

# THE ROLE OF INCENTIVES IN PROMOTING FDI FOR INCLUSIVE AND SUSTAINABLE DEVELOPMENT

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Amsterdam | Belfast | Boston | Dubai | Hyderabad | Johannesburg | Kuala Lumpur | Mumbai  
| Miami | New York | São Paulo



UNITED NATIONS – ESCAP THIRD MEETING OF THE ASIA-PACIFIC FOREIGN DIRECT  
INVESTMENT (FDI) NETWORK FOR LEAST DEVELOPED AND LANDLOCKED  
DEVELOPING COUNTRIES

UNITED NATIONS CONFERENCE CENTRE, MEETING ROOM H  
BANGKOK, THAILAND NOVEMBER 19, 2013

# AGENDA

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- Introduction ICA and overview of ICAincentives.com
- Global Incentive trends 2010-2012
- Foreign investor's contribution to economic development
- Why provide incentives?
- The role of incentives in corporate decision making
- The right approach
- Conclusions and recommendations

# ABOUT US

Real estate is a strategic asset. Each and every new location decision carries cost, workforce, and other implications. We provide our clients with the insight needed to quickly build solutions which are flexible enough to evolve with the company's changing needs.



**United States and  
North America**

**Europe - Asia  
Caribbean and  
Latin America**

## SERVICES

Location Strategies  
Supply Chain Optimization  
Incentive Maximization  
Implementation Support  
CRE Strategies

## TECHNOLOGIES

LocationSelector.com  
ICAincentives.com

# ICA'S MOST IMPORTANT RESOURCE – ITS GLOBAL AND DIVERSIFIED STAFF



Dr. Henry Loewendahl  
FDI and Incentive specialist  
+15 years experience



Mr. Matthijs Weeink  
Corporate site selection  
+10 years experience  
CEE / Russia and Asia



Mr. Steef Huijbregtse  
International tax and TP  
+20 years experience  
Europe and US



Dr. Douglas van den Berghe  
FDI advisory and site selection  
+15 years experience  
Europe and US



Mr. Christopher Steele  
Site selection US  
+15 years experience  
US and LATAM



**Mr. Richard Greene**  
CRE and Site Selection  
+20 years experience



Mr. Kavan Bandhari  
Corporate Site Selection  
+15 years experience  
India



Mr. Duane Newman  
Tax and Incentive  
+15 years experience  
South Africa

One Team – In-depth Expertise – Seamless Delivery



Mr. Charles Krakoff  
Free Zone specialist  
+25 years experience



**Ms. Jessica Eckhardt**  
GIS and Corporate  
Real Estate, +5 years  
experience



Ms. Zoë Harries  
ICA Finance Director



Mr. Graham Grant  
SSC and Site selection and  
BPO Specialist



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Incentive Data Analyst  
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Caribbean and Central  
America  
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Mr. Matthew Barsing  
FDI Advisory Asia  
+20 years of experience

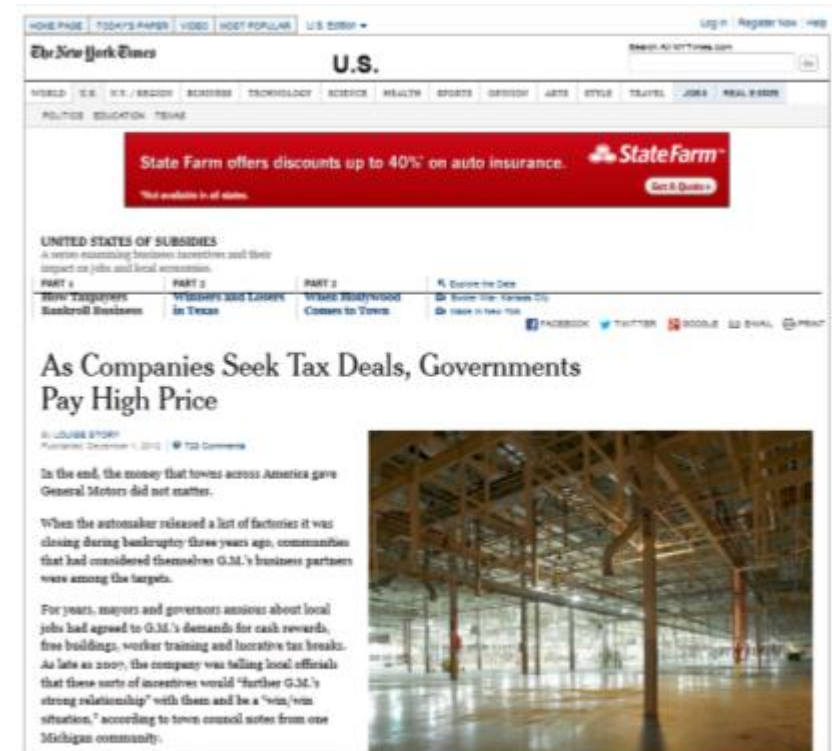
# ICA IN THE NEWS

## *ICA Incentives Data Underpins New York Times Analysis*



The front page of the Sunday, December 2, 2012, edition of *The New York Times* featured an analysis of US incentive deals based upon Investment Consulting Associates (ICA)'s online incentive tracking tool and database, ICAincentives.com.

While examining incentive trends across the 50 states, the article "As Companies Seek Tax Deals, Governments Pay High Price" notes that many state programs do not identify specific corporate beneficiaries and, as a result, the authors **had to rely on the ICAincentives.com database to provide up-to-date and reliable data** for their analysis.



# ICA IN THE NEWS – GROUNDBREAKING CEREMONY KNOWLES IN THE PHILIPPINES



<http://www.ic-associates.com/newsletter/pressrelease/Press%20Release%2010-12-2012.html>

## ICA Guides Location Evaluation Process for Knowles Electronics

Knowles Builds 4,000 Employee Manufacturing Facility in the Philippines

**Knowles Electronics**, producer of micro-acoustic components and part of Dover Corporation, publicly announced it will set up facilities at the Cebu Light Industrial Park (CLIP) in the Mactan Island, Cebu the Philippines. On Friday 9th of November, the company broke ground for what will be one of the biggest manufacturing facilities of Knowles in the world. The company will be among the biggest electronics companies to invest and operate in Cebu, and will ramp up their workforce to more than 4,000 employees in the next couple of years. Knowles makes components for hearing aid devices as well as MEMS surface mount microphones for major mobile phone brands and consumer electronic devices.

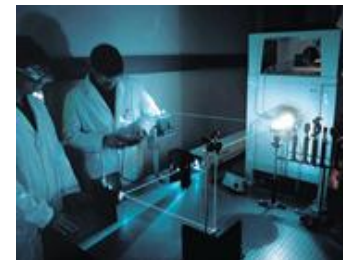
**Joseph Emmanuel Liwag**, Managing Director of the local Knowles unit, said his office currently has 40 employees but plans to increase workforce to 110 by yearend, 1,500 by the end of 2013, and a little over 4,000 by the end of 2014. "Cebu turns out to be a very positive location for a number of reasons. First of all, recruiting talented workers is clear-cut and their skills and attitude is outstanding. Ramping up our facilities is ongoing and the ease of doing our business here is surprisingly straightforward." **Joseph adds:** "An investment project of this size requires a diligent and fact based location evaluation process and that is exactly what Investment Consulting Associates (ICA) did."

**Matthijs Weeink**, ICA's project manager "Our phased approach of location benchmarking, cost forecasting modeling, as well as three extensive rounds of site visits provided us with the tools, knowledge and understanding of recommending Cebu as the number one location". "Throughout the whole location selection process, working with Knowles' project team was a big pleasure, and this was truly a team effort." Matthijs adds: "I would like to emphasize that Cebu Invest, the local investment promotion agency, did a great job and I am positive that this flagship project will have a tremendous impact on Cebu's regional economic developments."





# INTRODUCTION TO ICAINCENTIVES.COM



It is **the only** Global Incentive Deal Database, with currently **10,000** investment projects

It is a **web-based subscription** product with easy-to-use mapping, database, and reporting tools and an e-newswire service

Access to the **value of the incentives packages**, information on the investment project, and a description of the incentives program is provided

Covers **all major industries** as well as **business activities** and monitors foreign and domestic investment projects

# OVERVIEW OF THE GLOBAL INCENTIVES DEAL DATABASE\*

## Global Overview

- **10,000** incentive deals
- **\$71bn** total value of deals
- **Tax credit** is the most common type
- **\$316bn** total capital investment
- **\$9mn** average incentive deal value
- Avg. deal value **21%** of capex
- Avg. incentive of **\$51,600** per new job
- **1,215,000** jobs
- **460,000** safe-guarded jobs
- Avg. **125** new jobs created per deal

## Regional breakdown (deals):

- USA : 7,070
- UK: 754
- Canada: 441
- Australia: 212
- Spain: 206
- Mexico: 145
- Brazil: 136
- France: 130
- China: 50

## Incentives types (ranked)

- Tax credit: 4,309
- Cash grant: 3,577
- Loan: 1,121

\*As of September 2013



# GLOBAL INCENTIVE TRENDS 2010-2012

	2010	2011	2012	Totals 2010-2012
Number of incentive deals	2,221	2,909	3,239	8,369
...of which in the US	1,622 (73.0%)	2,227 (76.6%)	2,315 (71.5%)	6,205 (74.1%)
Total value of awarded incentives	USD 17.44 bn	USD 32.09 bn	USD 15.55 bn	USD 65.08 bn
Total value of capex	USD 72.64 bn	USD 106.17 bn	USD 91.29 bn	USD 270,1 bn
Average deal value	USD 8.96 mn	USD 13.19 mn	USD 6.46 mn	USD 9.58 mn
Average incentive deal as percentage of capex	21.17%	30.05%	15.84%	22.57%
Total new jobs created	266,295	407,626	366,928	1,040,849
...of which safeguarded jobs	162,673	163,904	102,402	428,979
Average jobs created per deal	119	140	113	123
Average incentive awarded per new job created	USD 52,312	USD 71,341	USD 36,592	USD 54,472
Most common awarded incentive type	Tax credit	Tax credit	Tax credit	Tax credit

Source: [ICAincentives.com](http://ICAincentives.com)

# GLOBAL INCENTIVE TRENDS TO DATE

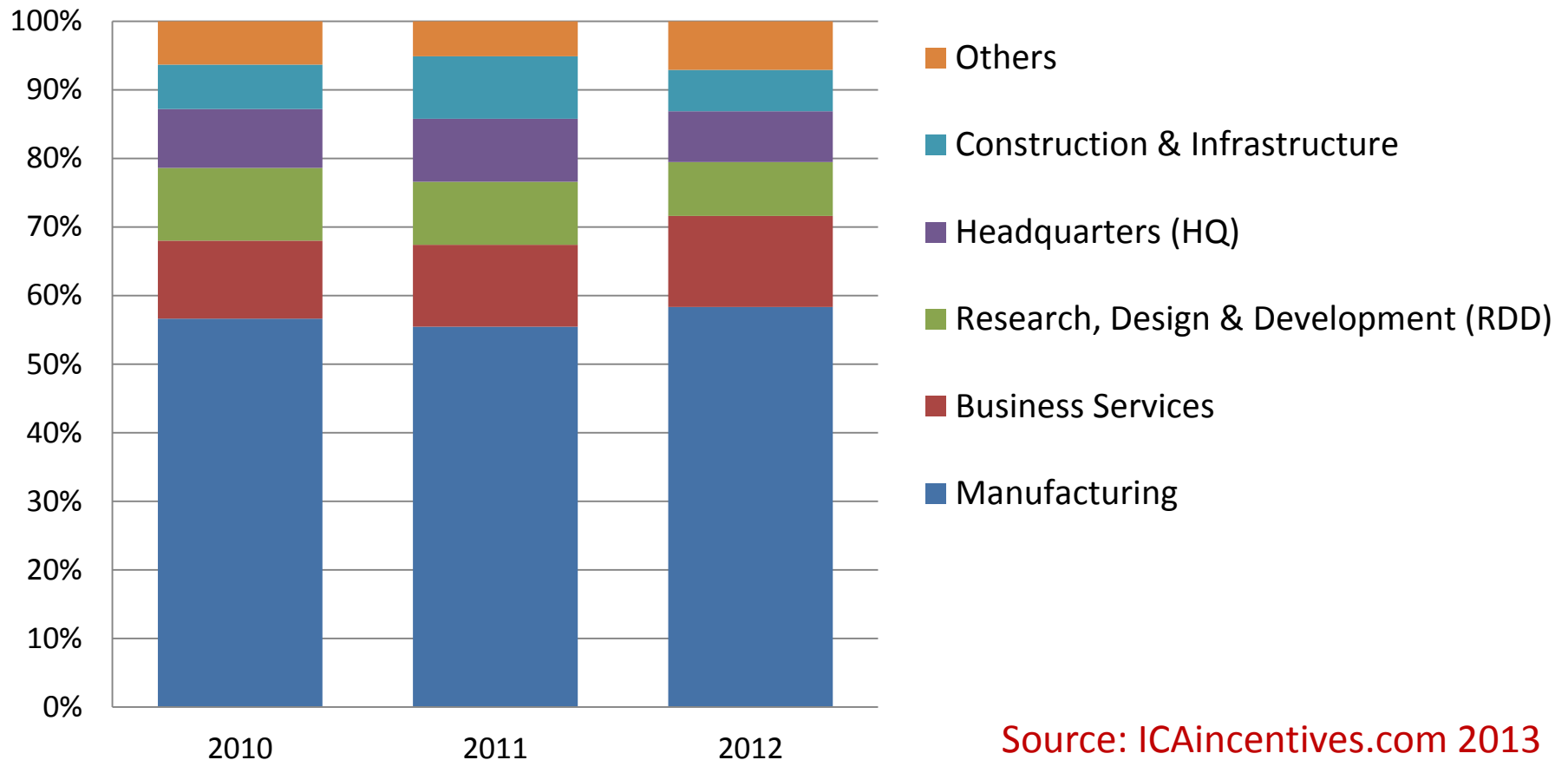
	Jan-Sep 2012	Jan-Sep 2013	Total database
Number of incentive deals	2,469	1,351	9,721
...of which in the US	1,831 (74.2%)	906 (66.7%)	7,070 (72.7%)
Total value of awarded incentives	USD 11.34 bn	USD 5.98 bn	USD 71.06 bn
Total value of capex	USD 70.17 bn	USD 45.94 bn	USD 316.04 bn
Average deal value	USD 6.16 mn	USD 5.58 mn	USD 9.05 mn
Average incentive deal as percentage of capex	14.88%	11.95%	21.09%
Total new jobs created	282,278	175,023	1,215,887
...of which safeguarded jobs	74,831	32,169	461,148
Average jobs created per deal	114	129	125
Average incentive awarded per new job created	USD 32,314	USD 34,549	USD 51,642
Most common awarded incentive type	Tax credit	Cash grant	Tax credit

Source: [ICAincentives.com](http://ICAincentives.com)

# GLOBAL INCENTIVE TRENDS PER BUSINESS ACTIVITY

## ACTIVITY 2010-2012

Number of awarded Incentives per Business Activity



Source: [ICAincentives.com](http://ICAincentives.com) 2013

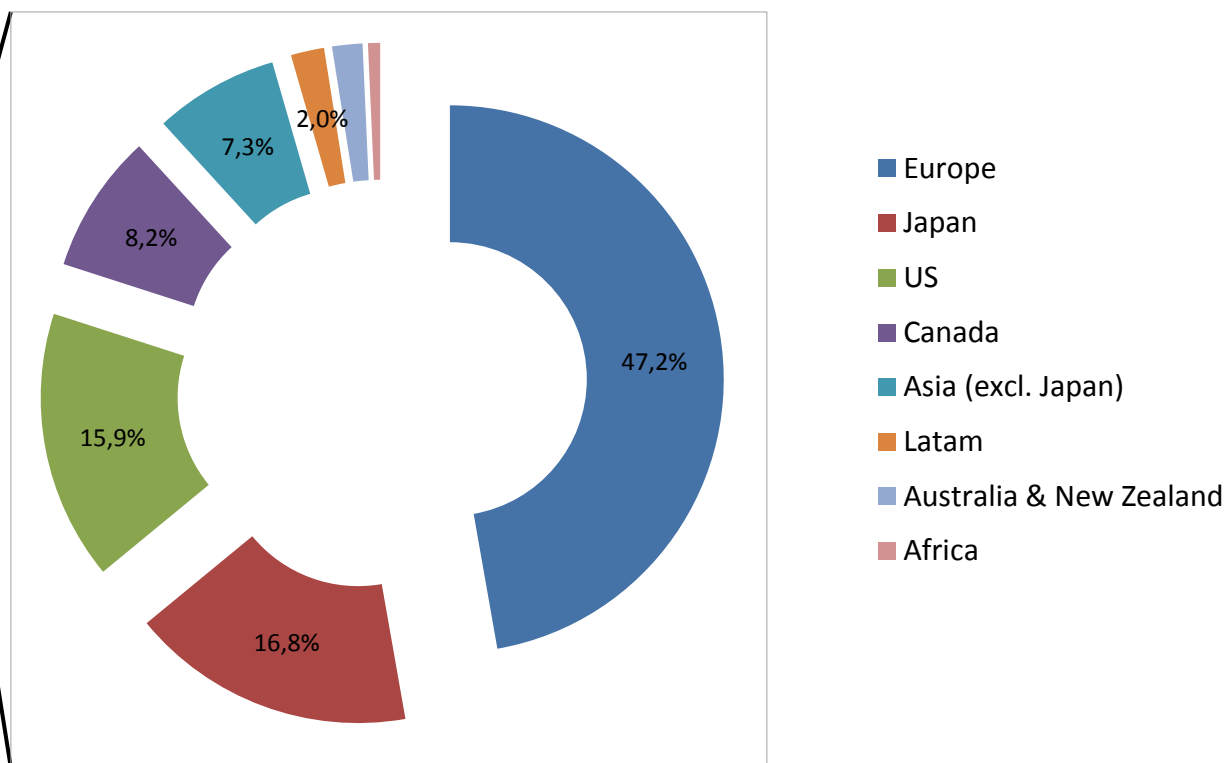
# NATIONALITY OF FOREIGN INVESTORS - GLOBAL

2012 global incentives:

■ Domestic: 82.6%

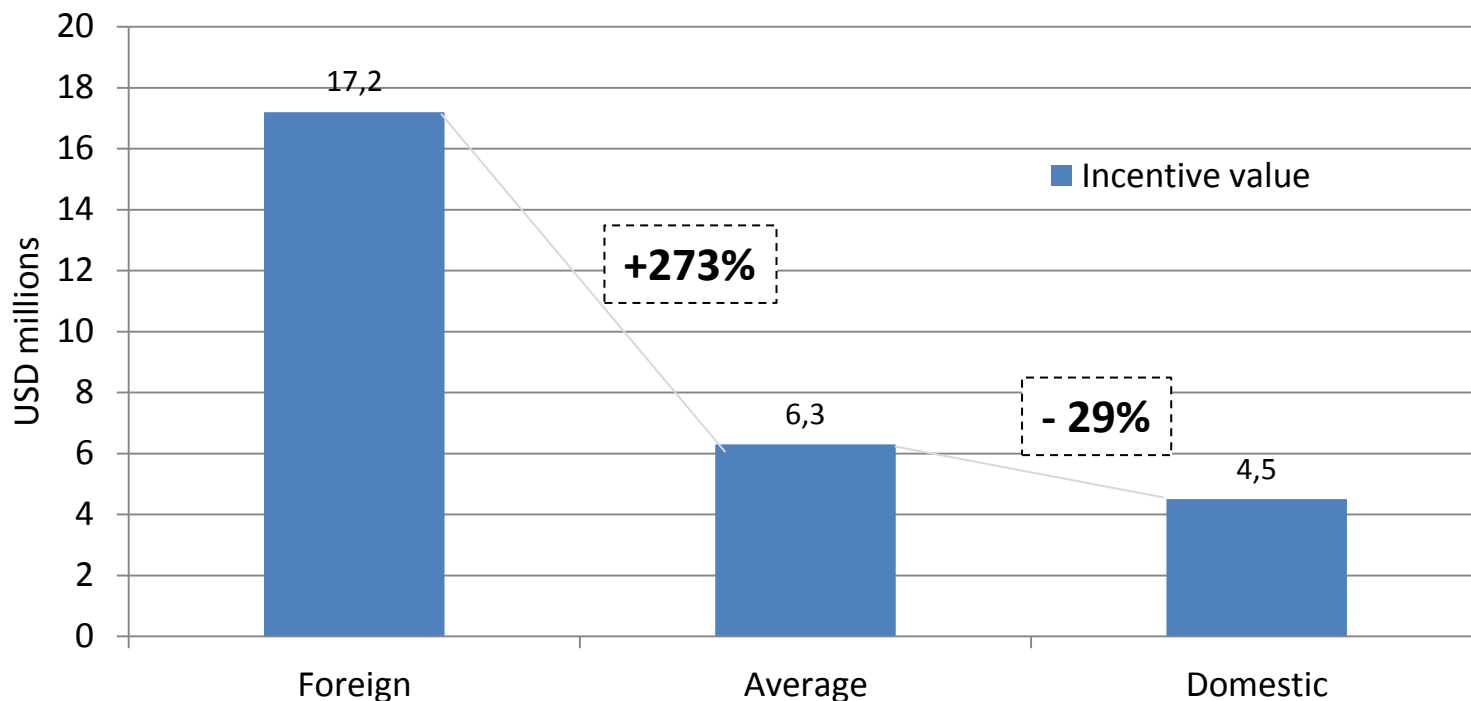
■ Foreign: 17.4%

**Incentives per Investor's Nationality (Global)**



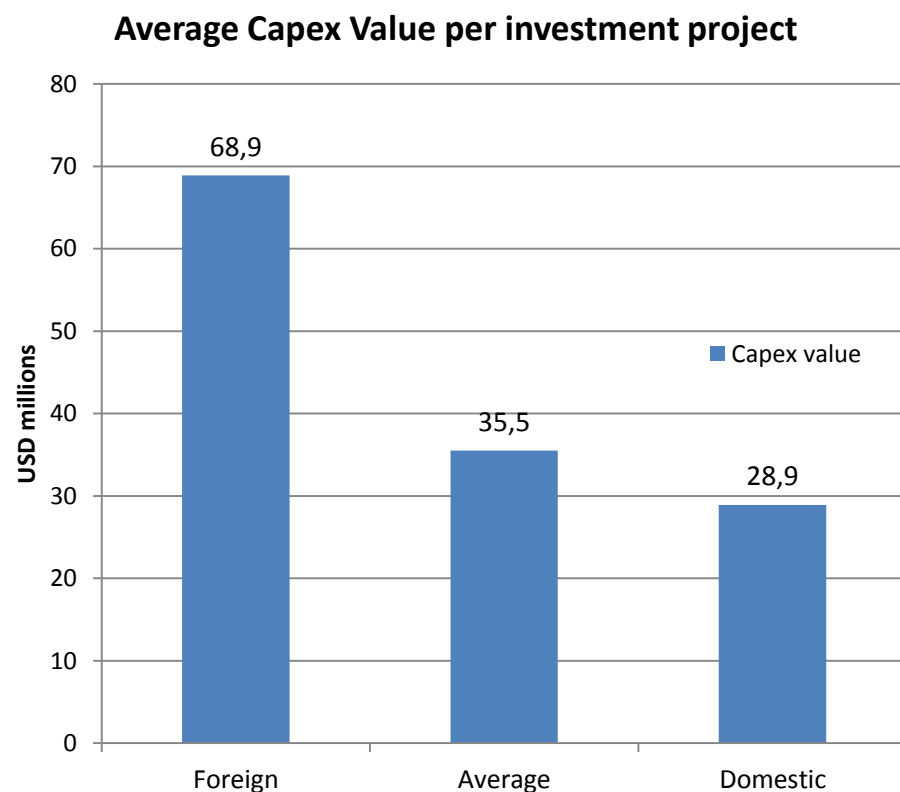
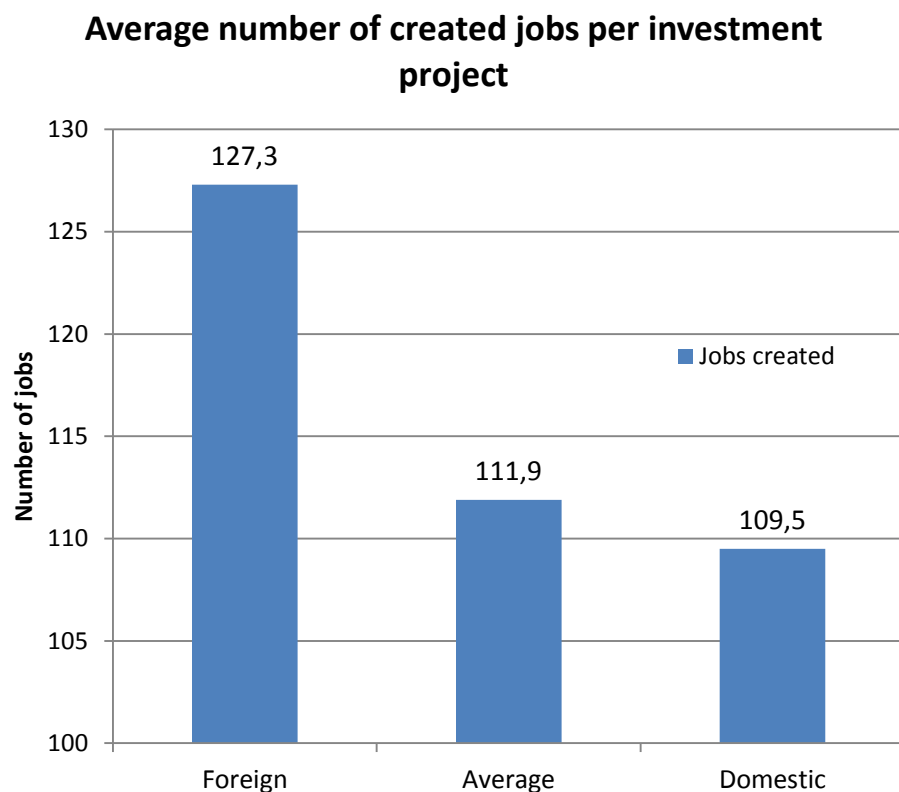
# FOREIGN INVESTORS RECEIVE HIGHER INCENTIVES PACKAGES .....

**Average Incentive Deal Value per Investment**



- Foreign investors have been awarded with significantly higher incentives than domestic investors: \$17.2 million for foreign firms against \$4.5 for domestic firms

# .... AND CREATE MORE JOBS AND INVEST MORE,

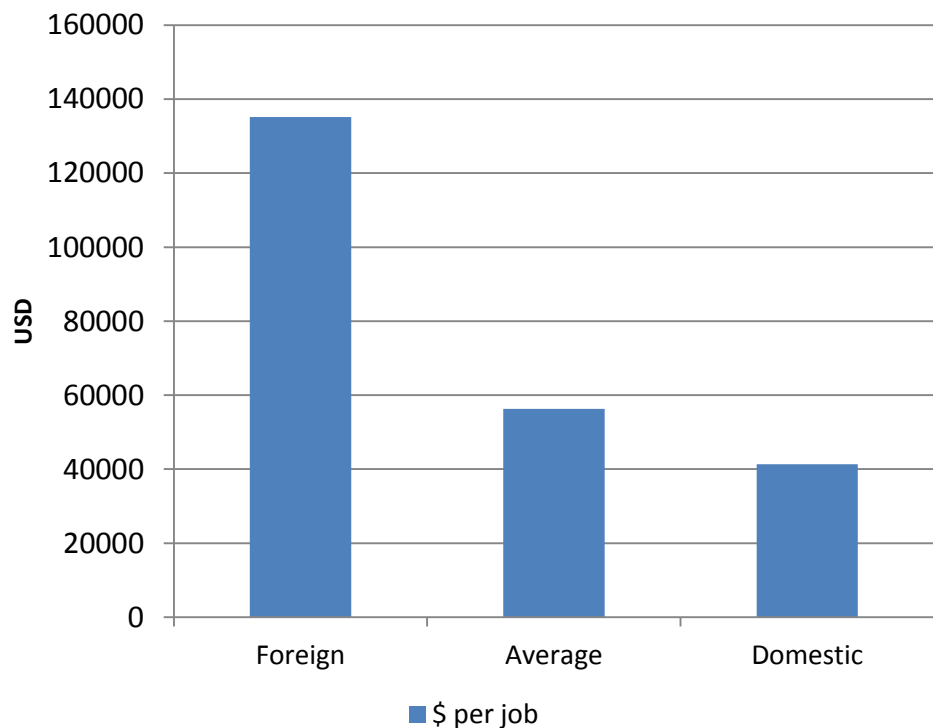


- Foreign investors create on average more jobs per investment project compared to domestic investors (127 against 109) and invest on average a higher total capital expenditure than domestic investors (\$68.9 million against \$28.9 million)

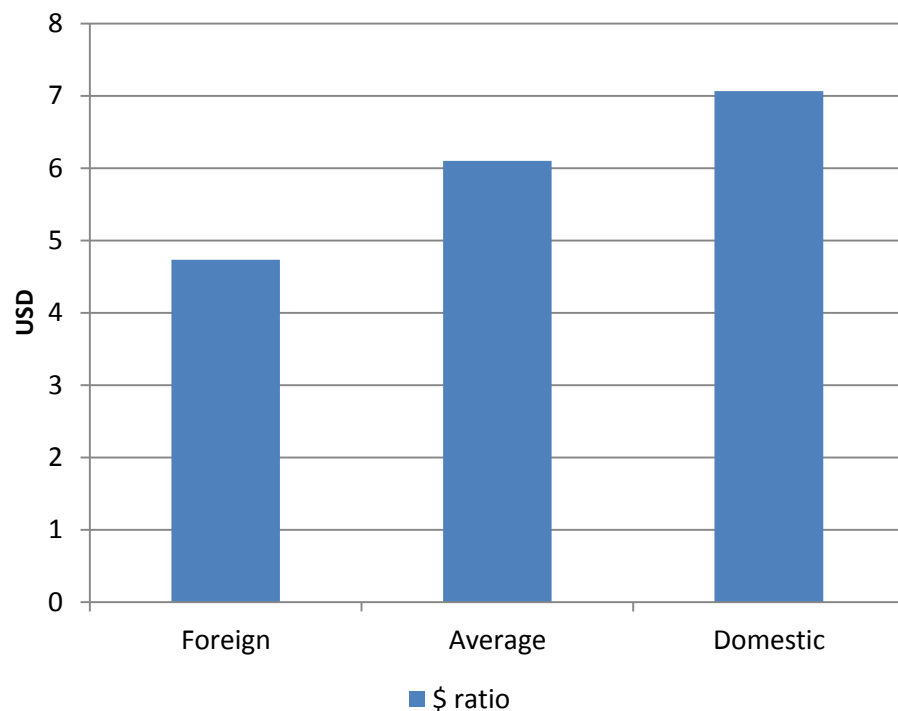


# ...BUT WITH A HIGHER DEAL VALUE PER JOB

## Average Incentive Value per Job



## Average Capex Value per Incentive \$



- However, some nuance is required as awarded incentives to foreign investors result on average in higher values per created job and in average lower rates of return (as percentage of total generated capital expenditure)

# Prevalence of Tax Incentives around the World

	Number of Countries Surveyed	Tax holiday/ Tax exemption	Reduced Tax rate	Investment allowance/Tax credit	VAT exemption/reduction	R&D Tax Incentive	Super-deductions	SEZ/Free Zones/EPZ/Free port	Discretionary process
East Asia and Pacific	12	92%	92%	75%	75%	83%	8%	83%	25%
Eastern Europe and Central Asia	16	75%	31%	19%	94%	31%	0%	94%	38%
Latin America and the Caribbean	24	75%	29%	46%	58%	13%	4%	75%	29%
Middle East and North Africa	15	73%	40%	13%	60%	0%	0%	80%	27%
OECD	33	21%	30%	61%	79%	76%	18%	67%	27%
South Asia	7	100%	43%	71%	100%	29%	57%	71%	14%
Sub-Saharan Africa	30	60%	63%	73%	73%	10%	23%	57%	47%

# THREE VIEWS ON INVESTMENT INCENTIVES

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- **Orthodoxy:** Incentives have little or no effect
- **Traditional:** It's all about the incentives
- **Mixed:** Incentives do matter, but it very much depends on situation, type and structure

# THE CURRENT INCENTIVES DEBATE

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## *Emotional but without a depth of understanding*

- The orthodox view versus the market view. Are incentives a necessary evil, harmful or irrelevant?
- NY Times Article: “Corporate Welfare”
- IEDC Response and ED response. Corporate response?
- International setting and debate (EU changes coming up and discussions in emerging markets)

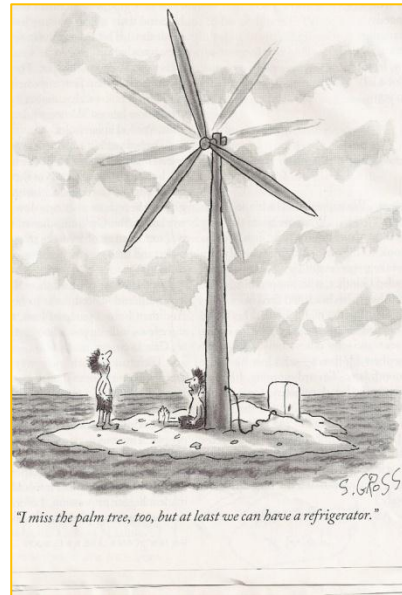
# WHY GIVE INCENTIVES?

Policy objectives that incentives are used to achieve:

- To overcome a competitive weakness
- To promote investment in deprived areas
- To attract particular industries
- To correct for market failures
- To change the image of a location

**Governments feel that they have to offer incentives because their competitors offer incentives - simply to ensure that they are in the game**

# INCENTIVES: STIMULATE VERSUS COMPENSATE



Compensate

Stimulate



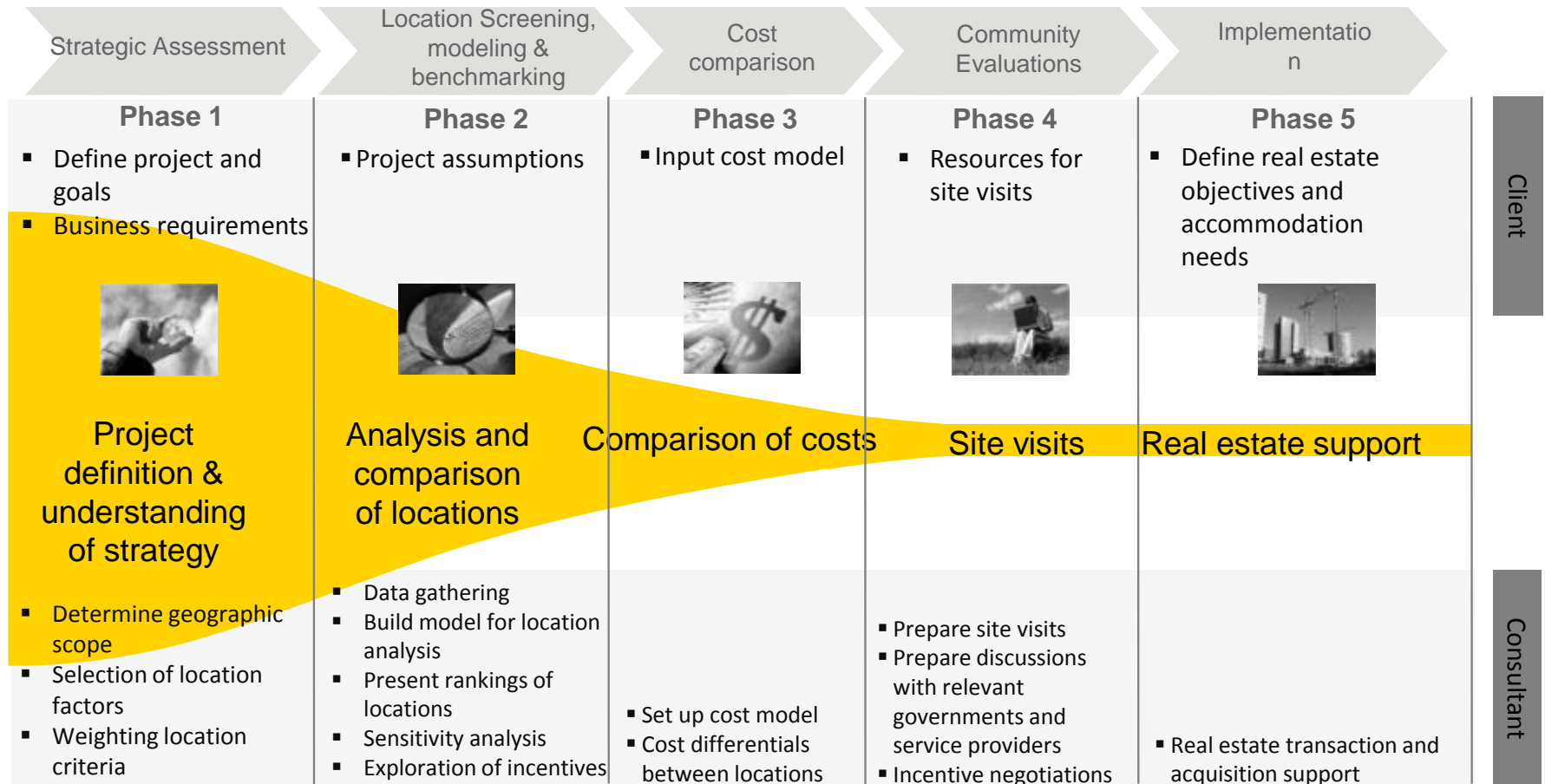
# DO INCENTIVES WORK?

## MAKING SENSE OF THE EVIDENCE

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- Fiscal or other cost-reducing incentives tend to be effective where the investment decision is among either:
  - Similarly attractive platforms, which meet underlying project requirements, for producing for export to other markets, or
  - Similarly attractive parts of one large market (such as USA, EU, China)
- New start-up projects prefer incentives that reduce their initial expenses
- Established, expanding firms may prefer tax-related incentives that affect profit
- All firms value transparent, easy to understand, and certainty in incentives policy

# UNDERSTANDING THE CORPORATE INVESTMENT PROCESS



# TYPOLGY OF FDI AND RESPONSE TO TAX INCENTIVES

Type of Investment	Factors that drive it	Response to investment incentives
<b>Natural Resource/Skill-seeking FDI</b>	Location of Natural Resources/Skills	Low response. FDI driven primarily by non-tax factors.
<b>Market-seeking FDI</b>	Market potential <ul style="list-style-type: none"> <li>- Market dimensions</li> <li>- Income per-capita</li> <li>- Customer specific preferences</li> <li>- Kind of goods and services to be provided</li> </ul>	Low response. Level playing field between firms is critical (same tax system for all competitors).
<b>Strategic Asset-seeking FDI</b>	Acquiring Strategic Assets <ul style="list-style-type: none"> <li>- Brands and Market positioning</li> <li>- Know-how</li> <li>- Technology</li> <li>- Distribution Networks</li> <li>- Human Capital</li> </ul>	Low response. FDI is driven by the location of the asset. However lower taxes on capital gains reduces the costs of the transfer of these assets.
<b>Efficiency-seeking FDI</b>	Lower Costs <ul style="list-style-type: none"> <li>- Mostly export oriented</li> <li>- Availability of skills at a Low cost skills</li> <li>- Close to markets</li> <li>- Low relocation costs</li> </ul>	High response to tax incentives. Firms are expected to compete globally, hence the lower the costs, the better their ability to compete globally.

# THE OVERALL INCENTIVE PHILOSOPHY

***Good incentive policy starts with clear goals and an understanding of corporate motivation***

- Why give incentives?
- Do incentives work (and when)?
  - Changing times
  - Managing incentives and government relationships as a risk to be
- What types of incentives are available?
- What criteria should be used to award incentives?
- Are there Monitoring and Evaluation Mechanism in place?

# DO FISCAL INCENTIVES WORK?

## *Well, Yes and No:*

- Incentives have played a huge role in attracting mobile international investment (e.g., Intel in Israel & Ireland, garment factories worldwide)
- In the USA, GM received \$1.7bn in local incentives since 2007; South Carolina took on \$218m in debt to assist Boeing's expansion and offered 10-year tax holiday
- But research in the Philippines suggests that over 90% of fiscal incentives go to firms that would have invested anyway
- Companies still close or move facilities after getting incentives
- Difficult/impossible to calculate the net cost or benefit

# CRITERIA TO AWARD INCENTIVES

- The most straightforward criteria are based on capital investment and employment creation, which can be measured accurately
- Quality criteria. Incentives often vary depending on:
  - Quality of jobs created
  - Sector and/or the type of activity
- Incentives awarded should be the amount needed to attract the project (not the maximum available!). This is influenced by:
  - Market size
  - Corporate tax rate
  - What other locations are offering
- The incentive awarded should always take into account what the net economic and social benefits of the project will be



# WHAT A PROPER INCENTIVE SOLUTION PROVIDES

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## **Maximizes return on investment through:**

- Earlier revenue generation through accelerated start up
- Cost optimization; and
- Maintained or Improved quality/service levels

## **Achieves ‘best deal’ with:**

- Financial grants and incentives
- VAT
- Taxation and Transfer Pricing issues

## **Provides an objective decision process:**

- Independent and transparent
- Based on “Best Practices”
- Best use of dedicated resources, tools and time

# SUMMARY: WHAT CAN YOU DO?

**Remember: An incentive is anything that makes a location better, more cost competitive, or faster:**

- Target (and nurture) businesses based on the match to what your community (and region) have to offer
- Leverage the programs you already have
- Provide tangible incentives (without subsidy) by shortening or expediting the permitting timeframe.
- Provide clarity in terms of expectations for the company and the regulatory agencies, resulting in a better defined process
- Understand the motivations of your target (and their consultants)

# RECOMMENDATIONS

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- Governments should have as much knowledge as possible about the project parameters, underlying benefits of the location, and profitability of the location compared to competitors with sensitivity analysis of incentives packages
- Financial models can greatly assist in negotiating with an investor to understand the profitability/NPV of the project
- Incentives should be part of the overall investment proposition. Do not lose sight of the fundamentals for why the company is investing and the benefits of your locations
- Time is money and your soft incentives can be equally important for the investor

# DISCUSSION

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- Should incentive be tailored to specific (target) industries?
- Given the fact that foreign firms on average create more jobs and generate higher capital expenditures, to what extent is rewarding foreign investors (outside US) with higher incentives packages?
- Should States provide more transparency in their incentive policies and their results?

# CONTACT DETAILS

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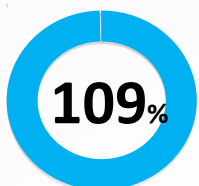
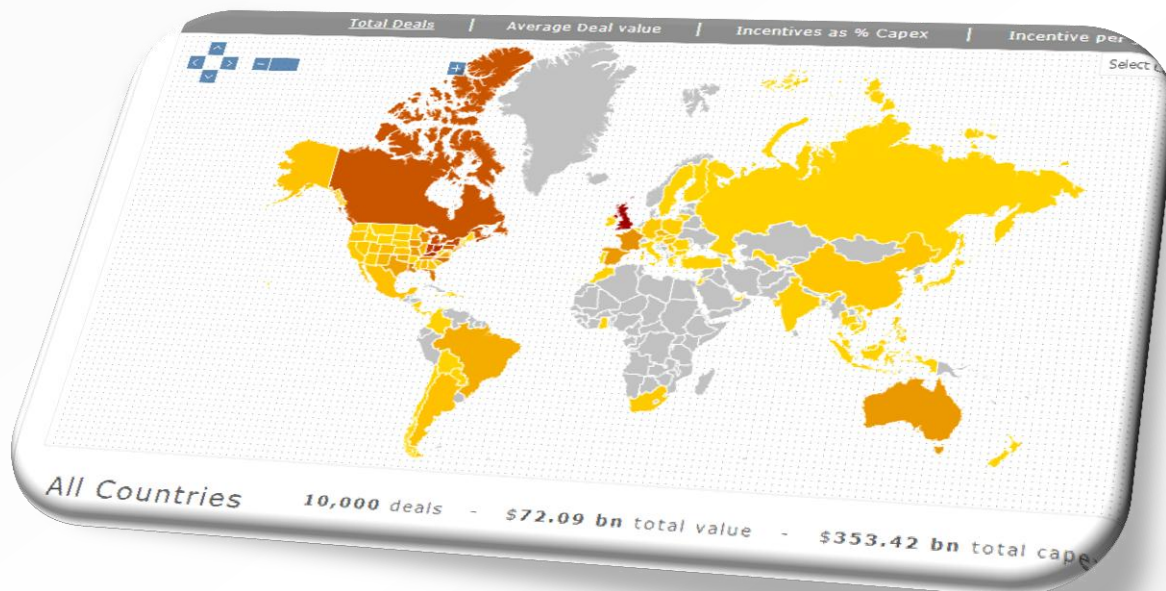
[www.ic-associates.com](http://www.ic-associates.com)



# ICA Incentives at 10,000 deals

The only online global incentive tracker has recorded an overall incentive amount of **\$72.09 billion**. A total **1,239,272** new jobs have been created and **\$353.42 billion** spent on investments.

The database contains information on over **400** incentive programs **active** in more than **60 countries**.



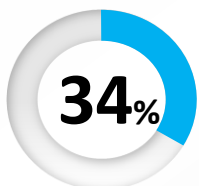
**\$51,191**

Average **Incentive Per Job Created** (US\$) is more than the average annual salary cost of \$47,141, hence 109%



**\$8.9m**

The average **investment incentive percentage** is equal to 20%

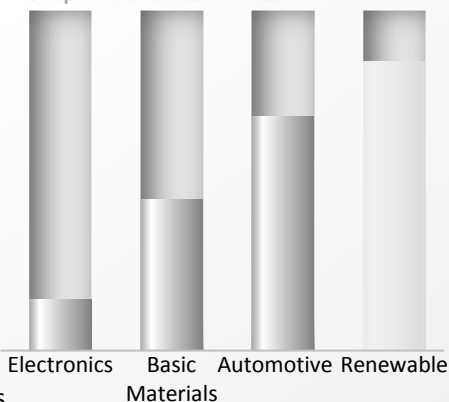


**\$7.24m**

The average **incentive value per investment project**. Yet, domestic investors receive only 34% the amount compared to foreign investors

## Incentive Value per Sector

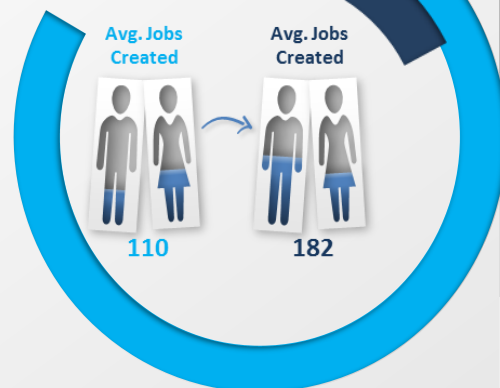
Snapshot of Sector Trends



## Foreign vs. Domestic

There are **4x** more domestic than FDI deals. FDI projects create up to **65%** more direct employment

Domestic 81.5%  
Foreign 19.5%





# COMPETITIVE PRICING GLOBAL INCENTIVES DEALS

## ICAIncentives - Pricing

Unlimited annual access to ICAIncetives.com			
No. users	Discount	Total Cost	Cost per User
1	0%	\$ 7,500	\$ 7,500
2	10%	\$ 13,500	\$ 6,750
3	20%	\$ 18,000	\$ 6,000
4	30%	\$ 21,000	\$ 5,250
5	35%	\$24,375	\$ 4,875
10	40%	\$ 45,000	\$ 4,500
15	50%	\$ 56,250	\$ 3,750
20	60%	\$ 60,000	\$ 3,000

## This includes:

- 24/7 unlimited access to the online ICAIncetives tool for one year
- Unrestricted download of the full global incentives database
- Daily and real time database updates
- Weekly e-mail alert including latest deal updates
- Training and customer support (Monday to Friday: 02:00 – 19:00 EST)