OECD PROGRESS NOTE ON G20 COUNTRY-SPECIFIC INVESTMENT STRATEGIES

OECD REPORT TO G20 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS

September 2015

Contact: Mr. André Laboul, Deputy Director,
OECD Directorate for Financial and Enterprise Affairs
[Tel: +33 1 45 24 91 27 | Andre.Laboul@oecd.org]

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This report was submitted to the G20 IIWG meeting in Berlin on 20-21 August 2015, and is now transmitted to the September meeting of the G20 Finance Ministers and Central Bank Governors.

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The G20 policy context

The role of investment and especially long term investment has been recognised by G20 Leaders for years. At the most recent Summit in Brisbane, Leaders recognised for instance that "*tackling global investment and infrastructure shortfalls is crucial to lifting growth, job creation and productivity. Our growth strategies contain major investment initiatives, including actions to strengthen public investment and improve our domestic investment and financing climate, which is essential to attract new private sector finance for investment"*.

More recently (in February 2015) the G20 Finance Ministers and Central Bank Governors stated they were committed to boosting investment in G20 countries via concrete and ambitious investment strategies that will also support their collective growth objective. In April, they reaffirmed their commitment to boost investment in G20 countries as an important driver of growth. They stated they were working on concrete country-specific investment strategies that will support the G20 collective growth objective including through policies to improve the investment ecosystem, foster efficient infrastructure investment and support sound long-term financing opportunities for businesses including SMEs. They added they will also do a quantitative assessment of their investment strategies. They planned to develop the investment strategies by their September meeting with a view to presenting them at the Antalya Summit. They looked forward to the progress on country-specific investment strategies and their analysis by the OECD, together with other IOs, for their September meeting to assist them in providing an aggregate ambition.

The deliverables

As part of the broader effort to boost investment through concrete country investment strategies, and following mandates given by both the G20 Leaders and the Finance Ministers and Central Bank Governors, the G20 Investment and Infrastructure Working Group (IIWG) has conducted in 2015 a voluntary survey to compile information and data on countries' investment strategies, including the main challenges being addressed, policy priorities, and the policy context of these strategies. The results of this survey were discussed at the May and August meetings of the IIWG and the G20 Finance and Central Bank Deputies meeting in June. While further work is still required, especially to take into account some late contributions and the need for further consultations (including by IOs), **it is suggested, as already mentioned in the paper circulated to the G20 Finance and Central Bank Deputies June meeting and as agreed by the IIWG, that the G20 Finance Ministers and Central Bank Governors agree in September on the principle to deliver two major contributions by the time of the Leaders' Summit in November 2015, i.e. a joint G20/OECD <u>Publication</u> on "G20 investment strategies" and an <u>Annex</u> to**

1 This progress note was discussed at the August 2015 meeting of the G20 Investment and Infrastructure Working Group, which agreed on its transmission to the September 2015 meeting of the G20 Finance Ministers and Central Bank Governors, pending few small changes which were vetted by the Mexican co-chair in charge of these issues and the G20 Presidency.

the Leaders Declaration on investment strategies. The last version of these contributions would be vetted in October by the IIWG and the Finance and Central Bank Deputies through the written process (in time for November delivery).

These two major deliverables are expected to promote the knowledge sharing amongst the G20 members and assist them in the development of their respective investment strategies. They will also provide indication for further progress needed to be implemented by G20 countries in order to optimise their strategies and plans, as well as direction for further G20 joint work and actions.

The G20/OECD Publication

The Publication initiated by the G20 Turkish Presidency and prepared by the OECD, together with IOs (with special contributions from Indonesia and Mexico) will contain a compilation and comparative analysis of a huge amount of information on investment strategies in G20 countries, at relevant geographical and sectoral levels. More than 300 measures have been undertaken or planned since 2014. They act as facilitators or safeguards of the process involved by the respective investment strategies and relate to three major areas, i.e. the investment ecosystem, infrastructure, and SMEs. This substantial amount of information also provides first indications of good practices implemented in the G20 countries, existing trends but also indication of avenues for further progress. This Publication (to be issued in two volumes) will provide for the first time an unique knowledge sharing tool on G20 investment strategies for G20 members, other countries and any stakeholders and interested institutions and persons.

The Annex to the declaration

Some major learnings

The G20 initiative on investment strategies will facilitate at least three objectives, i.e. improve knowledge sharing, identify areas for joint policy action and support measures set out in the growth Strategies. The "Annex" will first provide a selection of some of the major policy learnings identified in the publication.

Investment is an important driver of growth, employment and productivity and a full component of G20 Growth Strategies. A major tool, amongst others, to promote quality investment is to develop appropriate **investment strategies**, at any relevant geographical (national and subnational) and sectoral levels (including for instance energy, transport, logistics, digital programmes and R&D).

These **multiform** strategies favour efficient approaches based on the identification of various needs and gaps, taking into consideration the specific related circumstances; they help maximise some forms of cooperation and the involvement and identification of relevant public and private stakeholders, while contributing to the achievement of carefully considered investment objectives based on quality and efficiency. The strategies will help overcome the challenges related to the promotion of investment but no one jurisdiction faces all of the challenges and no single challenge has been addressed the same way by all jurisdictions. The **diversity** of the approaches is also reflected in the level of engagement of the countries which varies significantly in terms of volume of investment, selection of priorities, actions undertaken and type of measures implemented. Major common trends emerged however from the analysis developed in the Publication.

The investment strategies are **not stand alone** mechanisms. They need to be developed as part of a **comprehensive approach** which includes other essential elements which will make these strategies successful and contribute to sustainable and inclusive growth; the following non exhaustive list of elements, which will also restore confidence, attract investors and free resources, has been highlighted several times in the survey: the country **growth strategies**, the **fiscal responsibility/sustainability**, the **financial stability** and sound prudential framework, the competitiveness, the **structural reforms**, and in particular labour reforms, the business environment and the **productivity** and related importance of skills, education, innovation.

A majority of G20 countries are increasing their public investment. If most countries are putting new investment plans in place, they increasingly recognise that the emphasis should be on the **quality of investment** and the related need to improve its efficiency, including through proper costs/benefits analysis.

Given the scale of the long-term investment requirements, reflecting – depending on the countries - ageing infrastructure, economic development and rapid urbanization, and more fundamental development goals, and the constraints on many government budgets, it is expected that governments will increasingly need to partner with the **private sector** to meet at least some of these needs. This potentially allows for further efficiency and sustainability of the projects.

Most G20 countries are promoting the role of the private sector, including through the development of **public private partnerships** and various incentives (including **tax** incentives which are in place in all G20 members). While traditional forms of financing such as banks and corporate financing currently face some challenges, governments are increasingly turning to **new sources such as institutional investors** and capital markets in general. Most G20 countries are favouring the development of these alternative /complementary sources of financing and promoting the availability of a larger spectrum of related **financial instruments**.

Various obstacles have to be addressed to facilitate the role of the private sector, in particular in infrastructure investment. In this respect, Most G20 countries recognise the need to improve the **policy/regulatory predictability, certainty and transparency** through all the regulatory process and consider that **competition** is a major factor to improve investment. General trends are also observed towards a reduction of red tape and **administrative burdens** with for instance paper-free operations, reduction of lengthy processes, reform of procurement rules, while several countries note that excessive bureaucracy is conducive to informality.

The expected **return and risk** of investment projects is obviously a key consideration in the effort to attract private capital. The survey shows a growing recognition of the need for relevant risk factors to be transparently **communicated** to allow them to be properly assessed and priced, as well as the importance of historical **data** on existing long-term projects, suitable **project pipeline** and adequate **skills** for evaluating technical aspects of investment projects.

Efforts have been undertaken as well in numerous G20 members to attract **foreign investors** , including through easing the foreign direct investment regulation, while the globalisation of the economic activities call for the facilitation of public and private cross border investment.

A general trend to optimise the role of **MDBs and NDBs** in facilitating investment and infrastructure investment, including as catalyser of private investment and provider of technical advice, and to stimulate the role of public investment funds is also present in most G20 members.

The survey also confirms that most members have introduced policies to support the **SME sector**. Specific measures and programmes include the facilitation of access to finance and in particular the promotion of venture capital, especially for SME which have collateral issues, securitisation, tax incentives and easing regulatory constraints.

Investment figures

Members are providing several figures on specific projects or country investment. While they aren't all entirely comparable, this "bottom-up" data generally demonstrates a clear willingness from countries concerned to boost their investment strategies. The data on investment-to-GDP ratio collected through the survey and the work of the Framework Working Group provide another interesting "top down" information. If the majority of the G20 countries which provided the information plan to increase their investment/GDP ratio from 2014 to 2018, some countries are planning a decrease in real terms. Various factors can explain this situation, including the public investment constraints, but also the potential policy decision to focus more on quality investment than quantity. There is a large variety of investment between member countries: in 2014, the available data shows for instance the total investment-to-GDP ratio ranges from 16.9% to 46.1%. The biggest current increase reaches 4.2 %, while the biggest decrease (related to a swift of sectoral investment) reaches 3.4%.

Further data has still to be made available in the next few weeks before any collective figure (which could combine both the top/down and bottom up approaches referred above) can be integrated in the publication and communicated with proper qualification to take into consideration the various specificities of the data collected.

Avenues for further progress

There is significant room for further progress in several major areas. First some G20 countries may wish to reconsider their current plans and when relevant increase the level of their investment plans and/or reconsider their respective allocations. As mentioned above, a "pause" or even slowdown in such increase in order to favour more "quality" investment may however be a relevant alternative in some cases which would match perfectly well the respective country priorities.

Concerning the investment strategies, the Publication shows that there are several avenues for further policy actions to be considered by several G20 members. These include (but are not limited to) the following issues which would improve the respective investment strategies:

- A better quality assessment of the actual needs and related cost benefit analysis and a focus on **quality** investment.
- Further actions to promote the active role of the **private sector** and make projects attractive to them, including attracting institutional investors and capital markets and developing adequate financial instruments.
- Addressing the lack of **coordination** between institutions and plans and the multiplication of duplicative or similar programmes.
- Improving the **communication** on existing programmes and their access, especially for SMEs.
- Ensuring fair practices, transparency and accountability, including through anti-corruption practices and responsible conduct business.
- Facilitating further **cross border investment**
- Addressing further the necessity to promote **green investment**, including investment dealing with disaster risks.
- Improving the **project preparation** and development process, including project prioritization, PPP, contractual provisions and disclosure and stakeholder (including government staff) expertise.
- Promoting further **productivity** and innovation, including through R&D programmes.

- Addressing further the **SME** challenges, including for movable assets, securitisation, financial inclusion/ education, informality.
- Addressing the major **data gap** issues for infrastructure and SMEs at micro and macro levels.
- Implementing the various **instruments** which have been developed under the aegis of the G20 (or other relevant fora) in the investment areas. [2]

Potential Directions for future joint work

The Publication testifies to the very large amount of initiatives undertaken in G20 countries to promote investment through investment strategies. While the Publication already provides a unique source of information and analysis, it also identifies areas related to investment strategies where further work and action could be undertaken, building further on the work of the IIWG developed with the support of the OECD, together with other IOs. Based on the current mandates provided by the Leaders and the Finance Ministers and Central Bank Governors and the Publication, future joint G20 work and actions which could be developed by the IIWG with the continued support of the OECD and other IOs, could include the updating and enlargement to other countries of current information, data gathering and analysis included in the Publication and other data sources, with a potential focus on specific thematic issues; member-led identification and assessment of good practices and effective approaches, in particular in areas where further progress is needed; better understanding of country approaches, and consolidation and monitoring of existing instruments.

[2] This includes: the G20 leading practices on promoting and prioritizing quality investment, the G20/OECD High-Level Principles on Long-Term Investment Financing by Institutional Investors, the G20/OECD Checklist on Long-Term Investment Financing Strategies and Institutional Investors, the WBG's Prioritizing Projects to Enhance Development Impact and the recent 2015 new instruments (such as the IMF guidance on "Making Public Investment More Efficient", the revised OECD Policy Framework for Investment, the OECD guidelines "Towards a Framework for the Governance of Infrastructure", The G20/OECD Principles of Corporate Governance, the MDB's Common Approaches to Supporting Investments in Infrastructure, the WBG Draft Infrastructure Prioritization working paper and Draft Infrastructure Prioritization Platform, the WBG/OECD Draft Checklist for PP Projects, the WBG Draft Report on Recommended PPP Contractual Provisions and Good Practices on PPP Disclosure).