IISD COMMENTARY

International Institute for Sustainable Development
Institut international du développement durable

Investment incentives for sustainable development: The case of Lao PDR

Oshani Perera

February 2011

© 2014 The International Institute for Sustainable Development

© 2014 The International Institute for Sustainable Development
Published by the International Institute for Sustainable Development.

International Institute for Sustainable Development
Head Office
161 Portage Avenue East, 6th Floor, Winnipeg, Manitoba, Canada R3B 0Y4
Tel: +1 (204) 958-7700 | Fax: +1 (204) 958-7710 | Website: www.iisd.org

Geneva Office
International Environment House 2
9 chemin de Balexert, 1219 Châtelaine, Geneva, Switzerland
Tel: +41 22 917-8373 | Fax: +41 22 917-8054

About IISD

The International Institute for Sustainable Development (IISD) contributes to sustainable development by advancing policy recommendations on international trade and investment, economic policy, climate change and energy, and management of natural and social capital, as well as the enabling role of communication technologies in these areas. We report on international negotiations and disseminate knowledge gained through collaborative projects, resulting in more rigorous research, capacity building in developing countries, better networks spanning the North and the South, and better global connections among researchers, practitioners, citizens and policy-makers.

IISD's vision is better living for all—sustainably; its mission is to champion innovation, enabling societies to live sustainably. IISD is registered as a charitable organization in Canada and has 501(c)(3) status in the United States. IISD receives core operating support from the Government of Canada, provided through the International Development Research Centre (IDRC), from the Danish Ministry of Foreign Affairs and from the Province of Manitoba. The Institute receives project funding from numerous governments inside and outside Canada, United Nations agencies, foundations and the private sector.

Investment Incentives for Sustainable Development: The case of Lao PDR

February 2011

Written by Oshani Perera.

Acknowledgements

This paper was produced as a deliverable under the IISD contract with the UNDP-UNEP Poverty-Environment Initiative in Lao PDR. IISD is grateful to the Investment Promotion Department of the Ministry of Planning and Investment, Lao PDR, and the UNDP-UNEP Poverty-Environment Initiate, especially Dr Grace Wong and Ms Silvia Jundt for awarding us this opportunity to promote sustainable investment in Lao PDR. The project included a two week series of bilateral meetings in Vientiane with policy makers, donors and option leaders in the investment and development community.

This paper was produced as a deliverable under the IISD contract with the UNDP—UNEP Poverty-Environment Initiative in Lao PDR.

IISD is grateful to the Investment Promotion Department of the Ministry of Planning and Investment, Lao PDR, and the UNDP—UNEP Poverty and Environment Initiative, especially Dr. Grace Wong and Ms. Silvia Jundt for awarding us this opportunity to promote sustainable investment in Lao PDR.

The project included a two week series of bilateral meetings in Vientiane, with policy makers and donors in the investment and development community.

Incentives and investment decisions

Investment incentives play a critical role in foreign direct investment (FDI) site selection. As globalization makes capital increasingly mobile, managers of low-income economies are increasingly likely to believe that generous incentives are needed to attract FDI. This perspective is certainly dominant in Lao PDR. During the two-week Ministry of Planning and Investment/UNDP-UNEP Poverty Environment Initiative/IISD stakeholder consultation in Vientiane, in January 2011, policy-makers, stakeholders and donors commented on the importance of maintaining the Laotian incentive mix to attract FDI. This was considered especially important because the weak institutional frameworks, lack of transparency, undeveloped infrastructure, low ease of doing business rating and undeveloped skill base made the country unattractive to investors.

Laotian policy makers find themselves in a Prisoners Dilemma. Many investors now say that incentives are not an important determinant of location as they are offered by virtually all developing countries.

This report is a preliminary discussion of how Lao PDR might approach this issue.

The Laotian incentive mix

The Government of Lao PDR offers income tax holidays of one to 10 years, depending on investment sector and location, according to Articles 40 to 55 of the 2009 Investment Promotion Law. The law identifies three levels of promoted sectors which cut across agriculture, industry, handicraft and services. The criteria on which investment opportunities are categorized across the three sectors are not, however, detailed in the law. For location, the law outlines three levels of promoted zones to encourage investment in areas where socio economic development has lagged and infrastructure is weak. In addition to these tax holidays, investors are exempt from import and export duties and can carry balance sheet losses forward for a period of five to 10 years. Income tax exemptions are also available for investments in education, energy, transport and healthcare, as the cash-strapped Laotian government seeks to crowd in private investment to upgrade public services.

Special conditions apply to concession investments in hydropower, mining, agriculture, forestry and tourism, the biggest sectors of FDI to date. These incentives are negotiated case-by-case and no details of the final agreements are made public.

For hydro-electricity generation, the Department of Energy Promotion and Development (EPD) of the Ministry of Energy and Mines offers investors:

- free access to land (including areas to be flooded)
- a waiver on land conversion fees (US$15,000 per hectare[1])
- a "reasonable" tax holiday
- a waiver on withholding taxes on net profit repatriated
- waivers or reduced rates on import duty for materials, equipment and supplies
- unlimited use of foreign labour in both skilled and unskilled functions
- extended concession periods of 25-30 years
- waivers on other taxes and duties and offshore banking facilities[2]

[1] Direct communication, Laos Land Management Authority, January 2011
[2] Direct communication with the EPD and as detailed in http://www.poweringprogress.org/

Apart from the last provision, which may be necessary because the Laotian Kip is not a freely convertible currency, Laotian stakeholders and the donor community should question the rationale for this incentive mix. It provides little return in terms of tax revenue, job creation, technology transfer or other positive externalities that are typically expected from FDI. This policy mix also increases the government's dependence on royalties which, in the case of hydropower, will only begin to flow many years down the line.

For mining, the Department of Geology and Mines of the Ministry of Energy and Mines announced annual land rental fees of US$0.50 to $1.00 per hectare during exploration and US$3.00 to $12.00 per hectare during exploitation[3]. Prospecting and operating licenses reach a maximum of US$100.00 per year and a one per cent tax or complete waivers on import duties are commonplace[4]. Laotian stakeholders need to decide if they are being adequately compensated by the foreign investors and state owned companies exploiting their country's natural resources.

The Government of Lao imposes nominal taxes and royalties that are more in line with market trends: an income tax rate of 20 to 30 per cent, dividend taxes of 10 per cent and royalties between two and five per cent[5]. But there is reason to doubt that these contributions are regularly being collected. MMG Sepon is the only foreign investor to have publicly reported on its contributions to the Government of Lao PDR, a total of US$14 million from 2005 to 2010. There is anecdotal evidence that MMG Sepon is an isolated case.

The Department of Geology and Mines has issued over 240 mining exploration licenses, of which 69 are believed to be in exploitation phase. No tax or royalty payments have been collected[6].

In 2009, the Government of Laos stopped issuing new concession licenses to take stock of ongoing activities. Early evidence from these surveys indicates a high level of speculative investment encouraged by the low and even no-cost land concession fees. It is also likely that many concession holders might be holding on to their rights to resell when prices rise or to use their mining rights for a range of other industrial activities. While annual land concession fees have been revised in the Lao PDR 2009 Decree on Land Concessions (to US$80.00 per hectare for copper and US$100.00 for gold), they remain well below international market rates.

The story is similar for FDI in agriculture and forestry. Approximately 2,040 concession contracts have been signed at federal and provincial levels and until the 2009 moratorium on new concession licenses, the average charge for land concessions was US$2.00 to US$6.00 per hectare[7]. In an interview with IISD, the National Land Management Authority noted concerns including the urgent need for a land use management plan, a framework for reworking concession agreements, and the development of a land pricing index.

Concession fees or rents associated with the lease of state or non-titled land are typically 12 to 30 per cent lower than commercial real estate prices. Land evaluation is a complex science which takes into account the dynamics of the domestic land and real estate market, the characteristics of the land and its extractive and topographic resources, practices in land registration, the development and investment priorities of the country, the sector and purpose for which the land is to be used, access to capital, issues surrounding the acquisition of land as

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

well as inflation, interest rates and monetary policies. As a result, different jurisdictions have adopted a variety of approaches to determining land and resource rents.

In Queensland, Australia, the annual lease fees for non-titled land for primary production is calculated at 17.5 per cent of the average value of commercial land prices as forecasted over the following five years[8]. In the USA, the leasing of areas designated as Indian Land for commercial and residential development in Arizona commands between $1,400 and $6,000 per acre per year[9]. India, on the other hand, calculates state land rental fees based on output and commercial viability and typically charges 12 to 15 per cent of annual turnover[10]. In South Africa, concession fees for agriculture and tourism range from 10 to 13 per cent of annual turnover and can be higher for mining[11]. In several other African countries, notably Liberia and Sierra Leone, there is evidence that concessions rate are similar to that of Lao PDR–around US$5.00 per hectare. These rates are being revised, and requirements for benefit sharing added. In the case of agriculture, investors must make a portion of each harvest available for sale to local communities.

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

Rethinking Incentives and their Aims

The Government of Lao DPR has committed to ambitious goals in its 2011-2015 National Social Economic Development Plan, which prioritizes the Millennium Development Goals (MDGs) and targets leaving the Least Developed Country classification by 2020. This will require increased and targeted spending on public services, funded by fees, taxes and royalties from FDI. Will the cash-strapped government be able to break the cycle of donor funding and generate income to reinvest in sustainable development if it continues to give FDI providers long tax holidays and low or no cost use of land? Laotian stakeholders should ask what positive externalities are being accrued through FDI and if they are being fairly compensated for the exploitation of their country's natural resources. The entire Laotian development community must ask if the social and environmental safeguards now in place will ensure an attractive investment climate in the medium term?

Laotian policymakers must revise the mix of investment incentives to increase revenues and positive externalities across sectors and provinces.

The first step will be to determine whether the natural resources and human capital of Laos are sufficiently attractive to crowd in investors if investment incentives—especially the double subsidy of tax holidays and the low/no cost land concession—are eliminated. Investors from China, Vietnam, Thailand, France and Australia, which lead FDI portfolios, have invested and are continuing to invest regardless of investment risk indexes and ease-of-doing-business rankings[12]. Anecdotal evidence suggests that investors from several other countries would also be competing in the Laotian economy if their applications for establishment and exploration would be given due regard and even expedited. The large number of concessions awarded to date show that the resources of Lao PDR are unique and valuable, so FDI will crowd in regardless of what incentives are offered.

[8] As prescribed under the Queensland Australia Land Regulation, 2009.
[9] Telephone interview with the Board of Investment, Queensland, Australia, October 2010.
[10] India Band Equity Foundation, http://www.ibef.org/news/Policywatch.aspx
[11] The New Partnership for Africa's Development (NEPAD) Outcomes of the AU-NEPAD Infrastructure Ministerial Group Meeting http://www.nepad.org/news
[12] Laos is positioned at 171 in the World Bank/IFC index on the ease of doing business. http://www.doingbusiness.org/rankings

Investors will, after all, invest where the returns are the most lucrative. Given the unique geographical positioning of Lao PDR and its abundant natural resources, Laotian policy makers should ask for better returns on their assets. Given the country's investment and development status today, policymakers can certainly risk re-examining and remodelling incentives to benefit both the investors and the Laotian economy.

Redesigning the Laotian Incentive Mix

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

In addition to revenues to the state, tax holidays can induce investors to close and sell their businesses at the end of the holiday period, only to re-establish as a new entity that will quality for the next tax holiday[13]. Tax holidays also open loopholes that allow investors to channel profits from existing profitable corporations to those receiving tax holidays and so avoid paying taxes on both income streams.

This does not mean that Lao PDR must offer no investment incentives at all. A fresh mix of incentives should be designed to:

- Reward responsible and sustainable performance.
- Crowd in domestic investors.
- Maximize the potential for business linkages and embed investors in the domestic economy.
- Ensure environmental protection and social cohesion across the provinces.
- Improve the investment climate and reduce costs and risks for investors.

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

Lao PDR should offer tax deductions on investments in public services (such as roads) and capital assets (such as plants, buildings and technical laboratories), as these assets will remain in the country even if the investor leaves. It also offers a low-cost strategy for channelling investment to infrastructure and public services.

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

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

As the momentum for construction and infrastructure expansion increases and Laos PDR establishes special export zones, policy makers could contemplate tax credits, tax allowances or even financial assistance for green buildings and green infrastructure. (Tax credits allow a percentage of the investment to be deducted from taxes owed, while investment allowances permit a fixed percentage of an investment to be deducted from taxable profit). Green buildings typically cost 20 per cent more than their energy inefficient and material-intensive alternatives. Could incentives be offered to cover the differential? Singapore, South Korea, the State of California, the Province of Ontario, Germany and the UK are leaders in linking investment to environmental performance.

Incentives for Green Infrastructure

Incentives have included agreements to purchase electricity from renewable sources, subsidies for the use of greener building materials, tenders giving preference to suppliers with a track record on environmental management and corporate social responsibility, subsidies for meeting the increased capital costs of energy efficient buildings, linking employee performance and salary appraisals to good environmental management and energy house-keeping, and the establishment of public-private partnerships for green infrastructure. The Arlanda Express in Sweden (the train link between Stockholm Arlanda Airport and the Stockholm city centre) was built and is operated on a public private partnership where environmental management and energy efficiency are key priorities.

Education, research and development, re-skilling and up-skilling are identified as priorities in the National Socio-Economic Development Plan 2011-2015, so it is critical to invite FDI providers to participate in building Laotian human capital. Would it be feasible for the Laotian government to meet training costs for the first two to four years of operation? Could the government co-fund research chairs and exchange programs at universities, the National Science Council and other higher education institutions? Could tax credits and investment allowances be linked to the training of skilled professionals? Such provisions will play a critical role in skills and technology transfer in the medium term. They will also help upgrade the Laotian export mix to include value-added goods and high-skilled services. China employs a range of such incentives to ensure continued up-skilling and technology transfer and is imposing increasingly stringent requirements on technology transfer and patent sharing in most of its development zones.

Investors can also be encouraged to move beyond compliance on their environmental and social performance. Could the Government of Laos meet the certification costs for international standards such as ISO 14001 and ISO 26000, or provide tax deductions for enterprise certification? India's state of Karnataka employs such incentives to encourage green infrastructure and environmental impact mitigation in the development and maintenance of its industrial parks.

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

When designing investment incentives. It will be important to develop market models to study the operation of externalities and transfer pricing given the youth of Lao PDR's fiscal and monetary framework. The Laotian Stock Exchange was launched only in September 2010 and state budgets are neither published nor debated at the National Assembly. All incentives are prone to abuse and opportunities to do so should be blunted to the greatest extent possible.

To achieve the goals of the National Socio Economic Development Plan 2011-2015, investment incentives will need to move beyond crowding in FDI to level the playing field for the domestic investors who will create the linkages and reinvest in their home economy after the foreign players leave. In Lao PDR domestic investment should not be limited to state-owned enterprises or state participation in large ventures. Entrepreneurial and investment opportunities for made-in-Lao PDR, home-grown ventures, individual investors and micro enterprises must be nurtured. The tools to enable this—decentralisation of investment decisions to provincial governments, establishment of special export zones and provisions for calling lists (projects important to the national economy)—are already included in the 2009 Lao PDR Law on Investment Promotion.

Investment incentives should reward sustainable enterprise. If incentives can be linked to environmental protection, rural development, skills building, and initiatives to improve social cohesion, and these incentives are coupled with transparent investment and concession agreements, the government and people of Lao PDR will be on the path to a sustainable future.

Annex 1: The Primary Determinants of Investment Attractiveness

IISD's work on sustainable investment from 2009 through 2011, including engagement and advisory services to investors, companies and entrepreneurs, has enabled us to identify the following key determinants of investment attractiveness:

Macro-economic determinants

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

Investment policies

- Positive ratings on ease-of-doing-business indicators
- Access to information and an absence of red tape and discrimination in establishment and preliminary licensing
- Cleary defined priority investment sectors
- Non-discriminatory fiscal, financial and regulatory incentives
- Domestic or regional trade integration and targeted investment policies
- Flexibility between mandatory and discretionary incentives
- Financial incentives for headquarters and flagship (or anchor) investments
- Effective business linkage programs that help identify domestic suppliers and contractors
- Policies on domestic capital participation and access to domestic capital
- Performance requirements that reduce costs and risk and facilitate domestic business opportunities
- Incentives offered by export and economic zones
- Laws on competition (anti-trust)
- Protection of intellectual property rights
- Provision for the resolution of investment disputes
- Policies and practices to curb bribery, corruption and facilitation payments
- Provisions to support infant industries

- Assistance provided by investment promoters (such as reduced red-tape and administrative delays in establishment, business linkages and aftercare services).
- Transparency in public procurement

Tax rates

- Corporate income tax rates
- Tax rates on concession investments
- Criteria on which royalties might be negotiated.
- Policies on lower import and export duties and value added taxes within economic and export zones.
- Options for accelerated depreciation
- Tax deductions, allowances and credits
- Options for carrying forward balance sheet losses

Skills

- Work force and management training and up-skilling
- Investment in R&D
- Size and demographics of skilled labour pool
- Investment in graduate education
- Western language capabilities
- The number of advanced education establishments offering programmes in key areas such as mathematics, IT, sciences, business administration, finance and engineering
- Labour laws providing for decent work and compliance with core labour standards of the ILO
- National laws and policies on human rights
- The extent to which the domestic diaspora returns and invests in the economy
- Number of graduates educated overseas
- Conditions on the use of migrant labour
- Conditions on the import of expatriate employees
- Recruitment and employment costs.

Infrastructure in host economy

- Grants, cost participation and subsidies on investment in public services (deemed necessary for the success of the investment)
- Capital costs related to plant, factory and office infrastructure
- Utility costs

- Condition of physical infrastructure
- Telecommunications and broadband capabilities
- Reliable and competitively-priced electricity supply
- Programmes for energy management and efficiency
- Focus on energy-efficient buildings and green infrastructure
- Ongoing infrastructure improvements and property developments
- Condition of public services including primary and secondary education, health care, transport, customs, freight and cargo hubs

Geographic location

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

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

RATES FOR LEASING STATE LAND FOR INDUSTRIAL PURPOSES				
NO.	LEASING OBJECTIVES	LEASE RATE IN US DOLLARS PER HECTARE PER YEAR		
		AREA 1	AREA 2	AREA 3
1	Drug and medicine, medical equipment and sanitation products production	100	200	300
2	Educational equipment, sports equipment, musical instruments and toy factory	100	200	400
3	Printing and newspaper factory	100	200	400
4	Construction equipment factory	100	200	400
5	Hydro-power station, electricity transmission station	100	300	500
6	Butchery, food processing, non-alcoholic beverages, agricultural products, agricultural production equipment, handicrafts	100	200	300
7	Cotton factory, textiles and garment	200	300	600
8	Office supplies, automated equipment	200	300	600
9	Mechanic equipment factory, transport vehicles and spare parts	200	300	600
10	Motor production and assembly factory, electronic equipment, radio, television, communication tools	200	400	600
11	Coal-fired power plant	200	400	600
12	Metal processing factory; fuel, coal and metal base processing factory; metal products and cement factory	200	400	600
13	Wood, latex factory, paper factory, leather factory	200	300	400
14	Recycling factory	100	200	400
15	Chemical processing factory, chemical products factory, plastic products factory	500	800	1000
16	Wood processing factory, wood and rattan products and furniture	500	1000	2000
17	Tobacco processing factory and alcohol beverage factory	1000	2000	3000

STATE LAND LEASE FEES FOR SERVICE OPERATION IN TOURIST AREAS INCLUDING CULTURAL, NATURAL AND HISTORICAL TOURIST AREAS				
NO.	TOURIST AREAS	LEASE RATE IN US DOLLARS PER HECTARE PER YEAR		
		AREA 1	AREA 2	AREA 3
1	Village level	70	100	200
2	District level	100	200	300
3	Provincial level	200	300	400
4	National level	300	400	500

STATE LAND LEASE FEES FOR CONSTRUCTION OF PUBLIC SERVICE FACILITIES				
NO.	OBJECTIVE OF LEASING	LEASE RATE IN US DOLLARS PER HECTARE PER YEAR		
		AREA 1	AREA 2	AREA 3
1	Public service operation: public park, school, hospital, playground, and recreation centre	100	300	500
2	Building houses and apartments	300	500	1,000
3	Private service operation: bank, supermarket	500	10,000	50,000
4	Building town house, guesthouse, restaurant, hall, conference centre, office	1,000	5,000	10,000
5	Infrastructure development: telecommunication, market, public transport station, good transport station and warehouse	3,000	5,000	10,000
6	Private service operation: hotel, resort, entertainment center	5,000	30,000	70,000

STATE LAND LEASE FEES FOR BUILDING SPORT STADIUMS				
NO.	OBJECTIVE OF LEASING	LEASE RATE IN US DOLLARS PER HECTARE PER YEAR		
		AREA 1	AREA 2	AREA 3
1	Build general sport stadium	50	150	250
2	Build horse racing park, car racing park	100	150	200
3	Build a golf course	150	250	450

STATE LAND CONCESSION FEES FOR AGRICULTURAL ACTIVITIES				
NO.	OBJECTIVE OF LEASING	LEASE RATE IN US DOLLARS PER HECTARE PER YEAR		
		AREA 1	AREA 2	AREA 3
1	Plantation of short-lived plants and food plants	5	10	15
2	Animal husbandry: cattle, buffalos, goats, sheep and others	5	10	20
3	Fruit free and perennial plants	5	10	20
4	Commercial plantation	6	10	20
5	NTFP and medical plants	7	15	25
6	Avian and small animal husbandry	10	15	25
7	Fisheries	10	20	30

STATE CONCESSION FEES FOR PLANTATIONS				
NO.	OBJECTIVE OF LEASING	LEASE RATE IN US DOLLARS PER HECTARE PER YEAR		
		AREA 1	AREA 2	AREA 3
1	Commercial tree plantation (more than 10 years to harvest)	8	15	25
2	Fast grown tree plantation (fewer than 10 years to harvest)	10	20	30
3	Rubber tree plantation	30	40	50

STATE LAND CONCESSION FEES FOR MINING				
NO.	OBJECTIVE OF LEASING	LEASE RATE IN US DOLLARS PER HECTARE PER YEAR		
		AREA 1	AREA 2	AREA 3
1	Commercial tree plantation (more than 10 years to harvest)	8	15	25
2	Fast grown tree plantation (fewer than 10 years to harvest)	10	20	30
3	Rubber tree plantation	30	40	50

STATE LAND CONCESSION FEES FOR MINING					
NO.	TYPE OF MINERAL	PRICE OF CONCESSION (US$/HA/YEAR)			
		EXPLORE	SURVEY	FEASIBILITY STUDY	EXPLOIT
1.	Precious and semi-precious stones • Opal, Agate, Amethyst • Spinal, Garnit, Topaze • Diamond, Ruby, Sapphire, Emerald, jade)	 1 1 2	 1 1 2	 2 2 3	 300 500 700
2.	Precious and semi-precious stones • Gold, Platinium • Silver	1	2	3	100
3.	Base metals • Lead, zinc • Copper	 1 2	 2 2	 3 3	 60 80
4.	Tin and tungsten	1	2	3	100
5.	Minor metal: Antimony, molybdenum, bismuth, mercury, aluminium	1	2	3	100
6.	Ferrous metals: • Iron, Manganese, Pyrite • Chromium, Nickel	 1 1	 2 2	 3 3	 70 80
7.	Industrial mineral: Alunite, Asbestos, Barite, Latalite, Kaolin, Limestone, Marble	1	2	3	50
8.	Construction materials: Sandstone, Andesite, granodiosite	1	2	3	50
9.	Evaporite Minerals: • Potash • Halite • Gypsum	 .05 .05 1	 1 1 2	 3 3 5	 20 20 30
10.	Energy minerals • Peat • Coal: + Anthracite + Lignite	 .5 1 1	 1 2 2	 2 3 3	 30 70 70
11.	Ground water, mineral water, natural thermal water	0.5	1	3	20
12.	Oil and gas	Based on contract between the government and a company			

STATE LAND CONCESSION RATES FOR CASINOS				
NO.	OBJECTIVE OF CONCESSION	LEASE RATE IN US DOLLARS PER HECTARE PER YEAR		
		AREA 1	AREA 2	AREA 3
1.	Various types of casinos	200,000	400,000	800,000

Annex 3: Investment incentives offered by competing jurisdictions

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

South Africa

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

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

Investors will also be able to deduct ZAR 36 000 per employee from income as part of a training allowance, with the maximum training allowance for a single company ranging from ZAR 20-million to R30-million.

The qualifying criteria for these incentives include compliance with energy efficiency standards, participation in voluntary energy efficiency initiatives and the employment of South African nationals.

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

Bangladesh

The 2009 National Budget Statement published by the National Board of Revenue, offered investors in the Dhaka & Chittagong Divisions 100 per cent tax holidays in first two years; 50 per cent in years three and four; and 25 per cent in year five. In the less developed areas of Rajshahi, Khulna, Sylhet, Barisal Divisions and three Chittagong Hilly Districts, the tax holiday is 100 per cent for first three years, 50 per cent for next three years, and 25 per cent for the seventh year.

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

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

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

Zambia

In 2009, Zambia began to increase transparency around tax revenues and incentives. While a package of incentives is offered to all investors, additional benefits are provided for the target sectors of mining, agriculture, manufacturing and tourism.

The incentives offers to all investors are:

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

Incentives targeted at investment in agriculture include:

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

Incentives offered to the mining sector include:

- Corporate tax rate of 30 per cent
- Balance sheet losses can be carried forward for 10 years
- Withholding tax rate of 15 per cent on interest, rent, consultancy, royalties and dividends.
- Duty free importation of capital equipment and utility vehicles.

Egypt

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

- Corporate tax rate has been reduced from 42 per cent to 20 per cent.
- Tax holiday of five years for projects financed or co-financed by the Egyptian Social Development Fund
- A tax holiday of 10 years on projects focusing on the reclamation and cultivation of barren and desert lands, livestock production, bee-keeping and fish farming.
- Incentives offered to investors in Special Economic Zones (SEZ) include a 10 per cent corporate tax rate, integrated custom administration, tax administration, dispute settlements, licensing, and Egyptian certificates of origin for SEZ–based exporters, allowing them to make use of Egypt's international trade agreements.

South Korea

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

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

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

Grants are available to investors owning 30 per cent of equity who invest at least US$10 million in an industry support service or high-tech business, manufacturing activity, research and development, or construction with significant prospect of job creation.

FDI on the establishment of the regional headquarters also qualifies for grants.

Business investment in green and clean technologies are eligible for grants based on the potential spill over of skills and technology transfer. The size of investment project does not affect eligibility.

KOTRA also offers grants of five per cent of total capital for projects that forecast higher than average multiplier benefits.

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

minimum investment of US$ 30 million in manufacturing, US$20 million in tourism, US$10 million in logistics and US$2 million in research and development.

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

Vietnam

The Vietnam Common Law on Investment provides for two major levels of investment incentives: Location 1, for areas with extremely difficult socio-economic conditions, and Location 2, for areas with difficult social economic conditions.

Each of these levels provides a web of tax holidays, value-added tax exemptions, reductions on import duties, reductions on royalties, and land tax reductions. Investment in Location 1 areas is exempt from land rent fees for 10 years; Location 2 investors are provided with rent free land for seven years.

High technology parks and economic zones qualify for Location 1 incentives; industrial parks qualify for Location 2 preferences.

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

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

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

© 2014 The International Institute for Sustainable Development

Published by the International Institute for Sustainable Development.

International Institute for Sustainable Development
Head Office
161 Portage Avenue East, 6th Floor, Winnipeg, Manitoba, Canada R3B 0Y4
Tel: +1 (204) 958-7700 | Fax: +1 (204) 958-7710 | Website: www.iisd.org

Geneva Office
International Institute for Sustainable Development
Global Subsidies Initiative
International Environment House 2
9 chemin de Balexert, 1219 Châtelaine, Geneva, Switzerland
Tel: +41 22 917-8373 | Fax: +41 22 917-8054