HIGHLIGHTS

G20/OECD REPORT ON G20 INVESTMENT STRATEGIES

2015 Turkey G20

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G20/OECD REPORT ON
G20 INVESTMENT STRATEGIES

Investment strategies in the G20 policy context

The role of investment and especially long-term investment has been recognised by G20 Leaders for years. At the 2014 Summit in Brisbane, Leaders recognised for instance that “tackling global investment and infrastructure shortfalls is crucial to lifting growth, job creation and productivity. Our growth strategies contain major investment initiatives, including actions to strengthen public investment and improve our domestic investment and financing climate, which is essential to attract new private sector finance for investment”.

In February 2015, G20 Finance Ministers and Central Bank Governors stated they were committed to boosting investment in G20 countries via concrete and ambitious investment strategies that will also support their collective growth objective.

G20 Finance Ministers and Central Bank Governors reiterated at their September 2015 meeting that boosting investment is a top priority for them. To this end, they stated that they have prepared country-specific investment strategies that present concrete actions in order to improve the investment ecosystem, foster efficient infrastructure investment and support financing opportunities for SMEs. They welcomed the progress note by the OECD that provides a preliminary review of the investment strategies and contributes to knowledge sharing. They looked forward to further qualitative and quantitative assessments of their strategies and, based on these assessments, they agreed to finalise them for the 2015 Summit in Antalya.

This booklet reproduces the highlights of the final version of these assessments agreed by G20 leaders on 16 November 2015.

A survey of investment strategies in G20 countries

As part of the broader effort to boost investment through concrete country investment strategies, and following mandates given by both the G20 Leaders and the Finance Ministers and Central Bank Governors, the G20 Investment and Infrastructure Working Group (IIWG) has conducted in 2015 a voluntary survey to compile information and data on countries' investment strategies. The survey includes the main challenges being addressed, existing policy priorities, and the policy context of chosen strategies. The results of this survey were discussed at the May and August meetings of the IIWG and at the G20 Finance and Central Bank Deputies meeting in June. They were presented at the September meeting of the G20 Finance Ministers and Central Bank Governors who agreed to deliver a G20/OECD report on "G20 investment strategies" to the Leaders' Summit in November 2015.

The G20/OECD draft report on investment strategies was then circulated again to the IIWG members for further comments and inputs. Most of the members, plus the IMF and the World Bank Group, provided comments which have been reflected in the current version of the report.

The report initiated by the G20 Turkish Presidency and prepared by the OECD, together with other international organisations, and with special contributions from Indonesia and Mexico, contains a compilation and comparative analysis of a huge amount of information on investment strategies in G20 countries, at both geographical and sectoral levels. More than 300 measures have been undertaken or planned. They act as facilitators or safeguards of the process involved by the respective investment strategies and relate to three major areas, the investment ecosystem, infrastructure, and SMEs. The information collected also identifies effective approaches implemented in G20 countries, existing trends, and indicates avenues for further progress. This two-volume report provides for the first time a unique knowledge sharing tool on G20 investment strategies for G20 members, other countries and any stakeholders and interested institutions and persons. Volume I includes the executive summary, a comparative analysis and three annexes of non-exhaustive illustrations of country strategies. Volume II is a compilation of all the responses classified following the main categories of the template used to collect the information.

Background to the survey

It is important to note that:

- This exercise considers investment strategies on a whole of government basis, and not only "national" strategies. This allows for consideration of investment decisions and policy measures that are implemented at a sub-national level (state, province, county, or local government level), which is the case for several countries. Regional cross-country strategies may also be included. In saying this, policy measures in country investment strategies are not exhaustive and do not cover all the initiatives undertaken in each country. The annexes provide only illustrations of the various actions described in the original submissions, which can be found in Volume II and in separate country reports.
- Strategies can also vary depending on other public decision-making angles related for instance to: the sectors (e.g. energy, transport, logistics); the economic and social development of the areas concerned; the nature of the projects (size, complexity); the type of investment financing provided (public or private institutions, direct/indirect, equity/debt, Public Private Partnerships, etc), and the institutional arrangement.
- Methodologies used to quantify the investment figures vary between countries and include various components and sectors (including private investment).
- Further work is needed both on comparable data collection and analysis of specific issues and trends, including infrastructure investment.

Main findings

The G20 initiative on investment strategies will help to improve knowledge sharing in support of the policy actions and support measures set out in the G20 Growth Strategies.

Investment is an important driver of growth, employment, inequality reduction and productivity and a significant component of the G20 Growth Strategies. A major tool, amongst others, for promoting quality investment is to develop appropriate investment strategies at relevant geographical (national and sub-national) and sectoral levels (including for instance energy, transport, logistics, digital programmes and R&D).

These multi-dimensional strategies favour efficient approaches based on the identification of various needs and gaps, taking specific circumstances into consideration. They help maximise some forms of co-operation, including across levels of government, and the involvement and identification of relevant public and private stakeholders, while contributing to the achievement of carefully considered investment objectives based on quality and efficiency. The strategies highlight concrete actions of G20 members to help overcome the challenges related to the promotion of investment, but no one jurisdiction faces all the same challenges and no single challenge has been addressed the same way by all jurisdictions. The diversity of the approaches is also reflected in the variation across countries in terms of volume of investment, selection of priorities, actions undertaken and type of measures implemented. That said, selected major common trends emerge from the analysis.

Investment strategies are not stand-alone mechanisms. They need to be developed as part of a comprehensive approach which includes other essential elements, that can also help to restore confidence, attract investors and free resources: credible macroeconomic policy frameworks; country growth strategies; fiscal responsibility/sustainability; financial stability and a sound prudential framework; competitiveness; structural reforms, including labour reforms; a supportive business environment; productivity growth and the related importance of skills, education, and innovation.

Most countries increasingly recognise the need to emphasise the quality of investment and the related need to improve its efficiency, including through proper cost/benefit analysis, taking into account the specificity of social infrastructure. There is also a need to distinguish between investment and infrastructure investment which may call for different dedicated policy approaches.

Given the scale of the long-term investment requirements and constraints on many government budgets, it is expected that governments need to partner with the private sector to meet at least some of these needs. These needs will differ across countries and depend upon the age of the existing stock of infrastructure, state of economic development, rate of urbanization and more fundamental development goals.

Most G20 countries are promoting the role of the private sector in long-term investment, including through the development of public private partnerships and various incentives including relevant tax incentives. As traditional forms of financing such as from banks and corporate financing currently face some challenges, governments are increasingly turning to new sources such as institutional investors and capital markets in general. Most G20 countries are favouring the development of these alternative/complementary sources of financing and promoting the availability of a larger spectrum of related financial instruments.

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

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

Efforts have been made by several G20 members to attract foreign investors, including through easing foreign direct investment regulation, while the globalisation of economic activities calls for the facilitation of public and private cross-border investment.

The survey shows a general trend towards optimising the role of Multilateral Development Banks and National Development Banks in facilitating investment and infrastructure investment. This includes their role as a catalyser of private investment and provider of technical advice. Strategies to stimulate the role of public investment funds are also present in most G20 countries.

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

Investment levels and trends

A large variety of strategies and levels of investment exist across G20 members, based on diverse needs and circumstances and methodologies used. Nominal investment ratios as a percentage of GDP vary for instance from 17% to 46% in 2014. While projected investment ratios for a majority of countries show an increase, some project a decrease. Keeping these caveats in mind, analysis of the data provided allows a number of broad aggregate trends to be identified for 19 G20 "countries" plus Spain (excluding the EU).

- After a fall in 2009, a rebound in 2010-2011 and a slowdown in 2012-2014, G20 members are projecting an increase in average nominal investment-to-GDP ratios for 2015-2018. The weighted average projected nominal investment-to-GDP ratio increases of around 1% (1.1% in PPP) for the period 2014-2018.

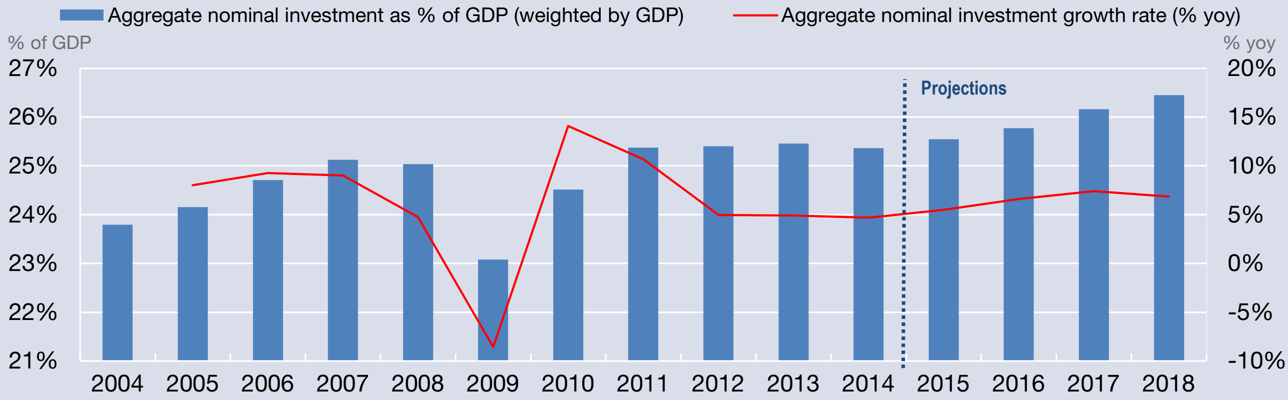
Table 1. Nominal investment levels in G20 countries and Spain (USD billions, 2014 exchange rate)

	2014	2015	2016	2017	2018
AGGREGATE NOMINAL INVESTMENT AS % OF GDP (weighted by GDP)	25.3%	25.5%	25.7%	26.0%	26.2%
AGGREGATE NOMINAL INVESTMENT GROWTH RATE (% yoy)	4.5%	5.4%	6.0%	6.9%	6.2%

Note: Calculations are based on values expressed in USD (constant 2014 exchange rates). Data and projections on investment-to-GDP ratios for 2014-2018, the 2014 value of GDP and the forecast of the growth rate of nominal GDP between 2014 and 2018 come from the IIWG members' data submissions, except for Japan (2014-2018), Korea (2014-2018) and Saudi Arabia (2014) for which IMF data and projections are used. Canada submitted IMF World Economic Outlook estimates of investment to GDP ratios for 2014-2018

Source: Country Investment Strategies OECD, IMF World Economic Outlook (October 2015) and OECD staff estimates.

Figure 1. Aggregate nominal investment as a % of GDP and nominal investment growth rate (% yoy) in G20 countries and Spain, 2004-2018



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Source: Country Investment Strategies OECD, IMF World Economic Outlook (October 2015) and OECD staff estimates.

- Investment-to-GDP ratios for the period are higher than pre-crisis ratios. They reach a nominal figure of 26.2% on average in 2018. The projected nominal aggregate investment level increases by 26.9% (32.2% in PPP) for the period 2014-2018. The projected total nominal investment increases by 4.2 trillion USD (7.1 trillion USD in PPP) over the same period.

- While the projected nominal investment growth rates are lower than pre-crisis levels, they are higher than for the 2012-2014 period and are higher than the GDP projected nominal growth rates for the period 2015-2018.

Although there are differences across countries, these figures seem to reflect the priority currently given on average by G20 members to further promote investment, despite a challenging environment. This is also apparent in anecdotal evidence on numerous major infrastructure projects considered over the same period.

Table 2. Nominal investment levels in G20 countries and Spain (USD billions, 2014 PPP)

	2014	2015	2016	2017	2018
AGGREGATE NOMINAL INVESTMENT AS % OF GDP (weighted by GDP)	27.4%	27.7%	27.9%	28.3%	28.5%
AGGREGATE NOMINAL INVESTMENT GROWTH RATE (% yoy)	4.9%	6.3%	7.4%	8.0%	7.2%

Note: Calculations are based on values expressed in 2014 PPP terms. Data and projections on investment-to-GDP ratios for 2014-2018, the 2014 value of GDP and the forecast of the growth rate of nominal GDP between 2014 and 2018 come from the IIWG members' data submissions, except for Japan (2014-2018), Korea (2014-2018) and Saudi Arabia (2014) for which IMF data and projections are used. Canada submitted IMF World Economic Outlook estimates of investment to GDP ratios for 2014-2018.

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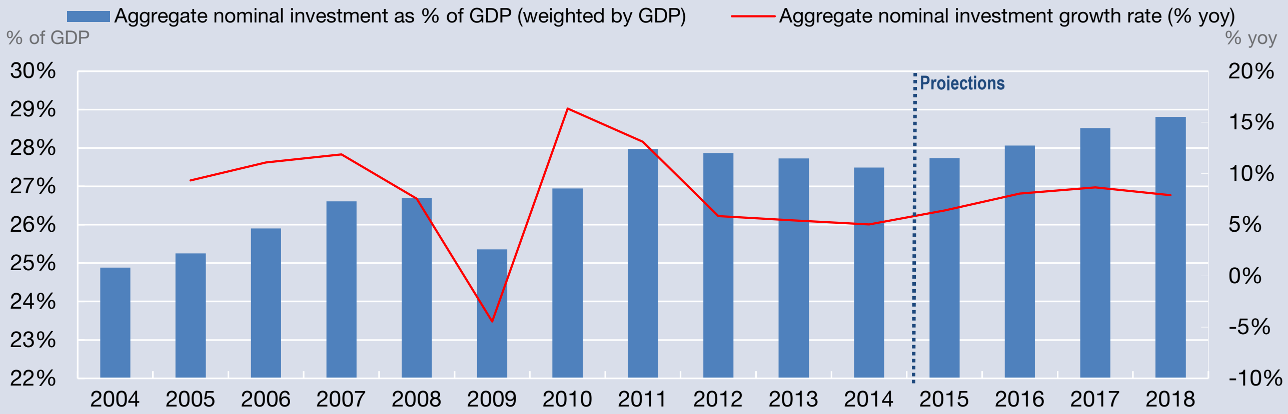

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Source: Country Investment Strategies OECD, IMF World Economic Outlook (October 2015) and OECD staff estimates.

Scope for improvement

There is significant room for progress in several major areas. This can affect the level and nature of investment plans, their respective allocations and their quality.

With respect to investment strategies, the report reveals several avenues for policy actions which G20 members could consider. These include (but are not limited to) the following issues:

- Strengthening the assessment of needs and related relevant cost benefit analysis and an increased focus on quality investment, which while considered as important by most countries, is not necessarily actually implemented by several of them
- Further promotion of the active role of the private sector, including attracting institutional investors and capital markets and developing appropriate financial instruments.
- Addressing insufficiencies in coordination between institutions and plans and the multiplication of duplicative or similar programmes.
- Improving communication about and access to existing programmes, especially for SMEs.
- Ensuring fair practices, transparency and accountability, including through anti-corruption practices and responsible business conduct.
- Facilitating further cross border investment.
- Addressing further the necessity to promote green investment, including investment dealing with disaster risks.
- Improving the project preparation and development process, including project prioritisation, Public Private Partnership modalities, contractual provisions and disclosure and stakeholder (including government staff) expertise.
- Promoting further productivity and innovation, including through R&D programmes.
- Addressing further the SME challenges, including for movable assets, securitisation, financial inclusion/education, informality.
- Addressing the major data gap issues for infrastructure and SMEs at micro and macro levels.
- Evaluating the use of various instruments which have been developed under the aegis of the G20 or other relevant fora.[1]

[1] This includes: the G20 leading practices on promoting and prioritising quality investment, the G20/OECD High-Level Principles on Long-term Investment Financing by Institutional Investors, the G20/OECD Checklist on Long-term Investment Financing Strategies and Institutional Investors, the WBG's Prioritising Projects to Enhance Development Impact, 2015 instruments (such as the IMF guidance on "Making Public Investment More Efficient", the revised OECD Policy Framework for Investment, the OECD Guidelines "Towards a Framework for the Governance of Infrastructure", the OECD Recommendation on Effective Public Investment across levels of Government, the G20/OECD Principles of Corporate Governance, the MDB's Common Approaches to Supporting Investments in Infrastructure, the WBG Infrastructure Prioritisation working paper and Draft Infrastructure Prioritisation Platform, the WBG/OECD Checklist for Public Private Partnership Projects, the WBG Report on Recommended Public Private Partnership Contractual Provisions and Good Practices on Public Private Partnership Disclosure) and others (such as the OECD Codes of Liberalisation and the OECD Guidelines for MNEs).

Next steps

The investment strategies report bears witness to the very large number of initiatives undertaken in G20 countries to promote investment. In addition to providing a unique source of information and analysis, it identifies related areas where further work and action could be undertaken. Based on the current mandates provided by G20 Leaders, Finance Ministers and Central Bank Governors, and the findings from the report itself, future joint G20 work and actions could be developed by the IIWG with the continued support of the OECD and other international organisations. This could include: collecting further comparable data; updating the current survey and expanding its geographical scope; analytical work focusing on specific thematic issues, in particular on infrastructure investment which deserves special consideration; member-led identification and assessment of effective approaches, particularly where further progress is required; better understanding of country approaches and their differences; and consolidation and monitoring of existing instruments.

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