Capital allowances and Foreign Direct Investment in Listed Manufacturing Companies in Nigeria

Olaleye, M. O*

Department of Economics, Accounts and Finance, School of Business, Jomo Kenyatta University of Agriculture and Technology, P.O.Box 62000- 00200, City Square, Nairobi, Kenya

Memba, F. S.

Department of Business Administration, School of Business, Jomo Kenyatta University of Agriculture and Technology P.O.Box 62000- 00200, City Square, Nairobi, Kenya

Riro, G. K,

Department of Accounting and Finance, Dedan Kimathi University of Technology, P.O. Box 657, 10100, Nyeri Kenya.

Abstract

Tax incentives have become a global phenomenon as more and more governments try to attract multinational companies and enhance the associated technology spillovers. Capital allowances are allowable as deductions in lieu of depreciation, which are treated as inadmissible for tax purpose. The objective of this study was to establish the effect of Capital Allowance on Foreign Direct Investment (FDI) in Listed Manufacturing Companies in Nigeria. The study adopted descriptive research design and the target population of the study was the 74 Listed Manufacturing Companies with approximately more than 56,000 employees. A sample size of 352 respondents from thirty two (32) manufacturing companies was selected using stratified purposive sampling and respondents were grouped into three strata; that of top, middle and lower management levels. This study used primary data which was obtained from administration of the questionnaires. Data analysis was done using frequencies, mean and standard deviation, while inferential statistics consisted of correlation and regression analysis. The findings show a strong positive linear relationship between capital allowance and foreign direct investment. The paper recommends that tax authority should introduce a policy of carrying over investment allowance that is not utilised to the subsequent year as an advantage to the investors to reduce their tax liability.

Keywords: Capital Allowances, Manufacturing Companies, Investment Allowance, Foreign Direct Investment.

1. Introduction

The United Nation Industrial Development Organization (UNIDO) (2008), reported that the flow of foreign direct investment (FDI) globally reached an all-time high of USD 1.3 trillion during the year 2000. Investment Promotion Agencies (IPAs) in many parts of the world, especially in the highly developed economies of Europe and North America, and also booming Asian economies of China, recorded high volumes of business and celebrated further success in attracting new investment to their countries (UNIDO, 2008). Most of this investment flow, however, was concentrated in the highly developed areas of the European Union, the United States of America and Japan that together accounted for 71% of world inflows of FDI due to lucrative tax incentives (UNIDO, 2008).

Jensen and Malesky (2010) remarked that despite broad skepticism about the benefits of globalisation, the majority of U.S. states had offered lucrative tax incentives to attract investment. Consequently, the African share of world investment fell from its previous 1% to a further low of a mere 0.67% (UNIDO, 2008). Consequently, African countries were encouraged and supported to set up Investment Promotion Agencies (IPAs) to "market" their attractions and create a one-stop-shop and to smoothen the pathway for incoming investors. As a comparison, in the year 2002, Nigeria with an estimated population of 120 million attracted FDI of USD 22 billion, while Malaysia with much fewer population and far less natural resources attracted FDI that almost tripled the Nigeria's figure of USD 22 billion – and not much has changed since then (UNIDO, 2008).

UNCTAD (2008) defines FDI as a long-term relationship between companies in the source country (the investor) and another company in the host country (country of investment). To comply with this definition of foreign direct investment, it is mandatory for the investing company to hold not less than 10% of the normal shares. Since the establishment of globalisation, the growth of FDI has been tremendous (UNCTAD, 2011). Foreign investment can be classified into two categories; the first is the movement of capital and other resources across borders. While the second category includes different types of titles, assets or contractual rights (UNCTAD, 2004). The FDI is a kind of investment at international level involving mutual benefit between two entities belonging to two different economic environments, in which case one belonging to a specific economic environment (the foreign investor) benefits from investing in an institution belonging to another economic environment (FDI institution) (UNCTAD, 2007).

Nigeria created an Investment Promotion Agency, Nigerian Investment Promotion Commission (NIPC) to provide a "one-stop-shop" to smoothen the path and remove obstacles facing incoming investment. Jerome and Ogunkola (2004) assessed the magnitude, direction and prospect of investing in Nigeria. They observed that foreign direct investment was increasing but with some limitations. These limitations exist in the corporate environment (such as labour law, corporate law and rule of law). The establishment and the activities of the economic and financial crimes commission, the independent corrupt practices commission and the Nigeria investment promotion commission are efforts to improve the corporate environment and uphold the rule of law in Nigeria.

The FDI story of Nigeria has been dominated by the oil industry. In 1960 at independence and the decades of corruption, economic mismanagement and political instability further reduced Nigeria's ability to retain and attract FDI. In 1970, the FDI inflows stood at $205million but increased to $470million in 1975.The FDI inflows responded positively in 1986 to more attractive fiscal terms for private sector participation in oil and gas .In 1989, there was a reduction of Nigerian National Petroleum Corporation (NNPC) shares in Shell Nigeria and other oil companies from 80 to 60per cent, the FDI inflows to Nigeria have never decreased below $1billion per year. The era of new democracy in 1999 created vibrant opportunities for renewal of the economy and broader base of FDI. The Government of Nigeria introduced measures such as establishment of the Nigerian Investment Promotion Council (NIPC), tax incentives among which are tax holidays, initial capital allowance, and free duty on equipment. (Fakile & Adegbile 2011). These incentives cover all sectors of the economy to encourage and promote private investment.

1.1 Statement of the Problem

The flow of FDI to the Nigerian Economy is low relative to other countries in Africa even with the presence of tax incentives (UNCTAD, 2014). The report indicates that out of the 57 billion dollars FDI inflows to Africa, Nigeria inflows stands at 5.6 billion US dollars (10% of total FDI to Africa). However, the Oil and Gas sector receives 75% of FDI inflow in Nigeria, while other sectors received 25% (Corporate guide, 2012). Aganga (2014) said that if Nigeria is going to migrate from a poor Nation to a rich Country, the key is industrialization. There is an inadequate attraction of FDI into the listed Nigerian manufacturing companies. The negative effect of the weak manufacturing sector arose with the dwindling revenues from the Oil and Gas sector. Despite the fact that studies have been done in Nigeria on tax incentives and Foreign direct investment, the effects of capital allowance incentives on FDI in listed manufacturing companies in Nigeria have received virtually no attention. As a result, the study attempts to fill the gap in literature by establishing the effect of capital allowance incentives on FDI in listed Nigerian manufacturing companies.

1.2 Objective of the Study

The objective of this study was to establish the effect of Capital allowances on Foreign Direct Investment in listed Nigerian Manufacturing Companies

1.3 Hypothesis

H_0: There is no significant relationship between Capital allowances and the Foreign Direct Investment in Listed Nigerian Manufacturing Companies.

The remainder of this paper is organised as follows: Section two reviews prior research and develops the propositions while Section three outlines the research design. In Section four the results are presented while the summary and conclusion is presented in Section five.

2. Literature review

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

2.1. Capital Allowances in Nigeria

UNCTAD's Uganda IPR (2000) notes that depreciation and capital allowances are generally preferable to tax holidays, as they specifically encourage new investment. Morisset & Pirnia (2000) find that "industrialized countries have opted for investment allowances or accelerated depreciation".CITA (2004) regards capital allowance as a relief that is given to any person who has acquired qualifying capital expenditure during a basis period in respect of assets in use for the purpose of business or a trade at the end of a basis period. CITA (2004) defines qualifying capital expenditure as capital expenditures on plant, machinery and fixtures, buildings, structures or works of permanent nature, mines, oil wells or other sources of mineral deposits of a wasting nature, plantation, research and development, agricultural plants, public transportation motor vehicles and public transportation (inter-city) new mass transit coach. It is not all capital expenditure or fixed assets that can be regarded as qualifying expenditure for the purposes of capital allowances, for example, the cost of land is not treated as qualifying expenditure

Any expenditure, which is allowed as a deduction in computing the assessable profit of a company, is not to be treated as qualifying expenditure. Capital allowances are allowable as deductions in lieu of depreciation, which are treated as inadmissible for tax purpose. Whereas there are several methods of calculating depreciation and each business is free to adopt the method and rate of depreciation that meet its requirement. CITA stipulates one method of calculating capital allowances and a uniform rate for each class of asset. The various types of capital allowances, which are granted in Nigeria, are initial allowance, annual allowance, investment allowance, balancing allowance, rural investment allowance and export processing zone allowance. Investment allowance is a method used by the Nigerian tax system to encourage investment in some preferred sector of the economy.

The available investment allowance currently under the Nigerian tax system are:10% investment allowance on plant and machinery of business in the agricultural sector of the economy,10% investment allowance on production machinery in use by manufacturing concerns and 15% investment allowance on plant and machinery acquired in replacement for obsolete ones . Export Processing Zone (EPZ) Allowance is 100% capital allowance granted in any year of assessment to a company that has incurred expenditure in its qualifying building and plant equipment in an approved manufacturing activity in an Export Processing Zone. Pioneer Companies in certain industries are exempted from tax for a three year period in the first instance and a maximum of five years in total with a carry forward of capital allowances on asset incurred during the pioneer period. The setbacks associated with capital allowance are abuses involving multiple claims.

Under investment allowance, companies are provided with generous write - offs for qualifying capital costs (Wijeweera, Brian and Don, 2007). An investment allowance leads to reduction in taxable income and it is of no immediate benefit to investors who have no profits/ tax liability against which to set it. It may be useful to taxpayers only if they can be carried forward, either as an allowance or as an addition to a loss. Bond and Samuelson (1986) argued that capital allowance (investment allowance) may be used by countries as signals of their "quality" as locations for foreign investment and investment incentives are presumed to encourage companies to invest more by increasing the rate of return from holding assets. Bernstein and Anwar (1994) came up with a dynamic model of production to analyse the impact of tax policies on input demands and output supply for producers operating in selected industries in Mexico, Turkey and Pakistan. The tax incentives applied for these industries included: Investment allowances, accelerated capital consumption allowances, corporate income tax rate reductions and investment tax credits.

The Bernstein - shah model results suggest that tax incentives are necessary for investment and production decisions for the six industries analysed in the three Countries. In addition, discovered that some tax incentives were more effective than others in investment stimulation per dollar of revenue loss to the treasury. Among the incentive measures examined are investment allowances, accelerated depreciation provisions and investment tax credit proved to be cost-effective instruments for investment promotion in Turkish industries Clarete (1992) examined the effects of tax rebates and drawbacks on imported machinery and equipment by priority industries. The author concludes that there is a strong impact of these incentives on investment. Feldstein (1987) studied the relative efficacy of tax incentives using disaggregated dynamic computable general equilibrium models for Pakistan and Mexico. The result showed that investment allowance and investment tax credit are more simulative in its impact on private capital formulation.

First investors emphasize more on incentives, such as subsidies, that reduce cost of establishment, while firms that reinvest, prefer more incentives that deal with taxation, such as *tax-holidays*, accelerated depreciations and loss-carry forwards and loss-carry backwards (Stapper,2010). In other words, firms that have started their activities in a new country have different preferences about their motives in relevance with firms that expand their activities (Rolfe, Ricks, Pointer& McCarthy, 1993). However, high inflation can quickly erode the value of annual depreciation allowances, which will result in a relatively high effective tax rate on capital. This implies that, for many developing countries, investment allowances are much less effective than theory might suggest.

Lall (2001) discovered that, in Ghana, investment allowances and tax-deductible R&D expenditures "failed to evoke a significant response from the business community". Trela and Whailey (1991) in the application of equilibrium model examine the impact of rebates of direct and indirect taxes on exports, investment allowance, tax holidays and investment tax credits on Korean growth performance. The result showed that tax policy accounted for less than one – tenth of the growth of the Korean economy during 1962-82. There was no significant relationship between investment allowance and foreign direct investment in Korea.

2.2 Overview of Nigerian Listed Manufacturing Companies

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

The collapse of the oil price in the international market resulted to a negative effect on the manufacturing sector's performance. The manufacturers were faced with the multiple problem of obtaining spare parts and raw materials for their production processes. The inadequacy and non –availability of the companies' access to the

spare parts and raw materials constituted the major factors towards the decline in the growth rate of the manufacturing sector after 1981 (Dipak & Ata, 2003, Adenikinju & Chete, 2002). Anyanwu (2000) supported the findings of Adenikinju & Chete that the collapse of the world oil market in the early 1980s contributed to the decline in the foreign exchange earnings of Nigeria, which resulted in the level of performance of the manufacturing sector. The introduction of the Structural Adjustment Programme (SAP) in 1985 by the Federal Government of Nigeria was expected to find solutions to the situation but there was no improvement (Anyanwu, 2000).

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

2.3 Eclectic Paradigm theory

The Eclectic theory is demonstrated by Dunning (1980, 2000, and 2008) as a mix of three different theories of FDI based on the following advantages (O-L-I). Ownership advantages (O), Location advantages (L) and Internalisation advantages (I). This theory is termed as the OLI theory or framework. All the three factors are important in determining the pattern and extent of FDI. Eclectic theory embraces all existing theories of FDI. The theory is a framework for identifying some determinants of FDI. The OLI theory are relevant to consider the process of establishing why Nigeria has attracted FDI because of tax incentives offered which is the highlight of this study. Countries should attract FDI by reducing inherent costs and derive maximum benefit. Because of this, most countries grant tax incentives to attract FDI. The moment ownership advantage is achieved, and then location advantages of different countries become the key factors to establish the host countries for the various activities of the transnational corporations.

2.4 Ex-Post Appropriation Theory

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

3. METHODOLOGY:

The study adopted descriptive research design and the population for this study comprised of all seventy four (74) Listed Manufacturing Companies in six geo-political zones of Nigeria. While the target population of the study was the 74 Listed Manufacturing Companies with approximately more than 56,000 employees. A sample size of 352 respondents from thirty two (32) manufacturing companies was selected using stratified purposive sampling and respondents were grouped into three strata; that of top, middle and lower management levels. These categories were chosen because of their knowledge about administration and tax policies in Nigeria This study used primary data which was obtained from administration of the questionnaires. Internal consistency was determined with the Cronbach's coefficient alpha of 70%. Data analysis was done using frequencies, mean and standard deviation, while inferential statistics consisted of correlation and regression analysis

The regression model is stated below :

$Y = \beta_0 + \beta_2 X_2 + e$

   i. Y = the value of the dependent variable of FDI

   ii. X_1 = Capital Allowance incentives

   iii. e *is* the error *t*erm, which is assumed to be normally distributed with mean zero and constant variance.

The regression model was tested on how well it fits the data. The significance of each independent variable was tested. Fischer distribution test called F-test was applied. It refers to the ratio between the model mean square divided by the error mean square. F-test was used to test the significance of the overall model at a 95 percent confidence level. The p-value for the F-statistic was applied in determining the robustness of the model.

The conclusion was based on p value where if the null hypothesis of the beta is rejected then the overall model will be significant and if null hypothesis is accepted, the overall model will be insignificant. In other words if the p-value is less than 0.05 then it will be concluded that the model is significant and has good predictors of the dependent variable and that the results are not based on chance. If the p-value is greater than 0.05, then the model   will not be significant and cannot be used to explain the variations in the dependent variable. Correlation between the variables was tested. Pearson correlation coefficient is a measure of linear association between two variables (Kothari, 2014). Karl Pearson Correlation Coefficient is the most widely used method of measuring the degree of relationship between two variables (Kothari, (2014). It ranges from -1 to +1. A correlation coefficient of -1 indicates a perfect negative correlation, 0 indicates no correlation while +1 indicates a perfect positive correlation.

4. Results and Discussion

UNCTAD (2000) notes that depreciation and capital allowances are generally preferable to tax holidays, as they specifically encourage new investment. The respondents had the following as presented in table 1 on the questions that were asked regarding the effect of capital allowance incentives on foreign direct investment in Nigerian listed manufacturing companies.

The respondents were asked to indicate their level of agreement with given statement concerning if initial and annual allowances incentives are important in attracting FDI. The results show that 55.1% of the respondents agreed, 22.7% were neutral, 16.3% strongly agreed, 5.2% disagreed while 0.7% strongly disagreed. The majority of 71% and above suggested that initial and annual   allowances are important in attracting FDI. The mean is 4(agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). This indicates also that majority supported the statement that initial and annual allowances are   important in attracting FDI. According to Oyetunde (2008) capital allowances encourage investment in short –lived capital assets.

The study aimed to find out if investment allowance is a method used to encourage investment in the manufacturing sector. It is reported that 56.6 % of the respondents agreed, 21.7% were neutral, 15.7% strongly agreed, 4.1% strongly disagreed while 1.9% disagreed. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). This implies that majority of the respondents agreed that investment allowance is a method used to encourage investment in the manufacturing sector. Morisset & Pirnia (2000) find that "industrialized countries have opted for investment allowances or accelerated depreciation" to encourage foreign direct investment. Bond and Samuelson (1986) argued that investment allowance may be used by countries as signals of their "quality" as locations for foreign investment and investment incentives are presumed holding to encourage companies to invest more by increasing the rate of return from assets. Sebastian (2009) in his analysis on effect of tax incentives on investments in OECD countries concluded that capital allowance alone cannot lead to increased investments. The analysis was based on existing literature and case studies from developed countries. Its key results showed that every tax incentive has costs and benefits. Lall (2001) discover that, in Ghana, investment allowances and tax-deductible R&D expenditures "failed to evoke a significant response from the business community".

The respondents were asked whether rural investment allowance encourages in flow of FDI in listed manufacturing companies. In the results 70.4% agreed, 21% neutral and 5.6% disagreed. The mean is 4(agree) implying that majority agreed with the statement with a small variation   of 1 (standard deviation is 1). While the responses were spread within a standard deviation of 1 from the mean. Oyetunde (2008) emphasised that in Nigeria, indigenous and foreign investors are entitled to rural investment allowances depending on the type of infrastructure required for companies established in rural, underdeveloped and inaccessible location.

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

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

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

Table 1: Capital Allowance Incentives

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

(Strongly disagree-SD, Disagree-D , Neutral-N, Agree-A, Strongly Agree- SA)
Descriptive   Statistics on Foreign Direct Investment (Dependent Variable)
In this study foreign direct investment was the dependent variable statements as shown in table 2. The majority of the respondents (67.5 %) agreed that   the investment climate for foreign investors is very conducive in attracting equity participation in manufacturing companies. The mean is 4(agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). Swenson (2001) distinguished 6 main components of FDI: New plants, plant expansions, mergers and acquisition, joint developing countries ventures, equity increases and other FDI. To gain the benefit most are trying to attract FDI by framing different policies such as trade liberalization and creating an attractive macroeconomic investment environment (UNCTAD 2004).

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

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

The study sought to determine if there is high prospect in the attraction of foreign direct investment into the Nigerian listed manufacturing companies. The result show that 61.5%, agreed with the statement, 6.0% strongly agreed, 27.3% were neutral and 5.2% disagreed. The findings suggest that there is high prospect in the

attraction of foreign direct investment into the Nigerian listed manufacturing companies. The mean is 4 (agree) implying that majority agreed with the statement with a small variation of 1 (standard deviation is 1). Previous research by Massoud, (2003) shows that with the globalization of the international economy in the 1999s, the importance of FDI increased and was considered by many economists to be one of the leading motivations for its dominance.

FDI plays a major role in the economic development of the host country through the benefits associated with it (Hanson, 2001). Among the benefits include technological transfer and know- how, increased trade integration with the rest of the world. This has made the countries of the world: especially emerging economies to engage in FDI attraction efforts in order to attain their investment and development needs. According to UNCTAD (2008), the return of Nigeria to democracy in 1999 has created the opportunity for economic renewal and an associated broader base of FDI. To reap the benefit from FDI, several measures were taken by Nigeria government to improve the investment climate. The policy changes started yielding fruits and if sustained, they will provide an environment more conducive to private investment and enhance the attractiveness to FDI of Nigeria's large and growing market.

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

Table 2: Foreign Direct Investment

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

Correlation Analysis on Capital allowance incentives and foreign direct investment

The Pearson Correlation of capital allowance incentives and foreign direct investment was computed and established as 0.604 (p-value=0.000) which is a strong significant and positive relationship between the two variables. UNCTAD (2000) notes that capital allowances incentives are generally preferable to tax holidays as they specifically encourage new investment. The study revealed a positive relationship between capital allowance incentives and foreign direct investment. From table 3, it could then be concluded that there is a strong positive linear relationship between the capital allowance incentives and foreign direct investment.

Table 3 : Capital Allowance Incentives Pearson Correlation

		FOREIGN DIRECT INVESTMENT	INVESTMENT ALLOWANCE INCENTIVES
FOREIGN DIRECT INVESTMENT	Pearson Correlation	1	.604**
	Sig. (2-tailed)		.000
	N	267	267
CAPITAL ALLOWANCE INCENTIVES	Pearson Correlation	.604**	1
	Sig.(2-tailed)	.000	
	N	267	267

**. Correlation is significant at the 0.01 level (2-tailed).

Model Summary for   regression between capital allowance incentives and foreign direct investment.

Regression analysis was conducted to determine the amount of variation in foreign direct investment explained by capital allowance incentives. The results of the analysis are shown in table 4, the R = 0.604, which indicates a strong positive relationship between capital allowance incentives and foreign direct investment .While R^2 =0.365 which means that 36.5% of the corresponding variation in foreign direct investment can be explained by change in capital allowance incentives. The rest 63.5% can be explained by other variables.

Table 4: Model Summary for   regression between capital allowance incentives and foreign direct investment

R	R Square
.604[a]	365

a.   Predictors: (Constant), Capital Allowance Incentives

ANOVA results for capital allowance incentives and foreign direct investment

A one way analysis of variance (ANOVA) whose results formed a basis for tests of significance was used. The ANOVA for the linear model presented in table 5 of capital allowance incentives and foreign direct investment has a F value = 152.202 which is significant with p-value = 0.000 < 0.05 meaning that the overall model is significant in the prediction of foreign direct investment in Nigerian listed manufacturing companies. We therefore reject the null hypothesis that there is no significant relationship between capital allowance incentives and the foreign direct Investment in Listed Nigerian Manufacturing Companies. While H_1 is therefore accepted that there is significant relationship between capital allowance incentives and the foreign direct Investment in Listed Nigerian Manufacturing Companies. In the study conducted by Bond and Samuelson (1986),it was argued that capital allowance (investment allowance) may be used by countries as signals of their "quality" as locations for foreign investment and investment are presumed to encourage companies to invest more by increasing the rate of return from holding assets. Their study supports the view that there is a positive relationship between capital allowance and foreign direct investment in Nigerian listed manufacturing companies. This is an indication that existence of capital allowances encourage inflow of FDI

Table 5 ANOVA   Results for Capital Allowance Incentives and Foreign direct Investment

	Sum of Squares	df	Mean Square	F	Sig.
Regression	762.020	1	762.020	152.202	.000[b]
Residual	1326.761	265	5.007		
Total	2088.781	266			

a. Dependent Variable: FOREIGN DIRECT INVESTMENT

b. Predictors: (Constant), CAPITAL ALLOWANCE INCENTIVES

Coefficients for regression between Capital Allowance Incentives and Foreign Direct Investment

The test for the significance of regression relationship between capital allowance incentives and foreign direct investment, the regression coefficients (β), the intercept (α), and the significance of all coefficients in the model were subjected to the t-test to test the null hypothesis that the coefficient is zero. The null hypothesis state that, β (beta) = 0, meaning there is no significant relationship between capital allowance incentives and the foreign direct Investment in Listed Nigerian Manufacturing Companies as the slope β (beta) = 0 (no relationship between the two variables). The results on the beta coefficient of the resulting model in table 6 show that the constant = 4.322 is significantly different from 0 with a p-value = 0.000 < 0.05. The coefficient β=0.488 is also significantly different from 0 with a p-value = 0.000 < 0.05. Therefore, both the constant and capital allowance incentives contribute significantly to the model. The t value for constant is 7.754 while for the capital allowance incentives is 12.337, which indicate they are significant. The H_o is rejected while $H_{1\ is}$ accepted, which imply that there is significant relationship between capital allowances incentives and the Foreign direct investment in Listed

Nigerian Manufacturing Companies. In this study, it is concluded that capital allowance incentives attracts flow of FDI into the Nigerian manufacturing companies.

Table 6.: Coefficients for regression between Capital Allowance Incentives and Foreign Direct Investment.

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	4.332	.559		7.754	.000
CAPITAL ALLOWANCE INCENTIVES	.488	.040	.604	12.337	.000

5 . SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The results of correlation showed that there was a positive significant linear relationship between capital allowance incentives and foreign direct investment. This relationship was illustrated by correlation coefficient of 0.604 at 0.01 significant levels. The R square was 0.365 which means that 36.5% of the corresponding variation in foreign direct investment can be explained by change capital allowance incentives. The rest 63.5% can be explained by other variables. The significance of all coefficients in the model was subjected to the t-test to test the null hypothesis that the coefficient is zero. There was a positive beta coefficient of 0.488 with a p-value of $0.000 < 0.05$ and a constant of 4.332 with a p-value of $0.000 < 0.005$. Therefore, both the constant and capital allowance incentives contribute significantly to the model. The t value for constant was 7.754 while for the capital allowance incentives was 12. 337, which indicate they were significant. The H_o was rejected while H_1 accepted, which imply that there is significant relationship between capital allowance incentives and the foreign direct investment in Listed Nigerian Manufacturing Companies. The F statistics of 152.202 showed that the model was significant at 0.000. This indicates that the overall model applied can significantly predict outcome valuable. With these findings, the null hypothesis was rejected while the alternative hypothesis accepted that capital allowance incentives influence foreign direct investment in listed Nigerian manufacturing companies.

Conclusion

It is evident that capital allowances incentives encourage foreign investors to invest in the various sectors of Nigerian economy. Therefore there is positive significant relationship between capital allowance incentives and foreign direct investment in listed Nigerian manufacturing companies. Investment allowances encourage a long-term planning and enhance approach towards investment. The initial investment allowance on plant and machinery implies that effective corporation tax rates would be considerably lower than nominal rates in the early stage of a project and companies can retain more of their income and cash flow for future investment. Twenty five (25) percent investment tax credit on the cost of fixed assets is granted to a company that engages in the fabrication of spare parts, equipment and tools for local consumption or for export. Capital allowance may be used by countries as signals of locations for foreign investment and companies are encouraged to invest more with the availability of investment incentives on their assets.

Recommendation

The tax authority should introduce a policy of carrying over investment allowance that is not utilised to the subsequent year as an advantage to the investors to reduce their tax liability. Further research should be conducted on tax incentives and FDI in companies that are not listed in the Nigeria stock exchange.

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