



JERSEY FINANCE

VOICE OF THE INTERNATIONAL FINANCE CENTRE

# Jersey's contribution to FDI



A report commissioned by Jersey Finance by Investment Consulting Associates analysing the Island's competitiveness in attracting and mobilising foreign direct investment (FDI)

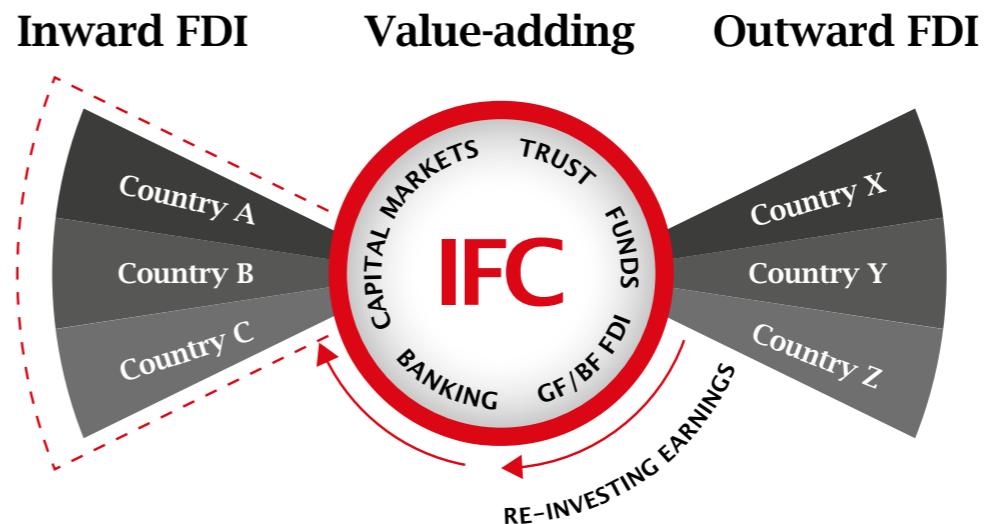
# Jersey's FDI:

The Investment Consulting Associates (ICA) report commissioned by Jersey Finance analysed the Island's competitiveness in attracting and mobilising Foreign Direct Investment (FDI)

## What is FDI?

**FDI comes in three broad forms:**

1. Investment by corporate investors in a company/ entity based in another country, establishing or acquiring foreign assets to generate additional revenue. This form includes takeovers as well as investment in new assets.
2. Investment by wealthy individuals to optimise their international investment revenues. Ultra High Net Worth Individuals with more than US\$50 million in wealth are increasingly active in global FDI.
3. Greenfield investment – creates new physical operations such as factories, distribution or service centres and regional headquarters from scratch (as opposed to Brownfield investment which modernises or reconfigures existing facilities).



Global financial integration has led to the development of so-called investment vehicles which make it easier for companies to invest around the world in pursuit of their FDI objectives. IFCs are key providers of these investment vehicles and supporting financial services, all of which serve to increase the scope and flexibility of capital.

By using IFCs' investment vehicles to manage their FDI, companies can reduce the risks of transferring assets across borders, particularly to countries which are less stable and less well-regulated. In the absence of IFCs and their favourable regulatory and fiscal regimes, these flows of FDI to developing economies might not have happened, since the risks of such investments could outweigh the returns. Thus the existence of IFCs increases the global volume of FDI.

# Which countries benefit from Jersey's role?

FDI originating from Jersey flows to a diverse range of countries including many emerging markets. Countries in the Island's top 20 for both capital invested and jobs created abroad included Poland, Turkey and Netherlands. Moreover, several African developing markets including Uganda, Mozambique, Mali, Guinea, Egypt and Senegal – have also benefited directly and indirectly from FDI originating from Jersey.

Outbound FDI from Jersey largely went into two groups of industries:

Construction and natural resources projects in emerging and developing markets, which on average had a relatively higher investment value and created a higher number of new jobs.

Service industries such as financial, business and software services in developed countries and other IFCs, which had a relatively lower investment value and created a lower number of new jobs on average.

## Jersey's inward / outward FDI investment stock 2012



# Jersey's outbound Greenfield FDI

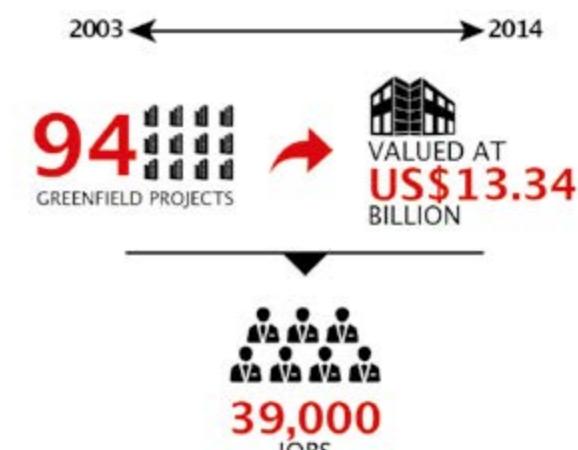
In the analysis, the FDI assessment of Greenfield investment of Jersey has been classified under the UK which implies no FDI projects have been registered between the UK and Jersey as this is considered as 'domestic investment'. Nevertheless, it provides very valuable evidence of the Greenfield FDI projects to and from Jersey.

Worldwide, Jersey originated Greenfield FDI in 94 projects between 2003 and 2014, with a total value of US\$13.34 billion. The top four recipient regions were the European Union and the Middle East (each receiving 20.2%), Africa (19.1%) and Asia (12.8%). Overall, the 94 Greenfield projects financed by FDI originating from Jersey had an average value of US\$142 million, each creating 416 new jobs on average.

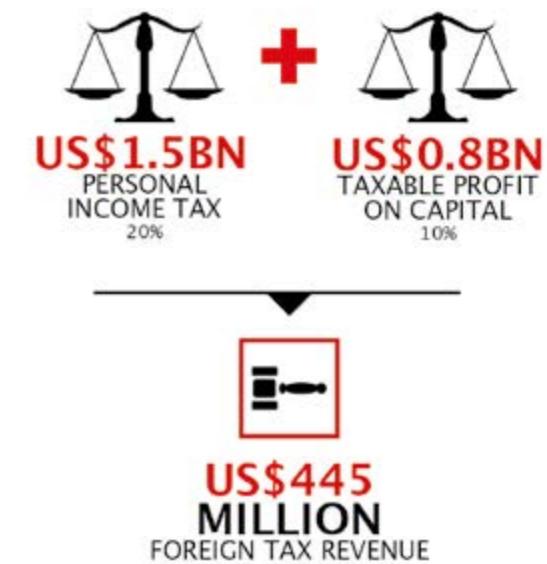
The 94 Greenfield investment projects originated by Jersey created over 39,000 jobs, more than twice those originating from Guernsey and British Virgin Islands, and five times those from Cayman Islands. A Capital Economics report on 'Jersey's Value to Britain', published in 2013, estimated that a further 50,000 new jobs were created in the UK by Greenfield projects routed through the Island.

If each of those 39,000 jobs carried an average annual salary of US\$40,000 and the investment produced a net yield of 5%, the projects originating from Jersey created additional amounts of US\$1.5 billion in personal income and US\$800 million in taxable profit on capital for the recipient countries. Each country will have different tax rates, but assuming an average 20% income tax rate and an average rate of 10% on taxable profits, Jersey's Greenfield FDI would have produced US\$445 million of tax revenues for those countries.

## The value of Jersey's outward Greenfield\* projects



Using an average salary of US\$40,000\*\* and a net yield of 5% illustrates potential tax generation



\* Greenfield FDI – Physical operations such as manufacturing plants, distribution centres, financial shared services and regional headquarters which are set up from scratch.

\*\* Salary figure £26,500 based on the World Bank's GDP per Capita for the UK in 2013.

# Jersey's inbound Greenfield FDI

As a small jurisdiction, Jersey attracts much less inbound Greenfield FDI than larger IFCs such as Singapore, Hong Kong and Luxembourg. In the period between 2003 and 2014, there were 12 Greenfield projects in Jersey financed by investment from overseas countries other than the UK. Their total value was US\$237.4 million, and they created 323 jobs (excluding any FDI from the UK as this is classified as domestic investment).

The top four countries that invested in Jersey over the 12 years were the USA (33.3%), Ireland and South Africa (each providing 16.7%) and Bermuda (8.3%). Not surprisingly for a smaller IFC, the majority of the projects financed in Jersey from abroad were in the financial services sector.

*“Between 2003 and 2014, there were 12 Greenfield projects in Jersey”*

Inward Greenfield FDI projects value to Jersey

12 GREENFIELD PROJECTS → VALUED AT US\$237.4 MILLION

Majority of Jersey inward Greenfield projects are in two main sectors



## Jersey's attractions for wealthy investors

The main benefits for wealthy investors of using Jersey for FDI are that it is:

- A reliable IFC with political and economic stability and a sophisticated and comprehensive legal infrastructure, which has been at the forefront of global finance for more than 50 years
- Home to a workforce of over 12,700 highly skilled and experienced finance industry professionals operating in a central time-zone that overlaps the east and west time-zones
- A tax-neutral environment, providing tax certainty and allowing fiscal efficient cross-border investments
- Able to provide a full spectrum of investment fund options offering choice, flexibility and innovations, as at March 2015, the total number of regulated collective investment funds was 1,322
- Home to global banking organisations, many of whom are listed in the top 20 by assets globally, working alongside a range of expert service providers
- Aligned with global transparency initiatives such as automatic exchange of information with other countries through agreements with the US and UK, and its early adoption of the OECD Common Reporting Standard
- Able to handle succession issues through a modern trust regime that allows people to pass on their assets to the heirs of their choice, vest investment powers in people they have selected, and prevent heirs from disposing of assets such as family businesses to non-family members

Jersey's success as an IFC



TAX NEUTRALITY



ACCESS TO CAPITAL MARKETS



INVESTMENT POOLING



TIME ZONE AND LANGUAGE



RANGE of sophisticated services providers



EXPERTISE and substance



SECURE and well-regulated



STRONGER, MODERN LEGAL FRAMEWORK for international philanthropic and charitable enterprise



INTERNATIONAL UPTAKE from continental Europe and interest from the Far and Middle East

# Jersey's competitive advantages in managing FDI flows

The most important competitive advantages of Jersey as an IFC lie in the open and transparent structure of its financial institutions, its business-friendly environment and its robust regulatory framework. It also offers a tax-neutral fiscal framework which benefits flows of FDI. These advantages have given the Island a strong reputation as an IFC.

Jersey's development as an IFC is less related to a specific FDI strategy. Its appeal to foreign direct investors stems from its existing investment vehicle business and its strengths in associated financial sectors such as banking, trusts, asset and fund management, wealth management, capital markets and insurance.

Once an IFC has established a strong regulatory framework in such sectors, it is likely to retain its leadership in them. For example, the introduction of the Foundations (Jersey) Law 2009 created an entirely new legal concept and a wealth management vehicle which opened up new opportunities for the Island. If Jersey can maintain these first-mover competitive advantages, it will boost its attractions as an IFC for handling FDI.

Jersey's appeal to foreign direct investors stems from its existing investment vehicle business and its strengths in associated financial sectors such as:

- Banking
- Trusts
- Asset and fund management
- Wealth management
- Capital markets
- Insurance

# Jersey's contribution to economic development

Jersey promotes FDI by attracting it from source countries and channelling it to destination countries. The Island's outbound FDI has contributed US\$13.3 billion of investment to 94 projects around the world in the last 12 years. And it has created 39,000 jobs worldwide over that period, in addition to the new jobs created through its economic and constitutional relationship with the UK.

Jersey punches well above its weight in its contribution to global development, leaving behind IFCs such as Hong Kong, Singapore, Luxembourg, Guernsey and the Cayman Islands when the size of their economies is taken into account.

## Conclusion

IFCs support global economic development by sourcing and hosting flows of FDI. Yet there remains scepticism among the general public, policymakers and non-governmental organisations about their role.

There are various types of IFCs which are used for different purposes, and some may offer secrecy and tax arbitrage to companies and wealthy people. But these are certainly not features of the Jersey proposition. Far from being a tax haven or a jurisdiction used for tax arbitrage, Jersey is an early adopter of stringent transparency laws and exchange of information provisions. And as the ICA report concludes, it strengthens economic development around the world out of proportion to the size of its economy. FDI activity on the island provides an understanding of the opportunities that lie ahead for Jersey and how it can increase its competitiveness to enhance its share of global FDI projects.

*“Jersey is an early adopter of stringent transparency laws and exchange of information provisions.”*

## *Jersey Finance Members*

Website: [www.jerseyfinance.je/member-directory](http://www.jerseyfinance.je/member-directory)



## *Jersey Financial Services Commission*

Website: [www.jerseyfsc.org](http://www.jerseyfsc.org)



## *Law Society of Jersey*

Website: [www.jerseylawsociety.je](http://www.jerseylawsociety.je)



## *Jersey Bankers' Association*

Website: [www.jerseybankersassociation.com](http://www.jerseybankersassociation.com)

## *The States of Jersey (Jersey's Government)*

Website: [www.gov.je](http://www.gov.je)

## *Jersey Association of Trust Companies*

Website: [www.jatco.org](http://www.jatco.org)



## *Jersey Funds Association*

Website: [www.jerseyfunds.org](http://www.jerseyfunds.org)



# Useful Network of Contacts

## *Jersey Chamber of Commerce*

Website: [www.jerseychamber.com](http://www.jerseychamber.com)



## *Jersey Society of Chartered and Certified Accountants*

Website: [www.jscca.org](http://www.jscca.org)



## *Locate Jersey*

Website: [www.locatejersey.com](http://www.locatejersey.com)



## *Jersey International Insurance Association*

Website: [www.jerseyiia.org](http://www.jerseyiia.org)





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