

Investor Motivation Surveys in East Africa

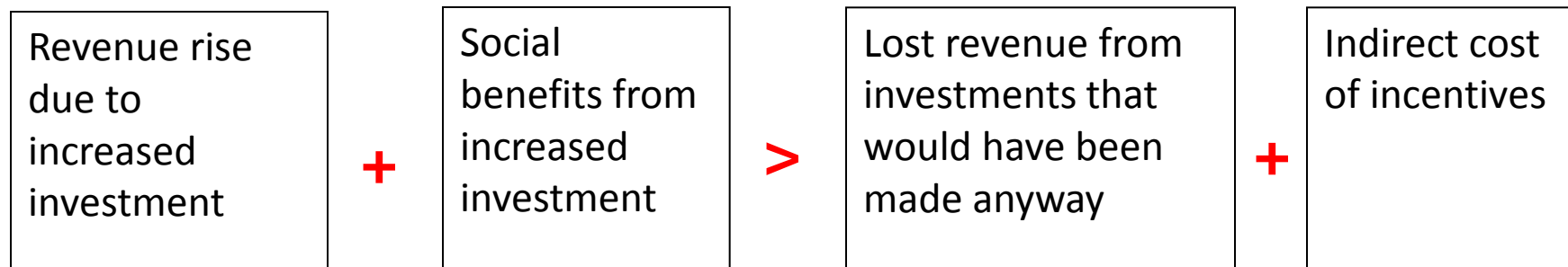
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Tax Incentives Framework

The Benefits and Costs of an Incentive Policy



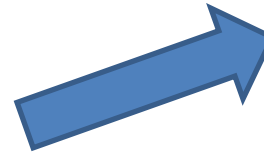
Social Benefits include cleaner environment, better skills, better health, etc.

Tax Incentives Evaluation Tools

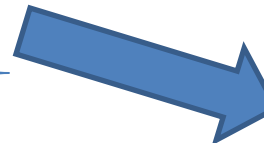
Policy Analysis



- ◆ Investor Motivation Surveys
 - To understand the salience of Incentives to the investment decision
 - To gauge investment climate barriers for existing investors
- ◆ Research on
 - The effectiveness of incentives in attracting investments
 - Sector specific approaches
 - Cost-benefit analysis on revenue loss and jobs gained
- ◆ Compilation of Tax Incentives in various laws and identify elements of discretions
- ◆ Tax Expenditures
 - Measuring the revenue cost of tax incentives and direct cost of subsidizing investments
- ◆ Cost-Benefit Analysis – Jobs/Revenue cost
- ◆ Reform of Procedures to administer Tax Incentives



Investment Policy



Tax Simplification

Investor Motivation Surveys: Sample, methodology , objectives

- A total of 495 company representatives were interviewed in Burundi, Tanzania, and Rwanda between October 2011 and January 2012
 - The study contains 489 observations and is representative of most sectors of the three economies
- ◆ Objectives
- Investor motivation surveys measure the effectiveness of tax incentives and how they impact investment decisions
 - Help understand and identify marginal investors (those who need tax incentives to invest)
 - provide key practical information for governments to construct an accurate understanding of investment behavior and hence, build an appropriate tax incentives policy

The surveys cover a range of useful characteristics

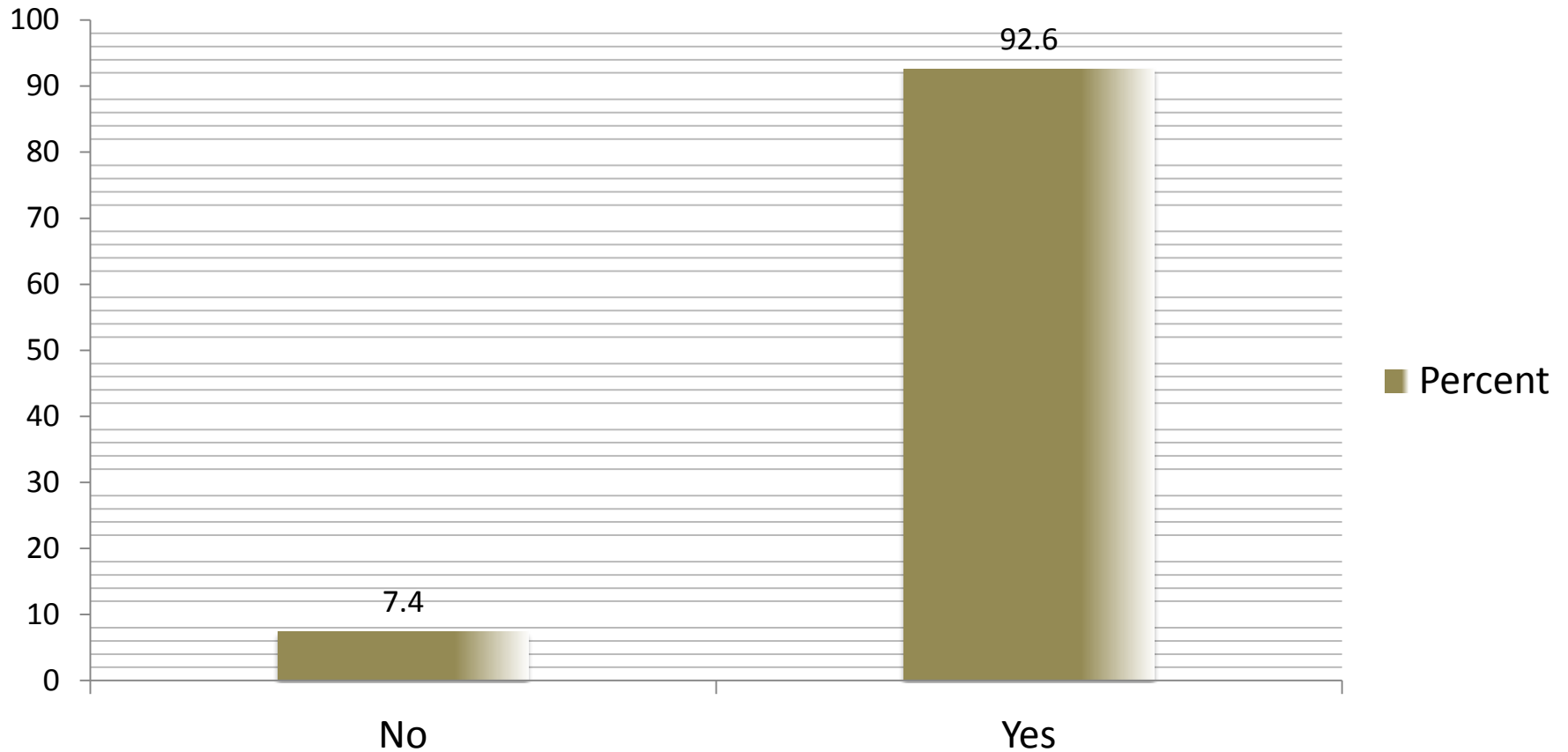
Key characteristics analyzed in the survey include:

- Ranking of most important factors that motivated investment
- Investment by type of capital ownership
- Investment by sector
- Investment by the size of investment (in \$US)
- Investment by annual sales
- Investment by initial target market
- Investment by actual sales: domestic vs. exports
- Duty and VAT incentives/exemptions
- Company tax incentives
- Number of permanent national and foreign employees
- Appropriate ROR % after the “tax hurdle”

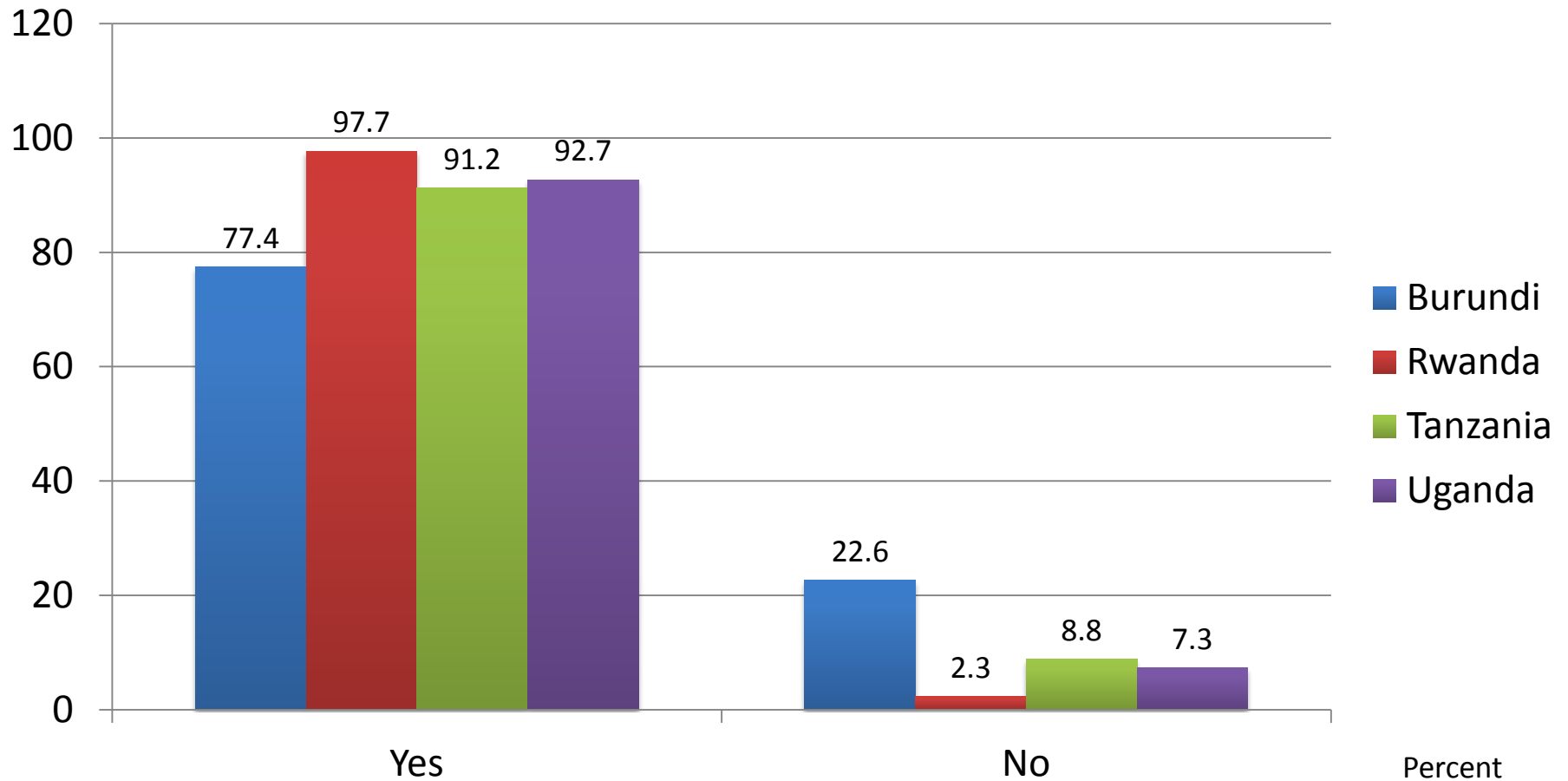
Results of Investor Motivation Surveys: Main findings

- ◆ Only 7.4% overall (54 out of 683 cases) of all respondents in all four countries said that **they would not have invested** without tax and fiscal incentives they received
- ◆ In the case of duty relief, only 8.4% of respondents in Tanzania, Rwanda and Uganda said they **would not have invested without it**
- ◆ In **Burundi** this number is higher: 33.8% (24 out of 71)
- ◆ With the exception of Burundi, investors list tax incentives as among the least important factors that impacted their investment decisions
- ◆ Top 5 most important factors that investors said impacted their investment decisions are:
 - 1) Market potential;
 - 2) Access to finance
 - 3) Access to land
 - 4) Infrastructure (water, electricity, good roads, etc.)
 - 5) Support from Investment Authorities

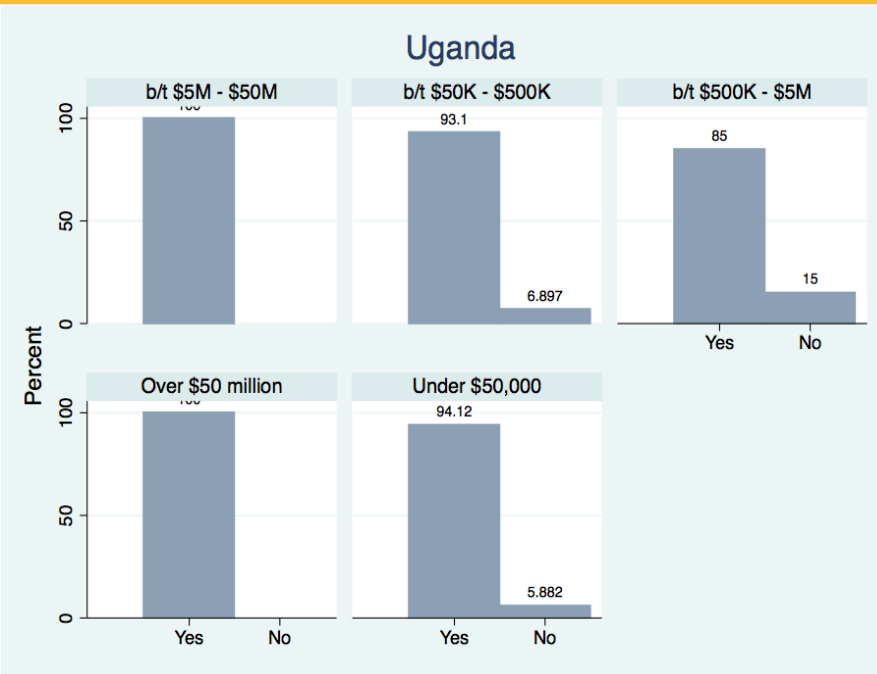
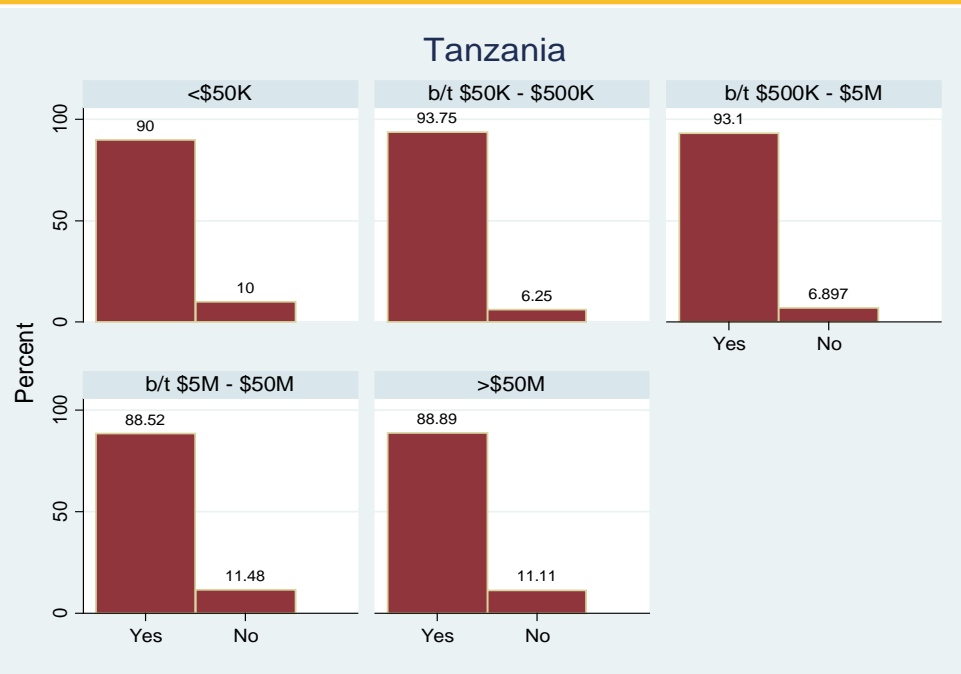
Over 90% of surveyed investors in four countries said they would have invested even if they didn't receive any fiscal or tax incentives



The pattern holds across each individual country (to a lesser degree in Burundi)

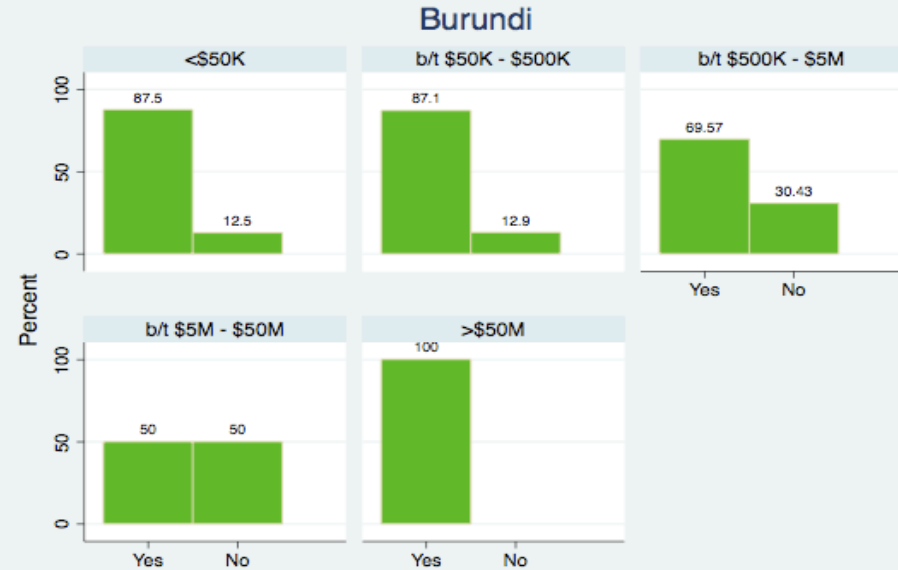
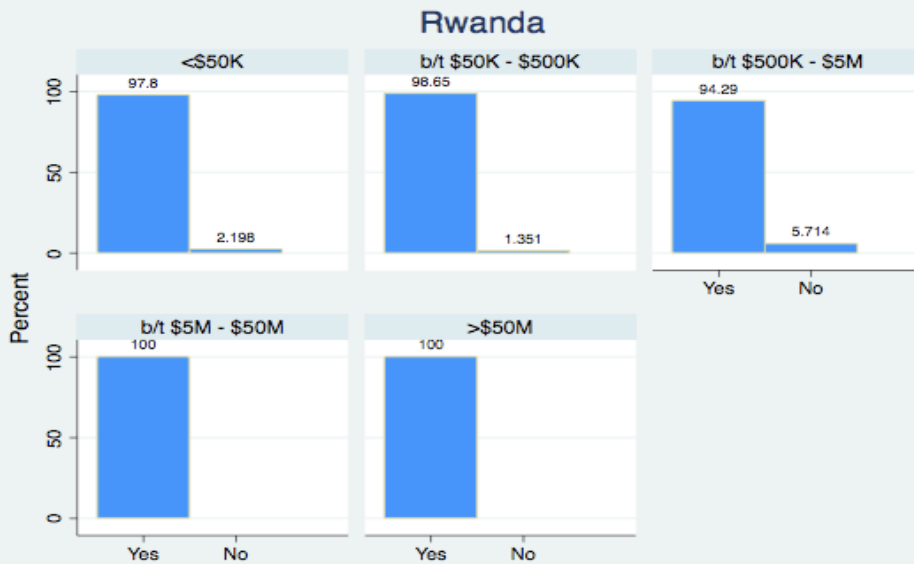


Would your company have invested without tax incentives? (by investment amount in \$US) – Tanzania and Uganda



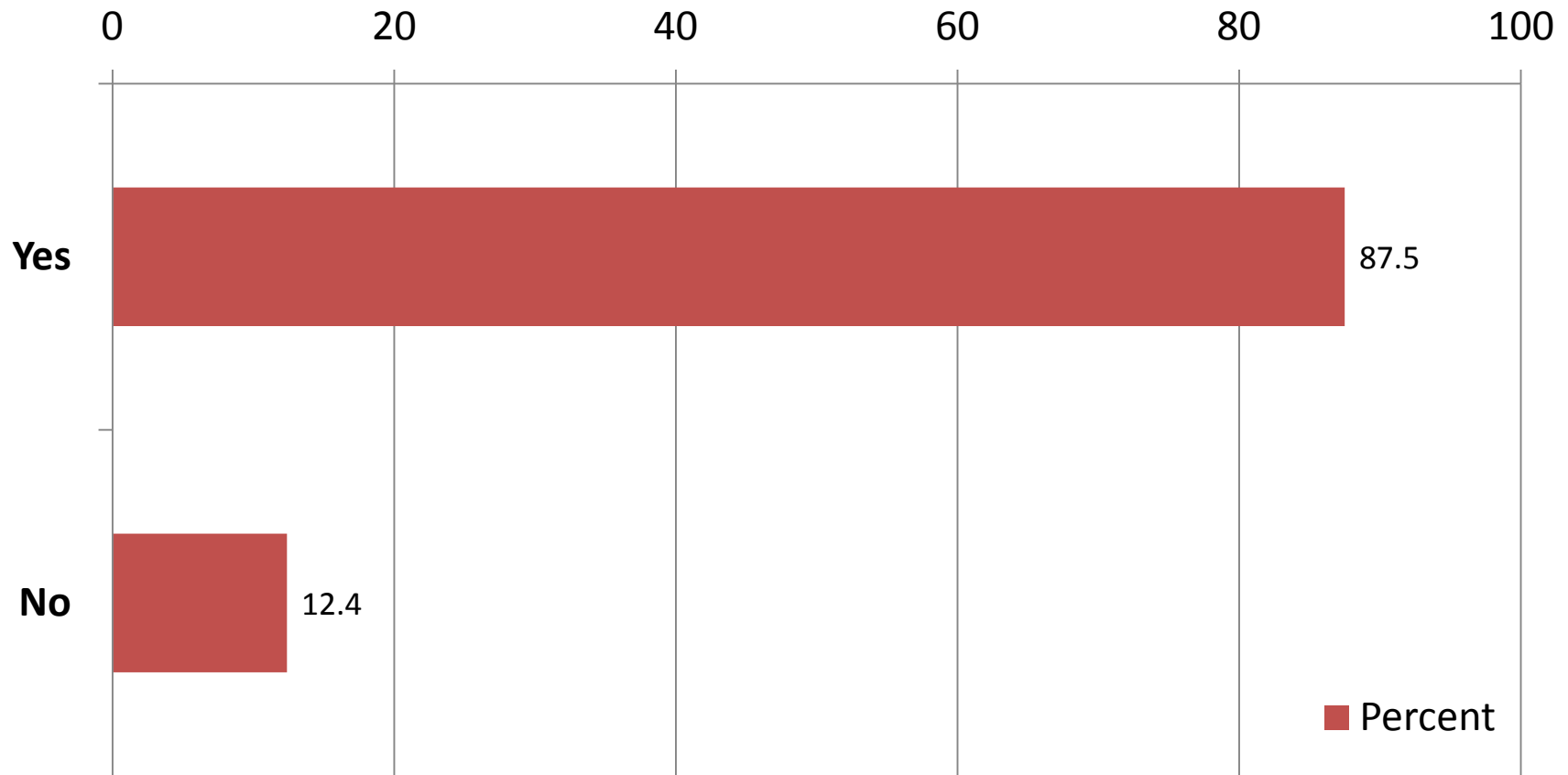
➤ In Tanzania and Uganda, majority of investors with all sizes of capital investment say **they did not need any incentives** to invest

Would your company have invested without tax incentives? (by investment amount in \$US) – Rwanda and Burundi



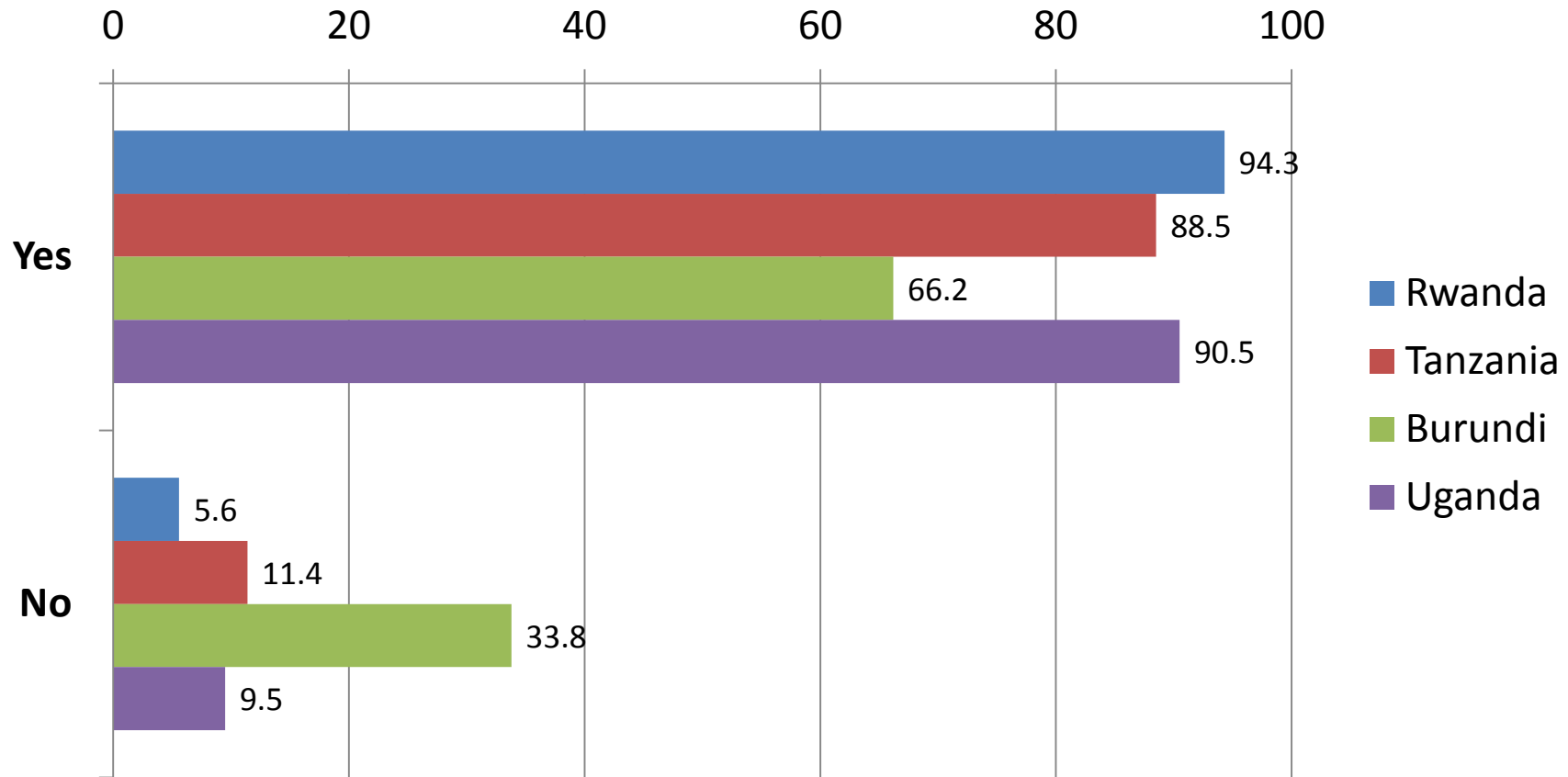
- 50% of investors in Burundi, with capital between \$5M and \$50M, said they needed fiscal incentives to invest
- While over 30% of those with capital between \$500K and \$5M also needed some incentives to invest in the country

Majority of surveyed companies would have invested even without any VAT or duty relief incentives



Question asked: Would your company have invested without any VAT or duty relief?

Again, Burundi is a somewhat of regional exception in needing VAT and duty relief incentives

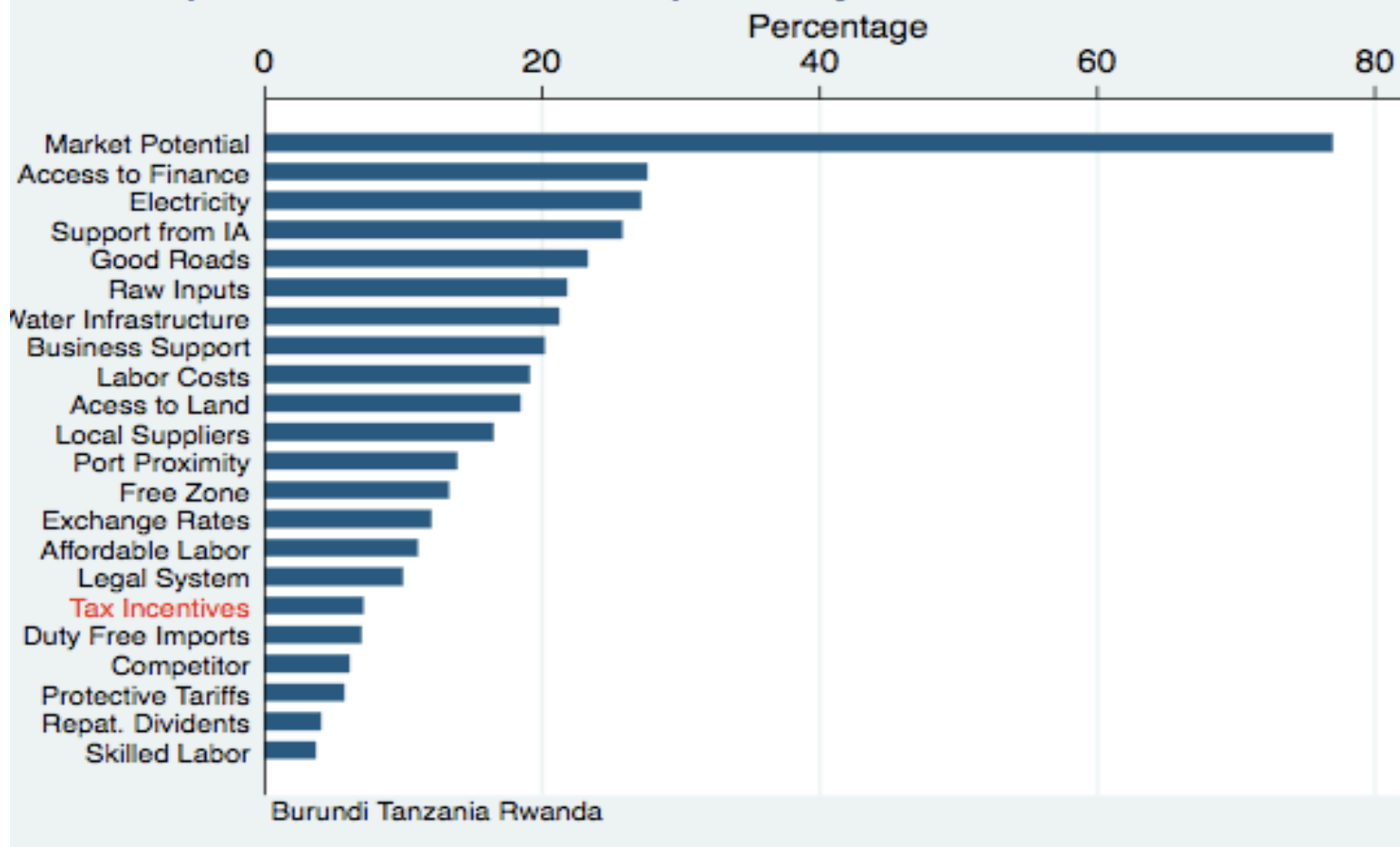


Next...

- ◆ If tax and fiscal incentives are not too important for these investors, what other factors play a crucial role in their investment decision?

Tax incentives are one of the least important factors in investment decisions

Most important factors that impacted your investment decision

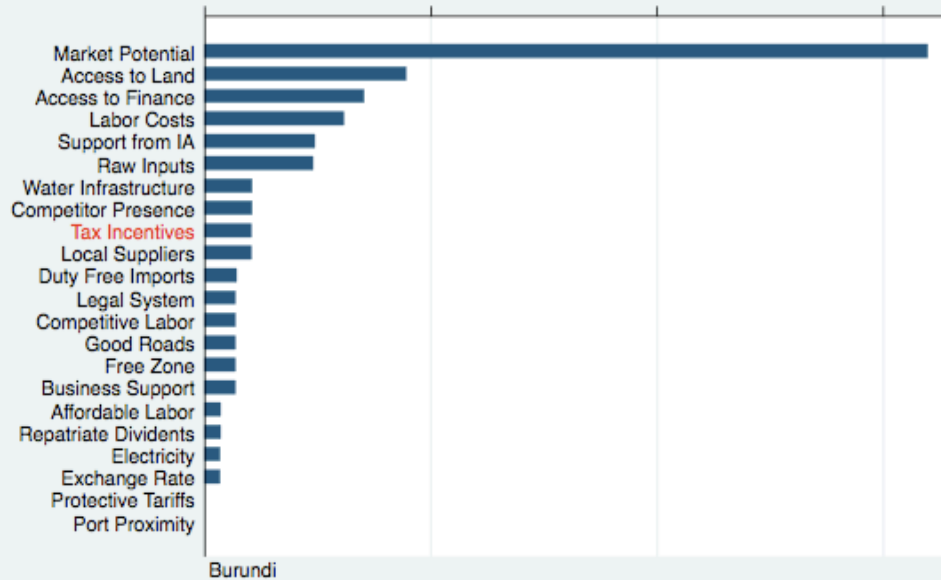


Tax incentives are one of the least important factors in investment decisions

Most important factors that impacted your investment decision

Percentage

0 20 40 60

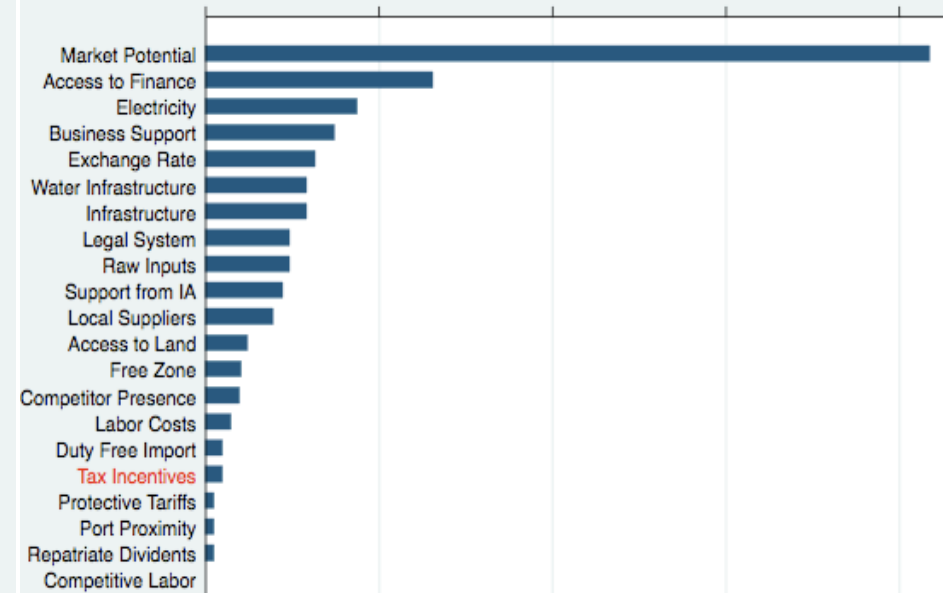


Burundi

Most important factors that impacted your investment decision

Percentage

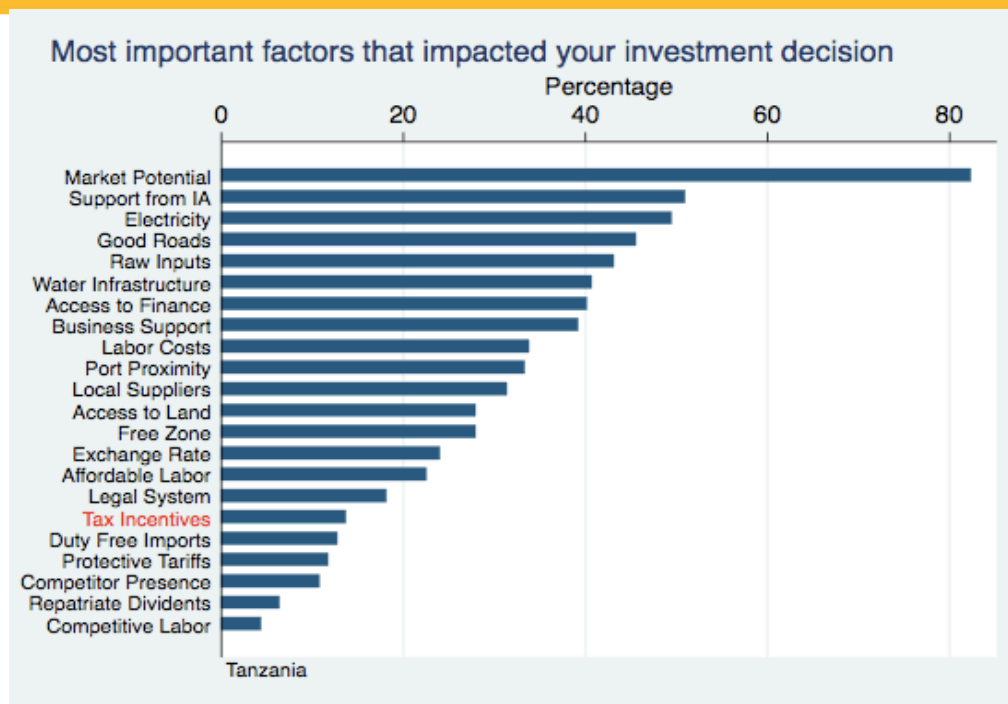
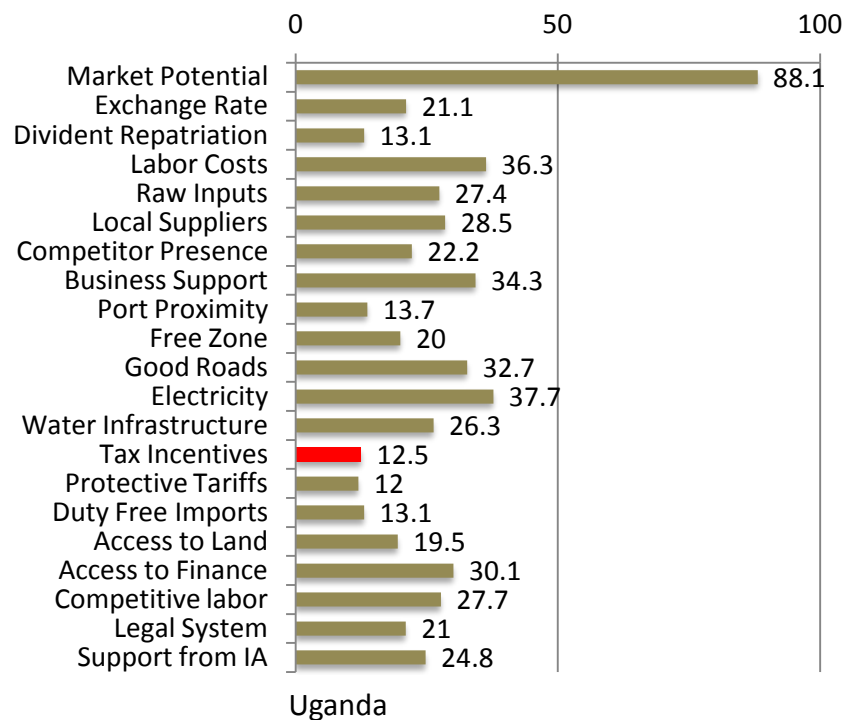
0 20 40 60 80



Rwanda

For investors in Burundi and Rwanda tax incentives are much less important than good roads, electricity, infrastructure, macroeconomic stability, etc.

The most important factors in investment decisions - by country



Similarly, surveyed investors in Uganda and Tanzania look for market potential, labor costs, infrastructure and **regard incentives among the least important factors** to their investment

What do we mean by marginal investor?

- ◆ A marginal investor is an investor who needs tax and fiscal incentives in order to invest
- ◆ Their decision to invest or not depends on whether governments offer them incentives
- ◆ In our EAC study, marginal investors make up about 8% of total respondents
- ◆ In Rwanda, there are only 5 marginal investors out of 214 answered
- ◆ The highest number of marginal investors in the category of invested amount is among those who invested between \$500K and \$50M

Burundi: Marginal investors created only 19% of all new, national permanent jobs

Category	Hotels Restaurants	Industry Manufacturing	Banking Services	Hospitals	Tea Production	Other sectors - cumulative	Total jobs created selected sectors	Total jobs created – All sectors
MI (Raw count)	260	36	155	0	36	0	487	487
MI (Percentage)	29%	21%	88%	0%	6.6%	0%	23%	19%
NMI (Raw Count)	640	137	21	149	506	545	1453	1,998
NMI (Percentage)	71%	79%	12%	100%	93.3%	100%	69.5%	81%
Total	900	173	176	149	542	545	1,940	2,485

- Investors who said “would not have invested without incentives” created more jobs in the banking services sector than investors who said that they did not need incentives to invest

*Sectors are selected based on the highest number of representation in the survey. ** Only the total number of jobs created is known but not the composition between two groups

Tanzania: Marginal investors created only 16% of all new, national permanent jobs

Category	Conventions	Comm. Telecom	Transport	Water supplies	Industry/Manufact	Other sectors cumulative	Total jobs created – selected sectors	Total jobs created – All sectors
MI (Raw count)	1,200	695	676	150	371	2,096	3,092	5,188
MI (Percentage)	62%	14%	43%	100%	6%	11%	21%	16%
NMI (Raw Count)	716	4,215	883	0	5,803	17,190	11,617	28,807
NMI (Percentage)	38%	86%	57%	0%	94%	89%	79%	84%
Total	1,916	4,910	1,559	150	6,174	19,286	14,709	33,996

- Investors who said “would not have invested without incentives” created more jobs in sectors of conventions, exhibitions and water supply than investors who said that they did not need incentives to invest.

*Sectors are selected based on the highest number of representation in the survey

Rwanda: Marginal investors created only 1.1% of all new, national permanent jobs

Category	Hotel Restaurant	Industry Manufact	Hardware	Commerce	General trade	Other sectors cumulative	Total jobs created – selected sectors	Total jobs created – All sectors
MI (Raw count)	6	6	0	0	0	12	74	98
MI (Percentage)	1%	0.02%	0%	0%	0%	0.04%	1.4%	1.1%
NMI (Raw Count)	545	2,329	82	157	186	3,299	5,156	8,455
NMI (Percentage)	99%	99.8%	100%	100%	100%	99.6%	98.6%	98.9%
Total	551	2,335	82	157	186	3,311	5,230	8,553

- Almost all jobs created here are by the investors who would have invested without any incentives

In Uganda, majority of jobs are created by investors who did not need any tax or fiscal incentives

Marginal Investors



Created



180 Jobs
(4% of total)

Investors with no need for incentives



Created



4,213 Jobs
(96% of total)

Total Jobs created by all investors:

4,393

Main finding: Tax incentives not a key motivator for investment

- ◆ Over 92% of all respondents would have invested without the tax incentives, so, **only 7.9% overall (54 out of 683 cases)** of all respondents in all four countries said that **they would not have invested** without tax and fiscal incentives they received
- ◆ While in Burundi 33.8% of surveyed companies said that they needed **duty and VAT relief incentives**, in other EAC countries over 85% of companies said they did not need these type of incentives to invest
- ◆ In **Uganda** Investors who needed tax and fiscal incentives to invest **created only 4%** of total jobs created by surveyed companies
- ◆ In the four countries, **investors list tax incentives as among the least important factors that impacted their investment decisions**
- ◆ Top 5 most important factors that investors said impacted their investment decisions are:
 - 1) Market potential;
 - 2) Access to finance
 - 3) Access to land
 - 4) Infrastructure (water, electricity, good roads, etc.)
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Policy implications and conclusion

- ◆ Data shows that tax incentives are one of the least motivations for investment in the four countries studied
- ◆ There is a need to consider rationalizing tax incentives to prevent revenue loss
- ◆ Need to evaluate the value of tax incentives in helping to creating jobs
- ◆ The Burundi experience shows that in cases of high risk, tax incentives appear to have more importance
 - Does this point to a missing factor (discretion ?)
 - Despite this, more than two-thirds of the investors would have invested anyway
- ◆ Preponderance of other factors such as Market Potential, Access to Finance and Infrastructure are much more critical in determining investment decisions
- ◆ Points for a clear need to re-evaluate the use of tax incentives in the EAC and avoiding harmful tax competition

Thank you

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