitiveness Improvement Programme
CTCP	Clothing and Textile Competitiveness Programme
CU	Customs Union
DFA	Duty-Free Allowance
DTA	Double Taxation Agreement
DTAA	Double Taxation Avoidance Agreement
DTI	Department of Trade and Industry (South Africa)
DTRD	Domestic Tax Revenue Division
DTT	Double Taxation Treaty
E & Y	Ernst & Young
EAC	East African Community
EAC CU	East African Community Customs Union
EBM	Electronic Billing Machine
ECCAS/CEEAC	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EDIF	Export Development and Investment Fund
EMIA	Export Marketing and Investment Assistance
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
FIG	Foreign Investment Grant
FTZ	Free Trade Zone
GAAR	General Anti-avoidance Rules
GDP	Gross Domestic Product
GFZB	Ghana Free Zones Board
GH¢	Ghanaian Cedi

GIPC	Ghana Investment Promotions Centre
GNPC	Ghana National Petroleum Company
GoG	Government of Ghana
GoR	Government of Rwanda
GPF	Ghana Petroleum Fund
GRA	Ghana Revenue Authority
GSE	Ghana Stock Exchange
GSS	Ghana Statistical Service
HDE	Historically Disadvantaged Entrepreneurs and enterprises
HIPC	Heavily Indebted Poor Countries
ICT	Information and Communication Technology
IDZ	Industrial Development Zone
IF	Innovation Fund
IFC	International Finance Corporation
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
IPO	Initial public offering
IPPA	Investment Promotion and Protection Agreement
IRCC	Import Rebate Credit Certificate
ITAC	International Trade Administration Commission of South Africa
IT	Information Technology
JV	Joint Venture
KVA	Kilovolt-ampere
LAA	Local Assembly Allowance
LED	Local Economic Development
LIC	Life Insurance Corporation
MDRI	Multilateral Debt Relief Initiative
METR	Marginal Effective Taxation Rate

MIDP	Motor Industry Development Programme
MIG	Municipal Infrastructure Grant
MIGA	Multilateral Guarantee Agency
MIP	Manufacturing Investment Programme
MiTech	Missions in Technology Programme
MNC	Multinational Corporation
NAEB	National Agricultural Exports Board
NDPG	Neighbourhood Development Partnership Grant
NHIL	National Health Insurance Levy
OBG	Oxford Business Group
OECD	Organisation for Economic Co-operation and Development
p.a.	per annum
PAA	Productive Asset Allowance
PAYE	Pay as You Earn
PESTEL	Political, economic, social, technology, environmental and legal analysis
PI	Production Incentive
PPD	Product Process Development
PRMA	Petroleum Revenue Management Act 815 of 2011
PwC	PricewaterhouseCoopers
QSAPE	Qualifying South African Production Expenditure
R	South African Rand
RDB	Rwanda Development Board
RIEPA	Rwanda Investment and Export Promotion Agency
RRA	Rwanda Revenue Authority
RWF	Rwandan Franc
SACU	Southern African Customs Union
SADC	Southern African Development Community
SARS	South African Revenue Services

SET	Science, Engineering and Technology
SFFP	Staple Food Fortification Incentive Scheme
SIF	Services Investment Forum
SIP	Strategic Industrial Project
SMEDP	Small and Medium Enterprise Development Programme
SME	Small to Medium Enterprise
SMME	Small, Medium and Micro Enterprises
SPII	Support Programme for Industrial Innovation
SSSS	Single Spine Salary Structure
STC	Secondary Taxation on Companies
TAP	Technology Advancement Programme
TEP	Tourism Enterprise Support Programme
The CIF	The Critical Infrastructure Fund
TIEA	Tax Information Exchange Agreement
THRIP	Technology and Human Resources for Industry Programme
TNC	Transnational Corporation
TP	Transfer Pricing
UNCTAD	United Nations Conference on Trade and Development
UN	United Nations
US\$	United States Dollar
USA	United States of America
VAT	Value Added Taxation
VFRS	Flat Rate VAT Scheme
WB	World Bank
WBI	World Bank Institute
WEF	World Economic Forum
WTO	World Trade Organisation

1 INTRODUCTION AND RESEARCH PROBLEM:

1.1 PREFACE:

Africa currently ranks as one of the fastest growing economic regions in the world. With economies that are showing growth – at 4.7 percent - Africa had the fastest average rate of gross domestic product (GDP) growth of any region in the world for the period 2005 to 2010 (World Trade Organisation [WTO], 2011: 4). This is more than double the reflected rate for this area between the 1980s and 1990s. Africa also has 52 cities which have one million residents or more. This equates to in excess of twice the number recorded in the 1990s (McKinsey, 2010: 9).

Africa offers vast tangible wealth. Coupled with internal shifts in economies and societies, and a noticeable change in global trends, this has set the scene for a continent ripe for strong economic growth and healthy investor returns (Leke et al, 2010).

Together with approximately ten percent of the world's oil reserves, Africa possesses abundant mineral reserves, among others being approximately 50 to 80 percent of the world's cobalt, gold, diamonds, vanadium, manganese, phosphate, platinum, ruthenium, germanium and 90

World Trade Organisation. 2011. *Press Release - World Trade 2010, Prospects for 2011*. Available: http://www.wto.org/english/news_e/pres11_e/pr628_e.pdf [2012, February 27]

McKinsey & Company. 2010. *Lions on the move: The progress and potential of African economies*. Available:

http://www.mckinsey.com/insights/mgi/research/productivity_competitiveness_and_growth/lions_on_the_move [2012, March 01]

Leke, A., Lund, S., Roxburgh, C., & van Wamelen, A. 2010. *McKinsey Online Publication*. Available: http://www.mckinsey.com/insights/economic_studies/whats_driving_africas_growth [2012, February 5]

percent each of the world's chromium and iridium (Sharaky, 2002: 1 – 9) (Alemayehu, 2000: 93).

Africa has benefited from the upward price momentum of global commodities¹ in the last number of years. Oil stands out as the primary beneficiary of global price increases with a price below US\$14.00 a barrel in 1979 through to the early 1980s (History of Crude Oil Prices, n.d.), moving up to a current price of around US\$112 a barrel in 2013 (Crude Oil and Commodity Prices, n.d.). Aside from oil, there has been a general rise worldwide in the prices of all commodities. This is due to a continuous increase in the world's population, thereby stimulating prolonged demand (McKinsey, 2010: 10) (McKinsey & Company, n.d.).

However, this merely explains part of the economic situation. Natural resource² demand only accounts for 24 percent of Africa's GDP growth for the period 2000 to 2008 (McKinsey, 2010: 10). The balance of the growth comes from other sectors some of which include consumer

¹ "Any good exchanged during commerce, which includes goods traded on a commodity exchange" (Investopedia (a), n.d.).

² "Industrial materials and capacities (as mineral deposits and waterpower) supplied by nature" (Merriam-Webster Online Dictionary, n.d.).

Sharaky, A.M. 2002. *Mineral Industry and Investment in Africa*. Available:

http://african.cu.edu.eg/Dr_Abbas/Papers/Mineral%20Industry_2002.pdf [2012, February 14]

Alemayehu, M. 2000. *Industrialising Africa Developments Options and Challenges For the 21st Century*. Available:

<http://books.google.co.za/books?id=if4UbeuR724C&pg=PA93&lpg=PA93&dq=Africa+possesses+90+percent+each+of+the+world%E2%80%99s+chromium+and+iridium&source=bl&ots=Xo52LX83od&sig=7wmGNKVwnGZSDBP9tX9vvY5EukE&hl=en&sa=X&ei=9Bz1UMmallag0AXuxYAY&ved=0CCsQ6AEwAA#v=onepage&q=Africa%20possesses%2090%20percent%20each%20of%20the%20world%E2%80%99s%20chromium%20and%20iridium&f=false> [2012, February 20]

History of Crude Oil Prices. n.d. Available: http://www.ioga.com/Special/crudeoil_Hist.htm [2012, February 09]

Crude Oil and Commodity Prices. n.d. Available: <http://www.oil-price.net/il-price.net> [2013, February 09]

McKinsey & Company. n.d. *The case for investing in Africa*. Available:

http://www.africa.com/mckinsey-on-africa/the_case_for_investing_in_africa [2012, January 15]

Investopedia (a). n.d. Available: <http://www.investopedia.com/terms/c/commodity.asp> [2013, June 26]

Merriam-Webster Online Dictionary. n.d. Available: <http://www.merriam-webster.com/dictionary/natural+resource> [2013, June 26]

products, construction, manufacturing, telecommunications, financial services and energy (Ernst & Young [E & Y], 2011: 19).

Africa is still viewed by much of the international community as a continent plagued by unrest, corruption and disease. Investors are especially concerned about political risk and the level of corporate governance that is, or is not applied. A long road still needs to be travelled in order to improve Africa's affairs, yet there have been some marked ameliorations in the last few years, which have served to stimulate the continent's growth spurt. These are very important first beginnings which are forecast to progress into the future (United Nations [UN], 2010: 4) (Moreira, 2009: 96) (Mckinsey, 2010: 2).

Many African countries such as Angola, Mozambique and Rwanda (Radelet, 2010: 87 - 101) have halted their fruitless hostilities, which in turn has led to improved political stability (UN, 2010: 4) (Moreira, 2009: 96) (Mckinsey, 2010: 2). This has created an environment which is conducive to macroeconomic stability and microeconomic reforms. In light of these reforms, governments have in many cases gone even further to improve their image. Some of the reforms include:

- "Managing their debt more responsibly;
- Lowering inflation;
- Privatising state-owned enterprises;

Ernst & Young. 2011. *It's time for Africa Ernst & Young's 2011 Africa attractiveness study*. Available: [http://www.ey.com/Publication/vwLUAssets/2011_-_Africa_Attractiveness_Survey/\\$FILE/Attractiveness_africa_low_resolution_final_WEB.pdf](http://www.ey.com/Publication/vwLUAssets/2011_-_Africa_Attractiveness_Survey/$FILE/Attractiveness_africa_low_resolution_final_WEB.pdf) [2012, January 31]

United Nations. 2010. *FDI in Africa Policy brief no. 4 – October 2010*. Available: http://www.un.org/africa/osaa/reports/2010_FDIbrief.pdf [2012, March 02]

Moreira, S.B. 2009. *THE DETERMINANTS OF FOREIGN DIRECT INVESTMENT What is the evidence for Africa?* Available: <http://www.google.co.za/url?sa=f&rct=j&url=http://www.portaldeperiodicos.unisul.br/index.php/Poiesis/article/download/79/86&q=THE+DETERMINANTS+OF+FOREIGN+DIRECT+INVESTMENT+What+is+the+evidence+for+Africa%3F&ei=Q0nJUZv0JMyXhQfBxoCYDw&usg=AFQjCNE5iwGRJhkCl2di5yi09MyyMoz89g> [2011, December 21]

Radelet, S. 2010. Success Stories from "Emerging Africa". *Journal of Democracy*. 21(4): 87 – 101. Available: http://muse.jhu.edu/journals/journal_of_democracy/summary/v021/21.4.radelet.html [2013, June 25]

- Restructuring corporate taxes;
- Reducing trade barriers; and
- Tackling the shortfalls in their legal and regulatory systems” (Mckinsey, 2010: 2).

Also worth noting is how African countries have resisted adopting protectionist policies, coupled with the policy environment remaining conducive to foreign direct investment (FDI). All these shifts have led to economies that are healthier and more competitive, thereby attracting increased FDI and providing much-needed economic growth (UN, 2010: 4) (Moreira, 2009: 96) (Mckinsey, 2010: 2).

As a continent, Africa’s combined GDP was US\$1.7 trillion in 2010 (The African Markets – Moving Ahead, n.d.). Is this indicative of flash in the pan growth, such as was witnessed during the oil boom of the 1970s? Conversely, could this be the progressive rise of a continent that deserves recognition as a future power to be reckoned with (Mckinsey, 2010: 3)?

An insular existence is no longer an option – gone are the days when a country or a corporation could operate in one community and rely on the loyalty and support of a select customer base. The Investopedia website (Investopedia (b), n.d.) defines globalization as “the shifting of investment funds and businesses to various destinations around the globe, thereby increasing the interdependency of relationships, as the new key trend”. An International Monetary Fund report (IMF, 2012: 10 – 13) states that: “those that do not embrace it, and keep pace, will all too soon go into decline.” One of the quandaries facing investors is that most of the developed countries do not offer much of a return on investment anymore - these markets are saturated, while their economies suffer a grim existence in most instances, largely as a result of the 2007/2008 world economic recession.

The African Markets: Moving Ahead. n.d. Available: <http://www.africa-business.com/features/bric-in-africa.html> [2012, January 13]

Investopedia (b). n.d. Available: <http://www.investopedia.com/terms/g/globalization.asp> [2013, June 12]

International Monetary Fund. 2012. *World Economic Outlook Growth Resuming, Dangers Remain*. Available: <http://www.imf.org/external/pubs/ft/weo/2012/01/pdf/text.pdf> [2012, February 01]

The demand for raw materials³ from emerging economies, especially from the East, is providing strong economic trade for many African countries (Ali & Jafrani, 2012) (Roxburgh & Lund, 2010).

The African Development Bank et al (2011: 44) reports that through this trade, African governments are devising payment plans that work to their advantage, such as conditions of infrastructure upgrade, technology and skills upgrading to the local populace, and beneficial payment plans. FDI inflows reached a high of US\$72 billion in 2008, almost five times the amount registered in 2000. In terms of percentage share of FDI, Africa received 0.7 percent in 2000, compared with 5.3 percent in 2009 (African Development Bank et al, 2011: 45).

Trade between Africa and the rest of the world has more than doubled since 2000 (Africa's hopeful economies The sun shines bright, 2011). Future growth, to a large degree, will be determined by social and demographic trends. Current population figures are proximately at the one billion mark and are projected to increase to bordering on double that figure over the following 40 years (Africa's hopeful economies The sun shines bright, 2011).

³ "A material or substance used in the primary production or manufacturing of a good. Raw materials are often natural resources such as oil, iron and wood" (Investopedia (c), n.d.).

Ali, S. & Jafrani, N. 2012. *China's Growing Role in Africa: Myths and Facts*. Available: <http://carnegieendowment.org/ieeb/2012/02/09/china-s-growing-role-in-africa-myths-and-facts/9j55> [2012, February 09]

Roxburgh, C. & Lund, S. 2010. *Booming Africa: An opportunity for Europe*. Available: http://www.mckinsey.com/Insights/MGI/In_the_news/Booming_Africa_an_opportunity_for_Europe [2012, February 18]

African Development Bank, Organisation for Economic Co-operation and Development, United Nations Development Programme and United Nations Economic Commission for Africa. 2011. *African Economic Outlook 2011 Special Theme: Africa and its Emerging Partners*. Available: <http://books.google.co.za/books?id=ot-V4XmmT9wC&pg=PA45&lpg=PA45&dq=African+share+of+FDI+in+2009+5.3%25&source=bl&ots=5TeKwDznVV&sig=KlxCTzKRziXnkohl98rr9CwrRc8&hl=en&sa=X&ei=nDn1UKa8LefY0QXO9IH0Bw&sqi=2&ved=0CC4Q6AEwAA#v=onepage&q=African%20share%20of%20FDI%20in%202009%205.3%25&f=false> [2012, February 24]

Africa's hopeful economies The sun shines bright. 2011. Available: <http://www.economist.com/node/21541008> [2012, February 13]

Investopedia (c). n.d. Available: <http://www.investopedia.com/terms/r/rawmaterials.asp> [2013, June 26]

Mckinsey (2010: 22) apprise that urbanisation is on the increase together with a rapidly rising middle class, which adds to an ever-growing group of consumers that will require goods and services. Incomes are increasing, and the number of African households with discretionary income is estimated to rise by 50 percent in the next decade, taking it to near the US\$128 million mark.

With all this opportunity for foreign investors, taxation becomes important as it has the ability to encourage or hinder FDI. There is also the added possibility that base erosion and profit shifting may occur should a specific country's taxation policies and regulations be open to such abuse.

1.2 TAXATION IN REGARD TO THE FDI DECISION:

According to the Organisation for Economic Co-operation and Development (OECD) (OECD (a), 2008: 1) there is generally a two-step process in deciding whether a country is worth considering for investment. Initially the fundamental basics are considered, these being factors such as:

- Market size;
- Access to raw materials; and
- Availability of skilled labour.

Once the country or region passes the primary test, taxation and incentives are taken into consideration (OECD (a), 2008: 1).

Although taxation is not one of the primary considerations of a foreign investor in deciding whether to invest in a particular country, it must nonetheless be well researched and understood. Failure to grasp the implications and nuances of taxation laws and policies relevant to a particular country can lead to a fatal outcome for an operating enterprise. These laws and policies are more often than not lengthy, easily misinterpreted, and onerous on the investor (OECD (a), 2008: 1, 3 & 4) (OECD (a), 2001: 31).

Taxation is inherently linked to the ruling political party of the day (International Finance Corporation (a) [IFC], 2009: 8 - 9). Everest-Phillips (2008: 124 – 134) state that: “if the government in power understands the importance of attracting and maintaining foreign investors; it is almost certain that policies will be implemented to ease their concerns. Designing taxation systems that are able to provide incentives for growth is of core importance if a government is to run a country effectively and viably. This creates a circular effect - a country needs to operate effectively in order to attract investment, but in order to run effectively it needs to have a properly functioning taxation system, as taxation revenue provides the funding necessary to operate the country effectively.”

The OECD (OECD (a), 2008: 3 - 4) and United Nations Conference on Trade and Development (UNCTAD) (UNCTAD, 2000: 12) note that **taxation incentives can be defined as any incentives that reduce the taxation burden of enterprises in order to induce them to invest in particular projects or sectors of a particular country. They are exceptions to the general taxation regime.**

Organisation for Economic Cooperation and Development (a). 2001. *Corporate Tax incentives for Foreign Direct Investment*. Available: http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/corporate-tax-incentives-for-foreign-direct-investment_9789264188402-en [2011, December 15]

International Finance Corporation (a). 2009. *Taxation as State-Building Reforming Tax Systems for Political Stability and Sustainable Economic Growth A Practitioner's Guide*, FIAS/The World Bank Group in collaboration with DFID, Washington. Available: <http://www.doc88.com/p-708929272579.html> [2011, February 05]

Everest-Phillips, M. 2008. Business tax as state-building in developing countries: applying governance principles in private sector development. *International Journal of Regulation and Governance* 8(2). Available: http://www.itdweb.org/documents/Philips_IJRG_Dcubr_2K8.pdf [2011, December 21]

United nations Conference on Trade and Development. 2000. *Tax Incentives and Foreign Direct Investment A Global Survey*. Available: http://unctad.org/en/docs/iteipcmisc3_en.pdf [2012, January 21]

Taxation incentives would, for example include:

- Reduced taxation rates on profits;
- taxation holidays;
- accounting rules that allow accelerated depreciation and loss carry forwards for taxation purposes;
- reduced tariffs on imported equipment, components, and raw materials; or
- increased tariffs to protect the domestic market for import substituting investment projects.

UNCTAD (2000: 11) additionally proffers that: “governments are able to effect the necessary change needed to the range of incentives on offer to investors, as and how they see fit. Unlike the primary considerations noted above, which are more structured, and are viewed by investors as of upmost importance, taxation incentives are more fluid and easily adapted to a country’s needs. Investment experts therefore view these strategies as a highly effective means of creating a more assenting effect on the investing community.

Taxation incentives have the ability to create a measurable advantage for specific enterprises or types of enterprises. This is done by the ruling government in order to encourage and maintain these types of enterprises. They include measures specifically designed either to increase the rate of return on a particular FDI undertaking, or to reduce (or redistribute) its costs or risks. Most countries, irrespective of their stage of development, employ a wide variety of incentives to realize their investment objectives.”

The report (UNCTAD, 2000: 12) then goes on further to explain that taxation incentives are most commonly employed by governments to attract investment into certain sectors of the economy, and it is for this reason that these incentives usually have relatively strict conditions attached to them.

Incentives are generally designed to highlight the benefits, as well as the pertinent restrictions on the enterprise. For example, there may be certain regions the government has designated as preferential for development, and the investor may only be able to make use of the listed incentives if these areas are made use of. Enterprises may also have to reach certain turnover targets before the incentives kick in, or they may be required to have a skills development policy in place, or employ a certain percentage of local staff.

The most applied method of creating taxation incentives is for governments to reduce the rate of corporate taxation, or to offer tax holidays. Following closely on these two methods of incentives are exemptions from import duties on capital equipment, raw materials and semi-complete components; accelerated depreciation; investment and reinvestment allowances; and specific deductions from gross earnings (UNCTAD, 2000: 12).

1.3 RESEARCH PROBLEM:

There is an ebullient interest in Africa (van Niekerk, R. 2013). Despite this interest and optimism, there is still considerably little research that has been performed in regard to country-specific FDI opportunities, as well as the taxation legislation and incentives that may be of consequence to investors.

Research has tended to be broader-based in regard to the African investing landscape up until now. One of the major reasons behind this is the fact that there is an absence of available information in regard to investing opportunities and possible considerations that may need to be factored into the decision, such as taxation. This is largely due to the unavailability of information from the countries themselves, be this due to unwillingness on their part to share, or the possibility that data has not been assembled and compiled in such a manner as to make its distribution accessible.

Despite taxation often being a secondary issue in the decision on whether to invest, it nonetheless can have dire consequences if not properly applied and understood. The majority of African countries have investment laws that up until now have focused on the attraction of FDI, with little thought of taxation in regard to a sustainable and productive economic future for all parties involved. However, with the **slowdown in the world economy** and the effects it is having on developing economies and donor funding, the governments of these economies are increasingly turning their attention towards the upgrading of their taxation laws and policies. Governments are taking a more hard lined approach in their collection efforts and, the interpretation of the meaning behind taxation legislation (Lamprecht, I. 2013). For too long there has been an attitude that FDI must be attracted at all costs, with the result that in many instances the investor strips out the benefits and then moves onto the next destination to the detriment of the initial host country invested in. Without proper analysis and research of each country that specifically takes into consideration the implications of FDI there may be room for manipulation of the taxation policies and rules due to a lack of understanding and clear guidance. As aforementioned, this type of situation leads to the possibility of base erosion and profit shifting occurring – these being harmful and destructive practices.

1.4 RESEARCH PURPOSE:

Well informed investors are more likely to take more insightful decisions, which in turn tend to lead to higher returns on chosen options (Stepek, J. 2013).

With this in mind, the following questions need to be addressed:

Lamprecht, I. 2013. *Double taxation a headache for SA corporates*. Available: <http://www.moneywebtax.co.za/moneywebtax/view/moneywebtax/en/page271?oid=77060&sn=Detail&pid=1> [2013, June 30]

Stepek, J. 2013. *This psychological quirk could ruin you – here's how to avoid it*. Available: <http://moneyweek.com/social-media-psychological-quirks-could-ruin-you-63600/> [2013, May 25]

- Why would an investor want to invest in Africa versus any other area of the world, possibly where there is less risk and uncertainty?
- If investing in Africa, where should an investor consider looking, and why?
- What could the possible tax consequences of such a choice be?
- What possible improvements could be made to the incentives on offer that would be of benefit to all parties concerned?

With such a focused interest on Africa, detailed research is required into potentially gainful African frontier economies. Frontier markets, analysed and described in chapter two, was a term first created in 1992 by the International Finance Corporation (IFC). These markets represent a subset of the emerging market economies (Spiedell, 2011: 2) (Nellor, 2008: 30).

The research should document possible investment opportunities coupled with an in-depth understanding of the selected country's taxation legislation and incentives in order to understand how this may affect the investment decision. Incentives also need to be analysed in order to ascertain whether they meet the criteria of producing a win-win result for all involved. Should this prove otherwise, then possible solutions need to be considered that aim at creating a sustainable future for all parties. These issues represent the purpose of this study.

This study intends to add knowledge to the available literature regarding the attraction of FDI to selected African frontier economies, with specific focus on the countries of Ghana and Rwanda. Through the review of various literature sources a more comprehensive understanding will be amassed, about the countries in general and possible investment opportunities, as well as to evaluate their taxation laws and policies.

Spiedell, L. 2011. Frontier Market Equity Investing: Finding the Winners of the Future. *Research Foundation of CFA Institute*. Available: <http://www.cfapubs.org/doi/pdf/10.2470/rf.v2011.n2.1> [2012, December 20]

Nellor, D.C.L. 2008. The Rise of Africa's "Frontier" Markets. *IMF Finance and Development Journal*. 45(3). Available: <http://www.imf.org/external/pubs/ft/fandd/2008/09/pdf/fd0908.pdf> [2012, December 20]

A comparison is performed in relation to South Africa, specifically in relation to taxation laws and policies. South Africa falls outside of Ghana and Rwanda's economic blocs⁴, but nonetheless they all fall within the region known as **sub-Saharan Africa**. As well as belonging to the Southern African Development Community (SADC), South Africa was admitted to the Brazil, Russia, India and China (BRIC) group in December 2010 (South Africa invited to join the Bric Group, 2010). These countries are part of a group of fast-growing emerging markets thereby further intensifying the need for South Africa to remain competitive in the international market place.

South Africa ranked 52 out of 144 countries in the latest World Economic Forum's Global Competitiveness Index. Rwanda scored third place in the region as well as being placed 63rd worldwide, and Ghana moved an impressive 11 places since the last report, to place 103 worldwide (Schwab, K. 2013: 37, 41 – 42). Comparisons with current South African taxation law and investment policies will allow for valuable insight to be gained in terms of policies that are effective and possible improvements that may be able to be implemented. Comparison in this way will highlight the need for the two selected countries to investigate and implement necessary changes to their taxation systems and policies which would work towards improving their competitive ratings. This would allow these two countries to compete on a more even footing in the global market place, thereby attracting much desired investment.

The aim is to offer insight as to which criteria in each country are adding value at present and which areas may need improving. As such there are specific research objectives that are required to be met in order to complete this study.

⁴ The Economic Community of West African States (ECOWAS) – Ghana is part of this bloc
The East African Community (EAC) – Rwanda is part of this bloc

South Africa invited to join the Bric Group. 2010. Available: <http://mg.co.za/article/2010-12-24-south-africa-invited-to-join-bric-group> [2013, May 28]

Schwab, K. 2012. The Global Competitiveness Report 2012–2013. *World Economic Forum Insight Report*. Available: http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf [2013, May 31]

1.5 RESEARCH OBJECTIVES:

The main emphasis of this research is to focus on two frontier economies located in two different economic blocs of Africa as aforementioned. This allows for a comparison to be made between different regions and the opportunities that are currently on offer. The specific objectives in regard to researching these economies are:

- To describe the history as well as investment opportunities that the selected countries offer.
- To briefly examine the current budget of each country and their aims for the fiscal year.
- To investigate the different types of taxation incentives currently offered by countries in general to investors.
- To review the relevant taxation incentives and laws of each country and compare them with South African taxation laws and incentives.
- To offer possible suggestions that may improve the incentives and regulations currently in place in order to alleviate the possibility of base erosion and profit shifting occurring, which in turn should enhance the benefits to both the investor and the host country.

1.6 RESEARCH APPROACH:

The decision to focus on Africa as an investment destination stems from researching various sources of material including: magazines, newspapers, books, journals, websites and conversations with various players from different industries. Extensive reading and discussion has been embarked upon to gain a wide and in-depth understanding of the continent and all the possible countries that could be selected for the study.

South Africa has been employed as a base case comparison due to its advanced competitive position within the sub-Saharan Africa region, as well as being a member of a group of

international, fast growing emerging markets. This will allow for valuable insight to be gained in terms of possible improvements that could be made in each of the two selected countries with regard to their taxation systems.

Coupled with the use of political, economic, social, technology, environmental and legal (PESTEL) analysis in the selection of two countries, consideration was given as to the availability of information and effectiveness of the taxation systems of each⁵. Research was done into the revenue service of each of the countries through the attempt to mail the various revenue authorities, and researching their taxation codes through various web portals and reports. Comparisons were done which analysed the different tax rates available, the fiscal incentives being offered and the administrative burden placed on companies each year in order to comply with taxation legislation.

Once all the appropriate data had been gathered and analysed, two countries were selected through a process of elimination based on the results. After the above analysis had been performed, further criteria for the selection of the two countries were:

- They had to be from different African Economic Community (AEC) blocs; and
- They had to be located in sub-Saharan Africa, so as to provide a broader overview of the possibilities available in countries from the same overall region.

The countries north of the Sahara were specifically excluded due to the influence of the 'Arab Spring'⁶ which was occurring at the time.

⁵ Appendix one researches the various aspects of PESTEL analysis in regard to all African countries in deciding which two countries would be included in this study. Some published articles that were consulted are also included in appendix one.

⁶ "A period starting in December 2010 in which Arab people sought democratic reforms, esp. in Tunisia, Egypt, Yemen and Libya. Modelled on the Prague Spring, a movement in favour of democracy in Czechoslovakia in 1968" (Collins Dictionary, n.d.).

This study is expository in nature and as such sets out to analyse and explain the issue of FDI and taxation in relation to specific African economies. The role of taxation incentives is explored in regard to the attraction of FDI to each destination. By performing a comparison of the types of incentives on offer in each destination relative to South Africa, as explained above, it is a fervent aspiration that worthwhile perspicacity will be acquired.

1.7 LIMITATIONS OF THE RESEARCH:

This study has been limited to two countries that fall within the definition of a frontier economy in the sub-Saharan Africa region. This limitation has been imposed due to the following constraints:

- Information availability, and
- Length of study.

1.8 STRUCTURE OF THE DISSERTATION:

This research study is arranged as follows:

Chapter 2 – background information is provided on frontier economies, a specialized subsection of the developing world markets, and why these types of economies hold the potential for excellent long-term results for foreign investors.

Chapter 3 – establishes the link between FDI and taxation, as well as giving a detailed analysis of the structure of taxation incentives and those that are generally on offer to investors.

Chapter 4 – explains which particular countries were chosen for this research paper and why they were chosen, as well as providing a more general overview of each.

Chapter 5 and 6 - these chapters each concentrate individually on one of the selected countries. Each chapter gives an overview of the budget for the current fiscal year, together with details of the sections of the country's taxation code that could possibly affect a foreign investor.

Chapter 7 – comparison of taxation incentives on offer in Ghana, Rwanda and South Africa; together with possible improvements that could be considered by Ghana and Rwanda in terms of policies to maintain current or attract further FDI.

Chapter 8 – concludes the research dissertation.

2. FRONTIER ECONOMIES AND AFRICA:

2.1 OVERVIEW:

African frontier economies have the potential to be counted among the emerging market economies and offer excellent returns. However, despite the lure of attractive returns, these economies still present many challenges to investors, some of which include a scarcity of information and research, concerns about governance at a local level, and a lack of transparency (Milner, B. 2013). This chapter sets out to investigate the nature of frontier economies, which many African countries by definition fall into, as well as providing background into Africa and the potential for the investor.

As countries move towards a greater understanding of each other and the implementation of conditions to foster economic growth, such as investment incentives and the upholding of the rule of law, rewards could be experienced by those destinations which show the greatest improvements. Many sub-Saharan countries fall under the recently coined phrase ‘frontier markets’, meaning that although they have entered the global economic community, they have not yet joined the global investment community (Spiedell & Krohne, 2007: 12).

Burge and Powell (2011: 1) state that “frontier markets are smaller and less liquid than the more developed emerging markets. These markets are generally regarded as pre-emerging markets with many similar characteristics, such as strong GDP growth, an abundance of natural resources and a growth in consumer demand. Although they represent both wealthy and poor constituents, they often exhibit trends that are recognised long-term structural growth drivers, such as:

Milner, B. 2013. *Why frontier markets are incredibly popular*. Available:

<http://www.theglobeandmail.com/globe-investor/investment-ideas/why-frontier-markets-are-incredibly-popular/article12022064/> [2013, May 19]

Spiedell, L. & Krohne, A. 2007. The case for frontier equity markets. *The Journal of Investing*. 16(3): 12. DOI: 10.3905/joi.2007.694758

Burge, J. & Powell, C. 2011. *Exploring the Potential of Frontier Markets*. Available:

http://www.geam.com/common/newsdocs/Frontier_Markets_Institutional_WP_Sept_2011.pdf [2012, December 21]

- Large, youthful populations;
- Increasing urbanization;
- Growing productivity;
- Expanding private sectors;
- Rising incomes; and
- Increasing consumer demand.”

As little as 30 years ago today's BRIC countries were frontier markets (Spiedell, 2011: 1). Spiedell and Krohne (2007: 13 - 14) also report that although there is a strong focus on the BRIC countries at present it bodes well to remember that in excess of 1, 2 billion people are currently living in frontier market countries. Strong growth in frontier economies is supported by youthful populations, at a time when most populations in the developed world are ageing rapidly.

Later research by Burge and Powell (2011: 3 - 6) reveal that frontier markets display some interesting aspects:

“Income diversity – these markets display a wide range of characteristics in terms of income, geography and economic development. But, one significant characteristic is that the middle class is growing rapidly in these markets. Many millions are being raised out of poverty due to improvements in logistics, access to technology by a higher percentage of the population, mobile phone availability and the judicious use of natural resources to the benefit of citizens of a country. Approximately one third of Africans are now termed middle class as opposed to a decade ago when it was only one quarter.

Undeveloped capital markets – GDP in frontier markets is usually very low in comparison to developed or even developing countries. Market capitalisation as a percentage of GDP is often

in the range of 17 percent of GDP, thereby providing investors with opportunities for privatisation and local stock markets listings as the economies develop.

Strong economic growth drivers – like emerging markets, frontier markets possess very similar growth drivers. These economies tend to be diverse, populous and are on the brink of economic growth. Given the effects of globalisation that are now present, these frontier markets should catapult forward far faster than predecessors have.

Trade relationships – many frontier economies are blessed with an abundance of natural resources thereby allowing them to not only extract these resources, but also to possibly process them, adding further to their value. For emerging markets, most notably the BRIC countries, frontier markets provide them with much needed resources, but additionally, frontier markets also provide a large customer base. This increases their influence in the global market. From the perspective of the frontier markets, these new trading partners offer opportunities for new sources of investment and additional exposure to the global economy.

Accessibility of capital markets – as time moves forward, many frontier markets are becoming more liquid and the restrictions on foreign investment are being lifted. This creates an environment that is conducive to growth of the private sector through the attraction of FDI to stimulate economic growth.

Investment potential – as economic growth increases, stock market values improve and investors are more inclined to include frontier equities in their portfolios. Relative to developed or emerging economies, frontier economies still lag in terms of market capitalisation as mentioned above. This opens these economies up to future capital growth and development of their capital markets. Many governments in many of these countries are privatising state-controlled assets which often leads to initial public offerings (IPOs), further shedding light on their unique investment potential and the promise of enticing returns.”

2.2 ATTENTION ON AFRICA AND THE FUTURE:

According to the Boston Consulting Group (Aré et al., 2010: 1) Africa has changed her outlook and embarked on a path of self-improvement that is progressing rapidly in the right direction. Despite being guardian to 20 percent of the world's land and 15 percent of its population, Africa is only able to lay claim to a four percent share of the global GDP. The global financial crisis of 2008/2009 has had some devastating after-effects on the world's economies with the United States of America (USA) GDP dropping four percent in 2009, the European Union GDP dropping 2.8 percent, and Latin America dropping 1.5 percent during the same year. Interestingly Africa has bucked the trend and her GDP expanded two percent in 2009.

Sévérino and Ray (2011: 14) bring to light the fact that Africa is urbanising at a very rapid rate. Currently it is approximated that 35 percent of Africans have moved to one of the rapidly growing city centers that are present on the continent. This is compared to Latin America where the percentage is 80 percent. Statistical forecasts point to around 50 percent of Africa's population being urbanised by 2030 – in number terms that will equate to approximately 600 million people. Sévérino and Ray (2011: 80 - 82) admittedly indicate that with Africa's dismal reputation in regard to the management of her affairs, a growing population that is embarking on an urbanisation drive is surely not the primary force behind her forward progress. And so they dug a little deeper – it seems that a watchful eye and tight rein on the part of the World Bank and the IMF have enabled many African countries to manage their public finances more effectively. Successive programmes of debt relief by countries of the North have been implemented, among them the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). The latter programme alone has dealt with an amount of US\$43 billion, this amount being 40 percent of the GDP of the African countries participating.⁷ African debt, which has for so long effectively handicapped her potential, is no

⁷ Appendix two lists the African countries participating in the HIPC Initiative and the MDRI programme.

longer the impediment it used to be. For sub-Saharan Africa alone, sovereign debt has fallen from 85 percent of GDP in 2000 to 40 percent in 2010.

This alone creates huge maneuverability for necessary public spending and with debt at this all-time low, public investment has been increasing for some years now. An average rate of 22 percent in public investment was reached in 2008, which very nearly emulates the rate of public investment that was displayed by emerging South- East Asian economies at the start of their ascent (Sévérino & Ray, 2011: 80 - 82).

Coupled with a substantial decrease in the level of debt, inflation has fallen notably, except in the rare case of Zimbabwe. This decrease in inflation has led to a stabilisation of prices which creates a more stable economic environment (Sévérino & Ray, 2011: 80 - 82).

Trading, so crucial to the growth of countries, has improved. Natural resources, which Africa has such an abundance of, have increased in value over the past ten years. This situation does not look set to change as there is an ever increasing demand from the emerging economies for these resources necessary to fuel their unquenchable growth. As well as this growth, there is a world-wide awareness of all country's need for resources, which due to their non-renewable nature, is creating a price premium. With commodity prices displaying such an upward trend, there seems little chance of this changing in the short to medium term. Between 2004 and 2005 alone the desires for raw materials lead to a 25 percent increase in African exports (Sévérino & Ray, 2011: 80 - 82).

Another commodity so desperately needed by all countries of the world is an adequate food supply. Enough arable land is desperately needed due to factors such as population growth, biofuel cultivation, decrease in arable land due to climatic factors, etc. With these trends in place, there is a strong likelihood of food prices remaining high. Africa has plenty of arable land and if food prices are set to follow such a high upward trend this creates investment

opportunities which could produce impressive returns in the future (Sévérino & Ray, 2011: 80 - 82).

Performing a comparison with the ASEAN countries (Indonesia, Malaysia, Philippines, Singapore and Thailand) around the period of 1980 when the term 'emerging markets' was first made use of produces interesting results. ASEAN countries at that time showed higher rates of inflation, lower reserves of foreign currency and received less foreign direct investment on the brink of their economic jump forward (Sévérino & Ray, 2011: 80 - 82).

Sévérino and Ray (2011: 93 & 94) ask the question: Africa's growth – is it the next emerging market – the 'go to' destination for risk capital? The authors then go on further to postulate that it would certainly seem so, especially as it appears to be powered by a finance system that metamorphoses into an ever-more sophisticated operation daily. Private equity and investment funds, including hedge funds are actively targeting Africa. Funds recognise that this is an environment that holds lucrative growth potential and with over 1,000 listed companies, stock exchanges are blossoming.

In short Sévérino and Ray (2011: 96) conclude that this is the new face Africa is presenting to the world – a destination where courtesy of internet technologies, telephone and television, Africa is able to integrate with the international community and experience the 21st century. A century filled with increased trade with the international community, no longer the outcast on the fringes of society, always the runt of the litter. Change is in the air – its scent and presence almost overwhelming, and with this change Africa is emerging as a key player in the front row of international affairs, both in the public and private sectors.

2.3 CHAPTER SUMMARY:

Frontier markets as initially defined by the IFC more than 20 years ago include many African countries which lie within the sub-Saharan Africa region. With the global economic downturn that began in 2007/2008 investors are pursuing lesser known market opportunities. These may presently appear to be extremely precarious, but over the long term these markets have the potential to render favourable returns, given the appropriate steps are implemented by the respective governments going forward. Currently there is a strong sense of mistrust among investors with regard to these destinations. Principally this is due to a lack of information exchange, weak adoption of local governance and policies, and regulations that are not always the most conducive to an advantageous outcome for all parties.

One of the areas that is especially vulnerable to abuse as a result of both ignorance and malevolent intent are investment incentives, particularly taxation incentives. Governments are often desperate to attract FDI in order to stimulate economic growth and improve general infrastructure. Investors on the other hand are always on the lookout for the best deal possible and therefore often hold the leverage to sway investment terms in their favour. This allows for the possibility of taxation incentives being implemented which may encourage abuse of the system including base erosion and profit shifting.

Chapter three will deal with the theory behind taxation incentives. This includes considerations that may need to be factored in when deciding whether or not to implement them, and if implemented what are some of the incentive types that may be considered.

3. FOREIGN DIRECT INVESTMENT AND TAXATION

3.1 INTRODUCTION:

In most countries, governments are continually striving to improve the rate of productivity growth, and it is a fully understood principle that the policies enacted have the ability to direct the extent and nature of economic growth. Apart from regulatory regimes, legal systems and institutions established to oversee the functioning of business and taxation systems possess the power to impose heavy burdens on any economic growth. It is for this reason that policy makers must continually review their taxation rules to ensure that they maintain a competitive edge relative to other regimes (Desai, Foley & Hines Jr, 2002: 1) (Clark, 2000: 1139 - 1140).

The attraction of FDI is a priority to most governments and it is therefore important for them to offer a system of taxation that will encourage the flow of inbound and outbound investment. Inbound investment brings skills, investment in research and development, and the opportunity for local society to upgrade living standards, while outbound investment affords access to foreign markets and production scale economies thereby boosting domestic income (OECD (b), 2008: 7).

One of the roles of the corporate taxation system is to perform a withholding function by collecting domestic taxation from foreign multinationals. It is important to countervail this function by offering a competitive taxation environment that will attract multinational firms, and provide a stable corporate environment (Clark, 2000: 1140).

Desai, M.A., Foley, C.F. & Hines Jr, J.R. 2002. Chains of ownership, regional tax competition, and foreign direct investment. *National Bureau of Economic Research Working Paper Series*. Available: http://www.nber.org/papers/w9224.pdf?new_window=1 [2013, February 15]

Clark, S.W. 2000. Tax Incentives for Foreign Direct Investment: Empirical Evidence on Effects and Alternative Policy Options. *Canadian Tax Journal*. 48(4): 1139 – 1180.

Available: http://www.acef.ca/ctfweb/Documents/PDF/2000ctj/2000ctj4_clark.pdf [2013, January 31]

Organisation for Economic Cooperation and Development (b). 2008. Tax Effects on Foreign Direct Investment. *OECD Observer*. Available: http://www.uscib.org/docs/PolicyBrief_TaxFDI_final.pdf [2012, May 09]

According to the World Bank Institute (WBI) (WBI, 2002: 9) taxation plays an important role in the decision of where foreign capital locates, but it is recognised as being secondary to other factors such as:

- Consistent and stable macroeconomic and fiscal policy;
- Political stability;
- Adequate physical, financial, legal and institutional infrastructure;
- Effective, transparent and accountable public administration;
- Skilled labour force and flexible labour code governing employer and employee relations;
- Availability of adequate dispute resolution mechanisms;
- Foreign exchange rules and the ability to repatriate profits;
- Language and cultural conditions;
- Factor and product markets — size and efficiency.

3.2 SIGNIFICANCE AND INFLUENCE OF TAXATION ON THE FDI DECISION:

Investors are constantly searching for certainty, predictability, consistency and timeliness in the application of taxation legislation – this is often as important to the investor as the taxation rate and incentives are (OECD (b), 2008: 4).

It is suggested that FDI is becoming increasingly sensitive to taxation, but uncertainty exists as to how the effects of taxation rates factor into the FDI decision and what taxation rates are made use of by investors as a measure. There may be a use of statutory ‘headline’ corporate income taxation (CIT) rates, or it may be average effective taxation rates (AETRs), or marginal effective taxation rates (METRs). METRs include rules determining the percentage of profits that are taxable and take into account the taxation burden at the

margin (on the last unit of capital invested in a given project, where profits are exhausted), whereas AETRs factor in the average taxation burden on investment projects. There is often a significant difference between statutory and effective taxation rates, similar to the difference between taxable and economic profit (OECD (b), 2008: 1 & 2).

High taxation rates are not necessarily a deterrent of FDI as are low taxation rates not necessarily an attractor of FDI. Taxation rates are not able to make up for a lack of poor infrastructure, poor public services, limited access to markets, or other possible poor investment conditions. The general focus tends to be on corporate taxes, but it would be unwise to ignore the importance of other taxes, such as: energy taxes, payroll taxes and non-profit-related business taxes, all which will affect the return on investment when considered in aggregate (OECD (b), 2008: 3).

In cases where taxation is a significant issue to the investment decision, relief from taxation is rated secondary to transparency of the taxation laws and the certainty around administration of the taxation laws (Clark, 2000: 1141 - 1142).

The complexity of taxation administration, which is of significance to the investment decision, covers issues such as the number of hours in a year that it takes to comply with the taxation rules and regulations of a particular jurisdiction, the number of payments that must be made in order to comply with the taxation laws, and the total taxation rate that is applicable in the country being considered for investment (PricewaterhouseCoopers [PwC] (a), 2013: 8).

A study performed by PwC (PwC (a), 2013: 26) indicates that “the business taxation system has the ability to slow down or impose a ‘drag on’ effect on economic growth. This is affected by the burden of taxation payments, as well as the complexity of the taxation system.

“Policymakers need to be aware of the consequences of onerous taxation administration for companies coupled with a complex taxation system.”

Governments who are attempting to gear themselves towards an increasingly business-friendly image would do well to consider their overall rates of taxation, the burden of taxation on investors, taxation incentives, and the minimisation of time and effort investors would need to spend in order to comply with their taxation system (PwC (a), 2013: 28).

International taxation competition for FDI is on the increase in today’s global world. There is a constant analysis of different taxation jurisdictions by both the policymakers and the investors. Comparisons performed are generally with markets that offer similarities in terms of market size and location. As non-taxation barriers to investment are gradually removed, and the world moves into an ever-more global economy, the importance of taxation on foreign investment is increasingly taking centre stage (OECD (b), 2008: 1 -3).

3.3 AN INTRODUCTION TO TAXATION INCENTIVES AND FDI TAXATION

INCENTIVES:

Taxation incentives have been defined by Carlo Garbarino (n.d: 2), Professor of Taxation at Bocconi University, Milan as:

“Incentives that aim at identifying the features of the tax system that can influence private investment activities and can be defined as a specific type of tax expenditure which intervenes on the behaviour of taxpayers, either encouraging investment and other economic and social goals, or eliminating a tax barrier to investment resulting from a preferential tax regime. This feature differentiates tax incentives from tax expenditures,

which have a very general purpose. All tax incentives therefore are tax expenditures, but not all tax expenditures are tax incentives.”

Taxation incentives apply to both domestic and foreign investment and often accomplish the aims of the political party in power. An example may be the desire of the government in power to attract certain industries to a particular area of the country. The incentives would seek to provide beneficial taxation treatment to any companies locating in the specified area that operate in the targeted industry. By promoting taxation incentives in this manner, governments are able to guide investment to areas they aspire to grow. This allows them to anticipate the future actions of companies taking advantage of the incentives, as well as assisting in achieving their overall objectives (Garbarino, n.d: 2 – 3) (James, 2009: iv).

When offering taxation incentives governments have to be mindful of the cost versus benefit argument. The justification behind the offering of taxation incentives is purposed to be that it allows for the possible acquisition of positive benefits such as the dissemination of new knowledge and technology. However, it would be naïve to presuppose that this rationale should override all other factors that could influence the decision on whether to offer them or not. The issue that always needs to be remembered when dealing with FDI and taxation incentives is whether the revenue that will be lost on account of offering the incentives and the implementation of FDI is able to be cancelled out by the increase in taxation revenues as a result of the inflow of investment (James, 2009: 3).

Bearing the above argument in mind, the following potential positive and negative consequences of taxation incentives have been highlighted by James (2009: iv) and should always be factored into the decision as to whether to offer them or not:

- “Additional revenue that may be gained as a result of an increase in capital inflows;
- Social benefits that may arise, such as improved skills development and the possibility of additional corporate social responsibility projects being undertaken by the investing firms;
- Revenue losses that may occur as a result of firms not investing due to the incentives being implemented; and
- The chance that there may be a revenue leakage or additional administration being required to administer the incentives.”

Generally there is a trend for developing countries – including frontier economies – to offer taxation incentives that do not require an upfront payment of government funds. These include: reductions in the corporate rate of taxation, taxation holidays and exemptions, to name but a few. Developed countries on the other hand, tend to offer financial incentives such as grants, subsidised loans and loan guarantees (Garbarino, n.d: 3).

Taxation incentives have arisen as a result of policy issues that require addressing, on a country specific basis. The following three issues, as noted by Garbarino (n.d: 3 - 6) are common to most countries, and are typically addressed by incentives:

“Non-taxation effects of taxation incentives: Taxation incentives are able to address a wide range of non-taxation effects including issues such as improving employment rates, international competitiveness and so forth. Taxation incentives should be utilised as a method of encouraging growth in the private sector. As such, the measurement of the incentive’s progress is gauged by the success of the fulfilment of the non-taxation purpose which it is intended to stimulate.

The following non-taxation effects are achieved by the implementation of taxation incentives:

- Investment objectives – incentives are able to guide investment into certain areas of the economy through the offering of certain types of incentives such as accelerated depreciation, tax credits etc.
- Sectorial objectives – as the above incentives are able to guide investment to a specific area of the economy, so these types of incentives are able to guide investment to a narrower section of the economy, being specific industries.
- Regional objectives – further to specific industries being targeted for investment, so too are incentives able to narrow the focus of investors to specific locations, depending on the will of the political party of the day. Through incentives governments are able to discourage investment in one location and attract investment in another.

Removal of taxation barriers through taxation incentives: the purpose behind these types of incentives is to eliminate factors within the taxation code which may pose a restriction on the inflow of investment. Referred to as ‘the barrier approach to incentives’ – this approach does not have its focus on growth, stability or structure within the economy, but rather, the correction of taxation regulations that impede business, such as high taxation rates.

FDI taxation incentives: FDI incentives form a sub-class of taxation incentives and are very closely linked. They are specifically aimed at attracting FDI which is intended to improve development within certain areas that are experiencing paucity, such as technology, research and development, or managerial skills. Foreign investors are subject to a relaxation in the application of the laws and regulations for the admittance and formation of foreign investment projects. In addition governments will normally provide guarantees for the repatriation of profits and initial capital input, initiate channels for the settlement of investment disputes, and formulate specific taxation incentives for foreign investors.

Taxation incentives do not operate in isolation and are highly affected by both external and internal economic factors, including the political party in power. Politics plays a central role in the formation of taxation policy, which includes taxation incentives. If the political climate of a country is judged to be unstable by investors, they are more likely to postpone investment in a country. The government in power needs to be mindful of the investment conditions in its country, as no matter how attractive the taxation incentives are, they cannot make up for poor primary investment factors” (Garbarino, n.d: 7 - 8).

3.4 THE POSSIBLE EFFECTS OF TAXATION INCENTIVES IN A BILATERAL AND MULTILATERAL SETTING:

Garbarino (n.d: 8) states that: “when considering the effect of taxation incentives offered by individual countries, the effect of the source as well as the resident country’s rules regarding the treatment of income earned in the source country needs to be factored into the decision whether to invest. Rules in the resident country of the investor can have the effect of fully or partially cancelling out any of the gains realised by incentives offered in the source country.”

Double taxation agreements address the treatment of foreign income earned. One of the approaches utilised under these agreements is the tax credit method which affords the investor the opportunity of paying taxation in the source country at the source country tax rate. The resident country then allows the investor a taxation credit on the income taxation paid in the source country up to the maximum rate the investor would have paid in the resident country. Should the investor pay more taxation in the source country than would have been paid in the resident country, no refund is afforded the investor by the resident country. Similarly, should the investor pay less taxation in the source country than would be due in the resident country, the investor will be required to pay in the difference owing to the resident country. With this system in place investors are afforded no benefits by the

granting of taxation incentives in the source country, as all benefits are neutralised by the taxation system in the resident country (Garbarino, n.d: 8). Without a bilateral treaty in place between two countries, double taxation could very well occur depending on the taxation systems in place in the respective countries.

To avoid this situation, a method called tax sparing is often made use of by the resident country of the investor. The mechanism behind this provision being that as well as granting the investor a credit for income taxation paid in the source country, credit is also given for taxes that would have been paid in the source country if taxation exemption had not been given. Should the resident country also allow for a credit to be granted in relation to the taxes saved as a result of the implementation of taxation incentives, there exists an even stronger allure for investors to direct funds into the source country⁸ (Garbarino, n.d: 9).

Another manner in which resident countries administer income earned by investors in foreign territories is called the exemption method. This method cancels out any concerns of the investor regarding the taxation incentives granted by source countries being made ineffective by rules governing income in the resident country. The basis of this method being that income produced in a foreign or source country is irrelevant to the resident country, taxation is only paid at the rate applicable to the investor in the source country on source country income (Garbarino, n.d: 9).

Should the resident country not permit a credit for the taxation paid in the source country, or grant any form of exemption from taxation on foreign income, the source country may

⁸ "This is the situation with some of the Mauritian treaties for example. A new bilateral treaty between South Africa and Mauritius has, however, been negotiated and is awaiting final signatures. This new treaty does not include sparing" (Moore Stephens, 2013).

grant a reduced rate of taxation that would apply to income earned in the source country, thereby effectively providing a form of relief to the investor (Garbarino, n.d: 9).

In the instance where the resident country grants an exemption on foreign income belonging to an investor, and the income is exempt from taxation in the source country due to the application of a taxation incentive, a situation of double non-taxation arises. This could also arise in a situation where the income is subject to a taxation incentive in the source country, and above that a tax sparing credit is granted on the realised income after the granting of the taxation incentive (Garbarino, n.d: 9).

A deferral on income earned in the source country may be granted by the government of the resident country until such time as the income is relocated to the resident country. Should the rate of taxation in the source country be lower than that which applies in the resident country, the difference due to the *fiscus* of the resident country effectively acts as an interest free loan to the investor until such time as the income is repatriated. This form of treatment for foreign income has the spin-off of encouraging investors to abstain from relocating source country profits and reabsorbing them into the source country economy for further growth opportunities (Garbarino, n.d: 9).

It is essential that countries work together in order to maximise the benefits to both parties in regard to desired outcomes. It is only natural that countries wish to attract investment in order to aid in the fruitful outcome of their policy objectives, however consideration needs to be given to the resident country in order that the granting of the taxation incentives does not occur to its detriment. The eventual outcome needs to be one in which all participants are able to realise a gain.

FDI incentives offered by a country affect not only the domestic market, but the economic attraction of other countries also eager to attract FDI, especially countries that border each other. In the instance of domestic firms that are not able to take advantage of FDI taxation incentives on offer, they may feel they are being discriminated against by their own government. This could lead to a strain on relations between local business and government. On an international level, the offering of taxation incentives to attract FDI may lead to a 'race to the bottom' as each country seeks to offer 'improved' incentives, but all at the expense of much needed taxation revenue required to improve growth and productivity. Ideally countries should work in conjunction with each other to devise methods that are to the benefit of all, the reality being however, that it is near impossible for all countries to agree on a broad concept of cooperation at a global level (Garbarino, n.d: 10).

3.5 TAXATION INCENTIVES FOR FDI:

There are many different incentives that a source country is able to offer the prospective foreign investor. The incentives offered can be categorized according to the mechanism or channel through which they influence the benefits and costs of additional investment. Clark (2000: 1143) summarises the different types of incentives below:

- “incentives that reduce the corporate income tax rate on profits derived from investment, such as taxation holidays, and reductions in the statutory corporate income taxation rate;
- Incentives that reduce the personal income tax rate as a result of foreign direct investment projects, such as personal income taxation or social security reductions for executives and employees;
- Incentives that reduce or eliminate land ownership or usage taxes, such as property taxation reductions, and creation of special 'zones';

- Incentives that reduce the cost of purchasing specialised machinery from outside the host country as well as reduce the cost of supplying manufactured goods to international markets, such as sales taxation or VAT reductions and reduced import taxes and customs duties;
- Incentives that reduce the after-tax cost to business of purchasing new capital (through accelerated or enhanced tax deductions, and tax credits); and
- Incentives that reduce the after-tax cost of raising funds to finance the purchase of new capital, such as reductions in dividend withholding taxation rates, and/or the provisions or extension of integration relief.”

To gain a more in depth understanding of the technical workings behind taxation incentives as well as their channels of influence, an excerpt taken from Clark’s article (2000: 1143 - 1144) in the Canadian Tax Journal succinctly describes them below:

“Consider the following categories of tax incentives directed at income from capital:

- (1) Those that reduce the statutory (or nominal or “headline”) corporate tax rate on profits;
- (2) Those that reduce the cost of purchasing new capital; and
- (3) Those that reduce the cost of financing.

These categories can be usefully placed in context by considering the following equilibrium condition that describes, under certain stylized assumptions, the investment incentives of market-value-maximizing managers of a firm in a competitive market. In theory, competitive firms will undertake investment in capital only up to the point where the marginal benefit from the last unit of capital installed just equals its marginal cost. This equilibrium condition can be expressed as follows:

$$(\Delta Y/\Delta K)(1 - u) = (r + d)(1 - A) \quad (1)$$

or equivalently,

$$(\Delta Y/\Delta K) = (r + d)(1 - A)/(1 - u). \quad (2)$$

In this expression, the term $(\Delta Y/\Delta K)$ represents the increase in gross revenues (Y) accompanying a (one currency) unit increase in the representative firm's (or industry's) capital stock, denoted by (K). With diminishing returns to installed capital at the margin, the value of $(\Delta Y/\Delta K)$ falls as the capital stock increases.

Revenues from investment at the margin are subject to the statutory corporate income tax rate, denoted by (u). The left-hand side of (1) measures the after-tax marginal benefit from an additional unit of investment.

The after-tax marginal cost is measured on the right-hand side of (1). This cost is the product of two terms. The term $(1 - A)$ gives the after-tax purchase price of one additional unit of capital, where (A) measures the present value of tax incentives tied to the purchase of a unit of capital. Such assistance would include, for example, investment tax credits and tax depreciation allowances. The higher the investment tax credit rate, or the rate of tax depreciation allowance, the larger (A) is. The term $(r + d)$ is the sum of the real rate of return required by investors on their capital investment, denoted by (r), and the rate of economic depreciation of the capital owing to wear-and-tear and technological obsolescence, denoted by (d).

On the last currency unit of capital installed, acquired at an after-tax price of $(1 - A)$ currency units, the firm faces financing charges of $r(1 - A)$ and in each period must replace worn-out capital at an after-tax cost of $d(1 - A)$.

This framework is useful for considering the channels through which various tax incentives may operate to encourage investment behaviour. First, reducing the statutory corporate income tax rate (or eliminating taxation, as under a tax holiday) will increase the after-tax revenues from investment at the margin, and as a result will tend to lead to a higher equilibrium capital stock. A reduction in the corporate tax rate, however, also lowers the

present value of deductible depreciation allowances, thereby lowering A . A reduction in the corporate tax rate also increases the after-tax cost of debt finance by reducing the value of interest deductions, and thus also acts to lower A . Therefore, a priori, the impact on investment incentives of a reduction in the corporate income tax rate is ambiguous.

However, generally the first-noted effect will dominate, and investment incentives will be increased by a reduction in the corporate tax rate.

Second, introducing or enriching a system of investment tax credits increases the value of A , and thus tends to encourage investment at the margin. Similarly, increasing the rate at which capital can be depreciated for tax purposes (for example, through accelerated depreciation, or immediate and full expensing of capital costs) increases A , and thereby investment incentives. Depending on the rate and design of the investment tax credit and capital cost allowance (that is, tax depreciation) regime, the term $(1 - A)$ may well be negative, indicating that the tax system on balance acts to encourage rather than discourage investment relative to the no-tax case.

Third, government policy can potentially influence the firm's pre-corporate tax cost of finance (r). As already noted, the cost of finance, which generally is some weighted average of equity and debt finance, will tend to increase if the statutory corporate income tax rate is reduced. In some cases, the cost of equity finance may be a function of personal tax parameters, including the degree of double taxation relief (corporate and personal tax integration). In particular, in certain financing and arbitrage situations, reductions in shareholder-level dividend tax rates and capital gains tax rates may lower the cost of funds to the firm, and through this channel encourage investment."

Clark and the WBI then go on to detail the most commonly utilised corporate-level taxation incentives below. Many of these incentives are the types being applied by Ghana and Rwanda at present.

Taxation holidays:

Clark (2000: 1144 - 1146) clarifies this type of incentive as follows:

This incentive is mainly used by developing countries which are just establishing a corporate taxation system in order to attract FDI. It is aimed at newly established firms and usually offers some sort of grace period for the non-payment of taxation – for example five years. The rules governing taxation holidays need to specify what is meant by a newly established firm and if all activities or sectors are included or whether there are only certain designations that qualify. Taxation holidays disallow firms other taxation related deductions while the holiday is in place, such as depreciation and interest costs.

Taxation holidays are relatively simple as there are no complex calculations to administer. For projects that have a long term lifespan, it will often be a requirement that they maintain records of capital expenditure and other expenses incurred during the holiday period in order to fulfil the requirements of the taxation system once the holiday comes to an end.

Taxation holidays are usually offered to firms in a specific region or a type of sector. Taxation holidays that target specific sectors may offer the chance to transfer skills and knowledge to the local workforce. At the same time a problem arises in the treatment of firms that are involved in multiple activities, some of which qualify for the holiday and some which do not. There is the option of denying a holiday to the activities or sectors that do not qualify, or to set a target that states that only if a set percentage or more of the assets of the company are engaged in the targeted activity or sector will that revenue be subject to the holiday.

Taxation holidays are most attractive to firms that are involved in the early years of operating at a profit and are least attractive to firms that have long-term investment horizons.

Reductions in the Statutory Corporate Taxation Rate:

This type of incentive is made use of by developed and developing countries alike. It can be targeted at all domestic and foreign source income or it can be directed at income from a specific source, such as foreign source income. It may be introduced as a permanent or temporary measure, and the longer it is in place the more attractive it is to foreign investors. It does create difficulties where it is specifically aimed at a certain subset of activities or investors and the legislature must be drafted carefully in order to avoid confusion or room for manipulation of the laws, which may lead to leakage from the taxation system. Any kind of reduction in corporate taxation rates has the potential to erode the host country taxation base, which does not serve the best interests of investors or governments (Clark, 2000: 1146).

Special Investment Allowances and Investment Taxation Credits:

The WBI (2002: 20) elaborates on this type of incentive below:

As an alternative, or sometimes in addition, to taxation holidays, some governments provide special investment taxation provisions that offer a reduction in the cost of acquiring capital. There are two main options as follows: An investment allowance reduces taxable income, and an investment taxation credit is set against corporate taxation payable.

These two options may apply to all forms of acquiring capital or may be limited to specific categories, such as research and development activities. Some countries also limit these

incentives to the amount of capital or equity invested by the firm as set out by its Board approval – this method encourages companies to invest more equity capital as opposed to related-party debt capital in the structure of the firm.

Investment Allowances:

Clark (2000: 1147) once again details another incentive as follows:

Under an investment allowance, firms are allowed to write off qualifying capital costs over a quicker period. Two types of investment allowance are used:

- 1) With accelerated depreciation, firms write off capital costs over a shorter period than that dictated by the asset's useful economic life, which generally is the accounting basis for depreciating capital costs. This method does not increase the overall value of claims made against the capital cost, but rather speeds up the process of claiming the cost of capital.
- 2) With an enhanced deduction, firms claim total deductions for the costs of qualifying capital that exceed the acquired (market) price. Depending on the depreciation rate of these costs, this may generate a stream of deductions that exceed, in present value, the corresponding acquisition costs.

Investment Taxation Credits:

According to Clark (2000: 1147 - 1148) investment taxation credits may be flat or incremental. A flat investment taxation credit is earned as a fixed percentage of investment expenditures incurred in a year on qualifying capital. An incremental investment taxation credit is earned as a fixed percentage of qualifying investment expenditures in a year in excess of a predetermined base, which is typically a moving-average base.

The intent behind the incremental taxation credit is to encourage investors to invest a higher amount than they would have had the incentive not been in place. However, this fails to acknowledge the fact that the investors may have intended to invest higher amounts in later years, regardless of the existence of this particular incentive. The WBI (2002: 20) then further adds that this incentive also tends to encourage the use of short-lived assets, as these assets are replaced more frequently, following which a new asset is acquired in order that a further credit may be earned.

It would appear that investment allowances and credits are preferable to taxation holidays in almost all respects, although it is noted that their use favours capital-intensive investment as opposed to tax holidays that would seem to be more favourable for employment creation. Regardless, these incentives provide the following benefits:

- They are open-ended;
- The revenue cost is directly related to the amount of the initial investment – no need for minimum eligibility threshold; and
- Their maximum cost is easier to estimate.

Reduced withholding taxes:

Many countries provide a reduced or zero rate withholding tax in such cases as interest on loans made at preferential rates or royalties or technical assistance fees in respect of technology transfers. This is done as an incentive to promote particular objectives concerning foreign investment. Further, it is fairly normal practice for dividends paid out during an exemption period – such as a taxation holiday – to also be exempt from withholding taxation (WBI, 2002: 22).

Personal Income Taxation, Payroll Taxation and Social Security Reductions:

It is practice in some countries to allow expatriate employees an exemption on certain fringe benefits that they receive while employed in the host country. These include benefits such as accommodation, school fees etc. There is also a practice of allowing certain levels of expatriate employees to pay a lower rate of taxation compared to resident employees, but this method of exemption is not going to be a deciding factor for investment, but merely add to the overall favourable investment climate perception.

This type of incentive is also sometimes offered to employers should they choose to employ a certain group of employees, such as persons with disabilities or the youth of that country. This is only moderately more effective than taxing expatriate employees in a lower taxation bracket at a more favourable rate, but could prove effective in countries where payroll taxes and social security contributions form a large part of the cost of employment (WBI, 2002: 22).

Sales Taxation Exemptions:

Some countries offer relief on taxes such as VAT to foreign investors. For foreign companies that export, they are also sometimes refunded their consumption taxes once goods are exported (WBI, 2002: 22).

Reduced Import Taxes and Customs Duties:

The WBI (2002: 23) explains this type of incentive as follows:

“Customs duties can add a significant cost to items of a capital nature that are imported to the host country. These duties add a substantial cost to the finished product, especially when coupled with the duties placed on such goods such as raw materials and components.

Generally, only capital goods are exempted from any kind of import taxation or duties and sometimes there are only certain classes of assets that are exempted, such as machinery. There are instances where these taxes are exempted on raw materials and components, but these are usually only on a temporary basis. This practice, even if only temporary, can lead to a distortion of competition, due to only some investors being afforded the exemption. This could lead to violation of international trade rules.”

Property Taxation Reductions:

These types of incentives are usually granted by the local government and are normally of a limited duration. It is common practice as an investment incentive, and its cost can be accurately calculated by the host country government. It is similar to a cash grant rewarded over a pre-defined number of years (WBI, 2002: 23).

Zones:

There are two types of ‘zones’ that are frequently made use of by countries. They are:

- Duty-free zones – these zones are exempt from customs duties, and sometimes VAT; and
- Special Economic Zones – these zones have special tax privileges as opposed to the rest of the business community.

In practice, these two types of zones often benefit from the other zone’s privileges, making the distinction between them unclear (WBI, 2002: 23 - 24).

3.6 CHAPTER SUMMARY:

The WBI (2002: 34) reports that taxation with regard to FDI is a complex and country-specific exercise. The objective of taxation is to benefit both the recipient government as well as the investor. The tax system has to be well designed, implemented and monitored in order to operate effectively, and with as little uncertainty as possible for all stakeholders involved.

The OECD (OECD (b), 2008: 1) then goes on further to state that governments all around the world are eager to attract investment, however they must be conscious that their taxation policies remain competitive in order to attract investment, while at the same time allowing the relevant authorities to administer and collect their fair share of domestic taxation which allows for growth and infrastructural improvement.

Both Ghana and Rwanda are actively seeking to attract additional FDI (Apinga, 2013) (UNCTAD (a), 2012: 2 & 8). These destinations have advanced beyond their ineffective histories to embrace democracy and a continually improving rule of law (Andrews, 2012) (UNCTAD (a), 2012: 1). Policies and procedures are being renewed to bring them in line with international standards, and there is a strong sense of political stability and optimism (Barthel et al, 2008: 390) (UNCTAD (a), 2012: 8).

Taxation incentives are inherently linked to the promotion of investment, and in order to accurately understand the role they play in each country, a more detailed analysis is required in regard to each country and the investing environment. Therefore, chapter four provides a general country overview for each destination as well as documenting possible investment opportunities currently available.

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4. GHANA AND RWANDA – A BRIEF HISTORY AND INVESTMENT PREFACE:

4.1 INTRODUCTION

Recently there has been an upsurge of interest in the frontier economies, most notably those located in Africa. As these economies outperform many of their peers, including certain other emerging market economies, in areas such as institutional quality, growth prospects and macroeconomic outcomes, investors are clamouring for new investment opportunities (International Monetary Fund [IMF], 2011: 26 - 27).

Two countries from Sub-Saharan Africa have been selected which fit the definition of a frontier economy. Each is located in a different region of the continent – one from the East African set of countries and one from the West African region. One is resource-rich and sea fronting, while the other is resource-poor and landlocked, but despite their differences, both have made remarkable steps in progressing their economies, political reforms, transparency, and investor friendliness.

4.2 GHANA:

Prior to independence on 6 March 1957, Ghana was known as the Gold Coast, a very accurate description with regard to the country's abundance of gold and other natural resources, which are currently still intact to a large degree. Aside from Gold, there are large deposits of other resources, which include diamonds, bauxite, manganese, iron ore, and both clay and salt

deposits. Forests with a wide range of tropical hard woods are in abundance, and there is a good cross section of agricultural products and rich fishing resources (Aldous et al, 2010: 14).

Ghana, now considered one of the beacons of African democracy, lists among one of the top ten most stable countries on the continent. Ghana adheres to the English common law tradition, but Ghanaian customary law is the basis of most personal, domestic and contractual relationships (Aldous et al, 2010: 2 & 14) (Oxford Business Group [OBG], 2011: 252).

Ghana has long been on a road to improving FDI inflows into the country. Since 1994, the Government has made impressive efforts, through political and economic measures to encourage investment into the country. Measures include investment incentives which fall under a range of investment codes (Asante, 2006: 102).

Soon after independence in 1957, the Pioneer and Companies Act of 1959 was introduced, followed shortly thereafter in 1963 by the Capital Investment Act 172, which actively sought to attract foreign investment. Fast forward to the seventies and the 1973 Investment Decree (NRCD 141), and Investment Policy Decree NRCD 329 of 1975, sought not only to encourage foreign investors, but local investors as well. The Investment Code, Act 437, of 1981 was established to centralise investment promotion functions at the Capital Investment Board and consolidate all investment legislation, while the Investment Code, PNDCL 116, of 1985 brought into existence the Ghana Investment Centre as the Central Investment Promotion Agency (Asante, 2006: 108).

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Oxford Business Group. 2011. *The Report Ghana 2011*. Available:
http://books.google.co.za/books?id=Qnlukx_UZQ4C&pg=PA253&lpg=PA253&dq=ghana+investment+promotion+centre+2011+report&source=bl&ots=pxh_u7TKTS&sig=j8HvfJFikqOe8UvB_KXqfA8VYaA&hl=en&sa=X&ei=sr3ZT5G2DdLS4QTousj5Ag&ved=0CE0Q6AEwBTgK#v=onepage&q=ghana%20investment%20promotion%20centre%202011%20report&f=false [2013, March 10]

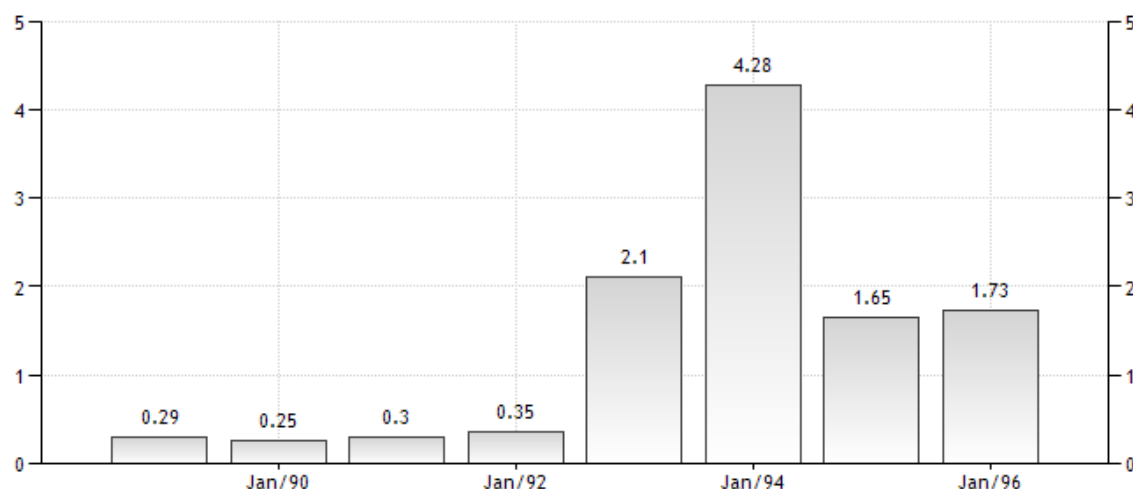
Asante, Y. 2006. *Foreign Direct Investment Flows To Ghana*. In: Ibi Ajayi, S. Foreign Direct Investment in Sub-Saharan Africa: Origins, Targets, Impacts and Potential. Nairobi, Kenya: African Economic Research Consortium

All of the above measures were established in order to provide a more investor-friendly environment and included incentives such as tax holidays, accelerated depreciation allowances, exemption from import duties on machinery and equipment, investment allowances, and profit repatriation arrangements (Asante, 2006: 108).

Ghana then went further by ratifying the convention establishing the Multilateral Guarantee Agency (MIGA) of the World Bank on 29 April 1988. MIGA was established to encourage equity investment and other types of foreign direct investment in developing countries, by reducing non-commercial risk, through seeking to provide insurance cover to investors who invest in acceptable investments in productive sectors of developing countries. Even though Ghana was party to the establishment of MIGA, some countries required further assurance. Bilateral investment promotion and protection agreements (IPPAs) have been signed with a number of countries to further allay their fears, and offers the protection and security of Ghana's government regime. Industries that were closed to foreign investors are now also being opened (Asante, 2006: 108).

1994 saw The Ghana Investment Promotions Centre (GIPC) established under the GIPC Act of 1994, which has as its main aim the encouragement and promotion of investment in the country. The Act serves as an upgrade of the 1985 Investment Code, but with a strong focus on private sector investment. While the 1985 Investment Code focused strongly on regulation of investment, GIPC has a promotional function (Asante, 2006: 108).

This resulted in a moderate inflow of capital as a percentage of GDP between 1989 and 1992, followed thereafter by a sizeable increase between 1993 and 1996 as depicted in the graph below (Asante, 2006: 108 - 109):



GRAPH A: - PRIVATE CAPITAL FLOWS; TOTAL (% OF GDP) IN GHANA⁹ AS REPORTED BY TRADING ECONOMICS (a)

More recently, the government promulgated the Free Zones Act in September 1995, which seeks to turn to account the country's export potential. Following on from this aim, The Ghana Free Zones Board (GFZB) was established to oversee the export processing zones (EPZs) that were to be set up in the country (Asante, 2006: 109).

EPZs were created as a specialized industrial estate that provides services for manufacturing, such as: processing of imported raw and intermediate products into finished goods, which are generally exported. The EPZs are used to attract investors, by helping them to become established, and usually offer a variety of other incentives. EPZs are specialised industrial

⁹ "The Private capital flows; total (% of GDP) in Ghana was last reported at 9.78 in 2010, according to a World Bank report published in 2012. Private capital flows consist of net foreign direct investment and portfolio investment. Foreign direct investment is net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital; reinvestment of earnings; other long-term capital; and short-term capital as shown in the balance of payments. The FDI included here is total net; that is; net FDI in the reporting economy from foreign sources less net FDI by the reporting economy to the rest of the world. Portfolio investment excludes liabilities constituting foreign authorities reserves and covers transactions in equity securities and debt securities. This page includes a historical data chart, news and forecasts for Private capital flows; total (% of GDP) in Ghana" (Trading Economics (a), n.d.).

estates located physically and/or administratively outside of the usual customs barrier and are specially geared to export production (Asante, 2006: 109).

Asante (2006: 109) asserts that the key objective of these zones is to attract FDI. Some of the incentives that were put on offer include:

- “Exemption of free zone developers from income or profit tax for ten years;
- Income tax after ten-year tax holiday, not to exceed a maximum of eight percent;
- Exemption from withholding taxes on dividends emanating from free zone investments;
- Freedom for a foreign investor to hold a 100 percent share in any free zone enterprise; and
- Various guarantees in respect of repatriation of profits and against unreasonable nationalization of assets.”

The Ghana Stock Exchange (GSE) is expected to improve based on new listings on the bourse. At present there are 36 listed companies, and this number has been targeted for an increase to 50 listed companies by 2017 (Imara Africa Securities Team, 2012) (Ghana Stock Exchange Listing Page, 2013).

Ghana Business News (2013) also reports that the GSE has listed an alternative market as of June 2013. It provides a means of smaller companies being able to raise capital in the markets. This market will focus mainly on small to medium enterprises (SMEs) and will have less stringent requirements compared to listing on the main board. According to the rules approved by the Securities and Exchange Commission the following conditions will apply to listing:

Imara Africa Securities Team. 2012. *Why Ghana Stock Exchange could be an exciting opportunity*. Available: <http://www.howwemadeitinafrica.com/why-the-ghana-stock-exchange-could-be-an-exciting-opportunity/15526/> [2012, April 30]

Ghana Stock Exchange Listing Page. 2013. Available: <http://www.gse.com.gh/index1.php?linkid=46> [2013, October 22]

Ghana Business News. 2013. *GSE encourages AGI members to list on Ghana Alternative Market*. Available: <http://www.ghanabusinessnews.com/2013/06/05/gse-encourages-agi-members-to-list-on-ghana-alternative-market/> [2013, May 31]

- “there are to be no application or listing fees on this market;
- the minimum capital will be GH¢250,000, compared to a minimum capital of GH¢ 1 million required for the main market;
- there will be an annual fee of GH¢2,000 as well as a delisting fee of GH¢5,000; and
- the alternative market will also only require 20 shareholders to list, compared to 100 required for the main market.”

In 2008 a law was introduced that created a pension structure in the country which aimed at increasing savings in the country. This mandatory government pension scheme which estimates receiving approximately US\$ 400 million per annum on the local market through privately managed funds, is anticipated to improve efficiency and liquidity on the GSE, through the investment of at least 25 percent of these funds being placed in equities. A more liquid exchange will be a welcome sign to investors who seek greater exposure to the robust oil-driven growth forecast for future years (Imara Africa Securities Team, 2012).

According to Moss and Young (2009: 2 - 5) overall Ghana has displayed a marked progression towards improvement on all fronts as stressed by the points listed below:

“Peace and stability: Even though Ghana experienced a period of political instability, the country has been politically stable since 1981 and returned to multiparty democracy in 1992, with five successive democratic elections since then. On two separate occasions in these elections (December 2000 and December 2008), the executive office was transitioned between opposing parties peacefully.

Democracy and governance: Citizens of the country enjoy a high level of freedom of speech, freedom of the media and freedom of political association. It appears that the citizens of the country are satisfied with the quality of democracy in their country. Given that most other

Africans are dissatisfied with the level of democracy in their own countries, as reflected by the Afrobarometer survey; this reflects a positive outlook for the country. Since 1996, when data first started being gathered, Ghana has steadily improved with regard to the World Bank governance indicators of 'voice and accountability' and 'rule of law'.

Corruption: Corruption has been high on Ghana's agenda since independence in 1957. Two *coups* staged by Jerry John Rawlings, in 1979 and 1981, were based on the premise of stamping out corruption. John Kufuor's term introduced a new Ghana Anti-Corruption Commission, and saw increased press freedom and transparency. Ghanaians in general are more optimistic. A report by the World Bank (WB) (WB, 2012) which details the World Bank indicator for the control of corruption shows that Ghana has risen from the 49th percentile in 1996 to the 63rd percentile in 2011, as displayed in appendix three, in terms of its ability to control corruption.

Macroeconomy: Ghana has made considerable effort to encourage economic reforms as mentioned above. Inflation has been brought under control to a large degree and inward flows of foreign direct investment have grown considerably since the 1990s. It has also improved its rankings in the '*Doing Business*' survey performed by the World Bank, far outshining its West African neighbours.

Poverty reduction: Poverty was largely reduced in the 1990s, due to continual economic growth that began in the 1980s. The percentage of citizens living below the US\$2 per day threshold fell from 80 percent in the late 1980s to 54 percent in 2006. Considering that the poverty rate in the rest of Sub-Saharan Africa barely moved over this period, these results are impressive. The UN predicts that Ghana may be able to halve its poverty rate by 2015, when taking into account these past results.

Social contract: Government revenue has doubled from approximately 12 percent of GDP in 1990 to 24 percent in 2005 – more than one third of this revenue is generated from taxes on goods and services – and net primary school enrolment has increased from 54 percent to 65 percent. This clearly shows an improvement in government's ability to collect taxes and improve social services."

Pistorious (2012) observes that Ghana has climbed the investment ladder and is now seen as the investment destination of choice in the West African region. He then goes on further to explain that this is largely due to the fact that many businesses have had such adverse experiences in attempting to set up operations in Nigeria. Despite Nigeria being the largest economy in the West African region, and possessing the largest population on the continent, too many investors have had experience with a myriad of delays and painstaking bureaucracy which usually leads to profit loss and potential closure of operations. Ghana on the other hand has shown itself well by providing investors with a good, solid operating environment, pro-business regulations and business conditions that are able to accommodate the international investor. Coupled with this, the government is increasingly gaining more credibility in its ability to manage the revenues being generated from recent oil finds. Clearly Ghana is the investor's destination of choice when seeking a business environment that is both increasingly sophisticated, and progressively cementing itself as the region's hub.

4.3 RWANDA:

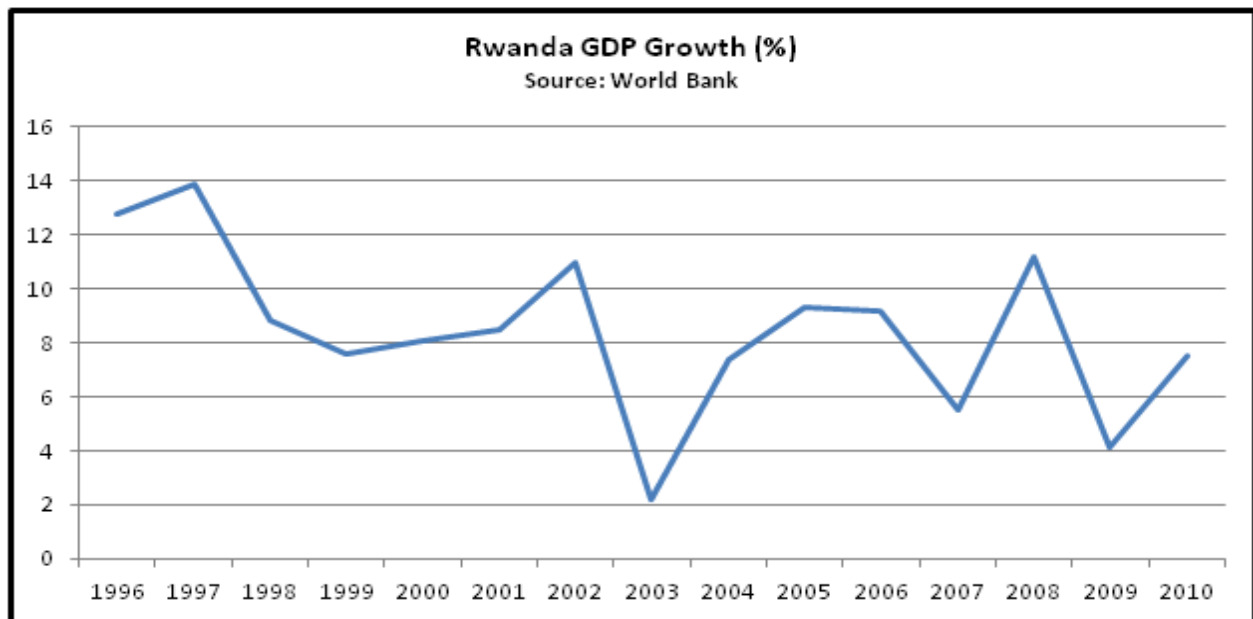
Rwanda gained its independence on 01 July 1962 and held its first local elections in 1999, as well as its first post-genocide presidential and legislative elections in 2003. The country then went on to join the Commonwealth in late 2009. The legal system is based on a mixed civil law system of German and Belgian models, as well as customary law. It is a republic with a multi-party system in place (Musiime, 2007).

Pistorius, C. 2012. *Assessing Africa's market attractiveness*. Available: <http://www.moneyweb.co.za/moneyweb-taming-africa/assessing-africas-market-attractiveness> [2013, February 28]

Musiime, E. 2007. *Rwanda's Legal System and Legal Materials*. Available: <http://www.nyulawglobal.org/globalex/rwanda.htm> [2012, June 15]

As per the International Finance Corporation (IFC) and WB '*Doing Business Report 2014*' (2013: 26) Rwanda is ranked the eighth best country to start a business, as well as the most competitive country to do business in East Africa and the third most competitive country to do business in Africa (We are wooing investors like Dangote to Rwanda, 2012).

Duncan (2012) opines that Rwanda is evolving into one of Africa's best success stories with plenty of lessons for the rest of Africa to learn. The years of genocide excluded, Rwanda has been growing at an average rate of 8.5 percent per year since 1996, as is seen in the graph below:



GRAPH B: – Source: (World Bank as quoted by Duncan (2012))

International Finance Corporation & World Bank. 2013. *Doing Business 2014 Economy Profile: Rwanda*. Available:

<http://www.doingbusiness.org/~media/giawb/doing%20business/documents/profiles/country/RWA.pdf> [2013, July 30]

We are wooing investors like Dangote to Rwanda. 2012. Available:

<http://www.thisdaylive.com/articles/we-are-wooing-investors-like-dangote-to-rwanda/110205/> [2012, May 04]

Duncan, P. 2012. *Rwanda kicks poverty's a**e Lessons for SA poverty-reduction from Rwanda of all places*. Available: <http://www.moneyweb.co.za/moneyweb-deepest-darkest-richest/rwanda-kicks-povertys-ae?sn=2009+Detail> [2012, April 28]

In the third Rwandan Household Living Conditions survey, one of the important variables showed that over the last five years the poverty rate has decreased from 57 percent to 45 percent. Other variables included in the survey are shown below:

<u>Results of the Rwandan Household Living Conditions Survey</u>		
Metric	2005/6	2010/11
Poverty rate	56.70%	44.90%
Gini coefficient	0.522	0.49
GDP per capita	\$333	\$540
Net primary school enrolment	86.60%	91.70%
% with safe drinking water	70.30%	74.20%
% with access to electricity	4.30%	10.80%
Ownership of mobile phones	6.20%	45.20%
Maternal mortality (per 100,000 live births)	750	487
Infant mortality (per 1,000 live births)	86	50
Under 5 mortality (per 1,000 live births)	152	76

TABLE A: - Source: (Duncan (2012))

These results are especially impressive given that they have been achieved in such a short space of time. President Paul Kagame has been the driving force behind this progress, which has been enhanced by his proactive approach to governance, a total intolerance of corruption, and a vision to transform the country with the Vision 2020 programme. By following this type of approach, he has been able to achieve what few others do: a strong, rapid increase in the growth of the economy, and a decrease in the poverty rate. Most countries usually achieve one at the expense of the other (Duncan, 2012).

In a study of Rwanda's post-genocide experience Kimanuka (2009: 14 & 40) expounds on the progression that has been achieved. Since 1995, the country has made remarkable progress with an average GDP growth rate of eight percent per annum between the years 1995 and 2004. He then elaborates further that during the past three years Rwanda has had the highest

GDP growth among major African economies and efforts by the government has resulted in a sound economic governance framework. Within this framework there are regulatory agencies, stronger public expenditure management systems, independent audit agencies and a strong focus on anti-corruption policies and measures (Kimanuka, 2009: 12).

In 1997 a transition programme was adopted by the government to unify the delicate socio-economic recovery attained during 1995 and 1996. This laid the foundation for national reconstruction, sustainable growth, participatory decision-making and poverty alleviation (Kimanuka, 2009: 40 - 41).

In May 2003, a new constitution was promulgated, followed in August and September 2003 by multiparty parliamentary and presidential elections. These were the first democratic elections held in the country since its independence from Belgium on 1 July 1962 (Kimanuka, 2009: 41).

In 2009, The Rwanda Development Board was established by law, and its primary aim is to increase the speed at which the Rwandan economy is moving forward, with the private sector being the main focus. The government wishes to transform the country into a dynamic business hub, which will attract investment, through innovation and the development of the private sector. All company's needs must be addressed and the Board is designed around fast-tracking these needs (We are wooing investors like Dangote to Rwanda, 2012).

The country has achieved sustained high growth, sound governance, an investor-friendly climate, access to markets and possesses numerous un-tapped investment opportunities. President Paul Kagame's Vision 2020 is a programme aimed at promoting growth through private investment (We are wooing investors like Dangote to Rwanda, 2012).

Kimanuka (2009: 40) goes on to explain that the government - through the Vision 2020 programme - has put into place a policy framework that aims to transform the country from an

agriculturally based economy to one that is centred on information and knowledge by the year 2020. He then describes how this programme emphasises the importance of human resources in the country's growth and sets ambitious goals for the country's development. An example of the initial goals set was for GDP per capita to improve from US\$250 in 2000 to US\$900 in 2020 (2009: 72). This target has subsequently been reviewed and updated according to the '*Doing Business 2014 Report*' (IFC & WB, 2013: 41) which states that the income per capita target has been adjusted upwards due to higher than expected results thus far; to US\$3,500 by 2020.

Kimanuka (2009: 87) then further explains that "information and communication technologies (ICTs) have been taken on with enthusiasm and boldness by the government as it is recognised that they are able to facilitate the acceleration of socio-economic development in the country towards building an information and knowledge-driven economy. This strategy appears to be paying dividends. On 3 October 2006, a report was released by the United Nations Conference on Trade and Development in New York and Geneva. It ranked Rwanda top of the list in the East Africa region."

In an article by Ford (2010), he addresses the fact that the government is committed to improving the business environment for investors. The East African market is integrating at a rapid pace and there is a growing middle class. As part of this integration process, the East African Communities are encouraging financial liberalisation between member states. Kigali, the capital of Rwanda is pushing for companies located in other East African member states to cross list on the Rwandan Stock Exchange through the reduction of investment taxes. The government also plans to offer stakes in a number of companies in the future, through the use of initial public offerings. There are a number of firms that have been identified for partial

privatisation, including RwandaAir, Braliwa, Bank de Kigali and transport company, Onatracom. It is reported that over the past 15 years 56 companies have been fully privatised. Business laws are to be modernised in order to promote transparency and intellectual property and information technology (IT) laws in particular are to be thoroughly revised.

Another article titled '*Rwanda: 2011 – The year when the economy recovered lost ground on investments*' by Fred Oluoch-Ojiwah (2011) informs that 2010 was the worst year for attracting investment registration over the prior five year period, as a result of the economic slowdown worldwide. The article then goes on to mention that even with it being the worst year, the country was still able to attract US\$398 million. Admittedly this is down from US\$773 million in 2007, US\$ 831 million in 2008 and best of all US\$1, 1 billion in 2009. For the year ending 2011, as of the middle of December, investment registration stood at US\$620 million and was expected to increase, albeit within a small amount of time. Given that the goal for 2011 was US\$550 million, the Board is clearly working hard to promote the brand that has come to be known as 'Rwanda'.

Rwanda initially set a target for investment of US\$ 835 million for the 2012 year, however due to the fact that this is a country with such favourable growth prospects the actual level reached for the year was US\$1.136 billion. As previously mentioned prior to 2012 the last time the US\$1 billion investment mark was passed was in 2009. Rwanda has achieved consistent economic growth which has surpassed her Sub-Saharan neighbours for the past five years. This proven growth has led to a number of multinationals, some with leading brand names, locating offices in Rwanda. Another reason for the attraction of this investment gem is her location in the East African region, which provides access to the larger EAC including South Sudan and one of the

top ten fastest growing economies in the world, Ethiopia; driving home the point that this is an investment destination of choice (Hope Magazine Telling Rwanda's story, 2013).

4.4 CHAPTER SUMMARY:

According to the World Economic Forum (WEF) Global Competitiveness Report 2012 – 2013 (2013, 13) both Ghana and Rwanda have improved their rankings to 103 and 63 respectively, up from positions 114 and 70 respectively in the 2011 – 2012 Report. Both countries offer unique and diverse opportunities for the investor that have the potential to offer attractive returns.

Aldous et al (2010: 1, 2 & 4) bring to light that Ghana has made considerable progress in the achievement of a stable democracy and attracting investor funding. The country has created a very business-friendly environment by promoting an open, transparent and accountable government, peace and stability, and implementation of a mix of prudent monetary and fiscal policies. This has all contributed to the country being viewed as a favourable risk destination for investors. They (Aldous et al, 2010: 31) then go on to highlight that it is a country filled with friendliness, culture, and abundant opportunities. This is a time of optimism and possibilities – it is time to recognise Ghana for the potential that lies within.

An article published by AllAfrica.com titled '*Rwanda: Why Rwanda Succeeds Where Others Have Failed*' describes how Rwanda is a country that has fought against all odds to survive and prosper. The article then goes on from there to explain that there is no room for any excuse of failure and it is commonly known that anybody found guilty of wrong-doing can expect to be prosecuted and even jailed. This system is applied without favour. The president is especially intolerant of any kind of failure on the part of any public servant as it is felt that this is a direct

Hope Magazine Telling Rwanda's story. 2013.

Available: <http://www.hope-mag.com/news.php?option=news&ca=6&a=1234> [2013, February 28]

World Economic Forum. 2012. *The Global Competitiveness Report 2012 – 2013 Full Data Edition*.

Available: http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf [2013, August 15]

AllAfrica.com. 2010. *Rwanda: Why Rwanda Succeeds Where Others Have Failed*. Available:

<http://allafrica.com/stories/201010140785.html> [2013, March 15]

reflection on his ability to succeed. The price paid for failure, more so if it is a result of sloppiness or incompetence is known to be very grave.

This is a country, according to Ndayis (2012) often referred to as the 'Land of a Thousand Hills' and is one of the most beautiful countries in Central Africa. It is steeped in culture and traditions with a strong emphasis on harmony and tolerance of diversity. It has risen from the ashes of destruction, with a future that promises and promotes peace and prosperity.

To follow on from this synopsis of the general overview and investing climate of each country the ensuing two chapters will provide an overview of each country's current fiscal year goals and objectives, together with a review of the respective taxation codes and the sections that may be of consequence to an investor.

5. GHANA – BUDGET 2013 AND TAXATION LEGISLATION

5.1 BUDGET OVERVIEW:

The Ghana Budget Statement and Economic Policy for 2013 was presented on 05 March 2013 **by the Honourable Seth E. Terkper, Minister for Finance**¹⁰. In keeping with the Government's ongoing pursuit of bettering Ghana, the theme of the presentation was 'Sustaining Confidence in the Future of the Ghanaian Economy' (Ministry of Finance (a), 2013: 1 - 2) (Ministry of Finance (b), 2013: 4).

5.1.1 The Economy – 2012:

2011 was the first year that the Ghanaian economy officially recorded the results from crude oil production in commercial quantities. This saw GDP growth rise to 15 percent, up from eight percent in 2010. Estimations for 2012 in the March 2013 Budget Speech were 7.1 percent, however the revised figure for the 2012 year as of April 2013 is 7.9 percent which, despite being lower than in 2011, reflects a rate well in excess of the Sub-Saharan growth rate of 4.8 percent (Ministry of Finance (b), 2013: 21 - 22) (Ghana Statistical Service [GSS], 2013: 7).

The total volume of crude oil produced during the 2011 year amounted to 24,195,895 barrels as opposed to 26,351,278 barrels produced during the 2012 year. This represents an increase of 8.9 percent (Ministry of Finance (b), 2013: 33 & 38).

¹⁰ The Ghana 2014 Budget Speech was presented to Parliament on 19 November 2014. Salient points of this speech are noted in appendix four.

Ministry of Finance (a). 2013. *Highlights of the Budget Statement and Economic Policy of the Government of Ghana for the 2013 year*. March: 5. Available: http://www.mofep.gov.gh/sites/default/files/budget/2013_Budget_Highlight.pdf [2013, December 06]

Ministry of Finance (b). 2013. *The 2013 Budget Statement and Economic Policy*. Available: http://www.mofep.gov.gh/sites/default/files/budget/2013_Budget_Statement.pdf [2013, December 07]

Ghana Statistical Service. 2013. *Revised Gross Domestic Product 2012*. Available: http://www.statsghana.gov.gh/docfiles/GDP/revised_gdp_2012.pdf [2013, November 30]

Total petroleum receipts for 2012 were GH¢979,315,482 million (Ministry of Finance (b), 2013: 39). Below follows a detailed breakdown of 2012 petroleum receipts:

Description:	Amount/Total (GH¢ million):
Royalties	272,365,515
Carried and Participating Interest	705,905,676
Surface Rentals	847,324
Royalties from SOPCL	196,967
Total Petroleum	979,315,482

TABLE B: - Source: (Ministry of Finance (b), 2013: 39)

Of the total revenue generated from petroleum, GH¢416,885,424 million was transferred to the Ghana National Petroleum Company (GNPC) in accordance with the Petroleum Revenue Management Act (PRMA) 815, Section 7¹¹(Ministry of Finance (b), 2013: 36).

The balance of the revenue - known as the Benchmark Revenue - generated from petroleum activities was transferred to the Annual Budget Funding Amount (ABFA) and the Ghana Petroleum Funds (GPFs). The amounts allocated to each fund were GH¢516,834,831 and GH¢45,595,226 respectively (Ministry of Finance (b), 2013: 40 - 41).

In accordance with Section 21(5) of the PRMA the following four areas are to be given priority in regard to expenditure between 2011 and 2013 of the ABFA funds:

¹¹“ **Carried and participating interest**

7. (1) Revenue due from the direct or indirect participation of the Republic in petroleum operations, including the carried and additional participating interests shall be paid into the Petroleum Holding Fund.

(2) The payment into the Petroleum Holding Fund shall be net of

(a) the equity financing cost, including advances and interest of the carried and participating interests of the Republic; and

(b) The cash or the equivalent barrels of oil that shall be ceded to the national oil company out of the carried and participating interests recommended by the Minister and approved by Parliament” (Petroleum Revenue Management Act, No. 815 of 2011, 2011: s7).

Petroleum Revenue Management Act, No. 815 of 2011. 2011. Available:

<http://ghanaoilwatch.org/images/laws/petroleum-revenue-management-act815-2011-.pdf> [2013, December 01]

- Expenditure and Amortization of Loans for Oil and Gas Infrastructure;
- Road and Other Infrastructure;
- Agriculture Modernization; and
- Capacity Building (Including Oil and Gas) (Ministry of Finance (b), 2013: 37).

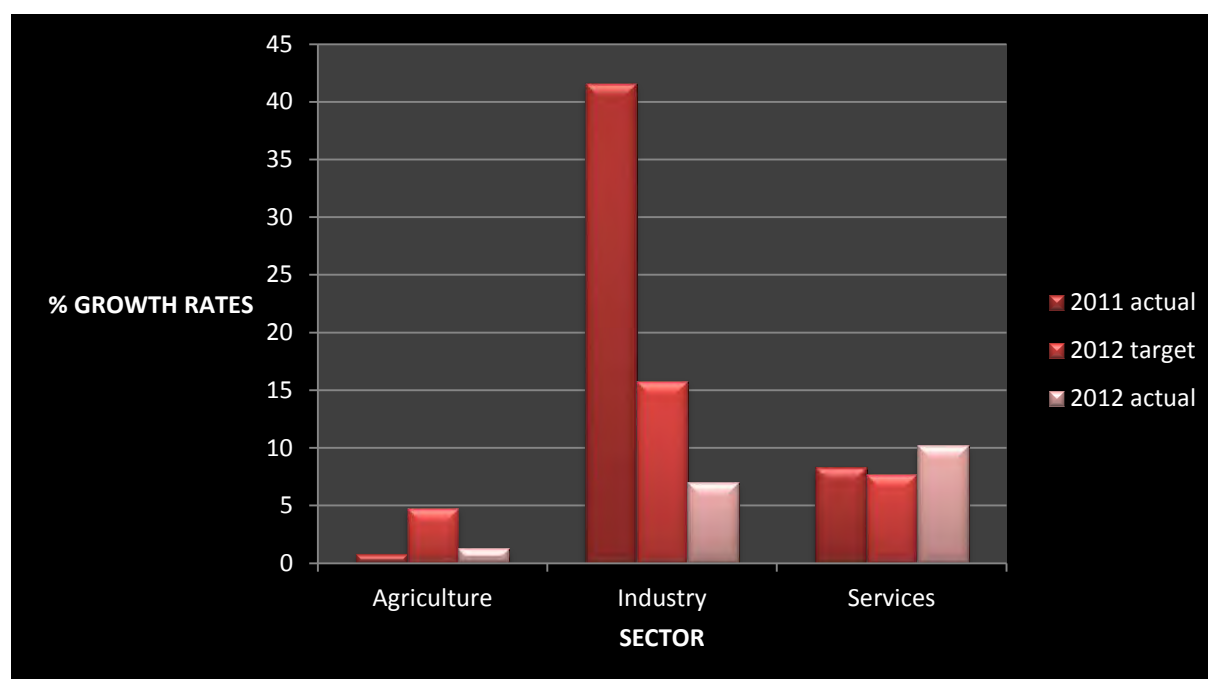
During the 2012 year the expenditure breakdown of the ABFA fund amount of GH¢516,834,831 between the four key areas was as follows:

Priority Areas	Amount Spent (GH¢)		
	Goods and Services	Assets	Total
Expenditure & Amortization of Loans for Oil & Gas Infrastructure		100,000,000	100,000,000
Road & Other Infrastructure	48,398,774	189,004,495	232,403,269
Agriculture Modernization	30,191,200	42,280,624	72,471,824
Capacity Building (including in Oil and Gas)	49,869,738	62,090,000	111,959,738
Total	123,459,713	393,375,118	516,834,831

TABLE C: - Source: (Ministry of Finance (b), 2013: 43)

It is imperative that revenue generated from petroleum production is spent effectively and judiciously in order to maximize the benefits for the country as a whole. By improving and upgrading the infrastructure of the country in all areas, further FDI will be encouraged to locate in the country. This should aid the country in achieving its goal of bettering the country for the benefit of all.

However, oil only forms part of the overall story and according to Ghana Statistical Services the revised GDP figures for the 2012 year in each of the sectors are as follows:



GRAPH C: - Source: (Ministry of Finance (b), 2013: 22 – 25) (GSS, 2013: 7)

Agricultural sector – “overall the performance was disappointing showing a growth rate of 1.3 percent versus an anticipated rate of 4.8 percent. However, performance has increased since the 2011 year which registered growth of 0.8 percent. One of the dominant reasons for the underperformance of the sector was the forestry and logging sub-sector which recorded a lackluster result. This was partly due to a reduction in the reforestation programme started in 2010 and also due to a reduction in the number of timber permits granted in order to decrease the effects of environmentally unfriendly practices” (Ministry of Finance (b), 2013: 23)(GSS, 2013: 3).

Industry sector – “this sector comprises the second largest economic sector in the country and recorded a growth rate of seven percent in 2012. This matches the estimation for the period; however growth is down relative to the final figures for 2011 which reflected growth of 41.6 percent. This was due to the oil revenue being recorded in commercial quantities for the first time.

2012 reflected a less aggressive growth rate as opposed to the 2011 year, due to a contraction in the production of oil and gas, which resulted from production difficulties experienced at the Jubilee Field in the first half of 2012. Despite a growth rate that did not meet target, the sector still showed solid results, and bears testimony to an economy that is showing signs of consistency and stability, even without oil production” (Ministry of Finance (b), 2013: 24)(GSS, 2013: 7).

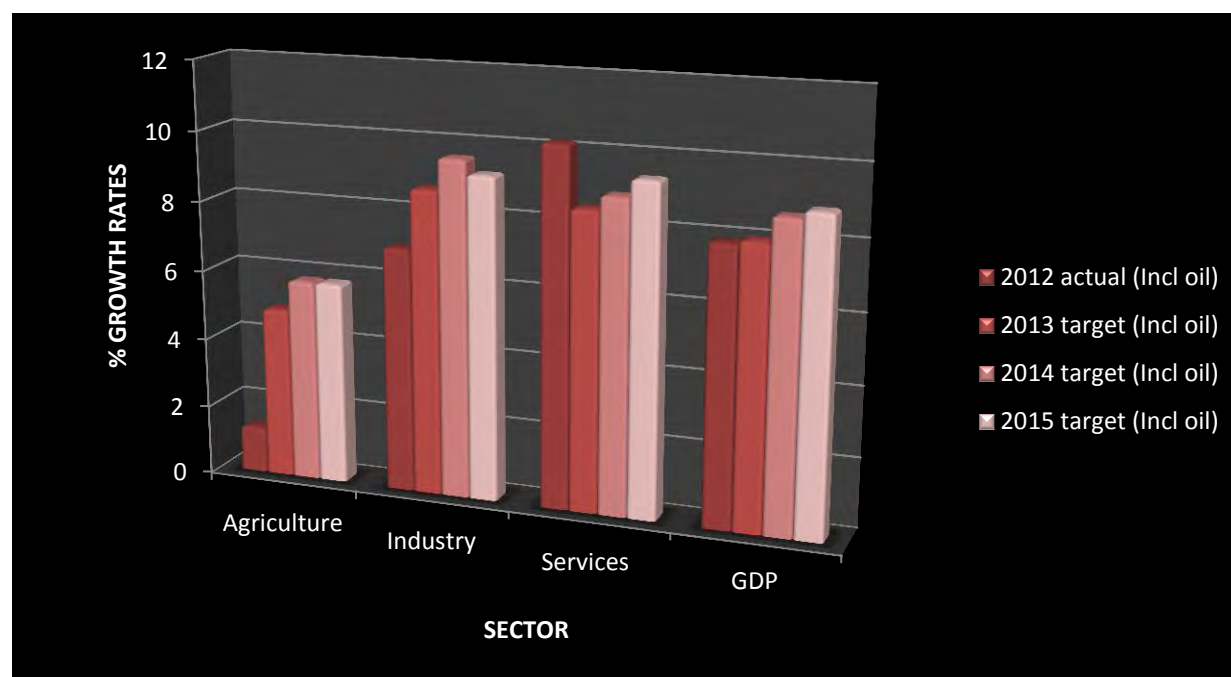
Services sector – “this represents the largest sector of the economy for the 2012 year. It exceeded the targeted growth rate of 7.7 percent and has come in at 10.2 percent growth. This was also the only sector to register growth in excess of the 2011 final growth figure which was 9.4 percent” (Ministry of Finance (b), 2013: 24 & 25) (GSS, 2013: 7).

This is an important achievement for the country as it underlies the fact that the country is showing strong growth improvement, even without resource production. This allows the country to be less dependent on resource production and sales, which could be more conducive to attracting a diverse range of FDI. Improvements in the productivity and efficiency of the services sector can only help other sectors, which in turn work towards higher economic growth.

Looking forward, for the 2013 year the Government macroeconomic policy agenda is focused on the following targets:

- “An average GDP real growth rate of at least 8 percent per annum (including oil);
- An end of period single digit rate of inflation – nine percent;
- An overall average budget deficit equivalent to nine percent of GDP; and
- Gross International Reserves that will cover not less than three months of import of goods and services” (Ministry of Finance (b), 2013: 58).

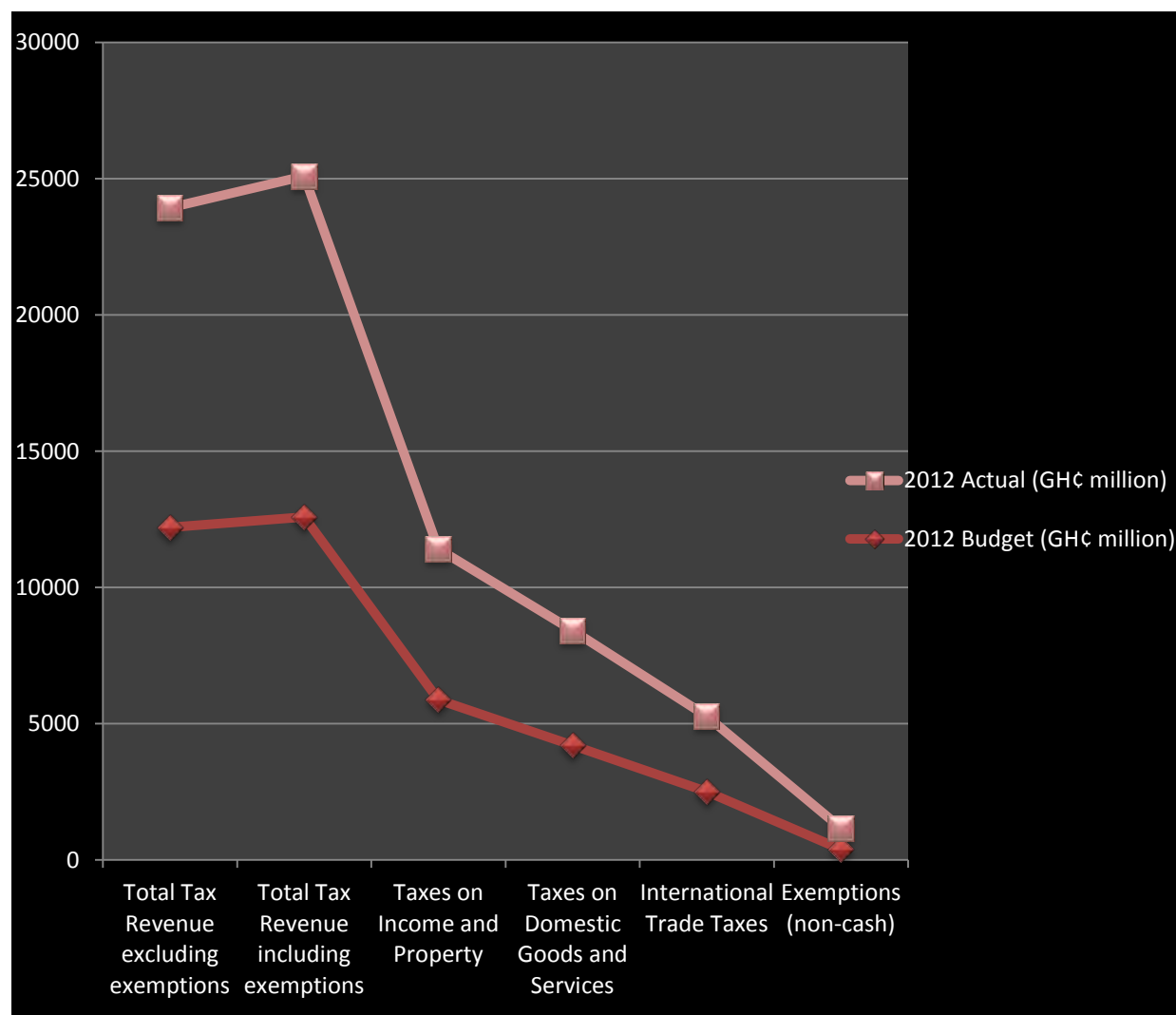
GDP is not projected to fall below eight percent for the following three years. As indicated in the graph below each of the sector's growth rates are forecast to improve into the medium term as indicated:



GRAPH D: - (Source: (Ministry of Finance (b), 2013: 59) (GSS, 2013: 7))

Despite growth in the economy producing positive results and petroleum revenues over the initial hurdles, there was still a shortage in the budgeted total tax revenue, which includes oil tax revenues, due to the non-payment of taxes by some corporates. Total Government tax revenue – budgeted versus actual - for the 2012 year is detailed in appendix five. Despite this setback the total tax revenue did increase 28 percent year on year (Ministry of Finance (b), 2013: 27).

The actual versus budgeted results for the 2012 year are depicted below:



GRAPH E: - (Source: (Ministry of Finance (b), 2013: 27))

The government recognizes that despite revenue collection showing positive results in the 2012 year, there is still a large funding gap that needs to be filled going forward due to infrastructural needs and domestic payment of arrears (Ministry of Finance (b), 2013: 66).

As such there is the intention to expand the taxpayer base as well as improve the efficiency of taxation administration. As part of this process there is the need to consolidate and harmonize all the various tax laws. During the year, the following laws will be tabled before Parliament:

- The Revenue Administration Bill;
- The Value Added Tax Bill;
- The Income Tax Bill;
- The Customs Bill; and
- The Excise Bill (Ministry of Finance (b), 2013: 66 - 67).

Many of the laws currently in existence are in excess of ten years old and are in need of amendment to bring them in line with modern business practices. The government has acknowledged this issue and is currently in the process of redrafting sections that are felt to be outdated and non-functional (PwC (b), 2013:22).

Ghana has made significant economic progress despite the global downturn in recent years. The aim of this budget is to lay out a roadmap for the continuance of Ghana's growth. With the correct implementation as well as a review and upgrading of outdated policies and legal axioms, this should go a long way towards making Ghana a more attractive investment destination. Additionally this should encourage further domestic involvement in the economy. When taken in aggregate these factors should all work to create the anticipated, accelerated economic growth, upgraded infrastructure and much desired employment opportunities for the local participants of the country's economy, as well as providing positive returns for foreign investors.

In the next sub-section a review is done of the taxation laws and policies currently in force. It is not a review of all taxation sections; the sections selected are mainly in relation to corporate taxation as these are the areas most likely to be of significance to a foreign investor.

5.2 TAXATION:

5.2.1 AN OVERVIEW:

In 2001, a new tax law, The Internal Revenue Act 2000 (Act 592) was passed in order to administer direct taxes. The Internal Revenue Regulations, 2001 (L.I. 1675) was also introduced. Taxation in Ghana is made up of income tax, sales tax and service tax which are administered by the Domestic Tax Revenue Division (DTRD) of the Ghana Revenue Authority (GRA) and Customs. Customs Division (CD) of the GRA administers excise duties (PKF (a), 2012: 1).

Resident companies are taxed on their worldwide income and non-resident companies are taxed on Ghana-source income only. For resident companies, income that is sourced outside of Ghana will be taxed once it is brought into, or received in Ghana (Deloitte & Touche (a), 2011: 37).

In order for a company to be resident in Ghana it must be incorporated under the laws of Ghana, or alternatively, its control and management must be operating in Ghana at any time during a year of assessment (Deloitte & Touche (a), 2011: 38).

Tax coverage in Ghana is low with the result that collections are not at the levels that the Government would prefer, specifically in the corporate sector as mentioned above. Each year budget spending is increased and one of the primary methods for funding this expenditure is through additional taxation collection. Over time taxation administrators have become more determined in their collection efforts, specifically towards large corporate taxpayers. These taxpayers are more likely to be the focus of audits, due to the volume of their turnover. Large

PKF (a). 2012. *Ghana Tax Guide 2012*. Available: http://www.pkf.com/media/387062/ghana_2012.pdf [2012, December 21]

Deloitte & Touche (a). 2011. Deloitte. *Guide to Fiscal Information Key Economies in Africa 2011/2012*. Available: <http://www.deloitte.com/assets/Dcom-SouthAfrica/Local%20Assets/Documents/Guide-to-Fiscal-Information-2011-2012.pdf> [2012, June 15]

corporates are generally defined as companies with turnover in excess of GH¢55 million. To further incentivize taxation collection, administrators in their quest to meet collection targets, have implemented a system of linking their bonuses to revenues actually collected (Ernst & Young [E & Y] (a), 2012: 42).

During 2011 the ‘*Gregor Project*’ was launched which aims to electronically link the Ghana Revenue Authority (GRA) to the Registrar General’s Department. This is to ensure that the GRA is able to access details of all businesses (E & Y (a), 2012: 43).

Further to this, the GRA has been on a drive to modernize the institution. The services of marketing have been employed and a rebranding exercise, which includes replacement of current signage, billboards and identification labels on all buildings for easy recognition, has been undertaken. In addition to this, a website has been created which allows easy access and provides detailed, user-friendly taxation information for all stakeholders (E & Y (a), 2012: 43).

5.2.2 CORPORATE INCOME TAX:

Ghana has a statutory corporate income tax rate of 25 percent. Relative to other African countries - where rates can be as high as 35 percent, this is a relatively low corporate income tax rate. The effective rate could potentially differ however, depending on the investment incentives applicable – incentives applicable to certain industries as detailed in appendix nine will act to further reduce the effective rate either through a reduction in the overall corporate rate of taxation or through the granting of rebates (PricewaterhouseCoopers [PwC], n.d.: 1).

Ernst & Young [E & Y] (a). 2012. *Tax Policy and Controversy Outlook Europe, Middle East, India and Africa (EMEIA) 2012*. Available: <http://www.ey.com/GL/en/Services/Tax/Tax-policy-and-controversy-outlooks-for-2012> [2012, August 15]

PricewaterhouseCoopers [PwC]. n.d. Transfer Pricing and Developing Countries. *EuropeAid*. Available: http://ec.europa.eu/europeaid/what/economic-support/taxation/documents/appendix_c_country_study-ghana.pdf [2013, September 02]

With regard to mining activities, it has been proposed that the corporate tax rate be increased from 25 percent to 35 percent. The extra ten percent taxation will be a windfall profit tax.

There are no other variables for determination of the windfall tax at this point. From 2012 a uniform regime for a capital allowance of 20 percent per year for five years (straight line method) has been introduced (PwC (b), 2013: 2).

Ring-fencing of natural resources has now also been brought into effect. Companies will no longer be allowed to set-off costs from one contract area or site against the profits earned in others belonging to the same company (Ernst and Young [E & Y] (b), 2012: 3).

Branch Profits Taxation:

A branch is an extension of a head office and not a company in its own right. As such, it has paid taxes on all profit derived from its petroleum operations (PwC (a), 2011: 12 - 13).

A branch that operates out of Ghana is taxed in the same manner as any other corporate entity that operates in Ghana. Any branch that repatriates profit after tax, including a subcontractor who has registered a branch in Ghana for the purposes of operating in the petroleum industry, is required to pay a ten percent final withholding tax on the amount repatriated. This withholding tax is in addition to any corporate tax already paid (PKF (a), 2012: 2).

Capital Allowances:

Capital allowances are granted to both individuals in business and corporate bodies against fixed assets (depreciable assets) which are used in the operation of a business and such asset is

Ernst & Young (b). 2012. News and Updates across the African Continent. *Tax Focus*. 6. Available: <http://emergingmarkets.ey.com/wp-content/uploads/downloads/2012/10/Tax-focus-Issue-6-2012-email-version.pdf> [2013, October 05]

PricewaterhouseCoopers (a) (Ghana). 2011. *Oil & Gas Matters*. April. Unpublished Report.

likely to lose value due to wear and tear, obsolescence or the effluxion of time, but does not include trading stock.

To qualify for these allowances, the following conditions must be met concurrently before the capital allowance can be granted:

- The assets should be capital in nature;
- The asset must be owned by the business; and
- The asset should be used in carrying on business during the period (PKF (a), 2012: 3).

The Third Schedule to the Internal Revenue Act, 2000 (Act 592) provides under paragraph 1, as amended by Section 19(1) (1) of the Internal Revenue (Amendment) Act, 2002 (Act 622) that the Commissioner shall be notified about any new depreciable asset acquired within one month after it has been put into use in the production of the income of the business (Ali-Nakyea, 2008: 103).

Appendix six details the different classes of assets subject to a capital allowance and the write-off period for each.

Capital Gains Taxation (CGT):

This is a tax which is paid on any realization of gains made on the sale or disposal of a chargeable asset where the gain exceeds GH¢50 – it is not treated as Income Tax – in Ghana CGT is a separate tax from Income Tax. This includes appreciation in value arising from changes in ownership structure as well as outsourcing control, and management of some aspects of business to new and outside companies (E & Y (b) 2012: 3) (Ali-Nakya, personal communication 2013, November 28).

The capital gain is calculated as the amount received in excess of the base cost of the asset at the time of realization. The current chargeable rate is 15 percent (PKF (a), 2012: 1).

Some of the most common chargeable assets subject to capital gains taxation and gains derived from chargeable assets, but exempt from CGT in Ghana are included in Appendix seven.

5.2.3 WITHHOLDING TAXATION:

A withholding tax is required to be paid across to the Commissioner within 15 days of the end of the month in which the payment which is subject to withholding taxation was made. The withholding taxation must be paid across by the withholding taxation agent. A withholding taxation agent is a person obligated to withhold tax on behalf of the Commissioner (Ghana Revenue Authority [GRA], n.d.: 1).

Where there is a treaty present between the Government of Ghana and another country, the terms of the treaty take precedence over all provisions of the Income Tax Law as per Section 111(1) of the Internal Revenue Act, 592 (Internal Revenue Act, No. 592 of 2000, as amended 2006: chap IV). However, where there is no treaty present, the provisions of the Income Tax Law applies as per conditions listed above. A proviso to the conditions set out in a treaty between the Government of Ghana and another country is where the rates of tax set out in the treaty are in excess of those stipulated by the law of Ghana. In this instance, the lower of the two rates is applied. At present, Ghana has double tax treaties with the following countries:

- United Kingdom
- France
- Italy
- South Africa
- Belgium
- Germany (PKF (a), 2012:7).

Ghana Revenue Authority. n.d. *Withholding Tax*. Available:
http://www.gra.gov.gh/docs/info/tax_withholding.pdf [2013, August 12]
 Internal Revenue Act 592 of 2000, *as amended*. 2006. Available:
http://www.gra.gov.gh/docs/info/irs_act.pdf [2013, June 02]

The tax rates as applicable to standard withholding transactions as well as the rates applicable to countries with a treaty in place are listed in appendix eight.

5.2.4 LOSSES:

All companies involved in mining, farming, agro-processing, tourism, information communications technology (that develop software locally) and manufacturing companies that manufacture mainly for export are allowed to carry forward their losses for five years following the year in which the losses were made. All other companies in other industries are not allowed to carry forward losses (Deloitte & Touche, 2012: 1).

5.2.5 INVESTMENT INCENTIVES:

Ghana offers various non-taxation and taxation incentives through the Ghana Investment Promotion Centre (GIPC) Act 478 and the Free Zones Act 504 (Munyandi (a), 2013). Incentives are primarily aimed at areas that the government wishes to encourage investment into, such as a specific location within the country or a specific sector of the economy. As such the incentives on offer are not standardized, but structured to be increasingly attractive to locations and sectors that investors ordinarily would not consider.

Through these incentives the government hopes to attract growth and advancement to all areas of the economy which should foster an environment equipped to achieve a positive improvement in GDP going into the future.

Appendix nine details the current incentives on offer by the government, however there will be a possible amendment of these incentives in the near future as government is in the process of upgrading the laws in relation to investment. This will include reviewing the incentives

Deloitte & Touche. 2012. *International Tax Ghana Highlights 2012*. Available: <http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-ghanahighlights-2012.pdf> [2013, December 15]

Munyandi, K (a). 2013. Ghana – Corporate Taxation – 1. Corporate Income Tax. *IBFD Online*. Available: http://ip-online2.ibfd.org/document/gtha_gh_s_1. [2013, July 22]

currently on offer in order to bring the country in line with modern economic conditions and the continued desire to attract and retain strategic investors.

5.2.6 DIVIDENDS:

Dividends that are paid to resident and non-resident persons, partnerships or shareholders by a resident company, other than exempt dividends are taxed at a rate of eight percent (Deloitte & Touche (a), 2011: 38).

Where the profit of an entity is capitalized, it is treated as a dividend paid to the shareholders of the entity according to the percentage shareholding by each in the entity and taxed at eight percent (PKF (a), 2012: 4).

In the case of a company that shows a profit over a reasonable period of time and is controlled by no more than five persons, the Commissioner may at his discretion treat part of the profit as distributed. These deemed distributed profits then have to be taxed in the hands of the shareholders (PKF (a), 2012: 4).

Per Section 85 of Act 592, the tax that is charged on the above dividends is a withholding tax and is to be paid to across to the Commissioner by the person or entity effecting the payment (Internal Revenue Act, No. 592 of 2000, as amended, 2006: chap1).

Dividends that are exempt from the eight percent withholding tax are those that are paid by a resident company to another resident company where the recipient company controls either directly or indirectly, 25 percent or more of the voting power of the company paying the dividends. The only instance where this rule will not apply is where the paying of such dividends is intended as a method of profit or dividend stripping (PKF (a), 2012: 4).

5.2.7 MISCELLANEOUS TAXES:

Various other taxes that may affect a corporate taxpayer depending on the transaction being undertaken or the industry operated in are detailed below:

Stamp Duty:

Stamp Duty is administered under the Stamp Duty Act, 2005 (Act 689) (Deloitte & Touche (a), 2011: 41). It is paid by a person who undertakes certain transactions, as listed in appendix ten, part A.

For the conveyance or sale of immovable property, sale of shares, bonds and other securities (except listed securities) the applicable rate ranges from 0.25 percent to one percent. For leases the applicable rates are 0.5 percent to one percent, dependent on the term of the lease (PKF (a), 2012: 2) (Deloitte & Touche (a), 2011: 41).

Gift Tax:

This tax is applicable to any gifts received that have a total value in excess of GH¢50 during a year of assessment. The tax is payable by the recipient of the gifts (PKF (a), 2012: 2). Gifts which fall under consideration are included in appendix ten, part B.

Real Property Taxes:

Rates are levied on the occupation of real property¹² and are collected by the District, Municipal and Metropolitan Assemblies (authorities) (PKF (a), 2012: 2) (Deloitte & Touche (a), 2011: 41).

Environmental Tax:

A rate of five percent is to be charged on plastic and packaging materials **and product**, excluding the agricultural and pharmaceutical sectors. This tax is pending Presidential assent. An import duty of 20 percent will also be imposed on all hand held telephones. These taxes are in aid of the government's drive to protect the environment (Deloitte & Touche (a), 2011: 41) (Munyandi (b), 2013).

Communication Service Tax:

This tax – charged at six percent - is applicable to all communication service providers and is based on their turnover. It extends to the following:

¹²“ real property n. 1) all land, structures, firmly attached and integrated equipment (such as light fixtures or a well pump), anything growing on the land, and all "interests" in the property which may be the right to future ownership (remainder), right to occupy for a period of time (tenancy or life estate) the right to drill for oil, the right to get the property back (a reversion) if it is no longer used for its current purpose (such as use for a hospital, school or city hall), use of airspace (condominium) or an easement across another's property. Real property should be thought of as a group of rights like a bundle of sticks which can be divided. It is distinguished from the other type of property, personal property, which is made up of movable items” (The Free Dictionary by Farlex, n.d.).

- Public or corporate data operators;
- Providers of radio (FM) broadcasting services; and
- Providers of free-to-air television services (PKF (a), 2012: 2).

According to AllAfrica.com (2013), on 9 July 2013 government passed into law the Communication Service Tax (Amendment) Bill 2013. The act has yet to receive presidential assent. AllAfrica.com then goes on further to state that it was passed without the provisions imposing an **additional** six percent interconnection fee on incoming international calls and data transmissions. Also known as "Talk tax", the Communications Service Tax was introduced by government in 2008 to increase revenue by exacting six percent on the value of services accessed by subscribers of mobile telephone networks.

5.3 INDIRECT TAX:

5.3.1 CUSTOMS, EXCISE AND PREVENTATIVE SERVICE (CEPS):

Ghana's customs duties are governed by the Customs, Excise and Preventative Service (Management) Law 1993, PNDCL 330, as amended; The Customs and Excise (duties and other taxes) Act, 1996 (Act 512), as amended; and The Harmonized Code (PwC, n.d.: 2).

The taxes collected by CEPS (Section 24 of PNDC Law 330, as amended) are detailed in appendix 11, part A.

The standard import duty rate ranges from zero to 20 percent, with raw material's charges at a duty of ten percent (Ali-Nakyea, 2008: 245).

Agricultural inputs are specifically exempted from import duties as well as industrial machinery, solar, wind, thermal energy and electrical generating sets of 375 KVA and above, solar cells, panels and educational materials, specified motor vehicles, e.g. ambulances and specified imported mosquito nets (Ali-Nakyea, 2008: 244 - 245).

Goods produced in Ghana which are for consumption generally attract VAT. The same rule applies to goods that are imported into Ghana for consumption. It is charged at a rate of 12.5 percent on duty which includes the value of the imported item (Ali-Nakyea, 2008: 246).

Export duty is paid on goods exported and currently pertains to cocoa and timber. To calculate the value of goods exported the following charges need to be included:

- Freight charges incurred for transport up to the port or place of export;
- Harbor dues, loading charges and all other costs;
- Profits; and
- Charges, expenses and duties accruing up to the point where goods are deposited on board the exporting vessel, aircraft or vehicle at the place of departure from Ghana (Ali-Nakyea, 2008: 246) (PwC, n.d.: 2).

The National Health Insurance Levy (NHIL) which is imposed under Section 86 of the National Health Insurance Act, 2003 (Act 650) is chargeable at a rate of 2.5 percent (Ali-Nakyea, 2008: 249). Items subject to this levy are also listed in appendix 11, part B.

The Export Development and Investment Fund (EDIF) and Economic Community of West African States (ECOWAS) Levy are each an import levy. Each one is individually 0.5 percent of the cost, insurance and freight (C.I.F) value of all non-petroleum products imported in commercial quantities (Ali-Nakyea, 2008: 249).

The petroleum agreements signed with the Government of Ghana (GoG) allow contractors, subcontractors and their affiliates to import into Ghana all plant and equipment, and materials that relate to petroleum operations in Ghana; without the payment of customs and other duties, fees or charges on import, except small administrative charges. The rule is subject to certain conditions (PwC, n.d.: 2).

5.3.2 VALUE ADDED TAX (VAT):

VAT was first introduced in Ghana on 01 March 1995. It was then repealed by government on 14 June 1995 due to a strong public outcry against such tax. It was then reintroduced on 18 March 1998 (Ali-Nakyea, 2008: 273).

VAT is charged on the supply of all goods and services produced in Ghana or imported into Ghana by a taxable person, who is in pursuit of a business activity and is not specifically exempt from VAT (Ali-Nakyea, 2008: 276).

A VAT vendor is required to submit monthly returns showing details of VAT transactions by the last working day following the accounting period to which it relates (Deloitte & Touche (a), 2011: 40).

At present the VAT rate is a total of 15 percent. This is made up of a 12.5 percent standard VAT rate and the National Health Insurance Levy (NHIL) of 2.5 percent (Deloitte & Touche 2011 (a): 40). Currently the VAT threshold is GH¢90,000 (Munyandi (c), 2013).

It has been proposed that the VAT registration threshold is increased and that businesses and individuals with a turnover of GH¢ 120,000 or less for a 12 month period must pay a presumptive tax of six percent of turnover when making taxable supplies, and for those businesses and individuals providing non-taxable supplies a presumptive tax of three percent should be paid (PwC (b), 2013: 25).

Munyandi, K (c). 2013. Ghana – Corporate Taxation – 8. Value Added Tax. *IBFD Online*. Available: http://ip-online2.ibfd.org/collections/gtha/html/gtha_gh_s_008.html#gtha_gh_s_8. [2013, July 10]

Goods and services which fall into the exempt category as per Section 14, schedule 1 are detailed in appendix 12, part A.

Zero-rated supply of goods and services are those items on which the output rate is zero percent. Section 15/Schedule 2 details items that are zero-rated – these are also listed in appendix 12, part B.

VAT Flat Rate Scheme:

Ali-Nakyea (2008: 306 – 307) describes how the Value Added Tax (Amendment) Act, 2007 (Act 734) introduced a Flat Rate VAT Scheme (VFRS) that facilitated VAT collection in the informal retail distribution trade sector. The purpose of the Act is to the effect that unless otherwise directed by the Commissioner for VAT in writing, a taxable person who is a **retailer of goods** shall account for the Value Added Tax payable at a flat rate of three percent calculated on the value of the taxable supply.

The VAT Flat Rate Scheme according to Ali-Nakyea (2008: 306) is defined in the Act to mean:

“a value added tax collection and accounting mechanism that applies a marginal tax percentage representing net VAT payable on the value of taxable goods supplied. Thus the VFRS operators will charge VAT and NHIL on their taxable supplies at a marginal rate of three percent of the value of the supplies. The marginal rate of three percent represents the ‘effective rate’ of tax on supplies that gives rise to net tax payable on application of the input-output mechanism of VAT.”

VFRS operators are not entitled to input tax deductions on their VAT/NHIL returns. They are also not entitled to a tax credit. Retailers excluded by the Commissioner for VAT¹³ from the VFRS will have to operate the standard VAT, which is the invoice-credit method.

VAT Flat Rate Scheme operators are required to:

- Issue VAT Flat Rate Scheme invoices for taxable supplies;
- Submit monthly VAT Flat Rate Scheme VAT/NHIL Returns; and
- Keep basic business or accounting records.

All other provisions of the Value Added Tax law apply to VFRS operators (Ali-Nakyea, 2008: 306 - 307).

5.4 ANTI AVOIDANCE:

Transfer Pricing (TP) generally relates to transactions between connected parties which are not conducted at arm's length, because the primary motivation is the transfer of profits and/or costs from one jurisdiction to another in order to lessen the overall tax burden (Asante-Boadi, 2011: 23 - 24).

Ghana's Tax Act 592, Sections 69 – 71, as detailed in appendix 13, deals with income splitting, transfer pricing and thin capitalization under Part IX which deals with anti-avoidance (Asante-Boadi, 2011: 23 - 24).

¹³ No specific guidance is offered by the GRA as to possible retailers that may be excluded from the Scheme – this Scheme is primarily aimed at excluding sectors such as services and manufacturing where the value added could be as great as 100 percent and these sectors are not inhibited by a lack of issuance of VAT invoices, such as occurs in the retail sector.

Asante-Boadi, Y. 2011. *Transfer Pricing – Ghana*. Available: http://reference.sabinet.co.za/webx/access/electronic_journals/taxtalk/taxtalk_n27_a9.pdf [2013, August 27]

Ghana introduced TP regulations into its legislation in 2001. This presented numerous challenges as there was a local shortage of expertise for determining instances of transfer pricing, difficulty in obtaining appropriate TP information, and the permitted use of stability agreements between GoG and foreign investors further fuelled the problem (Asante-Boadi, 2011: 23 - 24).

The absence of extensive transfer regulation has led to a number of transactions between related parties being incorrectly taxed (Ghana Business News, 2012). It is fairly common practice in Ghana for many MNC's to produce losses or at best marginal gains year after year, without the intention of liquidity or ceasing operations in the foreseeable future.

For many years Ghana has been attempting to put in place more formal regulations with regard to TP and it appears this is set to become a reality in the not too distant future. On 31 July 2012, Transfer Pricing Regulations, 2012 (L.I. 2188) was gazetted and laid in the house in accordance with Article 11(7) of the Constitution. It was further referred to the Committee on Subsidiary Legislation for consideration and report pursuant to Order 77 and 166 of the Standing Order of the House (Ghana Business News, 2012).

5.5 CHAPTER SUMMARY:

With the discovery of oil in the not too distant past Ghana has had to adapt to a changing economic environment. The GDP of the country is now largely influenced by the production and sale of oil and this exposes Ghana to the volatility of global commodity prices. Initial production difficulties have been overcome and it appears that the production of oil has stabilized.

However, it would be naïve to believe that the discovery of oil is the solution to all economic woes and as such it is in Ghana's best interests to continue with the promotion and improvement of other sectors of the economy. The services sector has performed particularly well during the 2012 year. Policies and incentives, especially in relation to taxation, should be adapted and reviewed in order to promote and sustain further investment into this sector as well as the economy as a whole. Ghana is well able to achieve middle income status in the near future, but in order to achieve this status an increase in domestic revenue is needed. The laws and policies governing taxation are of essential importance in generating domestic revenue, but care must be taken if they are to be structured in such a way as to be of benefit to all.

Chapter seven looks at the investment incentives that are currently being offered by the GoG and assesses whether there is scope for improvement and refining. This analysis is done in relation to South Africa, which at present possesses a tax system comparable with many first world countries. With South Africa being situated in Africa, albeit in a different bloc, the goal is to analyse incentives that South Africa has in place versus what Ghana has in place and ascertain where possible improvements could be implemented.

6. RWANDA – BUDGET 2013/2014 AND TAXATION LEGISLATION:

6.1 BUDGET OVERVIEW:

On 13 June 2013, the Minister of Finance and Economic Planning, Ambassador Claver Gatete, delivered the 2013/2014 national budget and economic policy. The theme of the budget for this period is 'Striving for self-reliance and dignity' (Ministry of Finance and Economic Planning, 2013: 1 - 2).

Real GDP growth, calculated at constant 2006 prices (and adjusted for inflation), was projected to be 7.7 percent for 2012, however, the economy outperformed this target and actual growth was eight percent. This; despite a downturn in global economic activity; which went from 3.9 percent in 2011 to 3.2 percent in 2012 (Ministry of Finance and Economic Planning, 2013: 3).

According to the World Bank Sub-Saharan Africa growth for the 2012 year was 5.8 percent; if the drag of South Africa is excluded; with a forecast of 4.9 percent for the 2013 year (Imara Africa Securities Team, 2013). Closer to home the EAC registered an average GDP of six percent in 2012 with an average growth rate of 6.7 percent forecast for 2013 and 2014 (Ministry of Finance and Economic Planning, 2013 (c): 4).

Inflation, despite rising to 8.3 percent in December 2011, remained in single digit figures, as opposed to levels rising in excess of 20 percent in some of the other member states of the EAC. This was the lowest rate in the EAC over the 2011 period (Ministry of Finance and Economic Planning, 2012: 7). December 2012 saw inflation dropping to 3.9 percent due to higher than

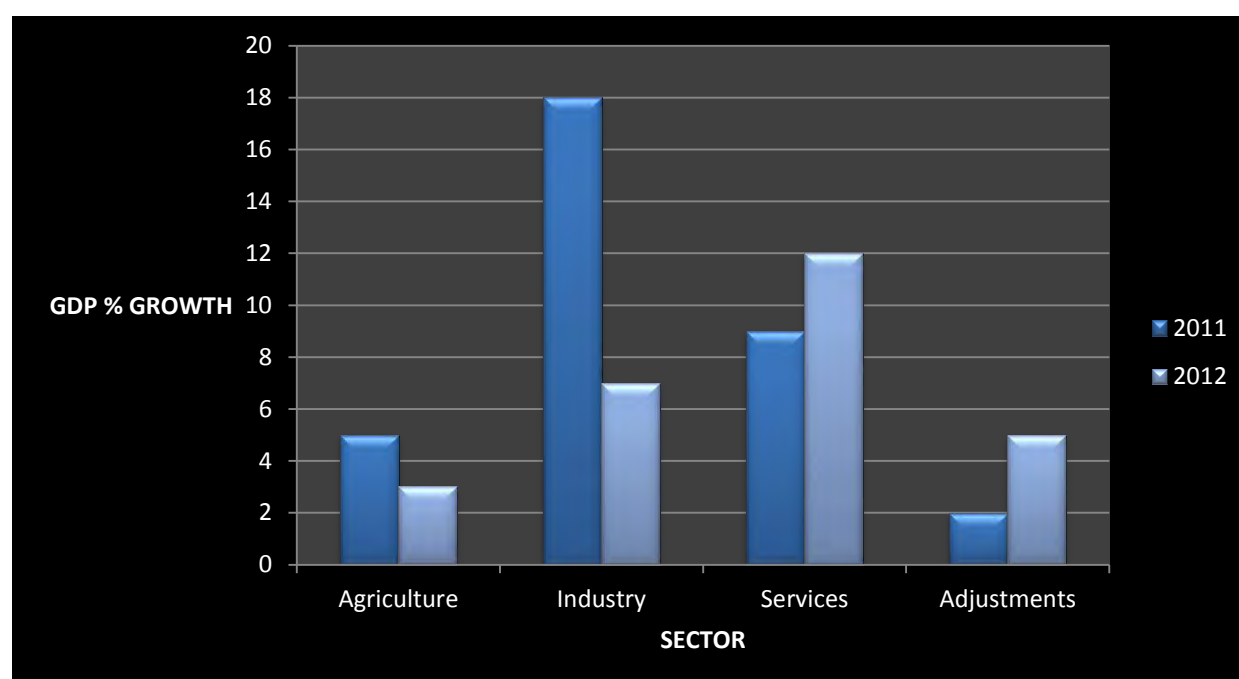
Ministry of Finance and Economic Planning. 2013. *Budget Speech Financial Year 2013/2014*. Available: <https://www.pwc.com/rw/en/pdf/rwanda-budget-2013-budget-speech.pdf> [2013, October 07]

Ministry of Finance and Economic Planning. 2012. *Budget Speech Financial Year 2012/2013*. Available: http://www.eac.int/news/index.php?option=com_docman&task=doc_view&gid=289&Itemid=152 [2013, October 25]

Imara Africa Securities Team. 2013. *Sub-Saharan Africa set to continue on its robust growth path*. Available: <http://www.howwemadeitinafrica.com/sub-saharan-africa-set-to-continue-on-its-robust-growth-path/23498/> [2013, October 24]

expected food production as well as a reduced inflation rate for the EAC as a whole (Ministry of Finance and Economic Planning, 2013: 5).

Despite a drop of 0.2% real growth in GDP from 2011, each of the major economic sectors within the economy displayed a positive rate of growth for the 2012 year. However, agriculture and industry did not reflect a growth rate in excess of the 2011 rate, whereas the services sector did, as displayed in the graph below:



Adjustments as listed on vertical axis¹⁴

GRAPH F: - (Source: National Institute of Statistics of Rwanda, 2012)

The industry sector led by construction, minerals, chemicals and non-metallic products achieved an impressive 18 percent growth performance in 2011, but the growth rate dropped down to seven percent in 2012. This is largely due to a decrease in performance by the mining

¹⁴ “Adjustments (for taxes and subsidies, and for financial services indirectly measured) accounted for a further 0.3 percentage points of the total growth in 2012” (National Institute of Statistics of Rwanda, 2012).

and quarrying sub-sector and a weakened performance by the manufacturing sub-sector for the period (National Institute of Statistics of Rwanda, 2012). These figures can be viewed in appendix 14.

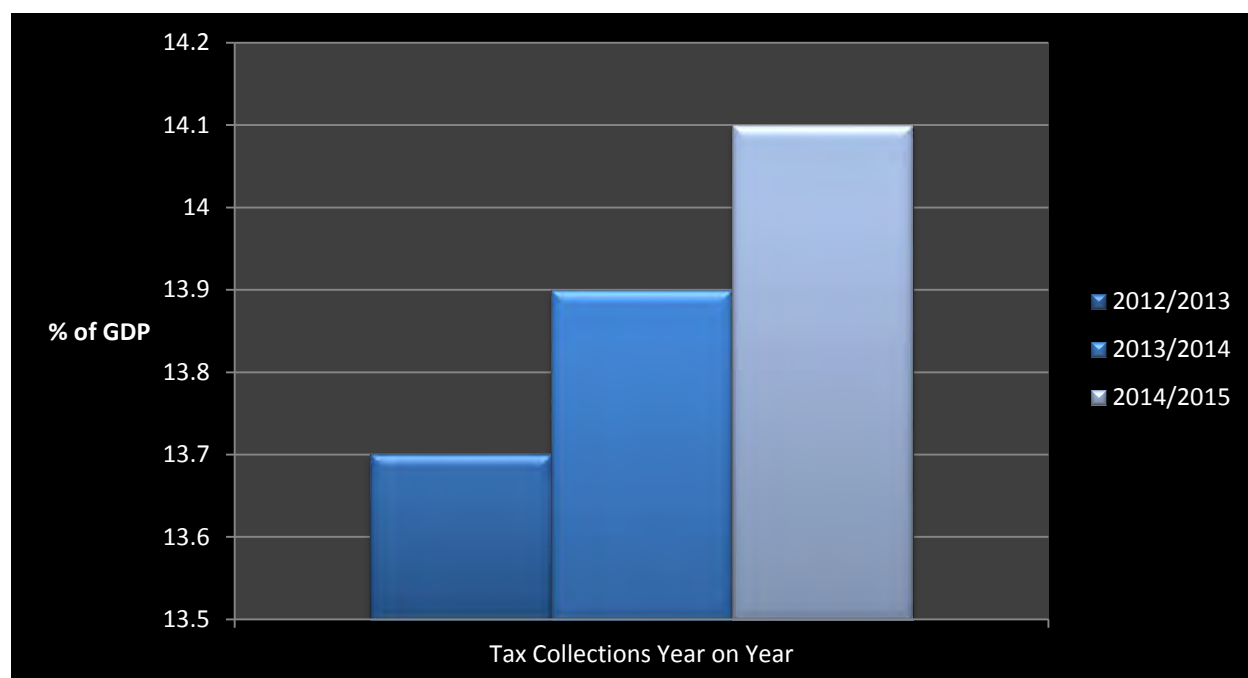
Agriculture continued a five percent growth trend in both 2010 and 2011, reflecting well on the policies implemented under the Crop Intensification Programme (Ministry of Finance and Economic Planning, 2012: 14). In the 2012 year however, growth year on year in this sector dropped to three percent. This is due to a decrease in export crops for the year, specifically coffee exports (National Institute of Statistics of Rwanda, 2012). The fall in coffee export revenues is largely due to a steep fall in the price of the product on the international market according to National Agricultural Exports Board (NAEB) international marketing officials (Agutamba, 2013).

The services sector performed well in 2011 with a growth rate of nine percent, mainly buoyed by a strong performance from the financial sector. For the 2012 year however, performance was even stronger reflecting a year on year growth rate of 12 percent (National Institute of Statistics of Rwanda, 2012). None of the sub-sectors reflected a negative growth rate with the transport, storage and communication; and real estate and business services sub-sectors performing particularly well as reflected in appendix 15.

According to the current Budget Speech (Ministry of Finance of Economic Planning, 2013: 12 – 13) address, despite a slowdown in donor aid flows from foreign countries the RRA is not increasing taxation rates. The required domestic revenue has however, increased to RWF1, 653 billion, up from RWF1, 550 million in 2012/2013. In order to assist in achieving this target the RRA has introduced some new measures as outlined below:

- “E-filing and E-payment: Its introduction and implementation will reduce compliance costs for both tax administration and taxpayers.
- Electronic Single Window: It was launched and rolled out to different bonded warehouses. In addition other agencies involved in import/export clearing were fully connected.
- Electronic cargo tracking equipment: Its introduction will help ensure the protection of cargo from source to destination.
- Introduction of mobile technology in payment and filing of taxes. This is a platform to file and pay taxes through mobile technology.
- Introduction of Gold CardScheme to facilitate compliant taxpayers.
- Revision of investment code to adapt to the prevailing business environment.
- Introduction of a royalty tax on minerals: A royalty tax will be introduced on different types of minerals in Rwanda and the rates to be applied are as follows: four percent of the value of extracted minerals on basic metals and six percent on both precious metals and precious stones.
- The revision of the Double Taxation Avoidance Agreement (DTAA) between Rwanda and Mauritius.
- Introduction of Electronic Billing Machines: The new VAT law requires registered taxpayers to use Electronic Billing Machines (EBM)”.

These improvement measures are expected to lead to an increase in revenue collection totaling approximately 0.2 percent per year as depicted below:



GRAPH G: - (Source: Ojulu, 2013)

Through the above listed changes to the tax code the government is hoping to improve the revenue collection process and make it more efficient in order to work towards generating enough domestic revenue to cover domestic expenditure and in the process become free of the need for external aid.

The global conditions that prevail at present are challenging to say the least. Added to this complex economic environment, Rwanda requires additional resources in order to achieve its aim of reaching middle income status by 2020. Foreign aid is on the decline and expenses are on the rise. It is for this reason that the budget for the 2013/2014 year has policies that are specifically geared towards the attainment of the chosen theme: 'Striving for self-reliance and dignity'.

Following on from here is a review of some of the sections contained in the Income Tax Code, with strong focus on corporate tax, due to the fact that these sections will be of particular interest and consequence to an investor. All sections of the Code have not been able to be reviewed due to either a low level of relevance to the investor, such as in the case of personal income tax, or that the Code does not provide sufficient depth in order to contribute meaningful guidance to an investor, such as in the case of major intercompany transfer issues. However, a broad overview is provided which aims to contribute to a more comprehensive awareness of the system operating in Rwanda at present.

6.2 TAXATION:

6.2.1 AN OVERVIEW:

Taxation under the Rwandan Constitution (Republic of Rwanda 2003) has to be approved by Parliament. Article 81 of the Constitution states that no taxation is able to be imposed, modified or suppressed, except by law, and that no exemption from or reduction of tax may be granted except when authorized by law. Under Article 79 of the Constitution, every year the

Chamber of Deputies has to adopt the Finance Law (budget), and before the final adoption of the Budget, the President of the Chamber of Deputies seeks the opinion of the Senate on the Finance Bill. The Law gives Cabinet added power to negotiate incentives directly with individual investors on the recommendation of the Rwanda Investment and Export Promotion Agency (RIEPA) Board. These incentives would be granted due to the nature, national importance, location, or volume of capital investment of investments (Institute of Policy Analysis and Research-Rwanda, 2011: 21) (Novatech, 2008: 7).

Rwanda has three main categories of taxation as per the Institute of Policy Analysis and Research-Rwanda (2011: 18):

- “Direct taxes (PAYE, corporation tax, personal income tax and tax imputed on turnover);
- Indirect taxes on goods and services (VAT and excise duty); and
- Tax on international trade.”

The following laws regulate the different taxes applicable in Rwanda (Gakwaya (a), (b), (c), 2013):

- Tax Law 16/2005 – 18 August 2005. It was subsequently amended on 31 December 2008 by Law 73 /2008 and then again on 27 July 2012 by Law 28/2012. These laws relate to corporate income tax, specifically direct taxes.

Institute of Policy Analysis and Research-Rwanda. 2011. *East African Taxation Project: Rwanda Country Case Study*. Available: http://www.actionaid.org/sites/files/actionaid/rwanda_case_study_report.pdf [2013, November 02]

Novatech. 2008. *Country Profile Rwanda*. Available: http://www.bk-conseil.com/espaceinformation/documentation/ict/Rwanda_Country_Profile.pdf [2013, October 29]

Gakwaya, L (a). 2013. Rwanda – Corporate Taxation – Introduction. *IBFD Online*. Available: http://ip-online2.ibfd.org/collections/gtha/html/gtha_rw_ss_001.html?WT.z_nav=outline#gtha_rw_ss_1 [2013, July 22]

Gakwaya, L (b). 2013. Rwanda – Corporate Taxation – 8. Value Added Tax. *IBFD Online*. Available: http://ip-online2.ibfd.org/collections/gtha/html/gtha_rw_s_008.html?WT.z_nav=outline#gtha_rw_s_8. [2013, July 22]

Gakwaya, L (c). 2013. Rwanda – Corporate Taxation – 9. Miscellaneous Taxes. *IBFD Online*. Available: http://ip-online2.ibfd.org/collections/gtha/html/gtha_rw_s_009.html?WT.z_nav=outline#gtha_rw_s_9. [2013, July 22]

- Law 6/2001 – 20 January 2001. It was subsequently replaced by Law 37/2012 on 9 November 2012. This new law was effective as of 5 February 2013. These laws relate to VAT.
- East Africa Management Act 2004 amended in 2011. This law regulates customs duties.

Below follows a brief overview of the sections and sub-sections of the Rwandan taxation law that may be of relevance to the investor in a corporate capacity. Personal taxation is not discussed due to a low relevance factor to most investors.

6.2.2 CORPORATE INCOME TAXATION:

On the 27 July 2012 Law 28/2012 amended Income Tax Law 16/2005 (Gakwaya (d), 2013). It implemented the following changes to corporate taxpayers as per a PwC (2012: 13) report:

A new flat rate scheme was introduced for Small and medium enterprises (SME's). They are now grouped into two categories with rates as follows:

- SME's with a turnover between RWF 12 – 50 million – rate reduced to three percent down from four percent.
- Micro enterprises with a turnover below RWF12 million grouped into categories with taxes payable as listed below:

Gakwaya, L (d). 2013. Rwanda – Corporate Taxation – 1. Corporate Income Tax. *IBFD Online*.

Available: [http://ip-](http://ip-online2.ibfd.org/collections/gtha/html/gtha_rw_s_001.html?WT.z_nav=outline#gtha_rw_s_1)

[online2.ibfd.org/collections/gtha/html/gtha_rw_s_001.html?WT.z_nav=outline#gtha_rw_s_1](http://ip-online2.ibfd.org/collections/gtha/html/gtha_rw_s_001.html?WT.z_nav=outline#gtha_rw_s_1). [2013, July 22]

PricewaterhouseCoopers. 2012. *Doing Business Know your taxes East Africa Tax Guide 2012/2013*.

Available: <http://www.pwc.com/ke/en/pdf/east-africa-tax-guide-2012-2013.pdf> [2013, September 29]

Annual Turnover (RWF)	Fixed Tax Amount
10 million – 12 million	RWF 300,000
7 million – 10 million	RWF 210,000
4 million – 7 million	RWF 120,000
2 million – 4 million	RWF 60,000

TABLE D: - (Source: PwC, 2012: 13)

The general corporate tax rate for all other resident companies is 30 percent (Rwandan Revenue Authority [RRA] (a), n.d.).

Capital Allowances:

Article 24 and 25 of Law N° 16/2005 of 18/08/2005 govern capital allowances. The capital allowances under this section are those permissible in the ordinary course of business and not those that may be granted in the event of an investment allowance having been permitted (Government Gazette (a), 2006: 7 - 10).

Investment capital allowances are dealt with in Annex II to Law N° 26/2005 of 17/12/2005 relating to Investment and Export Promotion and Facilitation (Government Gazette (a), 2006: 18).

Appendix 16 lists the standard applicable capital allowances.

Rwandan Revenue Authority (a). n.d. *Tax Incentives*. Available: http://www.rra.gov.rw/rra_article280.html [2013, August 30]
 Direct Taxes on Income Amendment Bill. 2010. *Official Gazette of the Republic of Rwanda*. 25 May. Official Gazette n° Special of 28/05/2010. Available: www.rra.gov.rw/IMG/doc/income.doc [2013, August 11]

Capital Gains Taxation (CGT):

Rwandan tax law imposes a separate capital gains tax on the disposal of immovable, commercial property as detailed below. All other capital gains or losses that arise are added to other income and taxed at the applicable corporate tax rates (IFC (b), 2009: 19).

The PwC *‘Doing business: Know your Taxes East Africa Tax Guide’* (PwC (b) 2011: 38) gives guidance on CGT in Rwanda as detailed below:

- “Gains realized on the disposal of commercial, immovable property are taxed at 30 percent as per normal corporate income tax rates.
- On secondary market transactions involving a listed security the capital gain shall be exempt. In the case of corporate participation, the transferring company is exonerated from capital gains or losses realized on reorganization of company structure.
- A merger of two or more resident companies.

Participation includes:

- Acquisition or takeover of 50 percent or more of shares or voting rights, by number or value in a resident company in exchange for shares of the purchasing company.
- Acquisition of 50 percent or more of assets and liabilities of resident company by another resident company solely in exchange for shares in the purchasing company.
- Splitting of a resident company into two or more resident companies.”

International Finance Corporation (b). 2009. A Survey of the Leasing Market in Rwanda. *World Bank Group*. Available: <http://www.ifc.org/wps/wcm/connect/2e67700048e518f8942abc849537832d/RwandaMarketstudy2008.pdf?MOD=AJPERES> [2013, November 01]

PricewaterhouseCoopers (b). 2011. *Doing business: Know your Taxes East Africa Tax Guide 2011/2012*. Available: http://www.pwc.com/en_RW/rw/pdf/east-african-tax-guide-2011-2012.pdf [2013, July 15]

6.2.3 WITHHOLDING TAXATION:

The Rwandan Revenue Authority (RRA) website (RRA (b), n.d.) states that a withholding tax of 15 percent must be levied on payments made by resident, individuals, entities and tax exempt entities. This tax is subject to favourable Double Taxation Agreements (DTA's) treatment between Rwanda and other treaty partners.

"Payments subject to this agreement:

- Dividends;¹⁵
- Interest;
- Royalties;
- Service fees including management and technical service fees;
- Performance payments made to an artist, musician or athlete irrespective of method of payment; and
- Goods supplied by companies or physical persons **not registered in tax administration.**"

The website then goes on further to state that: "a withholding tax of five percent of the value of goods imported for commercial use is payable at customs on CIF (cost, insurance and freight) value before goods will be released by customs. A withholding tax of three percent of sum invoice (excluding VAT) is retained by public institutions for the supply of goods and services made to them based on public tenders.

The exceptions to the above rule are:

- Those whose whole business profit is exempt from tax; and
- Those with tax clearance certificates issued by the Commissioner General (CG)."

¹⁵ Dividends paid to another Rwandan Company are exempt.

As of 01 June 2013 lottery and other gambling proceeds are exempt in the hands of the recipient, however the gaming operators are subject to a flat 13 percent withholding tax on their net gains (receipts in less payouts) (Gakwaya (c), 2013).

Double Taxation Treaties:

Listed below are the tax treaties that are currently in force as per a PwC report (2012: 36):

- Belgium – Rwanda: 2007 Income and Capital gains tax convention and final protocol. This convention has been amended by a pending protocol signed on 17 May 2010.
- Mauritius – Rwanda: 2001 Income tax agreement.¹⁶
- South Africa – Rwanda: 2002 Income tax agreement and final protocol.
- Awaiting conclusion: East Africa double tax agreement.¹⁷

Currently the rates of withholdings for the different treaties in force are set out in appendix 17.

¹⁶ Mauritian Rwandan Double Tax Treaty renegotiated and signed in 2013 (Tumwebaze, 2013).

¹⁷ Members of the prospective East Africa Double Tax Agreement include: Kenya, Uganda, Tanzania, Rwanda and Burundi (Ihucha, 2013).

Tumwebaze, P. 2013. *Rwanda, Mauritius Sign New Tax Deal*. Available:

<http://allafrica.com/stories/201311140821.html> [2014, January 13]

Ihucha, A. 2013. *EA Business Council again urges on double taxation*. Available:

<http://www.theeastafrican.co.ke/news/EA-Business-Council-again-urges-on-double-taxation/-/2558/1876186/-/rnh8tfz/-/index.html> [2014, January 15]

6.2.4 LOSSES:

According to Gakwaya (2013: s1) losses may be carried forward for five tax periods. The carryback of losses is not permitted. Further, should the direct or indirect ownership of a non-listed company change during the taxation period by more than 25 percent in value or number of shares, the carry forward of losses accumulated until that point shall fall away.

6.2.5 INVESTMENT INCENTIVES:

Law No 26/2005 '*Relating to Investment and Export Promotion and Facilitation*' provides a framework for the encouragement of FDI in Rwanda through fiscal incentives (Institute of Policy Analysis and Research - Rwanda, 2011: 24).

Appendix 18 details the Legal and Regulatory Framework for Promoting and Incentivizing Investment as well as other laws that relate to tax incentives for investors in Rwanda.

Once the necessary requirements are met as well as the payment of a fee, the Rwanda Development Board (RDB) will issue an investment certificate. This allows the investor to access a range of fiscal incentives and exemptions as listed in appendix 19.

Additional incentives, listed in appendix 20 are offered to entities operating in a Free Trade Zone (FTZ) or a foreign company that locates its headquarters in Rwanda. Investors who demonstrate the ability to add further value, technology transfer, and invest in priority sectors may further benefit from tax and investment incentives (Novatech, 2008: 7 - 8).

The reduction of corporate tax offered to companies that employ in excess of 100 Rwandans is designed to encourage higher output. The deduction of training and research expenses are allowed in order to encourage investment in capacity building.

Gakwaya, L (e). 2013. Rwanda - Corporate Taxation sec. 1., Country Surveys IBFD. Available: http://ip-online2.ibfd.org/document/gtha_rw_s_1. [2013, August 31]

This discount is granted to the investor only if the following apply:

- They maintain the employees for a period of at least six months during a tax period; and
- The category of employees is not those who pay PAYE at zero percent.
- VAT exemptions are allowed in accordance with priority areas for private sector investment identified by the government (Institute of Policy Analysis and Research - Rwanda, 2011: 26).

Further tax discounts are also available to companies who manage to meet certain earnings thresholds as detailed in appendix 21.

Rwanda is the most generous country in the EAC when it comes to offering tax incentives to investors. Rwanda believes in developing an economy that is led by the private sector. As such an integral part of government policy in encouraging this trend is the offering of tax exemptions and concessions to business to attract domestic and foreign investment (Institute of Policy Analysis and Research - Rwanda, 2011: 6).

The taxation code was revised in 2005 which included the introduction of a complex system of tax exemptions and incentives. Evidence that the system is working is the marked increase in private sector investment which has resulted in the creation of many new jobs. Added to this, exports have grown and there are signs of export diversification into areas prioritized by the government. The government believes that without domestic and foreign investment, economic growth will be crippled, and as such by providing tax exemptions and incentives it is able to provide a competitive environment for economic growth and poverty reduction. At the same time it has to be cognizant of the fact that it is a member of the East African Community and therefore has to harmonise its taxes with other member states in order to create a level playing field and eliminate unfair practice (Institute of Policy Analysis and Research - Rwanda, 2011: 9).

6.3 INDIRECT TAXES:

6.3.1 EXCISE DUTY:

Excise duty is levied in accordance with the 2010 Law No 28/2010, which modified Law No 26/2006. Tax imports are based on cost including insurance and freight on arrival in Kigali. On local products they are based on selling price exclusive of taxes. In 2010 the rate of tax on fuel was changed to a fixed one with diesel being taxed at a lower rate than premium petrol in order to support economic activities (Institute of Policy Analysis and Research - Rwanda, 2011: 19).

Consumption tax together with the corresponding rates levied on locally manufactured products is listed in appendix 22.

Factories producing beers, lemonades, cigarettes, wines, spirits, juices and mineral water shall file, every period of ten days a statement concerning excisable goods cleared out of the factory for consumer use. For this purpose a month is divided into three periods:

- 1st – 10th of the month
- 11th – 20th of the month
- 21st – end of the month (Rwandan Revenue Authority [RRA] (c), n.d.).

6.3.2 CUSTOMS DUTY:

Rwanda is a member of the East African Community (EAC), which by implication means that the Rwanda Customs Administration is a member of the East African Community Customs Union (EAC CU) (Rwandan Revenue Authority [RRA] (d), n.d.). The implementation of the East African Customs Union Protocol started on 01 January 2005 – this affects the importation of goods into the EAC members (Kenya, Uganda, Tanzania, Rwanda and Burundi) (PwC, 2012: 57). The fundamental principle of the Customs union (CU) is that the national borders of the three countries are ‘replaced’ by Customs Union borders (RRA (d), n.d.).

The protocol provides for the following according to PwC (2012: 57):

- “The application of the principle of asymmetry;
- The elimination of internal tariffs and other charges of equivalent effect;
- The elimination of non-tariffs barriers;
- Establishment of a common external tariff;
- Rules of origin;
- Anti-dumping measures;
- Subsidies and countervailing duties;
- Security and other restriction to trade;
- Competition;
- Duty drawback, refund and remission of duties and taxes;
- Customs co-operation;
- Re-exportation of goods;

- Simplification and harmonisation of trade documentation and procedures;
- Exemption regimes;
- Harmonised commodity description and coding system; and
- Freeports.”

This protocol has no effect on domestic taxes i.e. VAT, Excise duty etc. which are levied at the national level (PwC (b), 2011: 51).

Based on the principle of ‘replacement’ of national borders, the elimination of internal duties is of upmost importance. As a result of accession to the EAC CU, there are revenue implications as stated below:

Further, according to PwC (PwC (b), 2011: 51) there are two types of tariffs in the administration of the CU –

External tariffs:

As of 01 July 2012 these tariffs apply to all other countries outside of the Union and are as follows:

CATEGORY	RATE
Raw materials, capital goods, agricultural inputs, pure-bred animals, medicines	0%
Semi-finished goods	10%
Finished final consumer goods	25%

TABLE E: - (Source: PwC, 2012: 57)

Certain ‘sensitive goods’ – including most cereals, milk, jute bags, cement, sugar and second-hand clothes (*mitumba*), attract rates higher than the 25 percent CET rate (PwC, 2012: 58).

The customs law provides for a duty remission scheme whereby gazette manufacturers are granted reduced CET rates on their raw material imports where these are made use of in the manufacture of goods for export or certain essential products for the domestic market (PwC, 2012: 58).

There are also certain industries and items that are entitled to exemptions under the Customs Law such as: assemblers of bicycles and motor cycle kits, importers of gas cylinders, certain hotel equipment, refrigerators, solar equipment and energy saving bulbs (PwC, 2012: 58).

In the case where goods are subject to a lower rate of duty from the other trade blocs of Common Market for Eastern and Southern Africa (COMESA) and Southern African Development Community (SADC), the lower of the rates will supersede the rate applicable by the EAC until such time as the trading arrangements between the three blocs are harmonized (PwC, 2012: 58).

Internal tariffs:

- Imports of Tanzanian, Ugandan and Burundian goods are free of import duty;
- Imports of Kenyan goods will enjoy preferential community tariffs of zero percent;
- These goods will only enjoy the preferential community tariffs if they meet the EAC Customs Union Rules of Origin (PwC, 2012: 58).

Apart from the above, certain CET rates will remain in place for the following year as listed below:

PRODUCTS	CET RATES
Rice	30%
Road tractors for semi-trailers	10%
Wheat grain	0%
Wheat flour	35%
Buses – transportation of +25 persons	10%
Buses – transportation of 50 persons & above	5%
Other motor vehicles for transport of goods, with compression-ignition internal combustion piston engines (diesel or semi-diesel) g.v.w. exceeding 5 tonnes but not exceeding 20 tonnes	10%
Other motor vehicles for transport of goods, with compression-ignition internal combustion piston engine (diesel or semi diesel) g.v.w. exceeding 20 tonnes	25%

TABLE F: - (Source: KPMG, 2013: 2)

Further to the above, KPMG (2013: 2) makes note of the following changes to CET rates which have been done in order to encourage efficiency and competitiveness:

- “Construction materials: CET of 25 percent instead of zero percent for local investors with a minimum capital of US\$ 100,000 in hotels and ten percent for projects worth US\$ 1.8 million and above;
- Importation of telecommunication equipment: CET of 25 percent instead of zero percent.”

6.3.3 VALUE ADDED TAX (VAT):

Value Added Tax (VAT) was first introduced in Rwanda on 01 January 2001, by Law No 6 of 2001 (Ernst & Young [E & Y] (c), 2012: 564) (Institute of Policy Analysis and Research - Rwanda, 2011: 19). This law has subsequently been supplemented by a 2003 Ministerial Order, Commissioner General rules of 2001, 2002 and 2005, the 2005 Tax law and law No 29/2010 upgrading the 2001 law (Institute of Policy Analysis and Research - Rwanda, 2011: 19).

VAT is applicable to the following transactions:

- Supply of taxable goods and services;
- Reverse-charge services received by a taxable person in Rwanda; and
- Importation of goods from outside Rwanda, regardless of the tax status of importer, unless the import qualifies for VAT waiver under the Investment Code, or importer has been granted a VAT exemption (E & Y (c), 2012: 564 - 565).

The standard rate of VAT in Rwanda is 18 percent as per the rates of the other EAC members, except for Kenya where it is 16 percent (Institute of Policy Analysis and Research - Rwanda, 2011: 19).

Supplies fall into one of two categories:

- Taxable supplies – refers to supplies of goods and services subject to VAT, including the zero rate; and
- Exempt supplies – refers to supplies of goods and services not subject to VAT – in this instance the provider of exempt supplies is not entitled to an input deduction (E & Y (c), 2012: 565).

Ernst & Young (c). 2012. *The 2012 worldwide VAT, GST and sales tax guide*. Available: [http://www.ey.com/Publication/vwLUAssets/2012-worldwide-VAT-GST-and-sales-tax-guide/\\$FILE/2012-worldwide-VAT-GST-and-sales-tax-guide.pdf](http://www.ey.com/Publication/vwLUAssets/2012-worldwide-VAT-GST-and-sales-tax-guide/$FILE/2012-worldwide-VAT-GST-and-sales-tax-guide.pdf) [2013, December 01]

The standard rate of 18 percent generally applies to all supplies of goods and services, and the zero rate applies to exports of goods and taxable services, diplomatic purchases, and purchases under donor-funded agreements, projects and technical aid (E & Y (c), 2012: 565)(Rwandan Revenue Authority [RRA] (e), n.d.).

Article 86 of Law No 06/2001 includes certain goods and services as exempt. These are included in appendix 23.

6.4 ANTI-AVOIDANCE REGULATIONS:

Rwandan Law on Direct Taxes states that “where related parties undertake a commercial transaction, in which the terms or conditions as applicable to that transaction, differ from those that would be applied between independent parties, the CG has the authority to adjust the profits from the related parties’ transaction, to that in accordance with what it would have been in a transaction between independent parties” (PwC, 2012: 15).

Listed in appendix 24 are the relevant sections of the Rwandan Tax Act that specifically provide detail in regard to transfer pricing and the determination of the arm’s length principle.

The Rwandan Revenue Authority (RRA (f), (n.d.) provides an explanation in regard to thin capitalization. With regard to thin capitalization, interest on a loan between related parties that exceeds four times the amount of equity will not be permitted to be deducted from taxable income; unless the taxpayer is an individual. This provision is not applicable to commercial banks and insurance companies.

6.5 CHAPTER SUMMARY:

Rwanda has made incredible strides in moving past the atrocities that befell the country in the 1990s. It is a country that despite facing many challenges that often seem impossible to overcome always finds the will to survive and prosper.

Many new policies and laws have been introduced or amended in order to bring the country in line with international standards and make it more competitive. One of the areas in need of constant analysis and upgrading is taxation.

With the country having been so dependent on foreign aid up to this point and the prospect of that aid now falling away it is especially evident in this financial year's budget speech the need to become self-sufficient and non-reliant on external funding.

In particular the investment incentives that have been on offer up until this point need to be redressed in order to bring them in line with international best practice and assist the country to operate more effectively and prosperously.

The following chapter presents a comparative analysis between South Africa which falls within the SADC region and Ghana and Rwanda each from the Western and Eastern regions of Africa respectively. South Africa possesses a relatively advanced taxation system comparable in many instances with first world countries. The comparison will be done in regard to the incentive scheme structure in place in South Africa versus those in place in Ghana and Rwanda. Suggestions will also be made in terms of where Ghana and Rwanda may be able to implement changes to their investment incentive schemes in order to further promote investment and thereby improve growth and sustainability.

7. INTRODUCTION:

World markets have evolved into an integrated framework due to increasing liberalization of trade regulations and market access. Competition among market participants is fierce, which has served to fuel this integration, leading to an expansion of cross-border transactions, further accelerated by huge technological advances in communications and data processing (Dupasquier & Osakwe, 2005:6)(Anyanwu, 2011:5)(Pigato, 2001:4 & 5).

There is a growing awareness that in order for sustainable development outcomes to be achieved they must at least be accompanied, but preferably preceded by the establishment of a proper regulatory and institutional framework. These recent generation investment policies, as described in appendix 25, are not a new phenomenon, but to date they have merely been a theoretical idea. There is now a concerted effort on the part of policymakers to include these fresh generation policies in mainstream investment policymaking in order to implement sustainable development with solid policies and structures at both national and international levels (UNCTAD (b), 2012: xxiii).

Countries, worldwide, are on the lookout for additional investment in order to shore up growth. As such, countries are becoming more judicious in their choice of which investors to retain. They are experiencing pressure from outside groups, such as, civil society and other groups who are eager to see that the investment policies endorsed, especially international investment

Dupasquier, C. Osakwe, P.N. 2005. *Foreign Direct Investment in Africa: Performance, Challenges and Responsibilities*. Available: <http://www.uneca.org/atpc/Work%20in%20progress/21.pdf> [2013, January 30]

Anyanwu, J.C. 2011. *Determinants of Foreign Direct Investment Inflows to Africa, 1980 – 2007*.

Available:

<http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/WORKING%20136%20Determinants%20Of%20Foreign%20Direct%20Investment%20Inflows%20To%20Africa%201980-2007%20AS.pdf> [2013, January 30]

Pigato, M.A. 2001. *The Foreign Direct Investment Environment in Africa*. Available:

<http://www.worldbank.org/afr/wps/wp15.pdf> [2013, January 30]

United Nations Conference on Trade and Development (b), 2012. *World Investment Report 2012*.

Available: <http://www.unctad-docs.org/files/UNCTAD-WIR2012-Full-en.pdf> [2013, January 10]

policies, work to the benefit of the country as a whole and not just a select few (UNCTAD, 2013: 92).

Countries are embracing an increasing number of policies in order to further attract investment (UNCTAD, 2013: 92). When approving policies in order to attract FDI, a country has to be mindful that the potential benefits outweigh the costs.

One of the policies utilised, especially by developing and transition countries, is taxation expenditure, which includes taxation exemptions and incentives in order to lure investors. Often the reason behind the offering of these expenditures is an attempt to compensate for other shortfalls within the country such as a lack of adequate infrastructure, political instability or a deficient legal system (Holland & Vann, 1998: 2).

But, while the lure of foreign capital is always appealing to governments, the temptation to adopt policies that are difficult to administer effectively, as well as offering too many concessions for the mere sake of attracting any investment, whether it be good or bad, should be avoided.

Both tax exemptions and incentives require skilled administration and in countries where the legal system, notably the revenue services, is elementary, the administration of such expenditure can prove onerous on revenue officials (Holland & Vann, 1998: 3). Sophisticated investors are frequently able to employ skilled advisors that instruct them in methods that are able to be employed in order to exploit possible loopholes in a country's taxation system, thereby resulting in possible taxation avoidance and leakage (Holland & Vann, 1998: 3). In addition to administering and developing taxation expenditures in an attempt to encourage further FDI, revenue officials are further faced with the daunting prospect of taxation

United Nations Conference on Trade and Development. 2013. *World Investment Report 2013*.

Available: http://unctad.org/en/PublicationChapters/wir2013ch3_en.pdf [2013, September 05]

Holland, D & Vann, RJ. 1998. *Income Tax Incentives for Investment. Tax Law Design and Drafting*. 2:2 – 3. Available:

<http://www.ieso-imf.org/external/pubs/nft/1998/tlaw/eng/ch23.pdf> [2013, August 15]

avoidance. Unless a country has a relatively progressive revenue code that includes rigorous anti-avoidance provisions, as well as a strongly skilled revenue staff force competent enough to enforce the provisions and rules, there is a large possibility that the costs to the country of offering the taxation expenditures will well outweigh the moderate benefits.

7.1 SOUTH AFRICAN TAXATION SYSTEM:

On 01 January 2001, South Africa moved from a source-based¹⁸ taxation system to a residence basis of taxation¹⁹ (Income tax What you need to know about income tax in South Africa, n.d.). The primary source of income for the government is income tax revenue and this is administered and levied in terms of the Income Tax Act No. 58, 1962 (The Income Tax Act). Other taxes that are levied include:

- VAT administered by the Value Added Tax, No. 89 of 1991 (VAT Act).
- Transfer duties administered by the Transfer Duty Act, No. 40 of 1949 (Transfer Duty Act).
- Customs and Excise duties administered by the Customs and Excise Duty Act, No. XX of 1964 (Customs and Excise Act).

¹⁸ “Residence-based taxation is applied to persons who are citizens of, live in or treat a jurisdiction as their home. It entitles taxation of both the domestic and worldwide income of those persons” (Articlesbase, 2010).

¹⁹ “Source-based taxation is applied to income made within the borders of the home nation; regardless of who made it. A source-based claim only entitles the home nation to tax domestic income, not foreign income” (Articlesbase, 2010).

Income tax What you need to know about income tax in South Africa. n.d. Available: <http://www.justlanded.com/english/South-Africa/South-Africa-Guide/Money/Income-tax> [2013, November 29]

Articlesbase. 2010. *The Distinction between 'Residence' and 'Source' based taxation*. Available: <http://www.articlesbase.com/taxes-articles/the-distinction-between-residence-and-source-based-taxation-2523862.html> [2013, December 05]

South Africa still rates as the top investment destination in Africa (SA still Africa's top investment destination: RMB, 2013). South Africa operates a taxation system that compares favourably with many developed and emerging economies and is noted to be fairly robust and competitive (SAICA: Statement by the South African Institute of Chartered Accountants, welcomes the Tax Review Committee, 2013). In order to encourage further FDI, the government in conjunction with the Ministry of Finance has over a period of time introduced various taxation expenditures and fiscal incentives (Oyetunde, 2008: 369). As well as tax expenditures, a comprehensive set of anti-avoidance rules and regulations have been introduced, reducing the risk of taxpayer noncompliance – a risk that is ever present when countries allot incentives.

According to Fan et al (2007: 1):

“Broad-based economic growth is the most important driver of poverty reduction and improved living standards. Such growth, however, only occurs when firms and entrepreneurs of all types are given appropriate incentives to invest productively in human and physical capacity and to heighten the productivity of factor inputs. A strong investment climate is a platform for economic success.

This central lesson of economics, although simple, is ill-learned. Throughout the world, misguided regulations and inadequate infrastructure burden firms with unnecessary costs,

SA still Africa's top investment destination: RMB. 2013. Available:

<http://businessnews.howzit.msn.com/article.aspx?cp-documentid=257343374> [2013, October 25]

SAICA: Statement by the South African Institute of Chartered Accountants, welcomes the Tax Review Committee (18/07/2013). 2013. Available: <http://www.polity.org.za/article/saica-statement-by-the-south-african-institute-of-chartered-accountants-welcomes-the-tax-review-committee-18072013-2013-07-18> [2013, September 09]

Oyetunde, S.O. 2008. *The role of tax incentives in a trio of Sub-Saharan African economies: a comparative study of Nigerian, South African and Kenyan tax law*. Available:

<https://qmro.qmul.ac.uk/xmlui/handle/123456789/1638> [2013, October 28]

Fan, Q., Reis, J.G., Beath, A., and Frauscher, K. 2007. *The Investment Climate in Brazil, India, and South Africa*. World Bank Institute. Available: http://books.google.co.za/books?id=xOMv-HsCmdYC&pg=PA90&lpg=PA90&dq=progression+of+south+african+tax+system&source=bl&ots=QrvXQLzdhv&sig=nwvFXul_Mct4_iH17PMI4PAbXVo&hl=en&sa=X&ei=MRofUqifFoPKhAfmPoGgCw&ved=0CF0Q6AEwBw#v=onepage&q=progression%20of%20south%20african%20tax%20system&f=false [2013, December 15]

considerable uncertainty and risk, and unjustified barriers to competition. As a result, many segments of the population are hindered from contributing productively to the economy and from sharing in the considerable opportunities opened up by broad-based economic growth. Changing this situation for the better is only possible through reform of the investment climate.”

The Report then goes on further to explain that one of the key determinants to creating an attractive investment climate is a government’s approach to regulations and taxes (Fan et al, 2007: 5). Complex taxation systems which are difficult to comply with will inevitably lead to firms and employees taking advantage of loopholes in order to lessen the burden imposed by such a system (Fan et al, 2007: 75). In instances where labour regulation and employee taxes prove especially onerous, there is a tendency for firms and employees to make use of the informal employment option, such as contract and self-employed workers (Fan et al, 2007: 75). This type of informality frequently leads to a decrease in taxation revenue due to the increasing informal labour force, which in turn puts pressure on the *fiscus* to increase taxes for the formal sector (Fan et al, 2007: 75). This type of situation creates a negative perception for investors.

Prior to 1994, when the newly elected African National Congress (ANC) government took control, South Africa’s taxation was inefficient and desperately in need of reform. Economic growth and investment were declining and the rate of taxation had been steadily increasing since 1970 (Fan et al, 2007: 91).

The Katz Commission established on 22 June 1994 was formed with the intention of reviewing the South African taxation structure. A series of reports were released to this end between 1994 and 1999, of which the first one in December 1994 laid out some critical aspects including several principal goals as listed below (Fan et al, 2007: 93):

- “Corporate taxation rates which are internationally competitive and domestically appropriate.
- An effective taxation administration that prevents distortion and collects taxes, in a manner which is seen to be fair and consistent allowing for planning by the business community.
- A taxation system that is friendly to investors, while not discriminating against domestic business.”

This particular report argued strongly in favour of keeping corporate taxation rates low in order to maintain competitiveness. This policy has been adhered to by the government and over the years the rate has come down significantly (Fan et al, 2007: 93). In addition to the lowering of rates, the secondary taxation on companies (STC) was decreased over time starting in October 2007 and replaced with the Dividends Tax regime²⁰ on 01 April 2012. This has contributed to a further lowering of the corporate taxation rate (Fan et al, 2007: 97) (Louw, 2013).

Together with lowering the corporate taxation rate in order to become more competitive, the government addressed administrative shortfalls. A separate revenue collection agency was established – the South African Revenue Services (SARS) – and this agency quickly set about implementing changes and initiatives to improve fiscal stabilization (Fan et al, 2007: 93).

The South African corporate taxation system has continued to be upgraded steadily over the years since the initial major reforms of the mid 1990s and 2000 – 2001. Improvements are generally not extreme, but undertaken as a gradual adjustment to the system so as not to

²⁰ “With effect from 1 April 2012 South Africa changed its regime pertaining to the taxing of domestic dividends from a tax on companies (i.e. secondary tax on companies (STC) to a tax at shareholder level (in most instances) i.e. dividends tax). Together with this changeover the tax rate applicable to dividends was increased from 10% to 15%” (PKF (b), 2012: 1).

Louw, H. 2013. *STC credits and new binding class ruling*. Available: <http://www.thesait.org.za/news/124358/> [2013, September 15]

PKF (b). 2012. A new dispensation for foreign dividends. *Taxing Matters*. Available: http://www.pkf.co.za/media/158266/taxing_matters_oct_2012.pdf [2013, December 10]

alarm business and investors unnecessarily. This has created an environment of relatively good taxation compliance; however SARS is acutely aware that in order to maintain this favourable situation there is an ongoing need to improve service with no room on their part for complacency (Fan et al, 2007: 95).

Initially the reforms were geared towards the large to medium corporates, but SARS has increasingly recognized the significant role of the small business sector (SMEs) in South Africa. Reforms such as a reduced rate of taxation and a simplification of administrative procedures for businesses with a turnover of less than one million Rand have worked towards alleviating the burden faced by SMEs in regard to their taxation obligations (Fan et al, 2007: 96)(SimplyBiz, 2012). However, the system still remains costly and time-consuming for SMEs; as such further review of the effect of the taxation system on these enterprises is necessary, as per Finance Minister, Pravin Gordhan (Ensor, 2013).

Another area of the taxation code that will receive review is taxation expenditures, specifically in regard to developmental objectives (Ensor (a), 2013). South Africa has a wide array of both taxation and investment incentives as detailed in appendix 26 (Deloitte (b), 2011: 97 - 124). As mentioned earlier there are a variety of reasons a firm may invest in a particular location, and countries are always eager to attract further investment.

SimplyBiz. 2012. *Small business taxes in South Africa*. Available:

<http://simplybiz.co.za/interact/blogs/small-business-taxes-south-africa> [2013, November 18]

Ensor, L (a). 2013. *Gordhan launches extensive review of SA's tax system*. Available:

<http://www.bdlive.co.za/economy/2013/07/17/gordhan-launches-extensive-review-of-sas-tax-system> [2013, October 25]

Deloitte & Touche (b). 2011. *Investing in South Africa Endless opportunities*. Available:

<http://www.deloitte.com/assets/Dcom-SouthAfrica/Local%20Assets/Documents/InvestingSA%202011%20Interactive.pdf> [2013, December 12]

Should the primary factors for choosing a location not be entirely satisfactory, governments often resort to the offering of incentives – both fiscal and tax – to act as a type of *quid pro quo*²¹.

Some of the incentives that have been introduced in South Africa include (Tuomi, 2011: 134):

- “the Strategic Industrial Project (SIP);
- the Critical Infrastructure Fund (CIF);
- the Foreign Investment Grant (FIG);
- the Small and Medium Enterprise Development Programme (SMEDP); and
- the Motor Industry Development Programme (MIDP) – a duty-offset scheme.”

However, evidence suggests that in the majority of cases, taxation expenditures are not the reason for undertaking the FDI decision and even if, and when they do have some degree of influence on the decision, the costs often outweigh the benefits for the host country (Tuomi, 2011: 138).

In the case of South Africa, four percent of respondents who took part in a survey relating to factors that have influenced their investment decision indicated that incentives and import offsets were a primary factor influencing their investment decision. Of all firms making use of an incentive initiative the survey further queried the likelihood of investment should the incentive not have been on offer. Of these firms only 12 percent responded affirmatively and all made use of the MIDP. The primary attraction in this instance being an import-duty offset

²¹ “A Latin phrase meaning "something for something". This term is typically used in financial circles to describe a mutual agreement between two parties in which each party provides a good or service in return for a good or service” (Investopedia (d), n.d.).

Tuomi, K. 2011. *Review of Investment Incentives: Best Practice in Attracting Investment*. Available: <http://www.theigc.org/sites/default/files/Krista%20Tuomi%20final.pdf> [2013, July 15]
Investopedia (d). n.d. Available: <http://www.investopedia.com/terms/q/quidproquo.asp> [2013, December 10]

which theoretically is a policy correction of an existing government distortion, namely a high import environment (Tuomi, 2011: 139).

Leading on from this point these same firms were questioned as to the importance of incentives in foreign countries where the parent firm had invested. Thirty five percent of respondents stated incentives were an important decision factor, although once more import-duty offsets featured resolutely as important, followed by a somewhat insignificant mention of tax holidays, cash grants, export support and accelerated depreciation (Tuomi, 2011: 139).

The investment climate featured robustly as an attraction or deterrent of FDI in this survey, proving that incentives are secondary to the fundamental basics. In this particular survey, issues such as political uncertainty, exchange controls, exchange rate volatility, regulatory uncertainty, legislation and Black Economic Empowerment (BEE) weighted far heavier than the incentives. Mention was also made of the non-transparency and lack of consistency in the allocation of incentives, as well as the ineptitude of the application process (Tuomi, 2011: 139).

Taxation or investment incentives are clearly unable to offset a negative investment environment. While the motor industry has proved successful in the application of incentives, the industry operates in a highly protected environment which allows these measures to operate successfully. No measure has been undertaken as to the cost of this operating environment to the end-user of vehicles and hence whether these incentives can be truly labeled successful (Tuomi, 2011: 143).

Taxation incentives are by nature difficult to administer. This is part of the reason they can lead to taxation avoidance by taxpayers (Holland & Vann, 1998: 3). The process of auditing taxation incentives is particularly complex due to the following reasons (Holland & Vann, 1998: 12):

- “Substantiation of the correct application of the incentives can be challenging if abstruse calculations are applied.
- Authorities must establish that a firm making use of a particular incentive actually qualifies to apply the incentive – this can often prove especially arduous if the host country has not concluded many taxation treaties with other countries, which often indicates that they will not have access to exchange of information provisions usually contained in such treaties. This is especially important if the firm being reviewed is foreign-owned and records necessary for verifying the eligibility of the firm to take advantage of the incentive are located in another country.
- Authorities need to ensure that the values being reported are accurate. Once again this can prove to be especially challenging if it is a cross border transaction, especially between related parties.”

As well as the possibility of the host country losing revenue due to avoidance or evasion, there is the cost involved in allocating staff with adequate skills to correctly administer the application of the incentives (Holland & Vann, 1998: 12). Because the rules surrounding the administration of taxation incentives are complex, taxation authorities often adopt anti-avoidance measures (Tuomi, 2011: 3).

South Africa introduced new General Anti-avoidance Rules (GAAR) into the Income Tax Act in 2006²². Although there are already various measures in place, further provisions are anticipated to be introduced (Ernst and Young [E & Y], 2013: 70).

²² “Part II A of the Income Tax Act contains the general anti-avoidance rule, the South African Revenue Services’ ‘weapon’ against impermissible tax avoidance arrangements, in section 80A thereof” (SA Tax Guide, n.d.).

Ernst & Young. 2013. *GAAR rising Mapping tax enforcement’s evolution*. Available: [http://www.ey.com/Publication/vwLUAssets/GAA_rising/\\$FILE/GAAR_rising_1%20Feb_2013.pdf](http://www.ey.com/Publication/vwLUAssets/GAA_rising/$FILE/GAAR_rising_1%20Feb_2013.pdf) [2013, December 05]

SA Tax Guide. n.d. Available: <http://sataxguide.wordpress.com/section-80a-c-ii-of-the-income-tax-act-and-the-scope-of-part-ii-a/> [2013, December 20]

Prior to the introduction of the new GAAR, anti-avoidance in South Africa was governed by Section 103(1)²³ of the Income Tax Act. Part of the function of these rules is to assist in the governing of taxation incentives offered in South Africa. Although not a complete deterrent, these measures are also important in the administration and control of the application and interpretation of incentives. This is vital in protecting the *fiscus* against 'aggressive' tax planning and 'treaty abuse' practices (E & Y, 2013: 3).

7.2 GHANAIAN TAXATION SYSTEM:

Ghana has been experiencing a slowdown in economic growth since the late part of 2011 (Trading Economics, n.d.). Coupled with this slowdown inflation has increased to 11.4 percent in July 2013, this being the sixth consecutive month of such an increase in this area (Trading Economics, n.d.).

As referenced earlier in chapter five, Ghana has a variety of tax expenditures²⁴ in place aimed at specifically encouraging increased FDI each year. Further Ghana is one of the most generous benefactors of tax expenditures for investors in sub-Saharan Africa (Organisation for Economic Cooperation and Development [OECD], 2012: 10). Unfortunately these expenditures are being enjoyed by only a small percentage of organisations, specifically taxpayers in certain sectors as detailed below (OECD, 2012: 6). The honourable Minister of Finance Seth E. Terkper, during his 2013 Budget Speech made reference to tax expenditures offered by the Government of Ghana (GoG). Specifically he noted that these expenditures comprise approximately 3.28 percent of GDP (Ministry of Finance (b), 2013: 73). Considering the actual taxation revenue to GDP ratio

²³ "The Katz Commission identified the following concern with regard to section 103(1) of the Act: 'Concern has been expressed about the use of the business test as a basis for the normality requirement in that transactions, which, for example, utilise a tax incentive, granted by the legislation to encourage the very transaction in question, could be a victim of the provision' "(SA Tax Guide, n.d.).

²⁴ Tax expenditures as defined by the OECD are explained in appendix 27.

Trading Economics. n.d. *Ghana/Credit Rating*. Available:

<http://www.tradingeconomics.com/ghana/rating> [2013, September 12]

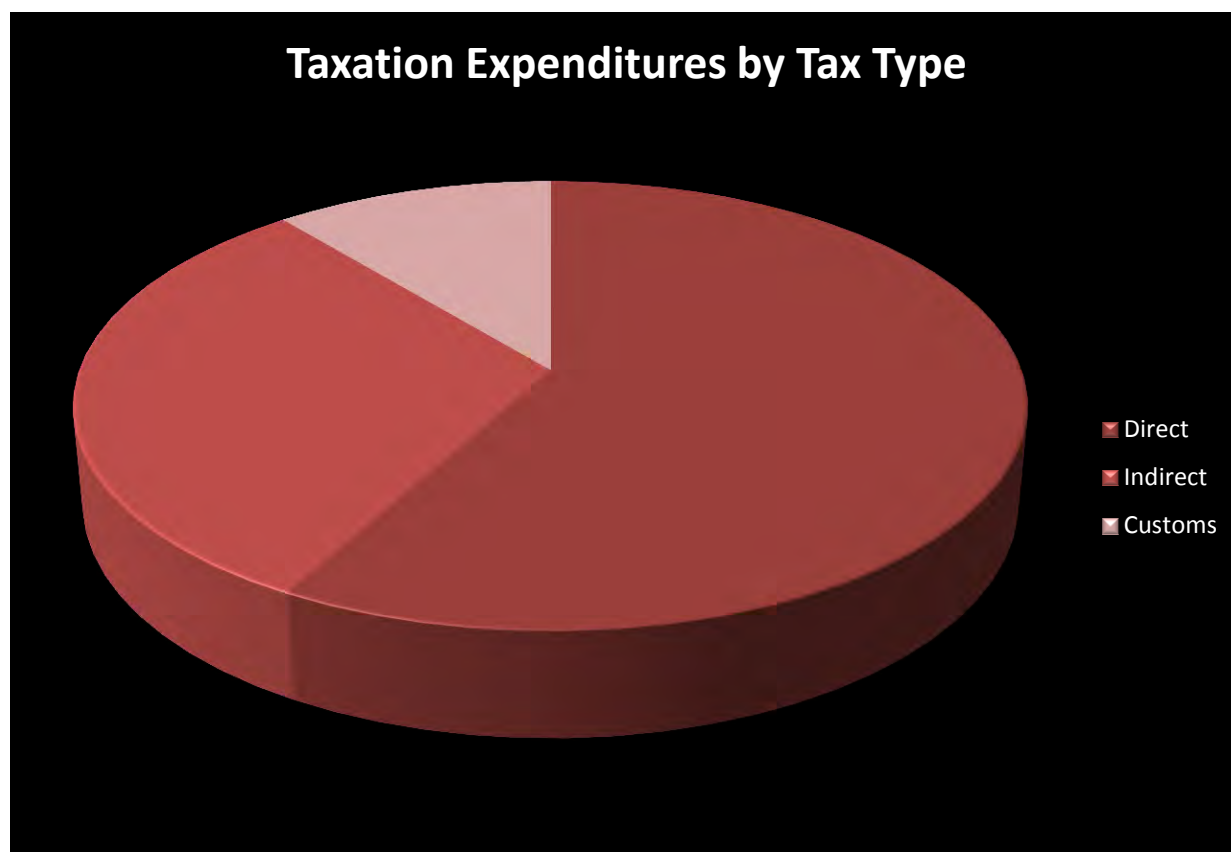
Organisation for Economic Cooperation and Development. 2012. *Analysis of Tax Expenditures in Ghana*. Available: http://www.uscib.org/docs/Ghana_Tax_Expenditures_Analysis.pdf [2014, January 03]

equals 17.1 percent, the percentage of tax expenditures offered to investors appears to be fairly high (Ministry of Finance (b), 2013: 73). Admittedly, the honourable Minister does acknowledge that there is the intention to review the current expenditures and introduce new control measures in order to prevent leakage, especially in the area of direct taxation (Ministry of Finance (b), 2013: 73). According to the Budget Statement (Ministry of Finance (b), 2013: 73) specific areas that will be considered and reviewed include:

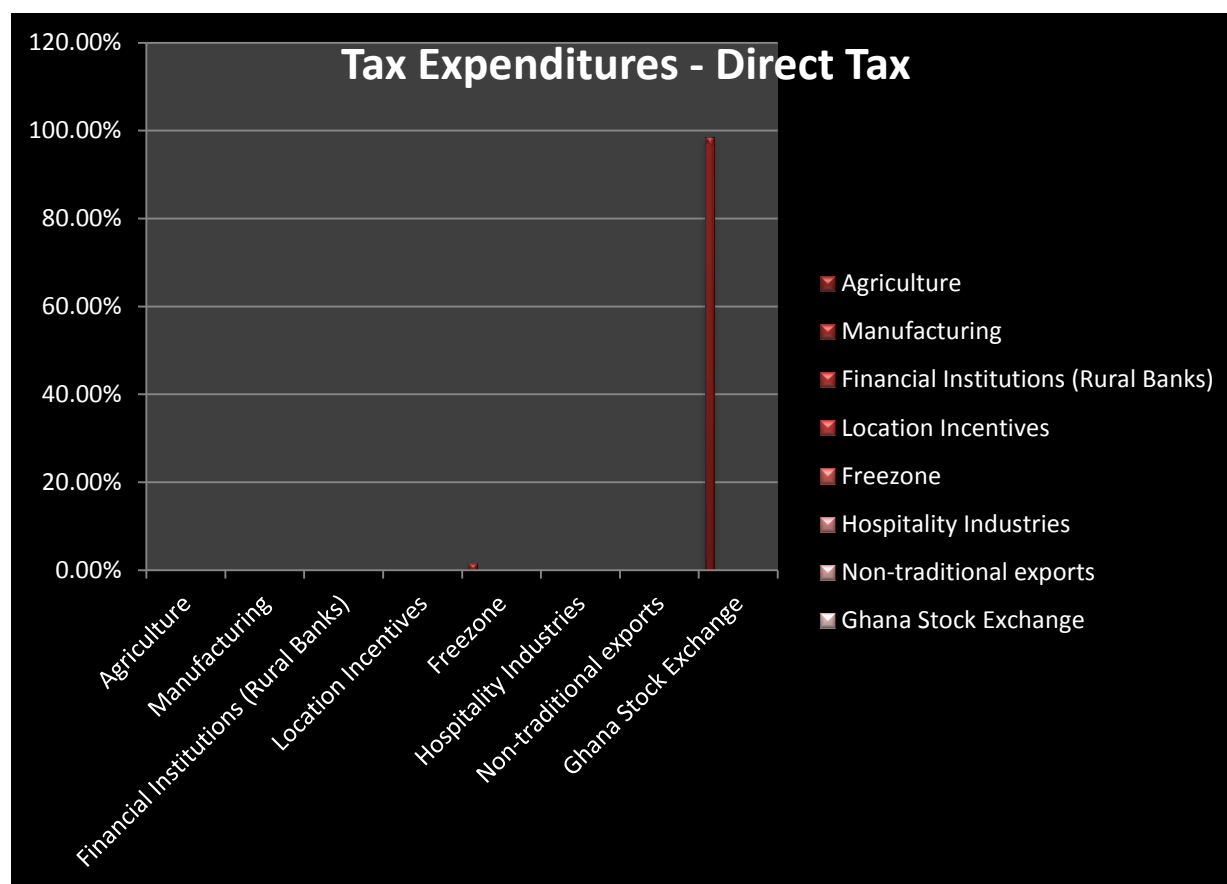
- “Taxation incentives for agro-processing businesses;
- Taxation incentives for location of businesses;
- Withholding taxation rates on management and technical fees; and
- VAT on imported services.”

A report issued by the OECD towards the end of 2012 deals specifically with the analysis of taxation expenditures in Ghana. Unfortunately the report was unable to provide a complete analysis of taxation expenditure in Ghana, but it does provide an informative description as to the situation as it exists currently.²⁵ Interestingly, it was found taxpayers registered on the Ghana Stock Exchange that contribute to the direct taxation system are the ones benefitting most from taxation expenditures as presented in the two diagrams below (OECD, 2012: 6 - 7).

²⁵ According to the OECD Report: “It is important to note that the weights for various Direct Tax-payer segments must be carefully estimated. As an example, a larger share of FreeZones exists outside Accra than a simple 80-20 ratio would suggest. Similarly, the number of companies registered at the Ghana Stock exchange (the largest “beneficiaries” group of direct tax incentives) is considerably larger within the greater Accra region than outside Accra; therefore, an application of 80-20 weight would overstate the overall tax expenditure estimate” (OECD, 2012: 5).

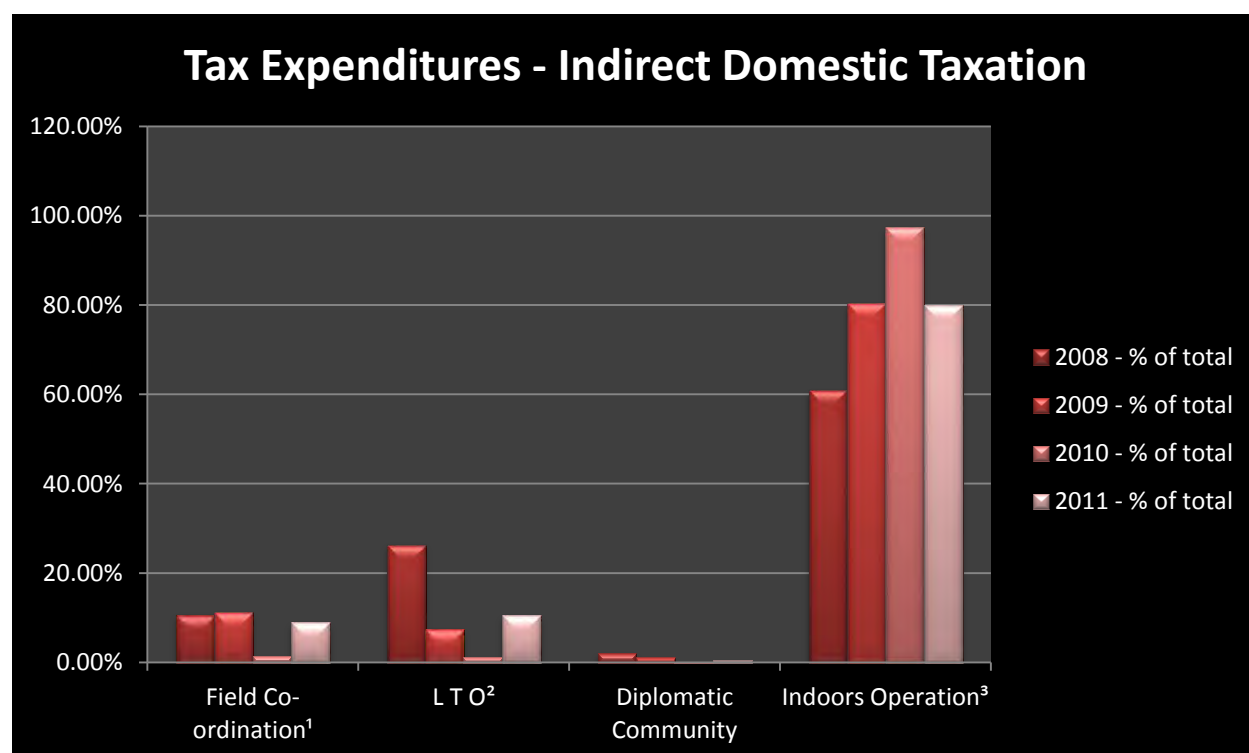


GRAPH H: - (Source: OECD, 2012: 6)



GRAPH I: - (Source: OECD, 2012: 7)

Likewise, in regard to beneficiaries of indirect domestic taxation, approximately 80 percent of incentives granted fall within one sector, that being indoor operations as displayed below (OECD, 2012: 7).



GRAPH J: - (Source: OECD, 2012: 7)

¹ “‘Field Co-ordination’ refers to information and data obtained from the field, i.e. during a tax audit, for example, it was detected that these amounts and percentages were granted as exemptions relating to indirect taxes, e.g. import exemptions, etc.” (Ali-Nakyee, personal communication, 2013).

² “‘LTO’ refers to Large Taxpayer Office, meaning the data was obtained on companies who file their tax returns with the large taxpayer office (see page 12 of OECD report, Table A. 2) showing the benefits by way of exemptions enjoyed by such companies” (Ali-Nakyee, personal communication, 2013).

³ “‘Indoors Operation’ refers to information on exemptions obtained within the Ghana Revenue Authority, albeit from files of taxpayers and estimating tax expenditures by way of exemptions,

tax holidays etc. This is possible because even where a person is exempt from tax that person still needs to file a returns although no tax would be paid, thus it is possible to estimate what has been lost by way of the exemption (see Table A1 on page 12 of OECD report)” (Ali-Nakyee, personal communication, 2013).

Upon further analysis of this particular sector, the data shows that the 15 largest beneficiaries account for 93.2 percent of all indirect taxation expenditures (OECD, 2012: 7). Of these 15 firms, more than 50 percent are either directly or indirectly involved in the mining industry, with Newmont Ghana Gold Ltd receiving 56.36 percent of indirect taxation revenue (OECD, 2012: 12).

The third group analysed was customs taxation expenditure. This group too produced some disquieting results as described henceforth. Of the seven groups analysed, the group characterized as ‘Governments, Privileged Persons, Organisations’ has over the 2011 and 2012 years been the beneficiary of the highest number of **taxation expenditures** (OECD, 2012: 8). Of these seven groups the second largest recipient of **taxation expenditure**, ‘parliamentary exemption on imports’ had its top 30 recipients allocated 98.99 percent of all exemptions as per the OECD definition of taxation expenditure, while within this group of 30, ten companies received 90.63 percent of **all exemptions** in this group for the year (OECD, 2012: 8 & 13). Of these ten, two companies – Newmont Ghana Gold Ltd and Dredging International - were in the top 15 recipients of indirect domestic **taxation expenditure** within the indoors operation group as well – the group receiving the largest share of taxation expenditure within the indirect domestic taxation category (OECD, 2012: 7 & 12).

During the presidency of John Atta Mills, the GoG had undertaken to improve conditions and remuneration within the public service in order to quell the outflow of skilled staff and attract further adequately skilled staff (Ministry of Finance (b), 2013: 6).

This has been implemented in the form of the Single Spine Salary Structure (SSSS)²⁶. The execution of this new structure has imposed increased pressure on the government taxation revenue. The result being that the actual amount of personnel expenditure has increased from 60.9 percent as indicated in the State of the Nation Address in November 2012, to 72.3 percent (Ministry of Finance (b), 2013: 6). This has created a situation where there is less available revenue for other critical expenditure, such as social intervention and infrastructure programmes. This reallocated revenue is desperately needed for socio-economic upgrades that would further attract investment for growth (Ministry of Finance (b), 2013: 6 – 7).

In order to try and rectify this imbalance and create an investment environment that is aiming in the direction of becoming more equitable to both investor and the country, the amended Ghana Investment Promotion Centre (GIPC) Bill 2013 was passed by Parliament on 18 July 2013 (Ghana Business News (b), 2013). This Bill has as part of its goal the improvement of investment conditions for domestic investors such as:

²⁶ “The SSSS is a 25-grade structure designed to fit a job evaluation plan. The job evaluation plan considers four major compensable factors in arriving at the grade level for a job, or the position of a job in the hierarchy of other public service jobs. The four major factors are further broken down into thirteen sub factors. Each sub factor is graduated into levels of intensity (degree levels) with numerical values attached to each level” (Fair Wages and Salaries Commission Ghana, n.d.).

Ghana Business News (b). 2013. *Ghana’s Parliament passes new investment Bill*. Available: <http://www.ghanabusinessnews.com/2013/07/19/ghanas-parliament-passes-new-investment-bill/> [2013, October 20]

Fair Wages and Salaries Commission Ghana. n.d. Available: <http://www.fairwages.gov.gh/index.php/Articles/ghanas-single-spine-salary-structure-implementation-challenges.html> [2013, October 21]

- “Minimum capital required to invest by a foreign investor.
- Joint Venture (JV) involving Ghanaians to have a ratio of at least 30 percent participation and transfer of the local percentage holding not transferable to foreigners.
- Restriction on operations in certain sectors²⁷” (Ghana Business News (b), 2013).

In addition to provisions protecting domestic investors, the Bill seeks to decree the GIPC as the body pledged to promote investments in the country, and to find a solution to the excessive amount of foreign exchange reserves being repatriated without any kind of concrete transfer of technology to the country in return. An additional point worth noting in the new Bill is the change from a focus on attracting medium-sized and large foreign corporations to only attracting larger foreign corporations (Ghana Business News (b), 2013)(Ghana Investment Promotion Centre [GIPC] Bill, 2013: 13 - 15).

While the investment laws and incentives of the country have been long overdue for a review²⁸ it would possibly be prudent for Ghana’s policymakers to view any potential changes through a lense that reflects the overall state of world economic events and how these may pertain to Ghana’s investment environment and aspirations for growth. Within the GIPC Bill it is stated that the Bill has been reviewed due to changing events (GIPC Bill, 2013: ii). There is a focus on molding incentives to attract and retain investors of strategic importance and to assist Ghanaians to become a greater part of economic growth due to the improved economic growth situation in the country (GIPC Bill, 2013: ii).

²⁷ “...the sale of goods or provision of services in a market, petty trading or hawking or selling of goods in a stall at any place; the operation of taxi or car hire service in an enterprise that has a fleet of not more than twenty-five vehicles; the operation of a beauty salon or a barber shop; and the printing of recharge scratch cards for the use of subscribers of mobile telecommunication services” (Ghana Investment Promotion Centre Bill of 2013, 2013:s26).

²⁸ “The current GIPC Act, 1994 (Act 478) has become obsolete after almost 15 years after promulgation, necessitating a review to reflect recent developments to provide a new policy direction for the country” (Ghana Business News, 2013).

It is at this point that it is important to remember that investment incentives, more notably tax incentives are a secondary consideration in regard to the FDI decision as mentioned in chapter one. A presentation by the Investment Climate Advisory Services of the World Bank Group given in Vienna on 14 May 2012 titled '*Effectiveness of Investment Incentives in Developing countries Evidence and Policy Implications*' ranks tax incentives number 16 out of 22 important factors to consider when making an investment decision (Slide 14 of the presentation). This factor places well behind other factors such as market potential, access to finance and the legal system.

According to the '*2013 Index of Economic Freedom*' Ghana placed 77 out of 177. Although this places Ghana in the top 50 percent of countries there are still areas that Ghana falls notably short in such as the rule of law which includes freedom from corruption as detailed in appendix 28. Another area Ghana falls short in is regulatory efficiency which includes issues such as business freedom, labour freedom and monetary freedom. These topics are described in further detail in appendix 28.

Despite upward growth of the economy, it appears that there has been little, if any news on any major international industrial companies locating in Africa to setup companies for export due to business and regulatory environments that often prove to be extremely challenging (Becker, 2013). In order to become the developing country Ghana aspires to be, what is lacking is diversified manufacturing (Becker, 2013). Value needs to be added to the raw materials before they are exported otherwise the only revenue generated by these resources for the country is from the basic extraction process. In the new GIPC Bill 2013, the GoG has acknowledged that manufacturing requires special incentives.

Investment Climate Advisory Services of the World Bank Group. 2012. *Effectiveness of Investment Incentives in Developing countries Evidence and Policy Implications*. Available: http://www.wbginvestmentclimate.org/events/upload/2a_Effectiveness-of-Tax-Incentives-in-developing-countries-Policy-and-Evidence-May-2012.pptx [2013, August 15]
 Becker, C. 2013. *Africa: The Next Major Boom-Bust Cycle?* Available: <http://mises.org/daily/6511/Africa-The-Next-Major-BoomBust-Cycle> [2013, September 22]

Per Section 281(b) of the Bill, there are no minimum capital requirements for an enterprise to setup for export manufacturing. Further in Section 25(5) the Bill states:

“Benefits and incentives

25.

(5) The Board shall publish

(a) in the Gazette and on its website the criteria for determining what constitutes strategic investments and shall designate an investment that satisfies the criteria, as strategic investment; and

(b) the details of special incentives awarded through negotiation under this section.”

This is taken to be indicative that manufacturing will constitute part of the definition of a strategic investment.

Although the government is seeking to prioritise the furtherance of manufacturing as well as identify other strategic investments that need incentivizing in order to stimulate growth, care needs to be exercised when re-assessing the creating or granting of incentives. As has been noted earlier in the study conducted by the OECD, Ghana is one of the most generous providers of tax incentives in sub-Saharan Africa, yet the ratings agency FitchRatings (2013) points out the following in a post-budget review article:

FitchRatings. 2013. *Ghana Budget Aims for Slow Consolidation, Risks Remain*. Available: https://www.fitchratings.com/gws/en/fitchwire/fitchwirearticle/Ghana-Budget-Aims?pr_id=785243 [2013, August 23]

“The slow pace of fiscal consolidation is despite rapid GDP growth, which the government forecasts at 8% in 2013. It will also prevent a faster narrowing in the current account deficit, which we forecast at 10.2% in 2013.

Risks remain to the medium-term fiscal outlook, including persistently high bond yields, continued arrears build-up, and potential further slippage in implementation of the new public salary structure. Weak expenditure control and slower-than-expected revenue growth could also jeopardise consolidation.

The budget forecasts total expenditure to rise buoyantly by 20.6% over FY13, reaching 34.4% of GDP. Much (8.4%) will go on public sector wages, which are expected to rise by 12% in 2013, and 135% since 2010. Arrears clearance will account for 2.7% of GDP, while the interest bill and grants and subsidies will total 10%. Strong growth in current expenditure means much-needed capex declines to 6% of GDP in FY13 from 7.6% in FY10.”

The government is at a critical juncture and has already initiated a start in reviewing the shortfalls in regard to incentives currently on offer to investors through commissioning the OECD report in 2012. Further to this the GIPC Bill 2013 has been passed by Parliament which serves to upgrade the policies and rules governing investment in Ghana. This Bill was last reviewed in 1994 – Investment Bill 478 – and the current investment incentives are approximately ten years old, hence the need for revision (Ghana Business News, 2013).

However, it would be presumptuous to presuppose that by the mere review and upgrade of investment laws and incentives investors will suddenly flood in. The investment environment

as a comprehensive whole needs to be considered and all factors need to be scrutinized to evaluate the inter-relationship between each, as well as how an improvement in one may inadvertently affect one or more of the other factors. An article on the ModernGhana website (Boadi, 2013) points to a disturbing trend that is occurring at some entry points into the country in regard to bribes being solicited by officials and unreasonably high taxes being charged. These are the type of citizens that the GoG is shouting about protecting and promoting from foreign competition, yet they are disabling and disadvantaging them on the quiet.

It could possibly prove more cost-beneficial to improve other factors that may be deterring investment and forgo offering some of the investment incentives, as the revenue that may be made as a result of the upgrade of another more important factor may many times surpass the possible investment that would have been made by offering an incentive in its place. The benefit must always outweigh the cost.

7.3 RWANDAN TAXATION SYSTEM:

The honourable Finance Minister, Ambassador Claver Gatete, made reference in the 2013/2014 Budget Speech to the decreasing occurrence of aid flows from OECD countries which to a large degree have been making up the shortfall in GDP in prior years (Ministry of Finance and Economic Planning, 2013: 2). Although GDP is expected to increase to seven percent for 2013 up from 6.8 percent for the 2012/2013 financial year, with a declining flow of donor funds, and tightened fiscal and monetary policies, there is now a need to make up the shortfall by

generating funds internally (African Economic Outlook, 2013) (National Institute of Statistics of Rwanda, 2013).

Rwanda has been able to successfully rise above its dysfunctional past and has shown itself willing to embrace significant economic and political change (AON, 2011). Unlike Ghana and South Africa which each possess great mineral wealth as well as strategic sea-facing locations, Rwanda is landlocked and possesses very little mineral wealth relative to these other countries. Despite these disabilities it has managed to attain a ranking of third place in a regional ranking of countries in the '*2013 Index of Economic Freedom*' (AON, 2011). It also placed third in Africa in the 2013 '*Doing Business Report*' (WB, 2013: 3) in terms of the best country to do business category, third only to South Africa and Mauritius.

Further, in spite of these locational and natural resource impediments Rwanda offers attractions that rank higher than tax incentives as factors rated significant by foreign investors. These include a safe and peaceful environment with low levels of crime and corruption (Mukama, 2013). It also offers excellent fiscal freedom, monetary freedom and investment freedom as indicated by the 2013 Index of Economic Freedom (The Heritage Foundation, 2013: 373 - 374).

African Economic Outlook. 2013. *Rwanda*. Available:

<http://www.africaneconomicoutlook.org/en/countries/east-africa/rwanda/> [2014, January 02]

National Institute of Statistics of Rwanda. 2013. *GDP - National Accounts (Fiscal Year 2012/13)*.

Available: <http://statistics.gov.rw/publications/gdp-national-accounts-fiscal-year-201213> [2013, September 02]

AON. 2011. *Rwanda: an African Success Story*. Available: <http://one.aon.com/rwanda-african-success> [2013, September 19]

Mukama, H. 2013. *The state of play of investment facilitation in Rwanda: Opportunities and challenges*. Available: <http://www.aaeafrica.org/start/the-state-of-play-of-investment-facilitation-in-rwanda-opportunities-and-challenges/> [2013, September 12]

The Heritage Foundation. 2013. *2013 Index of Economic Freedom*. Available:

http://www.heritage.org/index/pdf/2013/book/index_2013.pdf [2013, December 21]

Rwanda is the most generous of the countries in the East African Community (EAC) bloc when it comes to offering tax incentives (Institute of Policy Analysis and Research-Rwanda, 2011: 6). A report by the Tax Justice Network – Africa and ActionAid International (2012: iv) notes that:

“Following the EAC’s establishment in 1999, Kenya, Tanzania and Uganda created a customs union (a duty-free trade area with a common external tariff) in 2005, and were joined by Rwanda and Burundi in 2009. This has created a larger regional market, and means that firms can be located in any EAC country to service this market. At the same time, however, countries are being tempted to increase tax incentives in order to attract FDI and, they believe, increase jobs and exports. Our analysis suggests that the provision of tax incentives across the East Africa region represents harmful tax competition and may be leading to a ‘race to the bottom’.”

The report produced by the Tax Justice Network – Africa and ActionAid International (2012: 11) highlights the fact that the government revenues of Kenya are reduced by approximately one to two percent of GDP and goes further to explain that:

“...where governance is poor, corporate income tax exemptions ‘may do little to attract investment’ and when they do, ‘this may well be at the expense of domestic investment’.”

The same report (2012: 12) then goes on to elaborate the reasons why investors choose Kenya as an investment destination. Some of the reasons include:

- “Access to local and regional markets;
- Favourable bilateral agreements.”

Only one percent of sample respondents mentioned fiscal concessions offered by export processing zones (EPZ) as a reason for investment (Tax Justice Network-Africa & ActionAid International, 2012: 12). This links back to the study performed in South Africa which also

ascertained that a very low percentage of respondents were affected in their selection of location for FDI based on incentives offered by government (Tuomi, 2011: 138).

The granting of tax incentives in one country can have the potential outcome of creating undesirable competition between neighbouring countries. As mentioned by the Tax Justice Network-Africa & ActionAid International Report earlier this can lead to a type of 'race to the bottom'. This is done in an effort to keep outdoing each other in order to attract and retain further investment. This type of environment, where governments are bidding against each other instead of working together for all participant's greater good, has the ability to create an environment in which illicit trade, complex operational strategies to avoid the paying of further taxation and a restricted rate of integration of the EAC persist (Tax Justice Network-Africa & ActionAid International, 2012: 15).

One of the problems that Rwanda as well as Kenya faces is having a large percentage of their respective populations engaged in the informal economy (Tax Justice Network-Africa & ActionAid International, 2012: 16). In the case of Rwanda, within this large informal economy many participants are involved in the agricultural sector, specifically small scale farming and a method needs to be investigated to bring them into the tax net that would prove to be equitable and transparent (Namata, 2012).

Another report funded by the Tax Justice Network-Africa and ActionAid (2011) specifically addresses the losses the Government of Rwanda (GoR) is experiencing due to the granting of such generous expenditures. In 2009 alone the *fiscus* lost 4.7 percent of GDP through the granting of such expenditures (Institute of Policy Analysis and Research-Rwanda, 2011: 4). The honourable Finance Minister in his 2012/2013 Budget Speech acknowledged that there was much room for improvement in regard to investment incentives and a review of the code was being undertaken during 2012. It is due to be passed in 2013 (Hitimana, 2013).

Namata, B. 2012. *Rwanda considers tax reforms to boost faltering revenue*. Available: <http://www.theeastafrican.co.ke/news/Rwanda+considers+tax+reforms++to+boost+faltering+revenue/-/2558/1358486/-/aad5ki/-/> [2013, November 22]
 Hitimana, B. 2013. *Rwanda investment rebounds*. Available: <http://www.independent.co.ug/rwanda-ed/rwanda/7197-rwanda-investment-rebounds> [2013, November 19]

In regard to expenditures on offer by the GoR there is a scarcity of information and transparency relating to the cost and extent of them. This type of information would allow an in-depth and beneficial analysis to be performed which would then assist in determining which ones would be worth keeping and which ones should be scrapped.

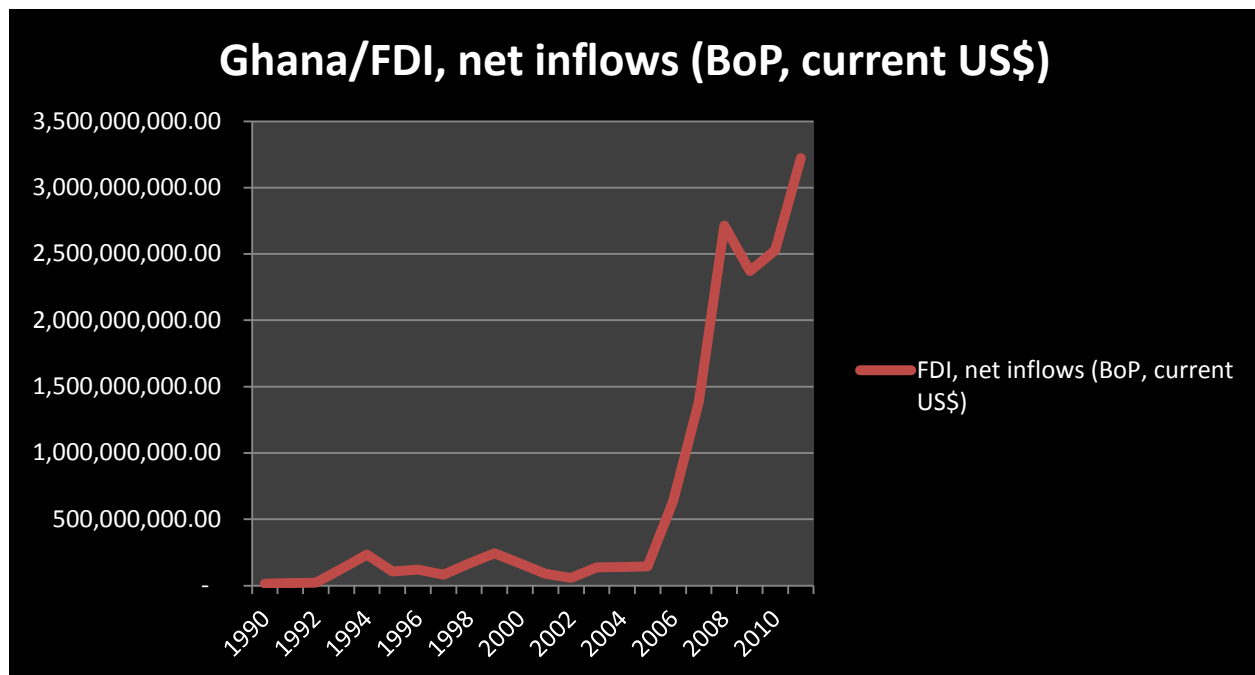
The report by the Tax Justice Network-Africa & ActionAid International (2012: 11) also addresses the issue of the granting of taxation expenditures in a manner that is seen to be transparent and without favour to select persons or entities by the taxpaying public. In Rwanda the Law gives Cabinet the right to negotiate expenditures with individual investors without recourse to Parliament (Institute of Policy Analysis and Research-Rwanda, 2011: 21). This means that the public has no indication as to the terms and conditions of the granting of such incentives and no reasonable idea as to the costs versus the benefits (Institute of Policy Analysis and Research-Rwanda, 2011: 21).

7.4 CONCLUSION AND RECOMMENDATIONS:

Taxation forms an integral part of government revenue in any country and is essential to the development and maintenance of a self-sustaining state that is able to provide viable growth as well as an attractive investment environment. One of the roles that taxation plays in assisting with investment is the creation and granting by governments of taxation exemptions and incentives in an effort to entice investors – both domestic and foreign. The attraction of FDI in particular is seen as a method of advancing private sector growth which is thought to lead to an increase in local employment, improvement of the skills base through the transfer of knowledge and technology and enhancing the export of agricultural products, manufactured goods and services (Institute of Policy Analysis and Research-Rwanda, 2011: 7).

Ghana and Rwanda are acknowledged as being extremely generous with the range of taxation exemptions and incentives they offer to investors. While investment has increased to both of

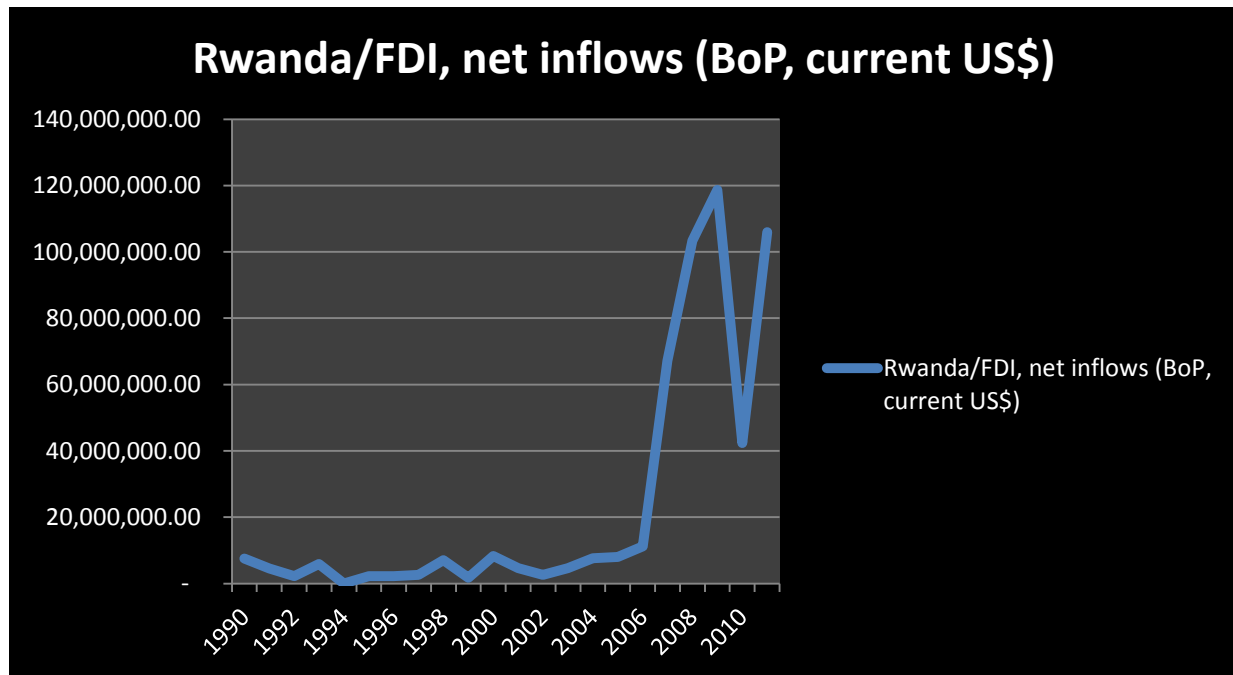
these destinations over the years as graphed below, (indexmundi (a) & (b), n.d.) both country's governments have acknowledged that there is a pressing need to revisit the exemptions and incentives that are currently on offer in order to streamline and improve the end result for all parties concerned.



GRAPH K: - (Source: indexmundi (a), n.d.)

Indexmundi (a). n.d. *Ghana - Foreign direct investment Foreign direct investment, net outflows (% of GDP)*. Available: <http://www.indexmundi.com/facts/ghana/foreign-direct-investment> [2013, October 13]

Indexmundi (b). n.d. *Rwanda - Foreign direct investment Foreign direct investment, net outflows (% of GDP)*. Available: <http://www.indexmundi.com/facts/rwanda/foreign-direct-investment> [2013, October 13]



GRAPH L: - (Source: indexmundi (b), n.d.)

These two countries are losing out on much needed taxation revenue due to a forgoing of such revenue to exemptions and incentives in a bid to attract more investment. Although there is always the desire for further investment, the offering of exemptions and incentives should not be at the expense of other, more influential factors that could prove successful in providing a higher rate of return.

7.4.1 ANTI-AVOIDANCE PROVISIONS:

South Africa has a range of exemptions and incentives on offer, but unlike Ghana and Rwanda, South Africa's taxation system compares very favourably with the most advanced taxation systems in the world (Fan et al, 2007: 94). One of the policies that has been adopted in order to protect the income of the South African *fiscus* has been the introduction of a general anti-avoidance rule (GAAR) in 2006 which serves a valuable purpose in discouraging would-be tax avoiders from abusing investment incentive provisions (E & Y, 2013: 3).

It has been shown through experience that countries which have adopted robust general anti-avoidance rules have been able to deter taxation avoidance and evasion far more effectively than countries which do not have such measures in place. Measures and policies implemented should be tailored to a specific country's requirements in order for them to produce efficacious results (IMF, OECD, UN and World Bank, 2011: 25). Ghana and Rwanda have in place transfer pricing and thin capitalization rules, but as yet have not embraced the principles of a GAAR.

The predominant foreign investors in countries such as both Ghana and Rwanda are large multinationals that have adequate resources to employ the highly specialized skills of taxation professionals who are able to assist them in structuring and utilizing the host country's taxation laws and provisions to their absolute advantage. This type of situation often leads to an abuse of the taxation system, leaving the host country deprived of much needed, legitimate taxation revenue. Ghana has recently introduced amended Transfer Pricing Regulations in an effort to restrict the mispricing of inter-connected party transactions which inevitably leads to a loss of revenue for the *fiscus* (Ghanaweb.com, 2013). Rwanda has made no mention of any upgrades in regard to the advancing of anti-avoidance provisions. Given that both these countries are especially generous with the variety of exemptions and incentives they offer, it may be prudent for them to concentrate on the adoption of advanced and stringent policies that would serve to assist in restricting avoidance and evasion to an absolute minimum. In considering the adoption of these policies and GAAR - consideration has to be given to the skill set of the revenue staff that would be tasked with the administration of such laws and policies. Ghana has recognized that there is a need to attract and retain adequately skilled staff in government positions through the adoption of the SSSS; however it has not been specified which departments would specifically benefit from such skills upgrades and if there is an intention to establish a specialised anti-avoidance audit section. A recent article on Ghanaweb (2013) notes that:

IMF, OECD, UN and World Bank. 2011. *Supporting the development of more effective tax systems*.

Available: <http://www.oecd.org/ctp/48993634.pdf> [2014, January 15]

GhanaWeb. 2013. *Transfer pricing and its challenges*. Available:

<http://www.ghanaweb.com/GhanaHomePage/business/artikel.php?ID=268730> [2013, December 10]

“Lack of skilled manpower and capacity in the Ghanaian judicial system to handle transfer pricing cases are two major challenges that may affect implementation of the Transfer Pricing (TP) Regulations in the country, Emmanuel Obeng Asiedu, Partner at KPMG has said.”

It is not apparent if Rwanda possesses the necessary skills or staff complement to create an exclusive anti-avoidance division should the government opt to amend and upgrade their anti-avoidance provisions.

7.4.2 FORCED PARTNERSHIPS:

Ghana has recently revised its investment code - GIPC Bill 2013 – in which it has specifically made reference to Ghanaians being allowed a minimum 30 percent share in FDI owned entities within Ghana (GIPC Bill, 2013: 15). Reference has not been made as to whether this would apply to all new entities going forward or whether it would also include existing operations. It is important for the government to clarify this issue. The structure of the mixed ownership must, according to the GIPC Bill 2013, take the form of a joint venture (JV) (GIPC Bill, 2013: 15).

The concept of enforcing a forced co-ownership between domestic partners and a foreign entity has the ability to produce highly undesirable results. A similar type of policy was adopted in South Africa at the end of the Apartheid era in order to attempt to correct the inequality of the past. The policy, initially known as BEE, with many variations on this name since initiation in 1993 (The Economist, 2013), was undertaken with the idea that previously white owned entities were forced by law to include previously disadvantaged individuals as shareholders or partners. The concept, while worthwhile in theory, has gone disturbingly awry (The Economist, 2013) (Jeffery, 2013). Numerous criticisms have been made in this regard and not only by the owners of companies who have had to dispose of part of their equity. The current Finance Minister, Pravin Gordhan, recently commented (Jeffery, 2013):

The Economist. 2013. *Fool's gold*. Available: <http://www.economist.com/news/briefing/21576655-black-economic-empowerment-has-not-worked-well-nor-will-it-end-soon-fools-gold> [2013, December 09]

Jeffery, A. 2013. *'BEE is flawed and should be scrapped'*. Available: <http://mg.co.za/article/2013-01-18-bee-is-flawed-and-should-be-scrapped> [2013, December 08]

“BEE policies have not worked and have not made South Africa a fairer or more prosperous country.”

Another ANC member, Lawrence Mavundla, the president of the National African Federated Chamber of Commerce and Industry, commented in the same year (Jeffery, 2013):

“...tenderpreneurs who were tender thieves because they got their tenders through [political] connections.”

Further, Moeletsi Mbeki - the brother of former South African president, Thabo Mbeki - authored a book, *Architects of Poverty: Why African Capitalism Needs Changing*, published in 2009. Some damaging remarks in regard to BEE and its lack of success are made within the body of the book (Jeffery, 2013):

“...strikes a fatal blow against black entrepreneurship by creating a small class of unproductive but wealthy black crony capitalists made up of ANC politicians.”

This policy attempts to provide a more equal representation in companies in South Africa with the aim of growing a higher skills level and encouraging an increased participation in the private sector by local previously disadvantaged groups²⁹.

In the case of Ghana the government is not attempting to correct inequalities of the past, but rather to create a broader participation in the local economy by Ghanaian citizens. JVs have

²⁹ “African, Indian, Chinese and Coloured people, women, youth, disabled persons and rural communities” (Makwiramiti, 2011).

Makwiramiti, AM. 2011. *In the name of economic empowerment: A case for South Africa and Zimbabwe*. Available: http://www.consultancyafrica.com/index.php?option=com_content&view=article&id=674:in-the-name-of-economic-empowerment-a-case-for-south-africa-and-zimbabwe&catid=87:african-finance-a-economy&Itemid=294 [2013, December 08]

many advantages for making it a worthwhile business structure capable of utilising more domestic employment participation such as (NIBUSINESSINFO.CO.UK, n.d.):

- “sharing of risks and costs with a partner; and
- access to greater resources, including specialised staff, technology and finance.”

However, despite these upsides this type of business structure can present potentially damaging consequences such as (NIBUSINESSINFO.CO.UK, n.d.):

- “An imbalance in levels of expertise, investment or assets brought into the venture by the different partners.
- Different cultures and management styles result in poor integration and co-operation.
- The partners don't provide sufficient leadership and support in the early stages.”

Possibly a preferable option to a JV, which currently requires a type of forced participation of the local populace in Ghana, would be to give investors the option of entering into a private equity arrangement where they would either buy a share in a local business that is already operating and provide management and strategic growth advice, or alternatively assist in setting up a business. Both of these options should include a planned exit date set up front. Either of these methods allows for more flexibility on the part of both parties to the deal as it creates a more conducive environment for a successful outcome, due to the parties having to come together willingly each with a goal of creating value and growth in the entity. As witnessed by the execution of BEE and all its various adaptations thereof in South Africa, the forced participation of certain participants with others seldom produces a successful outcome as envisaged. All too often it leads to a small minority of the privileged few benefitting at the expense of the greater population who the policy was aimed at advancing. All participants to a venture need to participate on terms that are tailored to their circumstances. The GoG could possibly look at providing a reduced corporate income tax rate to these entities for the period

of time the private equity arrangement is in operation, as well as allowing them to carry forward their losses until such time as fully utilized. This option would allow greater participation by the local populace due to the business being fully staffed with residents of the country and foreign investors providing a degree of senior level management and advice. Upon discontinuance of the partnership the local owners of the company would be required to purchase the foreign investors portion at a fair market value. This incentivizes the local owners to learn as much as possible from their foreign partners in order to have the necessary knowledge to continue operating successfully once full ownership transfers to them. It further encourages them to create as much wealth in the entity as possible while still in the private equity partnership so as to have the opportunity to raise the necessary capital which would allow them to perform a buyout of the foreign owners as well as to continue operating profitably into the future.

The creation of a forced partnership often does not act as an incentive for the local participant/s to actively engage in the operation of the entity and learn the necessary skills to keep it operating into the future. Without an exit date the local participants may view this type of arrangement as a type of 'free ride'. Due to the law enforcing their participation they are aware that their share is safeguarded no matter their involvement or lack thereof. This could prove to be especially troublesome in countries such as frontier economies where skill sets are still largely lacking and eligible local participants are aware that there are few options in terms of partners for foreign owners to choose from. This may create a situation where little can be done to improve the local partner's productive output as their inclusion is required by law.

7.4.3 GRANTING OF TAXATION EXPENDITURES TO PREFERENTIAL ENTITIES:

Another issue that requires attention is the granting of exemptions and incentives to entities operating in the mining industry, especially those listed on the Ghana Stock Exchange (GSE). Foreign multinationals, particularly those listed on the GSE and operating in the mining industry need to be revisited in terms of expenditures offered. As referenced earlier, these firms are the

ones benefitting most from the implementation of exemptions and incentives by the GoG. This flies in the face of reason as natural resources are in such short supply and such high demand that the GoG has the bargaining power to reduce the incentives on offer to these companies without fear of reprisal - if one company refuses the rights to mine there will always be another to take its place on more favourable terms to the people of Ghana. Reducing incentives already in place is admittedly politically difficult (Tax Justice Network-Africa & ActionAid International, 2012: 11), however the GoG has made it known that it is intending revising the expenditures on offer, so a reduction in incentives to these particular entities would not come completely unexpectedly. In a presentation by SARS titled *'Overview of the South African legal and regulatory system for natural resource revenue collection and administration and a high level comparison to other African jurisdictions'* the speaker makes note of the differences between the administration of the mining industry in South Africa versus the rest of Africa with regard to taxation. The table below is an extract from the presentation and drives home the point that there is an urgency required by African governments in dealing with mining revenues:

Topic	SA	Africa
Compliance environment	•High level of compliance	•Low level of compliance
	•Tried and tested legislation	•New and untested legislation
	•Numerous external compliance drivers	•Limited external compliance drivers
	•Significant detection risk in Revenue authority audits	•Perceived low detection risk in Revenue authority audits
	•Expertise parity	•Expertise mismatch
Fiscal stability agreements	•Not applicable	•Very generous individual agreements reached with taxpayers - "Signing away taxing rights"
Transfer pricing	•Extensive legislation	•Limited legislation
	•Proactive targeted audit intervention	•Limited audit expertise
	•Collaboration with other Revenue authorities	•Limited collaboration with other Revenue authorities
Mineral Royalty	•March 2010 introduced Royalty - floating rate refined v unrefined (not linked to mineral)	•Long standing Royalty regimes (often fixed rates linked to mineral type)
	•Rental for utilisation of resource	•Appears to be main source of tax revenue from mining companies
	•Provisional 81% and Royalty 19% of combined revenue collection	•Provisional v Royalty contribution to revenue collection?

TABLE G: - (Source: Cohen, n.d: slide 10 & 11)

This table further reinforces the fact that there is a lack of adequate administration and regulation of the potential revenue as well as the current revenue being generated by the mining industry within African countries, including Ghana and Rwanda, relative to South Africa. Investment that is fuelled by incentives is often short-term in nature and proves precarious for host countries (IMF, OECD, UN and World Bank, 2011: 20 & 24). Reforms are desperately required to level the playing field between the investors in the mining industry as well as the host countries.

7.4.4 AVAILABILITY AND TRANSPARENCY OF INFORMATION:

In addition to the above there appears to be a lack of availability and transparency of information in regard to the operation and granting of tax expenditures in Ghana and Rwanda.

Cohen, A. n.d. *Overview of the South African legal and regulatory system for natural resource revenue collection and administration and a high level comparison to other African jurisdictions*. Available: <http://www.norad.no/en/thematic-areas/macro-economics-and-public-administration/tax-for-development/currents-issues/attachment/392317?download=true&ts=1375fa9bfc5> [2013, December 01]

The study performed by the OECD in 2012 with regard to Ghana's tax expenditures makes specific reference to a lack of information needed to assess and review the extent to which tax expenditures are harmful or helpful to the economy. Another recent study sponsored by Action Aid International and Tax Justice Network–Africa (Institute of Policy Analysis and Research-Rwanda, 2011: 21) in regard to Rwanda's tax incentives also makes reference to a lack of understanding and transparency in regard to the current incentives on offer. It is recognized that the analysis and publication of costs involved with the granting of tax exemptions and incentives is necessary for the attainment of fiscal transparency – transparency that is essential in assessing whether the granting of such exemptions and incentives is not outweighing the benefits being realized (IMF, OECD, UN and World Bank, 2011: 23). Without a clear plan to track the granting of all exemptions and incentives offered by both these governments there is little chance that a comprehensive analysis will be able to be performed. These governments need to maintain and publish all exemptions and incentives granted to individual companies, together with all the relative details pertaining to each arrangement. This allows the public to be informed and possibly make meaningful comments and contributions. In South Africa a practice was introduced during the tenure of Finance Minister, Trevor Manuel. Each year before the annual Budget Speech members of the public were invited to phone or write into a forum called 'Tips for Trevor'. This allowed the public a 'voice' in actively participating towards the formation of policies to be tabled before Parliament. Taxpayers are more likely to participate in the tax system that they feel they have a voice in (Institute of Policy Analysis and Research-Rwanda, 2011: 21).

7.4.5 DOUBLE TAXATION CONVENTIONS AND TAX INFORMATION EXCHANGE AGREEMENTS:

In addition to the above weaknesses, both Ghana and Rwanda have signed very few double taxation conventions. As noted in earlier chapters, Rwanda has signed three double taxation conventions and Ghana has seven signed to date. One of the very important functions of a

double taxation convention is the terms setting out the exchange of information between the signing parties.

Ghana is the second African country after South Africa to have signed a tax cooperation agreement developed jointly by the Council of Europe and the OECD (OECD, n.d.). According to the OECD:

“The Convention provides a multilateral basis for a wide variety of administrative assistance including information exchange on request, automatic exchange of information, simultaneous tax examinations, assistance in tax collection and service of documents. It provides governments with a valuable tool for fighting offshore tax evasion and avoidance.”

Rwanda would do well to become a signatory to this convention, especially as there appears to be a breakdown in cooperation among members of the EAC in regard to double taxation (Ramah, 2013). By having to contend with the disruption and uncertainty of a lack of harmonization between the EAC members and very few double taxation conventions having been signed between Rwanda and other countries, the signing of this convention would almost certainly work towards alleviating investor concern in regard to transparency and application of the taxation laws in the country.

Both Ghana and Rwanda would be wise to actively engage in the process of encouraging further double taxation conventions (DTA's) and tax information exchange agreements (TIEA's) to be signed between themselves and other countries as this too would assist in providing a more favourable and stable environment for investors. According to a report published on the Tax

Organisation for Economic Cooperation and Development. n.d. Available:
<http://www.oecd.org/tax/exchange-of-tax-information/taxghanasignstaxcooperationagreement.htm>
 [2013, November 30]

Ramah, R. 2013. *Double taxation pinches East African businesses with regional reach*. Available:
http://sabahionline.com/en_GB/articles/hoa/articles/features/2013/06/18/feature-02 [2013, October 29]

Justice website (n.d: 4) titled '*Double Tax Treaties and Tax Information Exchange Agreements: What Advantages for Developing Countries?*'

"While G20 and OECD are promoting DTTs and TIEAs as centrepieces of a global standard on transparency and cooperation in tax matters statistics show that poor developing countries are simply left out in this picture. How these countries should get access to "the benefits of a new cooperative tax environment" (G20 London Summit) according to the recipes of the G20 and the OECD remains an open question.³⁰

Evidence shows that industrialized countries are just not interested in concluding Tax Information Exchange Agreements with Low Income Countries because they don't expect much profit from such agreements for themselves. Tax information coming from financial centres and TNC headquarters in the North would be important for LICs – but not so much vice versa. Industrialized countries therefore prefer to conclude DTTs where tax information can be negotiated against other benefits. Here begins the field of the quality dimension of DTTs which needs urgently to be looked at if there is a real interest in (poor) developing countries having better possibilities to secure their domestic tax base for sustainable public finance."

Ghana and Rwanda are in a position where investors from around the world are showing great interest in committing resources to each country and being actively advised by experts in the field of investment to do so ('Boom Town Baby': African stock markets see big gains; Ghana, Kenya, Nigeria up big, 2013). In a position such as this, it allows countries such as Ghana and Rwanda to have a strengthening hand in convincing the more industrialised countries to

³⁰ "The recipes themselves are also questionable as criticism from civil society groups like the Tax Justice Network shows. Tax information "upon request" as enshrined in the OECD Model Tax Convention poses serious difficulties for effective information exchange. And the very bilateral basis of DTTs and TIEAs promoted so far aggravates the difficult negotiating position for poor developing countries" (Tax Justice, n.d.).

Tax Justice. n.d. *Double Tax Treaties and Tax Information Exchange Agreements: What Advantages for Developing Countries?* Available: http://www.taxjustice.net/cms/upload/pdf/DTTs_100126_TIEAs-Developing-Countries.pdf [2013, December 02]

'Boom Town Baby': African stock markets see big gains; Ghana, Kenya, Nigeria up big. 2013. Available: <http://www.emergingfrontiers.com/2013/05/23/boom-town-baby-african-stock-markets-see-big-gains-ghana-kenya-nigeria-up-big/> [2013, November 26]

conclude DTAs or TIEAs as it would be to the benefit of not only the host country, but would also serve to protect foreign investors bringing capital into these countries as well.

7.4.6 REDUCED CORPORATE INCOME TAXATION RATE:

A further issue to consider would be the implementation of a lower corporate taxation rate for the medium term. Over time South Africa has lowered the corporate taxation rate from 50 percent in the 1991/1992 tax year to 28 percent currently, allowing the business environment to become more internationally competitive (“South African Income Tax Rates from 1981 to 2007”, n.d.) (“South African Income Tax Rates from 2008 to 2014”, n.d.). In the 2009/2010 tax year South Africa also introduced a means of taxing micro businesses³¹. Ghana has a policy in place for the indirect taxation of small retail businesses at a flat rate, however unlike South Africa’s legislation which details all aspects of taxation in regard to the taxation of micro businesses in every industry, Ghana’s legislation deals exclusively with VAT taxation of these entities as referenced in chapter five. By taxing these businesses on a graded scale such as in South Africa it affords the smaller businesses that are turning over a very small amount each year to enter the tax system without having to undertake huge expense and time in order to comply with legislation. They are merely required to calculate their turnover before any expenses per financial year and based on that turnover they are then able to see which bracket

³¹“ In terms of Part II of the Sixth Schedule to the Income Tax Act, the qualifying criteria for a micro business are set out as follows:

- a natural person (or the deceased or insolvent estate of a natural person that was a registered micro business at the time of death or insolvency); or
- a company, where the qualifying turnover of that person for the year of assessment does not exceed an amount of R1 million. In addition, a person is disqualified as a micro business, where that person, at any time during that year of assessment, holds any shares or has any interest in the equity of another company. Similar exclusions for interest in certain companies exist for a micro business as mentioned above for small business corporations” (Burger, 2009).

South African Income Tax Rates from 1981 to 2007. n.d. Available:
<http://www.ftomasek.com/olderrates.html> [2013, October 31]

South African Income Tax Rates from 2008 to 2014. n.d. Available:
<http://www.ftomasek.com/rates.html> [2013, October 31]

Burger, A. 2009. *Small business definition changed*. Available:
<http://www.moneywebtax.co.za/moneywebtax/view/moneywebtax/en/page268?oid=43091&sn=Detail>
 [2013, November 02]

they would fall into. Based on the bracket they fall within, they can then calculate if they owe any tax and if so how much in a relatively simple calculation. There are other rules that govern the calculation of various aspects of issues such as a capital gains tax and VAT, but these too are designed to make the process very streamlined and user friendly. By implementing this policy, South Africa has aspired to grow their tax base and hopefully see these micro businesses one day move out of this category and into the bigger corporate tax category thereby helping to grow the economy.

In relation to the corporate taxation rate for entities larger than a micro business, both Ghana and Rwanda should possibly consider introducing a lower corporate tax rate in place of the offering of such generous tax exemptions and incentives. The corporate income tax rate in Mauritius for example is currently 15 percent (Gasore, 2013). The introduction of a lowered corporate income tax rate would serve to ease the administrative burden that taxation exemptions and incentives present to the revenue services in these countries at present as no specialized units would be required to monitor the application and interpretation of the lowered tax rate. The introduction of a reduced tax rate for corporates would allow each of these countries to present a more favourable image to the investing world, while at the same time freeing up their revenue services staff to administer the collection of revenue properly. These two countries need to spend time cultivating and improving their revenue laws and policies, but if the laws are not comprehensive enough to oversee the complexity of the policies in place then it is inevitable that there will be a breakdown in the system and revenue leakage will result.

7.4.7 AGRICULTURAL UPLIFTMENT PROGRAMME:

Ghana and Rwanda are both eager to attract a greater number of taxpayers to the tax base, but are struggling to do so as a large percentage of the population are engaged in the informal sector of the economy. One of the options, as discussed above, would be to encourage informal traders into the tax base through the introduction of a graded tax system that caters

to businesses under a certain size in terms of turnover, such as South Africa has introduced. However, in both Ghana and Rwanda many of the informal traders are involved in the agricultural sector and are sustaining themselves as subsistence farmers. These farmers need to be encouraged through the use of support and development from the public sector as to how to move from surviving as a subsistence farmer who farms enough to provide for a family, to a commercial farmer who is able to slowly grow in size and provide enough for a family and for wholesale to the market. Through such a programme the government would be able to create a database that would allow them to track the progress of these farmers and ascertain their performance which would eventually lead to them being productive enough to contribute to the tax base. An article published in The Cape Argus Newspaper titled: '*Why state support fails so many small-scale farmers*' (Carden, 2013: 15) detailed a policy introduced many years ago in South Africa called '*The agricultural extension service*'. This policy was introduced as a service to small-scale farmers in an effort to assist them to become more effective and efficient in the process of producing agricultural produce. The policy is in the process of being reviewed and is currently in the draft process. The idea behind this policy is for the state to provide the necessary skills training, technical support, capital injection and infrastructure in order for these small-scale farmers to firstly become efficient enough to deliver their produce to the local market and then slowly improve their operations in order for them to move further down the food value chain. Through this process government officials would be able to recognize farmers who have the potential to become larger scale commercial operations and thereby contribute meaningfully to further employment creation and tax revenue contribution. Although not a tax exemption or incentive policy, this is a policy that has the potential to contribute substantial returns to each of these economies as these governments are grappling with how to increase their taxation bases.

7.4.8 TAXATION OMBUDSMAN:

The most recent addition to the South African taxation landscape has been the addition of a Tax Ombudsman effective as of 1 October 2013 (Ensor, 2013). For both Ghana and Rwanda this may be an option worth considering as it would give taxpayers, both domestic and foreign, more faith in the system as they would feel there is a sense of accountability on the part of the Revenue Services. It is essential to have a transparent tax structure in place to attract FDI according to Rama Sithanen, the former Mauritian finance minister, who delivered a speech during the two-day Services Investment Forum (SIF) organised by the Rwanda Development Board in July 2013 (Gasore, 2013). The appointment of an Ombudsman to deal with complaints that arise as a result of grievances taxpayers have with the revenue services in a country provides them with a low-cost manner in which to address difficulties that may have arisen with the revenue services by an independent authority.

7.5 CHAPTER SUMMARY:

Ghana and Rwanda have recently been named as two of the ten investment destinations out of 102 countries selected in the world by the US think tank, Foreign Policy (enca.com, 2013). Rama Sithanen, the former Mauritian finance minister who presented at the two-day SIF organised by the Rwanda Development Board noted in his speech that apart from suitable infrastructure being essential to attracting FDI, there is also a need for fiscal incentives and a transparent taxation system to be in place (Gasore, 2013).

Ghana and Rwanda have both been noted as having in place extremely generous taxation exemption and incentive policies, yet the question remains to be answered as to whether all

Ensor, L (b). 2013. *Naming of SA's first tax ombudsman welcomed by parties*. Available: <http://www.bdlive.co.za/business/2013/10/02/naming-of-sas-first-tax-ombudsman-welcomed-by-parties> [2013, December 05]
Enca.com. 2013. *Africa among the best to invest*. Available: <http://www.enca.com/africa/africa-among-best-invest> [2013, November 30]

these exemptions and incentives are really necessary to attract investment and secondly are their costs outweighing their benefits.

Ghana has had the most recent study performed in this regard. The OECD performed a condensed study at the end of 2012 and found that there is a strong case for the review of Ghana's exemptions and incentives, especially as it was found that there is generally a trend in the analysis whereby very few companies are benefitting from the granting of these exemptions and incentives. Further these companies are the ones least in need of these provisions.

Rwanda too has had studies performed as to the effects of taxation expenditure on revenue collection and these have found that there is a definite void that has been created in revenue collected by the granting of these exemptions and incentives.

There are other areas that require consideration in order to expand the current tax base, such as a programme to increase the number of commercial, profitable farmers and a system to further encourage small businesses to register for taxation. However, despite these considerations, cognizance needs to be given to the unnecessary loss of revenue due to the granting of exemptions and incentives. Not only do the necessary reforms within tax administrations need to be implemented, but current risk-management techniques need to be affected in order to decrease the potential for unexpected outcomes (IMF, OECD, UN and World Bank, 2011: 19). Governments will always play their political hand in an effort to win favour with large multinationals – too often they are the ones keeping the current government in power – however it is dangerous to play a bidding game with the very resources that are making it possible to keep a government in power. A bargaining process will always be necessary to attract investors, although heed should always be taken that once the rules of the game have been set it is almost impossible to change them in the future without creating some type of backlash and resentment.

8. CONCLUSION

Pothinus: "Is it possible that Caesar, the conqueror of the world, has time to occupy himself with such a trifle as our taxes?"

Caesar: "My friend, taxes are the chief business of a conqueror of the world."

~George Bernard Shaw, "Caesar and Cleopatra"

Taxation is integral to the advancement of the state. It provides revenue to assist in the economic and social growth of the country, as well as a means by which investors, both local and foreign, partially determine the transparency and fairness of the system. The system of taxation as such should be structured in such a way as to promote good governance, redress income and wealth inequalities, and provide the necessary framework for the operation of increasingly effective and accountable states.

Developing countries in particular require a sustainable inflow of tax revenue in order to move away from a dependency on foreign aid. Of critical importance is that the system in place is not seen by the public at large as favouring any one group of taxpayers at the expense of others. Individual circumstances of each country need to be considered when structuring a well-functioning system. There is not a standardized set of policies and procedures that is able to be applied across the board which will result in a solution to all countries' challenges – both actual and perceived.

This study sets out to explore the investing and taxation climate in Africa with a strong focus on countries that fall within the definition of a frontier economy. Frontier economies are understood to belong to pre-emerging markets which often exhibit similar trends to more developed, emerging markets such as: strong GDP growth, an abundance of natural resources and a growth in consumer demand. With world markets struggling to recover after the

economic crisis of 2007/2008, investors are pursuing investment opportunities that are able to potentially provide greater returns, even if this comes at the expense of additional risk.

The study was limited by time and information availability constraints, and as such only two countries from different economic blocs which belong to the African Economic Community were able to be selected for analysis. It is believed that this has allowed the study to provide a diversified comprehension of the investment alternatives situated within a varied economic and geographical range of frontier economies located in the sub-Saharan Africa region. Taxation from a corporate perspective, in relation to FDI was addressed, and clear-cut reference was concentrated on the investment incentives currently in force in each country.

The study sought to achieve certain objectives in regard to the selected countries with the aim of providing a greater understanding of each. Following on from the introductory chapter each successive chapter; omitting the antecedent chapter which explicates on two of the study objectives; expounds on one of the study objectives. The following table provides a synopsis of the objectives and their respective findings.

SUMMARY OF OBJECTIVES	
STUDY OBJECTIVES	FINDINGS
To describe the history as well as investment opportunities that the selected countries offer.	This chapter provides a brief synopsis of each country's history since independence and the potential investment opportunities currently available. Further the chapter gives some insight as to how each country ranks in certain global investment reports. Both Ghana and Rwanda are currently well-ranked within the sub-Saharan Africa countries in regard to investment opportunities and growth potential. Progress in areas that are of value to foreign investors, such as transparency in

	the rule of law and infrastructure upgrades are being addressed on an ongoing basis. This is of vital importance as the attraction of FDI is of great consequence to the respective governments of each country.
To briefly examine the current budget of each country and their aims for the fiscal year.	Commercial oil production began on a large scale during 2011 in Ghana. With the advent of commercial oil production, the GDP of the country is now largely influenced by the production and sale of oil. While the discovery of such a valuable natural resource in commercially viable quantities is a boon for the Ghanaian economy, there is an ever-present awareness that if the proceeds from sale of this resource are not managed properly, it could well lead to another case of Dutch Disease in Africa¹. All four main sectors of the Ghanaian economy need to be advanced in order for a diversity of FDI to be engaged. This would allow the economy to flourish in an integrated manner where long term gains for all are realized. Of particular concern is that the agricultural sector which employs a large percentage of the population, especially in the less developed areas of the country, has been on a downward growth trend in the

¹ "Dutch disease is the negative impact on an economy of anything that gives rise to a sharp inflow of foreign currency, such as the discovery of large oil reserves. The currency inflows lead to currency appreciation, making the country's other products less price competitive on the export market. It also leads to higher levels of cheap imports and can lead to deindustrialisation as industries apart from resource exploitation are moved to cheaper locations" (Financial Times Lexicon, n.d.).

	recent past. To grow the economy, employment rates need to be reduced; however this is not possible if the main focus is on oil and gas production, while the other sectors are allowed to steadily decay over time. Overall sustainable growth in all sectors of the economy must be a focus of the government in order to reach the planned goal of middle income status in the foreseeable future. Rwanda performed relatively well during the 2012/2013 fiscal year and GDP growth was higher than the forecasted rate. The government is on an active drive to increase revenue collection going into the future, due to a decrease in donor funding from foreign countries. One of the areas that will be given focus in this regard will be a revision of the investment code which will allow the government to adapt policies to the prevailing business climate. Within this context the taxation incentives on offer will be reviewed, especially as Rwanda is viewed as the most generous provider of such incentives in the East Africa Community. In order to assist in the growth of FDI, which in turn would lead to an increase in economic growth, one of the aspects that necessitates addressing are the taxation laws and policies, specifically the ones that relate to the offering of taxation incentives. Are these the best options for the particular set of circumstances they

	have been designed for, and are they the most conducive to attracting the maximum FDI while still providing each country with reasonable taxation revenue?
To investigate the different types of taxation incentives currently offered by countries in general to investors.	Various incentives have been made use of by countries around the world, both developed and developing. One of the primary reasons for the utilization of taxation incentives by governments is an attempt to neutralise the possible disadvantages facing investors such as a lack of infrastructure, or a weak and inefficient legal system. For this reason many of the countries that make extensive use of taxation incentives are developing or transition economies. One of the biggest issues with the utilization of taxation incentives is the difficulty in abolishing them once they are in place. They are often made use of by the political party in power to coerce investors, only to find later that there is a vociferous backlash if attempting to remove them. Investors deem issues such as a well-functioning tax administration system or favourable taxation rates above the availability of taxation incentives. Taxation incentives add to the administration burden of the host country revenue services by requiring the authorities to institute measures to counteract the inevitable tax planning by investors that could possibly result from the availability of taxation incentives. This increases the degree of uncertainty

	to both the investor and the host country revenue authorities as taxation results become more unpredictable the more complex the system becomes.
To review the relevant taxation incentives and laws of each country and compare them with South African taxation laws and incentives.	South Africa has a comparatively advanced taxation system in place that compares favourably with many of the developed and emerging economies' taxation systems. Included in this taxation system is a set of General Anti-avoidance Rules that act as a critical control in the application and interpretation of incentives. South Africa has over the years offered a number of divergent incentives to investors, however evidence gathered through research points to taxation incentives being relatively insignificant in the investment decision. Further the evidence indicates that even when they do influence the investment decision their costs often outweigh the realized benefits to the host country. Both Ghana and Rwanda are noted as being exceptionally munificent in regard to their investment policies and incentives which are currently in place. However, the income taxation legislation, including provisions for anti-avoidance rules currently do not appear to be at a level advanced enough to govern the incentives available. Taxation incentives possess the potential to become

	extremely costly to the host state as represented by a recent study performed by the OECD in regard to Ghana's current taxation expenditures relating to the offering of exemptions and incentives. This creates a two pronged consequence of reducing taxation revenue as well as creating additional expense through the necessitation of skilled staff and time to administer and interpret these incentives.
To offer possible suggestions that may improve the incentives and regulations currently in place in order to alleviate the possibility of base erosion and profit shifting occurring, which in turn should enhance the benefits to both the investor and the specific country.	Policies and regulations in place that are not administered effectively create the possibility for investors, especially MNCs which usually have access to a vast array of skilled advisors, to arrange their financial affairs in such a way as to shift the maximum profit from their operations to other taxation jurisdictions that will either not tax their effects at all or at a relatively low rate compared to where the profits actually originated. Both Ghana and Rwanda are in the process of reviewing their current taxation incentive schemes offered to investors – that being said this study analyses and discusses some of the potential policies that these countries could consider implementing in order to bring their policies in line with current business practices while taking into consideration the unique challenges that currently face each of these economies. Africa is open for business and many of

	the countries that lie within the region known as sub-Saharan Africa are actively promoting themselves to the outside world. There is fervent interest from foreign investors, but the investment landscape is widely unknown be that due to a lack of understanding of a particular destination on the part of the investor or a lack of disseminative information available. Only once information is easily accessible and transparent, is a greater degree of certainty created which in turn casts a more favourable light for prospective host countries to attract investment. Taxation is not a characteristic that usually ranks among the primary factors an investor may consider when deciding on an investment destination, however investors generally show higher interest in a country when there are favourable tax rates, low levels of administrative burdens and a government that promotes policies aimed at encouraging private sector business. Ghana and Rwanda are actively targeting such policies in the hope of attracting further foreign investment. However, their policies in regard to taxation incentives are in need of review, as acknowledged by both Finance Ministers. Part of the hindrance in assessing the current incentives is the lack of information that is available in this

	regard. One of the issues raised by a report compiled by the OECD (2012, 2) is as stated: “Issue. The lack of sufficient and well-organized data, including the absence of any electronic record on the Direct tax side, limits the ability of Ghanaian authorities to effectively quantify both the performance of the existing system and the implications of introducing new policies.” A study sponsored by Tax Justice Network-Africa and Action Aid International in 2011 which analysed Rwanda’s system of taxation incentives also concluded in some of its recommendations that procedures need to be put in place to monitor and evaluate taxation incentives as well as the need for performance of a cost-benefit analysis. Without conclusive data there is very little way that each of these governments are going to be able to ascertain the effectiveness of policies in place or those intending to be implemented.

Additional, detailed study is critical with regard to the African landscape. Specific focus should be concentrated on the following areas:

- Analysis and study of each country in regard to the implications of FDI
- All frontier markets in Africa in regard to investment opportunities and their taxation systems, specifically in regard to aspects that are likely to be of consequence to investors
- The effect of taxation rates on investment and how they factor into the FDI decision
- Current investment incentives in place, specifically taxation incentives and whether there is a need for reform of each system in order to better meet the requirements of investors and the government

The final two points in particular need to be performed on an ongoing basis, so as not to risk providing a static picture in time which is unable to yield currently available information. It is vital that these countries work on the improvement of gathering and supplying timely and relevant information in order that meaningful analysis is able to be performed that will better assist in the structuring of policies designed and implemented to aid governments in achieving their desired objectives.

There is no one country in the world that is without challenges when it comes to attracting investment. Constant review of investment laws and policies is essential by all countries in order to adapt to the prevailing economic and business climate. Many developing countries including those situated in sub-Saharan Africa offer taxation incentives as a means of attracting investment, however this is often to their detriment. The continuous restructuring of taxation incentives with a view to attracting increased investment has set in motion a destructive 'race to the bottom' which could prove more harmful to the individual countries' taxation revenue base than if they had never implemented any incentives.

However, removing them, once in place is a task that could have effects more dire than having never offered them at all. A delicate balancing act is required in order to implement policies that will attract and retain a good mix of domestic and foreign investment over the long term, while still providing each government with adequate revenue to achieve sustainable growth and social elevation.

Of exceptional importance in addressing shortfalls of the taxation system is the active long-term support of the political power in place. The system adopted must be clearly rooted in the idea of weeding out corruption at all levels and must not be viewed as being of a biased nature. Positive and sustainable changes are possible given the correct issues – issues such as administrative reforms aligning with policy changes and constructive leadership of the revenue services organization – are addressed and amended.

Coupled with the review of taxation incentives that individual countries put on offer to investors in order to attract investment capital, the very pressing issue of tax avoidance and evasion needs to be ever-present in the minds of governments and policy makers. Given that a large percentage of developing countries are resource-rich and that Africa in particular is being touted more frequently as a desirable investment destination, it stands to reason that high profile MNEs are going to be investing. With such investment comes the often unwelcome practice of such entities attempting to undermine the legitimacy of local regulations, specifically in the area of profit shifting and base erosion.

Each country needs to consider its own limitations in regard to administrative capacity and skill set, coupled with international trade, growth objectives and policy requirements when structuring anti-avoidance policies. These policies need to be relevant to the individual scenarios at hand and it is vitally important that they are able to be applied effectively in order to assist in achieving individual countries' end goals.

This study has attempted to achieve this aim by analyzing both Ghana and Rwanda while taking into consideration their respective aims for the future. Suggestions have been put forward in regard to possible aspects and policies that may be deliberated by each government. It is hoped that this will stimulate further dialogue which serves to bring about reforms that advance the successful progress of each state, while simultaneously distributing the tax burden in a manner that is more just and equitable for all.

Complacency is no longer a luxury that any government can afford. In light of this, taxation incentives should never be considered as an 'easy fix' to cover over the fundamental investment issues that require addressing by all governments. It may be possible however, that if monitored and structured correctly they possess the ability to enhance the benefits of investment to both the investor and the host country thereby creating a win-win situation.

Appendix One:

The process of selecting two countries in Africa was achieved through various methods. Firstly PESTEL analysis was utilized as alluded to in Chapter One. PESTEL analysis is usually made use of to determine the impact of external factors on a business, however in this instance it was adapted through the utilization of a broader spectrum analysis in order to analyse countries located in Africa. This allowed the study to gain a more in-depth understanding of the current circumstances in each country as per each of the categories of the analysis – those being: political, economic, social, technology, environmental and legal.

Even though countries that are classified within the region of North Africa were specifically excluded for selection due to the influence of the 'Arab Spring' at the time, they have been included in the PESTEL analysis of African countries, mainly due to them falling within some of the economic blocs that were analysed. It was felt that for completeness and interest's sake they should be included in the analysis so as to provide a more comprehensive review of the continent as a whole.

Countries that fall within the economic bloc of the Southern African Development Community (SADC) were also excluded for selection purposes due to the economic dominance of Botswana, Mauritius and South Africa, all which belong to this economic bloc. These countries also do not fall within the definition of frontier economies in Africa, one of the selection criteria for the chosen countries.

It is the aim of this study to select countries that are dominant within their respective economic blocs, especially in terms of systems in place that are able to attract and sustain FDI inflows.

Coupled with these criteria is it especially important that their taxation systems function reasonably well and that there is a degree of available information in this regard.

All main economic blocs that fall within the African Economic Community (AEC) were included in the selection process. The blocs comprise of primary pillars which have been utilized for the purposes of country selection, with some of these main pillars containing sub-groups – countries were not analysed based on sub-group membership for the purposes of country selection. Economic blocs and their members that fall within the AEC are as listed below:

Community of Sahel-Saharan States (CEN-SAD):**Members:**

- Burkino Faso
- Chad
- Libya
- Mali
- Niger
- Sudan
- Democratic Republic of Congo
- Eritrea
- Djibouti
- Gambia, The
- Senegal
- Egypt
- Morocco
- Nigeria
- Somalia
- Tunisia
- Benin
- Togo
- Côte d'Ivoire
- Guinea-Bissau
- Liberia
- Ghana
- Sierra Leone
- Comoros
- Guinea
- Kenya

- Mauritania
- São Tomé and Príncipe

Common Market for Eastern and Southern Africa (COMESA):

Members:

- Burundi
- Comoros
- Democratic Republic of Congo
- Djibouti
- Eritrea
- Ethiopia
- Kenya
- Madagascar
- Malawi
- Mauritius
- Rwanda
- Sudan
- Swaziland
- Uganda
- Zambia
- Zimbabwe
- Egypt
- Seychelles
- Libya
- South Sudan

East African Community (EAC):**Members:**

- Kenya
- Tanzania
- Uganda
- Burundi
- Rwanda

Economic Community of Central African States (ECCAS/CEEAC):**Members:**

- Burundi
- Cameroon
- Central African Republic
- Chad
- Congo
- Democratic Republic of Congo
- Equatorial Guinea
- Gabon
- São Tomé and Príncipe
- Angola

Economic Community of West African States (ECOWAS):**Members:**

- Benin
- Burkino Faso
- Côte d'Ivoire
- Gambia, The
- Ghana
- Guinea
- Guinea-Bissau
- Liberia
- Mali
- Niger
- Nigeria
- Senegal
- Sierra Leone
- Togo
- Cape Verde

Intergovernmental Authority on Development (IGAD):**Members:**

- Djibouti
- Ethiopia
- Kenya
- Somalia
- Sudan
- Uganda
- Eritrea
- South Sudan

Southern African Development Community (SADC):**Members:**

- Angola
- Botswana
- Lesotho
- Malawi
- Mozambique
- Swaziland
- Tanzania
- Zambia
- Zimbabwe
- Namibia
- South Africa
- Mauritius
- Democratic Republic of Congo
- Seychelles
- Madagascar

Arab Maghreb Union (AMU):**Members:**

- Algeria
- Libya
- Mauritania
- Morocco
- Tunisia

Coupled with relatively well functioning tax systems and a good degree of information availability in this regard, both Ghana and Rwanda have scored very well in a high percentage of the areas covered by the PESTEL analysis as indicated in the pages that follow. A summary page of the results of each analysis is provided upfront after which follows the detailed analyses that were performed in order to compile the results for the relative summary page.

Included in the appendix after the analyses pages are some articles that have recently appeared in the financial press which further strengthens the case for considering frontier economies in Africa, specifically Ghana and Rwanda.

Doing Business 2012 Report:**Summary of Results (Ghana and Rwanda):**

Category	Ghana	Ranking among regional economic bloc (CEN-SAD)/Ghana	Ranking among regional economic bloc (ECOWAS)/Ghana	Rwanda	Ranking among regional economic bloc (COMESA)/Rwanda	Ranking among regional economic bloc (EAC)/Rwanda
DB 2011 Worldwide Ranking	60			50		
DB 2012 Ease of Doing Business Worldwide Ranking	63			45		
DB 2012 Ease of Doing Business African Ranking	6			3		
DB 2012 Economic Bloc Membership Ranking		2	1		2	1
DB 2012 Starting a Business Ranking/Worldwide	104			8		
DB 2012 Starting a Business Ranking/African Countries	15			1		
DB 2012 Economic Bloc Membership Ranking		6	4		1	1
DB 2012 Dealing with Construction Permits/Worldwide	156			84		
DB 2012 Dealing with Construction Permits/African Countries	41			15		
DB 2012 Economic Bloc Membership Ranking		21	11		8	2
DB 2012 Getting Electricity/Worldwide	68			50		
DB 2012 Getting Electricity/African Countries	5			3		
DB 2012 Economic Bloc Membership Ranking		2	1		2	1
DB 2012 Registering Property/Worldwide	36			61		
DB 2012 Registering Property/African Countries	1			6		
DB 2012 Economic Bloc Membership Ranking		1	1		2	1
DB 2012 Getting Credit/Worldwide	48			8		
DB 2012 Getting Credit/African Countries	7			3		
DB 2012 Economic Bloc Membership Ranking		2	1		1	1
DB 2012 Protecting Investors/Worldwide	46			29		
DB 2012 Protecting Investors/African Countries	7			3		
DB 2012 Economic Bloc Membership Ranking		2	2		2	1
DB 2012 Paying Taxes/Worldwide	90			19		
DB 2012 Paying Taxes/African Countries	15			3		
DB 2012 Economic Bloc Membership Ranking		4	2		3	1
DB 2012 Trading across Borders/Worldwide	90			155		
DB 2012 Trading across Borders/African Countries	10			36		
DB 2012 Economic Bloc Membership Ranking		7	4		11	3
DB 2012 Enforcing contracts/Worldwide	45			39		
DB 2012 Enforcing contracts/African Countries	5			3		
DB 2012 Economic Bloc Membership Ranking		1	2		1	2
DB 2012 Resolving Insolvency/Worldwide	106			165		
DB 2012 Resolving Insolvency/African Countries	20			41		
DB 2012 Economic Bloc Membership Ranking		10	6		13	4

Rankings on the ease of doing business

DB2012 rank	DB2011 rank	Economy	DB2012 reforms	DB2012 rank	DB2011 rank	Economy	DB2012 reforms	DB2012 rank	DB2011 rank	Economy	DB2012 reforms
1	1	Singapore	0	62	59	Poland	2	123	119	Uganda	1
2	2	Hong Kong SAR, China	2	63	60	Ghana	0	124	123	Swaziland	1
3	3	New Zealand	1	64	70	Czech Republic	2	125	127	Bosnia and Herzegovina	2
4	4	United States	0	65	64	Dominica	0	126	120	Brazil	1
5	5	Denmark	1	66	69	Azerbaijan	0	127	125	Tanzania	1
6	7	Norway	0	67	71	Kuwait	0	128	130	Honduras	2
7	6	United Kingdom	1	68	76	Trinidad and Tobago	0	129	126	Indonesia	1
8	15	Korea, Rep.	3	69	91	Belarus	3	130	131	Ecuador	0
9	13	Iceland	2	70	67	Kyrgyz Republic	0	131	128	West Bank and Gaza	0
10	8	Ireland	0	71	73	Turkey	2	132	139	India	1
11	14	Finland	1	72	65	Romania	2	133	133	Nigeria	0
12	10	Saudi Arabia	1	73	68	Grenada	0	134	136	Syrian Arab Republic	1
13	12	Canada	1	74	81	Solomon Islands	4	135	135	Sudan	0
14	9	Sweden	0	75	66	St. Vincent and the Grenadines	0	136	134	Philippines	1
15	11	Australia	1	76	75	Vanuatu	3	137	144	Madagascar	2
16	17	Georgia	4	77	72	Fiji	0	138	138	Cambodia	1
17	16	Thailand	1	78	74	Namibia	1	139	132	Mozambique	0
18	23	Malaysia	3	79	78	Maldives	0	140	137	Micronesia, Fed. Sts.	0
19	19	Germany	0	80	79	Croatia	1	141	150	Sierra Leone	4
20	20	Japan	0	81	99	Moldova	4	142	146	Bhutan	2
21	31	Latvia	4	82	77	Albania	1	143	142	Lesotho	1
22	34	Macedonia, FYR	4	83	86	Brunei Darussalam	1	144	140	Iran, Islamic Rep.	0
23	21	Mauritius	0	84	80	Zambia	0	145	141	Malawi	2
24	18	Estonia	0	85	82	Bahamas, The	0	146	148	Mali	2
25	24	Taiwan, China	2	86	89	Mongolia	1	147	152	Tajikistan	1
26	22	Switzerland	2	87	83	Italy	1	148	143	Algeria	1
27	25	Lithuania	2	88	85	Jamaica	0	149	145	Gambia, The	3
28	27	Belgium	2	89	98	Sri Lanka	2	150	151	Burkina Faso	3
29	26	France	1	90	107	Uruguay	2	151	155	Liberia	3
30	30	Portugal	2	91	87	China	0	152	149	Ukraine	4
31	29	Netherlands	0	92	88	Serbia	2	153	147	Bolivia	0
32	28	Austria	1	93	92	Belize	1	154	157	Senegal	4
33	35	United Arab Emirates	2	94	115	Morocco	3	155	161	Equatorial Guinea	1
34	32	Israel	2	95	84	St. Kitts and Nevis	1	156	160	Gabon	1
35	36	South Africa	3	96	95	Jordan	2	157	156	Comoros	1
36	38	Qatar	2	97	93	Guatemala	0	158	153	Suriname	0
37	37	Slovenia	3	98	90	Vietnam	1	159	162	Mauritania	1
38	33	Bahrain	0	99	94	Yemen, Rep.	1	160	154	Afghanistan	1
39	41	Chile	3	100	101	Greece	2	161	165	Cameroon	2
40	49	Cyprus	1	101	97	Papua New Guinea	0	162	158	Togo	2
41	39	Peru	3	102	100	Paraguay	2	163	174	São Tomé and Príncipe	4
42	47	Colombia	3	103	109	Seychelles	2	164	159	Iraq	0
43	42	Puerto Rico (U.S.)	2	104	103	Lebanon	1	165	163	Lao PDR	0
44	45	Spain	1	105	96	Pakistan	0	166	164	Uzbekistan	1
45	50	Rwanda	3	106	102	Marshall Islands	0	167	170	Côte d'Ivoire	3
46	40	Tunisia	0	107	110	Nepal	1	168	169	Timor-Leste	2
47	58	Kazakhstan	1	108	105	Dominican Republic	1	169	177	Burundi	4
48	43	Slovak Republic	1	109	106	Kenya	1	170	167	Djibouti	1
49	53	Oman	3	110	108	Egypt, Arab Rep.	0	171	168	Zimbabwe	0
50	44	Luxembourg	0	111	104	Ethiopia	0	172	171	Angola	2
51	46	Hungary	0	112	112	El Salvador	1	173	172	Niger	1
52	48	St. Lucia	0	113	114	Argentina	0	174	166	Haiti	0
53	54	Mexico	3	114	113	Guyana	1	175	173	Benin	2
54	52	Botswana	0	115	111	Kiribati	0	176	181	Guinea-Bissau	2
55	61	Armenia	5	116	116	Palau	0	177	175	Venezuela, RB	0
56	56	Montenegro	3	117	117	Kosovo	0	178	176	Congo, Dem. Rep.	3
57	51	Antigua and Barbuda	0	118	122	Nicaragua	3	179	179	Guinea	1
58	62	Tonga	3	119	129	Cape Verde	3	180	178	Eritrea	0
59	57	Bulgaria	2	120	124	Russian Federation	4	181	180	Congo, Rep.	1
60	55	Samoa	0	121	121	Costa Rica	2	182	183	Central African Republic	3
61	63	Panama	1	122	118	Bangladesh	0	183	182	Chad	2

Countries in red ink indicate countries located on African continent

Rankings on the ease of doing business/African countries only:

DB2012 Rank	DB2011 Rank	Country (Africa)	DB2012 Reforms	DB2012 African Ranking	Performance in relation to DB2011	Economic Bloc membership	CEN-SAD Member Ranking	COMESA Member Ranking	EAC Member Ranking	ECOWAS Member Ranking
23	21	Mauritius	0	1	-2	COMESA/SADC		1		
35	36	South Africa	3	2	1	SADC				
45	50	Rwanda	3	3	5	COMESA/EAC		2	1	
46	40	Tunisia	0	4	-6	CEN-SAD/UMA	1			
54	52	Botswana	0	5	-2	SADC				
63	60	Ghana	0	6	-3	CEN-SAD/ECOWAS	2			1
78	74	Namibia	1	7	-4	SADC				
84	80	Zambia	0	8	-4	COMESA/SADC		3		
94	115	Morocco	3	9	21	CEN-SAD/UMA	3			
103	109	Seychelles	2	10	6	COMESA/SADC		4		
109	106	Kenya	1	11	-3	CEN-SAD/COMESA/EAC/IGAD	4	5	2	
110	108	Egypt, Arab Rep.	0	12	-2	CEN-SAD/COMESA	5	6		
111	104	Ethiopia	0	13	-7	COMESA/IGAD		7		
119	129	Cape Verde	3	14	10	ECOWAS				2
123	119	Uganda	1	15	-4	COMESA/EAC/IGAD		8	3	
124	123	Swaziland	1	16	-1	COMESA/SADC		9		
127	125	Tanzania	1	17	-2	EAC/SADC			4	
133	133	Nigeria	0	18	0	CEN-SAD/ECOWAS	6			3
135	135	Sudan	0	19	0	CEN-SAD/COMESA/IGAD	7	10		
137	144	Madagascar	2	20	7	COMESA/SADC		11		
139	132	Mozambique	0	21	-7	SADC				
141	150	Sierra Leone	4	22	9	CEN-SAD/ECOWAS	8			4
143	142	Lesotho	1	23	-1	SADC				
145	141	Malawi	2	24	-4	COMESA/SADC		12		
146	148	Mali	2	25	2	CEN-SAD/ECOWAS	9			5
148	143	Algeria	1	26	-5	UMA				
149	145	Gambia, The	3	27	-4	CEN-SAD/ECOWAS	10			6
150	151	Burkina Faso	3	28	1	ECOWAS/CEN-SAD	11			7
151	155	Liberia	3	29	4	CEN-SAD/ECOWAS	12			8
154	157	Senegal	4	30	3	CEN-SAD/ECOWAS	13			9
155	161	Equatorial Guinea	1	31	6	ECCAS				
156	160	Gabon	1	32	4	ECCAS				
157	156	Comoros	1	33	-1	CEN-SAD/COMESA	14	13		
159	162	Mauritania	1	34	3	CEN-SAD/UMA	15			
161	165	Cameroon	2	35	4	ECCAS				
162	158	Togo	2	36	-4	CEN-SAD/ECOWAS	16			10
163	174	São Tomé and Príncipe	4	37	11	CEN-SAD/ECCAS	17			
167	170	Côte d'Ivoire	3	38	3	CEN-SAD/ECOWAS	18			11
169	177	Burundi	4	39	8	COMESA/EAC/ECCAS		14	5	
170	167	Djibouti	1	40	-3	CEN-SAD/COMESA/IGAD	19	15		
171	168	Zimbabwe	0	41	-3	COMESA/SADC		16		
172	171	Angola	2	42	-1	ECCAS/SADC				
173	172	Niger	1	43	-1	CEN-SAD/ECOWAS	20			12
175	173	Benin	2	44	-2	CEN-SAD/ECOWAS	21			13
176	181	Guinea-Bissau	2	45	5	CEN-SAD/ECOWAS	22			14
178	176	Congo, Dem. Rep.	3	46	-2	COMESA/ECCAS/SADC		17		
179	179	Guinea	1	47	0	CEN-SAD/ECOWAS	23			15
180	178	Eritrea	0	48	-2	COMESA/CEN-SAD/IGAD	24	18		
181	180	Congo, Rep.	1	49	-1	ECCAS				
182	183	Central African Republic	3	50	1	CEN-SAD/ECCAS	25			
183	182	Chad	2	51	-1	CEN-SAD/ECCAS	26			

Country (Africa)	Ease of Doing Business (Rank)	Starting a Business (Rank)				
			Procedures (Number)	Time (Days)	Cost (% of income per capita)	Minimum capital (% of income per capita)
Algeria	148	153	14	25	12.1	30.6
Angola	172	167	8	68	118.9	25.3
Benin	175	154	6	29	149.9	280.4
Botswana	54	90	10	61	1.8	0
Burkina Faso	150	116	3	13	47.7	373.3
Burundi	169	108	9	14	116.8	0
Cameroon	161	128	5	15	45.5	182.9
Cape Verde	119	131	8	11	17	39
Central African Republic	182	160	7	21	175.5	452.9
Chad	183	183	11	66	208.5	345
Comoros	157	172	11	24	176.2	252.9
Congo, Democratic Republic	178	148	10	65	551.4	0
Congo, Republic	181	175	10	160	85.2	88
Côte D'Ivoire	167	170	10	32	132.6	200.4
Djibouti	170	179	11	37	169.8	434
Egypt, Arab Republic	110	21	6	7	5.6	0
Equatorial Guinea	155	178	21	137	101.4	14.6
Eritrea	180	182	13	84	62.6	243
Ethiopia	111	99	5	9	12.8	333.5
Gabon	156	156	9	58	17.3	26.4
Gambia, The	149	120	8	27	206.1	0
Ghana	63	104	7	12	17.3	5.5
Guinea	179	181	12	40	118	407.3
Guinea-Bissau	176	149	9	9	49.8	398.7
Kenya	109	132	11	33	37.8	0
Lesotho	143	144	7	40	24.9	11.2
Liberia	151	35	4	6	68.4	0
Madagascar	137	20	3	8	12.1	0
Malawi	145	139	10	39	90.9	0
Mali	146	115	4	8	90.5	348.3
Mauritania	159	159	9	19	48.3	334.9
Mauritius	23	15	5	6	3.6	0
Morocco	94	93	6	12	15.7	10.7
Mozambique	139	70	9	13	11.7	0
Namibia	78	125	10	66	17.2	0
Niger	173	163	9	17	114.4	584.2
Nigeria	133	116	8	34	70.6	0
Rwanda	45	8	2	3	4.7	0
São Tomé and Príncipe	163	105	4	10	24.5	336
Senegal	154	93	3	5	68	203
Seychelles	103	113	10	39	16	0
Sierra Leone	141	72	6	12	93.3	0
South Africa	35	44	5	19	0.3	0
Sudan	135	126	10	36	31.4	0
Swaziland	124	161	12	56	29.2	0.5
Tanzania	127	123	12	29	28.8	0
Togo	162	174	7	84	177.2	484.5
Tunisia	46	56	10	11	4.2	0
Uganda	123	143	16	34	84.5	0
Zambia	84	69	6	18	27.4	0
Zimbabwe	171	144	9	90	148.9	0

Above table is a direct extraction from Doing Business Report 2012, however it only includes African countries
Results listed in country alphabetical order

Country (Africa)	Dealing with Construction permits (Rank)				Country (Africa)	Getting Electricity (Rank)			
		Procedures (Number)	Time (Days)	Cost (% of income per capita)			Procedures (Number)	Time (Days)	Cost (% of income per capita)
Algeria	118	19	281	23.1	Algeria	164	6	159	1579
Angola	115	11	321	180.3	Angola	120	8	48	890.5
Benin	117	12	372	132.6	Benin	140	4	158	15205.3
Botswana	132	22	145	203	Botswana	91	5	121	408.9
Burkina Faso	59	12	98	345	Burkina Faso	139	4	158	13356.8
Burundi	159	22	135	4065.7	Burundi	151	4	188	34477
Cameroon	92	11	147	1096.2	Cameroon	66	4	67	1854.5
Cape Verde	116	17	122	523.8	Cape Verde	70	5	58	1121.3
Central African Republic	136	18	203	112.2	Central African Republic	162	6	102	12852.1
Chad	122	13	154	5756.5	Chad	117	5	67	13123.8
Comoros	74	15	155	62.8	Comoros	100	3	120	2685.1
Congo, Democratic Republic	77	11	117	1670.7	Congo, Democratic Republic	145	6	58	28801.5
Congo, Republic	103	14	186	157.7	Congo, Republic	152	5	129	5224
Côte D'Ivoire	169	18	583	204.8	Côte D'Ivoire	73	5	33	4002.3
Djibouti	142	15	172	2285.7	Djibouti	143	4	180	8799.1
Egypt, Arab Republic	154	22	218	155.3	Egypt, Arab Republic	101	7	54	455.5
Equatorial Guinea	100	15	166	150.6	Equatorial Guinea	88	5	106	571.1
Eritrea	183	No Practice	No Practice	No Practice	Eritrea	96	5	59	4436.6
Ethiopia	59	9	128	369.1	Ethiopia	93	4	95	3386
Gabon	58	13	201	21.5	Gabon	137	6	160	256
Gambia, The	88	14	143	192.9	Gambia, The	127	5	78	6070.8
Ghana	156	16	218	560.3	Ghana	68	4	78	1218.5
Guinea	174	29	287	275.8	Guinea	119	5	69	10421.7
Guinea-Bissau	107	12	170	1032.7	Guinea-Bissau	180	7	455	2049.5
Kenya	37	8	125	160.9	Kenya	115	4	163	1419.2
Lesotho	157	12	510	1038.7	Lesotho	141	5	140	2456.7
Liberia	123	23	75	694.1	Liberia	153	4	586	4455.2
Madagascar	131	16	172	422.2	Madagascar	179	6	450	8390.9
Malawi	167	18	200	1077.5	Malawi	177	6	244	9665.8
Mali	95	11	179	439.3	Mali	113	4	120	4397.7
Mauritania	64	18	119	49.9	Mauritania	122	5	75	7310.9
Mauritius	53	16	136	30.6	Mauritius	44	4	91	328.5
Morocco	75	15	97	234.6	Morocco	107	5	71	2588.6
Mozambique	126	13	370	123	Mozambique	172	9	117	2558
Namibia	52	12	139	103	Namibia	105	7	55	525.8
Niger	158	12	326	2214.5	Niger	111	4	120	4211.8
Nigeria	84	15	85	504.8	Nigeria	176	8	260	1056
Rwanda	84	12	164	312	Rwanda	50	4	30	4696.8
São Tomé and Príncipe	134	13	211	536.8	São Tomé and Príncipe	74	4	89	1252.8
Senegal	125	13	210	435.2	Senegal	168	6	125	5938.9
Seychelles	54	17	126	30.3	Seychelles	149	6	147	504.7
Sierra Leone	167	20	238	272.6	Sierra Leone	174	8	137	2466.3
South Africa	31	13	127	21.2	South Africa	124	4	226	1651.5
Sudan	130	16	270	88	Sudan	107	5	70	3949.3
Swaziland	47	13	95	115.2	Swaziland	158	6	137	1302
Tanzania	176	19	303	1170.1	Tanzania	78	4	109	1040.5
Togo	146	12	309	994	Togo	92	4	74	6023.2
Tunisia	86	17	88	260.6	Tunisia	45	4	65	894.1
Uganda	109	15	125	946.8	Uganda	129	5	91	5130.1
Zambia	148	14	196	2015.2	Zambia	118	5	117	1317.9
Zimbabwe	166	12	614	6154.3	Zimbabwe	167	6	125	5305.5

Above table is a direct extraction from Doing Business Report 2012, however it only includes African countries
Results listed in country alphabetical order

Country (Africa)	Registering Property (Rank)				Country (Africa)	Getting Credit (Rank)				
		Procedures (Number)	Time (Days)	Cost (% of Property Value)			Strength of Legal Rights Index (0 - 10)	Depth of Credit Information Index (0 - 6)	Public Registry Coverage (% of Adults)	Private Bureau Coverage (% of Adults)
Algeria	167	10	48	7.1	Algeria	150	3	3	0.3	0
Angola	129	7	184	3.2	Angola	126	3	4	2.4	0
Benin	130	4	120	11.8	Benin	126	6	1	10.7	0
Botswana	50	5	16	5	Botswana	48	7	4	0	59.6
Burkina Faso	111	4	59	12.8	Burkina Faso	126	6	1	1.8	0
Burundi	109	5	94	5.6	Burundi	166	3	1	0.3	0
Cameroon	154	5	93	19.2	Cameroon	98	6	2	3.6	0
Cape Verde	61	6	31	3.9	Cape Verde	126	2	5	20.2	0
Central African Republic	132	5	75	11	Central African Republic	98	6	2	2.2	0
Chad	143	6	44	18.1	Chad	98	6	2	1	0
Comoros	74	4	30	10.5	Comoros	150	6	0	0	0
Congo, Democratic Republic	121	6	54	6.8	Congo, Democratic Republic	174	3	0	0	0
Congo, Republic	156	6	55	20.6	Congo, Republic	98	6	2	8.2	0
Côte D'Ivoire	158	6	62	13.9	Côte D'Ivoire	126	6	1	2.6	0
Djibouti	148	7	40	13	Djibouti	177	1	1	0.2	0
Egypt, Arab Republic	93	7	72	0.8	Egypt, Arab Republic	178	3	6	3.5	13.7
Equatorial Guinea	80	6	23	6.2	Equatorial Guinea	98	6	2	2.9	0
Eritrea	178	11	78	9.1	Eritrea	177	2	0	0	0
Ethiopia	113	10	41	2.1	Ethiopia	150	4	2	0.2	0
Gabon	134	7	39	10.5	Gabon	98	6	2	24.2	0
Gambia, The	119	5	66	7.7	Gambia, The	159	5	0	0	0
Ghana	36	5	34	0.7	Ghana	48	8	3	0	3.3
Guinea	152	6	59	14.4	Guinea	150	6	0	0	0
Guinea-Bissau	179	8	210	10.6	Guinea-Bissau	126	6	1	1	0
Kenya	133	8	64	4.3	Kenya	8	10	4	0	4.5
Lesotho	150	6	101	8	Lesotho	150	6	0	0	0
Liberia	176	10	50	13.1	Liberia	98	7	1	0.6	0
Madagascar	146	6	74	10.6	Madagascar	177	2	0	0.1	0
Malawi	95	6	69	3.2	Malawi	126	7	0	0	0
Mali	91	5	29	12.1	Mali	126	6	1	3.7	0
Mauritania	59	4	49	4.7	Mauritania	166	3	1	0.2	0
Mauritius	67	4	22	10.6	Mauritius	78	6	3	49.8	0
Morocco	144	8	75	4.9	Morocco	98	3	5	0	14.6
Mozambique	156	8	42	8.7	Mozambique	150	2	4	3.8	0
Namibia	145	7	39	13.7	Namibia	24	8	5	0	61.5
Niger	86	4	35	11	Niger	126	6	1	0.9	0
Nigeria	180	13	82	20.8	Nigeria	78	9	0	0.1	0
Rwanda	61	5	25	6.3	Rwanda	8	8	6	1.4	0
São Tomé and Príncipe	160	7	62	8.9	São Tomé and Príncipe	177	2	0	0	0
Senegal	171	6	122	20.3	Senegal	126	6	1	4.5	0
Seychelles	63	4	33	7	Seychelles	166	4	0	0	0
Sierra Leone	169	7	86	11.8	Sierra Leone	126	7	0	0	0
South Africa	76	6	23	5.6	South Africa	1	10	6	0	52
Sudan	41	6	9	3	Sudan	166	4	0	0	0
Swaziland	128	9	21	701	Swaziland	48	6	5	10	43.2
Tanzania	158	9	73	4.4	Tanzania	98	8	0	0	0
Togo	162	5	295	13	Togo	126	6	1	2.5	0
Tunisia	65	4	39	6.1	Tunisia	98	3	5	27.3	0
Uganda	127	13	48	2.9	Uganda	48	7	4	0	3
Zambia	96	5	40	8.3	Zambia	8	9	5	0	4.3
Zimbabwe	85	5	31	8	Zimbabwe	126	7	0	0	0

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Country (Africa)	Protecting Investors (Rank)					Country (Africa)	Paying Taxes (Rank)			
		Extent of Disclosure Index (0 - 10)	Extent of Director Liability Index (0 - 10)	Ease of Shareholder Suits Index (0 - 10)	Stregnth of Investor Protection Index (0 - 10)			Payments (Number per Year)	Time (Hours per Year)	Total Tax Rate (% of Profit)
Algeria	79	6	6	4	5.3	Algeria	164	29	451	72
Angola	65	5	6	6	5.7	Angola	149	31	282	53.2
Benin	155	6	1	3	3.3	Benin	170	55	270	66
Botswana	46	7	8	3	6	Botswana	22	19	152	19.4
Burkina Faso	147	6	1	4	3.7	Burkina Faso	147	46	270	43.6
Burundi	46	8	6	4	6	Burundi	125	24	274	46.2
Cameroon	122	6	1	6	4.3	Cameroon	171	44	654	49.1
Cape Verde	133	1	5	6	4	Cape Verde	104	41	186	37.8
Central African Republic	133	6	1	5	4	Central African Republic	177	54	504	54.6
Chad	155	6	1	3	3.3	Chad	180	54	732	65.4
Comoros	133	6	1	5	4	Comoros	99	20	100	217.9
Congo, Democratic Republic	155	3	3	4	3.3	Congo, Democratic Republic	165	32	336	339.7
Congo, Republic	155	6	1	3	3.3	Congo, Republic	182	61	606	65.9
Côte D'Ivoire	155	6	1	3	3.3	Côte D'Ivoire	159	62	270	44.3
Djibouti	179	5	2	0	2.3	Djibouti	70	35	82	38.7
Egypt, Arab Republic	79	8	3	5	5.3	Egypt, Arab Republic	145	29	433	43.6
Equitorial Guinea	147	6	1	4	3.7	Equitorial Guinea	167	46	492	46
Eritrea	111	4	5	5	4.7	Eritrea	121	18	216	84.5
Ethiopia	122	4	4	5	4.3	Ethiopia	40	19	198	31.1
Gabon	155	6	1	3	3.3	Gabon	141	26	488	43.5
Gambia, The	174	2	1	5	2.7	Gambia, The	178	50	376	283.5
Ghana	46	7	5	6	6	Ghana	90	33	224	33.6
Guinea	174	6	1	1	2.7	Guinea	176	56	416	54.3
Guinea-Bissau	133	6	1	5	4	Guinea-Bissau	137	46	208	45.9
Kenya	97	3	2	10	5	Kenya	166	41	393	49.6
Lesotho	147	2	1	8	3.7	Lesotho	61	21	324	16
Liberia	147	4	1	6	3.7	Liberia	98	33	158	43.7
Madagascar	65	5	6	6	5.7	Madagascar	75	23	201	36.6
Malawi	79	4	7	5	5.3	Malawi	23	19	157	28.2
Mali	147	6	1	4	3.7	Mali	163	59	270	51.8
Mauritania	147	5	3	3	3.7	Mauritania	175	37	696	68.3
Mauritius	13	6	8	9	7.7	Mauritius	11	7	161	25
Morroco	97	7	2	6	5	Morroco	112	17	238	49.6
Mozambique	46	5	4	9	6	Mozambique	107	37	230	34.3
Namibia	79	5	5	6	5.3	Namibia	102	37	375	9.8
Niger	155	6	1	3	3.3	Niger	142	41	270	43.8
Nigeria	65	5	7	5	5.7	Nigeria	138	35	938	32.7
Rwanda	29	7	9	3	6.3	Rwanda	19	18	148	31.3
São Tomé and Príncipe	155	3	1	6	3.3	São Tomé and Príncipe	113	42	424	32.5
Senegal	166	6	1	2	3	Senegal	174	59	666	46
Seychelles	65	4	8	5	5.7	Seychelles	16	21	76	32.2
Sierra Leone	29	6	7	6	6.3	Sierra Leone	76	29	357	32.1
South Africa	10	8	8	8	8	South Africa	44	9	200	33.1
Sudan	155	0	6	4	3.3	Sudan	103	42	180	36.1
Swaziland	122	2	5	6	4.3	Swaziland	60	33	104	36.8
Tanzania	97	3	4	8	5	Tanzania	129	48	172	45.5
Togo	147	6	1	4	3.7	Togo	161	53	270	49.5
Tunisia	46	5	7	6	6	Tunisia	64	8	144	62.9
Uganda	133	2	5	5	4	Uganda	93	32	213	35.7
Zambia	79	3	6	7	5.3	Zambia	47	37	132	14.5
Zimbabwe	122	8	1	4	4.3	Zimbabwe	127	49	242	35.6

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Results listed in country alphabetical order

Country (Africa)	Trading across Borders (Rank)							Country (Africa)	Enforcing Contracts (Rank)			
		Documents to Export (Number)	Time to Export (Days)	Cost to Export (US\$ per Container)	Documents to Import (Number)	Time to Import (Days)	Costs to Import (US\$ per Container)			Procedures (Number)	Time (Days)	Cost (% of Claim)
Algeria	127	8	17	1248	9	27	1318	Algeria	122	45	630	21.9
Angola	163	11	48	1850	8	45	2690	Angola	181	46	1011	44.4
Benin	129	7	30	1049	8	32	1496	Benin	176	42	795	64.7
Botswana	150	6	28	3185	8	41	3420	Botswana	65	28	625	28.1
Burkina Faso	175	10	41	2412	10	49	4030	Burkina Faso	108	37	446	81.7
Burundi	174	9	35	2965	10	54	4855	Burundi	172	44	832	38.6
Cameroon	156	11	23	1379	12	25	2167	Cameroon	174	43	800	46.6
Cape Verde	61	5	19	1200	5	18	1000	Cape Verde	37	37	425	19.8
Central African Republic	182	9	54	5491	17	62	5554	Central African Republic	173	43	660	82
Chad	178	8	75	5902	11	101	8525	Chad	163	41	743	45.7
Comoros	139	10	30	1207	10	21	1191	Comoros	153	43	506	89.4
Congo, Democratic Republic	167	8	44	3055	9	63	3285	Congo, Democratic Republic	170	43	610	151.8
Congo, Republic	181	11	50	3818	10	62	7709	Congo, Republic	159	44	560	53.2
Côte D'Ivoire	161	10	25	1969	9	36	2577	Côte D'Ivoire	124	33	770	41.7
Djibouti	37	5	18	836	5	18	911	Djibouti	160	40	1225	34
Egypt, Arab Republic	64	8	12	613	9	12	755	Egypt, Arab Republic	147	41	1010	26.2
Equatorial Guinea	134	7	29	1411	7	48	1411	Equatorial Guinea	74	40	553	18.5
Eritrea	165	10	50	1431	12	59	1581	Eritrea	47	39	405	22.6
Ethiopia	157	7	42	1760	9	44	2660	Ethiopia	57	37	620	15.2
Gabon	133	7	20	1945	8	22	1955	Gabon	150	38	1070	34.3
Gambia, The	78	6	23	831	7	21	885	Gambia, The	69	33	434	37.9
Ghana	90	6	19	1013	7	29	1315	Ghana	45	36	487	23
Guinea	130	7	35	855	9	32	1391	Guinea	127	49	276	45
Guinea-Bissau	117	6	23	1448	6	22	2006	Guinea-Bissau	142	40	1715	25
Kenya	141	8	26	2055	7	24	2190	Kenya	127	40	465	47.2
Lesotho	147	8	31	1680	8	35	1665	Lesotho	102	40	785	19.5
Liberia	116	10	15	1220	9	14	1200	Liberia	166	41	1280	35
Madagascar	111	4	21	1197	9	24	1555	Madagascar	155	38	871	42.4
Malawi	164	10	41	1675	9	51	2570	Malawi	121	42	312	94.1
Mali	146	6	26	2202	9	31	3067	Mali	132	36	620	52
Mauritania	143	8	34	1520	8	38	1523	Mauritania	79	46	370	23.2
Mauritius	21	5	13	737	6	13	689	Mauritius	61	36	645	17.4
Morocco	43	6	11	577	8	16	950	Morocco	89	40	510	25.2
Mozambique	136	7	23	1100	10	28	1545	Mozambique	131	30	730	142.5
Namibia	142	9	29	1800	7	24	1905	Namibia	40	33	270	35.8
Niger	173	8	59	3545	10	64	3545	Niger	139	39	545	59.6
Nigeria	149	10	24	1263	9	39	1440	Nigeria	97	40	457	32
Rwanda	155	8	29	3275	8	31	4990	Rwanda	39	24	230	78.7
São Tomé and Príncipe	94	8	26	690	8	28	577	São Tomé and Príncipe	179	43	1185	50.5
Senegal	65	6	11	1098	5	14	1740	Senegal	145	43	780	26.5
Seychelles	33	5	16	876	5	17	876	Seychelles	84	37	915	15.4
Sierra Leone	132	7	24	1573	7	27	1639	Sierra Leone	141	39	515	149.5
South Africa	144	8	30	1531	8	32	1795	South Africa	81	29	600	33.2
Sudan	151	7	32	2050	7	46	2900	Sudan	148	53	810	19.8
Swaziland	148	9	18	1855	9	27	2030	Swaziland	171	40	972	56.1
Tanzania	92	6	18	1255	6	24	1430	Tanzania	36	38	462	14.3
Togo	98	6	24	940	8	28	1109	Togo	151	41	588	47.5
Tunisia	32	4	13	773	7	17	858	Tunisia	76	39	565	21.8
Uganda	158	7	37	2880	9	34	3015	Uganda	116	38	490	44.9
Zambia	153	6	44	2678	8	56	3315	Zambia	85	35	471	38.7
Zimbabwe	172	8	53	3280	9	73	5101	Zimbabwe	112	38	410	113.1

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Results listed in country alphabetical order

Country (Africa)	Resolving Insolvency (Rank)			
		Time (Years)	Cost (% of Estate)	Recovery Rate (Cents on the Dollar)
Algeria	59	2.5	7	41.7
Angola	160	6.2	22	6.9
Benin	127	4	22	20.2
Botswana	28	1.7	15	64.5
Burkina Faso	103	4	9	27.3
Burundi	183	No Practice	No Practice	0
Cameroon	147	3.2	34	13.6
Cape Verde	183	No Practice	No Practice	0
Central African Republic	183	4.8	76	0
Chad	183	4	60	0
Comoros	183	No Practice	No Practice	0
Congo, Democratic Republic	166	5.2	29	1.2
Congo, Republic	134	3.3	25	17.9
Côte D'Ivoire	70	2.2	18	37.6
Djibouti	141	5	18	16.5
Egypt, Arab Republic	137	4.2	22	17.7
Equatorial Guinea	183	No Practice	No Practice	0
Eritrea	183	No Practice	No Practice	0
Ethiopia	89	3	15	31.4
Gabon	144	5	15	15.2
Gambia, The	129	3	15	19.3
Ghana	106	1.9	22	26
Guinea	130	3.8	8	19.3
Guinea-Bissau	183	No Practice	No Practice	0
Kenya	92	4.5	22	30.9
Lesotho	71	2.6	8	37.4
Liberia	158	3	43	8.4
Madagascar	148	2	30	13.5
Malawi	132	2.6	25	18.5
Mali	111	3.6	18	24.9
Mauritania	152	8	9	10.3
Mauritius	79	1.7	15	35.1
Morocco	67	1.8	18	38.3
Mozambique	143	5	9	15.5
Namibia	56	1.5	15	41.9
Niger	123	5	18	21.9
Nigeria	99	2	22	28.2
Rwanda	165	3	50	3.2
São Tomé and Príncipe	159	6.2	22	7.4
Senegal	86	3	7	32
Seychelles	183	No Practice	No Practice	0
Sierra Leone	155	2.6	42	9.2
South Africa	77	2	18	35.2
Sudan	84	2	20	33.2
Swaziland	69	2	15	38.2
Tanzania	122	3	22	22
Togo	93	3	15	30.5
Tunisia	38	1.3	7	52.2
Uganda	63	2.2	30	40.2
Zambia	96	2.7	9	29.3
Zimbabwe	153	3.3	22	10

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Results listed in country alphabetical order

Country (Africa)	Ease of Doing Business (Rank)/Worldwide	Ranking Results/Africa	Economic Bloc Membership	CEN-SAD Member Ranking	COMESA Member Ranking	EAC Member Ranking	ECOWAS Member Ranking
Mauritius	23	1	COMESA/SADC		1		
South Africa	35	2	SADC				
Rwanda	45	3	COMESA/EAC		2	1	
Tunisia	46	4	CEN-SAD/UMA	1			
Botswana	54	5	SADC				
Ghana	63	6	CEN-SAD/ECOWAS	2			1
Namibia	78	7	SADC				
Zambia	84	8	COMESA/SADC		3		
Morocco	94	9	CEN-SAD/UMA	3			
Seychelles	103	10	COMESA/SADC		4		
Kenya	109	11	CEN-SAD/COMESA/EAC/IGAD	4	5	2	
Egypt, Arab Republic	110	12	CEN-SAD/COMESA	5	6		
Ethiopia	111	13	COMESA/IGAD		7		
Cape Verde	119	14	ECOWAS				2
Uganda	123	15	COMESA/EAC/IGAD		8	3	
Swaziland	124	16	COMESA/SADC		9		
Tanzania	127	17	EAC/SADC			4	
Nigeria	133	18	CEN-SAD/ECOWAS	6			3
Sudan	135	19	CEN-SAD/COMESA/IGAD	7	10		
Madagascar	137	20	COMESA/SADC		11		
Mozambique	139	21	SADC				
Sierra Leone	141	22	CEN-SAD/ECOWAS	8			4
Lesotho	143	23	SADC				
Malawi	145	24	COMESA/SADC		12		
Mali	146	25	CEN-SAD/ECOWAS	9			5
Algeria	148	26	UMA				
Gambia, The	149	27	CEN-SAD/ECOWAS	10			6
Burkina Faso	150	28	ECOWAS/CEN-SAD	11			7
Liberia	151	29	CEN-SAD/ECOWAS	12			8
Senegal	154	30	CEN-SAD/ECOWAS	13			9
Equatorial Guinea	155	31	ECCAS				
Gabon	156	32	ECCAS				
Comoros	157	33	CEN-SAD/COMESA	14	13		
Mauritania	159	34	CEN-SAD/UMA	15			
Cameroon	161	35	ECCAS				
Togo	162	36	CEN-SAD/ECOWAS	16			10
São Tomé and Príncipe	163	37	CEN-SAD/ECCAS	17			
Côte D'Ivoire	167	38	CEN-SAD/ECOWAS	18			11
Burundi	169	39	COMESA/EAC/ECCAS		14	5	
Djibouti	170	40	CEN-SAD/COMESA/IGAD	19	15		
Zimbabwe	171	41	COMESA/SADC		16		
Angola	172	42	ECCAS/SADC				
Niger	173	43	CEN-SAD/ECOWAS	20			12
Benin	175	44	CEN-SAD/ECOWAS	21			13
Guinea-Bissau	176	45	CEN-SAD/ECOWAS	22			14
Congo, Democratic Republic	178	46	COMESA/ECCAS/SADC		17		
Guinea	179	47	CEN-SAD/ECOWAS	23			15
Eritrea	180	48	COMESA/CEN-SAD/IGAD	24	18		
Congo, Republic	181	49	ECCAS				
Central African Republic	182	50	CEN-SAD/ECCAS	25			
Chad	183	51	CEN-SAD/ECCAS	26			

Country (Africa)	Starting a Business (Rank)	Ranking Results	Economic Bloc Membership	CEN-SAD Member Ranking	COMESA Member Ranking	EAC Member Ranking	ECOWAS Member Ranking
<i>Rwanda</i>	8	1	COMESA/EAC		1	1	
Mauritius	15	2	COMESA/SADC		2		
Madagascar	20	3	COMESA/SADC		3		
Egypt, Arab Republic	21	4	CEN-SAD/COMESA	1	4		
Liberia	35	5	CEN-SAD/ECOWAS	2			1
South Africa	44	6	SADC				
Tunisia	56	7	CEN-SAD/UMA	3			
Zambia	69	8	COMESA/SADC		5		
Mozambique	70	9	SADC				
Sierra Leone	72	10	CEN-SAD/ECOWAS	4			2
Botswana	90	11	SADC				
Morocco	93	12	CEN-SAD/UMA	5			
Senegal	93	13	CEN-SAD/ECOWAS	5			3
Ethiopia	99	14	COMESA/IGAD		6		
<i>Ghana</i>	104	15	CEN-SAD/ECOWAS	6			4
São Tomé and Príncipe	105	16	CEN-SAD/ECCAS	7			
Burundi	108	17	COMESA/EAC/ECCAS		7	2	
Seychelles	113	18	COMESA/SADC		8		
Mali	115	19	CEN-SAD/ECOWAS	8			5
Burkina Faso	116	20	ECOWAS/CEN-SAD	9			6
Nigeria	116	21	CEN-SAD/ECOWAS	9			6
Gambia, The	120	22	CEN-SAD/ECOWAS	10			7
Tanzania	123	23	EAC/SADC			3	
Namibia	125	24	SADC				
Sudan	126	25	CEN-SAD/COMESA/IGAD	11	9		
Cameroon	128	26	ECCAS				
Cape Verde	131	27	ECOWAS				8
Kenya	132	28	CEN-SAD/COMESA/EAC/IGAD	12	10	4	
Malawi	139	29	COMESA/SADC		11		
Uganda	143	30	COMESA/EAC/IGAD		12	5	
Lesotho	144	31	SADC				
Zimbabwe	144	32	COMESA/SADC		13		
Congo, Democratic Republic	148	33	COMESA/ECCAS/SADC		14		
Guinea-Bissau	149	34	CEN-SAD/ECOWAS	13			9
Algeria	153	35	UMA				
Benin	154	36	CEN-SAD/ECOWAS	14			10
Gabon	156	37	ECCAS				
Mauritania	159	38	CEN-SAD/UMA	15			
Central African Republic	160	39	CEN-SAD/ECCAS	16			
Swaziland	161	40	COMESA/SADC		15		
Niger	163	41	CEN-SAD/ECOWAS	17			11
Angola	167	42	ECCAS/SADC				
Côte D'Ivoire	170	43	CEN-SAD/ECOWAS	18			12
Comoros	172	44	CEN-SAD/COMESA	19	16		
Togo	174	45	CEN-SAD/ECOWAS	20			13
Congo, Republic	175	46	ECCAS				
Equatorial Guinea	178	47	ECCAS				
Djibouti	179	48	CEN-SAD/COMESA/IGAD	21	17		
Guinea	181	49	CEN-SAD/ECOWAS	22			14
Eritrea	182	50	COMESA/CEN-SAD/IGAD	23	18		
Chad	183	51	CEN-SAD/ECCAS	24			

Country (Africa)	Dealing with Construction permits (Rank)	Ranking Results	Economic Bloc Membership	CEN-SAD Member Ranking	COMESA Member Ranking	EAC Member Ranking	ECOWAS Member Ranking
South Africa	31	1	SADC				
Kenya	37	2	CEN-SAD/COMESA/EAC/IGAD	1	1	1	
Swaziland	47	3	COMESA/SADC		2		
Namibia	52	4	SADC				
Mauritius	53	5	COMESA/SADC		3		
Seychelles	54	6	COMESA/SADC		4		
Gabon	58	7	ECCAS				
Burkina Faso	59	8	ECOWAS/CEN-SAD	2			1
Ethiopia	59	9	COMESA/IGAD		5		
Mauritania	64	10	CEN-SAD/UMA	3			
Comoros	74	11	CEN-SAD/COMESA	4	6		
Morocco	75	12	CEN-SAD/UMA	5			
Congo, Democratic Republic	77	13	COMESA/ECCAS/SADC		7		
Nigeria	84	14	CEN-SAD/ECOWAS	6			2
Rwanda	84	15	COMESA/EAC		8	2	
Tunisia	86	16	CEN-SAD/UMA	7			
Gambia, The	88	17	CEN-SAD/ECOWAS	8			3
Cameroon	92	18	ECCAS				
Mali	95	19	CEN-SAD/ECOWAS	9			4
Equatorial Guinea	100	20	ECCAS				
Congo, Republic	103	21	ECCAS				
Guinea-Bissau	107	22	CEN-SAD/ECOWAS	10			5
Uganda	109	23	COMESA/EAC/IGAD		9	3	
Angola	115	24	ECCAS/SADC				
Cape Verde	116	25	ECOWAS				6
Benin	117	26	CEN-SAD/ECOWAS	11			7
Algeria	118	27	UMA				
Chad	122	28	CEN-SAD/ECCAS	12			
Liberia	123	29	CEN-SAD/ECOWAS	13			8
Senegal	125	30	CEN-SAD/ECOWAS	14			9
Mozambique	126	31	SADC				
Sudan	130	32	CEN-SAD/COMESA/IGAD	15	10		
Madagascar	131	33	COMESA/SADC		11		
Botswana	132	34	SADC				
São Tomé and Príncipe	134	35	CEN-SAD/ECCAS	16			
Central African Republic	136	36	CEN-SAD/ECCAS	17			
Djibouti	142	37	CEN-SAD/COMESA/IGAD	18	12		
Togo	146	38	CEN-SAD/ECOWAS	19			10
Zambia	148	39	COMESA/SADC		13		
Egypt, Arab Republic	154	40	CEN-SAD/COMESA	20	14		
Ghana	156	41	CEN-SAD/ECOWAS	21			11
Lesotho	157	42	SADC				
Niger	158	43	CEN-SAD/ECOWAS	22			12
Burundi	159	44	COMESA/EAC/ECCAS		15	4	
Zimbabwe	166	45	COMESA/SADC		16		
Malawi	167	46	COMESA/SADC		17		
Sierra Leone	167	47	CEN-SAD/ECOWAS	23			13
Côte D'Ivoire	169	48	CEN-SAD/ECOWAS	24			14
Guinea	174	49	CEN-SAD/ECOWAS	25			15
Tanzania	176	50	EAC/SADC			5	
Eritrea	183	51	COMESA/CEN-SAD/IGAD	26	18		

Country (Africa)	Getting Electricity (Rank)	Ranking Results	Economic Bloc Membership	CEN-SAD Member Ranking	COMESA Member Ranking	EAC Member Ranking	ECOWAS Member Ranking
Mauritius	44	1	COMESA/SADC		1		
Tunisia	45	2	CEN-SAD/UMA	1			
Rwanda	50	3	COMESA/EAC		2	1	
Cameroon	66	4	ECCAS				
Ghana	68	5	CEN-SAD/ECOWAS	2			1
Cape Verde	70	6	ECOWAS				2
Côte D'Ivoire	73	7	CEN-SAD/ECOWAS	3			3
São Tomé and Príncipe	74	8	CEN-SAD/ECCAS	4			
Tanzania	78	9	EAC/SADC			2	
Equatorial Guinea	88	10	ECCAS				
Botswana	91	11	SADC				
Togo	92	12	CEN-SAD/ECOWAS	5			4
Ethiopia	93	13	COMESA/IGAD		3		
Eritrea	96	14	COMESA/CEN-SAD/IGAD	6	4		
Comoros	100	15	CEN-SAD/COMESA	7	5		
Egypt, Arab Republic	101	16	CEN-SAD/COMESA	8	6		
Namibia	105	17	SADC				
Morocco	107	18	CEN-SAD/UMA	9			
Sudan	107	19	CEN-SAD/COMESA/IGAD	9	7		
Niger	111	20	CEN-SAD/ECOWAS	10			5
Mali	113	21	CEN-SAD/ECOWAS	11			6
Kenya	115	22	CEN-SAD/COMESA/EAC/IGAD	12	8	3	
Chad	117	23	CEN-SAD/ECCAS	13			
Zambia	118	24	COMESA/SADC		9		
Guinea	119	25	CEN-SAD/ECOWAS	14			7
Angola	120	26	ECCAS/SADC				
Mauritania	122	27	CEN-SAD/UMA	15			
South Africa	124	28	SADC				
Gambia, The	127	29	CEN-SAD/ECOWAS	16			8
Uganda	129	30	COMESA/EAC/IGAD		10	4	
Gabon	137	31	ECCAS				
Burkina Faso	139	32	ECOWAS/CEN-SAD	17			9
Benin	140	33	CEN-SAD/ECOWAS	18			10
Lesotho	141	34	SADC				
Djibouti	143	35	CEN-SAD/COMESA/IGAD	19	11		
Congo, Democratic Republic	145	36	COMESA/ECCAS/SADC		12		
Seychelles	149	37	COMESA/SADC		13		
Burundi	151	38	COMESA/EAC/ECCAS		14	5	
Congo, Republic	152	39	ECCAS				
Liberia	153	40	CEN-SAD/ECOWAS	20			11
Swaziland	158	41	COMESA/SADC		15		
Central African Republic	162	42	CEN-SAD/ECCAS	21			
Algeria	164	43	UMA				
Zimbabwe	167	44	COMESA/SADC		16		
Senegal	168	45	CEN-SAD/ECOWAS	22			12
Mozambique	172	46	SADC				
Sierra Leone	174	47	CEN-SAD/ECOWAS	23			13
Nigeria	176	48	CEN-SAD/ECOWAS	24			14
Malawi	177	49	COMESA/SADC		17		
Madagascar	179	50	COMESA/SADC		18		
Guinea-Bissau	180	51	CEN-SAD/ECOWAS	25			15

Country (Africa)	Registering Property (Rank)	Ranking Results	Economic Bloc Membership	CEN-SAD Member Ranking	COMESA Member Ranking	EAC Member Ranking	ECOWAS Member Ranking
<i>Ghana</i>	<i>36</i>	<i>1</i>	<i>CEN-SAD/ECOWAS</i>	<i>1</i>			<i>1</i>
Sudan	41	2	CEN-SAD/COMESA/IGAD	2	1		
Botswana	50	3	SADC				
Mauritania	59	4	CEN-SAD/UMA	3			
Cape Verde	61	5	ECOWAS				2
<i>Rwanda</i>	<i>61</i>	<i>6</i>	<i>COMESA/EAC</i>		<i>2</i>	<i>1</i>	
Seychelles	63	7	COMESA/SADC		3		
Tunisia	65	8	CEN-SAD/UMA	4			
Mauritius	67	9	COMESA/SADC		4		
Comoros	74	10	CEN-SAD/COMESA	5	5		
South Africa	76	11	SADC				
Equatorial Guinea	80	12	ECCAS				
Zimbabwe	85	13	COMESA/SADC		6		
Niger	86	14	CEN-SAD/ECOWAS	6			3
Mali	91	15	CEN-SAD/ECOWAS	7			4
Egypt, Arab Republic	93	16	CEN-SAD/COMESA	8	7		
Malawi	95	17	COMESA/SADC		8		
Zambia	96	18	COMESA/SADC		9		
Burundi	109	19	COMESA/EAC/ECCAS		10	2	
Burkina Faso	111	20	ECOWAS/CEN-SAD	9			5
Ethiopia	113	21	COMESA/IGAD		11		
Gambia, The	119	22	CEN-SAD/ECOWAS	10			6
Congo, Democratic Republic	121	23	COMESA/ECCAS/SADC		12		
Uganda	127	24	COMESA/EAC/IGAD		13	3	
Swaziland	128	25	COMESA/SADC		14		
Angola	129	26	ECCAS/SADC				
Benin	130	27	CEN-SAD/ECOWAS	11			7
Central African Republic	132	28	CEN-SAD/ECCAS	12			
Kenya	133	29	CEN-SAD/COMESA/EAC/IGAD	13	15	4	
Gabon	134	30	ECCAS				
Chad	143	31	CEN-SAD/ECCAS	14			
Morocco	144	32	CEN-SAD/UMA	15			
Namibia	145	33	SADC				
Madagascar	146	34	COMESA/SADC		16		
Djibouti	148	35	CEN-SAD/COMESA/IGAD	16	17		
Lesotho	150	36	SADC				
Guinea	152	37	CEN-SAD/ECOWAS	17			8
Cameroon	154	38	ECCAS				
Congo, Republic	156	39	ECCAS				
Mozambique	156	40	SADC				
Côte D'Ivoire	158	41	CEN-SAD/ECOWAS	18			9
Tanzania	158	42	EAC/SADC			5	
São Tomé and Príncipe	160	43	CEN-SAD/ECCAS	19			
Togo	162	44	CEN-SAD/ECOWAS	20			10
Algeria	167	45	UMA				
Sierra Leone	169	46	CEN-SAD/ECOWAS	21			11
Senegal	171	47	CEN-SAD/ECOWAS	22			12
Liberia	176	48	CEN-SAD/ECOWAS	23			13
Eritrea	178	49	COMESA/CEN-SAD/IGAD	24	18		
Guinea-Bissau	179	50	CEN-SAD/ECOWAS	25			14
Nigeria	180	51	CEN-SAD/ECOWAS	26			15

Country (Africa)	Getting Credit (Rank)	Ranking Results	Economic Bloc Membership	CEN-SAD Member Ranking	COMESA Member Ranking	EAC Member Ranking	ECOWAS Member Ranking
South Africa	1	1	SADC				
Kenya	8	2	CEN-SAD/COMESA/EAC/IGAD	1	1	1	
<i>Rwanda</i>	<i>8</i>	<i>3</i>	<i>COMESA/EAC</i>		<i>1</i>	<i>1</i>	
Zambia	8	4	COMESA/SADC		1		
Namibia	24	5	SADC				
Botswana	48	6	SADC				
<i>Ghana</i>	<i>48</i>	<i>7</i>	<i>CEN-SAD/ECOWAS</i>	<i>2</i>			<i>1</i>
Swaziland	48	8	COMESA/SADC		2		
Uganda	48	9	COMESA/EAC/IGAD		2	2	
Mauritius	78	10	COMESA/SADC		3		
Nigeria	78	11	CEN-SAD/ECOWAS	3			2
Cameroon	98	12	ECCAS				
Central African Republic	98	13	CEN-SAD/ECCAS	4			
Chad	98	14	CEN-SAD/ECCAS	4			
Congo, Republic	98	15	ECCAS				
Equatorial Guinea	98	16	ECCAS				
Gabon	98	17	ECCAS				
Liberia	98	18	CEN-SAD/ECOWAS	4			3
Morocco	98	19	CEN-SAD/UMA	4			
Tanzania	98	20	EAC/SADC			3	
Tunisia	98	21	CEN-SAD/UMA	4			
Angola	126	22	ECCAS/SADC				
Benin	126	23	CEN-SAD/ECOWAS	5			4
Burkina Faso	126	24	ECOWAS/CEN-SAD	5			4
Cape Verde	126	25	ECOWAS				4
Côte D'Ivoire	126	26	CEN-SAD/ECOWAS	5			4
Guinea-Bissau	126	27	CEN-SAD/ECOWAS	5			4
Malawi	126	28	COMESA/SADC		4		
Mali	126	29	CEN-SAD/ECOWAS	5			4
Niger	126	30	CEN-SAD/ECOWAS	5			4
Senegal	126	31	CEN-SAD/ECOWAS	5			4
Sierra Leone	126	32	CEN-SAD/ECOWAS	5			4
Togo	126	33	CEN-SAD/ECOWAS	5			4
Zimbabwe	126	34	COMESA/SADC		4		
Algeria	150	35	UMA				
Comoros	150	36	CEN-SAD/COMESA	6	5		
Ethiopia	150	37	COMESA/IGAD		5		
Guinea	150	38	CEN-SAD/ECOWAS	6			5
Lesotho	150	39	SADC				
Mozambique	150	40	SADC				
Gambia, The	159	41	CEN-SAD/ECOWAS	7			6
Burundi	166	42	COMESA/EAC/ECCAS		6	4	
Mauritania	166	43	CEN-SAD/UMA	8			
Seychelles	166	44	COMESA/SADC		6		
Sudan	166	45	CEN-SAD/COMESA/IGAD	8	6		
Congo, Democratic Republic	174	46	COMESA/ECCAS/SADC		7		
Djibouti	177	47	CEN-SAD/COMESA/IGAD	9	8		
Eritrea	177	48	COMESA/CEN-SAD/IGAD	9	8		
Madagascar	177	49	COMESA/SADC		8		
São Tomé and Príncipe	177	50	CEN-SAD/ECCAS	9			
Egypt, Arab Republic	178	51	CEN-SAD/COMESA	10	9		

Country (Africa)	Protecting Investors (Rank)	Ranking Results	Economic Bloc Membership	CEN-SAD Member Ranking	COMESA Member Ranking	EAC Member Ranking	ECOWAS Member Ranking
South Africa	10	1	SADC				
Mauritius	13	2	COMESA/SADC		1		
Rwanda	29	3	COMESA/EAC		2	1	
Sierra Leone	29	4	CEN-SAD/ECOWAS	1			1
Botswana	46	5	SADC				
Burundi	46	6	COMESA/EAC/ECCAS		3	2	
Ghana	46	7	CEN-SAD/ECOWAS	2			2
Mozambique	46	8	SADC				
Tunisia	46	9	CEN-SAD/UMA	2			
Angola	65	10	ECCAS/SADC				
Madagascar	65	11	COMESA/SADC		4		
Nigeria	65	12	CEN-SAD/ECOWAS	3			3
Seychelles	65	13	COMESA/SADC		4		
Algeria	79	14	UMA				
Egypt, Arab Republic	79	15	CEN-SAD/COMESA	4	5		
Malawi	79	16	COMESA/SADC		5		
Namibia	79	17	SADC				
Zambia	79	18	COMESA/SADC		5		
Kenya	97	19	CEN-SAD/COMESA/EAC/IGAD	5	6	3	
Morocco	97	20	CEN-SAD/UMA	5			
Tanzania	97	21	EAC/SADC			3	
Eritrea	111	22	COMESA/CEN-SAD/IGAD	6	7		
Cameroon	122	23	ECCAS				
Ethiopia	122	24	COMESA/IGAD		8		
Swaziland	122	25	COMESA/SADC		8		
Zimbabwe	122	26	COMESA/SADC		8		
Cape Verde	133	27	ECOWAS				4
Central African Republic	133	28	CEN-SAD/ECCAS	7			
Comoros	133	29	CEN-SAD/COMESA	7	9		
Guinea-Bissau	133	30	CEN-SAD/ECOWAS	7			4
Uganda	133	31	COMESA/EAC/IGAD		9	4	
Burkina Faso	147	32	ECOWAS/CEN-SAD	8			5
Equatorial Guinea	147	33	ECCAS				
Lesotho	147	34	SADC				
Liberia	147	35	CEN-SAD/ECOWAS	8			5
Mali	147	36	CEN-SAD/ECOWAS	8			5
Mauritania	147	37	CEN-SAD/UMA	8			
Togo	147	38	CEN-SAD/ECOWAS	8			5
Benin	155	39	CEN-SAD/ECOWAS	9			6
Chad	155	40	CEN-SAD/ECCAS	9			
Congo, Democratic Republic	155	41	COMESA/ECCAS/SADC		10		
Congo, Republic	155	42	ECCAS				
Côte D'Ivoire	155	43	CEN-SAD/ECOWAS	9			7
Gabon	155	44	ECCAS				
Niger	155	45	CEN-SAD/ECOWAS	9			7
São Tomé and Príncipe	155	46	CEN-SAD/ECCAS	9			
Sudan	155	47	CEN-SAD/COMESA/IGAD	9	10		
Senegal	166	48	CEN-SAD/ECOWAS	10			8
Gambia, The	174	49	CEN-SAD/ECOWAS	11			9
Guinea	174	50	CEN-SAD/ECOWAS	11			9
Djibouti	179	51	CEN-SAD/COMESA/IGAD	12	11		

Country (Africa)	Paying Taxes (Rank)	Ranking Results	Economic Bloc Membership	CEN-SAD Member Ranking	COMESA Member Ranking	EAC Member Ranking	ECOWAS Member Ranking
Mauritius	11	1	COMESA/SADC		1		
Seychelles	16	2	COMESA/SADC		2		
Rwanda	19	3	COMESA/EAC		3	1	
Botswana	22	4	SADC				
Malawi	23	5	COMESA/SADC		4		
Ethiopia	40	6	COMESA/IGAD		5		
South Africa	44	7	SADC				
Zambia	47	8	COMESA/SADC		6		
Swaziland	60	9	COMESA/SADC		7		
Lesotho	61	10	SADC				
Tunisia	64	11	CEN-SAD/UMA	1			
Djibouti	70	12	CEN-SAD/COMESA/IGAD	2	8		
Madagascar	75	13	COMESA/SADC		9		
Sierra Leone	76	14	CEN-SAD/ECOWAS	3			1
Ghana	90	15	CEN-SAD/ECOWAS	4			2
Uganda	93	16	COMESA/EAC/IGAD		10	2	
Liberia	98	17	CEN-SAD/ECOWAS	5			3
Comoros	99	18	CEN-SAD/COMESA	6	11		
Namibia	102	19	SADC				
Sudan	103	20	CEN-SAD/COMESA/IGAD	7	12		
Cape Verde	104	21	ECOWAS				4
Mozambique	107	22	SADC				
Morocco	112	23	CEN-SAD/UMA	8			
São Tomé and Príncipe	113	24	CEN-SAD/ECCAS	9			
Eritrea	121	25	COMESA/CEN-SAD/IGAD	10	13		
Burundi	125	26	COMESA/EAC/ECCAS		14	3	
Zimbabwe	127	27	COMESA/SADC		15		
Tanzania	129	28	EAC/SADC			4	
Guinea-Bissau	137	29	CEN-SAD/ECOWAS	11			5
Nigeria	138	30	CEN-SAD/ECOWAS	12			6
Gabon	141	31	ECCAS				
Niger	142	32	CEN-SAD/ECOWAS	13			7
Egypt, Arab Republic	145	33	CEN-SAD/COMESA	14	16		
Burkina Faso	147	34	ECOWAS/CEN-SAD	15			8
Angola	149	35	ECCAS/SADC				
Côte D'Ivoire	159	36	CEN-SAD/ECOWAS	16			9
Togo	161	37	CEN-SAD/ECOWAS	17			10
Mali	163	38	CEN-SAD/ECOWAS	18			11
Algeria	164	39	UMA				
Congo, Democratic Republic	165	40	COMESA/ECCAS/SADC		17		
Kenya	166	41	CEN-SAD/COMESA/EAC/IGAD	19	18	5	
Equatorial Guinea	167	42	ECCAS				
Benin	170	43	CEN-SAD/ECOWAS	20			12
Cameroon	171	44	ECCAS				
Senegal	174	45	CEN-SAD/ECOWAS	21			13
Mauritania	175	46	CEN-SAD/UMA	22			
Guinea	176	47	CEN-SAD/ECOWAS	23			14
Central African Republic	177	48	CEN-SAD/ECCAS	24			
Gambia, The	178	49	CEN-SAD/ECOWAS	25			15
Chad	180	50	CEN-SAD/ECCAS	26			
Congo, Republic	182	51	ECCAS				

Country (Africa)	Trading across Borders (Rank)	Ranking Results	Economic Bloc Membership	CEN-SAD Member Ranking	COMESA Member Ranking	EAC Member Ranking	ECOWAS Member Ranking
Mauritius	21	1	COMESA/SADC		1		
Tunisia	32	2	CEN-SAD/UMA	1			
Seychelles	33	3	COMESA/SADC		2		
Djibouti	37	4	CEN-SAD/COMESA/IGAD	2	3		
Morocco	43	5	CEN-SAD/UMA	3			
Cape Verde	61	6	ECOWAS				1
Egypt, Arab Republic	64	7	CEN-SAD/COMESA	4	4		
Senegal	65	8	CEN-SAD/ECOWAS	5			2
Gambia, The	78	9	CEN-SAD/ECOWAS	6			3
<i>Ghana</i>	<i>90</i>	<i>10</i>	<i>CEN-SAD/ECOWAS</i>	<i>7</i>			<i>4</i>
Tanzania	92	11	EAC/SADC			1	
São Tomé and Príncipe	94	12	CEN-SAD/ECCAS	8			
Togo	98	13	CEN-SAD/ECOWAS	9			5
Madagascar	111	14	COMESA/SADC		5		
Liberia	116	15	CEN-SAD/ECOWAS	10			6
Guinea-Bissau	117	16	CEN-SAD/ECOWAS	11			7
Algeria	127	17	UMA				
Benin	129	18	CEN-SAD/ECOWAS	12			8
Guinea	130	19	CEN-SAD/ECOWAS	13			9
Sierra Leone	132	20	CEN-SAD/ECOWAS	14			10
Gabon	133	21	ECCAS				
Equatorial Guinea	134	22	ECCAS				
Mozambique	136	23	SADC				
Comoros	139	24	CEN-SAD/COMESA	15	6		
Kenya	141	25	CEN-SAD/COMESA/EAC/IGAD	16	7	2	
Namibia	142	26	SADC				
Mauritania	143	27	CEN-SAD/UMA	17			
South Africa	144	28	SADC				
Mali	146	29	CEN-SAD/ECOWAS	18			11
Lesotho	147	30	SADC				
Swaziland	148	31	COMESA/SADC		8		
Nigeria	149	32	CEN-SAD/ECOWAS	19			12
Botswana	150	33	SADC				
Sudan	151	34	CEN-SAD/COMESA/IGAD	20	9		
Zambia	153	35	COMESA/SADC		10		
<i>Rwanda</i>	<i>155</i>	<i>36</i>	<i>COMESA/EAC</i>		<i>11</i>	<i>3</i>	
Cameroon	156	37	ECCAS				
Ethiopia	157	38	COMESA/IGAD		12		
Uganda	158	39	COMESA/EAC/IGAD		13	4	
Côte D'Ivoire	161	40	CEN-SAD/ECOWAS	21			13
Angola	163	41	ECCAS/SADC				
Malawi	164	42	COMESA/SADC		14		
Eritrea	165	43	COMESA/CEN-SAD/IGAD	22	15		
Congo, Democratic Republic	167	44	COMESA/ECCAS/SADC		16		
Zimbabwe	172	45	COMESA/SADC		17		
Niger	173	46	CEN-SAD/ECOWAS	23			14
Burundi	174	47	COMESA/EAC/ECCAS		18	5	
Burkina Faso	175	48	ECOWAS/CEN-SAD	24			15
Chad	178	49	CEN-SAD/ECCAS	25			
Congo, Republic	181	50	ECCAS				
Central African Republic	182	51	CEN-SAD/ECCAS	26			

Country (Africa)	Enforcing Contracts (Rank)	Ranking Results	Economic Bloc Membership	CEN-SAD Member Ranking	COMESA Member Ranking	EAC Member Ranking	ECOWAS Member Ranking
Tanzania	36	1	EAC/SADC			1	
Cape Verde	37	2	ECOWAS				1
Rwanda	39	3	COMESA/EAC		1	2	
Namibia	40	4	SADC				
Ghana	45	5	CEN-SAD/ECOWAS	1			2
Eritrea	47	6	COMESA/CEN-SAD/IGAD	2	2		
Ethiopia	57	7	COMESA/IGAD		3		
Mauritius	61	8	COMESA/SADC		4		
Botswana	65	9	SADC				
Gambia, The	69	10	CEN-SAD/ECOWAS	3			3
Equatorial Guinea	74	11	ECCAS				
Tunisia	76	12	CEN-SAD/UMA	4			
Mauritania	79	13	CEN-SAD/UMA	5			
South Africa	81	14	SADC				
Seychelles	84	15	COMESA/SADC		5		
Zambia	85	16	COMESA/SADC		6		
Morocco	89	17	CEN-SAD/UMA	6			
Nigeria	97	18	CEN-SAD/ECOWAS	7			4
Lesotho	102	19	SADC				
Burkina Faso	108	20	ECOWAS/CEN-SAD	8			5
Zimbabwe	112	21	COMESA/SADC		7		
Uganda	116	22	COMESA/EAC/IGAD		8		
Malawi	121	23	COMESA/SADC		9		
Algeria	122	24	UMA				
Côte D'Ivoire	124	25	CEN-SAD/ECOWAS	9			6
Guinea	127	26	CEN-SAD/ECOWAS	10			7
Kenya	127	27	CEN-SAD/COMESA/EAC/IGAD	11	10	3	
Mozambique	131	28	SADC				
Mali	132	29	CEN-SAD/ECOWAS	12			8
Niger	139	30	CEN-SAD/ECOWAS	13			9
Sierra Leone	141	31	CEN-SAD/ECOWAS	14			10
Guinea-Bissau	142	32	CEN-SAD/ECOWAS	15			11
Senegal	145	33	CEN-SAD/ECOWAS	16			12
Egypt, Arab Republic	147	34	CEN-SAD/COMESA	17	11		
Sudan	148	35	CEN-SAD/COMESA/IGAD	18	12		
Gabon	150	36	ECCAS				
Togo	151	37	CEN-SAD/ECOWAS	19			13
Comoros	153	38	CEN-SAD/COMESA	20	13		
Madagascar	155	39	COMESA/SADC		14		
Congo, Republic	159	40	ECCAS				
Djibouti	160	41	CEN-SAD/COMESA/IGAD	21	15		
Chad	163	42	CEN-SAD/ECCAS	22			
Liberia	166	43	CEN-SAD/ECOWAS	23			14
Congo, Democratic Republic	170	44	COMESA/ECCAS/SADC		16		
Swaziland	171	45	COMESA/SADC		17		
Burundi	172	46	COMESA/EAC/ECCAS		18	5	
Central African Republic	173	47	CEN-SAD/ECCAS	24			
Cameroon	174	48	ECCAS				
Benin	176	49	CEN-SAD/ECOWAS	25			15
São Tomé and Príncipe	179	50	CEN-SAD/ECCAS	26			
Angola	181	51	ECCAS/SADC				

Country (Africa)	Resolving Insolvency (Rank)	Ranking Results	Economic Bloc Membership	CEN-SAD Member Ranking	COMESA Member Ranking	EAC Member Ranking	ECOWAS Member Ranking
Botswana	28	1	SADC				
Tunisia	38	2	CEN-SAD/UMA	1			
Namibia	56	3	SADC				
Algeria	59	4	UMA				
Uganda	63	5	COMESA/EAC/IGAD		1	1	
Morocco	67	6	CEN-SAD/UMA	2			
Swaziland	69	7	COMESA/SADC		2		
Côte D'Ivoire	70	8	CEN-SAD/ECOWAS	3			1
Lesotho	71	9	SADC				
South Africa	77	10	SADC				
Mauritius	79	11	COMESA/SADC		3		
Sudan	84	12	CEN-SAD/COMESA/IGAD	4	4		
Senegal	86	13	CEN-SAD/ECOWAS	5			2
Ethiopia	89	14	COMESA/IGAD		5		
Kenya	92	15	CEN-SAD/COMESA/EAC/IGAD	6	6	2	
Togo	93	16	CEN-SAD/ECOWAS	7			3
Zambia	96	17	COMESA/SADC		7		
Nigeria	99	18	CEN-SAD/ECOWAS	8			4
Burkina Faso	103	19	ECOWAS/CEN-SAD	9			5
Ghana	106	20	CEN-SAD/ECOWAS	10			6
Mali	111	21	CEN-SAD/ECOWAS	11			7
Tanzania	122	22	EAC/SADC			3	
Niger	123	23	CEN-SAD/ECOWAS	12			8
Benin	127	24	CEN-SAD/ECOWAS	13			9
Gambia, The	129	25	CEN-SAD/ECOWAS	14			10
Guinea	130	26	CEN-SAD/ECOWAS	15			11
Malawi	132	27	COMESA/SADC		8		
Congo, Republic	134	28	ECCAS				
Egypt, Arab Republic	137	29	CEN-SAD/COMESA	16	9		
Djibouti	141	30	CEN-SAD/COMESA/IGAD	17	10		
Mozambique	143	31	SADC				
Gabon	144	32	ECCAS				
Cameroon	147	33	ECCAS				
Madagascar	148	34	COMESA/SADC		11		
Mauritania	152	35	CEN-SAD/UMA	18			
Zimbabwe	153	36	COMESA/SADC		12		
Sierra Leone	155	37	CEN-SAD/ECOWAS	19			12
Liberia	158	38	CEN-SAD/ECOWAS	20			13
São Tomé and Príncipe	159	39	CEN-SAD/ECCAS	21			
Angola	160	40	ECCAS/SADC				
Rwanda	165	41	COMESA/EAC		13	4	
Congo, Democratic Republic	166	42	COMESA/ECCAS/SADC		14		
Burundi	183	43	COMESA/EAC/ECCAS		15	5	
Cape Verde	183	44	ECOWAS				14
Central African Republic	183	45	CEN-SAD/ECCAS	22			
Chad	183	46	CEN-SAD/ECCAS	22			
Comoros	183	47	CEN-SAD/COMESA	22	15		
Equatorial Guinea	183	48	ECCAS				
Eritrea	183	49	COMESA/CEN-SAD/IGAD	22	15		
Guinea-Bissau	183	50	CEN-SAD/ECOWAS	22			14
Seychelles	183	51	COMESA/SADC		15		

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2012:

Summary of Results (Ghana and Rwanda):

Category	Ghana/African Ranking	Ranking among regional economic bloc (CEN-SAD)/Ghana	Ranking among regional economic bloc (ECOWAS)/Ghana	Rwanda/African Ranking	Ranking among regional economic bloc (COMESA)/Rwanda	Ranking among regional economic bloc (EAC)/Rwanda
Network Readiness Index 2012	6	5	2	10	3	1
Business and Innovation Environment 2012	9	4	2	4	3	1
Political and Regulatory Environment 2012	10	3	3	1	1	1
Infrastructure and Digital Content 2012	21	10	7	12	4	2

Networked Readiness Index 2012

World Rank	Entity	Economic Bloc Membership	Value	African Country Rank	CEN-SAD Member Ranking	COMESA Member Ranking	EAC Member Ranking	ECOWAS Member Ranking
50	Tunisia	CEN-SAD/UMA	4.12	1	1			
53	Mauritius	COMESA/SADC	4.06	2		1		
72	South Africa	SADC	3.87	3				
79	Egypt	CEN-SAD/COMESA	3.77	4	2	2		
81	Cape Verde	ECOWAS	3.71	5				1
82	Rwanda	COMESA/EAC	3.7	6		3	1	
89	Botswana	SADC	3.58	7				
91	Morocco	CEN-SAD/UMA	3.56	8	3			
93	Kenya	CEN-SAD/COMESA/EAC/IGAD	3.51	9	4	4	2	
97	Ghana	CEN-SAD/ECOWAS	3.44	10	5			2
100	Senegal	CEN-SAD/ECOWAS	3.42	11	6			3
101	Gambia, The	CEN-SAD/ECOWAS	3.41	12	7			4
105	Namibia	SADC	3.35	13				
109	Zambia	COMESA/SADC	3.26	14		5		
110	Uganda	COMESA/EAC/IGAD	3.25	15		6	3	
112	Nigeria	CEN-SAD/ECOWAS	3.22	16	8			5
117	Benin	CEN-SAD/ECOWAS	3.05	17	9			6
116	Malawi	COMESA/SADC	3.05	18		7		
118	Algeria	UMA	3.01	19				
120	Mozambique	SADC	2.99	20				
122	Côte d'Ivoire	CEN-SAD/ECOWAS	2.98	21	10			7
123	Tanzania	EAC/SADC	2.95	22			4	
124	Zimbabwe	COMESA/SADC	2.94	23		8		
125	Cameroon	ECCAS	2.93	24				
126	Mali	CEN-SAD/ECOWAS	2.93	25	11			8
130	Ethiopia	COMESA/IGAD	2.85	26		9		
133	Lesotho	SADC	2.78	27				
134	Madagascar	COMESA/SADC	2.73	28		10		
135	Burkina Faso	ECOWAS/CEN-SAD	2.72	29	12			9
136	Swaziland	COMESA/SADC	2.7	30		11		
137	Burundi	COMESA/EAC/ECCAS	2.57	31		12	5	
138	Chad	CEN-SAD/ECCAS	2.55	32	13			
139	Mauritania	CEN-SAD/UMA	2.55	33	14			
140	Angola	ECCAS/SADC	2.49	34				

Business and innovation environment 2012

World Rank	Entity	Economic Bloc Membership	Value	African Country Rank	CEN-SAD Member Ranking	COMESA Member Ranking	EAC Member Ranking	ECOWAS Member Ranking
34	Zambia	COMESA/SADC	4.55	1		1		
46	Mauritius	COMESA/SADC	4.4	2		2		
50	South Africa	SADC	4.37	3				
57	Rwanda	COMESA/EAC	4.22	4		3	1	
63	Senegal	CEN-SAD/ECOWAS	4.15	5	1			1
66	Morocco	CEN-SAD/UMA	4.04	6	2			
67	Tunisia	CEN-SAD/UMA	4.03	7	3			
79	Botswana	SADC	3.88	8				
82	Ghana	CEN-SAD/ECOWAS	3.85	9	4			2
87	Namibia	SADC	3.83	10				
90	Cape Verde	ECOWAS	3.8	11				3
94	Egypt	CEN-SAD/COMESA	3.76	12	5	4		
99	Ethiopia	COMESA/IGAD	3.75	13		5		
101	Kenya	CEN-SAD/COMESA/EAC/IGAD	3.73	14	6	6	2	
103	Madagascar	COMESA/SADC	3.72	15		7		
104	Nigeria	CEN-SAD/ECOWAS	3.71	16	7			4
111	Cameroon	ECCAS	3.61	17				
114	Malawi	COMESA/SADC	3.56	18		8		
115	Lesotho	SADC	3.54	19				
116	Mozambique	SADC	3.52	20				
117	Gambia, The	CEN-SAD/ECOWAS	3.51	21	8			5
118	Mali	CEN-SAD/ECOWAS	3.51	22	9			6
120	Uganda	COMESA/EAC/IGAD	3.5	23		9	3	
123	Burkina Faso	ECOWAS/CEN-SAD	3.45	24	10			7
124	Benin	CEN-SAD/ECOWAS	3.43	25	11			8
127	Côte d'Ivoire	CEN-SAD/ECOWAS	3.38	26	12			9
129	Tanzania	EAC/SADC	3.28	27			4	
132	Zimbabwe	COMESA/SADC	3.21	28		10		
137	Algeria	UMA	2.96	29				
136	Swaziland	COMESA/SADC	2.96	30		11		
138	Burundi	COMESA/EAC/ECCAS	2.93	31		12	5	
140	Mauritania	CEN-SAD/UMA	2.69	32	13			
141	Angola	ECCAS/SADC	2.57	33				
142	Chad	CEN-SAD/ECCAS	2.54	34	14			

Political and regulatory environment 2012

World Rank	Entity	Economic Bloc Membership	Value	African Country Rank	CEN-SAD Member Ranking	COMESA Member Ranking	EAC Member Ranking	ECOWAS Member Ranking
19	Rwanda	COMESA/EAC	5.1	1		1	1	
23	South Africa	SADC	4.92	2				
32	Gambia, The	CEN-SAD/ECOWAS	4.61	3	1			1
33	Namibia	SADC	4.6	4				
39	Mauritius	COMESA/SADC	4.36	5		2		
40	Botswana	SADC	4.33	6				
47	Malawi	COMESA/SADC	4.05	7		3		
49	Tunisia	CEN-SAD/UMA	4.02	8	2			
54	Cape Verde	ECOWAS	3.95	9				2
55	Ghana	CEN-SAD/ECOWAS	3.94	10	3			3
63	Uganda	COMESA/EAC/IGAD	3.78	11		4	2	
65	Tanzania	EAC/SADC	3.75	12			3	
68	Morocco	CEN-SAD/UMA	3.68	13	4			
70	Zambia	COMESA/SADC	3.66	14		5		
72	Ethiopia	COMESA/IGAD	3.64	15		6		
76	Egypt	CEN-SAD/COMESA	3.59	16	5	7		
91	Nigeria	CEN-SAD/ECOWAS	3.45	17	6			4
93	Mali	CEN-SAD/ECOWAS	3.39	18	7			5
94	Kenya	CEN-SAD/COMESA/EAC/IGAD	3.38	19	8	8	4	
96	Burkina Faso	ECOWAS/CEN-SAD	3.36	20	9			6
97	Mozambique	SADC	3.34	21				
101	Benin	CEN-SAD/ECOWAS	3.27	22	10			7
103	Swaziland	COMESA/SADC	3.21	23		9		
106	Senegal	CEN-SAD/ECOWAS	3.18	24	11			8
111	Zimbabwe	COMESA/SADC	3.06	25		10		
115	Lesotho	SADC	3.03	26				
117	Mauritania	CEN-SAD/UMA	3.01	27	12			
119	Cameroon	ECCAS	2.98	28				
127	Chad	CEN-SAD/ECCAS	2.82	29	13			
132	Algeria	UMA	2.7	30				
133	Angola	ECCAS/SADC	2.69	31				
135	Côte d'Ivoire	CEN-SAD/ECOWAS	2.68	32	14			9
134	Madagascar	COMESA/SADC	2.68	33		11		
141	Burundi	COMESA/EAC/ECCAS	2.33	34		12	5	

Infrastructure and digital content 2012

World Rank	Entity	Economic Bloc Membership	Value	African Country Rank	CEN-SAD Member Ranking	COMESA Member Ranking	EAC Member Ranking	ECOWAS Member Ranking
70	Tunisia	CEN-SAD/UMA	3.91	1	1			
73	Mauritius	COMESA/SADC	3.78	2		1		
82	South Africa	SADC	3.58	3				
89	Egypt	CEN-SAD/COMESA	3.43	4	2	2		
93	Botswana	SADC	3.27	5				
94	Morocco	CEN-SAD/UMA	3.25	6	3			
97	Namibia	SADC	3.21	7				
105	Algeria	UMA	3.08	8				
106	Côte d'Ivoire	CEN-SAD/ECOWAS	3.08	9	4			1
109	Senegal	CEN-SAD/ECOWAS	3.04	10	5			2
112	Kenya	CEN-SAD/COMESA/EAC/IGAD	2.9	11	6	3	1	
113	Rwanda	COMESA/EAC	2.89	12		4	2	
115	Gambia, The	CEN-SAD/ECOWAS	2.82	13	7			3
116	Benin	CEN-SAD/ECOWAS	2.8	14	8			4
117	Cape Verde	ECOWAS	2.78	15				5
118	Uganda	COMESA/EAC/IGAD	2.78	16		5	3	
119	Nigeria	CEN-SAD/ECOWAS	2.75	17	9			6
120	Zambia	COMESA/SADC	2.73	18		6		
123	Malawi	COMESA/SADC	2.68	19		7		
122	Swaziland	COMESA/SADC	2.68	20		8		
124	Ghana	CEN-SAD/ECOWAS	2.62	21	10			7
125	Tanzania	EAC/SADC	2.54	22			4	
126	Zimbabwe	COMESA/SADC	2.51	23		9		
127	Burkina Faso	ECOWAS/CEN-SAD	2.45	24	11			8
128	Mauritania	CEN-SAD/UMA	2.42	25	12			
131	Burundi	COMESA/EAC/ECCAS	2.28	26		10	5	
132	Cameroon	ECCAS	2.21	27				
133	Lesotho	SADC	2.13	28				
134	Madagascar	COMESA/SADC	2.11	29		11		
136	Mozambique	SADC	2.05	30				
137	Angola	ECCAS/SADC	1.98	31				
140	Ethiopia	COMESA/IGAD	1.86	32		12		
139	Mali	CEN-SAD/ECOWAS	1.86	33	13			9
141	Chad	CEN-SAD/ECCAS	1.77	34	14			

World Governance Indicators, 2012:**Summary of Results (Ghana and Rwanda):**

Ghana **Rwanda**

Voice & Accountability

Ranking/Africa	4	44
Economic Bloc Ranking/ECOWAS	2	
Economic Bloc Ranking/CEN-SAD	1	
Economic Bloc Ranking/COMESA		13
Economic Bloc Ranking/EAC		5

Political Stability No Violence

Ranking/Africa	12	16
Economic Bloc Ranking/ECOWAS	3	
Economic Bloc Ranking/CEN-SAD	4	
Economic Bloc Ranking/COMESA		5
Economic Bloc Ranking/EAC		2

Government Effectiveness

Ranking/Africa	9	6
Economic Bloc Ranking/ECOWAS	2	
Economic Bloc Ranking/CEN-SAD	1	
Economic Bloc Ranking/COMESA		3
Economic Bloc Ranking/EAC		1

Regulatory Quality

Ranking/Africa	4	9
Economic Bloc Ranking/ECOWAS	1	
Economic Bloc Ranking/CEN-SAD	1	
Economic Bloc Ranking/COMESA		3
Economic Bloc Ranking/EAC		2

Rule of Law

Ranking/Africa	7	12
Economic Bloc Ranking/ECOWAS	2	
Economic Bloc Ranking/CEN-SAD	1	
Economic Bloc Ranking/COMESA		4
Economic Bloc Ranking/EAC		1

Control of Corruption

Ranking/Africa	8	4
Economic Bloc Ranking/ECOWAS	2	
Economic Bloc Ranking/CEN-SAD	1	
Economic Bloc Ranking/COMESA		2
Economic Bloc Ranking/EAC		1

Voice & Accountability

Country/Africa	Economic Bloc Membership	WGI 2012 Worldwide Ranking	African Country Ranking	CEN-SAD MEMBER RANKING	COMESA MEMBER RANKING	EAC MEMBER RANKING	ECOWAS MEMBER RANKING
Cape Verde	ECOWAS	75.59	1				1
Mauritius	COMESA/SADC	70.42	2			1	
South Africa	SADC	65.73	3				
<i>Ghana</i>	<i>ECOWAS/CEN-SAD</i>	<i>62.44</i>	<i>4</i>	<i>1</i>			<i>2</i>
Botswana	SADC	60.56	5				
Namibia	SADC	56.81	6				
Benin	ECOWAS/CEN-SAD	55.40	7	2			3
Mali	ECOWAS/CEN-SAD	54.93	8	3			4
São Tomé and Príncipe	CEN-SAD/ECCAS	54.46	9	4			
Seychelles	COMESA/SADC	52.58	10			2	
Tanzania	EAC/SADC	45.54	11				1
Lesotho	SADC	45.07	12				
Mozambique	SADC	44.13	13				
Zambia	COMESA/SADC	42	14			3	
Sierra Leone	ECOWAS/CEN-SAD	40.85	15	5			5
Kenya	CEN-SAD/COMESA/EAC/IGAD	40.38	16	6	4	2	
Malawi	COMESA/SADC	39.44	17		5		
Senegal	ECOWAS/CEN-SAD	38.97	18	7			6
Niger	ECOWAS/CEN-SAD	38.50	19	8			7
Liberia	ECOWAS/CEN-SAD	38.03	20	9			8
Burkina Faso	ECOWAS/CEN-SAD	36.62	21	10			9
Tunisia	CEN-SAD/UMA	36	22	11			
Comoros	CEN-SAD/COMESA	32.86	23	12		6	
Uganda	COMESA/EAC/IGAD	30	24			7	3
Morocco	CEN-SAD/UMA	28.64	25	13			
Nigeria	ECOWAS/CEN-SAD	26.76	26	14			10
Madagascar	COMESA/SADC	25.82	27			8	
Gabon	ECCAS	23.94	28				
Guinea	ECOWAS/CEN-SAD	23.47	29	15			11
Togo	CEN-SAD/ECOWAS	23.00	30	16			12
Mauritania	CEN-SAD/UMA	22.07	31	17			
Guinea-Bissau	ECOWAS/CEN-SAD	21.13	32	18			13
Burundi	COMESA/EAC/ECCAS	19.72	33			9	4
Algeria	UMA	18.31	34				
Congo, Republic	ECCAS	17.84	35				
Cameroon	ECCAS	17.37	36				
South Sudan	COMESA/IGAD	16.90	37			10	
Central African Republic	ECCAS/CEN-SAD	16.43	38	19			
Egypt, Arab Republic	CEN-SAD/COMESA	15.96	39	20		11	
Côte D'Ivoire	ECOWAS/CEN-SAD	15.49	40	21			14
Angola	ECCAS/SADC	14.55	41				
Gambia, The	ECOWAS/CEN-SAD	13.15	42	22			15
Swaziland	COMESA/SADC	12.68	43			12	
<i>Rwanda</i>	<i>COMESA/EAC</i>	<i>12.21</i>	<i>44</i>		<i>13</i>		<i>5</i>
Djibouti	CEN-SAD/COMESA/IGAD	11.27	45	23		14	
Ethiopia	COMESA/IGAD	10.80	46			15	
Chad	ECCAS/CEN-SAD	10.33	47	24			
Zimbabwe	COMESA/SADC	9	48			16	
Libya	CEN-SAD/COMESA/UMA	6.10	49	25		17	
Congo, Democratic Republic	COMESA/ECCAS/SADC	4.67	50			18	
Sudan	CEN-SAD/COMESA/IGAD	4.23	51	26		19	
Equatorial Guinea	ECCAS	2.82	52				
Somalia	IGAD/CEN-SAD	1.41	53	27			
Eritrea	CEN-SAD/COMESA/IGAD	0.47	54	28		20	

Political Stability No Violence

Country/Africa	Economic Bloc Membership	WGI 2012 Worldwide Ranking	African Country Ranking	CEN-SAD MEMBER RANKING	COMESA MEMBER RANKING	EAC MEMBER RANKING	ECOWAS MEMBER RANKING
Botswana	SADC	85	1				
Seychelles	COMESA/SADC	80	2		1		
Namibia	SADC	76	3				
Mauritius	COMESA/SADC	75	4		2		
Cape Verde	ECOWAS	70	5				1
Zambia	COMESA/SADC	62	6		3		
Gabon	ECCAS	60	7				
Mozambique	SADC	57	8				
Djibouti	CEN-SAD/COMESA/IGAD	57	9	1	4		
Benin	ECOWAS/CEN-SAD	56	10	2			2
Lesotho	SADC	56	11				
<i>Ghana</i>	<i>ECOWAS/CEN-SAD</i>	<i>51</i>	<i>12</i>	<i>3</i>			<i>3</i>
Gambia, The	ECOWAS/CEN-SAD	50	13	4			4
South Africa	SADC	48	14				
Tanzania	EAC/SADC	47	15			1	
<i>Rwanda</i>	<i>COMESA/EAC</i>	<i>46</i>	<i>16</i>		<i>5</i>	<i>2</i>	
Sao Tome and Principe	CEN-SAD/ECCAS	45	17	5			
Malawi	COMESA/SADC	44	18		6		
Equatorial Guinea	ECCAS	44	19				
Sierra Leone	ECOWAS/CEN-SAD	40	20	6			5
Tunisia	CEN-SAD/UMA	39	21	7			
Togo	CEN-SAD/ECOWAS	39	22	8			6
Congo, Rep.	ECCAS	38	23				
Senegal	ECOWAS/CEN-SAD	36	24	9			7
Angola	ECCAS/SADC	36	25				
Comoros	CEN-SAD/COMESA	32	26	10	7		
Morocco	CEN-SAD/UMA	31	27	11			
Swaziland	COMESA/SADC	31	28		8		
Liberia	ECOWAS/CEN-SAD	30	29	12			8
Burkina Faso	ECOWAS/CEN-SAD	29	30	13			9
Cameroon	ECCAS	27	31				
Guinea-Bissau	ECOWAS/CEN-SAD	25	32	14			10
Mali	ECOWAS/CEN-SAD	24	33	15			11
Eritrea	CEN-SAD/COMESA/IGAD	22	34	16	9		
Niger	ECOWAS/CEN-SAD	20	35	17			12
Madagascar	COMESA/SADC	20	36		10		
Libya	CEN-SAD/COMESA/UMA	17	37	18	11		
Zimbabwe	COMESA/SADC	16	38		12		
Uganda	COMESA/EAC/IGAD	15	39		13	3	
South Sudan	COMESA/IGAD	14	40		14		
Mauritania	CEN-SAD/UMA	13	41	19			
Egypt, Arab Rep.	CEN-SAD/COMESA	12	42	20	15		
Chad	ECCAS/CEN-SAD	11	43	21			
Kenya	CEN-SAD/COMESA/EAC/IGAD	10	44	22	16	4	
Algeria	UMA	9	45				
Cote d'Ivoire	ECOWAS/CEN-SAD	8	46	23			13
Guinea	ECOWAS/CEN-SAD	8	47	24			14
Ethiopia	COMESA/IGAD	6	48		17		
Burundi	COMESA/EAC/ECCAS	5	49		18	5	
Nigeria	ECOWAS/CEN-SAD	4	50	25			15
Central African Republic	ECCAS/CEN-SAD	3	51	26			
Congo, Democratic Republic	COMESA/ECCAS/SADC	2	52		19		
Sudan	CEN-SAD/COMESA/IGAD	1	53	27	20		
Somalia	IGAD/CEN-SAD	0	54	28			

Government Effectiveness

Country/Africa	Economic Bloc Membership	WGI 2012 Worldwide Ranking	African Country Ranking	CEN-SAD MEMBER RANKING	COMESA MEMBER RANKING	EAC MEMBER RANKING	ECOWAS MEMBER RANKING
Mauritius	COMESA/SADC	74	1		1		
Botswana	SADC	68	2				
South Africa	SADC	65	3				
Seychelles	COMESA/SADC	62	4		2		
Cape Verde	ECOWAS	60	5				1
<i>Rwanda</i>	<i>COMESA/EAC</i>	<i>58</i>	<i>6</i>		<i>3</i>	<i>1</i>	
Namibia	SADC	58	7				
Tunisia	CEN-SAD/UMA	57	8	1			
<i>Ghana</i>	<i>ECOWAS/CEN-SAD</i>	<i>54</i>	<i>9</i>	<i>2</i>			<i>2</i>
Morocco	CEN-SAD/UMA	48	10	3			
Lesotho	SADC	45	11				
Ethiopia	COMESA/IGAD	42	12		4		
Malawi	COMESA/SADC	40	13		5		
Senegal	ECOWAS/CEN-SAD	40	14	4			3
Benin	ECOWAS/CEN-SAD	38	15	5			4
Uganda	COMESA/EAC/IGAD	37	16		6	2	
Burkina Faso	ECOWAS/CEN-SAD	37	17	6			5
Tanzania	EAC/SADC	36	18			3	
Kenya	CEN-SAD/COMESA/EAC/IGAD	36	19	7	7	4	
Mozambique	SADC	36	20				
Egypt, Arab Republic	CEN-SAD/COMESA	32	21	8	8		
Gambia, The	ECOWAS/CEN-SAD	32	22	9			6
Zambia	COMESA/SADC	30	23		9		
Algeria	UMA	29	24				
Niger	ECOWAS/CEN-SAD	29	25	10			7
Swaziland	COMESA/SADC	28	26		10		
São Tomé and Príncipe	CEN-SAD/ECCAS	27	27	11			
Mali	ECOWAS/CEN-SAD	21	28	12			8
Gabon	ECCAS	19	29				
Madagascar	COMESA/SADC	19	30		11		
Cameroon	ECCAS	18	31				
Mauritania	CEN-SAD/UMA	18	32	13			
Djibouti	CEN-SAD/COMESA/IGAD	16	33	14	12		
Guinea-Bissau	ECOWAS/CEN-SAD	15	34	15			9
Burundi	COMESA/EAC/ECCAS	14	35		13	5	
Nigeria	ECOWAS/CEN-SAD	13	36	16			10
Angola	ECCAS/SADC	11	37				
Guinea	ECOWAS/CEN-SAD	11	38	17			11
Sierra Leone	ECOWAS/CEN-SAD	10	39	18			12
Côte D'Ivoire	ECOWAS/CEN-SAD	9	40	19			13
Congo, Republic	ECCAS	9	41				
Liberia	ECOWAS/CEN-SAD	9	42	20			14
Central African Republic	ECCAS/CEN-SAD	8	43	21			
Togo	CEN-SAD/ECOWAS	8	44	22			15
Sudan	CEN-SAD/COMESA/IGAD	7	45	23	14		
Chad	ECCAS/CEN-SAD	7	46	24			
Zimbabwe	COMESA/SADC	6	47		15		
Eritrea	CEN-SAD/COMESA/IGAD	6	48	25	16		
Libya	CEN-SAD/COMESA/UMA	5	49	26	17		
Equatorial Guinea	ECCAS	3	50				
Congo, Democratic Republic	COMESA/ECCAS/SADC	2	51		18		
Comoros	CEN-SAD/COMESA	1	52	27	19		
South Sudan	COMESA/IGAD	1	53		20		
Somalia	IGAD/CEN-SAD	0	54	28			

Regulatory Quality

Country/Africa	Economic Bloc Membership	WGI 2012 Worldwide Ranking	African Country Ranking	CEN-SAD MEMBER RANKING	COMESA MEMBER RANKING	EAC MEMBER RANKING	ECOWAS MEMBER RANKING
Mauritius	COMESA/SADC	77	1		1		
Botswana	SADC	69	2				
South Africa	SADC	66	3				
Ghana	ECOWAS/CEN-SAD	55	4	1			1
Namibia	SADC	55	5				
Cape Verde	ECOWAS	54	6				2
Morocco	CEN-SAD/UMA	50	7	2			
Uganda	COMESA/EAC/IGAD	50	8		2	1	
Rwanda	COMESA/EAC	48	9		3	2	
Burkina Faso	ECOWAS/CEN-SAD	47	10	3			3
Kenya	CEN-SAD/COMESA/EAC/IGAD	47	11	4	4	3	
Tunisia	CEN-SAD/UMA	46	12	5			
Senegal	ECOWAS/CEN-SAD	44	13	6			4
Gambia, The	ECOWAS/CEN-SAD	43	14	7			5
Egypt, Arab Republic	CEN-SAD/COMESA	41	15	8	5		
Benin	ECOWAS/CEN-SAD	41	16	9			6
Mali	ECOWAS/CEN-SAD	38	17	10			7
Mozambique	SADC	37	18				
Zambia	COMESA/SADC	36	19		6		
Seychelles	COMESA/SADC	36	20		7		
Tanzania	EAC/SADC	36	21			4	
Niger	ECOWAS/CEN-SAD	34	22	11			8
Djibouti	CEN-SAD/COMESA/IGAD	33	23	12	8		
Madagascar	COMESA/SADC	32	24		9		
Gabon	ECCAS	31	25	13			
Lesotho	SADC	30	26				
Swaziland	COMESA/SADC	28	27		10		
Nigeria	ECOWAS/CEN-SAD	27	28	14			9
Malawi	COMESA/SADC	27	29		11		
Sierra Leone	ECOWAS/CEN-SAD	26	30	15			10
São Tomé and Príncipe	CEN-SAD/ECCAS	25	31	16			
Mauritania	CEN-SAD/UMA	24	32	17			
Cameroon	ECCAS	23	33				
Côte D'Ivoire	ECOWAS/CEN-SAD	22	34	18			11
Ethiopia	COMESA/IGAD	18	35		12		
Togo	CEN-SAD/ECOWAS	18	36	19			12
Burundi	COMESA/EAC/ECCAS	17	37		13	5	
Guinea	ECOWAS/CEN-SAD	17	38	20			13
Liberia	ECOWAS/CEN-SAD	16	39	21			14
Chad	ECCAS/CEN-SAD	15	40	22			
Angola	ECCAS/SADC	12	41				
Guinea-Bissau	ECOWAS/CEN-SAD	12	42	23			15
Algeria	UMA	11	43				
Central African Republic	ECCAS/CEN-SAD	10	44	24			
Congo, Republic	ECCAS	9	45				
Sudan	CEN-SAD/COMESA/IGAD	8	46	25	14		
Equatorial Guinea	ECCAS	8	47	26			
Comoros	CEN-SAD/COMESA	7	48	27	15		
Congo, Democratic Republic	COMESA/ECCAS/SADC	6	49		16		
Libya	CEN-SAD/COMESA/UMA	5	50	28	17		
South Sudan	COMESA/IGAD	3	51		18		
Zimbabwe	COMESA/SADC	2	52		19		
Eritrea	CEN-SAD/COMESA/IGAD	1	53	29	20		
Somalia	IGAD/CEN-SAD	0	54	30			

Rule of Law

Country/Africa	Economic Bloc Membership	WGI 2012 Worldwide Ranking	African Country Ranking	CEN-SAD MEMBER RANKING	COMESA MEMBER RANKING	EAC MEMBER RANKING	ECOWAS MEMBER RANKING
Mauritius	COMESA/SADC	75.12	1		1		
Botswana	SADC	69.48	2				
Cape Verde	ECOWAS	63.85	3				1
Namibia	SADC	61.03	4				
South Africa	SADC	58.69	5				
Seychelles	COMESA/SADC	54.93	6		2		
Ghana	ECOWAS/CEN-SAD	54.46	7	1			2
Tunisia	CEN-SAD/UMA	51	8	2			
Malawi	COMESA/SADC	50.23	9		3		
Morocco	CEN-SAD/UMA	49.30	10	3			
Lesotho	SADC	47.42	11				
Rwanda	COMESA/EAC	46.95	12		4	1	
Burkina Faso	ECOWAS/CEN-SAD	44.60	13	4			3
Uganda	COMESA/EAC/IGAD	44	14		5	2	
Egypt, Arab Republic	CEN-SAD/COMESA	42.72	15	5	6		
Swaziland	COMESA/SADC	42.25	16		7		
Senegal	ECOWAS/CEN-SAD	40.38	17	6			4
Zambia	COMESA/SADC	39	18		8		
Gabon	ECCAS	38.03	19				
Niger	ECOWAS/CEN-SAD	37.09	20	7			5
Gambia, The	ECOWAS/CEN-SAD	36.62	21	8			6
Mali	ECOWAS/CEN-SAD	35.68	22	9			7
Tanzania	EAC/SADC	34.27	23			3	
Mozambique	SADC	33.80	24				
Ethiopia	COMESA/IGAD	29.11	25		9		
São Tomé and Príncipe	CEN-SAD/ECCAS	28.17	26	10			
Benin	ECOWAS/CEN-SAD	27.23	27	11			8
Djibouti	CEN-SAD/COMESA/IGAD	26.76	28	12	10		
Algeria	UMA	24.88	29				
Madagascar	COMESA/SADC	23.94	30		11		
Togo	CEN-SAD/ECOWAS	23.47	31	13			9
Sierra Leone	ECOWAS/CEN-SAD	22.54	32	14			10
Mauritania	CEN-SAD/UMA	21.13	33	15			
Liberia	ECOWAS/CEN-SAD	17.84	34	16			11
Kenya	CEN-SAD/COMESA/EAC/IGAD	16.43	35	17	12	4	
Comoros	CEN-SAD/COMESA	15.96	36	18	13		
Cameroon	ECCAS	14.55	37				
Burundi	COMESA/EAC/ECCAS	13.15	38		14	5	
Congo, Republic	ECCAS	12.68	39				
Libya	CEN-SAD/COMESA/UMA	12.21	40	19	15		
Equatorial Guinea	ECCAS	11.27	41				
Angola	ECCAS/SADC	10.33	42				
Nigeria	ECOWAS/CEN-SAD	9.86	43	20			12
Sudan	CEN-SAD/COMESA/IGAD	8.45	44	21	16		
Côte D'Ivoire	ECOWAS/CEN-SAD	7.98	45	22			13
Eritrea	CEN-SAD/COMESA/IGAD	7.51	46	23	17		
Central African Republic	ECCAS/CEN-SAD	7.04	47	24			
Guinea-Bissau	ECOWAS/CEN-SAD	6.10	48	25			14
Chad	ECCAS/CEN-SAD	3.76	49	26			
Guinea	ECOWAS/CEN-SAD	3.29	50	27			15
South Sudan	COMESA/IGAD	2.82	51		18		
Congo, Democratic Republic	COMESA/ECCAS/SADC	1.88	52		19		
Zimbabwe	COMESA/SADC	1	53		20		
Somalia	IGAD/CEN-SAD	0.00	54	28			

Control of Corruption

Country/Africa	Economic Bloc Membership	WGI 2012 Worldwide Ranking	African Country Ranking	CEN-SAD MEMBER RANKING	COMESA MEMBER RANKING	EAC MEMBER RANKING	ECOWAS MEMBER RANKING
Botswana	SADC	80	1				
Cape Verde	ECOWAS	74	2				1
Mauritius	COMESA/SADC	73	3		1		
Rwanda	COMESA/EAC	70	4		2	1	
Seychelles	COMESA/SADC	65	5		3		
Lesotho	SADC	64	6				
Namibia	SADC	64	7				
Ghana	ECOWAS/CEN-SAD	63	8	1			2
South Africa	SADC	59	9				
Tunisia	CEN-SAD/UMA	53	10	2			
Morocco	CEN-SAD/UMA	51	11	3			
Swaziland	COMESA/SADC	50	12		4		
Madagascar	COMESA/SADC	49	13		5		
Djibouti	CEN-SAD/COMESA/IGAD	47	14	4	6		
Malawi	COMESA/SADC	45	15		7		
Burkina Faso	ECOWAS/CEN-SAD	44	16	5			3
São Tomé and Príncipe	CEN-SAD/ECCAS	43	17	6			
Mozambique	SADC	42	18				
Liberia	ECOWAS/CEN-SAD	39	19	7			4
Gambia, The	ECOWAS/CEN-SAD	37	20	8			5
Zambia	COMESA/SADC	37	21		8		
Tanzania	EAC/SADC	36	22			2	
Eritrea	CEN-SAD/COMESA/IGAD	36	23	9	9		
Algeria	UMA	35	24				
Mauritania	CEN-SAD/UMA	34	25	10			
Mali	ECOWAS/CEN-SAD	32	26	11			6
Senegal	ECOWAS/CEN-SAD	31	27	12			7
Niger	ECOWAS/CEN-SAD	29	28	13			8
Benin	ECOWAS/CEN-SAD	27	29	14			9
Egypt, Arab Republic	CEN-SAD/COMESA	27	30	15	10		
Sierra Leone	ECOWAS/CEN-SAD	27	31	16			10
Ethiopia	COMESA/IGAD	26	32		11		
Comoros	CEN-SAD/COMESA	26	33	17	12		
Gabon	ECCAS	24	34				
Central African Republic	ECCAS/CEN-SAD	20	35	18			
Uganda	COMESA/EAC/IGAD	20	36		13	3	
Kenya	CEN-SAD/COMESA/EAC/IGAD	19	37	19	14	4	
Cameroon	ECCAS	18	38				
Togo	CEN-SAD/ECOWAS	17	39	20			11
Guinea-Bissau	ECOWAS/CEN-SAD	14	40	21			12
Côte D'Ivoire	ECOWAS/CEN-SAD	12	41	22			13
Congo, Republic	ECCAS	12	42				
Burundi	COMESA/EAC/ECCAS	11	43		15	5	
Nigeria	ECOWAS/CEN-SAD	9	44	23			14
Guinea	ECOWAS/CEN-SAD	9	45	24			15
Chad	ECCAS/CEN-SAD	7	46	25			
Zimbabwe	COMESA/SADC	6	47		16		
Sudan	CEN-SAD/COMESA/IGAD	5	48	26	17		
Libya	CEN-SAD/COMESA/UMA	5	49	27	18		
Angola	ECCAS/SADC	4	50				
Congo, Democratic Republic	COMESA/ECCAS/SADC	3	51		19		
Equatorial Guinea	ECCAS	2	52				
South Sudan	COMESA/IGAD	1	53		20		
Somalia	IGAD/CEN-SAD	0	54	28			

Author: Conrad de Aenlle, Reuters|

14 February 2014 00:52

Is Africa the next big thing for investors?

"You have to take a long-term view. The story is going to unfold over many years."

The appeal of investing in Africa is that its future is still ahead of it. The region is setting out on the journey to economic, financial and industrial development that places like Latin America and mainland Asia, the last next big things, embarked on 20 or 30 years ago.

This rosy outlook may explain why Africa's stock markets have done better in the recent past than mainstream emerging markets. The MSCI Emerging Markets Index fell 10.8 percent in the 12 months through Feb. 11, while the firm's Frontier Markets Africa Index, which tracks the continent's smaller exchanges, rose 3.4 percent. Investors apparently recognize Africa as a place to capture growth in a world that otherwise has little of it to offer.

"The compelling case for the region is driven by growth, which is driven by demographics," says Larry Seruma, manager of the \$42 million Nile Pan Africa Fund, the best performer among the few funds that specialize in African stocks since it was introduced about four years ago. Economic output per capita "is very low and growing at a very fast rate, and in 2050 Africa will have the largest workforce globally. There will be opportunities [for companies] to provide goods and services to this growing population."

Sub-Saharan Africa is also benefiting from business-friendly policies, such as privatization of state industries and construction of large-scale infrastructure projects, says Babatunde Ojo, an analyst specializing in the region for the portfolio manager Harding Loevner.

De Aenlle, C.2014. Is Africa the next big thing for investors? Available: <http://www.moneyweb.co.za/moneyweb-soapbox/is-africa-the-next-big-thing-for-investors> [2014, February 28]

Governments "are doing things to reduce the cost of doing business and improve economic growth," Ojo says. The Harding Loevner Frontier Emerging Markets Fund has 26 percent of its \$340 million of assets in Africa.

Seruma is excited about Africa's infrastructure development opportunities, including roads as well as power and communication lines "from Cape town to Cairo." He envisions a virtuous circle in which better infrastructure helps businesses reduce operating costs and improve returns, and increase tax revenue. That will create the wherewithal for governments to finance further development. As infrastructure is put in place, more products and services will be available at lower prices and to more consumers, further expanding growth.

For investors interested in joining the march to prosperity, Ojo suggests several stocks from his firm's portfolios that meet this key criteria: "well-positioned, with a competitive advantage in a growing industry." One is a prospective beneficiary of increased infrastructure spending: Dangote Cement PLC in Nigeria.

Dangote has "the best margins in the world" for its industry, Ojo says, because it's an especially low-cost manufacturer and cement prices are higher in Africa than elsewhere. Indeed, Dangote's return on equity of about 45 percent is more than double the average for the global basic-materials sector.

CORPORATE CUSTOMERS

Ojo favors two other Nigerian companies, Zenith Bank PLC and Guaranty Trust Bank PLC , for their strong asset quality, capable management and emphasis on a corporate clientele.

Across the continent, Safaricom Ltd in Kenya is "a very good example of a dominant telecom player," controlling two-thirds of the country's market, Ojo says. That may not seem to leave much scope for expansion, but Safaricom is experiencing rapid growth in data usage and services for corporate customers to compensate for stagnation in voice traffic, he adds.

Seruma also owns Dangote and the two banks, but his phone company of choice is MTN Group Ltd, a cellphone service provider with operations in South Africa, Ghana, Zambia and Nigeria. MTN "has a 4 percent yield, low debt and tremendous growth potential," particularly in mobile usage, he says. His price target on the stock of \$24.50 is nearly 40 percent above recent prices. Africa Oil Corp. and Tullow Oil PLC are smart plays on natural resources, Seruma says. Africa Oil explores for oil and gas in partnership with Tullow and has discovered oil reserves in Kenya. His price targets for the stocks are 1,235 British pence for Tullow, about a 55 percent gain from current levels, and C\$15 for AfricaOil, about 80 percent higher above where it stands.

A more staid selection, Old Mutual PLC, is a South African financial-services concern. As Africans grow wealthier, they need a place to put their money and also buy mortgages, investment products, insurance and other financial products. Seruma's target for Old Mutual, which he describes as "good for risk-averse investors," is 235 British pence, compared with recent prices in the low 180s.

Old Mutual may be a low-risk stock, but Seruma acknowledges that investing in Africa has potential hazards. "Corruption continues to be a big issue," he says. But it's easier to do business in many places. Plus, legal and political systems have grown stronger and more transparent across the region.

That said, Seruma suggests that investors keep allocations to Africa to 5 percent or less and, above all, remember that the future can take a while to arrive.

"You have to take a long-term view," Seruma advises. "The story is going to unfold over many years."

Topics: AFRICA, INVESTMENT, EMERGING MARKETS, INFRASTRUCTURE
DEVELOPMENT, MTN, OLD MUTUAL

Investment Insights

Author: Patrick Cairns |

05 March 2014 23:32

Emerging markets or frontier markets?

Where is the real growth?

CAPE TOWN – The emerging market sell-off earlier this year put the future of investing in these regions under renewed scrutiny. A number of opinions were put forward about how investors should be viewing their emerging market exposure.

One of the more interesting ones came from British financial columnist, Matthew Lynn. Based on his observation that frontier markets had continued to perform even as emerging markets were taking strain, he suggested that what investors had always been looking for in emerging markets, was no longer to be found there, but should be sought in even less mainstream places. ([Read the full article in WSJ's MarketWatch here](#)).

He argued that many emerging markets were actually no longer “emerging” in any meaningful sense. Many of them had actually matured and were running into the same growth problems as many of their developed counterparts.

The growth story was therefore not to be found in emerging markets as much as frontier markets. They, he said, represent the real developing world.

Before going any further, perhaps it's important to be clear about the distinctions here: emerging markets are generally considered to be those with fairly robust financial and capital markets and good levels of liquidity, but which have not obtained the income levels of developed regions like those in North America, Western Europe, and the wealthier countries of the Asia Pacific. These are countries like Brazil, Mexico, Turkey, Poland, Russia, Taiwan, India, Indonesia, China, and of course, South Africa.

Cairns, P. 2014. *Emerging markets or frontier markets?* Available: <http://www.moneyweb.co.za/moneyweb-investment-insights/emerging-markets-or-frontier-markets> [2014, March 21]

Frontier markets are those that show lower incomes, smaller market capitalisations and lower liquidity, but are still investable – in other words, it's not impossible to get money in, and one can reasonably liquidate a position later. They also exhibit the potential to grow and become more liquid over time. Examples would be Kazakhstan, Bulgaria, Kenya, Nigeria, Kuwait, Qatar, Bangladesh and Pakistan.

To support his thesis, Lynn pointed out that the MSCI Frontier Index had posted a strong gain in 2013, while the MSCI Emerging Markets Index was slightly down. And we can even extend his figures further ... for the year to the end of February, the MSCI Emerging Markets Index was down 7.96%. Over three years, it was also in the red, losing an annualised 4.31%.

In contrast, the MSCI Frontier Markets Index has been up 17.76% for the last twelve months. Over the last three years, it has gained at an annualised rate of 3.36%. Even more impressively, the MSCI Frontier Markets Africa Index was up 11.37% per year.

These figures indicate that, over the last few years, there has been a marked differentiation in the way in which frontier markets and emerging markets have performed. Equity investors have unquestionably done better in the former.

There is just one small caveat: after both frontier markets and emerging markets fell sharply in 2007/2008, emerging markets have actually recovered better. Their growth has slowed in the last few years at the same time as frontier markets have caught up, but they are nevertheless closer to their pre-recession highs.

Still, the question whether frontier markets now present the better opportunity for equity investors, is an interesting one. For South African investors in particular, looking at frontier markets mostly means looking at stock exchanges in other parts of Africa.

Nema Ramkhelawan-Bana, of RMB Global Research, says that the main appeal of these markets is a fairly simple one: “When you are looking at equity markets, your return is linked to growth,” she says. “And you are still getting good levels of growth in frontier markets because they are coming off a low base.”

For senior equity analyst at Sanlam Investment Management, Addington Jerahuni, this is the key appeal of investing in African equities. The strong GDP growth that we continue to see from many countries on the continent presents opportunity for a number of reasons. “Strong GDP growth underpins a strong possibility of corporate earnings growth and an increase in per capita income,” he says. “An emerging middle class also means more consumption. So what people are able to afford is changing and that speaks to volume growth for many companies. “More and more people are also starting to get bank accounts in many African countries,” he adds. “And because credit penetration is also still very low, giving more people access to credit will push these economies further.”

It goes without saying that there is also immense opportunity for achieving scale on the continent. Nigeria, for instance, has a population of 165 million – more than three times that of South Africa.

“So in a country like that, you also have a volume growth story,” Jerahuni says. “And that’s big for businesses like breweries and fast moving consumer goods. Not only is there a huge potential for sales growth through volume, but there is also an opportunity to sell higher margin premium brands as consumers’ income increases.”

These factors feed into how investors all over the world are seeing these markets.

“I think that more people have bought into the long-term story that is the investment proposition for frontier markets,” argues Claire Rentzke, head of manager research at 27Four Investment Managers. “The money that has flowed back into the market post-2008 is more sticky and possibly less speculative.

“With the markets being less liquid, it is also harder for speculators to get out of the market quickly without impacting performance significantly, which they all realised in 2008. The frontier market economies are also looking more favourable in terms of reform and their improving fundamentals.”

Rentzke also suggests that many of the emerging market economies are finding it more difficult to sustain high growth rates as their economies change, and this is leading more investors to investigate the potential of frontier markets.

“China is still considered an emerging economy but you could easily argue that they are more developed than some of the developed economies,” she says. “Also, emerging markets have almost progressed onto the next phase in their development with lower growth rates possibly making them less attractive again, especially as growth in developed markets picks up.

“As an example South Africa's growth is likely to be less than the USA's growth over the year, so investors aren't willing to take on additional risks that aren't rewarded. Frontier markets still offer the prospect of much higher growth especially as the markets develop.”

Of course, all of this good news comes with a great deal of risk. These are complex markets in which to do business, and investors need to be circumspect about how they enter them.

“I think investors are missing out on potential returns in Africa,” says Johann Erasmus at Standard Bank. “But because in general they haven't got the experience in terms of what to do or how to invest in these particular businesses as well as distinguishing the good from the bad it becomes a risky place. And it is advisable to invest through channels or managers that have got on the ground experience.”

Celeste Fauconnier, from RMB Global Markets, also adds the caveat that African economies remain very sensitive to external factors.

“I think in Africa we are still a far cry from the diversification that has developed in emerging markets,” she says. “Africa is still very slow in that respect, so any kind of commodity price slump or other external factor that affects our main trading partners will affect our growth rates.”

She adds that the equity markets themselves also lack the level of sophistication one finds in emerging markets. “The two main equity markets outside of South Africa are Nigeria and Kenya, and they are both still dominated by a single sector – banking in the case of Nigeria and telecommunications in Kenya,” she says. “The JSE is far more diversified. So there are also dangers in terms of being over-exposed to what is happening to specific sectors in a specific country. Investing in emerging markets is much safer in that respect.”

So these markets are not to be approached without proper consideration of how much risk one is willing to take on and, essentially, one's time horizon. Taking a view that is too short-term can significantly increase one's risk.

How South African investors access these markets and how much they should be exposed to them, will be the subject of another article.

Topics: EMERGING MARKET, FRONTIER MARKETS, INVESTING,

Africa

Author: Reuters|

17 March 2014 16:02

Rwanda ranked Africa's most enticing market for retailers

Thanks to economic reforms and business-friendly agenda.

Rwanda is Africa's most attractive market for retailers looking to expand in the fast-growing continent, according to a report by consultancy A.T. Kearney that hails the small east African state's economic reforms and business-friendly agenda.

Under President Paul Kagame, Rwanda has made great leaps in rebuilding after the 1994 genocide by building roads and making it easy to start or register a new business.

"Rwanda has an efficient government and strong macroeconomic indicators that reveal many opportunities for international retailers that can offer basic packaged goods," said Marieke Witjes, co-author of A.T. Kearney's first African Retail Development Index, released on Monday. The index, which will be compiled annually, ranks the 20 African countries identified as having the best potential for retailers.

Rwanda's 11.5 million people are currently served by two Kenyan supermarket chains, both owned by unlisted retailer Nakumatt Holdings, and a slew of informal traders.

A.T. Kearney ranked Nigeria, Africa's most populous country and its second-biggest economy, second in the index, citing its rapid urbanisation, youthful population and rising middle class.

Reuters. 2014. *Rwanda ranked Africa's most enticing market for retailers*. Available: <http://www.moneyweb.co.za/moneyweb-south-africa/rwanda-ranked-africas-most-enticing-market-for-ret> [2014, March 20]

But the think-tank said the west African giant was the toughest market in the index to master due to its opaque regulations, congestion at its ports and a lack of land on which to build shopping malls.

"These are all the serious hurdles and roadblocks that will require time and effort to overcome," Witjes said.

South African retailer Woolworths pulled the plug on its Nigerian business late last year, citing high rents and duties as well as the difficulty of marketing to consumers in the country of 170 million people.

Other countries that made it into the top 10 included Namibia, Ghana, Ethiopia and Tanzania. South Africa, Africa's biggest economy and consumer market, came in at seventh, with the report's authors saying the market was already well-penetrated.

African growth prospects for retailers were highlighted in 2011 when U.S. giant Wal-Mart bought a majority stake in South Africa's Massmart, giving it a foothold in several frontier African countries.

Even though African per capita incomes are among the lowest in the world, a decade of robust economic growth and rapid population expansion have attracted the attention of international retail investors.

Coupled with relative political stability, a rising middle class, rapid urbanisation, and slower growth in Europe and South Africa, the logic of setting up shop in Africa is not in doubt - provided companies do their homework, the report said.

"It is essential that retailers understand where African countries are in the evolution of the retail landscape and the stages of market development to craft their expansion strategies for Africa," report co-author Mirko Warschun said.

Topics: RWANDA, PAUL KAGAME, GENOCIDE, ECONOMIC REFOR, KENYA

Appendix Two:

African Countries participating in the HIPC Initiative Debt Relief and MDRI, 2000 – 2015:

- Benin
- Burkina Faso
- Burundi
- Cameroon
- Central African Republic
- Chad
- Comoros
- Congo, Dem. Rep. of
- Congo, Republic of
- Côte d'Ivoire
- Ethiopia
- Gambia, The
- Ghana
- Guinea
- Guinea-Bissau
- Liberia
- Madagascar
- Malawi
- Mali
- Mauritania
- Mozambique
- Niger
- Rwanda
- São Tomé and Príncipe
- Senegal
- Sierra Leone
- Tanzania
- Togo
- Uganda
- Zambia (International Development Association and International Monetary Fund, 2011: 56).

International Development Association and International Monetary Fund. 2011. *Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation and Proposals for the Future of the HIPC Initiative*. Available: <https://www.imf.org/external/np/pp/eng/2011/110811.pdf> [2014, February 15]

Appendix Three:

Control of Corruption																
<i>Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.</i>																
Legend																
Estimate	Estimate of governance (ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance)															
StdErr	Standard error reflects variability around the point estimate of governance.															
NumSrc	Number of data sources on which estimate is based															
P-Rank	Percentile rank among all countries (ranges from 0 (lowest) to 100 (highest) rank)															
Lower	Lower bound of 90% confidence interval for governance, in percentile rank terms															
Upper	Upper bound of 90% confidence interval for governance, in percentile rank terms															
		1996	1996	1996	1996	1996	1996	2011	2011	2011	2011	2011	2011	2011	2011	2011
Country/ Territory	WBCode	Estimate	StdErr	NumSrc	P-Rank	Lower	Upper	Estimate	StdErr	NumSrc	P-Rank	Lower	Upper			
GHANA	GHA	-0.22	0.30	3	49	28	65	0.17	0.15	14	63	56	68			

Source: The World Bank, 2012

Appendix Four/Ghana:

The Ghana 2014 Budget Speech was delivered on 19 November 2013. Some of the aspects worth noting from the current speech include the following:

- The provisional GDP growth rate for 2013 is down from the 2012 GDP growth rate of 7.9 percent.
- The agricultural sector registered growth of 3.4 percent in 2013 compared to 1.3 percent in 2012.
- The industrial sector registered growth of 9.1 percent in 2013 compared to 7 percent in 2012.
- The services sector saw a fall in growth in the 2013 year – 9.2 percent compared to 10.2 percent in the 2012 year.
- Inflation increased during the 2013 year from single digit figures in January 2013 to double digit figures in December 2013 – this mainly due to the pass through effect of fuel and utility price increases and demand pressures.
- Crude oil exports were up by over 40 percent compared to the same period in 2012.
- Specific macroeconomic targets for 2014 are as listed below:
 - non-oil real GDP growth of 7.4 percent;
 - overall real GDP (including oil) growth of 8.0 percent;
 - an end year inflation target of 9.5 percent within the band of ± 2 percent;
 - overall budget deficit equivalent to 8.5 percent of GDP; and

- gross international reserves of not less than 3 months of import cover of goods and services (Ministry of Finance (c), 2013: 2) (Ministry of Finance (d), 2013: 16 – 39).

The following policy initiatives have been implemented in order to deal with middle income status and the challenges of financing further development:

- Ghana Infrastructure Fund – the government has proposed the establishing of a fund that would assist with the funding of the large infrastructure deficit as well as aiding in the provision of future infrastructure needs that would contribute to additional employment and economic growth.
- Fiscal Policy – various new policies that range from a debt management policy to assist with cost-efficient accessing of capital on domestic and capital markets, review of the Petroleum Revenue Management Act to assist in the affective management of revenue attained from crude oil, through to an increased drive to improve the effectiveness and efficiency of tax collection.
- Private sector/SME development – policies include the development of a new fund to assist in the support and granting of loans to SMEs and the private sector which form an integral part of the economy in terms of job creation. Among other initiatives to boost economic development is the creation of measures to combat corruption and improve transparency, the establishment of a farmer’s market to assist small-scale farmers in bringing their produce to market and an accelerated modernization of the agricultural sector (Ministry of Finance (c), 2013: 11 - 12) (Ministry of Finance (d), 2013: 183 – 200).

Ministry of Finance (c). 2013. *Budget Highlights Budget Statement and Economic Policy of the Government of Ghana for the 2014 Financial Year*. Available: http://www.mofep.gov.gh/sites/default/files/budget/2014_Budget_Highlights.pdf [2014, January 28]

Ministry of Finance (d). 2013. *The Budget Statement and Economic Policy of the Government of Ghana for the 2014 Financial Year*. Available: http://www.mofep.gov.gh/sites/default/files/budget/2014_Budget_Statement_0.pdf [2014, January 31]

- The Ghana Investment Promotion Centre (GIPC) was able to register 199 additional FDI projects for the year in areas ranging from real estate to solar power generation. This was able to bring in additional capital inflows of US\$517.35 million, which was able to create 75,161 extra jobs of which the large majority of positions were filled by Ghanaians (Ministry of Finance (d), 2013: 52 – 53).

The Domestic Tax Revenue Division has been in the process of modernizing operations for a period of time now. Included in this modernization process currently is the implementation of the Total Revenue Integrated Processing System, which is a type of tax administration software which will computerize the revenue operations and assist in collating information necessary for decision making (Becker, 2014).

The Tax Administration Bill, amendment to the Internal Revenue Act, which separates out the administrative provisions of the Internal Revenue Act – now the Income Tax Bill –, has been passed. The Customs, Excise and Preventative Service Law, VAT Law and Income Tax Bill have been reviewed and simplified. Details of the relevant changes pertaining to each Law are summarized below:

The Value Added Tax (Amendment) Bill was passed by the Ghana Parliament on 15 November 2013 and was gazette on 31 December 2013. This means that the Value Added Tax Act, 1998 (Act 546) as amended, has been repealed and replaced by the Value Added Tax Act, 2013, (Act 870) – the new VAT Act (Becker, 2014).

One of the significant changes to the new Act is the increase of the VAT rate from 12.5 percent to 15 percent. The National Health Insurance Scheme Levy remains at 2.5 percent; hence the new total VAT rate is 17.5 percent (Becker, 2014).

A second significant change in the new Act is the reduction of the allowable period for the claiming of input VAT in respect of expenses incurred from three years to six months (Becker, 2014).

The following business types which prior to the new Act fell outside of the VAT net are now included:

- the sale of immovable property by an estate developer. 'Estate developer' is defined as a commercial establishment engaged in the business of the construction and sale of immovable property;
- the supply of financial services rendered for a fee, commission or similar charge, including the provision of insurance, issue transfer, receipt of, or dealing with money, whether in domestic or foreign currency or any note or order of payment of money, provision of credit, or operation of a bank account or an account of a similar institution. Life insurance and reinsurance services are exempt;
- a supply of domestic transportation of passengers by air and the supply of haulage as well as the rental or hiring of passenger and other vehicles;
- the business activities of auctioneers and promoters of public entertainment;
- the business of a gymnasium and spa; and
- the manufacture or supply of pharmaceuticals listed under Chapter 30 of the Harmonized Systems Commodities Classification Code, 1999, other than supplies at the retail stage (Becker, 2014).

On 13 December 2013 Parliament passed the Customs and Excise Duties and other Taxes Amendments No 2 Bill which amends the Customs and Excise(Duties and Other Taxes) Act, 1996 (Act 512). Changes that have been made include the exemption from import duty of raw materials used for the manufacture of HIV/AIDS drugs and the printing of textbooks and exercise books (Becker, 2014).

Other suggested amendments to the Income Tax Bill as included in the 2014 Budget Speech include:

- A withholding tax of 15 percent on commercial buildings' rental income, while residential buildings remain at eight percent;
- The introduction of tax stamps on selected excisable products to improve compliance;
- The transfer pricing regulations introduced in 2012 will be mainstreamed into the GRA operations;
- The windfall profit of ten percent on mining company profits which was tabled in Parliament in 2012 will be reviewed by a selected committee and in due course put before Parliament again;
- The increase of management and technical service fees income tax rate from 15 percent to 20 percent;
- The introduction of a Construction Industry Scheme in 2014, which among other issues will set out rules for how payments to sub-contractors for construction work must be handled by the contractors for income tax purposes;
- The introduction of capital gains tax to petroleum operations;
- The amendment of the petroleum excise duty from a specific rate to an ad valorem rate; and
- Goods and services supplied to the domestic market from Free Zone Enterprises to have the eight percent rate of taxation that they are taxed on the profits of these goods and services increased to the same income tax rate paid by domestic suppliers of the same goods and services(Becker, 2014).

Appendix Five/Ghana:

Total Government Tax Revenue, 2012:

Description	Including Oil		Excluding Oil	
	2012		2012	
	Budget (GH¢ million)	Outturn(GH¢ million)	Budget (GH¢ million)	Outturn(GH¢ million)
Total Tax Revenue excluding exemptions	12,201.40	11,738.30	11,580.40	11,468.10
Total Tax Revenue including exemptions	12,584.10	12,517.30	11,963.10	12,247.00
Taxes on Income and Property	5,874.40	5,536.20	5,253.40	5,536.20
o/w Personal Income Tax	1,789.40	2,204.40	1,789.40	2,204.40
o/w Company Taxes	3,069.70	2,361.50	2,685.60	2,361.50
Taxes on Domestic Goods and Services	4,203.10	4,212.00	4,203.10	4,212.00
o/w VAT	2,802.80	2,777.30	2,802.80	2,777.30
o/w Excise	693.7	730.3	693.7	730.3
o/w NHIL	560.9	576.1	560.9	576.1
International Trade Taxes	2,506.60	2,769.00	2,506.60	2,769.00
Exemptions (non-cash)	382.7	778.9	382.7	778.9

Source: The Ministry of Finance (b), 2013: 27

Appendix Six/Ghana:

Fixed assets have been categorized into six classes or pools. This system allows two methods of depreciation:

- The reducing balance method; and
- The straight line method (Ali-Nakyea, 2008: 105).

Classes or pools one to four assets are put in different pools and depreciated at various rates ranging from 20 percent to 80 percent on the reducing balance method. Class five (buildings) attract a rate of ten percent on cost and Class six (intellectual or industrial property) is depreciated over its estimated useful life (PKF (a), 2012: 3).

In respect of classes five and six assets only, the asset must be in use (i.e. be in existence) at the end of the basis period (Ali-Nakyea, 2008: 103):

CLASS:	ASSETS INCLUDED:	RATE:
1	Computers and data handling equipment	40%
2	Automobiles, plant and machinery used in manufacturing	30%
	Assets in respect of long-term crop planting costs	30%
3(1)	Assets relating to minerals and petroleum industry	80% of cost in year of purchase and 50% each year thereafter
4	Railway, water and air transport, plant and machinery, fixtures, furniture and equipment, and any other asset not included in any other class	20%
5	Buildings, structures and works of permanent nature other than those in Class 3	10% (straight line)
6	Intangible assets other than those in Class 3(1) the second year of any new asset, 5% of cost of asset is added to written down value	Estimated useful life

Source: PKF (a), 2012: 3

Petroleum companies are allowed to claim a 20 percent capital allowance on all necessary expenditure incurred related to petroleum operations from the year in which the petroleum contractor first produces petroleum for sale (PwC, n.d.: 5).

Appendix Seven/Ghana:

The following capital gains from the realization of a chargeable asset are taxable:

- Land which is not for agriculture in Ghana;
- Buildings;
- Shares; and
- Goodwill and business assets (PKF (a), 2012: 1).

Excluded from the list of chargeable assets are:

- Trading stock;
- Securities of company listed on Ghana stock exchange for a period of 30 years starting from November 1990;
- Classes 1,2,3,4 assets (e.g. vehicles, plant and machinery, air and sea transport, computers etc.); and (PKF (a), 2012: 1)
- Agricultural land situated in Ghana (Ali-Nakyea, 2008: 142).

The following capital gains from the realization of a chargeable asset are exempt:

- Capital gains of a person up to a total of 50 currency points (GH¢ 50) per year of assessment as noted above;
- Capital gains accruing to or derived by a company arising out of a merger, amalgamation, or re-organisation of the company, where there is continuity of underlying ownership in the asset of at least 25 percent;
- Capital gains resulting from a transfer of ownership of the asset by a person to that person's spouse, child, parent, brother, sister, aunt, uncle, nephew or niece;
- Capital gains resulting from a transfer of ownership of the asset between former spouses as part of a divorce settlement or genuine separation agreement; and
- Capital gains where the amount received on realization is used to acquire a replacement asset, or any part of the capital gains represented by the amount used to acquire the replacement asset less the base cost of the asset realized at the time of realization (Ali-Nakyea, 2008: 143).

Appendix Eight/Ghana:

Ordinary withholding rates:

A.	FOR RESIDENTS	
i)	ON ACCOUNT (Sections 2, 82 & 84 of Act 592)	
1	Interest to non-exempt companies	8%
2	Insurance Commission to sales and Canvassing Agents	10%
3	Lotto Receivers / Agents Commission	5%
4	Payments for goods and services above GH¢50.00 in a year	5%
5	Fees, emoluments to a Director, Manager, Or a Board, Members of a Company or body of persons	10%
ii)	FINAL (Sections 2(1), 84 of Act 592 L.I. 675 Sec. 28(3))	
1	Dividend	8%
2	Part Time Teaching Fees etc.	10%
3	Endorsement Fees	10%
B.	FOR NON-RESIDENTS	
i)	ON ACCOUNT (Section 2(1), L.I 1675 Sect. 41)	
	Non-residents with permanent establishments in Ghana	
1	Dividend and Interest	8%
2	Royalties, natural resource payments and rents	10%
3	Payments for goods and services	15%
4	Management and Technical Service fees / Endorsement fee	15%
ii)	FINAL (Section 2(4), L.I. 1165 Sect. 4)	
	Non-Residents without permanent establishment in Ghana	
1	Dividend and Interest	8%
2	Royalties, natural resource payments and rents	10%
3	Management and technical services fees / Endorsement fees	15%
4	Payments of goods and services	15%

Source: Ghana Revenue Authority, n.d.: pg 2 – 4

Double tax treaty withholding rates:

INCOME	GERMANY	SOUTH AFRICA	BELGIUM	ITALY	NETHERLANDS	UNITED KINGDOM	FRANCE
Technical/Management Fees	8%	10%	10%	10%	8%	10%	10%
Interest	10%	10%	10%	10%	8%	12.5%	10%
Royalties	8%	10%	10%	10%	8%	12.5%	10%
<i>Dividends:</i>							
Recipient must hold at least 10% shares	5%	5%	5%	5%	5%	7.5%	7.5%
All other cases	15%	15%	15%	15%	10%	15%	15%

Source: PKF (a), 2012: 7

Appendix Nine/Ghana:

Locational incentives for manufacturing and waste processing businesses:	
Regional capitals other than Accra and Tema	25% rebate
Any other location	50% rebate
Source: KPMG, 2012: 15	
Locational incentives for agro-processing business and cocoa-by-products after tax holiday:	
Location within Accra or Tema	20%
Location in regional capitals of Ghana:	
Except three northern regions	0%
Three northern regions	10%
Outside regional capitals	0%
Source: KPMG, 2012: 15	
Sectorial Incentives:	
Hotel Industry	20%
Export of non-traditional production	8%
Loans granted to a farming enterprise	20%
Loans granted to a leasing company	20%
Companies listed on the Ghana Stock exchange	25%
Companies listed on the Ghana stock exchange after 01 January 2004	22% (for first three years)
Rural banking and Free Zone companies	Not exceeding 8% after 10 year exemption period
Source: KPMG, 2012: 16 – 17 and PKF (a), 2012: 5	
Industrial Concessions: (exemption period):	
Farming tree crops	10 years
Livestock	5 years
Farming cattle	10 years
Processing business	3 years
Rural banking and Free Zone companies	10 years
Construction for sale letting of residential premises (on condition that the company partners the Ministry for Works and Housing)	5 years
Cocoa farming indefinitely processing of cocoa by-products	5 years

KPMG. 2012. *KPMG Investment Incentives in Ghana*. Available: <http://www.kpmg.com/eastafrica/en/services/Tax/AfricaTaxAcademy/Documents/Investment%20Incentives%20in%20Ghana.pdf> [2013, November 15]

Processing of waste materials	7 years
Agro-processing	5 years
Venture capital investments (effective 2006)	5 years
Real estate companies	First 5 years with some limitations
Source: KPMG, 2012: 16 – 17 and PKF (a), 2012: 5 - 6	

Other Incentives:

- Imports into free-zones are exempt from customs duty
- Companies using local raw materials as substitutes in the production of excisable goods, will be granted a reduced excise duty on a sliding scale by the Government (Deloitte (a), 2011: 42)

Exchange Controls:

Exchange controls are in place for imports and exports, as well as for capital, profits, royalties, interest, fees and income of expatriate personnel. Under the Ghana Investment Promotion Centre Act, 1994, investors are guaranteed free transfer of profits, interest, fees, charges, loan repayments, and liquidation proceeds. Expatriate personnel are permitted to transfer a certain percentage of their net after-tax profits. Non-resident companies are allowed to transfer net after-tax profits abroad, on condition that the transfer is done through persons approved by the Bank of Ghana. (Deloitte (a), 2011: 42)

Appendix Ten/Ghana:

Miscellaneous Taxes:

Part A:

Stamp Duty Transactions:

- Conveyance or transfer on the sale of any property;
- Appointment of a new trustee;
- Natural resource lease or license (E.g. mining and timber);
- Agreement of memorandum of agreement;
- Award of cost in a matter of dispute;
- Bill of exchange (e.g. issues of cheques);
- Bill of lading; and
- Insurance policy (PKF (a), 2012: 2) (Deloitte (a), 2011: 41).

Part B:

Gift Tax Transactions:

- Land and buildings;
- Money (including foreign currency);
- Shares;
- Bonds and securities;
- Business; and
- Business assets (PKF (a), 2012: 2) (Deloitte (a), 2011: 41).

Appendix Eleven/Ghana:

Part A:

Taxes collected by CEPS:

- Import duties on goods imported into Ghana;
- Import VAT on goods exported from Ghana;
- Excise duties;
- Vehicle importation tax;
- Petroleum tax;
- National health insurance levy; and
- Any other tax or duty as prescribed by law, e.g. Economic Community of West African States (ECOWAS) Levy, and Export Development and Investment Fund (EDIF) levy (Ali-Nakyee, 2008: 244).

Part B:

Items subject to National Health Insurance Levy:

- Every supply of goods and services made or provided in Ghana
- Every importation of goods, and
- The supply of any imported service unless otherwise exempted in the Act or Regulations made under it. In the same manner that VAT is calculated, the levy is calculated on the duty inclusive of the value of all imported goods (Ali-Nakyee, 2008: 248 - 249).

Relief from the payment of NHIL is as follows:

- Zero-rated supplies;
- Relief supplies; and
- Exempt supplies – include the same supplies exempted from VAT (Ali-Nakyee, 2008: 248 - 249).

Appendix Twelve/Ghana:

Part A:

Exempt VAT items:

- Animals, livestock and poultry – includes all live animals;
- Goods for the disabled;
- Educational items or services – educational establishment must be approved by Ministry of Education when supplying educational services. Laboratory equipment for educational purposes and library equipment is also included;
- Medical supplies, services and pharmaceuticals – medical supplies and pharmaceuticals which entails:
 - i) Essential drugs as listed under Chapter 30 of the Harmonised Systems Commodities Classification Code, 1999, produced or supplied by retail in Ghana;
 - ii) Active ingredients specified in Schedule 1A for essential drugs; and
 - iii) Imported special drugs determined by the Minister for Health and approved by Parliament as specified in Schedule 1B.
- Transportation – includes transportation by bus and similar vehicles, train, boat and air; and
- Machinery – machinery, apparatus, appliances and parts thereof, designed for use in:
 - a) Veterinary, delivery, fishing and horticulture;
 - b) Industry;
 - c) Mining (as specified in the mining list) and dredging; and
 - d) Railway and tramway (Ali-Nakyee, 2008: 277 - 278).
- Crude oil and hydrogen products – petrol, diesel, liquefied petroleum gas, kerosene and residual fuel oil – petroleum companies are exempt from VAT on all activities related to petroleum operations and to the sale and export of petroleum (PwC, n.d.: 1).
- Land, buildings, the right to occupy land and buildings, the assignment or surrender of an interest in land or buildings, the right to occupy land and buildings, civil engineering works, services supplied in the course of construction, demolition, alteration and maintenance of

buildings or other works under the classification above, including the provision of labour.

NOTE: This exemption excludes professional services such as architecture or surveying.

- Financial services – provision of insurance, issue, transfer, receipt of, or dealing with money (including foreign exchange) or any note or order of payment of money, provision of credit, operation of any bank (or similar institution) account.

NOTE: Exemption excludes professional, investment and legal services such as accountancy.

- Animals, livestock and poultry imported for breeding purposes – live asses, mules and hinnies, live bovine animals, live swine, live sheep and goats, live poultry;
- Animal product in its raw state, produced in Ghana – edible meat and offal of the animal, livestock and poultry - providing any processing is restricted to salting, smoking or similar processes; and
 - Agricultural and aquatic food product in its raw state produced in Ghana – fish, crustaceans and mollusk. Vegetables, fruits, nuts, coffee, cocoa, shea butter, maize, sorghum, millet, tubers, guinea corn and rice.

NOTE: It should be understood that in the two points listed directly above, the items are considered to be in their raw state even if they have undergone simple processes of preparation or preservation such as freezing, chilling, drying, salting, smoking, stripping and polishing.

- Seeds, bulbs, rooting and other forms of propagation – edible fruits, nuts and vegetables;
- Agricultural input – chemicals including all forms of fertilizers, acaricides, fungicides, nematicides, growth regulators, pesticides, veterinary drugs and vaccines, feed ingredients;
- Fishing equipment – inputs (imported) for fishing nets and twines, boat nets, floats, twines, hooks and other fishing gear;
- Water – supply of water. Exemption excludes bottled and distilled water;
- Electricity – domestic use of electricity up to a specified consumption level prescribed in regulations by the Minister (i.e. all commercial use of electricity and domestic consumption above the specified amount will be taxable.);
- Printed matter (books and newspapers): These must be fully printed or produced by any duplicating process. It includes atlases, books, charts, maps and music;

- Transfer of a going concern – the supply of goods as part of the transfer of a business as a going concern by one taxable person to another taxable person;
- Postal services – supply of postage stamps (i.e. other commercial services rendered by postal agencies are taxable);
- Musical instruments – musical instruments as listed under Chapter 92 of the Harmonised Commodities Classification Code; and (Ali-Nakyea, 2008: 278 - 280)
- Mutual funds and unit trust funds that invest in stocks on the stock exchange will also be exempted from VAT on financial services (Ernst and Young (b), 2012: 4).

Part B:

Zero rated VAT items:

- Export of taxable goods and services;
- Goods shipped as stores on vessels and aircrafts leaving territories of Ghana;
- Locally produced textbooks and exercise books;
- Locally manufactured agricultural machinery and other agricultural implements or tools; and (Ali-Nakyea, 2008: 280)
- Assets disposed of are subject to VAT (PKF (a), 2012: 2).

Appendix Thirteen/Ghana:

Section 70 of Act 592 deals with transfer pricing. The first sub-section states:

- (1) “In a transaction between persons who are associates, the Commissioner may distribute, apportion, or allocate inclusions in income, deductions, credits, or personal reliefs between those persons as is necessary to reflect the chargeable income or tax payable which would have arisen for these persons if the transaction had been conducted at arm's length.”

This sub-section gives the CG the power, within reason, to reclassify business transactions, in order to restore lost revenue to the *fiscus*.

With regard to Section 70(2) and 70(3) Act 592 states:

- (2) “Where,
- in the case of an associated resident entity of a non-resident person, the Commissioner is satisfied that some adjustment is warranted under subsection (1) of section 69, or
 - in the case of a permanent establishment of a non-resident person in Ghana, the Commissioner is not satisfied with a return of income of that person made under section 72,
- the Commissioner may adjust the income of the permanent establishment or entity for a basis period so that it reflects an amount calculated
- by reference to the total consolidated income of the non-resident person and all associates of that non-resident person, other than individuals but irrespective of residence;
 - by taking into account the proportion which the turnover of the permanent establishment or entity bears to the total consolidated turnover of the nonresident person and those associates; and

by taking into account any other relevant considerations in determining the proportion of the total consolidated income which should be attributed to the permanent establishment or entity.

- (3)** In making an adjustment under subsections (1) or (2), the Commissioner may re-characterise the source of income and the nature of any payment or loss as revenue, capital, or otherwise.” (Internal Revenue Act, No. 592 of 2000, as amended, 2006: chap1).

Sub-section (2) allows the CG to institute legal action against the taxpayer in order to reset its income levels. In this instance the onus of proof against a tax position adopted by the CG is on the taxpayer. The third sub-section allows the CG the power to re-characterise income to fall under the Ghana taxation net in order to decrease the incidence of income being shifted from Ghana’s jurisdiction. Further, it empowers the CG to re-characterise income by an associate of a non-resident entity as having being earned in Ghana or otherwise to protect revenue (Asante-Boadi, 2011: 23 - 24).

Section 69—Income Splitting

- (1) “Where a person attempts to split income with another person, the Commissioner may adjust the chargeable income of both persons to prevent a reduction in tax payable as a result of the splitting of income.
- (2) A person is treated as having attempted to split income where
- a. that person transfers income, directly or indirectly, to an associate; or
 - b. that person transfers property, including money, directly or indirectly, to an associate with the result that the associate receives or enjoys the income from that property, and the reason or one of the reasons for the transfer is to lower the total tax payable upon the income of that person and the associate.

(3) In determining whether a person is seeking to split income, the Commissioner shall consider the value given by the associate for the transfer.

(4) A transfer of income or property indirectly from a person to an associate of that person includes a transfer made through the interposition of one or more entities.”

(Internal Revenue Act, No. 592 of 2000, as amended, 2006: chap1).

This section, together with Section 70 which deals with transfer pricing, empowers the CG to take litigious action against the taxpayer in order to retrieve reduced chargeable income.

Section 71 deals with thin capitalization. Thin capitalization refers to operating a business with loan funding as opposed to equity funding. Interest paid on the loan reduces taxable profits, leaving little or no funds for declaration of dividends. A loan is temporary in that the lenders can receive a return on their investment according to a fixed repayment schedule. Equity funding is for an indeterminable period and any dividends that are paid out are not deductible. The section reads as follows:

- (1) “Where an exempt-controlled resident entity which is not a financial institution has an exempt debt-to-exempt equity ratio in excess of 2 to 1 at any time during a basis period, a deduction is disallowed for any interest paid or foreign currency exchange loss incurred by that entity during that period on that part of the debt which exceeds the 2 to 1 being a portion of the interest or loss otherwise deductible but for this subsection.
- (2) In this section “exempt-controlled resident entity” means a resident entity in which fifty percent or more of the underlying ownership or control of the entity is held by an exempt person, in this section referred to as the "exempt controller", either alone or together with an associate or associates; "exempt debt", in relation to an exempt-controlled resident entity, means the greatest amount, at any time during a basis period, of the sum of:

(a) the balance outstanding at that time on any debt obligation owed by the exempt-controlled resident entity to an exempt controller or an exempt person who is an associate of the exempt controller with respect to which

i. interest is paid which is, or

ii. in the case of a debt obligation denominated in foreign currency, any foreign currency exchange loss incurred is, or if incurred would be, deductible to the exempt-controlled resident entity and the interest or foreign currency exchange gain is not or would not be included in ascertaining assessable income of the exempt controller or associate; and

(b) the balance outstanding at that time on a debt obligation owed by the exempt-controlled resident entity to a person other than the exempt controller or an associate of the exempt controller where that person has a balance outstanding of a similar amount on a debt obligation owed by that person to the exempt controller or an exempt person who is an associate of the exempt controller; “exempt equity”, in relation to an exempt-controlled resident entity and for a basis period, means the sum of the following amounts:

(i) so much of any amount standing to the credit of the capital accounts of the entity at the beginning of the period as the exempt controller or an exempt person who is an associate of the exempt controller is entitled to or would be entitled to if the entity were wound up at that time; and

(ii) so much of the accumulated profits and asset revaluation reserves of the entity at the beginning of the basis period as the exempt controller or an exempt person who is an associate of the exempt controller is entitled to or would be entitled to if the entity were wound up at that time; reduced by the sum of

(iii) the balance outstanding at the beginning of the period on a debt obligation owed to the entity by the exempt controller or an exempt person who is an associate of the exempt controller; and

(iv) where the entity has accumulated losses at the beginning of the period, the amount by which the return of capital to the exempt controller or an exempt

person who is an associate of the exempt controller would be reduced by virtue of the losses if the entity were wound up at that time;

“exempt person” means

a non-resident person; and

a resident person for whom interest paid to that exempt person by the exempt-controlled resident entity or for whom any foreign currency exchange gain realised with respect to a debt claim against the exempt-controlled resident entity:

i. constitutes exempt income; or

ii. is not included in ascertaining the exempt person's assessable income;

iii. “resident entity” means a resident partnership, resident company, resident body of persons, or a permanent establishment of a non-resident person in Ghana.” (Internal Revenue Act, No. 592 of 2000, as amended, 2006: chap1).

Appendix Fourteen/Rwanda:

		2011	2012
Industry Growth Rate		0.18	0.07
Mining and quarrying		0.50	(0.10)
Manufacturing		0.08	(0.03)
Of which:	Food	0.04	0.02
	Beverages and tobacco	0.07	0.04
	Textiles and clothing	(0.01)	(0.01)
	Wood, paper and printing	(0.11)	0.10
	Chemicals, rubber, plastics	0.14	0.09
	Non-metallic minerals	0.18	0.09
	Furniture and other	0.33	(0.55)
Electricity and water		0.15	0.17
Construction		0.24	0.15

Source: National Institute of Statistics of Rwanda, 2012

Appendix Fifteen/Rwanda:

	2011	2012
Services growth rate	0.09	0.12
Wholesale and retail trade	0.10	0.12
Hotels and restaurants	0.04	0.08
Transport, storage, communication	0.05	0.19
Finance. Insurance	0.20	0.17
Real estate, business services	-	0.09
Public administration	0.15	0.12
Education	0.18	0.06
Health	0.02	0.10
Other personal services	(0.01)	0.01

Source: National Institute of Statistics of Rwanda, 2012

Appendix Sixteen/Rwanda:

Capital allowances/ordinary:

Asset	Rate (%)	Note
The cost of acquisition, construction, improvement, rehabilitation and reconstruction of buildings, equipment and plant	5	Each asset on its own on a straight line basis
The cost of acquisition, development, improvement, rehabilitation and reconstruction of intangible assets including goodwill purchased from a third party	10	Each asset on its own on a straight line basis
Computers and accessories, information and communication systems, software products and data equipment	50	Under a pooling system on a straight line basis
All other business assets	25	Under a pooling system on a straight line basis

Source: PwC, 2012: 11

Appendix Seventeen/Rwanda:

Double tax treaty rates:

Type of Income	Belgium	Mauritius	South Africa
Dividends	10%	0%	10%
Interest	10%	0%	10%
Royalties	10%	0%	10%
Technical Service Fees	10%	0%	10%
Other	10%	10%	10%

Source: Deloitte, n.d.: 4

Deloitte. n.d. *Rwanda Guide to fiscal information*. Available:
<http://www.deloitte.com/assets/Dcom-SouthAfrica/Local%20Assets/Documents/Rwanda.pdf>
 [2013, November 05]

Appendix Eighteen/Rwanda:

Legal and Regulatory Framework for Promoting and Incentivizing Investment		
NAME	AREA	
Constitution of Rwanda 2003	The Constitution Guarantees Private Property Rights	
Rwanda Investment and Export Promotion Act 2005	Law on Investment, Trade and Export	Provides for Registration of Investment Projects
Value Added Tax 2001	Law Imposing VAT	Provides for Exemptions for Domestic and FDI
Income Tax Act 2005	Law governing Taxation of Income	Provides for Incentives for domestic and FDI
Customs and Excise Act 2006	Law on Import and Export duties	Provides for Exemptions for Domestic and FDI
2007 Law Establishing the Rwanda Commercial Registration Services Agency	Register trading companies and for intellectual property rights	
2008 Law Establishing Rwanda Development Board	Government Agency to fast track development activities, to promote domestic and FDI and to promote exports to regional and international markets.	Provides an Information Hub and advice to investors including a One Stop Centre for Starting a Business and support with business implementation.
2008 Law Establishing Arbitration and Conciliation in Legal Matters	Applies to domestic and international commercial arbitration and conciliation.	

Source: Institute of Policy Analysis and Research - Rwanda, 2011:

Laws that relate to tax incentives for investors in Rwanda:

- Law No 6/2001 of 20/01/2001 – Code of Value Added Tax as amended by law No 29/2010
- Law No 25/2002 of 18/07/2002 – Fixing the Import Duty Tariff on Imported Products
- Law No 16/2005 of 18/08/2005 – Direct Taxes on Income as amended by Law No 73/2008 and Law No 24/2010
- Law No 26/2010 – Holding and Circulation of Securities
- Law No 26/2006 dated 27/05/2006 – Determining and Establishing Consumption Tax on Some Imported and Locally Manufactured Products as amended by Law No 75/2008, Law No 19/2009 and Law No 28/2010 (Institute of Policy Analysis and Research - Rwanda, 2011: 26).

Appendix Nineteen/Rwanda:

General Tax Incentives, Concessions and Exemptions:

<u>Excise Duty</u>
Reduction of 33 RFW a litre on gas oil.
<u>Customs Duty</u>
• goods contained in the personal luggage of a traveller, and goods brought in on setting up residency.
• goods imported for diplomatic missions, consulates, international organisations and charities
• educational, scientific and cultural materials.
• pharmaceutical products, instruments and apparatus intended for medical purposes, pesticides, agricultural inputs and tools and fishery equipment
<u>VAT – Exempt</u>
• For all Residents
• Water Supply and Sewage Treatment Services
• Goods and Services for Health Purposes including medical treatment, drugs and medical equipment and equipment for people living with disabilities
• Educational Material and Services provided for/used by government education institutions and those run by NGOs
• Print Media and Electronic Equipment used for Educational Proposes
• Transport Services including air, boat and road travel and the transport of goods by road and boat
• Sale and Lease of Land and Property for Residential Purposes
• Financial and insurance Services including premiums on health and life insurance, charges on operation of current account, transfer of shares, capital market transactions for listed securities
• Funeral Services
• Energy supplies
• Trade Union subscriptions
• Leasing of Exempt goods
• Agricultural and Livestock Products except for those Processes (locally processed milk is exempt)
• Agricultural Inputs and Equipment
• ICT Equipment
• Mobile 'Phone Handsets and SIM Cards
For all Investors
• Machinery for Industry

• Medical Equipment, Medical Products, Agricultural, Livestock, Fishing Equipment and Agricultural inputs
• Tourist Charter Planes
• Transfers of Market Shares
<u>Income Tax</u>
• Farm enterprises are exempt from tax with turnover up to 12 million RWF a Year.
• Non-Farm Enterprises are exempt from tax with a turnover up to 1.4 million RWF a Year.
• Those with annual earnings/profit below 36,000 RWF a year are exempt from tax.
• Premiums paid by employers and employees to recognised pension funds.
• Government, NGOs, religious organisations, donor funded projects exempt.
• Taxpayers who export commodities or service in a tax period to a value
- of between three and five million US\$ are entitled to a tax discount of three per cent;
- more than five million US\$ are entitled to a tax discount of five per cent.
• Income accruing to registered collective investment schemes and employee share schemes is exempt from tax
• Exemption of secondary market transactions for listed securities from capital gains tax
• Listed companies are taxed at 20 per cent, 25 per cent and 28 per cent respectively for a period of five years if they sell 40 percent, 30 percent or 20 percent of their shares
• A venture capital firm is exempt from corporate income tax for five years from the date of registration with the capital market authority
• The withholding tax is reduced from 15 per cent to five percent on dividends and interest income on listed securities and interest arising from investments in listed bonds with a maturity period of three years and over when the person who withholds is a resident of Rwanda or the EAC
• Exemption from withholding tax on imports and public tenders for taxpayers who have a tax clearance certificate issued by the Commissioner General of Rwanda Authority who have complied with 24 tax requirements
• interest on investment income is taxed at a flat rate of 15 per cent
• income from dividends is taxed at a flat rate of 15 per cent
• royalty income is taxed at a flat rate of 15 per cent
• tax on rental income (excluding buildings and houses) is reduced to 10 per cent.

Source: Institute of Policy Analysis and Research - Rwanda, 2011: 23 - 24

Appendix Twenty/Rwanda:

Tax Incentives for Holders of an Exemption Certificate:

<u>Direct Taxes on Income:</u>
An investment allowance of forty percent of the invested amount (50% outside the city of Kigali or for priority sectors as determined by the Investment Code of Rwanda) may be depreciated provided the amount invested is equal to or more than 30 million RWF, excluding motor vehicles that carry eight persons except those used exclusively in the tourism business, and the business assets are kept at the business premises for three tax years following the first one.
Training and research expenses are deductible from taxable profits
Losses may be carried forward and deducted from business profit in the next five tax years – earlier losses being deducted before later ones; loss carry forward
A company that operates in a Free Trade Zone and foreign companies that have their headquarters in Rwanda, invest at least two million US dollars, provide employment and training for Rwandans, make international financial transactions that need equivalent of five million US dollars, and pass through a local bank and spend at least the equivalent of one million US dollars a year in Rwanda are entitled to pay corporate income tax at zero percent, are exempt from the 15 percent withholding tax on interest, and can repatriate profits tax free abroad.
A profit tax discount of:
Two percent if the investor employs between 100 and 200 Rwandans
Five percent if the investor employs between 201 and 400 Rwandans
Six percent if the investor employs between 401 and 900 Rwandans
Seven percent if the investor employs more than 900 Rwandans
Micro finance institutions are zero rated for five years renewable on a Ministerial Order
<u>VAT, Customs Duty¹ and Withholding Taxes:</u>
Machinery and Raw materials
Building and finishing materials provided that the project is worth at least one million eight hundred thousand US dollars and the materials are not available in Rwanda of international standard as specified by the developer.
Private education institutions importing materials and equipment
Specialised vehicles
Medical equipment, medical products, agricultural equipment and input
Equipment for tourism/hotel industry
Foreign investor or an expatriate employee of a registered enterprise is exempt from duty on one car, personal property and household effects

- RDB may request the Cabinet to give additional incentives and facilities to investors. Such decisions will take account of the importance of the investment to Rwanda, the location and the amount to be invested.

Source: Institute of Policy Analysis and Research - Rwanda, 2011: 26 - 27

¹ Exemption from custom duty has to be in line with EAC Regulations

Appendix Twenty-one/Rwanda:

Exports-Tax Discount:

Export Amount	Tax Discount
Export of commodities and services that bring country revenue of between US\$ 3 million and US\$ 5 million	3%
Export of commodities and services that bring country revenue of more than US\$ 5 million	5%

Source: PwC (b), 2011: 10 - 11

Appendix Twenty-two/Rwanda:

Consumption tax/ excise duty:

PRODUCT	TAX RATE
Juice from fruits	5%
Soda and lemonade	39%
Mineral Water	10%
Beer	60%
Wine	70%
Brandies, liquor and whisky	70%
Cigarettes	150%
Telephone communication	8%
Fuel (other than jet fuel) and diesel	37%
Powdered milk	10%
Vehicles with an engine capacity of above 2500 cc	15%
Vehicles with an engine capacity between 1500 cc and 2500 cc	10%
Vehicles with engine capacity of less than 1500 cc	5%
Diesel	RWF 250 per litre
Petrol	RWF 283 per litre

Source :Gakwaya (f) 2013: Sect 9

Appendix Twenty-three/Rwanda:

Vat Exempt Goods:

Agricultural products as detailed below:

LIST OF PRODUCTS AND ITEMS USED IN AGRICULTURE AND ANIMAL RESOURCES TO BE EXONERATED:

I. BREEDING (Reproductive) ANIMALS

- Heifers and Bulls
- Pigs
- Goats and sheep
- Day old chicks
- Rabbits
- Fingerlings
- Frozen Semen and embryo

II. RESIDUES AND INDUSTRIAL FOOD WASTES AND PROCESSED FEEDS FOR ANIMALS

- Fish meal
- Wheat bran
- Maize bran
- Sugarcane molasses
- Sunflower cake
- Soya bean cake
- Palm kernel cake
- Groundnut cake
- Cotton seed cake

III. SALT LINKS AND MINERAL SUPPLEMENTS

- Salt licks
- Mineral
- Vitamin premixes

- Mineral boluses

IV. VETERINARY PHARMACEUTICAL PRODUCTS

4.1. Vitamins for veterinary use.

4.2. Hormones: Gonadotropins, Oxytocin, Progesterone, PMSG, HCG, Prostaglandins (PGF2#).

4.3. Antiprotozoa

- Trypanocides:
- Trypanidum, Samorin,
- Piroplasmides: Berenil, Diminazene,
- Antithelarian: Butalex, Imizol,
- Coccidiostatic: Amprolium,
- Anticoccidians: Nitrofurannes, Nitrofur, Furazolidone, Nitrofurantoin,...

4.4. Anthelmintic:

Imidazole products:

- Benzimidazoles: Albendazole, Cambendazole, Fembendazole, Flubendazole, Mabendazole, Oxfendazole, Oxibendazole, Thiabendazole
- Proimidazoles: Febantel, Thiophanate
- Imidazothiazoles: Tetramisole, Levamisole, Ivermectine, Nitroscanate, Nitroxinil, Phenothiazine and products
- Organophosphorous : Bromophenophos, Dichlorovos, Haloxon, Naphtalophos
- Piperazine (base and salt)
- Pyrimidine and salicylamid product: Brotiamide, Clioamide, Closantel, Niclfolan, Niclosamide, Oxyclosamide, Rafoxanide, Rezorantel.

4.5. Acaricides

- Deltamethrin 5%: Spray
- Flumethrin 6%: Spray
- Organophosphorous: Carbophenothion: Fenthion
- Benoxaphos: Malathion
- Couphamos: Tetrachlorviphos
- Fenachlorphos: Metrifonate

4.6. Antibiotics

I. Beta-lactamines: -Penicillines(Original and synthetic products)

- Penicelline-Procaïne, Benzathine-Penicilline,
- Extencilliline, Ampicilline, Methycilline,
- Cephalosporines for veterinary use

II. Streptomycines: extracts of various sources of Streptomyces, Gentamycine,

- Kanamycine, Neomycine, Novobiocine for veterinary use

III. Chloramphenicol: Thiamphenicol for Veterinary use

IV. Tetracyclines: tetracycline, Aureomycine, Terramycine (Oxytetracycline) for veterinary use

V. Polypeptidic antibiotics: Gentamycine, Kanamycine, Tyrothrycine,

- PolymyxineB for veterinary use

VI. Macrolides and related antibiotics: Spiramycine, Oleandomycine, Tylosine

VII. Antifongic antibiotics: Fudicine for veterinary use

VIII. Various antibiotics for veterinary use

4.7. Sulfamides for veterinary use only

I. Sulfamides for general action

Sulfanilamide, Sulfamerazine, Sulfadimidine

4.8. Antipyretic for veterinary use:

- Novalgin
- Anthistaminic for veterinary use
- Phenbenzamine, Promethazine (Phenergan), Alimemazine, Oxomemazine

4.10. Antiflammatories for veterinary use

a) Glucocorticoides (or steroidians antiflammatories) for veterinary use:

- Cortisone, hydrocortisone(cortisol), prednisolone, medrol

b) non Steroidians Antiflammatories and minor analgesic for veterinary use:

Salicyclics:

- Salicycllic Acid(under sodium salicyclate form)
- Salicycllic acetyl acid(=aspirine) and its by-products.

4.11. Pyrazols: antipyrine, amidopyrine, Oxyphenbutazone

4.12. Acetanilides: Acetanilide, Phenacetine, Paracetamol, Indomethacine, Sulindac

4.13. Indolics and related products: Indomethacine, Sulindac

4.14. Quinoleins: Glafenine

4.15. Phenothiazines: Protizinic acid, methiazinic acid

4.16. Nervous system medicines for veterinary use: Xylazine(Chlorhydrate)
Rompum, Procaine and related products, atropine sulphate, Strichnine.

4.17. Medicines of the digestive tube for veterinary use:

- *Adsorbants*: Kaolin, Pectines, Hydroxide and salicylate of aluminium.
- *Acidifiers*: lactic Acid
- *Alcalinifiers*: Sodium bicarbonate, Magnesium

4.18. Medicines of the respiratory apparatus for veterinary use:

- *Anticough*: Belladone, Atropine
- *Expectorants*: Potassium iodide, kermes, terpene by-products

4.19. Medicines for cardio-vascular and blood system for veterinary use:

- Digitaline, digitoxone, ouabaine, quinidine, caffeine, theophylline, theobromine,
- Camphre.
- *Vasoconstrictors*: Adrenaline, ergometrine, oxytocine.
- *Coagulants*: Vitamin K
- *Anticoagulants*: Heparine, Antivitamines K

4.20. Energizers for veterinary use:

- Phosamines (Catosol)
- Vit A D E
- Calsimag (calcium gluconate)

4.26. Vaccines for veterinary use

4.27. Serum for veterinary use

V. VETERINARY MATERIALS

5.1. Technical material and equipment

- Foetal extractor + laques
- Complete embryotome

- Instrument box (big size)
- Instrument box (small size)
- Burdizzo claw (big size)
- Burdizzo claw (small size)
- Irrigator
- Nail cutter claw (big size)
- Poly butler case
- Plexiglas Syringe 20 ml
- Plexiglas Syringe 10 ml
- Plexiglas Syringe 5 ml
- Automatic Syringe 30 ml
- Needle IM Luer 14 G, 10 pieces
- Needle IM Luer 15 G, 12 pieces
- Needle IM Luer 16 G, 12 pieces
- Complete perfuser
- Mouchette claw + Lague
- Serre-jarret
- Lance bolus
- Ear ring clip
- Probing
- Saw (12 m) +handle
- Intramammary probe
- Trayotome
- Walkman Curette
- Trocar (big size)
- Trocar (small size)
- Grooved probe
- Hemostatic claw straight 16cm with mouse teeth
- Hemostatic claw curved 16cm with mouse teeth
- Pince porte de Mayo
- Uterine-clip (big size) 24cm
- Uterine-clip (small size) 16cm
- Suture needle, 12 pieces
- Sharp straight Scissors 16cm
- Sharp curved Scissors 16cm
- Pince à champs
- Champs operatoires non troués

- Autopsy kit for veterinary use

VI. FISHING AND PISCICULTURAL MATERIAL

- Fishing nets and contour
- Turning seine
- Pond seine
- Landing-net
- Incubator for fish eggs
- Water sampler
- Plankton net
- Echo-probe and accessories
- Oxygen pump during transport of fingerlings
- Aquarium fish
- Chemical products for limnology
- Limnological kit

VII. LIVESTOCK MATERIAL

- Forage crop seeds: Grasses and legumes
- Milking machines and their accessories
- Hay Baler
- Milk tanks (200-3000l).
- Milk refrigerating Tanks
- Milk cans: 5, 10, 20L, 50L, and 100L.
- Barbed wire
- Forage chopper
- Wire mesh
- Hoes
- Spades
- Wheel barrow
- Panga (machete)
- Livestock identification items (ear tags & branding equipment)

VIII. POULTRY

- Feed trough

- Water trough

IX. INSEMINATION MATERIAL

- Biostat
- Applicator
- Spare parts for the machine which products liquid nitrogen
- Laboratory material for semen analysis

X. APICULTURAL MATERIAL

- Queen excluders
- Smokers
- Queen cages
- Tap for Extractors
- Eperon-bloc
- Fourchette à désoperculer
- Maturateur

XI. FARM MACHINERY, TOOLS, IMPLEMENTS AND IRRIGATION EQUIPMENT

- Farm tractor and spare parts
- Disc plough
- Chisel plough
- Rotary plough
- Mouldboard plough
- Disc harrow
- Paddy harrow
- Teeth harrow
- Tillers
- Tine cultivators
- Seeders and spare parts
- Rice transplanters and spare parts
- Weeders and spare parts
- Manure spreader and spare parts
- Fertilizer spreader and spare parts

- Boom sprayer and spare parts
- Knap sack sprayer and spare parts
- Threshers and spare parts
- Winnower
- Grain silos and spare parts
- Hoes
- Irrigation pumps and accessories and spare parts

RICE PROCESSING EQUIPMENT AND MACHINERY

- Grain dryers and spare parts
- Paddy cleaner and spare parts
- Shutter scale
- Bag sewing machine and spare parts
- Automatic packet
- Paddy husker
- Destoner

RICE LABORATORY EQUIPMENTS

- Testing huster
- Testing mill
- Testing thickness grader
- Testing rice grader
- Grain color sorter
- Grain trier
- Sample divider
- Grain counter
- Moisture meters and spare parts
- Grain crack inspector and spare parts
- Milling meters
- Sieves
- Small scales

OTHERS MATERIALS

- Agriculture mecanisation equipment and accessories and spare parts

- Matériel de conditionnement des semences et accessoires et pièces de rechanges
- Material, equipment & products for laboratory seed
- Arrosoirs
- Billonneur
- Binette
- Brouette
- Cisaille
- Coupe-coupe
- Faucille
- Fourche
- Hache
- Hacheuse
- Machette
- Manche houe
- Manche râteau
- Mortier pilon
- Pelle
- Pioche, pics
- Pluviomètre
- Pots
- Poudreuse
- Rasette
- Râteau
- Rayonneur
- Scies
- Secateur
- Trident
- Tuyau arrosage
- Tamis sable
- Toile protecteur Oiseaux
- Humidimètre et pieces de rechange
- Atomiseur et pieces de rechanges
- Eprouvettes
- Bottes
- Lunette de protection
- Masque antigaz
- Emballages de semences et d'autres produits agricoles

XII. AGRICULTURAL INPUTS

FERTILIZERS

- Nitrogen fertilizers: urea 46%
- Phosphates fertilizers
- Potash fertilizers: KCL
- CAN (inconnu)
- Ammonium sulfate
- Compound fertilizers: DAP 18-46-0; NPK 17-17-17; NPK20-10-10; NPK 20-5-5
- Micro-nutrients fertilizers
- Agricultural lime
- Others fertilizers mineral or chemical
- Seeds for agricultural production

INSECTICIDES AND ACARICIDES

- Abamectin
- Acephate WP
- Acrinathrin EC
- Alphamethrin EC
- Amitraz EC
- Azocyclotin WP
- Bêta-cyfluthrin 2,5% EC
- Bifenthrin 0,05%PP, 80g/l
- Bromopropylate EC
- Carbofuran 2,5%, 5% Granules
- Chlorpyrifos-ethyl 48%EC, 5%Granules
- Chlorpyrifos-methyl 50%EC
- Clofenzine EC
- Cyfluthrin 2, 5%EC, 5%EC
- Cypermrthrin 10%EC
- Deltamethrin 2, 5%EC, WP, Tablets
- Dichlorvos EC
- Dienochlor WP
- Dimethoate 40%EC
- Fenazaquin SC
- Fenbutatin oxyde SC

- Fenitrothion EC
- Fenthion 50%EC
- Fenvalerate EC
- Fipronil 0, 05 RB, 25g/IFS
- Flufenoxuron EC
- Flumethrin EC
- Hexythiazox WP
- Imidachlopride 200g/l SL, EC; 350g/l SL, EC
- Lambda-cyhalothrin 50g/l EC
- Methomyl SL
- Omethoate EC
- Permethrin 0, 5%PP; 0, 7%EC; 10%EC, 20%EC; 25%EC
- Phosphure d'aluminium (PH3): pills, tablets et plates for fumigation
- Pyrimiphos-methyl 2%PP
- Tau-fluvalinate EC
- Tebufenpyrad WP
- Teflubenzuron SC
- Teradifon EC

FUNGICIDES

- Azoxystrobin SC
- Benomyl 50%WP
- Bitertanol EC
- Buprimate EC
- Carbendazime + chlorothalonil EC
- Chlorothalonil
- Cuivre+Chlorothalonil 250g/l WP
- Cuivre+propineb 37% + 17% WP
- Cuivre hydroxyde WP
- Cymoxanil + propineb
- Dichlofluanid WP
- Difenaconazole EC
- Dimethomorphe + mancozeb 69%WP
- Dithianon SC
- Dodemorph
- Epoxiconazole + carbendazime EC

- Fenarimol EC
- Flutriafol + thiabendazole EC
- Flutriafol 125g/l SL, EC
- Fluzilazole EC
- Folyoxin-al*
- Fosetyl-aluminium WG
- Hexaconazole SW
- Iprobenfos 480g/l EC
- Iprodione SC
- Kresoxim-methyl WP
- Mancozeb + metalaxyl 65, 5% WP, 68% WP
- Mancozeb 80% WP
- Metiram WG
- Micronised Sulphur WG
- Oxychlorure de cuivre
- Penconazole EC
- Propamocarb hydrochloride SL
- Propineb 70% WP
- Primethanil SC
- Tebuconazole WP, EC
- Thiabendazole EC
- Thiophanate methyl SC
- Thirame 80% WP
- Tricyclazole 75% WP
- Triforine EC
- Vinchlozoline 50% SL

HERBICIDES

- 2, 4 D (acide (dichloro-2,4phenoxy) acétique)
- Acide organique halogéné: dalapon 85% WP
- Glyphosate 360g/l SL, Granulés
- Lasso-atrazine, EC
- Methribuzin
- Metolachlor 960g/l EC
- Paraquat 40g/l SL
- Propanil 360g/l

- Triazine: Atrazine 500g/ISC, Ametryne 500g/l SC
- Trifluraline + linuron EC

RODENTICIDES

- Brodifacoum
- Bromadiolone
- Bromadiolone + cumatetralyl + sulfaquinox
- Coumatetralyl
- Difenacoum

NEMATICIDES

- Aldicarbe
- Phenamiphos
- Dazomet 98%G

MOLLUSCICIDES

- Metaldehyde 5 G
- Mercaptodimethur

REGULATEURS DE CROISSANCE

- Daminozide 85% SP
- Substances à composition complexe: rootone ; speedone ; etc

HUILES ADJUVANTES

- Alkyl phénol/éthylène oxyde EC

MOYENS BIOLOGIQUES

- Bacillus thuringiensis

PHYTOSANITARY TOOLS

- Agricultural gloves (Neoprene)
- Agricultural goggles
- Agricultural masks
- Masks for toxic gas and spare filter
- Motor pumps on roulette and spare parts
- Over rolls
- Powder machine
- Sprayers and spare parts

SPRAYERS ELECTRIC MOTORS

- Spraying Hosepipes
- Sticks for rats
- Sticks trap for rats and insects
- Sulphur evaporators
- Ultra Low Volume instrument (sprayer)
- Plastic shee

XIII. EXTENSION AND MARKETING INPUTS

STORAGE EQUIPMENT

- Volcani cube and spare parts
- Grain safe and spare parts
- Oxygen meters
- Moisture meters.

COFFEE PRIMARY PROCESSING EQUIPMENT

- Disk pulper machines (single, double, triple and quadruple disk)
- Drum pulper machines
- Spare part for drum pulpers and disk pulper machines
- Sisal drying nets
- Polyethylene shade nets
- Polyethylene cover plastics (Nylex)
- Sisal bags

- Plastic bags
- Plastic bags for coffee nurseries

COFFEE LABORATORY EQUIPMENT

- Coffee bean moisture meter
- Coffee bean sample roaster
- Laboratory coffee cupping equipment

FARMS TOOLS

- Secators (Secateurs)
 - Scies
 - Arrosoirs
- Health services and supplies e.g. drugs, medicines and material for use by the blind or disabled
 - Education services and the supply of education materials to learning institutions, books, journals, cassette disks
 - Transport services by bus or coaches
 - Water supplies to rural areas
 - Goods imported under the Investment Registration Certificate
 - Funeral services and jewels
 - Paraffin
 - Financial and Life Insurance services
 - Trade union subscriptions

Source: (Rwandan Revenue Authority (e), n.d.) (Rwandan Revenue Authority (f), n.d.) (Rwandan Revenue Authority (g), n.d.).

Rwandan Revenue Authority (g). n.d. *LIST OF PRODUCTS AND ITEMS USED IN AGRICULTURE AND ANIMAL RESOURCES TO BE EXONERATED*. Available:
http://www.rra.gov.rw/IMG/pdf/List_of_Products_and_Items_Used_in_Agriculture_and_Animal_Resources_to_Be_Exonerated-2.pdf [2013, December 15]

Appendix Twenty-four/Rwanda:

“CHAPTER II: PERSONAL INCOME TAX

Article 30: Transfer Pricing

Where conditions are made or imposed between related persons carrying out business in their commercial or financial relations which differ from those which would be made between independent persons, the Commissioner General, in accordance with regulations issued by the Minister, may direct that the income of one or more of those related persons is to include profits which he/she or they would have made if he/she or they operated as independent persons.

In order to ensure efficient application of this Article, the Commissioner General may make arrangements in advance with persons carrying out business including money trading, subject to conditions if necessary that related persons conclude their business in the same way as would be the case between independent persons.”

“CHAPTER IV: TRANSFER PRICING RULES

Article 8: Presumption of dealing at arm’s length price

When independent parties deal with each other, the conditions of their commercial and financial relations such as the price of goods transferred or services provided and the conditions of the transfer or provision, ordinarily are determined by market forces.

When related persons deal with each other, their commercial and financial relations may not be directly affected by external market forces in the same way, although related persons often seek to replicate the dynamics of market forces in their dealings with each other.

Article 9: Determination of arm’s length price

Determination of the arm’s length price is based on a comparison of the conditions in a controlled transaction with the conditions in uncontrolled transactions.

In order for such comparisons to be useful, the economically relevant characteristics of the situations being compared must be sufficiently comparable.

Article 10: Methods to determine arm's length principle

The following methods may be used in determining the arm's length price in case of related persons:

- i. the Comparable Uncontrolled Price
- ii. (hereinafter 'CUP') method;
- iii. the Resale Price method;
- iv. the Cost Plus method; or
- v. Any other method that the fiscal administration deems appropriate

Article 11: Comparable Uncontrolled Price method

The comparable uncontrolled price method compares the price charged for property or services transferred in a controlled transaction to the price charged for property or services transferred in a comparable uncontrolled transaction in comparable circumstances.

If there is any difference between the two prices, this may indicate that the conditions of the commercial and financial relations of the related persons are not arm's length, and that the price in the controlled transaction may need to be substituted by the price in the controlled transaction.

Article 12: Resale Price method

The Resale Price method begins with the price at which a product that has been purchased from a related person is resold to an independent person.

This price is then reduced by an appropriate gross margin (the resale price margin) representing the amount out of which the reseller would seek to cover its selling and other operating expenses and, in the light of the functions performed (taking into account assets used and risks assumed), make an appropriate profit.

What is left after subtracting the gross margin can be regarded after adjustment for other costs associated with the purchase of the product (e.g. customs duties), as an arm's length price for the original transfer of property between the related persons.

The resale price margin of the reseller in the controlled transaction may be determined by reference to the resale price margin that the same reseller earns on items purchased and sold in comparable uncontrolled transactions. Also, the resale price margin earned by an independent person in comparable uncontrolled transactions may serve as a guide.

Article 13: Cost Plus method

The Cost Plus method begins with the costs incurred by the supplier of property or services in a controlled transaction for property transferred or services provided to a related purchaser.

An appropriate cost plus mark-up is then added to these costs, to make an appropriate profit in light of the functions performed and the market conditions. What is arrived at after adding the cost plus mark up to the above costs may be regarded as an arm's length price of the original controlled transaction.

The cost plus mark-up of the supplier in the controlled transaction should be established by reference to the cost plus mark-up that the same supplier earns in comparable uncontrolled transactions. In addition, the cost plus mark-up that would have been earned in comparable transactions by an independent person may serve as a guide" (Law N° 16/2005 OF 18/08/2005 2005 on Direct Taxes on Income, 2005: Chap II & IV).

Appendix Twenty-five:

New generation investment policies as per the UNCTAD “World Investment Report 2012”:

“A new generation of investment policies emerges

Cross-border investment policy is made in a political and economic context that, at the global and regional levels, has been buffeted in recent years by a series of crises in finance, food security and the environment, and that faces persistent global imbalances and social challenges, especially with regard to poverty alleviation. These crises and challenges are having profound effects on the way policy is shaped at the global level. First, current crises have accentuated a longer-term shift in economic weight from developed countries to emerging markets. Second, the financial crisis in particular has boosted the role of governments in the economy, in both the developed and the developing world. Third, the nature of the challenges, which no country can address in isolation, makes better international coordination imperative. And fourth, the global political and economic context and the challenges that need to be addressed – with social and environmental concerns taking centre stage – are leading policymakers to reflect on an emerging new development paradigm that places inclusive and sustainable development goals on the same footing as economic growth. At a time of such persistent crises and pressing social and environmental challenges, mobilizing investment and ensuring that it contributes to sustainable development objectives is a priority for all countries” (UNCTAD, 2012: XXIII).

The Report then goes on further:

“New generation” investment policies place inclusive growth and sustainable development at the heart of efforts to attract and benefit from investment. Although these concepts are not new in and by themselves, to date they have not been systematically integrated in mainstream

investment policymaking. “New generation” investment policies aim to operationalize sustainable development in concrete measures and mechanisms at the national and international levels, and at the level of policymaking and implementation.

Broadly, “new generation” investment policies strive to:

- create synergies with wider economic development goals or industrial policies, and achieve seamless integration in development strategies;
- foster responsible investor behaviour and incorporate principles of CSR;
- ensure policy effectiveness in their design and implementation and in the institutional environment within which they operate” (UNCTAD, 2012: XXIII).

Appendix Twenty-six/South Africa:

Tax Incentives – 2011/12 Year of Assessment:

Preferential Corporate Tax Rate for Small Business

Objective: To encourage small/medium business development in South Africa.

Applicability: Qualifying small/medium businesses whose turnover for the year of assessment does not exceed R14 million are eligible. For years of assessment commencing on or after 1 March 2011.

Benefit Taxable Income:

- R0 - R59 750 = 0%.
- R59 751 - R300 000 = 10%.
- Over R300 001 = R24 025 + 28% of amount greater than R300 000.

Research and Development

Objective: To stimulate scientific or technological research and development.

Applicability: Expenditure incurred in the discovery of novel, practical and non-obvious information or devising, developing or creating any invention, design or computer programme or any knowledge essential to the use of the invention, design or computer programme.

Benefit Deduction increased to 150% for expenditure incurred on or after 2 November 2006. Accelerated allowance on research and development assets.

Depreciation

Objective: To stimulate investment in capital assets.

Applicability: Plant and machinery:

- Manufacturing or similar process (new or unused).
- Hotel equipment.
- Farming.
- Buildings:
 - Industrial (manufacturing or similar process).
 - Hotels.
 - Hotel refurbishments.

Benefit

- New or unused (Plant & Machinery):
 - 40% p.a. 1st year.
 - 20% p.a. 2nd to 4th year.
- Used (Plant & Machinery):
 - 20 % p.a.
- Hotel equipment:
 - 20% p.a.
- Farming and production of renewable energy:
 - 50% 1st year.
 - 30% 2nd year.
 - 20% 3rd year.
- Hotel refurbishment:
 - 5% p.a. for external refurbishments.
 - 20% p.a. for internal refurbishments.

Special depreciation allowances on manufacturing buildings vary between 2% per annum and 10% per annum.

Wear and Tear rates vary for assets not used as part of the manufacturing process.

Urban Development Allowances

Objective: To counter decay and stimulate urban regeneration.

Applicability: All taxpayers refurbishing a building within a designated urban development zone or taxpayers constructing a new commercial or residential building in such a zone.

Benefit The following allowances are available:

In the case of the erection of new buildings or extensions or additions thereto, the allowance is equal to 20% of the cost incurred, which is deductible in the year of assessment the building is brought into use solely for the purposes of the taxpayer's trade; and 8% of that cost in each of the sixteen succeeding years of assessment.

The total cost can therefore be claimed over 11 years.

In the case of improving an existing building, the allowance is equal to 20% of the cost incurred; deductible for the first time in the year of assessment the improved part is brought into use solely for the purposes of the taxpayer's trade, and 20% for each succeeding year of assessment.

The total cost can therefore be claimed over five years.

Infrastructural Development

Objective: To encourage investment in infrastructure.

Applicability: Taxpayers involved in the erection of pipelines, transmission lines and railway lines.

Benefit A tax deduction is granted in respect of any new or unused affected assets owned by the taxpayer. The allowances are as follows:

- Pipelines used to transport natural oil: 10% of the cost p.a.
- All other affected assets: 5% of the cost p.a.

Public Private Partnerships

- Objective: Encouragement of the private sector to invest in infrastructure in partnership with the public sector.
- Applicability: Grants received by the government and utilised by the taxpayer to effect improvements to state-owned property, in pursuance of the terms of the relevant lease agreement with the state.
- Benefit The receipt of qualifying government grants is exempt from tax. In addition, a tax allowance is available in respect of such improvements actually effected by the taxpayer. The allowances are as follows:
- 25 years; or
 - Spread over the period of the lease, whichever is shorter.

Rolling Stock Depreciation

- Objective: Encouragement of infrastructural development of rail transportation.
- Applicability: Rolling stock, this is understood to mean trains, carriages and the like.
- Benefit Deduction of 20% per annum of the cost incurred in respect of rolling stock brought into use on or after 1 January 2008.

Environmental Expenditure Deductions

- Objective: Provide relief for the depreciation of environmental expenditure.
- Applicability: Environmental treatment and recycling assets and environmental waste disposal assets ancillary to a manufacturing process.
- Benefit Environmental treatment and recycling assets:
- 40% p.a. 1st year.
 - 20% p.a. 2nd to 4th year.
- Environmental waste disposal assets:
- 5% per annum.

Commercial Buildings Depreciation

Objective:	Provide relief in respect of commercial buildings.
Applicability:	Buildings (and improvements) used wholly or mainly in the production of income, where building is owned by the taxpayer.
Benefit	5% depreciation per annum on new or unused buildings (and improvements). Specifically excludes buildings used in the provision of residential accommodation.

Carbon-Reducing Charges

Objective:	To take advantage of the Clean Development Mechanism (CDM) opportunities of the Kyoto Protocol.
Applicability:	Companies who receive revenue from Certified Emission Reductions (CERs).
Benefit	Revenue derived from primary CERs (from CDM projects) is tax exempt. This applies to all revenue received in respect of disposals on or after 11 February 2009.

Energy Expenditure Allowances

Objective:	To provide relief for the depreciation of energy-efficient equipment.
Applicability:	Energy-efficient equipment.
Benefit	Energy-efficient equipment to be given an additional allowance of up to 15%, subject to conditions. Effective date still not determined.

Oil and Gas Income Tax Incentives

Objective:	To provide tax incentives to oil and gas companies involved in incidental trades in South Africa.
Applicability:	Oil and gas companies.
Benefit	Tax incentives to be provided to oil and gas companies which are involved in incidental trades inside South Africa.

Underwater Telecommunication Cable Allowances

Objective: To provide relief for the depreciation of underwater telecommunication cables.

Applicability: Underwater telecommunication cables.

Benefit 5% depreciation allowance over 20 years.

Film Rebate Subsidies

Objective: To provide tax exemptions to investor-owner film producers.

Applicability: Investor-owner film producers.

Benefit Tax exemptions to be granted to investor- owner film producers.

Investment incentives

Research & Development Incentives Support Programme for Industrial Innovation (SPII)

Objective: Promote technology development in South Africa through provision of financial assistance to all South African registered enterprises in manufacturing or software development that engage in development of innovative, competitive products and/or processes.

SPII Matching Scheme

Applicability: The Matching Scheme is available to all South African registered Small and Medium Enterprises (SME): (employees < 200, turnover < R51 million, assets < R19 million) in the private sector that are engaged in a manufacturing or an information technology related project.

The Matching Scheme is also available to large companies. A large company is as defined in the Small Business Act of 2003.

Benefit	For SME's: A grant of between 50% to 75% of the qualifying cost incurred during the technical development stage up to a maximum of R3 million per project. For enterprises with <25% black shareholding - the grant amount is 50%, for enterprises with >25% ≤50% black shareholding or women/physically challenged shareholding - the grant amount is 65%, and for enterprises with black shareholding >50% - the grant amount is 75%. For large companies: A grant of 50% of the qualifying cost incurred during the technical development stage up to a maximum of R3 million per project. The incentives for BEE and women participation provided under both the Product Process Development (PPD) and Matching Schemes do not apply to large companies.

SPII - Partnership Scheme

Applicability:	All private sector enterprises engaged in a manufacturing or an information technology related project.
Benefit	A conditional repayable grant of 50% of the qualifying cost incurred during development activity with a minimum grant amount of R3 million per project, repayable on successful commercialisation of the project.

SPII - Product Process Development Scheme

Applicability:	All small and micro private sector enterprises (employees less than 50, turnover less than R13 million, total gross assets less than R5 million) whose members are actively involved in the management of a business that is engaged in a manufacturing or an information technology related project.
Benefit	A grant of between 50% and 85% of the qualifying cost incurred during the technical development stage with a maximum grant amount of R1 million per project. For enterprises with <25% black shareholding

- the grant amount is 50%, for enterprises with >25% ≤50% black shareholding or women/physically challenged shareholding - the grant amount is 75%, and for enterprises with black shareholding >50% - the grant amount is 85%.

Technology and Human Resources for Industry Programme (THRIP)

- Objective:** To boost South African industry by supporting research and technology development, and by enhancing the quality and quantity of appropriately skilled people.
- Applicability:** THRIP supports all companies undertaking science, engineering and technology (SET) research in collaboration with educational institutions and will consider the support of projects in which the primary aim is to promote and facilitate scientific research, technology development, and technology diffusion, or any combination of these.
- Benefit** THRIP will contribute between 30% and 50% of the funds invested by a company in research projects. For all SMME and all SMME and BEE partners the THRIP funding will contribute between 100% and 200% of the funds invested. The maximum level of THRIP funding per grant holder will be set at R8 million across any number of projects per annum.

Innovation Fund (IF)

- Objective:** To promote technological innovation through investing in novel South African technology development and commercialisation.
- Applicability:** The IF provides funding through the following different programmes:
- Technology Advancement Programme (TAP): invests in research and development from proof-of-idea/science to proof-of concept, and is open to publicly funded institutions (including higher education institutions and science councils), small and medium sized businesses, and any consortia consisting of these.
 - Missions in Technology Programme (MiTech): a public-private partnership programme for the development of technology platforms.
 - Seed Fund: Invests in early commercialisation/start-up activities to take a technology that is at proof-ofconcept/prototype to the market.

- Patent Support Fund for SMEs: To assist in absorbing the cost of protecting their intellectual property through patent registration.
- Patent Support Fund-Technopreneur: This fund supports the filing of at least a South African provisional patent application in respect of technological inventions by individuals, so-called technoentrepreneurs, where such inventions have commercial merit and a prototype can be developed in under twelve months.
- Patent Support Fund for Research Institutions: Provides subsidy to publicly funded institutions (higher education institutions and science councils) for costs incurred in filing and prosecuting patent applications, and maintaining patents.
- Patent Incentive Scheme: A scheme to encourage patent protection through cash incentives to inventors in publicly funded institutions (higher education institutions and science councils) who obtain patents for their inventions.

Benefit The IF uses a flexible returns structure be it royalty, equity, convertible loans or combinations thereof, structured as appropriate for each investment.

Investment Incentives

Investment and enterprise development incentives

Critical Infrastructure Programme (CIP)

Objective: Support the competitiveness of South African industries by lowering business costs and risks and to provide targeted financial support for physical infrastructure that will leverage strategic investment with a positive impact on the economy.

Applicability: New or expanding enterprises investing in infrastructure such as roads, railways, electricity transmission and distribution, water pipelines, telecommunication

networks, sewage systems etc. Available to municipalities, public sector enterprises and private enterprises.

Benefit Cash grant incentive that covers between 10% and 30% of the infrastructure development costs.

National Electrification Programme (Municipal)

Objective: To provide capital subsidies to municipalities to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation of electrification infrastructure.

Applicability: All metro, district and local municipalities in South Africa.

Benefit Conditional grant allocations are made to municipalities each year and are published in the Division of Revenue Act.

Municipal Infrastructure Grant (MIG)

Objective: To supplement municipal capital budgets through the funding of basic municipal infrastructure backlogs for the provision of basic services to primarily service poor households. This infrastructure must be provided in such a way that employment is maximised and opportunities are created to support enterprise development.

Applicability: All metro, district and local municipalities in South Africa.

Benefit Conditional grant allocations are made to municipalities each year and are published in the Division of Revenue Act.

Neighbourhood Development Partnership Grant (NDPG)

Objective: To create enabling economic infrastructure in dormitory townships across South Africa that will attract private sector investment.

Applicability: All metro, district, and local municipalities in South Africa.

Benefit Benefits are in the form of the technical assistance grant and the capital assistance grant, to assist municipalities in implementing community facility projects that are not presently funded through the equitable share or other grants.

Local Economic Development (LED) Programme

Objective: Creating an enabling environment for investment into the area and encouraging the development of the market to facilitate linkages between established and emerging sectors.

Applicability: Local government, private sector enterprises, enterprises forming partnerships with government agencies, donors and other enterprises aiming to develop clusters to strengthen their sector.

Benefit Up to 70% grant-based funding available for certain identified areas.

Business Process Services (BPS) Incentive

Objective: To attract investment in the BPS sector that creates employment opportunities through offshoring activities.

Applicability: Local and foreign investors (new and expanding projects) that create jobs in South Africa to serve offshore clients.

Benefit A total grant of up to R112 000 per offshore job created, claimable against operational expenditure. The grant will be payable over a period of three years. Additional bonus structures will be applicable for projects creating more than 400 or 800 offshore jobs respectively.

Manufacturing Investment Programme (MIP)

- Objective: To encourage local and foreign capital investment in productive qualifying assets [plant and machinery, land and buildings (owned or rented), commercial vehicles].
- Applicability: Enterprises investing capital in new projects or expanding an existing project.
- Benefit A tax exempt cash grant of between 10% - 30% of the qualifying investment cost up to a maximum grant of R30 million.

Foreign Investment Grant (FIG)

- Objective: To encourage foreign businesses to invest in manufacturing companies by assisting in the cost of transporting productive qualifying assets to South Africa.
- Applicability: South African incorporated companies with a foreign direct shareholding of at least 50%. Qualifying costs associated with transporting new plant and machinery (excluding vehicles) from abroad. FIG is conditional on the approval of a project under the MIP.
- Benefit The lower of the actual qualifying transportation costs or 15% of the cost of new plant and machinery acquired abroad, limited to R10 million.

Tourism Support Programme

- Objective: To stimulate growth within the tourism industry.
- Applicability: The establishment of new or the expansion of existing tourism facilities.
- Benefit A tax exempt cash grant of between 10% - 30% of the qualifying investment cost up to a maximum grant of R30 million.

Industrial Policy Projects

The tax incentive is intended to promote local and foreign direct investment in industrial policy projects in South Africa and is legislated in terms of section 12I of the Income Tax Act.

R20 billion has been allocated for additional tax deductions under this new incentive, with a focus on large industrial projects.

Manufacturing assets must be used in South Africa and qualify for a deduction in terms of section 12C(1)(a), 13 or 13quat which covers plant or machinery that will be brought-into-use for the first time by the taxpayer and will be used in a process of manufacture and the cost for the construction or refurbishment of buildings, if certain conditions are met.

A project will be allocated points based on the following criteria if:

1. It upgrades an industry within the Republic by:
 - i. Utilising innovative processes; or
 - ii. Utilising new technology that result in improved environmental protection as a result of:
 - a) Improved energy efficiency;
 - b) Cleaner production technology.
2. Generates general business linkages by acquiring goods or services from small, medium- and micro-enterprises;
3. Creates direct employment;
4. Provides skills development in the Republic; or
5. Is located in an IDZ.

Benefit	Additional tax allowance of 55% of the cost of any manufacturing asset used in a qualifying industrial policy project determined to have preferred status; or 35%

of the cost of any manufacturing asset used in any other qualifying industrial policy project limited to:

- R900 million in the case of any Greenfield project with preferred status.
- R550 million in the case of any other Greenfield project.
- R550 million in the case of any Brownfield project with preferred status.
- R350 million in the case of any other Brownfield project.
- Cost of training provided to employees in the furtherance of the Industrial Policy Project. The training allowance may not exceed R36 000 per employee and R20 million in the case of projects with qualifying status or R30 million in the case of projects with preferred status.

Minimum investment required to qualify for this incentive:

- R200 million in the instance of a Greenfield project.
- The higher of R30 million or 25% of the value of the manufacturing assets in the case of Brownfield projects

Automotive Investment Scheme (AIS)

Objective: To grow and develop the automotive sector by increasing plant production volumes and strengthening the automotive value chain.

Applicability: Light motor vehicle and automotive component manufacturers.

Benefit A taxable grant of between 20% and 30% of the value of the qualifying investment in productive assets.

Staple Food Fortification Incentive Scheme (SFFP)

Objective: To assist with the compliance needed for staple food fortification of the food fortification regulations by offering a once-off subsidy for the purchase and installation of fortification equipment.

Applicability: Private sector enterprises in the grain milling industry.

Benefit The grant of between 50% and 100%, up to a maximum of R40 000 per fortification unit.

Location Film and Television Production Incentive

Objective: To encourage and attract large budget films and television productions that will contribute towards South Africa's economic development and international profile and increase foreign direct investment.

Applicability: Foreign-owned qualifying productions with Qualifying South African Production Expenditure (QSAPE) of R12 million and above.

Benefit Rebate of 15% of the QSAPE to qualifying productions, and the benefit is capped at R10 million.

South African Film and Television Production and Co-Production Incentive

Objective: To support the local film industry and to contribute towards employment opportunities in South Africa.

Applicability: Local productions and official treaty co-productions with a total production budget of R2.5 million and above.

Benefit Rebate of 35% for the first R6 million, and 25% for the remainder of the qualifying production expenditure, capped at a maximum rebate of R10 million.

The Tourism Enterprise Support Programme (TEP)

Objective: To encourage and facilitate the growth and expansion of tourism enterprises.

Applicability: Large operators, investors, SMMEs and historically disadvantaged entrepreneurs and enterprises (HDEs).

Benefit The programme assists in obtaining the requisite professional services such as ISO/SABS quality certification, debt and equity finance, proper business planning,

packaging, legal advice, technology needs and marketing. The TEP also provides aftercare to SMMEs to be sure they have the planning, production and management capacity to deliver as per the contract or market demand.

PSOM Business Incentive: Dutch Programme for Cooperation with Emerging Markets

- Objective:** To provide opportunities for Dutch companies to expand investments and trade relations with South Africa.
- Applicability:** Dutch companies who wish to invest in South Africa in partnership with a local South African company. The grant is also available for companies based in emerging markets (such as South Africa) investing into Mozambique and Uganda.
- Benefit** Grants contributing up to 50% of total project costs up to a maximum of €1,5 million.

Competitive enhancement incentives

Black Business Supplier Development Programme (BBSDP)

- Objective:** To improve the sustainability of black-owned enterprises by providing funding to increase the competitiveness of the businesses.
- Applicability:** Companies that are majority black-owned (51% or more), have an annual turnover of between R1 million and R35 million and have a predominantly black management team. The entity must have a minimum trading history of one year.
- Benefit** The programme provides grants up to a maximum of R1 million in total which will be limited to a payment of R800 000 for tools, machinery and equipment and limited to a payment of R200 000 for business development and training interventions.

The Co-operative Incentive Scheme (CIS)

- Objective:** To promote co-operatives by improving the viability and competitiveness of the co-operative enterprises by lowering the cost of doing business.
- Applicability:** Any entity incorporated and registered in South Africa in terms of the Co-operatives Act.
- Benefit** Matching grant of 90% up to a maximum of R300 000 for costs relating to business development services, business profile development, feasibility studies/market research, start-up requirements etc.

Clothing and Textile Competitiveness Programme (CTCP) - Production Incentive (PI)

- Objective:** To structurally change the Clothing and Textile Industry by providing funding assistance for enterprises to invest in competitiveness improvement interventions.
- Applicability:** Clothing manufacturers, textiles manufacturers, Cut, Make and Trim (CMT) operators, footwear manufacturers, leather goods manufacturers and leather processors.
- Benefit** The incentive comprises two components, namely an Upgrade Grant Facility, which is meant to focus on competitiveness improvement and an Interest Subsidy for Working Capital Facility, which is meant to support working capital requirements resulting from past and future upgrading interventions. The grant is limited to a benefit ceiling which is calculated as 10% of a company's manufacturing value addition.

Export incentives - non-industry specific

Export Marketing and Investment Assistance (EMIA) Scheme

Objective: To assist South African exporters in establishing export markets for their products and to attract foreign investment into South Africa through the following schemes: National Pavillions, Individual Participation in exhibitions, Outward Investment and selling missions, Inward buying and investment missions, Individual inward missions, Foreign direct investment and primary market research.

Applicability: Available to all enterprises registered with the Commissioner of Customs and Excise with special terms for SMMEs.

Benefit A portion of specified costs relating to:

- Travel (Economy class).
- Daily subsistence.
- Transportation of samples for specific events.
- Development of marketing materials for specific events.
- Exhibition costs relating to stand rental, stand design and set up costs.
- Costs of brochures.

Sector Specific Assistance Scheme

Objective: Develop new export markets, broaden the specific industry export base, increase participation of BEE and SMME companies in the export process.

Applicability: Approved export councils, registered industry associations and joint actions groups.

Benefit A matching grant of between 50% and 80% of the cost to support the development of the partnerships.

Capital Projects Feasibility Programme (previously SA Capital Goods Feasibility Study Fund)

- Objective: To facilitate feasibility studies that are likely to lead to projects that will increase South African exports and stimulate growth for local capital goods and services.
- Applicability: South African registered companies.
- Benefit: An advance up to a maximum of 50% of study costs for projects outside Africa and 55% for projects in Africa.

Steel Rebate

- Objective: To promote the development of the valueadded steel-processing industry in South Africa as an expanding market for locally produced primary steel products, to enhance South Africa's foreign currency earnings and increase employment opportunities.
- Applicability: Exporters (situated in SACU) of fabricated steel products where 20% value has been added.
- Benefit: Rebates based on the value of exports, currently at R135 per ton of net steel content (VAT exclusive) provided by steel suppliers.

Customs Rebate and Drawback Provisions

- Objective: Promote manufacturing and exporting of South African goods.
- Applicability: Importers, exporters and manufacturers.
- Benefit: Rebate or drawback of customs duties on imported goods, raw materials and components used in manufacturing or processing of goods for export.

Industrial Development Zones (IDZs)

- Objective:** To promote manufacturing and increase the competitiveness of South African exports.
- Applicability:** All manufacturers and exporters located in the Customs Controlled Area (CCA) designated zones of IDZs.
- Benefit** Rebate of customs duties, exemption of VAT on imported goods, raw materials and components used in manufacturing and processing goods for export and exemption of VAT on services provided in CCAs.
- Developments** To support the objectives of the industrial policy action plan and the New Growth Path, businesses making Greenfield and Brownfield investments qualify for tax relief subject to approval being granted by the Department of Trade and Industry. Greenfield investments in IDZs qualify for additional relief. Government will be considering expanding incentives for labour-intensive projects in IDZs.

Value Added Tax (VAT) - Export Incentives

- Objective:** To encourage exports from and investment in South Africa.
- Applicability:** Exporters, registered as VAT vendors in South Africa.
- Benefit** A vendor may supply movable goods at the zero rate, where the vendor consigns or delivers the goods to an address outside South Africa.
- Requirements, as outlined in VAT Interpretation Notes 30 (Issue 2), 31 or the Export Incentive Scheme (1998), should be complied with. Alternatively the “qualifying purchaser” may claim a refund of the VAT from the VAT refund administrator upon the exit of the goods from South Africa.

Value Added Tax (VAT) - Industrial Development Zone Industrial Development Zones (IDZs)

IDZs are purpose-built industrial sites in South Africa which have been specifically designated to be developed and operated by the private sector.

Objective: To encourage Industrial development and investment in South Africa and to stimulate trade and job creation.

Benefit The South African VAT Act allows a vendor to charge VAT at the zero rate on various types of supplies of goods or services to a customs controlled area (CCA) enterprise or an IDZ operator. VAT Interpretation Note 40, which was released by SARS, clarifies the VAT treatment of the supply of goods and/or services to and/from a CCA enterprise or IDZ operator in an IDZ.

Value Added Tax - Licensed Customs and Excise storage warehouse

The supply of goods by a non-resident of the Republic which have been entered for storage into a licensed Customs and Excise storage warehouse but not yet cleared for home consumption is exempt from VAT unless the non-resident applies in writing to the South African Revenue Service to be allowed to zero-rate the supply.

Objective: To limit the VAT registration and administrative burden for non-residents in South Africa.

Benefit Non-residents do not have to register and charge VAT on supplies within such storage warehouses. Non-residents applying to be registered and zero rating their supplies will be able to claim back any VAT incurred in relation to such zero rated supplies.

Export incentives - industry specific

Clothing and Textile Competitiveness Improvement Programme (CTCIP)

Objective: To build capacity in manufactures and in other areas of the apparel value chain in South Africa to effectively supply to the major retailers, as well as to grow South African-based clothing and textile manufacturers to be globally competitive.

Applicability: Small and large to medium-sized companies in clothing and textile manufacturing or support, supplier and/or customer organisations to these entities. The effective date for receipt of applications under this programme is 1 April 2009, for a period of five years, ending in 2014.

Benefit Investment support to both local and foreign-owned entities:

- A matching grant incentive of 75% of project cost on cluster projects and 65% of project cost for company-level projects.
- Excludes costs in machinery, equipment, commercial vehicles, land and buildings in an existing clothing and textile production facility.
- The extent of the incentive for projects on company level will be 65% of eligible project cost up to a maximum of R2, 5 million over five years.
- The cluster grant will support the development of such clusters through the provision of 75:25 matching grants: 75% from the CTCIP grant and 25% from the cluster participants.
- Grant support for each approved partnership will be limited to a cumulative ceiling of R25 million.
- Grants made by the programme will be made exclusive of VAT.

Motor Industry Development Programme (MIDP)

Background: The MIDP is a voluntary incentive scheme designed to save motor vehicle industry participants money, in the form of a reduction on import duties payable to SARS Customs. In 2005, dti started to review the programme's success and identify gaps and shortcomings arising from its implementation. After an appeal from the Australian automotive leather seat industry to the World Trade Organisation (WTO) stating that SA was non-compliant with the WTO's agreement on subsidies and countervailing measures, the review incorporated a revision of the existing MIDP to amend the existing programme with SA's multilateral obligations. This gave rise to the proposed Automotive Production and Development Programme (APDP) to be implemented on 1 January 2013.

Objectives:

- To increase local economic productivity by encouraging fewer model productions.
- To increase international competitiveness of the South African motor industry by assisting in reducing the cost of goods in the form of import duty savings.
- Encouraging foreign currency earnings through increased exports and promoting foreign investment with the aim of creating and retaining jobs.

Applicability: Motor vehicle assemblers, component manufacturers and associated exporters.

Benefit There are three import duty reducing incentives currently available:

- **Duty-Free Allowance (DFA):** Exclusive to motor vehicle assemblers on production of motor vehicles for the domestic market.
- **Import Rebate Credit Certificates (IRCCs):** Export performance based incentive to be used against imported motor vehicles and components.
- **Productive Asset Allowance (PAA):** Investment based incentive linked to investments in buildings, machinery, equipment and tooling to be used in manufacturing of motor vehicles and related components (valid until June 2009).

Productive Asset Allowance (PAA): Valid until June 2009

- Objective:** To encourage investment in the motor industry sector with the aim of reducing the proliferation of model ranges produced by manufacturers of specified light motor vehicles, for the domestic and the global market; and to encourage the localisation of components fitted to these motor vehicle models and for export.
- Applicability:** Motor vehicle assemblers and contracted component manufacturers.
- Benefit** 20% of the value of the investment in productive assets, approved by the International Trade Administration Commission of South Africa (ITAC), spread equally over a five year period at 4% per annum, to be rebated against the duty on imported light motor vehicles.

Productive Asset Allowance (PAA): Valid until June 2009

- Objective:** To encourage investment in the motor industry sector with the aim of reducing the proliferation of model ranges produced by manufacturers of specified light motor vehicles, for the domestic and the global market; and to encourage the localisation of components fitted to these motor vehicle models and for export.
- Applicability:** Motor vehicle assemblers and contracted component manufacturers.
- Benefit** 20% of the value of the investment in productive assets, approved by the International Trade Administration Commission of South Africa (ITAC), spread equally over a five year period at 4% per annum, to be rebated against the duty on imported light motor vehicles.

Automotive Production and Development Programme (APDP)

- Background:** On 1 January 2013, the APDP will replace the existing MIDP. The APDP objectives include the following:

- Stimulate expansion of automotive vehicle production to 1.2 million vehicles per annum by 2020 with associated deepening of the components industry.
- Achieve better balance between domestic and export sales to supply growing domestic demand.
- Expand value-added, investment, employment and net government revenue: directly and via multiplier effect.
- Make a large positive contribution to the balance of payments.

Benefit The following benefits will be available under APDP:

- AIS: Investment based incentive linked to investments in buildings, machinery, equipment and tooling to be used in manufacturing of motor vehicles and related components to increase plant production volumes and strengthening of the automotive value chain.
- Production Incentive (PI): Incentive available to final manufacturers based in the Southern African Customs Union (SACU) and will be based on value-added in the production process of qualifying automotive components.

Automotive Investment Scheme (AIS): Valid from 1 July 2009

Objective: To encourage investment in the motor industry sector by manufacturers of specified light motor vehicles and automotive components, with the aim of encouraging the localisation of components fitted to new or replacement motor vehicle models, encouraging manufactures to achieve economies of scale by increasing plant production volumes, encouraging upgrading in manufacturing processes and strengthening the automotive value chain.

Applicability: Motor vehicle assemblers and automotive component manufacturers associated in motor vehicle assemblers supply chain.

Benefit 20% taxable cash grant of the value of the investment in productive assets, approved by the dti, spread equally over a three-year period. An additional taxable cash grant, 5% or 10% over and above the 20% taxable cash grant is available to projects found to be strategic by the dti.

Automotive Investment Scheme (AIS): Valid from 1 July 2009

Production Incentive (PI) with effect from 1 January 2013. The PI is an incentive available to final manufacturers based in the Southern African Customs Union (SACU) and will be based on value-added in the production process of qualifying automotive components. The PI will basically be calculated on the sales invoice of the final manufacturer, less the value of imports and local materials introduced by itself or by other manufacturers in the manufacturing chain. 25% of certain material will be deemed to have a local content.

Applicability Motor vehicle assemblers and automotive component manufacturers associated in motor vehicle assemblers supply chain.

Benefit 55% and 60% of the production incentive calculated to non-vulnerable and vulnerable industries reducing by 1% annually.

Local Assembly Allowance (LAA)

The LAA will be replacing the Duty-Free Allowance (DFA). This incentive will cover all vehicles assembled within South Africa irrespective of their market focus.

Applicability: Exclusive to motor vehicle assemblers on production of motor vehicles for the domestic market.

Benefit The incentive will commence with 20% in 2013, reducing by 1% each year until 2015, at which it will remain at 18% until 2020.

Source: Deloitte (b), 2011: 97 – 124

Appendix Twenty-seven:

“Notes on tax expenditures methodology

Methods to estimate tax expenditures

A range of methodologies exists internationally to estimate tax expenditures.

- **Revenue Foregone Method** is an ex-post quantification of the extent to which a provision reduces revenues. The tax expenditure estimates are calculated on the basis of taxpayers who actually use a particular provision; taxpayer behaviour is accepted as given, and impacts resulting from other investment and consumption patterns or decisions regarding other tax expenditures are excluded from the estimates.
- **Revenue Gain method** is an ex-ante estimate of the total expected budgetary effect of the expenditure, taking into account the impact of changes in taxpayer behavior on other tax expenditures. For example, the elimination of a particular tax expenditure that benefits lower-income taxpayers may result in those taxpayers making use of different tax expenditures that they previously did not use.
- **Outlay Equivalent method** estimates the outlay that the government would need to expend in order to provide the beneficiaries with the same after-tax economic benefits that they receive from tax expenditures as measured by the revenue foregone method. This method differs from the revenue foregone method since taxpayers must often pay income taxes on direct government benefits they receive. As a result, the equivalent outlay estimates are generally larger, in order to account for the portion of benefits that

recipients must pay back in taxes. An advantage of this method is that the estimates may be more directly comparable to the estimates of government spending programs.

In practice, revenue foregone is primarily used. Outlay Equivalent and Revenue Gain estimates can be quite useful for specific policy analysis, but their estimation is much more complex than for Revenue Foregone. However, a consequence of the all-else-equal nature of revenue-foregone estimates is that they are not additive. The sum of the all-else-equal estimates will not be the same as the value of the Revenue-Forgone estimate if all tax expenditures were removed all together.

“Benchmark” tax system

To estimate tax expenditures the “benchmark” tax structure that contains no preferential tax treatments, needs to be established. Tax expenditures are then defined as deviations from this benchmark tax system. It is important to recognise that reasonable differences of opinion exist as to the definition of the benchmark tax system, and hence what constitutes a tax expenditure.

Labeling a provision as a tax expenditure presupposes that there is a “normal” tax structure. However, a normal tax structure is not a fixed concept. For all of their detail, there are no fully defined and accepted concepts of taxable income or taxable transactions. At some level, any baseline requires acceptance of arbitrary definitions and conventions.

A simple example highlights the complexities involved in tax expenditure exercise. Consider two countries, both having a statutory income tax rate of 30%. Suppose in addition Country A also has a lower 15% tax rate on incomes of less than \$30,000. Now suppose that Country B, instead of the second 15% rate allows a variety of tax credits, deductions and exemptions, targeted at those with incomes below \$30,000. As a result of these tax concessions, assume that Country B effectively has the same tax burden for all citizens as Country A.

Despite the two tax structures having identical taxation outcomes, the list of tax concessions for

Country A will differ greatly from that of Country B. Because common practice allows the tax rate structure to be taken as part of the benchmark, Country A will have no tax concessions to report, while Country B will have a long list.

Computing Tax Expenditures

The actual tax expenditure calculation is a data-intensive process that requires extensive details of taxpayer accounts. It is usually done by micro-simulating the tax concessions and the tax norms on a sample of tax returns. Basic calculations of the most popular tax expenditures are include below.

Preferential Rates: The tax expenditure is measured as the difference between tax calculated using the current tax structure and tax calculated using the applicable effective tax rate.

Tax exemptions (e.g. tax holidays): The tax expenditure is measured as the gross income of companies that qualify for tax holiday multiplied by the applicable effective tax rate.

Credits: Tax credits are subtracted directly from tax liability. The tax expenditure is calculated as the amount of credit used (claimed). In some instances, unused (wasted) tax credits may be carried forward. These carry-forward credits may be included on a present value basis in the year they are earned or they may be included in the calculations in the year they are used to reduce taxes that would otherwise be paid to the government.

Deferrals: Deferrals may result from accelerating deductions or deferring taxable income or the recognition of a taxable event. They are the equivalent of a tax-free loan from the government. The tax expenditure is the difference between taxes that would have been paid if the provision for the deferral had never occurred and tax receipts under current law. The expenditure estimates are, therefore, long-term estimates of the level of economic activity for the year in question.

Import tax exemptions are measured by multiplying the value of imports qualifying for the import tax exemption over the applicable import tax.”

Source: OECD, 2012: 21 – 22

Appendix Twenty-eight:

Freedom from Corruption:

Corruption erodes economic freedom by introducing insecurity and uncertainty into economic relationships. The score for this component is derived primarily from Transparency International's Corruption Perceptions Index (CPI) for 2011, which measures the level of corruption in 183 countries.

The CPI is based on a 10-point scale in which a score of 10 indicates very little corruption and a score of 0 indicates a very corrupt government. In scoring freedom from corruption, the Index converts the raw CPI data to a scale of 0 to 100 by multiplying the CPI score by 10. For example, if a country's raw CPI data score is 5.5, its overall freedom from corruption score is 55.

For countries that are not covered in the CPI, the freedom from corruption score is determined by using the qualitative information from internationally recognized and reliable sources.¹ This procedure considers the extent to which corruption prevails in a country. The higher the level of corruption, the lower the level of overall economic freedom and the lower a country's score.

Business Freedom:

Business freedom is an overall indicator of the efficiency of government regulation of business. The quantitative score is derived from an array of measurements of the difficulty of starting, operating, and closing a business. The business freedom score for each country is a number between 0 and 100, with 100 equaling the freest business environment. The score is based on 10 factors, all weighted equally, using data from the World Bank's Doing Business study:

¹ The following countries are not covered by the 2011 CPI: Belize, Fiji, and Micronesia.

- Starting a business—procedures (number);
- Starting a business—time (days);
- Starting a business—cost (% of income per capita);
- Starting a business—minimum capital (% of income per capita);
- Obtaining a license—procedures (number);²
- Obtaining a license—time (days);
- Obtaining a license—cost (% of income per capita);
- Closing a business—time (years);
- Closing a business—cost (% of estate); and
- Closing a business—recovery rate (cents on the dollar).³

Each of these raw factors is converted to a scale of 0 to 100, after which the average of the converted values is computed. The result represents the country's business freedom score. For example, even if a country requires the highest number of procedures for starting a business, which yields a score of zero in that factor, it could still receive a score as high as 90 based on scores in the other nine factors. Canada, for instance, receives scores of 100 in nine of these 10 factors, but the 14 licensing procedures required by the government equate to a score of 64.5 for that factor.

Each factor is converted to a scale of 0 to 100 using the following equation:

$$\text{Factor Score}_i = 50 \times \text{factor}_{\text{average}} / \text{factor}_i$$

which is based on the ratio of the country data for each factor relative to the world average, multiplied by 50. For example, on average worldwide, it takes 18 procedures to get necessary licenses. Canada's 14 licensing procedures are a factor value better than the average, resulting

² Obtaining a license indicates necessary procedures, time, and cost in getting construction permits.

³ The recovery rate is a function of time and cost. However, the business freedom component uses all three sub-variables to emphasize closing a business, starting a business, and dealing with licenses equally.

in a ratio of 1.29. That ratio multiplied by 50 equals the final factor score of 64.5.

For the six countries that are not covered by the World Bank's Doing Business report, business freedom is scored by analyzing business regulations based on qualitative information from reliable and internationally recognized sources.⁴

Labor Freedom:

The labor freedom component is a quantitative measure that considers various aspects of the legal and regulatory framework of a country's labor market, including regulations concerning minimum wages, laws inhibiting layoffs, severance requirements, and measurable regulatory restraints on hiring and hours worked.

Six quantitative factors are equally weighted, with each counted as one-sixth of the labor freedom component:⁵

- Ratio of minimum wage to the average value added per worker,
- Hindrance to hiring additional workers,
- Rigidity of hours,
- Difficulty of firing redundant employees,
- Legally mandated notice period, and
- Mandatory severance pay.

⁴ The six countries that are not covered by the World Bank's Doing Business study are Burma, Cuba, North Korea, Libya, Macau, and Turkmenistan. The methodology for business freedom dates from the 2006 Index because of the limited availability of quantitative data before that date. For the 1995 through 2005 editions, we used a subjective assessment with a score of 1–5. Those earlier scores have been converted by means of a simple formula to make them comparable. Top scores were converted to 100, the next best to 85, and so on. This conversion formula is different from the one used for other subjective factors, but it is unique because those other factors are not bridging to a new, data-driven methodology.

⁵ The labor freedom assessment in the 2009 Index expanded its factors to six from the four used in previous editions. This refinement was applied equally to past editions' labor freedom scores to maintain consistency. The assessment of labor freedom dates from the 2005 Index because of the limited availability of quantitative data before that time.

Based on data collected in connection with the World Bank's Doing Business study, these factors specifically examine labor regulations that affect "the hiring and redundancy of workers and the rigidity of working hours."⁶

In constructing the labor freedom score, each of the six factors is converted to a scale of 0 to 100 based on the following equation:

$$\text{Factor Score}_i = 50 \times \text{factor}_{\text{average}} / \text{factor}_i$$

where country i data are calculated relative to the world average and then multiplied by 50. The six factor scores are then averaged for each country, yielding a labor freedom score.

The simple average of the converted values for the six factors is computed for the country's overall labor freedom score. For example, even if a country had the worst rigidity of hours in the world with a zero score for that factor, it could still get a score as high as 83.3 based on the other five factors.

For the six countries that are not covered by the World Bank's Doing Business study, the labor freedom component is scored by looking into labor market flexibility based on qualitative information from other reliable and internationally recognized sources.

Monetary Freedom:

Monetary freedom combines a measure of price stability with an assessment of price controls. Both inflation and price controls distort market activity. Price stability without microeconomic

⁶ For more detailed information on the data, see "Employing Workers" in World Bank, Doing Business, at <http://www.doingbusiness.org/MethodologySurveys/EmployingWorkers.aspx>. Reporting only raw data, the Doing Business 2011 study discontinued all of the sub-indices of Employing Workers: the difficulty of hiring index, the rigidity of hours index, and the difficulty of redundancy index. For the labor freedom component of the 2013 Index, the three indices were reconstructed by Index authors according to the methodology used previously by the Doing Business study.

intervention is the ideal state for the free market.

The score for the monetary freedom component is based on two factors:

- The weighted average inflation rate for the most recent three years and
- Price controls.

The weighted average inflation rate for the most recent three years serves as the primary input into an equation that generates the base score for monetary freedom. The extent of price controls is then assessed as a penalty of up to 20 points subtracted from the base score. The two equations used to convert inflation rates into the monetary freedom score are:

$$\text{Weighted Avg. Inflation}_i = \theta_1 \text{Inflation}_{it} + \theta_2 \text{Inflation}_{it-1} + \theta_3 \text{Inflation}_{it-2}$$

$$\text{Monetary Freedom}_i = 100 - \alpha \sqrt{\text{Weighted Avg. Inflation}_i - \text{PC penalty}_i}$$

where θ_1 through θ_3 (thetas 1–3) represent three numbers that sum to 1 and are exponentially smaller in sequence (in this case, values of 0.665, 0.245, and 0.090, respectively); Inflation_{it} is the absolute value of the annual inflation rate in country i during year t as measured by the consumer price index; α represents a coefficient that stabilizes the variance of scores; and the price control (PC) penalty is an assigned value of 0–20 points based on the extent of price controls.

The convex (square root) functional form was chosen to create separation among countries with low inflation rates. A concave functional form would essentially treat all hyperinflations as equally bad, whether they were 100 percent price increases annually or 100,000 percent, whereas the square root provides much more gradation. The α coefficient is set to equal 6.333, which converts a 10 percent inflation rate into a freedom score of 80.0 and a 2 percent inflation rate into a score of 91.0.

Source: The Heritage Foundation, 2013.

The Heritage Foundation. 2013. *2013 Index of Economic Freedom*. Available: http://www.heritage.org/index/pdf/2013/book/index_2013.pdf [2013, December 21]

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