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Energy and ICT Tax Effects on Foreign Direct Investment in a Low-Income Economy

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Abstract. The importance of excellent tax policies in increasing foreign direct investment inflows should be stressed in all growing economies. Foreign direct investment (FDI) is critical to increasing productivity, particularly in developing nations. Taxes emanating from energy related business have also triggered this inquiry due to fumes being contended within the environment and the effect on human existence. Prior researchers have investigated a variety of issues including trade liberalisation, property taxes, market shares, corporate taxation, and rising prices. Fewer researchers have examined the tax implications of energy and information and communication technology (ICT) development as a predictor of FDI in low-income countries. Following the introduction of taxes on energy and ICT activities in Nigeria, foreign investments' responses have not been tried out in studies and yet the dwindling level has been an issue of policy concern. As a result, this study seeks to fill the gaps by evaluating the effects of energy and ICT taxes on FDI from 2010 to 2020. The data applied for this analysis are obtained from World Bank, Federal Inland Revenue Service (FIRS) and Central Bank of Nigeria. Considering the outcome of this investigation, the paper concludes that the ICT development tax is detrimental to FDI inflows using the econometric approach of regression analysis. The correlational analysis also provides evidence that ICT taxation has a strong negative association with FDI. Other factors, such as trade openness and energy taxes, neither have a substantial relationship nor impact on FDI. The study indicates that improving policies to minimise ICT taxation will benefit the expanding economy by recruiting new foreign investors and retaining those who are currently present in the country

Keywords: overseas business, optimal taxation, ICT development, oil extraction, market liberalisation

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INTRODUCTION

Foreign direct investment growth in an economy is heavily influenced by the extent to which overseas investors are taxed in that country. Energy and ICT (Information and Communication Technology) tariffs are crucial to foreign direct investment inflow in emerging countries. Internet and networking innovations encompass all the technology that supports individuals to capture and transfer data while also linking the entire globe (Omodero, 2021; Oreku, 2021). The different ICT channels are universally regarded as accelerating catalysts, enhancing production and efficiency via the use of greater data communication (Chyzhevska *et al*., 2021; Yu *et al*., 2022). The energy tax stems from crude oil and gas exploration operations, which are more closely related with foreign investment in most oil-rich nations. Foreign investors benefit from advanced technology that allows for commercial drilling of petroleum, while host governments benefit from exploration taxes, royalties, drilling permits, and other associated energy taxes. When it comes to information and communication technology, foreign direct investment is also affected by the taxes involved in the development stage as well as continuous operating levies. Thus, the degree of taxation in each country decides FDI growth.

FDI is an important source of generating money for emerging economies since it allows them to obtain funds from advanced economies (Kolodkin, 2017; Yang & Shafiq, 2020). The Organisation for Economic Co-operation (OECD) describes FDI as a cross-border venture in which a foreign corporation develops a long-term stake in and/or a significant degree of control over a firm in some other nation. Furthermore, FDI supplies numerous benefits to the local community, including long-term funding needed for the host country's economic growth, the formation of new places of employment, the diffusion of innovations, increased access to international markets, the introduction of new leadership abilities, garnering industries from advanced areas (Kolodkin, 2017). The introduction of green technologies that can boost climatic conditions, raising work opportunities and wage levels, and having a positive effect on commerce.

FDI also contributes to the state's financial role in enhancing intellectual resources, increasing technological advance and performance, and resulting in total economic prosperity (Grossman & Helpman, 1991). The progression of FDI is prompted by three factors: acquisition elements centred on property and equipment; intra-organisational components arising from real worth influence in many places and regions; and site factors culminating from regional resources and capabilities, economic factors, and regulatory frameworks such as funding and fiscal legislation, intellectual property rights, and workforce legislation (Baccini & Urpelainen, 2014). Foreign investment in a developing nation has several advantages that cannot be emphasised. Foreign capital inflows help the economic status of a low-income country by supplying both technology and great human capital development. There is a lot of emphasis on globalisation, which leads to trade liberalisation, which improves the flow of technology and the productivity levels of less developed nations.

Policymakers in emerging economies meet a significant difficulty in attracting foreign investors. Furthermore, a difficult decision must be made on how taxing influences FDI. The government may levy three sorts of taxes on FDI: property tax, value-added tax, and income tax. The FDI properties attract the property tax, while the products that are sold include the worth addition tax and the corporate tax is levied on the overall income of the business. As a result, the significance of taxation in the mobility of money becomes more pronounced, as they lower financial profits to any investments. The influence of tax in deciding FDI inflows may be divided into two categories: economic considerations and organisational characteristics (Nasution, 2020). While taxes affect the inflows of foreign investments through its incidence as an economic indicator, it influences FDI inflows as an organisational element through its administrative responsibilities. Both characteristics have an influence on FDI inflows via efficiency and cost effectiveness, as this is the most crucial factor for capitalists to examine before investing (Krugman *et al*., 2012).

Fostering productivity expansion is an important measure in emerging economies for reaching different goals, such as lowering poverty and unemployment rates and improving the quality of life. There are several techniques available to reach this goal, one of which is soliciting foreign direct investment (FDI), which is regarded as a key centre of foreign funding. Thus, implementing tax breaks to encourage FDI is a typical tactic used by several emerging regions to attract FDI. According to E. Ferede & B. Dahlby (2012), tax cuts can lower investment costs and increase funds to work. Letting foreign financiers, a tax incentive may result in a significant rise in FDI inflows from exclusion nations but not from provisional economies (Singh, 2016). Tax vacations or tax cuts are commonly used in emerging and lesser undeveloped markets (McKeehan & Zodrow, 2017). In summary, allowing tax breaks for FDI motivates many MNEs to transfer their operations to take advantage of these tax breaks.

The purpose of this study is to investigate the impact of energy and information and communication technology tariffs on foreign company attractiveness in the developing nation under consideration. The study is organised into five sections: the introduction, the literature review, the research methodology, the results and discussion, and finally the concluding remarks.

LITERATURE REVIEW

Using tax receipts barriers, compliant tax representatives, intrinsic tax obligations, and businesses with diverse before-tax earnings, the results proved that tax breaks, when offered to the unfitting enterprises, were not just ineffectual in boosting FDI, but also contributed to a type of tax transferring that might decrease FDI. To circumvent host nation taxes, various global corporations are routing international investment via transit countries with an attractive incentive agreement arrangement. In

the light of this claim, F. Weyzig (2013) examined spatial trends and socioeconomic conditions of FDI migration using microcosm statistics from Dutch Special Purpose Corporations. The analysis showed that taxation accords were set up as a crucial driver of FDI channelled via the Netherlands.

J. Voget (2015) confirmed that a one-point reduction in the mandatory company tax rate raised the volume of transnational companies hosted by around 2.5 %, with a 95% credible band spanning from 0.6 % to 4.4 %. S. Hong (2018) investigated the connection between FDI and the design of tax-avoidance pathways. Evidence-based findings showed that the presence of a tax-cutting efficient link was absolutely and considerably correlated with FDI.

R.A. Nasution (2020) assessed the effects of tax cuts on international investment in Southeast Asian nations utilising longitudinal data from 1997 to 2016. The data revealed that, while corporate tax cuts had a detrimental impact on FDI in Southeast Asian nations, they were not the primary factor attracting investors. The major factors that influenced investors to take part in the regions were trade liberalisation and productivity growth. V. Mercer-Blackman & S. Camingue-Romance (2020) discovered, using panel data at the nation and sector levels, that the consequences of US tax policy on sector-specific FDI to Asia differed significantly among industries. After adjusting for size of the market, pricing, accessibility, and the business climate, the corporation tax incidence disparity was often not significant statistically, especially for worldwide price-chain-related FDI to emerging Asia.

J. Pavel *et al.* (2021) found the factors of tax structures — in both the investors and beneficiary state — that impact FDI placement in post-socialist EU nations as well as cross-border movements of certain forms of remittances. For constitutional and functional taxation rates, the study showed that the predicted responsiveness of FDI to the rate of taxation is approximately 1.1 and 1.9 accordingly. The findings revealed that entrepreneurs from the EU looked to capitalise on both corporation tax differential and complex tax optimisation tactics. According to statistical estimations, the shareholder's domestic taxation system was critical if it allowed the non-taxation of investment earnings, the applicability of discounted cost to licenses, and the creation of distinctive drive corporations. Furthermore, the quantity of fees for investment advice and royalty, which were often employed for belligerent tax scheduling, was significantly connected to the extent of FDI.

R.B. Davies *et al.* (2021) supplemented by investigating organisation merge FDI into Europe from a diverse set of homelands between 2007 and 2015 at both funding frontiers. The analysis revealed, similarly to earlier single-country analyses that taxation functioned on the broad margin. Based on those findings, the researchers dug further and discovered substantial variance between enterprises, with lesser financiers from high-tax native region being acutely susceptible to hosts taxes.

A.T. Adejare & O.S. Olatunji (2021) evaluated the influence of non-oil taxes on foreign direct investment and economic activities in Nigeria from 1994 to 2019. The researchers found that taxes had a negative substantial influence on international investment while favourably promoting financial operations in Nigeria. S. Silajdzic & E. Mehic (2022) evaluated the influence of business tax on FDI among less sophisticated emerging markets, examining if the taxing incidence was dependent on size and growth. The analysis found that, while taxation was a considerable FDI predictor, its impacts were reliant on technological advancement. Considering such outcomes, the researchers showed that lowering business taxes might be a significant tool for boosting FDI, which is especially important for less evolved emerging markets.

MATERIALS AND METHODS

This research analyses the effects of energy and ICT taxes on foreign direct investment in Nigeria from 2010 to 2020. The multiple regression model and other pertinent analytical tools which include diagnostic tests and descriptive statistics are used in this work. The diagnostic tests were used to confirm the stability of the study model, normality of datasets and absence of multicorrelation and autocorrelation. The use of descriptive statistics helped to show the nature and suitability of the dataset to the research. The unit root testing was done with the joint tools of PP-Fisher, ADF-Fisher, and lm, Pesaran, and Shin W-stat to set up dataset stationarity. The World Bank Development Indicator is the source of FDI data. While data on energy and information technology taxes were obtained from the Federal Inland Revenue Service (FIRS). The figures on trade liberalisation were obtained from the Statistical Bulletin of the Central Bank of Nigeria (CBN). The functional relationship is below (1):

$$Y=f(X) \quad (1)$$

where Y is the foreign direct investment (dependent variable), X is the energy and ICT taxes (independent variables).

Equation 1 can be explicitly explained as (2):

$$FDI=f(Taxation) \quad (2)$$

To further break down equation 2, the following model configuration (3) is selected for this study:

$$lnFDIit=\beta_0+\beta_1 lnICTit+\beta_2 lnNRGit+\beta_3 lnTPNit+\varepsilon it \quad (3)$$

β_0 is the intercept of the regression; β_1 is the coefficient of Information Communication Technology (ICT) development tax; β_2 is the coefficient of Energy taxes (NRG); β_3 is the coefficient of trade openness (TPN); it is the time coefficient; ε is the error term, β_0 is the regression intercept.

The description of the variables used in this study can be obtained in Table 1. It explains the data sources, their unit in both foreign and local currency, as well as other parameters used in collecting the data.

***Table 1**. Selected variables*

Variable	Abbreviation	Data Source	Unit
Foreign direct investment	lnFDIit	World Bank	USD ($)
Information communication technology taxes	lnICTit	FIRS	NAIRA (N)
Energy taxes	lnNRGit	FIRS	NAIRA (N)
Trade openness	lnTPNit	CBN	[(X-I)/GDP] (N)

***Source:** study model explanation, 2022*

RESULTS AND DISCUSSION

Trend analysis of variables

Figure 1 depicts the flow of foreign investment in Nigeria, information and communication technology, energy taxation, and trade openness. FDI was reported to be at its zenith in 2011, coinciding with the amount of trade liberalisation in that year. Looking at trade openness and FDI, the Nigerian administration promoted foreign investment in 2011, resulting in an elevated level of capital influx that year. Energy taxes were at their peak in 2011 and 2012, but ICT taxes were still rising. However, in 2020, although energy taxes have been drastically reduced, ICT taxes have gained speed and hit a record high, while FDI has declined dramatically. These are indications that when FDI inflows increase, so do energy taxes; nevertheless, as oil prices fall, so do energy taxes. Conversely, ICT taxes are rising as more technology-based businesses set up shop in the nation. There is still a need to persuade more international investors, particularly in the energy and ICT industries, to transfer their operations to Nigeria for increased productivity and wealth development. Following the many advantages of technology, the government should strengthen tax laws and create a more accommodating business climate to attract more FDIs.

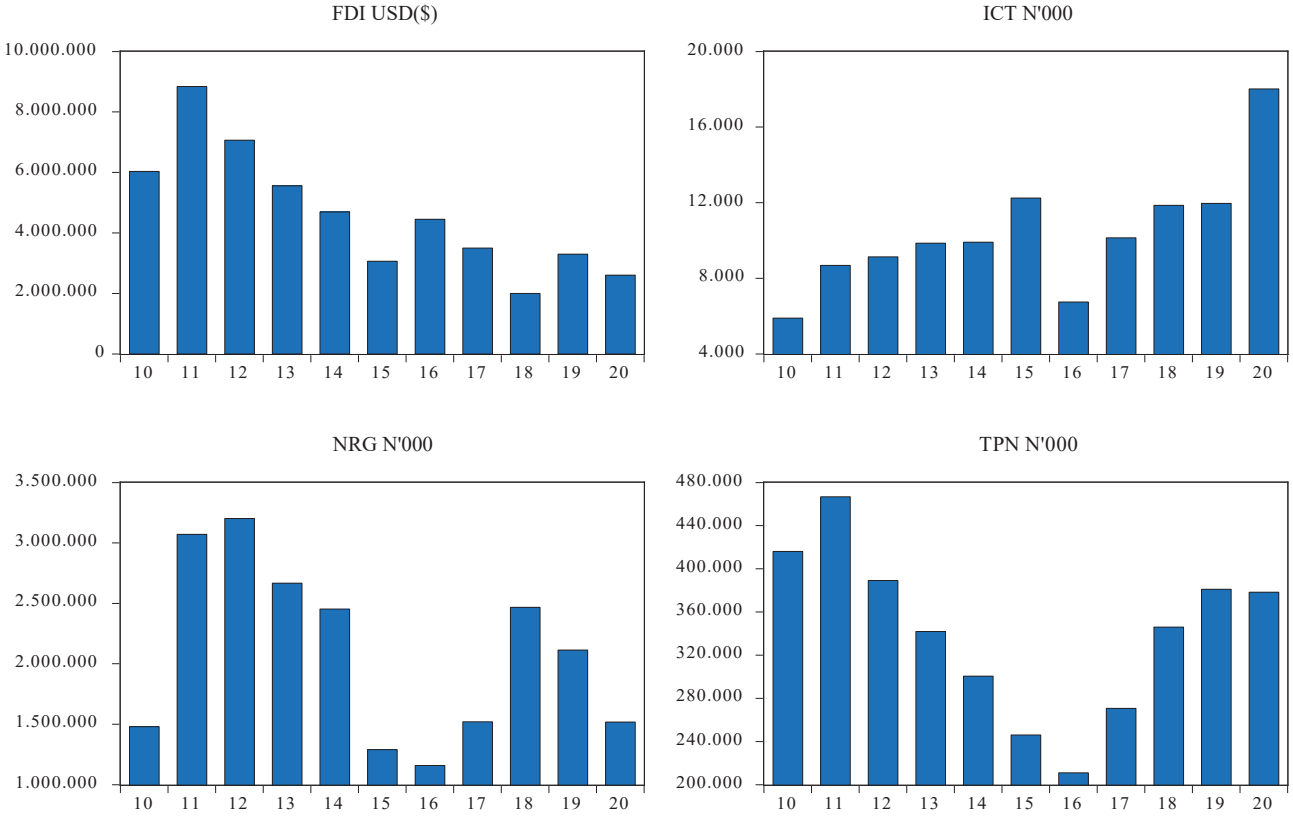

***Figure 1**. Trend of data*

***Source**: World Bank, FIRS & CBN*

The study examined all datasets for their unit roots, and the results show that Levin, Lin, and Chu t stationarity at level is consistent with the results of PP-Fisher, ADF-Fisher, and lm, Pesaran, and Shin W-stat at stationarity. These joint tools are useful when datasets are stationary at order zero and require impact analysis. The results in Table 2 demonstrate that the datasets collective are stable at the level as confirmed by the p-values which are less than 0.05 level of relevance. As a result, the usage of the multiple regression approach or the lease squares method is suitable. The results for confirmation are presented in Table 2.

***Table 2**. Group unit root test: Summary*

Series: LNFDI, LNICT, LNNRG, LNTPN				
Sample: 2010 2020			Cross-sections	Obs
Method	Statistic	Prob.**		
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-3.89221	0.0000	4	35
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-2.96267	0.0015	4	35
ADF – Fisher Chi-square	24.3979	0.0020	4	35
PP – Fisher Chi-square	35.1575	0.0000	4	36

***Note:** probabilities for Fisher tests are computed using an asymptotic Chi-square distribution. All other tests assume asymptotic normality*

***Source:** author's calculation, 2022*

Table 3 shows the results of further analytical testing. According to Table 3, the study does not have any multi-collinearity concerns. This is supported by the Variance Inflation Factor (VIF) value of 1 for ICT and 1.69 for NRG and TPN. As a result, the values are less than 4 (Garson, 2012) and 10 (Gujarati & Porter, 2009). Concisely, all autonomous elements are assessed separately for their impact on foreign investment attractiveness in Nigeria. There is no interrelationship between them. Furthermore, based on the result displayed in Table 3, there is no serial correlation found in the model while the stability test also confirms that the model is firm. The results of the other tests corroborate the model's applicability.

***Table 3**. Analytical checks*

Type diagnostic tests	F-statistics	P-value
Ramsey RESET test for stability	4.60	0.08
Breusch-Godfrey serial correlation LM test	0.17	0.84
Heteroskedasticity test: Breusch-Pagan-Godfrey	0.29	0.83
Multi-collinearity test:	Coefficient variance	VIF
lnICT	0.11	1.00
lnNRG	0.13	1.69
lnTPN	0.29	1.69

***Source:** author's calculation, 2022*

The descriptive statistics in Table 4 show that the variables have approximately the same mean, median, and maximum values, which are approximately: 15, 9, 14, and 13, respectively. Most crucially, the kurtosis is within statistically acceptable bounds, and the Jarque-Bera of all variables has a p-value greater than 0.05. This result confirms that all datasets for the study have been evenly distributed. The standard deviation, on the other hand, shows that the datasets have a lower dispersion around the mean locations.

***Table 4**. Descriptive Statistics*

	FDI	ICT	NRG	TPN
Mean	15.26093	9.208039	14.49233	12.71354
Median	15.30841	9.201098	14.56422	12.75396
Maximum	15.99480	9.798905	14.97907	13.05353
Minimum	14.50866	8.680332	13.96204	12.25951
Std. Dev.	0.449557	0.302150	0.361537	0.240425
Skewness	-0.010265	0.060298	-0.061795	-0.534637
Kurtosis	2.082515	2.995849	1.515140	2.295935
Jarque-Bera	0.386008	0.006674	1.017538	0.751233
Probability	0.824479	0.996669	0.601235	0.686866
Sum	167.8702	101.2884	159.4156	139.8489
Sum Sq. Dev.	2.021019	0.912949	1.307093	0.578044
Observations	11	11	11	11

***Source:** author's calculation, 2022*

The correlational analysis in Table 5 describes the type of link that exists between the dependable variable and the independent components used in this investigation. There is a considerable inverse association between ICT and FDI, as well as trade liberalisation and energy tariffs. Energy taxation and FDI have a moderate link, but trade openness and FDI have a poor relationship. The correlation between ICT and energy tax is quite weak, as well as the interaction between trade openness and ICT.

***Table 5**. Correlation analysis*

Sample: 2010 to 2020 Included observations: 11				
Correlation				
t-Statistic				
Probability	LNFDI	LNICT	LNNRG	LNTPN
LNFDI	1.000000			
LNICT	-0.655379	1.000000		
	-2.603120	-----		
	0.0286	-----		
LNNRG	0.418906	0.050393	1.000000	
	1.384005	0.151373	-----	
	0.1997	0.8830	-----	
LNTPN	0.365311	0.056808	0.640426	1.000000
	1.177303	0.170699	2.501598	-----
	0.2693	0.8682	0.0338	-----

***Source:** author's calculation, 2022*

Table 6 shows the regression result, which proves the extent of effects the predictor variables have on the reliant parameter. FDI is the response variable in this analysis, reacting to the dynamics of energy and ICT development taxing. It is crucial to notice, however, that the F-statistic p-value is less than 0.05, implying that the model is suitable and statistically significant. The standard error of regression also shows that the model prediction is correct, and the Durbin-Watson confirms the absence of autocorrelation. Further evidence using R-squared of 65.6% shows that the predictor factors account for up to 65.6% of the variance in FDI inflows in Nigeria. That is, outside ICT development levies and energy taxes, other macroeconomic factors not included in the model have only 34.4% influence on FDI changes. Figure 2 confirms the regression model's stability by displaying the blue line in the centre of the yellow dotted lines without crossing their borders.

***Table 6**. Regression analysis*

Dependent variable: LNFDI				
Method: Least squares				
Sample: 2010 to 2020				
Included observations: 11				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNICT	-1.016143	0.330318	-3.076260	0.0179
LNNRG	0.410065	0.358862	1.142682	0.2907
LNTPN	0.360713	0.539821	0.668208	0.5254
C	14.08888	5.987586	2.353016	0.0509
R-squared	0.656213	Mean dependent var		15.26093
Adjusted R-squared	0.508876	S.D. dependent var		0.449557
S.E. of regression	0.315051	Akaike info criterion		0.803122
Sum squared resid	0.694799	Schwarz criterion		0.947811
Log likelihood	-0.417172	Hannan-Quinn criter.		0.711916
F-statistic	4.453823	Durbin-Watson stat		1.598071
Prob(F-statistic)	0.047436			

***Source**: author's calculation, 2022*

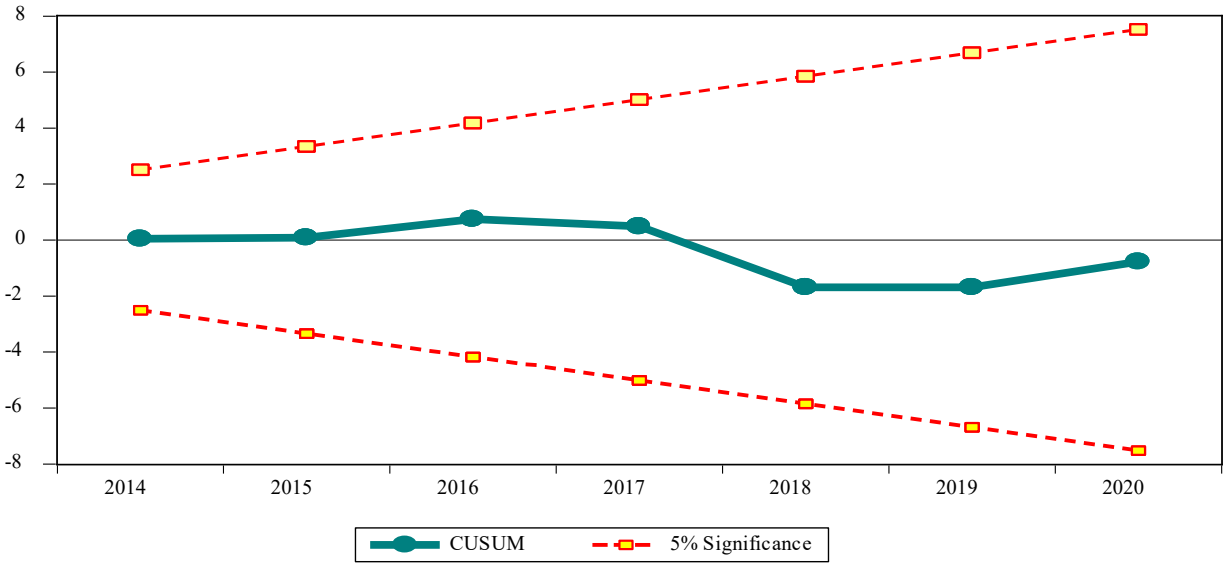

***Figure 2**. Robustness check*

On the specific influence of the independent factors, the results show that ICT tax has a significant negative effect on FDI. This result presents a case which confirms that FDI strong considerable decline in 2020, as seen in Figure 1, is a result of information and communication technology levies. There is need for policy review in favour of foreign investors in this respect. The findings also show that energy tariffs and trade liberalisation have no substantial influence on FDI. The policy implication is that the global drop in oil prices has harmed enterprises engaged in oil exploration. Second, the domestic market may not have been ideal for foreign trade. As a result, the government must expand local markets to promote foreign trade and exchange of products and services.

CONCLUSIONS

The outcome of this study has shown that emerging nations can only reap the full advantages of the foreign investments through improvement on taxation policies. Apart from corporate taxation, which even domestic firms also pay, Nigeria has other levies that primarily affect foreign investors. The principal two taxes affecting foreign operations in the nation have been analysed in this study. The data suggest that energy taxes and market liberalisation have no discernible impact on FDI. Instead, the impact of the information and communication technology development tax is significantly detrimental to international investment. This is quite precise, and it advocates for reforms to ensure that more FDIs are attracted to help the economy.

Tax breaks and exemptions, as stated by various research covered in this paper, will be extremely beneficial to foreign investors. Most international investors favour countries with tax havens for business. Although a tax haven may not be fully beneficial to a rising economy, there are also alternative cost-effective ways of providing overseas investors with tax breaks to promote their activities. Specifically, ICT taxes may be decreased to attract more potential investors and retain existing ones.

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Вплив енергетики та ІКТ-податків на прямі іноземні інвестиції в економіку з низьким рівнем доходу

Корделія Оньіньєчі Омодеро

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Анотація. Необхідність правильно вибудованої податкової політики для збільшення притоку прямих іноземних інвестицій актуальна в усіх країнах, що розвиваються. Прямі іноземні інвестиції (ПІІ) мають вирішальне значення для підвищення продуктивності, особливо в країнах, що розвиваються. Не менш важливі податки, що надходять від бізнесу, пов'язаного з енергетикою через викиди від галузі до навколишнього середовища та вплив на існування людини. Попередні дослідники вивчали різноманітні питання, включаючи лібералізацію торгівлі, податки на нерухомість, частку ринку, корпоративне оподаткування та зростання цін. Менше дослідників вивчали податкові наслідки розвитку енергетики та інформаційно-комунікаційних технологій (ІКТ) як провісників ПІІ в країнах з низьким рівнем доходу. Після введення податків на енергетику та діяльності ІКТ в Нігерії, реакція на іноземні інвестиції не була висвітлена в дослідженнях; водночас зниження рівня інвестицій викликало занепокоєння. Це дослідження намагається заповнити прогалини шляхом оцінки впливу податків на енергетику та ІКТ на ПІІ з 2010 по 2020 рік. Дані, використані для цього аналізу, отримані від Світового банку, Федеральної служби внутрішніх доходів (FIRS) і Центрального банку Нігерії. З огляду на результати цього дослідження, у статті робиться висновок, що податок на розвиток ІКТ завдає шкоди притоку ПІІ за допомогою економетричного підходу регресійного аналізу. Кореляційний аналіз також надає докази того, що оподаткування ІКТ має сильний негативний зв'язок із ПІІ. Інші чинники, такі як відкритість торгівлі та податки на енергію, не мають істотного зв'язку та не впливають на ПІІ. Дослідження показує, що вдосконалення політики мінімізації оподаткування ІКТ піде на користь економіці, що розвивається, залучаючи нових іноземних інвесторів та утримуючи тих, хто зараз є в країні

Ключові слова: закордонний бізнес, оптимальне оподаткування, розвиток ІКТ, видобуток нафти, лібералізація ринку