

The Impact of Incentives on Investments

Economic Growth - A message for the Governments of Countries, Cities, and Communities

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Simply stated, investors will not invest in high risk countries, cities or communities until a balance is restored between Risk and Cost. Incentives play an essential role in reducing "Real Cost" for both existing businesses and new investors. This reduction allows for a small portion of the balance to be restored by increasing "Real Profits" by reducing "Real Expenses".

The types of incentives have proven to be uniquely different depending upon the position in the lifecycle as shown in the next diagram. The attraction or entrance of companies wishing to sell product is entirely different and substantially less complicated than alliances and joint ventures at the mature end of the investment cycle.



Secondly, the institutionalization of Incentives across the government provides a clear and positive message to the businesses and investors that the government sees the value of their services and products. This improvement in attitude encourages additional competition, growth and development.

Implementation

It is imperative that, in addition to the availability of incentives, that they be implemented across each entity and clearly inter-linked. A critical component of this work will be the creation of an empowered department that can advise businesses, assist in issue resolution and advise the government as to what requires improvement and recommendations for actions.

Investment also requires that the investor develop a risk mitigation plan. As part of the incentives strategy is imperative that it be recognized that investors can reduce their risk mitigation costs if the proper incentives are offered. This will positively impact all of the involved parties and shorten the time for implementation.

Mitigation of RISK

Risk requires an investor to design a Risk Mitigation Plan that protects his profit, cost, time and investments by allocating a high % of cost to his mitigation expense line.

Incentives affect a number of these key touch points

- Act as a counter-balance, lowering the % allocated to risk, making it more attractive to invest.
- Shows that the government is aware of the risk and has taken positive action
- Presents a positive message to the private sector that the government can act as a partner and is willing to work toward a common goal of economic growth

Counter- Balance

It is difficult in any situation understand that reductions in revenue can actually increase the long-term benefits of the investment deal. It is however possible if in the planning and attraction stage it becomes clear that there are expectations in return. EDI refers to this as incentives “Echo”. This could be in terms of guaranteed employment, knowledge transfer or clearly recognizing the investor’s social responsibility in providing education, healthcare or other developments within its areas of expertise.

Counter-Balance

To Counter-Balance the perceived loss of short term revenue

In order to qualify for Incentives – it is imperative to ask something in return an Incentive “Echo”

- Reinvestment Plan - Specific areas for impact
- Apply Research and Development toward growth in the industry
- Contribute to education – Higher Ed or VOTEC
- Social Responsibility in-kind for social good
- Requirements for a % of local hires, employees, knowledge transfer, careers and growth.

The Investors View

There is unique view that an investor can stimulate if he also understands the power of balancing reduced cost with its social responsibility. The investor can approach his proposal and solution based on the same scenario as described above. He can present his ideas recognizing that to close the deal and receive the incentives he requires by simply embrace the idea of carefully identifying the most attractive “Echoes” and make them part of his initial approach.

Messaging – Image Rebranding as “Investment Ready” and “Incentive Rich”

To overcome a long history of perceived and real problems for the businesses and investors, a professional messaging program should be designed and implemented. The message would speak to existing and potential businesses by outlining the changes, creation of a professional support team, describing where to obtain the information needed and the establishment of a service center that will serve to educate and facilitate.

Path Forward

The recommended Path Forward would include the following components.

- Task a Sr. Government Leader to drive and enable

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- Establish a formal Working Group with members empowered to represent their entity
- Change the paradigm from Short Term Revenue to Long Term Growth through Investments
- Involve the Private Sector
- Prioritize, Prioritize, Prioritize (set up success for others to follow)
- Define barriers and constraints
- Make existing laws and policies work
- Design the Plan and Implement
- Create a marketing and communications campaign
- Rebrand as “Investment Readiness and “Incentive Rich” Image

If you have questions as how to develop the strategy, identify investors, identify ideas, or implement your plan it would be our honor to assist you in the process.

Please contact us at the following number or e-mail.