UPDATED REPORT ON G20/OECD CHECKLIST ON LONG-TERM INVESTMENT FINANCING STRATEGIES AND INSTITUTIONAL INVESTORS

REPORT TO G20 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS

The G20/OECD Task Force on Institutional Investors and Long-Term Financing (the Task Force) developed a Checklist on long-term investment financing strategies and institutional investors as an evaluation tool to help countries who would wish to self-assess their long-term investment (LTI) strategy and policy framework, including against the key elements and capacities identified and presented in the G20/OECD High Level Principles of Long-Term Investment Financing by Institutional Investors.

In finalizing the Checklist, the Task Force agreed on the relevance of the checklist to collate and aggregate data. The process entails the provision by members of the Task Force of their national responses to the checklist, which the Secretariat aggregates. The aggregation of national responses enables jurisdictions to see patterns in the responses to the checklist.

While welcoming the Checklist, the G20 Finance Ministers and Central Bank Governors indicated at their Cairns meeting that they looked forward to seeing the results of the G20/OECD Checklist on Long-Term Investment Financing Strategies and Institutional Investors voluntary aggregation exercise by (their) first meeting in 2015. Pursuant to this request, the Secretariat delivered a draft update report, which provided an initial assessment of the Checklist results, based on a subset of responses from the Task Force.

Subsequently, the Task Force met in late March and held an initial discussion on the aggregation responses and agreed that jurisdictions that had not yet responded would endeavor to do so as soon as possible. This version of the Progress Report incorporates additional responses. It is expected that additional responses to the Checklist will be received and incorporated – final results for delivery at the September meeting.

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INTERIM PROGRESS REPORT ON G20/OECD CHECKLIST ON LONG-TERM INVESTMENT FINANCING STRATEGIES AND INSTITUTIONAL INVESTORS

I. Introduction

The G20/OECD Task Force on Institutional Investors and Long-Term Financing (the Task Force) developed a voluntary checklist to assist governments in self-assessing their LTI strategy and policy framework, including against the key elements and capacities identified and presented in the High Level Principles on Long-Term Investment Financing by Institutional Investors (High-Level Principles), which G20 Leaders had endorsed at their Summit in St. Petersburg in September 2013.

The High-Level Principles are intended to help policy makers design a policy and regulatory framework that encourages ***institutional investors*** to act in line with their investment horizon and risk-return objectives, thereby enhancing their capacity to provide a stable source of capital for the economy and facilitating the flow of capital into ***long-term investments***. The principles address regulatory and institutional impediments to long-term investment by institutional investors and aim to avoid interventions that may distort the proper functioning of markets. The principles provide general orientation and guidance, are not meant to be exhaustive and focus on selected major issues. They are intended to be consistent with existing regulatory standards for institutional investors and to complement existing international principles and/or guidelines that may apply to particular categories of investors.

Periodic self-assessment exercises have been encouraged as an effective tool for reviewing, monitoring and improving the quality of long-term investment (LTI) strategies. In this context, the Task Force developed a voluntary checklist to assist governments in self-assessing their LTI strategy and policy framework. The questions included cover various aspects of a country's LTI strategy, including (i) general preconditions, (ii) regulatory and governance structures, (iii) institutional investors and SME financing, (iv) incentives for long-term savings, and (v) project planning and coordination. This organisational structure differs from the one incorporated in the High-Level Principles, but the questions raised in the Checklist are nonetheless derived from the Principles and the accompanying underlying assumptions[1], which are statements, ideas or concepts that have been identified by the Task Force as providing further clarity or explanation to the High-Level Principles.

The checklist takes the form mainly of YES/NO questions. Itemised lists are provided in many cases, but as these may not be exhaustive, a catchall "other" choice is typically included for which a specific answer may be input. The checklist also allows respondents to identify issues for which follow-up action might be needed, as well as issues which may be described as "in progress", such as actions currently being considered or under development but not yet implemented.

II. Overview of findings[2]

In considering the results discussed in this report, it is important to note at the outset that the aggregation results as described are based on only a subset of the full Task Force representation, and thus should not be viewed as reflecting the full membership. In most cases, the discussion is based on the modal

[1] Report on Effective Approaches to Support Implementation of the G20/OECD High-Level Principles on Long-Term Investment Financing by Institutional Investors, November 2014.

[2] Please note that the overview is based on the responses that have been received to date. As only a subset of Task Force members have responded, these interim results may not necessarily be reflective of the full Task Force membership.

response. For some issues, there seems to be more or less consensus among respondent jurisdictions as to the chosen action. But for some others, results at present are more tentative and could well change with a full set of responses taken into account. With this caveat in mind, the discussion below provides an overview of the responses to date, but stops short of being a complete assessment. The discussion in this report follows the general structure of the Checklist.

A. General issues

This section of the Checklist focuses on issues related to the identification of long-term investment needs. Given the constraints on government budgets and the considerable need for long-term investment now and in the future, it is assumed that governments will need to partner with the private sector to meet some of these needs. Hence, the section also raises questions as to whether there is sufficient interest and adequate capacity in the domestic market to provide financing for these needs.

The expected return and risk of investment projects is a core consideration in the effort to attract private financing. Government intervention may be needed in some circumstances, where the rate of return may be insufficient to compensate private sector investors for the perceived level and/or character of risk or to address key market failures that significantly impede the supply of funds. But government project support should be done only in circumstances that clearly require it.

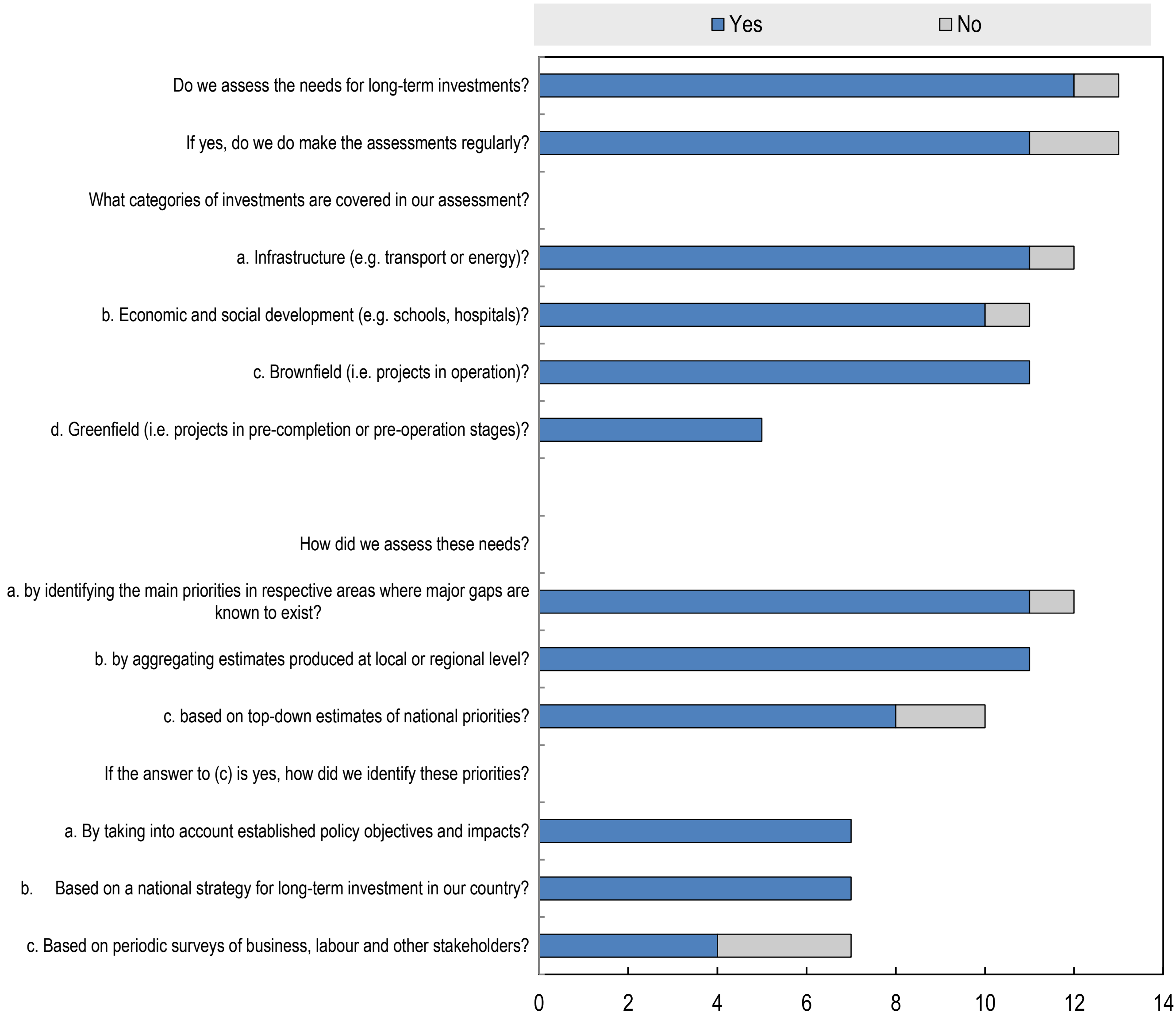
Governments may choose as a consequence to make decisions regarding the nature and extent of public intervention on a case-by-case basis, with the existence of market failure providing a central argument in favour of public intervention, as in the case of "public goods" (i.e. large externalities, non-rivalry, natural monopoly, and non-excludability).

Checklist responses indicate that most governments assess the needs for long-term investments (figure 1). Many do so on a regular basis. These assessments typically cover various categories of investments, including infrastructure (e.g., transport or energy); economic and social development (e.g., schools, hospitals); and brownfield projects. However, relatively few respondents include greenfield investments in the assessment.

Among those who assess their investment needs, most use various approaches to do so, which include identifying the main priorities in respective areas where major gaps are known to exist; aggregating estimates produced at local or regional level, and top-down estimates of national priorities.

Where national priorities have been identified, these have been established in most cases by taking into account established policy objectives and impacts, or based on a national strategy for long-term investment, or on periodic surveys of business, labour and other stakeholders.

Figure 1. Assessing the needs for long-term investments



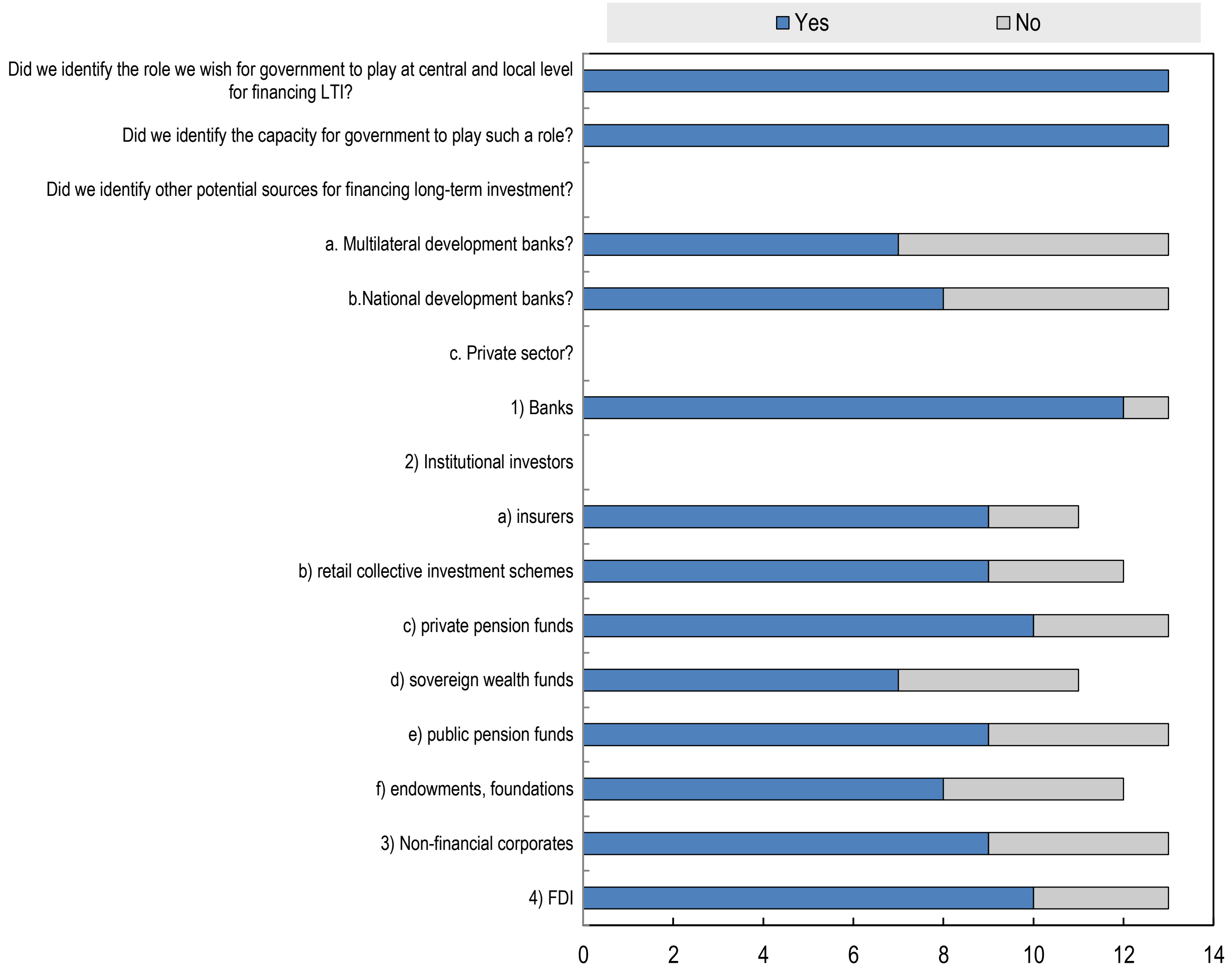
Note: The length of the bars in most cases represents the sum of responses received to date. There are exceptions, however, in the case of responses marked “In progress” or for “follow-up”.

Where national priorities have been identified, these have been established in most cases by taking into account established policy objectives and impacts, or based on a national strategy for long-term investment, or on periodic surveys of business, labour and other stakeholders.

Most respondents identify the role government is to play at central and local level for financing LTI and assess the capacity for government to play such a role, which includes identifying the limits to public capacity. Most respondents report taking infrastructure and LTI into account in establishing fiscal priorities. The budgetary system is said to support multi-year fiscal commitments to infrastructure.

As a consequence, most respondents report taking steps to identify other potential sources for long-term investment financing (figure 2). These sources may include multilateral development banks and national development banks, as well as a range of private sector sources. While commercial banks and insurers are cited by most respondents, not all types of other institutional investors are included in all respondent jurisdictions. For example, private pension plans do not exist in all jurisdictions. Some jurisdictions do not have sovereign wealth funds and some do not have endowments or foundations.

Figure 2. Government and other potential sources of long-term investment financing



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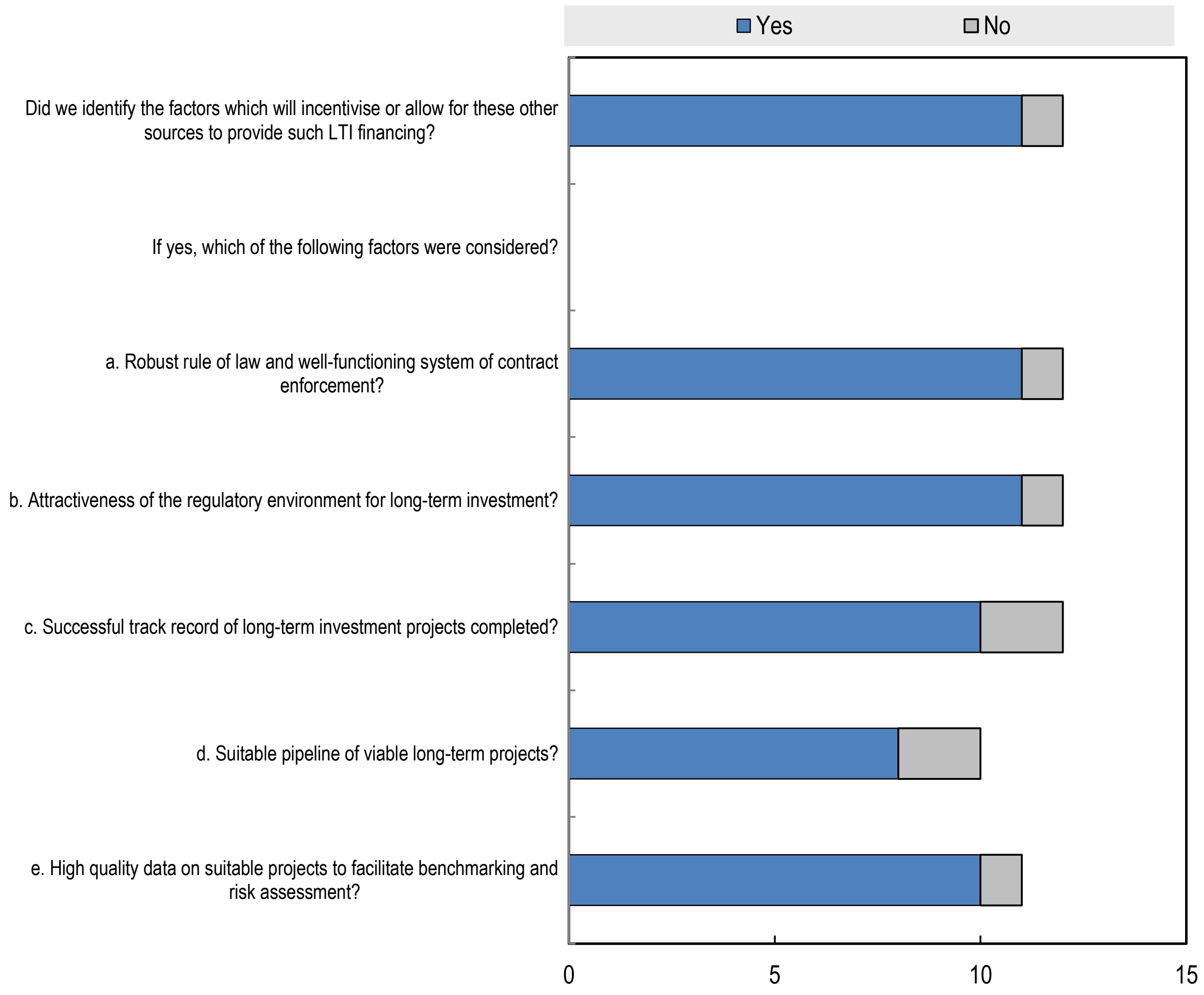
Financing long-term investment

In addition to identifying other potential sources of long-term financing, most respondents report having taken steps to identify the factors that will give these entities proper incentives or broader scope to provide such financing (see figure 3).

Figure 3. Factors considered to encourage provision of long-term financing by institutional investors



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The participation of institutional investors and other entities in financing long-term investment projects depends in part on the existence of liquid capital markets for raising funds and hedging risks. They must also have the willingness to undertake real investment where the returns provide adequate compensation for the risks assumed. Most respondents report that a credit culture is being developed in their jurisdiction, based on the assessment and management of risks. Most respondents also report that there is a viable debt market to support these activities and that secondary markets for refinancing debt and for equity are also operating.

But in contrast to the common development of markets for traditional debt and equity, developed markets for project finance, including project bonds, are less prevalent. In a few jurisdictions, project bond markets exist but are not very liquid, while in other jurisdictions, the development of project bond markets remains either work in progress or an issue that requires further attention.

Surveys on the factors impeding the allocation of private financing to infrastructure projects and other long-term investments often find among the key factors impeding investment a lack of clarity on investment opportunities available in the market, including a lack of transparency in the infrastructure sector. Governments and other competent authorities such as the regulators and supervisors of institutional investors can play a key role in facilitating long-term investment. Upfront, the government can create appropriate and consistent policies and framework conditions for long-term investment.

Opinions vary as to the most important framework conditions for long-term investment financing, but the key conditions often cited include: the commitment to ongoing reform; the need for credible, sustainable macroeconomic policy settings and public finances; the role a country's tax regime plays in attracting investment; the importance of stable government, adherence to the rule of law and effective governance and institutions; the need to reduce the cost of investing by reducing the regulatory and administrative burden; the role of sophisticated, well-regulated domestic financial markets and a domestic savings pool; and an openness to foreign investment.

Governments may wish in this context to make long-term commitments to building roads, bridges, etc., as well as other non-transport related public infrastructure assets that promote productivity and economic growth.

Fiscal issues

Governments have a potential role to play in fostering long-term investment by improving the efficiency of the use of resources as well as by the direct use of funds. But government project support should be given only in circumstances that clearly require it. Given the constraints on government budgets and the considerable need for long-term investment now and in the future, it is essential that governments partner with the private sector to meet some of these needs. The expected return and risk of investment projects is a core consideration in the effort to attract private financing.

The expected return and risk of investment projects is another core consideration in the effort to attract private financing. Government intervention may be needed in some circumstances, where the rate of return may be insufficient to compensate private sector investors for the perceived level and/or character of risk or to address key market failures that significantly impede the supply of funds. Various financial tools exist to mitigate the risks of long-term investment projects and help boost private investment, including direct public financing, whereby public funds are used to buy down risk, or through provision of public guarantees or related insurance-like instruments.

But government project support should be provided only in circumstances that clearly require it. Governments may choose as a consequence to make decisions regarding the nature and extent of public intervention on a case-by-case basis, with the existence of market failure providing a central argument in favour of public intervention, as in the case of "public goods" (*i.e.*, projects characterised by large externalities, non-rivalry, natural monopoly, and non-excludability).

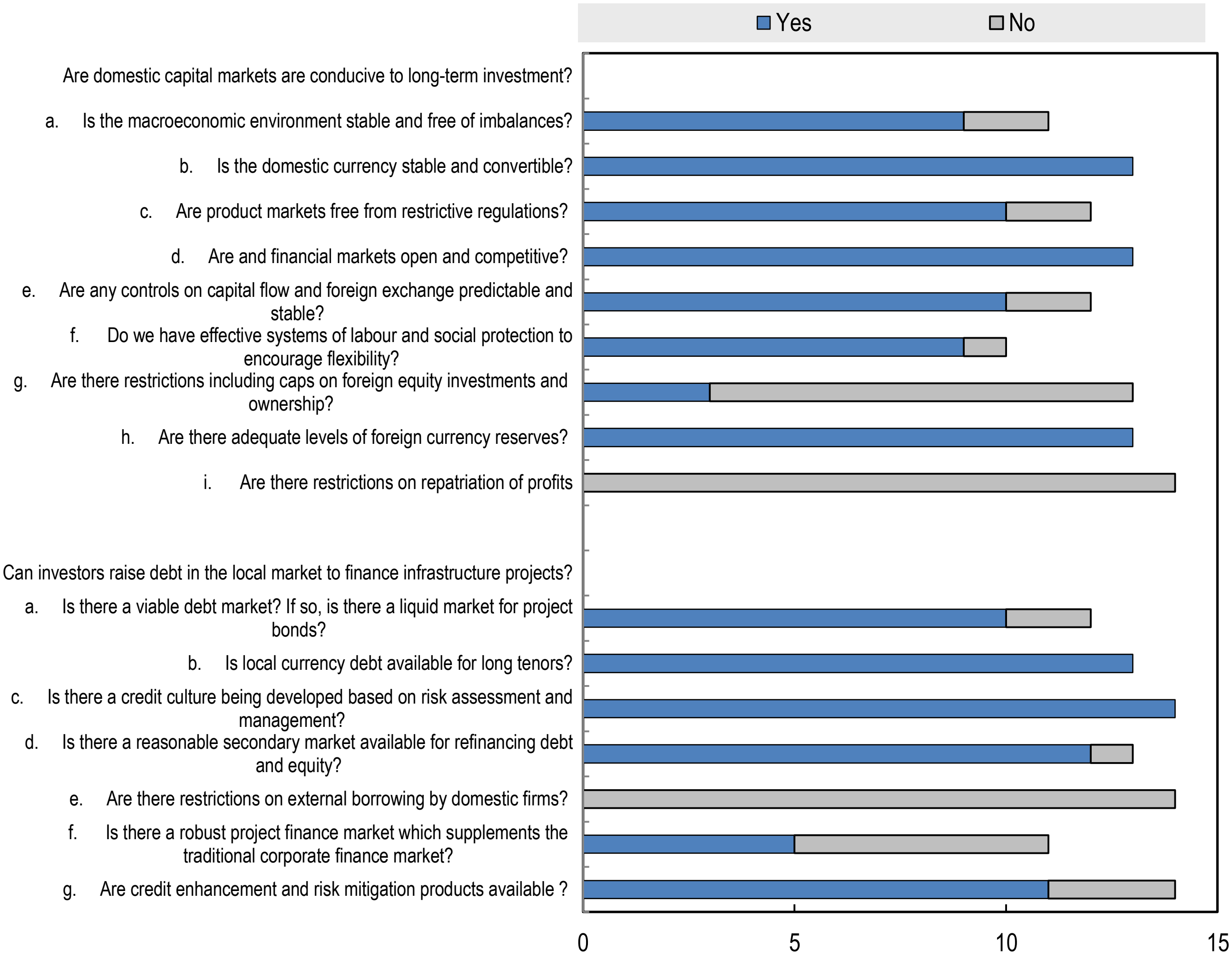
Government provision of risk mitigation is nonetheless not universal, given the risks entailed, which can include potential price and competitive distortions as well as rising contingent liabilities and other budgetary problems.

Financing long-term investment

The participation of institutional investors and other entities in financing long-term investment projects depends in part on the existence of liquid capital markets for raising funds and hedging risks (figure 4). They must also have the willingness to undertake real investment where the returns provide adequate compensation for the risks assumed. Most respondents report that a credit culture is being developed in their jurisdiction, based on the assessment and management of risks. Most respondents also report that there is a viable debt market to support these activities and that secondary markets for refinancing debt and for equity are also operating.

But in contrast to the common development of markets for traditional debt and equity, developed markets for project finance, including project bonds, are less prevalent. In a few jurisdictions, project bond markets exist but are not very liquid, while in other jurisdictions, the development of project bond markets remains either work in progress or an issue that requires further attention.

Figure 4. Are domestic capital markets conducive to long-term investment



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B. Robust regulatory and governance structures

A well-functioning capital market depends on underlying framework conditions being met. Relevant factors include a stable macroeconomic environment and a supportive legal and institutional framework. Company law, contract and property law, securities law, laws governing consumer and investor protection and, for when things go wrong, insolvency or bankruptcy law are necessary components of the basic framework within which financial institutions and markets work. Enforcement is also necessary, which entails among other institutions a well-functioning judiciary. Different sectors of financial services have their particular requirements, but these are the common elements.

In general, investors are willing to commit their funds to investments when they have some assurance that financial markets and institutions are safe and sound, and operate according to rules and procedures that are fair, transparent, and free from conflicts of interest and other agency problems.

Long-term investments can be particularly challenging in this regard, given the longer time horizons over which agency problems and related weaknesses can materialise, the greater uncertainty regarding investment returns, the particular illiquidity of long-term investments, including a lack of both transparency and the data needed to understand the risks of direct investments and alternative financing vehicles used for certain types of long-term investments, insufficient investor capacity to manage longer-term assets, and potential problems with investment conditions and market infrastructure.

Long-term investors prefer legal, tax, and regulatory clarity, and well-established market infrastructures. Weak legal systems tend to give rise to weak financial systems, in which access to external financing becomes constrained. Sound financing requires effective property rights and mechanisms for enforcing contracts, including both privately negotiated agreements and more standardised contracts. The provisions of long-term financing also calls for a judicial framework within which collateral for lending is clearly defined, easily advanced, and securely realised in case of default.

Most respondents indicate that the necessary regulatory preconditions are in place in their jurisdictions (figure 5), comparable to provisions in place in neighbouring countries or those at similar stages of development. Contracts are enforceable at low cost and with minimal delay for domestic and foreign contractors. Foreign-based institutional investors generally are allowed to participate in the domestic market via subsidiary structures or where applicable via branches, or on a cross-border basis. And tax laws related to long-term investments such as infrastructure are well-established and predictable.

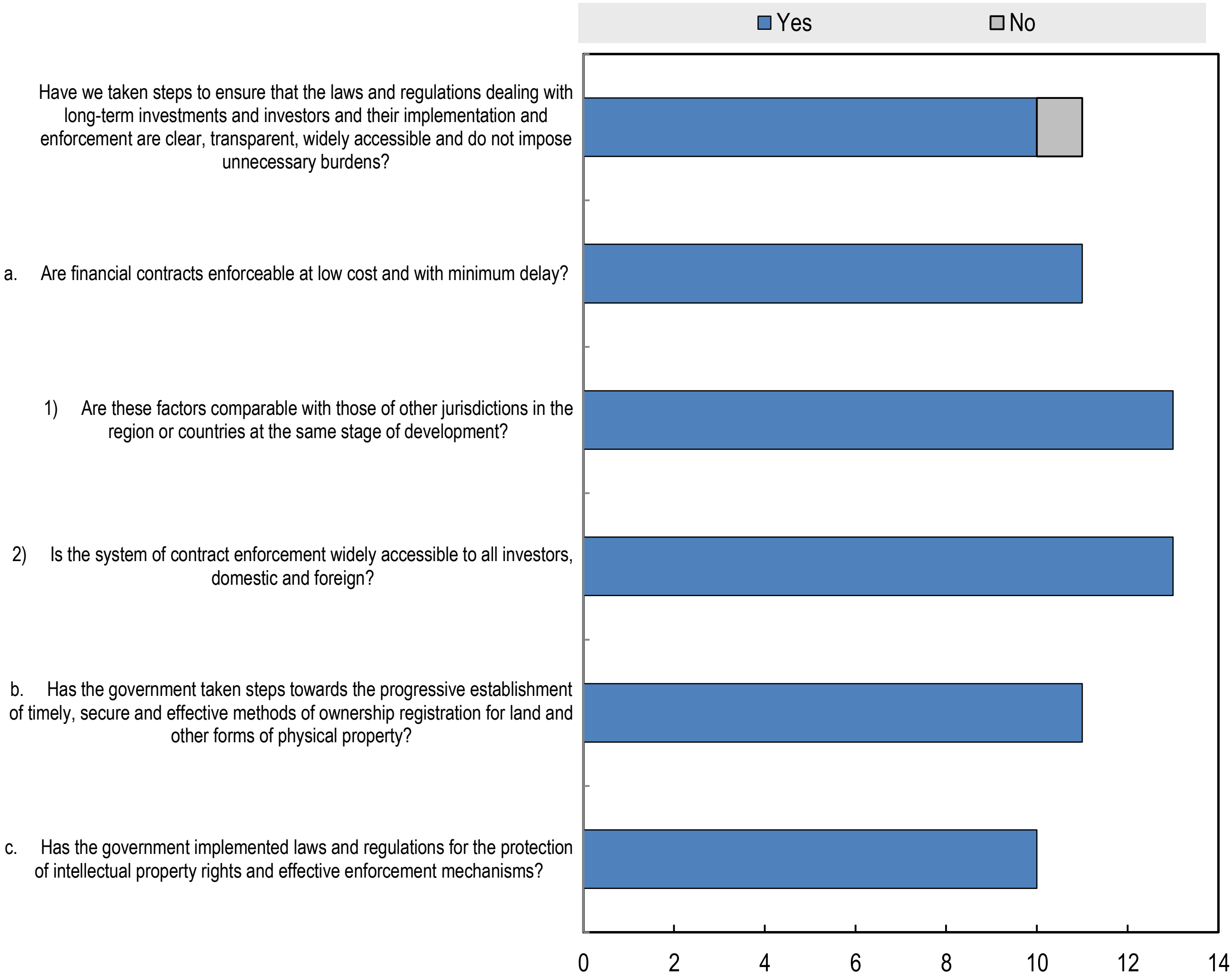
Investors are able to create and perfect security interests (i.e. verification of ownership interests), backed by effective registration of such ownership rights recorded for land and other forms of physical property as well as for intangible assets. Laws and regulations provide for the effective protection of private property rights, including intellectual property rights.

Mechanisms are in place to enable legal disputes to be resolved fairly and quickly and to facilitate the enforcement of rights and obligations. In cases where the government itself is a party to a disagreement, most report that the government adheres to binding international arbitration instruments to facilitate the resolution of the issue.

Where projects require prior approval or response by the government authority as a condition for conducting activities, such as via a license or permit, most respondents indicate that the government has adopted measures to uphold the principle of transparency and procedural fairness for all investors bidding for infrastructure contracts to protect investors' rights from unilateral changes to contract terms and conditions.

Conflicts can also arise between the interests of shareholders and creditors and between borrowers and creditors. Checklist respondents indicate uniformly that laws and regulations are in place to protect the rights of both borrowers and creditors, with most also indicating that the protection of these rights is adequately balanced between the two groups.

Figure 5. Legal and institutional preconditions



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C. Institutional investors and SME financing

Institutional investors are increasingly looked upon as alternative sources of long-term financing, in particular in light of the tightening liquidity and capital constraints being placed on the banking sector. However, there can be cyclical and structural impediments to the participation of institutional investors in financing long-term investment projects. These impediments may vary by size and type of investor and according to the particular stage of the value chain in which they are most likely to participate.

Impediments may lie in the nature of the long-term projects, which for infrastructure and other long-term investment projects can include high up-front costs, lack of liquidity and long asset lives that require significant scale and dedicated resources on the part of investors, both to understand the risks and to manage them. Investment may be held back in structural terms by inability or unwillingness on the part of investors to undertake real investment and factors that reduce the returns to investors. For example, some institutional investors have the in-house asset management capability and the wherewithal, given the size of their balance sheets, to take on the term and other risks associated with infrastructure and other long-term investments, but nonetheless have relatively limited allocations to these assets.

Hence, in setting up a policy framework supportive of the provision of long-term investment financing by institutional investors, policymakers need to ensure consistency of the approach with the best interest of members, investors, beneficiaries, policyholders and other relevant stakeholders of the institutional investors, and consider its wider potential public impact.

Mobilisation of institutional investor funds

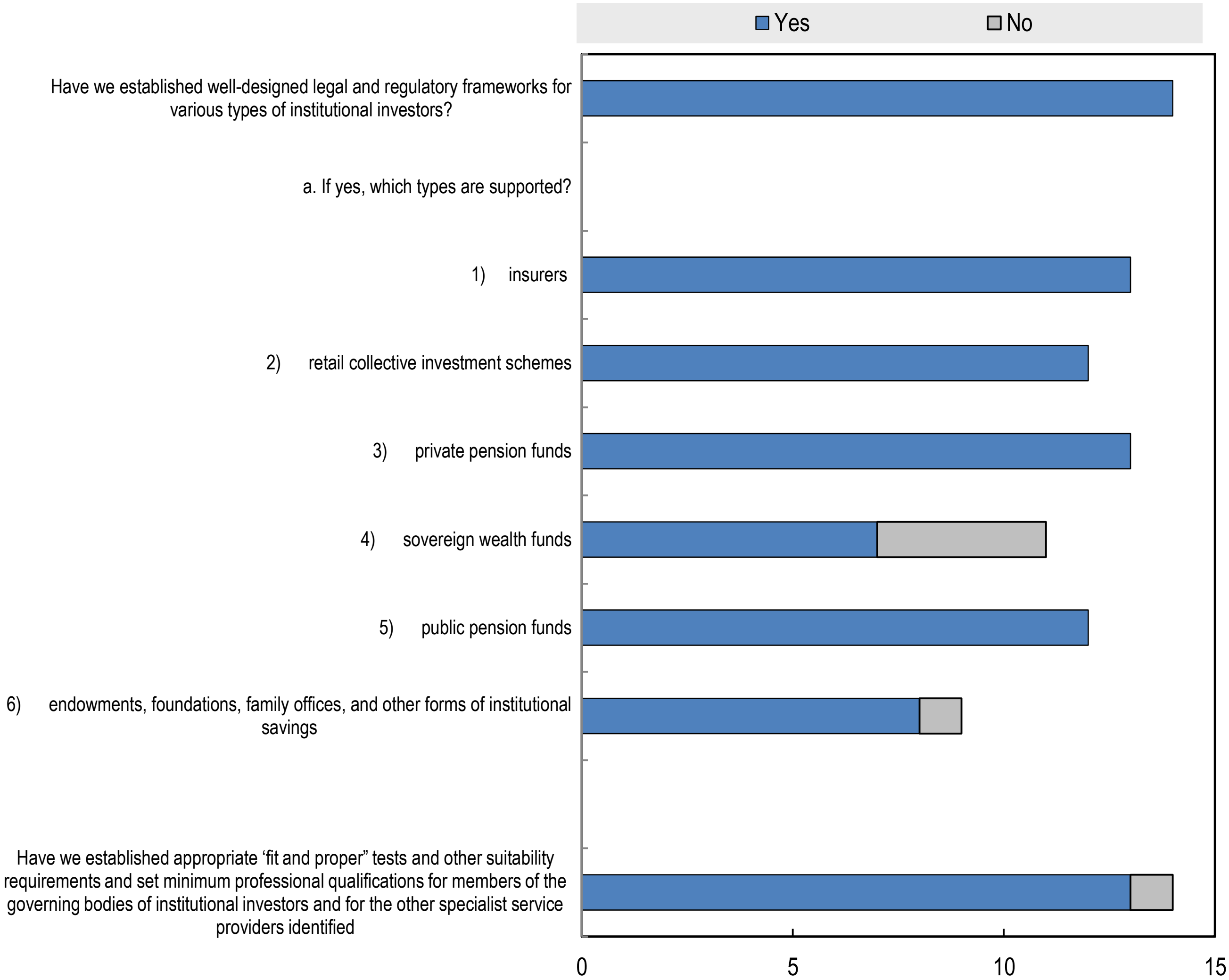
Most respondents have established well-designed legal and regulatory frameworks for various types of institutional investors (figure 6). Governance frameworks for institutional investors have certain basic components in common, although the specifics vary across countries and across types of institutional investors. The common components include well-defined legal and regulatory environments, official supervisory oversight, accepted standards of behaviour with specific responsibilities assigned to certain designated parties (*e.g.* actuaries, trustees, depositories, etc.), internal compliance functions, rules on disclosure, and market discipline. Examples of institutional investors that are found generally in most respondent jurisdictions are pension funds, insurance companies, open-end and closed-end funds, sovereign wealth funds, endowment funds, foundations, and the asset-management activities of investment banks, commercial banks, and securities companies. However, not all types of these investor groups exist in all respondent jurisdictions.

At a micro level, the institutional and legal frameworks for institutional investors tend to vary across different types of institutional investors, in part, because the factors affecting their solvency, the types of assets they manage, and the management of their liabilities are generally not the same.

Some institutional investors operate under fiduciary mandates, but the nature of the mandates may not be the same across the different types of institutional investors (*e.g.* a duty of care versus a duty of loyalty). Laws and regulations generally require that relevant assets are invested in the interests of the final beneficiaries (*i.e.* insurance policy holders, pension plan beneficiaries and investors in CIS). Still, a basic distinction can be drawn between arrangements that require the sponsor of a particular financial instrument to provide a specific return or flow of payments to investors or beneficiaries and those that do not. In particular, some products, such as standard life insurance contracts, fixed annuities or defined benefit pension schemes create a contractual obligation on the part of the sponsor to make specific payments. Under these arrangements, the sponsor assumes all the investment risks of generating sufficient income from the assets to ensure that it meets its contractual funding obligation, with supervisory oversight to address the question of solvency.

For many other types of products (*e.g.*, defined contribution pension plans, variable annuities and virtually all collective investment schemes, the sponsor of the product merely agrees to invest the assets on behalf of the beneficiary or investor and, thus, has no such specific obligation to generate a given investment result unless specific return guarantees have been provided. Where no performance guarantees have been provided, the beneficiary bears the investment risk and usually has the responsibility to decide on the investment management strategy.

Figure 6. Legal and regulatory frameworks for institutional investors



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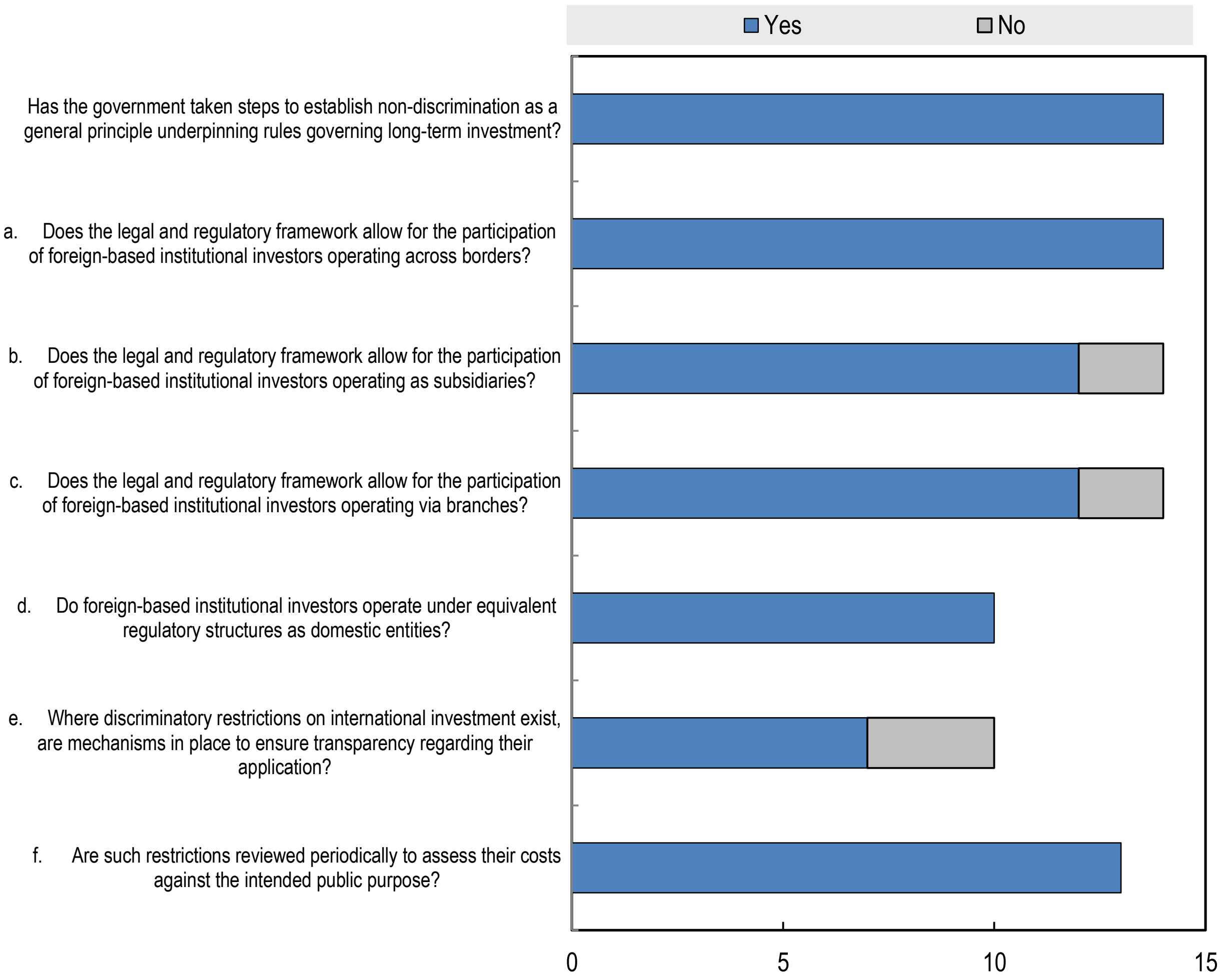
Institutional investors may operate under special tax regimes. In many cases, the tax status of these instruments is more favourable than if the equivalent amount of savings were simply held in the form of a banking or securities account. The favourable tax status is accorded in exchange for the investor's or beneficiary's agreement to defer use of the savings for a certain time and only for a specified purpose.

Most respondents indicate that foreign-based institutional investors generally are allowed to participate in the domestic market via subsidiary structures or where applicable via branches, or on a cross-border basis (figure 7). And tax laws related to long-term investments such as infrastructure are well-established and predictable.

Figure 7. Rules governing cross-border access



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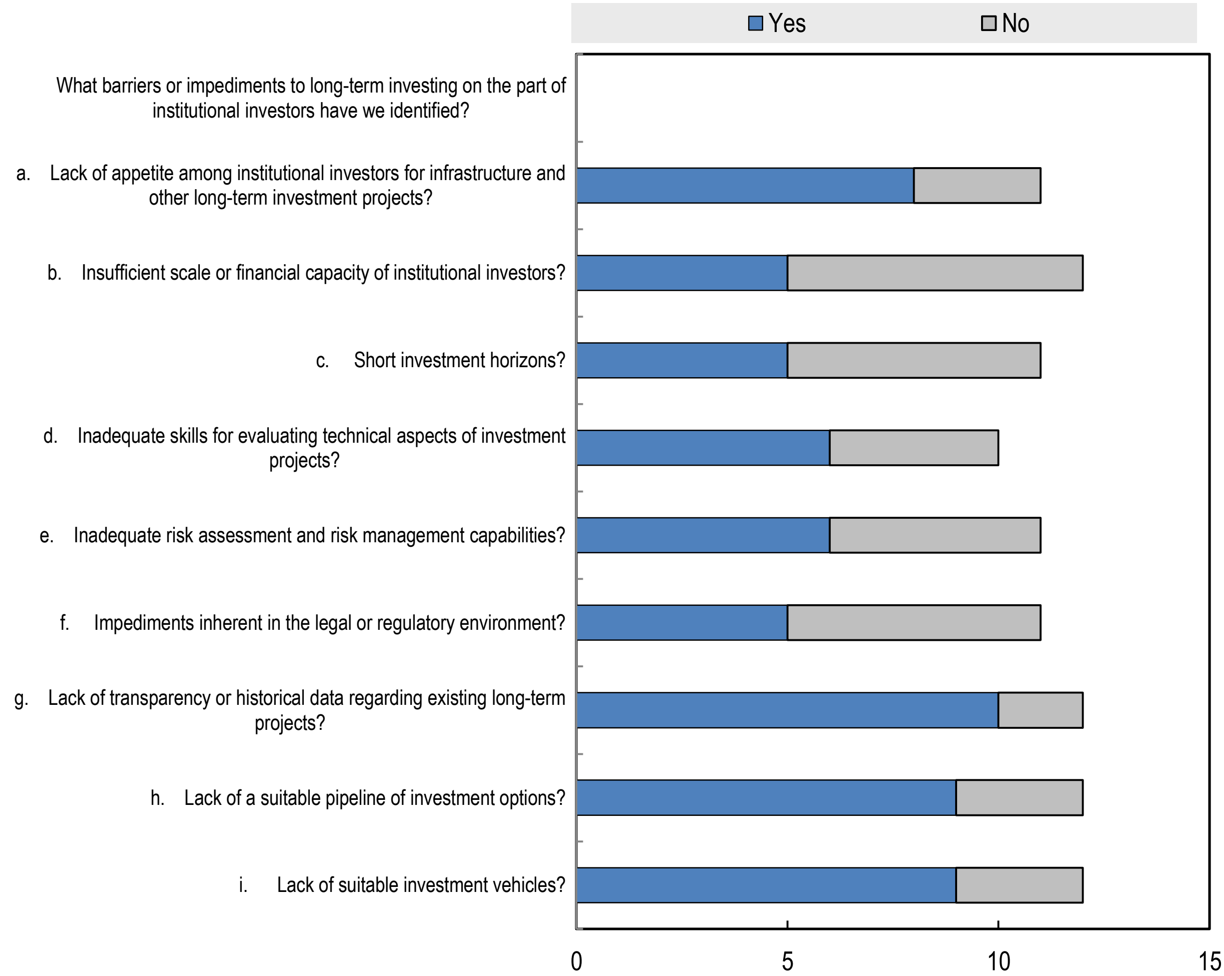
Execution of the investment strategy

The nature of liabilities of the different types of institutional investors is a key determinant of their behaviour, including their investment activities. The ability of the governing body of an institutional investor to form an investment strategy that generates good long-term returns while operating within reasonable risk bounds is a critical element in serving any member's best interests.

All institutional investors gather assets and deploy those assets to achieve their designated investment objective. However, against the backdrop of different legal and regulatory frameworks, fiduciary mandates and tax status (and the institutions' own risk preferences), different types of institutional investors generally have different investment objectives. However, there can be barriers to the participation of institutional investors in financing long-term investment projects. These may vary by size and type of investor and at what stage of the value chain in which they are most likely to participate (figure 8).

The assets held by institutional investors may be managed in-house, externally, or through some combination of the two approaches. In many countries, it is becoming more common for institutional investors to delegate the management of at least a share of the funds they control to professional fund managers, who develop asset allocation strategies and make investment decisions on behalf of their institutional investor clients.

Figure 8. Impediments to long-term investing by institutional investors



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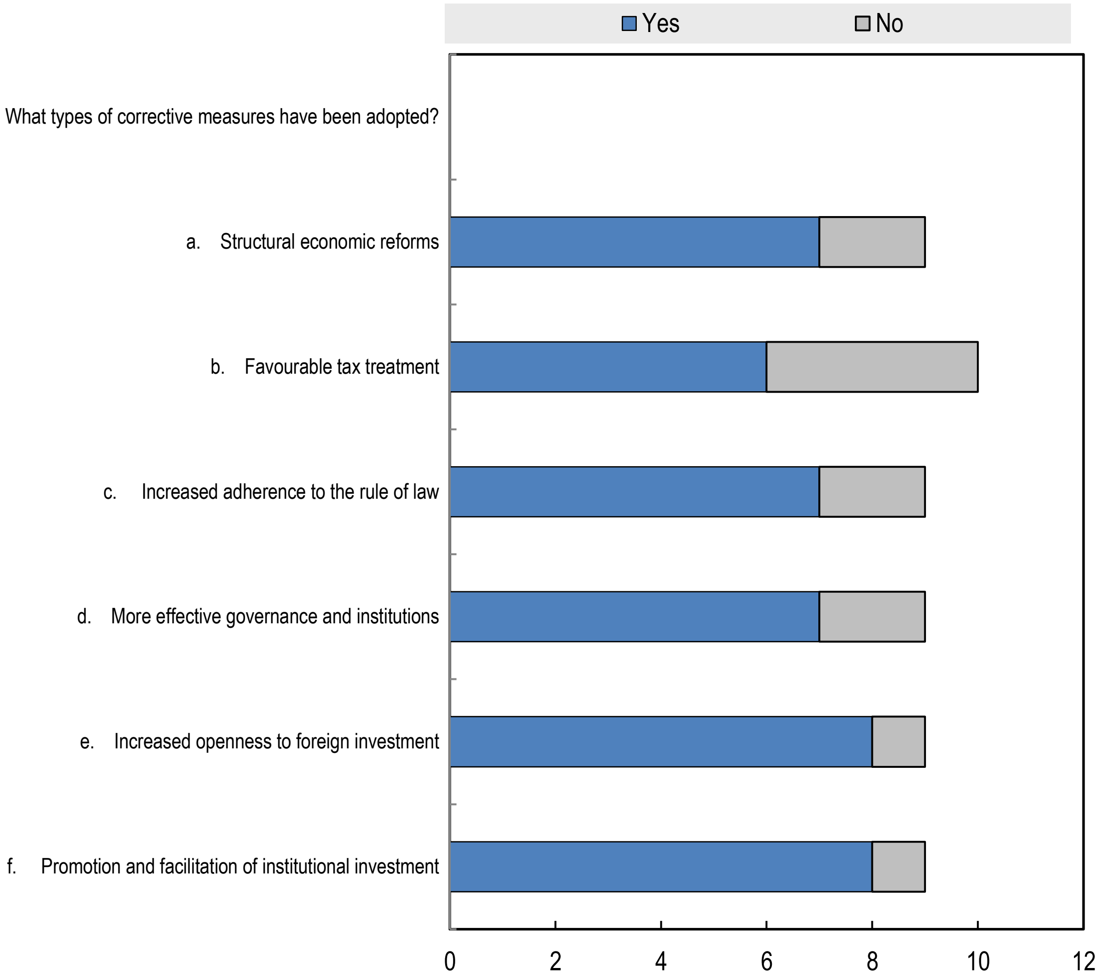
Some jurisdictions have developed specific policies or strategies to promote increased allocations to long-term investment projects by institutional investors, but this is not universally the case. Many respondents report that they have not identified any specific impediments to long-term investing on the part of institutional investors. Those who have cite a range of weaknesses, some of which are inherent to the institutional investors themselves, while others are inherent to the supply side, such as the lack of a suitable pipeline of investment options or of suitable investment vehicles. The lack of transparency or of historical data regarding existing long-term projects was also cited.

Given that a range of impediments were cited, those who identified problems pointed to a number of corrective measures (figure 9). They range from structural economic reforms and tax measures to promotion and facilitation of institutional investment. Increased openness to foreign investment and more effective governance mechanisms were also cited.

Figure 9. Measures adopted to remove barriers to investment by institutional investors



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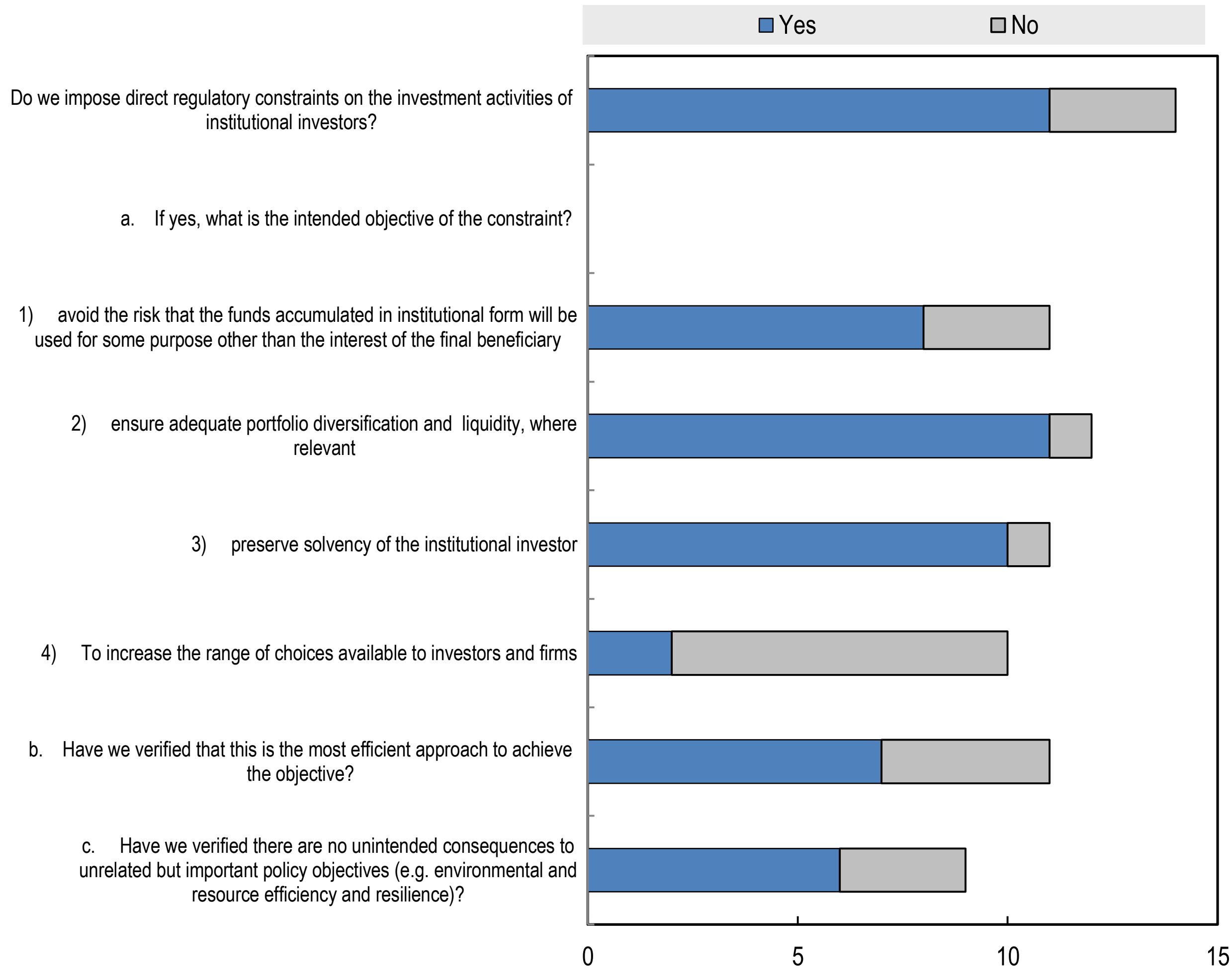
Most of the respondents report that they impose direct regulatory constraints on the investment activities of institutional investors (figure 10). A public policy question to ask in situations where the legal and regulatory infrastructure is restricting the investment activities of institutional investors is whether the measures are essential for achieving the stated objective (e.g. investor protection, portfolio security, solvency, etc.). These impacts could vary across different types of institutional investors. Many respondents report that the approach being followed is the most efficient to achieve the intended objective. In general, the prudent person principle combined with quantitative restrictions on particular assets is the most common approach.

As for specific quantitative limits, most respondents have not assessed the relative costs and benefits of their application in terms of the effect on infrastructure investments and long-term investment projects more generally.

Figure 10. Regulatory constraints on investment activities of institutional investors



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While larger institutional investors tend to have in-house asset management capabilities, a large share of the funds controlled by institutional investors is actually managed by professional fund managers, who compete for mandates to manage funds, usually based upon their performance against other fund managers or against some common benchmark. Investment management companies are the most common providers of the service among respondent jurisdictions, with banks or departments of banks and insurance companies being somewhat less prevalent as asset managers.

To mitigate the potential conflicts of interest that may arise in use of external asset managers institutional investors are reported to rely most typically on frequent performance evaluations, with fees related to performance being slightly less prevalent among respondent jurisdictions. Few respondents indicate finding evidence that these mechanisms give rise to herding behaviour that adversely affects allocations to infrastructure and other forms of long-term investment.

The use of indexing is quite common among respondent jurisdictions, but not universal, while only a few respondents indicate that compensation payout schedules for institutional investors are required to be sensitive to the time horizon of risks to promote long-term, institution-wide profitability and discourage short-term risk taking. Similarly, only a few respondents report that compensation arrangements in the institutional investor sector are designed to take into consideration prospective risks as well as risk outcomes that are already realised.

Most respondents indicate that governing bodies of institutional investors are required to regularly assess the financial condition, risk profile and, where appropriate, solvency position of the institution, including any capital, borrowing and liquidity needs.

SME financing

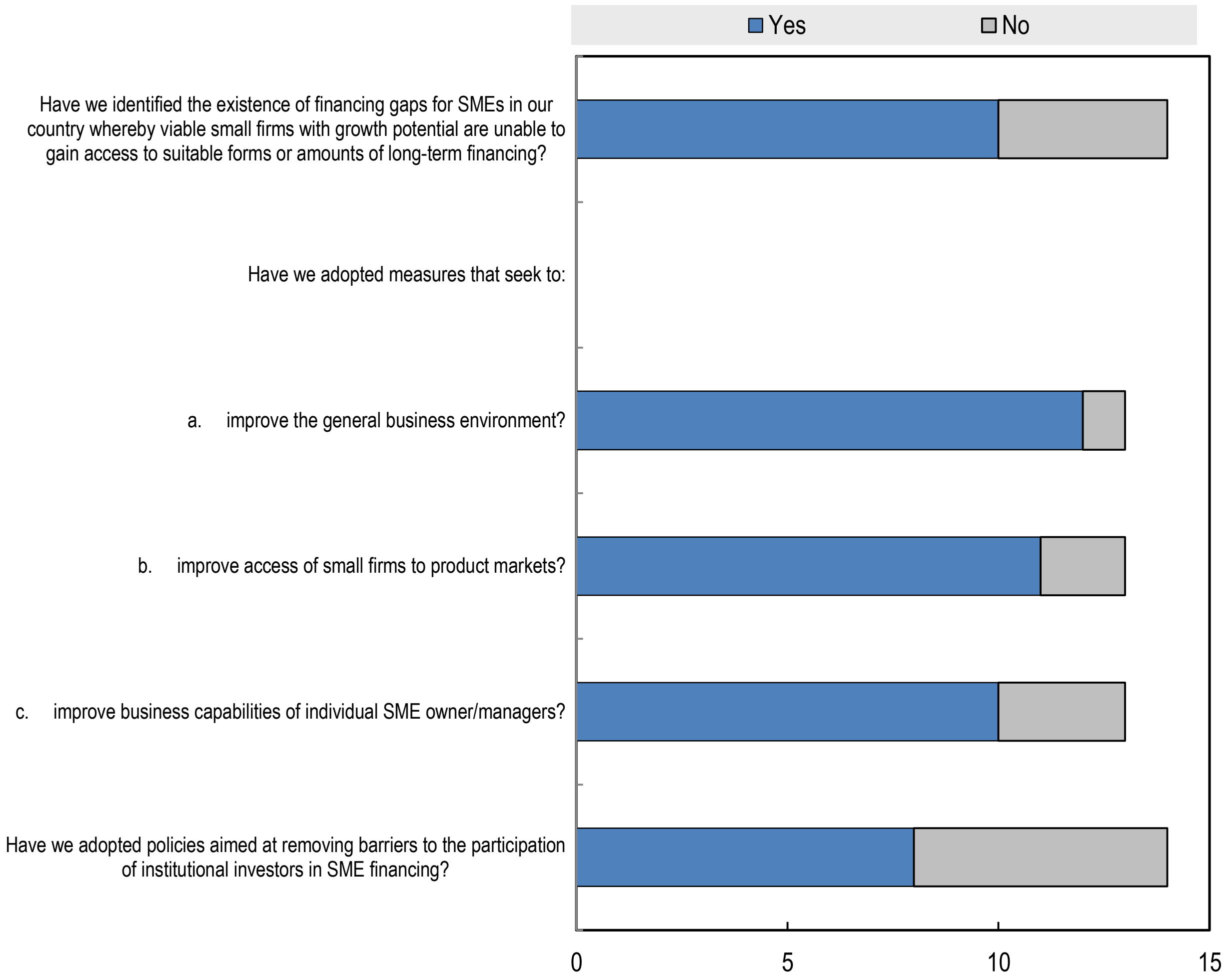
In many countries, the availability of financing for small and medium-sized enterprises is more limited than for larger companies and loan maturities for small firms are generally shorter, which can affect the ability of small and medium-sized enterprises (SMEs) to make long-term investments. It is often argued that a "financing gap" exists for SMEs in the sense that significant numbers of SMEs that could make productive use of funds cannot obtain finance from the formal financial system.

While some respondents indicate that there is no generalised financing gap for small and medium-sized enterprises (SMEs) in their jurisdictions, a larger report that there are some gaps (figure 11). Although these gaps are not generally evident in longer-term financing segments, a number of respondents indicate nonetheless that the market for risk capital can be made to operate more efficiently.

Such financing gaps may stem from market and policy imperfections. For example, SMEs' difficulty in obtaining financing will be compounded when the business environment lacks transparency, when the legal system is weak, and when monopolies are present. Overcoming these problems is necessary for proper functioning of the financial system.

But these steps alone may not be sufficient to encourage loan originators to provide financing to certain types of SMEs, in particular, start-ups and very young firms that typically lack sufficient collateral, or firms whose activities offer the possibility of high returns, but at a substantial risk of loss. The lack of reliable information on the creditworthiness of potential borrowers, which may be related to inappropriate accounting records or lack of collateral, may inhibit lenders from properly assessing risks, leading to higher loan interest rates or limited credit. SMEs will generally be at a particular disadvantage relative to larger and more established firms in this regard.

Figure 11. SME financing gaps



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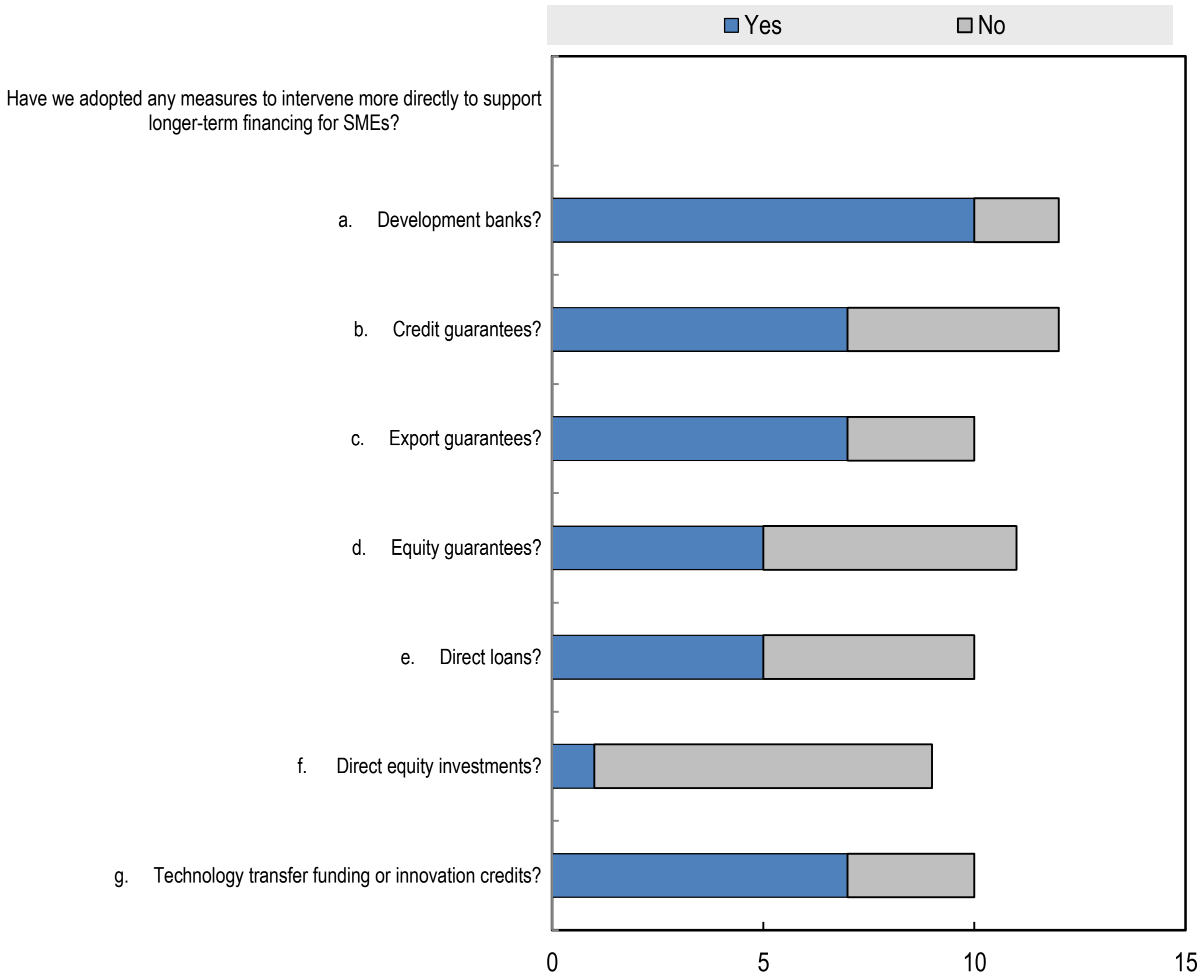
Addressing market failures may call for government intervention (figure 12). Roughly half of the respondents indicate adopting policies aimed at removing barriers to the participation of institutional investors in SME financing. Among options for direct support by governments, direct loans have been used sparingly, and direct equity investments have been even less common. Development banks have been the most common means of support, followed by various types of guarantees, led by export credit guarantees, and technology transfer funding and innovation credits.

Government intervention must be carefully focused, however, taking into account the source of any funding problems. In particular, government support programmes should be used as a complement to, rather than as a substitute for, the development of an enabling environment for financial services. Public policy may be more effective it aims at capacity building for entrepreneurs, such as improving their awareness of the range of financing options available from banks and from private investors. If more direct intervention is required, the principle of risk sharing should be observed, with the entrepreneurs themselves and banks and other financiers absorbing their share of the risks, and authorities must be careful not to introduce distortions by subsidising particular firms or sectors at public cost, especially firms which might otherwise not be viable.

Figure 6. Direct intervention measures to support SMEs



Note: The length of the bars in most cases represents the sum of responses received to date. There are exceptions, however, in the case of responses marked "In progress" or for "follow-up".

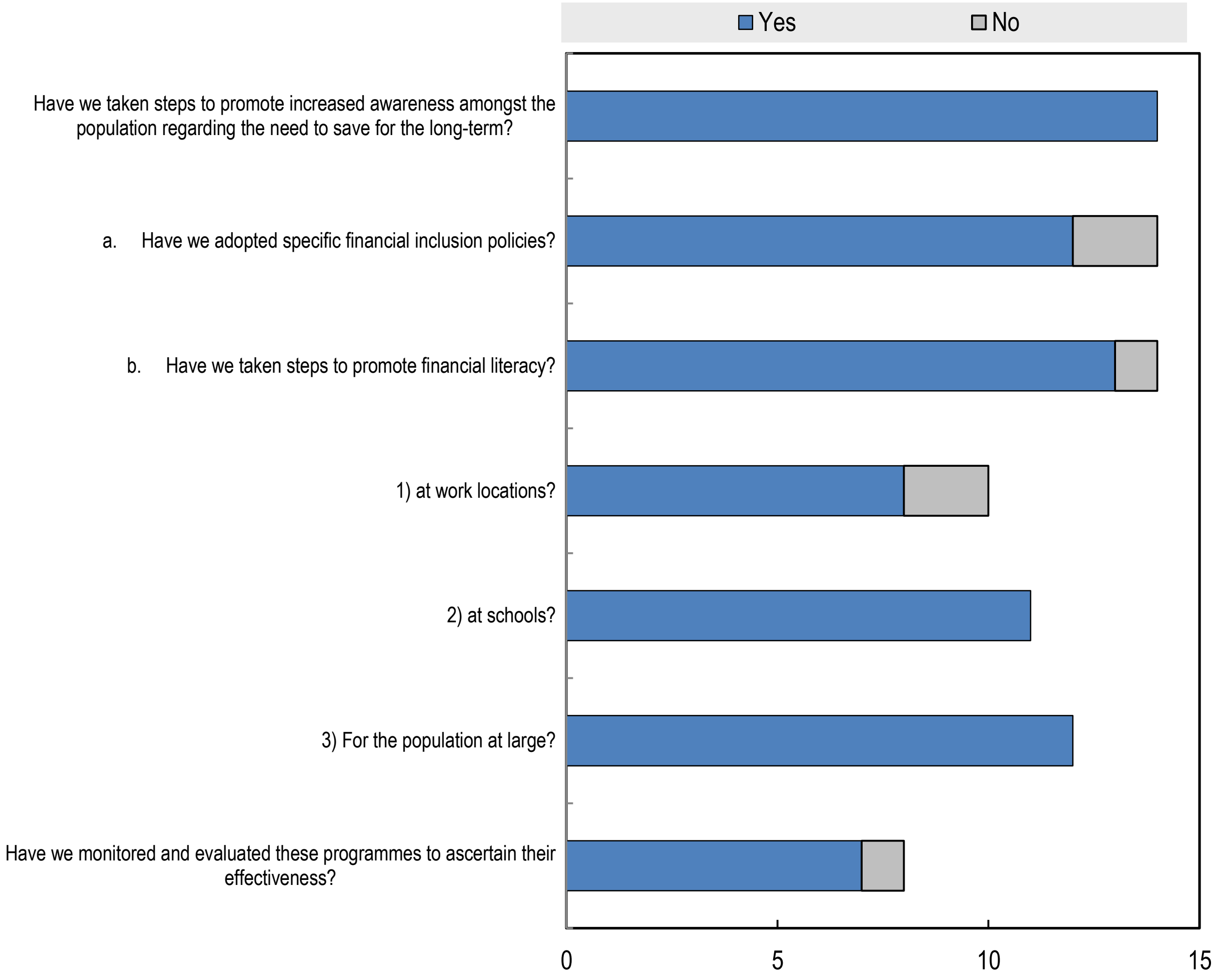
D. Incentives for long-term savings

Savings and investments by individuals are important both for personal financial well-being and for economic growth. Many governments seek to encourage their citizens to save more, or to save more appropriately, by opting for formal institutions to encourage saving rather than relying on informal savings arrangements and by promoting diversification and other sound investment principles. Respondents to the checklist indicate that they make efforts to promote awareness of the need to save for the long term and, more broadly, typically adopt financial inclusion and financial education strategies (figure 13).

There are various ways in which individuals save ranging from holding surplus income as cash, through simple informal saving mechanisms such as savings and loan clubs, to complex investments, or non-financial saving such as property or livestock. Some of these approaches are more suited to short-term savings and income smoothing, whilst others provide long-term savings to draw on in future periods.

There may be considerable barriers to saving for some segments of the population, which may include limited access to financial markets by some groups, excessive complexity of financial products, and information asymmetries. Knowledge and understanding of saving and investment concepts may also be low among some members of the general population in many jurisdictions. In addition, there can be behavioural and cultural factors which may limit individuals' propensities to save.

Figure 7. Promoting awareness of the need to save for the long-term



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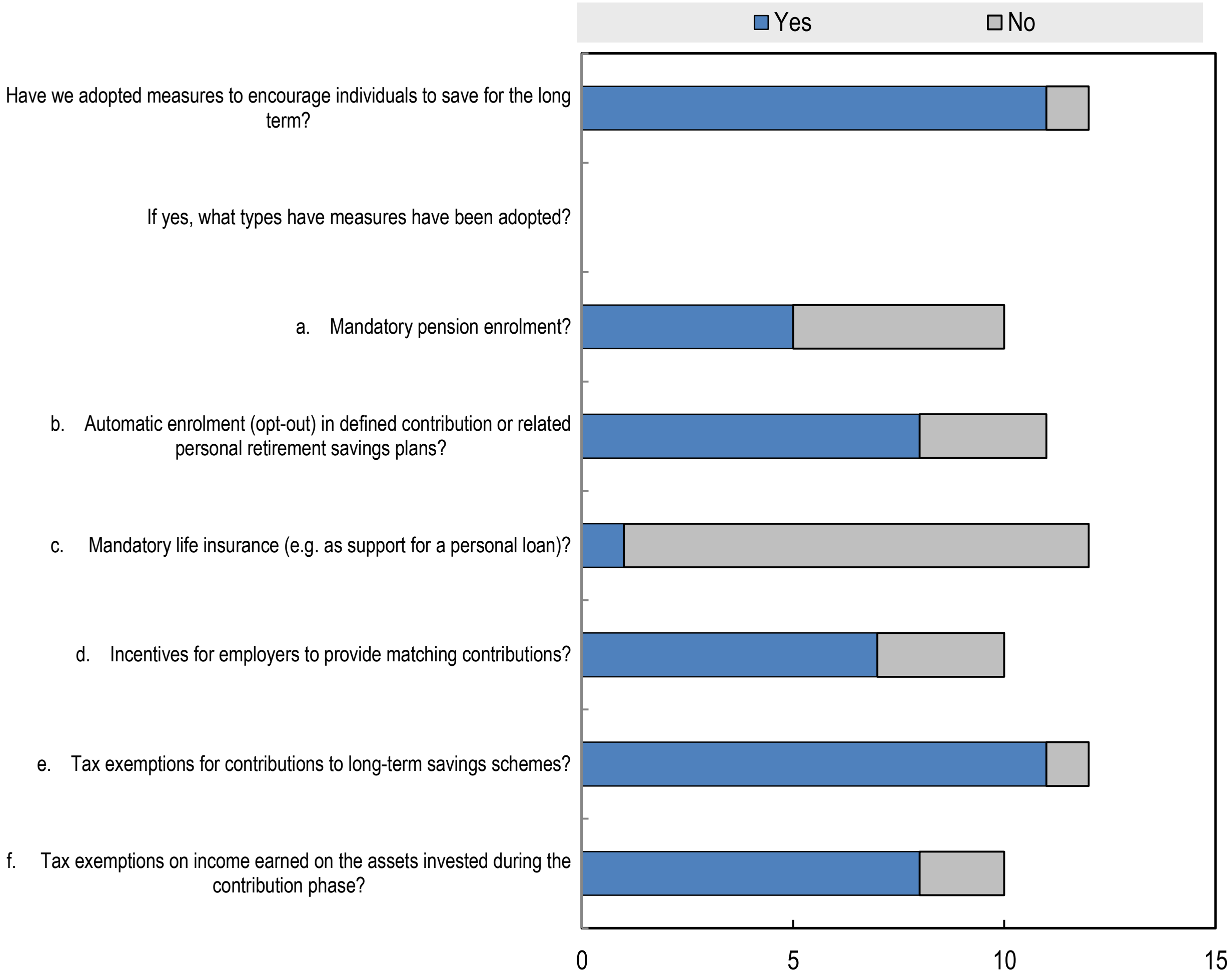
As a consequence, policy makers have developed several strategies to influence whether and how individuals save. Policy responses typically involve a combination of prudential regulation and consumer protection legislation, financial and tax incentives, financial education and awareness initiatives, as well as behavioural techniques to lead people into sound saving decisions.

Among respondents to the checklist, most report having adopted measures to encourage individuals to save for the long term (see figure 14). However, the particular options chosen vary. In general, incentives-based approaches are slightly more common than mandatory provisions. Mandatory requirements for life insurance are rare among respondents. In comparison, mandatory pension enrolment is much more common, although less so than for automatic pension enrolment (opt-out) arrangements. Tax exemptions, both for contributions to long-term savings schemes and for income earned on the assets invested during the contribution phase were the most commonly cited approaches.

A few respondents reported using government co-contributions to encourage participation by individuals in long-term savings schemes.

Figure 8. Incentives for long-term savings



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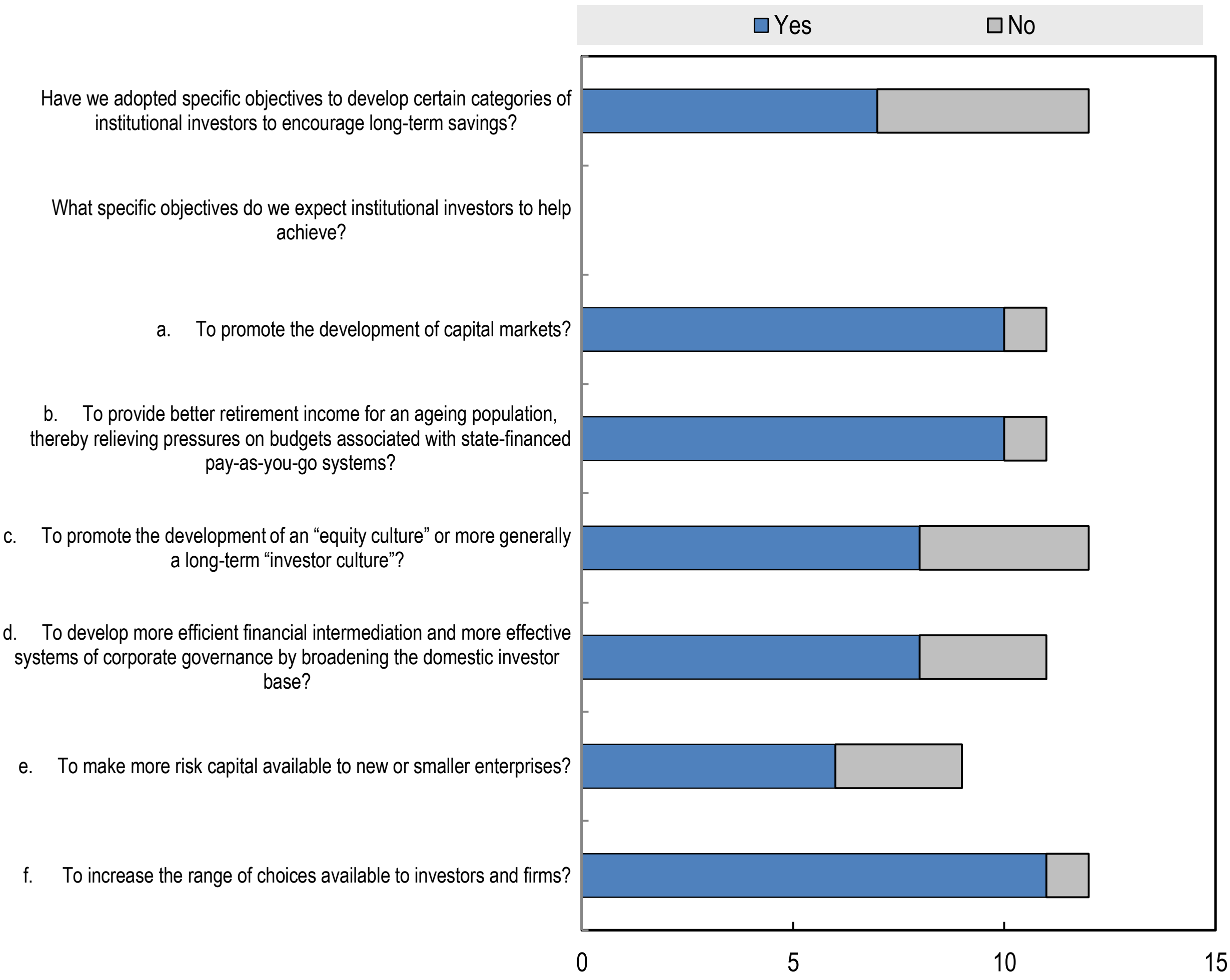
Policies to promote long-term savings generally extend into the payout phase of retirement. Most respondents allow individuals to take lump-sums at the start of retirement, although there are limits in some cases. A number of jurisdictions provide tax disincentives to discourage individuals from taking lump sums. Many respondents provide for programmed withdrawals, usually on an optional basis. Few respondents require annuitisation.

About half of the respondents indicate that they have adopted specific objectives to develop certain categories of institutional investors to encourage long-term savings. Most of those reporting having done so have assessed the contribution of these objectives to the growth of the institutional investor sector.

Among the specific objectives institutional investors are expected to help achieve, increasing the range of choices available to investors and firms is the most commonly reported objective, followed closely by promoting the development of capital markets and providing better retirement income for an ageing population (figure 15).

Figure 9. The role of institutional investors in promoting long-term savings



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E. Project planning and coordination

Governments have a potential role to play in fostering long-term investment by improving the efficiency of the use of resources as well as by the direct use of funds. But government project support should be done only in circumstances that clearly require it.

For infrastructure investment, specific problems in securing adequate financing relate to planning and limited capacity to prepare and execute projects successfully. Other impediments to infrastructure investments may include the lack of robust rule of law and attractiveness of the regulatory environment. In addition, the absence of a successful track record of related projects can also be an impediment.

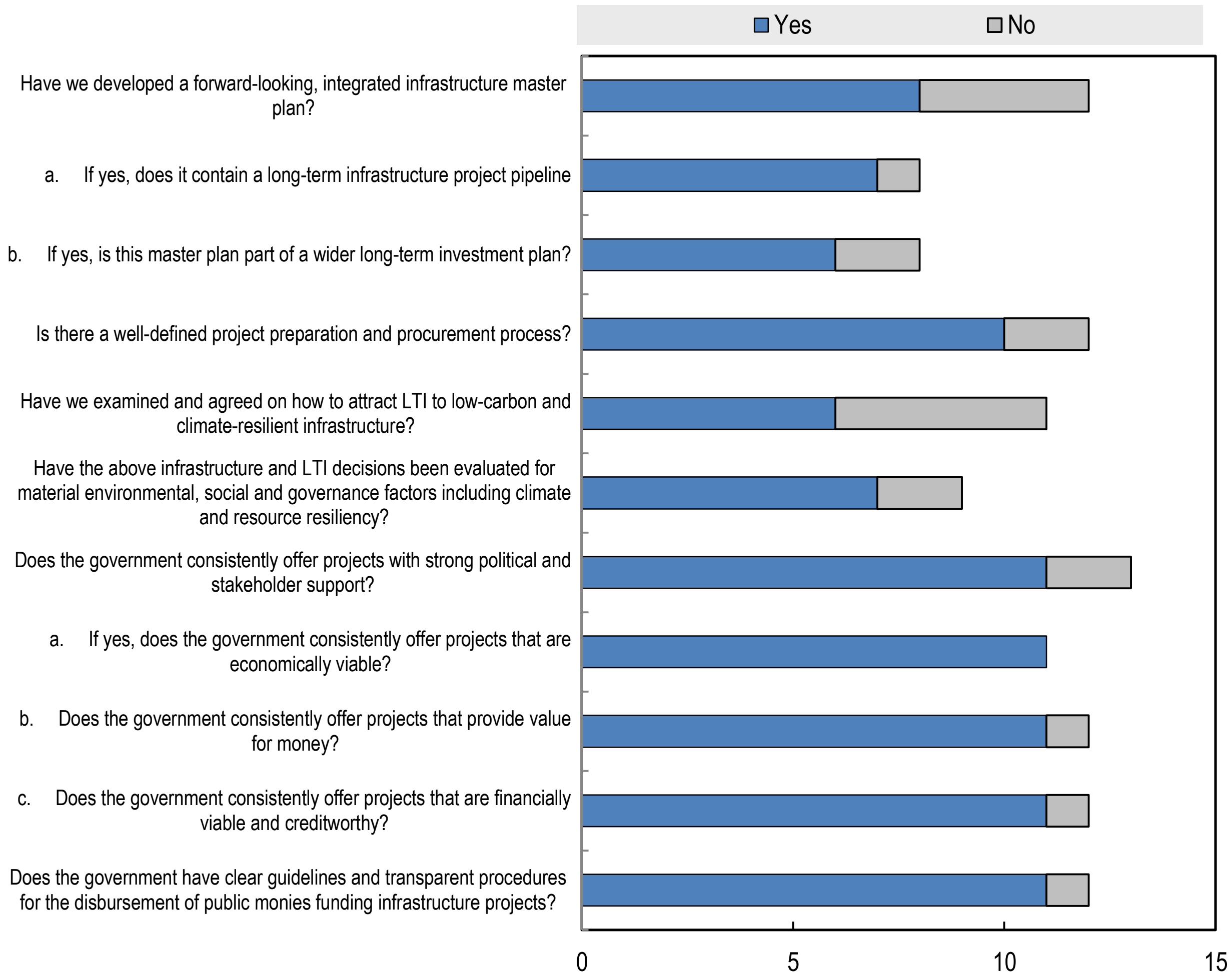
Planning

Public intervention in long-term investment projects – selected in light of socio-economic and environmental impact assessments – should be decided on the basis of identified market failures, should avoid crowding-out private investments, and should be selected by carrying out appropriate cost-benefit analysis of such interventions and ensuring that any public support is appropriately priced and is subject to fiscal considerations.

More than half of the respondents report having developed a forward-looking, integrated infrastructure master plan (figure 16). About half indicate that the plan includes a long-term infrastructure project pipeline. Fewer indicate that the master plan is part of a wider long-term investment plan. Where that is the case the time horizon this entails varies across jurisdictions.

Most respondents report that the government has clear guidelines and transparent procedures for the disbursement of public monies that fund infrastructure and that the relevant regulatory agencies are free from undue political interference.

Figure 10. Project planning



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Different means are used to communicate the list of public infrastructure projects to the private sector, with about half or fewer indicating the use of websites, conferences or direct relationships with the private sector.

To help achieve a more efficient allocation of resources privatisation policies entailing the sale of brownfield assets and user charges and network pricing are the most commonly used measures.

Most respondents indicate having a well-defined project preparation and procurement process, with clear project evaluation criteria. Most respondents also indicate that the government consistently offers projects with strong political and stakeholder support. Projects are said to be economically viable, offer value for money, and are financial viable and creditworthy.

Practically all respondents report having mechanisms to coordinate and gather input from ministries and other stakeholders during the project preparation process. The most common method used to ensure greater coordination among different levels of government is to obtain funding from all layers of government.

Co-ordination

Governments can help to facilitate the provision of private financing for long-term investment through improvements in administrative procedures, such as removing unnecessary red tape and reducing delays to approval processes. The willingness of private investors to provide financing for infrastructure can depend on the quality of coordination across different levels of government.

Practically all respondents report having mechanisms to coordinate and gather input from ministries and other stakeholders during the project preparation process. The most common method used to ensure greater coordination among different levels of government is to obtain funding from all layers of government.

The number of respondents who report using specialised project financing vehicles is about the same as the number who say they do not do so. And more or less an equal split occurs with the use of national assessment agencies.

Standard documents and disclosure

Standardised data templates can be used to promote cross-jurisdiction comparability of data, which can help to address concerns about the lack of clarity on investment opportunities available in the market.

Many respondents have standard methodologies and guidance for technical costs, value-for-money analysis, and economic cost/benefit analysis. The development of standardised documents and templates, however, is mostly work in progress.

Information sharing

Information sharing on long-term investments should be promoted at both the national and international level subject to cost and efficiency considerations. Data collection and information sharing can facilitate monitoring by supervisors, enhance the knowledge of institutional investors, reduce information asymmetries and improve the functioning and liquidity of markets. Steps to promote information sharing on long-term investment projects at national level are reported by roughly half of the respondents.