



# Tax Incentives in National Investment Laws

Bridging the gap between tax and  
investment policy-makers

IISD REPORT

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### Head Office

111 Lombard Avenue, Suite 325  
Winnipeg, Manitoba  
Canada R3B 0T4

[iisd.org](https://iisd.org)

### **Tax Incentives in National Investment Laws: Bridging the gap between tax and investment policy-makers**

April 2026

Written by Josefina del Rosario Lago

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### Acknowledgements

The author thanks Kimberley Chitando for her research assistance and writing support, and gratefully acknowledges help in the preparation of this report from Suzy Nikiéma, Alexandra Readhead, Josef Ostránský, Kudzai Mataba, Jaqueline Taquiri, Landry Ouedraogo, Lauren George, and Isaak Bowers.

Finally, the author wishes to thank representatives of the governments of Peru, Honduras, Guatemala, Tanzania, Senegal, Ghana, and Cambodia, who made their time available to share their insights.

Any remaining errors or omissions are our own.



## Executive Summary

Tax incentives have become a central feature of national investment laws across emerging markets and developing economies (EMDEs). However, little evidence exists on how tax incentives are embedded in investment laws, how they interact with other legal instruments, and how they are governed in practice. If not carefully designed and monitored, tax incentives can generate substantial revenue losses and contribute to inefficient resource allocation, often without achieving their intended investment outcomes. These risks are closely linked to how incentives are governed. Differences in the core mandates of investment promotion agencies (IPAs) and ministries of finance (MoFs) can further intensify them, creating coordination gaps in the design, approval, and oversight of tax incentives embedded in investment laws.

This report is a fact-finding exercise mapping the landscape of tax incentives in investment laws across EMDEs. It draws on a survey of 105 national investment laws in Africa, Asia, and Latin America and the Caribbean, complemented by interviews with government officials, to examine the prevalence, design, and institutional interactions of tax incentives embedded in these laws.

## Key Findings

1. **Investment laws are a major vehicle for granting tax incentives.** Of the 105 EMDEs with investment laws we have surveyed, 71 explicitly provide incentives. This trend is particularly visible in Africa and Asia, where a significant share of these laws were enacted in the past decade, reflecting a sustained and relatively recent reliance on incentives as part of investment promotion strategies.
2. **Tax incentives dominate the incentive landscape within investment laws.** They appear in 94% of laws that provide incentives, consistently across regions. Financial and non-fiscal incentives are less common and typically accompany tax measures rather than replace them. Among tax incentives, tax holidays and rate reductions are the most frequently used instruments.
3. **IPAs often drive the drafting of investment laws.** By contrast, MoFs are less prominently positioned in the design process, and their involvement is frequently shaped by administrative practice rather than structured coordination.
4. **The authorizing environment for granting and administering tax incentives in investment laws is largely dominated by IPAs.** They are most frequently assigned a central role in approving and managing incentives, while MoFs are less prominently appointed in the laws.
5. **Tax incentives frequently coexist across multiple legal frameworks without anti-cumulation provisions.** Among countries where investment laws grant incentives, the majority also offer incentives through other legal instruments. However, only a limited number include explicit anti-cumulation provisions to prevent investors from benefiting simultaneously from multiple regimes.



6. **Centralization efforts are emerging but remain uneven.** Some countries are moving toward centralizing tax incentives under unified legislation outside their investment laws. These reforms aim to improve transparency, reduce fragmentation, and align incentives more closely with national development strategies. However, implementation challenges and institutional capacity constraints persist.
7. **Monitoring and evaluation mechanisms in investment laws remain limited and uneven.** Less than half of the investment laws granting tax incentives explicitly require periodic reviews of the incentives they grant, and even fewer mandate independent audits. In many cases, oversight is reactive, constrained by capacity gaps, and not systematically embedded in the legal framework.
8. **Revenue-foregone data is often disconnected from investment policy-making.** While tax authorities in many countries produce estimates of tax expenditures, these reports are rarely required by investment laws and are not consistently shared with or integrated into the work of investment authorities.

Across countries, a recurring theme emerges: decisions on whether and how to include tax incentives in investment laws require structured coordination between investment and tax authorities. Where tax incentives are embedded in investment laws without strong institutional alignment, legal, fiscal, and governance risks become more pronounced.



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## Abbreviations and Acronyms

<b>BIT</b>	bilateral investment treaty
<b>EMDE</b>	emerging markets and developing economies
<b>ICSID</b>	International Centre for Settlement of Investment Disputes
<b>IISD</b>	International Institute for Sustainable Development
<b>IMF</b>	International Monetary Fund
<b>IPAs</b>	investment promotion agencies
<b>ISDS</b>	investor–state dispute settlement
<b>LAC</b>	Latin America and the Caribbean
<b>MEF</b>	Ministry of Economy and Finance
<b>MoFs</b>	ministries of finance
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PCT</b>	Platform for Collaboration on Tax
<b>SEZ</b>	special economic zones
<b>TISEZ</b>	Tanzania Investment and Special Economic Zones
<b>UNCTAD</b>	UN Trade and Development



# 1.0 Introduction

Tax incentives have, for many years, been considered essential investment promotion tools. They are fiscal terms designed to reduce the cost of investment by lowering an investor's tax liability (Mataba et al., 2023). Among the various legal instruments that grant these incentives, national investment laws now serve as a central policy tool to formalize these commitments (UN Trade and Development [UNCTAD], 2022a). This trend is particularly pronounced in least developed countries, where investment laws and associated secondary legislation constitute the primary legal basis for tax incentives in 55% of cases (UNCTAD, 2022b). Many of these laws not only establish the basic legal framework for foreign investment but also contain explicit provisions granting investors a range of fiscal benefits.

However, despite their prevalence, little is known about how investment laws govern the use of tax incentives. If not carefully designed and monitored, tax incentives can generate substantial revenue losses and contribute to inefficient resource allocation, often without achieving the intended investment outcomes (International Monetary Fund [IMF] et al., 2015). These risks have prompted governments to put the focus on consistent monitoring and evaluation of tax incentives, which, in the case of investment laws, also requires stronger coordination across government. Differences in the core mandates of investment promotion agencies (IPAs) and ministries of finance (MoFs) can lead to gaps in coordination. While IPAs play a vital role in attracting and facilitating investment, they may operate under strong political and economic pressure to secure projects quickly. Without structured collaboration with MoFs, whose mandate focuses on safeguarding fiscal stability, there is a risk that tax incentives granted through investment laws may not be fully evaluated for their long-term fiscal implications or alignment with national revenue strategies.

This report is a fact-finding exercise designed to map the current landscape of tax incentives in investment laws from emerging markets and developing economies (EMDEs). It aims to provide policy-makers and practitioners with a clearer understanding of how investment laws operate as vehicles for granting incentives, what implications this has for policy coherence and public finance management, and the governance challenges it raises. By surfacing these problems, the report provides the necessary groundwork for reform options and recommendations in a forthcoming International Institute for Sustainable Development (IISD) policy brief.

This study builds on IISD's 2023 *Rethinking National Investment Laws* report (Bonnitcha et al., 2023), which examined the evolution, functions, and potential of these laws and offered guidance to policy-makers on how to reform them to address contemporary challenges. It also continues IISD's broader work on tax incentives, including the 2023 policy brief *Revisiting Tax Incentives as an Investment Promotion Tool* (Mataba et al., 2023), which examines the foundational premises underlying the use of tax incentives for investment attraction.

Our research focused on how tax incentives are incorporated into investment laws, their interaction with incentives in other legal instruments, and the institutional arrangements that govern their implementation. Drawing on a survey of 105 investment laws from Africa,



Asia, and Latin America and the Caribbean (LAC), complemented by interviews with government officials, this report addresses the following questions:

- What role do investment laws play in the granting of tax incentives, and what types of incentives are most common?
- How do incentives in investment laws interact with other national legal instruments?
- What governance mechanisms exist to coordinate decision making, implementation, and oversight of these incentives?

## 1.1 What Gap Is This Report Filling?

Over the past several years, IISD has worked extensively with EMDEs on the design and evaluation of tax incentives, particularly through its research on the mining sector and the implications of the Global Minimum Tax. Much of this work has focused on the role of MoFs in assessing the fiscal impact of incentives and promoting stronger oversight. However, less attention has been paid to the growing trend of granting tax incentives through investment laws, often with limited involvement from fiscal authorities.

This report seeks to address that gap by focusing specifically on the inclusion of tax incentives in national investment laws across EMDEs. Building on the findings of IISD's 2023 *Rethinking National Investment Laws* report (Bonnitcha et al., 2023), this research provides new evidence on the prevalence, types, governance arrangements, and legal interactions of tax incentives embedded in investment laws with other relevant national instruments.

We aim to complement ongoing work by UNCTAD (2022, 2024) and the Organisation for Economic Co-operation and Development (OECD) (2024) on investment incentives. While these broader studies examine the use of incentives across multiple policy tools, this report focuses on one critical yet often overlooked instrument: investment laws. It also builds on the Platform for Collaboration on Tax (PCT) publications, including the Tax Incentives Principles (2025), which underscore the oversight role of MoFs and the importance of consolidating incentives under tax law, although without diving into details. IISD's submission to the PCT during the Principles' consultation process highlighted the need to consider investment policy-makers and investment laws when discussing tax incentives.

By focusing on investment laws and bringing investment policy-makers into the conversation, this report contributes to a more granular understanding of how tax incentives are used in these laws in EMDEs and the governance challenges they present.

## 1.2 Who Is This Report For?

This report is intended for investment and tax policy-makers in EMDEs who are involved in the design, implementation, and oversight of tax incentives. It is particularly relevant for officials in IPAs who lead or support investment law reform, and for MoFs and tax authorities responsible for assessing the fiscal impact of incentives and ensuring policy coherence.

By examining how tax incentives are embedded in investment laws and the governance challenges that arise, the report aims to foster a more coordinated approach between



institutions that promote investment and those that safeguard public revenue. Ultimately, it seeks to support a shared understanding of the role that tax incentives should play in attracting sustainable investment, building a common vision that promotes quality investment while contributing fully to domestic resource mobilization.



## 2.0 Methodology and Definitions

### 2.1 Methodology

This report uses a two-stage methodology combining desktop research and interviews with relevant government officials.

At the first stage, we developed a survey based on desktop research that compiled information from 118 EMDEs in Africa, Asia, and LAC, based on data available as of May 2025. From this, 105 investment laws were identified in line with the parameters set out in IISD's *Rethinking National Investment Laws* report (Bonnitcha et al., 2023), using UNCTAD and World Bank databases and, where necessary, official government websites to capture the most up-to-date legal texts. The survey focused on explicit legal provisions related to investment incentives. It reviewed the types of incentives granted, their duration and eligibility criteria, and whether they overlapped with other national legal instruments. The survey also examined the institutional arrangements for approving and monitoring incentives. The laws reviewed were enacted between 1964 and 2024.

To complement this legal review and analyze the possibility of overlapping tax incentives, we consulted selected provisions from other national frameworks, including tax laws, regulations governing special economic zones (SEZs) or free trade zones, and sectoral instruments. Although this report focuses on tax incentives, the survey adopted the typology outlined in Section 3.0 and categorized incentives into three groups: (a) tax incentives, (b) financial incentives, and (c) non-fiscal incentives. The survey results inform the analysis presented in Section 4.0 and underpin several of the governance issues explored in Section 5.0.

At the second stage, we conducted interviews with officials from IPAs and MoFs to gain deeper insight into the governance of tax incentives granted through investment laws. The country selection was informed by the regional focus of our survey. The interviews followed a structured guide and focused on three main themes: (a) interagency coordination behind the drafting of investment laws; (b) the alignment of tax incentives in investment laws with other national policy instruments; and (c) the mechanisms for monitoring and evaluating these incentives.

There are several limitations to acknowledge. First, not all relevant laws or policies are publicly available, and in some cases, the information was not accessible in English, French, or Spanish. Second, the survey's review of overlapping frameworks and governance mechanisms was limited to the content of national investment laws and a selected group of related instruments. As a result, overlaps managed through administrative practices or secondary legislation could not be fully captured, including those in investment contracts, which can be an important source of incentives. Third, our study does not examine the double tax agreements as a potential source of tax incentives. While double tax agreements may shape the tax treatment of investments and interact with investment treaty obligations (Lang et al., 2017; UNCTAD, 2024a), we focused only on how investment policy tools capture incentives.



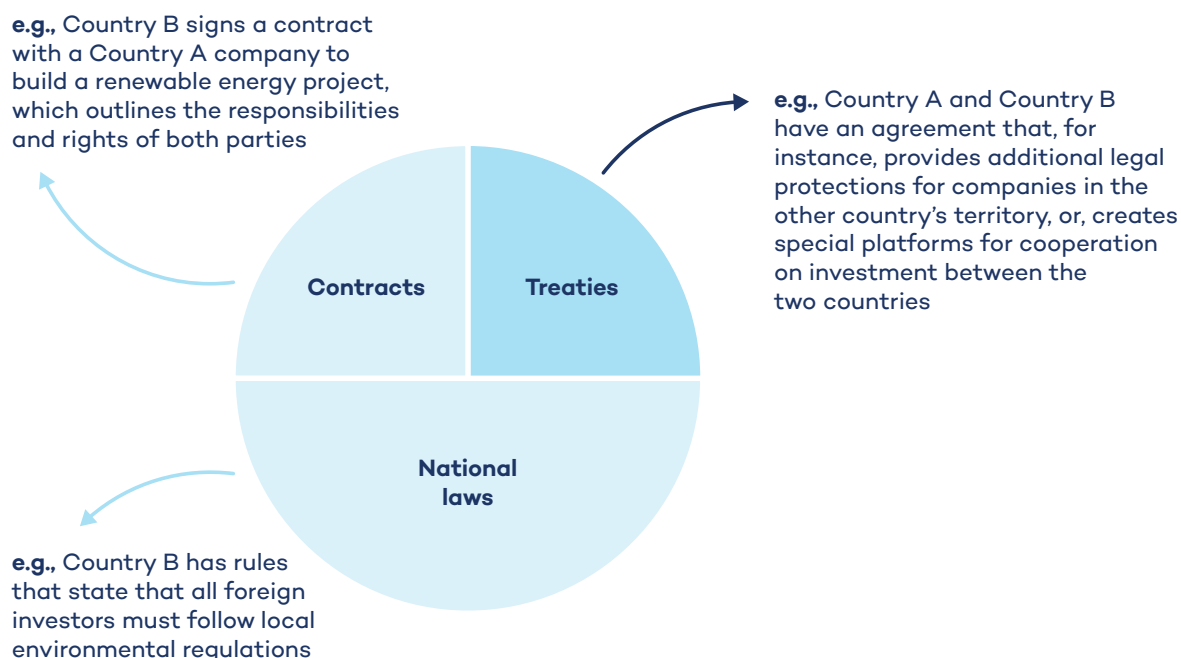
## 2.2 Definitions

### 2.2.1 What Are Investment Laws?

Investment laws do not have a single or universally accepted definition. In general terms, they can be understood as laws that focus specifically on investment, rather than sectoral legislation that may also regulate investment-related matters. They provide a dedicated legal framework for foreign or domestic investment in a country, while other instruments that govern only a single sector or jurisdiction usually fall outside this definition. While the scope and structure of investment laws vary, they typically serve several key functions, including but not limited to regulating the admission and approval of foreign investment, administering investment incentives, facilitating investment, and providing legal protections to investors. Additionally, they might establish mechanisms for managing investor–state disputes, outline investor obligations and responsibilities, and set frameworks for monitoring and overseeing investment activities (Bonnitcha et al., 2023).

Investment laws do not function in isolation; rather, they operate alongside or sometimes in place of other investment governance mechanisms, like international investment agreements and investment contracts, shaping the overall investment climate within a country (Aisbett et al., 2018).

**Figure 1.** Sources of Investment Policy



Source: Ostřanský et al., 2025.



## 2.2.2 Definition and Types of Investment Incentives

Investment incentives are commonly understood as policy tools that grant specific advantages to certain investors or investment projects beyond what is available under the general regulatory or fiscal framework (OECD, 2024). Governments often deploy investment incentives to address market failures, such as externalities or information gaps. While the main findings of this report focus on tax incentives, references to the three types of investment incentives (see Box 1) are included where relevant, to reflect the broader incentive landscape covered by investment laws.

### Box 1. Types of investment incentives

- A. **Tax incentives** are fiscal terms designed to reduce the cost of investment by lowering an investor's tax liability. Tax incentives have direct and quantifiable monetary benefits for investors. These include tax exemptions, reductions, accelerated depreciation, investment and reinvestment allowances, and import duty exemptions. They can be divided into two broad categories based on their nature, namely profit-based and cost-based incentives:
- I. **Profit-based tax incentives** reduce the quantum of tax payable by an investor, for example, by granting investors tax holidays or reducing the applicable tax rate.
  - II. **Cost-based tax incentives** reduce or defer tax liabilities in proportion to qualifying investment or production costs. They include instruments such as accelerated depreciation, loss carry-forward provisions, and exemptions or reductions in import VAT and customs duties on capital goods and intermediate inputs
- B. **Financial incentives** are measures that provide direct, non-tax-based support to investors, helping to lower capital costs and mitigate financial risks. These measures include grants, subsidized credit, and payments in kind, which reduce upfront investment expenses.
- C. **Non-fiscal incentives** are measures put in place to make it easier for investors to do business in a specific country. These incentives enhance the investment environment by streamlining processes, reducing regulatory burdens, and providing strategic advantages without relying on tax reductions or financial subsidies. The investor's tax liability obligations remain intact where non-tax incentives are employed.

Source: Mataba et al., 2023.

It should be noted that incentives can distort market dynamics and lead to inefficient or uneven resource allocation if not carefully designed and monitored (Columbia Center on Sustainable Investment, 2022). Poorly targeted tax incentives can be costly and significantly undermine domestic revenue mobilization. Globally, revenue foregone through tax expenditures is estimated at around 4% of GDP and 25% of total tax revenue (Global Tax Expenditures Database, n.d.), representing a significant constraint on governments' ability to finance public goods and sustainable development priorities, particularly in developing countries (Readhead et al., 2025).



## **Box 2. The effectiveness of tax incentives in attracting investment**

Historically, governments have used tax incentives to enhance competitiveness in global markets, particularly in developing economies seeking to offset structural disadvantages. However, the impact of tax incentives on investment attraction is unclear. Results are mixed, suggesting that tax incentives are not a mandatory precondition for attracting investment and that, in most cases, the same investments would have taken place even in the absence of the incentive (IMF et al., 2015; Mosquera Valderrama et al., 2021).

Tax incentives are only one consideration guiding investment decisions. They cannot compensate for fundamental barriers to investment, such as poor infrastructure, macroeconomic instability, unclear property rights, weak governance, and inefficient judicial systems (Kronfol & Steenbergen, 2020). Quite the opposite, they have been shown to be eight times more effective in attracting foreign direct investment in countries with good investment climates, and less effective in countries with poor investment conditions (IMF et al., 2015).

Without addressing these structural challenges, tax incentives are unlikely to have a significant long-term impact and may, in fact, result in the unnecessary loss of government revenue (Kinda, 2014). The revenue loss and redundancy risks resulting from the use of broad, untargeted tax incentives will further be highlighted through the application of the OECD Inclusive Framework's Global Minimum Tax, which seeks to limit harmful tax competition (Christians et al., 2023).



## 3.0 Understanding the Investment Laws Landscape

The use of incentives in national investment laws has expanded significantly across EMDEs since the 1980s, particularly between 1980 and 2010, in alignment with broader trends of economic liberalization (Bonnitcha et al., 2023). Initially, these laws were designed to support domestic policy objectives, but, over time, they evolved to incorporate international investment standards, reinforcing national efforts to attract foreign investment. As part of this shift, fiscal and financial incentives became a central feature of investment laws. UNCTAD (2024b) reports that 81% of national investment laws in force contain investment incentives, with African and Asian economies leading this trend.

This section outlines the core legal and policy concepts that underpin the discussion of tax incentives in investment laws. It also examines the motivation and the key legal and fiscal risks associated with this approach. Together, these elements help explain the growing reliance on tax incentives in investment laws and underscore the importance of evaluating how they are governed, how effective they are, and what long-term implications they may have for national economies.

### 3.1 What Other Investment Policy Instruments Contain Tax Incentives?

Tax incentives are rarely confined to a single legal instrument, a practice that is common across many countries. In many countries, they are dispersed across a variety of national frameworks, including tax laws, investment laws, sector-specific legislation, and laws governing SEZs. In some jurisdictions, separate legal instruments are dedicated exclusively to regulating tax incentives (Mataba et al., 2023). In addition to these domestic sources, tax incentive-related provisions may also appear in broader investment policy tools, such as international investment agreements, investment contracts, and SEZ frameworks.

While this report focuses on the incentives embedded in investment laws, it is important to understand how other instruments shape the overall investment incentive environment and how they interact with each other.

#### International Investment Agreements

International investment agreements regulate various aspects of foreign investment protection (Ostránský et al., 2025). Traditionally, they have focused primarily on investor protections and dispute-resolution mechanisms (UNCTAD, 2021). While international investment agreements do not offer tax incentives directly, they often provide legal guarantees that can affect how tax measures are treated and, in some cases, lock in tax incentives once granted. Most bilateral investment treaties and regional agreements grant investors the right to bring claims through investor-state dispute settlement (ISDS), a mechanism that has faced growing criticism for its cost, lack of transparency, and unpredictability (Ostránský et al., 2025). ISDS tribunals do not decide disputes by applying domestic tax law. Instead, they assess whether a tax-related



measure, such as the withdrawal of an incentive, violates the protections granted under an investment treaty or contract, provided that such measures have not been explicitly carved out (Morris et al., 2024). This can expose governments to legal risk even when tax policy changes are legitimate and in line with domestic law.

To limit this risk, some treaties include specific provisions known as tax carve-outs. These are clauses that exclude certain tax matters from the scope of investor protections and dispute settlement. Such carve-outs are intended to safeguard fiscal sovereignty and prevent arbitration panels from ruling on sensitive tax policy issues, with mixed results (Morris et al., 2024). Still, most older treaties remain silent on tax matters, which means tax-related measures (like the withdrawal of tax incentives) can be challenged under general treaty standards (OECD, 2022).

### **Box 3. Tax incentives and ISDS: A growing concern**

The number of tax-related disputes in ISDS cases has grown significantly in recent years. Of the 165 tax-related ISDS cases, only 51 occurred before 2009, with 114 between 2010 and 2021 (UNCTAD, 2022a). In response, some countries have begun to exclude tax measures from treaty protections. Many of these disputes centre on tax incentives that became fiscally unsustainable or were withdrawn by governments. A recent analysis of 91 tax-related ISDS cases found that around one-third involved investment contracts in addition to treaties, underscoring that tax disputes can arise under multiple legal instruments (Morris et al., 2024). These cases illustrate the risks governments face when fiscal measures are locked into investment commitments. For a deeper discussion of these issues, see UNCTAD (2022) and Ostřanský et al. (2025).

## **Investment Contracts**

Investment contracts are project-specific agreements between investors and host states, often negotiated for large-scale infrastructure or resource-based projects (Dolzer, 2022). They contain contractual rights and obligations that are much more detailed than those typically found in bilateral investment treaties (Dolzer, 2022; Dumberry, 2012). These contracts are often negotiated by sector-specific government officials, and they can include tax incentives as part of the investment attraction strategy. They might also contain stabilization clauses that limit the host state's ability to change its fiscal or regulatory framework as applied to a specific investor or investment (Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development, 2025). Such clauses are intended to provide legal certainty for long-term projects, but in practice, they can constrain governments' capacity to reform tax policy or apply new fiscal measures without triggering compensation or renegotiation obligations (Gehne & Brillo, 2017; Nikièma et al., 2024).

In practice, investment contracts may go beyond simply granting incentives and instead establish tailored fiscal regimes for specific projects, including the stabilization of tax incentives over the duration of the contract. They frequently offer generous benefits that can diverge from the national fiscal framework. This practice raises important concerns, as it risks weakening the consistency of national tax regimes and limiting the effective application of fiscal rules.



Further, while some investment treaties include tax carve-outs that intend to prevent investors from bringing claims concerning tax measures, investment contracts typically contain no such exclusions while also granting access to ISDS (see Box 3) (Morris et al., 2024).

### Special Economic Zones

Many countries designate SEZs as a tool to attract investment to particular locations or sectors. SEZs have typically been defined as “geographically delimited areas within which governments facilitate industrial activity through fiscal and regulatory incentives and infrastructure support” (UNCTAD, 2019). By 2022, there were approximately 6,000 SEZs operating across 150 economies (UNCTAD, 2023). Tax and non-fiscal incentives remain a prominent feature of SEZ regimes: up to 80% of SEZs globally offer tax incentives (UNCTAD, 2023). Alongside a beneficial customs regime, many zones provide exemptions or reductions of corporate income tax, withholding taxes, capital gains taxes, any form of dividend distribution taxes, VAT and local taxes, and import duties (Ndubai-Ngigi et al., 2024).

The multiplicity of sources for investment incentives has important consequences. From a governance perspective, it complicates oversight and accountability. Ministries or agencies may grant incentives under different regimes without proper coordination, making it difficult to assess their combined fiscal cost or ensure alignment with development priorities. It also creates space for discretion, increasing the risk of corruption, preferential treatment, or abuse where incentives are granted on a non-transparent or ad hoc basis. The fragmented system also affects investors. It raises transaction costs and makes the legal framework harder to navigate, especially for smaller investors with limited resources. Strengthening coordination across government and clarifying how these instruments interact is essential to improve transparency, protect the tax base, and ensure sound governance of tax incentives.

## 3.2 Why Are Tax Incentives Included in Investment Laws?

The decision to include tax incentives in investment laws can be motivated by several factors. These may include the desire to attract foreign direct investment, to align incentives with broader national development strategies, to consolidate provisions previously scattered across other legal instruments, or to create a more predictable and stable framework for investors. While these different motivations exist, investment attraction remains the dominant driver.

Recent data confirms the growing reliance on investment laws as legal vehicles for investment promotion. They have become a popular policy tool, with 46 new investment laws enacted globally between 2015 and 2024. Among these, 81% included provisions on incentives (UNCTAD, 2025a). In least developed countries, investment laws and associated secondary legislation were the primary legal basis for the introduction of tax incentives in 55% of cases, followed by tax codes or budget laws (16%) and other policy instruments (19%) (UNCTAD, 2022b).

Policy-makers often embed tax incentives into investment laws with the expectation that they will enhance competitiveness, promote investment in strategic sectors, and support economic growth. This might be seen as a clear and stable signal to potential investors, suggesting a



predictable and supportive investment environment, particularly if tax incentives are codified in a general and stable legal instrument such as a law.

Administratively, incorporating incentives into investment laws can appear to simplify the regulatory framework. IPAs, whose main role is to attract investment, may prefer embedding tax incentives in the law to facilitate their procedures and improve their effectiveness in reaching investors. By contrast, MoFs often favour locating tax incentives within tax legislation where they can be more closely aligned with fiscal policy objectives and oversight mechanisms.

### **3.3 Risks and Challenges of Including Tax Incentives in Investment Laws**

Despite the widespread use of investment laws to grant tax incentives, this approach presents several legal, fiscal, and governance risks that may undermine their intended benefits. These can be understood at two levels. First, there are broader criticisms of relying on tax incentives as a policy tool, as mentioned in Section 2. Second, there are risks that arise specifically when these incentives are embedded in investment laws rather than in fiscal laws, where fiscal oversight and administration are usually weaker. It adds an additional layer of complexity by dispersing fiscal policy decisions across legal instruments that are often designed, implemented, and monitored by different institutions.

#### **Institutional Roles, Fragmentation, and Weak Interagency Coordination**

While IPAs are primarily mandated to promote investment and facilitate investor entry, MoFs are tasked with ensuring fiscal stability and monitoring the long-term impact of incentives. These objectives do not always align. Some IPA officials may perceive tax incentives as effective tools to attract investors, particularly in agencies where staff performance is measured by the number of approved projects and where there is limited experience with tax policy or private sector dynamics (OECD, 2024).

In addition to these institutional incentives, the design of tax incentives often requires specialized tax policy expertise that may not always be available within IPAs. Without sufficient technical capacity in areas such as tax expenditure analysis, cost–benefit assessment, and fiscal impact evaluation, incentives embedded in investment laws risk being poorly designed or insufficiently aligned with broader fiscal policy objectives.

Granting tax incentives through investment laws can therefore result in weak oversight and limited transparency, both internally across government and externally to the public, especially when interagency coordination mechanisms are not fully implemented or function poorly (OECD, 2023). While this approach may appear administratively convenient or politically attractive, it can create institutional silos, weaken fiscal control, and lead to inconsistent practices.

#### **Exposure to ISDS**

Investment laws have been invoked as the legal basis for investor–state arbitration (also known as ISDS) in a number of disputes. According to International Centre for Settlement of Investment Disputes (ICSID) caseload statistics (2025), national investment laws account



for 7% of the instruments cited as the basis of consent in all ICSID-registered cases. Although this percentage is lower than treaty-based consent, it has remained broadly stable over the past 15 years and has recently increased after a temporary decline, confirming that domestic investment laws continue to generate ISDS exposure. Notably, the vast majority of ISDS cases grounded in investment laws have been brought against developing economies. These disputes can carry significant financial consequences: recent estimates indicate average damages awards of approximately USD 215 million per case, alongside average legal costs of around USD 5.7 million (UNCTAD, 2025b). IISD will examine this issue in greater detail in a forthcoming publication.

Modifying or withdrawing tax incentives can be perceived by investors as a breach of their legal protections under domestic or international frameworks. This risk is particularly pronounced when investment laws include advanced consent to international arbitration (Bonnitcha et al., 2023). While there is no publicly available data specifying how many of these investment law-based claims involve tax-related measures, a number of ISDS cases have directly cited national investment laws in disputes concerning tax incentives. In *Spentex v. Uzbekistan* (ICSID, 2016), the investor claimed that the government's withdrawal of a VAT subsidy and other tax incentives contributed to the collapse of its business. The case was brought under both the applicable bilateral investment treaty (BIT) and Uzbekistan's national investment law. Similarly, in *ConocoPhillips v. Venezuela* (ICSID, 2019), the government's decision to raise royalty and income tax rates in the oil sector triggered claims under the BIT and Venezuela's investment law. In *MTN v. Yemen* (ICSID, 2010), the claimants alleged discriminatory tax treatment and the denial of exemptions on profits tax and customs duties, based on the UAE–Yemen BIT and Yemen's 2002 investment law.

Taken together, these challenges highlight the risks of embedding tax incentives in investment laws. Fragmented governance arrangements can obscure the true cost of incentives and limit the ability of governments to adjust policy over time. At the same time, the legal commitments created through investment laws can expose states to ISDS when incentives are modified or withdrawn. This reflects a broader disconnect between tax and investment communities and underscores the need for stronger alignment in the design and oversight of tax incentives.

The next two sections explore how tax incentives are incorporated within investment laws and the governance challenges that arise from them.



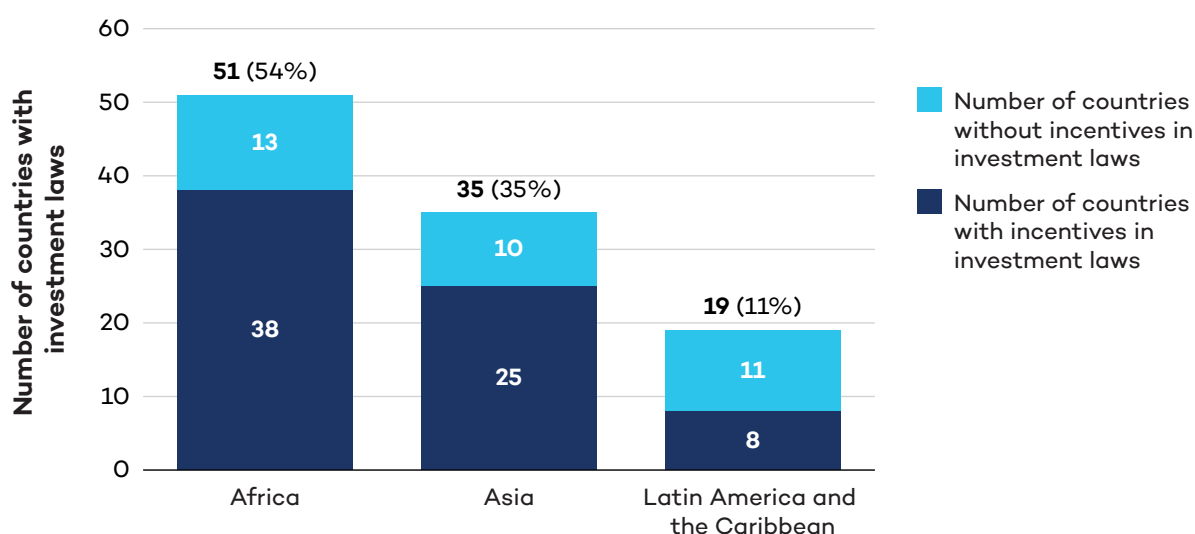
## 4.0 How Tax Incentives in Investment Laws Are Designed and Used

Tax incentives are often presented as a necessary tool for attracting investment, yet their design, implementation, and interaction across legal instruments remain poorly understood. This section offers a data-driven analysis of how tax incentives are incorporated into investment laws in EMDEs. Drawing on a survey of 118 countries across Africa, Asia, and LAC, it explores not only the prevalence and administration of incentives but also the challenges that arise when multiple frameworks coexist without clear oversight or alignment.

### 4.1 Prevalence of Incentives in Investment Laws

A significant proportion of EMDEs incorporate incentives into their investment laws. Out of 118 EMDEs surveyed, 105 had investment laws or policies in force at the time of conducting this research. Of these 105 EMDEs, 71 (67.6%) explicitly provide incentives, whether tax, financial, or non-fiscal.

**Figure 2.** Regional overview of incentive inclusion



Source: Authors.

The prevalence of incentives in investment laws is particularly pronounced in Africa and Asia, which together account for the largest share of investment laws that include incentives. Notably, around half of these laws in both regions were enacted in the past decade, suggesting a sustained and relatively recent reliance on incentives as a tool for investment promotion. This pattern is consistent with UNCTAD's findings that national investment laws have become a primary vehicle through which developing countries grant incentives (UNCTAD, 2022a, 2022b). The increasing use of investment laws in this context may reflect a preference for consolidating incentives in a single, visible legal framework aimed at signalling policy commitments to investors—often at the expense of fiscal oversight and integration within the tax law framework.



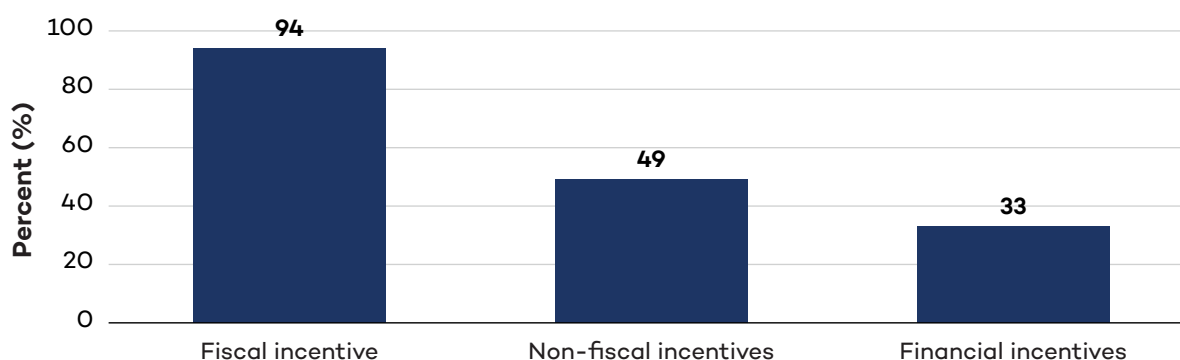
## 4.2 Types of Incentives in Investment Laws

Tax incentives are the most common type of incentives offered in investment laws, a pattern that holds consistently across regions. While some countries complement tax incentives with financial or non-fiscal measures, they appear less frequently and often alongside tax incentives rather than as stand-alone tools.

This pattern reflects several practical, institutional, and political factors. Tax incentive tools are administratively easier to implement, as they can be integrated into existing tax systems without the need for new programs or upfront public spending (Mataba et al., 2023). In many EMDEs, limited budgets and capacity to design, fund, and monitor more complex financial incentives make tax-based tools more feasible.

They are also politically attractive: tax exemptions appear as foregone revenue rather than direct expenditure, which can be easier to justify. Beyond administrative considerations, investment policy-makers often face pressures that encourage the continued use of tax incentives. In this context, tax incentives remain a preferred instrument, especially in countries where structural challenges, such as weak infrastructure or legal uncertainty, limit other ways of attracting investment (Lago & Mataba, 2024). In contrast, recent trends show a rise in financial incentives in developed countries, particularly in Europe, where new state aid schemes have been introduced to promote renewable energy investment (UNCTAD, 2025a).

**Figure 3.** Category of incentives granted in investment laws



Source: Authors.

### Tax Holidays Dominate Among Tax Incentives in Investment Laws

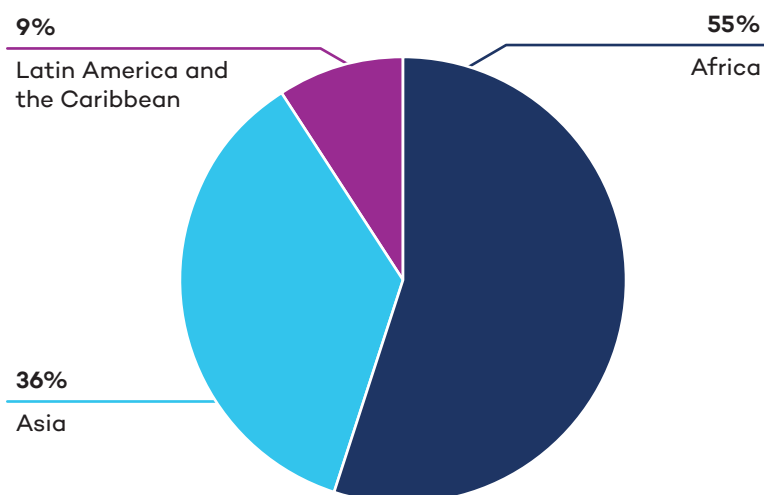
Among the 71 investment laws that include incentives, the most frequently used incentive is the provision of tax holidays or reductions, which appear in 53 investment laws. Customs duty exemptions are the second most common, generally aiming to lower the cost of importing equipment, machinery, or raw materials necessary for investment projects.

This prevalence is consistent with broader global trends on corporate income tax incentives. OECD (2024) notes that tax exemptions remain the most widely used incentive instrument across emerging and developing economies, while tax credits are used much less frequently. Similarly, UNCTAD (2022) found that tax holidays were used by the largest number of



countries and remain the most common profit-based incentive in African and Asian countries. While these findings are not limited to investment laws, they underscore the widespread reliance on tax holidays as a central feature of investment incentive regimes.

**Figure 4.** Distribution of tax holidays or reductions per region



Source: Authors.

### **Cost- and profit-based tax incentives are commonly combined across regions in investment laws.**

Across all three regions, most countries include both cost-based and profit-based incentives in their investment laws. In Africa, most countries offer both types. In Asia, all surveyed countries except two offer both cost- and profit-based incentives, while Saudi Arabia does not provide sufficient information to assess. In LAC, all countries provide both categories except Cuba, which offers only profit-based incentives.

## **4.3 Eligibility Criteria of Incentives in Investment Laws**

Eligibility criteria are the conditions an investor must meet to qualify for an incentive. They will often refer to the nature, size, location, and duration of qualifying investments. With this delimitation, governments minimize wasteful revenue losses by ensuring that only a predetermined group of investors will receive incentives and also ensuring that incentives are closely linked to broader development goals. It is good practice to publish these criteria to enhance investor confidence by creating a predictable regime, but also limiting opportunities for discretion and favouritism.

Our survey found that 81% of investment laws with incentives establish some eligibility criteria for granting incentives. Among the major trends are:

- 38 countries restrict eligibility to certain sectors, either by explicitly listing them in the law or by referring to “priority sectors” to be defined in secondary legislation.



The most frequently targeted sectors in investment laws are agriculture, tourism, manufacturing, and energy.

- 25 laws mention job creation or employment generation as an eligibility condition, suggesting a focus on maximizing the socio-economic returns of investment projects.
- 15 laws include a minimum investment threshold, indicating an effort to attract larger-scale investments.

There seems to be a new pattern emerging toward more targeted incentives in global investment policy-making. UNCTAD (2025) reports that, across both developed countries and EMDEs, the use of broad, cross-cutting incentives has declined significantly in recent years in favour of more targeted, sector-specific measures. While these findings refer to investment policy tools more broadly and not exclusively to investment laws, they help contextualize the increasing reliance on sectoral eligibility criteria. Between 2016 and 2024, the share of non-industry-specific incentives fell from 70% to just 24%, a change that is more pronounced among EMDEs. During the same period, there was a marked rise in incentives targeting services and manufacturing, and in strategic areas such as the digital economy, renewable energy, and high-tech manufacturing.

## 4.4 Duration of Incentives in Investment Laws

Best practice, including the principles of the PCT, recommends limiting the duration of tax incentives (IMF et al., 2025), since open-ended or indefinite incentives tend to reduce transparency, weaken accountability, and risk becoming entrenched even when no longer effective or commercially necessary. The length of an incentive should reflect the time needed for the instrument to achieve its intended policy impact in comparison to arbitrary or politically negotiated timelines. As a general rule, tax incentives granted beyond 5 years generate disproportionately high fiscal costs relative to their impact (Columbia Center on Sustainable Investment, 2022). Sunset clauses have been used by some governments to provide for the automatic expiry of incentives unless actively renewed. This encourages regular review and prevents outdated or underperforming incentives from continuing by default.

According to our research, the duration of investment incentives varies significantly across the 71 investment laws that include such provisions:

- Where a duration is specified, most investment laws provide incentives for periods ranging from 3 to 15 years.
- Longer incentive durations, such as 20, 30, and up to 99 years, are relatively rare and tend to appear in older investment laws adopted prior to 2015. In contrast, recent legal reforms typically limit the duration of incentives to a maximum of 15 years, which could indicate a trend toward more time-bound incentive regimes.



## 5.0 How Institutions Interact to Govern Tax Incentives in Investment Laws

The inclusion of tax incentives in investment laws raises critical questions about institutional mandates, oversight responsibilities, and coordination between government actors. Effective governance requires alignment and coordination across all stages of the incentive cycle, from the adoption of the investment law to the granting and administration of incentives, as well as their monitoring and review. While MoFs are typically the primary authorities responsible for overseeing tax incentives granted under other legal instruments, their role is less clearly defined when it comes to investment laws. The interaction between MoFs and IPAs in these cases is often opaque.

This section draws on our survey of investment laws and a series of interviews with officials from MoFs and IPAs in EMDEs. It explores how institutional roles are defined in investment laws, how institutional coordination occurs (or fails to occur), and what lessons can be drawn from country experience.

### 5.1 How the Authorizing Environment for Granting and Administering Tax Incentives Operates in Investment Laws

This analysis focuses on the governance arrangements explicitly set out in investment laws regarding the approval and administration of incentives. It is limited to the text of the investment laws and examines whether these laws determine which institution is responsible for approving and administering incentives, and whether coordination mechanisms exist to connect the various agencies involved.

In practice, other legal instruments—such as tax legislation, sector-specific regulations, or decrees—and informal coordination channels may also influence how investment incentives are managed and monitored. These dynamics are explored further in Section 5.2. However, the way responsibilities are framed in investment laws remains a strong indicator of how clearly institutional accountability is defined within a country's investment regime.

#### 5.1.1 Institutional Approaches to Approving and Administering Incentives

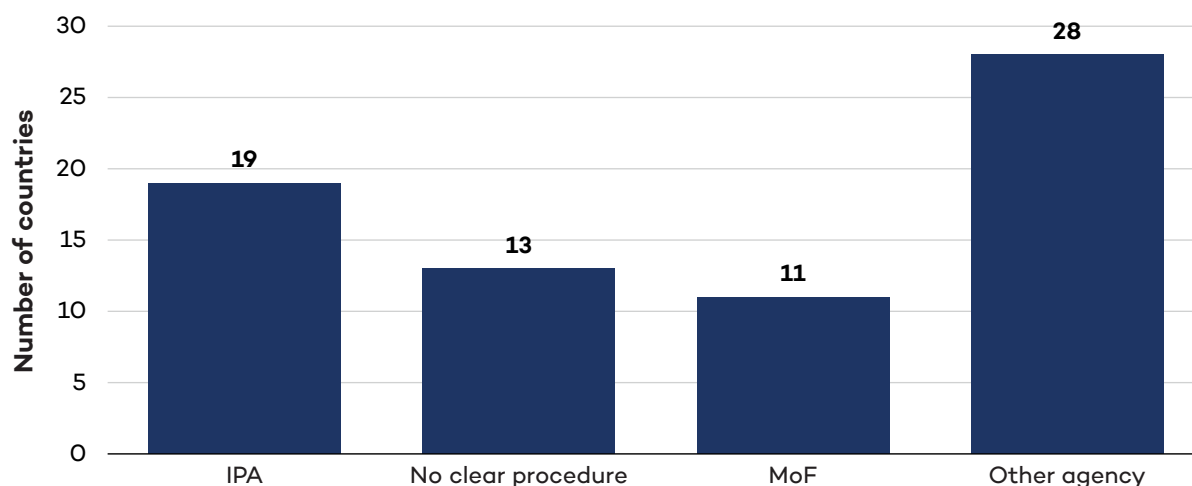
##### **Most Investment Laws Determine the Incentives Granting Process**

Our research showed that the process for approving incentives granted under investment laws is where governance responsibilities are most clearly articulated. Approximately 81% of investment laws include some provision indicating which institution is responsible for granting incentives. IPAs are referenced most frequently, with 38 laws assigning them some role in the approval process. In most cases, their role is limited to reviewing applications, checking investor eligibility, or preparing recommendations.



The most common structure identified in the sample involves approval by other parts of government, particularly the Council of Ministers, the Presidency, or sector-specific ministries. The MoF is granted exclusive authority to approve incentives in only a minority of laws. Meanwhile, 13 investment laws do not contain any clear provision specifying who is responsible for approving incentives, leaving these decisions to be made under other, unspecified legal frameworks or internal procedures.

**Figure 5.** Approval of incentives in investment laws



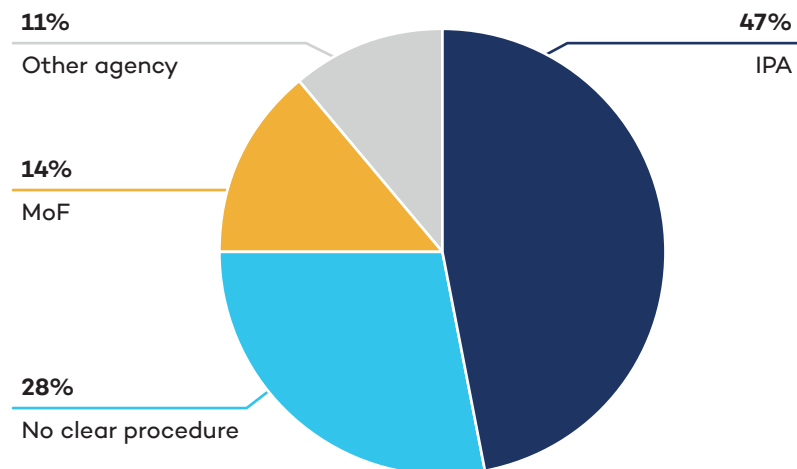
Source: Authors.

### The Limited Role of MoFs in Administration and Oversight

Across the investment laws reviewed, the administration and oversight of tax incentives are most often assigned to IPAs rather than to MoFs. In all, 71.6% of investment laws include provisions on the administration of incentives. IPAs again play a central role in these arrangements, though in many cases, these provisions are vague and do not specify how incentives are to be monitored. By contrast, the MoF is named as the primary agency responsible for administration in only 10 laws. This legal framing suggests that investment laws do not typically integrate fiscal oversight into the ongoing management of tax incentives.



**Figure 6.** Oversight and administration of incentives in investment laws



Source: Authors.

### Three Main Governance Models Emerge for Incentives in Investment Laws

On the basis of these findings, incentives governance models can be broadly classified into three categories.

- MoF Oversight model, where the MoF is the main authority for both approving and administering incentives in investment laws.
- IPA-led model, in which IPAs are the key actors managing the incentive system in investment laws, often with powers to both approve and administer benefits.
- Interministerial models involving multiple institutions, including IPAs, MoFs, sectoral ministries, and higher-level executive bodies, each contributing to the approval and oversight of incentives.

The preliminary strengths and weaknesses of each model are identified in Table 1.

**Table 1.** Overview of authorizing environment structures

Governance model	Observed strengths	Observed weaknesses
MoF oversight	Ensures fiscal discipline and strong budget alignment.	Approval processes can be bureaucratic and slow.
IPA-led	Direct engagement with investors, stronger awareness of investment barriers and the role of incentives, and faster approval processes.	Risk of fragmented oversight, discretionary approvals, and political influence.
Interministerial models	Balances investment attraction with fiscal oversight; promotes a whole-of-government approach and broader legitimacy in decision making.	Requires strong coordination mechanisms; risks decision paralysis if coordination mechanisms are weak or roles are not clearly defined.

Source: Authors.

## 5.1.2 Interaction Between Investment Laws and Other Legal Instruments

Understanding how investment laws interact with other legal instruments is essential for policy coherence in the use of tax incentives. In many countries, tax incentives are granted through multiple frameworks, including investment, tax, and sectoral laws. Without coordination, these inconsistencies can create uncertainty for investors and fiscal losses for governments.

The analysis in this subsection is based on desktop research and focuses on interactions between investment laws and selected tax laws, SEZs, or free trade zones; incentives granted through administrative practice, secondary legislation, or investment contracts were not captured.

### Multiple Tax Incentive Regimes Are Present in Several Countries

Our survey found that offering incentives through investment laws and other instruments is common. Out of the 71 countries with investment laws granting incentives, 64 countries provide incentives through the additional instruments sampled.

In some cases, multiple legal frameworks remain active in parallel even when reforms aim to consolidate them. This can occur where new frameworks do not fully repeal existing sector-specific regimes, or where implementation measures to clarify the application of new regimes are lacking. As a result, investment laws, tax codes, and sectoral regulations may continue to operate simultaneously, allowing overlapping incentive regimes to persist. This can create significant fiscal and administrative risks. Weak interagency coordination, legal ambiguities, and investors' ability to claim multiple benefits contribute to inefficiencies, revenue losses, and regulatory uncertainty.



## Centralization of Tax Incentives Under a Unified Legal Framework as a Response

The fragmentation of tax incentive regimes across multiple legal instruments has led EMDEs to consider legal reforms to centralize tax incentives. The objective is to enhance transparency, improve fiscal discipline, and reduce the administrative complexity associated with managing overlapping schemes. While these reforms are still incipient, they reflect a growing awareness of the harm that dispersed and uncoordinated incentive systems can cause.

As countries move toward comprehensive frameworks to govern their tax incentives, investment laws are increasingly being integrated into this process. This has important implications for the role of IPAs—they must be actively involved in these new legal structures to ensure that incentives remain aligned with broader investment policy goals.

### Box 4. Honduras and Ghana: Centralization of tax incentives under unified legal frameworks

In Honduras, years of weak oversight and the proliferation of sector-specific benefits have made the country one of the most fiscally unequal in the region (Servicio de Administración de Rentas, n.d.). Large companies and privileged sectors benefit from extensive tax exemptions, while the tax burden falls primarily on households and small and medium-sized enterprises. Multiple studies, including a series by the IMF, identified the scale of the problem and recommended reforms (Cebotari et al., 2019; IMF, 2014). Fiscal expenditure reports show that between 2009 and 2022, the government waived approximately HNL 455 billion (around USD 17 billion) in revenue through tax exemptions, with 92% of these benefits accrued to just 10% of companies (Latindadd, 2024).

An initial attempt to address these issues through the 2013 Law for the Ordering, Control and Rationalization of Exemptions was diluted by numerous carve-outs that preserved many existing benefits. More recently, the proposed Fiscal Justice Law seeks to restructure the tax incentive regime by eliminating unjustified exemptions, strengthening enforcement, and aligning incentives more closely to the country's national development goals (Servicio de Administración de Rentas, n.d.). While still under discussion, the initiative signals a clear shift toward centralizing and rationalizing incentives within a single, transparent framework.

In Ghana, the 2022 Exemptions Act represents a similar move toward unified governance of tax incentives. Prior to the Act, exemptions were scattered across various laws and institutions, leading to oversight gaps and inefficiencies. The new Act now centralizes all incentive approval and monitoring processes under the MoF and Parliament, including those that Ghana's IPA must follow. This means that even tax incentives traditionally associated with investment promotion are now subject to the procedures, conditions, and oversight mechanisms set out in the Exemptions Act. While implementation is still ongoing, the Act is expected to provide greater control over revenue losses and reinforce a strategic approach to granting fiscal benefits.



## 5.2 How Interagency Coordination Shapes Tax Incentives in Investment Laws

### 5.2.1 Interagency Coordination in the Design, Granting, and Administration of Tax Incentives in Investment Laws

The decision to include tax incentives in investment laws, as well as to determine when, to whom, and for what activities these incentives will be granted, is a process that should involve multiple government agencies. Effective coordination is essential to ensure that these decisions align with national development priorities, maintain fiscal discipline, and avoid duplication or inconsistency across legal instruments. The following section examines how these decision-making processes operate in practice across EMDEs, drawing on our survey and interviews. It considers both the coordination that takes place when investment laws are being drafted or amended, and the case-by-case coordination involved in granting specific tax incentives to individual investors.

#### IPAs Often Drive the Process, While MoFs' Role Is Mixed

As agencies tasked with promoting investment, IPAs often act as the primary drivers of investment law reform, setting priorities and shaping legal content. This role reflects their deep engagement with investment attraction. When tax incentives are incorporated into investment laws, coordination with the MoF becomes essential. However, our research found that their intervention might be limited in scope, often geared more toward securing approvals, or occur after key decisions have already been made. This sequence may limit MoFs' ability to influence incentive structures and ensure alignment with broader fiscal objectives.

#### Box 5. Peru's Ministry of Finance as a safeguard for legal coherence

In Peru, the Ministry of Economy and Finance (MEF) plays a central role in overseeing the fiscal dimensions of investment-related legislation. Peru's Tax Code establishes specific legal requirements for any legislative proposal introducing tax incentives. Rule VII provides guidelines for safeguarding the transparency of these procedures by requiring any legislative initiative for tax incentives be accompanied by an opinion from MEF.

Where the executive branch is delegated legislative powers by Congress, the MEF coordinates with sectoral ministries and technical bodies to assess the viability and economic impact of proposed measures. Executive-led proposals introducing tax incentives require a favourable opinion from the MEF.

In some countries, MoFs play a strong role in overseeing and shaping the fiscal aspects of investment laws. Coordination is structured and formalized, with laws undergoing broad consultation processes. These involve multiple ministries, public agencies, and stakeholders. This translates into policy submissions that must include a separate attachment detailing stakeholder comments and recommendations. Requiring that policy proposals, like investment laws, include records of MoF approval for the inclusion of tax incentives helps institutionalize



coordination and enhance transparency. This can lead to more balanced, technically sound, and politically robust legislation.

However, in other countries, MoFs play a more consultative, less directive role, often subordinated to the leadership of IPAs. While MoFs might be formally involved in the drafting and reform of investment laws, their input is often limited, and the final content is shaped primarily by IPAs.

### **Coordination Across the Design and Implementation of Tax Incentives in Investment Laws Remains Uneven**

At the design stage, some legislative reforms have moved forward under weak interagency coordination. Our findings are drawn from interviews with government officials and are presented in anonymized form to preserve confidentiality. One of the investment laws observed included a wide range of tax incentives in its initial form. Many of these were later removed following objections from the tax authorities. Intense negotiations between different agencies left several provisions ambiguous or loosely defined in the final version, which was approved with little time for consultation.

Political dynamics also shape the extent to which coordination mechanisms are respected or bypassed. Even when MoFs exercise strong oversight, their role can be constrained. This might lead to friction when sectoral ministries or IPAs push for more expansive tax incentives while fiscal authorities prioritize revenue protection. Disagreements between agencies have, in some instances, led to conflict, with MoFs intervening to block or scale back incentives they considered fiscally unsound.

Other examples illustrate hybrid scenarios, where coordination can be both extensive and politically sensitive. In one case, the IPA led the drafting process of the investment law that was submitted for consultation with the MoF and the tax authority. These agencies initially opposed the inclusion of tax incentives, and the consultation process lasted nearly 3 years. However, after the COVID-19 pandemic, the urgency to attract investment gave the IPA more leverage to reach consensus across government. In the end, the influence of the IPA prevailed over the initial concerns raised by the MoF and the tax authority. This shows that coordination is not only about formal mechanisms, but also about timing, institutional weight, and the socio-political context.

Similar coordination challenges emerge at the stage of granting and administering tax incentives. Countries have reported tensions between agencies stemming from their different institutional mandates. While MoFs may seek to limit the fiscal cost of incentives, IPAs may advocate for broader benefits to attract investors. In the absence of strong coordination mechanisms and shared accountability frameworks, these differences may result in fragmented decision making and reduced policy coherence.

By contrast, some countries have adopted clearer arrangements at the granting and administration stage. In one of the surveyed countries, when a new investment law was drafted in 2025, there was a strong consensus that all tax incentives would be handled exclusively through tax legislation. Following international best practices, the government decided not to incorporate any tax incentives in the investment law. This approach helped ensure that fiscal



policy remained under the control of the MoF and avoided situations where promotional objectives overrode fiscal prudence. Similarly, in another country, proposals are screened by the IPA, then submitted to the MoF for negotiation and review, with final approval granted at the parliamentary level.

Overall, coordination mechanisms around tax incentives in investment laws vary widely across countries and across stages of the policy cycle. Governments rely on different institutional arrangements and practices to manage these coordination challenges, with mixed results.

### **Institutional Roles Might Be Shaped by Informal Practice**

Our findings suggest that in many contexts, coordination is not formalized in investment laws but evolves through practice. In some countries, the process remains fragmented and largely shaped by administrative practice rather than a formalized interagency framework. Investors typically approach the IPAs to express interest in potential incentives. Investment laws do not provide detailed guidance on how incentives should be processed or which agency is responsible for each stage. With no clear mandate to structure the process, some IPAs have adopted the practice of sending incentive requests to MoFs or tax authorities. As a result, coordination between IPAs, MoFs, and the tax administration has evolved informally over time, with each case handled according to precedent or political guidance, relying on practice rather than legal clarity. This absence of defined procedures can lead to inconsistent outcomes and uncertainty for both investors and officials.

In other cases, challenges encountered relate primarily to administrative issues, such as delays in processing applications or mismatches between investor expectations and what is permitted under the legal framework. Even if interagency coordination between institutions is clear, these practical difficulties can slow the process and reduce efficiency.

#### **Box 6. Tanzania: Clear institutional roles reduce fragmentation**

In Tanzania, institutional mandates for granting tax incentives under investment laws are clearly defined, helping to avoid fragmentation. The recently approved Investment Act no longer grants tax incentives. Instead, it establishes the procedural framework through which eligible investors can access incentives defined in tax laws. The Tanzania Investment and Special Economic Zones Authority (TISEZ) issues investment certificates, which are a prerequisite for accessing incentives, but does not have discretion over the benefits themselves. Applications are processed and validated by the Tanzania Revenue Authority, ensuring that fiscal decisions remain with the competent tax authority. TISEZ's role is to facilitate the process and connect investors with the relevant institutions. This structure separates facilitation from fiscal decision making and helps maintain coherence in the incentive regime.



## Sector-Specific Channels and Anti-Cumulation Provisions Are Emerging Approaches

Recent reforms in several countries show that governments are adopting different strategies to improve coordination in the approval of tax incentives under investment laws.

One approach has been to give ministries or sector-specific regulators a more active role in proposing incentive schemes for their respective areas. This adds complexity to the interagency coordination landscape but can also enhance the technical quality of proposals. In one case, line ministries can develop tailored incentive packages aligned with national priorities. These proposals are submitted to the MoF, which evaluates their fiscal implications and, if warranted, submits them to Parliament for approval. In this scheme, the country's IPA either initiates or supports proposals and oversees the process, as all foreign investors need to first register with the IPA to operate in the country. When properly managed, the involvement of specialized ministries can contribute to more targeted and technically informed incentive design.

Another emerging approach focuses on limiting the accumulation of tax incentives across multiple legal frameworks. Among the countries where investment laws grant tax incentives alongside other instruments, only a small number explicitly include “anti-cumulation” provisions. These clauses state that investors cannot benefit simultaneously from incentives offered across different laws. Where they exist, they help reduce the risk of “double dipping,” which can lead to excessive revenue foregone, unequal treatment of investors, and difficulties in evaluating incentive schemes.

### Box 7. Anti-cumulation provisions in practice

Some countries—most notably in Africa—explicitly address this issue in their investment laws. For instance, Côte d'Ivoire's Investment Code specifies that it does not apply to investments covered by specific aid schemes determined by the General Tax Code or by specific laws, thereby preventing overlapping benefits. In Togo, the Investment Code explicitly states that the benefits and incentives granted by the code cannot be cumulated with those provided for by any other specific derogatory regime or the General Tax Code in force. In some Latin American countries, like Guatemala, we can also find an anti-cumulation clause. The Law on the Promotion of Foreign Capital Investment limits the possibility of combining regimes. Article 2 of the law specifies that investors may only benefit from its special treatment when they are not already operating under other promotional laws.

The absence of explicit anti-cumulation clauses does not necessarily mean that all the other countries allow investors to benefit from multiple sources. In some countries, overlaps are managed through administrative practices, secondary regulations, or MoF oversight during implementation. However, without clear anti-cumulation provisions, overlaps remain a legal risk, as administrative solutions alone cannot fully prevent multiple tax incentives from being granted simultaneously.



## 5.2.2 Interagency Coordination in the Monitoring, Evaluation, and Transparency of Tax Incentives in Investment Laws

A major issue across the observed countries is the lack of systematic monitoring of tax incentives in investment laws. This refers to the ongoing process of tracking how incentives are implemented and whether they deliver the expected outcomes. In some cases, tax incentives are tied to specific performance conditions, such as maintaining a minimum number of jobs or meeting export targets over the duration of a tax holiday. These types of incentives require continuous oversight to ensure compliance. Although this adds an administrative burden, it allows governments to better assess whether an investment is delivering on its commitments. Without formal monitoring mechanisms, there is limited accountability, and governments risk relying on overly optimistic investor projections that may never materialize (United Nations Department of Economic and Social Affairs & Inter-American Center of Tax Administrations, 2018).

While our analysis is limited to provisions in investment laws, some of the same incentives may be subject to oversight under separate legal instruments, such as tax laws or other regulations, or monitored by MoFs or revenue authorities. As such, the findings presented here reflect only the monitoring frameworks explicitly included in national investment laws, and do not account for broader interagency practices or oversight mechanisms established elsewhere.

The review of investment laws across EMDEs reveals that 28 out of 71 investment laws (39.4%) explicitly require periodic reviews of the incentives granted through this law. This means that the law imposes no obligation to periodically assess the overall effectiveness of the tax incentives it offers to investors. In parallel, only 13 out of 71 investment laws (18%) explicitly mandate independent audits by entities separate from the agencies responsible for granting or administering the incentives, usually performed by revenue authorities, to assess revenue foregone through these incentives.

### **Systematic Review of Tax Incentives Remains Uneven**

Continuous evaluation mechanisms allow governments to assess whether tax incentives granted through investment laws are achieving their intended objectives. While some countries have taken important steps toward these mechanisms, our research shows that these efforts remain uneven and often reactive to particular circumstances or external demands.

In some countries, monitoring and evaluating the tax incentives granted through their investment law is an important step for their policy development. For example, one of our surveyed countries expressed how periodic evaluations allow the government to understand how incentives function within the broader tax system. Their MoF conducts targeted reviews of specific tax expenditures, particularly when benefits appear unusually costly or poorly targeted. In recent years, transparency requirements have been introduced under their tax code, including obligations for the tax authority to publish the list of beneficiaries of tax benefits and, when confidentiality permits, the estimated value of those benefits. These measures aim to enhance public scrutiny over who benefits from tax incentives and at what cost.

In another country, awareness of the fiscal impact of incentives grew following studies by international organizations highlighting the size of tax expenditures and their consequences



for the country's development. These findings triggered greater interest in rationalizing tax benefits and improving monitoring mechanisms. More recently, the government adopted new procedural regulations under their tax code that require the MoF to maintain a registry of tax expenditures. However, evaluation practices remain largely reactive, with analysis triggered by political momentum for broader fiscal reforms rather than being conducted systematically.

### **Box 8. Ghana: From incentive monitoring to reform**

Since the mid-1990s, Ghana's investment promotion agency has carried out assessments of the investors receiving incentives under its investment law, focusing on job creation, economic impact, and investor retention. Though not conducted on a fixed schedule, Ghana's Ministry of Finance has periodically requested this data to evaluate outcomes. These information flows revealed inefficiencies and fragmentation across institutions, which contributed to the adoption of the 2022 Exemptions Act, centralizing the granting of tax incentives in the country.

## **Barriers to Monitoring and Evaluation of Tax Incentives**

While there is growing recognition of the need to evaluate the effectiveness of tax incentives, most countries face serious institutional and resource-related barriers that hinder the regular implementation of monitoring frameworks. In practice, we found these challenges manifest in three main ways: limited technical capacity and staffing; internal coordination and transparency gaps; and implementation challenges for new fiscal frameworks.

A key constraint is the lack of personnel and dedicated resources to conduct regular evaluations. MoFs and tax administrations are often overstretched, limiting their ability to assess all active incentives consistently. In some countries, evaluations are carried out only when a benefit is about to expire or when its renewal or modification is under discussion.

In addition to capacity gaps, interagency coordination and transparency remain weak, undermining the impact of evaluations even when they are performed. In some contexts, evaluations are conducted but remain confidential, preventing results from being shared with other government offices. This renders the exercise impractical, particularly in the case of tax incentives granted under investment laws, where IPAs play a significant role in policy formulation. In such cases, governments have sometimes relied on evaluations conducted with international partners, which can serve as a channel for promoting transparency when domestic results are not disclosed.

Finally, even when governments take steps to improve fiscal oversight, the implementation of new frameworks also poses challenges. In certain countries, recently adopted legal reforms have aimed to centralize and regulate the granting of tax incentives, but they lack detailed regulations for monitoring and control. On top of this, implementation will require updated tools, institutional reforms, and skilled personnel.



## The Use of Revenue-Foregone Data in Evaluating Tax Incentives in Investment Laws

Tracking the amount of public revenue foregone through tax incentives is one of the most direct ways to evaluate the fiscal impact of investment policies. While most countries surveyed do produce such estimates, usually through their tax authorities, this information is often disconnected from the investment policy-making process. This reveals a deeper governance issue: even where technical tools for fiscal analysis exist, they are rarely integrated into cross-institutional decision making.

In most countries, reports on revenue foregone by tax incentives are not generated as a result of requirements in investment laws, but rather as part of broader fiscal management practices led by tax administrations or MoFs. Collaboration between tax authorities and IPAs is generally weak. Many IPAs do not participate in the process, and in many cases, the reports produced by tax authorities remain confidential or are not communicated internally to IPAs. This practice disconnects investment policy-makers from the evaluation process.

However, even in cases where data on tax expenditures is made public, our research showed a detachment between IPAs and the information produced by tax authorities. This is a missed opportunity: the tools to assess fiscal impact exist, but they are not being used to guide investment decision making. Without clear mechanisms to ensure that revenue-foregone data feeds into the governance of tax incentives, these reports remain underutilized. Strengthening this link between fiscal analysis and investment governance is essential.

### Box 9. Honduras and Ghana: Revenue-foregone data for fiscal and investment oversight

In Honduras, the Secretary of Finance produces annual reports on tax expenditures, detailing the amount of revenue foregone across all tax exemption schemes. Their results showed that these exemptions represent nearly half of the country's annual budget, a figure that has triggered concern and helped build political momentum for the discussion of the Ley de Justicia Tributaria project. Their experience illustrates how revenue-foregone data can influence broader policy debates.

In Ghana, collaboration between the Ghana Revenue Authority and the Ghana Investment Promotion Centre provides another example of how revenue-foregone data is used in practice. The Revenue Authority tracks revenue losses from tax incentives through quarterly, semi-annual, and annual reporting. The Ghana Investment Promotion Centre complements this by providing data on investor performance and on the non-fiscal conditions attached to incentive packages, such as technology transfer or employment commitments. In this way, interagency collaboration contributes to a more holistic understanding of the costs and benefits of tax incentives.

Across EMDEs, tax incentives in investment laws are governed through institutional arrangements that vary widely, both on paper and in practice. While many investment laws specify the authorizing environment to approve incentives, responsibilities for administration, oversight, and coordination are often vague, with the MoF less prominently positioned in the



legal text. In implementation, institutional coordination challenges arise at multiple stages of the investment cycle. These gaps become more pronounced where incentives operate alongside multiple legal regimes and where monitoring and evaluation mechanisms are disconnected from investment decision making. In response, some EMDEs have developed different strategies, like centralization, anti-cumulation rules, or more structured interagency arrangements. While these efforts remain uneven across EMDEs, they reflect emerging practices that seek to address the institutional challenges associated with tax incentives in investment laws.



## 6.0 Conclusion

This report mapped how tax incentives are incorporated into investment laws across EMDEs and how they are governed in practice. Following UNCTAD's findings (2022b), our survey shows that investment laws have become a common vehicle for granting tax incentives, often operating alongside other fiscal instruments and institutional mandates.

In practice, several recurring shortcomings appear. IPAs frequently lead the drafting and implementation of these laws, while the role of MoF remains uneven and, in many cases, shaped more by administrative practice than by clearly defined legal mandates. Tax incentives granted through investment laws often coexist with other legal regimes without anti-cumulation safeguards. Monitoring and evaluation mechanisms are inconsistent, and revenue-forgone data rarely feeds back into investment policy-making.

Across countries, one foundational issue underpins these challenges: decisions on whether and how to include tax incentives in investment laws require coordination between tax and investment authorities. IPAs and MoFs operate under different institutional logics, yet decisions on embedding fiscal measures in investment laws are at times driven primarily by investment promotion priorities. When tax incentives are embedded in investment laws without strong alignment between these communities, legal and fiscal risks arise. Many of the governance challenges identified in this report ultimately stem from this institutional disconnect.

The question, therefore, is not only whether incentives should be included in investment laws, but what added value they provide, and under what conditions. Where governments decide to include incentives in investment laws, this choice requires a shared assessment between tax and investment policy-makers, clear institutional mandates, and mechanisms that prevent the governance pitfalls identified in this report.

By mapping the current landscape and governance practices, this report sets the stage for an upcoming IISD policy brief that will provide practical guidance to help governments assess whether, and what role, investment laws should play in granting tax incentives, and to support informed and coordinated decision making.



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Published by the International Institute for Sustainable Development

**Head Office**

111 Lombard Avenue, Suite 325  
Winnipeg, Manitoba  
Canada R3B 0T4



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