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TAX INCENTIVES FOR INDUSTRIAL DEVELOPMENT[1/]

Presented by the Executive Director of the United Nations
Industrial Development Organization

Contents

1/ This is a summary of a background paper issued, under the same title, as ID/CONF.1/B.2.

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Introduction

1. The present study, which this document summarizes, has been prepared in response to Economic and Social Council resolution 1030 A (XXXVII).[2/] The purpore is to inform individual developing countries which wish to encourage private investment in their manufacturing sector of the various fiscal incentive schemes in operation in other developing countries, and to help them in the design, operation and evaluation of such schemes. The study draws on three principal sources: (a) the tax incentive laws of twenty-two developing countries;[3/] (b) reports of fiscal experts assigned, under United Nations technical assistance programmes, to various developing countries; and (c) a few case studies. For various reasons, it has not been possible to draw sufficiently on the actual experience of developing countries in the implementation of fiscal incentive schemes, but it is hoped that a beginning has been made for further work in this field, particularly work related to technical assistance.

2. The study, as well as this summary, is in six parts. The criteria determining activities eligible for tax benefits, as set out in the tax laws of selected developing countries, are reviewed and examined critically in chapter I. This is followed by a presentation of the tax incentives themselves. Those intended to encourage private investment in manufacturing industry are dealt with in chapter II. The growth of industrial output resulting from this investment may be said to be the primary objective of tax incentives. Other objectives may also be pursued: for example, influencing the location of industry, facilitating industrial financing, promoting exports of manufactures and so on. Fiscal incentives aimed at these secondary objectives are discussed in chapter III.

3. No fiscal incentive scheme can, of course, be effective without adequate machinery for its administration. The appropriate administrative set-up in selected

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2/ This resolution, on United Nations machinery in the field of industrial development, was adopted on 13 August 1964. (For text, see Official Records of the Economic and Social Council, Supplement No. 1 (E/3970, pp. 3-5).

3/ Argentina, Brazil, China, Ecuador, Ethiopia, Guyana, India, Iran, Israel, Jamaica, Kuwait, Nepal, Nigeria, Pakistan, the Philippines, Peru, Puerto Rico, Sudan, Thailand, Trinidad and Tobago, United Republic of Tanzania and Zambia.

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developing countries is described in chapter IV. It must be pointed out, however, that this description is rather sketchy as the main emphasis of the study is on the economic aspects of fiscal incentives.

4. Evaluation of the fiscal incentive schemes after a number of years of operation is of the utmost importance, but it is often neglected. The main considerations on which this evaluation should be based are discussed in chapter V which also includes a number of case studies.[4/]

5. Chapter VI presents some recommendations to developing countries as to measures they would have to adopt in order to enhance the effectiveness of their fiscal incentive schemes. These recommendations are mainly of an economic nature. They point out the need for greater emphasis on economic considerations in the design of tax incentives than is generally given, especially emphasis on the need to link the selection of eligible industries to programming. Equally important is the evaluation of incentive schemes in operation by developing countries themselves, an evaluation which can be done with assistance of UNIDO when necessary.

4/ Contained in document ID/CONF.1/B.2.

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I. ELIGIBLE INDUSTRIAL ACTIVITIES

6. Nearly all the developing countries considered in his study5/ rely on more than one criterion in selecting enterprises eligible for tax benefits. These criteria do not readily lend themselves to a systematic classification. An attempt has, nevertheless, been made to distribute them into four homogeneous groups: (a) criteria relating to broad objectives of economic development; (b) criteria specifying the favoured industrial sectors; (c) criteria relating to characteristics of industrial enterprises; (d) "pioneer" industries. It should be noted that in many countries the criteria adopted fall into more than one category.

7. This fourfold classification is based on the criteria mentioned in the tax laws. It is probable that in practice the developing countries in determining eligible activities, may make use of more elaborate systems of criteria than is indicated in the tax laws. However, it is not possible to know what these systems are in the absence of appropriate case studies.

8. It is hardly necessary to point out that tax concessions, like other incentives for industrial investment, should be granted to promote those sectors which are of particular importance for the economic development of the country, that is, priority sectors, which, in the absence of incentives, might fall short of the desirable target. The setting of sectoral targets and priorities requires programming. These targets and priorities are derived from aggregate magnitudes of the national economy, therefore, this procedure is sometimes referred to as "programming from above" or "aggregate planning". Within each sector, and with due regard to targets and priorities, projects are evaluated in terms of certain criteria reflecting the objectives of a country's development. This procedure is referred to as "programming from below". Good programming practices combine the two procedures.

9. Actually, few developing countries appear to have tried this two-way procedure with any measure of success. Planning "from above" requires a variety of statistical series which generally are not available in the developing countries. Among the countries covered by the study, Argentina, Brazil, Ecuador, India, Morocco, Republic of Korea, the Philippines and Thailand specify certain industrial sectors in their tax laws. This might imply that sectoral priorities in these countries may be based on aggregate planning, but whether or not this is the case is another question.

5/ The twenty-two countries considered are listed on page 1.

10. It is not surprising, therefore, that the vast majority of developing countries actually rely on project evaluation alone to determine the eligiblity of industrial enterprises for tax concessions. Among the countries covered by the study, all,with the possible exception of those listed above, do follow such a practice. Assuming for a moment that project evaluation is based on reasonably valid criteria, there are certain limitations to this method of programming which must not be overlooked.

11. In the first place, every country makes use of more than one criterion in the evaluation of a project; and yet, the outcome must be acceptance or rejection of the project. The problem, therefore, is how to derive a single decision from a variety of criteria. This could be done by applying proper weights to each of the criteria in the system in order to reduce them to a common denominator. This is not easily achieved.

12. In the second place, there are a number of effects, especially benefits arising from the interdependence of industrial projects, which are difficult to identify or assess. Yet, they cannot be neglected. Third, a programme based on project evaluation would result in a motley of projects in the absence of guidelines for selection of the sectoral priorities and targets.

13. These are the main problems faced in the selection of beneficiary enterprises based on project evaluation under favourable conditions. It may be questioned whether the procedures actually applied in developing countries are reasonably proper. Judging by the criteria mentioned in the tax laws, there are good reasons to doubt that they are proper. Even a cursory examination shows that some of the criteria are of questionable validity. For example, the requirement of a uniform minimum capital for all qualifying enterprises overlooks the fact that industries differ from each other with respect to optimum plant size. Thus, a specified minimum capital may be appropriate for one industry but not for another. Moreover, if the specified minimum is too high, developing countries may be deprived of certain small-scale industries which are less demanding of scarce factors, such as capital, management and technical skills. It would be desirable to differentiate, with regard to the minimum capital requirement, between established enterprises and new ones which face higher risks because of lack of experience, unfamiliarity with markets, and so on. Only a few countries seem to pay attention to this problem.

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14. In some countries, such as Morocco, Peru and Zambia, tax laws insist on the use of new equipment as a prerequisite for eligibility. This may be justified in the case of export industries which face foreign competition. Opinions vary, however as to the desirability of altogether ruling out second-hand machinery which may sometimes be used profitably in industries producing for the domestic market, provided of course that adequate repair services are available.

15. The definition of a "pioneer" industry or enterprise is sometimes so broad that it is of little or no help in determining the activities to be favoured. As an example, the relevant provisions of the tax laws of Trinidad and Tobago may be cited: "Pioneer industry is an industry not being conducted on a commercial scale or at all and for which there are insufficient manufacturing facilities to enable such industry to be conducted on a commercial scale; or any industry where there is favourable prospect of further development". The last clause of this provision is particularly a case in point.

16. Equally vague are the criteria relating to the broad objectives of economic development. It is difficult to see how these can, by themselves, be of any use unless they are associated with more specific criteria, such as those relating to the characteristics of industrial enterprises or those specifying industrial sectors.

17. Developing countries probably do not spell out in their tax laws the criteria which they actually use in the selection of eligible industries; however, from general knowledge of practices in programming, it would appear that these practices are far from adequate. It is important to realize that the selection of enterprises for tax concessions, as for other policy incentives, must be related to programming, and that any progress made in the application of proper programming methods in the developing countries is likely to make an important contribution to the design of fiscal incentive schemes.

II. TAX CONCESSIONS TO ENCOURAGE INVESTMENT IN MANUFACTURING

18. The primary objective of industrial tax incentives may be said to be the growth of industrial output. This is not as obvious a statement as it seems to be, since other objectives, which are referred to as "secondary", may be pursued side by side with the primary objective.

19. Tax incentives for industrial development may be grouped, for the sake of convenience under three headings:

(a) Tax concessions designed to reduce the cost of inputs, i.e., custom exemption for imported materials and machinery;

(b) Tax concessions designed to reduce the recoupment period, i.e., accelerated depreciation and investment allowance;

(c) Concessions affecting taxes on profits, i.e., tax holiday, tax-free dividends, deferral of depreciation allowances, etc.

20. The nature and extent of the tax incentives offered in the form of exemption from customs duties and from income taxes, investment grants, initial allowances, accelerated depreciation allowances, and the like, should be determined with due regard to sectoral priorities and the need of each sector for direct and indirect subsidies. While these needs are likely to vary from one country to another, it may, nevertheless, be useful to bring to the attention of all developing countries certain desirable tax incentive measures which have not yet been widely adopted.

21. With regard to the exemption of imported materials from customs duties, developing countries should relate the amount of exemption inversely to the degree of processing involved, as is done in developed countries. The likely effects of this measure on the use of domestic materials and labour, as well as the resultant savings in foreign exchange, are well known.

22. Exemption of machinery and equipment from customs duties would appear to encourage the use of capital as against the use of labour, where these two factors of production are, in some measure, mutual substitutes. By and large, however, such substitution has a limited scope in manufacturing industries and cannot be expected to provide a solution to the problem of employment in developing countries in the short run. This is not necessarily the case with equipment used in performing ancillary services, particularly transport equipment. The exemption given for imported manufacturing machinery need not be extended to such equipment, as manual labour might sometimes perform the same services successfully.

23. On the other hand, the exemption of spare parts for exempted machines and equipment is highly desirable and should be generalized. This may encourage the repair of used machines, thus extending the useful life of industrial equipment and, at the same time, saving the developing countries scarce foreign exchange that they would otherwise need for replacing the old machines by new ones acquired through imports.

24. Imports of fuels and lubricants for manufacturing purposes should also be exempt from customs duties, as this would make possible a reduction in manufacturing costs. At present, only a few countries grant a tax exemption for this purpose, and more countries would be well advised to make similar concessions.

25. Investment cash grants are rarely provided in developing countries. Morocco is, in fact, the only one of the countries covered by the study that makes such grants. The advantages of such subsidies are apparent: they simplify the administrative procedures involved in tax exemption and provide the eligible enterprise with an outright benefit, regardless of whether it makes a profit. This benefit is especially important for new enterprises in the initial years of their operation. The main disadvantage of investment grants is that the sacrifice in tax revenue is divorced from profits and therefore may not be compensated by a gain for the national economy. Every developing country will have to weigh the advantages and disadvantages of investment grants, depending on such factors as adequacy of tax administration and availability of public funds.

26. By shortening the recoupment period of investment, initial allowances and accelerated depreciation allowances tend to reduce the risks of non-recovery, which are considerable in most developing countries. These risks are, no doubt, a major concern of potential domestic investors as well as foreign investors.

27. While initial allowances and accelerated depreciation allowances are important to industries catering to the domestic market, these measures are even more important to export-oriented industries. As the latter must be able to face competition in foreign markets, they may need to use up-to-date machinery - and this involves a more rapid obsolescence of machines than in the case of industries catering to the domestic market. For this reason, larger initial allowances and accelerated depreciation allowances should be provided for export industries.

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28. Concerning income tax holidays, which are widely offered in developing countries, the holiday period is generally the same for all eligible industries in a given country. However, industries differ with respect to their running-in periods, among other factors. The steel industry, for example, has a much longer running-in period than food industries. It is to be expected that investors will tend to favour industries which have a short running-in period. In the more advanced stages of industrialization, it will be necessary to establish industries with relatively long running-in periods. In providing tax holidays, therefore, it would be desirable to differentiate between industries as to the period for which tax holidays are granted.

29. Most developing countries offering income tax holidays provide the same exemption over the entire holiday period. AT the end of this period, the beneficiary enterprises suddenly feel the full burden of the tax. This is clearly undesirable. It may be argued that beneficiary enterprises, particularly new ones, should be able by the end of the tax holiday period, to stand on their own feet; this is, in fact, the purpose of tax concessions. However, the actual picture is somewhat different. There have been many cases where, on termination of the tax holiday, enterprises either have found themselves in financial difficulty or have moved to other countries.

III. TAX INCENTIVES FOR SPECIFIC SECONDARY OBJECTIVES OF INDUSTRIAL DEVELOPMENT

30. This chapter reviews the various tax concessions aimed at achieving certain "secondary" objectives which are sometimes pursued together with the main objective of maximizing industrial output. These objectives include: facilitating industrial financing, influencing the location of industry, promoting exports of manufactures, facilitating the transfer of technology, encouraging technical research and training and assuring the full use of existing industrial capacity. As might be expected, the importance attached to these secondary objectives varies from one country to another.

31. The desirability of providing incentives designed to facilitate industrial financing, to promote exports of manufactures, to foster the transfer of technology, technical research and training, and to encourage the full utilization of industrial capacity, cannot be disputed. Thus, developing countries plagued by excess capacity in certain of their industries could make greater use of appropriate tax incentives tied directly or indirectly to production or sales. Tax incentives to stimulate technical training by industrial enterprises are also likely to be of interest to all developing countries. In this connexion, a positive inducement may be given to enterprises by taxing them on their wage bill unless they prove that they are undertaking their own training programme.

32. The nature of tax incentives designed to facilitate industrial financing varies from one country to another, depending on whether the intention is to encourage individuals or businesses or financial institutions. First, although industrial bonds and shares are sold to the public in a number of developing countries, only a few countries so far have security markets. The effectiveness of tax benefits to encourage the purchase of industrial securities by individuals will, no doubt, increase as such markets are established. Second, the channelling of business savings into self-financing is often desirable, provided that this does not prevent businesses from investing in new fields of industry when desirable. This branching off into other fields may be encouraged by offering tax benefits over and above those given for self-financed expansion. Third, the majority of developing countries have already established development banks, which play an important role in industrial development as suppliers of finance, technical

assistance and promotion facilities. Tax concessions which are designed to increase the industrial loans of these banks or soften the terms of such loans would be of great benefit to the economy, surpassing by far the cost in tax revenue. Commercial banks also could be induced by the provision of appropriate tax incentives to devote a larger share of their resources to industrial financing, assuming of course that this is desirable. Other financial intermediaries such as life insurance and property insurance companies are potentially important sources of industrial financing, but in few developing countries are they sufficiently developed. In all these cases, fiscal incentives could play a greater role in channelling savings into industrial investment.

33. Since the amount of exports of manufactures from developing countries is small at present, it is understandable that tax incentive schemes to promote these exports are rather simple ones. This does not imply, of course, that they could not be improved. In some countries, for example, eligible industrial enterprises must export a specified minimum percentage of their total production. Not infrequently, enterprises may export at a loss subsidized by their domestic sales. If such sales are limited, say, for lack of domestic demand, expansion of exports would not be possible under this system. It seems advisable for countries which have adopted this system to consider relating the tax benefits to the value of exports or income from exports.

34. There is undoubtedly a need for more substantial tax benefits for export industries than are now given. Reference was made earlier to the desirability of a larger obsolescence allowance for export industries. Furthermore, feasible tax concessions may be extended to inputs of the export product as well as to ancillary services such as transportation.

35. Free-zone systems might greatly reduce the need for administrative procedures relating to exemption from customs duties and other tax concessions. Countries which do not yet export manufactures on any significant scale may see no particular advantage in free zones, but those which emphasize export promotion would be well-advised to consider their establishment.

36. By and large, existing fiscal incentive schemes in developing countries encourage "traditional" exports. However, new lines of manufactures will have to be developed if exports are to increase substantially. It would be desirable, therefore, to offer to new export industries tax benefits over and above those given to existing industries. The determination of the new industries to be created requires careful programming.

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37. It cannot be presumed, a priori, that the provision of incentives to influence location of industry is desirable, as has been presumed with regard to other secondary objectives of economic development. The reason for this is that in the vast majority of developing countries, it is premature even to consider dispersing industrial enterprises away from the few urban centres where they are concentrated, unless the nature of the activity requires location away from the centres. Even in the larger developing countries, such as Argentina, Brazil and India, deconcentration with a view to developing backward areas is a debatable issue. Under the circumstances, the wisdom of giving tax incentives for balanced regional growth is, in most cases, highly questionable. The external and internal economies, both for the enterprise and the national economy, that arise from concentration are substantial. There is no use, in fact, in providing tax incentives if it is fairly obvious that no enterprise will be established in a backward area for the sake of taking advantage of the concessions offered, when the economic factors governing profitability are not there.

IV. ADMINISTRATIVE MECHANISM

38. Developing countries generally follow two methods in determining whether a particular enterprise is eligible to receive the benefits of tax concessions offered under their fiscal systems. For the purposes of analysis, these methods may be termed: (a) non-discretionary and (b) discretionary.

39. The operational impact of the two systems varies. Under the first system, the legal provisions become applicable more or less automatically. The provisions are of a general nature. The same concessions are granted in an impartial manner to all taxpayers fulfilling certain conditions. This system does not make a distinction between different sectors or industries or a distinction between their potential contributions to the economic development of the country. The system is also easy to administer, as it does not require a staff specialized in different branches of economics to determine the eligibility of enterprises for tax concessions.

40. The second system is more selective in its impact, and more demanding administratively. Under this system "discretionary" tax concessions are granted to individual enterprises only after their eligibility for such concessions is determined. Determination of eligibility would involve an examination of the particular circumstances of each applicant for tax concessions. On the basis of such scrutiny, appropriate tax concessions have to be prescribed. Such scrutiny must take into account the national policy regarding the fields of industry to be encouraged, and the contributions that each beneficiary would make to the country's economic development. It is administratively more demanding for the reason that proper evaluation of each potential beneficiary has to be made. Such an evaluation would require the services of a staff specialized in specific branches of economics. On the other hand, this system is more equitable and more flexible in its operation. In terms of national policy, it is less costly since the benefits are restricted to enterprises judged to be able to contribute the most to the country's economic development.

41. Neither of these approaches, however, is satisfactory. An approach combining the desirable features of each would be preferable. According to such an approach, the tax incentive laws or statements of industrial policy would identify the priority sectors in specific terms such as fertilizers, textiles, iron and steel.

It goes without saying that industrial categories such as "basic", "non-basic", "essential" and "non-essential" have no real significance and are best avoided. On the other hand, within each priority sector, industrial projects would be evaluated from the economic as well as the financial and technical viewpoint by some agency to determine their eligibility for tax benefits.

42. Project evaluation raises many problems, but this is not the place to discuss them. It is sufficient to state that evaluation would require clearly defined criteria. There should be as few criteria as possible, but they should cover the major aspects of the costs and benefits of a project. Evaluation should also be as objective as possible in the sense that the eligibility criteria should leave as little room as possible for subjective evaluation. This is to say that the agency in charge of evaluation would have to include competent economists as well as technicians among its members.

43. Few developing countries have adopted an approach similar to the one described above. It is highly desirable that the practice be generalized.

44. The problems involved in the administration of tax concessions in developing countries are well illustrated by the experiences of Nigeria[6/] and the Republic of China[7/] in this respect. The main problem is the slow movement of the administrative bureaucracy in arriving at the decision to grant concessions. On occasion, the time taken by the bureaucracy has been so long that potential beneficiaries have preferred to forgo tax concessions.

6/ See paragraphs 100-103 of document ID/CONF.1/B.2.

7/ *Ibid.*, paragraphs 104, 105.

V. EVALUATION OF FISCAL INCENTIVE SCHEMES FOR INDUSTRIAL DEVELOPMENT

45. It is possible to pass reasonable judgements on the merits or deficiencies of a fiscal incentive scheme by examining its design, that is, the eligibility criteria, the nature and extent of the benefits offered and the various arrangements for administering the scheme. It is also possible to suggest, on the basis of general considerations, improvements in the existing scheme so as to increase the chances of its effective application. Many of the suggestions made in the preceding chapters, with a view to enhancing the effectiveness of fiscal incentives, are of this nature.

46. Even more significant, however, is the evaluation of a country's actual experience in implementing its fiscal incentive scheme after it has been in operation for a sufficiently long period. In this context, it may be asked: (a) whether the scheme has brought about the results expected of it; (b) whether the sacrifice in tax revenue is outweighed by the benefits accruing to the economy; and (c) and what can be done to improve the design and operation of the scheme in order to enhance its effectiveness.

47. No study has yet been published by any Government of a developing country, evaluating the impact of its fiscal incentive scheme on the basis of data relating to its operation. On the basis of available information, the Government of the Philippines is the only one to have made a systematic investigation for this purpose, and the results have not yet been published. There are two published case studies, prepared by individuals, relating to the experiences of Mexico and Puerto Rico in the 1950's. Both studies represent various attempts at evaluation. A number of case studies have also been prepared by consultants for UNIDO, and the conclusions contained in some of them are briefly summarized below.

48. While it is not possible to set a rigid pattern for the way in which evaluation should be done, it may be useful to indicate the more important considerations that should be taken into account. One can hope, at best, to arrive at probable propositions. The considerations are:

(a) Was there a significant industrial growth in the country during the period of operation of the scheme? A negative answer would preclude, of course, the possibility that fiscal incentives could have been effective. A positive answer, on the other hand, would indicate a mere possibility that it could have been effective.

(b) Have the industries which were intended to benefit from the fiscal advantages offered shown a marked trend for growth, and has this trend been more pronounced or less pronounced than the trend for over-all industrial growth? If such industries have shown a marked trend for growth, this reinforces the likelihood that the fiscal incentives may have contributed to such industrial growth. On the other hand, a marked over-all industrial growth, with the beneficiary industries lagging behind, would throw doubt on the effectiveness of the fiscal incentives.

(c) What are the characteristics of the industrial enterprises that have actually enjoyed fiscal advantages at one time or another during the period of operation of the scheme? The purpose of this inquiry is to see whether these enterprises are the ones that were intended to be encouraged.

(d) What is the magnitude of savings that have accrued to beneficiary industries from various tax concessions? By comparing the savings for each industrial sector to investment or profits, for example, one could form a rough idea of what the benefits represent for the industrial sector in question. These savings are, of course, equal to the tax revenue that was sacrificed.

(e) The main purpose of the evaluation is to arrive at a comparison of revenue costs and benefits accruing to the economy, particularly its industrial branch. The estimation of the cost raises no particular difficulty, but it is of little use without a corresponding estimate of benefits. It is very difficult, on the other hand, even to form a judgement of probable validity about the benefits which should be attributed to fiscal incentives, since these are merely one of several factors affecting profitability. All these considerations will have to be taken into account in evaluating the effectiveness of fiscal incentive schemes.

49. This approach may be supplemented by a survey of opinions held by interested businessmen as to whether the fiscal incentives provided have influenced their investment decisions. The combination of these two approaches may make it possible to determine what factors have contributed significantly to the successful operation of the scheme and what factors have impeded its success.

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VI. RECOMMENDATIONS

50. A number of suggestions have been made in the study with a view to improving the design and operation of fiscal incentive schemes in developing countries. In this chapter, attention will be focused on four major points, as it is felt that Governments of developing countries often do not pay sufficient attention to them.

51. First, it must be realized that programming is a prerequisite for designing a well-conceived fiscal incentive scheme; it is particularly helpful in determining the priority sectors, the eligible enterprises within each sector, and the tax benefits to be given to eligible enterprises. As industrialization proceeds, changes take place in the structure of industry, thus making it necessary to revise the priority sectors periodically. This often necessitates changes in the tax incentive laws themselves. Since the selection of eligible enterprises in nearly all developing countries leaves much to be desired, an improvement in programming techniques used by them would greatly improve the design of their fiscal incentives.

52. The second recommendation is a corollary of the first. Instead of adopting either a "discretionary" approach or a "non-discretionary" approach in the administration of their tax incentives, developing countries are advised to combine features pertaining to both approaches. On the one hand, the priority sectors should be identified in tax incentive laws or in the statement of industrial policy in specific terms such as textiles, fertilizers, and iron and steel. As previously stated, the determination of priority sectors is best achieved by "aggregate programming". On the other hand, the question of whether a given enterprise in a priority sector is eligible for tax benefits should be decided by an agency. This decision requires project evaluation from an economic, technical and financial point of view, based on criteria clearly defined in advance.

53. Third, while providing a number of fiscal advantages, Governments of developing countries often do not give prospective investors an indication, however rough, of what all these advantages together represent and the extent to which they affect the return on investment. The Governments would be well advised to publicize their fiscal incentive schemes, using, for the purpose of illustration, "model" industrial enterprises with specified products, size of investment, location, and other relevant characteristics. One such "model" enterprise, for example, would have the

following characteristics: product - cement; annual production - 50,000 metric tons, capital invested - ... ; value of imported machinery and equipment - ... ; location - main industrial agglomeration, annual profit - ... It would be possible to estimate the savings in income tax and customs duty on imported machinery for this particular enterprise and to see how these savings affect profit. For each field of industry, certain assumptions will have to be made as to the average return of investment before and after the tax benefits have been granted.

54. Finally, Governments of developing countries generally do not evaluate the impact of their fiscal incentive schemes after a sufficiently long period of operation. However, they need to know: whether these schemes are, in effect, bringing about the results expected, particularly an increase in investment in priority sectors; whether industries actually benefiting from tax concessions are the intended ones; whether the administration of the incentive scheme is adequate. This evaluation should be made periodically, since industrial priorities change in the course of time, making it necessary to adjust the tax concessions accordingly.

55. It may be pointed out that the United Nations Industrial Development Organization is providing technical assistance to help developing countries in the design of new fiscal incentive schemes and the evaluation of existing schemes, with a view to suggesting appropriate changes. Also, UNIDO can organize training programmes and seminars for those who are in charge of determining eligible enterprises for tax benefits. Developing countries are urged to take advantage of these facilities.

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