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ABSTRACT

The increasing mobility of international corporations and the will of gradually eliminating barriers harming the global capital flows have encouraged competition among many governments to attract FDI inward mainly through tax incentives. With the time, Africa has been urged to boost its infrastructure development by attracting significant inflows of foreign direct investment. For boosting the recovery momentum, there is a need of strong investments, but the generous tax incentives aiming at attracting FDI can be a challenge for administrative efforts to restructure tax policy space. This study was about to analyze the effect of tax incentives on Rwandan Foreign Direct Investment along the period of 2012 up to 2021. Its specific objectives were to analyze the various effects of Value Added Tax incentives, the income tax incentives and the customs duties incentives on the overall inward of Foreign Direct Investment. The study used a correlational research design to establish relationship between variables. Stata software was used to analyze data and multiple regression analysis was used predict the equation showing the relationship between variables. Analytically, the variables were all positively correlated against FDI. The model has been capturing the variability of dependent variable at 88% and has been significant with coefficient it 0.0031. The predictive analytical equation has shown that a unit increase in value added tax incentives has a subsequent impact in FDI of increasing by 0.2548221 units, a unit increase in income tax incentives makes an increase of 0.132492 units in FDI while an increase of one unit in customs duties incentives leads to an increase of 0.458519 units in the global Rwandan FDI inward. The recommendations are to be addressed to MINECOFIN specifically the department of budget planning and execution. Considering the great role assigned to FDI in economic development space, the effect of significant amount of tax incentives have provided a desired and appreciable effect on FDI attraction and inward. These incentives are to be increased to attract more FDI and get a prosperous rate of economic performance.

***Key words**: Tax incentives, Value added Tax incentives, Income tax incentives, Customs duties exemption, and foreign direct investment*

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INTRODUCTION

With perspective of achieving the sustainable development goals, government are putting effort in promotion of their countries for attracting the scarce private capital, skills in management and associated technology through the relocations of multinational investments. Means of attracting Foreign Direct Investment inflows have been developed with systematic view. Some of those policies are the liberalization of laws and regulations that enable the foreign investment projects to be established, provision of guarantees when it comes time of profit and investment repatriation and establishment of mechanisms that facilitate the settlement of investment litigation. In these promotional efforts, the tax incentives play also a great role (UNITED NATIONS, 2020).

The FDI have been encouraged to be at point upon its importance for countries by many international and regional institutions like the International monetary funds, The United Nations Development Program as well as the United Nations Economic Commission for Africa. The conclusion has been that FDI inflows generate many benefits for developing states (Haiyambo, 2018). The tax incentives have raised a significant debate for decades, but nevertheless unsettled. Tax incentives affect negatively the development and economic growth by making a loss of income tax resources in developing countries that are very important in financing government expenditures and investment infrastructure mainly in health or education (Boly, 2019).

For countries that present the similarities in terms of economic development, they present an affirmative concept on the importance of tax incentives. The tax incentives scheme must be flexible so that government can be able to make update quickly and easily. Meanwhile, it becomes difficult to change other factors influencing the relocation of investment because of timeframe and the control level which can be beyond the power of some states. Upon all those reasons, the promotion investment expert agents focus more on the role of tax incentives than intravenous variables when analyzing the effect of incentives on economic development (Mahmoud, 2021). The implementation of tax incentives schemes requires a balancing measure tool between the marginally benefits they generate and the implementation costs. This is because the tax incentivescause a heavy administrative burden. A case-by-case evaluation becomes difficult to be undertaken which leads to a delay and uncertainty to investors and enhance investment costs. Additionally, the corruption screening of a given state makes investments reluctant and undermined the sound policy to create competitive markets (Ngure, 2017).

Many studies have been conducted on the role of incentives in promoting FDI, but there still a lack of understanding about their advantages and disadvantages. Some spectacular successes have been noted as well as significant view of failure in their role as FDI inflows facilitators. Research conducted by UNCTAD (2016) found that there is increasing trend in offering full or partial holidays or tax rate reductions for specific types of activities. For machinery industrial building or investment in plant, the increasing trend is prevalence of accelerated allowances. It has been shown that 60% of surveyed countries granted such incentives in line with investment attraction. Research conducted by United Nation (2018) shown that the equilibrium model with Input-Output is ideal but not indispensable. Only the combination of professional integrity and critical thinking and diligent bookkeeping ensure reliable cost-benefit of tax incentives programs. According to OECD (2015), in Middle-East and North African countries, the best practice to attract FDI is the use of special tax incentives and argues the favor from the reduction of statutorycorporate tax rate on a broad tax base.

A great attention to more fundamentals factors such as availability of skilled labor, access to raw materials and market size must be paid during the application of policies attracting FDI. More considerations are usually involved while conduction a typical investors evaluation of a

country. The country's development fundamentals may take priority with other factors such as grants, tax rates and other incentives taking back seat. Investment incentives including tax incentives are the main regulated important factors for attracting FDI. However, costs related to FDI tax incentives need to be taken into account. States are striving to attract FDI due to global economic competition. This facilitates international companies at the extent of states and citizens. In developing countries, these issues have been critical as long as budgetary constraints and corruption matters are highly observed than in industrialized countries (Abdurhaman, 2021b).

Toledo (2017) have shown that these incentives have been the fact of reduction for manufacturing employment growth trend. This reduction has formally affected the Puerto Rico's real output and the real GDP which had declined at 1.7% per year from 2007 to 2015 in average. Mahmoud (2021)have highlighted the political stability, supply side tax and exchange rate as significant variables that affect the FDI inflows in a country. The findings have shown that only the significant variables affecting the FDI inflow are the exchange rate, political stability and supply side tax. It has been found that the exchange rate influences positively and significantly the FDI inflows on a point estimate of 0.183. The results from model have indicated the relationship which is positive and significant with a point estimate of 0.908 between political stability and FDI inflows. A critical point is not negligible on political stability and level of FDI recorded during a given period. Another variable which has been positively significant with a point estimate of 1.93 on FDI inflows has been the supply side tax policy. The result of the time series analysis indicates that FDI inflow increased when the Egyptian government introduced the supply side taxation policy.

Objectives of Study

This study was conducted by assessing the effect of tax incentives on Rwandan FDI for the period covering ten years, 2012-2021. This was done by analyzing the different corporate tax incentives applied in Rwanda and the level of FDI growth within the previous four year: 2012 upto 2021. Specifically, the study achieved the following objectives;

- To assess the effect of VAT incentives on the growth of foreign direct investment in Rwanda;
- To determine effect of Income Tax incentives on the growth of foreign direct investmentin Rwanda;
- To assess the effect of Customs duties incentives on the growth of foreign Direct Investment in Rwanda

Problem Statement

While there is a questioning about the determinants attracting FDI inflows, countries have recently undertaken such schemes measures. In particular, tax incentives have been offered to influence investors' location decisions. Rwanda bears a significant amount of tax expenditures affected to tax incentives for investors. This is to say that Rwanda subsidizes investments through tax system. It is provided as the most generous state among EAC member states that provides more tax incentives schemes for investment, and its potential tax revenue is shortened by a quarter each yearthrough tax incentives for business. This represents 14% of its potential budget execution. This lost revenue should be sufficient to enhance the health and education capacity building (ActionAid Rwanda, 2017).

The report on tax expenditure of financial year 2021 in Rwanda provides significant amounts of money, allocated to incentives allowances. This is for companies and establishments that are subjects to those facilities according to the tax and investment laws. This report shows a combinedtax expenditure of three years: 2018, 2019, 2020, 2021 where the tax expenditure is concentrated in VAT, Income tax through preferential provisions and customs duties exemptions. The reportedamounts are 117.9, 133.4, and 141.0 for VAT, 22.9, 33.4, 41.3 for Income tax and 53.5, 92.0, 121.9 for Import duties in a respective order of the years.

The main part of undergone amount in VAT, customs duties exemptions and under income tax incentives mainly: tax holidays schemes, preferential tax rate loss and accelerated depreciation hadaim of attracting investment in Rwanda, increase exports, improve the balance of payment facilitating knowledge transfer. The originality of this study is the evaluation of three selected tax incentives allowed to business operators namely the Value Added Tax, the Income Tax and the customs duties exemptions. The choice of the analysis of foreign direct investment has been of great importance because not only the corporate tax incentives could be benefited by the Rwandan only but also many studies carried out on FDI inflows have shown that it facilitates the transfer of capital, technology, skilled labor, advanced knowledge which in turn is transferred to the Rwandan residents. This is the human knowledge investment.

LITERATURE REVIEW

Theoretical framework

Intrinsic motivational theory

A number of factors that influence the process of motivation can be described as external and internal like management style, personality traits, organizational culture, characteristics of the work done by an individual, etc. The job in itself, responsibility and advancement are also included in motivational factors. There must be some positive feelings about to duty that are related to these motivational factors mainly responsibility, achievement and recognition (Ćulafić *et al*., 2021). Intrinsic motivation is the best cornerstone concept that creates an intersection between economy and psychology. Psychologically, the development of the intrinsic motivation concept is a criticism case of behaviorism and psychologists who expressing it as for activities that are not means to some further end but an end in it. While there has been provided by behaviorists a positive relationship between reward and performance, the hypothesis upon which is to build the idea of intrinsic motivation is that rewards are affected by hidden costs to be effective for the subsequentperformance as long as the duty is perceived as an end in itself (Remic, 2021).

The intrinsic motivation is understood as the inner person motivation including facts like autonomy, challenges, enjoyment and mastery. As an example, there is a duty that an individual performs well not because he is expecting rewards in turn but because it is part his enjoyment. The following are four components of intrinsic motivation: Enjoyment which is related to the pleasurefelt by an individual after completing a given task, Challenge which is related to the excitement felt by an individual when facing and coming over a new challenge, Mastery which is related to the individual's pride and accomplishment of experiencing and carrying out difficult duty, Autonomy and self-determination which is related to the fact that an individual feels responsible and autonomous with freedom environment when determining what, when and how duties are to be conducted (Arnold, 2020).

Extrinsic motivational theory

The extrinsic motivational theory is another category where the motivation is described to be pushed by the facts coming outside from the concerned individual and usually involving praises and rewards. Money, rewards, praises, feedback etc. are the main n examples of extrinsicmotivation. These are means of encouraging an individual to carry out assigned duties with great achievement that he may not do otherwise. These motivations generate high satisfaction and pleasure to the employee that would not be provided by the task itself. The overall advantages of extrinsic motivations are of high appreciation as it creates a link between the increase in behaviorand increase in performance. However a criticism rises about when the reward can be removed, this can lead to a decrease in behavior consequently. This will result also in decrease of motivationif the rewards remain static without increasing the employees' gains. In simpler tasks the extrinsic motivations are effective that in tasks requiring creative and lateral thinking. Further, the extrinsic motivation can affect the

intrinsic one while carrying out the duty (Arnold, 2020).

Neoclassical investment theory

Its main influence is about providing an ability of replicating the salient evidence on economic growth from a simply stylized framework and by making a study on the business cycles; economic policies and optimal taxation to provide a comprehensive growth analysis. This model becomes easy upon its simplicity and parsimony when analyzing the impact of exogenous perturbation on dynamic states of an economy and provides a policy reform (Collard & Licandro, 2021). For neoclassical growth models, the government are able to influence the growth rate assumed to be an effect of population growth but cannot have durable effects on growth rate of per capital income. With these models, if the fiscal policies affect incentives of investing or saving in new capital, a change in equilibrium capital output ratio rises which leads on change of output path and at the leave steady state growth static. The exogenous elements like population growth and technological advancement drive the long-run growth rate while the transition path of economy towards steady growth rate is only influenced by public policy (Pamba, 2022).

Collard & Licandro (2021) have continued by précising that a homogenous for each firm's applied technology, a final goods that can be either consumed or invested is obtained through the use of capita and labor described as fixed partially irreversible heterogeneous production factors and flexible homogenous production factor respectively. In order to make argument simple, a portion of capital is required in the production process. In such case the expended cost on input asset needs to be taken into account before observing the firm's equity.

Review of literature related to objectives

The related variables that have needed to go through literature are the foreign investment growth, the tax incentives in its highlighted parameters: Value added tax incentives, Income tax incentivesand Customs duties incentives.

Foreign direct investment growth

The research conducted by UNCTDA (2022) on international tax reform and sustainable investment has shown that there has been an increase of 64% in FDI inflows from 2020 to 2021 where the FDI inflows have been of 1.58 trillion. This recovery has been showing a significant rebound moment characterized by an important flow of mergers and Acquisitions market and rapid growth within the scope international project finance caused by financing conditions and major infrastructure stimuli which had become deteriorated. However, the cross-border and international business environment has been dramatically changed in 2022. Food, fuel and finance crisis have been of main challenge in many countries because of the war occurred in Ukraine. This involves investors to make a downward pressure on global FDI in 2022. This 2022 is likely to be the case of trajectory downward at the best remaining flat.

A study by McCulloch (2019) has provided that given the profit maximizing objectives of business entities, establishing subsidiaries in tax havens (with or without engaging in real economic activity) provides these entities the benefits that exceeds the associated costs. MNCs and other investors use such subsidiaries in tax havens to take advantage of low tax rates in these entities as well as for minimizing tax payments in other jurisdictions.

According to United Nations (2022), it is difficult to anticipate the impact of investment flows to developing countries in 2022 and beyond. From central Asia countries, aside then impact, this will indirectly affect the rest of the world by depending on exposure caused by the triple crisis and economic consequence as well as political instability which are key determinants of international private investment.

With time reference, 2007-2008 when food prices where on higher level, there were riots in morethan 60 states. Investing in sustainable development goals, productive capacity, climate change mitigation and adaptation has been enormous. Even if it has been observed a strong rebound of FDI in

2021, the specific case of poorest countries reveals that the industrial investment still weak and below pre-pandemic status.

Value added tax incentives

The literature on Value Added Tax incentives has provided that firms located in eligible industries and pilot regions make profits through lower costs when they are purchasing fixed assets. They tend to increase capital investment and thus progressively reduce the employment comparably to those firms that have not benefitted such fiscal incentives (Yang & Zhang, 2021). VAT incentivesreduce the corporate fiscal burden significantly for corporations with lower intermediate input ratios, those having lower market share and firms with high value in fix assets (Liu & Fang, 2022).The VAT administration in Rwanda follows legal instrument which is the Rwandan VAT law. Therelevant VAT laws are "Law No 02/2015 of 25/02/2015 Modifying and Complementing Law N° 37/2012 of 09/11/2012 Establishing the Value Added Tax" and "Law No 40/2016 of 15/10/2016 Modifying and Complementing Law N° 37/2012 of 09/11/2012 establishing the Value Added Tax".

Benchmarking

The international benchmark of VAT makes it easy and simple to compute theoretically. The Rwanda's VAT model defines the VAT benchmark as below: The VAT in a consumption tax, borne by the final consumer namely the households by levied on all supplies of goods and serviceat 18%. Therefore, the overall goods and services consumed in Rwanda constitute the VAT benchmark referring the Rwandan VAT law. By this, the benchmark provides the tax levy with reference to destination basis, which is the consumption place in Rwanda. This is then applied to goods and services imported in Rwanda and not to those exported from Rwanda. The fundamentalcharacteristics and part of the VAT benchmark is the Zero-rating scheme of exports. For standard rate (18%), the VAT levy is applied on all stages of production and marketing chain of supplies. The VAT is applied on the value added at each stage because business has right to claim input taxcredit for recovering the tax paid on their business input. Here VAT becomes the real consumption yet the tax collected on final consumer is not refunded. What to precise here is that the provision of credit for VAT refund on business supplies in not part of tax expenditure.

The VAT law has two main provisions that give view to tax expenditures. These are the Zero- rating scheme and exemptions scheme as presented below: Zero-ratings: These are defined as the mean through which firms do not charge VAT on their output but still have right to claim the inputVAT paid on their purchases. With the case of exports which are zero-rated is not considered among tax expenditure because it is a necessary feature of Rwandan VAT system. The exports are not to be consumed from internal while VAT is applied in the country where the consumption takes place and not where they have been produced. Exemptions: Firms operating with exemption schemes are not allowed to charge output VAT and still do not have right to claim input VAT. Then the removal of exemptions schemes provides positive and negative impact on tax revenue. The positive side is through the output VAT firms would charge and the negative side is through the input tax they would claim.

Customs duties

The customs duties incentives are granted by the tax law and reflect all duties, taxes and fees waived to taxpayers when they meet the qualifications to beneficiate reductions on imports of goods in the specified country. These grants reduce the import charges which is source of facilities provided to the importer. These are mainly reductions made on import duties, excise taxes and Value Added Tax (Ding *et al*., 2020).

Benchmark

The relevant legal instrument used to collect import duties is the law no 025/2019 of 13/09/2019 establishing the excise duty. With the import duties matters, the benchmark unit of taxation is constituted by the importer, a business, incorporated or not, broker or individual. Furthermore, the determination of benchmark tax base is about assessing all imports into Rwanda. The

benchmark import tax base for duty is the Cost, Insurance and Freight (CIF). The origin of imported commodities whether outside or inside the communities which having trade agreements with Rwanda determines the benchmark duty rate to be applied. Imports originating from EAC and COMESA bear the following benchmark rates: Raw materials is 0%, intermediate inputs is 10% while finished goods are taxed at 25% of import duties.

Normally, the free trade engages regional partners and becomes a structural component of Rwanda customs schemes. The imports from EAC and COMESA partners states are treated duty free importations and these are not considered as part of tax expenditure.

There is a list of products that are subject of excise duty on imports mainly: motor vehicles in respect with their engine capacity, lubricant, cigarettes, beer, liquor, soft drinks water and milk. Those products are subject to various rate of import duty liabilities.

The 5% withholding tax (WHT) is a customs tax which is deductible from the importer's income tax declaration. However, those who do not file an income tax declaration are not subject to such WHT deduction. The entities imports exempted from the WHT of 5% are considered as part of tax expenditure.

The Rwandan tax expenditure on imports seems to be a deviation away from the standard EAC/COMESA **tariffs:**

EAC Customs law exemptions are mostly legislated the EAC customs management Act 2004 where are précised goods subject to exemptions, some of which are for specific persons and institutions only. Through EAC stay of Application for a specified time, the preferential tariffs can be granted to Rwanda. This is not applicable on sensitive items regulated under a common EAC tariff. Registered investors are also allowed to claim import duty exemptions for raw material and industrial input if this has not been provided under EAC

Common external tariff

Tax expenditure on import duty computation

The disaggregation of Rwandan tax expenditure on import duty is caused by the reduced rate or exemptions. The observed increase is driven by exempted raw material and industrial inputs granted to registered investors mainly through the duty remission scheme and an improved stay of application method. The products contributing more on its increase are garments, wheat, sugar, steel and palm oil.

Income tax

Income tax is classified among profit-based incentives as it refers the instruments making a direct reduction of the income tax amount. Under this category, there income tax related to rate reduction and that related to total exemption. Tax credit and tax allowance reduce the investment costs (Andriansyah, Hong & Nam, 2021).

The Rwandan income tax is levied based on legal instrument which is the relevant laws for income tax. These laws are: The "law n° o16/2018 of 13/04/2018 establishing taxes on income" and the "law n° 6/2015 of 28 March 2018 on investment promotion and facilitation". The corporate income tax expenditure is computed as the increase in corporate income tax payable by deduction all relevant provisions in a revenue gain method. In corporate income tax, the benchmark unit of taxation is constituted by the single company, cooperative society, public business, partnership or other entity established to realize profits from business activities within a calendar year. A rate of 30% is levied on worldwide income of Rwanda business after reduction of all allowed expenses incurred during the generation of that gross profit.

The legal instrument put in place the following types of provisions which are sources of tax expenditure in income tax law. Tax holidays: This is the way by which a registered investor or firm benefits a corporate income tax of 0% during a given period of time. The time scope of tax holiday depends on sector of investment. There is a tax holiday of five years, seven years and ten years. Although the investor still required to file corporate income tax in

his books of accounting.Preferential tax rates: There are qualifications that if fulfilled by the companies allow them to pay on a reduced income tax rate within a defined period of time. Main preferential tax rate applied is the rate of 15% for diversified prioritized sectors and 0% for foreign investors with theirheadquarters or regional office in Rwanda. The aim of the general preferential tax rate of 15% is to attract investment in Rwanda, increase exports to improve the balance of payments and to facilitate knowledge transfer.

Deduction: There are two types of deduction mainly: the increased deductible expenses such the accelerated depreciation for an asset's value and direct deductions from the profit computed such as previous losses deducted from current profits. Tax exemptions: The legal instrument provides a bracket of income within certain activities which are not subject to fiscal levy. The example is the agricultural and livestock activities where the first Twelve million RWF (12,000,000 RWF) is exempted from tax. This incentive is also benefited by some entities under corporate income tax. Although, they still have obligation of submitting the business financial statements.

Empirical review

This post pandemic period, there are two conflicting policies that many states are facing: This is about supporting economic recovery as well as rebuilding policy space. It is very essential to come up with a strong investment scheme for boosting the recovery momentum, but the government's effort to rebuild fiscal policy space is done through fiscal incentives to attract FDI. Meanwhile, the discussion about global tax reforms is a key point to push tax authorities to review the content of their tax incentive schemes. Using the dummy of a tax incentive, Siregar & Patunru (2021) haveobtained an estimated coefficient of tax incentives which is negative but significant at 0.01 whichmeant that the increase in tax incentive leads to a decrease in FDI inflow. This has been interestingas it hasn't met the expectation that tax incentives associated with transaction cost should be positively and strongly correlated with FDI inflow.

Kubi *et al*. (2022) analyzed the role of tax incentives on FDI inwards. The used tax incentives were company tax rate, tax holiday, withholding tax and tax concession. It has been found that between company tax rate, tax concession and FDI the negative relationship was drawn. The positive relationship has been drawn between the withholding tax, tax holiday and inflow of foreign direct investment. The study conducted by Azeez, Olabanji & Emmanuel (2018) provided a significant effect of customs and excise duties and value added tax incentives on FDI inflows with respective coefficient = -2.096 and 4.247, respective p-value = 0.0233 and 0.0125. Companies' income tax and petroleum tax incentives have been revealed non-significant on FDI inflow with respective coefficient = -1.514 and 2.749, respective p-value= 0.1510 and 0.7375.

The findings of Uwaume&Ordu (2017) show that tax incentives play a great role on FDI inflow in Nigeria. Using the multiple regression analysis, the independent variables were the VAT incentives, tax holidays, preferential tax rate and loss carried forward. The Vat incentives, tax holidays and loss carried forward have been significant to FDI inflow while the preferential tax rate has not been significant. Maxwell (2015) has used the multiple regression analysis to predict relationship between tax incentives and FDI inflow in Kenya and found that customs duties, wear and tear depreciation were significant while the tax holiday was not significant to FDI inflows.

Harerimana (2018) have used questionnaire and documentation to collect primary data and secondary data to analyze tax incentives on investment in Rwanda and found a significant positive effect on investment considering private sector of manufacturing industry.

Twesige *et al*. (2019) have analyzed the impact of tax incentives on SMEs and manufacturing firms respectively. By using the multiple regression analysis, the findings revealed loss carried forward,

tear and wear and VAT refund play a significant role on development of Rwandan SMEs.

The undertaken research has taken into different variables to conduct a study of tax incentives. This research has used the Income tax incentives, VAT incentives and customs duties incentives. The commonly known tax levied on economic supplies is the VAT which is levied in Input and Output way. In order to foster economic development, the tax administrators see in VAT a powerful tool. It is a consumption tax because it is borne by the final consumer. It affects the purchasing power of a consumer and leads subsequently to a financial performance of business operators. By providing VAT incentives there is an increase in investment will.

Research gap

The main studies on tax incentives have been conducted taking into account different variables of incentives. Even the few research made on Rwanda have not been taking into account the Foreigndirect investment as responding variable. This study is here to fill this gap by taking into account the main types of tax expenditures borne by the government of Rwanda in terms of tax incentivesas published by different reports from MINECOFIN and analyze their effect on FDIs as one of the rational of those expenditures.

The research conducted by Twesige *et al*. (2019) and Hererimana (2019) have been treating the tax incentives but not taken to foreign direct investment as responding variable. Also the independent variables have not been the selected by this research which are VAT, Customs dutiesand Income tax. That is why this research has a theoretical gap where the researcher needs to determine what is predicted by the multiple regression analysis of Foreign Direct Investment if the incentives in terms of VAT, Customs duties and Income Tax are taken into account as independent variables.

METHODOLOGY

Combens et al. (2022) define methodology as way of explanation, shows how the researcher are going to carry their research, method used to show observation, experiment comparison analysis and reasoning. It has a role of explaining the reason behind approach to research.

Research design: This research was conducted using the secondary data which are quantitative in nature. These are data found in books, reports, newspapers and government institutions reports that the researcher collects without having any influence of manipulation, they need to be treated as they are. Blog (2020) said that secondary data are that stored in books, data that already exist, data that have been collected through primary data. The data used have been collected from Ministry of Finance and Economic Planning. This study used correlational research design which is as a method involving observations of two variables with aim of establishing a statistically corresponding relationship between them. This design aims at identification of corresponding responsiveness of independent variable due to changes made in the independent variables. From this case the suitable research design is the correlational research design which searches to investigate the relationship between dependent and independent variables. This research design is defined as coherent strategy of establishing relationship between variable in logical way.

Study population and sampling: The target population is the universe to the collected information from selected sample is to be inferred (Sekaran, 2006). The target population of this study was the 10 reports of tax expenditures borne by the government of Rwanda from 2012 to 2021 as published by Ministry of Finance and Economic Planning. By using a universal sampling technique, the sample size was the 10 reported as money affected each year in terms of tax expenditures to Value added tax, customs duties and Income tax. These were stated in the 10 reports constituting targeted population. Since the population of the

study was well defined and not very large to compromise the researcher selection method, the study was done through a census case and thus the researcher concentrated on the whole population aimed through the FDI inflows having an effect of investment incentives in Rwanda. The data to be analyzed constitutes the population entities including the amount of tax expenditures bearded by Rwanda government and the FDI inflows during the period of 2017 up to 2021.

Data collection: The study used data gotten by documentary technique from secondary sources. Data from MINECOFIN National Institute of Statistics in Rwanda, Rwanda Revenue Authority, companies' registry, Rwanda Development Board, Public libraries, various companies' websites and government recorded played a significant role. The information detained by these detailed sources was pivotal to this study.

Data analysis: To run secondary data, some inherent tests need to be done before running the general model equation in regression analysis. Stata software was used to analyze the collected data. Since the data was quantitative by nature, it run the different tests namely stationarity, normality and heteroscedasticity and used the descriptive and inferential statistics. Normality test for the data was done using the skewness and Kurtosis test. This showed how the data was drawn from a normal distribution. The Augmented Dicky Fuller test has been used to test stationarity of data. It shows how the data have been behaving in terms of variance and mean. The heteroscedasticity test for data was done using Breush-Pagan test.

The descriptive statics in data analysis included the frequencies distributions, mean, standard deviation and percentages while the correlation analysis and multiple regression analysis has been part of inferential statistics when testing the relationship between independent variables (Tax incentives) and dependent variables (FDI). Summary description and statistics, data description and data visualization was done using tables, and charts for data presentation. Further linear regression dimension was provided to show significance of considered parameters. This tests estimation for determining the significance of relationship using the comprehensive view of the coefficient of determination (R^2). Normality and stationarity test was done to visualize the distribution and stationarity of data.

Model estimation: The statistical model namely the multiple regression models was used for testing the effect among variables. The linear regression analysis aims at modeling the relationship existing between the explanatory and response variables (independent and dependent variables). Simply, the multiple regression models are an extension of Ordinary Least Square (OLS) regression in the sense involving more than one variable. The stationarity and normality tests was conducted. The normality test was done using the Skewness/Kurtosis test for normality where p-value of skewness and kurtosis was compared with Chi square to determine the normal distribution ofdata. The stationarity test was done using Dicky Fuller test and heteroscedasticity has been done using Breush-Pagan test.

In our case we had the following equation:

The multiple linear regression analysis was of the of the form below: Model specification: $W = ß_0 + ß_1VATI + ß_2ITI + ß_3 CDI + £$ Where:

W: The FDI inward in Rwanda VATI: Value Added Tax IncentivesITI: Income Tax Incentives

CDI: Customs duties incentives. ß0, ß1, ß2, ß3: Parameters

£: Error term

FINDINGS

Tests presentation

This part presents the different test done during the study. It presents the normality test, the stationarity and all part of inferential statistic comprising the regression as well as correlation analysis.

Normality tests: Skewness/Kurtosis tests for normality.

The normality tests are the tests that determine the type of data distribution. They indicate that the set of data is distributed in such a way they are consistent with the normal distribution. When they are drawn from a normal population, the normality tests are tests of null hypothesis, specifically for goodness in test fitting. Skewness and Kurtosis test for normality provides values for p value of skewness and Kurtosis where they need to be compared with associated Chi square to prove the normal distribution of data. The normality of data has been done using the Skewness and Kurtosis test. The significance is assessed based on the value of probability of skewness and kurtosis compared with the p-value of 5%.

Table 1: Normality test for data

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. sktest vati iti cdi fdi

Skewness and kurtosis tests for normality
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				Joint test	
Variable	Obs	Pr(skewness)	Pr(kurtosis)	Adj chi2(2)	Prob>chi2
vati	10	0.7111	0.7972	0.20	0.9034
iti	10	0.7222	0.9615	0.13	0.9377
cdi	10	0.5918	0.4623	0.90	0.6364
fdi	10	0.1454	0.4616	3.24	0.1982

According to these results, for VATI since the probability of the Skewness is equal to 0.7111 which is greater than p-value of 0.05 and the probability of Kurtosis is 0.7972 which is also greater than p-value of 0.05, the Chi^2 is 0.9034 which is greater than 0.05. For ITI, the results show that the probability of Skewness is 0.7222>p-value of 0.05, the probability of Kurtosis is 0.9615>p-value of 0.05 and the Chi^2 of 0.9377 greater than 0.05. For Customs duties, the results show that the probability of Skewness is 0.5918>p-value of 0.05, the probability of Kurtosis is 0.4623>p-value of 0.05 and the Chi^2 of 0.6364 greater than 0.05. For FDI, the results show that the probability of Skewness is 0.1454>p-value of 0.05, the probability of Kurtosis is 0.4623>p-value of 0.05 and the Chi^2 of 0.1982 greater than 0.05. All the statements about the findings testing the normality show that the data are drawn from a normal distribution.

Stationarity of data: Augmented Dicky Fuller Test

The test of stationarity has been conducted using the Augmented Dicky Fuller test. The significance in stationarity is assessed based on the value ok test statistics compared with other critical values. When the t-statistics is greater than other critical values, the data are stationary.

Table 2: Stationarity test for Value added tax incentives

```
. dfuller vati, trend regress lags(1)

Augmented Dickey-Fuller test for unit root         Number of obs   =         8

                                 ------------ Interpolated Dickey-Fuller ------------
                 Test         1% Critical       5% Critical      10% Critical
               Statistic         Value             Value            Value
------------------------------------------------------------------------------
 Z(t)            -2.301           -4.380            -3.600           -3.240
------------------------------------------------------------------------------
MacKinnon approximate p-value for Z(t) = 0.4333

------------------------------------------------------------------------------
      D.vati |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
        vati |
         L1. |  -1.390744   .6043617    -2.30   0.083    -3.068721    .2872334
         LD. |   .3394874   .4622882     0.73   0.503    -.9440305    1.623005
             |
       _trend |   9.15e+09   3.60e+09     2.54   0.064    -8.48e+08    1.91e+10
       _cons |   1.50e+11   6.37e+10     2.36   0.078    -2.65e+10    3.27e+11
------------------------------------------------------------------------------
```

The results show for VATI a test statistic of -2,301 which is greater than other critical values (1%=-4.380, 5%=-3.60 and 10%=-3.240). This implies that the data for VATI are stationary.

Table 3: Stationarity test for income tax incentives

```
. dfuller iti, trend regress lags(1)

Augmented Dickey-Fuller test for unit root         Number of obs   =         8

                                 ------------ Interpolated Dickey-Fuller ------------
                 Test         1% Critical       5% Critical      10% Critical
               Statistic         Value             Value            Value
------------------------------------------------------------------------------
 Z(t)            -0.880           -4.380            -3.600           -3.240
------------------------------------------------------------------------------
MacKinnon approximate p-value for Z(t) = 0.9582

------------------------------------------------------------------------------
       D.iti |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         iti |
         L1. |  -.2883337   .3275431    -0.88   0.428    -1.197739    .6210717
         LD. |   .0041554   .4771226     0.01   0.993    -1.320549     1.32886
             |
       _trend |   3.75e+11   2.02e+11     1.86   0.137    -1.85e+11    9.34e+11
       _cons |  -9.90e+11   7.71e+11    -1.28   0.268    -3.13e+12    1.15e+12
------------------------------------------------------------------------------
```

The ADF test for ITI show that the test statistic is equal to -0.880 which is greater than all other critical values. For 1% the critical value is -4.380, for 5%=-3.600 and 10% critical value is -3.240. All these values are less than test statistic of 0.880. This implies the stationarity of data.

Table 4: Stationarity test for customs duties incentives

```
. dfuller cdi, trend regress lags(1)

Augmented Dickey-Fuller test for unit root         Number of obs   =         8
```

	Test Statistic	1% Critical Value	5% Critical Value	10% Critical Value
		Interpolated Dickey-Fuller		
Z(t)	-0.637	-4.380	-3.600	-3.240

MacKinnon approximate p-value for Z(t) = 0.9770

D.cdi	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
cdi						
L1.	-.1730041	.2714452	-0.64	0.559	-.9266568	.5806486
LD.	.1185022	.5184677	0.23	0.830	-1.320995	1.557999
_trend	7.97e+12	4.03e+12	1.98	0.119	-3.23e+12	1.92e+13
_cons	-2.19e+13	1.59e+13	-1.38	0.241	-6.61e+13	2.23e+13

Using the Augmented Dicky Fuller test, the CDI data have a test statistic of -0.637 which is greater than all other critical values. The critical value for 1% is -4.380 while for 5% is -3.600 and for 10% it is -3.240. This implies the data are stationary.

Table 5: Stationarity test for foreign direct investments

```
. dfuller fdi, trend regress lags(1)

Augmented Dickey-Fuller test for unit root         Number of obs   =         8
```

	Test Statistic	1% Critical Value	5% Critical Value	10% Critical Value
		Interpolated Dickey-Fuller		
Z(t)	-1.848	-4.380	-3.600	-3.240

MacKinnon approximate p-value for Z(t) = 0.6813

D.fdi	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
fdi						
L1.	-.8311974	.4498314	-1.85	0.138	-2.08013	.4177348
LD.	.138383	.1397994	0.99	0.378	-.2497624	.5265284
_trend	4.68e+11	2.25e+11	2.08	0.106	-1.57e+11	1.09e+12
_cons	3.15e+12	1.70e+12	1.85	0.138	-1.58e+12	7.88e+12

The augmented Dicky Fuller test for FDI show that the test statistic is -1.848 which is greater than critical values (-,380, -3.600, -3.240) respective for 1%, 5% and 10%. This implies that the data are stationary.

Heteroscedasticity test: Breush-Pagan Test

The heteroscedasticity test has been done using the Breush-Pagan test and the assessment is based on the prob>F compared with the significant p-value of 0.05.

Table 6: Heteroscedasticity test of data

```
. hettest, rhs fstat

Breusch-Pagan / Cook-Weisberg test for heterosk
         Ho: Constant variance
         Variables: cdi iti vati

         F(3 , 6)     =     3.89
         Prob > F     =   0.0737
```

Using the Breush-Pagan/ Cook-Weisberg test for heteroscedasticity, the results in table above show that a prob>F=0.0737 which is greater than significance level of 5%. This means that there is no heteroscedasticity in the data.

Regression analysis

The regression model below shows the analysis for the first objective which is to identify the relationship between value added tax incentives and Foreign direct investment.

Table 7: Relationship between FDI and VATI

```
. regress fdi vati
```

Source	SS	df	MS	Number of obs	=	10
				F(1, 8)	=	24.25
Model	3.1799e+25	1	3.1799e+25	Prob > F	=	0.0012
Residual	1.0490e+25	8	1.3113e+24	R-squared	=	0.7519
				Adj R-squared	=	0.7209
Total	4.2289e+25	9	4.6988e+24	Root MSE	=	1.1e+12

fdi	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
vati	98.269	19.95521	4.92	0.001	52.25221	144.2858
_cons	-7.75e+12	2.86e+12	-2.71	0.027	-1.43e+13	-1.16e+12

The results show that the VAT is statistically significant with p-value equal to 0.001 which is less than significance level of 5%. This means that VATI has a significant relationship with Foreign direct investment where if taken alone a unit increase in Value added tax incentives produces a subsequent increase of 98.269 units of FDI. The present findings are in the same line with Azeez, Olabanji & Emmanuel (2018) and Uwaume & Ordu (2017) where the Value added tax incentives were statistically significant and positively influencing the FDI inflows in Nigeria.

The table below is the regression model showing the analysis for the second objective which is to determine the relationship between Income tax incentives and FDI inflow.

Table 8: Relationship between FDI and Income tax incentives

```
. regress fdi iti
```

Source	SS	df	MS	Number of obs	=	10
				F(1, 8)	=	11.76
Model	2.5167e+25	1	2.5167e+25	Prob > F	=	0.0090
Residual	1.7122e+25	8	2.1402e+24	R-squared	=	0.5951
				Adj R-squared	=	0.5445
Total	4.2289e+25	9	4.6988e+24	Root MSE	=	1.5e+12

fdi	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
iti	.8404764	.2450986	3.43	0.009	.275278	1.405675
_cons	4.79e+12	6.21e+11	7.72	0.000	3.36e+12	6.22e+12

The results show that Income tax is statistically significant with p-value of 0.009 which is less than significance level of 5%. The findings above show a positive relationship between Income tax and FDI. With relevant findings, a unit increase in Income tax incentives leads to an increase in FDI of 0.8404764 units. This is presented in the same view with Maxwell (2015), Uwaume & Ordu (2017) where income tax through tear and wear, tax holidays and preferential tax rate have been producing an increase in FDI inflow in Kenya and Nigeria.

The regression model below shows analysis of third objective which to assess the relationship between FDI and CDI.

Table 9: Relationship between FDI and Customs duties incentives

```
. regress fdi cdi
```

Source	SS	df	MS	Number of obs	=	20
				F(1, 18)	=	66.06
Model	1.5155e+26	1	1.5155e+26	Prob > F	=	0.0000
Residual	4.1293e+25	18	2.2940e+24	R-squared	=	0.7859
				Adj R-squared	=	0.7740
Total	1.9284e+26	19	1.0149e+25	Root MSE	=	1.5e+12

fdi	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
cdi	.1008248	.0124049	8.13	0.000	.0747631	.1268866
_cons	1.38e+12	4.25e+11	3.24	0.005	4.86e+11	2.27e+12

The results show that the customs duties incentives are statistically significant, with a p-value of 0.000 which is less than the significance level of 0.05. The findings show that an increase of one unit in customs duties incentives leads to an increase of 0.1008248 units in FDI inflow. Azeez, Olabanji & Emmanuel (2018), Maxwell (2015) and Kubi *et al*. (2022) have found the same results about the relationship between customs duties incentives and FDI inflows in Nigeria, Kenya and India.

The table below shows the overal rekationship which is made when combining the three variables used by this study as variables to be taken into account in tax incentives. It shows how fit is it for capturing the dependent variable when all independents are taken simultaneously.

Table 10: General regression model

```
. regress fdi cdi iti vati
```

Source	SS	df	MS	Number of obs	=	10
				F(3, 6)	=	15.49
Model	2.7454e+12	3	9.1514e+11	Prob > F	=	0.0031
Residual	3.5459e+11	6	5.9098e+10	R-squared	=	0.8856
				Adj R-squared	=	0.8284
Total	3.1000e+12	9	3.4444e+11	Root MSE	=	2.4e+05

fdi	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
cdi	.458519	.1231863	3.72	0.010	.157093	.7599449
iti	.132492	.1404259	0.94	0.382	-.2111177	.4761017
vati	.2548221	.0855554	2.98	0.025	.0454756	.4641685
_cons	345097	530667.3	0.65	0.540	-953399	1643593

The table above provides the parameters to qualify the model, and the different variables that need to be used to build equation. The model fit the data at 88%, to mean that the model captures the variability of data at 0.88 or 88%. This means that the model fits the data as long as it us above 85%. The model is significant to treat the data because it provides a F-Significance or Prob>F=0.0031 which is less than 0.05 determining the range of significance.

Model equation:

FDI=345097+0.458519CDI+0.132492ITI+0.2548221VATI

The main objective of this study was to assess the effect of tax incentives on Rwandan FDI inward. The first specific objective was to analyze the effect of value added tax incentives of FDI and the findings have shown that the VATI have a significant effect on FDI inflows. The VATI and FDI are strongly and positively correlated with a coefficient of 0.8671 and VATI is statistically significant with P value of 0.025. With the specified model equation, there have been shown that a one unit increase in VATI produces a subsequent increase of 0.2548221 units in FDI inward. The second objective was about assessing the effect of Income tax incentive on FDI and from this view, the ITI and FDI have been revealed positively and strongly correlated with correlation coefficient of 0.7714. Income tax incentives are not statistically significant with P value of 0.382. The equation from regression analysis has shown that a one unit increase in Income tax incentives leads to an increase of 0.132492 units in FDI inward.

The third objective was to determine the effect of customs duties incentives on FDI and it has been proved that the two variables are strongly and positively correlated with a coefficient of 0.7101. Its P value was of 0.010 which means that the variable is statistically significant. The model equation has shown that a one unit increase in customs duties incentives has a subsequent effect of 0.458519 units increase in FDI inward. There is a systematic record of associated benefits like a boost of competition, an increase in domestic market efficiency which contributes more to the overall country's economic wealth. There has been shown an empirical growth regression with a positive correlation between tax incentives and FDI inward.

Kubi et al. (2021) found the significant relationship between tax incentives and FDI inward, where company tax rates, withholding tax and tax holiday have been revealed significant with a positive relationship against dependent variable. The statutory CIT rates are to be cut in order to increase FDI net inflows for short and long run to the host

country as well as the neighboring countries (Boly, Coulibaly & Kere, 2019). Therefore, making tax rate on low level has become an economic policy instrument for many governments in developing countries to attract FDI inflows. To prevent the subsequent impact in tax revenue loss, governments are appealed to broaden tax bases for some sectors and strengthen the capacities of collecting tax for financing development needs. Similarly, Ngure (2019) has found positive correlation between tax incentives and FDI inflows in Kenya. In his study he concluded that capital allowance, and customs duties incentives affect strongly and positively FDI inflows. Various incentives are significant fact to apply when governments need to enhance productivity of selected sectors.

CONCLUSION AND RECOMMENDATION

The regression model provided an equation explaining the relationship between independent and dependent variables. The independents are the incentives granted in field of VAT, Income tax and customs duties with specific policy put in place by the Rwandan government to promote or to enhance the production of prioritized sectors. The model was significant enough to treat the data as it gave a F-Significance of 0.0031 which is less than 0.005. The model captured the variabilityof dependent variable at 88% which is greater than 85%, then this means that the model used fit the data in presence. Among the three independent variables, two of them mainly the VAT incentives and the Customs duties incentives have been revealed significant with coefficients: 0.025 and 0.010 respectively which are less than 0.05. The Income tax incentives have not been significant as long as its coefficient is of 0.382 The provision of fiscal incentives has become an important subject to discuss by many scholars and researchers. This is because of heavy burden borne by governments in terms of tax expenditures, which present significant amounts that have not been collected and granted to economic operators fulfilling requirements set in provisions of law. There has been underlined economic benefits associated with Foreign Direct Investment in a country namely: which is greater than 0.05 determining the significance range. Normally, all the variables (dependent and independent) are positively correlated regardless of the fact of being weakly or strongly correlated. This means that granting fiscal incentives in Rwanda has a positive impact on the inflows of FDI. The incentives granted in terms of VAT treatment (0.7458) and customs duties matters (0.8274) are positively and strongly correlated to the FDI inflow while the Income tax incentives (0.4195) granted are weakly but positively correlated with the dependent variable. The summarized analysis operations with the linear regression model constituted by the dependent variable (Foreign Direct Investment) in function of independent variables (Value Added Tax incentives, Income Tax incentives and Customs duties incentives) gives a comprehensive view of the relationship between variables. A unit increase in Customs Duties Incentives has a subsequenteffect of increasing 0.458519 units in FDI inflow, a unit increase in Income tax incentives has a subsequent effect of 0.132492 units to increase in FDI inflow, while 0.2548221 increase in FDI inflows is due to an increase of one unit in Value Added Tax incentives. These confirm my hypotheses that the selected variables mainly Value Added Tax incentives, Income Tax incentives and Customs duties customs duties incentives have effect on FDI inflows in Rwanda. All these statements above show that an increase in tax incentives has a significant positive relationship with the FDI inflow. This implies the important role assigned to tax incentives in attracting FDI and enhancing the level of output for diversified sector of production.

Job creation, Export performance, Skills investment, global economic performance as well as incitation to local production. The undertaken research about the effect of tax incentives in Rwanda on the overall inflows of FDI has proven that there is a strong significant relationship between the two facts. The model shown that every unit increase in incentives input has a great impact on the FDI inflows. That is why this study releases these following

recommendations addressed to MINECOFIN departmentof budget planning and execution:

- View the provided value in the model equation, the significant amount allocated to Value Added Tax incentives schemes with specified policy of economic development has a desired effect on FDI as stated and this amount is to be increased for attracting more FDIsin Rwanda.
- The customs duties exemptions are significant to attract FDI inflows in Rwanda based onthe mode equation output and this amount needs to be increased so that more FDI inflows can be recorded in coming years;
- The income tax incentives are also to be increased and managed in such way that it become strongly and positively correlated with the FDI because even if it is positively correlated, the analysis has shown that the correlation was weak.
- Tax education provides transparency and accountability of budget execution which is mean of qualifying an accountable government. This to be done with effectiveness to make people understand the way is structure public expenditures.

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