



G20/OECD REPORT ON G20 INVESTMENT STRATEGIES

VOLUME II



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COUNTRY SPECIFIC INVESTMENT STRATEGIES COMPILATION OF RESPONSES

The following compilation of responses reflects the information as provided by Infrastructure Investment Working Group Members before November 4th 2015. Submissions may not be an exhaustive account of government efforts taken to improve the investment climate, stimulate infrastructure investment, and improve the environment for SMEs. Please note that as the members did not all follow the template of responses (please refer to the annex) to the same extent, the structure of the responses listed below varies. The secretariat made adjustments where deemed necessary. This is notably the case for the beginning of section B.¹, which includes information provided on strategic actions reaching across “Investment Ecosystem” (Section B.1), “Infrastructure” (Section B.2) and “SMEs” (Section B.3). Please further note the following country-specific information: the United States specifically note that information provided relates to infrastructure investment only. This compilation does not include the quantitative data section provided.

We have received 21 responses to the G20 inquiry on country specific investment strategies² from the following countries:

- Argentina
- Australia
- Brazil
- Canada
- China
- European Union
- France
- Germany
- India
- Indonesia
- Italy
- Japan
- Korea
- Mexico
- Russia
- Saudi Arabia
- South Africa
- Spain
- Turkey
- United Kingdom
- United States³

¹ Which only includes Brazil, the European Union and Italy.

² Note: Country strategy reflects the priorities and intentions of the country as of November 2015. The elements of this strategy may evolve over time as the country’s decision-making and implementation procedures unfold.

³ Note: information received reflects actions related to infrastructure investment only.

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A. OVERALL INVESTMENT STRATEGY

A.1. General Overview

Argentina

Since 2003 the government has put forward an inclusion – based model for growth. The focus was put on transforming the productive structure into a network with greater industrial development, incorporating value added and knowhow to the productive process while fostering job creation. In this context, coordination and implementation of investment policies have a key role to play. Hence, Public Investment plays an essential role in promoting and directing economic and social development in the medium and long term. On the one hand, since it provides the necessary infrastructure for development and fosters sectors neglected by the private sector. On the other, since it addresses the provision of services that cover social needs as: sanitary, educational, cultural, housing, defense and security. All this compounded improves the quality of life of our population.

In this sense, the priority of National policies regarding development of economic and social infrastructure is: seeking an inclusive growth, in the understanding that public investment has to go along side with, and enhance private investment.

As it was already outlined in our Growth Strategy, infrastructure and SME financing have a central role in Argentina’s policy determination. In this regard, Argentina will continue focusing on significantly increasing the resources channelled to both energy production and infrastructure. Although the investment rate has increased significantly as from 2003, and infrastructure investment has risen from negligible levels to new records in recent years (with more than half of the funds allocated to closing the energy gap), still higher levels of investment are required to sustain a rapid and sustainable rate of growth. This is even truer in a context of the drop of oil prices and the possible adverse impact on the incentives for investment in this sector. The public sector, in this sense, will maintain its leading role in infrastructure investment with also the objective of attracting private and external funding/operation when rates of return demanded are deemed to be adequate.

In addition to the above, the country will support the expansion in the economy’s productive capacity which requires pursuing policies of a structural nature to remove supply-side bottlenecks and, in particular, increasing the investment in infrastructure and energy. These efforts should also contribute to improving the economy’s overall competitiveness, the sophistication of production and the diversification of exports, maintaining focus on continuing the progress in industrialisation, employment and income distribution.

Regarding SME’s, financing has been a priority for this government given their relevance in the economic structure. SMEs account for about half of employment, 47 % of sales and they account for about 60% of employment. However, they face certain constraints in accessing to longer term finance that would enable them to invest and grow their operations. To overcome and alleviate these constraints, the government has put in place support programs for SMEs that aim to address this gap.

In this context, both national and multilateral development banks are an important source of financing for development in Argentina. Nowadays, we count with a portfolio of more than a hundred projects which summed up amounts over US\$ 17,000 million, and where projects that promote growth with social inclusion and improve competitiveness are being prioritized. Even further, we can observe an important change in the profile of multilateral financing: between 1995 and 2000 a 60% of the total financing was destined to current expenses; nowadays financing of infrastructure and the one allocated to improve social inclusion explain almost 100% of total financing.

Australia

The Australian economy is currently in the midst of a major transformation as it moves from a period of growth driven by a high level of mining investment, towards broader based drivers of activity. A pick-up in non-mining investment is set to raise activity in the coming years, although the timing and extent of

this remains a key uncertainty. Investment in infrastructure, and policies to promote small and medium-sized enterprises (SMEs), will help support activity in the near-term, as well as expanding the productive capacity of the economy over the long-term.

The Australian Government has a comprehensive policy approach to foster private investment to meet these challenges. Australia's macroeconomic framework plays an important role in promoting macroeconomic stability, which in turn facilitates private investment. Structural reforms (including those to competition, taxation policy and the financial sector) are also important in encouraging new private sector investment by reducing costs to business and barriers to investment. Details of these macroeconomic and microeconomic policies are in section B.1 of this report.

Investment in infrastructure is critical for economic growth. Under Australia's federal system of government, responsibility for the provision of public infrastructure is shared across the three tiers of government (federal, state/territory and local). This requires coordination among policy makers. State, territory and local governments are responsible for the delivery of the majority of public infrastructure in Australia. The Australian (federal) Government has responsibility for broader policy settings as well as substantial funding responsibilities. This report focuses primarily on the investment strategies of the Australian Government.

The Australian Government has instituted a range of short, medium and long-term programs and strategies which directly target infrastructure investment. In the 2015-16 Federal Budget, the Australian Government reaffirmed its commitment to invest A\$50 billion to 2019-20 and onwards to build or upgrade both new and existing land transport infrastructure, with A\$43.9 billion under the Infrastructure Investment Programme. This programme is designed to catalyse additional infrastructure investment from state and territory governments, as well as the private sector. The Australian Government has also progressed reforms to Infrastructure Australia, introduced the Asset Recycling Initiative, established the National Infrastructure Construction Schedule, reformed project selection and governance, and is examining the use of alternative funding and financing for infrastructure. These measures are a core part of Australia's G20 Growth Strategy. Details of these programs (including new initiatives announced in the 2015-16 Budget) are contained in Part B.2 of this report.

The Australian Government is also implementing policies to promote private investment both in, and by, SMEs. Details of these policies (including new initiatives announced in the 2015-16 Budget) are contained in Part B.3 of this report and include measures to improve SMEs' access to financing, reduce their taxation and regulatory costs, and improve the competitive environment within which they operate.

Canada

General Overview

The Government of Canada will place renewed focus on the economy, especially as it relates to investing in transit, environmental infrastructure, and social infrastructure—the basic infrastructure that economies need to grow. Over the next 10 years, the Government will be making some of the biggest and most carefully targeted federal investments in our history while also ensuring the right complementary policies are in place to support a strong economy and strong middle class.

The Government will combine fiscal prudence with investments in economic growth. Today's low interest rates and Canada's rapidly aging infrastructure are an opportunity to invest. The Government intends to run modest short-term deficits to fund these historic investments, with a return to a balanced budget in 2019. This clear framework to support sustainable growth and productivity, combined with improved fiscal transparency and better quality national data, will improve Canada's overall macroeconomic and investment climate.

Main Challenges

While Canada consistently ranks among the best countries within the G-20 to invest, some important challenges remain:

Investing in Canada's infrastructure: Canada's existing infrastructure must be maintained, renewed and expanded to meet growing demand, and the Government is committed to historic investments to support a growing economy, create jobs, and restore economic security to the middle class⁴. In particular, Canadian cities have been growing at a rapid rate, but investment in public transit has not kept pace. Improved community infrastructure is also required to sustain and improve the quality of life for millions of Canadians. A strong economy also requires a healthy environment and it is vital that Canada invest in a sustainable future. As a result, Canada needs to make significant new investments in green infrastructure such as: local water and wastewater facilities, clean energy, and climate resilient infrastructure.

Investment in innovation and greater productivity: Productivity in Canada has lagged that of most peer countries since the 1990s. Canada must continue its efforts to set the right conditions for strong productivity growth, including supporting our businesses and entrepreneurs become more innovative, competitive and successful. This challenge was also identified in our G20 Growth Strategy. The Government is focused on investing in policies that foster entrepreneurship and help SMEs grow and thrive.

China

A.1 Main Challenges

Investment is the key to steady economic growth. In 2014, the contribution of the gross capital formation to GDP growth was 3.6 percentage points, which means 48.5% of GDP growth could be attributed to the gross capital formation, down by 5.7 percentage points over the previous year. The total investment in fixed assets was 51,276.1 billion yuan in 2014, up by 15.3% over last year. The private investment in fixed assets was 32,157.6 billion yuan in 2014, an increase of 18.1%, and accounting for 64.1% of investment in fixed assets (excluding rural households), up by 1.4 percentage points year on year. Nonetheless, China still faces investment challenges.

First, the growth of investment slows down. China's economy maintains stable growth, despite the downward pressure stemming from profound adjustments of the global economy and cyclical and structural factors in domestic economy. Gross domestic product (GDP) grew by 7.4% year-on-year in 2014, 7% for the first half of 2015, and is expected to grow by 7% in 2015. Business start-up and investment are booming, with the number of newly registered enterprises reached 2,001,000 in the first half of 2015, rising 19.4% year on year. However, due to the ongoing economic transition and structural adjustments, fixed asset investments have slowed down, registering a nominal growth of 11.4% in the first half of 2015, down by 2.1 percentage points over the previous quarter.

Second, the investments in key sectors would remain subdued in the short-term. The real estate market is divergent across different regions and localities. Due to supply overhang, destocking will be the primary focus for property developers, while new project start-up will remain low. Industrial overcapacity is still prominent, with the producer price index (PPI) contracting year-on-year for 40 months consecutively as of June 2015, leading to the steady decline in profit margin. Additionally, due to relative small proportion of direct financing and relatively high financing costs, there is a lack of incentive for businesses to scale up investment. Furthermore, China's public finance in infrastructure investment, which is now constrained by the budget and stricter debt management. In the meantime, the market-oriented public and private partnership (PPP) model will be rolled out gradually, and unlikely to substitute the existing investment models in the short run. New technologies, new industries and new business models have catalysed substantial investments in terms of business start-ups, however, this is still at an incipient stage, and the total amount is not large enough to play a decisive role in the short term.

A.2 Investment Priorities

China will shore up effective investment in major areas to sustain the growth, adjust economic structure and benefit the people. Through structural adjustment and harnessing surplus budgetary funds, the

⁴ The delivery of core public infrastructure is primarily the responsibility of provincial, territorial and municipal governments in Canada, with the federal government playing a complementary role as a funding partner for a subset of assets.

central government will be able to provide more funds for public investment. The central government earmarks 477.6 billion RMB yuan for investment in infrastructure in 2015. China will launch a number of major new projects to leverage more local and private funds for investments in sectors such as rural power grid upgrade, water conservancy, grain storage facilities and sewage disposal facilities in urban areas, and the relocation and renovation of rustbelt industrial and mining areas. In 2015, China will keep investment in railway construction above 800 billion RMB yuan and open over 8,000 kilometres of railways to traffic, keep investment in the major water conservancy projects under construction above 800 billion yuan, and build and upgrade 200,000 kilometres of rural roads. Furthermore, China will implement a three-year plan to renovate 18 million housing units in urban shantytowns and 10.6 million dilapidated houses in rural areas, as well as build infrastructure and provide basic amenities such as public transport, running water, gas, heat and telecommunications. At the same time, China is formulating new project pipelines in 4 sectors, involving emerging industries, enhanced core competitiveness of manufacturing, modern logistics and urban rail transport.

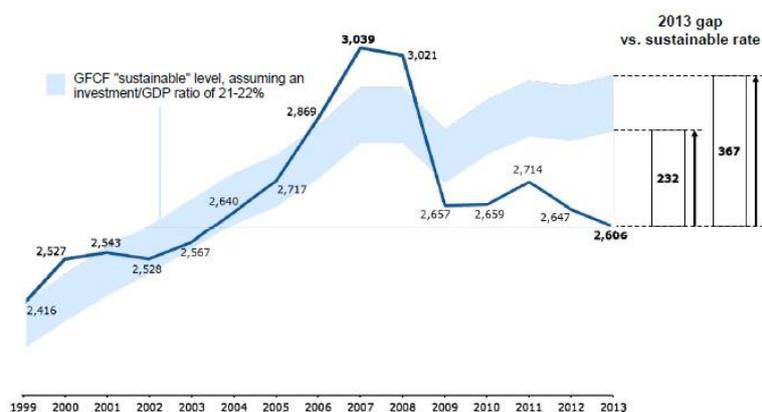
For industrial investment, China will integrate the mobile Internet, cloud computing, mass data, and the Internet of Things with modern manufacturing, launch major projects to develop high-end equipment, information network, integrated circuit, new energy, new material, biomedicines, etc. It will step up efforts to develop tourism, health care, elderly care, innovative design, and other daily services or producer services. Efforts would be made to strengthen the building of modern logistics facilities such as large-scale wholesale, storage, and cold chain facilities for agricultural products.

Moreover, the Chinese government is working on the 13th Five-Year Plan of National Economic and Social Development (2016-2020), which will outline the investment priorities in the next 5 years.

European Union

Work on investment continues to be a top priority for the G20. While the situation in individual members varies, policy actions in the three sub-pillars identified by the Turkish Presidency, the investment ecosystem, infrastructure and SMEs aim to strengthen balanced and sustainable growth. In the European Union, the decrease in investment since its pre-crisis peak is an important reason for the relatively slow recovery in growth, productivity and employment. Collective and coordinated efforts at European level are needed to reverse this trend, so the European Commission has formulated the Investment Plan for Europe consisting of three strands: (1) mobilising investment finance; (2) enhancing technical assistance at all project stages as well as enhancing transparent project pipelines; and (3) removing barriers to investment. The actions encapsulated in these strands constitute the facilitators and safeguards of the EU investment strategy delivered to the G20. Note that significant actions complementing this investment strategy are detailed in other parts of the overall EU growth strategy, including information on the European Commission Communication on "Making the best use of the flexibility within the existing rules of the Stability and Growth Pact" and measures to further integrate the Single Market.

The European Commission's economic forecast published on 5 May 2015 indicates an improvement in the growth of investment in 2014 and foresees this trend continuing. However, while GDP and private consumption in the EU are now roughly at the same level as in 2007, total investment has not yet fully recovered to its pre-crisis levels. The peak leading up to the crisis may have represented unsustainable exuberance, but the drop in investment accounts for the largest proportion of the shortfall in GDP between 2007 and 2013, and leaves Europe with an investment gap of EUR 230 to 370 billion below its long-term trends according to the European Commission's estimates. Strengthening investment is not only a matter of raising the number and volume of projects, however, but also of ensuring investment quality in a market-based approach drawing in private investors, thus improving long-term productivity and sustainable growth.



Long-term investment is important in terms of enhancing the productive capacity of the economy, facilitating the transition to a more sustainable, resource-efficient and climate resilient economy and raising competitiveness. Getting the long-term financing process right is central to supporting structural economic reform and returning to the long-run trend of economic growth.

In particular infrastructure and SMEs are key contributors to sustainable growth in the European Union, as well as in other G20 member countries. High quality infrastructure enhances productivity across economic sectors, supporting growth and facilitating the integration of the internal market; SMEs represent some two thirds of employment and nearly 60% of the value-added in the EU, and contribute significantly to GDP growth through their ability to innovate, grow and create employment. Investment needs for infrastructure and SMEs are both pressing and have significant potential to contribute to lifting output in line with the EU growth strategy (Europe 2020).

In its Europe 2020 strategy, the EU has set out a number of policies to create a smart, sustainable and inclusive economy across its 28 Member States. This will require significant investments in different types of infrastructure, such as energy and resource efficiency, or research and development. For instance, the Commission estimates that an annual investment of about EUR 205 billion would be needed on average over the next three in the energy sector, of which EUR 96 billion in power generation, EUR 89 billion in energy efficiency in building and EUR 19 billion in energy efficiency in industry. The Commission further estimated that an average annual EUR 75 billion is required annually to expand and upgrade transport infrastructures up to 2030.

At EU level, further deepening the Single Market remains the first priority in order to help the Member States' economies modernise, enhance their competitiveness and remain attractive for investors. By removing barriers to the free movement of people, goods, services and capital, the Single Market allows firms to operate on a larger scale, thereby enhancing their capacity to innovate, invest, become more productive and generate jobs.

Reinforcing the Single Market not only aims at ensuring a level-playing field, but also at allowing greater regulatory predictability and removing barriers to investment across Europe. Strengthening competition, improving the functioning of price signals and lowering entry barriers are important incentives for investors.

Following the financial crisis, significant progress in EU market integration has been achieved through policy measures implemented at EU and Member State level, such as the establishment of the Banking Union discussed in last year's EU growth strategy submitted to the G20. However, in some EU Member States, the reverberations of the crisis continue to affect both the demand and the supply of financing. On the demand side, this means reduced investment spending by SMEs, public-private partnerships and other viable investment projects requiring long-term financing. On the supply side, increased risk aversion has led to a preference for liquidity which, together with bank deleveraging, has affected the economy's ability to finance itself at long maturities. In addition, the sub-optimal levels of long-term financing also reflect market failures and inefficiencies in the intermediation chain.

France

Recent evolutions of investment – Main drivers

In the aftermath of the crisis, sharp growth slowdown led to a contraction of investment in some major advanced economies, including France. However, investment in France appeared to be more resilient to the drop in activity than in other euro area countries. It also proved more resilient since the crisis began than in past periods of economic downturn.

At the aggregate level, the economy-wide investment rate has been rather stable in the more recent years. Investment stands at around 22 % of GDP in 2014, close to its pre-crisis level. Thus, there is no sign of a global investment gap in France beyond what is explained by the investment cycles. Owing to the improvement in the overall economic outlook, investment is steadily stabilising, although construction investment might still be a significant drag on investment spending. The expected pickup in investment crucially depends on a sustained economic recovery.

Public investment at the local level has slowed down recently (+1.3%/year on average between 2008 and 2013) and has significantly diminished in 2014 (-9.6%) following the election of mayors in March 2014. The slowdown is likely to persist in 2015 and local investment will grow again in the run-up to the next elections, as usually observed during the electoral cycle.

Corporate (NFC's) investment has remained in line with economic activity since the beginning of the crisis. Thus, business investment contracted in times of lower activity and business expectations but the NFC's investment rate broadly remained at its pre-crisis level. Financing conditions remained propitious on average for the French NFCs as interest rates are low and access to credit is rather favourable. Then investment mainly followed fluctuations in demand. As the outlook is improving on the back of stronger external demand, the depreciation of the euro and the drop in oil prices, as well as the progressive impact of the reforms in favour of competitiveness, business investment is likely to progressively accelerate.

French R&D expenditure reached 2.26% of GDP in 2014 (ranking 13th in the OECD countries) showing a steady increase since 2007 (+0.24 pt within 7 years) towards the EU objective of 3%. Despite this upward trend, business R&D expenditure still lags behind those of R&D leaders. This lag reflects sectoral specialisation in France: manufacturing firms which usually are the most R&D intensive account for a mere 10% of total value-added in France. When taking this into account, French firms appear to be as R&D intensive as their foreign competitors, if not more. The French Government therefore endeavours to foster a technology-led industrial renewal and the development of new innovative manufacturing firms.

Government strategy

France's strategy focuses primarily on encouraging private investment in the production sectors by improving business-climate and intermediation channels, in particular to facilitate SME financing. Targeted measures are also being designed and implemented so as to foster investment in specific sectors where market failures exist notably the R&D and innovation sectors, ecological transition activities, and the housing market.

The lowering of production and employment costs by both the implementation of the Responsibility and Solidarity Pact and the Tax Credit for Competitiveness and Employment (CICE) will help restore companies' margins, bolster their competitiveness and create a positive confidence shock. Efforts to cut red tape and streamline local government organisation will create a supportive environment for business that will enable them to free up resources and to invest more. Overall, these measures will create an innovation- and investment-friendly environment.

Enhanced competition in the service sector and further reforms in the rail, coach travel, energy, regulated professions and financial services sectors could enhance firms' competitiveness, reduce input prices and lower barriers to entry, thereby encouraging the creation of SMEs, and increasing incentives for businesses to innovate.

Boosting R&D intensity among existing firms will foster industrial renewal and the development of new manufacturing firms. In addition, the Competitiveness Cluster Programme, the Innovation Tax Credit

and subsidies for innovative start-ups (*Jeunes entreprises innovantes*) continue to support innovation and R&D.

Maintaining a high-quality infrastructure is also one of the government's top priorities as evidenced by the French support and participation in the European Investment Plan. In addition, the Government has recently announced phase 3 of the Invest for the Future Programme, which will strengthen the programme beyond 2017. Reforming the decision-making process for public investment projects will make it possible to select projects (development, modernisation or renewal) that deliver the best value for money therefore ensuring the best use of public money to benefit future growth. Facilitating the energy transition to support green growth requires a substantial amount of additional investment that will be supported by a wide range of instruments including carbon taxes, energy saving certificates, support mechanisms for renewable energies and a new energy transition fund.

Facilitating SMEs' access to finance and fostering private financing for long term investment will further boost private investment. To achieve this, the Government is supporting the development of innovative financial instruments for SMEs' debt and equity financing. The setting-up of Bpifrance in 2012 as well as the development of a wide range of products aiming at improving firms' competitiveness is instrumental in the Government's strategy to trigger additional private investment.

Germany

The German Federal Government aims to increase both public and private investment.

Sound fiscal policies play an essential role in fostering investment activity. On the one hand, sound public finances help create the confidence that is needed for private investment. On the other hand, they secure the state's long-term ability to boost public investment. Germany's policy of attaining balanced budgets has created good conditions for increasing investment.

Investment in infrastructure will both strengthen the dynamism of the domestic economy and create an additional driver of growth in Germany and Europe alongside Germany's export strength. Also, a modern, efficient infrastructure forms the basis for future growth and improves the framework for private investment, as does investment in education, science and research.

During the current legislative period, the Federal Government has launched measures to increase public investment especially in infrastructure, energy efficiency, education and research by almost €40 billion over a five-year period (from 2014 to 2018). These include measures that will reduce the financial burdens on regional and local governments, in order to give them more financial capacity to make investments.

Private investment accounts for nearly 90 percent of total investment in Germany. Therefore, improving the conditions for private investment is high on the government's agenda. The Federal Government has adopted a number of measures that all aim to boost private investment activity in Germany. These include the Digital Agenda, the High-Tech Strategy, and the Demographic Strategy, as well as additional strategies to attract skilled labour, better regulation (including initiatives to cut red tape), and encourage more business start-ups.

Beyond the measures already taken, the Federal Government is currently working on further elaborating its comprehensive strategy to increase both public and private investment. The Government plans to adopt its national investment strategy in the fall of 2015.

India

- i. Main Challenges and Policy Priorities
 - ii. Institutional Framework (authorities in charge, monitoring etc.)
 - iii. Governance (public and private, public efficiency, assessment)
- The total (fixed) investment rate has declined from around 38% (34%) in 2011-12 to around 31% (29%) in 2014-15. As indicated in the Government of India's latest Economic Survey, private investment must remain the main engine of long-run growth. As issues confronting private

investment including such as weak corporate balance sheets, stressed loans affecting the banking system, difficulty of exit sponsor equity in older PPP concessions in infrastructure- get slowly resolved, public investment will have to play a catalytic role in addition to its continuing anchor role. At the same time, the external environment is benign, the domestic economy has been rendered more stable, particularly with the substantial waning of inflation, reforms have been launched, the deceleration in growth has ended and the economy appears now to be recovering. A firm commitment towards fiscal consolidation without losing sight of the objective of stepping up public investment, at least in the short-term, coupled with the reinvigoration of the structural reforms process that would stimulate private investment and enhance productivity levels, forms the overall investment strategy.

- Five Year Plans are prepared in a process of setting national targets, and preparing programmes and policies that will help achieve those targets. Detailed plans are designed to achieve an investment target every Five Year.
- The Twelfth Plan (Year 2012-2017) has proposed a strategy focusing initially on the need to bring the macro economic imbalances under control and to reverse the slowdown, while also pushing for structural reforms in many areas that are critical for maintaining medium term growth.
- For a country like India, which has a federal structure, there are central and state-level set-ups. However, the governance structures are the same- state-level laws in certain sectors are promulgated, as per the Constitutional distribution of subjects.
- For centrally sponsored schemes and State Level Plans in the concerned Central Ministries/State Governments in the federal set-up, various non-official agencies study and examine various problems and issues in relation to the formulation as well as implementation of the Plan Programmes and Policies in their respective fields. Various research studies, which are deemed necessary for planning are also outsourced to competent external institutions/organisations.
- The Central Government also formulates Annual Plans along with Five Year Plan for the most effective utilisation of the country's material, capital and human resources and periodically appraises the progress in their implementation and recommends adjustments of policy if required. The first step in the process of formulating a Five Year Plan is preparation of a paper on 'Approach to the Plan'.
- Various Steering Committees/ Working Groups are involved in reviewing the progress in the implementation of the current Five Year Plan. Views of the Central Ministries, State Governments, Consultative Committee of Members of Parliament, Panel of Economists, experts and cross-section of the public are also taken into account.
- The paper is first considered in the Union Cabinet and finally by the National Development Council. After approval by the Council, it is placed before the Parliament. is placed before the Parliament.

Indonesia

Guidance for infrastructure development in 2015-2019 was prescribed as part of national medium term planning. It focuses on speeding up a number of strategic and tactical measures in some reform nodes that are considered as top priorities. Among these nodes are strengthening physical connectivity, primarily marine and its integration with land connectivity such as railways, toll roads, and building up digital connectivity. Improvements in these nodes will profoundly lower logistic cost that lead to cost efficiency across the nation and the competitiveness of Indonesia business sector in global market. Concurrently, power and water infrastructures are also considered as critical. While focusing on these nodes, infrastructure development should also consider potential natural resources in each region, sustainable development principles, and environmental friendly principles. Overall, infrastructure development should be optimized to increase quality of life and welfare of society.

To support financing of these projects, Indonesia has officially launched the Investment One Stop Service (OSS) Centre at the Indonesian Investment Coordinating Board as an integrated service concept between the Indonesian Investment Coordinating Board and relevant ministries/institutions to provide integrated license services that timely efficient, simple, and transparent. The main objective of the OSS is not only to attract investment, but also to show the Government of Indonesia commitment to the improvement of public services through bureaucratic reform.

Indonesia has shifted fuel subsidy to the provision of financing for more productive sectors, including infrastructure. Indonesia has also been providing fiscal incentives for investments with a better---targeted system. Tax incentive policies, such as tax allowance and tax holiday, will not only be continued but also be significantly improved. The government is currently in the process of revising the existing tax incentive policies, which will ease the eligibility requirements, expand the eligible sectors and regions, lower the minimum required investment value, and simplify the procedures.

Indonesia believes that financial sector plays a number of key roles in the process of economic development and growth, including facilitating the trading of goods and services, evaluating investment projects, and mobilizing and pooling savings to fund projects. Promoting financial deepening, expanding access to financial services (i.e. financial inclusion) enhancing = financial stability should result in sharply expanded financial sector in Indonesia. In specific, Indonesia is inspired to seriously mobilize domestic savings into more productive investments and to overcome legal and institutional hurdles that stand in the way of attracting private investment to long term infrastructure investment fund.

Italy

In the first semester of 2015, following a prolonged contraction, the Italian GDP increased by 0.7 percent and projections point to a further acceleration.

Favourable market developments have contributed to the improved outlook. The sharp fall in oil prices, in particular, improves terms of trade and increases both disposable income and profit margins. In addition, the monetary policy decisions taken by the ECB, which aim at fulfilling its price stability mandate, reduce real interest rates and facilitate the flow of credit to the economy, thus supporting consumption and investment.

The Italian Government's policy action has also had a significant impact. In Europe, the Italian presidency has put growth and job creation at the centre of the debate, leading to the remarkable steps that have been taken to boost investment and to implement a growth-friendly fiscal policy. In Italy, policy measures and structural reforms have been implemented to support the recovery, including by reforming the labour market and reducing the tax burden, while respecting the fiscal targets.

In this context, the Italian Government considers that it is crucial to strengthen the recovery and to remove supply constraints. To this end, the Government is determined to pursue a comprehensive policy approach, where actions to support demand complements and reinforces structural reforms to lift potential growth.

Investment, and particularly the facilitation of private investment, is a key component of this strategy. On the one hand, it was hit very hard since 2007, leading to negative growth rates and lower potential output. At end 2013, investment was about 4 points of GDP lower than its peak before the crisis and around 2.5 points of GDP lower than its pre-crisis long-term average. On the other hand, investment is an ideal component of the policy approach that the Government firmly intends to follow, given its role as a bridge between demand- and supply-side policies.

Against this background, the Italian Government's strategy, centred around investment, is based on three mutually reinforcing pillars:

a) A growth- and employment friendly fiscal policy, which will make use of the flexibility now embedded in the European rules in connection with the reform effort to strengthen the recovery, particularly through reducing the tax burden and boosting investment, while reducing the debt-to-GDP ratio. A key component of this policy is the profound review of the composition of public expenditure and revenues that the Government is already implementing.

b) An ambitious agenda of structural reforms, with the ultimate goal of boosting private investment, based on three main lines of action: 1) increasing productivity through investing in human capital, including with respect to the education system, research and the labour market; 2) reducing costs of, and simplifying, doing business, including through the reform of the public administration and the tax system, the simplification agenda and anti-corruption measures; 3) ensuring the rule of law and the efficiency of the legal system, including through the reform of the civil justice. This agenda, which is reinforced by the reform of the institutional architecture in order to make the decision-making process more efficient, is set to give a strong contribution to the health and the growth rate of the Italian economy (see below).

c) Boosting investment, both private and public, as an essential tool to support the recovery and raise productivity. On private investment, the Italian Government considers that it is essential to improve the business environment, also with a view to attract foreign investors, and to reinforce this action with targeted tax incentives and measures to support SMEs, including through the development of innovative financial instruments. On public investment, which will benefit in quantitative terms from the spending review, the strategy is to strengthen its governance, improve planning, execution and evaluation capacities and increase transparency.

Investment Data:

The comprehensive strategy of the Italian Government is set to build on a rate of growth of 0.9 in 2015 to accelerate to 1.6 in 2016 and 1.5 in 2017 and substantially stabilize at this level in 2018. Investment is a key driver of this accelerating trend. Investment, hard hit since 2007 as mentioned before, is set to start recovering in 2015 and continue increasing in the following years. The Government's strategy to favour public investment and to facilitate private investment intends to increase in the 2015/2018 period, both the public and the overall gross fixed capital formation by 2.8 per cent annually on average with respect to end-2014 levels.

Japan

Promoting Private Investment

Japan puts high priority on investment as a key driver of the robust, sustainable and balanced growth. Given the large proportion of private investment to overall investment (about 80%), Japan views it particularly important to promote private investment. Nevertheless, after the Global Financial Crisis, private investment has decreased compared to the pre-crisis level.

Against this backdrop, in order to restore and increase private investment, we have been taking various measures to:

- improve investment climate and thereby foster domestic investment and inward FDI (B.1.1)
- promote business investment by channelling abundant financial resources held by Japanese corporates into productive investment (B.1.2).

Key Performance Indicators

- To restore the annual level of business investment at pre-Lehman shock (70 trillion yen) by FY2015 (69.4 trillion yen in FY2014)
- To double the inward FDI stocks from 19.2 trillion yen at end 2012 to 35 trillion yen in 2020 (23.3 trillion yen at end-2014)

Infrastructure Investment

Over the past several decades, Japan has developed basic infrastructure all over the country. In fact, the general government fixed capital formation as a percentage of GDP has been at relatively high level among advanced economies.

Japan views it important to further strengthen industrial infrastructure including airports, ports and harbours with a view to enhance international competitiveness.

In addition to that, we need to address changes surrounding infrastructure needs. It is of particular importance to address increasing needs for rehabilitation of existing infrastructure. Furthermore, we need to respond to aging and falling population by making infrastructure more compact, concentrated and well-connected.

In order to effectively address these challenges, it is critical for Japan to improve the efficiency of public investment and mobilize private funds including through PPP/PFI (B.2.1). In particular, given Japan's severe fiscal situation, we are of the view that making the most of private sector's financial resources, expertise and know-how is necessary.

Across these efforts, we will promote quality infrastructure; long life-span, resilience to disasters, environmental friendliness (B.2.2).

Key Performance Indicators

To triple the size of PPP/PFI projects over the ten years from 2012 (4.2 trillion yen → 12 trillion yen).

SMEs

In Japan, the number of SMEs of 4.2 million accounts for 99.7% of all corporates⁵. Therefore, supporting their activities through facilitating financial intermediation is of critical importance for the Japanese economy. In addition, increasing profitability of small- and medium-sized enterprises is indispensable for promoting "Local Abenomics" since it has been SMEs who have supported the local economy until today. On the other hand, only limited number of SMEs (0.8 million, FY2013) makes profit, and therefore, facilitating efficient business restructurings is also essential (B.3).

Korea

Main Challenges

In Korea, the investment has accounted for over 30% of GDP before the crisis. However, the overall investment declined in 2012 and remained low, which had a negative impact on the growth. Since the crisis, the growth of facility investment has been sluggish compared to the pre-crisis level. Recent stagnation of investment reflects in uncertainties in the economic environment including the normalization of the US monetary policy, weak Yen, and China's slowdown. Also, there are structural constraints weighing down on the investment such as tight regulations, difficulties in expanding the government spending in infrastructure, and imbalances between large firms and small & medium sized enterprises (SMEs) as well as between manufacturing and service sectors.

Policy Priorities and Policy Context

1) Creating a favourable investment climate

- push forward with regulatory reforms including the implementation of "one in, one out" regulatory regime
- resolve investment obstacles of firms by reviewing them case by case
- seek ways to innovate R&D and provide tax incentives to boost investment

2) Expanding infrastructure

- increase fiscal spending in infrastructure, while considering fiscal soundness in the mid-term

⁵ As of February 2012

- promote the private investment by introducing new PPP model seeking middle risk and middle return
- support rental housing businesses through the "New Stay" policy, which enhances house welfare and vitalizes the private rental housing market

3) Fostering SMEs and service sectors

- strengthen the support for SMEs by launching investment fund for SMEs such as the Yozma fund which is a joint venture investment
- expand policy financing through Korea Credit Guarantee Fund and Korea Technology Finance Corporation
- root out unfair business practices between large firms and SMEs
- promote service industries to expand their reach into overseas markets, in particular, in tourism, healthcare and medicine

4) Strengthening financial intermediation

- expand private investment by implementing the "Corporate Investment Promotion Program" worth approximately KRW 30 trillion
- reinforce the role of the financial intermediation including through boosting venture capital, deregulation of M&As, and vitalization of corporate bond markets

Investment Data

Total investment is expected to be reached at least USD 740 billion in 2015 - 2018. The Korean government will invest about USD 454 billion. Total amount of USD 46 billion will be invested in infrastructure project through PPP. Public financial institutions such as Korea Eximbank, Korea development bank will provide policy loan to private sector valued at USD 240 billion.

Mexico

In order to increase economic growth and job creation, the Federal Government strategy has two pillars: 1) a commitment to macroeconomic stability and openness and 2) a pro-growth structural reform agenda.

1) Macroeconomic stability and openness as the foundation for growth

Mexico has worked to consolidate as an open economy, fully integrated to the world economy in terms of trade and financial flows, and with strong macroeconomic fundamentals. In this effort, several steps are worth highlighting:

- Mexico has 10 Free Trade agreements with 45 countries and the sum of exports and imports as a share of GDP exceeded 60% in 2013.
- Over 20 years of an independent Central Bank, with a clear legal mandate to promote price stability.
- In the last 20 years Mexico consolidated its flexible exchange-rate regime. The liquidity and depth of this market has allowed the exchange rate to work as a key shock absorber to the economy.
- The adoption of the Federal Fiscal Responsibility Law to promote sound fiscal accounts.
- Low debt levels and a sound debt management strategy. In 2014 Mexico's broad definition of debt was 40% of GDP, while the average of Latin America was 51.4% and in the OECD of 74.2%.
- Pension system reforms that changed both the private and public sector from a pay as you go to a fully funded scheme; and,
- A strong financial sector, with adequate prudential regulation.

These actions have played a key role to attain macroeconomic stability, avert financial crises and promote a strong development of the tradable sector of the economy.

2) A pro-growth structural reform agenda

Even though the aforementioned strategy delivered meaningful positive results, it was clear that other sectors needed to be transformed. In particular, the non-tradable sector and key inputs markets lagged adequate, openness, competition and regulation.

That is why President's Peña Administration and Congress worked together to reach profound structural reforms, mainly:

- 1) **Labour Reform:** To bring more flexibility to the labour market in order to enhance job creation in the formal sector.
- 2) **Education Reform:** To promote higher quality education and human capital improvement, mainly for the lowest income population.
- 3) **Telecom Reform:** To increase competition and facilitate access to information and communication technologies at a lower cost.
- 4) **Anti-trust Reform:** To foster competition and investment across the board, promoting more competitive prices and the adoption of new technologies.
- 5) **Tax Reform:** To maintain strong public finances and increase investment in infrastructure.
- 6) **Financial Reform:** To promote a strong and resilient financial sector, improving access and reducing the cost of credit, mainly for households and SMEs.
- 7) **Energy Reform:** To promote competition and investment in the sector to fully exploit Mexico's energy competitive advantage.

These reforms have been completely enacted, and the Federal Government is working on the implementation phase. To fully profit from these reforms an **ambitious investment strategy** is needed, so that the new investment opportunities materialize.

As part of this strategy, the Federal Government launched the National Infrastructure Program 2014-2018 (NIP), which includes a comprehensive infrastructure development strategy that aims to increase the country's economic growth and productivity, based on three guiding principles:

- i) **Logistic platform,** Mexico's competitiveness will be greatly enhanced if a more competitive logistic platform is attained by upgrading the inter-connection of highway networks, ports, airports and cities.
- ii) **Balanced regional development,** through regional networks that facilitate connectivity and trade (highways, railroads, transmission lines, gas ducts and aqueducts).
- iii) **Sustainable urban development,** promoting a comprehensive infrastructure strategy (mass urban transport systems, sustainable housing, roads, water and sewage and waste management). The Federal Government has established the Ministry of Agrarian, Territorial and Urban Development, which will coordinate different public policies like housing, urban development and mass urban transport.

Main Challenges

Mexico has several public and private sector vehicles to promote long term financing, as well as a recently revised legal framework that fosters private participation. Nonetheless, challenges remain regarding infrastructure development and financing:

- Institutional investor's participation in infrastructure is limited due to a lack of appropriate financing vehicles and infrastructure investment and risk management expertise. Also, current incentives among institutional investors provide for a low risk appetite for infrastructure products.

- The Government is developing new financial vehicles that can promote infrastructure financing through capital markets, fostering the participation of institutional investors. This also considers the role of National Development Banks. In this regard a capital market guarantees scheme could be put in place.
- It is necessary to promote a greater participation of states and municipalities in infrastructure development and financing.
- The PPP framework should encourage technology transfer, entrepreneurship and financing in order to develop a bigger and better infrastructure platform. Nonetheless, it is a complex framework that will require appropriate training.

Russia

The Russian Government is facing the challenge to increase the share of investment as percentage of the GDP, which will require marked increase in both the private and public investment.

Against this background, the Russian Investment Strategy will be based on the following priorities:

1. Improvement of business environment and elimination of institutional barriers for economic growth;
2. Development of sustainable and predictable macroeconomic environment in medium- and long term period;
3. Expansion of private sector and intensification of competition;
4. Increase in efficiency of public companies;
5. Labour market reform and sustainable growth of economically active population.

The key to boost private investment is improving the investment climate. Russia has moved in the World Bank's "Doing Business" ranking from the 112th place in 2013 to the 62nd place in 2015. Following the St. Petersburg commitments, the authorities will take further actions to improve the business environment framework through eliminating excessive administrative burden and simplifying business procedures. Among them implementation of "roadmaps" for National Business initiative which includes wider use of electronic documentation and reduction in number of indicators in all forms of reporting.

Russia also recognizes the need to take additional policy actions aimed at enhancing quality of public investments and management for the oil and gas revenues accumulated in the Reserve Fund and National Wealth Fund. An important goal is strengthening the legal framework for the public investment reporting and audit. Issues in this area are addressed through the new legislation covering project selection for the public investment, which was passed in November 2013, and through mandatory public audit.

In order to address the issue of decline in investments caused by a reduction in capital inflows and shortage of long-term funds during post-crisis period the Government took the decision to use alternative long-term financial sources such as assets of National Wealth Fund (NWF) and funded pension pillar. The NWF purpose is to support pension system, but actual demand will materialise in a decade. Similarly, payment from the funded pension pillar are expected to start mainly after 2022. Hence, these resources could be used to finance for long-term productive investments in the meantime.

Another focus area are private-public partnerships (PPP) which are at the nexus of investment and competition policies. Building on successful implementation of the Pulkovo International Airport modernisation PPP project, consultations on the design of a new PPP legislation and plans to widen the scope of these mechanisms are currently being held.

To foster investment in SMEs, in May 2014 a special joint-stock company Agency for Credit Guarantees was established in Russia. The agency will be a leading institution of a nation-wide guarantees system for SMEs with purpose to expand their access to credit and to boost investments in manufacturing by mitigating the risks associated with long-term lending to This sector of the economy.

Saudi Arabia

Saudi Arabia is the largest economy in the MENA region representing around 40 percent of the Arab GDP. Its economy continues to expand at a healthy pace, with real GDP growth of 3.6% for 2014. The Saudi government recognizes that broad-based investments contribute largely to the diversification of the economy and generate more job opportunities; thus, total annual capital spending constituted around 30 percent of the total annual expenditure in recent years. Also improvement of the investment climate continues to be important part of the Saudi Government's broader development program.

Saudi Arabia is the largest recipient of foreign direct investment (FDI) in the Arab world. FDI inflows have remained impressive as the stock of FDI showed an average annual growth of 26.6 percent to \$215.9 billion in 2004-2014. Saudi General Investment Authority (SAGIA) has continued to take measures to improve investment climate and enhance FDI inflows. For instance, it has simplified licensing procedures and introduced a fast-track service to award investment licenses to companies in five days at the most. It has made provisions to allow 100 percent foreign ownership in most sectors with no personal income tax, no value-added tax, no sales tax, and no property tax with the exception of a corporate tax. SAGIA has also launched a Unified Investment Plan under which several investment opportunities have been identified primarily for foreign investors. These identified opportunities include scores of projects in transportation and health care sectors.

Saudi authorities have also pursued strategic initiatives to develop the regulatory, physical and financial infrastructures needed to improve the investment environment and promote the country's economic growth. They have planned to invest large amounts of public resources in the transport sector in the next 10 years. However, there are a number of investment-related challenges that need to be addressed. These include:

1. Multiplicity of government agencies to regulate investment activities.
2. Narrow technological base.
3. Inadequacy of venture capital companies.
4. Shortage of national manpower with high education in business, engineering and technology fields.
5. Need to create more, market friendly investment incentives and attractive opportunities.

In the Tenth Development Plan (2015-19), the Government has prioritized a number of policies needed to scale up and promote investment-related activities. The plan aims to ensure steady improvement in the investment climate, increase and diversify investment opportunities, and develop mechanisms to mobilize resources to finance investment projects. The implementation of investment strategies is expected to encourage indigenization of technology, boost backward and forward investment linkages, and enhance the country's external competitiveness necessary to multiply the stock of existing investment. Total investment—domestic and foreign—in the country is envisaged to grow by 10.4 percent annually to reach \$470 billion by 2019.

The Plan focuses on the implementation of investment regulations designed to improve the investment climate and protect the rights of all parties. In particular, it is expected to:

1. Encourage the establishment of venture capital companies.
2. Strengthen SAGIA's performance.
3. Enhance the role of private investment to transform Saudi Arabia into a knowledge-based economy.
4. Improve the performance profile of Economic Cities.
5. Develop investment financing mechanisms.

South Africa

Today, more than five years after the global financial crisis, the global economy has yet to return to a strong growth path. Weak economic activity is most apparent in global output, employment, growth and investment figures.

In South Africa, private investment remains inadequate to support sustainable economic growth. The government of South Africa has identified investment, in both infrastructure and small medium enterprises, in both the New Growth Path and National Development Plan as playing a critical role in the economy, both as a direct provider of services and as a catalyst for higher employment- creation, inclusive economic growth and trade competitiveness.

South Africa needs to invest in a strong network of economic infrastructure designed to support the country's medium- and long-term economic and social objectives. This economic infrastructure is a precondition for providing basic services such as electricity, water, sanitation, and public transport, and it needs to be robust and extensive enough to meet industrial, commercial and household needs.

- **Energy / electricity constraints**

Electricity constraints are driven by insufficient generating capacity and “local” distribution (infrastructure at the municipal or end-user level), both of which government has sought to address. Spending pressures, capacity and poor revenue collection have all hampered efforts to improve capacity.

Reforms to close the energy infrastructure gap include: ensuring security of electricity supply to support economic growth and development, (a stable electricity pricing policy and regulator), increasing share of gas and renewables in energy mix, legislation allowing exploratory drilling for coal seam and shale gas reserves and draft regulations and legislation for shale gas being formulated. The energy policy white paper sets a target of 30 per cent private-sector participation in electricity generation.

Eskom is building two large power plants (Medupi, of which the first unit is expected to come online in the first half of 2015, and Kusile) to reduce constraints. Furthermore, Eskom has embarked on a large maintenance programme taking up to 15 per cent of capacity off at any one time to reduce service backlogs. Medium-term support to help stabilise Eskom includes funding totalling R23 billion, to be raised through the sale of non-core strategic assets, i.e. in a manner that does not widen the deficit. This funding will be delivered in two tranches, namely R10 billion in June and R13 billion by year-end. In combination with measures to improve Eskom's efficiency and improve plant maintenance, the continuing shift towards cost-reflective electricity prices will encourage firms to reduce consumption and ensure sufficient investment in power generation over time.

- **Transport**

Bottlenecks exist on specific export routes, constraining South Africa's capacity to export commodities such as iron ore and manganese. In order to address these bottlenecks, Transnet is undertaking R300 billion in investments. It will upgrade its coal rail lines (approx. R52.7 billion) and develop a manganese line. Government is also working on improving port capacity, where tariffs and size have constrained exports.

Reforms to close the transport infrastructure gap are: upgrading the capacity of rail links and ports, the procurement of rolling stock and the construction/refurbishment of wagons/locomotives, construction of new roads and new legislation to allow collection of tariffs from users, upgraded and expanded and integrated public transport in the form of rail and buses developed (the metropolitan bus rapid transit system).

- **Water infrastructure constraints**

On current projections, South Africa's water demand will outstrip supply between 2025 and 2030. Water licenses have been a barrier to investment in certain sectors, in particular mining, manufacturing and agriculture, which are heavily reliant on water for production. Reforms to close the **water** infrastructure gap include the construction of dams, water transfer schemes and irrigation schemes, water treatment works are to be developed and reticulation and sanitation infrastructure maintained and upgraded. The investments are aimed at ensuring there is sufficient water supply to enable economic growth and development as well as to expand access to water for both households and the mining, manufacturing and agricultural sectors, which are heavily reliant on water for production.

Resources will be made available to local government to deliver water and improve sanitation, including eliminating bucket toilets.

- **Broadband infrastructure**

Broadband infrastructure is to be rolled out and the migration to digital television (DTT) completed in the telecommunications sector. Cabinet adopted "South Africa Connect", our Broadband Policy and Strategy, in December 2013 to take this mission forward. The aim of this policy is to ensure access to low-cost, high-speed international bandwidth, with the cost associated with internet access targeted to be comparable with peers by 2020. In the next five years, South Africa will finish building more than 60 MeerKat dishes and start building the first 100 Square Kilometre Array dish antennas.

South Africa will participate in mutually beneficial regional infrastructure projects, including transport, to unlock long-term socio-economic benefits by partnering with fast-growing African economies with projected growth ranging between 3 per cent and 10 per cent. These projects complement the Free Trade Area (FTA) discussions to create a market of 600 million people in South, Central and East Africa. Regional infrastructure projects include the North-South corridor, agreements on electricity generation and transmission capacity in the region, for example the hydro power projects like Grand Inga and a range of smaller hydro and gas projects in Mozambique (e.g. Mphanda Nkuwa). South Africa will continue its partnership with Lesotho in respect of the Lesotho Highlands Water Transfer Scheme.

South Africa will promote local procurement and increase domestic production by having the state buy 75 per cent of goods and services from South African producers. South Africa will utilise the renewable energy sector, the manufacturing of buses, Transnet's R50 billion locomotive contracts and the Passenger Rail Agency of South Africa (PRASA)'s passenger rail projects among others, to promote local content and boost growth.

Going forward

The 2015 Budget continues to prioritise infrastructure investment and social programmes that support those citizens most in need. It projects total public-sector infrastructure spending of R813.1 billion over the next three years.

National, provincial and local governments have budgeted R362.4 billion for infrastructure spending over the next three years. Apart from debts-service costs, capital spending, both directly and through transfers to municipalities, is the fastest-growing element of the budget. The fiscal framework achieves a

balance between current spending, largely on consumption items, and revenue. Consequently, as the deficit narrows over the next three years, the capital financing requirement will remain at 3.8 per cent of GDP.

South Africa's urban infrastructure must especially be renewed. Over the next three years, government will expand investment in the urban built environment, using resources more effectively to transform human settlements, and drawing in private investment to support more dynamic and inclusive economic growth.

The 2015 Budget begins a fundamental realignment to achieve these goals. The National Treasury will work directly with municipal governments, development finance institutions and the private sector to expand investment in infrastructure and housing. Government has expanded the capital base of both the Development Bank of Southern Africa (DBSA) and the Land Bank, in order to enhance their capacity to partner with other institutions in financing infrastructure investment and agricultural development.

A series of transformative projects valued at over R128 billion has been identified for potential investment in large cities, supported by a project preparation facility at the DBSA. To broaden funding streams, city governments will focus on improving their systems for revenue collection, expenditure management and land-use zoning. Government will introduce a new fiscal package to mobilise additional financial resources for metropolitan municipalities to effectively finance these investment projects. The system of local government infrastructure grants, which currently finances more than half of capital spending in cities, will be reformed. Grants will be consolidated, conditions streamlined, and allocations made more predictable and responsive to the needs of specific investment projects. Financial incentives for better municipal performance will be strengthened. Government will also propose legislative reforms to strengthen the efficiency and fairness of municipal development charges. Working with the DBSA and private financial institutions, the National Treasury will help cities to borrow at lower rates and for longer periods.

Over the next three years, the DBSA will seek to increase investments to sectors such as energy, transport & logistics, water, ICT, health and education by significantly increasing its infrastructure financing support, contributing to municipal lending, State-Owned Enterprise infrastructure plans, regional lending as well as public private partnerships. The DBSA aims to disburse R17.8 billion in 2015/16, rising to R26.4 billion in 2017/18, contributing to municipal infrastructure investment, public-private partnerships and regional development in the energy, transport, water, communication, health and education sectors. Of special importance is the DBSA's support for addressing infrastructure backlogs in South Africa's cities, and deepening of the municipal debt market in order to facilitate greater private investment in urban renewal. The DBSA also coordinates implementation of the rural infrastructure strategic programme of the National Infrastructure Plan.

The DBSA actively supports infrastructure development in municipalities aimed at addressing backlogs and expediting the delivery of essential services in support of sustainable living conditions and improved quality of life within communities. The DBSA aims to increase its annual infrastructure lending to municipalities from R6.0 billion in 2015/16 to R7.6 billion in 2017/18. To complement these funding activities, over R30 million a year will be set aside to provide planning and implementation support for the origination of infrastructure projects. South Africa will also be rolling out R150 million a year for interest subsidies in selected under-capacitated municipalities.

In line with government's objective to progress to a low-carbon and sustainable economy, the South African government will continue to provide implementation support for the R800 million Green Fund which remains crucial to provide finance for high-quality, high-impact, job-creating green economy projects around the country.

The Land Bank will undergo an organisational review in 2015, aimed at strengthening its role in agriculture financing. It plans to disburse over R2.2 billion in new development loans over the next three years, while supporting better coordination between agriculture initiatives, rural development and land reform.

The key strategic focus area for the Public Investment Corporation (PIC) is to invest in sectors and industries that are aligned to government economic priorities as encapsulated in the NDP. The PIC investment strategy is focused on developmental investments across all its activities. These include:

- Economic infrastructure, such as roads, ports, water and telecommunications
- Renewable energy
- Support to Eskom in its long-term investment in generation capacity
- High priority job creation sectors, such as agriculture and agro-processing, tourism, mining beneficiation and employment-intensive manufacturing and downstream sectors
- Small and Medium Enterprises (SMMEs), as they are generators of jobs
- Support for black industrialists and transformation in previous untransformed sectors both on the JSE and in private companies
- Social infrastructure, such as affordable housing, further education, health facilities and student accommodation.

The PIC is also actively working with other development finance institutions and state-owned companies to provide sustainable financing to ensure economic growth through infrastructure development.

Metropolitan municipalities will announce further details on their investment plans when they table their budgets. An investor conference showcasing projects will take place in the next several months

Spain

Spain is committed to boosting investment as an important driver of growth through this National Investment Strategy, which will support our collective growth objective including through policies to improve the investment ecosystem, foster efficient infrastructure investment and support sound long term financing opportunities for businesses, especially SMEs.

Over the last four years, Spain has adopted a far-reaching programme of reforms (especially in the labour and products markets, the financial system, budgetary framework and tax system or the public sector), structurally changing the economy through an unprecedented process of adjustment and correction of external, fiscal and financial imbalances. Through these ambitious reforms, the Spanish economy has gained efficiency, flexibility and ability to compete globally. Moreover, Spain has regained the confidence of economic agents, laying the foundations for boosting quality investment.

Results have already come: After starting to grow in the last two quarters of 2013, the Spanish economy is in an upward and accelerating trend of growth led by the private sector. The economy has now posted nine straight quarters of positive growth, becoming the fastest-growing economy among the leading Eurozone nations. In parallel, investment started its recovery in 2013 in the case of equipment, and in 2014 in the case of construction.

The Spanish reform agenda is tackling the main weaknesses identified during the crisis years. In particular, during the past years, lending and investment in Spain have fallen, reflecting the need for continued deleveraging and highlighting the importance of restoring lending in order to consolidate the recovery. In this regard, the significant improvement in financial conditions and the completion of the banking sector restructuring process have paved the way for restoring normal lending to the economy.

This notwithstanding, providing alternative funding sources and creating an appropriate framework and investment climate, with particular attention to SMEs, has become an important line of action. The rationale for promoting non-banking financing sources lies in the fact that Spanish SMEs, which represent 99% of enterprises and 66.6% of employment, have mostly relied on bank financing. This dependency, which accounts for about 70% of their total financing, can pose problems when banks are going through a difficult moment in terms of prudential requirements, lack of confidence or macroeconomic developments. Diversifying the financing channels would endow SMEs with greater financing stability and improve their financing conditions. Furthermore, bank financing for investment in technology, training, communication and innovation, is usually restricted as these sectors face more difficulties in providing real guarantees.

In spite of the efforts of the last few years, Spain still faces gaps and policy challenges. On the macroeconomic side, the need to continue to ensure fiscal stability via growth-friendly fiscal adjustment that helps to reduce imbalances is a priority. On the structural side: We see the opportunity for a better access to finance for the private sector, including SMEs, for the implementation of structural reforms supporting competitiveness and flexibility, and further repairing of households and companies' balance sheets that will potentially increase growth through investment.

The macroeconomic scenario for the years 2015-2018 predicts that the recovery that began in the second half of 2013 has strengthened and will be followed by a period of continuous growth and vigorous job creation. Concerning investment, it is expected to stabilize at an average annual growth rate of nearly 6% until 2018.

Turkey

In order to maintain a strong GDP and employment growth, Turkey needs further improvement in investment both in terms of quality and quantity. In that regard, Turkey plans to increase the investment to GDP ratio to 24.4 percent in 2018. Towards this end, Turkey embraces an ambitious agenda of large scale infrastructure projects in the fields of inter alia energy, transportation, health and education. Turkey has successfully implemented Public Private Partnership (PPP) models as a means to attract private sector resources to infrastructure investments.

One of the main objectives of the Tenth Development Plan (2014-2018) is directing resources to more productive areas in the economy. As such, high quality public sector infrastructure investments will increase production capacity by stimulating private sector investments and will also contribute to productivity based growth dynamic.

Turkey plays an important role as a joint between Europe, Middle East and the Caucasus as well as the Mediterranean, the Aegean, and the Black Seas. Building on this advantage, Turkey's 2014-2018 Strategic Plan for Transportation aims to improve and extend transportation, maritime and communication infrastructures, and to improve institutional capacity in order to provide better quality service. Recently, PPPs are used actively for transportation projects such as Istanbul Strait Road Tube Crossing Project (Eurasia Tunnel Project), Gebze-İzmir Highway Project, Northern Marmara Highway (including third Bosphorus Bridge) and the Third Airport in Istanbul.

Increasing savings and investments in the Turkish economy to strengthen the productive capacity and establish a sustainable growth performance is the main target of medium and long-term macroeconomic policy and the Tenth Development Plan. In the Plan period and afterwards, domestic resources will be directed to investment expenditures.

One major setback the Turkish economy faces is the predominance of bank-based investment financing. Commercial banks play an important and pivotal role in the financial system. While they may lend directly to companies, they undertake longer-term funding and investment through securitization and covered bond issuance. Funds channelled through commercial banks are generally of short-term nature, whereas the securities market lies with a huge untapped potential.

Therefore, several policy measures have been taken to encourage long-term investment financing, including through the introduction of new financial instruments. This aim has been among the major considerations behind the reform of Capital Market Legislation in the past two years. Significant strides have been recorded in revising the related regulations to facilitate investments through diversified financial instruments as well as better investor protection. Aforementioned reforms are still relatively new and although there have been some improvements in some indicators such as institutional investor size, issues of corporate bonds and the share of private sector securities within the overall stock, the full impact of the reforms are yet to be observed.

Moreover, promoting the development of SMEs is crucial in fostering entrepreneurship, competition, innovation and growth in Turkey. SMEs face various challenges mainly induced by their small scales, information asymmetries and the riskiness of their businesses. SME financing will be facilitated by improving the environment for angel investments, venture capital, credit guarantee fund, applications of

micro-finance and by exploring other capital market opportunities. Turkey has made substantial progress in promoting the access of SMEs to financing, and plans to take further steps in this field.

Investment data:

Regarding Turkey's recent PPP track record, there are 121 completed projects, which are currently on the operational phase where the aggregate investment amount is around USD 17 billion. Moreover, going forward, there are 27 PPP projects in the construction phase where the total investment amount is around USD 34 billion (as of end-2014) including those pertaining to İstanbul Eurasia Tunnel, Gebze-İzmir Highway, Northern Marmara Highway (including third Bosphorus Bridge), and the Third Airport in İstanbul. In line with the Tenth Development Plan and taking also into account the ongoing pre-feasibility studies, the total PPP portfolio could expand by 120 new projects. Given the preliminary phase of planning for these new projects, the potential monetary volume is yet to be estimated.

United Kingdom

The UK government's long-term economic plan has laid the foundations for a stronger economy, and the UK's recovery is now well established. However, the job is not yet done. At 4.9 per cent of GDP, the deficit remains too high, and productivity too low. The economy is still too unbalanced and more needs to be done to build up the nations and regions of the UK. In order to ensure economic security and safeguard the economy for the long-term the UK's economic strategy is focused on taking decisive action through:

- deficit reduction: returning the public finances to a sustainable position and ensuring that sound public finances and fiscal credibility underpin low long-term interest rates;
- monetary policy and credit easing: stimulating demand, maintaining price stability and supporting the flow of credit in the economy;
- completing the reform of the financial system: improving the regulatory framework to reduce risks to the taxpayer and build the resilience of the system, with financial stability providing a strong basis for positive spillovers to the global economy; and
- a comprehensive package of structural reforms: rebalancing and strengthening the UK economy for the future, including through measures to strengthen investment and trade.

Since 2010, the UK government has worked systematically to address barriers to growth including unlocking business investment, in particular for infrastructure investment and SMEs. These reforms are achieving results. As uncertainty recedes and credit conditions ease, the investment environment will continue to improve. After falling during the crisis, recent UK growth has been more investment rich with business investment increasing as a share of GDP. Real business investment has increased from 9.0 per cent of GDP in 2010 to 10.6 per cent of GDP in 2014 and the independent Office for Budget Responsibility (OBR) forecast it rise to 13.3 per cent of GDP by 2020. Credit conditions for businesses have continued to improve, supported by policy action the government has taken, such as through the Funding for Lending Scheme (FLS) and the British Business Bank, which should continue to support investment growth going forward. For SMEs, which are more likely to be reliant on banks for financing, net lending is positive so far in 2015, having increased by £750 million. Survey evidence also continues to point towards improving conditions. In response to the Federation of Small Businesses Voice of Small Business Survey, more SMEs reported that credit was affordable and available than at any time since the beginning of 2012. However, total investment as a share of output in 2014 was still lower in the UK than almost all other major advanced economies.

As a part of its economic policy, the government has announced its intention to improve the UK's productivity performance. Improving productivity is key to increasing living standards and delivering strong growth. Raising productivity is an international challenge. Nevertheless, a large productivity gap exists between the UK and leading advanced economies. The government believes this gap is too large and is committed to narrowing it. Matching the productivity of the US would raise GDP by 31 per cent, equating to around £21,000 per annum for every household in the UK.

The UK published its [productivity plan](#) in July 2015. The 15-point plan outlines a range of measures the government will undertake to tackle the UK's under-investment in infrastructure and skills, create a

more dynamic economy by reforming the planning system, and ensuring a supportive financial system and tax regime.

High-quality infrastructure boosts productivity and competitiveness, allowing businesses to grow and enabling them to reach suppliers, deepen labour and product markets, collaborate and innovate and attract inward investment. The National Infrastructure Plan 2014 (NIP 14) sets out an ambitious infrastructure vision, reinforcing the government's commitment to investing in infrastructure and improving its quality and performance. It is underpinned by a pipeline of over £411 billion of planned public and private investment to 2020 and beyond.

The UK is prioritising vital capital investment in infrastructure, embracing both public and private financing, putting in place the right policy framework to give investors the confidence to commit to long-term projects, and ensuring the supply chain has the certainty and tools it needs to deliver effectively. It recognises the importance of getting the fundamentals right – delivering our key projects and programmes on time and on budget – while also addressing longer-term challenges: integration, resilience, skills, and sustainability.

Business investment is critical to improving productivity and long-run economic growth. The UK continues to take decisive steps to ease the flow of credit to SMEs, including through the Funding for Lending Scheme and the British Business Bank. In the last Parliament the government backed business by cutting corporation tax from 28 per cent to 20 per cent. The Employment Allowance reduced the cost of employer National Insurance contributions for over 1 million employers in 2014-15, and over £4 billion of support was announced to business rates payers, particularly small businesses and retailers. Businesses have taken the opportunity to create more jobs. Since 2010, more than five jobs have been created in the private sector for every job lost in the public sector.

United States

Reliable and efficient infrastructure is indispensable to a modern economy, and the United States needs to continually modernize and maintain its infrastructure to help ensure that the country remains a productive place for businesses to operate and grow. Yet public infrastructure expenditures as a share of the economy have declined in recent decades, both for capital investment and for operations and maintenance. To reverse years of underinvestment in infrastructure which have imposed massive costs on our economy, the Obama Administration is making infrastructure investment a priority. Investment in U.S. infrastructure projects with high economic returns is critical to creating jobs, expanding opportunity, and fostering economic growth for the long-term.

In the United States, nearly **all public infrastructure investment decisions are made by state and local governments**, although the federal government does collaborate with state and local government sponsors around many aspects of infrastructure investment. Several federal agencies – in particular, the Department of Transportation (DOT) and the Environmental Protection Agency (EPA) – work closely with state and local government sponsors to fund and finance transportation and water infrastructure projects. This is especially true for highway infrastructure, for which the federal government provides either 80 or 90 percent of funding. Furthermore, federal policies and programs affect state and local governments' capital investment choices, so the Obama Administration is proposing a number reforms, in particular to the tax code, in order to encourage infrastructure investment.

In addition, the Obama Administration's Build America Investment Initiative (BAII), launched in 2014, aims to support long-term investment by facilitating greater public and private partnership and collaboration in developing, improving, and maintaining U.S. infrastructure. The United States has a long history of private investment in public infrastructure through the U.S. municipal debt market, which is the deepest and most liquid of its kind in the world.

Main Challenges

The BAII's work will address many of the key challenges to developing a broader market for public-private partnerships (PPPs) in public infrastructure

- Inadequate predevelopment funding for the early phases of project development prior to construction.
- Lack of state and local government readiness, in terms of insufficient flexibility in many jurisdictions' procurement statutes and limited financial expertise among procurement personnel.
- The need to coordinate decision-making across state, county, and city government lines.
- Unpredictable timing for project approvals and permitting.
- Lack of standardization in both legal documents and PPP procurement practices.
- Absence of a steady PPP project pipeline.

Finally, a major challenge to expanding investment in the nation's public infrastructure is the cultivation of community and political support for greater investment of government tax revenues or the imposition of user fees in infrastructure projects. Infrastructure – whether financed through traditional methods or PPPs – ultimately relies on either user fees, government tax revenues, or a combination of both to repay financing, whether debt, equity, or a combination. The actions described in the next section will be most effective in the presence of greater public willingness to devote resources to public infrastructure

B. STRATEGIC ACTIONS⁶

Brazil

4. New Macroeconomic Policy Responses⁷

There are a number of investment projects in Brazil that are bankable, profitable with relatively low costs and high returns. When these initiatives are put together, this will make the Brazilian economy more competitive, generate positive externalities and induce higher private investment from both national and foreign sources.

Brazil is still catching-up with capital ratios similar to those of advanced economies. Brazil aims to improve the quality of its labour force through a series of initiatives, such as the *Sciences without Borders* program, which aims to grant one hundred thousand scholarships for university students to study abroad, and the *Pronatec* program which has provided eight million registrations in technical schools. These are recent concrete examples that Brazil is implementing a set of textbook supply-side structural reforms to increase its labour productivity.

4.1 New Structural Policy Responses

4.1.1 Challenges

There is a consensus in Brazil about the bottlenecks in logistics and the need to speed up implementation of investment packages in infrastructure. It is undoubtedly the main gap to be closed and it addresses other gaps in competition, employment and productivity.

Given fast demand growth in Brazil in the last years, infrastructure bottlenecks are increasingly affecting the country's productivity, competitiveness and trade performance, imposing a major impediment for higher rates of growth. Even though Brazil is among the world's top destinations for foreign investments (an average of US\$ 61 billion in the last three years) – including in infrastructure – it is clear that financing needs far exceed the actual supply of funding.

In addition to putting in place massive investment programs and initiatives – which the federal government already did through the Growth Acceleration Program, and a vast program of concessions to the private sector – there are also regulatory, risk and capacity issues to be addressed in order to leverage financing.

After decades of high inflation and economic volatility up to the 1990s, restructuring the long term planning capacity and reintroducing a culture of long term thinking became essential. The Government sees the need for not only implementing the current investment program, but also building capacity to maintain a steady and systematically updated pipeline of projects, in order to keep the market active and help attract investors.

Identifying and proposing solutions for regulatory issues will be essential to channel private sector funds to infrastructure. Issues to be addressed may include long term hedging, credit enhancement instruments, structured finance, standardization and liquidity of capital markets instruments, development of secondary market, attraction of pension funds and insurance companies, reserve requirement exemptions, etc. Addressing risks that the market does not cover or covers partially will also be important to tap private funds.

⁶ Section B reflects information on broad policy actions received by IIWG Members. Actions specifically submitted under “Investment Ecosystem”, “Infrastructure” and “SMEs” are listed below under sub-headings B.1., B.2. and B.3. respectively.

⁷ This section was originally at the end of the Brazilian response.

4.1.2 Competition and Small and Medium Enterprises

The Brazilian Federal Government competition reforms are aimed at new regulatory frameworks to reduce bureaucratic costs, to facilitate access of small and medium enterprises (SMEs) to capital markets and establish a new facility to provide funding for SMEs engaged in exporting.

Given the importance of the SMEs for employment and economic growth, it is really necessary to address the challenges for starting and operating a business. Small businesses are constrained by excessive and bureaucratic requirements that must be satisfied before registration and by intricate regulations affecting operation. A large number of procedures elevates the cost to formalize businesses and, consequently, leads to higher informality. Accessing capital markets and credit (including export credit) is also challenging for SMEs, equally creating barriers to or preventing the start of new businesses.

With respect to measures to improve the business environment, especially for SMEs, progress has been made in implementing the government strategy. The regulatory framework has been changed with the enactment of Federal Law no 147 on 07.08.2014. Since then, two implementation fronts in the strategy were initiated. On one hand, more than 142 economic activities were incorporated into the *Simple Nacional* Regime, with the potential to benefit about 450 thousand firms.⁸ In fact, there was an increase of 125% in the number of firms joining the regime in the 2015 fiscal year. The review of tax rates and the expansion of the eligibility limit are still being negotiated. On the other hand, there has already been progress in unifying the firm closing process with the Federal Internal Revenue System (RFB) and the Trade Boards (step just completed in February/2015). It is now possible to simultaneously close state and local tax registration for firms in six 6 states and the Federal District, which comprises 50% of the universe of companies operating in the country. It is expected that by June/2015 business start-up process and delivery of the low-risk licensing will also be unified nationally.

4.1.3 Trade

Brazil's response to the global economic crisis was predicated on sustaining demand and maintaining sound macroeconomic policies. Economic growth and active income policies have allowed Brazil to make progress towards reducing poverty, unemployment, and income inequality. In this process, Brazil also gave a major contribution to global economic recovery by substantially increasing imports. Brazil will continue to play its part in the G20 growth strategy by actively pursuing policies that stimulate growth in all areas.

On trade, it is worth recalling, as the G20 ponders its collective strategy for growth, that, at the WTO Ministerial Conference in December 2013, members reaffirmed their "commitment to the WTO as the pre-eminent global forum for trade, including negotiating and implementing trade rules, settling disputes and supporting development through the integration of developing countries into the global trading system". Strengthening the multilateral trading system must be an indispensable component of any G20 plan on trade. As pointed out by the Chair in its "Trade Guidance" document, credibility is of the essence if a document is to be endorsed by the Leaders in Brisbane. And credibility is currently staked on the definition of the Post-Bali Work Programme.

Brazil is fully committed to the implementation of all Bali outcomes within the agreed timeframes. Regarding the Trade Facilitation Agreement, Brazil has duly notified the Preparatory Committee, on July 25, 2015, of its Category A Commitments and it is taking the necessary steps for the ratification of the agreement pursuant to the WTO General Council Decision of 27 November 2014. With respect to the Post-Bali Work Program, Brazil is ready to take part in the efforts to design a roadmap that leads the WTO to a positive and balanced result by the end of the year, contemplating the three core negotiating areas (Agriculture, NAMA and Services), and preserving the importance of development objectives of the Doha mandate.

Brazil is also engaged in bilateral and regional trade negotiations, including the bi-regional negotiations between Mercosur and the European Union. These negotiations are considered complementary, and not a substitute for multilateral trade liberalization. Brazil has also launched

⁸ The "Simple Nacional" is a simplified tax regime for SMEs that has established a single tax collection system under the joint coordination of the three levels of government (federal, states and municipalities). It became active after June 30, 2007.

negotiations on Cooperation and Facilitation Investment Agreements with selected countries in Africa, with a view to encouraging South-South investment flows.

The bulk of international trade remains concentrated in a relatively small number of large companies and one of our priorities is to increase the participation of SMEs. While this involves actions in many areas – improvements in the business environment, workforce training, innovation, infrastructure –, experience has shown that, in a large country, SMEs are reluctant to incorporate foreign trade as a central element of their business plans.

In addition to a wide range of regulatory and procedural changes, in the spirit of the recently concluded WTO Agreement on Trade Facilitation, a top priority for Brazil is the development of its Foreign Trade Single Window (“*Portal Único de Comércio Exterior*”). In addition, a number of gradual improvements were made to Siscomex over time – IT platform to allow the integration, in a single data flow, of all governmental procedures for registration and control of imports and exports.

Furthermore, recent experience, especially that of the global financial crisis, has highlighted the need for well-functioning mechanisms to finance trade. Developing countries, in particular, have been hard hit in the past by reductions in liquidity in international markets. As monetary policies become less accommodating in the developed countries in the coming years, there will be a need to preserve the amount of resources available for trade finance in developing countries.

Even under normal circumstances, firms in developing countries are hampered by the lack of long term finance, underdeveloped capital markets and by lack of access to export credit instruments. Addressing these issues will enable exploiting economies of scale and thereby promote trade and economic growth.

European Union

To collect more detailed information on barriers that prevent investment activity from recovering in those sectors where it is currently subdued, the European Commission asked EU Member States as well as private sector representatives to reply to a questionnaire in late 2014. The resulting picture is set out in brief below in order to provide more detail on the challenges the EU faces, before providing a description of the policy actions and implementation path of the Investment Plan for Europe.⁹

Main Challenges¹⁰

(i) Improving the investment climate

The administrative burden has often been cited as a major bottleneck, including by international organisations (IOs) supporting G20 efforts. Unnecessary administrative burdens can be a significant cost for potential investors, especially for SMEs, and can lead to reduced investments and substitution towards the informal sector where rules can be more easily circumvented. Various aspects of the business environment impact on investment activity, including the costs of starting a business, costs to comply with administrative requirements, access to finance, quality of institutions (including the judicial system), the public procurement regime, protection of property rights, costs of contract enforcement, availability of skilled labour, labour market flexibility, regulatory environment, insolvency and pre-insolvency regulations etc. According to Commission estimates, a 10% reduction in administrative burdens can over time increase investments by 0.6 percentage point and GDP by 0.8 percentage point.

In the EU context, some sectors of the internal market remain fragmented along national lines, creating impediments to investment. In particular, establishing a true single market for network industries, energy, infrastructure, services and the digital economy could provide a major push for growth.

(ii) Facilitating financial intermediation

⁹ Please refer to section B for a description of description of the policy actions and implementation path of the Investment Plan for Europe.

¹⁰ In the original questionnaire this section is part of “Strategic Actions”.

While an active policy stance in response to the financial crisis has helped credit flows revive, the EU financial system remains fragmented, especially with regard to the non-integrated capital markets. EU capital markets have not fully compensated for the gap created by lower long-term financing by the banking sector. The development of equity financing, including venture capital, is correspondingly limited in most European countries. Financing constraints have been further affected by the withdrawal of the banks, which have traditionally been a predominant source of funding for long-term investment projects in the EU. The banking sector underwent a significant deleveraging process in the years since the onset of the financial crisis and many banks in the most-affected countries are still struggling to cope with high levels of non-performing loans.

This has a particular bearing on the SME and mid-cap sector, which includes the young, high growth potential firms that are essential for future competitiveness. SMEs and mid-caps usually have little direct access to capital markets and depend on effective bank financing, and also equity finance. The strong dependency of European SMEs on bank financing has left them more exposed to the post crisis weaknesses and deleveraging needs of the EU banking sector.

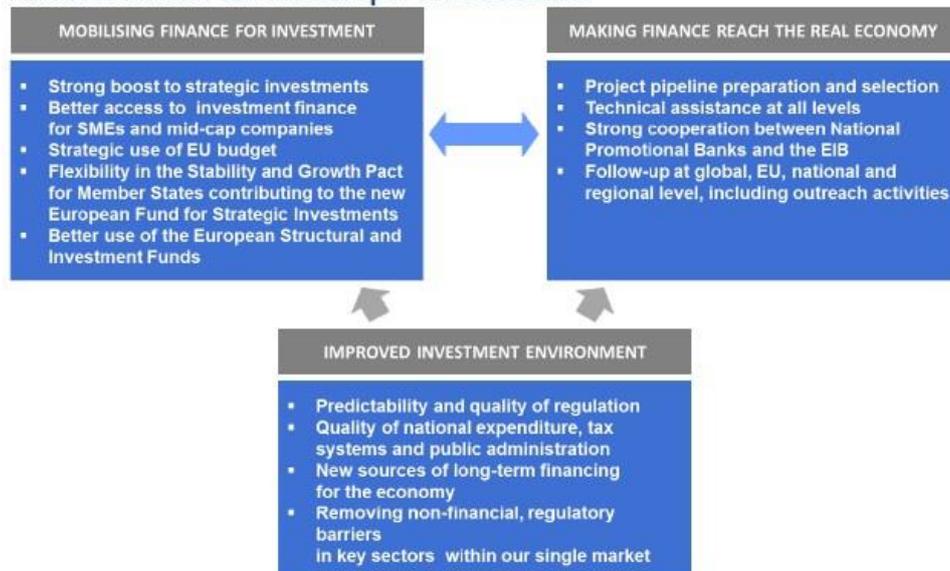
(iii) Project preparation

Complex project structuring and preparation has been identified as another barrier with several dimensions, with several distinct areas:

- (i) higher-risk construction phase
- (ii) renegotiation risk
- (iii) small-size projects:
- (iv) lack of standardisation of project structures
- (v) lack of administrative/ project management capacity
- (vi) long lead times
- (vii) Lack of cross-border standardisation and harmonisation of national technical standards

The EU's Investment Plan for Europe launched a multi-annual package of measures to unlock public and private investments in the real economy and foster growth, competitiveness and job creation. The Investment Plan consists of three components: (1) mobilising investment finance through targeted support to viable projects; (2) enhancing technical assistance to public and private promoters as well as identifying projects and enhancing transparency about pipelines across the Union in key areas such as transport, energy and social infrastructure, the digital economy and the environment; and (3) removing sector-specific and other financial and non-financial barriers to investment. The three strands are complementary and designed to remove bottlenecks to investment and increase the number of viable investment projects coming to market.

An Investment Plan for Europe: Three Strands



(i) Improving the investment climate

Recognising the importance of a comprehensive solution to the problem of uncertainty, the European Semester annually reviews and issues country-specific recommendations, addressing needs for fiscal and structural reforms. These reforms are a precondition for a predictable and conducive business climate, with a focus on improving the business environment, encouraging entrepreneurship, enhancing labour market competitiveness and promoting more efficient and modernised public administration. Moreover, as described in the fiscal policy actions of the EU growth strategy, the EU is also working to improve the composition of public finances to foster growth.

Regulatory reforms are crucial to unlock investment in capital-intensive infrastructure sectors. In order for assets with a high initial fixed cost and relatively low operating costs thereafter to be delivered by the private sector, project promoters need to be able to raise finance to cover these high capital costs on the basis of projected revenue streams over many subsequent years. Where this future revenue stream depends to some extent on a commitment from the public sector, investors' appetite and cost of finance will depend critically on their perception of regulatory risk. In some sectors, typically natural monopolies such as energy or water networks, the introduction of an independent national regulator has proven an effective mechanism to mitigate this risk, and thus increase investor confidence. Providing further stability and credibility to regulatory support schemes in general, including through the transposition of relevant EU directives, can help boost investment and drive down financing costs over the medium term. Moreover, given the European or global focus of activities of many asset suppliers, closer coordination amongst Member States in this area can help increase market size and ultimately reduce costs.

The European Commission, together with Member States, is reviewing EU and national procedures and legislative frameworks with the aim of identifying possible actions to reduce administrative burdens and unlock investment potential for infrastructure projects. Targeted action by the Commission to improve the functioning of the Single Market in some essential areas (digital, energy, transport and services) will be developed in 2015 with a focus on measures conducive to investment at the EU level. In particular, on digitalisation and digital divides, the European Commission introduced the Digital Single Market Strategy for 2015-2016. This plan consists of 16 legislative initiatives under 3 main pillars: "Better online access to digital goods and services", "Creating the right conditions for digital networks and services to flourish", and "maximising the growth potential of the Digital Economy through investment in ICT and research, innovation and skills". Information is provided under the Competition chapter of the growth strategy.

Capital Markets Union: The European Commission carried out a three-month consultation on Building a Capital Markets Union, and an Action Plan is scheduled to be adopted in September 2015. The Capital Markets Union (CMU) is a European Commission plan aiming to create deeper and more integrated capital markets in the 28 EU Member States and constitutes a key component of the Investment Plan. With the CMU, the Commission will explore ways of reducing fragmentation in financial markets,

diversifying financing sources, strengthening cross border capital flows and improving access to finance for businesses, particularly SMEs.

In this context, the European Commission intends to build an efficient and resilient securitisation market in Europe. The Commission carried out a specific consultation on a framework for simple, transparent and standardised securitisation instruments. This EU-wide initiative would notably increase the transparency and consistency of key information for investors, facilitate issuance of securitised products, and allow institutional investors to perform due diligence on products that match their asset diversification, return and duration needs. This funding tool can also help freeing up banks' balance sheets so they can lend to households and businesses.

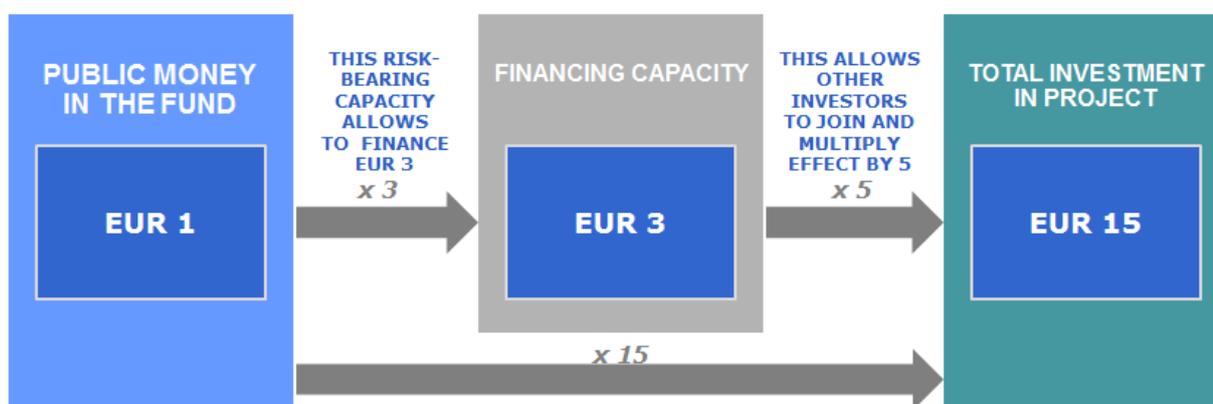
Moreover, the recently agreed European Long Term Investment Funds (ELTIFs) regulatory framework will be applied during mid-2015. ELTIFs are designed to bring together investors who want to put money into companies and projects (e.g. infrastructure projects) for the long term with enterprises in need of 'patient' long term money. ELTIFs should have particular appeal to institutional investors such as sovereign wealth funds, insurance companies or pension funds which need steady income streams or long term capital growth. As such, ELTIFs and the Capital Markets Union generally can be viewed as facilitators of the drive to improve the long-term funding of the EU economy, including foreign direct investments.

(ii) Facilitating financial intermediation

EU economies historically depend heavily on bank intermediation for the financing of SMEs and infrastructure investment. A more diversified system with significantly higher shares of direct capital market financing and greater involvement of institutional investors and alternative financial markets is thus needed.

The EU needs to go further in mobilising public funds to stimulate private investment in the real economy through financial instruments. Innovative financial instruments create a multiplier effect for the public funding by facilitating and attracting other public and private financing for projects. The use of EU level instruments can be expanded in order to stimulate knowledge sharing, critical mass, economies of scale, standardisation and risk-sharing among project stakeholders.

The European Commission's Investment Plan for Europe is setting up the European Fund for Strategic Investments (EFSI) in partnership with the European Investment Bank (EIB), built on a guarantee of EUR 16 billion from the EU budget, combined with EUR 5 billion committed by the EIB. Based on prudent estimates from historical experience, the multiplier effect of the Fund will be 1:15. In other words, for every public euro that is mobilised through the Fund, EUR 15 of total investment, that would not have happened otherwise, is generated.



The focus of the Fund is to invest in infrastructure, such as in energy networks as well as transport infrastructure; education, research and innovation; renewable energy; and in SMEs and mid-caps.

Infrastructure: The European Commission has been very active in facilitating private investor involvement in the financing of European infrastructure through the promotion of risk-sharing financial instruments, complementing the legislative actions proposed above. In particular, the Connecting Europe

Facility is the EU's funding mechanism for infrastructure projects of common interest. Capital markets financing will be supported through risk-sharing and credit enhancement instruments including the project bond initiative. Similar risk-sharing instruments are being pursued at the level of EU Member States (regional/ structural funds), supporting both infrastructure financing and SME securitisation.

SMEs: In addition, the European Fund for Strategic Investments will support risk finance for SMEs and mid-cap companies across Europe, relying on the European Investment Fund (EIF, part of the EIB-Group) for the operational implementation. This is intended to help them overcome capital shortages by providing higher amounts of direct equity, as well as additional guarantees for high-quality securitisation of SME loans. This is an effective way to kick-start job creation and growth, including the recruitment of young people. The EIF is highly experienced in these kinds of activities. The European Fund for Strategic Investments should thus serve to scale up the activities of the EIF and, in doing so, create new channels for national promotional banks (NPB) to develop their own activities in this area. This will come on top of existing activities for SMEs initiated by programmes such as COSME and Horizon 2020, which will notably already provide significant sources of funding in 2015. The European Commission set up Horizon 2020 to support investments in research and development in particular. It is the largest EU Research and Innovation programme ever with nearly EUR 80 bn of funding available over 7 years (2014 to 2020) aiming to drive economic growth and job creation.

Financial instruments: From 2014 to 2020, EUR 450 bn (EUR 630 bn including national co-financing) will become available for investment as part of the European Structural and Investment Funds. It is essential that Member States and regional authorities obtain the maximum impact from EU funds by focusing on key areas and capitalising on every euro invested. A particularly effective way to increase the impact of the Funds is to use financial instruments in the form of loans, equity and guarantees, instead of traditional grants. These instruments are relatively new to many public authorities, but they have great potential and proven ability to deliver where they exist. Environmental sustainability concerns have been mainstreamed and are therefore part of this effort, as well. Policy dialogue on greater use of financial instruments for climate finance is continuing. The European Commission is strongly committed to achieving significant deliverables in the United Nations Climate Change Conference that will be hosted in Paris this fall.

The EIB, multilateral development banks (MDBs) and NPBs play a supporting role in fostering long-term investment in the EU. The EU will ensure that existing resources are efficiently deployed, targeting clearly identified market gaps and avoiding crowding-out of commercial finance. Moreover, these institutions should direct part of their resources away from traditional lending towards targeted support for capital markets-based finance, leveraging institutional investor funds and thus complementing the regulatory policy actions set out above. This could take the shape of co-investment in bonds, credit enhancement and other instruments designed to develop capital markets-based financial instruments.

An increased use of technical assistance and blending of grant funding with financial instruments can also improve conditions for the development of projects, financial market development and conditions for private investors. Moreover, the EU has set up a platform for regular exchanges between MDBs on pipelines as well as establishing best practices for these types of blending operations in the EU and in support of the EU's worldwide economic co-operation activities.

(iii) Project preparation

The existence of a stable, credible and transparent pipeline of economically viable projects is an important component of the EU Investment Plan. The Investment Plan is helping to identify the sectors and projects in which investment is critical for long-term growth and, notably, where investment requires public policy intervention to materialise. That policy intervention can comprise direct government investment, identified in the government project pipeline, or broader programmes of public support to private actions that are in the public interest. There need to be transparent and clearly articulated investment needs, notably by establishing transparent project pipelines as well as addressing data gaps, and criteria for identifying projects, notably as concerns their economic viability. Maintaining a sufficient market-oriented and demand-driven pipeline contributes significantly towards investors' confidence and allows for the building of necessary internal capabilities and local expertise.

Standardisation and harmonisation of projects in different sectors and employing different structures (e.g. PPP, concessions, etc.) would potentially decrease overall costs and times. The Commission and the EIB are currently extending some pilot initiatives, such as for example the Project Bond Initiative, that can help promote this objective. Further efforts will be made at EU level to promote standardisation among procuring authorities.

EU-level financial instruments could be further enhanced to provide a broader coverage to critical risks, such as construction and demand risk. National promotional banks and export credit agencies can also help in this direction.

Pooling of similar projects is a solution for smaller ticket sizes in order to build critical size and thereby make projects more attractive to investors. Pooling can be standardised through sectorial regulations.

Centralised PPP units can also improve cross-border co-ordination and disseminate knowledge to regional and local levels of government.

To ensure an effective catalytic impetus on infrastructure investments and to avoid crowding-out effects, supported projects should be consistent with EU state aid rules. The projects should address unmet needs (i.e. not duplicate existing ones), crowd in private financing to the maximum extent and avoid crowding out private investors. Equally, to maximise user benefits, supported infrastructure should generally be open to all users, including competing operators. To maximize the catalytic impact of such investments, the Commission will formulate a set of core principles which projects will have to meet to be eligible for support.

Targeted technical assistance can also improve and shorten project preparation, while also contributing to knowledge sharing and the building of project management expertise. Technical assistance can have a greater impact on project quality if it is introduced in project planning at an earlier stage. For this purpose, a more strategic approach is required based on an analysis of Member States project planning capacities.

Cross-sectorial, horizontal assignments to develop administrative capacity, especially in areas such as project structuring and structural reforms have a major role. A priority of the Investment Plan will be to provide strengthened support to project development across the EU. This notably includes technical assistance for project structuring, the use of innovative financial instruments at national and European level, and the use of public-private partnerships. To this end, a one-stop-shop will be established for all questions regarding technical assistance. This will take the form of an investment advisory "Hub" with three audiences in mind: project promoters, investors and public managing authorities. One of the major goals of this facility will be to provide targeted support taking into account the specificities and needs of Member States with less advanced financial markets.

Implementation path

By mid-2015:

- The new European Fund for Strategic Investments is operational.
- The European Structural and Investments Funds produce their impact, in synergy with EU programmes.
- A transparent pipeline of projects is in place at EU level, which will be developed over time.
- The new investment advisory "Hub" is operational.
- Follow-up activities have started at EU, national and regional levels, together with relevant stakeholders.
- A dedicated website allows to monitor progress on the Investment Plan in real-time.

Later in 2015:

- An Action Plan on Capital Markets Union will be published.

By mid-2016:

- Progress will be reviewed, including at the level of Heads of State and Government.
- Further options may be considered ahead of the mid-term review of the Multi-annual Financial Framework.



Across the implementation period from 2015 – 2018, a minimum of EUR 315 billion will be mobilised as explained in the above

Italy

The comprehensive reform agenda of the Italian Government, now in its second year of implementation, is unfolding as scheduled along the three main lines of action described in the previous section.

The reform agenda is guided by a detailed calendar with specific deadlines and is constantly monitored in terms of implementation and macroeconomic and financial impact. For transparency and accountability purposes, the whole process is made public on the website of the Ministry of the Economy and Finance. To this end, structural reforms and policy measures are grouped into ten macro areas (spending review and tax system, efficiency of the public sector, infrastructure and development, competition, labour and pension systems, innovation and human capital, support to the private sector, energy and environment, financial system, federalism), in order to show in detail the unfolding of the reform agenda and its effects.

Linked to this, the Government includes in its main strategic document, the Economic and Financial Document, which is a crucial component of the European Semester, an evaluation of the macroeconomic impact of reforms. In the 2015 edition, the Government considers those that will produce effects already in 2016. The exercise, which considers the seven areas included in the table, shows that these key components of the reform agenda would have a positive additional effect on both GDP and investment (2.1 per cent by 2020, 3.3 per cent by 2025 and 8.2 in the long-run).

Macroeconomic impact of structural reforms on GDP (percentage change on base scenario)

	2020	2025	Long-run
Public Administration	0.4	0.7	1.2
Competitiveness/Competition	0.4	0.7	1.2

Labour market	0.6	0.9	1.3
Justice	0.1	0.2	0.9
Education	0.3	0.6	2.4
Taxation	0.2	0.2	0.2
Spending review	-0.2	-0.2	0.3
Total	1.8	3.0	7.2

Against this background, the next section necessarily includes a subset of the comprehensive and ambitious agenda of the Italian Government, particularly the reforms and policy measures that have the major impact on the longstanding challenges of the Italian economy, being all the other items of the reform agenda, as mentioned, publicly available.

Finally, given the ultimate goal of the Italian Government, which is to remove the structural bottlenecks that hamper efficiency and productivity of the economy, the whole agenda of reforms and policy measures is geared towards achieving this strategic objective, either directly or through the improvements of the business environment, thus representing a comprehensive set of facilitators. Safeguards, therefore, must be seen in the light of this ambitious approach, being themselves key actors in facilitating the achievement of the intended goal.

Timeline:

Strategic Actions	
Facilitators	
Investment Ecosystem	Labour market –approved in mid-2015 Taxation – ongoing Education system – 2015 National Research Program – 2015/2020 Competition – 2015 Public Administration – 2015 Simplification Agenda – 2015/2017 Civil Justice – 2015
Infrastructure	Procurement Code – 2015 Strategic Prioritization and Planning – Fall 2015 Digital Agenda – 2015/2020

SMEs – Finance for Growth	Access to finance - ongoing Incentives for investment in capital goods – ongoing Incentives for R&D – 2015 Innovative start-ups - 2015 Reduction of energy costs – 2015 Made in Italy - ongoing Incentives/regulatory measures for equity/non-bank sources - ongoing Reform of cooperative banks – 2015 Measures on non-performing loans – 2015 Support/regulatory measures for networks – 2015
Safeguards	
Spending review – permanent –Anti-corruption – permanent (key reform approved in 2015) Responsible business conduct – permanent	

Safeguards¹¹

As mentioned at the beginning of this section, the whole Government’s reform effort is geared towards addressing the longstanding challenges of the Italian economy and contribute to supporting the recovery in the short-term and raising potential growth in the long-run. Therefore, all reforms and measures aim at facilitating private and/or public investment. In doing so, however, given their nature, these reforms and measures, or the bulk of them, also provide for the appropriate institutional and legal settings, thus having built-in safeguards. Against this background, the two lines of action outlined in this section should be considered, at the same time, as part of the comprehensive agenda of reforms and as those having a prevailing, though not exclusive, safeguarding role.

The **spending review** is considered by the Government as a primary tool to review expenditure mechanism and patterns and to provide for a more efficient allocation of public resources. The Government intends to build on the results already achieved to produce substantial annual savings from 2016, by intervening on all expenditure lines and all level of government. With regards to local authorities, the focus is on the reform of the Internal Stability Pact, to align it to the European rules, and to make full use of standard costs and requirements for resource allocation. On public enterprises, the objective is to rationalize the sector and reduce fragmentation. As far as the central public administration is concerned, the focus will be on the review of all expenditure lines and the reorganization of the local offices. On procurement, the Government intends to complete the process of reorganization of procurement and purchasing units.

Anti-corruption is a key chapter in the Government reform agenda. Corruption is a very powerful brake on private investment, an extremely relevant barrier to foreign direct investment and a key explanatory factor of the inefficiency and ineffectiveness of public investment. The Government, therefore, attaches the utmost importance to anti-corruption measures and initiatives, which are seen as inherently cross-cutting and, therefore, included in the major reforms outlined above, particularly those concerning the public administration, the procurement code and the justice system. Against this background, the Government has already approved very relevant measures, centred around the role and the powers of the National Anti- Corruption Authority (ANAC). The Authority has been substantially strengthened and has been given a very wide range of powers with respect to the public administration and, particularly, on all public contracts, including the determination of reference prices, the supervision on modifications to the contracted budget and the ability to change the board of private contractor charged of corruption. The Government intends to continue with determination its action to fight against corruption, building on the measures already taken and the strength of the Anti-Corruption Authority and, consistently, including it in all major reforms. In this regard, in May, the Parliament approved law 69/2015, which includes measures

¹¹ In the original response, Safeguards have not been categorised in either “Investment Ecosystem”, “Infrastructure” or “SMEs”

to fight against organized crime, illicit wealth and corruption, including through false accounting and stronger sanctions.

B.1. Investment Ecosystem

Argentina

Argentina has been making diverse efforts to foster the investment ecosystem. In this sense, the following policies can be outlined:

- The creation of the Fund for Argentine Economic Development (**FONDEAR**). **FONDEAR** is a fiduciary fund recently created and with an estimated allocation of AR\$10 billion (0.3% of GDP), which objective is to expand the supply of credit channelled to strategic and technological projects and to the regional economies by different mechanisms, including loans, capital contributions, lower interest rates and non-refundable contributions.
- On the other hand, a **Program to Foster competitiveness of dynamic exporters** was established. This program has an objective to mitigate financial restrictions to exporter companies with focus on the ones dedicated to manufacture of industrial goods so they can sustain or increase their exports through strengthening sale conditions, quality of products, processes and access to markets. Financing is available through different mechanisms, including loans for pre financing exports, post financing exports, and loans to companies that can increase their exporting capacity, improve the quality of their exports and develop innovative solutions.
- In line with the aim of supporting productive investment projects, it is operating an **Initiative that requires insurance companies to allocate a minimum percentage of their investment portfolio (that ranges between 5% and 12% according to the type of insurance company) in production or infrastructure** projects with a medium- to long-term maturity. Moreover, the **Pension System Law** requires the public pension fund (FGS) to invest between 5% and 20% of its portfolio in production or infrastructure projects.
- In addition, the **National Bank of Argentina (BNA)** and the **Investment and Foreign Trade Bank (BICE)**, both public banks, have a predominant role in funding the private sector, especially SMEs. In this regard, the BNA has awarded 75% of the Bicentennial Productive Financing Program (which is further explained in the subsection on SMEs). The BICE, which provides medium- and long-term loans for production investment and foreign trade, has channelled 70% of its loans to less developed regions, where traditional funding is limited and difficulties faced by business sector are higher than in the more advanced regions. These banks will continue in the next years focusing its financing to sectors with limited access to credit by private banks or capital markets.
- **BICE has put forward different lines** of credit in order to foster investment by companies. In this sense, it has an array of credit lines that are focused on: financing the acquisition of capital goods, and financing investment projects in goods and services; investment projects in renewable energies (as detailed below in infrastructure section) to attend the increasing demand of the productive sector; financing projects with potential of improving the competitiveness of producers through technological modernization and innovation of processes or products; and a line of credit for tourism.
- In addition, in order to **foster savings in domestic currency that can be directed to investments in the real economy afterwards**, in October 2014, the Central Bank has set minimum levels for interest rates paid to individual depositors on term deposits. Due to the success of this measure, in September 2015 it was extended to firms and it was increased the maximum amount covered, from deposits up to AR\$ 350,000, to AR\$ 1,000,000 which currently includes more than 90% of term deposits. This new scheme, that encourages maturity extension, stimulates long-term credit and promotes financial stability. In June of 2015, the rate of increase in private sector deposits continued to accelerate to 46.2% in annual terms, while loans in pesos to the private sector recorded an annual growth of 32.3%. The liquidity ratio in

local currency (sum of cash in banks, current accounts of the entities at the Central Bank and net swaps) remained at a high 38.8% of total deposits in pesos) in August.

- With the aim of encouraging savings in US dollars in the domestic financial system, the Central Bank relaunched LEBACs¹² denominated in that currency. Simultaneously, the Central Bank set a maximum spread between the LEBAC's cut-off rate (in the auction) and the rate paid for term deposits in dollars. Thanks to this readjustment, LEBACs in dollars increased significantly and in September foreign currency deposits increased by 18.8% year to date.
- Overall, **these measures have effectively contributed to achieve both: a significant rise in time deposits and an increase of international reserves in a context of low exchange rate volatility.**
- Relating to Research and Development, the National government has put forward through the Ministry of Science, Technology and Productive Innovation (Mincyt for its acronym in Spanish) an array of policies in order to bolster investment in this area. The main policies are:
 - **“The Work Plan for Science and Technology”** - a joint action carried out by the Under Secretariat of Institutional Assessment of the Secretariat of Scientific and Technological Articulation, the National Agency of Science and Technology Promotion and the National Council of Scientific and Technical Research (CONICET). This Plan aims to expand and improve the building conditions in order to improve the quality of scientific-technological institutions. The work plan includes the construction of 40 new buildings all over the country, including a Technological and Scientific Park and over 100 works for expansion and renovation, totaling over \$ 1,000 million. The PRONEP – (Evaluation and Strengthening of Science, Technology and Innovation Programmes) is an initiative of the Under Secretariat for Institutional Assessment. The objective of this initiative is the evaluation of the performance of a programme through an interdisciplinary team, which analyses the results and/or impacts of the activities undertaken in order to fulfil the programmes objective. To this is end, the results achieved are compared with what was planned at the time of its formulation to analyze whether strategies implemented contribute or not to achieve such results. This evaluation can be requested by those programmes designed to promote the development of science, technology and innovation and the transfer of scientific-technological knowledge to the socio- productive environment. The technical assistance provided is completely free of charge and upon request. The only precondition needed is that programmes have sufficient resources of their own for management and implementation.
 - On the other hand, the Department of Scientific and Technological Articulation also created the **Institutional Evaluation Programme (PEI)**. The initiative promotes and manages the ongoing evaluation and continuous improvement of the institutions within the National System of Science, Technology and Innovation (SNCTI).
The PEI promotes the evaluation of scientific and technological activity, something that is an ongoing **obligation** of the State and the institutions belonging to the SNCTI, as established by Law 25,467 of Science, Technology and Innovation. Thus, the programme funds institutional evaluation, self-evaluation and comprehensive improvement processes and plans that result in more efficient and integrated institutions from the science and technology sector. PEI provides technical assistance in the development of improvement plans and oversees the implementation thereof. There are two main targets of the Institutional Evaluation Programme (PEI) activity: institutions of science and technology (ICT) and universities, in relation to the research and development roles (R+D).

¹²LEBACs are the main instrument of monetary policy used by the Central Bank of Argentina and the implicit interest rate is considered to be the policy rate

- Finally, the Department of Planning and Policy together with the UIA (Industrial Argentinean Union) developed the **Technological Antenna**, a platform of technological surveillance and competitive intelligence for diverse productive sector. The purpose of this platform is to provide the opportunity for the design and planning of technological strategies minimizing context uncertainty within the companies and institutions. To date, this platform offers results in three different sectors: plastic containers for the food industry, technological innovations in the textile and auto-part sectors. Through this Technological Antenna, different business chambers and associations, companies, governmental agencies, public and private entities engaged in research may have access to quality information that will strengthen their strategic capabilities.
- **Regarding Improvements in transparency**, the government of Argentina has been making efforts to improve the transparency and establishing a level playing field to all firms. In this sense in 2014 our country satisfactory completed an ambitious Action Plan adapting our financial system against money laundering and financing of terrorism in line with international standards. Such plan implied several reforms of the current legislation and the adoption of measures to increment the effectiveness of the overall system. In this context: Law N. 26.683 adapts the category of criminal money laundering (this law criminalizes self-laundering, dissociating money laundering from concealment, and eliminating the limitation previously in force, enabling the punishment of self-laundering); law N. 26.734 adapts the criminal classification of financing of terrorism; law N. 26.733 establishes the criminal classification of market manipulation and use of privilege information, and the new Capital Markets Law (law N. 26. 831) gives the National Commission of Values (CNV) power to control all capital markets and agents in Argentina. In the same vein, the new Capital Markets Law completes the powers of regulation, supervision and discipline of the CNV, consistent with CPSS-IOSCO Principles for Financial Market Infrastructures. The main objective of the new law is to strengthen the capacity of regulation and supervision of the National Government to fulfill the role of regulator of markets, promoting their openness, competitiveness, and transparency and investors protection. It aims at making the capital market more attractive, simpler and more transparent to all participants. In this context the CNV is implementing mechanisms to interconnect the business computer systems of the markets. **This allows that the customers face simpler business conditions, tending to higher levels of liquidity and competitiveness and accomplishing the objective of “best execution” that favors the investor.**
- Finally, taking into account the importance that **Education** has to increasing youth labor insertion, the National government created the **PROG.ES.AR. Program** (Support Program for Argentine Students). It aims to include young people in the social protection system and encourages beneficiaries (young people who do not work or work informally or who have a salary lower than the minimum wage) to complete their studies and/or their professional training, thus increasing their chances of productively joining the labor force. The program aims to create new opportunities for social and labor inclusion for vulnerable youth through integrated actions of professional training, counseling and job placement, as part of the government’s efforts to reduce income inequality and promote social inclusion. The program constitutes a new right for youth and was launched in January 2014. It has currently around 790,000 young people between 18 and 24 years of age enrolled, who receive a monthly allowance of AR\$900 in exchange for continuing their studies. In particular, the professional training courses provided under the program already benefit 146,896 young people. Recent changes allow youths to work under internship schemes for six months, which provide a AR\$2,000 payment. If the company eventually hires the youth after this period, the state commits to covering AR\$2,700 of the wage costs for up to twelve months.

Australia

Australia pursues a broad-ranging policy agenda designed to foster private investment, placing particular emphasis on investment in infrastructure. This agenda promotes investment through

a macroeconomic framework that promotes stability, as well as microeconomic policies that strengthen the financial sector, encourage competition, and improve the effectiveness of the tax system.

Macroeconomic environment

More than two decades of sustained economic growth, as well as low and stable inflation, have reduced economic uncertainty and facilitated private investment in Australia. The macroeconomic policy framework has played an important role in fostering this macroeconomic stability. The main pillars of the framework are a flexible exchange rate, an open capital account, an inflation-targeting independent central bank, and fiscal policy focused on transparency and medium-term sustainability.

Financial system

These macroeconomic pillars are supported by a robust financial system that facilitates the efficient allocation of savings to investment opportunities, and that has effective prudential and financial market regulation to protect investors and consumers. In recent years, the Australian Government and individual agencies have introduced a number of measures to improve the stability and competitiveness of the financial system including:

- Encouraging greater efficiency in financial markets, including by introducing competition between retail exchanges and reforming financial market supervision arrangements.
- Revising standards for clearing facilities and ASIC guidance to reflect the CPSS-IOSCO Principles for Financial Market Infrastructures.
- Improving transparency and risk management in derivatives markets.
- Improving the long term resilience of funding markets by allowing Australian banks to issue covered bonds, and by taking steps to develop the domestic corporate bond market.
- Strengthening prudential regulation through the introduction of Basel III and new prudential rules for superannuation funds, general insurers and life insurers.

In December 2013, the Australian Government commissioned an independent review (the Financial System Inquiry) looking at how the financial sector can best meet Australia's evolving needs and support Australia's economic growth.

In response to the Inquiry, on 20 October 2015, the Australian Government announced a comprehensive Financial System Program which will support investment by creating a more resilient, fairer and innovative financial system. One key recommendation was that Australian banks be 'unquestionable strong' in terms of their capital positions. The prudential supervisor and the Government have endorsed the recommendation, and each of the major banks has conducted significant capital raisings over the past year. The Government response also includes commitments to remove legislative impediments to the development of a crowd-sourced equity funding market, explore ways to facilitate the development of the impact investment market in Australia, enhance the regulatory framework for managed investment schemes, and simplify disclosure requirements for large corporates issuing 'simple' bonds to retail investors. The program will be implemented in stages over the coming years.

Competition and regulatory reform

Australia has a history of competition policy reform that encourages efficient investment, including through deregulation where competitive markets exist. These reforms have included breaking down government-owned monopolies through corporatisation and privatisation, introducing competitive neutrality (which ensures publicly owned businesses do not enjoy competitive advantages simply because they are publicly owned) and efficient pricing of infrastructure (e.g. in electricity, water and transport).

On 4 December 2013, the Government announced the establishment of the Competition Policy Review and the final report was released on 31 March 2015. The Report made a number of recommendations for reforms in the areas of competition policy, laws and institutions. In relation to investment in infrastructure, in its Final Report, the Competition Policy Review Panel expressed a view

that well-considered contracting out or privatisation of remaining infrastructure assets is likely to drive further consumer benefits through comparatively lower prices flowing from greater discipline on privatised entities. The Review's recommendations are currently being considered by the Government, and a response is forthcoming.

The burden of red tape is an important consideration for the private sector in its involvement in infrastructure investment. In 2013, the Australian Government established a deregulation policy to achieve an annual reduction of A\$1 billion to the cost of red tape to business, community organisations and individuals. As of 18 March 2015, A\$2.45 billion of compliance costs on the community had been removed as a result of Government policies announced since September 2013.

Taxation

As part of a broader reform agenda, the Government is undertaking a comprehensive review of the tax system to deliver better taxes that encourage people to work, save and invest. The Government started the national conversation on tax by releasing a tax discussion paper, Re:think. An options paper will be released in due course and any changes to the tax system will be taken to the next election.

The Australian taxation system is also focused on removing the impediments to private investment in infrastructure that result from long lead times between incurring deductions for expenditure and earning income from such investments. In particular, for certain infrastructure investments the Tax Loss Incentive (introduced in July 2013) allows the value of carry forward losses to be uplifted by the 10 year Government bond rate and increases access to carry forward losses and bad debt deductions, even if certain eligibility criteria are not met.

Investment support to promote emissions reduction

Australia supports investment in new renewable electricity generation capacity and energy efficiency of business. The Emissions Reduction Fund (ERF) provides a financial incentive for private sector investment in new technology to improve the energy efficiency of business. The Government has committed A\$2.55 billion to the ERF. In addition, the Renewable Energy Target (RET) encourages investment by creating a market for additional renewable electricity that supports investment in new renewable generation capacity. The RET consists of the Large-scale Renewable Energy Target which supports investment in renewable energy power stations and the small-scale Renewable Energy Scheme which encourages household take up of renewable energy.

Brazil

1. Investment Ecosystem

1.1 Macroeconomic Stability: supporting improvements in investment climate

Brazil's real GDP grew by an annual average of 4.2% from 2003-2008 before the global financial crisis erupted. After a solid 7.5% of growth rebound in 2010, real GDP growth moderated to 1.89% per year, from 2011 to 2014.¹³ This slowdown was induced by the weak global demand and internal factors. In 2015, Brazil is promoting the necessary adjustments to respond to the new global environment and foster a new cycle of growth, with improved fiscal indicators and the increase in labour productivity.

The Brazilian economy is going through a moment of transition, in which the counter cyclical strategy of growth based on credit and wage stimulus, in order to leverage consumption, shows signs of exhaustion. This signals that the future growth of the Brazilian economy relies on the expansion of productive investment, rise of the competitiveness of the manufacturing industry and the re-establishment of confidence among entrepreneurs.

The discontinuity of countercyclical fiscal policies increases the effect of crowding in private investment and allows a reduction of long-term interest rates. In this sense, we are promoting a greater efficiency in our tax system, concomitant with structuring actions in pension systems and unemployment

¹³ The growth rates taken into account are as follows: 2011 (+3.9%, revised); 2012 (+1.00%); 2013 (+2.5%) and 2014 (+0.2%, forecast). Brazil's GDP growth rate for 2014 will be officially released by the end of March 2015.

insurance. Besides that, Brazil is promoting a greater efficiency in our tax system concomitant with structuring actions in pension systems and unemployment insurance.

Bearing in mind that the expected growth of the economy is lower than the trend of recent years, or below its potential growth, the relevant question from the fiscal point of view is not simply how to cut spending, but rather, what expenses should not rise. In this sense, fiscal discipline remains central to these efforts, because reducing fiscal risks is essential to motivate economic agents to take idiosyncratic risks and to increase domestic savings. In this sense, fiscal responsibility is the key to accelerate private investment.

The keystone of the 2015 fiscal adjustment is to bring discretionary expenditure back to the 2013 level, and to roll back several tax-breaks that were granted as part of the counter-cyclical policies. Among the latter is the exemption on payroll related charges to employers of several business sectors, and the reestablishment of the oil tax, notwithstanding below its historical average. Despite the subdued growth rate expected for this year, Brazil is reacting to recover macroeconomic stability by pursuing a strong fiscal consolidation program that aims to achieve a primary surplus of 0.15% of the GDP.

Is noteworthy to comment that the surplus target was adjusted downwards in July 2015 from R\$63 billion to R\$8.75 billion, due to the frustration of revenue and expenses rigidity. In spite of this the gross debt/GDP ratio should begin to stabilize in 2017.

Besides, there are structural measures of a fiscal nature being introduced, such as stricter rules for obtaining benefits such as unemployment insurance and death pensions. During this period of economic adjustment, our priority is to ensure the sustainability of public accounts to promote a new and robust growth cycle. The discontinuity of countercyclical fiscal policies increases the effect of crowding in private investment and allows a reduction of long-term interest rates. In this sense, we are promoting a greater efficiency in our tax system concomitant with structuring actions in the pension systems and unemployment insurance.

Concerning the unwinding of the countercyclical measures, the government has already taken actions for fiscal consolidation. Such actions include:

- Reduction of subsidies (e.g. by matching the TJLP rate in BNDES loans to current economic conditions);
- Reduction of regulated price imbalances (e.g. increase of fuel and electric power prices, which will eliminate subsidies to consumers);
- Revision of some welfare programs such as unemployment benefits and pension entitlements to correct distortions, which will enhance Brazilian potential growth in the future;
- Withdrawal of some of tax exemptions (e.g. Reintegra and payroll tax break reduction);
- Cap increase for existing regulatory taxes (Contribution on Intervention in the Economic Domain – CIDE, Industrialized Products Tax–IPI, PIS/Cofins on imports; Financial Operations Tax – IOF - on personal credit); and
- Discontinuation of National Treasury loans for the National Development Bank (BNDES) as a policy instrument.

State owned banks still remain important institutions in generating employment and income, especially by financing risky long-term investments in infrastructure, real estate and agribusiness. However, there are reasons to believe that the transfers from the National Treasury for these banks did not bring the expected outcomes to compensate the fiscal costs. Thus, resource allocation decisions should be from now on driven by market incentives, based on the selection of the best investment projects, and by the use of the private equity by the granting institutions.

The objective is not just to reduce expenditure in 2015, but to adopt significant structural reforms regarding the public outlays. It is worth mentioning that, with the objective of controlling growth of expenses related to former budgets, the federal government established the blocking and possible cancellation of unprocessed “Restos a Pagar” (RAP) , whereby it will be conceivable to assess the financial

execution and fiscal planning of some actions and projects. The federal government also established an inter-ministerial working group to monitor and evaluate public spending. The goal is to improve the budgetary and financial execution of the public expenditures, contributing to the achievement of the fiscal targets, optimizing the efficiency of public spending and encouraging the proposition of actions that contribute to the enhancement of public policy and government management programs.

For the fiscal consolidation of the public sector to be complete, it is crucial to recover the subnational governments' fiscal primary balances. This task will be fulfilled by the following actions: (i) greater control of the state and municipal governments' indebtedness process, which will include a review of some regulations, tightening in authorizations for new domestic loan operations and limitations on warranties granting process for external loans; and (ii) greater revenues with VAT (ICMS) due to the recent tariff realism to energy and fuel prices, since these prices are important elements in ICMS tax base.

With the implementation of these measures, Brazil will enhance its public sector primary surplus, with positive impacts on the domestic risk spreads and on the government interest bill, contributing for the reduction of the public sector nominal deficit, and thereby increasing national savings and investment. The only viable way to grant better public services in a sustainable way is thought the improvement of the quality of public spending. This imposes the need to render the government programs more efficient and do more and better with scarce available resources. Therefore, the strong commitment and engagement of public managers is fundamental to make this fiscal adjustment an effective driver for greater quality, efficiency, efficacy and effectiveness in government actions and policies.

It is worth reminding that Brazil is not undergoing a persistent stagnation process as the one that seems to be affecting many advanced economies. As a matter of fact, the following elements show why Brazil is only passing through a period of economic slowdown due to the macroeconomic adjustment in course:

1) the country is now more integrated into the world economy and, at the same time, it has become more resilient to external shocks;

2) the marginal productivity of capital in Brazil is not decreasing as it is in Europe and Japan, since there is still scarcity of capital. Brazil is still catching-up with capital ratios similar to those of advanced economies. As regards its human capital, Brazil is improving the quality of its labour force through a series of initiatives, such as the "Sciences without Borders" program, which granted 101,000 scholarships for university students to study abroad until 2014, and the "Pronatec" program, whose stage II will provide for 12 million workers access to technical training;

3) the business investment of capital in Brazil is still responsive to the cost of the capital, instead of being responsive to the demand in the economy, as it happens in advanced economies. In this way, the improvement in the business environment, especially for SMEs, is expected to ignite a new cycle of economic growth;

4) the likely reduction of the potential growth of the Brazilian economy is transitory. After the fiscal adjustment and the structural reforms underway are completed, Brazil will certainly lift its potential growth. The population is still growing and the improvement in education and training of the labor force has a long way to go; and finally

5) the income distribution policy in Brazil has resulted in significant improvement between 2003 and 2011, since conditional cash transfers, higher minimum wages in real terms and formalization of employment have had a tremendous effects on the income of the poorest households and reduced poverty.

Today, the Brazilian domestic debt is little influenced by movements related to exchange rate depreciation. On the contrary, with high international reserves, adverse movements in currency market tends to reduce the net debt level thus reinforcing the resilience of public accounts. The Brazilian public debt is already quite less influenced by the nominal value of the currency than in the late 1990s or early 2000s, and is in no way in an explosive path—in fact it is already declining. Ensuring that the public debt gets into a favourable trajectory is an appropriate strong way to flag the reduction in fiscal risks. Indeed, the sovereign (external) debt is much smaller than the USD 365 billion in international reserves, and hence the net public debt is actually reduced when the local currency depreciates.

It is worthy to remind that albeit the General Government gross debt is just below 60% of GDP, about half of it is backed by assets such as US Treasury Bonds and claims against BNDES, which ultimately are claims against the major corporations and projects in Brazil, including Inbev, Volkswagen, Volvo, Suzano, Usiminas, i.e., most of the listed and rated companies in Brazil. The net debt is just above 30% of GDP and it is mostly in local currency, at varying maturities of up to 35 years.

Still, adjusting macro policy is only a ‘necessary’ but not a ‘sufficient’ condition to boost long-term prospects. We expect that sound macro policies help introduce structural reforms so as to increase productivity and boost private investment.

The Brazilian strategy to deal with the challenges of the current environment has a two-pronged approach: firstly, by swiftly restoring the fiscal balance by restraining budget spending and rolling back counter-cyclical measures, including tax breaks and low-cost official credit; secondly, by realigning prices and by providing other avenues to stimulate investment. As the Brazilian private sector is vigorous and our financial system is strong, we expect that, with market price signalling in place, it is likely to be a relatively quick reallocation of resources and the growth recovery. Notwithstanding, it is anticipated a new boost to infrastructure concessions, given the notorious appetite of investors for this type of asset and the broad range of opportunities available in Brazil.

In this context, we are preparing the country for a new investment cycle, which will spur growth. Brazil’s proposed agenda is based on four basic ingredients: (i) the removal of regulatory obstacles to increasing investment, especially in infrastructure; (ii) an articulated set of policy measures for increasing competitiveness; (iii) concentration of efforts to improve the education levels, the skills of the labour force and the innovation capacity of our enterprises – so as to boost the productivity of the economy and lift the potential growth in the long term; and (iv) improvement of the business environment, via reforms geared at reducing red tape.

This set of measures has been planned specifically to address Brazil’s policy gaps and challenges in the medium term. Fiscal strengthening will also provide stronger foundations to Public Private Partnerships (PPPs). In our view, fiscal credibility is the key to expanding PPPs without high-cost guarantees and other mechanisms.

Looking ahead, in line with our G20 Growth Strategy and taking into account the ongoing fiscal adjustment, we are focusing on efforts to improve both the Brazilian infrastructure and the conditions on the supply side. As we carry on our strategy, we will not lose sight of the big picture and other measures, especially microeconomic reforms, necessary to ensure long-term growth and social development. We hope this new growth agenda will be shortly well underway, as it builds upon consistent fiscal results and investment-friendly economic conditions.

To improve our infrastructure, the Federal Government is steering dozens of concessions ahead. Brazil has a long track record in concessions, especially in the last 20 years, and we do not intend to leverage this so much just to generate demand in the short term, but in order to improve our ability to compete in the medium term.

Most of our energy is generated by concessions, usually owned by listed companies. Transmission and distribution is overwhelmingly controlled by private companies. Telecom is a private business in Brazil. Close to 10 thousand miles of roads are also under concession, again in many cases operated by listed companies. Ports have been under private management for more than 20 years, with a few concession owners also listed in Bovespa. Railway is also private business, and now the largest airports are run by private companies. Many of these concessions are owned or controlled by foreign companies from all over the world in a profitable and efficient way.

This model has been a success and has proved very resilient. This is why President Dilma Roussef has decided to strengthen it. In this sense, is provided for investment over the next four years USD 20-30 billion, not including investments in oil and gas.

The most important change in relation to recent past is the outlook of a smaller role for BNDES. We do not expect to see the balance sheet of BNDES growing as fast as it used to, including regarding infrastructure. We want to harness domestic and foreign savings to finance more infrastructure in Brazil, especially economic infrastructure, such as ports, airports, clean energy and railroads. The government will

continue to implement its ambitious program in low-income housing and will help local governments to shoulder the cost of urban transportation.

This is why priority is given to obtain approval for the measures related to the fiscal adjustment in the National Congress. Further, that's why we are also developing new financing instruments—many of them with income tax exemptions. They include project bonds in local currency, private equity funds, receivable structures, among others.

Those changes are being made in close dialog with the private sector. This dialogue with issuers, underwriters and investors is crucial to get the right conditions for projects to be bankable and mitigate risks. BNDES will continue to be important, but it will now help to promote deals together with investment banks, which will underwrite bonds or equities associated with new projects. In many cases BNDES, will be ready to share guarantees, or to have cross default clauses, signalling the quality of the project and enhancing the discipline of issuers. In some cases the government or BNDES may provide some sort of insurance, especially for projects in early stages of execution and where we have market failures.

We are also working hard to overhaul some taxes, including the state-level VAT, which is so important to investment decisions. We want to simplify the PIS-Cofins contribution. Fixing these two set of taxes will likely reduce the cost of businesses in a very substantial way, and reduce legal uncertainty, especially the one associated with tax-breaks by the states governments. Better taxes can work in a subtle but powerful way to stimulate business and investment. All this work is underway with bills going forward in the National Congress with much involvement—and support—of the stakeholders.

1.1.1 Main Challenges and Policy Priorities

1. Reduce the nominal fiscal deficit in order to increase public savings and reduce the crowding out effect on the investments process.
2. Realigning prices and providing other signals and avenues to stimulate investment.
3. Reduce the market long-term interest rate as a way to stimulate the long run investment.
4. Enable the development of project finance structures that mobilize institutional investors (local and foreign) in collaboration with the market, including introducing institutional reforms related to cross default provisions, step-in-rights, standardization of concession contracts etc.
5. Improve the legal and regulatory environment in order to stimulate the development of financial instruments for the financing of long-term infrastructure projects. We do not need to have many new regulations or even improve many of the existing ones. But we have to do better on the consistency and predictability of regulatory decisions. Also:
 - Complete the existing vacancies in key regulatory agencies such as ANTT, ANAC e CADE and make sure agencies are properly staffed and equipped.
 - Complete the revision of the railway legal framework given the fiscal impact of Valec's demand guarantee schemes.
 - Improve re-balancing of concession contracts after high-impact event and provide more clarity on (early) termination payments.
6. Improve project development and structuring, addressing the restrictive effects of public procurement regulations, encouraging the development of a private advisory market for project structuring; and further building the capacity of the public sector to prepare, license and procure infrastructure projects. In addition:
 - Plan in advance the pipeline of projects (e.g. infrastructure strategy; long-term master plan).
 - Properly communicate with the financial markets time horizons, priorities, etc., creating a government counter-part for investors.
 - Coordinate with intervenient authorities to minimize the risk of project suspension as a result of injunctions from different courts or public prosecutors.

7. Develop infrastructure asset class – a transparent, harmonized and accessible infrastructure asset class, with longer-duration instruments.
8. Promote the gradual convergence of inflation to the long-term target of 4.5% per year.
9. Increase the overall productivity of the economy, reduce construction costs and review the potential negative cost effect from having construction companies as the owner, operator and shareholder of the concessions. In addition:
 - Further facilitate the operation of foreign engineering firms, for example, by simplifying the certification of track record.
 - Reduce local content requirements.
 - Increase the efficiency of environmental licensing.
10. Reduce the cost of logistics and production.
11. Keep the growth of employment and workers' income as a way to accelerate the improvement of income distribution, consistent with productivity growth.
12. Promote the improvement of educational standards of the population in order to increase the productivity of human capital.

1.2 Key Commitments

This set of measures has been planned specifically to address Brazil's policy gaps and challenges on the medium term and include:

1. **Infrastructure Investment Package.** Policy actions in this area aim to reduce the infrastructure gaps and to enhance competitiveness both domestically and abroad. Besides the removal of regulatory obstacles to increasing investment, especially in infrastructure, by means of expansion of the private sector participation; concessions of roads, airports, ports and railways; integration of agriculture via logistics and strengthening of it by building storage capacity; setting up of a regulatory framework more appropriate for "project financing"; renewal of concessions in power distribution; and more efficient sharing of logistics. In the package, 465 projects of USD 42.45 billion are contracted in the form of concessions to the private sector and are already under implementation. New projects with a total budget of R\$ 98.37 billion (US\$ 32.79 billion) are in the pipeline.
2. **Further Access to Technical Education and Employment,** through measures aimed at providing vocational training at no cost to the students. Approximately 12 million people should benefit from this initiative until 2018;
3. **Put in Place New Regulatory Frameworks for Small and Medium Enterprises (SMEs).** The government is committed to reduce red tape for opening and operating businesses, improving the SMEs access to capital markets and to export credit;
4. **Support for Trade Facilitation.** The government is implementing a new single window system to integrate all the foreign trade procedures so as to assure greater transparency, reduction of time and costs for exporters and importers, process simplification, optimization of infrastructure and logistics as well as greater involvement of SMEs in foreign trade. In addition, a system of consultation of tariff preferences agreements will be implemented, which will include information on rules of origin, services and margins of preference. The priority is to increase the engagement of the country in world trade and financial flows, so as to better integrate the Brazil in the global supply chains and lift our people's living standards. In order to boost trade, the Brazilian government has just launched the National Export Plan, which aims to diversify merchandises and destination markets, reduce barriers to trade and promote better inclusion in global value chains, and
5. **Education to Increase the Productivity of the Economy.** The government will implement until 2024 the National Education Plan (NEP) that sets 20 targets to be met over the next ten years (such as eradicating illiteracy; increasing the number of places in childcare facilities, in high schools, in

vocational education and in public universities; 100% of children aged from 4 to 5 years attending school; and providing full day school for at least 25% of students in elementary education).

6. Tax and financial reforms – streamline taxation, including on savings and subnational IVA, and boost the domestic capital markets. Regarding the IVA reform, notwithstanding support from state governors and the proposed fund for compensation of states’ lost revenues with the reform, the government is finding some resistance in the National Congress to approve the new tax legislation, but it is advancing; and finally but not least,
7. Convergence of macro policies with competition – by which long-term fiscal balance will permit the convergence of inflation to the target; downwards lowering of the long yield curve; extension of loan terms; increased funding for new companies, and smaller geographic concentration of investments.

2. Current and Future Growth prospects¹⁴

Brazil holds some financial and economic conditions that make the country resilient to external shocks as was evidenced by its prompt recovery from the 2008 global crisis. As mentioned above, Brazil has a large amount of foreign exchange reserves, a strong domestic financial system and relatively low external public debt exposure. As members of G20 agreed to make reforms in order to accelerate economic growth in the next five years, the biggest challenge to Brazil is to improve investment and productivity. To fund these investment projects, long term savings must be increased through partnerships with institutional investors and pension funds.

Thus, the main challenge for Brazil in the long term will be to increase labour productivity and the capital stock as the country will not be able to add as many workers to the labour force as it did in the previous decade. However, as the country changes its economic policy direction and pushes for reforms that improve economic performance, productivity growth (and potential GDP growth) could be boosted.

2.1 Macroeconomic Policy Settings

Fiscal policy in Brazil is guided by fiscal responsibility principles embedded in the Fiscal Responsibility Law (enacted in 2000) and aims at: i) fiscal consolidation, enabling economic growth sustainability and contributing to inflation control; ii) fiscal sustainability, with focus on the gross debt trajectory in relation to GDP, and iii) rebalancing expenditures from concurrent expenses towards investment, thus fostering growth.

Brazil’s monetary policy framework consists of an inflation targeting regime combined with a floating exchange rate. Monetary policy has been successful in keeping inflation within the target band at year- end over the last 11 years. In order to deal with domestic inflationary pressures and to secure the convergence of inflation to the target, the policy rate was hiked 600 basis points from January 2013 to May 2015. More recently, the monetary policy stance aims at minimizing second-order effects of two relative price realignments: i) regulated prices and ii) exchange rate. Such realignments will help to provide clearer price signals for consumers and investors.

Monetary policy shall help to consolidate a strong macroeconomic position over a longer time horizon. Therefore, given the inflation targeting regime in place, the Central Bank’s Monetary Policy Committee (Copom) decisions are based on the expected inflation and on the analysis of alternative scenarios for the evolution of the main variables responsible for price dynamics. It is ultimately up to the monetary policy to guarantee that short-term pressures are not disseminated over longer periods. Ensuring such degree of stability is a key requirement to enhance confidence of consumers and investors, and provide a more favourable environment for growth over the long run.

The floating exchange regime has allowed for the realignment of the Real, providing a first line of defence to external shocks and a critical mechanism for macroeconomic adjustment. In June 2015 Brazil’s real effective exchange rate had depreciated 43.7% since July 2011 (peak appreciation in post-crisis) and

¹⁴ The section on Investment Data included in Brazil’s questionnaire was originally part of this section.

24.7% since the FED's reference to tapering began in May 2013. The Central Bank of Brazil has provided foreign exchange protection to the market through a FX swaps program, preventing excessive volatility. The program was recently changed and extended until the end of the first quarter of 2015.

With respect to the financial system, Brazil has proved to be resilient to external and domestic shocks. Rigorous banking supervision and regulation have ensured that the system remained sound over the period of the crisis and its aftermath. The Brazilian financial system is among the most capitalized, liquid and with higher provision levels, having a low dependency on external resources and a low exposure to foreign currencies. In addition, there are buffers and instruments in place to cope with volatility and external shocks. Credit growth has slowed down and its quality has improved, as sectors with still relatively low level of credit and higher impact on the economy, such as housing, have gained space.

2.2 Assessment of Obstacles and Challenges to Growth

Challenges for fiscal policy remain broadly in line with the ones that guided the current fiscal framework design. These are: i) A fiscal reform able to increase the primary surplus to expand public savings and to put the gross debt to GDP ratio on a downward path; ii) improving the balance between current expenditure and investment by making the later to increase more than GDP, thus fostering long term economic growth; and iii) improving social safety nets, focusing on reducing poverty and social inequality.

To cope with the need for increasing investments and maintaining debt sustainability, an increase in the primary surplus is required to free resources for investments in order to promote economic growth. Along with that, the public concessions program will continue to encourage expansion of private investment in infrastructure.

Given the new global environment, the government has started to reduce the countercyclical stimulus measures in order to improve the resilience of the economy to external shocks and reinforce the foundations for a new growth cycle in upcoming years. The government has the willingness and the means to make the necessary policy adjustments to respond to this challenge.

The government plans to scale discretionary expenses back to the 2013 level. Concerning the unwinding of the countercyclical measures, the government has already taken actions, for fiscal consolidation such as: i) reducing subsidies; ii) decreasing administered prices imbalances (e.g. the increase of the price of fuel, which will reduce government contribution to the CDE¹⁵, and of the price of electric energy); iii) streamlining some welfare programs such as unemployment benefits and pensions entitlements in order to correct distortions; iv) reducing some of the tax exemptions (e.g. *Reintegra*¹⁶ and payroll tax break); and v) ending Treasury Loans to BNDES as a policy instrument.

On the revenue side, the Government has taken actions to increase tax collection, for instance, by increasing: CIDE (a tax on oil); IPI (industrialized products tax) on cosmetics and on vehicles; and IOF (Financial Operations Tax) on personal credit.

On monetary policy, the challenge is to ensure that inflation expectations remain well-anchored in face of a worsening in the balance of risks to inflation caused by domestic and external factors. The headline inflation in Brazil has been high and resistant, due to a temporary supply shock early in 2014, the services inflation inertia and the realignment of regulated prices. The tendency towards appreciation of US dollar poses additional inflationary pressure to Brazil. The Central Bank is acting to secure the progressive convergence of inflation to the target level of 4.5%. Convergence is expected to be aided by complementary fiscal policy measures.

2.2.1 Inflation and foreign exchange risk management alternatives

With an expected inflation for 2015 above of the target of 6.5%, and with increasing of the current account deficit, the consolidation of the fiscal adjustment is critical to, at the same time, help monetary policy to reduce inflation, maintaining the purchasing power of workers, and the degree of investment in

¹⁵ CDE is an acronym for Energy Development Account.

¹⁶ Reintegra is a special regime of tax relief for exporting companies.

Brazil. In addition, the Central Bank remains watchful in its mission to keep inflation within the target so that price realignments do not translate into a persistent acceleration of inflation. In this regard, it is noteworthy that since the beginning of the year, inflation expectations for 2016 have in many ways improved. Anchoring inflation expectations is also a key ingredient to reduce aggregate risks and stimulate investment. The financial strength of our banking system continues to be a hallmark, and we continue to see the expansion of our insurance sector.

In this sense, controlling inflation is a priority for the Brazilian government, which remains committed to the fulfilment of inflation targets regime. This year, due to corrections in the prices of administered products and due to weather problems, inflation could end the year above the target ceiling. Even with less pass through effect than observed in the past, the exchange rate correction may also affect the inflation rate this year. However, these moves are necessary to promote the correction of relative prices and to ensure the necessary incentives to promote sustainable investments.

The increased volatility in the financial markets is another important source of instability and may be aggravated due to the uncertainty about the pace of the normalization of monetary policy in the United States. We are aware of the likely lifting movements of the interest rate of the United States and the slowing down of the Chinese economy. On the one hand, we understand that the normalization of US monetary policy can bring spill overs in the form of additional volatility to global markets with adverse short-term effects on Brazil, particularly on inflation via the exchange market. However, this same movement will increase the competitiveness of Brazilian product in the medium term, being an important demand vector for our industrial production. As the Chinese economy is concerned, it is expected that a more balanced growth, with greater focus on consumption, may represent lower commodity prices in the coming years. Nevertheless, at the same time, this movement enables the exploration of new markets for Brazilian producers and allows for greater attraction of foreign direct investment into Brazil.

Canada

	Facilitator	Safeguards
Investment Ecosystem	<p>1. Supporting Improvements in Investment Climate</p> <ul style="list-style-type: none"> Sustainable and growth-supporting fiscal policy planning framework Encourage productivity-enhancing investment by manufacturers <p>2. Facilitating Financial Intermediation</p> <ul style="list-style-type: none"> Promote domestic savings through an enhanced Canada Pension Plan 	<p>3. Enabling Appropriate Legal and Institutional Settings</p> <ul style="list-style-type: none"> Improve fiscal transparency Improve the quality and accessibility of national data

1. Supporting Improvements in Investment Climate

Sustainable and growth-supporting fiscal policy planning framework

- The Government has laid out a clear planning framework for a sustainable fiscal policy. The key anchors of this framework include (i) a **declining federal debt-to-GDP ratio**, and (ii) a commitment to a **balanced budget in 2019/2020**.

Encourage productivity-enhancing investment by manufacturers

- Manufacturing is a major contributor to the Canadian economy, both in terms of output and employment. A strong manufacturing sector also generates positive spillovers by stimulating the creation of jobs among suppliers and contributing to innovations across the economy. To help manufacturers invest in productivity-enhancing machinery and equipment, Canada has recently legislated **an accelerated capital cost allowance (CCA)** at a rate of 50 per cent on a declining-balance basis for machinery and equipment assets used in manufacturing and processing acquired after 2015 and before 2026. This measure will defer taxes by allowing the cost of eligible investments to be deducted more quickly. This incentive will help manufacturers meet present and future economic challenges and improve their long-term prospects.

2. Facilitating Financial Intermediation

Promote domestic savings through an enhanced Canada Pension Plan

- The Government will work with Canada's provinces and territories to enhance and expand the Canada Pension Plan (CPP) to help provide a strong and stable pension program.

3. Enabling Appropriate Legal and Institutional Settings

Improve fiscal transparency

- The Government will take a number of steps to improve the transparency of the Government's fiscal affairs, including:
 - Restoring the requirement that Government borrowing plans receive Parliamentary approval;
 - Providing costing analysis for each Government bill; and
 - Ensuring that the Parliamentary Budget Officer is independent and properly funded.

Improve the quality and accessibility of national data

Better investment decisions requires access to high quality data. Canada will **restore the mandatory long-form census** to ensure that important planning decisions are made using the best and most up-to-date data available. The long-form census allows for better investment decisions by governments, businesses and communities in a wide range of areas, including transit infrastructure and housing.

	Facilitator	Safeguards
Investment Ecosystem	<p>1. Supporting Improvements in Investment Climate and Promoting Private Investment</p> <ul style="list-style-type: none"> • Macroeconomic Stability: Implementing proactive fiscal policy and sound monetary policy • Competition Strategy and Regulatory Reforms: Implementing a unified market access system, and deepen the reform of the administrative examination and approval system • Easing Restrictions on FDI: Reformulating the <i>Catalogue of Industries for Foreign Investment</i> and establishing pilot free trade zones ; Issuing the <i>Negative list on Foreign Investment Access to Pilot Free Trade Zone and Regulation on Record-filing Management for Foreign Investment in Pilot Free Trade Zone(Trial)</i> • Cultivating new and emerging industries : <i>Issuing the Guideline on Measures to Boost Mass Entrepreneurship and Innovation</i> 	<p>3. Enabling Appropriate Legal and Institutional Settings</p> <ul style="list-style-type: none"> • Rule of Law and Public Governance: Amending the Law on Chinese-Foreign Equity Joint Ventures, Law on Chinese-Foreign Contractual Joint Ventures and Law on Foreign Capital Enterprises to formulate a fundamental new law on foreign investment; issuing the Administrative Measures for the Verification and Approval and Record-Filing of Overseas Investment Projects; amending Administrative Measures on Overseas Investments; and issuing the Administrative Measures for Infrastructure and Public Service Franchise • Responsible Business Conduct: Improving the property rights protection system

B.I.1. Implementing proactive fiscal policy and sound monetary policy to create a stable macroeconomic environment. In terms of fiscal policy, the government budget deficit for 2015 is estimated to be 1.62 trillion RMB yuan. To be specific, the central government deficit will account for 1.12 trillion RMB yuan, an increase of 170 billion RMB yuan over last year. Local government deficit will account for 500 billion RMB yuan, an increase of 100 billion RMB yuan. China will improve the mix of budgetary spending, and make government spending more effective. China will improve its tax policies in favor of structural adjustment, and continue to make structural tax reductions and cut fees across the board. China will strengthen the management of local government debt, and allow local governments to issue an appropriate amount of special bonds, to ensure continued financing for projects already under construction.

Regarding monetary policy, China will strengthen and improve macro-prudential regulation, utilize price and quantity-based monetary policy tools in an integrated manner, and pursue balanced monetary supply to maintain sufficient liquidity in order to ensure steady growth in credit supply and total social financing, and improve the financing and credit structures. Meanwhile, China will integrate monetary policy with deepened reforms and allow the market to play a decisive role in resource allocations. In order to boost financial deepening and the financial innovation, efforts would be made to improve regulation methods, better empower the transmission mechanisms, and enhance financial services through increasing availability of services and competition. These efforts will help reduce the cost of financing, improve the efficiency of the financial sector and its capacity to serve the real economy.

B.I.2. Pushing forward the reforms of market access and market exit system and the administrative examination and approval system, in order to create an enabling investment climate. China will implement a unified market access system. Based on a negative list approach, different types of market players may enter into sectors on the beyond the negative list on an equal footing under the law. China will improve the market exit mechanism that rewards good performers and eliminate the underperformers. In addition, the bankruptcy system for enterprises will be further improved. China will take further measures to facilitate the process of businesses registration.

The revised *Catalogue of Industries for Foreign Investment* has been put into force, with an aim to facilitate foreign direct investment. China will promote the orderly opening-up of service sectors, such as finance, education and healthcare in an orderly manner, remove limits for foreign investment in childcare, elderly care , architectural design, accounting and auditing, trade and logistics, electronic commerce and other such service sectors, and further liberalize market access to the manufacturing sector. China has established 4 pilot free trade zones, issued the *Negative list on Foreign Investment Access to Pilot Free Trade Zone and Regulation on Record-filing Management for Foreign Investment in Pilot Free Trade Zone(Trial)* to explore the management model of pre-entry national treatment plus negative list for foreign

investors. The *Administrative Measures for the Verification and Approval and Record-Filing of Overseas Investment Projects*, and the *Administrative Measures on Overseas Investments* are employed to facilitate outbound investment by domestic companies.

China will deepen the reform of the government administrative system and reduce micromanagement of the Central Government. For economic activities where market mechanism regulation would suffice, administrative approval procedures will be cancelled. For remaining administrative approval items, their management standards and efficiency will be further improved. In 2014, departments under the State Council cancelled the requirement of or delegated the power for review on 246 items, of which 38 items are related to investment projects.

B.I.3. Pushing forward the legal system construction in related areas to optimize the fair and just legal environment. China will improve the intellectual property rights (IPR) protection system through enacting and revising the *Patent Law*, *Copyright Law*, *Regulations on Patent Commissioning* and *Regulations on Service Inventions*. Ad hoc IPR courts have been set up in local areas and the number of grassroots courts entitled to handle general IPR disputes has also been on the rise nationwide. Information-sharing platforms linking IPR law enforcement and criminal justice have been built in 22 provinces (autonomous regions or municipalities) throughout the country. China will also improve the mechanism for the fast-track IPR protection and legal assistance.

China protects the property rights and legitimate interests of all economic sectors, ensures that they have equal access to the factors of production according to the law, participate in market competition on an open, fair and just footing, and are accorded with equal protection and oversight according to the law. China is amending the *Law on Chinese-Foreign Equity Joint Ventures*, *Law on Chinese-Foreign Contractual Joint Ventures* and *Law on Foreign Capital Enterprises* to formulate a fundamental new law on foreign investment, so as to create a more stable, transparent and foreseeable legal environment for foreign investment. The *Administrative Measures for Infrastructure and Public Service Franchise* was enacted to spur private investments through institutional innovation.

B.I.4. The government will play a guiding role to create an enabling environment for mass entrepreneurship and innovation. China will mobilize fiscal funds to leverage private and financial capital to support mass entrepreneurship through market mechanism. China will use its national venture capital investment fund as a seed fund to support state-owned capital and foreign capital to engage in venture capital investment. A 40 billion RMB yuan state guidance fund will be established to leverage venture capital investments in emerging industries. China will set up the SME Development Fund, and built an effective market-oriented mechanism for the long-term to support entrepreneurship and innovation, and the development of emerging industries. The Special Fund for Scientific Research Outcome Application will play a guiding role to encourage and improve the commercialization and application of scientific and technological research achievements. The Chinese government will increase its procurement of innovative products and services, so as to align its procurement practice with the policy to support innovation-driven enterprises.

The Central Government will support, where conditions permit, local governments to set up venture capital funds, and encourage them to provide preferential policies to incubators such as providing office space and internet access among others. China is determined to deepen the business system reform, and speed up the process to integrate business licenses, the organization code certificates, and the certificates of taxation registration under one registration system, which will facilitate the industrial and commercial registration for start-up companies. The government will provide tax breaks to small and micro enterprises, incubators and innovation-focused angel investors, and foster angel investment networks. China will roll out some pilot policy schemes nationwide, including the scheme for small and medium-sized companies to convert capital reserves into equity shares or option awards, and the scheme to allow instalment payment for individual income tax on stock options. The local government could take policy package to support the development of service platform and institutions for small and medium sized enterprises, primarily to provide legal, intellectual property, financial and technology transfer services for start-up businesses.

China will conduct equity crowd-funding pilot programs, regulate regional capital markets geared towards the medium-, small- and micro-sized enterprises, establish a strategic emerging industries board on the Shanghai Stock Exchange and speed up the pilot program which permits qualified companies listed in

the national equities exchange and quotations system (the "NEEQ", the OTC market) to issue stocks in the Growth Enterprise Market. Meanwhile, banking institutions are encouraged to provide innovative financial services such as science and technology financing guarantees, intellectual property right pledges and equity pledges, etc.

European Union

Please refer to the beginning of Section B.

France

Creating a supportive environment for investment and innovation is instrumental in French investment strategy. To achieve this, targeted measures to support R&D and promote innovation are being designed. A wide range of reforms are also being conducted to simplify business process, restore firms' competitiveness and modernise markets for goods and services. This business friendly environment is expected to make economic agents' investment decisions easier and therefore trigger a progressive and sustainable acceleration of private investment.

B.1.i. SIMPLIFYING BUSINESS PROCESS

Among the many measures implemented by the Government to facilitate business operations, cutting red tape, improving the quality of labour relations and streamlining local government organisation will help companies become more competitive and therefore trigger private investment.

Cutting red tape

A wide-reaching programme to cut red tape was launched in July 2013. More than 200 measures were put forward, more than half of which are directly linked to daily business life. To increase the impact of the programme, the government has been authorised to speed up the process and in January 2014 set up the Administrative Streamlining Board, an independent body co-chaired by a member of parliament and a business leader. Every six months, the Board announces 50 new simplification measures and assesses those which have already been announced.

The Board's efforts have already made it possible to implement streamlining in several areas. Examples include the widespread adoption of the principle of "no answer means consent" for government procedures (a major shift in the French legal system), publication of tax rules on set dates, more flexible labelling requirements for the recycling of manufactured products, easier transfer of headquarters for small businesses, repeal of the system of double collection of VAT on imports, and streamlined construction standards (lifts, heat efficiency, parking, bicycle storage). The impact associated with the measures adopted so far is estimated at €3.3 billion, half of these gains benefiting businesses. The concrete implementation of the streamlining measures is moving forward fast, and the Government, committed to working quickly and efficiently, is using the whole range of legal instruments available, including acts, orders, and decrees.

Streamlining efforts continue with the Growth, Economic Activity and Equal Economic Opportunity Act (Croissance, activité et égalité des chances économiques), adopted in July. The Act implements the latest measures proposed by the Administrative Streamlining Board. These measures seek to speed up planning and building projects and to simplify tax issues and workplace health obligations. The Act also enables the switch to paper-free operations for all administrative procedures, the reduction of statistical obligations for companies with fewer than 10 employees and the opening-up of all company types for the legal professions. All these measures are essential and will help to streamline business activity and provide support for companies. They will be followed by further actions on a regular basis.

Measures to be implemented by early 2016 include lifting regulatory constraints on vocational learning, reducing the time-frame for the issue of planning permission to five months, simplified access for SMEs to the 20,000 public tenders organised by the government every year, expanding the principle of "no answer means consent" to the procedures of local government and public service agencies, 100% online administrative procedures, a single digital ID to be used by individuals for all administrative procedures, the Single Staff Reporting Statement (Déclaration Sociale Nominative - DSN), and a single permit for environmental authorisations. The "tell us once" (Dites-le nous une fois) initiative, designed to avoid

requiring multiple declarations of the same information to the administration will be rolled out generally in 2016.

Additional measures for simplifying relationships between small businesses and the administration were announced by the Government in June 2015 in the *Tout Pour l'Emploi* programme. They include streamlining size-contingent regulations to reduce the economic inefficiencies due to threshold effects; streamlined procedures for business transfers; easier access to public subsidies; and paperless employers' social contributions and pay slips.

Modernising labour relations

On July 23rd, the Parliament adopted a bill on labour relations modernisation (modernisation du dialogue social). The new act aims at increasing the effectiveness of labour relations in companies by rationalising the rules, adapting them to the size of the companies and giving companies greater leeway with regard to collective agreements.

The effectiveness of labour relations in companies will be increased by adapting the rules to the size of the companies:

- The sole employee representative body will be extended to companies with up to 300 employees as opposed to 200 employees today in order to neutralize the 200-employee threshold effect.
- It will be possible to merge the three bodies representing the staff (Staff Representatives (DP), Works Council (CE) and the Committee on Health, Security and Work Conditions (CHSCT)), by collective agreement, in order to limit the 300-employee threshold effect.
- Companies with between 50 and 300 employees will have the option of setting up a sole employee representative body that includes the Committee on Health, Security and Work Conditions (CHSCT) in order to reduce the 50-employee threshold effect.

Furthermore, labour relations will become simpler and of higher quality by rationalising the rules with fewer obligations:

- The 17 annual information and consultation obligations will be grouped into 3
- The 8 annual negotiation obligations will be grouped into 3 major sets of negotiations
- It will be possible to define by collective agreement the minimum negotiation frequency (annual, biennial or three-year)

Streamlining territorial organisation

A major reform of territorial organisation, aimed at streamlining organisation and thus generating financial leeway, has been launched. The decision to halve the number of regions (from 22 to 13) has been adopted and will take effect on 1 January 2016. Following the creation of 12 urban communities on 1 January 2015, those of Paris and Marseille will be established on 1 January 2016.

The act on the new territorial organisation of the French Republic (NOTRe), which was definitively adopted in the summer, contains plans to group inter-communal bodies (intercommunalités), reducing their number by one third, and to clarify the responsibilities of different levels of local government, notably by abolishing the general competence clause for departments and regions. Administrative reform is a priority for the Government which expects reforms to improve the efficiency and the quality of public services. These efforts will benefit all French people and support businesses in their development.

B.1.ii. RESTORING COMPANIES' MARGINS AND REDUCING INVESTMENT COSTS

The government is making unprecedented efforts in order to improve businesses' price competitiveness. These efforts should help them recover their margins, invest and innovate more, and create jobs.

The Tax Credit for Competitiveness and Employment (CICE) and the Responsibility and Solidarity Pact represent a €40bn reduction in taxes and social security contributions by 2017. Nearly €25bn in cuts has been adopted so far and has been in effect since 1 January. An additional €8 billion will be adopted in the 2016 Budget Bill.

The Tax Credit for Competitiveness and Employment (CICE) has already been implemented, reaching its target level of 6% of a company's gross payroll excluding wages above 2.5 times the minimum wage.

The Pact will be rolled out in stages up until 2019:

- Phase 1 in 2015 introduced a tax reduction of €5bn through a reduction in labour costs for wages below 1.6 times the minimum wage, a reduction in social levies on self-employed workers (€1bn) and an initial reduction of €1bn in the C3S (social security contribution)
- Phase 2 represents a tax reduction of around €15bn by 2017 with the 2nd phase of the reduction of labour costs, the phase-out of the C3S by 2017, the abolition of the exceptional corporate tax contribution in 2016, and the first step in the reduction of the nominal corporate tax rate. The standard rate of corporate tax will be brought down to 28% by 2020

Since 1 January 2015, there are no longer any social security payroll contributions on minimum-wage jobs, with the exception of unemployment insurance and supplementary pension contributions. Family allowance contributions will be reduced on jobs paying up to 3.5 times the minimum wage. Such jobs, paying up to €5,000 per month before deductions, represent 90% of payroll employment. The Responsibility and Solidarity Pact also provided a negotiating framework for businesses and social partners, to ensure that the growth of businesses' margins can support jobs and investment (almost half of employees are already covered by branch agreements in this framework).

As a result of the reduction in labour costs induced by the Tax Credit for Competitiveness and Employment and the Responsibility and Solidarity Pact, businesses' demand for labour is expected to increase and the impact on employment and economic activity to mount rapidly. Simultaneously, the reduction in taxation of capital induced by the elimination of the C3S¹⁷ and the lowering of the corporate tax rate are expected to have a powerful impact on investment, employment and economic activity, although it will take longer to materialise. In addition, all of these measures will immediately improve margins and reduce businesses' financing needs, thus enhancing their non-cost competitiveness (room to improve the organization of labour, innovate, expand export markets, etc.) and providing relief for businesses experiencing temporary financial difficulties.

On 8 April 2015, the Government announced a set of measures to stimulate business investment. For one year, starting on 15 April 2015, industrial investment will be fostered by a targeted tax measure to help them modernise their production factors. More specifically, the Government introduced an enhanced depreciation and amortisation measure for industrial investments made in the next twelve months: companies will be able to reduce their corporate income tax base by an additional amount equivalent to 40% of the eligible investments. It will reduce the costs and increase the return on any production-related investment. The overall cost of this measure will be €2.5bn.

¹⁷ The C3S on company revenues implicitly taxes labour, capital and intermediate consumption. Its elimination therefore also has a significant positive impact on employment

B.1.iii. STRENGTHENING COMPETITION

France's commitments in favour of competition will increase the competitiveness of businesses and consumer purchasing power by lowering prices in the services sector. By lowering barriers to entry, it will also facilitate the creation of new businesses and risk-taking by entrepreneurs setting the stage for new investments.

Regulated professions

Regulation of the legal and accounting professions focuses on various aspects of each profession (entry to the market, reserved activities, tariffs, form of incorporation, capital participation). Some regulations have economic justifications, given the specific features of the professions and of the services provided. The French Competition Authority underlined the legitimacy of some regulations in its opinion on several legal professions.

As a consequence, a thorough examination of existing regulations must be undertaken to identify those that are unjustified or disproportionate to the objective pursued in order to promote alternative regulations or organisations.

Several efforts to reform the legal and accounting professions are already underway. The constraints regarding salaried work for notaries and the status of lawyer to the Conseil d'Etat (French Supreme Administrative Court) and the Cour de Cassation (French Supreme Court of Appeal) were eased by the Act of 2 January 2014. The rules surrounding access to accounting firms' capital were simplified. A new form of incorporation was created (sociétés de participation financières de professions libérales - SPFPL) and should be extended by the Growth, Economic Activity and Equal Economic Opportunity Act.

The Growth, Economic Activity and Equal Economic Opportunity Act also liberalises coach transportation and reforms professional services (through cost-oriented tariffs, more flexible regulations on capital participation and forms of incorporation lowered barriers to entry, freedom of installation, subject to the viability of existing operators).

Retail sector

In 2014, procedures for the establishment of new retail outlets were simplified by the Craft Industries and Trades, Commerce and Very Small Businesses Act (ACTPE) (reduction in the waiting-period before an applicant who has been rejected can reapply, unification of the building permit and the commercial authorisation, reform of the commission tasked with issuing the commercial authorisation).

B.1.iv. SUPPORTING R&D

The Government has established a comprehensive strategy aiming at supporting R&D through dedicated tax incentives, synergies between research centres, enterprises, and teaching institutions and the efficient transfer of publicly-funded R&D results to private companies.

Tax incentives for R&D

The Research Tax Credit (Crédit d'Impôt Recherche - CIR) is the cornerstone of public support to private R&D. It allows a tax credit amounting to 30% of R&D expenses (up to €100 m, 5% beyond that level). Firms from all sectors and all sizes are eligible. The CIR benefited 20 441 enterprises in 2012 (most recent data), and should reach a total of €5.3bn in 2015.

The status of innovative start-up company (Jeune Entreprise Innovante - JEI) is granted to independent SMEs reporting R&D expenses in excess of 15% of total costs and that were set up less than 8 years ago. It allows for income tax cuts and social contribution exemption (on the research and innovation wage bill). These exemptions aim at lowering labour costs for these companies, enabling them to hire a highly qualified workforce. This scheme benefited 3,055 enterprises in 2012 (most recent data) and should reach a total of €160m in 2015.

The JEI and CIR have an input additionality effect (or bang-for-the-buck) on private R&D expenditures at least equal to one in the short run (Lelarge 2008 on JEI, L'Huillery, Marino & Parrotta, 2013 on CIR) and provide an efficient stimulus for R&D investments. In order to maximise their effect, they have been stabilised at least until 2017, with a view to anchoring R&D investment cost expectations.

Development of R&D clusters

Competitiveness clusters were introduced in 2005 to mobilise various innovation stakeholders and to develop promising sectors. Competitiveness clusters bring together companies, research centres and teaching institutions focused on a common theme in the same geographic area.

Each of France's 71 clusters (7 of which have a global reach) is required to draft a five-year strategy, build partnerships, help create collaborative R&D projects (themselves publicly financed to the tune of €2.5bn between 2004 and 2014, funding 1,465 R&D projects) and promote an environment favourable to innovation and the cluster's stakeholders.

The competitiveness cluster initiative has now entered phase 3 (2013–2018) and will focus on the market and employment impact of clusters. The aim is that each cluster will favour the creation of new products and processes with significant market potential. They thus have to set performance targets for technology transfer, easing SMEs' access to funding, internationalisation and skills. The government has also earmarked a total allocation of €100m in subsidised loans to help finance the industrialisation and commercialisation of R&D output in the Invest for the Future Programme (Programme d'investissement d'avenir, PIA, see below).

Cross-fertilisation of public R&D and private companies

By contributing to research and providing marketing services, the Sociétés d'Accélération du Transfert Technologique (Technology Transfer Acceleration Companies – SATT) and Consortiums de Valorisation Thématique (Thematic Valorisation Consortia) help accelerate and facilitate efficient knowledge transfer between public institutes and enterprises. They have been granted credit amounting to €911m for 2010–2020 under the PIA.

The Instituts de Recherche Technologique (Technological Research Institutes) are thematic and cross-disciplinary institutes which bring together skills from industry and public research. Their objective is to favour public-private investment and partnerships. As such, it should foster industrial growth through regrouping and strengthening of public and private research capacity and human resources. An Institut de Recherche Technologique runs research programmes, does experimental R&D and handles commercialisation of research and findings. The Instituts de Recherche Technologique enhance international visibility of the most advanced French research efforts and allow better positioning on new markets. The training aspect (vocational training and higher education) is important to IRTs, whose mission is to meet the skills needs in their field for themselves, their stakeholders and the whole sector. In 2011, 8 Instituts de Recherche Technologique were created and are partly financed by the Programme d'investissements d'avenir (€2bn over 10 years). IRTs may also entrust the commercialisation of their research to SATTs.

The Carnot Institutes aim at encouraging selected public R&D institutes to develop collaborative research, in a similar way as German "Fraunhofer". They have been granted €600m over 10 years by the PIA.

B.1.v. PROMOTING INNOVATION

The Government is also promoting innovation through tax incentives, dedicated measures targeting promising industries and fostering innovation-friendly ecosystems.

Tax incentives for innovation

The innovation tax credit (Crédit d'Impôt Innovation - CII), introduced in 2013, is an extension of the CIR for SMEs (see above). With this tax incentive, SMEs benefit from a tax credit amounting to 20% of their expenses incurred in prototype design and pilots for new products (up to EUR 400 000). It is expected to reach a total of €190m in 2015.

The Growth, Economic Activity and Equal Economic Opportunity Act improves the tax framework applicable to founders' share warrants (BSPCE scheme). This scheme is reserved for young innovative

companies, and allows them to attract and hire highly-qualified staff by granting them shares, which benefit from favourable tax treatment.

Focus on promising industries

To strengthen the country's long-term growth potential, the Nouvelle France Industrielle (New Industrial France) identifies and develops the more promising industrial sectors. The programme, which consists of 34 industrial plans in various areas (such as Big Data, smart grids and nanotechnology), has been developed around three pillars:

- Implementation of “pilot lines”: some twenty demonstrators of innovative production lines will be built by industrial companies to serve as a showroom for other companies with an interest in the technology. The demonstrators are partly financed by Caisse des Dépôts and Bpifrance.
- Development of new offers to modernise industrial equipment: cooperation between the public sector, industrial unions (in particular SYMOP and GIMELEC) and industrial companies to create a robotics platform and develop new and innovative production processes (3-D printing, connected machines, augmented vision, etc.)
- Local aspects: under the supervision of the regional councils, SMEs will be offered diagnostic and advisory services to help them modernise their manufacturing tools. These diagnoses may lead to public support for financing of the recommended capital expenditure. The objective is to help 2,000 SMEs over 3 years.

A second phase of the programme was launched in May 2015. Keeping the same goals and means, the 34 plans were grouped into 9 “solutions”. The “Industry of the Future” (Industrie du Futur) programme has been strengthened and now plays a key role in the updated strategy, as it will contribute to the modernisation of all industries, from processes to business models. For each solution, short- and medium-term objectives have been defined more precisely, while a timetable for action has been set for the end of 2015 and 2016.

Accompanying innovation ecosystems

The French Tech initiative was launched in 2013 to support the development of innovation ecosystems and French start-up growth. French Tech is organised around three priorities: “regional ecosystems”, “acceleration” and “international appeal”.

The idea of the first priority is to structure the ecosystem through the labelling of nine major French cities that have a high-end ecosystem (Paris being automatically labelled): Aix-Marseille, Bordeaux, Grenoble, Lille, Lyon, Montpellier, Nantes, Rennes and Toulouse.

The second priority aims at supporting incubators, in own and in co-investment with private actors. €200m has been allocated to this fund.

The goal of the third priority, for which €15m has been earmarked, is to reinforce the ecosystem's visibility abroad, in particular among journalists and investors. To this end, two French Tech Hubs were created in San Francisco and Boston in 2014. They offer consulting services and repayable advances to help French High Tech companies launch, expand and succeed in the United States. New French Tech Hubs will be created in 2015. London, Tel Aviv, Singapore and Sao Paulo have been mentioned as potential locations.

The Invest for the Future programme

The Invest for the Future programme (*Plan d'Investissements d'Avenir – PIA*) is a €47bn plan led by the Commissariat-General for Investment (CGI), whose goal is to strengthen the French long-term growth potential through (i) targeted investment strategy on a few sectors, (ii) competitive calls for proposals to select the most effective projects and (iii) the use of a wide range of financial instruments (grants, guarantees, repayable advances, loans, endowments) to mobilize co-financing both from private and public actors.

Two-thirds of the €35bn allocated for the first phase of PIA, which was launched in 2010, was spent on higher education and research.

The programme was scaled up by an additional €12bn in December 2012 (PIA2), in order to target innovative projects and focus on energy transition over the next five years. €3.8bn has been allocated to research and higher education.

- With €3.1bn in new funding, the “Idex” (Initiative excellence scientifique) programme aims to develop new multidisciplinary clusters of excellence in higher education and in research in France. These new clusters will join the projects selected in 2011 and 2012.
- €365 million has been allocated to “Equipex” (Equipement d’excellence). This programme aims to build major scientific infrastructure and intermediate-size equipment (between €1 million and €20 million euros).
- Other PIA2 programmes in research and higher education include medical research and training institutes (“Instituts Hospistalo-Universitaires” programme) or the building of supercomputers (“calcul intensif” programme)

Moreover, €3.7bn has been allocated to industrial innovation, digital technologies and energy transition:

- €2.2bn has been earmarked for stimulating innovation in the digital sector and to support industrialisation and commercialisation of innovative products, using loans from Bpifrance. This support for innovation is also accompanied by the establishment of a sovereign patent fund.
- €0.8bn has been earmarked for funding demonstrators in the service of ecological and energy transition in three areas: the circular economy, the decarbonisation of energy uses (production, storage, transport, distribution, control of demand, smart grids), and sustainable building, including energy renovation of existing buildings. These demonstrators are intended to show the technologies under real conditions of use and their ability to save energy and natural resources and reduce CO2 emissions. The objective is create marketable products with energy prices close to those using carbon solutions.
- €0.7bn is intended to support, through grants, repayable advances or equity investment in companies, industrial projects which fulfil the criteria of the New Industrial France and which are not receiving any dedicated support. The objective is to support the development of promising projects for French industrial sectors or to facilitate the energy and ecological transition.

Other PIA2 programmes include aerospace and defence programs as well as experimental projects designed to test innovative pedagogical models (“internats de la réussite” programme).

An additional scale-up of the component of the Invest for the Future Programme was announced on 12 March in order to strengthen the programme beyond 2017.

In order to boost local investment at the regional level, the French government has introduced new region – national government contracts. 17 have already been approved by both parties. They foster the use of €25bn investment that will be used in thematic fields such as: R&D, education, business, new technologies and environmental issues. These contracts are also a means of rationalising public investment at regional level.

Germany

Note: For a detailed description of investment measures on the EU level, please refer to the EU template.

Regarding private investment, Germany’s general conditions for investment are very favourable. The country has strong institutions and infrastructure, the macroeconomic environment is favourable and educational standards are high. A reliable tax system and targeted relief ensure growth-friendly and competitive business conditions.

Financing for investment is abundant but barriers impeding the financing of small and medium-sized enterprises must be further reduced. One important aspect will be to continue ensuring traditional financing for small and medium-sized enterprises via savings banks, co-operative banks, private banks, business promotion banks and guarantee banks. The introduction of the new rules on equity and liquidity requirements (Basel III) must be taken into account in this regard. Access to traditional bank financing is often difficult for innovative start-ups and young companies. For this reason, the Federal Government will increase the international competitiveness of the German venture capital market through more efficient legal and tax rules. This will help attract more resources for investment in innovative firms in Germany.

To improve the framework in which investment and innovation can take place, the energy reforms, oriented equally to the objectives of climate and environmental compatibility, security of supply and economic viability, will be continued. To achieve the goals of Germany's *Energiewende* (as the energy reforms are known), private investment in energy efficiency, renewable energy, grids, and energy storage technologies is needed.

In order to ensure that companies have greater scope to add value, create jobs, and generate innovations, the Federal Government has placed a fresh emphasis on cutting compliance costs of the business sector by introducing the principle of "one in, one out" in Germany. Any new bureaucratic burden on businesses has to be balanced by a decrease of the same amount elsewhere. The *Bürokratieentlastungsgesetz* (Bureaucracy Relief Act) includes a set of immediately effective measures. Relief of more than €700 million p.a. is expected, especially for start-ups, growing companies and SMEs. Furthermore the Federal Government aims to develop its better regulation agenda systematically by representative examinations of the interaction between citizens and companies with the public administration.

The Federal Government adopted the "Digital Agenda" in August 2014. This government strategy will meet the challenges of digitalisation of the economy and strengthen growth and employment. Key objectives are to make better use of innovation potential, to support the development of extensive high-speed networks, to enhance the security of IT systems and providers, and to promote the media literacy of all generations. Regulatory measures that promote investment and foster innovation should allow for optimal incentives for private telecommunication providers to expand the broadband network. From 2015 onwards, revenues from allocations of broadcast frequencies will be used to give additional incentives to invest in those regions where broadband deployment is not yet profitable. An additional €1.1 billion from the Federal Government's 2016-2018 investment programme will also be used to support private investments in these regions. The aim of the new R&D technology programme called "Smart Service World", which has governmental funding of €50 million from 2015-2019, is to mobilize the same funding from the private sector to promote the computerisation of the manufacturing industry with intelligent "smart services".

In order to identify further action to improve the investment climate and to mobilize more private capital for infrastructure investment, the Federal Minister for Economic Affairs and Energy has set up the high-level working group "Strengthening investment in Germany". The group, which started its work at the end of August 2014, includes experts from the public and private sector as well as academia. A final report was presented in spring 2015. The Federal Government will carefully review the group's recommendations for action to see which specific actions it will pursue and to see how they fit with the measures that have already been carried out or that are planned. The outcome of this review will contribute to further elaborating the comprehensive national investment strategy.

With regard to infrastructure investment, there is scope for increasing the use of private capital for such projects, e.g. through public-private partnerships (PPP). PPPs can play an important role in providing infrastructure in a cost-effective way. Therefore, PPPs will be further developed with the goal of making PPPs more SME-friendly and improving methods for calculating the efficiency of projects.

The Federal Government aims to keep the R&D quota at 3% of GDP – well above the current EU average. It has adopted the new High-Tech Strategy as a comprehensive, interdepartmental innovation strategy for Germany. The Strategy covers both technological and societal innovations with the aim to put research results into practice faster and more effectively.

The Federal Government will also invest more in education and research: The federal states (*Länder*) and municipalities will receive support totalling €6 billion over the next four years to help them finance child care, schools and universities. The Federal Government will continue to finance research facilities. An additional €3 billion for research will be made available by the Federal Government. Hence €9 billion of the €23 billion in additional spending on policy priorities over the next four years will be invested in education, science and research.

India

Investment Ecosystems & B.2. Infrastructure

- In a federal, democratic system, India has a Central Government, State Governments and a third tier of government at the rural agglomeration/ULB level - each is involved in structuring Projects, which are implemented by the States, the Federal (Central) Government and through Central-Government sponsored schemes.
- Progress and Planning is tracked both at state and macro level by Ministries at Central level.
- Project development is in the larger context of public and private sector resources in order to ensure orderly growth in conditions of relative stability, without introducing any distortions in investments or the production pattern.
- In order to ensure cross-sectoral coordination and integrated approach to project implementation, a Project Monitoring Group (PMG) at the national-level tracks all large projects, both public and private. A web-enabled information system facilitates uploading of details by stake-holders, including private entrepreneurs, for projects with investments above Rs.1000 crore (USD 167 million) each, along with issues that are inhibiting smooth implementation.
- A **new government** assumed office in May 2014 and has undertaken a number of new reform measures that impact the overall economic as well as the investment environment. Diesel prices have been deregulated paving the way for new investments in this sector following upon earlier deregulation of petroleum prices. Similarly, gas prices have been linked transparently and automatically to international prices which would provide incentives for greater gas supply and thereby alleviate power sector bottlenecks. Processes and procedures have been established for transparent auction of coal and minerals, and improving power generation and distribution. In railways, there have been several policy announcements and new initiatives and timely completion of major projects like Dedicated Freight Corridors is being monitored closely. In the road sector efforts have been undertaken to resolve problems associated with projects which are yet to be completed and the National Highways and Infrastructure Development Corporation Ltd. has been set up for speedy implementation of highway projects in the north-east.
- A major new national programme - **Make in India** - has been launched, which is designed to facilitate investment, foster innovation, enhance skill development, protect intellectual property and build best-in-class manufacturing infrastructure. As part of this programme, inter-alia, there is an impetus on developing Industrial Corridors and Smart Cities and a new 'National Industrial Corridor Development Authority' is being created to coordinate, integrate, monitor and supervise development of all Industrial Corridors.
- In order to ensure adequate credit flow to infrastructure sector and to the affordable housing needs of the country, the central bank's (**RBI**) extant prudential guidelines have been reviewed with a view to minimizing certain regulatory pre-emptions. Since July 2014, RBI has permitted banks to issue long-term bonds with a minimum maturity of seven years to raise resources for lending to (i) long term projects in infrastructure sub-sectors, and (ii) affordable housing. The instruments are exempted from regulatory requirements such as maintenance of CRR/SLR and priority sector lending. The RBI has also allowed the banks to finance long term projects with an option to refinance them periodically. Under the scheme, banks can, for example, lend for a 25 year project with an option to rollover the loan every five years. Keeping in view that implementation of large projects is a complex proposition and unforeseen events have the

potential to cause delays in achieving commercial operations on the original Date of Commencement of Commercial Operations (DCCO) fixed at the time of financial closure, the RBI has allowed certain relaxations to delayed projects, wherein DCCO of projects are allowed to be extended beyond the original DCCO, and such actions would not be treated as restructuring subject to certain conditions. At the same time it has been recognized the required national push to finance infrastructure should not override financial stability, which is key to national security. Going forward, there is a need to develop new sources of risk capital so that infrastructure needs can be financed with moderate amount of debt, even as deleveraging is facilitated.

- A **Monetary Policy Framework Agreement** has been signed between the government and the central bank in February 2015 which will shape the stance of monetary policy in 2015-16 and succeeding years. The central bank will stay focussed on ensuring that the economy disinflates gradually and durably, with retail inflation targeted at 6 per cent by January 2016 and at 4 per cent by the end of 2017-18. Although the target for end-2017-18 and thereafter is defined in terms of a tolerance band of +/- 2 per cent around the mid-point, it will be the central bank's endeavour to keep inflation at or close to this mid-point, with the extended period provided for achieving the mid-point mitigating potentially adverse effects on the economy.
- The Twelfth Five Year Plan lays special emphasis on development of the infrastructure sector. The total investment in the infrastructure sector during the Twelfth Five Year Plan (Year 2012-2017) i.e. USD 1 trillion is nearly double of that made during the Eleventh Five Year Plan.
- To achieve the target of investment in Infrastructure in 12th Plan, Government has also targeted private-sector participation. Significant participation from the private sector will require adoption of innovative ways of financing.
- Unbundling of infrastructure projects, public private partnerships (PPP), and more transparent regulatory mechanisms have induced private investors to increase their participation in infrastructure sectors.
- The current laws and regulations provide balance mechanism in meeting legitimate regulatory and legal objectives, while also leaving sufficient room for private investors to engage in their business activities. Policy recommendations balance national, state level and sectoral requirements with the need for rapid delivery of public goods, thereby creating enhanced business opportunities. Steps to enhance private investment interest are taken from time to time, as in Foreign Direct Investment in rail infrastructure.
- Independent sector regulators draw upon sector experts from the private and public sectors. They are set up an 'Authorities' and have complete autonomy in recommendations/decisions within their powers/tariff-setting (where applicable), etc. The success of this has resulted in private sector requests for such setups in sectors that newly opening up to private investment. The Terms of Reference of Regulators in Telecom, Electricity, etc. are available on the websites and could serve as a model for adoption elsewhere.
- Institutional mechanisms and governance frameworks have been formed for infrastructure project identification, procurement and monitoring committees, legal and regulatory frameworks.
- All stake-holders, including potential investors, developers, contractors, are involved in robust consultations before bid documents are prepared.
- To facilitate greater investment in infrastructure, the government has set up various facilities and schemes:
 - i. For PPP projects, a dedicated PPP Cell in Department of Economic Affairs serves as the Secretariat for structuring rollout and capacity building etc. for PPP projects. The cell also oversees state government cells for PPP.
 - ii. PPP projects primarily shift the responsibility of delivery and operation of assets to the private sector- life-cycle costing is used for open bid-evaluation.

- iii. Project development, especially in PPP, requires special skills which have to be systematically developed. India's approach to this has resulted in one of the most remarkable scaling up of PPP projects in a short period of time, leading to a ranking in the top three countries in 'Readiness for PPPs' as per the Economic Intelligence Unit's 'Infrascope-2011'.
- iv. For instance, in the case of PPPs, central PPP Appraisal Committee for appraising and approving projects, government's financial support mechanisms like the Viability Gap Funding Scheme (VGF) and a Project Development Fund (PDF) are among the initiatives that create capacity in government entities to identify, design and structure bankable PPP projects¹⁸.
- v. The website [www. infrastructureindia.gov.in](http://www.infrastructureindia.gov.in) tracks projects under implementation, private and public sector.
- vi. Government has also been introducing new, innovative instruments for long-term investment in infrastructure. Infrastructure Debt Funds (IDFs) aim at raising low-cost long term resources for refinancing infrastructure projects. Infrastructure Investment Trust (InvITs) and Real Estate Investment Trusts (REITs) are trust-based structures that maximize returns through efficient tax pass-through and improved governance structures. These are among the very promising opportunities for long term private investors. The India Infrastructure Finance Company Limited was also set up to play a catalytic role in the Infrastructure sector by providing long-term debt for financing infrastructure projects. IIFCL funds viable infrastructure projects through Long Term Debt, Refinance to Banks and Financial Institutions for loans granted by them, with tenor exceeding 10 years or any other mode approved by the Government.
- vii. In order to undertake the techno-economic appraisal of major projects and programmes in the public sector for facilitating investment decisions by the federal Government, a Project Appraisal and Management Division (PAMD) undertakes appraisal of Central Sector projects and schemes before these are considered for investment approval/decision by the Public Investment Board or Expenditure Finance Committee. Expenditure outlay in the Budget is matched by utilisation certificates and also watched by Statutory audit authorities.
- viii. Standardized bidding and contractual documents have been notified. These include model Request for Qualification (RFQ); Request for Proposal (RFP) and RFP for technical consultants; Model Concession Agreements (MCAs) for different sectors have been developed and standardized. Further, Project Sponsors are encouraged to award projects through a transparent open competitive bidding process, which leads to greater transparency and consistency to the bid process and terms of contract.
- ix. GOI has taken various initiatives to create an enabling framework for Project development activities in PPPs such as:
 - ❖ www.pppinindia.com has been developed to provide key information related to PPP initiatives in India.
 - ❖ The website serves as a hub of information on PPP related policy documents, government guidelines and procedures, model documents, events etc.
 - ❖ A link to online PPP toolkit for five sectors is available as a web-based resource that is designed to help improve decision-making for infrastructure PPPs in India. The toolkit

¹⁸ The PPPAC has streamlined the process for approving PPP projects through a system of delegated financial powers ensured speedy disposal of project proposals. The VGF Scheme provides financial support in the form of grants, one time or deferred, to identified PPP projects to make them commercially viable by subsidising the capital cost. The PDF provides financial support for project development by financing part of the project development expenses of project authorities. These government support mechanisms, along with the development of standardised documentation and capacity building instruments like tool-kits and training programmes, information dissemination and communication strategies through a dedicated website for PPPs, have helped empower authorities to not only develop a pipeline of commercially viable PPP projects but also implement the projects on the ground.

covers five sectors. It provides information on the status and extent of PPP initiatives in India at the central, state and sectoral level.

- ❖ The site provides links and contact details of authorities at Central Government and State Government levels involved in policy making and planning of infrastructure projects on PPP.
 - ❖ A status of the project proposals received by the PPP Cell for PPPAC, VGF or EI approval is also indicated on the website.
- x. With a view to supplement the existing mechanism, an institution ‘**3P India**’ is being set up to provide support to mainstreaming PPPs for a more directed effort to scale up private investments in infrastructure and for developing a broad and diversified portfolio of PPP projects not only at the Central and the State Governments’ level but also at the level of Local Self Governments. 3P India is envisaged to support the public sector in programmatic level activities, viz., policy implementation and regulatory support, as also provide advice and handholding services for delivery support at the project level.

Indonesia

Infrastructure development is a multi-faceted issue that cannot be tackled by the government. Synergy with local private, regional, and global institutions is necessary. Indonesia, like many emerging economies has experienced a surge in capital inflows, as well as challenges to supplement such inflows with more stable forms of financing. To create a stable capital flows, Indonesia strive to deep its financial markets to attract further foreign direct investment and private investment by addressing infrastructure bottlenecks, and to enhance regulatory transparency and certainty.

Indonesia has been enhancing the rule of law to improve investment climate. The Government has announced economic policy packages to, among others, increase investment by streamlining investment licensing, revising the “negative investment list”, and providing more tax incentives. Synchronization and harmonization of national and local regulations are undertaken to ensure that policies adopted by local governments are aligned with central government policies. Rules and regulations at central and regional level that complicate investment would be eliminated.

Financial sector plays a number of key roles in the process of economic development and growth, including facilitating the trading of goods and services, evaluating investment projects, and mobilizing and pooling savings to fund projects. Promoting financial deepening, expanding access to financial services (i.e. financial inclusion), and enhancing financial stability are common themes in promoting financial sector’s role by relevant institutions (Ministry of Finance, Central Bank, and Financial Services Authority). Expanding access to finance is the result of interplay of different financial intermediaries, the right kinds of financial infrastructure, and a sound regulatory framework. To expand access to finance and financial services, particularly for those at the bottom of the pyramid, the government has set national strategy for financial inclusion. Branchless and mobile banking are all thriving today and promising right pathway for access to financial services.

Italy

Facilitators

Since the outset, the Italian Government considers that **the reform of the labour market** is a key chapter in the process leading to the achievement of the said objectives of efficiency and productivity. In addition, the reform aims at reducing fragmentation, promoting open-end contracts, promoting active labour policies and reviewing the social safety nets. To this end, last year, the Parliament approved the enabling law (Jobs Act), which delegated the Government to issue implementing legislation by mid-2015. The Government has now approved all relevant chapters of this reform, including the open-end contract with gradually increasing protection, the reorganization of employment- and unemployment-related social safety nets, the simplification of labour contracts, measures concerning the work-life balance, the strengthening of active labour market policies, the simplification of procedures and requirements and the

comprehensive labour code. In addition, the Government intends to strengthen the implementing program of the European “Youth Guarantee”, aimed at coping with the NEET issue and to facilitate firm-level collective negotiation in order to improve the participation of workers and more favourable industrial relations.

The Government, within the comprehensive approach described in section A, has reinforced the effect of the reform of the labour market with tax incentives, including the reduction of the tax wedge for workers earning up to 26.000 euro and, for businesses, the full deductibility of the labour cost from the tax base of the IRAP tax (regional tax on productive activities) and total exemption from social contributions on open-end contracts. This strategy has been further strengthened with the 2016 Stability Law that has been presented to the Parliament, including through a favorable flat rate taxation on productivity-linked bonus, a beneficial tax regime for professional, SMEs and start-ups, the elimination of the regional tax on agriculture and fishery, as well as of the property tax on land, and the planned reduction of the corporate income tax. This action is part of an **ambitious reform of the tax system**, aimed at making it fairer, simpler, more transparent and more growth- and employment oriented. The Government has already approved eight relevant chapters of the tax reform, among which, in particular, the implementing legislation on simplification, which is aimed at giving certainty on procedures, requirements and timing, measures to strengthen the fight against tax evasion and avoidance, the reform of the system of criminal and administrative sanctions, the reorganization of Tax Agencies and measures to improve the relationship between tax authorities and taxpayers (litigation and rulings). This comprehensive reform is strengthened by measures to reduce the level of taxation, in addition to those already mentioned before, including the elimination of the property tax on the main residential properties, excluding the luxury ones.

The Italian Government believes that it is of the utmost priority to **reform the education system**, including research, as investing in human capital in an ambitious, stable and consistent way is key to raise the long- term potential of the Italian economy and grow sustainably. On education, the Government has launched this year a comprehensive program (“La Buona Scuola”), backed by substantial financial resources earmarked by the 2015 Stability Law, to reform the education system by 2015. The program includes more flexibility for schools managers on educational programs, open-end contracts, training and merit bonuses for teachers, an integrated system for the evaluation of programs and managers, a closer relationship with businesses and significant investment in school infrastructure. The program will be complemented this year with the launch of a digitalization plan, to be completed in three year by 2018, as part of the wider Digital Agenda of the Government (see below). The program is also complemented by two other lines of action: a) the reform of the university system, to be completed by 2015, which is based on a closer link between flexibility, evaluation and financial resources, where the latter will be disbursed on the basis of merit (30 per cent) and standard cost; b) the national research program, which will be launched this year for the period ending in 2020, to ensure close integration between European, national and regional program, a strong public-private partnership, the rationalization of research centres and significant investment in human capital.

The fourth key area in the effort to improve the investment ecosystem is the **competition policy**. The Government firmly believes that promoting competition, in both product and service markets, is crucial. Product market reform might spur growth by reducing the cost of goods and services, setting the right incentives for innovation, and opening new opportunities for investment and job creation. A first major step has already been taken with the annual law on competition, presented to the Parliament last February. The law, to be implemented by 2015, concerns key areas in the effort to promote competition – such as insurance, pension funds, communication, postal service, energy sector, banks, legal profession, pharmaceutical distribution – and contains a comprehensive set of measures aimed at reducing uncertainties, increasing transparency, promoting demand mobility, and allowing organizational innovation and product differentiation, with particular regard to introducing or strengthening the role of non-professional shareholders in professional services, eliminating standard offers set by the regulators in the electricity and natural gas markets, limiting exclusive areas of business (such as in the case of notaries, postal services, and to some extent pension funds) and information asymmetries in the insurance sector. Another major step, to be completed by 2015, concerns the local public services. The Government is committed to substantially reduce public shareholdings and fragmentation, to liberalize the sector and open a very relevant market.

The fifth key area is represented by the **reform of the public administration**. The Government firmly believes that economic growth and higher living standards for citizens stem also from an efficient and effective public administration that is able to offer quality services to families and businesses. To this end, following urgent measures taken in 2014, the Parliament has approved a comprehensive delegation law to the Government, which commits to swiftly issue the implementing legislation. This ambition plan concerns key elements of an efficient and effective public administration, namely the institutional architecture, management, digitalization, human resources management, public enterprises. This comprehensive reform is complemented by a strong effort on simplification, which is included in the Government's Agenda for Simplification that will be implemented in the 2015/2017 period. This Agenda concerns five key sectors (digitalization, health and welfare, taxation, construction and business), where the need to simplify procedures, improve decision-making and reduce costs is particularly relevant for the economy.

Another key item in the Government's agenda is the **reform of the civil justice**. The Government believes that enhancing the efficiency of the justice system and substantially reducing length and costs of proceedings is an extremely relevant component of the effort to improve the business environment and, thus, a prerequisite to boost investment. Therefore, following the number of measures already taken to this end, including the digitalization of proceedings, the establishment of the Office of Proceedings to support judges, the hiring of four hundred auxiliary judges, the strengthening of mediation and the earmarking of 140 million euro for 2015/2016 and 120 million euro annually from 2017, the Government has tabled by the Parliament a comprehensive delegation law to strengthen the Courts specialized in business activities and extend their competences, including to competition and consumer protection, to accelerate civil proceedings in all of the three constitutional phases and to reform the institutional architecture and the organization, including the Ministry of Justice, honorary judges, the geographical distribution of Courts and the management of public resources. Since 2014, specific Business courts for foreign investors have been created to avoid backlog and have a settled case-law.

Closer collaboration between Inland Revenue Agency and investors. Tax agreements (ruling) and dedicated desk for foreign investment have been set up for this purpose. Advance Rulings may be issued as a reply to formal queries submitted to the Agency to obtain clarifications on the correct interpretation of a specified tax provision. The opinion expressed in the ruling by the Agency is not binding on the taxpayer, who may decide not to follow it. The ruling, however, is binding on the Agency, whose offices cannot issue assessments or impose fines or penalties that would be contrary to what has been decided in the ruling. This limitation applies provided that the factual elements described by the taxpayer in the query are true.

Japan

B.1.1 Improve investment climate and thereby foster domestic investment and inward FDI

Pro-growth corporate tax reform (Facilitators)

As a part of enhancing Japan's locational attractiveness, the government has embarked on corporate tax reform to be more growth-oriented by aiming to reduce the effective corporate tax rate to the internationally-comparable level. Starting from FY2015, corporate tax reform is being carried out aiming to reduce effective corporate tax rate will be reduced to the twenties in several years by efforts which include broadening the tax base. The effective corporate tax rate has been cut to 32.11% from 34.62% (-2.51%) from this April and then will be cut to 31.33% (-3.29%) in FY2016. In FY2016, the tax rate will be lowered further to the extent revenue sources are secured through efforts which include broadening the tax base.

Further regulatory reforms in National Strategic Special Zones (Facilitators)

With the aim of significant increase in inward FDI, the Japanese government designated six National Strategic Special Zones in May last year to implement ambitious regulatory reforms. In particular, the Tokyo area, Kansai area and Fukuoka City will introduce various measures with a view to strengthen Japan's competitiveness as a business hub and attract foreign enterprises and promote business start-ups. Moreover, three zones were designated as the Special Zones in August this year.

Specifically, these Special Zones would consider introducing (i) simplified and accelerated incorporation procedure, (ii) more convenient information services in English regarding financial administration, (iii) relaxation of bus-related regulations for improvement of airport access, and (iv) acceptance of the entrepreneurial people in National Strategic Special Zones as well as establishment of new scheme for accepting diverse foreign people.

For example, aiming to support ventures, "One-Stop Business Establishment Center" was established in Tokyo, providing advices on start-up and one-stop services on procedures for incorporation, for the first time in Japan. "Employment Consultation Centers", where lawyers give advices for free, to let know the employment rules in Japan or to prevent conflicts related to employment, were established in Tokyo, Osaka and Fukuoka city.

The revised law to call in foreign enterprises and promote entrepreneurs in National Strategic Special Zones was passed in the ordinary Diet session in 2015. It includes provisions to abolish regulations which foreign entrepreneurs must hire two full-time employees and invest at least 5 million yen at the time of entry. It also includes provisions which foreign housekeeping support workers can be accepted.

Further promote growth-oriented corporate governance (Safeguards)

In order to make supervision on management by the board of directors more effective, formulate and publish an interpretative guideline of the Companies Act, which will cover (i) the scope of mandate for which the board of directors can delegate decisions to the management (i.e., matters which do not need to be presented to the board of directors), and (ii) the scope of actions that outside directors can take while still remaining external.

Moreover, a possible way of integrating respective corporate disclosure rules set out by the Companies Act, the Financial Instruments and Exchange Act, and the Japan Exchange Regulation is being considered through review of such rules, in order for companies to provide investors with necessary information more efficiently and effectively. A conclusion will be reached by the end of this fiscal year. The government is also discussing issues and necessary measures towards in-principle digitization of documents that are attached to shareholder meeting notices (e.g., business reports, financial statements, etc.), with a view to expediting information provision to shareholders. A conclusion will be reached by the end of next year.

Institutional setting

In April 2014, the government established the Council for Promotion of Foreign Direct Investment in Japan as new headquarters for cross-ministerial effort in promoting inward FDI. The Council has been referring the views of the top management of foreign companies and promoting policy measures in close cooperation with relevant authorities.

Key Performance Indicators

Through these efforts, Japan aims to double the inward FDI stocks from 19.2 trillion yen at end 2012 to 35 trillion yen in 2020 (23.3 trillion yen at end-2014) and become among top 3 advanced countries in the ranking of the World Bank's "Doing Business" by 2020 (ranked 19th in 2015).

B.1.2 Promote business investment by channelling abundant financial resources held by Japanese corporates into investment

Enhancing corporate governance and provision of risk money (Facilitators)

In order to promote business investment, it is essential for Japan to change corporate managers' mind-set and encourage them to make use of their abundant financial resources for productive investment. More fundamentally, raising profitability and productivity of Japanese companies to globally competitive level is a key to spur business investment.

From this standpoint, the government has already implemented various initiatives for pro-growth corporate decisions and for promoting constructive engagement with institutional investors, including legislation for encouraging outside directors, formulation of the Stewardship Code, and introduction of the new stock index JPX-Nikkei Index 400, whose benchmarks to select 400 constituents include ROE and operational profit.

Furthermore, Japan's Corporate Governance Code, which adopts "comply or explain" approach (either comply with a principle or, if not, explain the reason why not to do so), entered into force in June 2015. The code indicates that companies listed on the Tokyo Stock Exchange should appoint at least 2 independent directors. Enhanced corporate governance is expected to promote corporate managers to make proactive business decisions and thereby promote Japanese companies, where appropriate, to proactively use their earnings for new capital investment etc., instead of accumulating internal reserves.

In addition, the government has been promoting the Stewardship Code published in February 2014 in order for institutional investors to fulfil their fiduciary responsibilities. 197 investors¹⁹ have already accepted the code, which adopts "comply or explain" approach and indicates that institutional investors should disclose their voting policy and voting records as shareholders.

In October 2015, the government has launched the Public-Private Dialogue to discuss investment for the future, which aims to facilitate domestic private investment by sharing the direction of private investment and the challenges to be addressed by the government.

Reinvigorating financial and capital market and reforming management of public and quasi-public funds (Facilitators)

The government aims for building the best financial and capital market in Asia, through various measures including the promotion of infrastructure fund and further promotion of the NISA (tax-exempt individual investment accounts). In April 2015, the TSE has established listed infrastructure fund market. Another reform is further expansion of NISA, which contribute to channelling abundant household assets to growth areas. The government has increased the upper limit on annual investments of NISA accounts,, and has newly introduced "Junior NISA" (NISA for aged less than 20 years old). These measures will start from 2016.

The Government Pension Investment Fund (GPIF) revised its policy asset mix October last year, which intends to lower the allocation for domestic bonds from 60% to 35% and instead increase the weight for both domestic and foreign stocks from 12% to 25% considering long-term changes in the economic and

¹⁹ As of September 2015.

investment environment, such as changes from deflation to moderate-inflation environment, in order to secure sound pension finance.

Korea

	Facilitators	Safeguards
Investment Ecosystem	<p>1. Supporting Improvements in Investment Climate and Promoting Private Investment</p> <p>1.1. Reforming regulatory Framework 1.2. Strengthening competition in the service industry 1.3. Fostering seven service industries 1.4. Establishing R&D innovation measures 1.5. Increasing public investment 1.6. Enhancing effectiveness of government expenditure 1.7. Establishing ‘Manufacturing Industry Innovation 3.0 Strategy’</p> <p>2. Facilitating Financial Intermediation</p> <p>2.1. Promoting M&A 2.2. Providing support from public financial institutions 2.3. Providing Capital Bond Market 2.4. Strengthening the function of Investment Bank 2.5. Fostering Fintech Industry</p>	<p>3. Enabling Appropriate Legal and Institutional Settings</p> <p>3.1. Establishing support framework to resolve challenges of private investment 3.2. Increasing tax incentives</p>

Facilitators

1. Supporting Improvements in Investment Climate and Promoting Private Investment

1.1 Reforming regulatory framework

a. Main Challenges

- The investment can be promoted by easing regulatory burdens on the private sector. To this end, it is necessary to reduce regulations as well as continue to improve the quality of regulations.

b. Policy Action

- The Korean government will introduce "One-in, One-out" regulatory regime, which put a cap on the total cost of regulations. A new regulation can be adopted only when existing one with an equivalent cost is identified and removed.
- It will push forward with the "regulatory guillotine". It will try to relax regulations that undermine investment and job creation as much as possible by eliminating it or developing alternatives

c. Implementation Path

- It will strengthen the function of centre for regulatory studies under the Korea Development Institute (KDI), and also update a manual of cost analysis and then distribute it by 2015.
- It will revise and fully implement Framework Act on Administrative Regulations by 2015.

1.2 Strengthening competition in service industry

a. Main Challenges

- The service industry has a big impact on creating investment and jobs. However, its competitiveness is relatively weak compare to manufacturing industry and there are excessive regulations such as entry barriers.

b. Policy Action

- The Korean government will ease entry barriers and business regulation in service sector such as allowing establishment of affiliates of medical corporations and expansion of related businesses of medical corporations
 - It will allow joint ventures of foreign educational institutions and incorporated Korean schools for establishing International schools in eight FEZs from 2014.
 - In accordance with FTAs, both legal and accounting consultancy market will be opened by phase by phase to relevant parties of the FTAs.
 - It will promote competition in the mobile communications market by simplifying the procedure for the business license so as to attract new entrants into the market.
- c. Implementation Path
- The revision of related legislations will be initiated in 2015 and completed by 2016 or 2017.

1.3 Establishing R&D innovation measures

a. Main Challenges

- Some R&D investment funded by the government has been inefficient, so that the framework for R&D investment should be improved.

b. Policy Action

- The Korean government will scale down the top-down approach²⁰ and scale up the bottom-up approach²¹ in R&D investment funded by government. Consequently, demand of private sector will be more reflected in R&D investment.
- In high risk or leading industries, it will introduce competition in selecting research institution for R&D project. Those institutions who wish to participate in R&D investment will be allowed to undertake studies on the project and then best institution will be selected as a winner through the interim assessment.

c. Implementation Path

- It will come up with detailed plan by 2015.

1.4 Fostering seven service industries

a. Main Challenges

- The service industry is critical in creating investment and jobs. However, its competitiveness is relatively weak and its current level of globalization is still low.

b. Policy Action

- The Korean government developed and announced strategies to foster seven service²² industries with high growth potential in July 2014.
 - It formed the joint task force team of ministries concerned in promising service industries to identify challenges and come up with solutions and discuss those measures at the meeting promoting trade and investment and Economic Ministers' meeting.
 - It will identify best practices of government policies and provide one-stop services to the investment projects with greater growth impact. At the same time, it will lay a foundation

²⁰ The project is selected by the government.

²¹ The project is selected based on the suggestion of private sector.

²² Health care, education, tourism, finance, software, content and logistics industries

and improve legislations by revising unreasonable regulations and offering greater financial incentives.

- It will help the domestic service sector expand its reach into overseas markets and actively attract the foreign investment into the domestic service industry by developing the second step of service sector strategy.
- c. Implementation Path
- It will implement the strategy to foster seven promising service industries by 2016 and develop measures to promote globalization of service sector by 2015.

1.5 Increasing the public investment

a. Main Challenges

- Since economic recovery has been moderate, investment is important to boost the economy. The government should play a pump-priming role of investing in R&D and venture.

b. Policy Action

- The Korean government seeks to expand investment in ventures through comprehensive policy measures.
- It will significantly scale up the budget allocation for 2015 in R&D investment.
 - It will give its priority to investing in promising industries including the 5th generation mobile communications and material convergence.
 - It will expand R&D investment to enhance SME's technology innovation capacity.
 - It will also expand R&D investment in energy efficiency technology.

c. Implementation Path

- It targets to increase venture investment from KRW 1.3 trillion in 2013 to KRW 2 trillion in 2017.
- It targets to increase R&D expenditure from 4.3% of GDP in 2013 to 5% of GDP in 2017.

1.6 Enhancing effectiveness of government expenditure

a. Main Challenges

- Given that government revenue is limited, it is important to enhance effectiveness of government expenditure. However a lot of government expenditure has been ineffective due to many similar and overlapped projects.

b. Policy Action

- The Korean government will set out “three strategies and ten tasks for fiscal reform”. Firstly it will increase the rationality of budget allocation, secondly prevent the inefficiency of fiscal spending, and thirdly enhance the confidence from the public by encouraging their participation.
 - It will take a zero base approach to re-examine the legitimacy of business projects. It will cut the budget for projects with low performance or routine works. It will also integrate 600 similar or duplicate projects.
- It will adopt Pay-Go Principles. When the lawmakers or the government introduce policies, they should also present the way to finance them.
- Rules on fiscal expenditure will be strengthened including limiting discretionary spending. The subsidy law will be revised to prevent illegal receipt of subsidy.

c. Implementation Path

- It will reflect the strategy in the fiscal budget for 2016.

1.7 Establishing ‘Manufacturing Industry Innovation 3.0 Strategy’

a. Main Challenges

- In order to stay alive in global market, domestic manufacturing companies should strengthen productivity and competitiveness. To this end, it is necessary to provide customized products in a timely and cost-effective manner by using IT in manufacturing process.
- It is essential to find new growth engine to overcome low growth. Developing smart convergence products could be one way to achieve sustainable growth by exploring new market.

b. Policy Action

- The Korean government sets the target of building 10,000 smart plants by 2020. Public and private sectors will jointly mobilize KRW 1 trillion to provide financing. Technology assistances and consultation services will be also provided.
 - It will support developing 8 key smart manufacturing technologies and disseminating them to the whole industry. A roadmap for smart manufacturing will be presented. Financial support of KRW 1 trillion mobilized by public and private sectors will be provided.
- It will promote private sector to produce high value goods by developing key technologies. It will raise funds amounting to KRW 4.1 trillion in order to encourage the commercialization of these technologies.
 - The Korean government and private companies will develop 10 key new materials which will be used in promising industries by 2018. It will also pursue developing 20 key components of smart convergence products.

c. Implementation Path

- It plans to complete this strategy by 2020.

2. Facilitating Financial Intermediation

2.1 Promoting M&A

a. Main Challenges

- Vitalizing the M&A is critical in boosting investment in terms of financing. Given that current demand for M&A is increased from Private Equity Fund (PEF) and strategical investors, it is essential to make measures to promote M&A.
- Various incentives are needed to boost the M&A market.

b. Policy Action

- The Korean government will allow the PEF to invest in the firm in a way that PEF buys out part of its business. As the PEF is limited in exercising its voting right under certain conditions, it will ease these conditions.
- Growth ladder fund provides the financial support to SMEs and ventures for each stage of start-up-growth-disinvestment. The Korean government will make the fund to allocate more resources to M&A.
- It has provided corporate tax deduction for acquiring shares of companies with technological innovation and to increase the scope of tax deduction by including innobiz companies.

c. Implementation Path

- It will pursue deregulation on PEF by 2017, increase the M&A support through the Growth Ladder Fund by 2016, and supplement the policy for corporate tax deduction by 2017.

2.2 Providing support from public financial institutions

a. Main Challenges

- SMEs and future growth industries face with chronic shortage of funds due to not having economic base.

b. Policy Action

- In 2015, financial support worth KRW 259.1 trillion will be contributed by public financial institutions such as Korea Development Bank, Korea EXIM Bank, Industrial Bank of Korea, Korea Credit Guarantee Fund, and Korea technology Finance Corporation. The financial support will be provided in the forms of loans or credits and guarantees so on.
- It will scale up trade financing amounting to KRW 14 trillion through Korea EXIM Bank.

c. Implementation Path

- It will administer KRW 115.5 trillion, 60% of annually targeted financial support by the first half of 2015.

2.3 Providing Corporate Bond Market

a. Main Challenges

- While economic outlook is uncertain, many companies with low credit rate can be faced with lack of liquidity. It is necessary to activate corporate bond market to make them get funding easily at the markets.

b. Policy Action

- The stocks for public subscription will be preferentially allocated to high yield funds which invest mainly in corporate bonds or unlisted stocks.
- When the company issues bonds or stocks to qualified institutional buyers, the duty of public announcement and report is reduced. The Korean government will expand the range of qualified institutional buyers by including corporative bank.
- The Korean government will extend the period of providing tax incentives for high-risk bond fund. At the same time, its framework will be also redesigned to strengthen its efficiency such as redefining requirements on receiving these incentives.

c. Implementation Path

- It will establish improvement plan by 2015.

2.4 Strengthening the function of Investment Bank

a. Main Challenges

- While demand for funding from IB has been increased, tight regulation prevent IB's funding from providing finance to the market.

b. Policy Action

- Currently, credit offering of IB is limited to up to 100% of net equity. The Korean government will increase it to 200% of net equity.

c. Implementation Path

- It will revise related legislations by 2016.

2.5 Fostering Fintech industry

- a. Main Challenges
 - The development of financial industry is required to stimulate economic growth and employment. The Fintech industry could be a good momentum for it.
 - In order to increase consumer benefits by providing various customized financial services, it is necessary to provide services based on IT.
- b. Policy Action
 - The Korean government will promote startups in the Fintech industry. It will lower the minimum capital requirement for entry. Public financial institutions will provide financial support worth a total of KRW 200 billion.
 - It will provide simple and convenient financial services to customers. People will be allowed to confirm their identities through online to open a bank account, which is essential for establishing internet primary bank without physical bank branches.
 - It will introduce crowd funding. Capital Market Act is scheduled to be revised by 2015, where by crowd funding will be introduced and infrastructure for online small investment established.
 - It will also establish the infrastructure for the fintech industry. It will strengthen the capacity of fintech supporting center.
- c. Implementation Path
 - The revision of related legislations will be completed by 2015.

Safeguards

3. Enabling Appropriate Legal and Institutional Settings

3.1 Establishing support framework to resolve challenges of private investment

- a. Main Challenges
 - When companies execute investment in the project, they are confronted with a lot of regulations.
- b. Policy Action
 - A task force, with participants from public and private sector, has been launched to identify challenges that businesses face and provide them with relevant support.
 - The Korean government has identified 18 suspended business projects and resolved their challenges. Consequently investment amount of KRW 26 trillion has been early executed.
 - It additionally identified four suspended business projects due to lack of consultations among related administrations or excessive regulations in January 2015. It will resolve challenges so that the projects will be launched as soon as possible.
- c. Implementation Path
 - Investment amount of KRW 16.8 trillion will be early executed by 2015 or 2016.

3.2 Increasing tax incentives

- a. Main Challenges
 - Tax incentives are required to encourage corporations to allocate their income to investment. It is also required to boost investment in ventures and R&D.
- b. Policy Action
 - The Korean government will provide tax incentives for angel investments, including increasing income tax deduction. The government will give qualifications to professional angel investors

who meet criteria including investment performance and work experience and provide them benefit including policy financing support.

c. Implementation Path

- To promote angel investment, it will amend Enforcement Ordinance of the Special Act.
- It targets to increase R&D expenditure from 4.3% of GDP in 2013 to 5% of GDP in 2017.

Mexico

	Facilitators	Safeguards
Investment Ecosystem	<p>1. Supporting Improvements in Investment Climate and Promoting Private Investment</p> <p>1.1 Preserve macroeconomic stability and fiscal discipline.</p> <p>1.2 Implementation of the enacted structural reforms.</p> <p>1.3 Boost investment in less developed regions.</p> <p>1.4 Fiscal Responsibility Law for States and Municipalities</p> <p>2. Facilitating Financial Intermediation</p> <p>2.1 Expand the investors base for Mexican securities, including government bonds, corporate debt and project bonds.</p> <p>2.2 Foster new IPOs and debt issuances including for public sector's contractors.</p> <p>2.3 Implementation of the Financial Reform.</p> <p>2.4 Participate in regional integrated markets to diversify sources of long-term financing.</p>	<p>3. Enabling Appropriate Legal and Institutional Settings</p> <p>3.1 Foster the creation of the National Anticorruption System.</p> <p>3.2 Simplify mechanisms to increase voluntary savings for pension funds.</p>

Facilitators

1. Supporting Improvements in Investment Climate and Promoting Private Investment

1.1 Preserve macroeconomic stability and fiscal discipline.

- A. Main Challenges: Considering the international economic outlook, falling in oil production and a considerable contraction of oil prices as a result of supply shocks and weaker demand, with the expectation that low prices will prevail for some time, represent an important challenge for the Mexican economy.
- B. Policy Action Description: In order to meet these challenges, the Federal Government will preserve prudent fiscal policies.
- C. Implementation Path: Even though Mexico has a long track record of hedging its net oil price exposure to avoid short-term pressures in the budget, as it was the case in 2015; the Federal Government took a preventive and responsible approach and announced a budget cut for 2015 of 8.3 billion dollars (0.7% of the GDP) and 9 billion dollars for 2016 (0.8% of GDP). The budget cut in 2016 would be about twice than the current adjustment without the cut in 2015. The total adjustment represents 1.5% of the GDP and is concentrated in current expenditure. Moreover, the reduction in fiscal expenditure would be more than twice the current cut if the Fiscal Reform was not enacted. The 2016 Federal Budget will be prepared using a zero-based budget approach, in order to give priority to investment projects and promote efficiency in public expenditure.

1.2 Implementation of the enacted structural reforms.

- A. Main Challenges: In order to deliver high economic growth, productivity needs to grow in a sustained way. To increase productivity some sectors needed to be transformed; in particular, the non-tradable sector and key inputs markets lagged adequate, openness, competition and regulation. In this regard, profound structural reforms were achieved in 2013 and 2014, mainly: labour, education, telecom, antitrust, tax, financial and energy

reform. These reforms have been completely enacted, and the Federal Government is working on the implementation phase.

- B. Policy Action Description: The Federal Government will continue working on the implementation phase in order to improve growth prospects.
- C. Implementation Path: The reforms have been completely enacted and the secondary regulation is fully concluded. In the next years the Federal Government will continue to implement these reforms. The implementation of this Reform Agenda has yielded results already:
 - i. Electricity tariffs decreased at the beginning of 2015.
 - ii. Prices of gasoline, diesel, and gas will not be increased during 2015.
 - iii. Since January 2015, long-distance phone calls have no additional cost for users.
 - iv. More than 10 million families will receive Digital TV for free.
 - v. The Mexican Government launched an ambitious housing program.

1.3 Boost investment in less developed regions.

- A. Main Challenges: The economic growth of Mexico has remained unequal among regions. Since the North American Free Trade Agreement was signed in the early 1990's, the states of Northern Mexico increase their GDP per capita in 39%. However, the GDP per capita in the Southern states has remained almost without change. In this regard, the Federal Government's Growth Strategy aims to balance regional development and foster a more inclusive growth.
- B. Policy Action Description: Define special economic zones in the states of Chiapas, Guerrero, Michoacan, Oaxaca and Veracruz in order to create an appropriate business environment in these states for fostering their industrialization. This program includes actions to increase the quality of infrastructure, develop human capital and foster the establishment of enterprises in this region. Likewise, the Ministry of Economy will carry out a study to develop a *Comprehensive Plan for Economic Development in the region called Istmo de Tehuantepec* in order to foster economic and social development, and strengthen the logistic potential of this region. The National Infrastructure Fund (FONADIN) will fund this study.
- C. Implementation Path: BANOBRAS, the major National Development Bank for infrastructure financing, is coordinating this program. On September 2015 a Law initiative was presented to Congress in order to create Special Economic Zones (SEZs) in Mexico's southern states of Chiapas, Guerrero, Michoacan, Oaxaca and Veracruz. The SEZs would include, among others, tax incentives, trade facilities and duty-free benefits. Infrastructure investment will be increased in these SEZs. Construction, development, management and maintenance of the SEZs could be in charge whether the private or the public sector.

1.4 Fiscal Responsibility Law for States and Municipalities.

- A. Main Challenges: Fiscal discipline is a key pillar for local governments' public finances. Healthy public finances at the local level contributes to macroeconomic stability at the national level. One of the objectives is to enhance transparency and accountability in local governments' public finances and debt management.
- B. Policy Action Description: The Mexican Federal Government promoted a Constitutional amendment that fosters sound management of local government finances. The main elements of this reform are:
 - i. Congress is empowered to issue fiscal responsibility laws in order to foster sound management of public finances in States, Municipalities and the Federal District (Mexico City).

- ii. The States' Constitutions will strengthen responsibilities for public officials in case of improper use of public resources.
- iii. Local governments should achieve a balance budget.
- iv. Congress could establish the general criteria for debt contracting by States and Municipalities.
- v. States and Municipalities debt should be authorized by two thirds of local Congress.
- vi. States and Municipalities will be able to borrow resources for refinancing or restructuring existing obligations, and for productive projects. These resources could not be used for current expenditure.
- vii. States and Municipalities have the obligation to register and publish their debt and payment obligations in a Public Debt Record.
- viii. Short term liabilities should be paid at the latest three months before the local administration ends.
- ix. The Superior Auditing Office of the Mexican Federal Government will be able to review states and municipalities' Federal Government guaranteed debt, as well as the use of these resources.

C. Implementation Path: Constitutional reform is in force since May 2015. The secondary regulatory will be analyzed by Congress in the next months.

2. Facilitating Financial Intermediation

2.1 Expand the investors base for Mexican securities, including government bonds, corporate debt and project bonds.

- A. Main Challenges: Since 2002 Federal Government debt bonds are traded in the international markets. Nevertheless, corporate securities and project bonds were not able to access funding from international investors, mainly due to fiscal restrictions and foreign exchange rate risks. In this regard, it is necessary to develop financial markets and allow private firms, SMEs and infrastructure projects to diversify their sources of funding and reduce financial costs. Likewise, it is necessary to fully develop this market and increase liquidity for these instruments.
- B. Policy Action Description: Implementation of international electronic platforms and systems through which securities, denominated in Mexican pesos could be traded in the international financial markets, providing depth and liquidity. These platforms could be used for the more than 250 issuers listed in the Mexican Stock Exchange.
- C. Implementation Path: During 2014 the Federal Government adapted the fiscal regime for the securities traded through international platforms. In 2015 different international electronic platforms were put in place. The Federal Government will continue supporting the full implementation of these systems.

2.2 Foster new IPOs and debt issuances including for public sector's contractors.

- A. Main Challenges: Public offerings of securities are listed on the Mexican Stock Exchange (Bolsa Mexicana de Valores – BMV). There are a large number of private companies that are not publicly traded and could be listed in the BMV. Liquidity for medium and small firms stocks traded in the BMV needs to be improved as trading is concentrated in the largest issuers.
- B. Policy Action Description: In order to foster new IPOs for SMEs, including public sectors contractors, major NDBs will strengthen their current programs to foster capital markets development:

- i. The Financial Reform facilitates SMEs listing in the Stock Exchange. Moreover, NAFIN, the major National Development Bank for SME financing, created the Institutional Market Program for Alternative Corporate Debt (MIDAS)²³, which grants credits to SMEs; these credits are accompanied by an institutionalization process to support these companies to meet the standards to be listed in the Mexican Stock Exchange (BMV).
 - ii. NAFIN has the Financial Guarantee Program²⁴, which facilitates issue of corporate debt securities. The guaranteed amount will be up to fifty per cent of the total issuance.
- C. Implementation Path: During 2015 and 2016 NAFIN will strengthen the aforementioned programs.

2.3 Implementation of the Financial Reform.

- A. Main Challenges: The Financial Reform, which amended 34 laws, will enhance credit allocation in an already stable and well capitalized financial system. Its main objective is to reduce costs and promote efficiencies in credit origination mainly for SMEs, as well as to provide a new mandate for Development Banks, in order to foster financial market development and financial inclusion.
- B. Policy Action Description: The Federal Government will continue the implementation of the Financial Reform in particular to increase competition and reduce financing costs in the economy. The main lines of action are:
- i. Maintain a solid financial system: New liquidity rules for banks and stress tests for banks and brokerage houses were established. The Financial Stability Council was created to coordinate and reinforce the financial system's soundness. Furthermore, the Bank for International Settlements (BIS) assessed the Basel III implementation in Mexico, recognizing that Mexico is one of the leading countries in the implementation of these measures. In addition, the National Financial Inclusion Council was established, which aims to formulate, implement and monitor the national policy on financial inclusion.
 - ii. Increase competition in this sector and improve financial services' quality: A regulation to inhibit anticompetitive practices was issued and the attributions of the Federal Commission for Protection and Defense of Financial Services Users (CONDUSEF) were strengthened. Some of the achievements of these measures are:
 - Eliminate abusive clauses in attachment contracts from financial institutions, such as tied sales.
 - The Bureau of Financial Entities was consolidated with information about entities and user claims.
 - The Register of Debt Collection and Debt Recovering Offices (REDECO) was created.
 - iii. Establish conditions to encourage private banks to extend credit: The corporate regime of investment funds was eased, the stock exchange market was modernized, a mechanism to assess banking institutions was established, regulations for commercial bankruptcy were improved, and a system of correspondents for the popular savings institutions was established in order to increase financial inclusion, even in places without banks.

²³ <http://www.nafin.com/portalfn/content/productos -y-servicios/programas -empresariales/midas.html>

²⁴ <http://www.nafin.com/portalfn/content/productos -y-servicios/programas -empresariales/garantia-bursatil.html>

- iv. Promote credit through Development Banks: NDBs have stronger corporative governments, mandates and organizational structure. Major NDBs published their institutional mid-term program, and new specific programs were developed to attend primary sectors.
- C. Implementation Path: The different involved agencies, including NDBs, the National Banking and Securities Commission (CNBV), the Federal Commission for Protection and Defense of Financial Services Users (CONDUSEF), among other federal agencies will continue working during 2015 in the implementation of this reform.

2.4 Participate in regional integrated markets to diversify sources of long-term financing

- A. Main Challenges: Mexico is part of the Pacific Alliance (Alianza del Pacifico), integrated by Colombia, Chile, Peru and Mexico. Among the objectives of this alliance is to promote free movement of goods, services, capital and individuals. Efficient financial markets contribute to economic growth by mobilizing domestic and foreign savings for productive investments. In this regard, the Pacific Alliance created the Latin American Integrated Market (**MILA**), which is a regional market to trade securities from the four countries' stock exchanges. One of the objectives is to strengthen and consolidate the MILA in order to contribute to diversify sources of long-term financing for infrastructure projects and SMEs.
- B. Policy Action Description: Ministers of Finance of the Pacific Alliance agreed different actions to strengthen the MILA and the four countries' capital markets. These actions include:
- i. Expand MILA's scope in order to allow primary offerings/IPOs.
 - ii. Increase the type of instruments that could be traded through the MILA, including shares, fixed income securities, derivatives and investment funds.
 - iii. Foster the participation of different stakeholders in capital markets, including pension funds.
- C. Implementation Path: This set of actions will initiate during 2015.

Safeguards

3. Enabling Appropriate Legal and Appropriate Settings

3.1 Foster the creation of the National Anticorruption System.

- A. Main Challenges: An important precondition for investing is the existence of a solid rule of law an adequate and enforceable legal framework.
- B. Policy Action Description: The President of Mexico proposed a plan to create a National Anti - corruption System that would include a system for citizens to keep watch over the authorities; granting new powers to the Superior Audit Office of Mexico to supervise public spending; and the establishment of an impartial court and public prosecutor's office and other mechanisms that would process citizens' complaints.
- C. Implementation Path: For the implementation of this system against corruption, some institutional reforms need to be approved by Congress. The Chamber of Deputies approved last February, 2015 the initiative to create the National System against Corruption and the Senate approved constitutional changes on April, 2015.

3.2 Simplify mechanisms to increase voluntary savings for pension funds.

- A. Main Challenges: Mexico approved in the late 1990's pension system reforms that changed both the private and public sector from a pay as you go to a fully funded scheme. Since then, AFORES are the Pension Funds managers. The regulation and supervision of the Pension System is on charge of the National Commission for the Pension System (CONSAR). The ultimate goal of the Mexican compulsory pension system is to provide retirement income to

Mexican workers. Part of this will be achieved through the improved returns of pension funds. On the other hand, large enough contributions are required so that workers have a large enough base to sustain them in their retirement years. This can be addressed through compulsory contributions and voluntary savings. The Mexican government determines the level of compulsory contributions. However, the current level of voluntary savings is very low; less than one percent of assets under management.

- B. Policy Action Description: The Federal Government through the CONSAR is working with the AFORES in order to promote the increase of voluntary contributions, by making saving mechanisms easier for population. These new mechanisms consist on:
- i. Payroll deductions.
 - ii. Direct deposits in the workers' bank account.
 - iii. Direct debit payments of voluntary savings to AFORES.
 - iv. Online payment.
 - v. Deposits in retail stores.
- C. Implementation Path: The Federal Government worked along with AFORES during 2014 to design the abovementioned measures. During 2015, the government will continue the implementation of these measures.

	Facilitator	Safeguards
Investment Ecosystem	<ol style="list-style-type: none"> 1. Supporting Improvements in Investment Climate and Promoting Private Investment Obligatory public technical and price audit of all large-scale projects 2. Facilitating Financial Intermediation <ol style="list-style-type: none"> 2.1. Improvement of legislation in terms of raising standards for disclosure of information by financial institutions, consolidated supervision, strengthening financial markets' infrastructure and regulation, etc. 2.2. Promotion of financial literacy 	<ol style="list-style-type: none"> 3. Enabling Appropriate Legal and Institutional Settings <ol style="list-style-type: none"> 3.1. Improvement of business environment framework, including improvement of tax administration

1. Our goal is to enhance the quality of the public investment, including the investment by natural monopolies, through introduction of mandatory public technical and price audit requirements for all large-scale projects with public participation. While in 2014 the threshold for public audit was public participation of 8bn rubles (\$157m), starting from 2015 it is 1,5 bln. rubles (\$29m).

2.1 Starting from 1 January 2014 capital adequacy rules for banks reflecting Basel III standard became effective in Russia. The minimum adequacy ratios are 5% for common equity, 5.5% for Tier 1 capital and 10% for total capital. On February 1, 2015 Russian banks filed reports in accordance to the new capital rules.

Since January 1, 2013 Russian credit institutions are presenting and publishing their financial statements on a consolidated base. All annual consolidated financial statements are subject to regular publications.

2.2 Russian Federation currently carries out a jointly project with the World Bank with a total amount of 113 mln. USD. The objectives of the Financial Education and Financial Literacy Project are to:

- improve the financial literacy of Russian citizens (especially, among the school-age and college students, and active and potential low and middle income users of financial services) and
- strengthen the foundations for improving consumer protection in financial services.

This project has four components:

1. Component one comprises of developing a financial literacy strategy and consumer protection monitoring and evaluation. This includes strengthening the institutional and legal framework for the implementation of financial literacy and consumer protection policies, and development of the Project monitoring and evaluation framework.
2. Component two consists of financial literacy capacity building. This involves building institutional and human capacity for raising financial literacy in Russia at both federal and regional levels, and in the public and private sectors.
3. Component three comprises of development and implementation of education programs and information campaigns for improving financial literacy. This includes development and implementation of educational programs for schools, students and adults, information campaigns, and the scaling up of existing financial literacy improvement initiatives.
4. Component four consists of the strengthening of consumer protection in financial services by strengthening capacity of Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing, industry professional associations, and civil society.

Also in 2006 “national agency for financial studies” was established in Russia, and starting from 2008 it annually publishes results of surveys on financial literacy levels.

3.1 We are taking practical steps to improve business environment. National Business Initiative contains several reforms in this area including:

- Reduced number of indicators included into all forms of reporting (annual, quarterly, and monthly) and time needed to complete the forms. The corresponding legislation is expected to be approved in March 2016.
- Increased number of documents filed in electronic form. By 2018 the share of electronically filed documents will rise to 70% (currently 50%).

Simplification and modernization of business tax administration will improve cooperation between business and authorities. These measures include: elimination of outdated forms.

- Closing existing gaps between tax rules and business accounting systems;
- Expanded the use of electronic documents.

Saudi Arabia

	Facilitators	Safeguards
Investment Ecosystem	<ul style="list-style-type: none"> ● To reinforce coordination among investment-related agencies to unify efforts to boost investment. ● To enhance coordination among relevant agencies to develop joint plans to attract multinational companies for investment in targeted sectors. ● To offer one-window operations to potential investors to facilitate and fast-track issuance of licenses, and to provide needed services in the shortest possible time. ● To put in force investors' feedback mechanism to ascertain investors' needs and satisfaction levels to resolve investment-related hiccups. ● To institutionalize an incentive system needed to facilitate and promote investment in the least developed regions. ● To ensure effective provision of logistics such as transport, shipment and storage services to buttress investment initiatives. ● To focus on education and training services to upgrade human skill sets to raise productivity. ● To review investment policies and incentives in line with the Kingdom's development objectives. ● To conduct surveys to monitor current investment preferences and trends, and maintain investment-oriented database to ensure better future investment planning. ● To encourage establishment of public limited companies with forward and backward linkages to promote SMEs. ● To foster domestic-foreign partnerships to promote investment in capital-intensive and high-tech fields, particularly in industries that have horizontal and vertical linkages with mining industries as well as ICT and electronics industry. ● To expedite the completion of the unified investment plan (Investment Opportunities Atlas) to support investors in their decision-making. ● To foster transparency in investment-related matters, and ensure periodic issuance of a report or a public announcement examining all key dimensions of investment for the benefit of investor community. ● To expedite the establishment of manufacturing industries emanating from the existing basic industries such as petroleum, petrochemical and mining industries. ● To implement privatization policies striking a balance between public and private interests. ● To build up industrial cities and zones with associated investment support packages, with a focus on developing priority industry sectors and related commercial activity to attract investment. ● To foster increased collaboration between Industry and R&D institutes to address industry relevant topics, and to identify an optimal allocation of funding. ● To develop Venture Capital Industry with a direct or indirect government participation in partnerships with selected institutional investors. ● To develop new forms of fund raising and access to finance for business, including through alternative platforms such as non-equity crowd-funding and peer-to-peer lending. 	<ul style="list-style-type: none"> ● To simplify of litigation procedures. ● To improve of commercial disputes and bankruptcy settlement mechanisms. ● To promote of investor-friendly rules and regulations. ● To improve standards, quality, transparency, compliance, and dissemination of information on company financials, in line with international financial reporting standards (IFRS) and international standard industrial classification (ISIC).

The Government recognizes the significance of improved investment climate, enabling regulatory setup, and effective financial intermediation to promote domestic and foreign investment and maximize economic growth. To this end, they have envisioned a range of facilitating steps to:

- Reinforce coordination among investment-related agencies to unify efforts to boost investment.
- Raise the level of coordination between relevant agencies to develop joint plans to attract multinational companies for investment in targeted sectors.
- Offer one-window operations to potential investors to facilitate and fast-track the issuance of licenses, and to provide needed services in the shortest possible time.
- Put in place investors' feedback mechanism to ascertain investors' needs and satisfaction levels, and to resolve with investment-related hiccups.
- Institutionalize an incentive system needed to facilitate and promote, balanced development among the Saudi regions.
- Ensure effective provision of logistics such as transport, shipment and storage services to buttress investment initiatives.
- Focus on education and training services to upgrade human skill sets to raise productivity.
- Review investment policies and incentives in line with the Kingdom's development objectives.
- Conduct surveys to monitor current investment preferences and trends, and maintain investment-related databases to improve investment planning.
- Encourage establishment of public limited companies with forward and backward linkages to promote SMEs.
- Foster domestic-foreign partnerships to promote investment in capital-intensive and high-tech fields, particularly in industries horizontally and vertically linked with mining industries as well as ICT and electronics industry.
- Expedite the completion of the unified investment plan (Investment Opportunities Atlas) to help investors in their decision-making.
- Foster transparency in investment-related matters, and ensure periodic issuance of a report or a public announcement examining all key dimensions of investment for the benefit of investor community.
- Expedite the establishment of manufacturing industries emanating from the existing basic industries such as petroleum, petrochemical and mining industries.
- Implement privatization policies striking a balance between public and private interests.
- Establish industrial cities and zones with associated investment support packages, with a focus on developing priority industry sectors and related commercial activity to attract investment.
- Foster increased collaboration between Industry and R&D institutes to address industry relevant topics, and to identify an optimal allocation of funding.
- Develop Venture Capital Industry with a direct or indirect government participation in partnerships with selected institutional investors.
- Strengthen potential key safeguards that are likely to contribute to the enhancement of economic growth in Saudi Arabia, such as promotion of more investor-friendly rules and regulations, including issues related to commercial disputes.

South Africa

Facilitators

1. Supporting Improvements in Investment Climate and Promoting Private Sector Investment

- **Investment promotion**

South Africa is planning Special Economic Zones (SEZs) in all of the nine provinces. R3.6 billion has been set aside for conducting pre-feasibility and feasibility studies for the planned SEZs as well as infrastructure projects in the existing industrial development zones (IDZs) and newly-designated special economic zones through the incentive scheme. The SEZ support forms part of the Department of Trade and Industry (DTI)'s wider support for productive sectors under the Industrial Policy Action Plan, hence putting the economy on a higher, more labour-intensive growth path.

The SEZ incentives include:

- Manufacturing Development Incentives: R10.3 billion has been allocated for manufacturing development incentive, through which the South African government would support new investments, skills development and energy efficiency in industrial processes (additional tax incentives will be available from 2015 to establish energy efficient industrial processes)
- Infrastructure Development: In addition to the confirmed R847 billion boosts to the infrastructure sector in the next three years, the government will build 433 new schools, thousands of new houses within their housing scheme framework and connect one million houses to electricity over a 3 year period.
- Agricultural Policy: To support the National Development Plan's target of creating a million agriculture jobs by 2030, it was announced that an agricultural policy was being developed. Over R7 billion will be spent on conditional grants to provinces to fund training and support measures for 435 000 subsistence and 54 500 smallholder farmers, and to improve agricultural extension services.
- **Investment policy** - Government of South Africa is working on an Investment Bill - Promotion and Protection of Investment Bill - which will enable a comprehensive and uniform legal framework to govern investments in the country. The Constitution provides significant and robust protection for investors and for property both domestic and foreign. The Bill therefore sets out a transparent and open investment environment for our investors, while modernizing the investment regime.
- **Improving Competition policy**
 - The Competition Act of 1998 (“Competition Act”) and the institutions established under it in 1999 were important parts of the first democratic administration's agenda of economic transformation. The Act and its numerous amendments have received positive reviews globally, with the World Economic Forum (WEF) ranking South Africa's competition policy in the top 10 globally in 2013-14.
 - The Competition Commission of South Africa was granted formal powers to conduct market inquiries after President Zuma determined that section 6 will come into effect on 01 April 2013.
- **Research and Development over the next three years**
 - Support for the Oceans Economy has been prioritised with R296m allocated over the next three years to enhance climate change research and management of ocean resources.
 - The Square Kilometre Array (SKA) astronomy partnership will receive R2.1bn over the next three years.
 - Investment in mining and petroleum beneficiation projects will receive R2.7bn over the next three years.
 - An allocation of R108m has been made for research and for drafting regulatory requirements for licensing shale gas exploration and fracking.
- **Public Spending Review over the next three years**

- A budget deficit of 3.9 per cent of GDP is expected for 2014/15, narrowing to 2.5 in 2017/18.
 - Debt stock to GDP will be reduced to 43.7% in 2017/18.
 - Non-interest expenditure ceiling has been reduced by R25bn over the next years
 - Personal income tax and fuel levy are set to add R168bn to gross tax revenue in 2015/2016.
 - Real growth in non-interest expenditure will average 2.1% over the next three years.
- **Public procurement**
 - In February 2013 South Africa appointed its first Chief Procurement Officer. The Office of the Chief Procurement Officer oversees the South African public procurement system to ensure that the procurement of goods, services and construction works is conducted in a fair, equitable, transparent, competitive and cost effective in line with the Constitution and all relevant legislation

2. Facilitating Financial Intermediation

- **Financial Regulation reforms**
 - In December 2013 South Africa published its first draft Financial Regulation Bill for public comments. The proposed Twin Peaks system for regulating the financial sector is designed to make the financial sector safer, and to better protect financial customers in South Africa. Twin Peaks places equal focus on prudential and market conduct supervision by creating dedicated authorities responsible for each of these objectives. It also places a separate focus on financial stability.
 - A Twin Peaks system also represents a decisive shift away from a fragmented regulatory approach, minimizing regulatory arbitrage or forum shopping. It focuses on implementing a more streamlined system of licensing, supervision, enforcement, customer complaints (including ombuds), appeal mechanism (tribunal) and customer advice and education across the financial sector. . It is anticipated that the reform process will be over 2016 – 2018.
 - Three institutions, Financial Services Board, Registrar of Banks and National Credit Regulator will oversee the implementation of this Act. The Registrar of Banks, and the part of the Bank Supervision Department in the South African Central Bank, is responsible for the prudential supervision of banks and for performing functions assigned in terms of the Banks Act.
 - The Financial Services Board (FSB), established in terms of the Financial Services Board Act, is responsible for the prudential and market conduct supervision of all non-bank financial institutions, including insurance companies, pension funds, investment schemes and financial intermediaries. The FSB is structured so that there is a Registrar for each type of industry – i.e. a Registrar for Long-term Insurance, a Registrar for Short-term Insurance, a Registrar for Pension Funds, and so on. The FSB is responsible for 13 different financial sector laws. It reports to the Minister of Finance.
 - The National Credit Regulator (NCR) supervises all retail credit providers, which includes but is not limited to institutions which provide financial products and services as the main part of their business – in other words, their scope includes clothing and furniture retailers as well as banks and other financial institutions. The NCR is responsible for the implementation of the National Credit Act and focuses on promoting access to credit and the market conduct regulation of retail credit providers in South Africa. It reports to the Minister of Trade and Industry.

- Tax-free savings accounts will be implemented in the next 3 years (National Treasury plans to introduce these accounts on 1 March 2015), creating a mechanism to increase both household and corporate savings. Tax tools to encourage savings at a household level include, but are not limited to, tax-preferred savings accounts and retirement savings reforms. Tax-preferred savings accounts will have an initial annual contribution limit of R30 000, to be increased regularly in line with inflation, and a lifetime contribution limit of R500 000. The account will allow investments in bank deposits, collective investment schemes, exchange-traded funds and retail savings bonds.
- To encourage domestic savings retirement savings reforms over the past two years have aimed to encourage more people to save for retirement and to preserve their savings throughout their working lives. Changes to the taxation of contributions to retirement funds in line with the Taxation Laws Amendment Act (2013) will provide additional relief to most retirement fund members and encourage them to save for retirement.

Safeguards

3. Enabling Appropriate Legal and Institutional Settings

- The South African government is currently working on the Promotion and Protection of Investment Bill. This follows concerns over South Africa's evident need to attract FDI in order to address its pressing socio-economic problems. The Investment Bill was released in November 2013 for public comments and it is currently being finalised.
- As stated above Government of South Africa is also working on a financial regulation bill designed to make the financial sector safer, and to better protect financial customers in South Africa. In the case of expired bilateral investment treaty South Africa's Constitution provides sufficient protection against arbitrary expropriation.

Spain

Spain has provided numerous efforts and launched important reforms in the past years in order to recover market confidence in a context of economic crisis and macroeconomic imbalances. Therefore, restoring macroeconomic stability and regaining the trust of market agents has been a top priority in the agenda of the Spanish government. Furthermore, the Spanish authorities are undertaking a thorough revision of market regulation with the aim of identifying barriers to competition within the Spanish markets. These are not the only measures aimed at improving the investment ecosystem but others have been included in the Infrastructure and SMEs pillars, as they are more closely linked to those areas.

The Spanish Investment Strategy also relies on and is supported by the ambitious Investment Plan for Europe, which is based on three main pillars: (1) mobilising investment finance; (2) enhancing technical assistance at all project stages as well as enhancing transparent project pipelines; and (3) removing barriers to investment.

a) Facilitators

a.1). Supporting Improvements in Investment Climate and Promoting Private Investment

(i) Fiscal policy

Spain is deeply committed to preserving the sustainability of public finances in the medium term, as proven by a solid track record of deficit reduction since 2012, in line with EU fiscal governance rules and targets. The fiscal effort pursued by all Government levels has been among the highest in advanced economies. Spain has also greatly enhanced its overall fiscal framework by reinforcing discipline, control and transparency, with a number of actions including the introduction of a constitutional fiscal rule (which limits the debt-to-GDP ratio to 60%, requires a balanced structural budget and establishes an expenditure rule), and a reform aimed at guaranteeing the long-term sustainability of the pension system. Moreover, the average payment period has been introduced as part of the financial sustainability principle of the Organic Law on Budgetary Stability and Financial Sustainability, promoting that all levels of the Spanish Public Administrations improve that period and their suppliers and creditors are paid in advance.

Regarding transparency, it is worth mentioning that since 2013 Spain publishes monthly data on budgetary execution in national accounting basis, which provides homogeneous and comparable information among regions and any other country. This has placed Spain as one of the countries with the highest level of transparency in regional public finances, both within the EU and a global level.

Looking forward, the consolidation of public accounts and the achievement of budgetary stability will continue to be central to economic policy in Spain. Fiscal policies will be designed to ensure that the nominal deficit falls below 3% by 2016. In fact, a primary surplus is expected in 2016 reversing the Debt to GDP trajectory.

(ii) Tax reform

The Government has undertaken a comprehensive tax reform that, while enhancing revenue collection capacity, allows for the promotion of growth, investment and employment. The reform entered into force in January 2015. It is designed to boost employment and correct low revenue collection. It will modernize the tax system in accordance with international best practices. This structural reform seeks to reduce taxes for all: workers, companies and families and also to strengthen economic growth by stimulating savings and investment through a more modern tax system.

The average Personal Income Tax (PIT) reduction amounts to 12.5%. Moreover, 72% of taxpayers, those with an income lower than 24,000 euro/year, will have an average reduction of 23.5%. The number of income tax (PIT) brackets has been reduced from 7 to 5. The tax rate of the lowest bracket now stands at 20% in 2015, dropping to 19% in 2016. The tax rate of the highest bracket stands at 47% in 2015, dropping to 45% in 2016. Those citizens that have total income from employment of less than 12,000 euro/year are exempt from paying PIT. Finally, the so-called 'negative taxes' have been extended, including direct aid via tax reductions and earmarked for certain groups, such as large families and families with dependent children and disabled members. New social protection vehicles are created while maintaining aid for working mothers. In each case, €1,200 per annum may be received in advance, at a pace of 100 euro per month. These 'negative taxes' are accumulative. The Government decided to anticipate the implementation of the reform by bringing forward to July 2015 the second phase of the reduction of the tax burden borne by all personal income tax payers that was due in 2016. The measure was possible because of the observed improvement in tax revenues associated to personal and corporate income taxes and stronger growth. The anticipation of the reform is targeted to stimulate growth and push job creation by reducing taxes in another 1.5 billion euro in 2015.

The reform also modifies the Corporate Income Tax: The general tax rate for Corporate Income Tax has been reduced from 30% to 28% in 2015 and to 25% in 2016. A business capitalization reserve has been created, meaning that companies can earmark a tax-free provision to own resources of up to 10% of the profit made in the tax year, which will be used to promote business self-financing and reduce dependency on outside sources. In the case of SMEs, a levelling-down reserve is created whereby an additional reduction of 10% in the tax base can be enjoyed, up to a limit of 1 million euros. The reduced tax rate for new entrepreneurs has been maintained at 15%.

New specific reforms have been passed and approved in 2015: The General Tax Law update (Ley General Tributaria) entered into force in October 2015 also contributing to finalize the budgetary governance framework reform. It specifies new measures to reinforce the fight against tax fraud and to improve the functioning of the system (speeding and clarifying special tax proceedings). It determines the publication of defaulting tax debtors above 1 million EUR by the end of 2015. Another Act determines the publication of some relevant personal data in judgments on tax fraud and evasion to strengthen its effectiveness and transparency. Concerning environmental taxation, the new tax on the exploration and production of hydrocarbons will enter into force January 2016, and a new tax linked to the use of water resources in hydroelectricity power production is already in place. Measures have also been adopted or are in the process to implement progress achieved in Base Erosion and Profit Shifting (BEPS) action plan (for tackling hybrid mismatches and aggressive tax planning, adoption of the nexus approach to the patent box regime and Country-by-Country reporting) and the new single global Standard on Automatic Exchange of Tax Information. Measures in property taxation were also introduced or extended in 2015.

All these measures contribute to achieving sound public finances and, thus, macroeconomic stability, which is key to restore and maintain market confidence and attract investment

(iii) Enhancing the efficiency and quality of public expenditure and the public sector

A competitive economy requires modern, transparent and expeditious public administrations. To achieve this, the Commission for the Reform of the Public Administration (*Comisión para la Reforma de la Administración, CORA*), created in 2012, has identified 222 actions to enhance the efficiency and quality of the public sector. The OECD has acknowledged the relevance, leadership and thoroughness of this exercise. By the end of 2015Q2, 76% of the actions identified by the CORA report have been already implemented, and most of the remaining are at an advanced stage. The following measures should be highlighted:

- Law on Public Administration and the Law on Common Administrative Procedure, in force October, 2015. These new laws improve the process of drawing up legislation and foster organizational rationalization, since now the creation and maintenance of new bodies or public entities has to be duly justified.
- The Law on Public Procurement, which will endow public activity with more transparency and rationality and will increase the efficiency of public procurement.

(iv) Enhancing competition: Programme on market unity

The programme is based on several lines of action. In 2013, the Law on Market Unity was passed (*Ley 20/2013 de Garantía de Unidad de Mercado, LGUM*) with the aim of addressing internal market fragmentation for product and service markets by identifying regulations that hamper market unity and reducing business licensing requirements and other administrative burdens. The programme is designed to increase the productivity of investments as excessive and disperse regulations hampers effective competition and prevents exploiting economies of scale of operating in a larger market. This discourages investment, reduces productivity, competitiveness, economic growth and employment and is therefore a cost to citizens in terms of welfare. During 2014, a comprehensive plan was developed to ensure the implementation of the Law at all levels of administration. Significant progress has been reached.

The following table summarizes this progress.

Council of Single Market	The Council of Single Market was created in January 2015. It includes representatives from the State, the Autonomous regions and Local authorities and aims at boosting the law effectiveness.
Screening process	Due to the streamline plan developed in order to adapt sectorial regulations, central administration has already adapted more than 100 regulations (related to retail trade, temporary employment agencies, communications, etc.) in 2014 and 2015. In 2015, 36 priority State regulations have been selected for their adaptation. Furthermore, as a result of the revision of regulation at the regional level, more than 85 regulations have been already amended. More than 25 sectorial conferences have been convened to analyse more regulations. The council of Ministers is closely monitoring and encouraging the whole process.
Resolution mechanisms	This new procedure is completely in force. In this line, more than 130 cases have been already submitted and more than 85 have been concluded.
Technical instruments to guarantee cooperation among administrations	E-Platforms are already operative. An agreement of the Council of Ministers with specific instructions was approved in order to encourage the whole process.

(v) International mobility programme

Starting in September 2013, Spain has streamlined the procedures to allow international mobility of investors and professionals in order to attract FDI. This is already facilitating the setting of investors, entrepreneurs, highly qualified professionals, researchers and company relocations.

(vi) Promoting R&D&I

R&D&I (public and private) expenditure in Spain has been constrained by financial constraints and fiscal consolidation in the past years. However, the Spanish economy is starting to recover and the government believes R&D will play an important role in the years to come. In this regard, after increasing the sum for R&D activities by 6.4% in the 2014 budget for the first time since 2009, the 2015 budget foresees a new increase of 4.8% in the R&D allocation. The aim is that private investment in this field steps up from 0.60% en 2014 to 1.2% of GDP in 2020.

Moreover, the Spanish Strategy on Science, Technology and Innovation 2013-2020 as well as the National Plan on Scientific and Technological Research 2013-2016 includes future actions:

- The Centre for the Development of Industrial Technology (*Centro para el Desarrollo Tecnológico Industrial*, CDTI) will foster access to finance by reducing interest rates of its loans and through the creation of Private Equity Funds.
- At the end of 2015 the National Research Agency will be created to increase the efficiency of public resources on R&D&I.
- Spain will intensify its collaboration with its European partners. In this regard, a peer review of the Spanish R&D&I system has just been conducted by a Commission of International Experts. The conclusions were published in April 2015 and they will be taken into account in future public actions.

a.2) Facilitating Financial Intermediation

Spain has approved a great number of reforms in the field on financial intermediation in the past years and this continues to be a top priority in the government's economic policy. However, since many of these reforms are aimed at tackling the financing problems of SMEs, they have been included in the SME pillar.

b) Safeguards

b.1) Enabling Appropriate Legal and Institutional Settings

(i) Law 14/2013, on Entrepreneurship and Internationalization

Business climate will be regularly assessed so that, annually, a compendium of new initiatives for its enhancement is obtained from fluent cooperation with private operators and between the different layers of the public administration. The aim is to provide the Strategic Plan for the Internationalization of the Spanish Economy with a reforming agenda that contributes to the amelioration of the business environment and the external competitiveness of the Spanish economy. Moreover, several measures aimed at reviving the activity were approved:

- Business Angels: It aims to promote the attraction of equity by new or recently created companies. The individual investor (legal person) in such companies enjoys a double tax benefit: a) At the time of the investment: a deduction of 20% of the state share of his / her personal income tax, on a maximum amount of 50,000 euros. b) At the time of the subsequent divestment (i.e., when he / she sells the temporary stake in the business): enjoys full exemption from the capital gains that may be generated, provided they are reinvested in a new or recently created company.
- Cash VAT: the cash basis special regime on a voluntary basis for taxpayers whose turnover during the preceding calendar year did not exceed € 2 million is created. This regime will allow paying the VAT when an invoice is paid or collected. Customers of suppliers applying the cash regime may not deduct VAT incurred until the payment is completed.
- Tax incentives for R&D: deductions for expenses and investments in R&D may be applicable as an option, without being subject to any limit on the quota and they will be paid, with a combined discount of 20% on its amount, provided they cannot be applied due to insufficient quota.
- Extension of the "patent box" (reduction of income from certain intangible assets): A reduction of 50% of the income is established by the State Finance Act 2016.

(ii) Regional Doing Business

Improving the ease of doing business should foster new business creation and investment. With this in mind, and in collaboration with the World Bank, a Regional "Doing Business" report has been carried out to capture differences in business regulations and their enforcement across regions in Spain. It has provided useful data on the ease of doing business, identified best regulatory practices, and made recommendations to improve performance in each of the indicator areas.

Turkey

	Facilitators	Safeguards
Investment Ecosystem	<ol style="list-style-type: none"> 1. Supporting Improvements in Investment Climate and Promoting Private Investment <ul style="list-style-type: none"> • Enhancing the Business and Investment Environment 2. Facilitating Financial Intermediation <ul style="list-style-type: none"> • Policies for Banking System • Capital Markets Reform 	<ol style="list-style-type: none"> 3. Enabling Appropriate Legal and Institutional Settings <ul style="list-style-type: none"> • Labour Reform

Facilitators

1. Supporting Improvements in Investment Climate and Promoting Private Investment

Enhancing the Business and Investment Environment:

Turkey has taken considerable steps to create a more conducive business environment for both domestic and international investors throughout the last decade. For the promotion of strategic investments, further steps are planned to expedite land development including through creating an inventory of primarily state-owned areas and further improvement in land allocation procedures. The recently established Regional Development Agencies will incentivize and facilitate foreign and domestic capital investments in order to better tap on regional potentials and will assume a complementary role at the regional level for the activities of Investment Support and Promotion Agency for Turkey at the national level.

Turkey also aims to adopt in the short to medium run, a holistic approach and an effective coordination mechanism to reduce uncertainties hindering investment decisions. Main actions envisaged in this regard include, creation of a mechanism to facilitate and accelerate business permits and land allocation processes, integration of electronic systems, simplification of business licenses and working permits, regulations to ensure faster settlements of legal disputes, increasing the level of specialization of the legal capacity and framework for dispute resolution and increasing the public-private dialogue via high level meetings of the *Council for the Improvement of Investment Environment* (YOİKK).

YOİKK has ten technical committees and each of these committees focuses on certain action plans such as on intellectual property rights, corporate governance, employment, access to finance, foreign trade, and customs' procedures. As for example, Intellectual Property (IP) Rights and R&D Technical Committee works for removing administrative barriers and improving the legal framework for the protection of IP rights and strengthening R&D activities. The committee follows an annual action plan whereby the agenda of 2015 consists of (i) checking out IP-related course contents in all education levels, (ii) searching for an effective university-industry-public cooperation management model, (iii) designing a model for measuring the performance of Technology Transfer Offices, (iv) analysis of the need for a comprehensive database in order to provide an insight for the extent of IPR infringements in Turkey, and (v) analysis of fee deduction practices for patent, trademark and industrial design applications.

2. Facilitating Financial Intermediation

Policies for the Banking System:

After the Global Financial Crisis, Turkey has taken significant strides to avoid yet another systemic crisis that could stem from the financial system. As such, the steps did span from financial inclusion and literacy, to introduction of new financial instruments and enhancing institutional coordination. Policy measures for improving the Turkish banking system are designed to promote financial stability including through addressing several structural issues which would improve demand- and supply-side shortcomings in long-term investment and SME financing. In particular, the macro-prudential policy measures aimed for constraining the growth of retail lending are expected to channel limited financial resources towards more productive investment areas, including through corporate and SME loans. In order to support these

policies, several initiatives are in place such as the Istanbul Finance Centre project, new Islamic banking and finance products (e.g. sukuk, musharaka, etc.) and projects for increasing financial literacy.

2. Facilitating Financial Intermediation

Capital Market Reforms

The promulgation of the capital market reforms is still a relatively new development and although there have been some improvements in some indicators such as institutional investor size, issues of corporate bonds and the share of private sector securities within the overall stock, the full impact of the reforms remains to be seen. In order to foster investor trust, corporate governance regulation for listed companies is enhanced to include mandatory implementation of several corporate governance principles. In addition, Turkey has simplified the processes involved in the public issue and offer of securities, particularly for equities and bonds, in order to encourage companies to raise funds from capital markets.

Additionally, with a view to diversify the instrument base, Turkish Sukuk regulation was revised and currently, all the five internationally acknowledged types of Sukuk are available to the Turkish market. Turkey expects further development of domestic Islamic finance market including through easing of non-financial corporations' access to Sukuk issuances as well as increasing overall awareness on related products and services.

Safeguards

3. Enabling Appropriate Legal and Institutional Settings

Labour Reform

Within the scope of the active labour market programs in Turkey; there are key actions planned such as increasing the effectiveness of vocational training curricula, entrepreneurship training, and on-the-job training programs. These programs are regularly monitored to enable an impact assessment. Public work programs target the adaptability of the unemployed labour force, especially who face employability challenges in the market, by keeping them engaged with up-to-date work practices and discipline, and providing them with a temporary income support. Participants are paid minimum wage and their social security premiums are covered.

Moreover, increasing the participation of women in the labour market is one of the primary goals of the employment policies. Towards this end and with the aim of strengthening the role of women in social, cultural and economic life; with a set of comprehensive supportive policies, the rate of participation of women in labour market increased from 25 percent to 31 percent between 2008 and 2013. Building on this progress, Turkey further aims to increase the female participation rate to 41 percent by 2023.

United Kingdom

Corporation tax cut: Since 2010 the main rate of corporation tax has been cut from 28 per cent to 20 per cent. The small profits rate was also cut to 20 per cent and the two rates were merged to simplify the tax regime. Overall the cuts delivered so far since 2010 will save businesses £10 billion in 2016-17.

In the Summer Budget 2015, the government announced further cuts to the rate of corporation tax, to 19 per cent in 2017 and 18 per cent in 2020. The cuts will save businesses a further £6.6 billion by 2021. Cutting corporation tax increases the return companies receive on investment, so incentivises the business investment that is vital to productivity growth²⁵. The OBR expects the cuts announced at the Summer Budget 2015, along with the increase in the permanent level of the Annual Investment Allowance (see below), to increase business investment by £1.6 billion a year by 2020-21.

Annual Investment Allowance (AIA): The Annual Investment Allowance (AIA) provides an incentive for firms to invest in plant and machinery by allowing them to reduce their taxable profits by 100 per cent of the value of their investment, up to the AIA limit. In 2012, the AIA was set at a level of

²⁵ The OECD has said that 'corporate income taxes are the most harmful for growth as they discourage the activities of firms that are most important for growth: investment in capital and productivity improvements.' (Tax Policy Reform and Economic Growth, OECD 2010)

£25,000. The government announced a temporary increase in the AIA to £250,000 in 2012, and a further temporary increase to £500,000 in 2014. The temporary increases to the AIA have provided valuable support to businesses as investment has recovered since the recession. The government now wants to provide a stable and long-term incentive to invest by increasing the permanent level of the AIA from £25,000 to £200,000. This measure will particularly benefit small and medium-sized businesses investment in plant and machinery, such as computers and manufacturing machinery.

Addressing complexity in the tax system: The UK aims to have a tax system that is simple to understand and easy to comply with. The government will therefore establish the Office of Tax Simplification (OTS) on a permanent basis with an expanded role and capacity. The expanded OTS will be put on a statutory footing in Finance Bill 2016 and will provide the government with independent advice on delivering a simpler tax system.

In March 2015, the government announced it would transform the tax system by providing digital tax accounts to all individuals and small businesses over the course of this Parliament, leading to the end of the annual tax return. By 2020, small businesses will be able to manage their tax affairs through a simple, secure and personalised digital account which will be linked to their business software. Over the summer, HM Revenue and Customs will begin discussing the policy choices with key stakeholders and delivery partners. The government will publish a roadmap by the end of the year showing how it will transform tax administration for individuals and small businesses in this Parliament.

The government recognises that businesses need certainty about the policy environment, to enable them to plan and make long-term investments. To support businesses to invest, the government will publish a Business Tax Roadmap by April 2016, setting out its plans for business taxes over the rest of the Parliament.

Business energy efficiency: At the Summer Budget 2015, the government announced a review of the business energy efficiency tax landscape. The government will consider options to reduce administrative costs for business and improve the effectiveness of the landscape in achieving government objectives around competitiveness, carbon savings and growth. Delivering a simpler and more stable environment for business will reduce administrative costs and improve incentives to invest in energy efficiency, which will help increase the productivity of businesses, save carbon and ensure secure energy supplies. The UK is committed to meeting its environmental objectives but will ensure that the UK can meet these goals cost-effectively, taking careful account of the costs of these policies to ensure we are not imposing unnecessary burdens on businesses.

To help reduce costs for energy consumers, the government will publish proposals on extending competitive tendering to onshore electricity transmission assets. This could save consumers around £390 million over the next 10 years.

Regulation: Since 2010, the government has embarked on an ambitious deregulatory agenda through flagship programmes such as One-In-Two-Out and the Red Tape Challenge, cutting the net burden of regulation by £2.2 billion per annum. Building on this, the government has committed to cut at least a further £10 billion of red tape for businesses. The Better Regulation Executive launched the Cutting Red Tape programme to help deliver this target, working in partnership with industry to identify and address red tape resulting from legislation and enforcement activities in sectors. Reviews will be conducted on: enhancing the effectiveness of the Anti-Money Laundering and Terrorist Financing regime, Energy, Mineral Extraction, Agriculture, Waste and Care Homes. The government also recognises that regulators actions need to minimise unnecessary burdens on business. The government will therefore legislate to extend the government's target for cutting red tape to cover the activities of regulators.

B.2. Infrastructure

Argentina

The National Government with the understanding that investment in infrastructure is key to support the country's economic growth and encourage job creation, has undertaken since 2003 an aggressive public

investment program to compensate for the lack of private initiatives in the areas of energy, production and distribution, and transport.

Energy

The main challenge for energy policies is to provide the necessary resources for the country's development in the long run from a vision of sustainable development. This sector not only impacts on sectoral competitiveness but its evolution is linked to the overall competitiveness of the economy and its development. In this scenario, the government has promoted the diversification of the national energy matrix which requires the incorporation of new fuels, promoting the use of renewable energies, increase the supply of hydroelectric and nuclear energy, in the view to reduce progressively the dependence on fossil fuels. Implementation of these energy policies will allow the participation of the national industry and technology. In parallel with the objective of diversifying the energy matrix the national government is working to strengthen the exploration and development of hydrocarbons, especially in light of the existence of a significant potential of conventional and unconventional resources.

Policies taken so far:

- *Hydrocarbons, conventional and unconventional resources development and National State oil company - YPF -*
 - Given the adverse impact which the drop in oil prices might have on the incentives for investment in the sector, particularly relevant in the case of non-conventional sources which are abundant in Argentina, the government has established the “Program for the Stimulus of the Production of Crude Oil”, which will be in effect from 01/01/2015 to 12/31/2015, but can be extended for twelve months.
 - The program compensates companies that have adhered to it, and its objective is to stimulate the production of crude oil for both domestic consumption and for export. The compensation will amount to a maximum of U\$S 2 per barrel for the total production of each beneficiary company, as long as its daily average of quarterly production of crude oil is equal or exceeds the base production level, which is set on the basis of the daily average in Q4 2014. Moreover, to promote foreign sales, if the quarterly average export level is higher than the base level of exports, the stimulus will increase even more, to up to U\$S 3 per barrel. Thus, despite the drop in international prices, YPF continues to sign agreements to develop new energy projects. Recently, it signed a Memorandum of Understanding with Sinopec and related companies, with the aim of implementing a strategic association to develop conventional and unconventional oil and gas projects in Argentina, with the intention of undertaking a Joint Venture which can operate in different segments of the market.
 - Moreover, as from 2003, and to protect households and firms from the sharp rise in energy prices, domestic prices were decoupled from international ones by means of export duties. However, in the current environment the government believes it is necessary to attenuate the transmission of the decrease in international prices to domestic prices, so as to generate incentives for companies to augment production, with the aim of making the country self-sufficient in energy. In December 2014 a new system of increasing differential (export-duty) rates was implemented, which is 1% at the current international prices of crude oil, down from up to 30% previously.
 - Regarding **YPF**, taking advantage of its majority shareholding position in the company, and through agreements with several industry leaders under the Promotion of Investment Regime for the Exploitation of Hydrocarbons (sanctioned in July 2013), the government is giving a strong boost to production and investment in this strategic sector with multiple objectives. These are (i) promote growth and employment, (ii) increase the domestic supply of hydrocarbons, (iii) provide greater FX stability through reduced foreign exchange requirements for imports of these products, and (iv) develop new technologies that can benefit the economy's overall technological capabilities. From the time of its nationalization in 2012, YPF has significantly increased its production of both oil and

gas. In 2014 the increases were 8.7% for oil and 12.5% in the case of gas. This rise in production was enabled thanks to the substantial increase in investment: since its nationalization YPF's investment had a cumulative growth of 338% between 2012 and 2014. In February, YPF issued bonds amounting to USD 0.75bn to finance investment projects in non-conventional sources, which is the largest issue by a domestic company since the outbreak of the conflict with the holdouts.

Given the focus and growing efforts to diversify the national Energy matrix, there have been a growing number of policies that tend to foster energy projects of varying sources. Some of them are outlined below.

- *Renewable energies:*

- Since 2006 a new impulse to renewable energies has been given by the government. In line with this, the Bank of Investment and Foreign trade (BICE) designed the “**Program of Financing for Renewable Energies**”, that articulates public policies for the promotion of the renewable energies sector with the required financing. Project financing is structured and coordinated by the BICE that provides financing under a project finance scheme that is sustained by the capacity of the project to generate enough cash flows to repay the investment. This mechanism allows the BICE to articulate between the private and the public sector given that it provides private profits to projects of social interest as the energy matrix diversification and the expansion of renewable energy sources. In this sense the BICE has financed projects under 3 different modalities: loans financed by the BICE, loans financed by more than one bank and through fiduciary structuring and BICE and other investors resources.
- To the date, the BICE has financed 10 projects of renewable energies linked to the **Genren**, program of Renewable Energies, which aim is to develop electricity generation from renewable sources in a sustainable way. These projects represent 31% of total adjudications under GENREN. Under this program more than 200 MW of power has already been installed and the expectation is that this kind of energies will increase over time.
- In order to continue to diversify the energy matrix, the Ministries of Agriculture, Livestock and Fishery and of Planning through their Agriculture, Livestock, Fishery and Energy Secretariats and with technical assistance from the United Nations Food and Agriculture Organization (FAO), created the **PROBIOMASA** initiative. The objective of the program is to increase the heat and electricity generation from biomass at local, provincial and national level to ensure a growing supply of clean, reliable and competitive energy, and in turn, create new opportunities for the agricultural and forestry sectors, stimulate regional development and contribute to climate change mitigation.
- The program has three main components: Institutional strengthening: (to strengthen the institutional framework to foster sustainable energy from biomass as an energy source); Bioenergy strategies (to: promote the establishment of bioenergy projects); Dissemination and awareness raising: (to build capacities amongst political actors, industry, researchers and the general public on opportunities and advantages of bioenergy). Its goal is to promote the installation of 200 MWe and 200 MWt in a four year period from 2015 to 2018 and of 1,325 MWe and 1,325 MWt by 2030. To install 400 MW under PROBIOMASA, a total investment of approximately US\$ 990 million is required.

- *Nuclear Energy:*

- The nuclear plant “*Atucha II*” reached 100% of its productive capacity in last February, according to the timeline specified in our 2014 Growth Strategy. This Nuclear electric power plant will provide the National interconnected system with 695 Mw. It is expected to generate 6526GWH/year. Thus, in a year Atucha II can generate the energy needed by a province like Tucumán in a 3-year period, by Salta in 5 years or by Santiago del Estero in 9 years. On the other hand, at end 2014 the Government signed a framework trade

agreement with China for the supply of equipment, components, raw material and technical and engineering design services for the construction of the fourth nuclear plant in Argentina, Atucha III. Going forward, there is a new project to build under another agreement with China what would become the fifth nuclear plant in Argentina, with the technology of pressurized water.

- *Hydroelectric energy:*

- In mid-2013 the Government awarded the construction of **two hydroelectric dams** in the province of Santa Cruz with international funding of about US\$4.5 billion. The objective of this project is the generation of electric energy with 1740Mw of installed power and an annual electric energy generation of 5000Gwh per year. Argentina already received the disbursement of the first tranche (US\$ 0.287 bn) of financing, and the construction of the dams effectively started.

- *Gas pipelines:*

- The government has recently signed the contracts for the first stage of the **Northeast Gas Pipeline project**, with the objective of extending of the domestic gas network in 7 provinces. This initiative implies the construction of pipelines, which will extend the natural gas network to the provinces of Salta, Formosa, Chaco, Misiones, Corrientes, Santa Fe and Entre Rios, thus reaching 1.3 million people. This project will be developed in three stages and involves a total investment of US\$3.16 billion. The contracts for the first stage imply the construction of 798 km of pipeline that will cross 23 towns and reach 120,000 habitants, for a total investment of \$4.9 billion (US\$596 million).The works corresponding to the second stage were auctioned recently and will involve an investment of \$11.9 billion (US\$1.5 billion), with the construction of 2,242km of gas pipeline crossing through 80 towns and benefitting 1.1 million habitants.

- *Electric transportation:*

The National Government has moved forward on two projects:

- The extension of the **new electric transport lines** between Yaciretá-Resistencia, which is intended to give the system stability, security and reliability, and will also make it possible to improve the electric connection between the NOA (Northwestern electric system) and the NEA (Northeast electric system); that involves an investment of US\$ 354 Million which has an external funding of US\$150 Million to be subscribed between Argentina and the Andean Development Corporation (CAF). For the execution of the Project, five (5) components will be developed: 1. Line of Extra High Tension of five hundred (500) kilovolts (LEAT) between the Transformation Plant Rincón Santa María and the Transformation Plant Resistencia; 2. Paraná river crossing; 3. Expansion of Transformation Plants of Rincón Santa María and of Resistencia; 4. Inspection and Environmental costs and; 5. External audit, financing commission and evaluation expenditures. The execution of this project started in June 2014 and is expected to last for 27 months. This project comprises a 270 km interconnection of an extra high tension line of 500 Kv, from Yacyretá dam located in Rincón Santa María (Ituzaingó) to Puerto Bastiani in Resistencia.
- The **General Cerri-Mar del Plata project** that implies the construction of a thermoelectric plant that will help meet the country's growing demand for electricity. This Project counts of two stages. The first one consists of the installation of two turbines with a capacity to generate 600 MW of energy and an investment of US\$500 Million. The second stage will demand an investment of US\$400 Million and allow the addition of an additional 300 Mw, through the reutilization of steam/vapor generated by the turbines mentioned in the previous stage. This project also foresees complementary investments: the execution of a high voltage energy line of 500 MV, another similar line of 9 kilometres that will link the new thermoelectric plant with the Interconnected National System, and a gas pipeline of 2 kilometres intended to supply the plant from the Gas of

the South transporter plant. At the beginning of May 2015 the first turbine started operating. This will enable this thermoelectric unit of 270 MW (megawatts) to start generating electricity in the second quarter of this year. The second turbine with the same power will start operating briefly. They will have a total capacity of 540 MW.

Transport

The priority of investment policies in transport is oriented to allowing a national positioning and regional and international projection of our country in terms of territorial integration and resources optimization through development of railway and road infrastructure.

The main projects in this area are aimed at **developing and implementing communications infrastructure and regional integration of the country**, preparation of studies and projects of modernization, expansion and renovation of the existing network of transportation, purchase of new machinery and necessary equipment for the construction and maintenance of infrastructure related to communication. Moreover, the government has undertaken the most ambitious **revamping of the metropolitan area passenger railway system** in 50 years. This will make it possible to reduce travelling times and costs for millions of workers in the metropolitan area and alleviate congestion and its associated costs. The objective is to reorder and reorganize the Argentinean railway system of passengers as well as of freight to contribute to the free displacement of people and social and economic development as part of the goal of full national integration.

Having this in mind and with the aim of significantly reducing transport costs, especially in regional economies located far from the ports, the government created the **Belgrano Cargas and Logistics S.A. Company** to boost the development and growth of provincial economies. Investment agreements were signed with foreign companies to modernize the equipment of the *Belgrano Cargas*, the country's most important freight railway, which will allow a higher frequency and an increase in total load capacity and, in general, will increase logistics efficiency and will improve market access for local producers. The investments will imply the renovation of 1,511km of track, the acquisition of 100 new train engines and 3,500 wagons, and the repair of 2,000 wagons, which will imply 3 years of work for local repair shops. The project involves a total amount of US\$2.47 billion, financed by an external private contract of US\$2.1 billion and a local public contribution of US\$0.37.

The **revamping of the metropolitan area passenger railway system** involves the purchase of 25 formations of 9 train cars for the Sarmiento Railway, 300 electric train cars for the Roca Railway, 30 formations of 6 train cars for the Mitre railway, 96 diesel rail carts for the Mitre and Sarmiento Railways and 81 diesel rail carts for the Belgrano Sur Railways. Total investment costs amount to US\$1.2 billion. Long-distance services between Buenos Aires capital and the province of Buenos Aires have been improved as well, through the purchase of train engines and train carts to revamp the service. Lastly, works on the railway line Buenos Aires-Rosario started in 2014, with the aim of extending the lines that connect these two central cities of Argentina; the investment in this project will amount to \$4.8 billion (US\$582 million). All the modernization of the railway system projects, are proceeding according to the plan already mentioned in Argentina's GS. In particular, the passenger railway linking Buenos Aires with Rosario began operating on April 1st this year, and has involved an investment of AR\$ 0.6 bn. Finally, in March a bill to nationalize the administration of the Argentine railways was approved by Congress. The objective of the initiative is to put an end to the deterioration of the system under private management, and in particular to boost investment in the sector, modernize its technology and capabilities, and increase the efficiency of expenditure, which was very low among the private operators.

Of a more preliminary nature, **the relaunching of the Maipú Agreement with Chile to connect both countries by means of a railway border crossing** is also being evaluated.

Telecommunications:

In the area of **telecommunications**, the investment plan for 2014-2017 involves AR\$14.2 billion (US\$1.7 billion, 0.4% of GDP) in four main areas of the communication strategy: REFEOF (Optical Fiber Federal Network), Satellites, Digital TV and Datacenter stations. Considering the 2007-2017 period, the invested amount rises to more than AR\$25 billion (US\$3 billion), where 47% correspond to the REFEOF, 25% to Digital TV, 22 % to Satellites and 6% to Datacenter and others. In this regard, on **October 2014**

Argentina launched its first, domestically designed geostationary satellite (Arsat-1), which will make it possible to reduce telecommunication costs and increase the coverage to service areas of the country where adequate communication links (including digital TV) were lacking. The construction of ARSAT-2 and 3 is underway and it is expected that ARSAT-2 will be launched in September 2015. Launching of ARSAT-3 is projected for 2019. Total investment of these satellites is US\$ 1 Billion.

Housing

With the aim of increasing housing finance, the National Government has established the **PRO.CRE.AR Program**. The program aims to increase access to housing finance by means of mortgage loans at subsidized rates, and has flexible eligibility criteria. The program not only attempts to reduce the housing gap, but also creates employment and boosts demand in the construction sector. The PROCREAR Program aims to facilitate access to home ownership, and stimulate economic activity and employment generation, by providing financing to the construction sector. It includes direct loans for construction as well as the development of urban projects, and takes advantage of the building sector's multiplier effect on economic activity and employment.

The problem of access to housing in Argentina requires multiple public-sector responses that take into account the heterogeneous housing needs of the population. Consequently, the PROCREAR includes several different credit lines: for construction, enlargement, repair and purchase of a new house. There is also a credit line for purchasing new houses constructed under the program in fiscal lands (urban developments).

The program operates by means of a fiduciary fund, which is financed and managed by different public institutions (ANSES; MECON; AABE, MPFIPyS and the Banco Hipotecario, as the fiduciary). In order to facilitate access to loans, the program has relaxed its requirements regarding the borrower's job and in terms of financial risk. Moreover, it is working with a scheme of tiered subsidized rates according to household income. The Program was launched in July 2012 and the expected implementation plan lasts for 4 years, with a target of around 400,000 loans at a pace of around 100,000 loans per year.

Australia

Facilitators

1. Australian Government's Investment in Infrastructure

Main Challenges: To fund major infrastructure projects that stimulate productivity and economic growth.

Policy Action Description: In the 2015-16 Federal Budget, the Australian Government reaffirmed its commitment to provide \$50 billion to 2019-20 and onwards to build or upgrade both new and existing land transport infrastructure, with A\$43.9 billion under its major Infrastructure Investment Programme. This funding will catalyse additional infrastructure investment from state and territory governments, as well as the private sector.

The Infrastructure Investment Programme consists of 333 major projects, funding for smaller works under sub-programmes, and various policy initiatives. The Programme primarily targets economic land transport infrastructure priorities and also frees up state and territory government funds to focus on the infrastructure priorities of those governments. Some of the policy initiatives under the programme include the attraction of greater private sector investment and the development of innovative financing and funding mechanisms to support traditional grant-based investment in public infrastructure.

Implementation Path: 85 projects in the infrastructure investment programme have commenced. Major road infrastructure projects are being undertaken in every state and territory. For example, major work has commenced on the A\$3 billion NorthConnex project which is expected to create 8,700 jobs in New South Wales. Early work on WestConnex also commenced in 2015 and is expected to deliver A\$20 billion in economic benefits.

Policy Action Description: The Australian Government is also investing A\$29.5 billion in the **National Broadband Network (nbn)** which is Australia's first national wholesale-only, open access broadband network to enable access to fast and reliable broadband services to homes and businesses. The nbn will be available to every Australian household and business by 2020.

Implementation Path: More than 1.2 million Australian homes and businesses are able to connect to the nbn, with more than 600,000 homes and businesses with an active service. By June 2018 this is set to increase to more than 9.1 million homes and businesses across Australia with the ability to connect to the nbn and more than 4 million homes and businesses with an nbn service.

2. Facilitating alternative sources of infrastructure financing

Main Challenges: To meet the infrastructure requirements of Australia's increasing population, private financing of infrastructure needs to increase given government budget constraints.

Policy Action Description: The Australian Government is implementing a number of policies to address this challenge. These include:

i). Alternative funding and financing mechanisms

The Australian Government has committed to consider a range of funding and financing mechanisms specifically designed to complement traditional grant based funding, as well as support and encourage additional private sector investment. In the 2014-15 Budget, the Government announced it would consider the use of alternative funding and financing mechanisms for infrastructure projects on a case-by-case basis, which could include:

- wider implementation of user charging;
- concessional government loans;
- government guarantees;
- phased grants/availability payments;
- targeted payments; and
- value capture.

The Government's **Asset Recycling Initiative** provides the state and territory governments with incentives to privatise existing infrastructure assets, and reinvest the proceeds in productivity-enhancing infrastructure. The Initiative could leverage up to A\$30 billion of new infrastructure activity and provide investors with opportunities to purchase mature, brownfield infrastructure assets. The Initiative is a five year programme with funding allocated to states and territories on a first-come, first-served basis. The sale of the asset and the construction of the additional infrastructure must commence on or before 30 June 2019.

Implementation Path: Two of Australia's eight state and territory governments have reached agreement with the Australian Government on asset sales and new infrastructure projects under the Asset Recycling Initiative. State government divestments, and over A\$2 billion in Australian Government incentive payments associated with these signed agreements, will support around A\$15.5 billion in new infrastructure investment. The Australian Government is continuing discussions with other state and territory governments. States and territories have until 30 June 2016 to reach agreements with the Australian Government under the Initiative.

In the 2015-16 Budget, the Australian Government announced the establishment of the A\$5 billion **Northern Australia Infrastructure Facility** with the objective of increasing private sector investment in infrastructure that will expand the economic capacity of northern Australia. This Facility will provide concessional loans to support major infrastructure projects such as ports, railways, pipelines and electricity

generation. In addition, the Australian Government will provide A\$100 million to improve the roads and supply chains involved in getting cattle to market.

Implementation Path: The Northern Australia Infrastructure Facility has been accepting expressions of interest since 1 July 2015.

There are specific regional programmes that aim to respond to emerging infrastructure opportunities and address areas of disadvantage as the economy transitions away from resources led growth. The Australian Government's A\$1 billion National Stronger Regions Fund, announced in the 2014-15 Budget, is targeting infrastructure projects that support local and regional development. Additional funding was announced in the 2015-16 Budget for local and regional economies through an extension of the Community Development Grants Fund and a new Stronger Communities programme.

ii). Public Private Partnerships

Public Private Partnerships (PPP) involving private sector financing and/or operations management have been used across a wide range of infrastructure sectors, including (toll) roads, railways, water and social infrastructure. Australia has a highly developed PPP environment, and major infrastructure projects have been delivered through PPPs since the late 1980s. Australian governments have established National PPP Policy and Guidelines, which helps provide consistency for industry, whilst assisting governments achieve value for money in the delivery of PPP projects.

3. Credible Pipeline of Infrastructure Projects

i). National Infrastructure Construction Schedule

Main Challenges: To provide certainty and transparency to infrastructure investors and constructors in relation to public infrastructure projects coming to the market.

Policy Action Description: The **National Infrastructure Construction Schedule** (NICS) is a web based resource that enables Australian governments and industry to better plan their forward work and investment programs. The NICS helps facilitate private sector engagement by promoting upcoming investment opportunities to both domestic and international investors.

Implementation Path: The NICS currently lists around 203 projects with a combined value of over A\$66 billion and has had more than 44,000 visits.

ii). Infrastructure Australia – reform & re-prioritisation

Main Challenges: To create a long-term focus in governments' infrastructure project prioritisation and establish a national view on infrastructure priorities and policies.

Policy Action Description: In 2008 **Infrastructure Australia** (IA) was established as a key independent adviser to Australian governments on infrastructure priorities and policies. In its role, IA has contributed to raising the profile of infrastructure investment and identifying barriers to an efficient infrastructure market.

In September 2014, the Australian Government implemented institutional reforms to IA that increased its independence. It was also tasked to undertake five yearly evidence-based audits of Australia's infrastructure asset base, and to develop a 15-year Infrastructure Plan. The inaugural audit was published on 22 May 2015, and identifies infrastructure gaps according to economic need. The 15-year Infrastructure Plan will build on the findings from the audit, and will take into account the strategic plans of the states and territories.

IA also evaluates all nationally significant economic infrastructure projects (water, transport, energy and communications) as well as any social infrastructure (health and education) where A\$100 million or more in Australian Government funding is to be invested.

Implementation Path: The Australian National Infrastructure Audit Report was released on 22 May 2015. IA will submit the 15 year Infrastructure Plan to government in late 2015.

Safeguards

1. Planning

i) Alignment of priorities at all levels of government

Main Challenges: To align strategic planning processes for investment across all levels of government in Australia so that funding of projects meets the most critical needs.

Policy Action Description: Australian governments ensure strategic planning is coordinated in a number of ways. The **Council of Australian Governments (COAG)** is the peak intergovernmental forum which seeks to promote policy reforms of national significance or those which require coordinated action across governments. Strategic plans are often agreed through COAG or its subordinate bodies, with each jurisdiction adopting its own tailored approach to implementation. This way, jurisdictional planning processes take into account agreed national policy directions.

The consultation process for the development of Infrastructure Australia's 15-year Infrastructure Plan will also ensure state and territory government strategic plans are reflected in the priorities identified by the Plan.

In addition, the Australian Government oversees its infrastructure commitments through a dedicated National Infrastructure Committee of Cabinet.

Implementation Path: Ongoing engagement between all levels of government through forums such as COAG, as well as through consultation on key planning documents, will contribute to integrated long-term infrastructure planning in Australia.

ii) Corridor protection (transport)

Main Challenges: The early identification and protection of land is critical for the affordable delivery of future transport infrastructure requirements.

Policy Action Description: The Australian Government has committed to enhancing its existing Infrastructure Investment Programme to refocus state and territory planning efforts on priorities identified in Infrastructure Australia's 15-year Infrastructure Plan. This will support long-term planning for major land transport infrastructure projects, and encourage states and territories to preserve corridors and economic precincts from incompatible uses.

Implementation Path: The Australian Government is working with the state and territory governments to undertake early infrastructure planning in the context of Infrastructure Australia's 15-year Infrastructure Plan.

iii) Key freight routes (transport)

Main Challenges: Continuing growth in freight volumes has given rise to a range of increasingly complex challenges for Australia's freight network.

Policy Action Description: In November 2014, Australian transport ministers agreed to the publication of the first-ever maps of key freight routes. These maps provide a detailed picture of the road and rail routes joining Australia's nationally significant places for freight and provide a policy tool to inform strategic planning, as well as operational and investment decisions across the Australian freight network.

Implementation Path: Improvements in the levels of access of high productivity vehicles (such as B-doubles) on the key freight routes will be subject to ongoing monitoring. The results of this monitoring will be published annually (commencing in 2014-15) by the National Heavy Vehicle Regulator, including gaps in access and anomalies across Australian state and territory borders.

iv) Investment in Australia's agriculture

Main Challenges: Agriculture is a key industry in many rural and regional areas across Australia and a growing agriculture sector is beneficial for many regional communities.

Policy Action Description: Through the Agricultural Competitiveness White Paper, the Australian Government is putting in place practical measures to build a more competitive supply chain, provide the infrastructure needed to support growth, prepare farmers for drought and support them through it, invest in research that drives productivity growth, and open new overseas markets.

As part of the Agricultural Competitiveness White Paper, the Australian Government also announced a A\$500 million National Water Infrastructure Development Fund for water infrastructure, including dams. This is in addition to the A\$200 million recently announced for dams in northern Australia.

Implementation Path: The Agricultural Competitiveness White Paper was released on 4 July 2015.

v). *Developing Northern Australia*

Main Challenges: Northern Australia is a region with immense potential but is also characterised by a number of challenges relating to its remoteness, geography and its economic base.

Policy Action Description: On 18 June 2015, the Australian Government released the White Paper on Developing Northern Australia. The White Paper includes measures to develop the north's potential across six key areas: simpler land arrangements to support investment; developing the north's water resources; growing the north as a business, trade and investment gateway; investing in infrastructure to lower business and household costs; reducing barriers to employing people; and improving governance. In the 2015-16 Budget, the Australian Government also announced it will establish a A\$5 billion Northern Australia Infrastructure Facility with the objective of increasing private sector investment in infrastructure to expand the economic capacity of northern Australia.

Implementation Path: The Deputy Prime Minister is responsible for coordinating delivery of the White Paper initiatives and will provide an annual report to the Parliament. The Minister for Resources, Energy and Northern Australia is responsible for the Northern Australia Infrastructure Facility, which has been accepting inquiries from potential applicants since 1 July 2015.

2. Project Appraisal and Prioritisation

i) *Project appraisal methodology*

Main Challenges: To maximise the productivity improvement through investment in infrastructure, funding must flow to projects that yield the highest benefits. Poor infrastructure investment decisions are economically expensive and undermine private sector confidence and future investment.

Policy Action Description: In the case of transport infrastructure, project proposals are identified and assessed using a framework set out in the *National Guidelines for Transport System Management*. Project proposals emerge from a strategic planning process that involves identifying goals, problems, and options, which are then assessed using detailed cost-benefit analysis.

Implementation Path: Work is continuing to further develop the project appraisal guidelines to ensure a nationally consistent approach to the use of cost-benefit analysis.

3. Project Evaluation and Assessment

i) Benchmarking (data collection) of project procurement and project costs

Main Challenges: To support the infrastructure investment programme by developing a framework for procurement and cost benchmarking to reduce costs and improve the timeframe for delivery of projects.

Policy Action Description: Australia has commenced development of formal data collection mechanisms to benchmark the performance of infrastructure procurement processes, and the cost of infrastructure procurement for publicly-funded major infrastructure projects in Australia. Procurement process benchmarking work is measuring the timeliness and quality of outcomes of procurement processes. The cost benchmarking work is aiming to provide information about the typical cost range for key elements of transport infrastructure projects.

Implementation Path: The development of procurement performance benchmarks is reasonably well advanced. Cost benchmarking measures are at an early stage of development.

Brazil

3. INSTITUTIONAL AND REGULATORY FRAMEWORK FOR INFRASTRUCTURE

Despite being the world's seventh largest economy in terms of GDP, according to the Global Competitiveness Report 2014-2015, Brazil is among the nations with less developed transport infrastructure (Brazil ranked 57 among 144 countries), which reduces the competitiveness of the agribusiness, industrial and services sectors in the country. However, before 2014 the government has made three important achievements – expressed political will to improve the infrastructure of the country, established rules to attract private investments in the sector and put in place a pipeline of infrastructure projects.

The Growth Acceleration Programme (PAC) was launched in 2007 with the goal to address infrastructure deficiencies in four main areas: sanitation, logistics, energy and housing. The road transport, being the main transport mode in the country, received about 69% of the infrastructure investments under the programme since 2007. According to PAC's latest balance, released in January 2015, 99.7% of the planned projects for the period 2011-2014 were concluded. The investments made under the Programme totalled BRL 802.9bn. Also in January 2015, Brazil's re-elected President Dilma Rousseff unveiled the Government's plan to launch a third phase of the Programme (PAC 3), which will feature an improved regulatory framework and better financing conditions for the implementation of large-scale projects.

The medium-term forecast for the infrastructure sector is positive. The outlook is triggered by expectation that the Government will successfully complete its infrastructure concession programme for roads, railways, ports and airports. For the period 2015-2018, BNDES forecasts investments of BRL 177bn, both public and private, in the development of the transport infrastructure of the country. The largest share of the funds will be applied in expansion and improvement of road infrastructure, mainly through auctioning of high-priority roadways.

3.1 Financial instruments - Law 12,431

In June 2011, the Law n° 12,431 introduced the infrastructure debentures in Brazil to promote private long-term financing of investments, by giving tax breaks (Income Tax and IOF) for capital market instruments, creating alternative sources of long-term funding, other than BNDES.

The new regulation was created in order to promote private investments in key infrastructure and logistics projects and to lower the reliance of the sector on Government funding. Under the law, all income from infrastructure bonds is exempted from taxes or is subject to reduced taxes, depending from the bond type and its holder. For example, a zero percent tax rate on capital gains and interest earned by non-residents. Additionally, there is no IOF on external flows to project bonds and funds.

3.1.1 Financial instruments created by Law 12,431

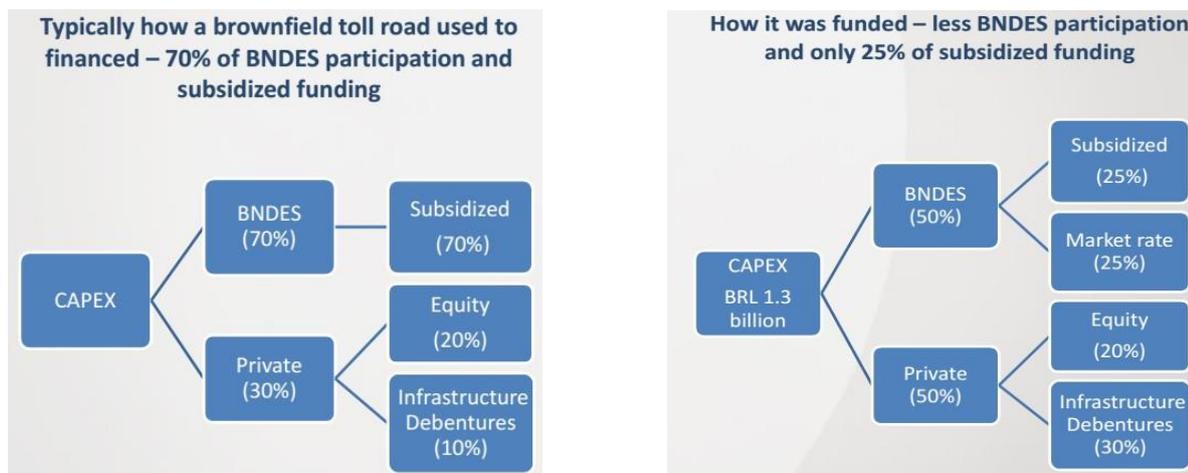
Local currency Project Bonds and Funds:

- Capex Bond/Fund – when the tax break applies only to non-residents;
- Infrastructure Bond/Fund – when the tax break applies to both residents and non-residents.

3.1.2 Types of capital market instruments qualify for the tax break

Corporate bonds (project bonds), certificates of real estate receivables (CRI), quotas of investment funds that holds at least 85% of its net worth in project bonds (67% during the first two years) and quotas of receivables investment funds (FIDC)*. All instruments must be issued as a mean of funding capital expenditure and be placed in the market through a public offering process.

3.1.3 Rio-Niterói Bridge (example of BNDES reduced funding)



3.1.4 National Plan of Integrated Logistics (PNLI - Plano Nacional de Logística Integrada)

The National Plan of Integrated Logistics (PNLI) is an innovative instrument that will put together a single, systematized transport planning framework for all transportation modes. This will promote intermodal efficiency and synergies that are possibly lost in the current model, in which three different agencies (the Ministry of Transportation, the Secretariat for Civil Aviation and the Secretariat for Ports) develop separately their own logistic plans.

The objectives of PNLI are:

- a) To identify bottlenecks and investment opportunities in the short, medium and long term, in order to provide an efficient transportation logistics matrix; and
- b) To propose key infrastructure and services projects (roads, rail roads, ports, airports, waterways and logistic platforms), removing the current and projected logistic bottlenecks so as to conciliate public needs and private/commercial objectives.

The PNLI will be prepared by the National Logistics Planning State-Owned Enterprise (EPL – Empresa de Planejamento e Logística) created on December 2012.

The preparation pathway encompasses the following activities: (i) consolidation of a database composed by traffic volume, origin and destination matrix and service standards of the current and future infrastructure; (ii) implementation of a simulation system; (iii) identification of existing and projected bottlenecks; and the final product; (iv) ranking of projects that shall generate efficiencies in the system.

The PNLI has been in preparation since 2013. The publication of its first round is programmed for the second semester of 2015. PNLI will produce a detailed and comprehensive Action Plan and project pipeline for the modernization of infrastructure in the country, with a horizon of 20 years.

The ranking of infrastructure and service projects selected by EPL will be submitted and validated by Transportation Ministry and CONIT (National Council of Transportation Policy Integration).

3.1.4.1 Logistic Investment Programme (Programa de Investimento em Logística – PIL)

The PIL first stage (PIL/1) was launched on August 15, 2012, with the announcement of concessions for roads and railways. In December of that year, PIL was expanded to include Airports and Ports. New road concessions reduced the weighted average toll fare in private sector roads from R\$ 10.40, in the period from 1995 to 2002, to R\$ 3.75, in the 2011-2015 period. Between 2011 and 2015, concessions for rights to build over 5,363 kilometres were granted in eight roads. The airport concession program resulted in investments of over R\$ 27 billion and in the participation of five international airport operators in Brazil. The airports of São Gonçalo do Amarante (RN), Guarulhos (SP), Viracopos (SP), Brasília (DF), Confins (MG) and Galeão (RJ) were auctioned and are now operated by private companies.

The federal government has announced on June 9th the new stage of the Program of Investment in Logistics (PIL/2). This is another step in the process of modernizing the country's transportation infrastructure as part of its growth strategy.

Around additional R\$ 198.4 billion in investment are estimated, of which R\$ 69.2 billion should occur from 2015 to 2018 and R\$ 129.2 billion from 2019 on. Investments are clustered as follows:

- Roads: R\$ 66.1 billion;
- Railways: R\$ 86.4 billion;
- Ports: R\$ 37.4 billion;
- Airports: R\$ 8.5 billion.

Progress will be measured by the percentage of each project's financial budget disbursement that has been executed as well as the percentages of the physical units of the works completed.

In June 2013, the Government announced a new regulatory framework for the port sector (Law 12.815/2013), with the goals to increase the efficiency of cargo handling, lower the costs and establish clear rules for private investments.

The new Port Law (12.815/2013) eased the approval process for exploitation of private terminals and cargo transshipment stations in Brazil. As a result, by February 2015, the Ports Secretary has awarded 34 new private terminals licenses, with planned investments of BRL 10.4bn. Additional 33 projects were under evaluation, with estimated investments of BRL 22bn. According to the Ports Secretary, the implementation of the new terminals will increase the country's annual cargo handling capacity by 59.7mn tonnes of general cargo, 114.7mn tonnes of solid bulk and 97.9mn m3 of liquid bulk.

3.1.4.2 The National Dredging Programme

The National Dredging Programme, launched in 2012 and, subsequently, included in the Logistics Investment Programme – Ports, envisages the dredging and the maintenance of the depths reached in the port access channels under long-term contracts with private companies. The main goal of the programme is to open the Brazilian ports for larger vessels with draft over 14 metres. In June 2014, the Secretariat of Ports announced that the dredging of 20 ports will be auctioned, which is expected to attract BRL 4.7bn of private investments. In March 2015, the first dredging auction was launched for the Sao Francisco do Sul Port, and shall be followed by auctions for the Ports of Santos, Paranagua and Rio Grande.

3.1.4.3 The Regional Aviation Plan and Airport Infrastructure

The Regional Aviation Plan, introduced in December 2012 as a part of the Logistics Investment Programme – Airports, envisages the investment of BRL 7.3bn in the construction, expansion and renovation of 270 regional airports with the goal to promote the use of domestic air transportation in the country. In July 2014, the Government also unveiled its plan to subsidise the price of airline tickets in regional flights. The subsidy should lower the ticket prices by 10-25%. In August 2014, the Government

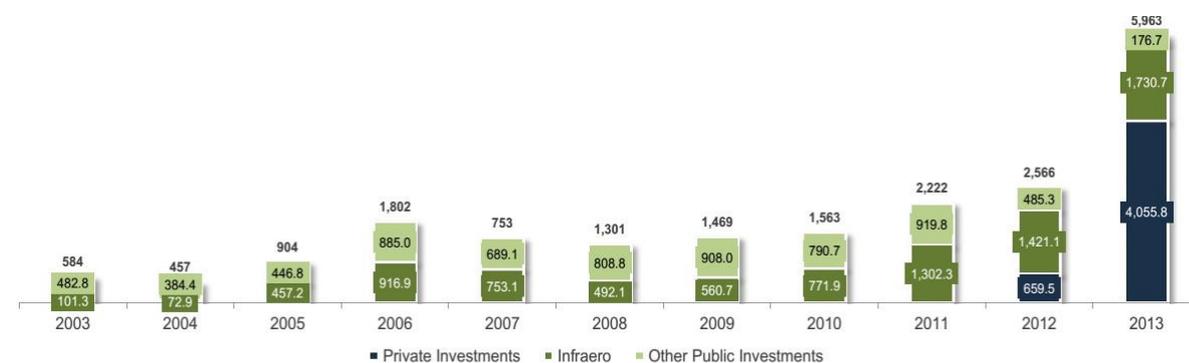
approved, as well, the rules for auctioning of regional airports, under which the States and the Municipalities will have several advantages in the bidding process. However, Municipalities could only bid for the management of regional airports, provided they have sufficient capacity to operate and maintain the airport infrastructure and their annual GDP exceed BRL 1 bn.

Brazil is currently the world's third largest market for air transport services in terms of number of carried passengers, following the United States and China. For the period 2003-2013, the domestic air passenger traffic more than tripled, while the demand for cargo transport increased by 48%. In order to meet the growing demand for air transport services as well as to attract private investments for the improvement and expansion of local infrastructure, the Government auctioned the country's five largest airports in 2012 and 2013. As a result, Routes Online estimated that the capacity of domestic airports, as measured by the number of available departure seats, grew by 15.6% over the period 2010- 2014. Between 2011 and 2014, a total of BRL 13.4bn were invested, both public and private funds, in expansion of existing airports and construction of new terminals. The investments contributed to a substantial increase in the capacity and the service quality in the 15 largest airports of the country. At present, the largest capacity expansion works are being implemented at the Galeao International Airport in Rio de Janeiro, which will have to raise its capacity by 66% by 2016, when the city will host the Summer Olympic Games.

The restructuring of the state entity Infraero (Brazilian Airport Infrastructure Company) was announced in December 2012, as a part of the Logistics Investment Programme – Airports. However, only in March 2015, the Government unveiled the restructuring plan that included several measures to boost the competitiveness and improve the financial performance of the company. The revenue of Infraero dropped significantly after six of its largest airports – Guarulhos, Viracopos, Brasilia, Galeao, Confins and Sao Goncalo do Amarante, were privatised in 2012 and 2013. Together, the six airports handled 97mn passengers in 2014, while the number of passengers on the current 60 airports managed by Infraero reached 112mn. In March 2015, the Ministry of Civil Aviation announced that the corporate restructuring of Infraero should be concluded by the end of 2015. The plan envisages the creation of three subsidiaries: (i) Infraero Servicos, which will offer airport management services in partnership with international operators; (ii) Infraero Participações that will manage the company's assets in privatised airports; (iii) Navegação Aérea which will encompass the air navigation operations of Infraero. According to the Civil Aviation Department, new airport auctions could take place only when the restructuring of Infraero is completed. The entity noted that nine airports would be privatised, the first three being Salgado Filho in Porto Alegre, Hercilio Luz in Florianopolis and Luiz Eduardo Magalhaes in Salvador.

Since 2012, when the segment was opened to private competition, the private sector has emerged as the largest investor in air transport infrastructure, accounting for more than 55% of the investments for the period 2012-2013. Notably, the airport privatisation triggered a 132% increase of the investments in infrastructure in 2013, as compared to 2012.

Evolution of Investments in Air Transport Infrastructure (BRL mn)



Source: IPEA

3.1.4.4 Port Infrastructure

There were 35 public ports in Brazil at the end of 2014, of which 31 were sea ports and only three river ports, as well as 131 private port terminals.

By the end of 2014, about 14% of the overall cargo in Brazil was transported via waterways. In 2014, the volume of handled cargo increased by 4.3% y/y, reaching 969.6mn tonnes. Approximately 64% of the freight was handled by private terminals, which are mainly used for the transport of solid and liquid bulk cargo. On the other hand, public ports are most used for container cargo.

The main progress in efficiency improvement in the last few years was the implementation of the Port Without Paper Programme, which reduced the documentation needed for the release of goods. In 2013, the programme was successfully implemented in all 35 public ports.

According to estimates by the Applied Economic Research Institute (IPEA), a Brazilian think tank, the private sector was responsible for over 67% of the investments in the port sector in Brazil over the last decade. The main sources of financing were subsidised loans granted by BNDES. Private investments peaked in 2012, mainly due to several modernisation and expansion plans implemented by private port operators. In 2013, the private investments dropped by 38% y/y, as a result of the adoption of a new regulatory framework (Law no 12.815), which brought insecurity to port operators, according to IPEA. In 2014, the Government invested BRL 690mn in port infrastructure, mainly in the ports of Fortaleza, Natal, Salvador, Santos and Recife. The public investments for 2015 are estimated at BRL 2.8bn, 54% of which will be allocated in dredging works.

3.2 Legal and Institutional Settings

3.2.1 *National Program for Access to Technical Education and Employment – PRONATEC*²⁶

Pronatec is a national program designed to provide access to technical education and employment, through which access to vocational training has been made feasible in all regions of the country at no cost to the students. It also offers financial aid in order to reduce dropout rates and guarantee course completion by students with lower household income. The Pronatec Program involves a total budget of R\$ 14 billion and its target to enrol 8 million students by the end of 2014 was reached. In 2015, the Pronatec Program was extended to the end of 2018, aiming at benefiting a total of 12 million students.

3.2.2 *Education (NEP) and Innovation (PNPC) - Programs to Increase the Productivity of the Economy*

Brazil has managed to increase the schooling rate from 5.8 years, in 1995, to 8.6 years in 2012. Public spending with education has increased from 4.7% of GDP, in 2000, to 6.6% of GDP in 2013 surpassing the average levels of OECD countries. In order to effectively face the challenge to improve the quality of education and to fully meet the country's needs for a better educated and more innovative workforce, education expenditures are expected to increase in the next ten years. Together with the higher investment rate in infrastructure, those measures will reinforce the potential output and competitiveness, both inside and abroad, of the Brazilian economy.

The Brazilian House of Representatives concluded on June 3rd, 2014, the passing of the National Education Plan (NEP) for the next ten years. The bill was signed into law by the president of Republic on July 25th 2014.

The NEP sets 20 targets to be met over the next ten years. Among the targets are the eradication of illiteracy; increasing the number of places in childcare facilities, in high school, in vocational education and public universities; the availability of 100% of school care for children from 4 to 5 years; and the provision of full-time teaching for at least 25% of students in elementary education.

²⁶ The Pronatec Worker program provides professional training to unemployed workers and will be mandatory for all workers who have applied for the unemployment benefit more than twice in the past 10 years. The Ministry of Labour and Employment shapes the demand for the program so as to match the demands for professional training made by the local tripartite councils of labour and employment. The program is carried out as a partnership between the Ministries of Labour and Education by the local tripartite councils of labour and employment.

Canada

	Facilitators	Safeguards
Infrastructure	<p>1. Supporting Improvements in the Investment Climate</p> <ul style="list-style-type: none"> Transformative public investment in infrastructure 	<p>3. Enabling Appropriate Legal and Institutional Settings</p> <ul style="list-style-type: none"> Enhancing existing infrastructure support

1. Supporting Improvements in Investment Climate

Transformative public investment in infrastructure

- The Government has committed to almost double infrastructure investments in priority areas over the next decade, including a quadrupling of investment in public transit infrastructure, dedicated funding for green infrastructure, and new, dedicated funding for social infrastructure.
- The Government will also provide financial instruments to support provincial, territorial and municipal infrastructure, such as a Canada Infrastructure Bank, where jurisdictions are facing challenges in advancing projects due to a lack of capital.
- In addition, the New Building Canada Plan, launched in 2014, includes over \$53 billion for provincial, territorial and municipal infrastructure over 10 years to fund the construction, rehabilitation and enhancement of Canada’s infrastructure.

2. Enabling Appropriate Legal and Institutional Settings

Enhancing existing infrastructure support

- The Government will also seek to make the New Building Canada Plan more focused and transparent, including by providing clearer project criteria, along with faster approval processes. The Government will also work with provinces, territories and municipalities to ensure funding is committed to projects.

	Facilitators	Safeguards
Infrastructure	<p>4. Improving the Investment Climate</p> <ul style="list-style-type: none"> • Reforming Regulatory Framework for Infrastructure : Promoting pricing reforms in public service sectors • Major Strategies in Infrastructure Investment: Advancing the Belt and Road Initiative, promoting infrastructure connectivity, and pushing forward the AIIB, the New Development Bank and the Silk Road Fund initiatives. • Tax Incentives: Implementing the <i>Catalog for Public Infrastructure Projects Eligible for a Favorable Corporate Income Tax</i> <p>5. Facilitating Financial Intermediation</p> <ul style="list-style-type: none"> • Developing High-Efficient and Flexible Financing Tools: Issuing the <i>Guiding Opinions on Innovating in Investment and Financing Mechanism and Encouraging Social Investment in Key Fields</i> and setting up a 300 billion RMB yuan Insurance Investment Fund <p>6. Mobilizing MDB Resources and Role of NDBs</p> <ul style="list-style-type: none"> • Reforming Domestic Policy Banks • Deepening Cooperation with MDBs 	<p>7. Enabling Appropriate Legal and Institutional Settings</p> <ul style="list-style-type: none"> • Develop an adequate public and private partnership (PPP) framework: Establishing institutions and funds to support PPP, advancing PPP legislation, formulating PPP operating guidelines and contractual provisions

B.II.1. Actively promoting PPP. China has established the policy framework for PPP. China will advance the relative legislation to specify the rights and obligations of the government and social capital. PPP financing support funds will be set up with Central Government budgets, and local governments are encouraged to set up joint funds with financial institutions on the premise of bearing limited losses, with an aim to improve project financing access. The government has improved the PPP operating guidelines to provide full cycle regulation for operating procedures from project identification, preparation, procurement, execution to handover. The contract guidance and the standardized contracts for different industries and sectors have also been formulated. A number of PPP centers have been set up at the central and local levels. The government will simplify approval procedures for PPP projects and facilitate adequate land access for project purposes. PPP project operators are encouraged to raise funds by various means such as bonds, notes, social security funds and insurance funds, medium and long-term credit loans and equities. China will push forward the public service pricing system reform, improve the government pricing policy hearing system, timely disclose project information and enhance the transparency of pricing and price adjustment mechanisms. China implements the *Catalog for Public Infrastructure Projects Eligible for a Favorable Corporate Income Tax*, and apply the “three-year exemption and three-year half payment” policy to the incomes generated by business operations of the important public infrastructure projects supported by the state such as ports, airports, railways, highways, urban public transport, power supply and water conservancy.

B.II.2. Advancing the cooperation under the Belt and Road Initiative and building interconnected infrastructure networks. On the basis of respecting sovereignty and security concerns, China stands ready to work jointly with other countries to build cross border trunk ways to foster infrastructure networks connecting all sub-regions within Asia, and gradually link Asia, Europe and Africa by cross-board transportation networks; when infrastructure interconnectivity is realized, build a unified coordination mechanism for long distance transportation, so as to facilitate international transport; boost port infrastructure construction; build land-water transportation channels and advance port affairs cooperation; expand and build platforms and mechanisms for comprehensive civil aviation cooperation,

and expedite aviation infrastructure development. The government will promote cooperation in energy infrastructure connectivity, and work with other countries to ensure the security of oil and gas pipelines and other transport routes, build cross-border power supply networks and power-transmission routes, and jointly promote regional power grid upgrading and transformation. China will work jointly with other countries to advance the construction of cross-border optical cables and other communications trunk line networks, build bilateral cross-border optical cable networks, deliberate transcontinental submarine optical cable projects, and improve satellite information passage ways. China will make joint efforts with other countries to advance the initiatives of the Asian Infrastructure Investment Bank and BRICS New Development Bank. China will work towards the early operation of the Silk Road Fund, and expand the bilateral currency swap and settlement both in terms of scope and scale. The government supports domestic institutions to settle overseas investments in RMB yuan. As part of the efforts to expand two-way capital market opening-up, the Chinese government will support RMB bonds issuance in China by countries taking part in the Belt and Road initiative, as well as their companies and financial institutions with good credit standing.

B.II.3. Tapping into various financial instruments to finance infrastructure development. China vigorously develops investment vehicles such as equity investment funds to encourage private capital to set up sector specific investment funds through private placement. The government may provide financing through equity subscription with fiscal funds. The central government supports local governments to issue bonds in accordance with relevant laws and regulations for the projects in key sectors of economic development. China will continue innovating credit services, such as using emission rights, charging rights, franchises, projected returns of service purchase agreement as collaterals, and using predicted project returns as pledges for loans. China will develop debt investment plans, equity investment plans, asset-backed plans and various financing instruments to extend the investment period, and as a means to guide social security funds and insurance funds into infrastructure projects. The government will set up an insurance investment fund of 300 billion RMB yuan to support the country's infrastructure projects in the form of equity and debt financing.

B.II.4. Combining resources of national development banks and multilateral development banks (MDBs) to support infrastructure construction. Making use of national development financial institutions, China encourages the China Development Bank to give more support to key sectors and weak links of the economy, support the development endeavors in key sectors such as national infrastructure, basic industries and pillar industries as well as shanty town renovation.

China formulates programs on MBDs lending to finance infrastructure building based on the regional and industrial development priorities specified in the national long-term development strategy. China will continue to draw on the experiences from existing MDBs in their lending projects policy, management and execution, in order to facilitate the reforms in infrastructure project management system, including project supervision, evaluation as well as bidding and procurement. The Chinese government has set up South-South knowledge-sharing platforms together with MDBs to share experiences related to infrastructure development.

European Union

Please refer to the beginning of Section B.

France

B.2.i. MODERNISING FRENCH INFRASTRUCTURE

The Government has introduced several initiatives to mobilise financing for ambitious plans to boost long-term growth potential at the national level, enhance productivity of the Greater Paris Region and expand access to reliable high-speed broadband.

Grand Paris and major transportation infrastructures

In the infrastructure sector, the Grand Paris Express is a flagship project, consisting of 200km of automated metro lines to better connect the main business centres of the Paris area. It has been thoroughly

reviewed, and the cost-benefit analysis undertaken for the overall project shows that it will deliver good value for money: the Net Present Value of this €25bn investment has been estimated at €29bn, which corresponds to a socioeconomic internal rate of return of 8%. The Prime Minister recently reaffirmed his commitment to this bold project, and decided to accelerate the roadmap for its implementation. The service from Orly airport, and that serving the economic activity zones located near Roissy airport, are for example expected to start operating in 2024.

As far as interurban transportation is concerned, four high-speed railway lines, representing a total investment of about €15bn, are under construction. They will start operating by the end of 2017 and will reinforce France's position as the second-largest high-speed railway network in Europe. Moreover, France and Italy have recently agreed to go ahead with the Lyon-Turin project, which will pave the way for the construction of the base tunnel for this new railway link.

Digital switchover

Access to a reliable, high-speed broadband network is essential to the digital transition. As part of its "France Très Haut Débit" initiative, France has committed to providing next-generation access (speed of over 30Mbits) for all by the end of 2022, with 80% of that access using fibre to the home, the most reliable and scalable technology to date. Furthermore, 50% of the population will be provided with access to very high speed broadband by 2017. This ambitious roll-out of next generation access throughout the country requires substantial investments (€20bn of public and private investments in infrastructure).

Investments in infrastructure and digitalisation of firms will be complementary in achieving the digital transition. France has dedicated part of the PIA initiative to support firms going digital and to promote new technologies, key to the digitalisation of the economy, such as Big Data and cloud computing (the National Digital Society Fund (FSN), which is responsible for these programmes, manages €1.5bn).

B.2.ii. PROMOTING HOUSING

In order to ease low-income households' access to housing, France is committed to increasing the supply of housing and has taken several measures to achieve this objective.

Transferring local town planning schemes to inter-municipal structures, increasing the "cadastral rental value" for building land and changing capital gain taxes on residential properties will lead to the release of public and private land. Measures aimed at reducing timelines for obtaining building permits and easing town planning regulations are designed to stimulate housing supply by reducing regulatory constraints. The development of social housing and middle-income public housing (logement intermédiaire) is encouraged through lower VAT rates, tax breaks for those who invest in rental properties and direct public investment (construction of 25,000 new units of middle-income public housing over five-years in densely-populated areas, as announced last September). In addition financial help will continue to be provided to first-time buyers, targeting particular areas and sections of the population for whom such measures will act as a real incentive to buy (using lower VAT rates in urban renewal areas and zero rate loans).

B.2.iii. FACILITATING THE ENERGY TRANSITION

The Green Growth Energy Transition Bill sets several objectives for the long and medium term: reduce greenhouse gas emissions by 40% by 2030 and by 75% by 2050 compared to 1990, reduce fossil fuel consumption by 30% by 2030 compared to 2012, reduce final energy consumption by 20% by 2030 and by 50% by 2050 compared to 2012, decrease the nuclear share to 50% of electricity production by 2025, increase the renewable share in final energy consumption to 23% by 2020 and 32% by 2030 and build 7 million charging points for electric vehicles by 2030.

Successful achievement of these objectives will require a substantial additional investment. A wide range of instruments already exist or will be introduced to support such investments. Carbon taxes (European Trading Scheme (ETS) for some sectors and the climate energy contribution, set at 22 €/tCO₂eq in 2016, for non ETS-sectors) give a long term signal to investors and encourage investments in energy efficiency and low-emitting technologies. The energy saving certificates system is another economically efficient way to encourage electricity suppliers to invest in energy efficiency in agriculture, residential and tertiary buildings, industry, networks and transport. Support mechanisms for renewable energies and an

energy transition fund of €1.5bn will also be created to subsidise other investments, including those aimed at the development of positive energy areas.

Energy transition in infrastructure

Regarding energy generating capacity, the Green Growth Energy Transition Bill includes a multiannual energy programme providing a national roadmap for achieving the full set of France's climate and energy objectives. The first energy programme, to be published by the end of 2015, aims at (i) defining the proposed trajectory for energy generating capacity, by technology type, by 2018, (ii) defining a generating capacity range to be achieved by 2023 for each technology. Tenders will be launched in order to adjust energy generating capacity with regard to the trajectories set by the energy programming.

Specifically, the programme will define renewable energy trajectories consistent with the ambitious objectives set by the Transition Bill. The deployment of that programme will require reinforcement of the electricity transmission and distribution system in order to connect new renewable electricity production facilities (onshore wind turbines, solar panels, offshore wind turbines and marine renewable energies). We will need to develop electricity and gas interconnections to make a European internal energy market a reality. France is also committed to enhancing smart grids and demand response, especially through the widespread installation of smart meters: Linky for electricity and Gazpar for gas.

Finally, by lowering the carbon content of its electricity, France expects to decarbonise its transport sector through electrification, which will require major infrastructure investments: the Transition Bill provides for the deployment of 7 million charging points for electric vehicles by 2030.

Energy transition in housing

Private investments in housing renovation with a direct impact on energy savings amount to around €15bn per year in France. A set of environmental policies – including standards, subsidies for low-income households and subsidies via tax credit and interest-free loans – has already been targeting the residential sector to foster energy efficiency measures since the beginning of the 2000s. This public support accounts for an average of €1.5bn per year, which includes State and local authorities' support.

Nevertheless, further private investments and better investment efficiency are needed to reach national energy efficiency and emission targets (especially the 500,000 energy saving renovations per year by 2017 set out in the Transition Bill). According to stakeholders, around €5bn per year of additional private investment appears necessary to tap profitable energy saving potential and to move from 134,000 to 500,000 renovated units per year. However, the pace of renovation could be constrained by the absorptive capacity of the construction sector. The introduction of a higher carbon price signal is a major way to help households identify cost-effective investments and to efficiently reduce GHG emissions.

B.2.iv. CREATING A PROJECT PIPELINE

France is supportive of initiatives to identify projects with a positive cost-benefit value. In this regard, the Government encourages the European Investment Plan initiated by the Juncker Commission, promotes the use of innovative financial instruments such as project bonds and has enhanced its framework for supervising public investment while supporting investment by local communities.

European Investment Plan

The Juncker Investment Plan was officially enacted in December 2014 by the creation of a European Fund for Strategic Investments; the idea is to mobilise €315bn to support high-value strategic investments and to improve risk financing in Europe, particularly in small and medium-sized enterprises.

The goal is to create a confidence shock for investors and project developers to trigger a sustainable recovery in the European Union. To this end, the Fund will be supported by a €16bn euro guarantee from the EU budget and a €5bn euro equity contribution from the European Investment Bank (EIB).

These contributions are expected to channel private investors towards riskier projects that require additional funding, for a total investment of €315bn. Capital expenditure under the Juncker Plan (in human capital and R&D in particular) is expected to increase productivity over the long term.

On 6 March, it was announced that France would contribute €8bn to the plan. This financing will come from the Caisse des dépôts et consignations and Bpifrance. Germany announced a similar effort (via KfW), as did Italy and Poland. Spain also announced a co-financing of €1.5bn through its public bank, ICO. Belgium, Luxemburg, Netherlands and Portugal will also contribute.

In France, the CDC would assist in various ways (for a total of over €5bn) through additional financing and co-financing of major projects in partnership with the EIB and through financial instruments aggregating small and medium-sized projects in priority development sectors, among others. Similarly, Bpifrance will participate in the Plan through co-financing arrangements and co-investment with the EIB. Out of a total contribution of nearly €3bn, Bpifrance would contribute to a maximum of €6bn euros in investments

In addition, the European Member States decided to create a European Investment Projects Pipeline to improve market information concerning investment opportunities, and intend to resume the single market integration process in order to improve capital allocation throughout the EU.

Project Bonds

Axione Infrastructures, its investors²⁷, including the Caisse des dépôts et consignations, worked with the EIB and the European Commission to launch the first project bond for broadband infrastructures in July 2014. Natixis leads the €189m bond, which is the first project bond in France and the first broadband infrastructure bond in Europe. This project is expected to pave the way for more investment in infrastructure and innovation in France.

Supporting public investment by local communities

The *fonds de compensation pour la TVA* (FCTVA) is supporting the investment of local communities. In 2010, the FCTVA has been granted more than 6 billion euros. The FCTVA has been created to compensate for a flat rate (15.45%) VAT that local authorities and their groupings have paid on real investment expenditure and cannot recover through taxation. The Government announced in April 2015 that the Caisse des Dépôts will establish a zero-rate pre-financing of FCTVA payments to local authorities to complete the offer of short-term loans offered by commercial banks. This measure will boost public investment by €300M per year, starting in 2016.

Supervising Infrastructure Investment Project

Since 2013²⁸, socio-economic project assessment reports (cost-benefit analyses) have been compulsory for public investment projects involving over €20m in public financing, in every sector. For the largest projects (over €100m in public financing, representing at least 5% of the total investment), France has also established a peer-review process in order to submit these project assessments to a second independent expert opinion, under the supervision of the General Commission for Investment (CGI), which analyses the assumptions, the methodology as well as the results. The CGI then issues an opinion based on this independent assessment. Between July 2013 and December 2014, the CGI supervised a peer-review process for 19 projects, out of 27 identified so far. The projects reviewed during this period included seven hospitals, seven real estate projects in the higher education and research sector, three transport projects, one cultural project and one research infrastructure. In most cases, the peer-review confirmed the projects' relevance on a cost-benefit basis. The recommendations issued by the CGI contributed to changes in several projects and even recently to the cancellation of a project to link the départements of Pas-de-Calais and Les Landes by a rolling motorway.

The CGI also ensures the overall consistency of national public investment, coordinates the €47bn allocated to the Invest for the Future Programme, and makes an inventory of major public investment projects. The first inventory was carried out by the CGI last summer. It identified 299 projects, including on-going projects as well as projects with excellent potential, representing a total of €200bn. The Commission then acts as a “gatekeeper”, providing quality control of the socio-economic cost-benefit

²⁷ MIROVA and Bouygues Energies & Services.

²⁸ Loi de programmation des finances publiques 2012-2017 de décembre 2012 [Public finance programme law of December 2012 for 2012-2017]

project assessments, before projects can be tendered in the form selected (PPP or non-PPP). The primary purpose of such project assessments is to help select the infrastructure projects delivering the most value for money. Within the French Treasury, the Public-Private Partnerships Task Force (MAPPP) is responsible for focusing on the contract assessment in the case of PPP (government-pay model). The primary purpose is to make sure that legal conditions and value for money are properly established when the project is to be implemented as government-pay PPP. The MAPPP acts as a second “gatekeeper” in conducting a review of the initial project assessment regarding these aspects before it can be tendered as a PPP. In a second phase, the MAPPP performs a review of the draft PPP contract before it can be signed. The MAPPP provides a methodological framework and technical support during the preparation of PPP projects, including drafting and negotiating contract documents. It promotes transparency by publishing all its project assessment reviews.

Cost-Benefit Analysis (CBA) method used

One of the main indicators²⁹ used is the socio-economic net present value (NPV), which takes into consideration, beyond investment and operating and maintenance costs, several non-monetary effects generated by the project, assigning shadow prices to them. For the evaluation of transport projects, it includes³⁰ inter alia travel time gains, changes in accident risks, costs of mobilising public money and environmental effects such as the impact of pollutant emissions on air quality, noise pollution and greenhouse gas emissions. In particular, carbon emissions are thus duly valued in the socio-economic calculation, ensuring that the long-term investments contribute effectively to the transition to a low-carbon economy. The cost attributed to public money (due to distortionary taxes) also contributes significantly to identifying the best way to finance a project, balancing the pros and cons of mobilising either the taxpayer or the consumer.

The methodology and the reference values used for the evaluation are updated on a regular basis. The last report, entitled “Socio-economic evaluation for public investments”, was prepared by a working group of experts led by Emile Quinet, and was released in September 2013. For example, in the current socio-economic framework, carbon value was set at 32 €/tCO₂ in 2010, increasing progressively to 100 €/tCO₂ in 2030.

Germany

Germany is pursuing a comprehensive strategy to increase both public and private investment. The goal is to boost investment in infrastructure, education, science and research. To do this, the Federal Government wants to improve the conditions for private investment in particular (see section B.1 above).

In addition, during the current legislative period, the Federal Government has launched measures to increase public investment by nearly €40 billion over a five-year period (from 2014 to 2018). These include measures that will reduce financial burdens on regional and local governments, in order to give them more financial capacity to make investments.

The Federal Government will provide a total of €5 billion of additional funding for urgently needed investment in public transport infrastructure until the year 2017, primarily for maintenance and modernisation purposes. The government has also decided to extend the truck toll to all roads under national responsibility and to introduce road charges for cars. The revenue will be used for investments in motorways and the promotion of efficient heavy duty vehicles. In addition, measures will be taken to improve efficiency and to set the right priorities for infrastructure investment.

On March 3, 2015 the Federal Government agreed on the details of the investment programme announced in November 2014, totalling an additional €10 billion. From 2016 to 2018, a total of €4.35 billion will be spent on transport infrastructure and broadband internet, €1.2 billion on energy efficiency measures (especially for private buildings) and €0.7 billion on public buildings; the remainder will be

²⁹ Other indicators include the NPV per euro invested, the NPV per public euro spent, and the optimal date of implementation (if data are available).

³⁰ Comfort gains and reliability of travel times could also be included (if data are available).

allocated to other public investments. Additional investments of this programme will be used for railways, public and non-motorised transport and inland shipping.

Total capital expenditure by local authorities, which are responsible for the maintenance and expansion of local infrastructure, is increasing markedly – promoted also by measures of the Federal Government. In the 2014-2017 period, the Federal Government intends to provide further support for municipalities totalling €3 billion. In addition to this, Finance Minister Schäuble on behalf of the Federal Government announced on March 3, 2015 an additional €5 billion investment package for municipalities from 2015 to 2018, mainly for public infrastructure.

In support of the European Commission's Investment Plan for Europe, Germany will contribute about €8 billion (in 2015-2017) to, among other things, the financing of projects and to investment platforms via loans by the German development bank Kreditanstalt für Wiederaufbau (KfW). To this end, KfW will closely cooperate with the European Fund for Strategic Investments (EFSI) proposed by the European Commission.

With regard to railway infrastructure, the Federal Government and Deutsche Bahn AG have agreed on a €28 billion modernisation programme over five years (2015-2019) for the existing railway network. Investments account for €20 billion out of the €28 billion total. Compared to earlier budgetary plans, about €4 billion is additional investment.

The Federal Government will launch a new generation of public-private partnership projects with a total investment volume of €7 billion to carry out necessary road construction works in a more efficient way.

India

Please refer to India's input in Section B.1., as a common response for B.1. and B.2. was provided.

Indonesia

The Government of Indonesia has issued law and regulations to create conducive infrastructure environment that will result in acceleration of infrastructure development. Some laws and regulations are with mentioning i.e.: (1) Law Number 2 of 2012 regulates land procurement for public benefit that provides certainty for private investor who involve in public projects; (2) Presidential Regulation Number 75 of 2014 regulates the establishment of Committee for the Acceleration of Priority Infrastructure Provision (KPPIP) to accelerate the development of a number of priority infrastructures; (3) Presidential Regulation Number 39 of 2014 revises list of closed business and opened business lines with the requirements in the sector of investment in order to boost foreign investment; (4) Presidential Regulation Number 66 of 2013 that regulates the extended period in the term of financing stage in PPP process; (5) Presidential Regulation Number 56 of 2011 that regulates PPP scheme between government and business entity, and government support and guarantee for the PPP project; and (6) Presidential Regulation Number 78 of 2010 on government guarantee in PPP through infrastructure guarantee fund solves the need of investor to protect the projects against political risk inherent in infrastructure investment. Indonesia would continue synchronizing regulations of national and provincial levels to ensure better and aligned regulatory framework.

Committee for the Acceleration of Priority Infrastructure Provision (KPPIP) was established by the Government of Indonesia in July 2014 to solve cross sectoral coordination problem in infrastructure development. KPPIP has function to accelerate priority infrastructure projects by providing effective coordination, facilitation, and debottlenecking. KPPIP is chaired by The Coordinating Minister for Economic Affairs and, has The Minister of Finance, The Minister of National Development Planning/ Head of National Development Planning Agency (Bappenas), and The Head of National Land Agency (BPN) as permanent members. KPPIP also has ad hoc member, which is minister or government agencies who deal with infrastructure that being planned. The tasks of KPPIP includes setting up strategies and policies in order to accelerate priority infrastructure provision, monitoring and controlling the implementation of these strategies and policies, and facilitating capacity building of apparatuses and institutional matters. In determining priority infrastructures, KPPIP identifies priority infrastructures by

receiving suggestions from ministers, heads of agencies, heads of regions, leaders of state-owned enterprises, or leaders of local government-owned enterprises. Subsequently, KPPIP assigns party or person as program responsible for each priority infrastructure. In 2015, the Committee already defines 22 projects as priority infrastructure that will be financed through three schemes such as government budget, SOE assignment and PPP scheme.

Ministry of Finance has established a unit, namely Directorate of Government Support and Infrastructure Financing, early 2015. The unit work closely with other stakeholders such as KPPIP to develop a pipeline of bankable infrastructure projects under PPP scheme. It will develop regulatory framework for PPP scheme by harmonizing existing regulations and formulating policies in order to increase private investor involvement. The unit will also manage and provide facilities required in order to make the PPP projects become viable, bankable and attractive for private sectors. These facilities may include project preparation, viability gap funding, sovereign guarantee for political risk, and financing structure through availability payment. Currently, 9 projects are being handled in various stages from preparation to transaction. The projects are mostly in energy, water, and transportation/ connectivity areas. Two projects are likely to reach financial close within short period.

Traditionally, infrastructure financing in emerging and developing countries have relied heavily on bank financing. Indonesia has initiated further alternative access of financing for infrastructure, in particular Islamic sukuk. Indonesia's path in developing Projects-Based Sukuk (PBS) was initiated as part of strategist in infrastructure financing and diversifying risks. While conventional bond is a promise to repay loan, sukuk constitutes partial ownership in projects being financed. One of Indonesia's milestones in project-based sukuk is the double track railway project that connected two potential cities in West Java and Central Java lise around 160 kilometres. Indonesia has another double track railways in metro Jakarta being financed by sukuk issuance for three-year project. Referring to these successful project-based sukuk, the government is optimistic that there is potential to further optimize Islamic sukuk as a financing model in the country. Currently, the outstanding Project Based Sukuk (PBS) is approximately 27% of total outstanding of Indonesia Government Islamic Securities.

The Government has injected a capital to state-owned enterprise in infrastructure financing (Sarana Multi Infrastruktur Persero/PT.SMI) to increase its capacity on financing. PT SMI will have an opportunity to expand its role in accelerating financing for basic infrastructure need. Expanding role of PT SMI will tackle overcome mismatch problem that occur in conventional banks and it will accelerate of infrastructure development that would create a multiplier effect.

In regional or multilateral context, Indonesia has actively prepared in an establishment of regional multilateral commitment or Asia Infrastructure Investment Bank to participate more in development of Asia region infrastructure. There is a huge gap of infrastructure financing needs in Asia region that could disturb economic growth. Indonesia expects an improvement in region infrastructure that would encourage economic growth, employment, and regional connectivity by participating in multilateral commitments. Indonesia is also continuously optimizing existing multilateral and regional development banks resource through partnering in productive projects. As a country, partnering with development banks is not only provide affordable financing but also some benefits such as capacity improvement, good governance practices, and delivering value for money.

Italy

Facilitators

The Italian Government believes that public investment, particularly in infrastructure, is an essential component of its comprehensive approach to spur growth and create jobs. Investment, particularly in infrastructure, constitutes an ideal bridge between demand- and supply-side policies, as it strengthens the recovery in the short term, thus reinforcing the impact of structural reforms, while removing key supply bottlenecks in the medium-term.

To boost public investment, characterized by a low level of efficiency, the Government has first committed to address longstanding challenges. In this regard, the Government has clearly underlined the main reasons of this unsatisfactory performance: delays in execution, higher costs due to legal and procedural complexity, compensations, a contractual framework that does not provide the right incentives, lack of competition, corruption, limited use of cost-benefit analysis.

The Government has stated since the outset its intention to change this system and gear, by intervening in all phases of the project cycle, including prioritization, programming, preparation, execution and evaluation, and by introducing best practices taken from the international experience. In addition, the Government is also committed to boost investment in infrastructure within the context of a prudent growth- and employment-friendly fiscal policy, by a strategic programming focused on priority investment, the involvement of private investors through public-private partnerships and a specific attention to small and medium-sized investment.

The Government has started to implement this comprehensive strategy at the end of last year (law-decree “Unblock Italy”), by facilitating infrastructure development through a broad range of measures to simplify and accelerate procedures. This legislative package, which includes substantial financial resources (3.9 billion euro), is financing projects ready for execution in the priority areas of undergrounds, railways, roads, water infrastructure and airports. In addition, the regulatory framework on the approval phase has been modified to simplify procedures, set time limits and allow for substitute powers to intervene. Third, municipalities investing in school buildings, sport facilities, soil conservation and road safety have been allowed to exclude the related payments from the Internal Stability Pact. Fourth, concessions on highways may be extended to make room for more investment, with a total value estimated at 10 billion euro. Moreover, the National Development Bank (Cassa Depositi e Prestiti) is now allowed to support profitable investment projects related to innovative technologies, energy and environment. Finally, a tax credit on both the corporate income tax and the regional tax on productive activities has been introduced for up to a maximum of 50 per cent for all public works between 50 million and 2 billion euro executed with project financing tools, and measures have been approved to promote the use of project bonds, which now have a tax treatment equal to government securities, and to facilitate their flexibility and transferability between investors, through flexibility and reduced costs on the related guarantees.

As part of this strategy, the Government is committed to **reform the procurement code** by 2015, in order to make the regulatory framework clear, stable and transparent, so as to involve the private sector and the stakeholders and avoid illegal behaviours and corruption. In addition, by 2015, in order to promote project financing and public-private partnerships, the Government is considering reviewing the governance of public investment. Among the ideas under consideration is the establishment of a specialized unit to assess the bankability of sizeable projects, define standards, contract models and public tenders and improve PPPs capability. This unit could also help in building a robust investment pipeline for the “Juncker’s Plan”.

Linked to this, the Economic and Financial Document includes a specific and detailed annex on infrastructure investment, which states the intention of the Government to strategically link the Italian priorities with the European lines of action and guidance on the transport system, including ports, airports, railways and roads. Given the need to improve and better coordinate the transport system in connection with the European actions and priorities, and to follow a prudent fiscal policy geared towards growth and job creation, the Government, through the Ministry of Infrastructure, will issue by 2015 the Multi- Year Planning Document (DPP), as the **strategic tool to coordinate investment programmes** and closely link

them to European actions. In addition, the infrastructure document includes the updated pipeline of strategic infrastructure projects, now equal to 25 to respond to the need of prioritization, which can benefit from about 30 billion euro of public resources and 7 billion euro of private financing. In August, the Government has taken a key step within this strategy by approving the National Strategic Plan for Ports and Logistics, which provides for a comprehensive reform of the port system. Finally, the 2016 Stability Law sets forth strong action to boost co-financing with the European Funds by Regions and Local Authorities, including through reforming the domestic stability pact and the provision of cash advances and by strengthening the role of the National Development Bank (CDP).

Finally, a key component of the Italian Government's strategy concerns the infrastructure related to information and communication technologies. Last March, the Government approved the **Italian Digital Agenda**, including the ultra-broadband and digital growth, for the period 2015/2020. The objective is to close the Italian infrastructure and market gap with respect to the European average, by creating favourable conditions for the development of an integrated infrastructure for fixed and mobile communications. The target of the ultra-broadband strategy is to provide by 2020 at least 85 per cent of the population with access to 100 Mbps connectivity. This strategy would benefit from 6 billion euro of public financing, resources of the Investment Plan for Europe and private investment.

Japan

B.2.1 Mobilize private funds including through PPP/PFI with a view to finance emerging rehabilitation needs and make the most of private sector's expertise and know-how

Making more use of PPP/PFI (Safeguards)

It is essential for Japan to make more use of private funds and private expertise through PPP/PFI in developing, rehabilitating, operating, and managing infrastructure. The government is planning to:

- Make use of PPP in repairing the Metropolitan Expressway in Tokyo.
- Introduce concession contracts in the government-owned airports (e.g. SENDAI Airport) in order to allow private sector to operate and manage the airports.

The government will revise the project scale target (12 trillion yen within 10 years) set in the "Action Plan Toward the Fundamental Reform of PPP/PFI" (decided on June 6, 2013 by Council for the Promotion of Private Finance Initiatives) and reach a conclusion on measures to achieve this objective through consideration. In order to enhance the promotion of PFI concession projects, promote deregulation relating to proposals from the operators and others, including through special zones.

Institutional setting

With a view to advance PFI initiatives in close collaboration among relevant authorities, the PFI Promotion Office in the Cabinet Office established in 1999 has been playing an important role as the coordinator.

In order to catalyse private funds and thereby further promote PFI projects, the PFI Promotion Corporation was established in October 2013. The PFI Promotion Corporation provides risk money (through purchasing preferred stocks and subordinated bonds) to PFI infrastructure projects and catalyses private funds.

Key Performance Indicators

Through these measures, Japan aims to triple the size of PPP/PFI projects over the ten years from 2012 (4.2 trillion yen → 12 trillion yen).

In particular, with regard to specific PFI projects which introduce concession contracts in the government-owned infrastructure, the government also set numerical targets (six airports, six water systems, six sewages and one road), and accelerated the deadline of implementing 2 to 3 trillion yen worth of this type of PFI projects from 2022 to the end of FY2016.

More efficient public investment

The government has started employing private sector's infrastructure management methods, including PM (project management) and CM (construction management) in public infrastructure investment with the aim of achieving more efficient and transparent maintenance and management of infrastructure.

Strengthening industrial infrastructure (Facilitators)

The Government will promote industrial infrastructure development in order to enhance Japan's international competitiveness. The Japanese growth strategy has identified some strategic areas, which include followings:

- The government will promote large-scale private sector urban development projects in around 40 locations by FY2020.
- The government will take measures to further enhance the functions of airports including through increasing the number of landing slots at airports in the Tokyo metropolitan area by maximum 79,000 slots from about 747,000 slots within the time frame of the 2020 Tokyo Olympics and Paralympics.

B.2.2 Enhance the quality of infrastructure

Extending life-span of infrastructure (Safeguards)

With a view to maintain and improve the quality of infrastructure in Japan, we have been taking measures to extend the life-span of existing infrastructure. In November 2013, the government formulated the Basic Plan for Life Extension of Infrastructure. This Basic Plan set out the direction to be taken and aims at establishing an infrastructure maintenance cycle, reducing and levelling total government expenditure for infrastructure, developing new technologies, and cultivating an infrastructure maintenance industry. In accordance with the Basic Plan, the central government is to provide technical know-how and assistance to local governments. And the central and local governments in charge of managing infrastructure are now formulating the Action Plans for Life Extension of Infrastructure.

Resilience to disasters (Safeguards)

Improving the resilience of infrastructure to disasters is of particular importance for Japan where severe natural disasters constantly occur. From such a standpoint, the government promotes constructions for making residents and public facilities earthquake-resistant. Relevant indicators include followings:

- To increase the ratio of major terminal stations which are earthquake-resistant from 91% (end FY2012) to almost 100% (end FY2017).
- To increase the ratio of residents which are earthquake-resistant from 79% (FY2008) to 95% (FY2020).

Environment-friendly infrastructure (Safeguards)

The government will promote environment-friendly infrastructure investment which reduces greenhouse gases and lowers burden to environment. Specifically, we will consider introduction of renewable energy power generation facility and LED lights in public facilities, and take measures to contain CO₂ emission of residents and buildings.

	Facilitators	Safeguards
Infrastructure	<p>4. Supporting Improvements in Investment Climate</p> <p>4.1. Expanding government expenditure and PPP in infrastructure</p> <p>4.2. Expanding financial support for PPP</p> <p>4.3. Expanding subjects of PPP</p> <p>4.4. Fostering business-owned rental house business</p> <p>5. Facilitating Financial Intermediation</p> <p>5.1. Expanding Facility Investment Fund</p> <p>5.2. Expanding Korea Infrastructure Credit guarantee</p> <p>6. Mobilizing MDB Resources and Role of NDBs</p> <p>6.1. Introducing corporate investment promotion program</p> <p>6.2. Establishing Korea Infrastructure Investment Platform</p>	<p>7. Enabling Appropriate Legal and Institutional Settings</p> <p>7.1. Introducing new PPP model</p> <p>7.2. Strengthening PPP Capacity Building</p> <p>8. Project Spectrum: Project Planning, Prioritization and Process Development</p> <p>8.1. Fast Track</p> <p>8.2. Converting into PPP projects during preliminary feasibility study</p> <p>8.3. Improving preliminary feasibility study</p> <p>9. Addressing Data Gaps</p> <p>9.1. Promoting the proposal on PPP projects</p>

Facilitators

4. Supporting Improvements in Investment Climate and Promoting Private Investment

4.1 Expanding government expenditure and PPP in infrastructure

a. Main Challenges

- Considering huge demand for infrastructure, it is necessary to mobilize infrastructure finance from both public and private sectors.

b. Policy Action

- The Korean government plans to increase infrastructure investment via SOC expenditure amounting approximately KRW 110.3 trillion in 2014~2018. In particular, considering the high demand for infrastructure, the focus will be placed on constructing ports, industrial complexes, roads and railways. For example, the government will invest amount of KRW 2.1 trillion from 2015 to 2018 in building Great Train eXpress(GTX) which is high speed network connecting metropolitan areas.
- Since the introduction of PPP in 1994, infrastructure investment through PPP has increased. Currently 137 PPP projects are undertaken. PPP investments amounting to KRW 49 trillion are underway and KRW 6.7 trillion will be disbursed in 2015. For example, the construction of Seoul-Moonsan highway amounting to about KRW 2 trillion will be started this year. A total amount of KRW 1.5 trillion will be invested in extending New Bundang subway line which will reduce travel time between Seoul and Gyeonggi Province.

c. Implementation Path

- These policy actions are included in the National Fiscal Management Plan and the Master Plan for PPP in infrastructure.

4.2 Expanding financial support for PPP

a. Main Challenges

- It is important for public sector to play a role of pump-priming, in order to effectively induce private investment. Given that PPP is key tool for encouraging private investment, the government should provide support to stimulate PPP projects.

b. Policy Action

- When the private sector does subsidiary business with infrastructure project, it will set and guarantee minimum return rate in line with risks. If the revenue exceeds this rate, this part of return will be distributed between the government and the private sector.
 - In 2014, it introduced policies to compensate land acquisition cost later if private investors get loan from banks to obtain land. It plans to increase its scope to cover projects of local governments.
 - Zero rated value added tax (VAT) is applied to SOC projects, but it is expected to be abolished in December 2015 due to sunset clause. It is now reviewing the extension of Zero rated VAT.
 - It will support to effectively settle any disputes. Using the dispute mediation committee will be recommended before bringing the case to the court. Task force of private sector investment will be established to provide legal services.
- c. Implementation Path
- The revision of related legislations will be completed by 2015.

4.3 Expanding subjects of PPP

a. Main Challenges

- The Private Investment Act lists road, port, and railroads as SOC which are available for PPP. In order to boost PPP, it is necessary to broaden its scope.

b. Policy Action

- The Korean government will add central government complex (including affiliated agencies) and correctional institutions among public facilities to the list of the Private Investment Act.

c. Implementation Path

- The revision of related legislations such as the Private Investment Act will be completed by 2015.

4.4 Fostering business-owned rental house businesses

a. Main Challenges

- The demand for rental houses is surging, but the public sector would not provide enough supply to meet this demand. The supply of rental houses by the private sector including corporation is urgently needed.

b. Policy Action

- The Korean government will ease regulations on a large scale construction of rental houses by the private sector.
 - There will be no limit in setting rental houses as the security right and no duty to convert rental houses for sale.
- It will reduce the burden of acquiring the land for rental housing by providing land at discounted price through Korea Land and Housing Corporation. It will establish the special zone for rental housing to provide various forms of incentives.
- It will raise the cap on loans for long-term (8 years) rental housing business from KRW 70 million to KRW 80 million and lower the interest rate for loans by 70basis point. And it will guarantee revenue up to 70% of total business expenses by introducing a comprehensive credit guarantee system.
- It will increase acquisition tax reduction on long-term contract rental houses from 25% to 50%. The range of companies qualified for income and corporate tax exemption will be expanded from KRW 300 million to KRW 600 million. Their tax exemption will be increased from 20% to 30% for short-term contracts and from 50% to 75% for long-term contracts.

c. Implementation Path

- It will push forward with enacting the Act for fostering private rental housing business by 2015.

5. Facilitating Financial Intermediation

5.1 Expanding facility investment fund

a. Main Challenges

- It is necessary to promote private investment in local facilities to develop specialized local businesses.

b. Policy Action

- The Korean government launched a local facility investment fund worth KRW 1 trillion.
 - It has provided financial support amounting of KRW 0.4 trillion to 260 projects.

c. Implementation Path

- It plans to complete funding by 2015.

5.2 Expanding Korea Infrastructure Credit Guarantee

a. Main Challenges

- Offering the guarantee is needed for private sector to smoothly mobilize resources. There is Korea Infrastructure Credit Guarantee Fund, but the current scale cannot sufficiently meet the demand.

b. Policy Action

- The Korean government plans to scale up the guarantee for each project from KRW 300 billion to KRW 400 billion and expand the asset of the Korea Infrastructure Credit Guarantee.

c. Implementation Path

- The revision of related legislations will be completed by 2015.

6. Mobilizing MDB Resources and Role of NDBs

6.1 Introducing corporate investment promotion program

a. Main Challenges

- The public sector should play a role in pump-priming to promote private participation in large-scale or high-risk projects.

b. Policy Action

- This is a program for financing about USD 30 billion worth of investment for infrastructure. The Korea Development Bank will raise 15 trillion KRW and attract the same amount from the private sector.

- As a result, the container terminal project amounting to USD 1 billion is ready to be launched in Busan. The healthcare investment project with private hospital valued at USD 300 million is currently making a progress.

- The program will be focusing on SOC, infrastructure investment, and new growth industries. Comprehensive business nature will be considered to set support conditions such as the size of funding and the payback period.

- The private sector will make a proposal on project, and then the government will review and assess project feasibility. A simpler selection process will be applied for the projects that are identified through a preliminary survey.

c. Implementation Path

- Investment worth a total of 30 trillion KRW will be implemented by 2017.

6.2 Establishing Korean Infrastructure Investment Platform

a. Main Challenges

- Given that institutional investors account for only a small part of total infrastructure financing, it is essential to encourage institutional investors to finance infrastructure investment.

b. Policy Action

- The Korean Government will establish the Korea Infrastructure Investment Platform which will provide financing for infrastructure investment. A total amount of finance will be KRW 10 trillion. The platform will be financed from pension fund, private sector and Korea development bank.

c. Implementation Path

- It will recruit investors and sign the MOU with investors by 2015.

Safeguards

7. Enabling Appropriate Legal and Institutional Settings

7.1 Introducing new PPP model

a. Main Challenges

- The current PPP have been simplified into two forms of system, Build-Transfer-Operate (BTO) and Build-Transfer-Lease (BTL). All risk will be burdened by either the private sector or the government.
- Because BTO system puts high risk on the private sector, the government usually provides excessive financial support and the fee is relatively high.

b. Policy Action

- The Korean government will adopt a new PPP model which is middle risk and middle return structure. The public and private sector will each share any losses and profits from projects.
 - It will introduce BTO-rs system in which the public and private sector share the gains and losses at a certain ratio.
 - It will also introduce BTO-a system in which the government preserves certain level of investment cost including the facility investment and operation expenses.
- In profit side, the two systems are similar in that the public and private sector share it. In loss side, they are different in that loss from the private sector is limited to certain level in BTO-a system, but not in BTO-rs system.
 - BTO-a system is a little bit lower risk and lower return structure than BTO-rs system.

c. Implementation Path

- The revision of related legislations such as the Private Investment Act will be completed by 2015.

7.2 Strengthening PPP capacity building

a. Main Challenges

- Government officials should fully understand related procedures and rules in order to actively push forward with PPP.

- It is also necessary to strengthen the function of Private Infrastructure Investment Management Centre (PIMAC) under the Korea Development Institute (KDI) to handle PPP project effectively.
- b. Policy Action
 - In order to strengthen the expertise of government official, the Korean government will carry out customized education by external experts.
 - It will reallocate more experts of the KDI to reinforce PIMAC function. If necessary, it will set up new organizations or recruit more talents.
- c. Implementation Path
 - PPP education for government official will be initiated by 2015.

8. Project spectrum: Project Planning, Prioritization and Process Development

8.1 Fast Track

- a. Main Challenges
 - Some PPP projects are delayed due to long and complex procedure. This increases uncertainties and expenses of the projects putting a burden on the private sector and government.
- b. Policy Action
 - The Korean government plans to introduce “Competitive Dialogue Procedure” to reduce the duration of time consumed for project implementation by undertaking assessment and negotiation at the same time.
 - The government and ‘multiple’ bidders go into detailed negotiations on a project from the bidding stage, including costs, financing and fees.
 - When the private sectors suggest projects, they should submit draft of implementation agreement to clarify specific contract conditions at the early stage.
- c. Implementation Path
 - The revision of related legislations such as the Private Investment Act will be completed by 2015.

8.2 Converting into the PPP projects during the preliminary feasibility study

- a. Main Challenges
 - The Korean government introduced preliminary feasibility study to review large scale infrastructure projects funded by government in 1999. Once the project goes through preliminary feasibility study, the government considers whether the budget needs to be allocated. Annually SOC projects worth KRW 20 trillion go through this study, and a number of those can be pushed forward through PPP.
- b. Policy Action
 - If infrastructure projects funded by the government are estimated to be financed by private sector at the feasibility study, the Korean government will convert them into PPP projects.
- c. Implementation Path
 - The revision of related legislations such as the Private Investment Act will be completed by 2015.

8.3 Improving preliminary feasibility study

- a. Main Challenges

- Since the Korean government introduced preliminary feasibility study to review large scale projects in 1999, the scope of study has been unchanged, so that naturally the number of projects eligible for this study and duration of study keeps increasing.
- b. Policy Action
- The scope of study will be changed from more than KRW 50 billion of total investment and KRW 30 billion of government investment to more than KRW 50 billion of total investment and KRW 30 billion of government investment. Consequently, the number of projects eligible for this study is expected to be decreased.
- c. Implementation Path
- The revision of related legislations will be completed by 2015.

9. Addressing Data Gaps

9.1 Promoting the proposal on PPP projects

- a. Main Challenges
- The private sector doesn't have enough incentives to make a proposal on PPP projects. For example, the private company who makes a first proposal doesn't take enough advantage, while it is burdened with a series of documents during the procedure for proposal.
- b. Policy Action
- When the Korean government selects implementation institution for PPP project, it gives additional score to the first proposer. It will increase additional score from 1% to 2% or 3% of total score.
 - It will simplify documents for submission to ease the burdens of proposal by the private sector. It has provided reimbursement to the companies not selected, and will raise it from 40% to 50% of the expenses for proposing a project.
- c. Implementation Path
- Related legislations will be pushed for revision in 2015.

	Facilitators	Safeguards
Infrastructure	<p>4. Supporting Improvements in Investment Climate</p> <p>4.1 Execution of the National Infrastructure Program.</p> <p>4.2 Consolidate the new regime for PEMEX and the Federal Electricity Commission (CFE) as State Productive Enterprises.</p> <p>4.3 Strengthen regional cooperation for infrastructure.</p> <p>5. Facilitating Financial Intermediation</p> <p>5.1 Strengthen the National Infrastructure Fund (FONADIN) in order to foster private participation in infrastructure.</p> <p>5.2 Develop financing vehicles (guarantees, loans or subordinated debt from development banks) to reduce financing cost for PPPs.</p> <p>5.3 Develop credit enhancement measures and project bonds.</p> <p>6. Mobilizing MDB Resources and Role of NDBs</p> <p>6.1 Optimize National Development Banks’ balance sheets.</p> <p>6.2 Execution of National Development Banks’ medium term plans (2014-2018).</p>	<p>7. Enabling Appropriate Legal and Institutional Settings</p> <p>7.1 Implement accountability and transparency mechanisms for public bidding processes (i.e. Mexico City’s New Airport).</p> <p>7.2 Develop new vehicles to foster institutional investors’ participation in infrastructure financing.</p> <p>8. Project Spectrum: Project Planning, Prioritization and Process Development</p> <p>8.1 Self-assessment of the complete project spectrum to identify bottlenecks in infrastructure development.</p> <p>8.2 Optimize infrastructure development processes and develop new methodologies.</p> <p>9. Addressing Data Gaps</p> <p>9.1 Develop or upgrade local agencies to link investors with the projects of the National Infrastructure Program.</p>

Facilitators

4. Supporting Improvements in Investment Climate

4.1 Execution of the National Infrastructure Program.

- A. Main Challenges: The Federal Government launched in April 2014 the National Infrastructure Program 2014-2018 (NIP), which is a broad agenda for infrastructure development; it comprises 24 strategies, 83 action lines and 20 indicators with specific targets. This Program includes more than 700 projects that account for more than 550 billion dollars. The main challenge is to continue infrastructure development despite the international economic environment, in order to generate economic growth and increase country’s productivity and competitiveness.
- B. Policy Action Description: The different Federal Government Agencies will continue the implementation of the National Infrastructure Program. Considering the international economic outlook, the private and public funding sources of the NIP could be modified.
- C. Implementation Path: The Ministry of Communications and Transportation (SCT) stated that 80% of the works of the National Infrastructure Plan (NIP) have started. During the first 2 years of the present Federal Administration, have been built and modernized 16,200 km of highways and rural roads. It is worth to highlight that the New Airport of Mexico City (NAICM) is one of the most important infrastructure projects to be developed in the next years. The NAICM’s construction started during 2015 and it is expected to become operational by 2020.

4.2 Consolidate the new regime for PEMEX and the Federal Electricity Commission (CFE) as State Productive Enterprises.

- A. Main Challenges: PEMEX and CFE were government-controlled enterprises for over 75 years, which led to a sub-optimal level of investment in oil, gas and electricity. The recently enacted Energy Reform transformed PEMEX a CFE into State Productive Enterprise. The goal is to make PEMEX and CFE competitive, transparent and efficient firms.

- B. Policy Action Description: In 2014 PEMEX and CFE regulation was amended. The new legal framework provides PEMEX a CFE more specialized, management and budgetary autonomy. This new regulation considers:
- i. A Board of Directors of Pemex, integrated by: the Minister of Energy, which will chair this Board; the Ministry of Finance and Public Credit; 5 independent directors ratified by the Senate; and 3 directors of the Federal Government.
 - ii. Board of Directors of CFE, integrated by: the Minister of Energy; the Ministry of Finance and Public Credit; 4 independent directors ratified by the Senate; 3 directors of the Federal Government; and one director named by the CFE's workers (not the union).
- C. Implementation Path: PEMEX and CFE will continue during 2015-2016 with the implementation of the new corporate regime.

4.3 Strengthen regional cooperation for infrastructure development and financing.

- A. Main Challenges: One of the objectives of the Pacific Alliance, integrated by Colombia, Chile, Peru and Mexico, is to contribute to increase private investment and improve the efficiency of public investment in the region.
- B. Policy Action Description: Ministers of Finance of the Pacific Alliance agreed to strengthen cooperation in the following areas:
- i. Knowledge sharing and information exchange regarding:
 - a. Policies for infrastructure development and financing that could help to improve the investment and financing climate for this sector.
 - b. Practices about the different stages of the complete project spectrum.
 - c. Institutional framework for infrastructure, including PPPs.
 - ii. Continue the dialogue with the objective of developing infrastructure investment vehicles, which could allow private investors to participate in infrastructure projects in the four countries.
 - iii. Foster institutional investors' participation in infrastructure financing, including pension funds of the four countries.
- C. Implementation Path: These actions will initiate during 2015.

5. Facilitating Financial Intermediation

5.1 Strengthen the National Infrastructure Fund (FONADIN) in order to foster private participation in infrastructure.

- A. Main Challenges: Considering the Federal Government's expenditure constraints, private sector participation is fundamental to reach the objectives of the National Infrastructure Program. The Federal Government has developed the National Infrastructure Fund (FONADIN), which is a specialized project financing vehicle that promotes infrastructure development through PPP schemes. FONADIN is the concessionaire of a network of 51 toll highways; toll income allows financing new infrastructure projects (using brownfield projects to finance Greenfield). The different funding modalities used by FONADIN include guarantees, mezzanine loans and capital.
- B. Policy Action Description: FONADIN's action plan includes:
- i. Support PPP project development.
 - ii. Strengthen project preparation and structuring in order to consolidate a pipeline of bankable projects for private sector investment, fostering solid evaluations and risk management techniques.

- iii. Implement a mechanism to prioritize infrastructure project development, in order to meet the infrastructure strategy outlined in the National Infrastructure Program.
 - iv. Strengthen FONADIN's financial capacity by:
 - a. Optimize toll fees in FONADIN's concessioned highways.
 - b. Extend the term of FONADIN's concessions.
 - c. Securitization of future cash flows.
- C. Implementation Path: The comprehensive strategy to strengthen FONADIN will be executed during 2015 and 2016.

5.2 Develop financing vehicles (guarantees, loans or subordinated debt from development banks) to reduce financing cost for PPPs.

- A. Main Challenges: For successful PPP projects development adequate risk sharing between the public and private sector is needed. Construction risks during initial phases of infrastructure projects usually increases their financial costs. In many cases PPPs does not reflect the financing cost of the end user, particularly when this user is the Federal Government, resulting in higher financial cost.
- B. Policy Action Description: The Federal Government is working on developing financing vehicles, such as guarantees, loans or subordinated loans from BANOBRAS in order to reduce the financial cost of infrastructure projects. These vehicles could be available for all the participants during the procurement processes, in order to reflect in their bid the reduction in project's financial cost.
- C. Implementation Path: The Ministry of Finance is currently working with BANOBRAS on designing these financing vehicles. During 2015 a bidding process to build and operate a hospital in the State of Yucatan will be launched. The licitation process will include a loan from BANOBRAS available for all the participants.

5.3 Develop credit enhancement measures and project bonds.

- A. Main Challenges: The major barrier to increase institutional investors' participation in infrastructure is the lack of a credible pipeline of bankable projects that offer acceptable risk - adjusted returns to both the public and private investors. Greenfield projects' financing in Mexico mainly relies on bank loans while Institutional investors' participation is limited due to a lack of appropriate financing vehicles and infrastructure investment and risk management expertise. Also, current incentives among institutional investors provide for a low risk appetite for infrastructure products and project bonds.
- B. Policy Action Description: The Federal Government is working on designing and developing infrastructure financing vehicles and credit enhancement measures, such as guarantees, loans or subordinated debt from NDBs, which could mitigate projects' risks and foster institutional investors' participation in infrastructure financing. Likewise, the Federal Government will take further actions in order to develop project bonds for specific projects. In particular, the New Airport of Mexico City (NAICM) will be funded using a combination of private financing and Federal Budget resources. Private financing strategy includes bank debt and capital market financing, which will use the passenger facility charges (TUA), generated by the existing and the new airport, as sole source of repayment. The securitization of other infrastructure projects, like highways could also contribute to foster capital markets' financing for infrastructure. The Mexican Government is evaluating to use stable brownfield assets in order to finance Greenfield projects.
- C. Implementation Path: During 2015 and 2016 the Ministry of Finance will work with NDBs on designing credit enhancement measures. During 2015 and 2016 the NAICM project bond will be issued. The securitization of highways could take place during 2016.

6. Mobilizing MDB Resources and Role of NDBs

6.1 Optimize National Development Banks' balance sheets.

- A. Main Challenges: NDBs are well capitalized and have maintained adequate risk management profile. However, they have in their balance sheets a significant number of credits to brownfield projects, which risk characteristics, make them attractive for capital market refinancing. Investment in operating projects allows providing liquidity to the secondary market, strengthening the primary market.
- B. Policy Action Description: NDBs will analyse their credit portfolios in order to identify those credits that could be refinancing in order to increase available resources for financing new infrastructure projects.
- C. Implementation Path: During 2015 and 2016 the Ministry of Finance will work with NDBs on analysing different strategies to optimize their Balance Sheets.

6.2 Execution of National Development Banks' medium term plans (2014-2018).

- A. Main Challenges: The major NDBs presented during 2014 their medium term plans (2014-2018), which define objectives and strategies to complement commercial banks' lending with adequate risk sharing, that could allow to increase credit growth, in particular in areas that are not fully covered by commercial banks like infrastructure and SMEs. The full implementation of these strategies is fundamental for strengthening the role of National Development Banks for infrastructure and SME financing. Development Banks play an important role in complementing efforts of commercial banks to increase the supply of credit, which could serve as a catalyst for job creation and growth.
- B. Policy Action Description: The main strategies included in the afore mentioned mid -term plans include:
 - a. Expand credit.
 - b. Foster participation of commercial banks in infrastructure financing (mini-perm financing, mezzanine products).
 - c. Contribute to channel institutional investors' resources to infrastructure (guarantees).
 - d. Foster infrastructure development by local governments
 - e. Strengthen credit and guarantee programs for SMEs, which will contribute to create a credit history record for these enterprises.
- C. Implementation Path: It is expected that the major NDBs: BANOBRAS, NAFIN and BANCOMEXT will expand and induce credit for almost 45 billion dollars by 2018.

Safeguards

7. Enabling Appropriate Legal and Institutional Settings

7.1 Implement accountability and transparency mechanisms for public bidding processes (i.e. Mexico City's New Airport).

- A. Main Challenges: Increase transparency and accountability for bidding processes.
- B. Policy Action Description: The Ministry of Communications and Transportation (SCT) signed an agreement with the Organization for Economic Co-operation and Development (OECD) in order to apply international best practices in procurement, construction and project development for the New Airport of Mexico City. In addition the OECD will provide consulting services to the Federal Government on:
 - Analysis of legal frameworks for procurement processes.
 - International best practices.
 - Organization of seminars regarding transparency and accountability.

C. Implementation Path: These actions will continue during 2015-2018.

7.2 Develop new vehicles to foster institutional investors' participation in infrastructure financing.

A. Main Challenges: Institutional Investors are able to diversify their resources in different financial infrastructure products in Mexico, such as Equity, Fixed Income, Securities (CEBURES), Certificates of Capital Development (CKDs), Real Estate Trusts (FIBRAS) and Private Equity Funds. However, Institutional investor's participation in infrastructure is limited due to a lack of appropriate financing vehicles and infrastructure investment and risk management expertise. Also, current incentives among institutional investors provide for a low risk appetite for infrastructure products.

B. Policy Action Description: The Mexican Federal Government is encouraging a reform of capital market regulation, regarding the participation of institutional investors in infrastructure, in order to:

- i. Improve incentives for investment portfolio management, leading to better investments and more efficient asset managers.
- ii. Simplify the regulatory framework for infrastructure vehicles, making more flexible instruments.
- iii. Extend the range of institutional investors that can invest in these vehicles.

In addition, Master Limited Partnership (MLP) are being analysed to see if a similar structure could be introduced in Mexico.

C. Implementation Path: In September 2015, three new instruments were launched in order to foster institutional investors' participation in infrastructure financing: i) FIBRA E, which is a new asset class designed to monetize cash flows from stabilized energy and infrastructure project; ii) Investment Projects Certificates (CERPIS), that allows domestic and foreign institutional investors, including pension funds and insurance companies, allocate resources in a wide range of industries with different risk exposures (capital, debt, mature or development projects); and iii) Educational Infrastructure Certificates, which will be traded through the Mexican Stock Exchange. The National Banking and Securities Commission and the National Commission for the Pension System circulated, for public consulting, the legal framework for FIBRA E and CERPIS.

8. Project Spectrum: Project Planning, Prioritization and Process Development

8.1 Self-assessment of the complete project spectrum to identify bottlenecks in infrastructure development.

A. Main Challenges: Considering fiscal constraints for infrastructure development, quality and efficiency of investment has been emphasized by G20 countries. In order to improve public sector capital expenditure and maximize social benefits, infrastructure should be developed with the following criteria:

- i. Planned with a long-term horizon.
- ii. Giving priority to those projects that contribute the most to economic growth and productivity.
- iii. Located in regions with lower socioeconomic development.
- iv. High social returns.
- v. Projects where public funding is significantly leveraged with the private sector resources.

B. Policy Action Description: The Ministry of Finance will develop a self-assessment exercise of the complete project spectrum in order to identify bottlenecks in infrastructure development. This exercise will cover the following stages:

- i. Project identification and prioritization.

- ii. Project preparation.
- iii. Procurement and contract management.
- iv. Execution.
- v. Institutional investors' participation in infrastructure.

This analysis will include the review of available information; interviews, consultations and meetings with the involved areas in the infrastructure sector; review of legal and institutional framework; and, analysis of international best practices.

At the end of the self-assessment, the consulting company would implement pilot projects according to new methodologies.

C. Implementation Path: The recruitment of the consultant will take place during the second half of 2015, and the initial results are expected during 2016.

8.2 Optimize infrastructure development processes and develop new methodologies.

A. Main Challenges: The Federal Government needs to define an effective action plan in order to improve the quality and efficiency of infrastructure investment.

B. Policy Action Description: Considering the diagnosis of the above mentioned self-assessment exercise, the Federal Government will develop new methodologies according to the best international practices, adapted to domestic legal and institutional framework.

C. Implementation Path: The consultant company will submit for consideration of the Ministry of Finance a proposal for new processes and methodologies regarding the infrastructure development process. These methodologies will include concrete actions; time of implementation; and, legal and institutional implications. This process will take place during the 2015 and 2016.

9. Addressing Data Gaps

9.1 Develop or upgrade local agencies to link investors with the projects of the National Infrastructure Program.

A. Main Challenges: Mexico has an ambitious multi-year infrastructure program, nevertheless the project spectrum stages are on charge of different infrastructure authorities and information regarding project preparation and bidding documents represent a large amount of material available only in Spanish, which makes difficult to link the projects of the NIP to investors.

B. Policy Action Description: Currently some alternatives are being analysed in order to develop or upgrade local agencies to link investors with the projects of the National Infrastructure Program. An infrastructure investors' relation platform could be developed with the following responsibilities:

- i. Consolidate a pipeline of greenfield and brownfield projects.
- ii. Provide information to local and international institutional investors regarding: sectors, regulatory framework, available financing vehicles (capital, debt, and mezzanine).
- iii. Promote brownfield projects available for sale or refinance.

C. Implementation Path: The Ministry of Finance and BANOBRAS are analysing different alternatives to best implement this project. The creation of this platform could take place by 2016.

Russia

Facilitators	Safeguards
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Infrastructure	<p>4. Supporting Improvements in Investment Climate</p> <p>4.1. Development of the Transport System</p> <p>4.2. Public investment in the large-scale infrastructure projects and development infrastructure of project financing mechanism</p> <p>6. Mobilizing MDB Resources and Role of NDBs</p> <p>6.1. Establishment of the New Development Bank and AIIB</p> <p>6.2. Development of Vnesheconombank</p>	<p>7. Enabling Appropriate Legal and Institutional Settings</p> <p>7.1. Improvement of budget and tax systems in order to develop PPP</p> <p>7.2. Implementation of the Standard of Activities to be Held by the Executive Authorities of a Constituent Unit of the Russian Federation</p>
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4.1 Public investment in infrastructure will be primarily focused on expansion of the transport infrastructure via implementation of the federal program “Development of the Transport System”. Its major provisions include:

- Acceleration in road construction the total length of federal highways is to reach 44,1 thousand km by 2018);
- Reduction in transportation costs to economy as percentage of GDP(7,7 % decline in 10 years);
- Improved accessibility of the transport services for the population (a two-fold increase in the population’s mobility is projected by 2020);
- Higher external competitiveness of the national transport system (increase in the transportation services’ export by 80% in 2018), while ensuring its safety and sustainability.

4.2 The recent decisions by the Government envisage use of the public funds to support investment in the large-scale infrastructure projects.

First, it includes direct financing of projects from National Wealth Fund. The projects already approved or under consideration are primarily in transportation sector such as:

- Modernisation of the Baikal-Amur and Trans-Siberian Mainline Railways,
- Development of the Moscow Air Transportation Cluster,
- Construction of the Central Circular Road in the Moscow region,
- Construction of the railway ‘Elegest – Kyzyl – Kuragino in the Tuva Republic of Tyva as well as expansion of the energy pipeline network.

Total estimated cost of the approved projects is 3.4tn rubles (\$65.8bn) and 800bn rubles (\$15.7bn) will be funded from will be funded through the National Wealth Fund.

Second, government will support project financing in Russia by providing loans and interest rate subsidies. Starting from October 2014, investment projects are supported by the government though preferential loans at 11.5% interest rate. Value of the projects can vary from 1 to 20bn rubles (\$19 to 392m)

6.1 Russia is actively engaged in expanding and optimising MDBs capacities. On 1 April 14, 2015 Russia joined Asian Infrastructure Investment Bank (AIIB) – the new institution proposed by China. AIIB is expected to serve as a platform for infrastructure development and improvement in Asia. The Bank’s operations will be based on three principles: lean, clean and green. Lean, with a small efficient management team and highly skilled staff; clean, an ethical organization with zero tolerance for corruption; and green, an institution built on respect for the environment. The Articles of Agreement is expected to enter into force and AIIB to be fully established by the end of 2015.

Russia establishing founding member of the New Development Bank. According to its Establishment Agreement the purpose of the institution will be to “mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, complement the existing efforts of multilateral and regional financial institutions for global growth and development. It

shall also cooperate with international organizations and other financial entities, and provide technical assistance for projects to be supported by the Bank”

6.2 National Development Bank of Russia – Vnesheconombank (VEB). VEB is a main national development institution that works in different areas. Its long-term mission is to diversify the Russian economy, boost its competitiveness and encourage investment activity. VEB participates only in those projects which cannot be financed by private investors. During 2015-2020 period VEB plans to increase its loan portfolio from 1.3tn rubles (\$24,5bn) to \$33.8bn.

7.1 Improvements in budget and tax systems will contribute to development of PPP mechanism. The Russian Government recently has intensified its efforts to develop an adequate and effective legislative and administrative framework for Public-Private Partnerships (PPP). On the federal level, this framework consists of two Federal Laws, 4 Federal Government’s Resolutions, two Federal Government Executive Orders and two Executive Orders of the Federal Ministry for Economic Development. All this legislative and executive acts define competences of state agencies, selection criteria for projects and the methodology for assessing their effectiveness and impact as well as conditions to provide public support for projects structured as PPP. On May 14, 2014, the Ministry for Economic Development issued an Executive Order # 279 stipulating creation of the Coordination Council for PPP at the Ministry.

Further measures in this area include:

- Clarifications of Budget and Tax Codes provisions relevant for PPP;
- Improvements in budget system aimed at improving long-term expenditures planning process affecting PPP projects and their monitoring;
- Improvements in mechanism of ‘guarantees’ and ‘subsidies’ support to PPP projects;
- Development of the insurance system for budget expenditures concerning PPP projects.

7.2 As a part of the National Business Initiative, the Agency for Strategic Initiatives (ASI) in collaboration with the Ministry of Economic Development of Russia designed The Standard for activities by the executive authorities of constituent units of the Russian Federation aimed at ensuring a favourable investment climate in the region. It includes 15 basic requirements to the business environment in the regions, including among others:

- Mandatory requirements to prepare region’s investment strategy in line with its supporting infrastructure;
- Establishing rules for building an investment pipeline;
- Enacting an assessment of the laws and regulations affecting business climate;
- Establishment of a consultative coordinating body and a specialized agency to attract investments. and others).

Presently the Standard is being implemented in all regions of Russia.

	Facilitators	Safeguards
Infrastructure	<ul style="list-style-type: none"> • To enhance the role of investment banks. • To facilitate access to loans for SMEs. • To strengthen the primary capital market. • To support the development and finance role of the public investments fund. • To establish a business-to-business (B2B) credit bureau to improve business counter-party credit and risk-profile information, and loan decisions, and to facilitate trade and commercial arrangements between domestic and international businesses. The B2B credit bureau will be a joint government and private sector enterprise. • To improve the Company Law to provide Joint Stock Companies with more conducive legal and administrative environment. • To provide limited liability companies (LLCs) with more flexibility in areas including the founding of LLCs, sole proprietorship, ending of minimum capital requirements, facilitation of conflict resolution, publication of high level company financials, and making pre-emptive waivers legally binding. • To help facilitate new businesses with the development of a new integrated one-stop business registration and licensing process and system to reduce time and complexity of gaining government approvals to establish a business. 	<ul style="list-style-type: none"> • To accelerate and simplify of litigation proceedings and improve commercial disputes and bankruptcy settlement mechanisms. • To continue to develop of the domestic investment environment and simplify procedures for investors who observe resolutions along with boosting efforts to curb on concealment acts.

Infrastructure and SMEs

The Saudi authorities have spent considerably on education, health and physical infrastructure to accelerate economic growth and enhance non-oil exports. Total annual capital spending constituted around 30 percent of the total annual expenditure in recent years. This trend is likely to continue and help diversify the Saudi economy and maximize the potential output growth. Similarly, financial sector regulators have taken initiatives to promote financial inclusion and SME finance.

Key Facilitators

- To enhance the role of investment banks.
- To strengthen the primary bond and equity markets.
- To support the development and financing role of public investment funds.
- To improve the Company Law to provide Joint Stock Companies with more conducive legal and administrative environment.

- To establish a dedicated SME Authority that will facilitate and expedite government processes with respect to funding to SMEs, and will also prepare a range of dedicated SME enablers and support services.
- To encourage banks to promote SME finance and provide them with various products and services tailored to their business needs. .
- To organize awareness campaigns by relevant agencies in collaboration with the chamber of commerce and industry to accentuate the importance and advantages of venture capital companies.
- To encourage Saudi international committees to establish joint venture capital companies between Saudi businessmen and their successful foreign counterparts.
- To encourage and support joint public and private initiatives to establish funds for investment in venture capital and information media (e.g., Riyadh-Taqnia Fund).

Key Safeguards

- To strengthen of commercial disputes and bankruptcy settlement mechanisms.
- To promote of investor-friendly rules and regulations.
- To organise of symposia and meetings in collaboration with the chamber of commerce and industry to raise awareness of investment opportunities available in Saudi Arabia.

South Africa

Facilitators

5. Facilitating Financial Intermediation

- **Task Team on Private Sector Financing of Infrastructure**
 - A Task Team on Infrastructure in South Africa was established in 2013 to coordinate discussions between government and the private sector on obstacles to private sector participation in infrastructure development in South Africa. The Task Team is focused on identifying blockages to the private sector financing infrastructure, problem-solving around this, and making recommendations to be taken forward by the relevant private or public sector parties for resolution. This Task Tam consists of three professional industry bodies, the South African Venture Capital and Private Equity Association (SAVCA), the Banking Association of South Africa (BASA) and the Association for Savings and Investment South Africa (ASISA) and government.
- **Infrastructure Development Act**
 - Parliament of South Africa signed the Infrastructure Development Bill into law on 02 June 2014. This law aims to fast-track important regulatory decision-making and speeding up the implementation of strategic infrastructure projects earmarked for South Africa.
 - The Infrastructure Development Act also codifies into law Presidential Infrastructure Coordinating Commission (PICC). It sets out processes of co-ordination that require regulatory authorities and cross-cutting departments to work closely together through steering committees for each SIP that will co-ordinate efforts to speed up the implementation of infrastructure construction and completion.
 - The Act sets time-frames for the approval of regulatory decisions affecting the implementation of infrastructure projects. Instead of sequential approval processes, it provides for processes to run concurrently, wherever possible. This ensures that the state works to a common deadline and that this time-frame provides for public consultation processes.

- It provides for the PICC to expropriate land required for infrastructure development but makes such power subject to the constitution and any Act of Parliament specifically dealing with expropriation, which is passed by Parliament after its promulgation.
- It sets out the mechanism through which developmental targets can be set for each major infrastructure project, covering areas such as youth employment targets, greening the economy, skills development and broad-based economic empowerment.
- **Increase PPP use**
- **Renewable energy independent power producer procurement (REIPPP) programme** - South Africa has a high level of Renewable Energy potential and has in place a target of 10 000 GWh of Renewable Energy. It is planned 3 725 megawatts (MW) needs to be generated from Renewable Energy sources to ensure the continued uninterrupted supply of electricity in South Africa. This 3 725 MW is broadly in accordance with the capacity allocated to Renewable Energy generation in IRP 2010-2030. To date, 4322 Mega Watts have been procured in a period less than four years.
- **Digitalization**
 - On 4 December 2013, Cabinet adopted “SA Connect”, the country’s broadband policy and strategy. Since then the Department of Communications (DoC) connected 788 schools to fast internet through cyber-labs, launched the iKamva National e-Skills Institute and the National Broadband Advisory Council (NBAC).

6. Mobilizing MDB Resources and Role of NDBs

- **Country led MDB programs**
 - The World Bank’s Investment Support Project for Eskom is a critical program which aims to help South Africa achieve a stable electricity supply while also pioneering the biggest solar and wind power plants in the developing world. The project also aims to generate power capacity and jobs that benefit the poor directly.
- **Technical assistance and experience sharing**
- **The Knowledge Hub³¹**
 - Government of South Africa and the World Bank are working to establish a “Knowledge Hub” in South Africa. The objective of the Knowledge Hub is to support evidence-based implementation support for service delivery, or “knowledge in action”. This Hub intends to fill a critical gap in connecting the fragmented knowledge space, bringing in the Bank’s global expertise of practitioners in implementing development solutions, and in taking it to scale. The Hub is being organized around three product lines: Bringing the best of the Bank and global experience to South Africa to find solutions to the country’s problems. To start, it will be providing support to the (i) Cities Support Program, which targets cities and townships as growth poles and thus the drivers for improving the development indicators (economic growth, unemployment and poverty) of South Africa, (ii) health service delivery improvements, with a special focus on combating tuberculosis in the mining sector in the sub-region, and (iii) education service delivery improvements. Exporting knowledge from South Africa. Several types of activities are being considered. The Bank could develop objective, systematic case studies on 10-12 success stories from South Africa’s development experience, so as to be able to export them.

Role of National Development Banks³²

- **Industrial Development Corporation (IDC)³³**

³¹ South Africa - Country Partnership Strategy

³² This is a separate facilitator in the response.

- The IDC is mandated to contribute to the creation of balanced, sustainable economic growth in South Africa and on the rest of the African continent.
- In 2013 eight IDC-supported projects were awarded preferred bidder status in Round 2 of the Renewable Energy Independent Power Producer Procurement Programme (REIPPP). IDC continues to champion the Green Energy Efficiency Fund (GEEF) committing 35% of its total fund. In the same year, IDC launched and commissioned the first cogeneration project successfully and commenced construction on first two concentrated solar projects in South Africa.
- In 2014 the IDC continued to support the REIPPP, and had 5 of its supported projects receiving preferred bidder status. They have reached financial close on 6 round 2 projects. They have also financed 3 MW biogas energy projects which reached financial close in 2014.
- **Development Bank of Southern Africa (DBSA)³⁴**
 - The DBSA promotes economic development and growth in the African region with a special focus on infrastructure and leveraging the private sector.
- **Focus on infrastructure and leverage the private sector**
 - In 2013/14, the DBSA provided a total of R12.7 billion in infrastructure financing, bringing to R46.5 billion the total disbursements over the past five years. Within the municipal market, the Bank's total funding reached R1.7 billion for the year. It is estimated that over 263 000 households will benefit once these projects are completed. In an effort to expedite the delivery of infrastructure within under- capacitated municipalities, the DBSA has implemented an innovative finance solution by providing bridging finance to those municipalities ahead of payment to them of the annual municipal infrastructure grant from the National Treasury. It is estimated that approximately 109 000 households will benefit from access to electricity, water and sanitation when these projects are completed. In addition, the Bank provided project planning and implementation support services to various municipalities.

Safeguards:

7. Enabling Appropriate Legal and Institutional Settings

- For pension funds there is Regulation 28 of the Pension Funds Act which stipulates the maximum percentage of assets that can be invested in various instruments, like listed equity, unlisted equity, government bonds, etc. This has worked in that funds do adhere to the required percentages. Also useful is the Code for Responsible Investing in South Africa (CRISA) gives guidance on how the institutional investor should execute investment analysis and investment activities and exercise rights so as to promote sound governance. The regulatory environment for the long term investors has a prudential focus to ensure that the underlying owners of the products interests are looked after. Currently there are also engagements around the issue of preservation.
- South Africa identified procurement as an important capacity. Hence in 2013 the Minister of Finance established the Office of the Chief Procurement Officer to: manage and maintain the regulatory environment relevant to government procurement practices; effectively manage government transversal contracts so that cost savings and socio-economic objectives are achieved; oversee and monitor government sector procurement practices to ensure compliance with the regulatory framework; provide advisory services and to implement initiative that will improve the capability of government procurement practitioners; research, develop and implement strategic procurement practices so that cost savings and socio-economic objectives are achieved; design and implement effective systems to improve government procurement practices.

³³ INTEGRATED REPORT for the year ended 31 March 2014

³⁴ Annual report 2014

8. Project Spectrum: Project Planning, Prioritization, Process Development and Ensuring Quality of Infrastructure

- The National Development Plan outlines government's objectives around the roll out of large infrastructure projects, setting targets and priority sectors for the country in the medium to long term. The NDP is developed in consultation with relevant industry stakeholders. The Plan serves as a strategic guidance, around which government departments and entities that roll out capital projects align their projects. This is further refined under the Presidential Infrastructure Coordinating Commission (PICC's) focus on the National Infrastructure Plan, which sets out in more detail the objectives by which projects would be prioritized.
- For projects that require budget support, a submission is made to the National Treasury, and units within the Treasury assess and prioritize the proposals for budget support.
- The PICC's processes involved separate consultative sessions on each sector/area of the infrastructure plan. The Treasury's Budget process ensures that the standards that projects must meet at each stage of evaluation of a project are described in detail, so that project developers can meet the set out criteria. Should the project fail to meet the set criteria, feedback is given. However, this process is still in its infancy, as it was recently introduced.
- The PICC invited many stakeholders to take part on consultations over its NIP, for each sector/area.
- The Treasury budget process invites stakeholders to partake in committees overseeing decision-making for each budget area, which includes making decisions on which projects to be funded.
- Usually large projects developed by the public sector would form Task Teams that invite representatives for all stakeholders. In addition, under the NIP, there are forums for each large project or collection of projects, where stakeholders are invited to assist with coordination.

9. Addressing Data Gaps

- Government has committed to further investment in infrastructure as well as minimizing constraints to increased investment in this space. There are a number of indicators that may serve as proxies in measuring the progress of reduced infrastructure constraints, including the use of Gross Fixed Capital Formation for the public sector. Additionally, the budgeted spending for the public-sector infrastructure of R847 billion over the next three years may be cross-referenced against actual expenditure after the three year period to ascertain potential constraints.
- Other indicators include the South African Reserve Bank (SARB) data on South Africa's gross savings as a percentage of GDP (i.e., the national saving ratio). The performance of household savings, government savings and corporate savings are all recorded in both annual and quarterly formats.
- The SARB also collects data on South Africa's Balance of Payments (BoP). The performance of South Africa foreign investment is recorded in the financial account of the BoP on an annual and quarterly basis.
- From a private sector investor perspective, there is a very strong correlation between the FNB/BER business confidence index and investment (private sector). This can therefore be used as a proxy for improvements in the Investment Climate.

Spain

The main instrument to guide public efforts concerning transport infrastructure investment is the Infrastructure, Transport and Housing Plan, PITVI 2012-2024 (*Plan de Infraestructuras, Transporte y Vivienda*). It was designed in 2012, in a context of strong budgetary constraints and high uncertainty, and aims at reviewing, prioritizing and selecting infrastructure investments based on their efficiency.

In order to do so, it foresees three possible macroeconomic scenarios based on different hypotheses over the evolution of GDP growth in real terms. The baseline scenario projects a negative growth of -1.5% in 2012 and -0.5% in 2013, with a change in trend from 2014 onwards. In particular, it estimates an increase of real GDP by 1.2% in 2014 and by 1.9% in 2015 and 2016. However, these projections have proven to be on the safe side in the light of events: real GDP grew 1.4% in 2014 and the latest government estimations foresee an increase of 3.3% in 2015. PITVI is currently being reviewed.

Apart from PITVI, other Plans are being implemented. They are focused on the improvement of basic infrastructures and energy efficiency with a view to optimize the use of public resources by concentrating investment in key sectors with the biggest spill-over effects.

a) Facilitators

a.1) PITVI

In its current version, PITVI envisages a public investment sum in transport infrastructure of 119,720 to 144,826 million euros, 90% of which will be devoted to transport policies. The rest will be spent in housing and other cross-cutting policies. As a percentage of GDP, average investments during the 2012-2024 period will represent between 0.80% and 0.85% of GDP.

PITVI relies on three sources of funding: Budgetary contributions, European funds and private capital. The latter is expected to amount to 16% of total funding and the Plan's spirit is to increase the participation of the private sector in a context of high public debt and the need to continue fiscal consolidation.

The primary goals of PITVI in terms of investment are to complete the main structuring transport axes, to strengthen the intermodal connections and to provide certain strategic infrastructures, such as cross-border connections.

In an analysis by mode of transportation, priority is given to rail freight and the completion of high speed rail axes:

- Thus, railways represent more than 40% of investment resources in PITVI.
- Investments in roads will amount to around 30% of resources (35% if private investment is included). In this case, the relative weight of conservation and maintenance increases.
- Investments in airport infrastructure decrease after an important expansion in the years prior to 2012.
- Investments in port infrastructure also decrease. Efforts will be focused on the provision of services and maritime rescue.

ECONOMIC VALUATION OF PITVI (2012-2024) (in mill.)		
ROADS	39,549	29%
RAILWAYS	52,733	39%
AIRPORTS	6,639	5%
PORTS	7,497	5%
TRANSPORT AID	14,498	11%
PRIVATE INVESTMENT IN PORTS	7,343	5%
PRIVATE INVESTMENT IN ROADS	8,369	6%
TOTAL TRANSPORT	136,627	100%

This distribution remains relatively stable throughout the planning period. Nonetheless, the relative importance of railways tends to diminish in the last part of the period, whereas the importance of roads increases, mainly due to the conservation and maintenance programmes. Airport investments diminish the most in relative terms.

The following table shows the average annual growth rate of investments by transportation modes:

MODE OF TRANSPORTATION	TOTAL INVESTMENT
ROADS	2.6%
RAILWAYS	-1.4%
AIRPORTS	-6.1%
PORTS	-1.7%
TRANSPORT AID	2.8%
PRIVATE INVESTMENT IN PORTS	-1.9%
PRIVATE INVESTMENT IN ROADS	3.5%
TOTAL PITVI RESOURCES	0.16%

a.2) Enhance energy interconnections:

In March 2015, a series of measures were agreed at the Madrid Summit to attain a fully functioning and interconnected EU internal energy market, in particular cross-border interconnections of the electricity and gas networks. These measures include the adopting of a common strategy for the transmission systems operators of Spain, Portugal and France, and the creation of a new high-level regional group for south-west Europe that, with participation by the European Commission, would oversee progress on the corresponding projects and offer technical consultancy services.

a.3) Other Plans

(i) **National Energy Efficiency Fund.** It is co-financed by European funds and has an annual budget of 350 million euros. Its goal is to co-finance energy efficiency investments in the construction, transport, industry, services and agricultural sectors. In this regard, the following Plans are envisaged:

- Plan for the saving of energy and the reduction of emissions in the construction sector: It will mobilize an annual total investment sum of 892 million euros. The Autonomous Regions will develop complementary actions worth 133 million euros per year through their European Regional Development Fund resources.
- Plan for the improvement of equipment and industrial processes technology: It will mobilize investments worth 828 million euros.

- Plan for the improvement in the efficient use of transports and for the modal shift of goods and persons towards more efficient transport modes.
- Plan for the improvement of energy efficiency in agricultural holdings and agricultural machines.

(ii) Urban water treatment. A new model for urban water management is introduced. It aims at fostering PPPs in the development of the necessary water treatment infrastructures. Investments worth 1 billion euros will be co-financed with European Funds.

(iii) Fund for the Accessibility of Ports by Land. It finances investments by ports targeted at accelerating access by road and rail and, thus, improve competitiveness. Annual investment is estimated at 100 million euros.

(iv) Investments co-funded by European Structural Funds. During the period 2014-2020, around 2.5 billion euros will be invested in transport infrastructure in order to increase its efficiency and promote intermodality, especially the shift from road to rail freight. In the field of energy, more than 4 billion euros from European Structural Funds will be invested to reduce emissions and enhance renewable energies.

a.4) Role of NDBs

ICO (*Instituto de Crédito Oficial*, the Spanish NDB) provides Spanish companies with direct funding for undertaking large investment projects in infrastructure.

ICO also contributes to the financing of infrastructure projects in Spain through AXIS, its venture capital manager. One of AXIS's funds is *Fond-ICO Infraestructuras*, which finances infrastructure projects in transportation, social infrastructure, services, energy and the environmental sector.

Fond-Ico Infraestructuras provides funding through equity, quasi equity and participative loans with a minority stake on own resources. The target distribution of its portfolio is as follows:

- Transport: 50%-60% of the portfolio.
- Social infrastructure: 20%-30%.
- Energy and the environment: 20% to 30%.

Spain, via ICO, will contribute 1.5 billion euros to the so called "Juncker Plan" at European level and is currently working closely with EIB as well as with other European NDBs in the implementation of the Plan.

b) Safeguards

The government is undertaking several actions to increase the efficiency in the provision of infrastructures. In this regard, the following can be highlighted:

(i) Law on the Railway Sector. A new Bill 38/2015 has been passed by Congress on September 29th. With this new Law Spain will be integrating the European Directive establishing a single European railway area. In addition, the Law will allow for a more rigorous planning of the railway infrastructure, and more competition: (i) a new rail charges/tariffs structure -the so-called access charge- is eliminated since new entrants were affected disproportionately by this charge; and (ii) obligation of the infrastructure administrators to grant access to the infrastructure assets on a non-discriminatory basis.

(ii) Law on Road Infrastructures. A new Law 37/2015 has been approved on September 29th. It includes the need to conduct a cost-benefit analysis before introducing significant changes in the network or in the characteristics of its sections.

(iii) Ports. Concessional periods are being adapted to those in Europe in order to maintain international competitiveness. This measure aims at boosting private investment in ports access from and to other transport infrastructures. The estimated impact on private investment is 150 million euros annually.

(iv) Public Administration and Common Administrative Procedure. The law 40/2015 on Public Administration and the Law 39/2015, both of October 1st, will contribute to reduce administrative

burdens particularly those that most affect productive activity and includes the elaboration of an impact analysis of the new legislation on market unity.

- (v) Advisory council for the analysis of major infrastructure projects. It was set up in May 2014. The new Roads Act and the new Railways Act confer competences to this Advisory Council in their respective fields in this respect. In addition, the National Evaluation Office has been recently set up, to thoroughly evaluate the financial sustainability for concession contracts.
- (vi) New framework for airport regulation and supervision. It was adopted in 2014. The DORA (Document of airport regulation) becomes AENA’s main instrument to guarantee quality, performance, capacity and accessibility of airports. It sets up specific guidelines for action, including investment programs and airport charges revisions for a five-year period. Airport charges will not increase between 2015 and 2025. AENA’s partial privatization process: In January 2015 49% of assets were successfully distributed between institutional investors, retail investors and workers.

Turkey

	Facilitators	Safeguards
Infrastructure	<p>4. Supporting Improvements in Investment Climate</p> <ul style="list-style-type: none"> • Program to Upgrade the Transportation Sector <p>5. Facilitating Financial Intermediation</p> <ul style="list-style-type: none"> • PPP Debt Assumption Mechanism • Real Estate Investment Tools 	<p>7. Enabling Appropriate Legal and Institutional Settings</p> <ul style="list-style-type: none"> • Improving the Institutional Capacity for PPPs • Priority Transformation Programs

Facilitators

4. Supporting Improvements in Investment Climate

Program to Upgrade the Transportation Sector:

One of the priority transformation programs in the Tenth Development Plan is dedicated to the transportation sector, which aims at increasing the contribution of logistics infrastructure to growth potential in order to achieve export, growth and sustainable development objectives of Turkey. In this vein, an Action Plan (2014-2018) has been prepared. As such, the Plan aims to establish a Logistics Coordination Council, design a Port Authority Model, revise the Coastal Structures Master Plan to implement port capacities in an effective manner in view of the rising foreign trade volume of Turkey. This Program also covers the Transportation Master Plan where major transportation infrastructure investments are included, including the PPP transportation projects. The Transportation Master Plan (2014-2016) covers the actions (i) to facilitate the accessibility of transportation and communication services, (ii) to improve bilateral and multilateral cooperation, (iii) to promote shipbuilding and its sub-industries, (iv) to ensure safe transportation of hazardous materials via airways, highways, railways and seaways, (v) to further develop rail transport and provide a liberal, fair and sustainable medium for competition, and (vi) to increase the number of people receiving professional qualification training to satisfy the need for qualified human resources.

5. Facilitating Financial Intermediation

PPP Debt Assumption Mechanism:

For PPP projects in Turkey, the debt assumption mechanism is used as a credit enhancement tool and is seen as an effective way to ensure the sustainability of the projects. The debt assumption means assumption of the outstanding senior debt of a designated Project. In case of an early termination of the PPP contract and a consequent transfer of the Project assets to the public, Turkish government is assuming the outstanding loan on behalf of the project company. The legal framework has been totally completed with the recent regulation published in April 2014. The regulation also articulates the procedures and principles aiming for increasing the fiscal discipline and the transparency of Treasury debt assumptions. In

line with the international standards, necessary risk sharing mechanism is provided both for the project company and the senior debt lenders for the successful implementation of the projects. The partial debt assumption options, minimum investment amount criteria, and annual debt assumption limit are some of the limitations in order to control the PPP public budget and contingent liability system in Turkey. There are also other risk management tools, monitoring models and accounting principles and procedures under the design process in order to monitor and measure the impact of these PPP related sovereign contingent liabilities. Since 2012, the debt assumption model is used for large scale transportation projects amounting to a portfolio of USD 15 billion including from the Istanbul 3rd Airport, Istanbul 3rd Bridge, Gebze-Izmir Highway and Eurasia Tunnel Project.

Real Estate Investment Instruments:

Turkey has put in place regulations on venture capital investment funds as well as real estate investment funds and investment companies. In particular, the revised regulation on real estate investment companies contains rules that introduce an alternative instrument for the financing of infrastructure projects especially by *qualified investors*. Also as a measure to promote long-term financing environment, new regulations regarding portfolio custody services, mutual funds, asset-backed and mortgage backed securities, covered bonds and mortgage financing companies were put into effect recently. Finally an important reform was made with the establishment of a central electronic platform (TEFAS) for trading investment fund units in January 2015. The platform enables investors to access units of all funds and it is expected to increase competition between investment funds and enhance transparency of investment fund performances. Also in relation to institutional investors, the secondary regulation for investment companies with variable capital will be published in 2015 which were introduced as a new type of collective investor in the Capital Markets Law. These new vehicles and platforms are expected to facilitate transactions of a greater volume and higher-quality.

Safeguards

7. Enabling Appropriate Legal and Institutional Settings

Improving the Institutional Capacity for PPPs:

The Tenth Development Plan has several policies to overcome the shortcomings of the current PPP management decision and execution processes. Main actions are defined as “to improve institutional capacity on the public side to increase the quality of the PPP process as a whole”, “to prepare a strategy paper”, “to adopt a framework law in order to compile the scattered PPP legislation”, “to strengthen the coordination of PPP policies and practices”, and “to set up an effective monitoring and evaluation system”.

On the other hand, a capacity building program was initiated for PPP projects in the health area. Turkey's hospital infrastructure, under the purview of the Ministry of Health, is in need of modernization and as such, a new framework, the city hospitals PPP program, was introduced. The value for money analysis and a management framework for the health sector PPPs are under way.

Priority Transformation Programs:

“The Rationalization of Public Expenditures” priority program includes a set of actions on PPPs including the establishment of a monitoring system and a framework law. According to the Plan, Turkey is also planning to start a technical assistance project in cooperation with the World Bank to strengthen the institutional capacity of the core PPP- related public institutions in terms of contingent liability, project documentation and project management cycles.

United Kingdom

The government publishes an annual National Infrastructure Plan, outlining the government's long-term vision for infrastructure. It is underpinned by an infrastructure pipeline worth £411 billion from 2016-16 to the end of the decade and beyond. This does not include projects and programmes for the fiscal year 2014-15, which were valued at £53 billion. Since 2010, over 2,650 different infrastructure projects or schemes have been completed.

Since the important establishment of Infrastructure UK (IUK) – a dedicated unit in HM Treasury that provides a stronger focus on the UK’s long-term infrastructure priorities – the government has been developing a National Infrastructure Plan for the UK. The latest version, National Infrastructure Plan 2014 (NIP 14), provides an outline of the government’s strategy across the energy, transport, flood defence, waste, water and communications infrastructure sectors up to 2020 and beyond. The NIP as a document is always evolving in the light of industry feedback received through the dedicated National Infrastructure Plan Strategic Engagement Forum (NIPSEF). With NIPSEF’s help, it is intended that future NIPs will provide even greater clarity to investors and the supply chain about the state, and prospects, of infrastructure in the UK.

Also published by IUK, the [Infrastructure Pipeline](#) presents the most comprehensive overview of planned and potential UK infrastructure investment to date, containing information on over £411 billion of planned public and private sector infrastructure investment. It provides the visibility and improved certainty that investors and the supply chain have been looking for in order to commit to big investments. The Pipeline allows the government to work more effectively, ensuring the UK’s infrastructure needs are met and also acts as a prospectus for investors.

The government continues to catalyse private sector participation in infrastructure investment projects, for example taking forward its new approach to Public Private Partnerships – Private Finance Two (PF2). The first PF2 programme is the £700 million privately financed element of the Priority Schools Building Programme with all schools due to be opened by the end of 2017.

Specific policy measures to improve the infrastructure investment climate are outlined below. More detail the UK’s planned infrastructure investment can be found in the [National Infrastructure Plan 2014](#).

UK Guarantees Scheme (UKGS): The UK Guarantees Scheme was launched in 2012 to support private investment into UK infrastructure. It can provide £40 billion worth of guarantees and works by guaranteeing the principal and interest payments of infrastructure debt. Seven projects have received support through the Scheme to date, and a further one has had a guarantee approved. This is a total of £1.7 billion in guarantees, supporting projects with a capital value of approximately £4 billion. A further 39 projects have been prequalified as being eligible for a guarantee, with a capital value of approximately £34 billion. Last year, UKGS underwrote £827 million of senior debt for greenfield projects in the UK.

Vehicle Excise Duty and Roads Fund: By 2020-21, the UK will have trebled investment in improvements to the national road networks compared to 2012-13 levels, investing over £28 billion in enhancements and maintenance of national and local roads. To ensure that future roads investment is sustainable, in July the government announced a reform to vehicle excise duty (VED) to create a new Roads Fund. VED will be reformed for cars registered from April 2017 to make it fairer for motorists and reflect improvements in new car CO₂ emissions. The new VED system will be reviewed as necessary to ensure that it continues to incentivise the cleanest cars.

From 2020-21 the government guarantees that all revenue raised from VED in England will be allocated to a new Roads Fund and invested directly back into the strategic road network.

Oil and gas taxation: The government believes in making the most of its oil and gas resources, including the safe extraction of shale gas. Action has been taken as part of a plan to reform the fiscal regime to make the UKCS an attractive destination for investment and safeguard the long-term future of this vital national asset. A package of measures (including reducing field based taxes by 15% and company based ring fence taxes by 12%) was announced in early 2015. These measures are expected to cost £1.3bn over the period to 2020 and result in £4bn of incremental investment. Building on action set out in the March Budget 2015, the government announced this summer that it will expand North Sea investment allowances to include additional activities which will maximise economic recovery. The government will also bring forward proposals for a sovereign wealth fund for communities that host shale gas development.

Green Investment Bank: The Green Investment Bank (GIB) is the world’s first investment bank dedicated to accelerating the transition to a green economy. With allocated funding of £3.8bn, the GIB is providing debt and equity finance solutions to innovative, environmentally friendly sectors where there is currently a lack of sufficient support from private markets.

The European Fund for Strategic Infrastructure: The infrastructure pipeline has enabled the UK to be on the front foot in proposing up to £60 billion of investment that could be eligible for support from the recently proposed €315 billion EU Investment Plan

UK insurance growth action plan: The insurance growth action plan includes a commitment by UK insurers to work in conjunction with partners with the aim of delivering at least £25 billion of investment in UK infrastructure, including but not restricted to projects in the published Infrastructure Pipeline, over the next five years.

United States

Given the decentralized nature of public infrastructure investment decision-making in the United States, the U.S. government does not make national investment plans. Rather, the federal government's actions described here are meant to directly or indirectly lower barriers to infrastructure investment. Within the structure outlined for this meeting, the U.S. government's strategic investment actions fall exclusively under infrastructure, and all can be classified as "safeguards."

The President's FY 2016 Budget proposal, released in February, includes a number of policy proposals designed to increase infrastructure investment, including:

1. **Reauthorizing surface transportation funding at \$478 billion over six years.** This would constitute the majority of federal infrastructure spending over that time period and be directed at highways, bridges, and intercity and transit rail. The reauthorization would also permanently authorize the TIGER (Transportation Investment Generating Economic Recovery) discretionary grant program, a competitive funding structure run by DOT. Project sponsors at the local and state level apply for funding through the program, which focuses on recipients (i.e. not state DOTs receiving formula-based funding or transit agencies) and projects (multi-modal and/or multi-jurisdictional; also sector-specific, e.g. ports and freight rail) that are usually not eligible for traditional DOT funding programs. In addition, the reauthorization would advance the President's Climate Action Plan by building more resilient infrastructure and reducing transportation emissions.
2. **Establishing a new Interagency Infrastructure Permitting Improvement Centre (IIPIC) housed at DOT.** The IIPIC would be staffed by experts, whose efforts would be devoted to the evaluation of the effectiveness of implemented reforms to the infrastructure permitting and review process at the federal level and also to the identification of additional reforms. The IIPIC would also serve as a clearinghouse for the sharing of best practices in permitting and reviewing across agencies, e.g. switching from consecutive reviews across several agencies to synchronized, simultaneous reviews in order to shorten project timelines.
3. **Permanently creating the America Fast Forward Bonds (AFFB) program.** AFFBs would be an alternative to tax-exempt bonds, allowing state and local governments to issue taxable bonds and receive a subsidy directly from the federal government, which would not be subject to sequestration. Taxable bonds would attract capital from pension funds and foreign investors, which receive a lower yield from holding tax-exempt bonds but no tax savings. Treasury research suggests that state and local government borrowing costs, including the subsidy, are lower from issuing taxable vs. tax-exempt bonds. The 28 percent subsidy is estimated to be revenue-neutral relative to budgetary cost of tax-exempt bonds.
4. **Policy changes affecting qualified Private Activity Bonds (PABs).** PABs are tax-exempt bonds issued by a state or local government, the proceeds of which are used for a defined qualified purpose by an entity other than the government issuing the bonds. PABs can be used to finance qualified highway or surface freight transportation facilities, and the Secretary of Transportation is authorized to allocate up to a limit of \$15 billion of issuance authority annually for PABs for these facilities. The FY 2016 Budget request proposes increasing the aggregate limit for issuance authority from \$15 billion to \$19 billion. PABs can also be used issued for public educational facilities, and the FY 2016 Budget proposes modifying ownership requirements in the law to facilitate the applications of PABs for financing this type of social infrastructure.

5. **Permanently establishing the Qualified Public Infrastructure Bonds (QPIBs) program.** This innovative new type of PAB would finance specified types of infrastructure projects in order to facilitate more PPPs. Under current law, PPPs that combine public ownership with private sector management and operations expertise cannot take advantage of the benefits of tax-exempt municipal bonds. The QPIBs program would extend the benefits of municipal bonds to PPPs, like partnerships that involve long-term leasing and management contracts, lowering the cost of borrowing and attracting new capital. Eligibility for QPIBs would require state or local government ownership of the project, and interest payments on these bonds would not be subject to the alternative minimum tax (AMT).
6. **Exempting foreign pension funds from application of the Foreign Investment in Real Property Tax Act (FIRPTA).** This reform would remove a difference in tax treatment between U.S.-based and foreign pension funds. Under current law, any gain from the sale of real assets (e.g. infrastructure capital) by a foreign pension fund is subject to U.S. tax. The same gain to a U.S.-based pension fund is untaxed. Exemption from FIRPTA removes an impediment to foreign pension funds holding U.S. infrastructure assets, thus expanding the pool of possible investors.

The Build America Investment Initiative (BAII) has already implemented the following policy changes:

7. **Creating the Build America Transportation Investment Centre (BATIC).** This centre serves as a one-stop shop for state and local governments, public and private developers, and investors seeking to use innovative financing strategies for transportation infrastructure projects. In particular, for state and local government officials interested in pursuing private financing opportunities for infrastructure, the BATIC provides extensive technical assistance materials for the design and implementation of infrastructure public-private partnerships, including model contracts and analytical tools.
8. **Establishing other mission-specific investment centres at the federal level.** EPA is setting up a new Water Finance Centre, which will work closely with municipal and state governments, utilities, and private sector partners to use federal grants to attract more private capital into projects and promote models of public-private collaboration. Similarly, the Department of Agriculture (USDA) is launching the Rural Opportunity Investment Initiative, which will identify opportunities for investment in promising rural water, energy, and broadband projects, reduce barriers to investment, and connect projects with investors. The new centre will also improve access to USDA credit programs.

The Obama Administration's BAII also established the Interagency Infrastructure Finance Working Group (WG), chaired by the Secretaries of Treasury and Transportation, to deliver recommendations on how to promote awareness and understanding of innovative financing and increase effective public-private collaboration. While not able to dictate strategy to state and local government decision-makers, the federal government can play an important role in supporting, promoting, and expanding opportunities for public and private partners to work together on developing and financing infrastructure in a way that facilitates appropriate and competitive solutions that benefit the public interest. The BAII WG formulated its recommendations in this spirit and is now executing them. The recommendations include:

9. **Expanding access to infrastructure project predevelopment funding for state and local government project sponsors.** While the costs associated with predevelopment e.g., economic impact analyses, regional planning studies, and preliminary engineering and environmental impact assessments represent a relatively small portion (generally less than 10 percent) of overall project cost, the lack of funding for these activities is often a significant obstacle to project development in public sector-dominated infrastructure areas. The WG recommends identifying opportunities to connect projects that receive predevelopment funding with complementary federal resources (e.g. assistance from the BATIC), exploring whether and how to expand predevelopment funding support to cover associated costs (e.g. community engagement in the planning process), and better understanding the role the private sector can play in supporting predevelopment.
10. **Integrating PPPs into current Administration permitting reform efforts.** The WG recommends leveraging the work the Administration is already doing in this area (see above) to

better integrate PPPs, such as developing guidance to help standardize processes for early input into the environmental review and permitting process, including by investors.

11. **Convening pension funds and other institutional investors to better understand the composition of current market activity.** Pension funds and other large institutional investors have risk-return preferences and investment horizons that are often well-suited to infrastructure assets, and they represent a significant source of potential funding for domestic infrastructure projects. The WG recommends engaging with institutional investors in order to capitalize on and share the experience of investors already active in the market, and to better understand how their practices can be publicized and replicated by other investors.
12. **Standardizing the approach to PPP contracts could make arrangements more accessible for both project sponsors and investors.** While PPP transactions will always require some degree of asset-specific customization, a general template for structuring PPP contracts should reduce the cost and complexity of executing a PPP transaction. The WG recommends expanding the BATIC's work related to model PPP contracts to cover other payments structures for infrastructure modes including transit. The WG also recommends collaboration between agencies to develop parallel model PPP contracts for the water and wastewater sectors using the newly formed Water Finance Centre.
13. **Disseminating information on alternative risk- and profit-sharing arrangement for infrastructure PPPs.** The Department of the Treasury recently released a report detailing new frameworks for PPP design in the hopes of attracting more private investment to infrastructure. By expanding the options for sponsors and investors to consider in PPP negotiations, the risk- and profit-sharing approaches discussed in the paper have the potential to increase the number of PPP deals and improve the odds of the projects' long-term success.
14. **Exploring the potential benefits of "bundling" infrastructure projects.** The scale of many individual infrastructure projects is too small for large institutional investors, creating a funding gap that disproportionately affects smaller, low income, and rural communities. Bundling individual projects – where a single consortium provides several small-scale PPP projects in order to reduce the length of the procurement process and transaction costs – may create opportunities that are more desirable to larger scale investors. The WG recommends that USDA begins a broader dialogue with relevant federal agencies on structuring asset bundles and the consequences of transferring these bundled assets. The WG also recommends that relevant agencies highlight instances of successful bundling at the state level (e.g., the Connecticut Green Bank and the State of Hawaii).
15. **Broadening availability of infrastructure data.** The absence of an infrastructure return benchmark or index reduces the investment community's ability to evaluate PPPs. The WG recommends that the Department of the Treasury convenes financial data providers and infrastructure market participants to explore the possibility of developing a U.S.-centric infrastructure return index for one or more sectors.
16. **Providing support to state and local government surface transportation project sponsors for collaborating with the private sector.** The WG recommends the following: developing model PPP contract guides and conducting outreach and training activities geared to policymakers and legislative and executive staff; encouraging the use of PPP screening tools developed by DOT to foster the early consideration of PPPs in the transportation infrastructure planning process; partnering with the National Governors Association and the National Conference of State Legislators to better assist states with limited or no PPP authority.
17. **Encouraging the consideration of PPPs as an alternative to conventional procurement for port infrastructure.** Under the Maritime Administration's (MARAD) new StrongPorts program, DOT is developing tools and initiatives helpful to port authorities that are pursuing modernization projects, including those interested in PPPs. The WG recommends exploring the potential benefits of increasing MARAD's capacity to provide technical assistance through the StrongPorts team to help ports identify and secure appropriate funding resources; partner with key stakeholders;

integrate port planning with state and local planning and financing mechanisms; and help form PPPs where appropriate, to meet future modernization and expansion needs.

18. **Encouraging the consideration of PPPs as an alternative to conventional procurement for water infrastructure.** The WG recommends exploring opportunities to encourage private investment in federally built water infrastructure.
19. **Reducing information barriers to accelerate investment in resilient energy infrastructure.** The WG recommends the following: establishing an information portal maintained at the Department of Energy to provide data, tools, and best practices to support investment in resilient electricity generation; improving electricity sector data availability and standardization; developing analytical tools to evaluate the potential impacts of climate change in the assessment of electricity sector investments; developing analytical tools to quantify the value of investments in resilience; establishing a resiliency course for state and local stakeholders on best practices for robust decision-making related to new infrastructure.
20. **Increasing broadband deployment and adoption in underserved communities.** The WG recommends that the National Telecommunications and Information Administration (NTIA) document best practices for broadband deployment, convene community broadband stakeholders at all levels, and provide technical assistance to communities seeking to improve their broadband capacity. The WG also recommends that the Administration establish an interagency federal broadband working group to further this effort.

B.3. SMEs

Argentina

SMEs have a preponderant role in the model of growth and social inclusion that Argentina has been implementing; they have joined the most important process of industrial expansion in the history of our country, in duration as well as in production growth. In this line, one of Argentina's priorities is to support the SMEs through a number of measures channelled by tools that enable SMEs the access to financing, quality training, technical and economic assistance, support to entrepreneurship and strengthening of value chains. In this line, relevant actions that the Government has put forward are centred in those areas.

On the **financing front**, the National Government has undertaken a number of programs, having in mind that one of the main challenges that SMEs have to face is the lack of suitable financing instruments. Programs related to overcoming these challenges are:

- The **National Fund for the Development of micro, small and medium enterprises (FONAPYME)**, Fondo Nacional para el Desarrollo de la Micro, Pequeña y Mediana Empresa in Spanish, that grants credit lines at an interest rate below market rate. Loans are awarded through tenders and can be submitted through the Ministry of Industry web page. Through the **Regime on Rate Discounts**, the Ministry of Industry assume part of the financial costs of the loans taken by SMEs to facilitate access and credit terms and conditions for SMEs, so they can finance their investment needs and working capital at competitive interest rates. The Secretary for Small and Medium-sized Enterprises and Regional Development grants credit quotas to Financial Entities through bids or specific agreements. SMEs can apply for the credit in any of the banks that participate in the Project and a credit analysis is carried out. If the analysis proves that the company is eligible, a subsidized-rate loan is granted.
- The **Fund for financing improvements in SMEs of competitiveness (FONCER)** was established recently in order to facilitate access to financing by SMEs. This initiative finance investment projects and working capital that lead to improvements in the competitiveness and productivity of goods and services in regional economies. The loans cover up to 80% of the total project, up to AR\$ 5 Million for productive investments and up to AR\$ 1 million for working capital with a 12 month grace period.

- Moreover, to continue boosting the development of SMEs all over the country, the Ministry of Industry **subsidizes the interest rate of credits of the National Bank of Argentina (BNA) to buy new warehouses** or built one through the program My Storehouse (Mi Galpón), it also subsidizes the rate to renew or expand SME's fleet: the National Bank of Argentina (BNA) give loans to SMEs of up to 70% of the total amount to finance de acquisition of the necessary equipment: trailers, busses, agricultural machinery, and irrigation equipment. On the other hand, guarantees are a traditional way of improving access to finance for SMEs; **the Guarantee Fund for Small and Medium Enterprises (FOGAPYME)** framed in the Law No. 25.300 aims at providing guarantees to back the ones provided by Mutual Guarantee Societies and also offer guarantees up to the 25%.
- On the other hand, the Ministry of Science, Technology and Productive Innovation, has developed a program to help SMEs that produce software to begin exporting through loans, financing up to 80% of the total cost of the projects.
- In addition, **the National Bank of Argentina (BNA) and the Investment and Foreign Trade Bank (BICE)**, both public banks, have a predominant role in funding the private sector, especially SMEs. The BICE grants medium and long-term loans with the goal of fostering production investment and foreign trade. In this line, there are several credit lines destined to SMEs; the line of investment financing of SMEs and Cooperatives which is destined to investment projects and purchase of new movable capital goods either subject to registration or not, within a framework which favours investments intended for different economic activities in the sector of goods production and service provision. The amount financed is up to 80% of the total value of each project, excluding value added tax.
- On the other hand, the BICE has developed the **FONTAR** (credit line for the modernization and technological innovation of the sector of goods and services) in line with the view that the development of a country, a real leap forward in terms of quality, begins when local companies decide to boost their innovation process and upgrade their production technology. In this sense, this credit line is destined to projects to upgrade innovation or technology; the amount financed is up to 80% of eligible investments, excluding VAT; the maximum amount financed is US\$1.0 million.
- Also, **BICE** gives support to small and medium-sized companies so they may invest in capital goods to purchase technology and increase their productivity with a maximum amount financed of AR\$20,000,000 excluding VAT. Additionally, the BICE has recently introduced a credit line which main purpose is to boost regional diversification of the national productive fabric, especially as the development of local small and medium-sized companies results in the federalization of industrialization. A sub-line is destined to small and medium-sized start-ups or companies already working in the Province of San Juan engaged in the production of industrial goods, in trade or in the service sector. This line is intended for investment projects, including purchase of capital goods as well as granting credit to Working Capital and Technical Assistance. The maximum amount financed for micro and small companies is up to US\$1.0 million; and for medium-sized companies up to US\$3.0 million, both excluding VAT. Another sub-line purpose is to finance working capital and focused on economic activities within the production of goods and services based in regional economies. This line is destined to investment projects and purchase of new capital goods for several economic activities performed by producers of goods and services in the regional economies. The maximum amount finance for the working capital is AR\$1.0 million and AR\$5.0 million for the investment projects.
- In addition and as mentioned in our Growth Strategy, the **Central Bank** will implement additional policies to spur investment by SMEs and less developed regions, with the aim of increasing funding for business investment and infrastructure projects. The significance of these alternative mechanisms to traditional intermediation is planned to keep increasing in the future. This involves two key credit programs:
 - a) The **Credit Line for Productive Investment** (Línea de Créditos para la Inversión Productiva in Spanish), which requires financial institutions to allocate a percentage of their

deposits to finance capital expenditures by SMEs, with a tenor of at least three years and a cap on interest rates at 18%. Relatively large banks must allocate at least an amount equal to 7.5% of private sector deposits to this line. The credit line for productive Investment of the Central Bank was established in 2012. In that year the total allocation of funds was \$17 billion (0.61% of GDP). In 2013, \$54 billion (1.58% of GDP were allocated), while in 2014 it reached \$123 billion (2.8% of GDP). In 2015, the target for these lines is to allocate AR\$52 billion to the productive sector during the second semester of 2015.

b) The **Bicentennial Productive Financing Program**, provides loans to the private sector for investment projects that have a positive impact on job creation and output through commercial banks at subsidized rates (funded by BCRA financing), of which around two thirds have been channelled to the industrial sector. The amount allocated reached AR \$8,200 million (0.19% of GDP) in 2014. The program has been renewed this year in order to continue increasing the amount allocated. These lines are expected to boost private investment and, consequently, have impact on employment and growth. In particular, the credit lines to support SMEs will improve their access to bank funding, strengthening their technological capabilities and decreasing informality.

- Finally, with the aim of strengthening SMEs access to financing through the capital market, new measures were implemented last September:
 - The National Securities Commission (CNV) modified its SMEs' regime: the maximum amount of annual revenue for a company to be considered an SME was increased and categorization procedures were simplified.
 - Postdated checks regulation was improved, in order to provide more transparency and better pricing to check negotiations, which is one of the most used financial instruments among SMEs.
 - Promissory Notes regime was reformed so that more SMEs could use this medium term financing instrument. The target is to double the number of SMEs that use these instruments.
 - A Financial Assistance Office was created, to give free advice to these types of enterprises. This office will develop courses and publications on the Capital Market for SMEs, proposals for regulatory changes, and technical assistance.
 - ASISTIR Fund was created. This fund will help SMEs to place their first issuance of bonds in the capital market.
 - Negotiable debt regime was improved by increasing the issuance limit in order to finance larger investment projects.
 - Consultative Council for Micro, Small and Medium Enterprise: The objective of this Council is to establish an institutional space where public sector and SME's representatives can exchange ideas for the analysis, design and implementation of SMEs-oriented policies.
 - SME Ombudsman: this will be the instance where allegations of abuse by other companies will be documented (breach of contract, abuse of dominant position, etc.)
 - New requirement for Mutual Funds: they have to invest the 2.5 % of their equity in productive investment, infrastructure development and SMEs financing.

Regarding training programs, the main initiatives can be outlined below:

- **Optimize SMEs' Human Resources**, it is essential to strengthen staff training in topics that allow them to innovate and project a growing path so the companies can adapt to market's requirements. In this sense, the Ministry of Industry has launched a Program of Tax Credit for Training that allows SMEs to obtain refunds on the training expenses in their human resources. The benefit becomes effective through the issuance of a Tax Credit certificate (electronic bond), which is then used to cancel national taxes. The reimbursement can range from 40% up to 90% of the total amount of training activities if they meet all the prioritization requirements: productive positioning of companies, economic activity, type of training activity, billing range, themes and addressees.
- In addition, the **National Training Program** is a training tool that has the objective of promoting a paradigm shift in business management, contributing to increase competitiveness through the training of executive staff. These objectives are implemented through the issuance of charge free workshops taught in every province in matters that are relevant to SMEs.
- In addition to this, Law No. 22.317 established a **Tax Credit Regime for the cancellation of national taxes, with the aim of encouraging staff training** and thereby promoting the qualification, growth and development of SMEs beneficiaries.

Moreover, with the aim of promoting development initiatives that generate a local and regional impact, increase employment sources, improve the social base of knowledge and create or strengthen links in different value chains, Argentina has implemented the **federalization of programs to empower regional development**.

- In line with this, the Ministry of Finance has launched the Program of Competitiveness of Regional Economies (PROCER). This program aims at fostering the productivity of value chains located in provinces outside Pampean region. It includes activities of institutional coordination, logistics for competitiveness and competitiveness of value chains.

On the other hand, reducing informality is an important challenge for Argentina, especially in the SMEs sector, because informality implies there is a lack of labor protection and workers' rights, which is associated with lower productivity and competitiveness across the whole economy, lower fiscal resources and unfair competition.

- In this sense, in order to promote and protect formal employment, the Ministry of Labour, Employment and Social Security, counts with the new Law 26,940 which is the centrepiece of the strategy to fight informality and has as its main objective to significantly expand incentives in order to increase employment formalization by a combination of benefits for compliance and sanctions for those not complying with the law. This comprehensive plan also extends actions of the Ministry of Labour, Employment and Social Security to control working conditions and child labor at the national level, in coordination with the employment services of the local jurisdictions. Among the new important systems and procedures is the creation of a special unit of Investigation and identification of Irregular Work inside the Ministry of Labour, and a public Registry of Employers with unregistered employees, child labor or a trafficking situation. Sanctioned employers remain in the Registry for a period of time during which they cannot access any benefits provided by public policy in the areas of financing, tax benefits and subsidies. In order to improve economic incentives, these policies award a permanent 50% reduction in the rate of employer contributions on all workers of firms employing up to five workers, provided they do not exceed a certain annual turnover, and establishes a temporary reduction in employer contributions for the hiring of new workers that generate a net increase in total staff. The reduction in the tax rate varies according to company size: for employers of up to 15 employees, a 100% reduction in the first year and 75% in the second; for companies from 16 to 80 workers, it establishes a reduction of 50% for 24 months, and for companies with a payroll exceeding 80 employees, a reduction of 25% for 2 years.

Regarding **entrepreneurship**, Argentina has a proactive National Government that recognizes its relevance and importance for economic development. In this sense, thinking in each entrepreneur and Argentine citizen that decides to start manufacturing, our country offers

specific tools that provide and give answer to diverse issues that companies must face before consolidating their business. In this framework, those who are starting to walk along the entrepreneurial path can receive training to develop solid business plans; have access to flexible funding tools to carry out their first productive investments with loans at a null interest rate and receive non-reimbursable contributions for up to 85% of the project.

- In this line, the Ministry of Industry, through the National Directorate Entrepreneur Support Young promotes and encourages **young entrepreneurs and businessmen**, through three actions: specific training in business plan and digital tools related to social economy through programs Learning to Entrepreneur, and My PC mobile program; soft financing and technical assistance through programs such as Seed Capital and My PC program and link with consolidated companies as sponsor companies program. These tools focused on entrepreneurship and targeted at young allowed the Ministry of Industry, to place youth at the base of the transformation process faced by our country for a decade. This National Support Young Entrepreneur's objectives are: to promote entrepreneurship among youth by promoting the creation, development and strengthening productive projects with local roots throughout the country, providing financial technical tools, and the fiscal policy framework of the State. In this sense, to develop a link between young entrepreneurs and consolidated firms, the Ministry of Industry, has established an initiative in which the consolidated firm will fulfill the role of Sponsor Company, assuming up to 100% of the investment required. Half of this investment will be return to the sponsor company as fiscal credit. The return of the remaining 50% is reached by an agreement between parts as "sunk cost", "soft loan" or "equity". Sponsor Companies is a funding tool which objective is the consolidation of on- going projects, incorporating them into the industrial and productive network, thus forging a new Argentine entrepreneurship with social conscience.
- Additionally, the program **Learning to Entrepreneur**, has the objective of training young people around the country who, whether living in the outskirts of the city or in it, do not have the chance to access the necessary tools to develop their productive processes. Programs such as training for developing a "Business Plan" and assistance to create the Seed Capital forms allow young people to maximize their capacities, strengthening social inclusion and equality. To ensure citizens from the whole country can access this benefit, online training is provided every week through the Virtual Classroom of the Ministry.
- Moreover, to foster financing to entrepreneurs, **Seed Capital** is a contest of productive projects at a national level that grants Honor Loans at zero-rate with a year's forbearance with no risks and guarantees, within three categories: Prototype Development (up to \$30,000); Start-Up (up to \$40,000); Company Consolidation (up to \$70,000). Each call is divided into regions (north east, Patagonia and Cuyo, north west, Buenos Aires province and autonomous city of Buenos Aires and central region) and each young person is included for the first time in the banking system through an account in the National Bank of Argentina called "Young Entrepreneur". In the framework of a federal economic model, Seed Capital aims at promoting and strengthening regional economies, fostering productive projects that incorporate innovation, design, regional impact and have a high added value in origin. Since it was implemented, the program has financed more than 6,000 projects at a national level.
- Another initiative is the **Credit and Competitiveness Access Program (PACC) – Entrepreneurs**. Through this modality, the National Government fosters the creation and sustainability of Young Companies and Entrepreneurs with potential for development, innovation, employment creation, imports substitution, etc. To be eligible Young Companies, should not have sales older than two years before their presentation; for Entrepreneurs, their business initiatives must not be operating. This business development strategy supposes two dimensions: direct support for new companies and entrepreneurs and support for Business Incubators or Specialized Institutions for Entrepreneurial Support. All of these institutions are to assist new entrepreneurs accelerating their evolution and making sure the projects succeed. They are also to provide continuous technical assistance and monitor their development through a wide number of resources and technical knowledge. For this aim, the initiative Incubar has also been created. It allows the registration and monitoring of specialized institutions throughout

Argentina. This program is destined to institutions specialized in supporting entrepreneurship (business incubators) through economic support and training.

- In order to develop a net of micro finance, Argentina has established through the Ministry of Economy and Public Finances, a **public-private organization (FONCAP)** that is committed to help micro finance institutions through financial and non-financial services such as technical assistance and training. The goal is to strengthen these institutions and improve the financial conditions that the entrepreneurs face.

Lastly, to help firms facing issues of insolvency and to prevent them of entering into bankruptcy, the government of Argentina articulates between two initiatives: **Experts in SMEs** and the **REPRO Program** (Program of Productive Recuperation). The first one, provide SMEs with the knowledge of specialized experts who have a wide experience in the different areas that build up the correct functioning of a company. In this way, the program acts as a bridge connecting specialists' knowledge and SMEs. This objective is reached offering SMEs a totally free of charge diagnosis of their current situation carried out by top-level professionals and providing companies with an easy access to the implementation of an Improvement Plan that will receive a 50% subsidy. The second one gives each employee a fix amount of \$2,000 for 12 months. Firms can have access to this benefit by proving they are under a stress situation and showing the next steps they are planning to take to recover. In addition they have to commit not to dismiss employees.

Australia

Small and medium sized enterprises (SMEs) make an important contribution to Australia's economy, and the Australian Government's financial, taxation and competition policies are designed to foster a supportive growth environment for these enterprises. In turn, this will increase the long-term investment opportunities for SMEs.

A strong financial sector that facilitates the flow of savings to efficient investment opportunities assists SMEs to invest in new technologies, fund innovative practices and expand capacity. Government authorities regularly monitor developments in SMEs' access to financing. For example, the Reserve Bank of Australia (RBA) annually hosts a 'Small Business Finance Advisory Panel', and the RBA and Australian Treasury regularly speak with Australian banks about business financing conditions. These consultations and available data suggest that Australian SMEs continue to have good access to finance through the banking system.

New forms of innovative finance, such as peer-to-peer lending and crowd-sourced equity funding (CSEF), can increase the funding options available to SMEs. A peer-to-peer lending sector has been emerging under existing regulatory arrangements, and the Australian Government is currently developing legislation for a regulatory framework that will reduce the compliance costs for small businesses seeking to raise funds through CSEF.

Reducing costs for SMEs is a priority for the Government, as this is a key way to improve the financial viability of their operations, thereby encouraging additional investment. Taxation and regulatory compliance costs are particularly challenging for SMEs because outsourced expertise in this area comes with a high fixed cost. This means that untrained small business owners usually attempt to navigate the tax and regulatory environments themselves, and as a result, bear significant compliance costs.

To ameliorate these regulatory costs and provide incentives for SMEs to pursue investment opportunities, Australia has introduced a number of specific policies including:

- businesses with turnover less than A\$75,000 are not required to register for GST;
- businesses with turnover less than A\$20 million can report and pay GST quarterly instead of monthly;
- businesses with turnover less than A\$2 million can account on a cash basis;
- simplified trading stock rules, which do not require a stocktake in certain circumstances;

- the Superannuation Clearing House, which simplifies accounting for employee superannuation payments, is available for small businesses; and
- simplified depreciation rules which allow businesses with turnover less than A\$2 million to pool most depreciating assets and write them off at a 30 per cent depreciation rate (15 per cent in first year) irrespective of their expected life.

Additional tax measures to incentivise businesses to invest, hire and grow were announced in the 2015-16 Budget as part of the Growing Jobs and Small Business package. These include:

- beginning on 12 May 2015 (7:30pm AEST) and continuing until 30 June 2017, businesses with turnover less than A\$2 million can immediately deduct capital expenditure on items costing less than A\$20,000; and
- beginning on 1 July 2015, incorporated businesses with turnover less than A\$2 million will have their income tax rate reduced from 30 per cent to 28.5 per cent, while unincorporated businesses will receive a discount of 5 per cent on their business income tax liability, capped at A\$1,000 per individual for each income year.

Many SMEs in Australia are engaged in primary production, and they face significantly greater levels of risk due largely to seasonal factors and fluctuations in commodity markets. As higher levels of risk discourage SMEs from investing in new operations, Australia has introduced a number of tax measures to allow these SMEs to better manage this risk, including:

- income tax averaging for primary producers and specific professionals; and
- Farm Management Deposits, which provide a tax incentive to better manage income fluctuations associated with price variability and seasonal variations.

In addition, as part of the 2015-16 Budget, the Government announced that it will allow all primary producers to:

- immediately deduct capital expenditure on fencing and water facilities such as dams, tanks, bores, irrigation channels, pumps, water towers and windmills; and
- depreciate over three years the cost of fodder storage assets such as silos and tanks used to store grain and other animal feed.

This measure applies from 7:30pm (AEST), 12 May 2015.

In relation to SME employment, the reform of taxation arrangements of Employee Share Schemes (ESS) provides generous incentives for new start-ups, thus encouraging them to grow and invest in new capacity. The changes are designed to make Australia's taxation of ESS more competitive by international standards, and allow innovative Australian firms to attract and retain high-quality employees.

The Competition Policy Review Final Report highlights that small businesses bring innovation and employment to the market place. The Review was especially mindful of the concerns and interests of small business and made a number of recommendations that would allow these firms to function more freely and effectively, thus providing the environment for them to expand and invest. These recommendations include:

- simplifying laws to help small businesses understand their rights and obligations;
- reforming competitive neutrality policy and reviewing regulatory restrictions, including standards, occupational licensing, and planning and zoning rules; and

- better access to remedies when disputes occur – this includes more flexibility in collective bargaining processes that let small businesses work together to negotiate with large businesses.

The Review’s recommendations are currently being considered by the Government, and a response is forthcoming.

Brazil

Most of the information was provided under other headings.

Canada

	Facilitators	Safeguards
SMEs	10. Facilitating Financial Intermediation <ul style="list-style-type: none"> • Corporate tax relief for small businesses 	12. Enabling Appropriate Legal and Institutional Settings <ul style="list-style-type: none"> • Kick-start investment in innovative firms • Capacity building and increasing access to financing for SMEs

10. Facilitating Financial Intermediation

Corporate tax relief for small businesses

- Small businesses are a vital part of the Canadian economy, employing half of all Canadians working in the private sector. Canada’s federal income tax system supports small businesses through a preferential tax rate for Canadian-controlled private corporations with less than C\$15 million in taxable capital. The small business tax rate, generally applies to the first C\$500,000 per year of qualifying active business income.
- Canada has recently legislated a gradual **reduction of the federal small business tax rate** from 11 per cent to 9 per cent by 2019, which will allow almost 700,000 small businesses to retain more earnings that can be used to reinvest and create jobs.

12. Enabling appropriate legal and institutional settings

Kick-start investment in innovative firms

- The Government of Canada will take steps to help innovative businesses to grow and create jobs. This includes providing resources for a **new Innovation Agenda** that will:
 - Strengthen the emerging national network for business innovation, including through clusters, incubators and accelerators, research facilities, financing, and other support for successful small companies wanting to grow and export.
 - Enhance the Industrial Research Assistance Program, which has a proven track record of helping SMEs to innovate and become world leaders.
- The Government will monitor the progress of the **Venture Capital Action Plan** as fund managers are making investments, increasing the availability of venture capital financing for innovative firms.

Capacity building and increasing access to financing for SMEs

- EDC, Canada's export credit agency, plays an important role in supporting small businesses seeking to export for the first time, to increase exports within existing markets or to expand to new ones. EDC supports SME customers by providing them with protection against a variety of risks with accounts receivable insurance, by fulfilling their need to access more working capital financing, and by facilitating their access to foreign markets with market information and introductions to potential buyers.
- In 2015, EDC launched the following initiatives to further its support to SMEs:
 - **The creation of an online self-service product** that provides selective sales coverage primarily for small businesses, particularly at the very small end of the SME spectrum.
 - The extension of EDC's risk appetite in specific areas to support SME business opportunities.
 - The establishment of an **SME mentoring program** for high-growth businesses, which provides customized assistance for market expansion.
- The Business Development Bank of Canada (BDC) also plays an important role in helping Canadian small and medium-sized enterprises to grow and become more competitive, innovate, increase their efficiency and explore new markets, at home and abroad. By offering financial services that are complementary to those of other financial institutions in Canada, BDC works to ensure that small and medium-sized enterprises have the opportunity to grow and succeed.
- In 2015, BDC is developing new initiatives to:
 - Address the unique needs of high-growth firms (companies with annualized growth of 20 per cent for three consecutive years) with ambitions to pursue growth through an acquisition-based strategy. BDC will increasingly make available quasi-equity solutions in the C\$2 million to C\$10 million range to such entrepreneurs.
 - Help small and medium-sized enterprises improve productivity and sales by financing the development and application of information and communication technologies (ICT). BDC is committed to providing C\$200 million per year in ICT loans and C\$300 million in venture capital investments in ICT firms as part of **Digital Canada 150**.

- Provide targeted support to women entrepreneurs by making available C\$700 million over three years to **finance women-owned businesses** through the Action Plan for Women Entrepreneurs. BDC will also provide a national forum to bring together women entrepreneurs and provide them with the tools, networks and connections they need to reach their full growth potential.

China

	Facilitators	Safeguards
SMEs	<p>Supporting Improvements in Investment Climate</p> <ul style="list-style-type: none"> • Tax incentives: VAT, business tax, income tax and stamp tax exemption and deduction <p>10. Facilitating Financial Intermediation</p> <ul style="list-style-type: none"> • Banking sector : Increasing credit scale to SMEs, and improving products and services innovation • Movable Property as collateral : Issuing the Measures for Chattel Mortgage Registration, and streamlining the mortgage and registration process for movable property. • Non-Banking Financing Mechanisms: Encouraging SMEs raise funds through direct financing channels such as equities, bonds and asset-backed securities. <p>11. Mobilizing MDB Resources and Role of NDBs</p> <ul style="list-style-type: none"> • Role of National Development Banks: Improving the cooperation model between NDBs and other banking financial institutions in the form of re-lending 	<p>12. Enabling Appropriate Legal and Institutional Settings</p> <ul style="list-style-type: none"> • Rule of Law and Public Governance: Issuing the Opinions on Supporting the Sound Development of Small and Micro-sized Enterprises in 2014 <p>13. Addressing Data Gaps</p> <ul style="list-style-type: none"> • SME data: Establishing public information service platform for SMEs

B.III.1. Tax and fees exemption and reduction. As regards the VAT and business tax, the VAT and business tax starting point applicable to privately or individually-owned business are raised to a monthly sales revenue of RMB5000-20000; from August 1, 2013, among small-scale VAT tax payers, enterprises and non-enterprise entities with a monthly sales revenue of less than RMB20000 are exempt from the VAT and among the business tax payers, enterprises and non-enterprise entities with a monthly turnover of not more than RMB20000 are exempt from the business tax; small-scale VAT tax payers with a monthly sales revenue of RMB20,000-RMB30,000 are exempt from both the VAT and business tax payers with a monthly turnover of RMB20,000-RMB30,000 are exempt from the business tax starting from October 1, 2014 to December 31, 2015. In terms of the income tax, from January 1, 2015 to December 31, 2017, for small and low-profit enterprises with annual taxable incomes of less than RMB 200,000 only 50% of their income is deemed as taxable income, and shall pay company income tax at the rate of 20%. In terms of stamp duty, in order to encourage financial institutions to offer financial support to small and micro companies, financial institutions shall be exempted from stamp duty for loans contracted with small and micro companies from November 1, 2014 to December 31, 2017. For micro and small companies investing in projects encouraged by the state and importing advanced equipment unable to be produced domestically for self-use, they shall be exempted from customs duties in accordance with relevant regulations.

China will establish and implement the directory list system for fees on companies, standardize administrative review and approval pre-service items and related fees, and make the temporary measures to exempt small and micro companies from administration fees under categories of management, registration and license a long-term measure, so as to establish a long-term and effective mechanism to support small and micro companies.

B.III.2. Broadening financing channels. Large banks are encouraged to make good use of the advantages of the institutions and networks and intensify efforts of building specialized institutions providing financial services to micro and small companies. China guides small and medium banks to combine improvement in financial services for micro and small companies with strategic transformation, make scientific adjustment to credit structure, and focus support for the development of micro and small companies and regional economy; and guides banking and financial institutions to innovate their products and services based on the operational characteristics and financing demand of micro and small companies, and operate in accordance with the laws and regulations and ensure risks are manageable. To improve the system using chattels as collaterals, China has enacted the *Chattel Mortgage Registration Measures*, in order to facilitate small and micro companies to access financing with chattels as collaterals.

China has set up and will improve the non-banking financing mechanism for medium and small-sized companies, China encourages them to obtain financing via issuing stocks, corporate bonds and asset-backed securities at the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the National Equities Exchange and Quotations for SMEs. In 2015 January, the China Securities Regulatory Commission (CSRC) enacted the *Administrative Measures on Issuance and Trading of Corporate Bonds*, expanding the issuers of corporate bonds from listed companies to all companies, allowing qualified medium and small-sized companies to issue bonds not only by private placement, but also public offering. China actively develops loan guarantee insurance and credit insurance schemes for small and micro companies. China will expedite the building of the financing service system targeted at small and micro companies. China is nurturing the private placement market, establishing and improving the private placement system, and developing private investment funds. China encourages and guides venture capital funds to support small, micro and medium-sized companies.

China's domestic development banks and policy banks cooperate with other banking financial institutions in the form of re-lending, they have established a mutual beneficial and risk-sharing cooperation mechanism to guide resources to support the development of the medium and small-sized companies.

B.III.3. Improve the informatization of public service. Utilizing existing resources, China has set up a national SMEs information website and established a SMEs information-sharing mechanism, to facilitate information resources sharing for SMEs, and publicize various supportive policies that companies are qualified to enjoy, as well as regulation and approval policies in a centralized manner, and provide a intermediary platform for suppliers who provide professional services such as training, consultancy, financing, and recruitment. China will rely on the enterprise credit information disclosure system to establish a directory of micro and small companies. China facilitates one-stop information query for market entity via the CREDITCHINA website. China gathers information on industrial and commercial registration, administrative licensing, payment of taxes, and social security contributions through a unified credit platform, promote credit information sharing among small and micro companies, and promote the building of a credit system for small and micro companies; promote government departments and banking, securities, insurance and other professional institutions to provide more effective services through information disclosure and sharing, use of big data, cloud computing and other modern information technologies.

European Union

Please refer to the beginning of Section B.

France

Overall, French businesses report fairly good access to investment financing, with over 90% of credit demand being satisfied. The main focus has been on facilitating SMEs' access to finance and fostering private financing for long-term investments. In addition to the targeted measures described below, SMEs benefit from the global improvement in the business climate encouraged by the ambitious structural reforms implemented by the government to support firms' competitiveness and improve the functioning of goods and services markets.

B.3.i. FACILITATING SME EQUITY FINANCING

Several initiatives, including improving the schemes supporting venture capital and private equity and launching EnterNext, are being implemented in order to improve mid-caps' access to equity markets.

To this end, specific measures were announced last September:

- The framework governing pension funds' asset allocation will be reviewed – the revision could contribute to an extra €5bn being allocated to SMEs and mid-cap equity – and other similar reforms are under consideration
- Life insurance reform has now been fully implemented, and could increase funds dedicated to the financing of the economy by up to €200bn through the creation of new financial products.

In addition, the introduction of a regulatory framework for crowdfunding in October 2014 will provide a secure legal environment for the development of crowdfunding, which expanded exponentially in 2014 (+84% year-on-year, for a total of €152m). Crowdfunding complements or replaces financing by entrepreneurs' friends and family (love money).

B.3.ii. FACILITATING SME DEBT FINANCING

The Government plans to design and implement various initiatives to revitalise mid-caps' access to debt markets. The idea is to continue to support the development of private placement transactions between mid-caps and institutional investors (Euro PP) while enabling insurers to earmark more of their assets for loans to (unlisted) mid-caps (either directly if they show that they can manage this credit exposure or through dedicated funds). Regarding the former, a standardised framework (French Charter for Euro PP) had been set up in 2014. This work has continued in recent months with the publication (in January 2015) of a standard contract to facilitate the direct financing of mid-caps and large SMEs by institutional investors, which was reflected in significant market penetration by smaller companies. Regarding insurers, a measure was adopted in 2015 through the so-called Loi Macron to grant them (and asset managers that manage the loan funds in which they invest) access to the French Central Bank database that hosts a large set of corporate financial information. This measure will provide them with key materials to perform adequate credit-risk analysis and in the end facilitate the financing for large SMEs and mid-caps through these channels.

In addition, the Government is determined to ensure that the rule of law is effectively applied in intercompany (trade) credit, making it easier to control and levy fines on firms imposing excessively long payment terms on their suppliers. For SMEs, total compliance with the law would result in additional financial resources on the order of €14.9bn, these resources at present benefiting essentially large companies and public agencies. Conscious of what was at stake, the Government made reduction of delays in payment one of the priorities in its policy designed to improve SMEs' competitiveness. The Government plans to continue to make significant reductions in its payment times before 2017. In this context, structural measures such as the widespread introduction of invoice clerk services and the acceleration of electronic payment systems have been already enacted.

Revitalising securitisation markets could also contribute to improving the long-term financing of European economies, especially small and medium-sized enterprises (SMEs). A sound and robust securitisation market would constitute an alternative channel to fund the economy and allow institutional investors to make a larger and more direct contribution to the financing of the economy at a time when they may benefit from a greater diversification of their portfolios.

However, SME loans appear difficult to securitise, due to the heterogeneous nature of these assets, the difficulty in assessing the underlying risk and the high information costs and information asymmetry. Given the outstanding amounts, the securitisation of other types of assets appears to have a more structuring effect, and it should also contribute, albeit indirectly, to the financing of SMEs by loosening constraints for banks.

In France, the main banks, with the support of the Banque de France, have created the Euro Secured Notes Issuer (ESNI). This vehicle issues secured notes backed by bank loans to SMEs meeting the eligibility criteria for Eurosystem refinancing operations, measured by the Banque de France rating (FIBEN). These issues will provide a liquidity value to financing granted to SMEs and mid-tier companies and allow capital market participants to benefit from high quality collateral. The financial instruments issued may be used as collateral between capital market participants and as a new investment asset class for investors.

B.3.iii. ESTABLISHING A PUBLIC INVESTMENT BANK

Government intervention is required when there are financial market failures, for instance when private returns are less than social returns or when there are asymmetric information problems. France has therefore introduced targeted public schemes to address these identified market failures and unlock private financing.

Bpifrance, the public investment bank, was set up in 2012. Since then, it has become an essential partner for the financing of SMEs. A range of new products has been developed to support and bolster policies aimed at increasing firms' competitiveness (National Pact for Growth, Competitiveness and Employment) and addressing possible tensions on short-term credit (in line with the renewed focus on trade credit). Examples include a scheme to finance the digital modernisation of SMEs or a scheme to pre-fund the Tax Credit for Competitiveness and Employment (CICE) for SMEs facing cash constraints. The support of Bpifrance in loans and innovation grants totalled €12.5bn in 2014. In particular, the public bank paid €2.4bn in CICE tax credit pre-financing to 17,464 SMEs. In 2014, the primary objective was to make exports the top priority for Bpifrance turnover with SMEs. With its Investment division, Bpifrance has been co-investing in SME capital: 91 transactions were completed in 2014, representing a total investment of €121m. Bpifrance will maintain its support to SMEs (€5bn of cash-flow support in 2015, guarantees for cash advances up to €50,000).

To further strengthen its intervention, the target for development loans will be set at €8bn by 2017; this represents an increase of €2.1bn.

At the same time, complementary measures are being implemented in Europe in line with the Compact for Growth and Jobs, launched in June 2012. France actively supports these initiatives, in particular a measure to increase the capacity of the EIF, the EIB Group's specialist provider of risk finance to benefit SMEs across Europe. Recent partnership agreements between the EIB Group, on one hand, and the CDC and Bpifrance, on the other, are now bearing fruit, the goal being to renew and broaden joint financing methods.

Bpifrance also contributes to the development of SME debt financing by establishing a structure in which banks can sell a portion of their SME loans to a SPV (in order to allow for the correct alignment of interests, banks must keep between 60 and 80% of each loan), and BPI France would then guarantee the portion of the loans in the SPV. This would allow banks to deconsolidate their loans, while maintaining a commercial relationship with their clients. For BPI France, the structure ensures that its interventions focusing on addressing identified market failure in SMEs' access to credit can be implemented without imposing constraints on the banks' funding model.

B.3.iv. IMPROVE CASH FLOW POSITIONS FOR SME AND VERY SMALL BUSINESSES

From a macroeconomic point of view, companies do not experience serious problems in obtaining financing in France. However, the situation remains highly variable depending on the type of company and the financial position of some smaller companies is less stable.

The difficulties seem to be confined to particular aspects essentially affecting companies' cash flow, especially the smallest companies. The control of inter business credit is essential for this kind of companies. The French authorities have taken several measures to reduce payment periods, in particular in the public sector. Indeed, the maximum payment time of 30 days for all orders was made the general rule from 2013. The French government has made a commitment to reduce its payment times to 20 days before 2017.

The Consumer Act of 17 March 2014 introduced a dissuasive administrative penalty regime for failure to meet payment times. During 2015, the DGCCRF will carry out 2,500 checks on compliance with payment times, including 70 on large companies. The penalties imposed by the DGCCRF will be made public: notices concerning penalties imposed will automatically be published once the fine exceeds €75,000 or involves a large company. The public sector will also be covered by new measures in 2015, through the policy of publicising government late payments.

The development of collateral financing, by facilitating these companies' access credit, remains important in order to improve financing conditions. However, collateral financing is still not known or easily accessible for SMEs.

In June 2015, the French Government decided to extend the guarantee provided by Bpifrance to certain outstanding factored trade receivables to the advantage of SMEs and very small companies.

B.3. v. INCREASE LABOUR DEMAND OF VERY SMALL ENTERPRISES (VSEs) AND SMALL OR MEDIUM ENTERPRISES (SMEs)

The "Tout pour l'emploi" plan includes measures aimed at eliminating obstacles and uncertainty surrounding hiring and the streamlining of procedures for VSEs and SMEs. These measures include (1) the temporary introduction of a hiring bonus for individual entrepreneurs hiring their first employee, (2) increased flexibility in fixed-term contracts and the improvement of apprenticeship contracts (review of the definition of trial period), (3) a three-year freeze on taxes and social contributions connected with the expansion of small businesses (up to 50 employees) into the next size class, and (4) combating fraud involving posted workers.

Germany

German small and medium-sized enterprises (SMEs) are generally well situated for investment and growth – thanks in part to high capital ratios, which are continuing to increase. Own funds are the most important source of financing for SMEs and have gained in importance in recent years (they accounted for 52% of investment financing in 2013). Bank loans remain the most important external financing source (at 30%), followed by state funding (12%) and other financing sources (6% – including private equity capital and mezzanine capital). Access to external financing has improved greatly for German SMEs in recent years, in particular as a result of the good availability of low-interest and long-term bank loans (in 2013, the credit supply gap for SMEs was close to zero). Moreover, additional credit at subsidised rates with partial risk assumption is being provided by the German national development bank KfW for the financing of SMEs.

There remain, however, financing gaps for businesses in Germany, in particular for innovative start-ups and young companies. Hence it is imperative that the financing environment be further improved and existing obstacles removed. Making equity capital available plays an important role in this, because SMEs are often denied access to traditional means of financing.

The German Federal Government already offers various funding instruments for founding and expanding innovative SMEs (High-Tech Start-Up Fund, ERP Start-Up Fund, ERP/EIF Fund of Funds, European Angels Fund).

To promote capital market-based business financing – including venture capital – the German Federal Government is planning, or has recently implemented, further measures. These comprise:

- Tax exemption of the Investment Grant for Venture Capital ("INVEST Zuschuss" introduced in 2013): In this funding measure, private investors (e.g. business angels) are refunded 20% of their investment into young, innovative companies, provided they stay invested for at least three years. At the end of 2014, the "INVEST Zuschuss" has been retroactively exempted from taxation which makes this funding measure more attractive.
- Additional financing facility for increasing the market for expansion financing: In order to make possible large-scale financing of up to €40 million per expansion-stage company, Germany will,

via its European Recovery Programme (ERP) special fund, set up together with the European Investment Fund (EIF) an expansion facility comprising €500 million, which will act as a co-investor providing expansion financing to firms. Time frame: The launch of the facility is expected to occur in the summer of 2015.

- KfW as an anchor investor: KfW intends to recommit itself as a fund investor (anchor investor) in the German venture capital market, with a programme volume of €400 million in the coming years. The investments are to go directly to private venture capital funds that invest in technology-oriented enterprises during their early and expansion stages. Time frame: An initial fund investment has already been approved in April 2015.

Beyond this, Germany is currently reviewing further measures for supporting the venture capital market, including ways of how to facilitate exits, notably through better access to stock markets (IPOs).

At the European level, the capital markets union (CMU) should play a key role in unlocking the potential of private-sector financing for SMEs. Although some key priorities have already been identified, the consultation process on the European Commission's "green book" is still ongoing.

Within the CMU project, Germany notably supports the creation of a sustainable EU framework for simple, transparent and standardised securitisation, followed by initiatives to foster private placements and to improve investors' access to credit information. Initiatives in these areas seem pragmatic, feasible and are likely to have concrete effects, especially on SMEs.

In addition to improving capital market-based financing, Germany is also considering a simplified regulatory regime for banks specifically adjusted to serve the needs of smaller banks and their financing of smaller enterprises, to be established in the medium term. This approach could be particularly beneficial for regions and sectors underserved by international investors and by larger banks and could thus boost access to finance for small SMEs.

Finally, Germany is of the opinion that the large number of regulatory measures launched in the past years, together with the immense amount of delegated legislation still to come, must complement a consistent and sound regulatory framework which any new regulatory measures will also have to fit into.

India

MSME sector represents a model of socio-economic transformation of India and is increasingly viewed as an agent of generating employment at comparatively lower cost than large industries. The MSME sector is an important pillar of Indian economy as it contributes greatly to growth of Indian economy with a vast network of around 30 million units, creating employment of about 70 million, manufacturing more than 6000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly.

The Government of India (GOI) has enacted Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, in terms of which SME is defined an entity engaged in production of goods and rendering services, subject to limiting factor of investment in plant and machinery.

In spite of this, there has been a steady growth registered in SMEs in the last six years. Many micro and small business operate outside the formal sector and therefore the sector is dominated by unregistered enterprises³⁵ that do not file business information with the relevant State Authorities. One of the major challenges to governments in designing institutional, organizational and regulatory frameworks is, therefore, to encourage entrepreneurs to engage in SMEs activity.

Initiatives Taken

Financing to this sector is of critical importance, particularly as it benefits the weakest sections of society. India has taken various measures to increase the financial architecture for this sector.

³⁵ MSME Annual Report 2012-12 shows that 19.8 million unregistered enterprises exist in India as compared to 1.5 million registered enterprises.

- a) The capital market regulator of India (SEBI) has allowed MSMEs to list their specified securities on the new Institutional Trading Platform ("ITP") of a recognised stock exchange without an IPO. This has successfully helped the SMEs to be in a more formal and regularised sector by enabling the listings and giving the investors friendly environment that was duly required. This platform provides for mechanism for SMEs, liquidity to shareholders and also an exit route for investors groups. Market capitalisation of Stock Exchange for SMEs has crossed USD 1 billion mark as on April 2014.
- b) Promotion of entrepreneurship and start-up Companies remains a challenge. While there have been some efforts to encourage, one principal limitation has been availability of start-up capital by way of equity to be brought in by the promoters. In order to create a conducive eco-system for the venture capital in the MSME sector, the Annual Plan of 2014-15 proposed a USD 1.6 billion fund to act as a catalyst to attract private Capital by way of providing equity, quasi equity, soft loans and other risk capital for start-up companies.
- c) The RBI has classified lending to MSMEs under Priority Sector Lending (PSL) norms. Further, to ease liquidity pressures faced by MSMEs, RBI opened the refinance tap of USD 833 million to Small Industries Development Bank of India (SIDBI)³⁶ for direct as well as on-ward lending to MSMEs.
- d) As availability of timely and adequate bank credit without the hassles of collateral and third party guarantees is of essence to small first generation entrepreneurs, the RBI had enjoined upon banks to provide collateral free loans to Micro and Small enterprises with credit limits up to Rs.1 million. The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), set up by the Government of India operates the "Credit Guarantee Scheme" (CGS) which guarantees grant of collateral-free and/or third party guarantee-free credit facilities to Micro and Small Enterprises by banks.
- e) To address the issue of obsolete technology, GOI has proposed to establish technology centre network to promote innovation, entrepreneurship and agro-industry, with a corpus of USD 33 million.
- f) With regard to ease of doing business in India, entrepreneur friendly legal bankruptcy framework is likely to be developed for SMEs to enable easy exit. A nationwide "District level Incubation and Accelerator Programme" is being taken up by GOI for incubation of new ideas and providing necessary support for accelerating entrepreneurship.
- g) The definition of MSME will be reviewed to provide for a higher capital ceiling. A programme to facilitate forward and backward linkages with multiple value chain of manufacturing and service delivery will also be put in place.
- h) A significant part of the working capital requirement of a MSME arises due to long receivables realization cycles. The Government is in the process of establishing an electronic Trade Receivables Discounting System (TReDS) financing of trade receivables of MSMEs, from corporate and other buyers, through multiple financiers. This should improve the liquidity in the MSME sector significantly.
- i) A Standing Advisory Committee has been constituted by the RBI, with Deputy Governor as Chairman, officials of Ministry of Micro, Small and Medium Enterprises, Banks and Associations as members to discuss issues concerning Micro, Small and Medium Enterprises. The Committee examines issues relating to improving credit flow to the MSME sector, difficulties/constraints being experienced and steps being taken to overcome them.
- j) Empowered Committees on MSMEs have been constituted at the Regional Offices of RBI, under the Chairmanship of the Regional Directors, with the wide-ranging representation. The Committee

³⁶

Small Industries Development Bank of India (SIDBI), set up on April 2, 1990 under an Act of Indian Parliament, is the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities

is required to meet at least once in a quarter to review the credit flow to MSME sector including progress in rehabilitation of sick MSE units. It is required to coordinate with other banks / financial institutions and State Governments in removing bottlenecks, if any, to ensure smooth flow of credit to the sector.

Indonesia

Small and Medium Enterprises (SMEs) in Indonesia are growing fast. In period of 2013-2014, SMEs in Indonesia grew 2.47% from 56,5 millions units to 57,9 millions. More than 57 millions of SMEs in Indonesia represent 99% of businesses, and are a key driver for economic growth, employment, and social integration. Indonesian Government aims to promote SMEs, to allow them realise their full potential in today's global economy through easing SMEs access to finance.

Access to formal financial system in Indonesia covers only about 49% of its population (World Bank Survey 2011). Main constraints for unbanked people to get financial access are asymmetric information, limited capability to access financial services and geographical aspect. The government along with the central bank and the financial service authority have promoted financial inclusion through the national strategy for financial inclusion. In that regard, these authorities also enact regulations or policies to increase access in financial services, such as regulation or policy related with digital financial services, platform to support the interoperability among related parties, and products that are suitable for the poor segment (quick, reliable, safe and low cost product).

Both fiscal and financial policy are supporting SMEs to get easier financial access through simplifying tax payers obligation and digital financial services. Bank Indonesia promotes Digital Financial Service (DFS) to lower cost of transaction. The DFS is a payment system service conducted by 3rd party and web basis media. Utilization of DFS is expected to expand financial access and facilitate secured and affordable transaction payment. This program is promoted as part of move toward less cash society and is very relevant in particular for SMEs. The lower cost of transaction is expected to bring competitiveness to SMEs and help them to grow.

SMEs can achieve substantial savings by moving to electronic payments – in actual transaction costs and productivity gains. Bank Indonesia amend e-money regulations to allow all banks with at least IDR 30 trillion (USD 2.6 trillion) in core capital to offer DFS to customers. These amend includes the option third-party agents to provide access to services in rural areas on behalf of the banks. This amend will enable people to carry out financial transactions with their cell phones. Furthermore, financial education regarding DFS and consumer protection has been done as a part of policy for supporting DFS Program.

Government has also undertaken steps to promote small-medium enterprise's access to financing through Government Regulation Number 46 of 2013. The purpose is to simplify the taxpayers to pay their income tax. For both individual and institutional taxpayers, which have the sales turnover not more than IDR 4,800,000,000 (approx. USD 400,000), are imposed by single tariff of 1% income tax per year. The obligation to register the business and pay income tax in single tariff will encourage SMEs business to move from informal sector to formal sector.

In order to increase job creation and alleviate poverty, Indonesia has published a policy package aimed at improving and empowering the real sector of SMEs through micro credit program (Kredit Usaha Rakyat/KUR). KUR is a financing that provided by banks to feasible SMEs but not yet bankable. SMEs that are expected to access KUR are engaged in productive business sectors including agriculture, fishery, industry, and forestry. SMEs can directly access to the banks which have been appointed by government or can indirectly access through KUR micro finance institutions.

Government of Indonesia has issued permit for SMEs (Izin Usaha Mikro dan Kecil/IUMK) to provide legal certainty and a tool of empowerment for SMEs entrepreneurs in developing their business. Purpose of IUMK for SMEs are to provide legal certainty in developing and strengthening its business, strengthening regional economy, and providing ease of access SMEs to financial institutions.

Italy

Facilitators

As mentioned before, investment has declined since 2007. At end 2013, investment was about 4 points of GDP lower than its peak before the crisis and around 2.5 points of GDP lower than its pre-crisis long-term average. The bulk of this sharp fall is explained by private investment, whose level at end 2013 was around a quarter lower than before the crisis, leading to a lengthening of the average life of plants and capital goods.

Therefore, the Government has launched a comprehensive program named “Finance for Growth” to restart the investment cycle and boost private investment, including actions to facilitate financing and capital expenditure, to develop non-bank non-traditional sources of financing and to reform the banking sector in order to allow it to perform its role as a key channel of funding for the private sector and the SMEs.

In order to support **SMEs access to finance** public action aims both at responding to the need to have access to bank loans by SMEs and at complementing traditional form of credit with alternative financing channels, encouraging a more direct link between savings and investments. A key instrument is represented by the Central Guarantee Fund for SMEs, which continues to be an effective tool for SMEs access to credit: last year over 85,000 applications were received for a guaranteed amount of over 8 billion euro. The Fund guarantees up to 80% of the loan for a maximum amount of 2.5 million euro. The Government commits by the fall of 2015 to review its model of credit and corporate evaluation, in order to better determine the portfolio risks and focus on the SMEs hardest hit. Another key instrument, aimed at incentivizing **investment in capital goods**, was introduced in 2013 (“New Sabatini law”). It improves access to financing for micro, small and medium enterprises for the purchase of new machinery, plant and equipment, through funding accompanied by public support in the form of a contribution on interests, for a budget allocation of about 400 million euro. As of March 2015, about 4,000 companies has benefited from the measure, mobilizing over 1.3 billion euro of new investment. As the funding plafond of 2.5 billion euro granted through the National Development Bank (Cassa Depositi and Prestiti) was fully utilized, the Government has decided to raise it to 5 billion and to allow banks to use their own funds before the NDB’s intervention, in order to accelerate the availability of funds (banks loan may be supported, with priority access, by the Guarantee Fund). Moreover, a 15% tax credit on additional investment in machinery and capital goods above 10.000 euro has been introduced, for a budget allocation of around 1.2 billion, which could be increased if it is not sufficiently large compared to the requests by businesses. Based on government estimates, these two last measures are able to stimulate additional investment for about 10 billion euro by 2015. In addition, the 2016 Stability Law provides for a substantial tax incentives for investing in capital goods, including through financial leasing, which is expected to concern about 80 billion euro of investment with an estimated relief of about 7 billion.

The government has also adopted several measures in order to **expand non-banking sources of debt financing** and **to promote equity investments**. Such measures include the removal of legal and fiscal barriers to issue corporate bonds by unlisted companies (particularly SMEs), granting access to capital markets and enabling the solicitation of national and international institutional investors. In particular, the policy action has focused on providing an equal tax treatment to banking and non-banking sources of debt finance (deductibility of interest rates and other costs related to the placement of securities) and on the removal of administrative obstacles to direct lending by non-banking institutions: insurance companies, credit funds and securitization vehicles were allowed to provide direct lending to corporates, under the supervision of the Bank of Italy and the insurance supervisor (IVASS). To offer SMEs (with the exception of micro-enterprises) a real opportunity to open a new channel for direct financing on capital markets, the sphere of action of the Central Guarantee Fund was extended to mini-bonds (and to funds subscribing them) and the procedures for new investment vehicles (SPVs, Credit funds) were reviewed. Another important action to improve the environment for access to finance is the opening at the Italian Stock Exchange of a trading platform (ExtraMOT PRO) for mini-bonds with simple, fast and low-cost admission procedures. In two years, this market has attracted the listing of a hundred bonds for a total value of around 5 billion euro.

Furthermore, the mission of the National Development Bank (Cassa Depositi e Prestiti) has been expanded, in order to finance, directly or through agreements with the banking sector, private companies, particularly SMEs, in Italy and abroad at market terms. A key measure lies in the area of taxation, with the Aid for Economic Growth (ACE) program, aimed at promoting equity investments, also linked to initial public offerings, which has been strengthened both in terms of beneficiary companies and with respect to the public incentive. Finally, the Government has pursued the goal of promoting the listing of companies and equity investment, particularly with respect to SMEs, also through regulatory measures, including by reducing the minimum regulatory share capital for joint-stock companies from 120 thousands to 50 thousands euro, by allowing SMEs with a turnover of up to 300 million euro or a capitalization lower than 500 million euro to decide flexibly the thresholds for mandatory public offerings within a range of 25/40 per cent, by raising from 2 to 5 per cent of the share capital the threshold for mandatory notifications to the market authority on qualified equity investment, and by granting double voting to stable (24 months) shareholders. To help enterprises achieve their growth targets Borsa Italiana created ELITE, a unique platform of integrated services. ELITE offers business the industrial, financial and organizational skills they need to address the challenges of international markets and to go public in the Milan stock exchange. The number of companies in the program is to over 200.

Strong action has also been undertaken in order to push for a structural evolution of the domestic banking system, made more pressing by the transition in Europe to the single banking supervision and the deterioration in the quality of Italian banks' loans caused by the severe recession. In this area, the Government has taken two key commitments. First, by mid-2016 the ten largest cooperative banks ("banche popolari", with assets of 8 billion euro or more) will transform into joint-stock companies, an ownership structure that gives them increased access to capital markets and broaden the participation by domestic and foreign shareholders in general meetings. Second, in close cooperation with the Bank of Italy and the European Commission, the Government will propose measures to cope with banks' non-performing loans. In this context, the Government has approved a decree-law with urgent measures to improve corporates access to credit by allowing faster and more comprehensive restructurings, including measures to reform insolvency regimes; facilitate debt restructuring; increase the flexibility in the sale of assets; expand the possibilities for out-of-court settlements; facilitate interim financing; and, in particular, reform the tax treatment of write-offs by banks and insurance companies to shorten from five years to one the period over which losses are deductible. This line of action is complemented by the agreement signed by the Government and bank foundations (key shareholders of banks) to enhance the transparency and effectiveness of bank foundations' governance.

A third key area is related to **research and development and innovation**, which are very effective levers to boost the competitiveness of Italian companies. R&D is supported through the tax credit introduced by the 2015 Stability Law, which is managed through an extremely simplified mechanism. The tax credit, in force for the period 2015/2019, allows to support the hiring of highly qualified researchers and off-site research that is carried out in collaboration with universities, research centres and other companies. The tax credit is accompanied by a particularly favourable tax regime, for both SMEs and large national and multinational companies, on the income deriving from the exploitation of patents and trademarks and intellectual property ("Patent Box"). Moreover, the support to innovative start-ups has now been extended to innovative SMEs ("Investment Compact"), which, through a user-friendly on-line public register, can benefit for five years from tax incentives, including on seed and early stage investment, reduced fees and public guaranteed on bank loans, have the possibility to raise capital through equity crowdfunding portals and, in case of non-EU nationality, can obtain an entrepreneurship visa within 30 days. To date more than 3,600 highly-innovative tech start-ups are registered (average weekly increase by 40) and more than 15,000 partners and employees (2,000 in the last quarter of 2014 only) are involved.

A particular attention, given the structure of the Italian economy, is given to clusters, value chains and aggregation of companies, in order to overcome the limits linked to the small dimension of firms and to better integrate production chains. **Support and regulatory measures for networks of SMEs** has thus been developed since 2009. Network contracts are voluntary agreements that allow companies to carry out jointly some activities, such as purchasing, R&D and internationalization, while maintaining their legal subjectivity and autonomy. As of March 2015, 2,012 network contracts have been signed, involving 10,099 enterprises. Further support for 2015 in support of networks and consortia includes strengthening tax benefits and simplifying access to credit, incentivizing network contracts promoted by companies that are

able to manage more complex projects and measures for the mobility of workers between partner companies.

Finally, to support “**Made in Italy**” in international markets and to attract foreign investment, the Italian Government has launched an Action Plan with specific targets to be reached by 2016 – increasing the export flows of goods and services by about EUR 50 billion; increasing the number of the Italian firms steadily exporting (around 45,000 at present) by about 20,000; generating EUR 20 billion in additional foreign investment – and concrete measures, including the strengthening of the Italian Trade Agency, supported by a budgetary line of 260 million euro. In addition, given that the high cost of energy has historically been a factor of comparative disadvantage for businesses, particularly SMEs, the Government has already taken significant steps that reduce it by 8/10% annually and commits to further measures in this respect, including promoting competition and green investment.

The Italian Government is also promoting the creation of a “Service” company aimed to the re-capitalization, corporate restructuring and industrial consolidation of Italian companies in temporary capital and financial distress but characterized by a positive industrial and economic outlook.

Japan

Facilitating financial intermediation (Facilitators)

The government is working toward strengthening financial and capital markets to promote the provision of risk money to growing businesses including SMEs. A wider variety of financial products and a broader range of investors can stimulate private investment. In the context of SMEs in particular, a bill was approved by the Diet which promotes the use of security based crowd-funding, aiming to provide risk money to new technologies and ideas. This new means of fundraising enables venture businesses to diversify their financing sources.

In the first three quarters of FY2013 (April–December), the Japan Finance Corporation (a public sector financial institution) offered business start-up loans worth a total of ¥134.3 billion (up 133% on the same period of the previous year) to 17,304 companies (up 114% on the same period of the previous year), the highest level for seven years.

Moving forward, the government is encouraging the REVIC (Regional Economy Vitalization Corporation of Japan, a public agency funded by both the government and financial institutions) to provide necessary funds to SMEs playing important roles in a region. In addition, the SME Support (an independent administrative institution) has expanded the criteria for its investment to the fields of health and medical care, the growth fields for SMEs.

Increasing profitability of small- and medium-sized enterprises (Facilitators)

The government is compiling key factors to successes and providing them to businesses and SME organization. These key factors are expected to serve as a guide for business operators who will be endeavouring to development of new products and markets. In addition, this year the government will create a system that offer tailored support to core enterprises in the regions toward further growth, which will cover R&D, overseas expansion, and establishment of standards. Also, the government will dramatically enhance the function and systems of the current one-stop consultation service centers for SMEs and micro enterprises.

Capacity building on accounting and taxation to enhance SME financing (Facilitators)

Improving SMEs’ financial literacy is crucial for further development of SME finance. In this context, many efforts have been made in recent years to strengthen SMEs’ basic business capabilities such as drawing out financial statements or business plan. As part of measures to support capacity building on accounting and taxation, the SME Support (an independent administrative institution) has been promoting the adoption of General Accounting Standard for SMEs, which was established in 2012, aiming for usability for SMEs. These efforts are expected to continue and work as the foundations enhancing SME finance.

Supporting start-ups (Facilitators)

In order to encourage active interactions between start-ups and larger companies, the government established the Venture Business Creation Council, which consists of large companies willing to cooperate in supporting venture businesses, in September 2014. It would enhance better matching between start-ups and larger companies as well as serve a platform to develop business seeds into concrete business. The government has also been promoting the increase in opportunities of procurement from newly-launched start-ups with review of the Act on Ensuring the Receipt of Orders from the Government.

Encouraging business restructurings (Facilitators)

In March last year, the government abolished the exceptional measure after the Global Financial Crisis which provides 100% credit guarantee to SMEs for almost all industries. This step would help encourage self-sustaining growth and address potential moral hazard, thereby facilitate necessary business restructurings.

Key Performance Indicators

Through these reforms, the government aims to ensure entry rates of corporations to exceed exit rates of corporations, and to increase entry/exit rates close to 10% (currently at about 5%).

The government also aims to increase the number of profit-making SMEs from 0.7 million in FY2012 to 1.4 million by FY2020 (0.8 million, FY 2013).

	Facilitators	Safeguards
SMEs	<p>10. Facilitating Financial Intermediation</p> <p>10.1. Expanding financial support to venture business</p> <p>10.2. Introducing GAP model into Young Entrepreneur Fund</p> <p>10.3. Expanding government support to SMEs</p> <p>10.4. Expanding technology credit</p> <p>11. Mobilizing MDB Resources and Role of NDBs</p> <p>11.1. Expanding Facility Investment Fund</p> <p>11.2. Expanding support to SME's export</p>	<p>12. Enabling Appropriate Legal and Institutional Settings</p> <p>12.1. Putting an end to unfair practices between large firms and SMEs</p> <p>12.2. Promoting to start and restart business</p> <p>12.3. Supporting small retailer</p> <p>13. Addressing Data Gaps</p> <p>13.1. Providing information on support policies to SMEs</p> <p>13.2. Innovating SMEs support framework</p> <p>13.3. Sharing information on startups</p>

Facilitators

10. Facilitating Financial Intermediation

10.1 Expanding financial support to venture business

a. Main Challenges

- Venture business is critical to revitalize the economic recovery. Government needs to play an important role to boost venture business by providing financial support.
- A lot of venture companies are facing with difficulties in financing at the market.

b. Policy Action

- The Korean government will expand venture investment via policy financing.
 - (Yozma Fund) It will launch and manage joint capital funds with foreign investors to help the ventures enter overseas market.
 - (Female Entrepreneurs Fund) It will raise public-private joint venture capital for female entrepreneurs.
 - (Gazelle Companies' Fund) It will fund so-called ‘Gazelle Company’ KRW 1.2 trillion to support their marketing and facilities. ‘Gazelle Company’ refers to fast growing companies that achieve more than 20% growth in sales or employment over three consecutive years.
- It will launch secondary funds to acquire investment assets which venture companies or angel investors hold.
- It will strengthen financial support for SMEs by increasing trade insurance amounting to KRW 1 trillion and export factoring amounting to KRW 500 billion.
- It will also provide guarantees worth about KRW 1 trillion to a small scale businessman with preferential condition.

c. Implementation Path

- It plans to raise KRW 200 billion by 2015 for Yozma Fund, KRW 50 billion between 2015 and 2017 for Female Entrepreneurs Fund. Gazelle companies’ fund is also planned to deploy by providing financial support to 500 companies each year from 2015.
- It plans to select management company and commence resource mobilization for secondary fund by 2015.

10.2 Introducing GAP model into Young Entrepreneur Fund

- a. Main Challenges
 - Financial support from government is crucial to help young people to start business which has high risk and large positive externality.
- b. Policy Action
 - The Korean government established Young Entrepreneur Fund worth about KRW 100 billion(KRW 70 billion from public, KRW 30 billion from private). It plans to apply GAP Fund model which allocates loss to the public first but the benefit to the private first.
- c. Implementation Path
 - It is supposed to set the implementation plan for Young Entrepreneur Fund applying GAP Fund model by 2015.

10.3 Expanding government support to SMEs

- a. Main Challenges
 - In order to strengthen SMEs' competitiveness, the government should expand financial support and provide tax benefit.
- b. Policy Action
 - To support financial intermediation for SMEs, the Korean government will expand support in credit guarantee by KRW 1,5 trillion, trade insurance by KRW 0.5 trillion, and policy finance support for SMEs by KRW 0.4 trillion.
 - It will provide more tariff reduction from 30% to 50% to SMEs procurement of automated manufacturing facilities.
 - It is providing R&D tax credit to SMEs which are in early stage and will expand its carry-over period from 5 years to 10 years.
- c. Implementation Path
 - It plans to initiate amendment procedure of relevant laws and regulations by 2015.

10.4 Expanding technology credit

- a. Main Challenges
 - At the early stage of business, a lot of companies are usually faced with difficulties in financing. In order for companies which have superior technology to start their business, the government should ensure banks and non-banks to lend to them without collateral.
- b. Policy Action
 - The Korean Government established the Technology Credit Fund which provides loans without collateral. It will expand the amount of the fund from KRW 100 billion to KRW 325 billion.
 - It will establish the Technology Value Assessment Investment Fund amounting to KRW 300 billion. It will be funded by public and private sectors.
- c. Implementation Patch
 - It plans to complete this policy by 2015..

11. Mobilizing MDB Resources and Role of NDBs

11.1 Expanding Facility Investment Fund

- a. Main Challenges

- It is necessary to promote SMEs' facility investment.
- b. Policy Action
- The Korea Development Bank and Industrial Bank of Korea decided to raise a total of KRW 3 trillion for "Facility Investment Fund" to offer financing support for SMEs last August.
 - It has provided financial support amounting of KRW 1.5 trillion to 1,340 projects.
- c. Implementation Path
- It plans to complete funding by 2015.

11.2 Expanding support to SMEs' export

- a. Main Challenges
- Given that SMEs don't have sufficient liquidities to enhance competitiveness in SMEs' export, the government needs to provide financial support.
- b. Policy Action
- The Korean government will expand loans for SMEs' export from KRW 25.5 trillion to KRW 26.5 trillion. The SMEs which have a lack of experience in exporting or high technology will be benefited from lower interest rate (maximum 0.5%p) of the loans. It will provide financing directly to local SMEs which implement ODA projects in their countries.
- c. Implementation Path
- It plans to establish strategies for financing SMEs and amend relevant laws and regulations relevant to ODA by 2015.

Safeguards

12. Enabling Appropriate Legal and Institutional Settings

12.1 Putting an end to unfair practices between large firms and SMEs

- a. Main Challenges
- In order to create a fair and competitive environment, the government should eradicate unfair business conducts and practices between large firms and SMEs.
- b. Policy Action
- The competition authority will enhance reward system for whistle-blowing on unfair business conducts against sub-contractors including unfair discounts, usurping technology and unfair cancellation of purchase.
 - The competition authority makes an overhaul on unfair business practices in distribution industry. The Government will conduct written investigation on business practices every year and announce results to the public. Further, standard lease contract form between distributor and tenant will be revised in 2014.
 - The authority will overhaul unfair practices in franchise businesses by conducting on-site investigations. It will promote the use of standard franchise agreement provided by the government when making a contract between franchisors and franchisees.
- c. Implementation Path
- The Korean government plans to initiate amendment procedure of relevant laws and regulations by 2015.

12.2 Promoting to start and restart business

- a. Main Challenges

- In order to inspire entrepreneurship and revitalize the economy, the government should provide support to start-up businesses.
- b. Policy Action
 - The Korean government will establish technology bank to facilitate transfer of technology from large firms to SMEs and start-up companies.
 - Educational program for business (bizcool program) which has been provided to elementary, middle and high school students will be expanded. The youth who have brilliant idea or excellent technology will be selected as Youth Dream CEO.
 - It will give more chance for youth to have an internship experience in venture companies.
 - It will run the supporting program which provides restarting companies with expert consulting services consistently. The Korean government will encourage restarting business by reducing repayment burden of the loans for faithful failors³⁷.
- c. Implementation Path:
 - It plans to implement this policy by 2018.

12.3 Supporting small retailer

- a. Main Challenges
 - After many large enterprises enter the distribution market, small retailers get into difficulties in continuing operation.
- b. Policy Action
 - The Korean government will run a pilot program named ‘Capacity Jump-UP’. There will be consultation with small retailers facing management problems and then the government will provide package support including financing and training.
- c. Implementation Path
 - It plans to make a detailed policy by 2015.

13. Addressing Data Gaps

13.1 Providing information on support policies to SMEs

- a. Main Challenges
 - The government needs to establish integrated management system to timely provide SMEs with customized information on policies related to SMEs.
- b. Policy Action
 - The Korean government will use in various way such as online, mobile and single window to share information with SMEs.
 - Policy menu on a website will be designed for SMEs to easily find policy information which they need.
 - Message service through mobile phone will be offered to inform new support policies.
 - Local branch of Small and Medium Business Administration (SMBA) will consult about support programs and recommend most suitable one for SMEs.

³⁷ the persons who did their best, but failed on their business

- Based on historical information provided by SMEs, the Korean government will recommend appropriate supporting programs to each SME and suggest the way to use those programs for each stage of its development.
- c. Implementation Path
- Integration system project has been built in 3 stages from 2013 and will be finalized by 2015.
 - DB has been established by gathering information from central and local government. It is planned to provide customized service to the public by 2015.

13.2 Innovating SMEs support framework

a. Main Challenges

- There are some barriers to efficiently implement support policies for SMEs. First, support policies are scattered over ministries, so that there might be duplication in providing support to SMEs. Second, there is no performance evaluation system.

b. Policy Action

- The Korean government will give registered identification number to each policy based on competent and executive authorities, and industries.
- It plans to innovate in SMEs support framework by using integrated management system.
 - Task Force (T/F) team which consists of relevant ministries and nongovernmental experts will be established. The T/F team will find duplicate policies and set criteria for ruling out duplicate support to each SME.
 - The integrated management system will provide objective data related to support programs. Based on these data, it will be possible to comprehensively analyse effect of support policies and conduct performance evaluation.

c. Implementation Path

- It will complete this process by 2015 through revising related regulation

13.3 Sharing information on startups

a. Main Challenges

- There are constraints for startup companies to obtain information. In this regard, the government should play a pivotal role in supplying information on startup.

b. Policy Action

- The Korean government will establish a Market Information System, which measures and publicizes the level of market concentration by region and by sector. With these data, startup companies can recognize whether a market is over-crowded with these data.

c. Implementation Path

- It plans to make a detailed policy by 2015.

	Facilitators	Safeguards
SMEs	<p>10. Facilitating Financial Intermediation 10.1 Implement the Youth Credit Program, which facilitates access to credit for entrepreneurs under the age of 30.</p> <p>11. Mobilizing MDB Resources and Role of NDBs 11.1 Strengthen the National Entrepreneur Fund, which provide grants and guarantees for SMEs.</p>	<p>12. Enabling Appropriate Legal and Institutional Settings 12.1 Reduce informality through the “Growth Together Program” (Programa Crezcamos Juntos).</p> <p>13. Addressing Data Gaps 13.1 Generate credit information for SMEs.</p>

Facilitators

10. Facilitating Financial Intermediation

10.1 Implement the Youth Credit Program, which facilitates access to credit for entrepreneurs under the age of 30.

- A. Main Challenges: Expand bank lending for SMEs at better terms and conditions.
- B. Policy Action Description: The Federal Government launched in February 2015 the Youth Credit Program, through which NAFIN will provide credits to entrepreneurs between 18 and 30 years old who want to start a business or expand the ones they have already. This program considers 4 products:
 - i. Bank loan to start a business, from 3,300 USD to 10,000 USD.
 - ii. Bank loan to start a business, from 10,000 USD to 33,000 USD.
 - iii. Bank loan to expand existing business, up to 20,000 USD.
 - iv. Bank loan of up to 166,000 USD to expand businesses with at least one year of operation. The Program’s information is available at the following link: (<http://tuprimercredito.inadem.gob.mx/>).
- C. Implementation Path: This program is available since February 2015.

11. Mobilizing MDB Resources and Role of NDBs

11.1 Strengthen the National Entrepreneur Fund, which provide grants and guarantees for SMEs financing.

- A. Main Challenges: Increase SMEs’ access to financing and strengthening their productive and technological capabilities.
- B. Policy Action Description: The Ministry of Economy developed the Entrepreneur National Fund in order to foster productivity and innovation in micro, small and medium enterprise. The National Entrepreneur Fund provides grants to financing micro, small, and medium enterprises, including for training programs, consulting services, quality certifications, product design, technology transfer, equipment acquisition among others. The amount of the grant could reach from 10% to 100% of the total cost of the project.
- C. Implementation Path: This program operates since 2014.

Safeguards

12. Enabling Appropriate Legal and Institutional Settings

12.1 Reduce informality through the “Growth Together Program” (Programa Crezcamos Juntos), which benefits include tax exceptions, housing loans, inclusion to health and social security programs and financing for SMEs.

- A. Main Challenges: Decreasing informality is fundamental to increase productivity. The main challenge is to incentivise SMEs and entrepreneurs to adopt formality by increasing its benefits.
- B. Policy Action Description: The Federal Government created the Growth Together Program through which different Government agencies linked their programs in order to foster formality. To be register in this program, enterprises must fulfil their obligations relating to the payment of taxes. The program provides different tax exceptions for the first ten years; a 50% discount in health and social security fees; and, housing loans and consumer credits for employees. Likewise, by registering in this program SMEs are able to access bank financing to increase its productive capacity.
- C. Implementation Path: The program started in September 2014.

13. Addressing Data Gaps

13.1. Generate credit information for SMEs.

- A. Main Challenges: SME lending has structural problems, which differ from other sectors. The lack of credit information is one of the main constraints faced by these companies.
- B. Policy Action Description: Taking into consideration the different NDBs’ programs to support SMEs, including the Youth Credit Program. These information could be incorporated in credit bureaus.
- C. Implementation Path: The design of this strategy could take place during 2015 and 2016.

Russia

	Facilitators	Safeguards
SMEs	<p>10. Facilitating Financial Intermediation 10.1. Support of SMEs through development of national guarantee 10.2. Tax holidays for SMEs</p> <p>11. Mobilizing MDB Resources and Role of NDBs Support from SMEs Bank</p>	<p>12. Enabling Appropriate Legal and Institutional Settings 12.1. Expansion of support for SMEs 12.2. Reduction of regulatory burden on system firms with a small market power</p>

10.1 To promote investments for SMEs, in May 2014 a special joint-stock company Agency for Credit Guarantees was established in Russia. The Agency is engaged in providing counter-guarantees to regional credit guarantee organizations and direct guarantees to medium enterprises. The Agency is coordinating activity of all regional credit guarantee organizations created under the state support for SMEs and collaborating with international organizations. According to the updated development strategy of the national guarantee SME support , the total amount of guarantees and other risk enhancements by the Agency is expected to reach 281bn rubles (\$5.282bn) by 2018.

10.2 The regions were given the right to reduce tax rates for SME which use simplified and patent taxation schemes, up to 0% for two years period. The tax exemption will apply to new SME engaged in manufacturing, services and research. The measure will cover the period from January 1,2015 to January, 2021.

11. SME Bank, subsidiary of Russian National Development Bank – Vnesheconombank has been established to support SMEs. In 2015-2020 its support will extended through two tier mechanism:

- On-lending through the network of partner credit organizations
- Risk-sharing with bowrrowers.

The amount of resources channelled to SMEs is expected to sum to reach 125bn rubles (\$2.349bn) in 2020.

12.1 Existing eligibility criteria for SME support are revenue based. This creates bias against dynamically growing enterprises. The newly introduced measures address this issue by doubling revenue threshold and thus lengthening the eligibility period. This will increase number of companies eligible for state and municipal support. The new revenue thresholds are the following:

- For micro-enterprises – 120m rubles (\$2,4m);
- For small enterprises – 800m rubles (\$15,7mn);
- For medium enterprises – 2bn rubles. (\$39,25m).

This measure will become effective in August, 2015.

12.2 In order to foster investment and competition, it is planned to reduce regulatory burden on firms with a small market power and raise the bar for anti-monopoly inspections. Currently there are no exceptions for SME: they can be inspected and declared market-dominant if they comply to certain formal criteria. As excessive regulatory burden impedes growth and development, the following amendments will be made to the 2006 federal law on protection of competition:

- Companies with revenue less than 400m rubles (\$7,8m) and agreements between companies with the same total revenue will not be subjected to anti- monopoly inspections (except companies with public participation, financial institutions and natural monopolies).
- Exclusion from article 5 of the provision making it possible to declare a company market-dominant even in situations where its market share does not exceed 35%.
- Reduction of list of rationales for unscheduled inspections. After the revision of the law, the inspections will be coordinated with public prosecution office (except for cartels).

	Facilitators	Safeguards
SMEs	<ul style="list-style-type: none"> ● To develop a policy to allow SMEs to utilize movable assets as collateral for fund raising, supported by a clear debt and lien prioritization process that expedites creditor rights for unfilled debts, taking into account debtor liabilities used to service profitable activities. ● To develop an insolvency law that includes structured processes and schedules for reaching debt agreements with creditors, and thereby facilitating creditor agreement to debt restructuring and blocking unreasonable individual creditor veto of such restructure, and clear liquidation procedures and creditor rights. The law will include specific provisions for SMEs and start-ups, and for investors providing capital to such SMEs and start-ups. ● To establish a dedicated SME Authority that will facilitate and expedite government processes with respect to funding to SMEs, and will also prepare a range of dedicated SME enablers and support services. ● To develop a government-backed Venture Capital initiative, with special focus on high-growth companies and start-ups, in a range of target and priority sectors, supported by specialized private sector advisors and experts ● To consolidate SME funding from multiple government agencies into the Saudi Industrial Development Fund to increase financial support to SMEs. ● To establish a dedicated center managed by the Ministry of Commerce and Industry to support SMEs with respect to a host of issues such as provision of accounting support, advice on finance, managerial and business advice, coordination of SME access to R&D, and technical consultancy advice on operations and production efficiency. ● To enhance the role of investment banks. ● To facilitate access to loans for SMEs. ● To strengthen the primary capital market activities. ● To support the development and finance role of the public investments fund. ● To organise awareness campaigns, by relevant agencies in collaboration with chambers of commerce and industry, and acquaint businessmen with the importance and advantages of venture capital companies. ● To strengthen the role of joint Saudi international committees in encouraging establishment of joint venture capital companies between Saudi businessmen and their successful foreign counterparts in other countries. ● To encourage and support joint public and private initiatives to establish funds for investment in venture capital, and to promote such initiatives for the benefit of media (e.g., Riyadh-Taqnia Fund). 	<ul style="list-style-type: none"> ● To accelerate and simplify litigation proceedings, and improve commercial disputes and bankruptcy settlement mechanisms. ● To continue to develop the domestic investment environment and to simplify procedures of investors who observe resolutions along with boosting efforts to curb concealment acts. ● To organize symposia and meetings in collaboration with the chamber of commerce and industry, to promote investment opportunities available in the Kingdom.

Please refer to Saudi Arabia's input in Section B.2., as common text for B.2. and B.3. was provided.

South Africa

Facilitators:

Enabling Appropriate Legal and Institutional Settings

- **Ministry of Small Business**
 - In May 2014 President announced the establishment of the Ministry of small business development. The objective of the Ministry is to create a favourable environment for SMEs to thrive and to support the goals of the National Development Plan (which hopes that 90% of jobs will be created by small and medium businesses by 2030). To achieve this, the newly established Ministry will focus its work addressing a number of issues including:
 - lack of a favourable legal and regulatory environment;
 - lack of access to markets and procurement;
 - lack of access to finance and credit;
 - low skills levels;
 - Lack of access to information and
 - Shortage of effective supportive institutions.
- **National Gazelles initiative**
 - The National Gazelles initiative launched on 01 September 2015 is an SME support and development programme that aims to accelerate the competitiveness, growth and performance of chosen high potential SME's over the next 10 years. Every year 200 SME's will be selected through an open credible online process, the selection process will be done in partnership with credible stakeholder such as: EY, KPMG and Sizwe Ntsaluba Gobodo.
- **Facilitating of SME debt and equity finance**
 - Government aims to streamline the regulatory regime, where proposed reforms are to reduce compliance costs and facilitate access to equity finance. The following proposals have been adopted to support business and corporate savings in South Africa and will be implemented in the next 3 years:
 - Turnover tax regime for micro businesses
 - Small business corporation tax relief
 - Venture capital company regime
 - Tax treatment of grants
- The Ministry of Finance has also introduced tax relief for small businesses through section 12E of the Income Tax Act. Section 12E was created specifically to encourage new business ventures to create jobs, and this encouragement comes in the form of reduced taxation for qualifying small businesses. Graduated tax rates and accelerated depreciation is offered to stimulate this sector.
- The government promotes long-term investment by institutional investors through the Venture Capital Companies (VCC) tax incentive (Section 12J), which is similar to the Venture Capital Trusts (VCT) regime in the United Kingdom. Since its introduction in 2008, there has been limited take up of the incentive, with only 5 VCC's registered overall.

- Over the next five years, South Africa will prioritize support to small business, as well as township and informal sector businesses in particular, thus using the SMME development programme to boost broad-based black economic empowerment. South Africa will also promote more employee and community share ownership schemes and boost the participation of black entrepreneurs in the re-industrialization of the economy.

Safeguards:

13. Addressing Data Gaps

- Although the credit information services for retail individual clients are well-established and highly developed in South Africa, this is not the case for small enterprises. There is generally dearth of available information on which to base credit decisions. To address this a committee comprising of the South African 'Credit Providers' Association' (CPA), as a project leader and other industry players in credit provisioning, are currently working on establishing a small enterprise credit information service which is envisaged to collect, maintain and share credit information on SME's. This project is also still at its initial stage and no formal law or policy has been promulgated yet.

Movable collateral laws and registries

- The financial infrastructure to support the provision of financial services to small enterprises continues to be a focus area. South Africa has engaged with the World Bank Group through their Global Practice on Financial Markets to assist in assessing particular areas of potential intervention and to recommend a way forward to improve the situation. One of the interventions identified is examining the feasibility of a movable asset registry in the South African context. The project is still at its initial stage. Thus far the following have been done:
 - A concept note discussing the rationale for the development of a registry for security interests in movable assets in South Africa;
 - South Africa is setting up a steering committee comprising of government departments and agencies with interest in the above as well as the delegates from the World Bank to carry out this project.

Availability of early stage capital (seed, angel, etc.)

- Although a thriving Venture Capital market exists in South Africa, little has been done for SME's in this space.

Spain

As already mentioned, supporting SMEs and tackling their specific problems has been a top priority in Spain's reform agenda in the last years, considering that they represent 99% of enterprises and account for 66.6% of employment. Spain is taking several steps to boost SMEs' investment that can be organised as follows.

a) Facilitators

a.1) Investment climate

- (i) Measures aimed at refinancing and restructuring of corporate debt. Measures aimed at refinancing and restructuring corporate debt (Royal Decree-Law 4/2014, later enacted as Law 17/2014). They seek to foster pre-insolvency agreements and focus on the identification and the preservation of the value of those corporations that are truly viable but at the same time over-indebted. This will help to advance on the deleveraging process required because of the high level of debt of some Spanish non-financial corporations. Among other changes, we can underline the following:

- Once the settlement is judicially ratified, the number of creditors and liabilities than can be affected by a decision of the majority of creditors is now higher.

- The settlement can involve not only payment deferrals, but also haircuts and debt swaps into capital.
- Out of court negotiations are simplified and promoted with the possibility of suspending singular executions for a period of time. This measure also includes the reform of the insolvency administrators' regime. A new set of principles governing insolvency administrators has already been introduced and its completion is pending on the implementation of secondary regulations. These new guidelines are aimed at improving the quality standards of insolvency administrators, streamlining their appointment to better fit the insolvency administrator to the complexity of the case and striking the right balance between the right set of incentives and a sufficient retribution.

Additionally several tax measures are applied to the Corporate Income Tax and the Tax on Document Duties, pursuing to promote debt restructuring agreements for companies. Specifically, the following measures can be highlighted:

- Capitalisation of debts (capital increase as a result of compensation credits): in debt capitalisations for the debtor, a taxable capital gain will stop taking place when such debts have lost value compared to their nominal value. The tax treatment is therefore differentiated from the accounting treatment, by the introduction of the corresponding non-accounting adjustment in the Corporate Income Tax return.
- Incomes from acquittals and moratoria: the rule for assignment of income from refinancing agreements by the difference between the previous financial liability (debt) and the new financial liability agreed is amended, to regulate its fiscal taxation, while generated additional financial costs take place. If these are not enough to absorb the deferred income, a proportional rule will be used. Since it avoids a tax burden in the refinancing agreement year, these negotiations are facilitated.
- Exemptions in capital transfers and documented legal acts: the existing exemption in capital transfers and documented legal acts in all refinancing agreements and out-of-court payment agreements regulated by the Bankruptcy Act is extended.

(ii) Measures on the revamping of the Bankruptcy Law (Royal Decree-Law 11/2014, later enacted as Law 9/2015). It improves the features of in-court composition agreements and facilitates the transmission of productive units and businesses as a going concern when liquidating a firm. In-court composition agreements are enhanced by introducing four creditor classes (labour, public, financial and others), setting new rules to quantify the value of guarantees and improving majority schemes.

(iii) Second opportunity mechanism, the reduction of financial burden and other social measures (Royal Decree-Law 1/2015, later enacted as Law 25/2015).

It reforms the Extrajudicial Settlement of Payments (ESP), an out-of-court mechanism aimed at SMEs, entrepreneurs and consumers introduced by Law 14/2013, and the fresh start mechanism.

- Concerning the ESP, the main changes are: i) the extension of its subjective scope of application to natural persons, with or without economic activity, establishing a shorter procedure and declaring the civil jurisdiction as competent in the insolvency procedure in case the ESP is not reached or fails, ii) the reduction of requirements for the ESP, iii) the elimination of restrictions on the entrepreneurial activity once the ESP is initiated, iv) the regulation of insolvency mediators' remuneration and the incorporation of the Chambers of Commerce in insolvency mediation matters, v) majority rules are lessened and the content of the composition agreement broadened.
- Following the recommendations of several IOs, the so called second opportunity has been reformed: i) by extending the subjective scope of application of the ESP to natural persons, if

(good faith) natural persons agree to a payment plan, that can last up to 5 years, they will be relieved of all its credits, except public and food ones and those against the bankrupt's estate and those who enjoy general privilege, ii) the cases in which the debtor acted in good faith, which is a requirement to access the ESP, are better defined, iii) the scope of debts that may be exonerated is extended, iv) the final exoneration of debts is conditional on compliance with a payment plan for those debts that cannot be exonerated.

a.2) Non-bank financing

The Spanish authorities have designed a package aimed at diversifying the financing sources of SMEs and improving the venture capital framework to promote alternative financing channels to banks as well as reducing credit constraints.

(i) Alternative Fixed Income Securities Market (*Mercado Alternativo de Renta Fija, MARF*). It was created at the end of 2013 as a platform where professional investors can acquire bonds issued by solvent medium-sized companies. Similar to other markets in the EU, MARF is set up as a multilateral trading facility, with more flexible requirements and lower costs than regulated markets. As of 30th September 2015, eighteen companies have issued a variety of securities (bonds, commercial paper, project bonds, and securitization bonds) in MARF, raising more than EUR 1.1bn. The market is gaining momentum and more deals are already in the pipeline.

(ii) Venture capital. Apart from adapting to the EU Directive 2011/61, which regulates alternative investment fund managers, Law 22/2014, on the regulation of venture capital entities, other close-end collective investment entities and close-end collective investment fund managers, creates a new type of vehicle called venture capital SME (*entidad de capital riesgo-pyme*). Venture capital SMEs have to invest at least 70% of their assets in SMEs and they are able to assess these SMEs as well as take part in their activity. Also administrative burdens that hurdle the creation of risk-capital vehicles are reduced.

(iii) Measures to promote corporate financing. They aim at facilitating the access to credit for SMEs and to set the grounds so that direct funding can have a more important role in the medium term. In order to achieve this goal, a set of measures is foreseen:

- A specific legal regime for Financial Credit Establishments (*Establecimientos financieros de crédito, EFC*) is foreseen. Before the transposition of the CRD-IV, EFC were considered in Spain as credit institutions. This is no longer possible, since they do not take deposits from the public. A legal framework is created under the supervision of Bank of Spain, reinforcing their role as an alternative source of funding to traditional banks, which has been significant in consumer financing at sales point.
- Revision of the legal framework of securitization with 3 main objectives. First, update the regime of securitizations in Spain, making it comparable to the rules applicable in other European Union Member States. Second, enhance transparency requirements and regulate the “association of bondholders”, guaranteeing the protection of the interests of the investors. Third, ensure legal certainty by clarifying the applicable rules, which are dispersed.
- Fostering the Alternative Stock Market by facilitating the transition from the Alternative Stock Market to the Stock Exchange. Growing companies with increasing capital needs willing to move from the Alternative Stock Market to the stock market are exempted temporarily from some transparency requirements. Complementing this measure, companies achieving a level of capitalization beyond 500 million euros will have to require access to the Stock Market, so that they are fully subjected to the rules on investor protection, like corporate governance.
- Improvement on debt issuances. Limitations foreseen in the Company Law are eliminated in order to reduce Spanish firms’ exposure to bank lending. First, the *Sociedades de*

Responsabilidad Limitada (Limited Liability Companies) are allowed to issue bonds, subject to the existence of audited financial reports of the last two years. Leverage is limited to twice the amount of own resources. Second, the limitation on leverage of *Sociedades Anónimas* (Public Limited Companies) is eliminated. Finally, homogeneous requirements on investor protection are established independently of the nationality of the company.

- Regulation on Crowdfunding. The main aim is to avoid legal uncertainty faced by the increasing number of these platforms, mainly generated by the fact that the border between this activity and some regulated activities, such as investment services or payment services is blurred: (1) the regulation covers internet platforms that promote investment crowdfunding based on issuing securities and lending; (2) transparency is essential with regard to the platform itself, its operations, the investment projects, the investment vehicles and the risks involved; (3) Platforms have to be registered and authorized by the *Comisión Nacional del Mercado de Valores* (CNMV, Commission in charge of Stock Markets) with involvement of Bank of Spain in the lending platforms; (4) Conduct of business rules are imposed on the platform in order to reach an equilibrium between an adequate level of investor protection and allowing the growth of this infant industry. For instance, there are rules that ensure the neutrality of the platform and there are annual limits for retail investors on their maximum investment per project (3.000 euros) and over all platforms (10.000 euros). Professional investors are not subject to these limits.

a.3) Business growth

One of the main challenges for Spanish SMEs is growing. If 99% of Spanish enterprises are SMEs, 95% of them have less than 10 employees. In part this may be due to regulatory barriers that discourage business growth. Therefore, an important front of action is removing such kind of barriers when assessed.

(i) Fiscal reform. It has removed some lock-in effects stemming from fiscal regulation:

- It has unified nominal tax rates and has eliminated deductions that had been mainly used by large companies, favouring an equalization of effective rates regardless of a company's size and mitigating disincentives to growth.
- The system of fiscal incentives for R&D&I has been modified in order to make it more attractive. The reform introduces a new mechanism that ensures the recovery of the fiscal credit generated by deductions for R&D&I activities (as envisaged in the Law on Entrepreneurship and Internationalization) and it has introduced a new incentive for R&D&I activities.

(ii) The financial system reform boosts non-bank financing channels and diversifies financing sources for enterprises. In particular, the abovementioned new Law to promote corporate financing, the Law on the regulation of venture capital entities, the Royal Decree-Law on second opportunity mechanism, or the creation of Fond-ICO Global (see below) have all contributed to correct market failures in the provision of financing to SMEs.

(iii) Reducing administrative barriers. In 2015 two new Royal Decrees for the implementation of the Law on Entrepreneurship and Internationalization have been passed³⁸. Their aim is to reduce administrative barriers in the creation of companies as well as improving the single stop shop system that provides services linked to the birth, development and death of enterprises.

a.4) Bank financing

³⁸ Royal Decree-Law 44/2015, on the use of the Single Electronic Document for the creation of cooperative and civil societies, jointly owned entities and others, and Royal Decree-Law 127/2015 on the integration of the business single stop shops and the Services Directive's single stop shop in the Entrepreneur Attention Point.

(i) Modification and simplification of the regime of guarantees for bank credit. SMEs will be able to use a higher range of collaterals, and the movable property register along with the legal regime of the pledge will be modernized, reducing the administrative costs for SMEs.

(ii) Reform of the covered bonds regime: A new Task Force has been created with the aim of eliminating certain deficiencies and enhancing the Spanish regime. For instance, the Task Force will review aspects such as asset encumbrance and the transparency and liquidity of covered bonds issuances.

a.5) Role of NDBs

Apart from the abovementioned reforms, ICO (*Instituto de Crédito Oficial*, the Spanish NDB) also contributes to the enhancement of investment opportunities of Spanish enterprises, particularly SMEs. ICO provides loans to fund SME investments and liquidity operations, both inside and outside Spain, and acts in two ways:

1. Second-Floor Facilities: The loans provided under ICO's second-floor facilities feature long repayment terms, preferential interest rates and simple paperwork and may be obtained through private credit institutions established in Spain. Loans are granted through these institutions that assume the credit risk associated with each operation. Conditions of the loans are established by ICO in transparent terms.

ICO's second floor facilities are focused on two main areas of activity: SMEs and Entrepreneurs, and Internationalisation. These two mayor facilities will allow investment projects to be funded as well as the liquidity needs of businesses and self-employed, both domestically and abroad.

2. Capital and Quasi-Capital Instruments: ICO owns AXIS, a venture capital manager that provides companies with capital and quasi-capital instruments to finance their growth through several funds. Therefore, ICO's activities in the field of SMEs can be summarized as follows:

(i) In late 2013, Fond ICO Global was launched aimed at promoting venture capital and private equity in Spain. It is a EUR 1.2bn public fund of funds which plays the role of anchor investor in private funds. Since its inception, it has reinvigorated the Spanish capital market in the venture capital and private equity segments. As of September 2015, FOND ICO Global had approved EUR 755m in investing commitments in 29 funds for a total investment in Spain of EUR 2.5 bn (EUR 61m in incubation, EUR 444m in venture capital, EUR 1.88bn in growth capital and EUR 178m in direct lending).

(ii) Fond-ICO Pyme supports SMEs in their expansion plans through participative loans and equity. As of September 2015, Fond-ICO Pyme had 21 companies in its portfolio (EUR 36m equity investment and EUR 20m in participating loans) and EUR 31m in 20 venture capital funds.

(iii) Isabel La Católica Fund. It provides equity to business angels and other non-institutional investors for the financing of innovative companies in the form of co-investments. The main promoters of this initiative are the European Investment Fund and AXIS. The Fund is managed by AXIS. It represents the Spanish compartment of a pan-European initiative, the European Fund Angels ("EAF"), which aims at promoting and supporting international collaboration between Business Angels and Family Offices, helping these non-institutional investors to become a real alternative capital for entrepreneurs and innovative companies.

As of September 2015, Isabel La Católica Fund had approved investment commitments worth EUR 24.8m in 4 incubators funds and EUR 11.4m in 7 business angels for a total investment commitment in Spain of EUR 61.9m.

b) Safeguards

b.1) Addressing Data Gaps

Many of the reforms being introduced and implemented in Spain include measures to ensure that efforts made serve the goal of achieving robust growth. In the field of SMEs, the following must be highlighted:

(i) Measures to promote corporate financing. It includes several measures to address data gaps and reduce informational asymmetries:

- SME rights vis-à-vis credit institutions. In order to guarantee that SMEs have enough time to find alternative sources of funding when their credit line is being cancelled or significantly reduced, credit institutions shall notify the SME three months in advance.
- SMEs are also entitled to receive free of charge the “SME- credit information” when their credit line is being cancelled or significantly reduced, which includes the credit history of the SME, a chronological list of defaults and the internal scoring. This information can be obtained any time on demand of the SME, as long as they pay for the cost of elaborating the document. This information reduces the informational asymmetry typical of financial markets and will make it possible for SME to capitalise from good payment records.

Other measures are:

- Improvement of the functioning of the Mutual Guarantee Funds. Legal changes are introduced with regard to CERSA’s counter-guarantee. CERSA is the counter-guarantee public Spanish company. Currently, the counter guarantee that CERSA provides cannot be activated if the mutual guarantee fund defaults. Legal changes are introduced so that the guarantee that CERSA is providing can be activated directly. This way, credit institutions assess CERSA’s guarantee adequately in terms of risk and, as a result, the cost of funding for SMEs benefits from a reduction.
- At the same time, the “fit and proper” rules imposed on the members of the board of credit institutions are extended to the members of the board of mutual guarantee funds. This will lead to a professionalization of mutual guarantee funds and will improve corporate governance in the sector. Finally, administrative burdens are reduced.

Turkey

	Facilitators	Safeguards
SMEs	<p>10. Facilitating Financial Intermediation</p> <ul style="list-style-type: none"> • Emerging Companies Market • Secured Transactions Law • Public Credit Guarantee Scheme • Creating New Financial Instruments <p>11. Mobilizing MDB Resources and Role of NDBs</p> <ul style="list-style-type: none"> • Mobilizing NDB Resources 	<p>12. Enabling Appropriate Legal and Institutional Settings</p> <ul style="list-style-type: none"> • Fostering Entrepreneurship and SME Development

Facilitators

10. Facilitating Financial Intermediation

Emerging Companies Market:

With the recent regulations an *Emerging Companies Market* was established at the Borsa Istanbul where the shares of the SMEs are exclusively traded. Furthermore, Borsa İstanbul, taking Nasdaq as a model, has recently created a new trading platform through which SMEs are enabled to obtain pre-IPO funds from qualified investors and angel investors. The so-called Private Market offers companies access to finance without going public, liquidity for company partners intending to sell their shares, and new investment opportunities for investors. Public offers will not be allowed on the Private Market and thus, the beneficiary SMEs will totally be exempt from the obligations in securities regulations.

Secured Transactions Law:

In Turkey, most of the financial institutions require immovable property as collateral especially for SMEs to extend credits. Preparing an appropriate legal structure through which movable assets can be effectively used as collateral will significantly improve access to finance. Therefore, Turkey has been drafting a law on secure transaction systems and collateral registries in order to ease access to finance of SMEs. This kind of secured transaction system will increase the level of credit and maturity.

Public Credit Guarantee Scheme:

Started in 2009, Public Credit Guarantee Scheme aims to support SMEs. Within the system, the Treasury committed to transfer funds up to TL 2 billion to Credit Guarantee Fund. In February 2015, scope of the system has been extended in order to support SMEs that otherwise cannot secure financing from commercial lenders. In addition to SME's, women entrepreneurs, manufacturing sector, ship building sector and travel agencies now can also benefit from the system. Thereby, more SMEs having access to financial problems will benefit from the scheme and this program will be in place until the end of 2017.

Creating New Financial Instruments:

Turkey has introduced a new system to encourage angel investments in 2013. It aims to encourage angel investment as a new instrument for SMEs at their early stages, increase professionalism, make angel capital an institutionalized and trustworthy source of finance, and provide state supports. In practice, Turkey licenses business angels who want to benefit from tax incentives for their investments. Accordingly, 75 percent of the participation shares of qualifying (private venture companies held by "business angels" can be deducted (the ratio is increased to 100 percent for the special supported ones) from the business angels annual income tax base.

Moreover, the Government financially contributes to the venture capital funds that directly invest through the fund of funds system. Turkey expects a substantial increase in this market and closely monitors the volume of venture capital investments, which would support early stage companies not only financially but also in terms of institutionalization and corporate governance. As both the business angel scheme and fund of funds system are very premature in Turkey, the preliminary outcomes of the scheme and system are closely monitored for further improvements.

In addition, the preparations for the legislative framework for crowd funding is in progress in order to implement equity-based crowdfunding in Turkey as an alternative financial instrument for early-stage entrepreneurs. The public authority will have a central role in establishing and supervising the system in order to avoid the risks such as fraud, failure of investment and money laundering.

11. Mobilizing MDB Resources and Role of NDBs

Mobilizing NDB Resources:

Turkish national development banks has laid out their strong ambition to support SMEs in renewable energy and energy efficiency, manufacturing industry, tourism, health and education sectors in their medium term strategic plans. In the medium run, the NDBs are eager to increase their support to SMEs through direct lending and apex on-lending instruments considering the multiplier effect of the apex lending business and carry out financial intermediation for the foreign funds as well as the thematic funds

like green energy. The Turkish Treasury is also continuing to provide sovereign repayment guarantee limit, USD 3 billion annually.

Safeguards

12. Enabling Appropriate Legal and Institutional Settings

Fostering Entrepreneurship and SME Development:

SMEs' capacity for further integration to global markets is aimed by improving their R&D, innovation and export capacities. SMEs will be supported by structures help in forming clusters among themselves and with larger enterprises, universities and research centres. In addition, the recently launched "Action Plan for Commercialization in the Priority Technology Areas" covers the steps needed for developing global competitiveness through increasing the number of high-tech products and brands in the priority sectors, and transforming Technology Development Zones into a sector-focused structure.

United Kingdom

Funding for Lending Scheme: The UK launched the Funding for Lending Scheme (FLS) in July 2012. The FLS is designed to incentivise banks and building societies to boost their lending to the UK real economy. It does this by providing funding to banks and building societies for an extended period, with the quantity of funding provided linked to their net lending performance.

The FLS has contributed to a significant fall in bank funding costs and helped support an improvement in credit conditions for households and businesses. The Bank of England and HM Treasury announced an extension to the FLS on 2 December 2014. This extended the scheme for a further year, allowing participants to borrow from the FLS until January 2016. The incentives in the scheme were further focused on supporting net lending to small and medium sized enterprises (SMEs), with incentives on lending to large businesses removed, following improvements in credit conditions for those firms.

Net lending to SMEs under the FLS was positive in 2015 Q1, increasing by £615 million. This was an improvement on average net lending of -£500 million over 2014 under the scheme. The FLS extension complements various other longer-term initiatives to improve the availability of credit to SMEs as they take root, including through the British Business Bank and measures to mandate greater sharing of SME credit data, as explained further below.

Business rates: Following on from the £2.7 billion package of measures announced in December 2013, in December 2014 the government announced it would further reduce the burden of business rates by £1 billion to support businesses. The doubling of the Small Business Rate Relief was extended to April 2016, meaning around 385,000 of the smallest businesses will continue to receive 100 per cent relief from business rates, with around 190,000 benefiting from tapering relief. The government also announced an extension of the 2 per cent cap on the RPI increase in the business rates multiplier to April 2016, and additional support for the retail sector by increasing the £1,000 business rates discount for shops, pubs, cafes and restaurants with a rateable value of £50,000 or below, to £1,500 in 2015-16, benefiting an estimate 300,000 properties.

British Business Bank (BBB): The British Business Bank, which become fully operational in 2014, aims to make finance markets work better for smaller businesses, by increasing and diversifying the supply of finance available to SMEs. The BBB aims to facilitate up to £10 billion of finance by 2019. Its programmes are already delivering significant results. The BBB is supporting £2.3 billion of finance to over 40,000 small businesses and is participating in a further £2.9 billion of finance to small mid-caps.³⁹ The BBB supports businesses through the following programmes:

- The Angel Co-Fund makes equity investments alongside syndicates of Business Angels making investments of between £100,000 and £1 million in smaller businesses in the UK. As of end of March 2015, the Angel Co-Fund was supporting 55 small businesses with over £110 million of finance facilitated. Enterprise Capital Funds (ECFs) are commercially focused funds that bring

³⁹ These figures include both the BBB's contribution and the additional private sector money.

together private and public money to make equity investments in high growth and early stage businesses. There are 19 ECFs of which 11 are currently actively investing. The programme is a significant part of the UK venture capital industry, with 19 funds in place already, having facilitated £226 million to date. The programme was extended by £400m in December 2014. The Venture Capital Catalyst Fund co-invests in commercially viable venture capital funds that might otherwise fail to reach a satisfactory “first close” – the point at which a fund has raised enough money to begin making investments in businesses. Initially funded with £25 million, after its successful pilot the programme has been extended to £125 million. To date it has facilitated £57 million of finance.

- The Help to Grow programme will help SMEs that have displayed high growth potential but are struggling to raise sufficient senior debt with mezzanine style features to fund their growth opportunities. Help to Grow tackles a market gap for smaller businesses seeking between £0.5 million and £2 million of growth finance. The pilot will facilitate up to £100 million of finance for growing businesses.
- The Investment Programme supports non-bank and challenger bank lenders in order to increase the supply of finance and the diversity in the financial marketplace for small businesses. Through the Programme, the government is co-investing £400 million on fully commercial terms and conditions. So far, £238 million has been awarded to nine financial providers. As of March 2015, the programme was supporting 4,200 small businesses with approximately £220 million of finance facilitated through private lenders. Its predecessor scheme, the Business Finance Partnership (BFP) small business tranche has committed £87 million to seven alternative finance providers. As of end March 2015, over 7,800 loans totalling over £415 million have been made by the seven BFP lenders. The Business Finance Partnership (mid-cap tranche) aims to diversify the sources of finance available to smaller and mid-sized firms. £863 million has been allocated to funds supporting mid-sized firms, which so far has enabled more than £1.6 billion of investment.
- The ENABLE Guarantees programme aims to incentivise new small business bank lending by using a government-backed portfolio guarantee, in exchange for a fee, to reduce the amount of capital that banks need to hold against new SME lending, and thereby increase the commercial attractiveness of small business lending. The British Business Bank will now roll-out the ENABLE Guarantee programme, following a successful £125 million pilot transaction with Clydesdale and Yorkshire Banks in March 2015. The ENABLE Funding programme is designed to improve the provision of asset and lease finance to smaller businesses. The programme helps to resolve funding constraints for asset finance providers to smaller businesses. In addition, it will help ease credit conditions for smaller businesses.
- The Enterprise Finance Guarantee enables lenders to provide debt finance to viable small businesses with insufficient security or track record. It provides a partial guarantee to the lender, effectively sharing a portion of the risk. 17,590 loans have been made using the EFG since 2010, facilitating over £1.9 billion of lending. A further £500 million was made available in 2015/16 at Autumn Statement 2014.

Social Investment Tax Relief: The UK has a thriving social enterprise sector: social enterprise has three-times the start-up rate of mainstream SMEs. In July 2014, the government introduced Social Investment Tax Relief (SITR), responding to particular difficulties these organisations face in obtaining finance, and putting them on a more equal footing with other small businesses. The scheme allows investors to claim back 30 per cent of the value of an eligible social investment against their income tax liability. In December 2014, the government announced that it would expand SITR, increasing the number of eligible investments and raising the amount of SITR investment an individual social enterprise may receive to £5 million per year up to a maximum of £15 million, subject to agreement by the EU that this is an allowable State aid.

R&D tax credits: To further support innovative start-ups and early stage companies to invest in research and development (R&D), in April 2014 the government raised the rate of the R&D tax credit payable to loss making SME companies.

In December 2014, the government announced that it would increase the rate of the ‘above the line’ credit from 10 per cent to 11 per cent, and increase the rate of the SME scheme from 225 per cent to 230 per cent, from 1 April 2015.

SME Credit Data: This year the government will lay final legislation requiring major UK banks both to share SME credit information with other lenders and to offer to share the details of SMEs rejected for a loan with online platforms that can match them to alternative finance providers.

Employment Allowance increase: The Employment Allowance currently gives businesses and charities across the UK an annual reduction of up to £2000 on their Employer National Insurance contributions liability. To further support small businesses and charities with the costs of employment, the government will increase the employer National Insurance contributions Employment Allowance from £2000 to £3000 from April 2016. Since April 2014 over 1 million employers already claimed the allowance. This has reduced the cost of employment for businesses and charities across the UK by over £1 billion.

COUNTRY-SPECIFIC INVESTMENT STRATEGIES

Investment and Infrastructure Working Group

DRAFT TEMPLATE

INTRODUCTION

Our Leaders placed a firm emphasis on tackling *investment* and infrastructure shortfalls. The Presidency is actively taking forward this work agenda on *investment* given its role as a powerful driver of growth. Our Ministers, in their Istanbul meeting, announced that they are committed to boosting investment in our countries via concrete and ambitious investment strategies that will also support our collective growth objective.

In line with the mandate given by our Ministers, the G20 Investment and Infrastructure Working Group's (IIWG) work will be organized along a new narrative to formulate these country specific investment strategies. The investment strategies will include facilitating and safeguarding mechanisms as introduced and discussed in the IIWG and will span from 2015 to 2018.

Within the framework of the 2015 IIWG work plan, member countries, after reviewing previous commitments in their growth strategies, will explore room for further improvement and submit new investment strategies. As indicated in the Istanbul Communique, based on the information shared by members and with other information from existing sources, the OECD together with other IOs will assist in providing an aggregate ambition in fostering investment, including in infrastructure, for the Antalya Summit.

The objective of this template is to provide a common understanding for members and reflect comments from IIWG members. As such, each member is expected to provide an investment strategy of a maximum of 10 to 15 pages.

The strategy has the following parts:

Part A- Overall Investment Strategy provides a clear description of the general overview and a summary of the available data related to the investment strategy.

Part B- Strategic Actions include the top policy commitments and reforms within the investment and infrastructure strategy.

Part C: Investment Data Annex include the key investment indicators in detail.

NEXT STEPS

Countries should submit the first draft of their investment strategies by May 3, 2015. This will allow time for members to review the templates and have fruitful discussions during the second IIWG meeting in Singapore and reflect the results of those discussions in their strategies ahead of the June Deputies' meeting in Bodrum. The OECD and other IOs' contributions and reviews will also enrich our discussions in the next IIWG meeting.

STRUCTURE

A. OVERALL INVESTMENT STRATEGY (Page Estimate¹: 1-2 pages)

A.1. General Overview (1 page)

Countries are invited to explain briefly the main challenges, policy priorities and policy context of their investment strategies.

A.2. Investment Data

Countries, on a voluntary basis, are asked to present a headline investment figure related to their overall investment strategy covering 2015-2018. Details are to be indicated in Annex, which could include macroeconomic data, investment plans etc. The template suggested would span current data for 2014, and existing and envisaged plans for the period of 2015 to 2018. Please also refer to the annex for the data template and further explanations.

B. STRATEGIC ACTIONS (Page estimate: max 7-10 pages²)

Facilitators and Safeguards will be the two main parts for designing strategic actions. **Facilitators** are policies that help members achieve their identified investment strategies. In this regard, some of the ongoing work-streams of the IIWG (e.g. supporting improvements in investment climate, facilitating financial intermediation, and optimizing MDBs' role) could feed well into investment strategies. **Safeguards**, are policies (e.g. enabling appropriate legal and institutional settings, disseminating information and data gaps, and project planning and developing procedures including PPP model improvements etc.) that ensure the money spent towards our investment strategies serve the goal of achieving robust growth.

Within Facilitators and Safeguards, policies can be presented under the three sub-pillars of the *investment ecosystem*, *infrastructure* and *SMEs*. As it is likely that policy initiatives cut across these sub-pillars, countries will choose one relevant category reflecting their own judgment.

For investment ecosystems, policies that are pre-requisites for long-term investments, promoting domestic business environment including through governance and regulatory framework-oriented actions could be described. The infrastructure pillar may consist of countries' existing national investment plans including public infrastructure projects and private sector involvement including through PPPs. The third part on SMEs will highlight the specific policies on unlocking the potential of private sector financing for SMEs, their long-term investment opportunities including capacity development efforts, and incentives that could be taken on the prudential and regulatory framework etc.

¹ Please endeavor to stay within the limit of the lower number. Pages refer to single space, 11.

² Countries are expected to focus on a core group of priority actions, ideally the 5-10 most important ones, as appropriate.

Investment Ecosystem	
Facilitators	• Supporting Improvements in Investment Climate and Promoting Private Sector Investment
	• Facilitating Financial Intermediation
Safeguards	• Enabling Appropriate Legal and Institutional Settings
Infrastructure	
Facilitators	• Facilitating Financial Intermediation
	• Mobilizing MDB Resources and Role of NDBs
Safeguards	• Enabling Appropriate Legal and Institutional Settings
	• Project Spectrum: Project Planning, Prioritization, Process Development and Ensuring Quality of Infrastructure
	• Addressing Data Gaps
SMEs	
Facilitators	• Facilitating Financial Intermediation
	• Mobilizing MDB Resources and Role of NDBs
Safeguards	• Enabling Appropriate Legal and Institutional Settings
	• Addressing Data Gaps

In their investment strategies, countries are expected to indicate i) main challenges, ii) a description of the policy actions, and iii) an implementation path (including time and other indicators, as appropriate, to measure the progress) of each policy action if possible. To have more visibility and to ensure the measurability of the impact, countries may also wish to provide details of the quantitative aspects of their commitments.

Please also refer to background addendum for facilitators and safeguards including some examples and tools for defining country-specific investment strategies.

C. ANNEX : INVESTMENT DATA (Page Estimate³: 2-3 pages)

Investment Strategy: Key Indicators^{1,2,3}

	2014 (actual)	2015	2016	2017	2018	Total
I. Macroeconomic Indicators (% of GDP)						
a. GDP Growth						
b. Fiscal Balance						
c. Current Account Balance						
II. Investment Indicators²(billions USD)						
a. Public Investment Plans (by means of traditional public procurement methods)						
b. Private Sector Involvement Plans (by means of Public-Private Partnership models)						
c. Other Private Sector Investment Plans (by means of concessional or other private sector investments, if any)						
<i>Total Investment (a+b+c) (billions of USD)</i>						
<i>Total Investment² (% of GDP)</i>						
III. Micro Plans (billions USD)						
Public Initiatives/Plans to Promote Private Sector ⁴						

¹ - 2015 macroeconomic and fiscal plans. If the indicator is different than the 2014 baseline projections or G20 growth strategies, please refer to the recent data.

² Please also indicate if you are using any basis of the data (i.e. National Accounts System e.g. UNSNA, ESA, or any other reference including the GFS definitions)

³ If annual data is not available please provide an aggregate data for 2015-2018.

⁴ Please add rows to specify different initiative types (direct loans, allocated funds, guarantees, incentives, SME development fund programs etc.)

The **Key Indicators Table** is proposed to be used for members to provide their investment related data in detail where available. The table can include data released on current and already available forecasts and plans of the member countries.

In **I. Macroeconomic Indicators** part, members will provide their basic medium term macroeconomic projections expressed as a share of GDP.

II. Investment Indicators part will include the investment figures used as a direct component of GDP growth in line with macroeconomic forecasts. In this part, we would expect members to provide their investment plans for a period of 2015-2018.

³ Please endeavor to stay within the limit of the low number.

If available, the investment plans can be detailed by means of public investment (public procurement models, public-private investment (PPP models) or pure private investment (privatization or corporate sector investments). Moreover, countries can also add rows to indicate further details of their investment plans. Please also indicate whether the data is referring to the contractual amounts (preferred) or annual expenditures for the projects.

Public Investment is defined as physical infrastructure including machinery, equipment and large maintenance financed by government budget via public procurement methods. This item will include broad estimates of the overall size of the public infrastructure projects (even if they are still at a very preliminary stage) which are eventually financed by either public money or private sources based on the members' existing national investment plan.

Private Sector Involvement Plans will include the plans for the public investment to be realized by means PPP models. If there is any public money to be spent for these types of projects, members can also indicate the relevant details and explanations.

Moreover, if there are other means of **Private Sector Investments**, including through concessional agreements that entail specific investment commitments, members can submit further details in part c. Members can also include estimates of private sector investments including by SMEs and larger corporations in this part.

The **Total Investment** figures in USD billions and % of GDP will provide an idea of the aggregate figures for the investment volume where possible.

III. Micro Plans part will indicate the amount of public outlays directly committed to or provided for infrastructure or SMEs. These outlays could be in the form of public funds, guarantee tools, tax incentives, SME-development funds, and other fund-based initiatives undertaken by the public sector to mobilize private sector investments.

We acknowledge the technical difficulty and country-specific limitations of providing some of these figures. Against this backdrop, members, who face data related constraints, are encouraged to provide their investment data even if it is based on broad estimates and authorities' assumptions.

BACKGROUND ADDENDUM

A. Country-Specific Investment Strategies

	Facilitators	Safeguards
Investment Ecosystem	<p>1 Supporting Improvements in Investment Climate and Promoting Private Investment Macroeconomic stability Competition strategy and regulatory reforms Removing restrictions on FDI Strengthening public investment efficiency Promoting R&D and business startup</p> <p>2 Facilitating Financial Intermediation Promoting domestic financial savings Private sector financing tools (local debt market and capital market) Respective role of different actors (banks, inst. investors, corporate finance)</p>	<p>3 Enabling Appropriate Legal and Institutional Settings Rule of Law and public governance Preconditions for long-term investment Governance and incentives of financial intermediaries Adequate regulatory framework Openness and information sharing Responsible business conduct</p>
Infrastructure	<p>4 Supporting Improvements in Investment Climate Regulatory framework for infrastructure Strengthening Public Investment Inflation and foreign exchange risk management alternatives</p> <p>5 Facilitating Financial Intermediation Promoting long term financing environment Developing financing vehicles Private equity / project bonds Develop secondary markets Tax incentives</p> <p>6 Mobilizing MDB Resources and Role of NDBs Country led MDB programs Technical assistance and experience sharing Role of National Development Banks</p>	<p>7 Enabling Appropriate Legal and Institutional Settings Develop an adequate PPP framework Stable and consistent regulation Sustainable and clean energy</p> <p>8 Project Spectrum: Project Planning, Prioritization and Process Development Project identification and prioritization Project preparation / Execution Procurement and contract management Ensuring Quality of Infrastructure</p> <p>9 Addressing Data Gaps Project availability Sharing project information</p>
SMEs	<p>10 Facilitating Financial Intermediation Movable collateral laws and registries Insolvency regimes Asset based instruments Securitization Banking sector competition Tax incentives</p> <p>11 Mobilizing MDB Resources and Role of NDBs Role of National Development Banks Technical assistance and experience sharing</p>	<p>12 Enabling Appropriate Legal and Institutional Settings Product development Non-bank SME financing settings Availability of early stage capital (seed, angel, etc.) Incentives to formality</p> <p>13 Addressing Data Gaps Information sharing (standardized data set) Payment system information SME data gap dissemination</p>

B. Examples of IOs' contributions and tools for defining country-specific investment strategies (to be completed)

	Document/Tool	IO	Year	Investment Climate	Financing Climate	Project Spectrum
Investment Ecosystem	Draft Effective Approaches to Implement the High-Level Principles on Governance	OECD	2014	X		
	OECD Guidelines on Insurer Governance	OECD	2011	X		
	OECD Principles of Occupational Pension Regulation	OECD	2010	X		
	Doing Business 2015	WBG	2015	X		
	Non-Paper Practices of Prudent Securitisation	IIWG	2014		X	
	G20 Securitization Background	IMF	2013		X	
	Securitization: Lessons Learned and the Road Ahead	IMF	2013		X	
	Sukuk Capital Markets Surveillance	IMF	2014		X	
	Task Force on the Securitisation Markets Interim Report	IOSCO	2014		X	
	Draft Report on Effective Implementation Approaches to High-Level Principles 1.1, 1.5, 2, 3, 5 and 7	OECD	2014		X	
	G20- OECD High- Level Principles of Long Term Financing by Institutional Investors	OECD	2013		X	
	A Multipronged Integrated Approach to the Development of Securities Markets- The Deep Dive	WBG	2014		X	
	Note-Recent Trends in LCBMs	WBG	2014		X	
	B20 Policy Recommendations to G20	B20	2014	X		
	OECD Checklist on Long-term Investment Financing Strategies	OECD	2014	X		
	Analysis of regulation of investment by insurance companies and pension funds based on a comprehensive survey	OECD	To be prepared	X		
	Long term investment in infrastructure: FDI case, Part I (on selected sectors)	OECD	To be prepared	X		
	New high level principles on national strategies for long term investment and infrastructure	OECD	To be prepared	X		
	Subsequent identification and analysis of government and market based instruments and initiatives	OECD	To be prepared	X		
	FSB-led ongoing work on developing quantitative indicators of long-term investment finance	FBS	To be prepared		X	
Joint WB-IsDB study on leveraging Islamic finance for key G20 objectives (intermediation, inclusion, architecture)	IsDB/WBG	To be prepared		X		
Joint report: focused on capital markets instruments for SME and infrastructure financing	WBG/OECD/ IMF	To be prepared		X		

	Document/Tool	IO	Year	Investment Climate	Financing Climate	Project Spectrum
Infrastructure	Key Recommendations: Top Impediments to Long Term Infrastructure Financing	IIF	2014	X	X	
	Public Sector Institutional Capabilities to Facilitate Increased Private Infrastructure Investment	IIWG	2014	X		
	Toward More Efficient Public Investment	IMF	2015	X		
	Non-Paper on Infrastructure Planning	IIWG	2014	X		
	Long-Term Financing of Infrastructure: A Look at Non-Financial Constraints	WBG	2013	X		
	Overcoming Constraints to the Financing of Infrastructure	WBG	2014	X		
	Practical Solutions and Models for Addressing Obstacles to Institutional Investment in infrastructure in Developing Countries.	WBG	2014	X		
	An outline to Project Bonds	EIB	2012		X	
	Financing PPPs with Project Bonds	EPEC	2012		X	
	Development of Quantitative Indicators of Long-term Investment Finance	FSB	2014		X	
	Paper-IOSCO Long Term Financing	IOSCO	2014		X	
	FULL REPORT Official Support for Private Participation in Infrastructure	OECD	2014		X	
	Leading Practices on Promoting and Prioritizing Quality Investment	IIWG	2014			X
	Checklist for PPP Projects	WBG	2014			X
	Prioritizing Projects to Enhance Development Impact	WBG	2014			X
	Overcoming barriers to international investment in clean energy	OECD	To be prepared	X		
	Sukuk for infrastructure with the new assets backed structures: a surveillance report of Sukuk markets.	IMF	To be prepared		X	
	Role of respective financial intermediaries in the development phases of infrastructure project (relevant work stream to be determined)	OECD	To be prepared		X	
	IMF Policy Paper (public investment efficiency)	IMF	To be prepared			X
	Checklist on PPP project preparation	OECD/WBG	To be prepared			X
A toolkit to assist governments with the planning and prioritization of infrastructure projects	WBG	To be prepared			X	
Guidance tools on PPP project management	WBG	To be prepared			X	
Recommendations on Practices: In conjunction with the GIF and the other MDBs, development of standardized PPP project preparation processes, including the use of recommended bidding documents and recommended contractual materials	WBG	To be prepared			X	

	Document/Tool	IO	Year	Investment Climate	Financing Climate	Project Spectrum
SMEs	Aspects of the Investment Climate Directly Affecting SME Lending	WBG	2014	X		
	Financing SMEs and Entrepreneurs 2014	OECD	2014		X	
	New Approaches to SME and Entrepreneurship Financing	OECD	2015		X	
	SME Debt Financing Beyond Bank Lending	OECD	2015		X	
	Financing SMEs and entrepreneurs 2015: An OECD Scoreboard	OECD	To be prepared	X	X	
	Revision of principles on corporate governance and a specific report for SMEs	OECD	To be prepared	X		
	Deepening Analysis of the Opportunities and Constraints of Market-Based Financing for SMEs	OECD	To be prepared		X	
	New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments	OECD	To be prepared		X	
	SME Debt Financing Beyond Bank Lending: the Role of Securitization, Bonds and Private Placements	OECD	To be prepared		X	

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