Investing in Long Term Europe: Re-Launching Fixed, Network and Social Infrastructure

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Ladies and gentlemen,

It is my great pleasure to be here with you at today's event covering an important subject in charting the economic future of Europe. I would like to thank our co-organisers, including the Club of Long Term Investors an OECD longstanding partner, for their sterling work. But before presenting the OECD's latest work in this area, and our high-level contributions to the G20, let me take a moment to explain why long-term investment is so fundamental to the pursuit of stronger, greener, fairer growth.

Long-Term Investment: What's the problem?

It is now six years after the Global Financial Crisis, and yet a robust recovery still seems distant; global growth is uneven and halting; unemployment is stubbornly high in some regions. Here in Europe, low growth forecasts and the spectre of deflation cast a long shadow, while new global risks gather on the horizon: the build-up of debt in emerging economies, the return to bullish risk-taking in global financial markets, and rising geo-political tensions in Eastern Europe and the Middle East.

Responsible macroeconomics, accommodative monetary policies, and fiscal consolidation have all borne important fruit, but there are now fewer arrows left in the quiver of Keynesian economic policy to stimulate growth. Now it is time to focus on a strong recovery. What is perhaps the brightest spot for the future is investment: a light that has the potential to guide the Eurozone back to prosperity.

The enabling environment for long-term investment requires improvement, as investor confidence may be hampered even when necessary financing is available. The OECD's *FDI Regulatory Restrictiveness Index* indicates for instance that ownership restrictions on foreign investment in utility sectors such as energy and transport, which are particularly well suited to long-term investment, remain high in most OECD countries. More could also be done to level the playing field between state-owned enterprises and private investors in terms of their ability to seize investment opportunities.

Ongoing delays and uncertainty surrounding the international trade and investment agenda may be impeding investment as well. Mega treaties such as the Transatlantic Trade and Investment Partnership (TTIP) could enhance trade and investment liberalisation, but current criticisms on Investor State Dispute Settlement are delaying the conclusion of the agreement, adding more uncertainty to an already volatile environment.

We consider investment to be the very backbone of the economy, and a critical ingredient for growth – infrastructure is a prime example. Yet global flows of foreign direct investment remain 40% below their pre-crisis levels

The impact of smart investment goes beyond the economy. Investing in infrastructure, especially social infrastructure, can connect communities, helping strengthen society and the sense that the economic system works for people.

The announcement of the Juncker Plan, which we will certainly hear more about today, is the type of initiative that is needed to breathe life into the Eurozone economy and to improve competitiveness. Mobilizing private capital, the subject of today's conference, can lay the foundations for Europe's future, while creating thousands of jobs in the near-term. Furthermore, promoting an agenda of green investment can underpin the needed transition to lower-carbon economies. So, the returns are not only financial, but economic, social and environmental too!

Ultimately, we need to see a 'comeback' in both domestic and cross-border long-term investment if we are to see a sustained and durable recovery. Let me share with you some of our views, and some of our recent work with the G20 on Long-Term Investment.

LTI: What's the solution, and what are the G20 / OECD doing to help?

The G20's Brisbane Action Plan just launched a few weeks ago stresses the need to mobilise long-term investment by institutional investors, who have over USD 92 trillion in assets under management in the OECD alone. This amounts to a staggering 2.0 times the size of the OECD economy, up from 1.4 times 12 years ago. Put another way, institutional savings have never been higher. The Brisbane Action Plan also recognises that improving the domestic investment climate is "essential to attract new private sector finance for investment", highlighting the urgent need to address impediments to investment, such as FDI restrictions and market access barriers.

Despite the large growth in institutional investor assets, there are numerous barriers to long-term investment. Based on a recent OECD survey of large pension funds, you will hear more about it today, regulatory uncertainty is a top concern. But, they also have to negotiate an often difficult or unpredictable business climate; a lack of profitable and "bankable" projects or appropriate financial vehicles; and an information gap: matching investments with investors that align the interests of both parties.

Last year, G20 Leaders last year endorsed the ***OECD High-Level Principles on Long Term Investment Financing by Institutional Investors,*** developed by a dedicated G20/OECD Task Force. These High-Level Principles set out policy recommendations aiming to mobilise institutional investor assets for long-term investment without diluting prudential safeguards.

This year, the OECD has moved hand in hand with the G20 economies **"from solutions to actions"** to operationalise the ***High-Level Principles*** developing Effective Approaches to the Principles, and a **voluntary checklist** to assist governments in self-assessing their support schemes for long-term investment finance. This work to continue in 2015 is supporting the new **Global Infrastructure Hub**, launched at the G20's Brisbane Summit,

LTI: What are the next steps?

Going forward, the OECD will prioritise policy efforts to support capital market development as a means of unlocking pools of alternative, non-bank sources of finance for long-term investment. We shouldn't lose sight, however, of the still important role of banks in financing growth. Traditional sources of credit are still repairing their balance sheets after the financial crisis, while more stringent lending standards can also constrain credit, particularly for SMEs. We need to get the balance right!

Next year, the OECD will work with the Turkish G20 presidency both to deepen and broaden the analysis on LTI financing. This work will include a comprehensive taxonomy for infrastructure financing that covers the wide range of both financing options and risk mitigation methods.

The OECD also stands ready to work with the G20 Turkish Presidency on developing indicators on the enabling environment for long-term investment. This can build on the critical mass of country experiences that the OECD has gathered in applying its Pol*icy Framework for Investment* since 2007, to be presented to you tomorrow. On infrastructure investment in particular, this wealth of experience has led the G20 to request the OECD to elaborate, together with MDBs, indicators to help countries further mobilise infrastructure investment through domestic policy reform.

In Brisbane, the G20 leaders were also clear in calling for better networks for sharing ideas. To this end, the OECD continues to work closely with the private sector, notably with institutional investors, and has just launched a large and growing **Network of Investors** including the Club of LTI and Cassa Depositi and Prestiti as part of the OECD Long Term Investment project.

Ladies and Gentlemen:

If we are to turn High Level Principles into tangible results, we need to forge a close partnership with the institutional investor community while advancing the long-term investment agenda with governments.

This conference provides an excellent opportunity for us to work together to address the challenges we are facing today

Thank you!