Cayman Finance

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# Cayman Enables Investments in Less Developed Countries

# FACT SHEET

Investments made through Cayman-Resident entities improve investment and tax generation in less-developed countries. The Cayman Islands and other tax neutral financial centres almost certainly increase the amount of investment in less-developed countries, which, in turn, generate tax revenue in those same countries.

## UNSTABLE BUSINESS CLIMATE IN LESS DEVELOPED COUNTRIES

**Assumptions about the role tax neutral financial centres play in less-developed countries often ignore the realities of the investment climate in those countries. Factors creating instability in the business environment can include:**

- Political instability and associated risks of arbitrary, politically motivated expropriation;
- Poorly defined property rights, reducing incentives to reinvest and limiting credit access;
- Difficulties enforcing contracts, which reduces the availability – and raises the cost – of finance.

## ALTERNATIVE FINANCING VEHICLES ARE RECOMMENDED BY THE U.N.

**To overcome the challenges from adverse investment environments in less-developed countries, the United Nations Conference on Trade and Development (UNCTAD) actually has recommended use of "alternative financing mechanisms" for investments relating to production of goods for export.**

- UNCTAD **explicitly advocated the use of entities in international financial centres** to facilitate with-recourse discounting as a means of funding activities in less-developed countries.
- The World Bank's private finance arm, the International Finance Corporation, uses investment vehicles in third-party jurisdictions like Cayman to fund development projects.
    - In 2015 alone, it invested approximately **$400 million in ten different Cayman investment vehicles that supported high-impact projects, such as infrastructure and agriculture, in at least 24 less-developed countries.**

## CAYMAN ENTITIES OFFER BENEFITS THAT ENCOURAGE INVESTMENT

**Cayman-resident entities work as conduits for collecting and directing capital into opportunities in less-developed countries because they offer far greater transparency and investor protection than would be available domestically in those countries. Cayman offers additional advantages that encourage investment such as enabling the pooling of assets in a tax neutral environment and more adaptive structures than those in many onshore jurisdictions, due in part to flexible regulation.**

- Cayman is **ideally suited to act as a conduit for investing in less-developed countries** through joint ventures and special purpose vehicles.
- Cayman-resident entities have been used as conduits for many public-private-partnerships in less-developed countries, **enabling significant increases in investment in infrastructure**—energy, telecommunications, transport, water and sanitation—which is key to sustainable development.
- Investments like these involving private sector partners require **clearly defined revenue streams, making them more sustainable than typical government aid-funded development projects.**

## IFC-ENABLED INVESTMENTS GENERATE ADDITIONAL TAX

Dr Judith Tyson of the London-based Overseas Development Institute has estimated that tax neutral financial centres, including Cayman, enable approximately $1.6 trillion in additional investments in less-developed countries every year. Those investment, in turn, generate about $400 billion in profits that are taxable domestically in those countries – leading to an increase in tax revenue to less-developed country governments of about $100 bn/year.