

**EFFECT OF TAX INCENTIVES ON FOREIGN DIRECT
INVESTMENT IN LISTED NIGERIAN
MANUFACTURING COMPANIES**

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**Effect of Tax Incentives on Foreign Direct Investment in Listed
Nigerian Manufacturing Companies**

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DECLARATION

This thesis is my original work and has not been presented for a degree in any other university.

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Date.....

Michael Olugbenga Olaleye

This thesis has been submitted for examination with our approval as university supervisors.

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DEDICATION

I give all glory to the Almighty God, I dedicate this work to my lovely wife Mrs. Olaleye .T.K and children, Olamide, Ayomide, Olumide and Oluwatomide .You stood by me through this long and challenging journey. To my late Father, Pa Olaleye John Olabode and to my mum, Madam Olaleye Esther Anike who have been my source of inspiration. I will forever be grateful to my mum for her moral and financial supports.

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TABLE OF CONTENTS

| | |
|---|-------|
| DECLARATION | ii |
| DEDICATION | iii |
| ACKNOWLEDGEMENT | iv |
| TABLE OF CONTENTS | v |
| LIST OF TABLES | x |
| LIST OF FIGURES | xiii |
| ABBREVIATIONS AND ACRONYMS | xv |
| DEFINITION OF KEY TERMS | xvii |
| ABSTRACT | xviii |
| CHAPTER ONE | 1 |
| INTRODUCTION | 1 |
| 1.1 Background of the Study | 1 |
| 1.1.1 Overview of Nigerian Listed Manufacturing Companies | 11 |
| 1.2 Statement of the Problem. | 13 |
| 1.3 Objectives of the Study..... | 14 |
| 1.3.1 General Objective..... | 14 |
| 1.3.2 Specific Objectives..... | 14 |
| 1.4 Hypotheses..... | 15 |
| 1.5 Justification of the Study | 16 |
| 1.6 Scope of the Study | 17 |
| 1.7 Limitations of the Study | 17 |
| CHAPTER TWO | 19 |
| LITERATURE REVIEW | 19 |

| | |
|---|-----------|
| 2.1 Introduction..... | 19 |
| 2.2 Theories of Foreign Direct Investment..... | 19 |
| 2.2.1 Internalisation Theory | 19 |
| 2.2.2 Eclectic Paradigm theory | 21 |
| 2.2.3 Tax Discrimination theory | 23 |
| 2.2.4 Agglomeration of Economies Theory | 24 |
| 2.2.5 Corruption and influence Theory | 25 |
| 2.2.6 Ex-Post Appropriation Theory | 25 |
| 2.3 Conceptual Framework..... | 26 |
| 2.4 Empirical Literature..... | 29 |
| 2.4.1 Foreign Direct Investment..... | 29 |
| 2.4.2 Tax Incentives | 37 |
| 2.4.3 Company income tax incentives and level of FDI..... | 43 |
| 2.4.4 Capital allowances and level of FDI | 45 |
| 2.4.5 VAT Incentives and level of FDI..... | 47 |
| 2.4.6 Capital Gains Tax (CGT) Incentives and level of FDI | 48 |
| 2.4.7 Double Taxation Treaty Incentives and level of FDI..... | 49 |
| 2.4.8 Moderating Variables: Non- Tax Incentives | 51 |
| 2.5 A Critique of the Past Studies/Empirical Review..... | 53 |
| 2.6 Research Gaps | 59 |
| 2.7 Chapter Summary | 60 |
| CHAPTER THREE..... | 61 |
| RESEARCH METHODOLOGY | 61 |
| 3.1 Introduction..... | 61 |
| 3.2 Research Philosophy..... | 61 |
| 3.3 Research Design | 62 |
| 3.4 Population of the study | 62 |

| | |
|--|-----------|
| 3.5 Target Population | 63 |
| 3.6 Sampling Frame..... | 63 |
| 3.7 Sample and Sampling Technique | 64 |
| 3.8 Sample Size | 65 |
| 3.9 Data Collection Instruments | 66 |
| 3.10 Data Collection Procedure..... | 67 |
| 3.11 Pilot Test..... | 67 |
| 3.12 Data Analysis..... | 68 |
| 3.13. Measurement of variables and analysis of objectives. | 76 |
| CHAPTER FOUR | 78 |
| RESULTS AND DISCUSSIONS..... | 78 |
| 4.1 Introduction | 78 |
| 4.2 Response Rate..... | 78 |
| 4.3 Respondents Background information | 79 |
| 4.3.1 Gender of the Respondent..... | 79 |
| 4.3.2 Education level..... | 80 |
| 4.3.3 Years worked in the Manufacturing Sector | 81 |
| 4.3.4 Position in the Company | 82 |
| 4.3.5 Age of the Company | 83 |
| 4.3.6 Total Foreign Shareholdings across ten years..... | 84 |
| 4.3.7 Average Shareholdings across the Thirty two Companies | 85 |
| 4.4 Factor Analysis | 86 |
| 4.5 Descriptive Analysis..... | 88 |
| 4.5.1 The effect of company income tax incentives on FDI in listed Nigerian manufacturing companies | 89 |

| | |
|--|-----|
| 4.5.2 The effect of capital allowances incentives on FDI in listed Nigerian manufacturing companies. | 93 |
| 4.5.3 The effect of Value Added Tax (VAT) incentives on FDI in listed Nigerian manufacturing companies | 96 |
| 4.5.4 The effect of capital gains tax incentives on FDI in listed Nigerian manufacturing companies | 100 |
| 4.5.5 The effect of double taxation treaty incentives on FDI in listed Nigerian manufacturing companies. | 103 |
| 4.5.6 The effect of non – tax incentives on FDI in Nigerian listed manufacturing companies (Moderating effect). | 106 |
| 4.5.7 Descriptive analysis on FDI (Dependent Variable) | 109 |
| 4.6 Inferential Analysis..... | 113 |
| 4.6.1 Diagnostic Tests | 113 |
| 4.6.2 Reliability Test | 113 |
| 4.6.3 Normality Test..... | 115 |
| 4.6.4 Autocorrelation test for foreign direct investment (Test for independence).... | 115 |
| 4.6.5. Homoscedastic Test for Foreign Direct Investment..... | 116 |
| 4.7. Pearson Correlation | 117 |
| 4.7.1 Correlation Analysis on Company Income Tax Incentives and FDI | 118 |
| 4.7.2 Correlation Analysis on Capital allowance incentives and FDI. | 118 |
| 4.7.3 Correlation Analysis on Value Added tax incentives and FDI | 118 |
| 4.7.4 Correlation Analysis on Capital gains tax incentives and FDI. | 119 |
| 4.7.5 Correlation Analysis on Double taxation treaty incentives and FDI | 119 |
| 4.7.6 Overall Pearson Correlation Matrix | 119 |
| 4.8 Results on the Regression Analysis and Anova Tests for the objectives of the study..... | 122 |
| 4.8.1 The effect of company income tax incentives on FDI in listed Nigerian manufacturing companies | 122 |
| 4.8.2 The effect of capital allowances incentives on FDI in listed Nigerian manufacturing companies | 125 |

| | |
|--|-----|
| 4.8.3 The effect of Value Added Tax (VAT) incentives on FDI in listed Nigerian manufacturing companies | 129 |
| 4.8.4 The effect of Capital Gains Tax Incentives on FDI in listed Nigerian Manufacturing Companies..... | 131 |
| 4.8.5 The effect of Double Taxation Treaty Incentives on FDI in listed Nigerian Manufacturing Companies..... | 134 |
| 4.8.6 Multiple Linear Regressions for Tax Incentives and FDI..... | 137 |
| 4.9 Moderating Effect Testing..... | 141 |
| CHAPTER FIVE | 145 |
| SUMMARY, CONCLUSIONS AND RECOMMENDATIONS | 145 |
| 5.1 Introduction | 145 |
| 5.2 Summary of Findings | 145 |
| 5.3 Conclusion | 148 |
| 5.4 Recommendations of the Study..... | 149 |
| 5.5 Areas for further Research..... | 150 |
| REFERENCES | 152 |
| APPENDICES | 173 |

LIST OF TABLES

| | |
|--|-----|
| Table 1.1: Breakdown of the Listed Manufacturing Companies..... | 11 |
| Table 2.2: Total FDI inflows in Nigeria (1985 to 2013). | 37 |
| Table 3.3 Sectorial distribution of Nigeria listed manufacturing companies | 64 |
| Table 3.4: Distribution of Sample based on Sectors | 65 |
| Table 3.5: Sample Size | 66 |
| Table 3.6: Pearson’s Correlation Coefficient | 75 |
| Table 3.7 Measurement of Variables and Analysis of objectives | 76 |
| Table 4. 8: Response rate per management level (finance& accounts department)..... | 79 |
| Table 4.9: Education level..... | 81 |
| Table 4.10: Years worked in the manufacturing sector..... | 82 |
| Table 4.11: Age of the Company..... | 84 |
| Table 4.12: Factor Analysis for all the variables..... | 88 |
| Table 4.13: Company Income Tax Incentives | 92 |
| Table 4. 14: Companies enjoying tax holidays..... | 93 |
| Table 4.15: Capital Allowance Incentives..... | 95 |
| Table 4.16: Claiming of total capital allowance to reduce its taxable profit by Companies..... | 96 |
| Table 4.17: Value Added Tax Incentives | 98 |
| Table 4.18: Companies produce or sell zero rated goods and services | 99 |
| Table 4.19: The Company’s goods and services exempted from VAT..... | 100 |
| Table 4.20: Capital gains Tax Incentives | 102 |
| Table 4.21: Are the company’s assets upon disposal exempted from capital gains tax | 103 |
| Table 4.22: Double Taxation Treaty Incentives | 105 |
| Table 4.23: Non - Tax Incentives | 108 |
| Table 4.24: Foreign Direct Investment..... | 111 |
| Table 4.25: The most effective tax incentives in attracting FDI to the manufacturing sector..... | 112 |
| Table 4.26 Reliability Test for all the variables | 114 |
| Table 4.27: One – sample Kolmogorov- Smirnov Test for Foreign Direct Investment | 115 |

| | |
|---|-----|
| Table 4.28: Durbin Watson test for independence of residuals (Error terms) or Autocorrelation | 116 |
| Table 4.29 Test for Homoscedasticity in the Residuals | 117 |
| Table 4.30: Pearson Correlation matrix for Independent and Dependent variables.. | 121 |
| Table 4.31 Model Summary for Regression Analysis between Company Income Tax incentives and FDI..... | 123 |
| Table 4.32: ANOVA Results for Company Income Tax Incentives and FDI | 124 |
| Table 4.33: Coefficients for regression between Company Income Tax Incentives and FDI. | 125 |
| Table 4.34: Model Summary for regression between capital allowance incentives and foreign direct investment | 126 |
| Table 4.35 ANOVA Results for Capital Allowance Incentives and FDI | 127 |
| Table 4.36: Coefficients for regression between Capital Allowance Incentives and FDI. | 128 |
| Table 4.37: Model Summary for Regression Analysis between Value Added Tax Incentives and FDI..... | 129 |
| Table 4:38 ANOVA Results for Value Added Tax Incentives and FDI..... | 130 |
| Table 4.39: Coefficients for regression between Value Added Tax Incentives and FDI. | 131 |
| Table 4.40: Model Summary for Regression Analysis between Capital Gains Tax Incentives and FDI..... | 132 |
| Table 4.41: ANOVA Results for Capital Gains Tax Incentives and FDI..... | 133 |
| Table 4.42: Coefficients for regression between Capital Gains Tax Incentives and FDI..... | 134 |
| Table 4.43: Model Summary for Regression Analysis between Double Taxation Treaty Incentives and Foreign Direct Investment..... | 135 |
| Table 4.44: ANOVA Results for Double Taxation Treaty Incentives and FDI..... | 136 |
| Table 4.45: Coefficients for regression between Double Taxation Treaty Incentives and FDI | 137 |
| Table 4.46: Model Summary on Company Income Tax Incentives, Capital Allowance Incentives, Value Added Tax Incentives, Capital Gains Tax Incentives, Double Taxation Treaty Incentives and FDI..... | 138 |

| | |
|--|-----|
| Table 4.47: ANOVA Results for Company Income Tax Incentives, Capital Allowance Incentives, Value Added Tax Incentives, Capital Gains Tax Incentives, Double Taxation Treaty Incentives and FDI | 139 |
| Table 4.48: Overall Regression Model Coefficients | 140 |
| Table 4.49: Model Summary on Tax Incentives moderated by Non – tax Incentives . | 142 |
| Table 4.50 : ANOVA Results for Company income tax incentives, Capital allowance incentives, Value added tax incentives, Capital gains tax incentives, Double taxation treaty incentives , Non – tax incentives and Foreign direct investment..... | 143 |
| Table 4. 51: Overall Regression Model Coefficients | 144 |

LIST OF FIGURES

| | |
|--|----|
| Figure 2.1: Conceptual Framework | 28 |
| Figure 4.2: Gender of the respondents | 80 |
| Figure 4.3: Position in the Company | 83 |
| Figure 4.4 Total Foreign Shareholdings from 2005 to 2014 | 85 |
| Figure 4.5: Average foreign shareholdings in the 32 listed Nigerian Manufacturing Companies..... | 86 |

LIST OF APPENDICES

| | |
|--|-----|
| Appendix I: Introduction letter | 173 |
| Appendix II: Questionnaire | 174 |
| Appendix III: Secondary data collection sheet | 185 |
| Appendix IV: Listed manufacturing companies in Nigeria | 186 |
| Appendix V: Sampled listed manufacturing companies in Nigeria | 190 |
| Appendix VI: Factor analysis for all the variables | 192 |

ABBREVIATIONS AND ACRONYMS

| | |
|----------------|---|
| AAITJNA | Action Aid International and Tax Justice Network Africa |
| ANOVA | Analysis of Variance |
| BITs | Bilateral Investment Treaties |
| BOI | Board of Investment |
| BRICS | , Russia, India, China and South Africa |
| CAI | Capital Allowance Incentives |
| CBN | Central Bank of Nigeria |
| CGTI | Capital Gains Tax Incentives |
| CITA | Income Tax Act |
| CITI | Company Income Tax Incentives |
| DTTI | Double Taxation Treaty Incentives. |
| ECCU | Eastern Caribbean Currency Union |
| EFCC | Economic and Financial Crime Commission |
| FDI | Foreign Direct Investment |
| GFCF | Fixed Capital Formation |
| GSM | Global System for Mobile |
| ICPC | Independent Corrupt Practices Commission |
| IMF | Monetary Fund |
| IPAs | Investment Promotion Agencies |

| | |
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| LDCs | Less Developed Countries |
| LFN | Law of Federation of Nigeria. |
| MENA | Middle East and North Africa |
| MNC | Multinational Corporation |
| NEPAD | New Partnership for Africa Development |
| NIPC | Nigerian Investment Promotion Commission |
| NNPC | Nigerian National Petroleum Corporation |
| OECD | Organisation for Economic Cooperation and Development |
| PHCN | Power Holding Company of Nigeria |
| ROI | Return on Investment |
| TNCs | Transnational Corporations |
| UNCTAD | United Nations Conference on Trade and Development |
| UNIDO | United Nation Industrial Development Organization |
| US | United States |
| USD | United States dollar |
| VAT | Value Added Tax |
| VATI | Value Added Tax Incentives |
| WDIOD | World Development Indicators Online database |

DEFINITION OF KEY TERMS

Foreign Direct Investment (FDI): is the long-term investment reflecting a lasting interest and control by a foreign direct investor (or parent enterprise), of an enterprise entity resident in an economy other than that of the foreign investor (IMF, 1999).

Foreign Direct Investor: an entity (an institutional unit) resident in one economy that has acquired, either directly or indirectly, at least 10% of the voting power of a corporation (enterprise), or equivalent for an unincorporation enterprise, resident another economy (OECD,2008)

Tax Incentives: are those special exclusions, exemptions or deductions, from income tax liability, offered to taxpayers by the government as an enticement or encouragement to engage in specified activities. (IMF 2002)

Transnational Corporation (TNC): corporations that differ from a traditional MNC in that they do not identify themselves with one national home. Whilst traditional MNCs are national companies with foreign subsidiaries (Drucker,1997). “An example of TNC is Nestlé who employs the power of a corporation (enterprise), or equivalent for an unincorporated enterprise, resident in another economy. senior executives from many countries and try to make decisions from a global perspective rather than from one centralized headquarters” (Schemerborn, 2009).

ABSTRACT

Tax incentives have become a global phenomenon as more and more governments try to attract multinational companies and enhance the associated technology spillovers. Although hardly new, this trend appears to have strengthened since the early 1990s. The key objective of this study was to establish the effect of tax incentives on foreign direct investment (FDI) in listed Nigerian manufacturing Companies. Specifically, the study established the effect of company income tax incentives; capital allowances incentives, value added tax incentives, capital gains tax incentives , double taxation treaty incentives on the level of foreign direct investment in listed Nigerian manufacturing companies and the effect of non – tax incentives on FDI in listed Nigerian manufacturing companies. This study adopted descriptive research design and the target population of the study was the 74 listed manufacturing companies with approximately more than 56,000 employees. A sample size of 352 respondents from thirty two (32) manufacturing companies was selected from seventy four (74) companies using stratified purposive sampling and respondents were grouped into three strata; that of top, middle and lower management levels. This study used primary and secondary data . The primary data was obtained from administration of the questionnaires and the secondary data obtained from the Central Bank of Nigeria annual reports, financial statements of companies, Nigeria Stock Exchange manuals and National Bureau of Statistics for a period of 10 years (2005 to 2014).Descriptive statistics used were; frequencies, mean and standard deviation, while inferential statistics consisted of regression analysis. The findings in the study revealed that tax incentives have significant positive effect on foreign direct investment in listed Nigerian manufacturing companies. The p -values for all the variables are lower than 0.05. which implies they are significant. Respondents felt intruded when requested to complete a questionnaire that required them to disclose such information. The respondents were assured of confidentiality and ethical handling of the information. There is need to conduct a cost benefit analysis for tax incentives available to various sectors of the economy. Investors should be encouraged to utilise roll over tax relief and bilateral investment treaties should be negotiated and ratified. The positive and statistically significant relationship between the various tax incentives and foreign direct investment implies foreign investors can maximize their investment by taking advantages of the available tax incentives allowed by the government to create an enabling investment environment.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Investment is known to be the engine of sustainable growth (Ahn & Hemmings, 2000). However, in less developed countries (LDCs) the national level of savings is quite low (Javorcik, 2004). Consequently, there exists a huge gap between the required rate of investment and the existing rate of savings (Asiedu, 2006). The Brussels Declaration in Paris contained 30 international development goals for LDCs, including the attainment of an investment to GDP ratio of 25 per cent and an annual GDP growth rate of at least 7 per cent in order to achieve sustainable development and poverty reduction in LDCs ,United Nations Conference On Trade And Development (UNCTAD, 2010).

Foreign Direct Investment (FDI) is widely regarded as a potential source of funding growth and development of the developing and developed nations (Blomstrom & kokko, 2003). Consequently, strategies of attracting FDI turned out to be a heavily used approach of many governments across the world to boost their economies. Because of this, many studies were devoted to the techniques of how best attracting FDI. Some of the studies are (UNCTAD, 2000 ; UNCTAD, 2009; Jose ,2007; OECD, 2002; Blomstrom & Kokko, 2003).The rationale behind the granting of tax incentives is to exploit investment opportunities, where the tax system is seen as an obstacle (Klemm & Parys, 2009).

They are also used to improve social welfare of the community, for example, granting incentives related to health, education or saved for future use (Klemm & Parys, 2009). On the other hand, they can also be used to discourage certain activities like overproduction of agricultural produce resulting in instability in prices (Klemm & Parys, 2009) .The United Nation Industrial Development Organization (UNIDO, 2008), reported that the flow of FDI globally reached an all-time high of USD 1.3

trillion during the year 2000. Investment promotion agencies (IPAs) in many parts of the world, especially in the highly developed economies of Europe and North America, and also booming Asian economies of China, recorded high volumes of business and celebrated further success in attracting new investment to their countries (UNIDO, 2008).

Most of this investment flow, however, is concentrated in the highly developed areas of the European Union, the United States of America and Japan that together accounted for 71% of world inflows of FDI due to lucrative tax incentives (UNIDO, 2008). Jensen and Malesky (2010) remarked that despite broad skepticism about the benefits of globalisation, the majority of U.S. states had offered lucrative tax incentives to attract investment. Consequently, the African share of world investment fell from its previous 1% to a further low of a mere 0.67% (UNIDO, 2008). Consequently, African countries were encouraged and supported to set up Investment Promotion Agencies (IPAs) to “market” their attractions and create a one-stop-shop and to smoothen the pathway for incoming investors.

As a comparison, in the year 2002, Nigeria with an estimated population of 120 million attracted FDI of USD 22 billion, while Malaysia with a much lower population and far less natural resources attracted FDI that almost tripled the Nigeria’s figure of USD 22 billion and not much has changed since then (UNIDO, 2008). Nigeria created an Investment Promotion Agency, (Nigerian Investment Promotion Commission, (NIPC) to provide a “one-stop-shop” to smoothen the path and remove obstacles facing incoming investment.

Government has adopted more incentives to promote private investment (Babatunde .& Adepeju, 2012). Most governments depend on investment promotion agencies, economic development boards, industrial development agencies, and other investment promotion commissions to compete globally for critical foreign investment and the development benefits it brings (Ortega & Griffin, 2009). In 1995, the Nigerian Investment Promotion Commission (NIPC) was established to enhance the inflow of investment in the country (Abubakar, Haruna & Ahmed, 2012). An

alternative source of capital that can be used to fill this gap and bring about sustainable development is FDI.

The FDI is stated to be an important source of capital formation, know-how, employment generation and trade opportunities for LDCs and called for accelerating FDI inflows into these countries. According to Todaro and Smith (2003), Hayami (2001) the contributions of FDI to the development of a country are widely recognized as filling the gap between domestically mobilized saving and desired investment, improving the tax revenues as well as labor skills in host countries. These could help the country to break the vicious cycle of underdevelopment. In the past decade (2001–2010) FDI inflows have been the most important external private capital flows to LDCs, exceeding foreign portfolio and other investments combined (UNCTAD, 2011). FDI does play an important role in LDCs and this importance has grown over the past decade, as evidenced by the expanding presence of the largest transnational corporations (TNCs).

Most LDCs have been making efforts to improve the investment environment over the years, though, for instance, reducing taxes, establishing an investment promotion agency to better assist foreign investors and abolishing FDI-related restrictions (UNCTAD, 2011). Furthermore, increased attention has been paid by many LDCs to policy initiatives at the bilateral, regional and multilateral levels in order to enhance international cooperation and/or integration in matters relating to FDI. Such policy initiatives are as follows: launching of the New Partnership for Africa's Development (NEPAD) in 2001 to increase available capital to US\$64 billion through a combination of reforms, resource mobilization, reducing taxes, establishing an investment promotion agency to better assist foreign investors, abolishing FDI-related restrictions and a conducive environment for FDI (Funke & Nsouli, 2003). To this end, Nigerian authorities have been trying to attract FDI through various reforms (Funke & Nsouli, 2003).

The reforms which encouraged FDI inflow into Nigeria include signing of Bilateral Investment Treaties (BITs) in the late 1990s, deregulation of the economy, the establishment of the Nigeria Investment Promotion Commission (NIPC) in 1995,

abrogation of the indigenization policy in 1995, introduction of tax incentives and the new industrial policy of 1989 (financial and trade liberalization policy). Others were the establishment of Economic and Financial Crime Commission (EFCC) and the Independent Corrupt Practices Commission (ICPC) are efforts to improve the corporate environment and uphold the rule of law.

Lowering the tax burden on investment might imply cutting down public expenditure or shifting of the tax burden to other tax bases like labour. Tax policy makers, therefore, need to know whether taxes do matter in investment and how much they do (Keen, 2002). The decisions in the design of sound tax policy should carefully weigh the benefits of a corporate tax reduction against the cost. It is clear that countries around the globe have engaged the process of attracting FDI through various means and instruments, including tax incentives economy (Keen, 2002).

The literature on the forces driving FDI in developed economies has identified both non - policy and policy factors as drivers of FDI (Fedderke & Romm, 2006). The non – policy factors comprise of transport costs, economic and political stability, factor endowments and market size of the host country while the policy factors include arrangements of labour market, direct FDI restrictions, infrastructure, openness, regulation of product market and trade barriers (Mateev,2009). In the case of the US, Thomas (2007) found that the U.S. federal government allowed for accelerated depreciation, which is considered as an incentive offered to attract investment into the United States rather than other countries where widely available accelerated depreciation is not the norm.

Accelerated depreciation for machinery and equipment was estimated to have cost the U.S. Treasury US\$ 44.7 billion in Fiscal Year 2004 (Thomas, 2007). They indicate that the size of these incentives was generally considered too large to be welfare enhancing and that many economists were skeptical of the effectiveness of those policies (Thomas, 2007). Yet despite the mounting evidence to the contrary, the six tax incentives offered by the U.S. have continued and have actually increased in their generosity over time (Thomas, 2007). This shows that even the US has been

extending tax incentives to attract investment and that foreign investment is important regardless of the level of development.

According to World Development Indicators Online database (WDIOD , 2004) the sample of emerging economies consists of Argentina, Brazil, Chile, China, Colombia, Egypt, India, Indonesia, Israel, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, South Africa, Thailand, Turkey and Venezuela. The developing world is witnessing changes in its position on the international arena. A growing role in BRICS economies (e.g. Brazil, Russia, India, China and South Africa), the dynamic development in South and Latin America, much more optimistic about the future in Africa go together with the substantial reduction of poverty in all emerging economies (both in BRICS and smaller territories) (World Bank ,2004).

Research work on the Caribbean countries that makes up the Eastern Caribbean Currency Union (ECCU) include that by Bain in 1995, (as cited in Van Parys & James, 2010) estimated revenue loss from tax concessions in the ECCU to have been between 23.5 percent in Anguilla to 53.9 percent in Grenada. A later study by Goyal & Chai (2008) measured both how beneficial tax incentives were for the cost of capital as well as how costly they were in terms of forgone revenue. Van Parys & James, (2010) calculated revenue losses of between 9½ and 16 percent of GDP, implying that on average the ECCU countries would gain revenues as big as 9 percent of GDP if tax concessions were removed. This puts to doubt the extent of the benefits of extending tax incentives to the host country, the Caribbean countries in this case.

According to Morisset (2003) some countries have become tax havens, especially in the Caribbean and Pacific regions using an extreme approach to reduce or simply eliminate taxes on all or specific investors. Tax haven countries have been successful in encouraging FDI, but this has to be qualified as they principally attracted mobile companies or activities that are relatively global such as banking and insurance as well as Internet companies.

Massoud (2003) concluded that the policy on FDI in Egypt should have focused on deriving macroeconomic benefits from FDI rather than on attracting the FDI. The study stated that offering incentives, especially tax incentives, was not the way out of more benefits, but improving the availability of sufficient qualified labour, focusing on the establishment of sound institutions, and opening up to international trade would make Egypt's locational characteristics more favourable to potential investors. Thomas (2007) found that China was attracting substantial investment with its low labour costs and large number of skilled workers. This, he explains, was in addition to providing a full five-year tax holiday and another five years with 50 percent tax liability, while cities and regions also gave tax incentives to investors.

A sectorial analysis was done by Stowhase (2005) demonstrated that tax rates have no impact on FDI in the primary sector, reflecting that investment in this kind of activities is mainly resource driven. However, the same does not hold for the manufacturing and service sectors, where tax rate differentials have a significant deterrent effect on FDI.

Encouragement of cross-border investments, especially by transnational corporations and firms (TNCs) is one of the most important features of today's globalization drive. Many countries and continents (especially developing) now see attracting FDI as an important element in their strategy for economic development and FDI is seen as an amalgamation of capital, technology, marketing and management (Ayanwale, 2007). Work done by Tanzi and Zee (2001) on tax policies for developing countries indicated that while granting tax incentives to promote investment was common in countries around the world, evidence suggested that its effectiveness in attracting incremental investments above and beyond the level that would have been reached had no incentives been granted, was often questionable. The study indicated that tax incentives could be abused by existing enterprises disguised as new ones through nominal re-organisation and therefore their revenue costs could be high.

Moreover, foreign investors, which are the primary target of more tax incentives, base their decision to enter a country on a whole host of other factors (such as natural resources, political stability, transparent regulatory system, infrastructure, and skilled

workforce), of which tax incentives are frequently far from being the most important one (Tanzi & Zee, 2001). The study further posited that tax incentives could also be of questionable value to a foreign investor because the true beneficiary of the incentives may not be the investor at the end, but rather the treasury of his home country, especially when any income spared from taxation in the host country is taxed by the investor's home country.

Basu and Srinivasan (2002), noted the experience of Lesotho and Swaziland in addition to very specific locational advantages, the two countries enjoyed through their relationship with South Africa, political stability, presence of reasonably sound macroeconomic policies, the provision of generous tax incentives helped influence inflow of foreign direct investment. The quest to reduce corporate income tax rates has generated a race-to-the-bottom phenomenon in the region, as each Middle East and North Africa (MENA) country aspires to offer a competitive corporate tax rate in order to attract FDI (Mintz, 2004). In addition to reducing or abolishing corporate taxes, Mintz (2004) states that MENA countries have also offered incentives such as tax holidays, accelerated depreciation of assets, exemption from import duties and value added tax and credit for equipment purchase to attract FDI. According to Jauch (2002), opinions about the importance of incentives differ, through the EPZ programme, African countries offer incentives to attract foreign investment in the form of tax holidays, exemptions on export and import duties, subsidized infrastructures consider them as a mean to obtain FDI. Most African countries have concluded bilateral investment treaties with countries whose main aim is the protection, promotion of FDI and clarify the terms under which FDI can enter the host country (UNCTAD, 2014).

According to Haiyambo (2013) Namibia has been using tax and non-tax incentives applicable to existing and new manufacturing enterprises to attract foreign direct investment. The tax based incentives entail tax reliefs to eligible investors. Morisset (2003) through the World Bank's Private Sector Advisory Services' publication (Viewpoint) also indicates that the impact of tax incentives on FDI appeared to be ambiguous at first glance. Morisset deduced this from time-series econometric

analysis and results of numerous surveys of international investors that tax incentives were not the most influential factor for multinational corporations in selecting investment locations.

UNCTAD (2014) world investment reports that the Africa's outlook for FDI is promising; the expected surge is yet to manifest. FDI is still concentrated in only a few countries for many reasons, ranging from the negative image of the region, to poor infrastructure, corruption and foreign exchange shortages, an unfriendly macroeconomic policy environment, among others. Nigeria is one of the few countries that have consistently benefited from the FDI inflow to Africa. Nigeria's share of FDI inflow to Africa averaged around 10%, from 24.19% in 1990 to a low level of 5.88% in 2001 up to 11.65% in 2002. UNCTAD (2003) showed Nigeria as the continent's second top FDI recipient after Angola in 2001 and 2002.

Nwankwo (2006) highlighted that FDI is an engine of economic growth and development in Africa where its need cannot be over emphasized. Nigeria joined the rest of the World in seeking FDI as evidenced by the formation of the New Partnership for Africa's Development (NEPAD). Nwankwo (2006) emphasized that in view of the NEPAD initiative, the government is working toward developing stronger public-private partnerships for roads, agriculture, and power through the attraction of FDI among other measures. A National Council on Privatisation was established, in addition the Nigerian Investment Promotion Council (NIPC), has been strengthened to serve as a one- stop office for clearing all the requirements for investment in Nigeria by attracting FDI through taxation policy in the form of tax incentives. This is through the promulgation of Nigerian Investments Promotion Commission Act cap n.117 (1995), LFN. (Law of Federation of Nigeria).

The Nigerian Government has put in place a number of investment incentives for the stimulation of private sector investment from within and outside the country. While some of these incentives cover all sectors, others are limited to some specific sectors. The nature and application of these incentives have been considerably simplified. The incentives include tax holidays, initial capital allowance, and free duty on equipment. (Fakile & Adegbile, 2011). Taxation is the bedrock of a Country to fulfill

its responsibility and ensure its continuity. According to Modugu, Eragbe and Izedonmi (2012), taxation goes hand in hand with economic growth and lifeblood for governments to deliver essential services and to make long-term investments in public goods. However, sometime, government waives taxes in form of tax incentives in exchange for certain gains.

Modugu et al. (2012) therefore stated that as part of the effort to provide an enabling environment that is conducive to the growth and development of industries and encouragement of FDI, the Federal Government of Nigeria has developed a package of tax incentives for various sectors of the economy including Oil and Gas sector. These tax incentives are granted on industry basis or on tax type and may include exemption from payment of taxes (tax holidays), reduction in the rate of tax to be paid, grant of allowances and deductions from profits subject to tax, exemption of tax on Non –Nigerian employees of foreign companies, exemption from capital gains tax on disposal of assets etc. However, the tax sensitivity of FDI has important policy implications.

The FDI in Nigeria has mainly been in the primary sector due to the availability of natural resources specifically crude oil. This has attracted a large amount of multinational oil companies in the country, as noted in the findings of Babatunde & Adepeju (2012) that there is significant impact of tax incentives on FDI in Oil and Gas Sector in Nigeria. However, the FDI inflow to the manufacturing sector has been insignificant (Anyanwu, 2011). Factors that have reduced the inflow of FDI into Nigeria include political instability and corruption by stakeholders (Anyanwu, 2011). The government's slow pace of privatizing certain parastatals (such as NEPA, NITEL etc.) and lack of transparency has also constrained the flow of FDI to the country. This is complicated by the poor level of basic infrastructures from 85.6 percent in 1971 to -31.20 percent and -17.23 percent in 1976 and 1984 respectively.

The value fell by about 24.76 percent in 1989 (Obida and Nurudeen, 2010). In 2001, the value was -70.00 percent. The FDI inflow has not been encouraged since then. This has been the responsibility of agencies established by the government to stimulate the inflow of FDI. Jerome and Ogunkola (2004) assessed the magnitude,

direction and prospect of investing in Nigeria. They observed that foreign direct investment was increasing but with some limitations. These limitations exist in the corporate environment (such as labour law, corporate law and rule of law). The establishment and the activities of the economic and financial crimes commission, the independent corrupt practices commission and the Nigeria investment promotion commission are efforts to improve the corporate environment and uphold the rule of law.

In Nigeria, Obida and Nurudeen (2010) examined the relationship between FDI and its potential determinants. Their findings showed that the principal determinants of FDI are the market size of the host country, deregulation, exchange rate depreciation, and political instability, but did not consider taxes as a determinant of FDI. Abubakar et al (2012) examined the role of the Nigerian Investment Promotion Commission (NIPC) in attracting Foreign Direct Investment (FDI) in Nigeria. The findings from their result reveal that there is a significant correlation between the establishment of NIPC and an increase in FDI inflow and lastly, the results revealed that NIPC had succeeded in influencing the growth of FDI in Nigeria.

Tessema (2008) shows that multinational corporations (MNCs) operating in Africa are denying African states a huge amount of revenue mainly using the gaps created by the tax incentive administration. As a result, African states are losing revenues that could have been used for improving the socio-economic situation of their population. Tessema (2008) remarked that the loss is attributable to the failure of African States to establish the necessary legal and institutional mechanisms for controlling the illicit behaviour by companies that are caused because of the gaps that tax incentives create. According to Ayanwale (2007), Nigeria losses 74billions Naira annually to tax incentives and pointed out that what attracts foreign investors is very much different from tax. Central Bank of Nigeria (CBN) (2014) affirmed in its reports that, however, government loses money from tax incentives, but this will be compensated by the activities of such companies on the economy especially by their ability to generate jobs.

1.1.1 Overview of Nigerian Listed Manufacturing Companies

According to Nigeria Stock Exchange (2014) the following industrial sectors, which are conglomerates, natural resources, industrial goods, health care, and consumer goods are classified as listed Manufacturing companies in Nigeria. Table 1.1; show the breakdown of seventy four (74) listed manufacturing companies into sectors as at 2014.

Table 1.1: Breakdown of the Listed Manufacturing Companies

| Sector | Numbers |
|-------------------|---------|
| Conglomerates | 6 |
| Natural resources | 5 |
| Industrial goods | 24 |
| Health care | 10 |
| Consumer goods | 29 |
| Total | 74 |

Source: The Nigeria Stock Exchange (2014).

Adenikinju and Chete (2002) in their research on empirical analysis of the performance of the Nigerian manufacturing sector over a 30-year period revealed that the Nigerian manufacturing sector performed with satisfactory growth levels from 1970 to 1980. However, there was a rapid decline in the profitability and growth of the Nigerian manufacturing sector after 1980. The collapse of the oil price in the international market resulted to a negative effect on the manufacturing sector's

performance. The manufacturers were faced with the multiple problem of obtaining spare parts and raw materials for their production processes. The inadequacy and non-availability of the companies' access to the spare parts and raw materials constituted the major factors towards the decline in the growth rate of the manufacturing sector after 1981 (Dipak & Ata, 2003, Adenikinju & Chete, 2002).

Anyanwu (2000) supported the findings of Adenikinju & Chete that the collapse of the world oil market in the early 1980s contributed to the decline in the foreign exchange earnings of Nigeria, which resulted in the level of performance of the manufacturing sector. The introduction of the Structural Adjustment Programme (SAP) in 1985 by the Federal Government of Nigeria was expected to find solutions to the situation but there was no improvement (Anyanwu, 2000).

Ayanwale (2007) conducted a study on the effect of foreign direct investment on the performance of the manufacturing sector and Nigerian economy and concluded that Nigeria is struggling to attract more foreign investors. According to the Nigerian minister of trade and investment (Aganga, 2014), the Nigerian manufacturing sector appeared to be gradually bouncing back to reckoning based on the achievements recorded in the sector in the ongoing year. Aganga (2014) stated that the federal government kicked off an industrial revolution in the year 2012 to strategically empower and position the nation's manufacturing sector as the key driver of the economic growth through increased contribution to Gross Domestic Product (GDP). In this package, the federal government declared a new scheme of tax credit aimed at encouraging an increase in the flow of foreign investment into Nigeria. According to the minister, Nigeria recorded 8.9 billion dollars investment inflow in 2013, making Nigeria the number one investment destination in Africa.

1.2 Statement of the Problem

It is theoretically plausible to address the question on how effective tax incentives are in attracting Foreign direct investment into a country in line with (Klemm & Parys, 2009), empirical evidence is confounding.

The flow of FDI to the Nigerian Economy is low relative to other countries in Africa even with the presence of tax incentives (UNCTAD, 2014). The report indicates that out of the 57 billion dollars FDI inflows to Africa, Nigeria inflows stands at 5.6 billion US dollars (10% of total FDI to Africa). However, the Oil and Gas sector receives 75% of FDI inflow in Nigeria, while other sectors receive 25% (Corporate guide, 2012). There is an inadequate attraction of FDI into the listed Nigerian manufacturing companies. The inadequate attraction of FDI to the manufacturing sector leads to the question of whether the tax incentives have been effective in attracting FDI to the listed manufacturing companies (Ernest & Young, 2014).

FDI in Nigeria has also played a major role in the expansion of mobile telephone since the introduction of Global System for Mobile (GSM) licensing in January 2001. Agriculture, building and construction remained the least attractive hosts of FDI in Nigeria (CBN, 2004). If the report from the privatization programme (CBN, 2004) is anything to go by, however, the transport and communication sector seem to have succeeded in attracting the interest of foreign investors, especially the telecommunication sector (CBN, 2004).

It is important to attract adequate FDI for the development of a vibrant manufacturing sector especially in the interest of economic diversification (Ernest & Young, 2014). Poor flow of FDI to the manufacturing sector may impact negatively on economic growth and diversification. Aganga (2014) said that if Nigeria is going to migrate from a poor Nation to a rich Country, the key is industrialization. Secondly a weak manufacturing sector may affect the investors, consumers and government negatively through poor performance. The negative effect of the weak manufacturing sector may arise when the revenues from the Oil and Gas sector are threatened. Factors that have deterred investment in the Oil and Gas Sector in the

past include the unrest in the Niger Delta (Corporate Guide, 2012). Future poor oil prices could also constitute a threat to the manufacturing sector.

Empirical studies on tax incentives and FDI have been carried out in Nigeria but they have been inconclusive. Babatunde et al. (2012) carried out an investigation on the determinant factors of FDI and analyse whether or not some selected factors such as tax incentives, availability of natural resources, macro – economic stability, market size, openness to trade, infrastructural development and political risk have an impact in the Oil and Gas sector. Obida and Nurudeen (2010) examined the relationship between FDI and its potential determinants. Miao and Wang (2009) conducted a study on the effectiveness of corporate income taxes on stimulation of investment. Musyoka (2012) carried out a study with the objective of correlating tax incentives and foreign direct investments in Kenya. Sebastian (2009) made an analysis on how tax incentives may or may not be used to attract investments especially in developing countries. The analysis was based on research done using micro economic data collected from Organisation for Economic Cooperation and Development (OECD) countries. Despite the fact that similar studies have been done in Nigeria, the effects of tax incentives on FDI in listed manufacturing companies in Nigeria have received virtually less attention. The manufacturing sector is very important for the growth of an economy. It is not clear whether tax incentives have significant effect on FDI in listed Nigerian manufacturing sector. This study looked at the effect of tax incentives on FDI which is channeled to the Listed Nigerian manufacturing Companies.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study is to establish the effect of tax incentives on FDI in listed Nigerian manufacturing companies.

1.3.2 Specific Objectives

In order to achieve the overall objective, the specific objectives of the study are:

1. To examine the effect of company income tax incentives on FDI in listed

- Nigerian manufacturing companies.
2. To establish the effect of capital allowances incentives on FDI in listed Nigerian manufacturing companies.
 3. To determine the effect of value added tax (VAT) incentives on FDI in listed Nigerian manufacturing companies.
 4. To evaluate the effect of capital gains tax incentives on FDI in listed Nigerian manufacturing companies.
 5. To examine the effect of double taxation treaty incentives on FDI in listed Nigerian manufacturing companies.
 6. To determine the moderating effect of non – tax incentives on FDI in listed Nigerian manufacturing companies

1.4 Hypotheses

H₀₁: There is no significant effect of company income tax incentives on FDI in listed Nigerian manufacturing companies.

H₀₂: There is no significant effect of capital allowances incentives on FDI in listed Nigerian manufacturing companies.

H₀₃: There is no significant effect of value added tax incentives on FDI listed Nigerian manufacturing companies.

H₀₄: There is no significant effect of capital gains tax incentives on FDI in listed Nigerian manufacturing companies.

H₀₅: There is no significant effect of double taxation treaty incentives on FDI in listed Nigerian manufacturing companies

H₀₆: There is no moderating significant effect of non- tax incentives on FDI in listed Nigerian manufacturing companies.

1.5 Justification of the Study

This study is of great value to the Government, researchers and corporate taxpayers. It forms the basis of reviewing the tax policies and carrying out an evaluation of their effectiveness. A review of the current tax policies can aid in carrying out a cost benefit analysis and scrapping of the incentives that have fewer benefits. This can help formulating fiscal policies aimed at encouraging FDI to manufacturing sector in Nigeria and enhances employment creation. This research will provide the government with empirical evidence on the performance of current tax incentives and hence makes informed decision in improving the status quo.

The study is an expository to scientific enquiry, comparative analysis and methodological improvement in the areas of taxation and investment. It has brought out the peculiarities of tax incentives in Nigeria as compared to what obtained in the developed economy. Therefore this research will provide the prospective investors and corporate taxpayers with an insight on available tax incentives and how to utilise them in order to increase their savings for future investments.

Rise in the level of investments in the country is likely to increase the level of revenue for government through taxation. However, a favourable climate for investment should be established otherwise the revenues are likely to be eroded by factors such as political instability and unfair tax policies that tend to favour certain sectors only. The researchers will have a basis for further research by adopting a different research methodology or extending the period of analysis. The report forms a reference for future studies.

According to Modugu, Eragbe and Izedonmi (2012) , taxation goes hand in hand with economic growth and lifeblood for governments to deliver essential services and to make long –term investments in public goods. This implies that there is a strong influence of tax incentives on FDI. In line with this argument the Federal government has developed a package of tax incentives to attract FDI to various sectors of the economy.

1.6 Scope of the Study

The study focused on the effect of tax incentives on FDI in the listed Nigerian manufacturing companies from years 2005 to 2014. A total number of thirty two companies (32) out of the 74 (seventy four) listed manufacturing companies were examined. These companies are located in all the six geo-political zones of Nigeria. All the six geo-political zones were selected to have a full coverage of all the Companies. The zones are North Central, North Eastern, North Western, South Eastern, South-South and South Western. Manufacturing is very critical for creation of wealth in a country. The focus on manufacturing is justified on the fact that Nigeria as a nation, manufacturing will solve three critical problems: problem of GDP growth , unemployment and balance of payment. Aganga (2014) said if Nigeria is going to move from a poor nation to a rich country, industrialization holds the key because it has the potential for unlocking the wealth of our country.

Besides the choice of the target companies, the study narrows down on a study period of ten years. The ten year period used for the study is deemed long enough to provide a wide range of observations required to establish the effect of tax incentives on FDI in listed Nigerian manufacturing companies.

1.7 Limitations of the Study

The nature of the study called for confidential information related to the manufacturing companies. Respondents felt intruded when requested to complete a questionnaire that required them to disclose such information. In order to mitigate this shortcoming, the respondents were assured of confidentiality and ethical handling of the information.

Secondly, the sample quantitative FDI flows and tax incentives obtained from secondary data of the manufacturing companies implied that there was need for a similar response rate from the questionnaire administered for the construction of the variables. This was required for comparison with the quantitative values. This necessitated personal administration of the questionnaires to, ensure a 100% response rate, which inevitably took a longer time than that envisaged in the research plan.

Obtaining all the data however necessitated the achievement of all the research objectives

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter attempts to summarise the existing literature on tax incentives and foreign direct investment. The study specifically covers both the theoretical and empirical literature, as well as the conceptual framework and research gap.

2.2 Theories of Foreign Direct Investment

The theories discussed are the internalization and Eclectic Paradigm theories of Foreign Direct Investment. The theoretical studies on FDI have resulted to easy understanding of the economic growth and mechanism. Economists have realised that FDI is an essential element of economic development in all countries, most especially in the developing countries.

2.2.1 Internalisation Theory

This theory was developed by Buckley and Casson (1976) and followed by Hennart (1982). The origin of this theory was by Coase (1937) in a national context and Hymer (1976) in an international context. Hymer (1976) established two major determinants of FDI. The first were the advantages, which some firms possess in a particular activity while the second was the removal of competition. Buckley and Casson (1976) state that transnational companies organise their internal activities to benefit from specific advantages, which are to be exploited. The Internalisation theory lies on why companies do not prefer to sign contract with a subcontractor in a foreign country instead of engaging in Foreign Direct Investment themselves.

Denisia (2010) illustrates Internalisation theory on the concept that transnational companies arrange their activities internally to achieve specific advantages that they can exploit. This theory explains the growth of multinational enterprise (MNE) and

the reasons why countries venture into foreign direct investment. If companies contract out with a subcontractor, such companies may use the technology to compete with the agency company by interrupting the contract or the agent may damage the brand reputation of the company. Hymer (1976) demonstrates that FDI take place, only if the benefits of exploiting these specific advantages are more than the cost of the operations in foreign country. Most companies are more comfortable with investing directly in a foreign country. It must be more beneficial to the firm possessing the ownership advantages to use them itself rather to lease or sell them to foreign firms.

Hymer (1976) discussed the problem of information costs for international firms with respect to local firms, different currency risk and differences in government's fiscal policies. The theory of internalisation explains the motivations of the transnational companies for making foreign direct investment by taking advantage of various government fiscal policies and other policies. The internalisation advantages include the following: avoid governmental intervention such as tariffs, price controls and quotas, avoidance of litigation and violated contract , control of conditions and supply of sale of inputs , application of transfer pricing , avoidance of negotiation and search costs ,control of market outlets.

Through direction of resource flows, a foreign direct investor may change its activities in response to changes in governmental policy, tax structures, exchange rates and other uncertainties. These resource flows constitute conditions for competitive or location - specific advantages in the world economy. This theory aims to assess the extent at which tax incentives have induced investors to invest in Nigeria. The possession of internalization advantages suggests that the firm will exploit these advantages by way of FDI rather than by contractual resource exchanges.

Finally it should be attractive to undertake activities within the multinational, rather than buying or leasing them from other firms. The tax rate may determine the attractiveness of location for undertaking investments.

2.2.2 Eclectic Paradigm theory

The Eclectic theory is demonstrated by Dunning (1980, 2000, and 2008) as a mix of three different theories of FDI based on the following advantages (O-L-I). Ownership advantages (O), Location advantages (L) and Internalisation advantages (I). This theory is termed as the OLI theory or framework. All the three factors are important in determining the pattern and extent of FDI.

Ownership advantages (O) projects that some firms have firm-specific intangible assets (such as patents, human capital, technologies, brands, economics of large size in form of economies of scale and access to financial capital) which can be modeled in different countries at low costs and eventually result to higher income at low costs. This is a great motivation for companies to have foreign direct investment. Contemporary organizational scholars in Management, such as Prahalad and Doz (1987), Bartlett and Ghoshal (1989,1993) are paying serious attention to the processing, harnessing, leveraging and deployment of knowledge based assets as a core competence. The objective of the decision taker is to explain the growth of firm specific assets, as to increasing the income from the target set of assets. The eclectic paradigm does not address how a MNE's ownership should be exploited and deployed in foreign production. It is an advantage to own these resources but it will not give high profits for the company unless properly allocated, deployed and utilized in the foreign operations and production.

The location advantages of different countries are key determinants of host countries of multinational companies. The eclectic paradigm usually recognised the essence of the locational advantages of countries as a key determinant of the foreign production of MNEs (Dunning, 2014). The country specific advantages range from economic benefits such as transport costs, factors of production, telecommunications, government policies and legislation such as tax incentives on FDI flows, market size, legal, political, cultural and social factors upon which FDI is undertaken. The specific characteristics dictate the ability of the investing companies to take advantage of various location advantages.

While the internalisation views the ways firm can exploit its powers. Instead of franchising, firms will want to engage in foreign production and taking advantage of the political, social and economic characteristics of the host country. The need for the firms to invest in foreign countries depend on the opportunities and challenges in the different countries. Kusluvan (1998) believes that the OLI theory is a better theory of MNEs as it examines the motivation for firms investing in foreign countries and the success attained in investing abroad. The internalisation view does not give room for how a firm could input a lot of sophisticated international production and balance world integration with local adaptation.

Eclectic theory embraces all existing theories of FDI. The theory is a framework for identifying some determinants of FDI. Nevertheless, the eclectic theory provides a useful tool - kit for those who are interested in study of the foreign investment location decision .The OLI theory are relevant to consider the process of establishing why Nigeria has attracted FDI because of tax incentives offered which is the highlight of this study. The existence of weaknesses in all of the FDI theories has been identified in the literature that each of the theories could partly explain certain aspects pertaining to the motivation of FDI and the existence of non-unified theory (Denisia, 2010). Countries should attract FDI by reducing inherent costs and derive maximum benefit. Because of this, most countries grant tax incentives to attract FDI.

The moment ownership advantage is achieved, and then location advantages of different countries become the key factors to establish the host countries for the various activities of the transnational corporations. Once the first two conditions are met, it will be profitable for the company to use these advantages with some other factors outside the country of origin (Dunning, 2014, 1977, 1980, 1998). Tax can affect all the three OLI conditions. Firstly, it can affect the treatment of tax of the foreign firms for locational factors

All these factors underlying the OLI theory are thus relevant aspects to aid firms to compete easily in the host country and consider the process of determining whether or not Nigeria has attracted FDI because of the tax incentives offered which is the intention of this study as highlighted.

2.2.3 Tax Discrimination theory

Glaeser (2001) which stated that government imposes different tax rates based on regions and investments developed tax discrimination theory. The tax rate is determined by demand for firms to locate in a particular location. Tax discrimination is applied by the government to encourage development in the rural areas. Tax holidays and low tax rates are given to investors to locate their businesses to less developed areas from the major cities and towns. According to Manson (2006), tax discrimination subjects the residents and non –residents to different tax regimes in the same jurisdiction. That the resident tax payer is usually taxable on all of his or her global income, whereas a non – resident is taxable on income derived in the host state.

Manson (2006) states further that Greece discriminates when it taxes national bank at 35% but foreign banks at 40%. A discriminatory tax might benefit a particular state by providing protection of in-state operators from out of state competition, secondly provides incentives for investment by non-residents in the State. Depending on the circumstances, disparities between national tax systems may provide incentives or disincentives for cross –border activity. When a member state exempts its residents’ foreign business income from taxation, it is an encouragement to invest in foreign countries with lower national tax rates but discourages them from investing in countries with higher national tax rates. Manson (2006) states European court of Justice (ECJ) argues that tax discrimination promotes economic efficiency and integration of the European common market.

Firms’ decisions to invest are based on different tax rates which are instruments for attracting foreign direct investment into a country. Tax exemptions can be used to encourage new investment and offer immediate benefits to new firms and start-ups as soon as they begin earning income.

2.2.4 Agglomeration of Economies Theory

Recently, a number of economists have become interested in the study of location problems. This is best illustrated by Lucas (1988), Krugman (1991a, 1991b), Becker and Murphy (1992), that economic agglomerations are considered as the main institutions where both social and technological innovations are developed through non-market and market interactions. Becker and Murphy (1992) asked why do economic activities tend to agglomerate or concentrate in a smaller number of places (typically cities)? Agglomeration can be found in the existence of strong regional disparities within the same country, in the formulation of cities having different sizes, in the existence of various incentives such as tax with different rates and emergence of industrial districts where firms have strong technological or informational linkages.

More agents want to agglomerate because of the various factors that allow for a larger diversity and a higher specialization in the production processes and the wider array of products available for consumption. The setting up of new firms in such regions gives rise to new incentives for workers to migrate there because they can expect better job matching and therefore higher wages. This in turn makes the place more attractive to firms, which may expect to find the types of workers, and services they need, as well as new outlets for their products. Firms agglomerate because of existence of various tax incentives. According to this theory, Glaeser (2001) argued that when firms in related industries come together, they enjoy economies of scale through networking.

According to Glaeser (2001), this theory also states that countries with some skilled labour tend to offer higher tax incentive in order to create employment opportunities and increase the ability of the potential investors to attract more economic activities within the country.

Invariably, most companies agglomerate because of availability of tax incentives to achieve increased foreign direct investment, technological upgrades and employment

generation. Governments will tend to give higher tax incentives to firms that will lead to agglomeration of economics, as they will benefit from spillovers.

2.2.5 Corruption and influence Theory

According to Glaeser (2001), the theory states that incentives do not represent maximization of tax revenue or maximization of the welfare of current residents of the city. Rather tax incentives indicate the ability of the firm to bribe or coerce the leaders of the government. This theory predicts that the determinants of the level of the tax incentives are the ability of the firm to be involved in bribery. Tax incentives will be granted to firms that are politically influential. Higher levels of tax incentives are expected when it is difficult to monitor the public officials in charge of taxation. Glaeser argues that tax incentives may be so generous that the aggregate net tax revenue may turn to negative. On the other hand, tax incentives may be much less depending on what the politicians and the firm get away with.

In developing countries, corrupt practices are prominent in designing and implementing tax incentives which attract foreign direct investment into the various countries. The government should foresee challenges brought about by corruption and design checks and balances to counter their negative effects for tax incentives to be successful.

2.2.6 Ex-Post Appropriation Theory

This theory assumes that new firms are target of exploitation by the government, especially where their resources are immobile. Hence these firms try to demand for compensation in advance. In most cases tax breaks are demanded as compensation by these firms (Glaeser, 2001). Firms with immobile resources will tend to demand for more attractive tax breaks in order to enable them recover their entry costs. However the tax incentive cannot be higher than the total NPV of future tax payments of providing the firm with essential services it requires to remain in operation (Glaeser, 2001).

Incentives should be tailored by priority activity and sector, as well as location to achieve more specific objectives. Tax incentives most often target large firms and multinationals. Consequently, tax incentives are designed for investment promotion in terms of foreign direct investment.

2.3 Conceptual Framework

According to Cooper and Schindler (2011), researchers hypothesize relationships of independence and dependence. Mugenda and Mugenda (2003) and Smith (2004), view a conceptual framework a hypothesized model identifying the model under study and the relationship between the dependent and independent variables They invent them and then they try by reality testing to see if the relationships actually work out that way". Cooper and Schindler (2011) defines dependent variable as a "variable that is measured, predicted, or otherwise monitored and is expected to be affected by manipulation of an independent variable". They also defined Independent variable as a "variable that is manipulated by the researcher, and the manipulation causes an effect on the dependent variable".

The current study considers several scholars views on the effect of tax incentives on foreign direct investment. The conceptual framework was critiqued and various variables incorporated in the conceptual framework of the current study. The first study is based on the available evidence at that time, determined that taxation could significantly affect the actions of multinational corporations and thereby resulting in increased FDI flows. Wei (1997) supported Hines (2005) findings in the study. Desai, Foley and Hines.Jr (2004), Wei (1997) and Krandsdorff (2010), identified various tax incentives. While the second study by Biggs (2007) reviews the various fiscal measures (including tax exemptions, tax holidays, tax credits, accelerated depreciation, loss reliefs and investment allowances) that countries have adopted to attract foreign direct investment.

Evidence shown by Biggs (2007) confirms that developing countries have designed tax incentives to promote investment. The study examined the effective rates in manufacturing sector and compared to services sectors. Incorporating the variables

identified by Desai et al. (2004), Wei (1997), Krandsdorff (2010) and Biggs (2007) the current study has come up with a conceptual framework.

The conceptual framework for this study is presented in figure 2.1, which identifies the independent variables for the study, which are company income tax incentives, capital allowances incentives; value added tax incentives, capital gains tax incentives and double taxation treaty incentives. The FDI which is the dependent variable is measured by “the size (flow) of foreign direct investment” expressed in terms of units of shares and represents the annual level from investor countries to the host country during each year. FDI was measured in terms of Equity shareholding in companies, reinvestment of earnings, inflow of foreign currency and foreign assets (equipment, machinery and spare parts). While the independent variables were measured by the changes in the statutory tax rates in the host country

Independent Variables

Dependent Variable

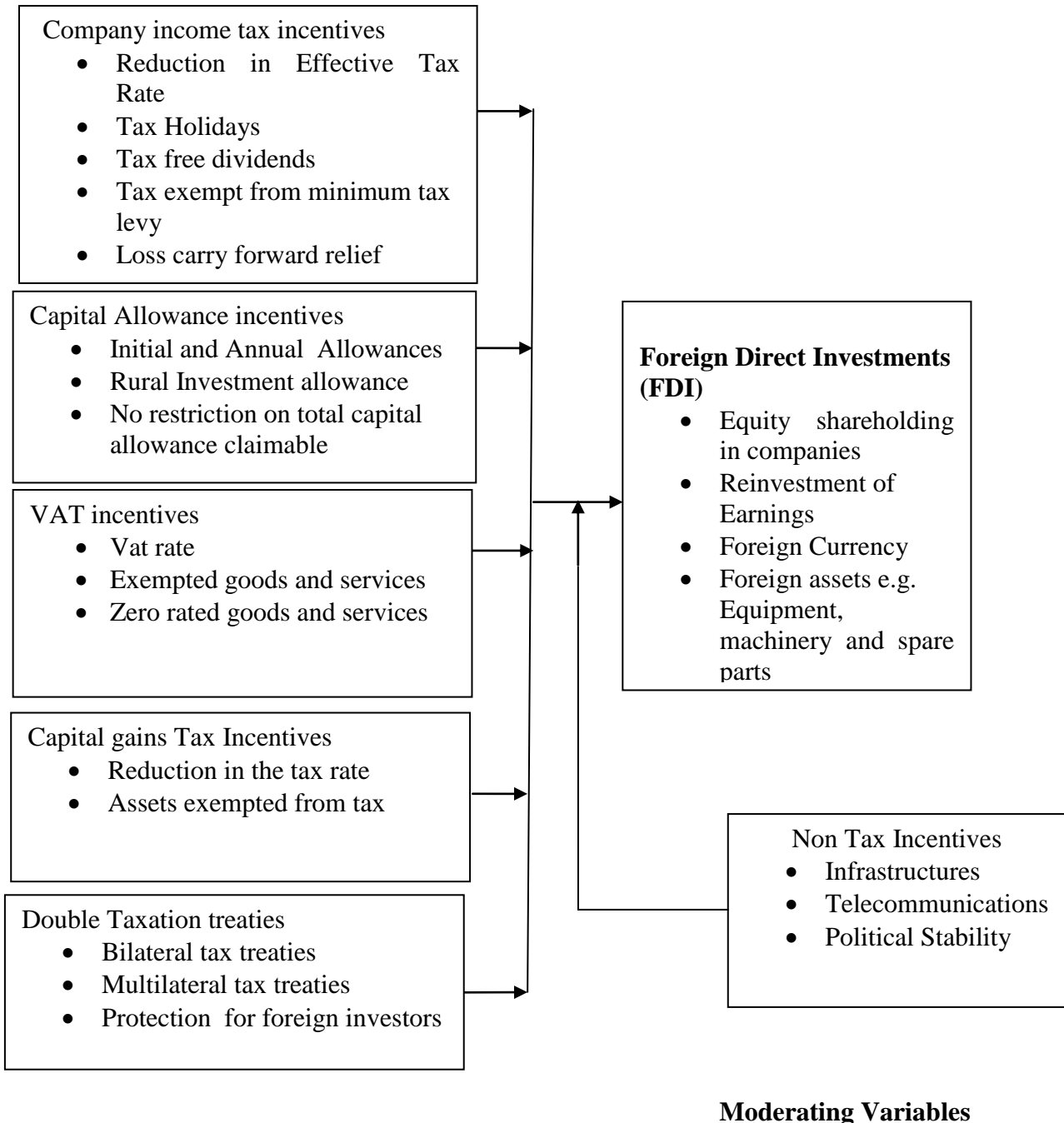


Figure 2.1: Conceptual Framework

2.4 Empirical Literature

This section reviews literature from prior scholars regarding the effect of tax incentives on foreign direct investment from various contexts

2.4.1 Foreign Direct Investment

Foreign Direct Investment is the long-term investment reflecting a lasting interest and control by a foreign direct investor (or parent enterprise), of an enterprise entity resident in an economy other than that of the foreign investor (IMF, 1999). Generally, Bloningen (2004) views FDI as a foreign company's investment into commercial business activities by establishing manufacturing, service and production companies in the form of subsidiaries in a different country than the headquarters 'home. UNCTAD (2008) defines FDI as a long-term relationship between companies in the source country (the investor) and another company in the host country (country of investment).

To comply with this definition of FDI, it is mandatory for the investing company to hold not less than 10% of the normal shares. Since the establishment of globalisation, the growth of FDI has been tremendous (UNCTAD, 2007, 2008, 2010, 2011, 2012; World Bank 2012). According to Nwankwo (2006), FDI creates employment and acts as a vehicle of technology transfer, provides superior skills and management techniques, facilitates local firm's access to international markets and increases product diversity. Ayanwale (2007) states that most countries strive to attract FDI because of its acknowledged advantages as a tool of economic development. Invariably FDI exists when a company or firm invests directly in facilities or production in a foreign country over which it exercises control effectively. Manufacturing FDI entails establishing production facilities in foreign countries (e.g., Coca-Cola building facilities in almost 200 countries).

Previous research by Massoud (2003) shows that with the globalisation of the international economy in the 1990s, the importance of FDI increased and was considered by many economists to be one of the leading motivations for its

dominance .FDI plays a major role in the economic development of the host country through the benefits associated with it (Hanson, 2001). Among the benefits include technological transfer and know- how, increased trade integration with the rest of the world. This has made the countries of the world: especially emerging economies to engage in FDI attraction efforts in order to attain their investment and development needs.

According to UNCTAD (2008), the return of Nigeria to democracy in 1999 has created the opportunity for economic renewal and an associated broader base of FDI. To reap the benefit from FDI, several measures such as deregulation of the economy, introduction of tax incentives, financial and trade liberalization policy were taken by Nigeria government to improve the investment climate. The policy changes started yielding fruits and if sustained, they will provide an environment more conducive to private investment and enhance the attractiveness to FDI of Nigeria's large and growing market.

Some studies have been identified whose results showed that there is a relationship between tax incentives and FDI. Babatunde and Adepeju (2012) examined the impact of tax incentives on FDI in the Oil and Gas Sector in Nigeria. The results showed that there is significant impact of tax incentives on FDI in Oil and Gas Sector in Nigeria. Klemm and Parys (2009) conducted an empirical research to address the question on how effective tax incentives are in attracting investments. Data was collected in over 40 Latin American, Caribbean and African countries between 1984 and 2004. The results showed that lower corporate income tax rates and longer tax holidays are effective in attracting FDI, but not in boosting gross private fixed capital formation or growth (Nwankwo, 2006).

Edmiston, Mudd and Valev (2003) suggested that the government often seek to attract FDI by offering tax incentives for firms, that the level of tax rates in host countries is a significant factor in explaining cross- country patterns in FDI. Sebastian (2009) made an analysis on how tax incentives may or may not be used to attract investments especially in developing countries. The analysis was based on research done using micro economic data collected from Organisation for Economic

Cooperation and Development (OECD) countries. He concluded that tax incentives alone have little effects on investments and that good investment climate is also necessary to attract investments.

Abubakar, Haruna and Ahmed (2012) examined the role of the Nigerian Investment Promotion Commission (NIPC) in attracting Foreign Direct Investment (FDI) in Nigeria. The findings from their result reveal that there is a significant correlation between the establishment of NIPC and an increase in FDI inflow and lastly, the results revealed that NIPC had succeeded in influencing the growth of FDI in Nigeria. While some findings did not support the view that tax incentive is a determinant of foreign direct investment.

Musyoka (2012) conducted a study with the objective of correlating tax incentives and foreign direct investments in Kenya. The results showed that there was no significant improvement in FDI as a result of implementing tax incentives in Kenya. In Nigeria, Obida and Nurudeen (2010) examined the relationship between FDI and its potential determinants. Their findings showed that the principal determinants of FDI are the market size of the host country, deregulation, exchange rate depreciation and political instability. The findings did not show tax as a factor that attracts FDI.

According to Buettner and Ruf (2007), several empirical studies have investigated the influence of taxes on FDI. However, in most studies the focus is on the volume and distribution of FDI rather than on the underlying attraction of FDI. The literature supports the opinion that if FDI is not responsive to tax incentives, then it may be an appropriate target for taxation by the host Country, which can raise revenue without sacrificing the economic benefits of FDI. However, if the volume of FDI declines with taxation, the host country must consider the trade – off between the possible revenue gains from increased taxation and the economic costs of discouraging FDI. The more limited evidence for tax incentives suggests that the effects in most countries are either small or inconsistent.

Edmiston et al, (2003) stated that there is no complete story because at times some FDI receive windfall tax incentives, as they would still have invested without it.

Thus, in spite of the perceived and obvious need for FDI in the continent, some of the major constraints to attracting investment in Nigeria include inconsistency in government policies and other social vices such as corruption, insecurity, and political instability (Babatunde & Adepeju ,2012). In promoting investment and competition in the Nigerian economy, the government since 1986 had embarked on various economic policies (Babatunde et al., 2012).

Foreign investment can be classified into two categories; the first is the movement of capital and other resources across borders. While the second category includes different types of titles, assets or contractual rights (UNCTAD, 2004). The FDI is a kind of investment at international level involving mutual benefit between two entities belonging to two different economic environments, in which case one belonging to a specific economic environment (the foreign investor) benefits from investing in an institution belonging to another economic environment (FDI institution) (UNCTAD, 2007).

Huang (2003) views foreign investment as 'direct' when the investment gives rise to 'foreign control' of domestic assets. There is distinction between the flow of FDI and stock of FDI. The flow of FDI implies the amount of FDI embark upon over a given period (i.e. a year). The flow of FDI can be divided into Outflow and Inflow of FDI. Outflow of FDI is the flow of FDI out of a country; this is a situation where firms embark on direct investment in foreign countries. While the Inflow of FDI is the flow of FDI into a country, that is foreign firms investing directly in the host country. While the stock of FDI is total cumulative value of foreign owned resources or assets over a given period. Dunning (2014; 2008), El-Fergani, (2004), UNCTAD (2006), (Caves 2007) identified four different types of FDI, namely: market seeking FDI, natural resource seeking FDI, strategic asset seeking FDI and efficiency seeking FDI.

The motive for FDI could be to invest in a country due to the size/growth potential of its market, or the countries within the same region. The motive that entails seeking for market for goods and services is known as market seeking FDI. It has been noted that most MNCs that engage in this form of investment were previously exporters to the host country, who decided to carry out direct investment due to unfavorable

tariffs and other barriers levied on their exports (Nicholas, 2000). Thus, host governments play an active role in encouraging this form of investment through imposing controls and barriers on imports. In most developing countries, obstacles are imposed by governments on imports, investment in local production becomes more prominent rather than exporting foreign products to these markets has resulted in policy of import substitution in the manufacturing sector in which the local markets become a target for FDI (El- Fergani,2004).

In addition to size of market, there are other reasons for market seeking FDI. These other reasons why firms may choose to carry out market-seeking FDI was outlined in Dunning (2008). The first reason is that some firms react to the decision to invest abroad by their suppliers and customers. Thus, it becomes economically reasonable for them to follow them to invest overseas. Another reason for engaging in this type of investment arises due to the need for products to adapt to the culture and tastes of the host country. As a result firms decide to engage in direct investment in order to ensure that their products remain competitive in the midst of local products.

The third reason is to reduce production and transportation cost by supplying in the market or in the regions around it. Lastly, a reason for market-seeking FDI may be to respond to competitors' investments in major markets across the globe. This situation is also known as the "follow your leader" or "bandwagon" strategy (Knickerbocker, 1973). Many studies (Kravis & Lipsey, 1982; Blomstrom & Lipsey, 1991) have found that the larger the market size in a particular region, the more FDI the region attracts.

According to Dunning (2008), there are three groups of natural resource seekers. The first group constitutes the seekers of physical natural resources. This comprises mainly MNCs engaged in primary production and manufacturing, seeking for resources in mostly two broad categories: Fossil fuels lead by crude oil, coal, gas, metals and diamonds. Agricultural products such as palm oil, cocoa, rubber, sugar, etc. Africa is known to be the hob of natural resources. This could explain the recent surge in FDI flows to Africa, particularly from China and India (UNCTAD, 2006), where the main attraction of MNCs to Africa is its abundance in natural resources.

El-Fergani (2004) emphasised that FDI plays an important role in the production of raw materials in developing countries, an example is the oil exploration.

The second groups are the seekers of cheap and efficient labour. The high cost of labour in advanced countries has compelled companies in these countries to relocate into developing countries to source for cheap labour (El-Fergani, 2004). Recently, this motive for FDI is increasing due to the emergence of industrializing developing countries such as Mexico, Taiwan and Malaysia which seek cheap and resourceful labour in China, Morocco, Vietnam, and Turkey (Dunning, 2008). The manufacturing and services sector are the main undertakers of cheap labour seeking FDI.

Due to the desirable impact on host nations' economy, especially on employment, host countries have implemented free trade and export processing zones (EPZs) in order to attract such FDI. Low cost labour is a motivation for multinational enterprises to maximize profits. Efforts must be made by these companies to cut down their production costs, more importantly the labour costs. Coughlin, Terza and Arromdee, (1991) and Hill and Munday (1992) discovered a relationship between FDI and labour costs. However, studies have been shown that higher FDI inflows affect the host area's wage rate by giving higher wages than domestic firms (Razin, Sadka & Tong, 2005)

Third group are the seekers of technological expertise, managerial and organisational skills. This motive usually leads to collaborative alliances between countries and regions (Dunning, 2008). Graham and Wada (2001) conclude that positive effects of FDI come through the transfer of new knowledge, technology and other intangible assets resulting to increase in productivity and improvements in allocation of resource allocation. Musyoka (2012) argued that foreign investments contribute to the home country, "a package of advanced technology, cheap capital, superior knowledge of foreign market for final products and capital goods, immediate and raw materials and inputs. According to Findlay (1978) cited by Anura (2006), argues that "FDI activities accelerates the degree of industrial activities in the host countries

because it results into the technology transfer activities and as well diffuse hidden knowledge that was available in the parent country to the host country”.

El- Fergani (2004) states that strategic investment is at the advanced stage where the MNCs seek for skills through investment in relevant countries. This includes computer development centres in India and numerous centres for R & D in Singapore. In order to enhance more advantages, firms may acquire or purchase the assets of existing firms. The aim is to strengthen their global competitiveness as part of their long-term strategic objectives (Dunning, 2008). Thus, strategic seeking FDI involves the pursuit of physical assets, R & D, market knowledge, human capital, etc., to enhance ownership advantages on one hand and subdue those of the competitors (Mutti & Grubert 2004).

Reduction in the cost of production and achievement of economies of scale could be a motive of attracting FDI. Due to structural differences among countries, firms are able to take advantage of the favourable factor costs and product prices in order to diversify risk. They take into consideration the existence of tax implication cost. This type of FDI is known as efficiency seeking FDI and it generally entails rationalization of the structure of international activities by firms in order to improve efficiency (Dunning,2008). Efficiency-seeking investment is designed to move production to countries where inputs, especially labor, are cheaper. U.S. shoe companies are seeking efficiency when they build factories in Asia in order to produce for U.S. markets (Caves, 2007).

The FDI inflow in Nigeria at independence and after independence indicates that the FDI story of Nigeria has been dominated by the oil industry. In 1960 at independence and the decades of corruption, economic mismanagement and political instability further reduced Nigeria’s ability to retain and attract FDI. In 1970, the FDI inflows stood at \$205million but increased to \$470million in 1975.The FDI inflows responded positively in 1986 to more attractive fiscal terms for private sector participation in oil and gas. In 1989, there was a reduction of Nigerian National Petroleum Corporation (NNPC) shares in Shell Nigeria and other oil companies from

80 to 60 per cent, the FDI inflows to Nigeria have never decreased below \$1 billion per year.

The era of new democracy in 1999 created vibrant opportunities for renewal of the economy and broader base of FDI. FDI is a key contributor to the country's capital accumulation (UNCTAD, 2005). During 2001-2007, FDI accounted for more than half of the gross fixed capital formation (GFCF), compared to an average of around 15 per cent in the rest of Africa and 12 per cent for developing countries as a group (UNCTAD, 2007). Before 1970, oil was estimated to amount to only 10 per cent of total inflows. FDI was significant in commerce and the Nigeria's principal exports were palm oil, cocoa and others (World Bank, 1974 and Central Bank of Nigeria, 2004b). Since then, FDI inflows have concentrated in the oil sector. This is despite the opening of the economy to FDI commenced in the 1990's and the efforts to attract investment in other sectors, including the establishment of free trade zones (FTZs).

The trend of FDI inflows into Nigeria from 1969 to 2008 indicates that there is an upward spiral of the FDI in Nigeria. The FDI has not had a meaningful impact on the development of Nigeria's manufacturing sector, which shows the manufacturing industry as a whole has stagnated for over 30 years (UNCTAD, 2014). Overall, Nigeria's manufactured exports performance has been rated to be very weak (UNCTAD, 2014). FDI in Nigeria has also played a major role in the expansion of mobile telephony since the introduction of Global System for Mobile (GSM) licensing in January 2001. Two of the three licenses issued then went to foreign companies, MTN and Econet Wireless (now Airtel, Nigeria) for \$285 million each. MTN alone claims to have invested more than \$3 billion investment today (UNCTAD, 2014). Traditionally, the power sector used to be a state monopoly; the Power Holding Company of Nigeria (PHCN). The power sector privatized recently did not attract private investment due to the poor state of the energy infrastructure. The Federal Government of Nigeria is trying to repair the nation power stations and transmission before proceeding with its sale. The FDI in the non-oil economy, which comprises of manufacturing, service, telecommunication and others was held back

by overt restrictions in favour of national enterprises until the 1990s and by poor business conditions (UNCTAD 2014). Although by 1995 Nigeria had relaxed virtually all restrictions on the entry of FDI to attract non-oil FDI including. The total FDI inflows into Nigeria to all the sectors from 1985 to 2013 are stated in table 2.2

Table 2.2: Total FDI inflows in Nigeria (1985 to 2013).

| Year | Dollars in Billion | Year | Dollars in Billion |
|------|--------------------|------|--------------------|
| 1985 | 0.200 | 1999 | 1.600 |
| | | 2000 | 1.700 |
| 1986 | 0.100 | 2001 | 1.800 |
| | | 2002 | 2.000 |
| 1987 | 0.402 | 2003 | 2.100 |
| 1988 | 0.155 | 2004 | 2.120 |
| 1989 | 2.000 | 2005 | 4.500 |
| 1990 | 1.210 | 2006 | 14.000 |
| 1991 | 1.220 | 2007 | 12.200 |
| 1992 | 1.340 | 2008 | 13.300 |
| 1993 | 1.980 | 2009 | 8.600 |
| 1994 | 2.120 | 2010 | 6.100 |
| 1995 | 1.230 | 2011 | 8.900 |
| 1996 | 2.050 | 2012 | 7.100 |
| 1997 | 1.840 | 2013 | 5.600 |
| 1998 | 1.720 | | |

Source: UNCTAD FDI VARIOUS REPORTS

2.4.2 Tax Incentives

Tax incentive has over the years taken different directional approaches. Tax incentives are considered as a tool that is used to accelerate economic growth and even development. Fletcher (2002) defines tax incentives: as those special exclusions, exemptions or deductions, from income tax liability, offered to taxpayers by the government as an enticement or encouragement to engage in specified

activities. Ifueko (2009) viewed tax incentives as special arrangements in the tax laws to: attract, retain or increase investment in a particular sector, stimulate growth in specific areas and assist companies or individuals carrying on identified activities. Ifueko (2009) further noted that the underlying basis is to ensure overall growth of the economy and even development of all sectors. It can therefore be inferred that tax incentives are tax reduction given to encourage or support specific course of action intended to encourage investment in certain sectors or geographical areas.

Bruce (2004), defined tax incentive as fiscal measures that are used to attract local or foreign investment capital to certain economic activities or particular areas in a country. Zee, Stotshy and Ley (2002) also adopted a similar definition, as a government provided reduction in tax liability for a defined period with exception for repayment to accelerate local or foreign investment. They claim that any tax provision is applicable to all investment project does constitute tax incentives. There are various examples of how tax incentives drive much of the tax policy in developed and developing countries. Competitive tax incentives between countries in a region are often the order of the day (Keen & Mansour, 2009). For instance, tax incentives constitute the nerves of economic development plan of Rwanda (UNCTAD, 2006). Uganda's tax exemptions led the IMF to call for their elimination to broaden tax bases (IMF, 2011); and South Africa provides a number of incentives that reach manufacturing, tourism, and mining among other industries (IMF, 2008; Deloitte, 2009).

Governments have constantly used the tax incentives laws as a policy instrument for increasing investment in certain economic sector and overcoming challenges posed by unfavourable investment conditions. Among the tax incentives usually utilised in Nigeria are company income taxes, capital allowances, value added tax, capital gains tax reliefs, double taxation treaty and tax holidays. Taxation performs an important function in economy policy by generating income for governments to finance public services, increase productivity, improve the overall quality life of people, enhance investment climates and facilitate growth. It should be noted that

taxes increase the cost of running business and reduce the link between investment and the actual returns, thereby affecting economic development and growth.

By virtue of section (8) of CITA (2004) taxes are payable as specified upon profit of any company accruing in, derived from, brought into, or received in Nigeria in respect of, amongst others, any trade or business for whatever period of time the trade or business may have been carried out. Taxation comes in form of Personal Income Tax, Company Income Tax, Capital Gain Tax, Education Tax, Petroleum Profit Tax, Value Added Tax etc. According to CITA (2004) company income tax is a tax payable for each year of assessment on the profit of any company a rate of 30%, these include profit accruing in, derived from or brought into or received from a trade, business or investment. Companies with turnover of less than 1 million naira are taxed at a low rate of 20% for the first five years of operation if they are into manufacturing.

A critical challenge before company income tax administration in the 21st century Nigeria is to advance the frontiers of professionalism, accountability and awareness of the public on the imperatives and benefits of taxation in our business life, which includes promoting economic activity, facilitating saving and investment and generating strategic competitive advantage (Olaleye, Adesina & Olatunji, 2007). CITA (2004), pioneer status, which is a concession to pioneer companies located in economically disadvantaged areas, provides a tax holiday period of five to seven years to the pioneer companies in Nigeria. These pioneer companies are exempted from company income tax. This creates an enabling environment that is conducive to the growth and development of industries, inflow of Foreign Direct Investment (FDI) in Nigeria.

In Nigeria, the first tax on companies was imposed under the companies Income Tax of 1939. This covered the aspect of income tax in the Native Revenue Ordinance of 1917 as amended. The administration of the companies' income tax is vested in the Federal Board of Inland Revenue (FBIR), which is responsible for its care and management. Federal Board of Inland Revenue also referred to as board, the "Board" has an operational arm known as the Federal Inland Revenue Service (FIRS), which

came into effect in 1993. The Federal Inland Revenue Service (FIRS) also known as the “Service” is saddled with the responsibility of income tax assessment, collection, administration and accounting

The administration of tax incentives policy in Nigeria was handled by the Federal Executive and Legislative arms of government under the Exclusive legislative list 213 special public bodies in conjunction with the Federal Board of Inland Revenue whose operative arm is Federal Inland Revenue Service to give, administer and implement the tax incentives. The execution of this policy – making is under the supervision of the President, Vice President and some ministers. Tax incentives range from tax deductions, tax exemptions, and special tax rates deferral to tax credits. For governments to promote investment in targeted economic sectors, reshaping the investment of a country and used to overcome challenges posed by unfavorable investment conditions, have adopted tax incentives.

Wells, Louis, Allens and Pirnia (2001) argued that tax authorities and investment promotion council should be careful of the hidden costs of incentives as discretionary incentives are prone to cronyism and corruption in developing countries with weak governance controls. Tax incentives perform an essential role in promoting investment behavior but this role may be hampered in the absence of political and economic stability. Lower tax can reduce the amount of tax collected but lower tax would improve the inflows of investments in the host country and invariably more tax would be collected from these new investments.

The Government of Nigeria introduced measures such as establishment of the Nigerian Investment Promotion Council (NIPC), tax incentives among which are tax holidays, initial capital allowance, and free duty on equipment. (Fakile & Adegbile, 2011). These incentives cover all sectors of the economy to encourage and promote private investment. The changes in these incentives are as follows:

CITA (2014) describes company income tax as tax payable on the profit of any company at a rate of 30% in every year of assessment. The government reduced the rate from 40% to 30% to stimulate investment. Pioneer industries qualify for a five year profits and dividends tax holiday. Currently there are 69 designated types of pioneer industries in agriculture, mining, agro – processing, quarrying, manufacturing, utilities, property development and tourism.

Up to 1986 YOA – Income tax rate was 45%; with effect from 1987 – 1991 it was 40%; with effect from 1992 – 1995 it was 35% and from 1996 to date is 30%.

CITA (2004) regards capital allowance as a relief that is given to any person who has acquired qualifying capital expenditure during a basis period in respect of assets in use for the purpose of business or a trade at the end of a basis period. CITA (2004) defines qualifying capital expenditure as capital expenditures on plant, machinery and fixtures, buildings, structures or works of permanent nature, mines, oil wells or other sources of mineral deposits of a wasting nature, plantation, research and development, agricultural plants, public transportation motor vehicles and public transportation (inter-city) new mass transit coach. It is not all capital expenditure or fixed assets that can be regarded as qualifying expenditure for the purposes of capital allowances, for example, the cost of land is not treated as qualifying expenditure.

The rates of initial allowance and annual allowance were subject to changes based on the categories of capital expenditure incur. The rates were changed as follows: 1975 to 1994; 1985 to 1986; 1987 to 1995; 1996 to date. Annual capital allowances are available, including 10% on buildings, 25% on plant and 20% on furniture and fittings. The rates increased in these years of change to reduce the profit that will be charged to tax. The method of calculation changed from reducing balanced method to straight-line method from 1985 tax year. With effect from 1990, investment allowance was introduced by the Nigerian tax system to encourage investment in some preferred sector of the economy such as manufacturing; agriculture .10% investment allowance is available on production machinery in use by manufacturing concerns. 10% investment allowance on plant and machinery for business in the agricultural sector of the economy. Rural Investment allowance was introduced in

1992 tax year to be claimed on assets acquired for use at locations that are located at least 20kms away from certain facilities as stated in the act. This rural investment allowance is only a once and for all allowance claimable on the cost of providing the facilities where there is sufficient profits.

The value added tax (VAT) system in Nigeria was introduced to replace the sales tax following the enactment of the Value added Tax Act 1993 which repealed the Sales Tax Act 1986 and came into force on 1st December, 1993. The operational date was shifted to 1st January, 1994 for administrative convenience. The Act is now referred to as the Value Added Tax Act, Cap. VI, LFN 2004. VAT is chargeable in Nigeria at the rate of 5% on the value of taxable goods and services. Nigerians VAT rate of 5% remained unchanged despite the IMF's VAT reforms appealing to Nigeria to increase its VAT rate between 10% and 20% for manufacturing and retailing sector. The 5% VAT rate is the lowest in African sub region and it is a strategy to stimulate inflow of FDI into Nigeria. VAT is imposed on all goods that were manufactured in the country as well as goods that had been made outside the country and were selling in Nigeria. There are, however, a few goods and services, which are taxed at zero rates. Certain goods and services have been exempted from the purview of value added taxation, such goods include all exported goods.

According to CITA (2004) Capital gains tax is a tax imposed or levied on gains arising from the disposal of items of capital nature of companies and individuals. The capital gains tax was originally introduced for the first time in Nigeria through Decree No 44 of 1967 as amended to Capital Gains Tax Act Cap C1, LFN 2004. The capital gains tax rate was 20% between 1967 and 1995. In order to stimulate activities in the capital market and encourage capital formation, the capital gains tax rate was reduced from 20% to 10% from 1996– to date.

Double taxation is generally defined as the imposition of comparable taxes in at least two countries on the same taxpayer with respect to the same subject matter and for identical periods (OECD, 2000). CITA (2004) states that double taxation in relation to a company or individual is a situation where the same profit or income

respectively, which is liable to tax in Nigeria, has been subject to tax by another tax authority in Nigeria or another country outside Nigeria. Therefore, double taxation can be referred to a situation in which a taxpayer is chargeable to tax on the same income in more than one country. It is important to clarify that the residence (or home) country is the state where the enterprise has its domicile, whereas the host country is the state where the foreign investment takes place and thus where the income is generated. For this reason, the latter is also referred to as the source country in the context of taxation, whereas in the context of FDI, the source country denotes the home country of the MNE

The relief is used to reduce the tax paid or payable in Nigeria on the part of the company's profits, which is liable to tax in Nigeria and in any country within the commonwealth or in the Republic of Ireland. Several bilateral agreements have been made between Nigeria and other countries. The double taxation relief was made between the federal republic of Nigeria and the Government of Canada in 1997. Nigeria's Double Tax Treaty network, offers significant incentives to Foreign Investors (Ifueko, 2009). Nigeria has existing treaties with: United Kingdom, Canada, Belgium, France, Romania, Netherlands, Pakistan, South Africa and China (Ifueko, 2009).

Since 1990, the country has signed more than 22 BITs. The BITs negotiations in Nigeria are conducted by Inter-ministerial committee on Investment Promotion and Protection Agreements, which comprises of representatives of the minister of finance, Justice, foreign affairs, industry and commerce. However, there is a low rate of treaty ratification, which is due to lack of action by treaty partners (UNCTAD, 2014). The policy changes have started yielding positive results and encourage private investment to enhance the attractiveness of FDI to Nigeria (UNCTAD, 2014).

2.4.3 Company income tax incentives and level of FDI

Company income tax rates have been successfully used in Nigeria that reduced tax avoidance or tax evasion (Oyetunde, 2008). Hines and Rice. (1994) examined the effect of taxes on business location and foreign direct investment by comparing the

inter-state distribution of investments with foreign investment in United State of America. In this study ,regression analysis was used , the results showed that high tax rate within the state hurts the local investment; local investor's ratio of shares relative to foreign investors is about 7 to 9 % for every 1 % rate of taxation. Invariably implies that low tax rate encourages and significantly affect FDI.

Arnold and Cyrille (2008) in their studies, examined the effects of Corporate Income Taxes on two of the main drivers of productivity, growth and investment of firms in European OECD member countries over the time period of 1996-2004, through stratified sampling this is found to be true across firms of different size and age classes, except for young and small firms. The results suggest that Corporate Income Taxes reduce investment through an increase in the user cost of capital. This may partly explain the negative productivity effects of Corporate Income Taxes if new capital goods embody technological change.

De Mooij, Ruud and Ederveen (2001), indicated the impact of company taxes on the allocation of foreign direct investment. Outcomes of 25 empirical studies comparable by computing the tax rate elasticity under a uniform definition. The paper aims to explain this variation by the differences in characteristics of the underlying studies. Systematic differences between studies are found with respect to the type of foreign capital data used and the type of tax rates adopted. For this purpose sample of 351 cases are used on aggregated basis, ANOVA is used as a statistical technique. They found no significant relationship in the responsiveness of investors from tax credit countries and tax exemption countries.

Several studies have reported that host country corporate taxes have a significant effect on FDI flows, *either* negative (Hartman, 1984; Grubert and Mutti, 1991; Loree and Guisinger, 1995; Cassou, 1997 and Kemsley, 1998) or positive (Swenson ,1994). Fakile and Adegbile (2011) assert that low corporate tax rate is part of the system by developing countries and usually established by Governments in order to grant foreign investors more attractive conditions to invest in their country. Ekpung and Wilfred, (2014) found that high corporate tax is bad for economic growth and discourage FDI. This is because; it discourages new incentives by distorting FDI

decisions and discouraging work effort. Okoi and Edame (2013) found that high corporate tax rate as witnessed in Nigeria has an enormous effect to FDI and GDP. As corporate tax rate reduces, it would encourage FDI in the country.

The study conducted by Bond and Xing (2013) reveal that the statutory corporate tax rate and depreciation allowances have a significant effect on investment in assets classified as equipment. Others (Root & Ahmed, 1979; Lim, 1983; Wheeler & Mody, 1992; Jackson & Markowski, 1995; Yulin & Reed, 1995; Porcano & Price, 1996) conclude that corporate taxes do not have a significant effect on FDI. The alternative hypothesis states that there is significant relationship between company income tax incentives and the FDI in listed Nigerian manufacturing companies.

2.4.4 Capital allowances and level of FDI

UNCTAD's Uganda IPR (2000) notes that depreciation and capital allowances are generally preferable to tax holidays, as they specifically encourage new investment. Morisset and Pirnia (2000) find that "industrialized countries have opted for investment allowances or accelerated depreciation". Under investment allowance, companies are provided with generous write - offs for qualifying capital costs (Wijeweera, Brian & Don , 2007). An investment allowance leads to reduction in taxable income and it is of no immediate benefit to investors who have no profits/ tax liability against which to set it. It may be useful to taxpayers only if they can be carried forward, either as an allowance or as an addition to a loss. Bond and Samuelson (1986) argued that capital allowance (investment allowance) may be used by countries as signals of their "quality" as locations for foreign investment and investment incentives are presumed to encourage companies to invest more by increasing the rate of return from holding assets.

Bernstein and Anwar (1994) came up with a dynamic model of production to analyse the impact of tax policies on input demands and output supply for producers operating in selected industries in Mexico, Turkey and Pakistan. The tax incentives applied for these industries included: Investment allowances, accelerated capital consumption allowances, corporate income tax rate reductions and investment tax

credits. The Bernstein - shah model results suggest that tax incentives are necessary for investment and production decisions for the six industries analysed in the three Countries. In addition, discovered that some tax incentives were more effective than others in investment stimulation per dollar of revenue loss to the treasury. Among the incentive measures examined are investment allowances, accelerated depreciation provisions and investment tax credit proved to be cost-effective instruments for investment promotion in Turkish industries.

Clarete (1992) examined the effects of tax rebates and drawbacks on imported machinery and equipment by priority industries. The author concludes that there is a strong impact of these incentives on investment. Feldstein (1987) studied the relative efficacy of tax incentives using disaggregated dynamic computable general equilibrium models for Pakistan and Mexico. The result showed that investment allowance and investment tax credit are more stimulative in its impact on private capital formulation. First investors emphasize more on incentives, such as subsidies, reduce cost of establishment, while firms that reinvest, prefer more incentives that deal with taxation, such as *tax-holidays*, accelerated depreciations and loss-carry forwards and loss-carry backwards (Stapper,2010). In other words, firms that have started their activities in a new country have different preferences about their motives in relevance with firms that expand their activities (Rolfe, Ricks, Pointer & McCarthy, 1993).

However, high inflation can quickly erode the value of annual depreciation allowances, which will result in a relatively high effective tax rate on capital. This implies that, for many developing countries, investment allowances are much less effective than theory might suggest. Lall (2001) discover that, in Ghana, investment allowances and tax-deductible R&D expenditures “failed to evoke a significant response from the business community”. Trela and Whailey (1991) in the application of equilibrium model examine the impact of rebates of direct and indirect taxes on exports, investment allowance, tax holidays and investment tax credits on Korean growth performance. The result showed that tax policy accounted for less than one – tenth of the growth of the Korean economy during 1962-82. There was no significant

relationship between investment allowance and foreign direct investment in Korea. The alternative hypothesis states that there is significant relationship between capital allowances and FDI in listed Nigerian manufacturing companies.

2.4.5 VAT Incentives and level of FDI

There is controversy about whether Value added tax and corporate taxes are effective for attracting FDI, the consensus seems to be that taxes can have important effects on FDI (Fletcher, 2002). The nature of a country's tax laws affects its ability to attract and retain foreign investors (Chen & Tang, 1986). Hess (2000) identifies high VAT rate as one of the five major barriers to FDI. According to Mintz (2004), many developing countries with high levels of investments have attractive VAT regimes with low rates. Desai, Foley and Hines (2004) consider taking into account the value added tax in addition to corporate tax in relation to foreign direct investment. Their findings of analysis indicate that foreign direct investment reacts significantly to VAT.

Nwafor (2010) carried out a work on the effect on VAT on the Nigeria economy 1997 to 2007 using regression analysis. The empirical result of her Hypothesis showed that VAT has a significant positive effect on FDI in Nigeria economy as well as on the consumption patterns of Nigeria. Her work also showed that VAT has contributed significantly to the increase standard of living in the Nigeria economy. Evidences from her result also showed that there is no significant difference between inflation rate before the introduction of VAT and after the introduction of VAT. However, she therefore argued that the introduction of VAT in the Nigeria economy has contributed significantly to increase economic growth and increased standard of living.

Narayana (2005) emphasised in his study that the experiences of many developing countries have shown that if properly designed and implemented the VAT may prove a better resources mobilizer than the present sales tax systems. Owolabi and Okwu (2011) reviewed the relevance of VAT and observe that there is a growing

recognition among developing countries of the crucial role of value added tax as an instrument of economic development.

In the research work of Onyeiwu and Shrestha (2005) on Tax incentives and Foreign Direct Investment in the Middle East and North Africa (MENA) Region, the result showed that VAT do not significantly influence the flow of FDI to the MENA region. Those MENA countries should pay more attention on non-VAT in order to attract FDI. The alternative hypothesis indicates that there is significant relationship between VAT incentives and FDI in listed Nigerian manufacturing companies.

2.4.6 Capital Gains Tax (CGT) Incentives and level of FDI

According to CITA, (2004) Capital gains tax is a tax imposed or levied on gains arising from the disposal of items of capital nature of companies and individuals. In Nigeria, the provisions of capital gain tax, which came into effect from 1967/68 assessment year, are applicable to transactions effected by companies in the same manner as they apply to transactions effected by individuals. The capital gains tax was originally introduced for the first time in Nigeria through Decree No 44 of 1967 as amended to Capital Gain Tax Act Cap C1, LFN 2004. The capital gains tax rate (CGTR) was 20% between 1967 and 1995. In order to stimulate activities in the capital market and encourage capital formation, the CGTR was reduced from 20% to 10% from 1996 to date.

The capital gains tax can be easily avoided. The capital gain or loss is not due until the asset is finally disposed of and can be avoided if the asset is held until death or donated to charity. Economic reforms of low and middle-income countries that opened up to foreign investors may explain both the capital gain tax incentives and the rise in FDI (Barthel, Busse, krever & Neumeyer, 2010). Bloningen and Davies (2008); Egger, Larch, Pfaffermayr and Winner (2006) find negative effects of Capital gain tax incentives on FDI. Barthel, et.al (2010) used a dataset with extended coverage of developing countries, find positive effects. Whereas Coupe, Orlova and Skiba (2008) find no significant relationship between capital gains tax and foreign direct investment. The alternative hypothesis shows that there is significant

relationship between capital gains tax incentives and FDI in listed Nigerian manufacturing companies.

2.4.7 Double Taxation Treaty Incentives and level of FDI

The incidence of double taxation is an important factor in international business transactions and is even more important to the developing countries, which are anxious to attract foreign investments (Agyeman, 2005). Egger, Larch, Ptaffermayr and Winner (2006) believed that one of the most visible obstacles to cross – border investment is the double taxation of foreign earned income and that double taxation have negative effect on the total amount of FDI as well as on the allocation of FDI across countries. One major purpose of Double Tax Treaty is thus the encouragement of FDI (Egger *et al*, 2006).DTTs may also act as a signal of a commitment to a favourable foreign investment environment (Bellak, 2005). Taken together, if these attributes increase FDI, the LDC will enjoy the traditional benefits attributed to it, (knowledge and technology spillovers, etc.).

Hallward-Driemeier (2003), looking at a panel data set of bilateral FDI outflows from 20 OECD countries to 31 developing countries over the period 1980 to 2000. Using source-host country fixed effects estimations she finds little evidence that the existence of a Bilateral international treaty (BIT) between two countries does stimulate additional investment from the developed to the developing signatory countries. Those countries with weak domestic institutions, including protection of property, have not gotten significant additional benefits; a BIT has not acted as a substitute for broader domestic reform. Rather, those countries that are reforming and already have reasonably strong domestic institutions are most likely to gain from ratifying a treaty. That BITs act as more of a complement than a substitute for domestic institutions means that those that are benefiting from them are arguably the least in need of a BIT to signal the quality of their property rights.

Banga (2003) examines the impact of BITs on aggregate FDI inflows to 15 developing countries of South, East and South East Asia for the period 1980-81 to 1999-2000. She undertakes a separate analyses for FDI inflows from developed and

developing countries using a panel data for ten developing countries for the period 1986-87 to 1996-97. She finds that BITs have a significant impact on aggregate FDI. However, it is BITs with developed countries rather than developing countries that are found to have a significant impact on FDI inflows to developing countries. Egger *et al.* (2006) use the largest available panel of outward FDI stocks provided by OECD, which contains FDI of OECD countries into both OECD and non-OECD economies to evaluate the impact of BITs. They restrict their study to the period from 1982 to 1997. They find that BITs exert a significant positive effect on outward FDI, if they actually are implemented. Moreover, even signing a treaty has a positive, although lower and in most specifications insignificant effect on FDI.

Nuemayer and Laura (2005) found that the more BITs a country signs, the greater the FDI flows to that country. Their study includes 119 countries over the period 1970 to 2001. Desbordes and Vicard (2006) investigate whether the quality of diplomatic relations between a country and the rest of the world influences the volume of FDI that it receives. Their sample of study includes 88 developing countries over the period 1991-2000. The econometric results indicate that the quality of diplomatic relations and the existence of an armed conflict on a host country territory strongly influence the location choice of multinational enterprises. One of the channels through which the quality of diplomatic relations influences FDI is their contribution to the number of BITs signed by a host country. Furthermore, the signature of BITs corresponds to an important channel through which good diplomatic relations exert a positive impact on the volume of FDI received by a host country.

A major importance of Double taxation treaties is the encouragement of FDI. DTT entails greater costs to the parties involved apart from the benefits. It has been argued that DTT leads to a loss of tax revenue in developing countries (Easson, 2000). Double taxation treaties are a form of protection for foreign investors against unjust treatment. Generally, these treaties will increase property right protection and induce foreign investments in a nation; however, the ability of a host country authority to change the final tax burden of foreign investors is at limited based on the tax treaty with the other nation's double taxation relief. Salacuse and Nicholas (2005) provides

three cross-sectional analyses of FDI inflows to up to 99 developing countries in the years 1998, 1999 and 2000, respectively, as well as a fixed effects estimation of the bilateral flow of FDI from the US to 31 developing countries over the period 1991 to 2000. They find the signature of a BIT with the US to be associated with higher FDI inflows in both types of estimations, whereas the number of BITs with other OECD countries is statistically insignificant.

Tobin and Rose-Ackerman (2005) analyse the impact of BITs from developed to developing countries from 1984 to 2000, with data averaged over five – year periods, covering 63 countries. In a fixed effects model, Tobin and Rose - Ackerman find that a higher number of BITs signed with a high-income country raises the FDI a country receives as a share of global FDI flows only at low levels of political risk. It is only once a country achieves some minimally low level of political risk that BITs may become important for host countries to attract FDI. In an additional bilateral analysis, they fail to find any statistically significant effect of BITs signed with the US on FDI flows from the US to developing countries. The alternative hypothesis shows that there is significant relationship between double taxation treaty incentives and FDI in listed Nigerian manufacturing companies.

2.4.8 Moderating Variables: Non- Tax Incentives

The moderating variables are the non –tax incentives which comprise of infrastructural development, telecommunications and political stability. Studies by Musila and Sigue (2006) on FDI indicate that FDI in Africa is dependent on the development of infrastructure. Other studies on developing countries Cotton and Ramachandran, (2001); Mengistu and Adams (2007) show the significant role of infrastructural development in attracting the inflow of FDI. The development of infrastructure such as road, power, water and so on, can play a prominent role in the attraction of FDI and promotion of tax incentives in improving efficient tax machinery and tax administration.

The amount, quality and availability of helpful infrastructure is necessary for the smooth performance of multinational's affiliate trade and production activities.

Better infrastructure can significantly reduce overhead costs (Asiedu, 2004) and thereby positively affect investor's location decision (Shah & Ahmed, 2003). If infrastructure functionality alone is not multinational's engine of production, is for sure their wheel of economic activity in the developing countries (Khan & Kim 1999). Infrastructure is very critical to national economic development. Results from Anyanwu and Erhijakpor (2004) show that infrastructures, telecommunications and political stability contribute to the increase of FDI inflows to Africa. Findings by Sekkat and Veganzones-Vardoulakis (2007) indicate that infrastructural availability and political conditions play important role for Africa, more importantly Nigeria and the Middle East in attracting FDI.

Foreign investment in telecommunications brings technology transfer, huge capital, and increased market competition, which help national telecommunications development. So, like other countries Nigeria also depends on Foreign capital & technology for its economic development. Telecommunications play a twofold role in economic activities, not only itself a separate circle in economic system but also a supplying mean for other sectors.

Kok (2009) investigated that Infrastructure has a significant effect on FDI in developing economies. Some other similar studies also observed the positive role of Infrastructure in attracting Foreign Direct Investment (Rehman *et al.*,2011) for Pakistan, Li & Park (2006) for China). Several studies have used large sample of countries and have used different proxy variables for telecommunication, for instance Asiedu (2002) used a sample of 71 SSA and non SSA countries, Wheeler and Mody (1992) and Loree and Guisinger (1995) described positive role of telecommunication in attracting Foreign Direct Investment.

A significant factor in the FDI location decision of foreign investors is political stability in host countries (Alam & Quazi ,2003). Political stability is the durability and integrity of a current government regime. A stable society is one that is satisfied with the ruling party , system of operations and is not interested in revolutionary or

despotic ideas. Edwards (1990) used strikes, political assassinations and coups d'état to construct indices of political instability. Political instability/uncertainty usually creates an unfavorable business climate, which seriously erodes the risk-averse foreign investors' confidence in the host country and drives FDI away (Quazi ,2007). According to UNCTAD (2010) political instability is not palatable because it will have a negative impact on economic development and will not attract foreign investors into a country.

Jensen (2003) focuses on the role of political risk effects on foreign direct investment. He finds that higher political risk reduces foreign direct investment. Politically stable economies are appropriate to foreign direct investors. Antoni (2005) share the same views and argues that by the force of blocking policy change democratic regimes causes political stability and political stability is important for government to maintain its sovereignty. Political stability is also essential for MNCs too, because they want a guaranty that policy will not change after they enter to foreign market. Moreover in systems with higher levels of political risk, MNCs will be negatively affected.

Considering these studies, the following moderating variables, which are infrastructures, telecommunications and political stability, can attract FDI to Nigeria.

2.5 A Critique of the Past Studies/Empirical Review

This section discusses the empirical literature. It reviewed previous studies on the tax incentives and foreign direct investment (FDI) in listed Nigerian manufacturing companies. Studies on this area were compared and contrasted in terms of methodology, objectives, variables, conclusions and research gaps.

A study conducted by Ning Zhang (2011) discussed the determinants and impact of foreign direct investment in china. Moreover, evaluates the impact of FDI on Chinese domestic investment. The dataset used for this study spanned from 1990-2008 and involves both regional-level and sector-level data in China. This is the period China applied a dual corporate income tax system (i.e. lower income tax rate to foreign invested enterprises) in order to attract FDI. Corporate tax system forms a

major tax incentive for foreign investors and is the basis for the investigation of the effect of tax on foreign investment decisions. At the start of this period, most FDI is concentrated in manufacturing and the investment extended to other fields of the economy gradually with China's economic reform. The study selects a sample of 300 cities to investigate the location choice of FDI in China. Secondary data are used for empirical analysis in the study.

The principal empirical methodologies used in this study is the panel data model which is a combination of both the time-series and cross-sectional natures of the data into the economic model and enable researchers to examine the behaviour of FDI decisions and their effects over time and between different groups, which can enhance the quality and robustness of data analyses compare to OLS. The key finding of this study is. First, on regional level, foreign investors base their investment decisions by tax rates, market size, labour costs and geography. Based on previous studies' approaches and the data structure of this study, this study aims to extend previous research on FDI regional choice decisions and cross-sectional variation in FDI flows as well as FDI displacement effects using panel data analyses compared to the most widely used quantitative methodology of multiple regression analysis . Moreover, the study did not use primary data rather focused on secondary data for analysis of data. Other determinants of FDI considered apart from tax incentives, which is quite different from the present study, which will consider the effect of various types of tax incentives on FDI.

In the past, various research works have focused on whether tax incentives were major factors in attracting FDI (Zuo, 2009). The Zuo's research work found that by using either time series econometrics analysis or selective surveys, the early studies arrived at the conclusions that tax policy was a major factor considered by the multinational enterprises even though the work was not a decisive one. Other later studies including the results of field research by Morisset (2003) considered fiscal incentives, income tax exemption to be a weak stimulant. These studies however had limitations in that many of them focused on highly aggregated FDI data across firms of all types and paid little attention to differences across sectors. Therefore later

studies discovered the need for an in - depth look at the importance of tax incentives in investment decision making by the multinational enterprises.

Babatunde and Adepeju (2012) examined the impact of tax incentives on foreign direct investments in the Oil and Gas sector in Nigeria. This study investigated the determinant factors of FDI and analyse whether or not some selected factors such as tax incentives, availability of natural resources, macro-economic stability, market size, openness to trade, infrastructural development and political risk have an impact on FDI in the oil and gas sector. However, the trade-off between the sacrificed tax revenue and the expected gains from FDI are inconsistent as there is contentious evidence in the literature that tax incentive is actually the attraction for FDI. This study is aimed at filling this gap. Data from a sample size of twenty-one years (21) from the Central Bank of Nigeria annual statistical bulletin and the United Nations Conference on Trade and Development (UNCTAD) reports were analysed.

In analysing the data collected, Karl Pearson coefficient of correlation 'r' statistical method of analysis was employed. The results of the analyses show that there is significant impact of tax incentives, availability of natural resources and openness to trade on FDI in the Oil and Gas sector in Nigeria. The result supports the trend of findings in similar studies in the literature. This is in order to improve the inflow of FDI and economic growth in Nigeria, it was discovered that there are scanty studies on FDI and tax incentives in listed Nigerian manufacturing companies rather emphases are on oil and gas industry. This study is different from the present study in the following ways: the present study will obtain both primary and secondary data and evaluate the effects of tax incentives on foreign direct investment (FDI) in listed Nigerian manufacturing companies whereas Babatunde and Adepeju (2012) attempted to explain the degree and extent of tax incentives on FDI in Nigerian oil and gas using only secondary data. While this present study is on effect of tax incentives on listed Nigerian manufacturing companies and will investigate only the various tax incentives used by Nigerian government.

A study by Haiyambo (2013) investigated tax incentives and foreign direct investment; the Namibian experience. The study reviewed the FDI inflows into

Namibia by assessing the benefits and costs through an investigation of related indicators and making inferences. The study is tax – based incentives in Namibia that aim to promote the manufacturing sector and thus entail tax relief to eligible investors and exporters of manufactured goods. Secondary data was used, while a survey of foreign investors was also administered, though the response rate was very low. Two statistical methods were applied for the analyses namely chi square test to evaluate the statistical significance of the predictors (i.e. whether any effect exists or not) and Pearson’s correlation which is a statistical measure of the strength of a linear relationship between two variables.

The results showed that tax incentives offered as well as other factors might have played a complimentary role in the investment environment of country. This study compares well with the present study lays more emphasis on one major tax incentive which is corporate tax rate on foreign direct investment. Also considered some other non-tax incentives among which are the effect of abundant natural resources on foreign direct investment in Namibia. Also looked at the manufacturing sector, which is the focus of the present study. On the other hand, the study differs from the present study in terms of methodology. The present study will use statistical modeling in the form of regression analysis while Haiyambo (2013) used Pearson correlation and chi square for the data analysis. Lastly, the two studies differ because Haiyambo (2013) was conducted in Namibia while the present study was conducted in Nigeria.

The study by Syed ,Syed and Zia (2011) investigated the effect of Corporate Income Tax and Firms’ Size on Capital Investment by the Manufacturing firms belonging to nine non-financial sectors listed in Karachi Stock Exchange (KSE). In this study, panel financial data on annual basis were gathered for the period of six years from 65 sample manufacturing companies . Secondary data was gathered from official website of State Bank of Pakistan and annual reports of companies available on their web portal. The statistical technique used is the multiple regression analysis. The results concluded that there is a significant positive relationship between firm size and investment while there is insignificant negative relationship between corporate income tax and investment.

The finding is similar to the study conducted by Hines (2005) establishing the effect of taxes on business location and foreign direct investment by comparing the inter-state distribution of investments with foreign investment in United State of America. Regression Analysis was used in the study, the results indicated local investor's ratio of shares relative to foreign investors is about 7 to 9 % for every 1 % rate of taxation and that high tax rate within the state was a disincentive to the local investment. The study made use of two independent variables, which are corporate income tax and firms' size.

Odhiambo (2013) studied the relationship between Investment rate and corporate tax rate in Kenya. The study is a descriptive time series correlation study in which the dependent variable is investment rate while the independent variable is the corporate tax. The study used secondary data, which include the annual values of GDP in Kenya (at US Dollar rates ruling in those years) and the annual rates of corporate tax. Regression analysis was used to find the relationship between corporate tax and Investment rate. The whole regression was found to be statistically insignificant and the variation in investment rate was poorly explained by the variation in corporate taxation rate.

The study is similar to the study conducted by Musyoka (2012) determining the relationship between tax incentives and foreign direct investment in Kenya. In the research, it was concluded that there was no significant improvement in foreign direct investment as a result of implementing tax incentives in Kenya. These findings also support those of Hungerford (2012) conducted in USA covering the period 1945 to 2009, who adopted time series data suggesting that the reduction in the tax rates had little association with investment, productivity growth or saving.

The findings also contradict those of Abbas, Klemm, Bedi and Park (2012) conducted in 50 emerging and developing economies over 1996-2007. In these economies, reduction in taxes was used as a way of luring investors. Regression analysis revealed sensitivity of investment to corporate taxes since higher tax rates adversely affected both FDI and domestic investment. This study does not provide an explanation of what the situation might be like after 2012. It only emphasised one

factor, which is how corporate taxation affect investment while all other factors were not considered. The study focused on past, secondary and statistical data.

Githaiga (2013) established the impact of tax incentives on FDI inflows of firms listed at the Nairobi Securities Exchange (NSE). The study assumed that tax incentives play a major role in attracting FDI inflows especially in developing countries. The study focused on the impacts of Wear And Tear Allowances; Industrial Building Deductions and Investment Deductions, towards attracting FDI inflows to firms listed at the NSE. The population of the study is sixty one (61) listed firms. Time series data on investments and tax incentives was collected from a sample of ten (10) firms listed at the NSE between 2008 – 2011. The data was from secondary sources focusing on audited financial statements and annual reports of the sampled firms. The study used correlation analysis to establish whether there was any relationship between FDI inflows and tax incentives variables. The t test, R square test and ANOVA test statistics were computed to give a statistical strength on the relationship.

The results revealed that there was a strong relationship between wear and tear allowances. The results were then analyzed to arrive at a conclusion on whether tax incentives have any impact in attracting FDI inflows in firms operating at the NSE.. Despite strong relationship between Wear and tear allowances and FDI, the study conducted further analysis on percentage change in FDI inflows across the identified period, which shows that the impact of tax incentives on FDI inflows is insignificant.

According to Action Aid International and Tax Justice Network Africa (AAITJNA) (2012), tax incentives play a vital role in attracting FDI in developed countries but in developing countries, caution should be taken since they lead to loss of much needed revenue by the government. Sebastian (2009) in his analysis of tax incentives effects on investments in OECD countries concluded that tax incentives alone cannot lead to increased investments. The results are consistent with studies from developed countries, which show that tax incentives attract FDI inflows. A cost benefit analysis for tax incentives available to the various sectors was not conducted. The study focused on quantifiable factors only, which included tax incentives ROI and FDI

inflows trends between years 2008 -2011. From the results of the study, it is evident that there are other unquantifiable factors that attract FDI inflows.

Dusitnanond (2011) examined the use of tax incentives to promote foreign direct investment in Thailand and the implementation of the tax incentives by the Thai revenue System. Thai government has a policy to encourage FDI, since FDI appears to help the host country to achieve sustainable development and increase economic growth. The study presented a detailed analysis of the tax incentives and the mechanism used for their implementation. In addressing these jurisdictional problems, the study examines norm conflict resolution principles in general and argues that the Investment Promotion Act of 2001 (IPA, 2001), overrides the more general provisions of the Revenue Code.

The study has highlighted the conflict of jurisdiction over tax incentives and the problems that it creates the need for the reform of the system is necessary. The study did not recommend the merging of the Board of Investment (BOI) and the Revenue Department, which currently share responsibility for tax administration as a whole.

2.6 Research Gaps

A critical review of past literature show that several conceptual and contextual research gaps existed in the effect of tax incentives on foreign direct investment (FDI). Empirical studies on tax incentives by Babatunde and Adepeju (2012) showed that there is a significant impact of tax incentives on FDI in Oil and gas Sector in Nigeria, Klemm and Parys (2009) conducted an empirical research to address the question on how effective tax incentives are in attracting investments. Data was collected in over 40 Latin American, Caribbean and African countries between 1984 and 2004. The results showed that lower corporate income tax rates and longer tax holidays are effective in attracting FDI, but not in boosting gross private fixed capital formation or growth.

There is lack of literature with respect tax incentives and foreign direct investment in Nigerian listed manufacturing companies. Literatures have focused on oil and gas , and non oil sectors apart from manufacturing companies. Some of the studies are (Babatunde and Adepeju,2012; Obida and Nurudeen,2010; Abubakar *et al*,2012); Fakile & Adegbile , 2011).

Lack of adequate empirical literature in Nigeria on tax incentives and FDI inflows in Nigerian listed manufacturing companies and inconsistency in the results of previous studies on exact position of tax incentives impacts and the inadequate attraction of FDI to the manufacturing sector leads to the question of whether the tax incentives have been effective in attracting FDI to the manufacturing sector (Ernest & Young, 2014), necessitates further research to be conducted.

2.7 Chapter Summary

The above chapter reviewed the various theories that explain the independent and dependent variables. The reviewed theories were then critiqued for relevance to specific variables. The chapter also explored the conceptualization of the independent and the dependent variables by analysing the relationships between the two set of variables. In addition, an empirical review was conducted where past studies both local and global were reviewed in line with the following criteria, title, scope, methodology resulting into a critique. From these critiques the research gap is identified.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, the methodology sets out the various procedures adopted to assist in achieving the research objectives. The objective of this research work is to establish the effect of tax incentives on foreign direct investment in listed Nigerian manufacturing company. According to Newing (2011), a research methodology is concerned with what you will actually do in order to address the specific objectives and research questions you have developed. This involves deciding the research design structure, choosing the specific methods and developing a sampling strategy. It often also involves describing what analyses will be carried out. This chapter covered research design, population, sampling technique, sample size, instruments, pilot test and data analysis.

3.2 Research Philosophy

Research philosophy is a belief about the way in which data about a phenomenon should be gathered, analyzed and used (Denzin & Lincoln, 2003). It is the foundation of knowledge upon which important predispositions and assumptions of a study or research are based. Coopers & Schindler (2011) identify in social sciences two main research philosophies, that is; the positivism (scientific) and phenomenology (interpretivism). This may also be viewed in terms of two perspectives, that is; quantitative and qualitative approaches. Researchers whose quantitative tools, techniques that emphasize measuring and counting, are called positivists. The positivist approach involves causal relationships, highly structured methodology, scientific principles, large samples, quantification and incremental contribution to theory. According to Travers (2001) positivism focus purely on facts, gathered through direct observation of people behaviour and experience and measured empirically using quantitative methods. Such quantitative methods include surveys and experiments as well as statistical analysis.

The Phenomenology paradigm (Interpretivism) follows the qualitative tools of observation, questioning, and description. It is associated with qualitative approaches to data gathering (Eriksson & Kovalainen, 2009).

This study adopted positivistic approach in the use of quantitative tools and techniques that emphasize measuring and counting, use of questionnaires and establishing possible relationships that existed among the identified variables which are tax incentives and FDI.

3.3 Research Design

Orodho (2003) defines research design as the scheme outline or plan that is used to generate answers to research problems. Survey research design with specific reference to descriptive research design and correlation research design were utilized in this study. Joseph and David (2006) state that descriptive research design is useful when the researcher objectives include determining the degree to which one variable (dependent) affect the other variable (independent).The correlation design tested directional influence of variables. The quantitative aspect involved the use of multiple regression, t test and correlation. The tax incentives were regressed against the foreign shareholdings in listed Nigeria manufacturing companies. The regression was subject to multicollinearity and autocorrelation tests. Since the objective of this research is to examine the effect of tax incentives on foreign direct investment in listed Nigerian manufacturing companies then the choice of descriptive research design was more appropriate.

3.4 Population of the study

Burns and Grove (2003) states that population includes all elements that meet certain criteria for inclusion in a study. Kothari (2014) refers to population as the total of items about which information is desired and is also known as the ‘universe’. The population for this study comprised of all seventy four (74) Listed Manufacturing Companies in six geo-political zones of Nigeria. This ascertained the truthfulness and fairness of the general accounting quality of financial statements of reporting

manufacturing companies. There were fifty six thousand (56,000) employees in Nigerian Listed Manufacturing Companies as at the year 2015.

3.5 Target Population

Target population consists of all members of a real or hypothetical set of people, events or objects from which a researcher wishes to generalize the results of their research while accessible population consists of all the individuals who realistically could be included in the sample (Orodho, 2003). This study comprised of seventy four (74) Listed Manufacturing Companies in Nigeria from which the target and accessible population was drawn. There were fifty six thousand (56,000) employees in the listed companies. However, the respondents comprised of top, middle and lower level management of listed manufacturing companies. These categories were chosen because of their knowledge about finance and tax policies in Nigeria. In the similar research conducted by Mosaad (1989) for his Phd thesis, the respondents comprised of all executives of MNCs throughout the world as at December 1998 who have had experience in considering international locations for investment.

3.6 Sampling Frame

A sampling frame is a list of population from which a sample is drawn (Leary, 2001). For the purpose of this study, the sampling frame was seventy four (74) listed Nigerian manufacturing companies. In Table 3.3, these companies were stratified into five sectors as follows:

Table 3.3 Sectorial distribution of Nigeria listed manufacturing companies

| Sectors | Numbers |
|-------------------|----------------|
| Conglomerates | 6 |
| Natural resources | 5 |
| Industrial goods | 24 |
| Health care | 10 |
| Consumer goods | 29 |
| Total | 74 |

Source: The Nigeria Stock Exchange 2014

In the research conducted by Simmons (2000) on tax incentives and investment location decisions of multinational corporations, the sample frame comprised of the list of MNCs contained in the Directory of multinationals ,1998 and the employees.

3.7 Sample and Sampling Technique

Kombo and Tromp (2009) and Kothari (2014) describe a sample as a collection of units chosen from the universe to represent it. Marczyk, Dematteo, Festinger (2005) and Yang (2008) define a sample as subset of the population to be studied. Its main advantages are cost, speed, accuracy and quality of the data sampling technique is the strategy used to select study participants or respondents (Kothari, 2014). According to Mugenda and Mugenda (2008) sample selection recommendation of 30% of the population is considered adequate as sample. Ayeni (2007) utilised 43% as sample in his study. However in this study, 43% of the population was considered as sample

Therefore a sample of thirty two (32) manufacturing companies was selected from seventy four (74) companies in proportion to sectorial composition of manufacturing industry. From selected companies, respondents were selected for administering the questionnaire. Stratified sampling technique was employed in selecting companies into the sample to ensure that all the sectors in the manufacturing industry were included and all the companies had equal chance of being included. According to Table 3.4, the companies were grouped based on sector to which they belong. Companies in each sector were listed. From each list, companies were randomly selected into the sample using simple random sampling technique. From selected companies, respondents were purposively selected to obtain information. (See appendix V).

Table 3.4: Distribution of Sample based on Sectors

| Sector | Number of companies in the sectors | Number of companies selected from sectors |
|-------------------|---|--|
| Consumer goods | 29 | 13 |
| Industrial goods | 24 | 10 |
| Health care goods | 10 | 4 |
| Conglomerates | 6 | 3 |
| Natural | 5 | 2 |
| Total | 74 | 32 |

3.8 Sample Size

A sample size of 352 employees was selected through stratified purposive sampling in thirty two (32) companies and grouped respondents into three strata in each

company as stated in Table 3.5. The strata were top, middle and lower levels of management in finance and accounts department. Within each of the strata, simple random sampling was used to identify individual respondents who were issued with a questionnaire to respond to research statements. This was adopted because of the technical nature of information to be derived from the respondents and there were possibilities that those respondents have adequate knowledge about tax matters, finance and accounting. .

Table 3.5: Sample Size

| Management Level | Sample per Listed manufacturing companies(32) | Sample Size |
|-------------------------|--|--------------------|
| Top | 1 | 32 |
| Middle | 5 | 160 |
| Lower | 5 | 160 |
| Total | 11 | 352 |

3.9 Data Collection Instruments

This study established the effect of tax incentives on FDI in Nigerian listed manufacturing companies. For achieving the objectives of this study, two instruments of data collection were employed. Firstly, Questionnaire (Appendix II) was used to obtain quantitative and qualitative data for analysis which was further validated from analysis of data obtained from Financial Statements of the Listed Manufacturing Companies, Company Incomes tax Act manuals and Nigeria Stock Exchange (NSE) manuals for the sample periods 2005 to 2014. The questionnaire was divided into: Section A captured demographic information of the respondents; Sections B to F drew information from respondents on the effect of various tax

incentives on FDI in Nigeria listed manufacturing companies. Section G drew respondents' views on FDI.

The second instrument of data collection included the financial statements of the Listed Manufacturing Companies, Company Income Tax Act (CITA) manuals and the NSE manuals to obtain the inflow of FDI in 32 listed manufacturing companies from 2005 -2014. As well as quantitative data of tax incentives using the tax rates (Appendix III).

3.10 Data Collection Procedure

Burns and Grove (2003) define data collection as the precise, systematic gathering of information relevant to the research sub-problems, using methods such as interviews, participant observations, focus group discussion, narratives and case histories. The study used both primary and secondary data. The primary data was collected from the direct responses from the employees of the listed manufacturing companies for tax incentives using structured questionnaire. Kothari (2014) describes primary data as those, which are collected afresh for the first time and thus happen to be original in character. While the secondary data for the study was collected from the , companies' annual reports and NSE manuals for the sample period (2005 to 2014) to obtain the flow of FDI into the sampled manufacturing companies. Kothari (2014) defines secondary data as data that is already available, referring to the data, which has already been collected and analyzed by someone else.

3.11 Pilot Test

To check the validity and reliability of the questionnaires in gathering the data required for purposes of the study, a pilot study was carried out. The purpose of pilot testing is to establish the accuracy and appropriateness of the research design and instrumentation (Saunders, Lewis, & Thornhill (2009); Cooper & Schindler (2011) concur that the purpose of pilot test is to detect weaknesses in design and implementation and to provide proxy for data collection of a probability sample. Baker, Veit, & Powell (2001) state that the size of a sample to be used for pilot testing

varies depending on time, costs and practicality, but the same would tend to be 5- 10 per cent of the main survey.

However, Mugenda and Mugenda (2003) argue that the pretest sample should be between 1% and 10% depending on the size of the sample, the larger the sample, the smaller the percentage. In this study, data collection instrument, which is a questionnaire, was tested on 10% of the sample of the questionnaires to ensure that it was relevant and effective. The questionnaires were administered to 35 employees, which was approximately 10% of the total respondents in twenty companies in Lagos State of Nigeria because that was where the greater number of the companies were located. In choosing the 20 companies for pilot testing, the researcher used simple random sampling. The reliability of the questionnaires was determined using test-retest method.

Reliability is concerned with establishing consistency within repeated measures. A reliable measurement is one that if repeated a second time, gives the same results as it did the first time (Mugenda & Mugenda, 2008). The researcher verified that the length of the questionnaire was appropriate and all the respondents were comfortable with the time it took to fill them. The questions were confirmed to be clear. The feedback from the pilot test indicated that the questions were relevant and reliable to achieve the objectives of the study.

3.12 Data Analysis

According to Zikmund, Babin, Carr, and Griffin. (2010) data analysis refers to the, application of reasoning to understand the data that has been gathered with the aim of determining consistent patterns and summarizing the relevant details revealed in the investigation. Faraway (2002), states that multiple linear regressions are used in situations where the number of independent variables is more than one. Regression analysis is also valuable for quantifying the effect of various simultaneous influences upon a single dependent variable. Internal consistency was measured by calculating the Cronbach's coefficient alpha, this was used to test the reliability of the data and threshold coefficient was followed. The reliability test was used to indicate how well

the items were correlated with one another. Factor analysis was conducted for the independent, moderating and dependent variables to find factors among observed variables in order to reduce the number of variables. The factor analysis assisted to summarise the original information to smaller numbers and to take decisions on the factor to be retained. Descriptive statistics, which involve the use of frequencies, tables and bar charts, were applied.

A multiple linear regression model was used to test the significance of the influence of the independent variables on the dependent variable. Based on the work of Djankov, Ganser, Mcleish, Ramalho and Shleifer (2009) the effects of corporate taxes on investment and entrepreneurship were presented with the use of linear regression. Linearity test was conducted to check for linearity among the variables and Normality test conducted to test the normality of the dependent variable. The study therefore, conducted Kolmogorov - Smirnov tests for normality of dependent variable Y. Autocorrelation test, Homoscedastic test, Pearson correlation were all conducted. These tests were conducted in the similar work of Djankov et.al (2009).

The Analysis of Variance (ANOVA) was conducted to analyze the amount of variation within each of the sample relative to the amount of variation between samples. The tax incentives were regressed against the foreign shareholdings in the manufacturing companies, reinvestment of earnings, foreign currency and foreign assets. Data collected from the primary data were analysed with the aid of descriptive statistical techniques such as percentage, frequencies, tables and graphs. Inferential statistics such as correlation coefficients and regression analysis were used for the analysis and useful to proof the level of significance in testing stated hypotheses. The secondary data were used to carry out the trend analysis of the volume of FDI for ten years.

With ordinary least square (OLS) simple and multiple regression analyses, the study assessed the effects of independent variables on the dependent variable .The models are stated as follows:

Model 1 – Effect of company income tax incentives on FDI in listed Nigerian manufacturing companies.

$$FDI = \beta_0 + \beta_1(CITI) + e \dots\dots\dots 3.1$$

Where :

FDI = The volume of Foreign direct investment

CITI = Company income tax incentives

β_0 = Model intercept

β_1 = The beta coefficient of company income tax incentives.

e = Error term of the model.

Model 2 – Effect of capital allowance incentives on FDI in listed Nigerian manufacturing companies.

$$FDI = \beta_0 + \beta_2(CAI) + e \dots\dots\dots 3.2$$

Where:

FDI = The volume of Foreign direct investment

CAI =Capital allowance incentives

β_0 =Model intercept

β_2 =The beta coefficient of capital allowance incentives.

e =Error term of the model.

Model 3 – Effect of value added tax incentives on FDI in listed Nigerian manufacturing companies.

$$FDI = \beta_0 + \beta_3(VATI) + e \dots\dots\dots 3.3$$

Where:

FDI=The volume of Foreign direct investment

VATI=Value added tax incentives

β_0 = Model intercept

β_3 =The beta coefficient of value added tax incentives.

e =Error term of the model.

Model 4 – Effect of capital gains tax incentives on FDI in listed Nigerian manufacturing companies.

$$FDI = \beta_0 + \beta_4(CGTI) + e \dots\dots\dots 3.4$$

Where :

FDI=The volume of Foreign direct investment

CGTI=Capital gains tax incentives

β_0 =Model intercept

β_4 =The beta coefficient of capital gains tax incentives.

e=Error term of the model.

Model 5 – Effect of double taxation treaty incentives on FDI in listed Nigerian manufacturing companies.

$$FDI = \beta_0 + \beta_5(DTTI) + e \dots\dots\dots 3.5$$

Where:

FDI=The volume of Foreign direct investment

DTTI=Double taxation treaty incentives

β_0 =Model intercept

β_5 =The beta coefficient of double taxation treaty incentives.

e =Error term of the model.

Model 6: The general model stating the effect of tax incentives on FDI in listed Nigerian manufacturing companies.

$$FDI = \beta_0 + \beta_1(RCITI) + \beta_2(CAI) + \beta_3(VATI) + \beta_4(CGTI) + \beta_5(DTTI) + e$$

Where:

FDI =The volume of Foreign direct investment

CITI= Company income tax incentives

CAI =Capital allowance incentives

VATI=Value added tax incentives

CGTI= Capital gains tax incentives

DTTI=Double taxation treaty incentives

β_0 = Model intercept

β_1 =The beta coefficient of company income tax incentives

β_2 = The beta coefficient of capital allowance incentives.

β_3 = The beta coefficient of value added tax incentives

β_4 = The beta coefficient of capital gains tax incentives.

β_5 = The beta coefficient of double taxation treaty incentives.

e = Error term of the model

Model 7 The moderating effect of non -tax incentives on the relationship between tax incentives and FDI in listed Nigerian manufacturing companies.

$$FDI = \beta_0 + \beta_1(CITI) + \beta_2(CAI) + \beta_3(VATI) + \beta_4(CGTI) + \beta_5(DTTI) + \beta_6(Z) + e$$

Where:

FDI = The volume of Foreign direct investment

CITI = Company income tax incentives

CAI = Capital allowance incentives

VATI = Value added tax incentives

CGTI = Capital gains tax incentives

DTTI = Double taxation treaty incentives

β_0 = Model intercept

β_1 = The beta coefficient of company income tax incentives with moderating effect.

β_2 = The beta coefficient of capital allowance incentives with moderating effect

β_3 = The beta coefficient of value added tax incentives with moderating effect

β_4 = The beta coefficient of capital gains tax incentives with moderating effect.

β_5 = The beta coefficient of double taxation treaty incentives with moderating effect

β_6 = The beta coefficient of the moderating variable.

Z = Moderating variables

The beta shows a unit change in each tax incentive to the unit change in the volume of FDI.

The regression model was tested on how well it fits the data. The significance of each independent variable was tested. Fischer distribution test called F-test was applied. It refers to the ratio between the model mean square divided by the error mean square. F-test was used to test the significance of the overall model at a 95 percent confidence level. The p-value for the F-statistic was applied in determining the robustness of the model. The conclusion was based on p value where if the null hypothesis of the beta is rejected then the overall model will be significant and if null hypothesis is accepted, the overall model will be insignificant. In other words if the p-value is less than 0.05 then it will be concluded that the model is significant and has good predictors of the dependent variable and that the results are not based on chance. If the p-value is greater than 0.05, then the model will not be significant and cannot be used to explain the variations in the dependent variable.

Correlation between the variables was tested. Pearson correlation coefficient is a measure of linear association between two variables (Kothari, 2014). Values of the correlation coefficient are always between -1 and +1. A correlation coefficient of +1 indicates that two variables are perfectly related in a positive linear; whereas a correlation of coefficient of -1 indicates that the two variables are perfectly related in a negative linear sense. On the other hand, a correlation coefficient of 0 indicates that

there is no linear relationship between the two variables (Kothari, 2014). Kothari (2014), states that Karl Pearson Correlation Coefficient is the most widely used method of measuring the degree of relationship between two variables. It ranges from -1 to +1. A correlation coefficient of -1 indicates a perfect negative correlation, 0 indicates no correlation while +1 indicates a perfect positive correlation. Spiegel (2008), describes the Pearson's correlation coefficient, r , as stated in Table 3.6.

Table 3.6: Pearson's Correlation Coefficient

| Strength of Association | Coefficient r , | |
|-------------------------|-------------------|--------------|
| | Positive | Negative |
| Small or weak | 0.1 to 0.3 | -0.1 to -0.3 |
| Medium or Moderate | 0.1 to 0.5 | -0.3 to -0.5 |
| Large or Strong | 0.5 to 1.0 | -0.5 to -1.0 |

The correlation coefficient value (r) ranging from 0.1 to 0.3 is considered small or weak, from 0.3 to 0.5 is considered medium or moderate and from 0.5 to 1.0 is considered large or strong (Spiegel, 1992). The test of the goodness of fit of the model was obtained for model summary which determines the R-square (coefficient of determination). The R square measures the proportion or percentage of the total variation in the dependent variable (FDI) explained by the regression model.

3.13. Measurement of variables and analysis of objectives.

Table 3.7 shows the measurement of variables, analysis of objectives and analytical tools used.

Table 3.7 Measurement of Variables and Analysis of objectives

| S/N | Variable name | Objectives | Data Requirements | Source | Analytical tools to be used |
|-----|--|--|---|---|--|
| 1. | Dependent (FDI) | To establish the effect of tax incentives on foreign direct investment (FDI) in listed Nigerian manufacturing companies | Foreign equity share, reinvestment of earnings, foreign currency, foreign assets. | Published annual financial report of companies, NSE manuals, Company income tax act manuals,. | Descriptive statistics, multiple regression, correlation, Time series analysis test and t test |
| 2. | Independent (Company Income tax) | To examine the effect of Company income tax incentives on Foreign Direct Investment in listed Nigerian Manufacturing Companies . | Company income tax Rate, tax holidays, tax-free dividends, tax exempt from minimum tax, loss carry forward. | Administration of the questionnaire and effective tax rates. Company Income tax Act manuals. Financial statement. | Multiple regression, correlation and t –test |
| 3. | Independent (capital allowance Incentives) | To establish the effect of Capital allowances on Foreign Direct Investment in listed Nigerian Manufacturing Companies . | Initial allowance, annual allowance, rural investment allowance, no restriction on total capital allowance claimable. | Administration of questionnaire and effective tax rates. Company Income tax Act, Financial statement. | Multiple regression, correlation and t –test |
| 4. | Independent | To determine | Vatable goods | Administration | Multiple |

| | | | | | |
|----|---|--|---|--|--|
| | (Value added tax incentives) | the effect of Value added tax incentives on Foreign Direct Investment in listed Nigerian Manufacturing Companies . | and services, exempted goods and services, zero rated goods and services. | of questionnaire and effective tax rates. Company Income Tax manuals | regression, correlation and t –test |
| 5. | Independent (Capital gains tax incentives) | To evaluate the effect of Capital gains tax incentives on Foreign Direct Investment in listed Nigerian Manufacturing Companies . | Reduction in the tax rate, assets exempted from tax. | Administration of questionnaire and effective tax rates .Company Income Tax Act. | Multiple regression, correlation and t –test |
| 6. | Independent (Double taxation treaty incentives) | To examine the effect of Double Taxation Treaty incentives on Foreign Direct Investment in listed Nigerian Manufacturing Companies . | Bilateral tax treaties, multilateral tax treaties and protection for foreign investors. | Administration of questionnaire and effective tax rates | Multiple regression, correlation and t –test |

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter deals with the results and discussion of the data. The findings were presented based on the five specific objectives of the study. Precisely, the study examined company income tax incentives, capital allowances incentives; value added tax (VAT) Incentives, capital gains tax incentives, double taxation treaty incentives and non-tax incentives. An analysis of the role played by the tax incentives to enhance the flow of FDI in listed Nigerian manufacturing companies was done during the study. A structured questionnaire was used during the study to collect data. Section A addressed the general/demographic information of the research, while section B to F addressed issues relating to independent variables, section G addressed the moderating variable and section H related to the dependent variable. The researcher verified that the length of the questionnaire was appropriate and all the respondents were comfortable with the time it took to fill them. The questions were confirmed to be clear. The feedback from the pilot test indicated that the questions were relevant and reliable to achieve the objectives of the study.

4.2 Response Rate

A total number of 352 questionnaires were administered to employees in 32 listed manufacturing companies in Nigeria. According to Table 4.8, a response rate of 267 was recorded. This constituted 76% response rate. Response rate refers to the extent to which the final data set includes all sample members and is calculated as the number of people with whom interviews are completed divided by the total number of people in the entire sample, including those who refused to participate and those who were unavailable,(Fowler,2004).. The response rate was computed as follows:

$$(267/352) \times 100 = 76\%.$$

According to Mugenda and Mugenda (2003), a response rate of more than 50% is adequate for analysis. Babbie (2004) also asserted that return rates of 50% are

acceptable to analyze and publish, 60% is good and 70% is very good. The achieved response rate is very good. The high response rate of 70% could be attributed to the personal efforts of the researcher in administering the questionnaires and a close follow up with the respondents. The response rate is represented in Table 4.8.

Table 4. 8: Response rate per management level (finance& accounts department).

| Management Level | Sampled 32 Companies | Actual Returned | Response Rate % |
|-------------------------|-----------------------------|------------------------|------------------------|
| Top | 32 | 25 | 78 |
| Middle | 160 | 117 | 73 |
| Lower | 160 | 125 | 78 |
| Total | 352 | 267 | 76 |

4.3 Respondents Background information

4.3.1 Gender of the Respondent

The findings indicated that 62.9% of the respondents were male while 37.1% respondents were female (Figure 4.2). The findings implied that the manufacturing sector is a male dominated field. This is because the nature of the operations in the manufacturing sector is very tedious and strenuous. The female minority in the industry is also because of gender-based differences and Nigerian culture. The fact that the number of women is on the rise, women are underrepresented in particular sectors including the manufacturing industry (Lawthom, Patterson, West, & Staniforth, (1996). This is because the manufacturing industry is generally associated with heavy and dirty work, which seems to enforce common perception that women

are not suitable to work in manufacturing industry. It is generally accepted that male and female differences influence business performance (Brush, 2000),

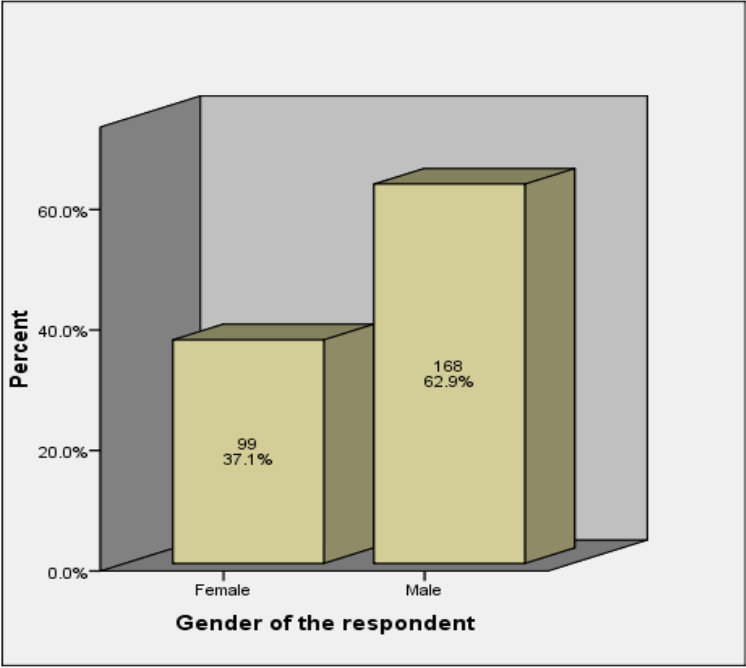


Figure 4.2: Gender of the respondents

4.3.2 Education level

From the responses presented in Table 4.9, majority of the respondents (160 (59.9%)) were holders of University education certificates which comprised of 91(34.1%) with first-degree certificates and 69 (25.8%) have postgraduate certificates while 81(30.3%) have Polytechnic/ College certificates; this implied that the respondents were well educated. Also 26(9.7%) have Secondary School Certificate. The findings on educational qualifications revealed that majority of the respondents have either first or both first and second degrees and are professionally competent to understand the content of the questionnaire, which implied they are fully equipped with the necessary skills and knowledge. Furthermore, the researcher had confidence in the quality of data collected as all the respondents that filled and returned the questionnaires were able to understand and read the questionnaire and give the most appropriate responses.

Table 4.9: Education level

| | Frequency | Percent |
|---------------------------|------------------|----------------|
| Secondary level | 26 | 9.7 |
| Polytechnic/College level | 81 | 30.3 |
| University level | 91 | 34.1 |
| Post graduate level | 69 | 25.8 |
| Total | 267 | 100.0 |

4.3.3 Years worked in the Manufacturing Sector

The study sought to find out how long the respondents had worked at their respective companies to ascertain to what extent their responses could be relied upon to make conclusions for the study based on experience. From the responses captured in Table 4.10, majority 122 (45.7%) indicated that they had been working at their various companies for over 5years, 92 (34.4%) of the respondents indicated that they had been working between 3 and 5 years, while 53 (19.9%) indicated they had been working for a period of less than 2years. These results show that majority of the employees have stayed with the companies for more than five years and they are in a better position to offer credible and reliable information because of their experience.

Table 4.10: Years worked in the manufacturing sector

| Years of Service | Frequency | Percent |
|-------------------------|------------------|----------------|
| Less than 2years | 53 | 19.9 |
| 3 to 5 years | 92 | 34.4 |
| Over 5years | 122 | 45.7 |
| Total | 267 | 100.0 |

4.3.4 Position in the Company

The respondents were grouped into three strata in each company. The strata were top, middle and lower levels of management in the finance and accounts department . As presented in Figure 4.3, 9.4% were top management staff; while 43.8% were drawn from middle management staff and 125 (46.8%) were lower management staff. The lower management level was the highest in the thirty-two companies. The findings revealed that majority of the respondents had sufficient experience in the industry and thus the data collected for analysis was adequate.

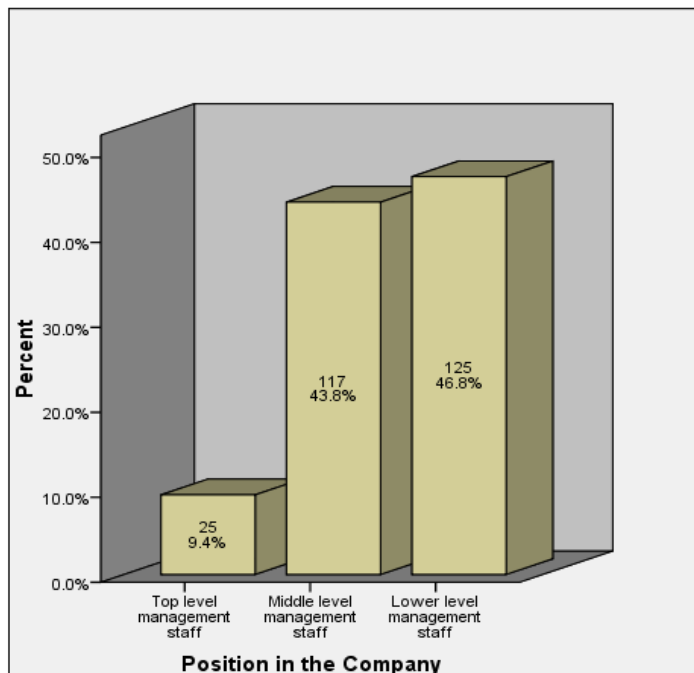


Figure 4.3: Position in the Company

4.3.5 Age of the Company

The companies were categorized into two sections as shown in Table 4.11, firstly looking at companies that have been in existence for less than 10 years and more than 10 years. The findings revealed that 98.9% of the respondents were from companies that have been in existence for more than 10 years while 1.1% of the respondents were from companies that have been in existence for less than 10 years. This indicates that these companies and their employees have wealth of experience which in one way had added more value to the quality of data obtained from them.

Table 4.11: Age of the Company

| Years | Frequency | Percent |
|-------------------|-----------|---------|
| Less than 10years | 3 | 1.1 |
| More than 10years | 264 | 98.9 |
| Total | 267 | 100.0 |

4.3.6 Total Foreign Shareholdings across ten years

The results of the trend analysis for total foreign shareholdings of the 32listed company across ten years in figure 4.4 showed that there was a slight increase between 2005 and 2006 and there was also little increase between 2006 and 2007, between 2007 and 2009, a sharp rise in FDI inflow occurred and the level was maintained to 2010. A slight increase occurred between 2010 and 2011.Followed by a slight increase between 2011 and 2012. The results revealed that there was an increase in FDI inflow from 2005 and 2013. This level was maintained between 2013 and 2014 which could be attributed to the global financial crises and restructuring in the capital market in Nigeria. Despite the fact that the tax rates were constant throughout the ten years, the manufacturing companies still witnessed increase in the inflow of FDI. It could be concluded that if better policies are introduced by government to review the tax incentives with the introduction of additional and improved tax incentives, there is the certainty that the FDI will increase tremendously in the manufacturing sector. The details of the FDI flows are shown in appendix III.

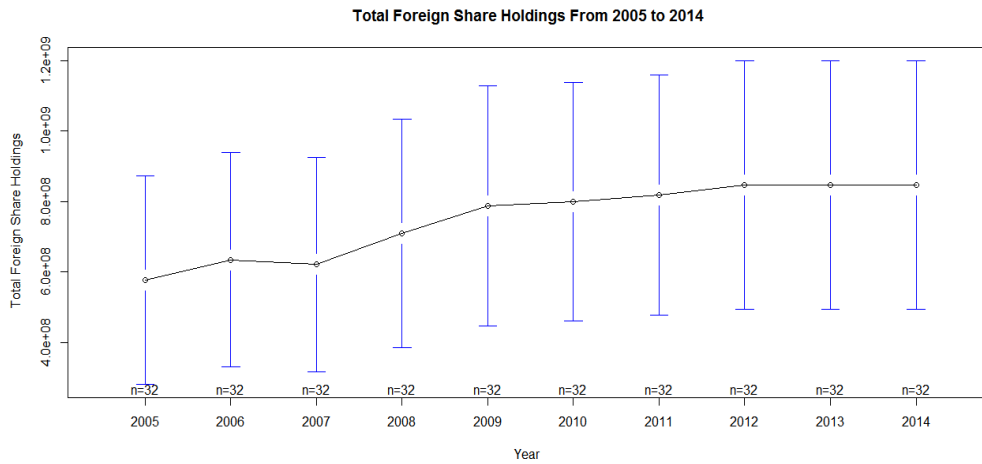


Figure 4.4 Total Foreign Shareholdings from 2005 to 2014

4.3.7 Average Shareholdings across the Thirty two Companies

The average foreign shareholdings across the thirty two companies (figure 4.5) on individual basis show that there are differences in the mean of the FDI in some companies. The mean of company one (seven up bottling company) is lower than company two (Ag .Leventis Nigeria plc.), while the mean of foreign shareholding in company three (Ashaka cement plc) is lower than company two. Company 21 (NIGERIAN BREWERIES PLC) has the highest mean of foreign shareholdings which indicates Nigerian Breweries attract the highest foreign direct investment among the listed Nigerian manufacturing companies and keeps on increasing every year. This company is a reputable major manufacturing company in Nigeria with a very high total share capital. Its shareholders know the company for payment of high dividends. The company enjoys fully to its benefits the available tax incentives to increase its profits and dividends to its shareholders.

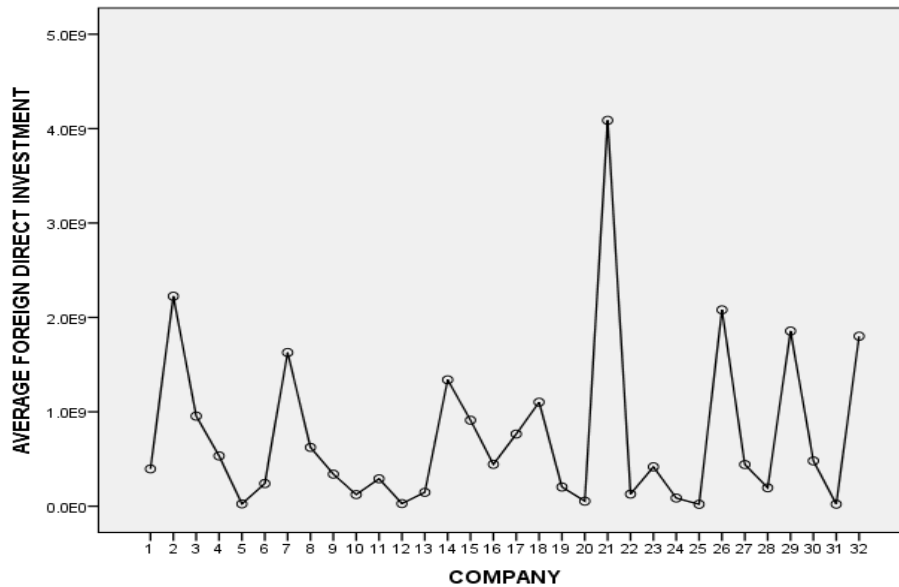


Figure 4.5 Average foreign shareholdings in the 32 listed Nigerian Manufacturing Companies

4.4 Factor Analysis

Factor analysis was conducted for the independent, moderating and dependent variables to find factors among observed variables in order to reduce the number of variables, if necessary. The importance of conducting a factor analysis was to summarize the information contained in a number of original variables into a smaller number of factors without losing much information. This implies that the newly created variables should represent the fundamental constructs, which underlie the original variables (Gorsuch, 1990). Factor loadings represent how much a factor explains a variable in factor analysis. The general rule of the thumb for acceptable factor loading is 0.40 or above (David, Patrick, Phillip, and Kent, 2010).

The summary of the factor analysis for all the variables are stated in Table 4.12. The results for the company income tax incentives show that all the factor loadings for the five items were above 50%. All the items were accepted based on the general rule of thumb for acceptable factor loading of 0.40 above. No item was removed or dropped. The results of the factor analysis for capital allowances incentives with six items revealed that all the factor loadings for all the items were above 50%. This

implies that all items fall within the acceptable threshold based on the general rule of thumb as one item was removed.

The factor analysis for value added tax incentives shows loadings above 60%. Since all the loadings were above 60%, no factor was removed or dropped, because they followed the accepted threshold. For the capital gains tax incentives, the results of the loadings were above 60%. This indicates that no item was removed as they fall within the acceptance threshold. The results of the factor analysis for double taxation treaty incentives show loadings above 70%. All the items reached the acceptance loadings and no item was removed or dropped. For the moderating variable (non-tax incentives), all the loadings were above 60%. These results fall within the acceptance threshold and no item was removed. The five factors measuring the dependent variable foreign direct investment were subjected to factor analysis with loadings above 60%. All of the factor loadings for the foreign direct investment were accepted and no item was removed.

All the variables have factor loadings above 40% and were acceptable based on the general rule as no item was removed. The details of the factor loadings are shown in appendix VI.

Table 4.12: Factor Analysis for all the variables.

| Variables | Number of Items | Loadings | Comment |
|---------------------------|------------------------|-----------------|----------------|
| Company income tax | 5 | 50% and above | Accepted |
| Capital allowances | 6 | 50% and above | Accepted |
| Value added tax | 5 | 60% and above | Accepted |
| Capital gains tax | 5 | 60% and above | Accepted |
| Double taxation treaty | 5 | 70% and above | Accepted |
| Non – tax incentives | 5 | 60% and above | Accepted |
| Foreign direct investment | 5 | 60% and above | Accepted |

4.5 Descriptive Analysis

In this section, data collected using questionnaires are classified and analysed. The presentation of responses on sections B, C, D, E and F of the questionnaire was done based on the specific objectives of the study. While the dependent variable (foreign direct investment) in section G and the moderating variable in section H are also classified and analysed. The tables are presented using frequency and percentage, with the key: SD= Strongly Disagree; D=Disagree; N=Neutral; A=Agree; SA =Strongly Agree to express frequency of each fact. The mean (M) and the standard deviation (SD) of each hypothesis are also computed.

4.5.1 The effect of company income tax incentives on FDI in listed Nigerian manufacturing companies

The effect of company income tax incentives on FDI in listed Nigerian manufacturing companies was examined with the following five statements in Table 4.13. The respondents were asked to indicate their level of agreement with given statements concerning if company income tax is effective in attracting FDI in listed Nigerian manufacturing companies. The table shows that 60.3% of the respondents agreed, 23.2% were neutral, 12.0% strongly agreed, while 3.4% disagreed and 1.1% strongly disagreed. The results show that majority of the respondents believed company income tax is effective in attracting FDI, since over 71% agreed with the statement.

The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). The findings are in line with Chaves (2010) who found out that company income tax leads to increase in foreign direct investment. Moriseet and Pirnia (2003) state that there is little importance of company income tax on FDI. Even though there are studies suggesting that company income tax incentives are very important for FDI. However changes in taxation and FDI in a particular country are mostly inconclusive. But most theoretical studies suggest that company income tax incentives are effective in attracting FDI.

The study intended to establish if tax – free dividends encourage free flow of FDI to the listed manufacturing companies in Nigeria. The result shows that 67.4% agreed, 26.3% were neutral while 6.3% disagreed. The majority were of the opinion that tax free dividends encourage free flow of FDI into the manufacturing companies. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). These findings concur with studies by Nnadi and Akpomi (2008) explore the impact of taxes on the dividend policy of Nigerian banks, that tax free dividends encourage free flow of FDI to Banks. De Mooji and Ederveen (2005) reviewed that there is no evidence showing that FDI from dividend exemption countries is more tax responsive than FDI from dividend credit countries.

That tax planning gives little importance in terms of impacts on FDI suggesting that tax-planning renders distinctions between these systems of little importance in terms of impacts on FDI. Furthermore, the studies show that empirical results do not find intra-European Union capital to be more responsive to tax differences in the host country. Generally, the effect of taxation can vary between developed and developing countries. Most developing countries have higher incentives to lower their tax in order to attract more FDI than developed countries simply because poor countries are more preoccupied with economic growth and developed countries are more concerned about economic stability.

On whether exemption from minimum tax increases FDI inflows, 60.2% of respondents agreed, 10.5% strongly disagreed, 27.0% were neutral while 1.9% strongly disagreed and 0.4% disagreed. This implied that majority agreed that exemption from minimum tax increases FDI. The mean is 4 (agree) implying majority agreed that exemption from minimum tax increases FDI, with a small variation of 1 (standard deviation is 1). According to UNCTAD,(2000), a survey carried out indicated that countries in the Africa region have put in place an array of tax incentives to promote regional development such as income tax exemption or reduced tax rate. Studies of whether generous tax policies can compensate for weaknesses in the commercial environment and attract TNCs have led to the broad conclusion that tax exemptions can influence some of the investors (Morisset & Pirnia, 2003).

The results on if loss carried forward relief is an important incentive in attracting FDI in manufacturing companies indicate that, 57.6% of the respondents agreed, 13.9% strongly agreed, 26.6% were neutral, 1.5% disagreed and 0.4% strongly disagreed. The results show a loss carried forward relief is an important incentive in attracting FDI in manufacturing companies since over 71% were in agreement with the statement. The mean is 4(agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). The findings support UNCTAD (2000) that loss carried forward relief may be targeted at investment in regions that are disadvantaged due to their remoteness from major urban centres. The study

conducted by Hungerford (2012) in USA suggested that loss carried forward reliefs had no little association with investment, productivity, growth and saving.

The study found out if tax holidays encourage inflow of FDI. The results indicate that 55.8% agreed, 13.5% strongly agreed, 25.5% neutral, 5.2% disagree. This implies that majority of the respondents agreed that tax holidays encourage inflow of FDI. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). In the study carried out by Oyetunde (2008), findings indicate that tax holidays are attractive to investment authorities in developing and transition economies with rudimentary corporate tax systems given their ease of administration. Porcano and Price, (1996) conclude that corporate taxes do not have a significant effect on FDI.

Table 4.13: Company Income Tax Incentives

| FACTS | SD | D | N | A | SA | Mean | SD | Total |
|---|-----|-----|------|------|------|------|----|-------|
| | % | % | % | % | % | | | % |
| Company income tax is effective in attracting FDI in listed Nigerian manufacturing companies | 1.1 | 3.4 | 23.2 | 60.3 | 12.0 | 4 | 1 | 100 |
| Tax free dividends encourages free flow of FDI to the manufacturing companies | 0.7 | 5.6 | 26.3 | 52.4 | 15.0 | 4 | 1 | 100 |
| Exemption from minimum tax increases FDI inflow | 1.9 | 0.4 | 27.0 | 60.2 | 10.5 | 4 | 1 | 100 |
| Loss carried forward relief is an important incentive in attracting FDI in manufacturing companies. | 0.4 | 1.5 | 26.6 | 57.6 | 13.9 | 4 | 1 | 100 |
| Tax holidays encourage inflow of FDI | 0.0 | 5.2 | 25.5 | 55.8 | 13.5 | 4 | 1 | 100 |

(Strongly disagree-SD, Disagree-D, Neutral-N, Agree-A, and Strongly Agree-SA)

Companies Enjoying tax holidays

As stated in Table 4.14, the findings revealed that majority 56.2% of the companies enjoy tax holidays while 43.8% do not enjoy. This finding is in line with study conducted by El-Samalouty (2000) that the tax holiday is the principal form of corporate tax incentive currently applied in Egypt'. The author emphasised that many developing countries offer tax holidays as one of their main incentives to attract new investment. Tax holidays were very popular with the countries reviewed, with over 75% of the sample offering some form of tax holiday, generally between 5-15years. Morisset and Pirnia (2000) note that "poor African countries have tended to rely on tax holidays and import duty exemptions. Thus tax holiday is an incentive for FDI in Nigeria.

Table 4. 14: Companies enjoying tax holidays

| | Frequency | Percent |
|--------------|------------------|----------------|
| Yes | 150 | 56.2 |
| No | 117 | 43.8 |
| Total | 267 | 100.0 |

4.5.2 The effect of capital allowances incentives on FDI in listed Nigerian manufacturing companies.

Table 4.15 established the effect of capital allowances incentives on FDI in listed Nigerian Manufacturing Companies. On the importance of initial and annual allowances in attracting FDI, the study findings revealed that 55.1% of the respondents agreed, 22.8% were neutral, 16.2% strongly agreed, 5.2% disagreed while 0.7% strongly disagreed. The majority of 71% confirmed that initial and annual allowances are important in attracting FDI. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). Initial and annual allowances encourage investment in short –lived capital assets as supported by Oyetunde (2008). Reports by UNCTAD (2000) also support capital allowance as an important incentive for FDI.

The study found out if investment allowance is a method used to encourage investment in the manufacturing sector. 56.6 % of the respondents agreed, 21.7% were neutral, 15.7% strongly agreed, 4.1% strongly disagreed while 1.9% disagreed. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). This implies that majority of the respondents agreed that investment allowance is a method used to encourage investment in the manufacturing sector. Morisset and Pirnia (2000) find that “industrialized countries have opted for investment allowances or accelerated depreciation” to encourage foreign direct investment. Bond and Samuelson (1986) argued that investment allowance may be used by countries as signals of their “quality” as locations for

foreign investment and investment incentives are presumed holding to encourage companies to invest more by increasing the rate of return from assets.

On the question of whether rural investment allowance encourages in flow of FDI in listed manufacturing companies, the results revealed that 70.4% agreed, 24% neutral and 5.6% disagreed. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). While the responses were spread within a standard deviation of 1 from the mean. Oyetunde (2008) emphasised that in Nigeria, indigenous and foreign investors are entitled to rural investment allowances depending on the type of infrastructure required for companies established in rural, underdeveloped and inaccessible location.

In response to the view that foreign entities are satisfied with the present level of investment allowance to attract foreign direct investment was agreed by 52.4% of the respondents, strongly agreed by 18.7%, 25.1% were neutral, 1.9% disagreed while 1.9% strongly disagreed. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). According to Mooij and Enderveen (2003), Investments in developed countries respond strongly to tax incentives. The implication is that investment allowance significantly influences FDI in listed Nigerian manufacturing companies.

On the facts that investment allowance supports expansion in existing listed manufacturing companies, 56.2% agreed, while 27.7% were neutral, 13.1% strongly agreed, 1.9% disagreed and 1.1% strongly disagreed. These results show that majority of the respondents agreed with the view that investment allowance supports expansion in existing listed manufacturing companies. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). Investment allowance is aimed at encouraging re-investment of profits. The allowance is available as a percentage of the expenditure incurred on the qualifying projects and its deduction is restricted to a percentage of the statutory income. Oyetunde (2008) emphasized that investment allowances may be more effective in promoting new investment than tax holidays, for instance tax allowances

may be granted for value addition in processing industries by rewarding firms, which increase domestic productivity and net local content.

The study investigated if capital allowances are effective incentives used to attract FDI in listed manufacturing companies. 55.4% of the respondents agreed, 24.3% were neutral, 15.4% strongly agreed, 3.0% strongly disagreed while 1.9% disagreed. Majority agreed with the statement that capital allowances are effective incentives used to attract FDI in listed manufacturing companies. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). Under capital allowances, companies are provided with generous write-offs for qualifying capital costs (Wijeweera, Brian & Don, 2007). In addition, capital allowance leads to reduction in taxable income and it is of no immediate benefit to investors who have no profits/ tax liability against which to set it.

Table 4.15: Capital Allowance Incentives

| FACTS | SD | D | N | A | SA | Mean | SD | Total % |
|---|-----|-----|------|------|------|------|----|---------|
| | % | % | % | % | % | | | |
| Initial and annual allowances are important incentives in attracting FDI | 0.7 | 5.2 | 22.8 | 55.1 | 16.2 | 4 | 1 | 100 |
| Investment allowance is a method used to encourage investment in the manufacturing sector | 4.1 | 1.9 | 21.7 | 56.6 | 15.7 | 4 | 1 | 100 |
| Rural investment allowance encourages in flow of FDI in listed manufacturing companies. | 4.5 | 1.1 | 24.0 | 55.4 | 15.0 | 4 | 1 | 100 |
| Foreign entities are satisfied with the present level of investment allowance to attract foreign direct investment. | 1.9 | 1.9 | 25.1 | 52.4 | 18.7 | 4 | 1 | 100 |
| Investment allowance supports expansion in existing listed manufacturing companies. | 1.1 | 1.9 | 27.7 | 56.2 | 13.1 | 4 | 1 | 100 |
| Capital allowance incentives are the most effective incentives used to attract FDI in listed manufacturing companies. | 3.0 | 1.9 | 24.3 | 55.4 | 15.4 | 4 | 1 | 100 |

(Strongly disagree-SD, Disagree-D, Neutral-N, and Agree-A, Strongly Agree-SA).

Claiming of total capital allowance to reduce its taxable profit

As presented in Table 4.16, 79.4% of the respondents suggested that their companies claim total capital allowance to reduce its taxable profit. While 20.60% responded that, their companies did not claim total capital allowance to reduce profit. According to CITA (2004) there is no restriction on the amount of capital allowance that can be claimed from the profit of a company. Capital allowance cannot be claimed if the company incurs a loss.

Table 4.16: Claiming of total capital allowance to reduce its taxable profit by Companies.

| | Frequency | Percent |
|--------------|------------------|----------------|
| Yes | 212 | 79.40 |
| No | 55 | 20.60 |
| Total | 267 | 100.0 |

4.5.3 The effect of Value Added Tax (VAT) incentives on FDI in listed Nigerian manufacturing companies

The study determined the effect of value added tax incentives on foreign direct investment as shown in Table 4.17. In response to whether the vat rate is appropriate in attracting FDI in Nigerian listed manufacturing companies, 47.9% agreed, 18.0% of the respondents strongly agreed, 27.7% were neutral, 4.1% strongly disagreed and 2.2% disagreed. These results imply that majority of the respondents agreed that vat rate is appropriate in attracting FDI in Nigeria listed manufacturing companies. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). Hess (2000) identifies high VAT rate as one of the five major barriers to FDI. According to Mintz (2004), many developing

countries with high levels of investments have attractive VAT regimes with low rates.

Regarding whether foreign investors are encouraged to invest on goods and services exempted from VAT, 52.8% agreed, 28.8 % were neutral, 13.2% strongly agreed, 2.6% disagreed and 2.2% strongly disagreed. The results show that investors are encouraged to invest on goods and services exempted from VAT. The mean is 4(agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). Research work by Chen and Tang (1986) show that the nature of a country's tax laws affects its ability to attract and retain foreign investors.

The 55.4% agreed to the facts that manufacturing companies comply with the rules guiding VAT , 26.6% neutral, 15.7% strongly agreed, 1.9% disagreed while 0.4% strongly disagreed. The findings show that over 70% agreed that manufacturing companies comply with the rules guiding VAT. The mean is 4(agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). Fischer, Wartick and Mark (1992) classified key factors of tax compliance into four groups in their expanded model called Fischer Model thus: Demographic factors (e.g. . age, education and gender), non-compliance opportunity (e.g. income sources, income level and occupation), attitudes and perceptions (e.g. fairness of the tax system, ethics and peer influence), tax system/ structure (e.g. complexity of the tax system, probability of detection, penalties and tax rates).

The study found out if manufacturing companies prefer to produce or sell zero rated goods and services. 50.6% agreed, 27.0% were neutral, 17.2% strongly agreed, 2.6% disagreed and 2.6% strongly disagreed. The mean is 4(agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). Narayan (2003) supports the introduction of VAT in Nigeria as an instrument for the balance of payments engineering, by encouraging foreign direct investment and exports through zero rating of exporting goods.

Concerning whether VAT incentives are effective incentives that attract FDI into listed manufacturing companies, 51.7% agreed, 30.3% neutral, 13.5% strongly

agreed,3.0% strongly disagreed and 1.5% disagreed. The findings indicate that more than 63% agreed that VAT incentives are effective incentives that attract FDI into listed manufacturing companies. The mean is 4(agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). These findings are in line with Adekanola (2007) who observed that taxation in this part of the world is seen largely as a source of internally generated revenue, While this view is not necessarily incorrect, seeing taxation merely as a revenue tool is a very limited perspective, the consequences of which may be more than academic. The use of taxation as tool for encouraging savings and investment, redistributing income, curbing social ills, discouraging the production , importation, exportation and consumption of some goods and services which VAT is intended to achieve would be missed.

Table 4.17: Value Added Tax Incentives

| FACTS | SD | D | N | A | SA | Mean | Standard deviation | Total % |
|--|-----------|----------|----------|----------|-----------|-------------|---------------------------|----------------|
| | % | % | % | % | % | | | |
| The VAT rate is appropriate in attracting FDI in Nigerian listed manufacturing companies. | 4.1 | 2.3 | 27.7 | 47.9 | 18.0 | 4 | 1 | 100 |
| Foreign investors are encouraged to invest on goods and services exempted from VAT. | 2.6 | 2.6 | 28.8 | 52.8 | 13.2 | 4 | 1 | 100 |
| Companies comply with the rules guiding VAT | 0.4 | 1.9 | 26.6 | 55.4 | 15.7 | 4 | 1 | 100 |
| Manufacturing companies prefer to produce or sell zero rated goods and services | 2.6 | 2.6 | 27.0 | 50.6 | 17.2 | 4 | 1 | 100 |
| VAT incentives are the most effective incentive that attracts FDI into listed manufacturing companies. | 3.0 | 1.5 | 30.3 | 51.7 | 13.5 | 4 | 1 | 100 |

(Strongly disagree-SD, Disagree-D, Neutral-N, and Agree-A, Strongly Agree- SA).

Companies produce or sell zero rated goods and services

The results of the question if companies produce or sell zero rated goods and services as shown in Table 4.18 revealed that 51.3% of the respondents suggested that their companies produce or sell zero rated goods and services, while 48.7% of the respondents said their companies did not produce or sell zero rated goods and services. Some of these companies sought the advantage of the VAT laws in producing or selling zero rated goods and services. Ajakaiye (2000) noted that in Nigeria, exports are zero-rated, implying that exporters do not collect VAT on exports but they can claim credit for VAT paid on their imports.

Table 4.18: Companies produce or sell zero rated goods and services

| | Frequency | Percent |
|--------------|------------------|----------------|
| Yes | 137 | 51.3 |
| No | 139 | 48.7 |
| Total | 267 | 100.0 |

With respect to Table 4.19, 50.9% of the respondents supported that the company's goods and services were exempted from VAT while 49.1% stated that the company's goods and services were not exempted from VAT. According to the VAT act, some goods are classified as being exempted from VAT while some are not exempted. This implies the companies are complying with the VAT regulations. These results are in line with Ajakaiye (2000) that observed Nigeria VAT has a number of features that theoretically make it quite straightforward and as painless as possible. First, single rate tax (5%) makes it easier to administer. Second, it uses an input –output method that makes it self – policing. Third, all goods and services are vat-able, with limited and very specific exemptions.

Table 4.19: The Company's goods and services exempted from VAT

| | Frequency | Percent |
|--------------|------------------|----------------|
| Yes | 136 | 50.9 |
| No | 131 | 49.1 |
| Total | 267 | 100.0 |

4.5.4 The effect of capital gains tax incentives on FDI in listed Nigerian manufacturing companies

The study evaluated the effect of Capital Gains Tax Incentives on Foreign Direct Investment in Nigerian listed manufacturing companies, the following questions were asked as presented in Table 4.20. 59.2% agreed with the facts that reduction on capital gains tax rate to 10% is effective in boosting foreign direct investment., 23.6% were neutral, 13.9% strongly agreed, 2.2% disagreed while 1.1% strongly disagreed. These results show that 72% and above agreed that reduction in capital gains tax rate is effective in boosting foreign direct investment. The mean is 4(agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1).This view is supported by Dike (2014) that incentives are reviewed regularly to Foreign Investors and if they are serving the expected purpose, incentives are expected to voluntarily plough back into the Nigerian economy.

In the question whether capital gains tax incentives promote growth of FDI in Nigeria listed manufacturing companies, 58.1 % agreed, 10.1% strongly agreed, 28.8% were neutral, 1.1% disagreed while only 1.9% strongly disagreed. The results show that majority confirmed that capital gain tax incentives promote growth of FDI in Nigerian listed manufacturing companies. Ifueko (2012) states that offer of conscious capital gains tax incentives stimulate foreign direct investment. The study found out whether the main purpose of introduction of capital gains tax act is to boost the revenue base of the government. 58.1% of the respondents agreed with the

statement, 25.5% were neutral, 12.7% strongly agreed, 1.1% disagreed while 2.6% strongly disagreed. In the study conducted by Dike (2014), he concludes that the objectives of the National Tax Policy are to address the myriad of problems bedeviling the Nigerian tax system. It is aimed at creating a tax system that will contribute to the well-being of all Nigerians and taxes, which are collected by Government, should directly impact on the lives of the citizens.

In response to the view that manufacturing companies comply with the payment of capital gains tax was strongly supported by 12.0% of the respondents, 58.4% agreed, 26.3% were neutral, 1.1% disagreed while 2.2% strongly disagreed. These findings suggest that majority of the respondents were of the opinion that manufacturing companies comply with the payment of capital gains tax. 56.9% agreed to the fact that capital gains tax incentives are effective means of boosting foreign direct investment in Nigerian listed manufacturing companies, 13.1% strongly agreed, 25.1% were neutral, 2.3% disagree, and 2.6% strongly disagree. With these findings, over 70% agreed with the fact that capital gains tax incentives are effective means of boosting foreign direct investment in Nigerian listed manufacturing companies

Table 4.20: Capital gains Tax Incentives

| FACTS | SD | D | N | A | SA | Mean | Standard | Total |
|---|-----|-----|------|------|------|------|-----------|-------|
| | % | % | % | % | % | | Deviation | % |
| Reduction in capital gains tax rate to 10% is effective in boosting foreign direct investment | 1.1 | 2.2 | 23.6 | 59.2 | 13.9 | 4 | 1 | 100 |
| Capital gain tax incentives promote growth of FDI in Nigerian listed manufacturing companies. | 1.9 | 1.1 | 28.8 | 58.1 | 10.1 | 4 | 1 | 100 |
| The main purpose of introduction of capital gains tax act is to boost the revenue base of the government | 2.6 | 1.1 | 25.5 | 58.1 | 12.7 | 4 | 1 | 100 |
| Manufacturing companies comply with the payment of capital gains tax. | 2.2 | 1.1 | 26.3 | 58.4 | 12.0 | 4 | 1 | 100 |
| Capital gains tax incentives are the most effective means of boosting foreign direct investment in Nigerian listed manufacturing companies. | 2.6 | 2.3 | 25.1 | 56.9 | 13.1 | 4 | 1 | 100 |

(Strongly disagree-SD, Disagree-D, Neutral-N, and Agree-A, Strongly Agree-SA)

In accordance with Table 4.21, 56.6% of the respondents agreed to the fact that the company's assets were exempted from tax while 43.4% stated that the company's assets were not exempted from capital gains tax. According to CITA (2004), some goods are classified as being exempted from capital gains tax while some are not exempted. This implies the companies are complying with the capital gains tax act.

Table 4.21: Are the company’s assets upon disposal exempted from capital gains tax

| | Frequency | Percent |
|--------------|------------------|----------------|
| No | 116 | 43.4 |
| Yes | 151 | 56.6 |
| Total | 267 | 100.0 |

4.5.5 The effect of double taxation treaty incentives on FDI in listed Nigerian manufacturing companies.

The study ascertained the effect of double taxation treaty incentives on foreign direct investment as shown in Table 4.22. In response to whether bilateral treaties on various taxes have improved FDI in manufacturing sector, 54.7% of the respondents agreed, 30.0% were neutral, 13.9% strongly agreed, 0.7% strongly disagreed and 0.7% disagreed. The findings show that over 67% of the respondents agreed that bilateral treaties on various taxes have improved FDI in manufacturing sector. The mean is 4(agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). Neumayer and Laura (2005) found that the more BITs a country signs, the greater the FDI flows to that country.

Desbordes and Vicard (2006) in their investigation confirmed that one of the channels through which the quality of diplomatic relations influences FDI is their contribution to the number of BITs signed by a host country. Furthermore, the signature of BITs corresponds to an important channel through which good diplomatic relations exert a positive impact on the volume of FDI received by a host country. Hallward – Driemeier (2003) states there is little evidence that the existence of a BIT between two countries does stimulate additional investment from the developed to the developing signatory country.

On whether foreign investors consider bilateral investment treaty as part of a good investment environment, 0.4% strongly disagrees, 1.1% disagreed, 27.7% were

neutral, 13.5% strongly agreed and 57.3% agreed. The results implied that more than 70% agreed that foreign investors consider bilateral investment treaty as part of a good investment environment. Nigeria's double tax treaty network, offers significant incentives to Foreign Investors (Ifueko, 2009). Nigeria has existing treaties with: United Kingdom, Canada, Belgium, France, Romania, Netherlands, Pakistan, South Africa and China (Ifueko, 2009). The signature of bilateral treaties reflects the fact that establishing international economic relations was a priority concern for strong commitment for external liberalisation, economic and financial integration with the global economy (Hallward-Driemeier, 2003). It signals that these countries' attitudes towards foreign investors have changed and its "investment climate" is improving.

The study confirmed if multilateral double taxation treaty is effective in encouraging FDI in manufacturing sector. 53.9% agreed, 14.2% strongly agreed, 30.3% neutral, 0.4% strongly disagreed and 1.2% disagreed. These results show that majority agreed that multilateral double taxation treaty is effective in encouraging FDI in manufacturing sector. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). Stein and Daude (2007), in their analysis of 17 OECD countries' foreign direct investments in 58 countries, showed that the conclusion of multilateral double tax treaty also increases foreign direct investment

The study determined if double tax treaty is a solid protection for foreign investors and improved the flow of FDI. 52.8% agreed, 16.5% strongly agreed, 29.6% were neutral, 0.7% disagreed while 0.4% strongly disagreed. The results give the impression that double taxation is a solid protection for foreign investors and improved the flow of FDI in the manufacturing companies. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). Generally, these treaties will increase property right protection and induce foreign investments in a nation; however, the ability of a host country authority to change the final tax burden of foreign investors is at limited based on the tax treaty with the other nations' double taxation relief (Salacuse & Nicholas, 2005)

Concerning whether double taxation incentives are effective means of attracting FDI into the Nigerian listed manufacturing companies. 53.6% agreed, 15.7 % strongly agreed, 29.6% neutral, 0.7% strongly disagreed and 0.4% disagreed. The findings show that over 68% agreed that double taxation are effective means of attracting FDI into the Nigeria listed manufacturing companies. The mean is 4 (agree) and the standard deviation is 1. These results are in line with the work of Egger *et al*, (2006) that one major purpose of Double Tax Treaty is thus the encouragement of FDI.

Table 4.22: Double Taxation Treaty Incentives

| FACTS | SD % | D % | N % | A % | SA % | Mean | Standard Deviation | Total % |
|---|------|-----|------|------|------|------|--------------------|---------|
| Bilateral treaties on various taxes have improved direct foreign investment in manufacturing sector. | 0.7 | 0.7 | 30.0 | 54.7 | 13.9 | 4 | 1 | 100 |
| Foreign investors consider Bilateral Investment treaty as part of a good investment environment. | 0.4 | 1.1 | 27.7 | 57.3 | 13.5 | 4 | 1 | 100 |
| Multilateral double taxation treaty is more effective in encouraging FDI in manufacturing companies | 0.4 | 1.2 | 30.3 | 53.9 | 14.2 | 4 | 1 | 100 |
| Double tax treaty is a solid protection for foreign investors and improved the flow of FDI in the manufacturing companies | 0.4 | 0.7 | 29.6 | 52.8 | 16.5 | 4 | 1 | 100 |
| Generally double taxation incentives are the most effective means of attracting FDI into the listed Nigerian manufacturing companies. | 0.7 | 0.4 | 29.6 | 53.6 | 15.7 | 4 | 1 | 100 |

(Strongly disagree-SD, Disagree-D, Neutral-N, and Agree-A, Strongly Agree-SA)

4.5.6 The effect of non – tax incentives on FDI in Nigerian listed manufacturing companies (Moderating effect).

This study identified non –tax incentives such as infrastructure, telecommunications and political stability increasing in flow of FDI. Attracting FDI thus turned out to be heavily used approach of many governments across the world to boost their economies. Many studies were devoted to the techniques on how to do it. The study established the effect of non – tax incentives on FDI in Nigerian listed manufacturing companies. The following are the findings as indicated in Table 4.23.

The question confirmed if the development of infrastructure can play a major role in the attraction of FDI in Nigerian listed manufacturing companies. In this regard, 54.7% agreed, 16.1% strongly agreed, 24% neutral, 3.3% disagree and 1.9% strongly disagrees. The mean is 4, (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). These findings indicate that about 70.8% agreed that the development of infrastructure can play a major role in the attraction of FDI in Nigerian listed manufacturing companies. Haiyambo (2013) confirmed the findings that the tax incentives offered as well as other factors played a complimentary role in the investment environment of country. While the other factors include investors' trust in the country's economy, availability of good infrastructure and good governance which are crucial consideration for selection of location of investment by investors.

The research found out if telecommunications contribute to the increase of FDI inflows into the Nigerian listed manufacturing companies. 61% agreed, 13.1% strongly agreed, 23.6% were neutral, 1.9% disagreed while 0.4% strongly disagreed. These results suggest that 74% and above agreed with the statement that telecommunications contribute to the increase of FDI inflows into the Nigerian listed manufacturing companies. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). Results from Anyanwu and Erhijakpor (2004) indicate that telecommunications, infrastructures, economic growth and openness contribute significantly to the increase of FDI inflows to Africa.

Sixty two percent agreed to the facts that political stability play important role in attracting FDI in Nigerian listed manufacturing companies, 10.9% strongly agreed, 22.8% were neutral, 4.5% disagreed. Majority agreed that political stability play important role in attracting FDI in Nigerian listed manufacturing companies. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). These results support the findings by Sekkat and Veganzones –Vardoulakis (2007) that infrastructural availability and political conditions play important role for Africa, more importantly Nigeria and the Middle East in attracting FDI.

The study found out if adequate provision of electricity will boost FDI in Nigeria listed manufacturing companies. The results indicated that 58.4% agreed, 14.2% strongly agreed, 24.3% were neutral and 3.1% disagreed. Almost 72% agreed that adequate provision of electricity will boost FDI in Nigerian listed manufacturing companies. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). Hailu (2010) conducts an empirical analysis of the demand side determinants of the inflow of FDI to African nations and concludes that natural resources, labor quality, trade openness, market accession and infrastructure condition positively and significantly affect FDI inflows. Studies by Musila and Sique (2006), Dupasquier, and Osakwe (2006) on FDI showed in Africa are dependent on the development of infrastructure.

Fifty five percent agreed, 15.4% strongly agreed that corruption and political instability have reduced the inflow of FDI in the Nigerian listed manufacturing companies. , 25.8% were neutral, 3.0% disagreed and 0.7% strongly disagreed. Majority agreed with the statement that corruption and political instability have reduced the inflow of FDI in the Nigerian listed manufacturing companies. Thus, in spite of the perceived and obvious need for foreign direct investment in the continent, some of the major constraints to attracting investment in Nigeria include inconsistency in government policies and other social vices such as corruption, insecurity, and political instability (Babatunde & Adepeju, 2012). The mean is 4

implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1).

Table 4.23: Non - Tax Incentives

| FACTS | SD | D | N | A | SA | Mean | Standard | Total |
|---|-----------|----------|----------|----------|-----------|-------------|------------------|--------------|
| | % | % | % | % | % | | Deviation | |
| The development of infrastructure can play a major role in the attraction of FDI in Nigerian listed manufacturing companies | 1.9 | 3.3 | 24.0 | 54.7 | 16.1 | 4 | 1 | 100 |
| Telecommunications contribute to the increase of FDI inflows into the Nigerian listed manufacturing companies. | 0.4 | 1.9 | 23.6 | 61.0 | 13.1 | 4 | 1 | 100 |
| Political stability plays important role in attracting FDI in Nigerian listed manufacturing companies. | 0.0 | 4.5 | 22.8 | 61.8 | 10.9 | 4 | 1 | 100 |
| Adequate provision of electricity will boost FDI in Nigerian listed manufacturing companies. | 0.0 | 3.1 | 24.3 | 58.4 | 14.2 | 4 | 1 | 100 |
| Corruption and political instability have reduced the inflow of FDI in the Nigerian listed manufacturing companies. | 0.7 | 3.0 | 25.8 | 55.1 | 15.4 | 4 | 1 | 100 |

(Strongly disagree-SD, Disagree-D, Neutral-N, and Agree-A and Strongly Agree- SA)

4.5.7 Descriptive analysis on FDI (Dependent Variable)

In this study, FDI was the dependent variable statements as shown in Table 4.24. The majority of the respondents (67.5 %) agreed that the investment climate for foreign investors is very conducive in attracting equity participation in manufacturing companies. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). UNCTAD (2014) distinguished 6 main components of FDI: New plants, plant expansions, mergers and acquisition, joint developing countries ventures, equity increases and other FDI. To gain the benefit most are trying to attract FDI by framing different policies such as trade liberalization and creating an attractive macroeconomic investment environment (UNCTAD, 2014).

In response to the opinion that companies do reinvest their earnings in manufacturing sector, 64.4% agreed, 25.1% were neutral, 5.6% strongly agreed., 3.7% disagreed and 1.2% strongly agreed. These results indicate that 70% of the respondents agreed with the opinion that companies do reinvest their earnings in manufacturing sector. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). According to OECD (2000) reinvested earnings are included in direct investment income because the earnings of the direct investment enterprise are deemed to be the income of the direct investor (proportionate to the direct investor's holding of equity in the direct investment enterprise), whether they are reinvested in the enterprise or remitted to the direct investor.

67.4% agreed that foreign participation in listed manufacturing companies increase the flow of foreign assets, 4.9% strongly agreed, 22.1% were neutral and 5.6% disagreed. These findings imply foreign participation increase the flow of foreign assets. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). In the study conducted by Mwega (2007), he observed that most developing countries are interested in FDI a source of capital for industrialisation. This is because FDI involves a long-term commitment to the host country and contributes significantly to the gross fixed capital formation.

The study determined if there is high prospect in the attraction of foreign direct investment into the Nigerian listed manufacturing companies. 61.5%, agreed with the statement, 6.0% strongly agreed, 27.3% were neutral and 5.2% disagreed. The findings suggest that there is high prospect in the attraction of foreign direct investment into the Nigerian listed manufacturing companies. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). Massoud, (2003) is in support of the results that with the globalisation of the international economy in the 1999s, the importance of FDI increased and was considered by many economists to be one of the leading motivations for its dominance

Finally, on the opinion that most FDI inflows into Nigeria are in form of equity participation, 68.2 % agreed with the statement, 25.5% were neutral while 6.2% disagreed. These results indicate that majority of the respondents agreed that most FDI inflows into Nigeria are in form of equity participation. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). According to UNCTAD (2008), the Nigeria's investment law that governs the entry of FDI, allows 100% foreign ownership with equity participation in all sector with the exception of petroleum sector that is limited to existing joint ventures or new production sharing agree

Table 4.24: Foreign Direct Investment

| FACTS | SD | D | N | A | SA | Mean | Standard Deviation | Total |
|--|-----|-----|------|------|-----|------|-----------------------|-------|
| | % | % | % | % | % | | | |
| The investment climate for foreign investors is very conducive in attracting equity participation in listed manufacturing companies. | 2.6 | 5.6 | 24.3 | 59.6 | 7.9 | 4 | 1 | 100 |
| Companies do reinvest their earnings in manufacturing sector, | 1.2 | 3.7 | 25.1 | 64.4 | 5.6 | 4 | 1 | 100 |
| Foreign participation in listed manufacturing companies increase the flow of foreign assets. | 0.0 | 5.6 | 22.1 | 67.4 | 4.9 | 4 | 1 | 100 |
| There is high prospect in the attraction of foreign direct investment into the Nigerian listed manufacturing companies | 0.0 | 5.2 | 27.3 | 61.5 | 6.0 | 4 | 1 | 100 |
| Most FDI inflows into Nigeria are in form of equity participation | 1.1 | 5.2 | 25.5 | 62.2 | 6.0 | 4 | 1 | 100 |

(Strongly disagree-SD, Disagree-D, Neutral-N, and Agree-A and Strongly Agree- SA)

The most effective tax incentives in attracting foreign direct investment.

According to Table 4.25, the most effective tax incentive is company income tax with a percentage response of 24.7%, while the least effective tax incentives Capital gains tax relief with a percentage response 6.4%. This is in support of Biggs (2007) suggests that corporation tax has to be substantially below the worldwide norm of around 35% for a rate of corporation tax to be effective in encouraging foreign direct investment.

Table 4.25: The most effective tax incentives in attracting FDI to the manufacturing sector

| | Frequency | Percent |
|--|------------------|----------------|
| Initial and annual allowance | 63 | 23.6 |
| Loss carry forward relief | 31 | 11.6 |
| Rural Investment allowance | 28 | 10.5 |
| Exemption of VAT on goods and services | 32 | 12.0 |
| Company income tax | 66 | 24.7 |
| Double tax relief | 30 | 11.2 |
| Capital gains tax relief | 17 | 6.4 |
| Total | 267 | 100.0 |

Primary data were used for this to achieve the objectives. The primary data were collected at fresh and happened to be original. This is justified by the fact that primary data are collected in regards of specific issues or problems at hand. They are unbiased and the reliability is easily assured. The reliability of the secondary data is not always assured.

4.6 Inferential Analysis

4.6.1 Diagnostic Tests

The various statistical tests carried out in preparation for inferential analysis as stated below.

4.6.2 Reliability Test

Various scholars view reliability as the repeatability, stability or internal consistency of a questionnaire (Bryman, 2008; Cooper Schindler, 2011; McMillan & Schumacher, 2010). Reliability is an indication of the stability and consistency with which the instrument measures a concept and helps to assess the goodness of a measure. In this study, Cronbach's Alpha, which is a reliability coefficient, was used to indicate how well the items in the set were correlated with each other. According to Sekara, (2008) the closer a Cronbach's Alpha is to 1 the higher the reliability and a value of at least 0.7 is recommended. The cronbach's alpha was used in this study to measure the internal consistency of the variables.

The study consists of five independent variables and one dependent variable. The independent variables consist of company income tax incentives; capital allowances incentives, value added tax incentives, capital gains tax incentives and double taxation treaty incentives. While the moderating variable is non – tax incentives and dependent variable is foreign direct investment. The reliability of the variables and the results are shown in Table 4.26

Table 4.26 Reliability Test for all the variables

| Variables | Cronbach's Alpha | Number of Items | Comment |
|---------------------------|-------------------------|------------------------|----------------|
| Company income tax | 0.700 | 5 | Accepted |
| Capital allowances | 0.701 | 6 | Accepted |
| Value added tax | 0.765 | 5 | Accepted |
| Capital gains tax | 0.790 | 5 | Accepted |
| Double taxation treaty | 0.871 | 5 | Accepted |
| Non – tax incentives | 0.770 | 5 | Accepted |
| Foreign direct investment | 0.700 | 5 | Accepted |

The findings indicated that company income tax incentives had a coefficient of 0.700, capital allowance incentives , a coefficient of 0.701, value added tax incentives , a coefficient of 0.765, capital gains tax incentives, a coefficient of 0.790, double taxation treaty incentives, a coefficient of 0.871, non-tax incentives , a coefficient of 0.770 and foreign direct investment , a coefficient of 0.700. All the constructs had Cronbach's Alpha above the minimum acceptable reliability coefficient of 0.7 and good internal consistency. Based on this analysis, all items in the scale were accepted and considered for the study.

4.6.3 Normality Test

To test the normality of the dependent variable foreign direct investment, a One-Sample Kolmogorov-Smirnov Test (KS) was conducted. The null and alternative hypotheses are stated below.

H_0 : The data is normally distributed

The rule is that if the p-value is greater than 0.05, H_0 is accepted and H_1 is rejected, if the p-value is less than 0.05, H_0 is rejected and H_1 is accepted.

The results obtained in Table 4.27 indicate that Kolmogorov-Smirnov Z statistic is 0.973 (p-value=0.300) since the statistic is high with the p-value greater than 0.05, the null hypothesis was accepted and concluded that the data was normally distributed and therefore fit for linear regression analysis.

Table 4.27: One – sample Kolmogorov- Smirnov Test for Foreign Direct Investment

| Foreign Direct Investment | |
|---------------------------|-------|
| N | 267 |
| Kolmogorov-Sminov Z | 0.973 |
| Asymp. Sig. (2-tailed) | 0.300 |

- a. Test distribution is Normal
- b. Calculated from data

4.6.4 Autocorrelation test for foreign direct investment (Test for independence)

Chatfield (2004) refers to Autocorrelation as the correlation of a time series with its own past and future values. Autocorrelation is sometimes called “lagged correlation” or “serial correlation”, which refers to the correlation between members of a series of numbers arranged in time. Positive autocorrelation might be considered a specific

form of “*persistence*”, a tendency for a system to remain in the same state from one observation to the next. The tools for assessing the autocorrelation of a time series are Durbin – Watson statistic, the time series plot, the lagged scatter plot, and the autocorrelation function.

H₀: There was no evidence of autocorrelation

The results of the test are shown in Table 4.28, which indicate a Durbin –Watson coefficient (DWC) of 1.912893 with a p-value of 0.446 in lag 1, DWC of 1.895492 with a p-value of 0.434 in lag 2, while in lag 3, DWC is 1.879802 and the p-value is 0.378. Since Durbin–Watson coefficients were between 1.5 and 2.5 and p-value higher than 0.05 for lags 1-3, the study accepted the null hypothesis that there was no autocorrelation in the data residual. The study therefore concluded that there was no autocorrelation of the foreign direct investment. Thus, linear regression model was appropriate for this study. Ogundipe, Idowu and Ogundipe (2012) used Durbi–Watson test to determine whether there was autocorrelation in their data residuals. Since their calculated Durbin–Watson coefficient was between 1.5 and 2.5; they concluded that there was no autocorrelation in the data residuals.

Table 4.28: Durbin Watson test for independence of residuals (Error terms) or Autocorrelation

| Lag | D.W. Statistic | p-value |
|-----|----------------|---------|
| 1 | 1.912893 | 0.446 |
| 2 | 1.895492 | 0.434 |
| 3 | 1.879802 | 0.378 |

4.6.5. Homoscedastic Test for Foreign Direct Investment

Homoscedasticity suggests that the dependent variable has an equal level of variability for each of the values of the independent variables (Garson, 2012). A test for homoscedasticity is made to test for variance in residuals in the regression model used. If there exist equal variance of the error terms, we have a normal distribution.

Lack of an equal level of variability for each value of the independent variables is known as heteroscedasticity, The Breusch–Pagan test developed by Breusch and Pagan (1979) was used to test for homogeneity in a linear regression mode. The null and alternative hypotheses are stated below.

H_0 : The data is not heterogeneous in variance

The rule is that if the p-value is greater than 0.05, H_0 is accepted and H_1 is rejected, if the p-value is less than 0.05, H_0 is rejected and H_1 is accepted.

The result of the test is shown in Table 4.29, which indicate that the test statistic is 1.6431 (p-value = 0.5321) with the degree of freedom .Since the test–Statistic is small with the p-value greater than 0.05, the null hypothesis was accepted and concluded that. There was homoscedasticity in the data (that is, the data is not heterogeneous in variance), which satisfies the assumption of regression.

Table4.29 Test for Homoscedasticity in the Residuals

| Test - Statistic | Degree of Freedom | P-Value |
|------------------|-------------------|---------|
| 1.6431 | 5 | 0.5321 |

4.7. Pearson Correlation

Kothari (2014) states that the importance of correlation is to determine the extent to which changes in the value of an attribute is associated with changes in another attribute. According to Kothari (2014), the correlation coefficient can range from -1 to +1, with -1 indicating a perfect negative correlation,+1 indicating a perfect positive correlation, and 0 indicating no correlation at all. A linearity test was conducted as evidenced by the Pearson correlation coefficient.

4.7.1 Correlation Analysis on Company Income Tax Incentives and FDI

It tells a researcher the magnitude and direction of the relationship between two variables. The Pearson Correlation of company income tax incentives and FDI was computed in Table 4.30 and established as 0.600 (p-value=0.000) which is a strong significant and positive relationship between the two variables. The FDI was measured using foreign equity share, reinvestment of earnings, foreign currency and foreign assets. Normally these are the parameters used in Nigeria for measuring FDI. Biggs (2007) in his study on how tax incentives attract foreign direct investment found a significant positive relationship between company income tax incentives and FDI. It could be concluded that there is a strong positive linear relationship between the company Income tax incentives and FDI.

4.7.2 Correlation Analysis on Capital allowance incentives and FDI.

The Pearson Correlation of capital allowance incentives and FDI was computed in Table 4.30 and established as 0.604 (p-value=0.000) which is a strong significant and positive relationship between the two variables. UNCTAD (2000) notes that capital allowances incentives are generally preferable to tax holidays as they specifically encourage new investment. The study revealed a positive relationship between capital allowances incentives and FDI. It could then be concluded that there is a strong positive linear relationship between the capital allowance incentives and FDI.

4.7.3 Correlation Analysis on Value Added tax incentives and FDI

The Pearson Correlation of value added tax incentives and foreign direct investment was computed and established as 0.529 (p-value=0.000) which is a strong significant and positive relationship between the two variables. Desai, Foley and Hines (2004) consider taking into account the value added tax in addition to corporate tax in relation to foreign direct investment, their findings of analysis indicate that foreign direct investment reacts significantly to VAT. From Table 4 30, it could then be concluded that there is a strong positive linear relationship between the value added tax incentives and foreign direct investment.

4.7.4 Correlation Analysis on Capital gains tax incentives and FDI.

The Pearson Correlation of capital gains tax incentives and foreign direct investment was computed and established as 0.567 (p-value=0.000) which is a strong significant and positive relationship between the two variables. Economic reforms of low and middle-income countries that opened up to foreign investors may explain both the capital gain tax incentives and the rise in FDI (Barthel, Busse, krever & Neumeier, 2010). That there is a positive relationship between capital gains tax incentives and FDI. From Table 4.30, it could then be concluded that there is a strong positive linear relationship between the capital gains tax incentives and foreign direct investment.

4.7.5 Correlation Analysis on Double taxation treaty incentives and FDI

The Pearson Correlation of Double taxation treaty incentives and foreign direct investment was computed and established as 0.557 (p-value=0.000) which is a strong significant and positive relationship between the two variables. Double taxation treaty may act as a signal of a commitment and significant impact to a favorable foreign investment environment (Bellak, 2005) .From Table 4.30 it could then be concluded that there is a strong positive linear relationship between the double taxation treaty incentives and foreign direct investment.

4.7.6 Overall Pearson Correlation Matrix

The correlation between foreign direct investment and the independent variables are ranked from the highest to the lowest as follows: Table 4.30 indicates that there was a significant strong positive correlation between foreign direct investment and capital allowance incentives at 0.604 which is the highest in ranking., Followed secondly in ranking, was a significant strong positive correlation between foreign direct investment and company income tax at 0.600, third in ranking, there was a significant strong positive correlation between foreign direct investment and capital gains tax incentives at 0.567.Followed was a significant strong positive correlation between foreign direct investment and double taxation treaty incentives at 0.557. Finally, there was a strong positive correlation between foreign direct investment and

value added tax incentives at 0.529, which is the lowest in ranking. It implies that the highest strong positive correlation is between foreign direct investment and capital allowance incentives at 0.604. With these results, it implies that there were significant strong positive correlations between foreign direct investment and all the tax incentives (independent variables).

From the Table 4.30 shown below, all the predictor variables have a positive correlation with one another. The highest correlation occurred between capital gains tax incentives and company income tax incentives at 0.602, followed by correlation between double taxation treaty incentives and company income tax incentives at 0.589 and correlation between value added tax incentives and company income tax at 0.569. This is followed by correlation between capital allowance incentives and company income tax incentives at 0.567. The second to the last correlation between double taxation treaty incentives and capital gains tax incentives was moderate at 0.446. The last correlation that is the least between double taxation treaty incentives and value added tax incentives was moderate at 0.434.

Multicollinearity is a statistical phenomenon in which two or more independent variables in a multiple regression model have a high degree of correlation (Kothari, 2014). According to Murray and Conner (2009), correlation coefficient threshold should not go beyond 0.8 to avoid multicollinearity. If the correlation coefficient is beyond 0.8, this implies that there is multicollinearity problem. In Table, 4.30 the correlation matrix was used to test the multicollinearity. There was no multicollinearity problem in this study since the highest correlation coefficient of 0.602 among the independent variables was less than 0.8 existing between capital gains tax incentives and company income tax incentives. In conclusion there was no multicollinearity problem in this study because the highest correlation coefficient of 0.602 existing between the capital gains tax incentives and company income tax incentives was less than 0.8.

Table 4.30: Pearson Correlation matrix for Independent and Dependent variables.

| | | FDI | COMPANY INCOME TAX INCENTIVES | CAPITAL ALLOWANCE INCENTIVES | VALUE ADDED TAX INCENTIVES | CAPITAL GAINS TAX INCENTIVES | DTTI |
|--|-----------------|--------|-------------------------------------|------------------------------------|----------------------------------|------------------------------------|------|
| Foreign Direct Investment | Pearson | 1 | | | | | |
| | Correlation | | | | | | |
| | Sig. (2-tailed) | | | | | | |
| | N | 267 | | | | | |
| Company Income Tax Incentives | Pearson | .600** | 1 | | | | |
| | Correlation | | | | | | |
| | Sig. (2-tailed) | .000 | | | | | |
| | N | 267 | 267 | | | | |
| Capital Allowance Incentives | Pearson | .604** | .567** | 1 | | | |
| | Correlation | | | | | | |
| | Sig. (2-tailed) | .000 | .000 | | | | |
| | N | 267 | 267 | 267 | | | |
| Value Added Tax Incentives | Pearson | .529** | .569** | .473** | 1 | | |
| | Correlation | | | | | | |
| | Sig. (2-tailed) | .000 | .000 | .000 | | | |
| | N | 267 | 267 | 267 | 267 | | |
| Capital Gains Tax Incentives | Pearson | .567** | .602** | .558** | .546** | 1 | |
| | Correlation | | | | | | |
| | Sig. (2-tailed) | .000 | .000 | .000 | .000 | | |
| | N | 267 | 267 | 267 | 267 | 267 | |
| Double Taxation Treaty Incentives | Pearson | .557** | .589** | .540** | .434** | .446** | 1 |
| | Correlation | | | | | | |
| | Sig. (2-tailed) | .000 | .000 | .000 | .000 | .000 | |
| | N | 267 | 267 | 267 | 267 | 267 | 267 |

** . Correlation is significant at the 0.05 level (2-tailed).

DTTI – Double Taxation Treaty Incentives

4.8 Results on the Regression Analysis and Anova Tests for the objectives of the study.

In the section, the results of the regression and anova tests for the five objectives of the study are stated. According to Kothari (2014), regression is the determination of a statistical relationship between two or more variables. In simple regression, there are two variables, one variable (defined as independent) is the cause of the behavior of another one (defined as dependent variable).When there are two or more than two independent variables, the analysis concerning relationship is known as multiple regression and the equation describing such relationship as the multiple regression equation. Kothari (2014) describes ANOVA as a procedure for testing the difference among different groups of data for homogeneity. The essence of ANOVA is that the total amount of variation in a set of data is broken down into two types, that amount which can be attributed to chance and that amount which can be attributed to specified causes. While F- test is also used in the context of analysis of variance (ANOVA) for judging the significance of multiple correlation coefficients.

4.8.1 The effect of company income tax incentives on FDI in listed Nigerian manufacturing companies

The study examined the effect of company income tax incentives on FDI in listed Nigerian Manufacturing Companies and the statistical significance of the variables, regression analysis was established.

Model Summary for regression

The results in Table 4.31, which show a relationship $R = 0.600$, indicates a strong positive relationship between company income tax incentives and foreign direct investment. $R^2 = 0.360$ indicates that 36.0% of variation in the foreign direct investment can be explained by company income tax incentives. While the remaining percentage of 64.0% is explained by capital allowance incentives, value added tax incentives, capital gains tax incentives and double taxation treaty incentives. The

parameters used for the FDI were foreign equity share, reinvestment of earnings, foreign currency and foreign assets.

Table 4.31 Model Summary for Regression Analysis between Company Income Tax incentives and FDI.

| Model | R | R- Square |
|-------|--------------------|-----------|
| I | 0.600 ^a | 0.360 |

Predictors: (Constant), Company Income Tax Incentives

ANOVA results for company income tax incentives and FDI

Hypothesis 1

H₀₁: There is no significant effect of company income tax incentives on FDI in listed Nigerian manufacturing companies.

F-test was carried out to test the null hypothesis that there is no significant effect of Company Income Tax incentives on FDI in Listed Nigerian Manufacturing Companies. The results of ANOVA test in Table 4.32 show that the F value is 148.886 with a significance of p value = 0.000 which is less than 0.05, meaning that null hypothesis is rejected and conclude that there is a significant effect of Company Income Tax incentives on Foreign Direct Investment in Listed Nigerian Manufacturing Companies.

Bond and Chennells (2000)'s study agree with the findings of this study. Their study established a strong positive effect of company income tax incentives on foreign direct investment as a result of implementing the tax incentives in advanced countries. Biggs(2007)'s study concluded that reductions in corporation tax rate and/or period (tax holidays) are blunt instruments for attracting investment and are offered only on the basis that that "any investment is good investment". Thus there is empirical support to the findings of this study

Table 4.32: ANOVA Results for Company Income Tax Incentives and FDI

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|-------|------------|----------------|-----|-------------|---------|--------------------|
| 1 | Regression | 751.393 | 1 | 751.393 | 148.886 | 0.000 ^b |
| | Residual | 1337.388 | 265 | 5.047 | | |
| | Total | 2088.781 | 266 | | | |

a. Dependent Variable: Foreign Direct Investment

b. Predictors: (Constant), Company Income Tax Incentives

Coefficients for regression between Company Income Tax Incentives and FDI

To test the significance of regression relationship between company income tax incentives and foreign direct investment, the regression coefficients (β), the intercept (α), and the significance of all coefficients in the model were subjected to the t-test to test the null hypothesis that the coefficient is zero. The null hypothesis state that, β (beta) = 0, meaning there is no significant effect of Company Income Tax incentives on Foreign Direct Investment in Listed Nigerian Manufacturing Companies as the slope β (beta) = 0 (no relationship between the two variables). The results on the beta coefficient of the resulting model in Table 4.33 shows that the constant $\alpha = 3.941$ is significantly different from 0, since the p- value = 0.000 is less than 0.05. The coefficient $\beta = 0.573$ is also significantly different from 0 with a p-value=0.000 which is less than 0.05. The t value for constant is 6.614, while the t value for company income tax incentives is 12.202, which indicate they are significant.

This implies that the null hypothesis that $\beta_1=0$ is rejected and the alternative hypothesis $\beta_1 \neq 0$ is accepted indicating that the model $Y=3.941+ 0.573$ (company income tax incentives), is significantly fit. Furthermore the beta value of 0.573 implies that a unit change in company income tax incentives will lead to 0.573 units change in the volume of FDI. This confirms that there is a significant positive linear effect of company income tax incentives on foreign direct investment. This study agrees with Fakile and Adegbile (2011) that in developing countries there is a

positive significant effect of company income tax incentives on FDI. Ekpung and Wilfred, (2014) found that high corporate tax is bad for economic growth and discourage FDI. This is because; it discourages new incentives by distorting FDI decisions and discouraging work effort. Okoi and Edame (2013) found that high corporate tax rate as witnessed in Nigeria has an enormous effect to FDI and GDP. Porcano and Price, 1996 conclude that company income taxes do not have a significant effect on FDI.

Table 4.33: Coefficients for regression between Company Income Tax Incentives and FDI.

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|----------|-------------------------------|-----------------------------|-----------|---------------------------|--------|-------|
| | | B | Std.Error | Beta | | |
| | (Constant) | 3.941 | 0.596 | | 6.614 | 0.000 |
| 1 | Company income tax incentives | 0.573 | 0.047 | 0.600 | 12.202 | 0.000 |

a. Dependent Variable: Foreign Direct Investment

4.8.2 The effect of capital allowances incentives on FDI in listed Nigerian manufacturing companies

The regression analysis was used to establish the effect of capital allowances incentives on FDI in listed Nigerian Manufacturing companies.

Model Summary for regression between capital allowance incentives and FDI

The results of the analysis are shown in Table 4.34, the R = 0.604, which indicates a strong positive relationship between capital allowance incentives and foreign direct

investment .While $R^2 = 0.365$ which means that 36.5% of the corresponding variation in foreign direct investment can be explained by capital allowance incentives. The rest 63.5% can be explained by other variables.

Table 4.34: Model Summary for regression between capital allowance incentives and foreign direct investment

| Model | R | R Square |
|-----------------|-------|----------|
| 2. ^a | 0.604 | 0.365 |

a. Predictors: (Constant), Capital Allowance Incentives

ANOVA results for Capital allowance incentives and FDI

Hypothesis 2

H₀₂: There is no significant effect of capital allowances incentives and the FDI in listed Nigerian manufacturing companies.

A one way analysis of variance (ANOVA) whose results formed a basis for tests of significance was used. The ANOVA for the linear model presented in Table 4.35 of capital allowance incentives and foreign direct investment has a F value = 152.202 which is significant with p-value = 0.000 < 0.05 meaning that the overall model is significant in the prediction of foreign direct investment in Nigerian listed manufacturing companies. We therefore reject the null hypothesis that there is no significant effect of capital allowance incentives on the foreign direct Investment in Listed Nigerian Manufacturing Companies. While H₁ is therefore accepted, that there is significant effect of capital allowance incentives and the foreign direct Investment in Listed Nigerian Manufacturing Companies.

Bond and Samuelson (1986), supports the view that capital allowance (investment allowance) may be used by countries as signals of their “quality” as locations for foreign investment. Their study established a positive relationship between capital

allowance and foreign direct investment in Nigerian listed manufacturing companies. This is a confirmation that existence of capital allowances inform of investment allowance, initial allowance encourage inflow of FDI.

Table 4.35 ANOVA Results for Capital Allowance Incentives and FDI

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|--------------|------------|-----------------------|-----------|--------------------|----------|--------------------|
| | Regression | 762.020 | 1 | 762.020 | 152.202 | 0.000 ^b |
| 2 | Residual | 1326.761 | 265 | 5.007 | | |
| | Total | 2088.781 | 266 | | | |

a. Dependent Variable: Foreign Direct Investment

b. Predictors: (Constant), Capital Allowance Incentives.

Coefficients for regression between Capital Allowance Incentives and FDI

The test for the significance of regression relationship between capital allowance incentives and foreign direct investment, the regression coefficients (β), the intercept (α), and the significance of all coefficients in the model were subjected to the t-test to test the null hypothesis that the coefficient is zero. The null hypothesis state that, β (beta) = 0, meaning there is no significant effect of capital allowance incentives on the foreign direct Investment in Listed Nigerian Manufacturing Companies as the slope β (beta) = 0 (no relationship between the two variables).

The results on the beta coefficient of the resulting model in Table 4.36 shows that the constant = 4.322 is significantly different from 0 with a p-value = 0.000 < 0.05. The coefficient $\beta=0.488$ is also significantly different from 0 with a p-value = 0.000 < 0.05.

Therefore, both the constant and capital allowance incentives contribute significantly to the model. The t value for constant is 7.754 while for the capital allowance incentives is 12.337, which indicate they are significant. The H_0 is rejected while H_1 is accepted, which imply that there is significant effect of Capital allowances

incentives on Foreign direct investment in Listed Nigerian Manufacturing Companies. Furthermore the beta value of 0.488 implies that a unit change in capital allowance incentives will lead to 0.488 units change in the volume of FDI. In this study, it is concluded that capital allowance attracts flow of FDI into the Nigerian manufacturing companies. These results agree with the findings of Stapper (2010) that capital allowance incentives are more sensitive to investment formation. First investors emphasise more on investment allowance and other tax incentives for capital formation. Bond and Samuelson (1986) argued that capital allowance may be used by countries as signals of their quality as locations for FDI. Investment incentives are presumed to encourage companies to invest more by increasing the rate of return from holding assets. While Lall (2001) discovered that there is no significant relationship between investment allowance and FDI.

Table 4.36: Coefficients for regression between Capital Allowance Incentives and FDI.

| Model | | Unstandardized Coefficients | | Standardized Coefficients Beta | t | Sig. |
|----------|------------------------------|-----------------------------|-----------|--------------------------------|--------|-------|
| | | B | Std.Error | | | |
| | (Constant) | 4.332 | 0.559 | | 7.754 | 0.000 |
| 2 | Capital Allowance incentives | 0.488 | 0.040 | 0.604 | 12.337 | 0.000 |

a. Dependent Variable: FOREIGN DIRECT INVESTMENT

4.8.3 The effect of Value Added Tax (VAT) incentives on FDI in listed Nigerian manufacturing companies

The study determined the effect of VAT incentives on FDI in listed Nigerian manufacturing companies with the use of regression analysis. The results are therefore stated below.

Model Summary for Regression Analysis between Value Added Tax Incentives and FDI

The results in Table 4.37, show a relationship $R = 0.529$, which indicates a strong positive relationship between value added tax incentives and FDI. While $R^2 = 0.280$ indicates that 28.0% of variation in the foreign direct investment can be explained by value added tax incentives. While the remaining percentage of 72.0% is explained by other variables

Table 4.37: Model Summary for Regression Analysis between Value Added Tax Incentives and FDI

| Model | R | R Square |
|-------|--------------------|----------|
| 3 | 0.529 ^a | 0.280 |

a. Predictors: (Constant), Value Added Tax Incentives.

ANOVA results for Value added tax incentives and FDI

Hypothesis 3

H₀₃: There is no significant effect of VAT Incentives on FDI in listed Nigerian manufacturing companies

The results of ANOVA test in Table 4.38 show that the significance of the F-statistic 0.000 is less than 0.05 with a F value = 102.977 meaning that null hypothesis is rejected and conclude that there is a significant relationship between VAT incentives and the FDI in Nigerian Listed Manufacturing Companies. According to Mintz (2004), many developing countries with high levels of investments have attractive

VAT regimes with low rates. The findings support the view that foreign direct investment reacts significantly to VAT.

Table 4:38 ANOVA Results for Value Added Tax Incentives and FDI

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|-------|------------|----------------|-----|-------------|---------|--------------------|
| 3 | Regression | 584.537 | 1 | 584.537 | 102.977 | 0.000 ^b |
| | Residual | 1504.244 | 265 | 5.676 | | |
| | Total | 2088.781 | 266 | | | |

a. Dependent Variable: Foreign Direct Investment

b. Predictors: (Constant), Value Added Tax Incentives

Coefficients for regression between Value Added Tax Incentives and FDI

To test the significance of regression relationship between value added tax incentives and foreign direct investment, the regression coefficients (β), the intercept (α), and the significance of all coefficients in the model were subjected to the t-test to test the null hypothesis that the coefficient is zero. The null hypothesis state that, β (beta) = 0, meaning there is no significant effect of Value Added Tax incentives on Foreign Direct Investment in Listed Nigerian Manufacturing Companies as the slope β (beta) = 0 (no relationship between the two variables).

The results on the beta coefficient of the resulting model in Table 4.39 shows that the constant $\alpha = 5.543$ is significantly different from 0, since the p- value = 0.000 is less than 0.05. The coefficient $\beta = 0.476$ is also significantly different from 0 with a p-value=0.000 which is less than 0.05. The t value for constant is 9.925, while the t value for value added tax incentives is 10.148, which indicate they are significant. This implies that the null hypothesis $\beta_1=0$ is rejected and the alternative hypothesis $\beta_1\neq 0$ is accepted indicating that the model $Y=5.543+ 0.476$ (value added tax incentives) is significantly fit. The vat rate of 5% in Nigeria is significant to the flow of FDI into the Nigerian listed manufacturing companies. This confirms that there is a significant effect of value added tax incentives on foreign direct investment. I Furthermore the beta value of 0.476 implies that a unit change in capital allowance incentives will lead to 0.476 units change in the volume of FDI.

This supports the findings of Mintz (2004) that many developing countries with high levels of investments have attractive VAT regimes with low rates. Narayana (2005) emphasized in his study that the experiences of many developing countries have shown that if properly designed and implemented the VAT may prove a better resources mobilizer than the present sales tax systems. Owolabi and Okwu (2011) reviewed the relevance of VAT and observe that there is a growing recognition among developing countries of the crucial role of value added tax as an instrument of economic development. The introduction of VAT in the Nigeria economy with a very low vat rate and other vat incentives has contributed significantly to increase economic growth, FDI and increased standard of living. In the research work of Onyeiwu and Shrestha (2005) on Tax incentives and FDI, the result showed that VAT does not significantly influence the flow of FDI.

Table 4.39: Coefficients for regression between Value Added Tax Incentives and FDI.

| Model | Unstandardized | | Standardized | t | Sig. |
|-------------------------------------|----------------|-----------|--------------|--------|-------|
| | Coefficients | | Coefficients | | |
| | B | Std.Error | Beta | | |
| (Constant) | 5.543 | 0.559 | | 9.925 | 0.000 |
| 3 Value Added Tax Incentives | 0.476 | 0.047 | 0.529 | 10.148 | 0.000 |

a. Dependent Variable: FOREIGN DIRECT INVESTMENT

4.8.4 The effect of Capital Gains Tax Incentives on FDI in listed Nigerian Manufacturing Companies.

An evaluation of the effect of capital gains tax incentives on FDI in listed Nigerian manufacturing companies was carried out with the use of regression analysis.

Model Summary for Regression Analysis between Capital Gains Tax Incentives and FDI

In the results of the regression conducted as shown in Table 4.40, $R = 0.567$ which indicates a strong positive relationship capital gains tax incentives and foreign direct investment. While $R^2 = 0.322$, this implies that 32.2% of the variation in foreign direct investment can be explained by capital gains tax incentives. The remaining 67.8% can be explained by other independent variables.

Table 4.40: Model Summary for Regression Analysis between Capital Gains Tax Incentives and FDI

| Model | R | R- Square |
|--------------|----------|------------------|
| 4 | 0.567 | 0.322 |

a. Predictors: (Constant), Capital Gains Tax Incentive

ANOVA Results for Capital Gain Tax Incentives and FDI

Hypothesis 4

H₀₄: There is no significant effect of capital gains tax incentives on FDI in listed Nigerian manufacturing companies.

The results of ANOVA test in Table 4.41 show that the F value = 125.672 with significance of 0.000 which is less than 0.05 meaning that null hypothesis is rejected, then the alternative hypothesis is accepted and conclude that there is a significant effect of Capital gains Tax incentives on Foreign Direct Investment in Listed Nigerian Manufacturing Companies. In the study conducted by Barthel, et al. (2010), it was discovered that economic reforms of low and middle-income countries that opened up to foreign investors may explain both the capital gain tax incentives and the rise in FDI. Their findings indicated that there is a strong positive relationship between capital gains tax incentives and FDI. Whereas Coupe, Orlova and Skiba (2008) find no significant effect of capital gains tax on FDI.

Table 4.41: ANOVA Results for Capital Gains Tax Incentives and FDI

| Model | Sum of Squares | Df | Mean Square | F | Sig. |
|-------------------|----------------|-----|-------------|---------|--------------------|
| Regression | 671.922 | 1 | 671.922 | 125.672 | 0.000 ^b |
| 4 Residual | 1416.859 | 265 | 5.347 | | |
| Total | 2088.781 | 266 | | | |

a. Dependent Variable: Foreign Direct Investment

b. Predictors: (Constant), Capital Gains Tax Incentives

Coefficients for regression between Capital Gains Tax Incentives and FDI.

To test the significance of regression relationship between capital gains tax incentives and foreign direct investment, the regression coefficients (β), the intercept (α), and the significance of all coefficients in the model were subjected to the t-test to test the null hypothesis that the coefficient is zero. The null hypothesis states that, β (beta) = 0, meaning there is no significant effect of Capital gains Tax incentives on FDI in Listed Nigerian Manufacturing Companies as the slope β (beta) = 0 (no relationship between the two variables).

The results on the beta coefficient of the resulting model in Table 4.42 show that the constant $\alpha = 5.235$ is significantly different from 0, since the p- value = 0.000 is less than 0.05. The coefficient $\beta = 0.500$ is also significantly different from 0 with a p-value=0.000 which is less than 0.05. The t value for constant is 9.791, while the t value for capital gains tax incentives is 11.210, which indicate they are significant. This implies that the null hypothesis $\beta_1=0$ is rejected and the alternative hypothesis $\beta_1 \neq 0$ is accepted indicating that the model $Y=5.235+ 0.500$ (capital gains tax incentives) is significantly fit. This is a confirmation that there is a positive linear relationship between capital gains tax incentives and foreign direct investment. Moreover, the beta value of 0.500 implies that a unit change in capital gains tax incentives will lead to 0.500 units change in the volume of FDI. The result agrees with the findings of Barthel, Busse, krever & Neumeyer, (2010) that capital gains tax

has constituted to a rise in FDI. Whereas Coupe, Orlova and Skiba (2008) find no significant relationship between Capital gains tax and Foreign Direct Investment.

Table 4.42: Coefficients for regression between Capital Gains Tax Incentives and FDI

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------------------------|-----------------------------|------------|---------------------------|--------|-------|
| | | B | Std. Error | Beta | | |
| | (Constant) | 5.235 | 0.535 | | 9.791 | 0.000 |
| 4 | Capital gains Tax Incentives | 0.500 | 0.045 | 0.567 | 11.210 | 0.000 |

a. Dependent Variable: Foreign Direct Investment

4.8.5 The effect of Double Taxation Treaty Incentives on FDI in listed Nigerian Manufacturing Companies.

The effect of double taxation treaty incentives on FDI in listed Nigerian Manufacturing Companies was examined with the regression analysis.

Model Summary for Regression Analysis between Double Taxation Treaty Incentives and FDI in listed Nigerian manufacturing companies.

In the regression analysis conducted to determine the effect of Double Taxation Treaty Incentives on Foreign Direct Investment in listed Nigerian Manufacturing Companies, $R = 0.557$ as shown in Table 4.43 , indicates a strong positive relationship double taxation treaty incentives and foreign direct investment . While $R^2 = 0.310$, this means that 31.0% of the variation in foreign direct investment is explained by double taxation treaty incentives. The remaining 69.0% is explained by other variables.

Table 4.43: Model Summary for Regression Analysis between Double Taxation Treaty Incentives and Foreign Direct Investment

| Model | R | R Square |
|--------------|--------------------|-----------------|
| 5 | 0.557 ^a | 0.310 |

a. Predictors: (Constant), Double Taxation Treaty incentives

ANOVA results for Double Taxation Treaty incentives and FDI

Hypothesis 5

H₀₅: There is no significant effect of double taxation treaty incentives on FDI in listed Nigerian manufacturing companies.

F-test was carried out to test the null hypothesis that there is no significant effect of double taxation treaty incentives on FDI in listed Nigerian manufacturing companies. The ANOVA for the linear model presented in Table 4.44 of double taxation treaty incentives and foreign direct investment has a F value = 118.888 which is significant with p-value = 0.000 < 0.05 meaning that the overall model is significant in the prediction of foreign direct investment in Nigerian listed manufacturing companies. We therefore reject the null hypothesis that there is no significant effect of double taxation treaty incentives on the foreign direct Investment in Listed Nigerian Manufacturing Companies.

While H₁ is therefore accepted that there is significant effect of double taxation treaty incentives on the foreign direct Investment in Listed Nigerian Manufacturing Companies. Nigeria's Double Tax Treaty network, offers significant incentives to Foreign Investors (Ifueko, 2009). This supports the view that there is a significant effect of double taxation treaty incentives on foreign direct investment in Nigerian listed manufacturing companies.

Table 4.44: ANOVA Results for Double Taxation Treaty Incentives and FDI

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|----------|------------|----------------|-----|-------------|---------|--------------------|
| | Regression | 646.885 | 1 | 646.885 | 118.888 | 0.000 ^b |
| 5 | Residual | 1441.896 | 265 | 5.441 | | |
| | Total | 2088.781 | 266 | | | |

a. Dependent Variable: FOREIGN DIRECT INVESTMENT

Predictors: (Constant), DOUBLE TAXATION TREATY INCENTIVES

Coefficients for regression between Double Taxation Treaty Incentives and FDI

The test for the significance of regression relationship between double taxation treaty incentives and foreign direct investment, the regression coefficients (β), the intercept (α), and the significance of all coefficients in the model were subjected to the t-test to test the null hypothesis that the coefficient is zero. The null hypothesis state that, β (beta) = 0, meaning there is no significant effect of double taxation treaty incentives on the foreign direct investment in Listed Nigerian Manufacturing Companies as the slope β (beta) = 0 (no relationship between the two variables). From Table 4.45 there is a positive beta co-efficient of 0.456 as indicated by the co-efficient matrix with a p-value = 0.000 < 0.05 and a constant of 4.620 with a p-value = 0.000 < 0.05.

Therefore, both the constant and double taxation treaty incentives contribute significantly to the model. The t value for double taxation treaty incentives is 10.904 while the constant is 7.654, which indicate they are significant. The H_0 is rejected while H_1 is accepted, which imply that there is a significant effect of Double taxation treaty incentives on the foreign direct investment in Listed Nigerian Manufacturing Companies. The double taxation treaties signed in Nigeria attract FDI into the Nigerian Listed manufacturing companies. In addition, the beta value of 0.456 implies that a unit change in capital gains tax incentives will lead to 0.456 units change in the volume of FDI.

The study agrees with the findings by Egger *et al.*(2006) that one major purpose of Double Tax Treaty is thus the encouragement of FDI. Desbordes and Vicard (2006) confirmed that the quality of diplomatic relations among countries strongly influence the location choice of multinational enterprises. The various countries are able to arrive at some useful terms which will encourage flow of FDI. Easson, (2000) argued DTT leads to a loss of tax revenue in developing countries and entails greater costs to the parties involved apart from the benefits. He disagreed in his study that double taxation is not significantly related to the FDI.

Table 4.45: Coefficients for regression between Double Taxation Treaty

Incentives and FDI

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|----------|----------------------------------|-----------------------------|------------|---------------------------|--------|-------|
| | | B | Std. Error | Beta | | |
| | (Constant) | 4.620 | 0.604 | | 7.654 | 0.000 |
| 5 | Double taxation Treaty Incentive | 0.456 | 0.042 | 0.557 | 10.904 | 0.000 |

a. Dependent Variable: FOREIGN DIRECT INVESTMENT

4.8.6 Multiple Linear Regressions for Tax Incentives and FDI.

The general objective of this study established the effect of tax incentives on FDI in listed Nigerian manufacturing companies. The effect of the tax incentives on FDI and the statistical significance of the variables were established with multiple linear regression analysis .Results of the regression analysis are presented below.

Model Summary on Company Income Tax Incentives, Capital Allowance Incentives, Value Added Tax Incentives, Capital Gains Tax Incentives, Double Taxation Treaty Incentives and FDI

According to Table 4.46, R= 0.985, this indicates that there is a strong relationship between the tax incentives and FDI. While R - square = 0.971, this indicates that 97.1% variation in foreign direct investment is explained by all the combined tax incentives (independent variables) while the remaining 2.9% is explained by other factors.

Table 4.46: Model Summary on Company Income Tax Incentives, Capital Allowance Incentives, Value Added Tax Incentives, Capital Gains Tax Incentives, Double Taxation Treaty Incentives and FDI

| Model | R | Square |
|--------------|----------|---------------|
| 6 | 0.985 | 0.971 |

a.Predictors: Company Income Tax Incentives, Capital Allowance Incentives, Value Added Tax Incentives, Capital Gains Tax Incentives, Double Taxation Treaty Incentives

b Dependent: Foreign Direct Investment

ANOVA Results for Company Income Tax Incentives, Capital Allowance Incentives, Value Added Tax Incentives, Capital Gains Tax Incentives, Double Taxation Treaty Incentives and FDI

The ANOVA test in Table 4.47 indicates that the significance of the F-statistic 0.000 is less than 0.05, implying that null hypothesis is rejected and alternative hypothesis accepted. It is concluded that there is a significant effect of all the five incentives on FDI.

Table 4.47: ANOVA Results for Company Income Tax Incentives, Capital Allowance Incentives, Value Added Tax Incentives, Capital Gains Tax Incentives, Double Taxation Treaty Incentives and FDI

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|-------|------------|----------------|-----|-------------|----------|-------|
| 6 | Regression | 33476.974 | 5 | 6695.395 | 1749.515 | 0.000 |
| | Residual | 1002.617 | 262 | 3.827 | | |
| | Total | 34479.591 | 267 | | | |

a. Dependent Variable: Foreign Direct Investment

b. Predictors: Company Income Tax Incentives, Capital Allowance Incentives, Value Added Tax Incentives, Capital Gains Tax Incentives and Double Taxation Treaty Incentives.

Overall Regression Model Coefficients

The beta coefficients were subjected to further test and the resulting model in Table 4.48 shows that all the tax incentives have significant positive effect on FDI. While the p-values for all the variables are lower than 0.05. In the estimated model, capital allowance is highly significant at 5% level in explaining FDI. The results indicate that capital allowance has the highest beta coefficient of 0.213. The beta value of 0.213 implies that a unit change in capital allowance incentives will lead to 0.213 units change in the volume of FDI. However value added tax has the lowest coefficient of 0.145. The beta value of 0.145 implies that a unit change in value added tax incentives will lead to 0.145 units change in the volume of FDI. The capital allowance incentive has the highest t test of 4.656 and the lowest is company income tax. All the hypothesis were accepted since their t calculated for all the variables are more than 2.954 obtained at 5% degree of freedom significant level.

Table 4.48 reports the summary of the five variables. The results in Table 4.46 show correlation (R) of 0.985 which indicates that there is a strong positive relationship between the tax incentives and the FDI. The R square is 0.971 as shown in Table 4.46 indicates that 97.1% variation in FDI is explained by changes in the five tax incentives while the remaining 2.9% is explained by other factors. The ANOVA test in Table 4.47 indicates that the F value is 1749.515 with a significance of 0.000 which is less than 0.05, implying that null hypothesis is rejected and alternative

hypothesis accepted. It is concluded that there is a significant effect of all the five incentives and FDI.

From the study the p-values are 0.003, 0.000, 0.003, 0.003 and 0.000 for company income tax, capital allowance, value added tax, capital gains tax, and double taxation treaty incentives respectively. The capital allowance incentive has the highest t value of 4.656, followed by double taxation treaty incentives with 3.939, next is capital gains tax incentives with 2.984, followed by value added tax incentives with 2.956 while the lowest is the company income tax incentives with 2.954. They are all significant at less than 0.05%. The capital allowance incentives has the highest effect on FDI while the company income tax has the lowest effect on FDI in Nigerian listed manufacturing companies. It is also evident that all the five null hypotheses are rejected while all the alternative hypotheses are accepted. Therefore, there are significant effect of all the five tax incentives on FDI in Nigerian listed Manufacturing Companies.

Table 4.48: Overall Regression Model Coefficients

| Model | Unstandardized Coefficients | | Standardize | t | Sig. |
|-----------------------------------|-----------------------------|------------|-------------|--------|-------|
| | B | Std. Error | Beta | | |
| Company Income tax incentives | 0.176 | 0.060 | 0.197 | 2.954 | 0.003 |
| Capital Allowance Incentives | 0.213 | 0.046 | 0.265 | 4.656 | 0.000 |
| 6 Value Added Tax Incentives | 0.145 | 0.049 | 0.152 | .2.956 | 0.003 |
| Capital Gains Tax Incentives | 0.154 | 0.052 | 0.162 | 2.984 | 0.003 |
| Double Taxation Treaty Incentives | 0.174 | 0.044 | 0.221 | 3.939 | 0.000 |

A. Dependent Variable: Foreign Direct Investment.

B. Linear Regression through the Origin

4.9 Moderating Effect Testing

According to Judd, Kenny and McClelland (2001) moderation implies an interaction effect, where introducing a moderating variable changes the direction or magnitude of the relationship between two variables. In a linear causal relationship in which the variable X is presumed to cause the variable Y, a moderator variable Z is a variable that alters the strength of the causal relationship. A moderation effect could be (a) Enhancing, where increasing the moderator would increase the effect of the predictor on the outcome ;(b) Buffering, where increasing the moderator would decrease the effect of the predictor on the outcome; or (c) Antagonistic, where increasing the moderator would reverse the effect of the predictor on the outcome. Test for moderation looks at the interaction effect between X and Z and whether or not such an effect is significant in predicting Y. In this study, the non-tax incentives are the moderators.

Model Summary on Tax Incentives moderated by Non – Tax Incentives

In Table 4.49 , the R^2 for the overall model without the moderator is 0.971 while the R^2 with the moderator is 0.980, there is an increase in the R^2 with the introduction of the moderator (non –tax incentives), this implies that there is an enhancement in the moderation because introducing the non- tax incentives has increased the effect of the tax incentives on foreign direct investment. 98% of the corresponding change in foreign direct investment can be explained by the tax incentives and non –tax incentives. There is an increase of 9% in the explanatory variables with the moderator.

The value for R with the moderator is 0.990, which implies there is a strong positive relationship between the FDI and tax incentives with non-tax incentives which has further improved the outcome.

Table 4.49: Model Summary on Tax Incentives moderated by Non – tax Incentives

| Model | | Without Moderator | With Moderator | Moderation |
|--------------|-----------|--------------------------|-----------------------|---------------------|
| 7 | R- Square | 0.971 | 0.980 | Positive(Enhancing) |

a. Predictors: Company income tax incentives, Capital allowance incentives, Value added tax incentives, Capital gains tax incentives, Double taxation treaty incentives and the non – tax incentives

b. Dependent Variable: Foreign direct investment.

ANOVA Results for company income tax incentives, Capital allowance incentives, Value added tax incentives, Capital gains tax incentives, Double taxation treaty incentives , Non – tax incentives and Foreign direct investment.

The ANOVA test in Table 4.50 indicates that the significance of the F- Statistic 0.000 is less than 0.05, implying that null hypothesis is rejected and alternative hypothesis accepted. It is concluded that there is a significant effect of all the five tax incentives, non-tax incentives on foreign direct investment.

Table 4.50 : ANOVA Results for Company income tax incentives, Capital allowance incentives, Value added tax incentives, Capital gains tax incentives, Double taxation treaty incentives , Non – tax incentives and Foreign direct investment.

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|--------------|------------|-----------------------|-----------|--------------------|----------|-------------|
| | Regression | 33789.998 | 6 | 5631.666 | 2131.592 | 0.000 |
| 7 | Residual | 689.593 | 261 | 2.642 | | |
| | Total | 34479.591 | 267 | | | |

a. Dependent Variable : Foreign direct investment

b. Predictors: Company income tax incentives, Capital allowance incentives, Value added tax incentives, Capital gains tax incentives, Double taxation treaty incentives and Non – tax incentives

Overall Regression Model Coefficients

The resulting model of the beta coefficients in table 4.51 shows that company income tax incentives , capital allowance incentives , value added tax incentives , capital gains tax incentives, double taxation treaty incentives and non – tax incentives have significant positive effect on FDI. The p- values for all the variables are lower than 0.05. The results indicate that capital allowance has the highest beta coefficient of 0.231. This means 23% change in FDI will lead to a unit increase in capital allowance incentives. This is followed by double taxation treaty with a beta coefficient of 0.200. However, non –tax incentives has the lowest and negative coefficient of -0.082, the relationship is inverse meaning when one is going up the other will be going down. This means 8.2 % increase in FDI will lead to a unit reduction in non –tax incentives.

The capital allowance incentive has the highest t test of 5.045, followed by double taxation treaty incentives with 4.456, next is company income tax incentives with

3.290, capital gains tax with 3.145, value added tax incentives has 3.013 while the non –tax incentives has the lowest t calculated of -2.538 and the t calculated for all the other variables are more than 2.0 obtained at 5% degree of freedom significant level . They are all significant and the capital allowance incentive has the highest influence or effect on FDI while non –tax incentive has the lowest effect on FDI in Nigerian listed manufacturing companies .From the study the p-values are 0.001, 0.000, 0.003, 0.002, 0.000 and .012 for company income tax, capital allowance, value added tax, capital gains tax, double taxation treaty incentives and non–tax incentives respectively. The p-values for all the variables are lower than 0.05. Therefore it is evident that all the null hypotheses are rejected while the alternative hypotheses are accepted. Therefore , there are significant effect of the five tax incentives, non –tax incentives on FDI in Nigerian listed manufacturing companies.

Table 4. 51: Overall Regression Model Coefficients

| Model | | Unstandardized Coefficients B | Std. Error | Standardized Coefficients Beta | t | Sig. |
|-------|-----------------------------------|-------------------------------|------------|--------------------------------|--------|-------|
| 7 | Company Income tax incentives | 0.196 | 0.060 | 0.219 | 3.290 | 0.001 |
| | Capital Allowance Incentives | 0.231 | 0.046 | 0.288 | 5.045 | 0.000 |
| | Value Added Tax Incentives | 0.146 | 0.049 | 0.153 | 3.013 | 0.003 |
| | Capital Gains Tax Incentives | 0.161 | 0.051 | 0.170 | 3.145 | 0.002 |
| | Double Taxation Treaty Incentives | 0.200 | 0.045 | 0.254 | 4.456 | 0.000 |
| | Non– tax Incentives | -0.082 | 0.032 | -0.090 | -2.538 | 0.012 |

A. Dependent Variable: FOREIGN DIRECT INVESTMENT.

b. Linear Regression through the Origin.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The general objective of this study was to establish the effect of tax incentives on FDI in listed Nigerian manufacturing companies. Specifically, the study sought to find out if company income tax incentives, capital allowances incentives, value added tax (VAT) incentives, capital gains tax incentives, capital gains tax incentives and double taxation treaty incentives influence FDI in listed Nigerian manufacturing companies. This chapter presents the summary of research findings on response rate, the general background information, the statistical analysis of specific objectives /research hypotheses. The conclusions and recommendations relating to specific objectives as well as suggestions for further research were highlighted.

5.2 Summary of Findings

The study was based on the view that there is significant relationship between tax incentives and the Foreign Direct Investment in listed Nigerian manufacturing companies. The theoretical and empirical literature on foreign direct investment and tax incentives were reviewed. A detailed conceptual framework of the relationship between tax incentives and foreign direct investment was formulated. This hypothesized relationship was tested by the specific objectives. Based on the conceptual framework and objectives of the study, a questionnaire was prepared and tested for validity and reliability using Cronbach's Co-efficient alpha α , through a pilot study.

The questionnaire was used to collect the primary data from a sample size of 352 employees selected through stratified purposive sampling in thirty two (32) companies and grouped respondents into three strata in each company. A response rate of 76% representing 267 respondents was recorded out of the 352 questionnaires

administered. The independent variables were tested for multicollinearity and the results findings showed that there was no multicollinearity among the independent variables. Normality test was carried out on the FDI using One-Sample Kolmogorov-Smirnov test and the results indicated that the data was normally distributed. Also autocorrelation and homoscedastic tests were conducted on the FDI.

The linearity test was done with the use of correlation to check the existence of linear regression relationship and inferential statistical analysis was conducted for every variable. Descriptive and inferential statistics were conducted. The inferential statistics comprised of correlation, regression and anova. The moderating effect testing was conducted with the non-tax incentives as the moderators. The total foreign shareholdings across ten years were analysed using time series. There was an increase in the total foreign shareholdings in Nigerian listed manufacturing companies.

Firstly , the study examined the effect company income tax incentives on FDI in listed Nigeria manufacturing companies. There was a positive significant linear relationship between company income tax incentives and FDI. The significance of all coefficients in the model was subjected to the t-test and the null hypothesis was tested. The company income tax has significant effect on FDI in Nigerian manufacturing companies. The findings led to the rejection of null hypothesis and accepted the alternative hypothesis that company income tax incentives influence FDI in listed Nigerian manufacturing companies.

The second objective established the effect of capital allowances incentives on FDI in listed Nigeria manufacturing companies. The results of correlation showed that there was a positive significant linear relationship between capital allowances incentives and FDI. The 36.5% of corresponding variation in FDI can be explained by capital allowance incentives. While the rest 63.5% can be explained by other variables. The null hypothesis was rejected while the alternative hypothesis accepted. The significance of regression relationship between capital allowance incentives and FDI was tested. The results showed that that there is a significant effect of capital allowance incentives on FDI in listed Nigerian manufacturing companies.

.Thirdly, the study determined the effect of value added tax incentives on FDI in listed Nigerian manufacturing companies. The results of correlation showed that there was a positive significant linear relationship between value added tax incentives and FDI. The result of R^2 indicates that 28.0% of variation in the FDI can be explained by value added tax incentives. While the remaining percentage of 72.0% is explained by other variables. The H_0 was rejected while H_1 accepted. The result of the significance of regression show that that value added tax incentives influence FDI in listed Nigerian manufacturing companies.

Fourthly, the effect of capital gains tax incentives on FDI in listed Nigerian manufacturing companies was evaluated. Capital gains tax incentives were found to influence FDI. The results of correlation showed that there was a positive significant linear relationship between capital gains tax incentives and FDI. The R square implies that 32.2% of the variation in foreign direct investment can be explained by capital gains tax incentives. The remaining 67.8% can be explained by other variables. The H_0 was rejected while H_1 accepted and the significance of regression was tested. The results indicate that capital gains tax incentives influence FDI in listed Nigerian manufacturing companies.

The fifth objective sought to examine the effect of double taxation treaty incentives on FDI in listed Nigerian manufacturing companies. The results of correlation showed that there was a positive significant linear relationship between double taxation treaty incentives and FDI. The R square means that 31.0% of the variation in FDI is explained by double taxation treaty incentives while the remaining 69.0% is explained by other variables. The null hypothesis was rejected while the alternative accepted. The significance of the regression was tested. The findings indicate that double taxation treaty incentives influence FDI in listed Nigerian manufacturing companies.

Lastly the effect of non – tax incentives on FDI in listed Nigerian manufacturing companies was determined. There is an enhancement of 9% in the explanatory variable. The result of the Anova indicate that null hypothesis was rejected and the

alternative hypothesis accepted. The result of the regression indicate that there is a significant effect of non –tax incentives on listed Nigerian manufacturing companies.

5.3 Conclusion

Tax incentives have been adopted by governments as a policy tool for accelerating investment in specific economic sectors and shaping the investment environment of the country. Some of the efforts of the government to create a conducive environment for foreign direct investment in Nigeria are such that Nigerian companies with a minimum of 25% foreign equity and within their first four years of operation are exempt from payment of minimum tax, . In addition, loans granted to Nigerian companies may be exempt from tax where the required conditions are met, tax holidays are granted to a company as a tax –free status for a certain period.

Investment allowances encourage a long-term planning and enhance approach towards investment. The initial investment allowance on plant and machinery implies that effective corporation tax rates would be considerably lower than nominal rates in the early stage of a project and companies can retain more of their income and cash flow for future investment . Many developing countries with high levels of investments have attractive VAT regimes with low rates. The VAT rate of 5% in Nigeria is the lowest among the African countries. VAT exemptions are provided under the value added tax act no. 102 of 1993 for supplies of locally produced agriculture and veterinary medicine, transportation equipment and farming machinery and basic food items. In addition, there are imports and exports duty exemptions and reductions are available for several items.

The capital gain or loss is not due until the asset is finally disposed of and can be avoided if the asset is held until death or donated to charity. The results of the study on double taxation treaty incentives found that Nigeria has resorted to bilateral treaties to signal its commitment to correct practices, stable and favourable treatment to foreign investors. Double taxation treaties prevent discriminatory treatment against foreign investors and include guarantees of compensation for

expropriated property or funds, and repatriation and free transfer of capital and profits.

Based on the empirical evidences and results of the analysis, there is positive and statistically significant relationship between the tax incentives and FDI. This implies foreign investors can maximize their investment by taking advantages of the available tax incentives allowed by the government to create an enabling investment environment.

5.4 Recommendations of the Study

Governments should provide better company income tax exemptions but there are needs to conduct a cost benefit analysis for tax incentives available in the economy. The benefits accrued in terms of increase in level of investments should exceed revenue forgone by the government through tax exemptions. The government should ensure security and political stability and the infrastructure should be improved.

Investment allowances encourage a long – term planning and enhance approach towards investment. The tax authority should introduce a policy of carrying over investment allowance that is not utilised in the current year to the subsequent year as an advantage to the investors to reduce their tax liability. Investment allowance may be used by Nigeria as signals of locations for foreign investment and companies should be encouraged to invest more with the availability of investment incentives on their assets.

Government and policy makers should concentrate on efforts at ensuring that more VAT incentives and strategies are introduced to improve the flow of FDI into the manufacturing companies. Policies that will generate employment and increase investment should be pursued. The Federal Board of Inland Revenue (FBIR) as the regulatory authority of VAT should analyse the effect of VAT on investment.

The investors should be encouraged to make use of the roll over tax relief under capital gains tax by replacing their old machines with the modern machine to improve their efficiencies. The essence of the roll over tax relief is to differ the

payment of capital gain tax to future date. The capital gain or loss is not due until the asset is finally disposed off.

Double taxation treaties should be pursued vigorously to increase the flow of FDI into the listed Nigerian manufacturing companies. Many bilateral investment treaties have been negotiated by Nigerian Government, but only few have so far been ratified. Therefore a more comprehensive network of BITs should be negotiated and ratified. Generally, double taxation treaties constitute a form of protection for foreign investors against unjust treatment which will induce foreign investments.

5.5 Areas for further Research

This study assessed the effect of tax incentives on FDI in listed manufacturing companies. The findings provide evidence that the various tax incentives influence FDI. The variables were restricted to company income tax incentives, capital allowance incentives, value added tax incentives, capital gains tax incentives and double taxation treaty incentives. The study could be extended in details to the other non- tax incentives that can attract FDI in listed Nigerian manufacturing companies. Other factors such as availability of natural resources, macro - economic stability, market size, openness to trade are critical to national development. Empirical review of past studies indicates that the effect of tax and non –tax incentives in listed Nigerian manufacturing companies have not been well established. The findings of this study have contributed to addressing this gap and adding to the existing stock of knowledge in the literature of tax incentives and FDI in listed Nigerian manufacturing companies.

Further research is therefore recommended on the influence of other unexplored non-tax incentives in listed Nigerian manufacturing companies that have not been addressed in this study. A weak manufacturing sector may affect the investors, consumers and government negatively through poor performance. With the recent fall in world crude oil price which has adversely affected Nigerian economy, it is important to attract adequate FDI for the development of a vibrant manufacturing sector to generate employment and for national development. Such clarification

would provide additional valuable guidance to FDI inflows and other determinants in the listed Nigerian manufacturing companies in Nigeria

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APPENDICES

Appendix I: Introduction letter

Date.....

Chief Executive Officer

P.O Box

Nigeria

Dear Sir,

RE: ACADEMIC RESEARCH PROJECT

I am a PhD student at Jomo Kenyatta University of Agriculture and Technology (JKUAT). I wish to conduct a research entitled “*Tax incentives and foreign direct investment (FDI) in listed Nigerian Manufacturing Companies*”. A questionnaire has been designed and will be used to gather relevant information to address the research objectives of the study. The purpose of writing to you is to kindly request you to grant me permission to correct information on this important subject from randomly selected members of staff.

Please note that the study will be conducted as an academic research and the information provided will be treated in strict confidence. Strict ethical principles will be observed to ensure confidentiality and the study outcomes and reports will not include reference to any individuals.

Your acceptance will be highly appreciated.

Yours Sincerely

OLALEYE MICHAEL OLUGBENGA

HD 439-1546/2013

Appendix II: Questionnaire

This questionnaire has statements regarding tax incentives and foreign direct investment (FDI) in listed Nigerian manufacturing companies. Kindly take few minutes to complete the questionnaire as guided. Your responses will be handled confidentially and ethically.

Thank you for agreeing to participate in this academic study.

SECTION A: GENERAL /DEMOGRAPHIC DATA

1. Kindly indicate your gender
 - a) Male
 - b) Female

2. Please indicate the highest level of education you have ever attained
 - a) Secondary level
 - b) Polytechnic / College level
 - c) University level
 - d) Post graduate level

3. How many years have you worked in the manufacturing sector?
 - a) Less than 2 years
 - b) 3 to 5 years
 - c) Over 5 years

4. Kindly indicate your position in the company
 - a) Top level management staff

b) Middle Level management staff

c) Lower level management staff

5. Age of the Company

a) Less than 10years

b) More than 10years

Section B: Company Income Tax Incentives and Foreign Direct Investment

This section aims at examining the effect of company income tax incentives on Foreign Direct Investment in listed Nigerian Manufacturing Companies. Please tick the response that best suits your view.

| No | Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|----|---|-------------------|----------|---------|-------|----------------|
| | | 1 | 2 | 3 | 4 | 5 |
| 1 | Company income tax is effective in attracting FDI in listed Nigerian manufacturing companies. | | | | | |
| 2 | Tax free dividends encourage free flow of FDI to the manufacturing companies | | | | | |
| 3 | Exemption from minimum tax increases FDI inflows | | | | | |
| 4 | Loss carried forward relief is an | | | | | |

| No | Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|----|--|-------------------|----------|---------|-------|----------------|
| | | 1 | 2 | 3 | 4 | 5 |
| | important incentive in attracting FDI in manufacturing companies | | | | | |
| 5 | Tax holidays encourage inflow of FDI | | | | | |

6. Has your company enjoyed tax holidays?

Yes

No

Section C: Capital Allowances and Foreign Direct Investment

This section aims at establishing the effect of capital allowances incentives on the Foreign Direct Investment in listed Nigerian Manufacturing Companies. Please tick the response that best suits your view.

| No | Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|----|---|-------------------|----------|---------|-------|----------------|
| | | 1 | 2 | 3 | 4 | 5 |
| 1 | Initial and annual allowances are important incentives in attracting FDI | | | | | |
| 2 | Investment allowance is a method used to encourage investment in listed Nigerian manufacturing Companies. | | | | | |
| 3 | Rural investment allowance encourages in flow of FDI in listed Nigeria manufacturing companies. | | | | | |
| 4 | Foreign entities are satisfied with the present | | | | | |

| No | Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|----|---|-------------------|----------|---------|-------|----------------|
| | | 1 | 2 | 3 | 4 | 5 |
| | level of investment allowance to attract foreign direct investment. | | | | | |
| 5. | Investment allowance supports expansion in existing listed Nigerian manufacturing companies. | | | | | |
| 6 | Capital allowance incentives are effective incentives used to attract FDI in listed Nigerian manufacturing companies. | | | | | |

7. Does your company claim the total capital allowance to reduce its taxable profit?

Yes

No

If Yes or No, explain.....

Section D: VAT Incentives and Foreign Direct Investment

This section aims at determining the effect of VAT Incentives on Foreign Direct Investment in listed Nigerian Manufacturing Companies. Please tick the response that best suits your view.

| No | Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|----|---|-------------------|----------|---------|-------|----------------|
| | | 1 | 2 | 3 | 4 | 5 |
| 1 | The VAT rate is appropriate in attracting FDI in listed Nigerian manufacturing companies. | | | | | |

| No | Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|----|--|-------------------|----------|---------|-------|----------------|
| | | 1 | 2 | 3 | 4 | 5 |
| 2 | Foreign investors are encouraged to invest on goods and services exempted from VAT. | | | | | |
| 3 | Manufacturing Companies comply with the rules guiding VAT | | | | | |
| 4 | Manufacturing companies prefer to produce or sell zero rated goods and services | | | | | |
| 5 | VAT incentives are effective incentive that attracts FDI into listed Nigerian manufacturing companies. | | | | | |

6. Does your company produce or sell zero rated goods and services.

Yes No

If Yes or No, explain

7. Are the company's goods and services exempted from VAT

Yes No

If Yes or No, explain

.....

Section E: Capital Gains Tax Incentives and Foreign Direct Investment

This section aims at evaluating effect of Capital Gains Tax Incentives on the Foreign Direct Investment in listed Nigerian Manufacturing Companies. Please tick the response that best suits your view.

| No | Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|----|---|-------------------|----------|---------|-------|----------------|
| | | 1 | 2 | 3 | 4 | 5 |
| 1 | Reduction in capital gains tax rate to 10% is effective in boosting foreign direct investment | | | | | |
| 2 | Capital gain tax incentives promote growth of FDI in listed Nigerian manufacturing companies. | | | | | |
| 3 | The main purpose of introduction of capital gains tax act is to boost the revenue base of the | | | | | |

| No | Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|----|--|-------------------|----------|---------|-------|----------------|
| | | 1 | 2 | 3 | 4 | 5 |
| | government | | | | | |
| 4 | Manufacturing companies comply with the payment of capital gains tax. | | | | | |
| 5 | Capital gains tax incentives are effective means of boosting foreign direct investment in listed Nigerian manufacturing companies. | | | | | |

6. Are the company's assets upon disposal exempted from capital gains tax?

Yes

No

If Yes or No, explain.....

Section F: Double Taxation Treaty Incentives and Level of Foreign Direct Investment

This section aims at determining the effect of Double Taxation Treaty Incentives on Foreign Direct Investment in listed Nigerian Manufacturing Companies. Please tick the response that best suits your view.

| No | Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|----|--|-------------------|----------|---------|-------|----------------|
| | | 1 | 2 | 3 | 4 | 5 |
| 1 | Bilateral treaties on various taxes have improved direct foreign investment in manufacturing sector. | | | | | |
| 2. | Foreign investors consider bilateral investment treaty as part of a good investment environment. | | | | | |
| 3. | Multilateral double taxation treaty is effective in encouraging FDI in listed Nigerian manufacturing companies | | | | | |
| 4 | Double tax treaty is a solid protection for foreign investors and improved the flow of | | | | | |

| No | Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|----|--|-------------------|----------|---------|-------|----------------|
| | | 1 | 2 | 3 | 4 | 5 |
| . | FDI in the listed Nigerian manufacturing companies | | | | | |
| 5 | Generally double taxation incentives are effective means of attracting FDI into the listed Nigerian manufacturing companies. | | | | | |

Section G: Non - tax incentives

This section aims at determining other non-tax incentives such as infrastructures, telecommunications and political stability which can attract Foreign Direct Investment in listed Nigerian Manufacturing Companies .Please tick the response that best suits your view.

| No | Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|----|---|-------------------|----------|---------|-------|----------------|
| | | 1 | 2 | 3 | 4 | 5 |
| 1 | The development of infrastructure can play a major role in the attraction of FDI in listed Nigerian manufacturing companies | | | | | |

| No | Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|----|---|-------------------|----------|---------|-------|----------------|
| | | 1 | 2 | 3 | 4 | 5 |
| 2 | Telecommunications contribute to the increase of FDI inflows into the listed Nigerian manufacturing companies. | | | | | |
| 3 | Political stability plays important role in attracting FDI in listed Nigerian manufacturing companies. | | | | | |
| 4 | Adequate provision of electricity will boost FDI in listed Nigerian manufacturing companies. | | | | | |
| 5 | Corruption and political instability have reduced the inflow of FDI in the listed Nigerian manufacturing companies. | | | | | |

Section G: Foreign Direct Investment

This section aims at determining the respondents view on foreign direct investment among the listed Nigerian Manufacturing Companies. Please tick the response that best suits your view.

| No | Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|----|--|-------------------|----------|---------|-------|----------------|
| | | 1 | 2 | 3 | 4 | 5 |
| 1. | The investment climate for foreign investors is very conducive in attracting equity participation in listed Nigerian manufacturing companies | | | | | |
| 2. | Companies do reinvest their earnings in manufacturing sector. | | | | | |
| 3 | Foreign participation in listed Nigerian manufacturing companies increases the flow of foreign assets. | | | | | |
| 4 | There is high prospect in the attraction of foreign direct investment into the listed Nigerian manufacturing companies. | | | | | |
| 5 | Most FDI inflows into Nigeria are in form of equity participation. | | | | | |

6. Which of the tax incentives is the most effective in attracting Foreign Direct Investment to the manufacturing Sector?

Initial and annual allowance

Loss carry forward relief

Rural Investment allowance

Exemption of VAT on goods and services

Company income tax

Double tax relief

Capital gains tax relief

Appendix III: Secondary data collection sheet

| Year | Foreign Shareholding/Capital | Company Income tax rates % | Investment allowance rates % | Vat Rates % | Capital Gains tax rates% | Double taxation rates % |
|------|------------------------------|----------------------------|------------------------------|-------------|--------------------------|-------------------------|
| 2005 | 18,469,022,578 | 0 | 10 | 5 | 10 | 3 |
| 2006 | 20,318,544,614 | 30 | 10 | 5 | 10 | 3 |
| 2007 | 19,912,249,891 | 30 | 10 | 5 | 10 | 3 |
| 2008 | 22,719,303,429 | 30 | 10 | 5 | 10 | 3 |
| 2009 | 25,208,370,853 | 30 | 10 | 5 | 10 | 3 |
| 2010 | 25,608,058,901 | 30 | 10 | 5 | 10 | 3 |
| 2011 | 27,131,524,37 | 30 | 10 | 5 | 10 | 3 |
| 2012 | 26,202,571,038 | 30 | 10 | 5 | 10 | 3 |
| 2013 | 27.131.524.380 | 30 | 10 | 5 | 10 | 3 |
| 2014 | 27,131,524,372 | 30 | 10 | 5 | 10 | 3 |

Appendix IV: Listed manufacturing companies in Nigeria

| COMPANY NAME | SECTOR |
|-----------------------------------|-------------------|
| 1. UP BOTTLING COMPANY PLC | CONSUMER GOODS |
| 2. ADSWITCH PLC. | INDUSTRIAL GOODS |
| 3. AFRICAN PAINTS(NIG) PLC | INDUSTRIAL GOODS |
| 4. AG LEVENTIS NIGERIA PLC | CONGLOMERATES |
| 5. ALUMINIUM EXTRUSION IND PLC | NATURAL RESOURCES |
| 6. ALUMACO PLC | NATURAL RESOURCES |
| 7. ASHAKA CEM PLC | INDUSTRIAL GOODS |
| 8. AUSTIN LAZ & COMPANY PLC | INDUSTRIAL GOODS |
| 9.AVON CROWNCAPS & CONTAINERS | INDUSTRIAL GOODS |
| 10.BERGER PAINTS PLC | INDUSTRIAL GOODS |
| 11.BETA GLASS CO PLC | INDUSTRIAL GOODS |
| 12.BIG TREAT PLC | CONSUMER GOODS |
| 13.B.O .C,GASES PLC | NATURAL RESOURCES |
| 14. CADBURY NIGERIA PLC | CONSUMER GOODS |
| 15.CAP PLC | INDUSTRIAL GOODS |
| 16.CEMENT CO OF NORTH NIG PLC | INDUSTRIAL GOODS |
| 17. CHAMPION BREW PLC | CONSUMER GOODS |
| 18.CHELLARAMS PLC | CONGLOMERATES |
| 19.CUTIX PLC | INDSTRIAL GOODS |
| 20. DANGOTE CEMENT | INDUSTRIAL GOODS |
| 21. DANGOTE FLOUR MILLS PLC | CONSUMER GOODS |
| 22. DANGOTE SUGAR REFINERY PLC | CONSUMER GOODS |
| 23. DN MEYER PLC | INDUSTRIAL GOODS |

| | |
|---------------------------------------|-------------------|
| 24. DN TYRE & RUBBER PLC | CONSUMER GOODS |
| 25.EKOCORP PLC | HEALTH CARE |
| 26.NIGERIAN ENAMELWARE PLC | CONSUMER GOODS |
| 27. EVANS MEDICAL PLC | HEALTH CARE |
| 28. FIDSON HEALTH CARE PLC | HEALTH CARE |
| 29. FIRST ALUMINIUM NIGERIA PLC | INDUSTRIAL GOODS |
| 30. FLOUR MILLS NIGERIA PLC | CONSUMER GOODS |
| 31. GLAXO SMITHKLINE | HEALTH CARE |
| CONSUMER | |
| 32. GOLDEN GUINEA BREW.PLC | CONSUMER GOODS |
| 33.GUINNESS NIG PLC | CONSUMER GOODS |
| 34. HONEY WELL FLOUR MILLS PLC | CONSUMER GOODS |
| 35.INTERNATIONALBREWERIES PLC | CONSUMER GOODS |
| 36.IPWA PLC | INDUSTRIAL GOODS |
| 37.JOHN HOLT PLC | CONGLOMERATES |
| 38.JOS INT. BREWERIES PLC | CONSUMER GOODS |
| 39.P.S.MANDRIDES & CO PLC | CONSUMER GOODS |
| 40. MAY & BAKER NIGERIA PLC | HEALTH CARE |
| 41. MCNICHOLS PLC | CONSUMER GOODS |
| 42. MORISON INDUSTRIES PLC | HEALTH CARE |
| 43.MULT- TREX INTEGRATED FOODS PLC | CONSUMER GOODS |
| 44. MULTIVERSE PLC | NATURAL RESOURCES |
| 45.NATIONAL SALT CO.NIG | CONSUMER GOODS |

.PLC

46.NIGERIAN BREW PLC CONSUMER GOODS

47.NEIMETH INTERNATIONAL HEALTH CARE

PHARMACEUTICALS

PLC

48.NESTLE NIGERIA PLC CONSUMER GOODS

49.NIGERIAN GERMAN HEALTH CARE

CHEMICALS PLC

50.NIGERIA ROPES INDUSTRIAL GOODS

51.NIG.SEW INDUSTRIAL GOODS

MACH.MAN.CO.PLC

52. NIGERIAN WIRE AND INDUSTRIAL GOODS

CABLE PLC

53. NIGERIAN FLOUR MILLS CONSUMER GOODS

54. PAINTS AND COATINGS INDUSTRIAL GOODS

MANUFACTURES PLC

55. PHARMA – DEKO PLC HEALTH CARE

56 PORTLAND PAINTS & INDUSTRIAL GOODS

PRODUCTS NIGERIA PLC

57. PREMIER BREWERIES PLC CONSUMER GOODS

58.PREMIER PAINTS PLC INDUSTRIAL GOODS

59.PZ CUSSONS NIGERIA PLC CONSUMER GOODS

60.ROKANA INDUSTRIES PLC CONSUMER GOODS

61.SCOA NIG PLC CONGLOMERATES

62.STOKVIS PLC INDUSTRIAL GOODS

63.THOMAS WYATT NIGERIA NATURAL RESOURCES

PLC

64.TRANSNATIONAL CONGLOMERATES

CORPORATION OF NIGERIA

PLC

65.UACN PC CONGLOMERATES

| | |
|---|-------------------|
| 66.UNILEVER NIGERIA PLC | CONSUMER GOODS |
| 67.UNION DIAGNOSTIC AND CLINICAL SERVICES PLC | HEALTH CARE |
| 68.UNION DICON SALT PLC | CONSUMER GOODS |
| 69.UTC NIG PLC | CONSUMER GOODS |
| 70.GREIF NIGERIA PLC | CONSUMER OODS |
| 71. VITAFOAM NIG. PLC | CONSUMER GOODS |
| 72. VONO PRODUCTS PLC | CONSUMER GOODS |
| 73. WA GLASS IND PLC | INDUSTRIAL GOODS |
| 74. LAFARGE WAPCO PLC | INDUSTRIAL GOODS. |

SOURCE: NIGERIA STOCK EXCHANGE, COMPANY PROFILE 2014

Appendix V: Sampled listed manufacturing companies in Nigeria

| S/N | COMPANIES |
|------------|---|
| 1 | 7-UP BOTTLING COMPANY PLC |
| 2 | A.G. LEVENTIS (NIG). PLC |
| 3 | ASHAKA CEMENT PLC |
| 4 | AVON CROWNCAPS & CONTAINERS (NIG). PLC |
| 5 | BERGER PAINTS PLC |
| 6 | B.O.C. GASES PLC (Industrial Gases Nig. Ltd.) |
| 7 | CADBURY NIGERIA PLC |
| 8 | CEMENT CO. OF NORTHERN (NIG). PLC |
| 9 | CHELLARAMS PLC |
| 10 | D.N. MEYER PLC (HAGEMEYER NIGERIA LIMITED) |
| 11 | DN TYRE & RUBBER PLC (DUNLOP NIGERIA PLC) |
| 12 | NIGERIAN ENAMELWARE PLC |
| 13 | EVANS MEDICAL PLC |
| 14 | FIRST ALUMINIUM NIGERIA PLC |
| 15 | FLOUR MILLS OF NIGERIA PLC |
| 16 | GLAXO SMITHKLINE (GLAXO) CONSUMER NIGERIA PLC |
| 17 | GUINNESS NIGERIA PLC |
| 18 | INTERNATIONAL BREWERIES PLC |
| 19 | JOHN HOLT PLC |
| 20 | MORISON INDUSTRIES PLC |
| 21 | NIGERIAN BREWERIES PLC |
| 22 | NEIMETH INT'L PHARMCEUTICAL (Pfizer Products Limited) PLC |
| 23 | NESTLE NIGERIA PLC (FOOD SPECIALTIES NIG. LTD) |

- 24 NIGERIAN ROPES PLC
 - 25 PHARMA-DEKO PLC
 - 26 PZ CUSSONS NIGERIA PLC (PZ INDUSTRIES)
 - 27 S C O A (NIG). PLC
 - 28 U A C N PLC
 - 29 UNILEVER NIGERIA PLC (LEVER BROTHERS)
 - 30 UTC NIGERIA PLC
 - 31 GREIF NIGERIA (VAN LEER NIGERIAN)PLC
 - 32 LAFARGE WAPCO PLC (WEST AFRICAN PORTLAND CEMENT)
-

Appendix VI: Factor analysis for all the variables

A. Factor Loading for the Company Income Tax

Incentives

| Items | Loading |
|---|---------|
| Exemption from minimum tax increases FDI inflows | 0.787 |
| Tax holidays encourage inflow of FDI | 0.745 |
| Tax free dividends encourages free flow of FDI to the manufacturing companies | 0.708 |
| Loss carried forward reliefs is an important incentive in attracting FDI in manufacturing companies | 0.565 |
| Company income tax is effective in attracting FDI in manufacturing companies | 0.553 |

B. Factor Loading for the Capital Allowance Incentives

| Items | Loading |
|---|---------|
| Foreign entities are satisfied with the present level of investment allowance to attract foreign direct investment. | 0.712 |
| Investment allowance supports expansion in existing listed manufacturing companies. | 0.660 |
| Initial and annual allowances are important incentives in attracting FDI | 0.660 |
| Investment allowance is a method used to encourage investment in the manufacturing sector | 0.613 |
| Rural investment allowance encourages in flow of FDI in listed manufacturing companies. | 0.606 |
| Capital allowance incentives are the most effective incentives used to attract FDI in listed manufacturing companies. | 0.555 |

C. Factor Loading for the Value Added Tax Incentives

| Items | Loading |
|--|---------|
| Manufacturing companies prefer to produce or sell zero rate goods and services | 0.767 |
| The VAT rate is appropriate in attracting FDI in Nigerian listed manufacturing companies. | 0.754 |
| VAT incentives are the most effective incentive that attracts FDI into listed manufacturing companies. | 0.744 |
| Foreign investors are encouraged to invest on goods and services exempted from VAT. | 0.699 |
| Manufacturing Companies comply with the rules guiding VAT | 0.618 |

D. Factor Loading for Capital Gains Tax Incentives

| Items | Loading |
|---|---------|
| Capital gains tax incentives are the most effective means of boosting foreign direct investment in Nigerian listed manufacturing companies. | 0.822 |
| The main purpose of introduction of capital gains tax act is to boost the revenue base of the government | 0.753 |
| Capital gain tax incentives promote growth of FDI in Nigerian listed manufacturing companies. | 0.745 |
| Manufacturing companies comply with the payment of capital gains tax. | 0.735 |
| Reduction in capital gains tax rate to 10% is effective in boosting foreign direct investment | 0.626 |

E .Factor Loading for the Double Taxation Treaty Incentives

| Items | Loading |
|---|----------------|
| Multilateral double taxation treaty is more effective in encouraging FDI in manufacturing companies | 0.860 |
| Double tax treaty is a solid protection for foreign investors and improved the flow of FDI in the manufacturing companies | 0.841 |
| Generally double taxation incentives are the most effective means of attracting FDI into the Nigerian listed manufacturing companies. | 0.809 |
| Bilateral treaties on various taxes have improved direct foreign investment in manufacturing sector. | 0.785 |
| Foreign investors consider Bilateral Investment treaty as part of a good investment environment. | 0.767 |

F. Factor Loading for Non -Tax Incentives

| Items | Loading |
|---|----------------|
| Telecommunications contribute to the increase of FDI inflows into the listed Nigerian manufacturing companies | 0.771 |
| Political stability plays important role in attracting FDI in listed Nigerian manufacturing companies | 0.758 |
| Adequate provision of electricity will boost FDI in listed Nigerian manufacturing companies | 0.728 |
| Corruption and political instability have reduced the inflow of FDI in the Nigerian listed manufacturing companies | 0.689 |
| The development of infrastructure can play a major role in the attraction of FDI in Nigerian listed manufacturing companies | 0.680 |

G. Factor Loading for Foreign Direct Investment

| Items | Loading |
|---|----------------|
| Companies do reinvest their earnings in manufacturing sector. | 0.686 |
| Foreign participation in listed manufacturing companies increases the flow of foreign assets. | 0.675 |
| Most FDI inflows into Nigeria are in form of equity participation. | 0.667 |
| The investment climate for foreign investors is very conducive in attracting equity participation in manufacturing companies is | 0.628 |
| There is high prospect in the attraction of foreign direct investment into the Nigerian listed manufacturing companies. | 0.602 |
