



INSTITUTIONAL BARRIERS HAMPERING INVESTMENT AND HOW TO OVERCOME THEM

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#EU60

Outline


1. Barriers hampering investments
2. Cost Benefit Analysis, investments and decision-making process
3. The Jessica programmes: the Italian experience

I Part

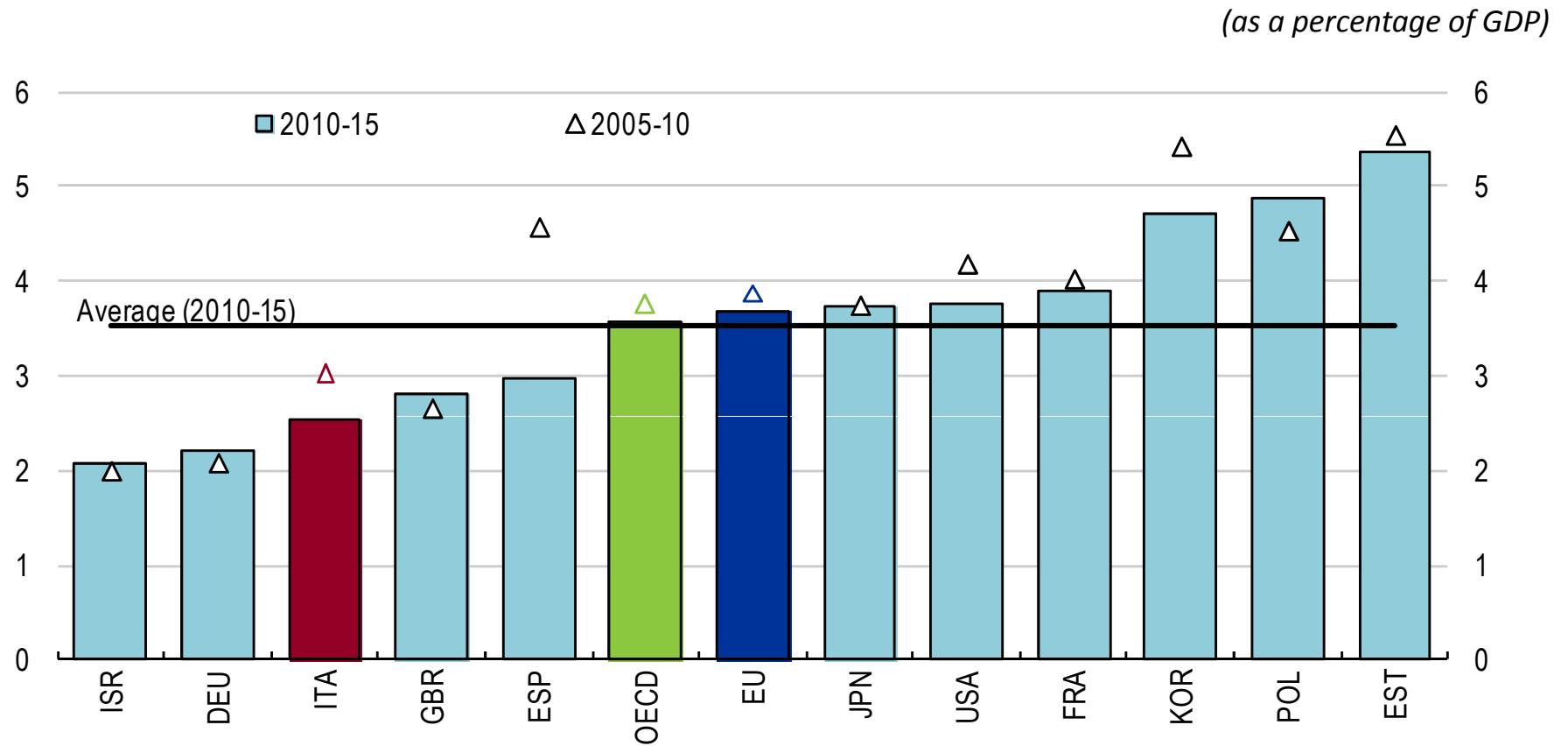
Barriers hampering investments



Widely acknowledged facts and results

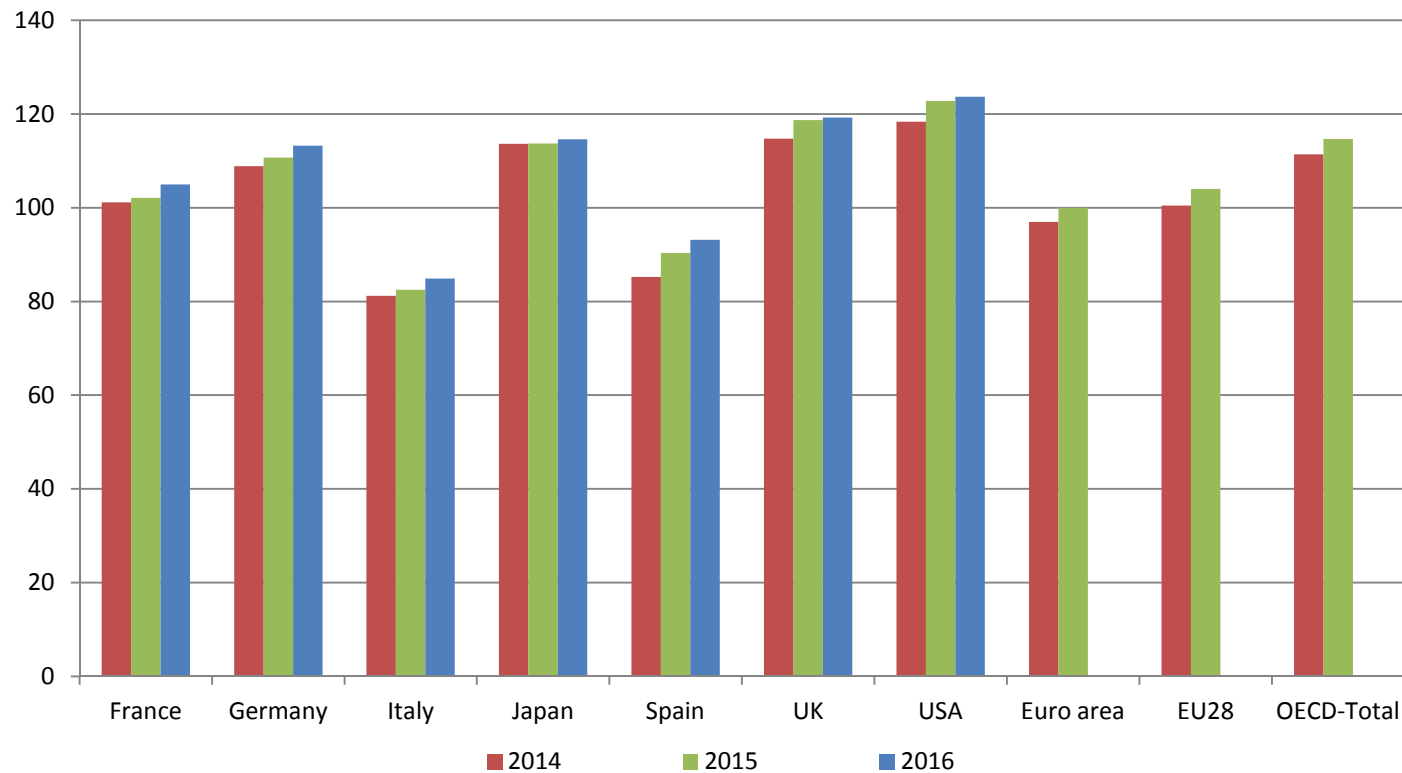
- The effect of public investment on growth is sizeable
 - Strong decline in public investment following the crisis
 - The level of investment is below pre-crisis level for many EU countries
 - Subnational governments are key actors for public investment
- 
- It's crucial to remove barriers hampering investments

Public Investment on GDP (2005-2015)



Source: OECD, Economic Outlook Database. [Statlink](#).

Gross fixed capital formation, volume (2014-2016)



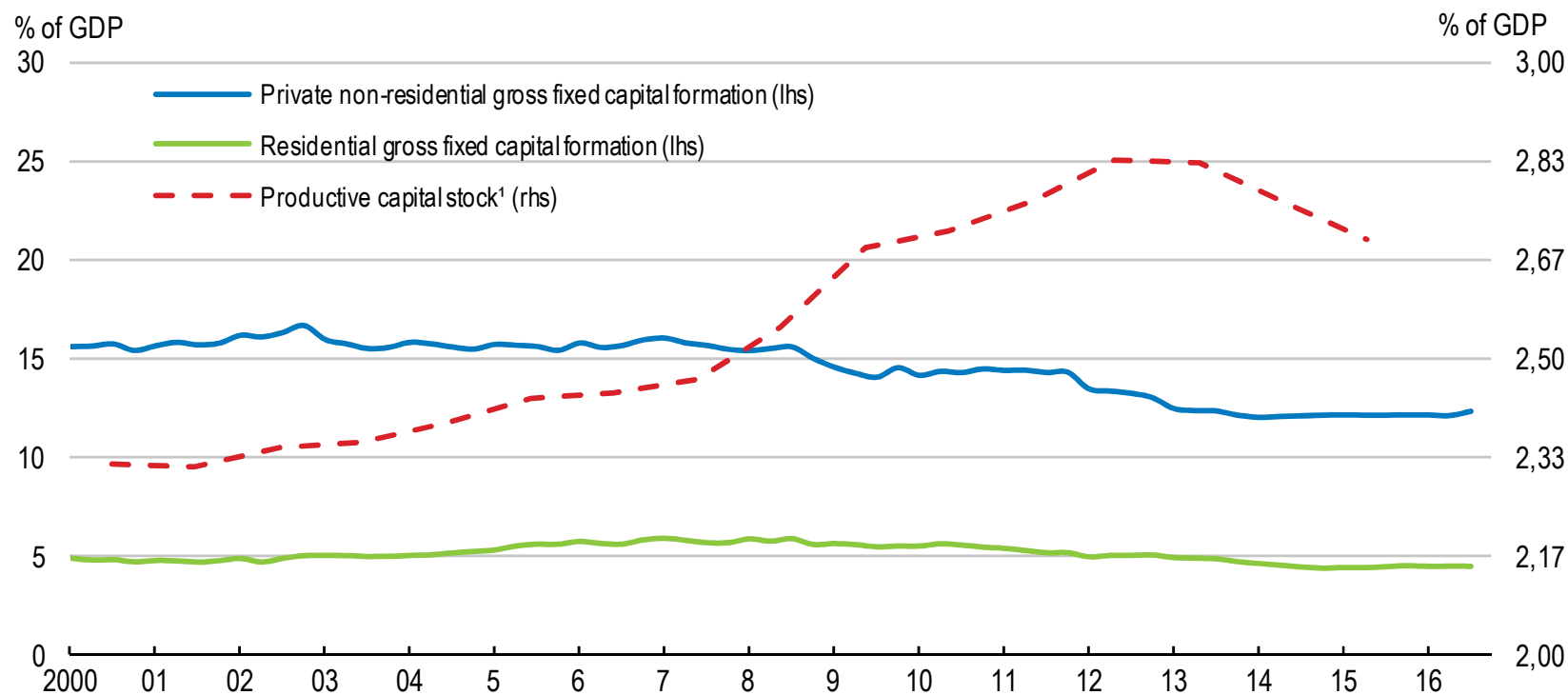
	2014	2015	2016
France	101,1	102,1	105,0
Germany	108,9	110,7	113,2
Italy	81,2	82,5	84,9
Japan	113,6	113,7	114,6
Spain	85,2	90,4	93,2
UK	114,8	118,7	119,3
USA	118,4	122,8	123,7
EU	97,0	100,0	..
EU28	100,5	104,0	..
OECD	111,4	114,7	..

Provisional data

(2010=100, seasonally adjusted)

Source: Quarterly national accounts,
OECD National Accounts
Statistics (database)

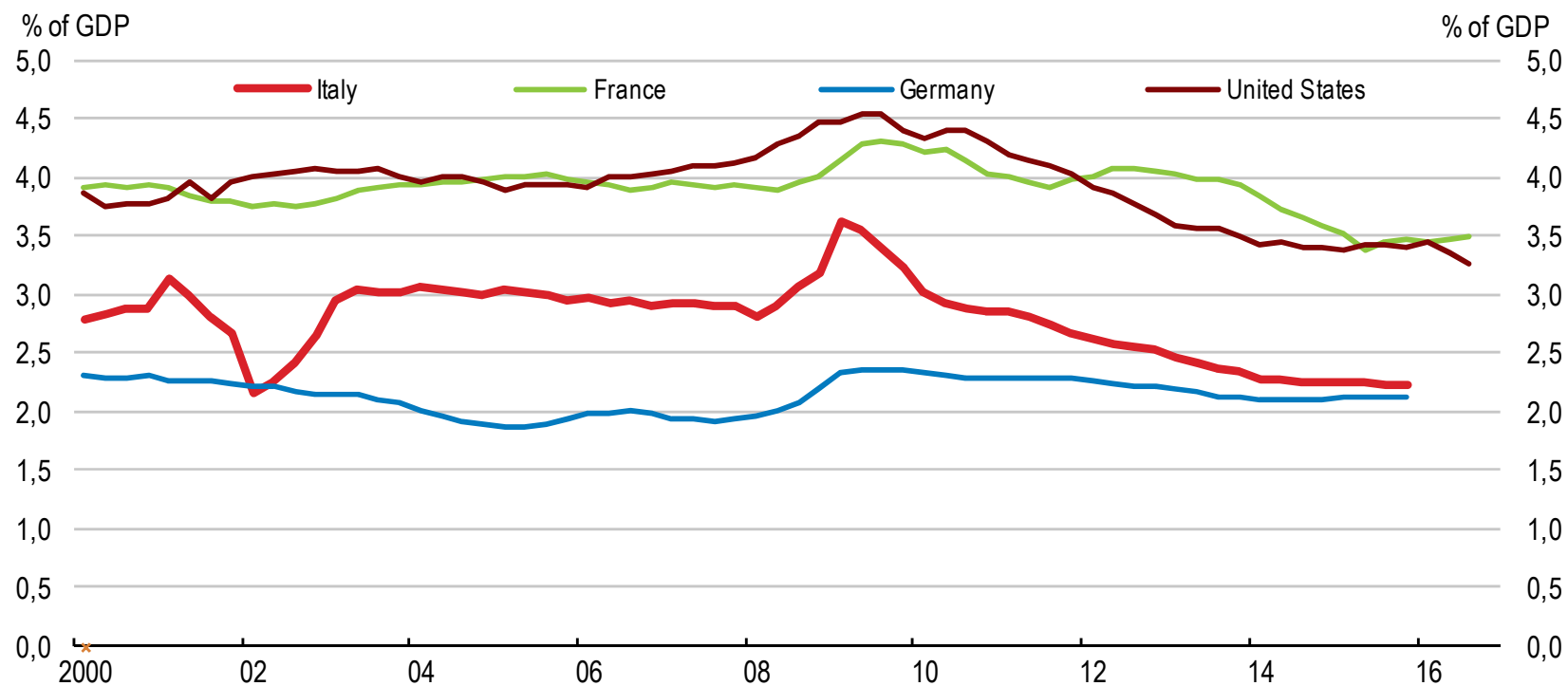
Investment and the productive capital stock



¹ Total economy less housing.

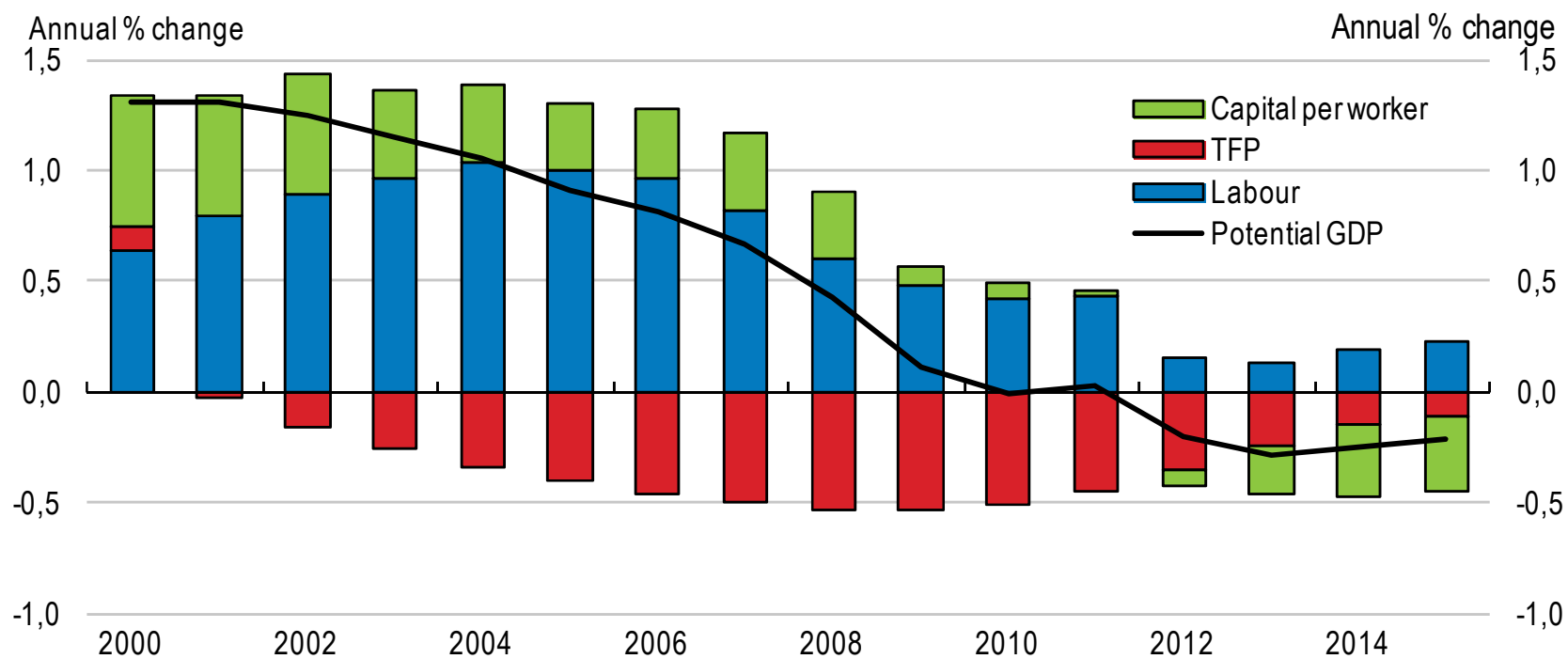
Source: OECD Analytical Database; and OECD, National accounts database. [Statlink](#).

Government fixed capital formation

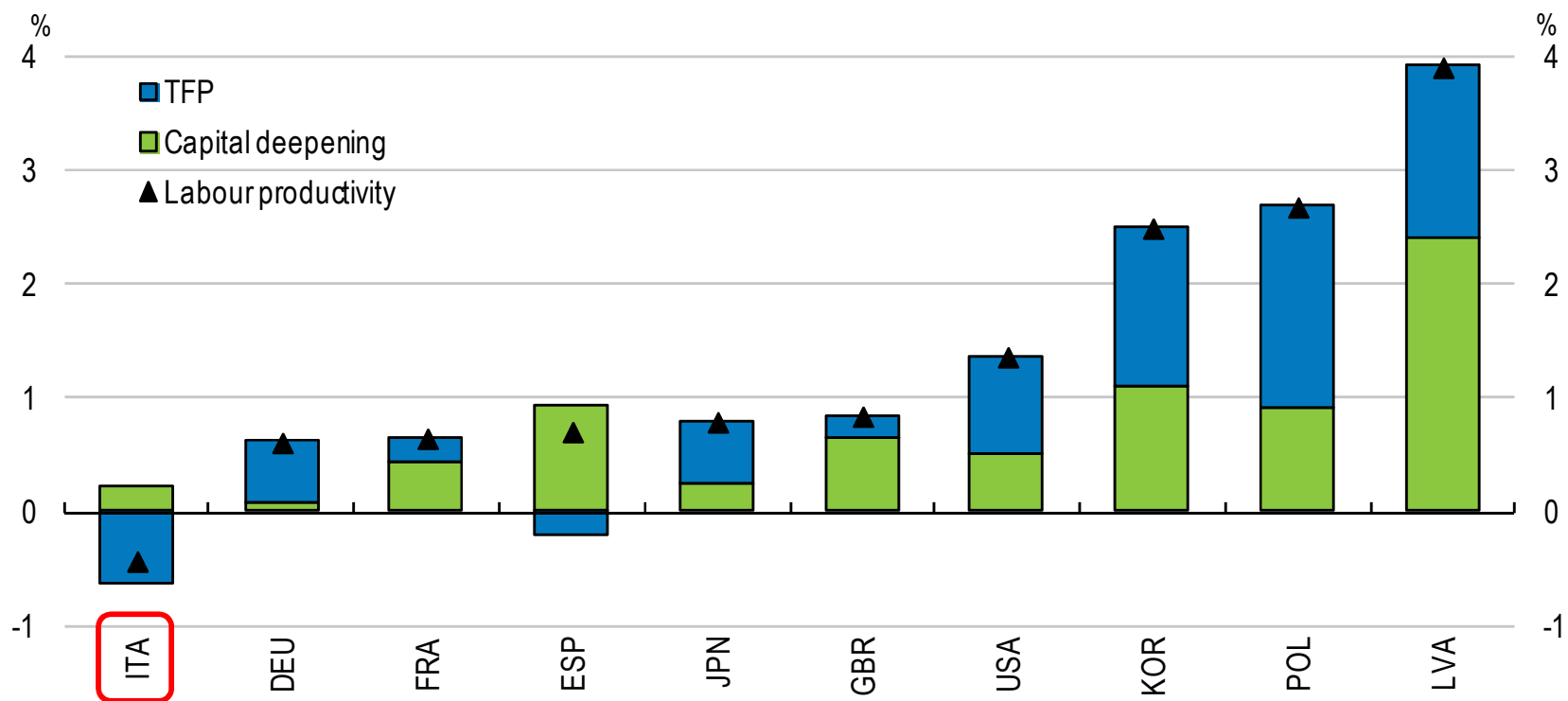


Source: OECD Analytical Database; and OECD, National accounts database. [Statlink](#).

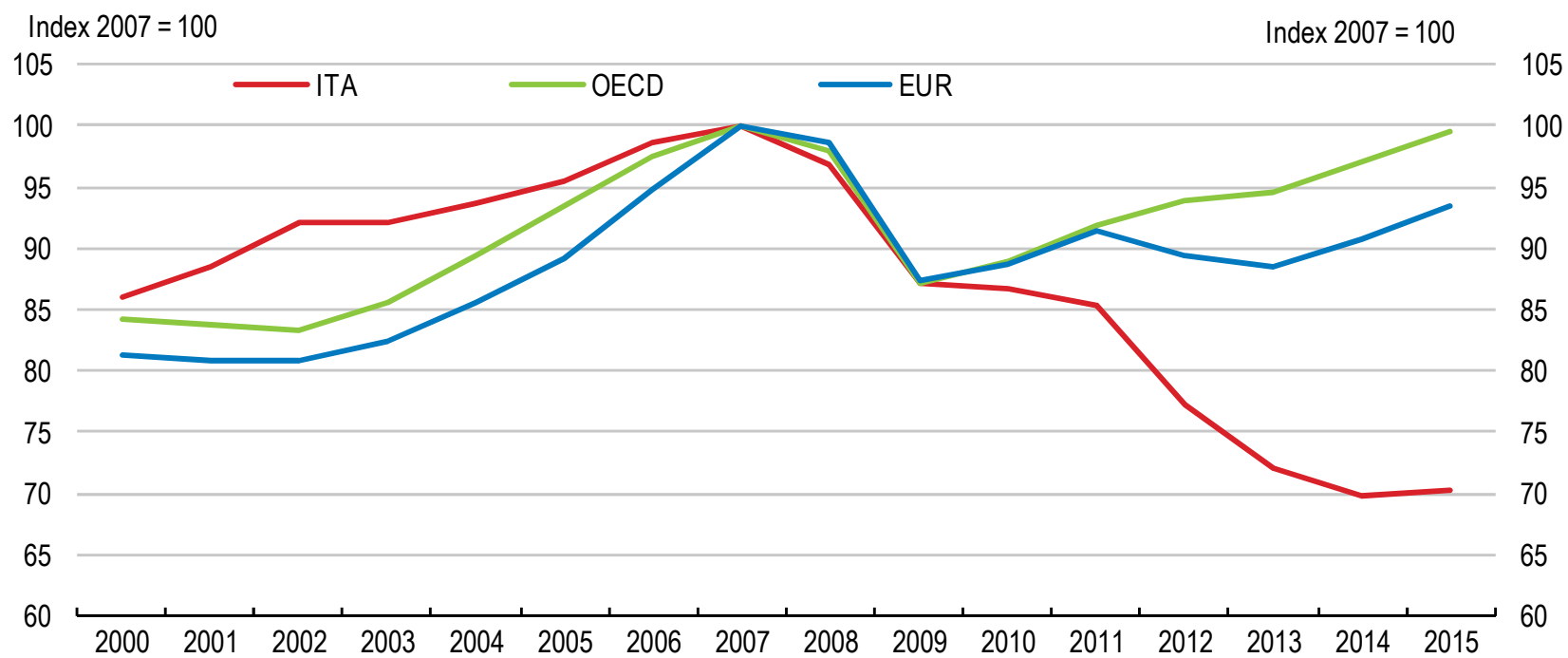
Potential output decomposition



Decomposition of labour productivity growth



Real investment



Barriers affect investments differently

- According to the:
 - Nature of Investment
 - Sector/market
 - Subject
 - Countries/business environment

How do barriers affect investments?

- cost of investing
- risks of investments
- level of competition
- Six categories of barriers
 - Regulation
 - Legal and judicial system
 - Market size and structure
 - Public-sector promoter constraints
 - Access to finance
 - Human resources

Macroeconomic conditions (fiscal and monetary policies)

	Costs	Risks	Barriers to competition
Regulation	Regulatory burdens and administrative procedures; regulatory fragmentation	Regulatory uncertainty	Barriers to market entry and exit; incentives in regulated sectors (e.g. utilities)
Legal and judicial system	transaction and litigation costs	Legislative uncertainty; weak enforcement	Barriers to market entry and exit
Market size and structure	Market fragmentation	Lack of standards	Implementation of competition law and policy
Public-sector promoter constraints	Infrastructure, public sector efficiency and capacity	Weak planning and project preparation capacity	Possible unintended consequences of public procurement procedures
Access to finance	Cost of finance	Financial instability, unavailability of instruments to allocate risk	Limiting entry into new product and geographical markets
Human resources (labour market & educational system)	Cost of qualified and skilled resources	Education-job, skill and qualification mismatches; retaining trained workers	Obstacles to competition of labour market restriction

International trade and capital movements



Solutions

National governments should:

- set priorities in I. strategies
- develop coordination platforms to foster joint I. by subnational governments
- clarify competencies

Subnational governments should:

- improve medium-term planning, adopt multi-year horizon
- define credible enforcement mechanisms
- improve their capacities in handling public I.

Solutions

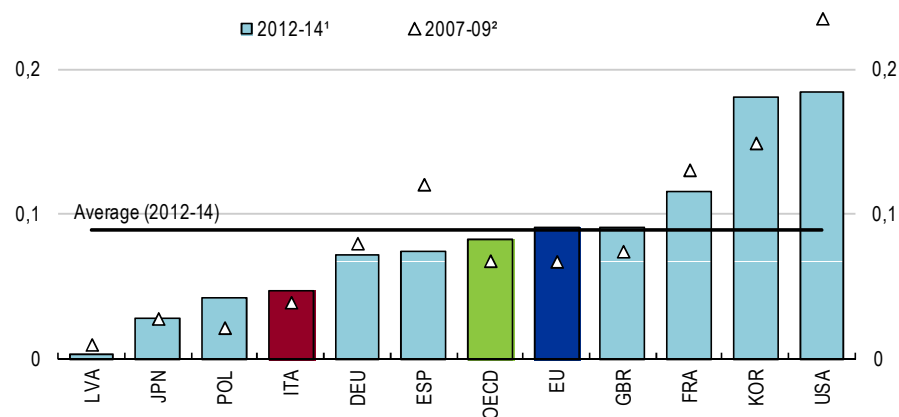
- Coping with regulatory uncertainty
- Access to finance
- Exploit Public Private Partnerships

Tangibles vs. intangibles investments: crucial points

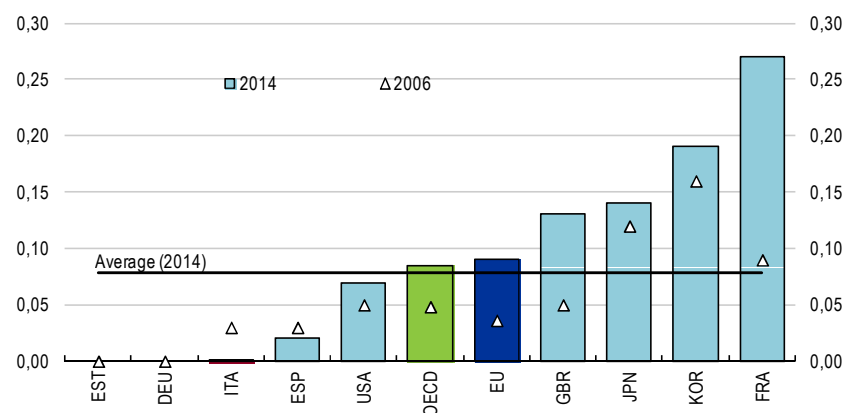
- Importance of intangibles I. for the knowledge-based economy
- Role of intellectual property rights law
- Access to finance for firms
- Well-designed framework policies
- Forward-looking education policies
- R&D activities

Financial support for private R&D investment

A. Direct public funding of business R&D (% of GDP)



B. Indirect public support through R&D tax incentives³



¹ Average of years 2012 and 2013 for France, Italy and the United States; 2014 for Latvia.

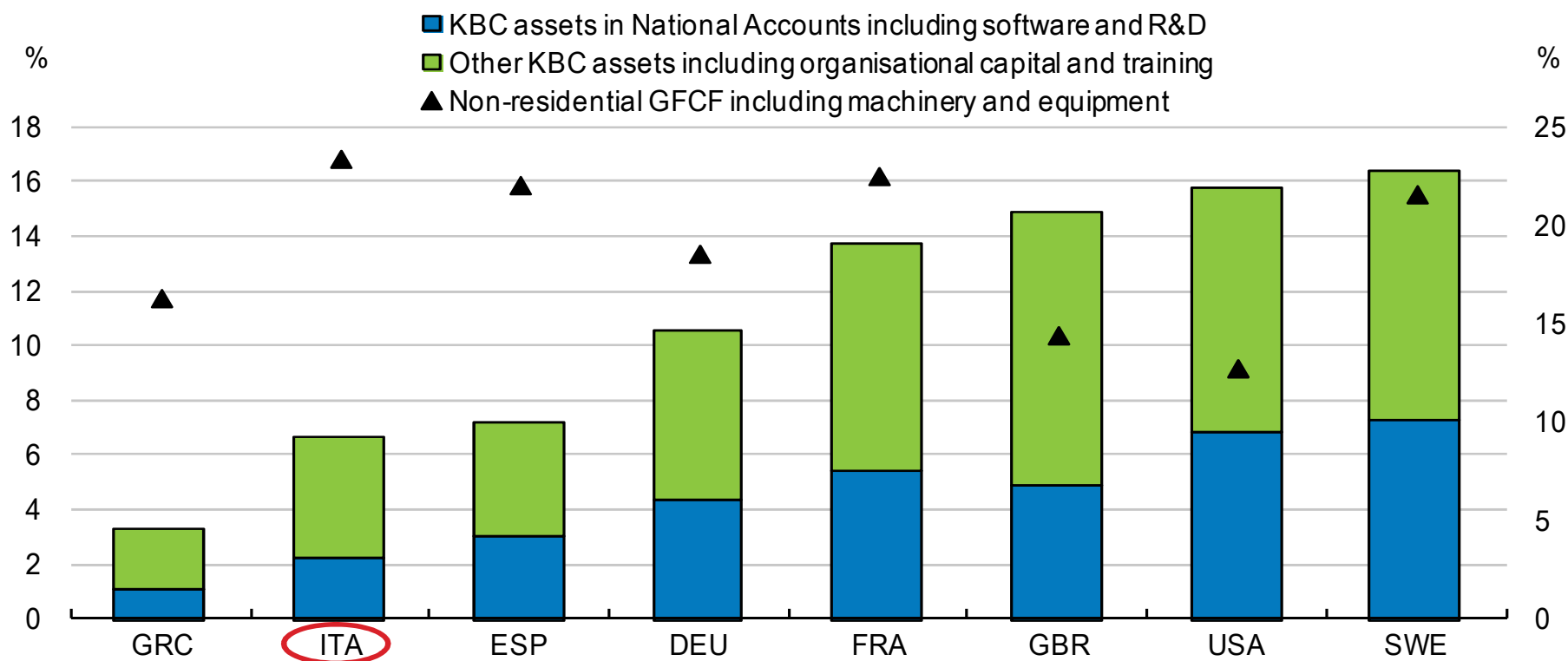
² Average of years 2007 and 2009 for Poland; 2006 for Latvia.

³ The last available year is 2013 for France, Italy and the United States. Instead of 2006, data refer to 2007 for Italy, Korea and Sweden.

Source: Adapted Panel A: OECD, Science and Technology Indicators Database; Panel B: OECD, R&D Tax Incentives Database, www.oecd.org/sti/rd-tax-stats.htm, December 2016. [Statlink](#).

Business investment in fixed and knowledge-based capital

(as a percentage of business sectors' gross value added)



Source: OECD Science, Technology and Industry Scoreboard 2015; OECD calculations based on INTAN-Invest data, www.intan-invest.net and OECD, Structural Analysis (STAN) Database, <http://oe.cd/stan>, June 2015. [Statlink](#).

II Part

Cost Benefit Analysis, investments and decision-making process



Reasons of the distance between decision-makers & CBA

1. Projects' evaluation, in Italy, is mandatory (but weak enforcement)
2. CBA is a complex tool
3. Decision makers do not look only to economic efficiency
4. CBA may be, in practice, useless if opinion is already formed, or decision is already taken ("pet projects")
5. Decision makers do not share the theoretical foundation of CBA

“Putting into contact” decision makers and CBA

1. Employ CBA smartly, bring it closer to the decision maker
2. Adopt policy makers' point of view
3. Distributive analysis
4. The CBA in decision-making process
5. Improving "communication" of CBA
6. Building public acceptance
7. CBA must be carried out during the planning phase for comparing alternatives but also for a better understanding of objective and desired outcomes

Coping with arbitrariness

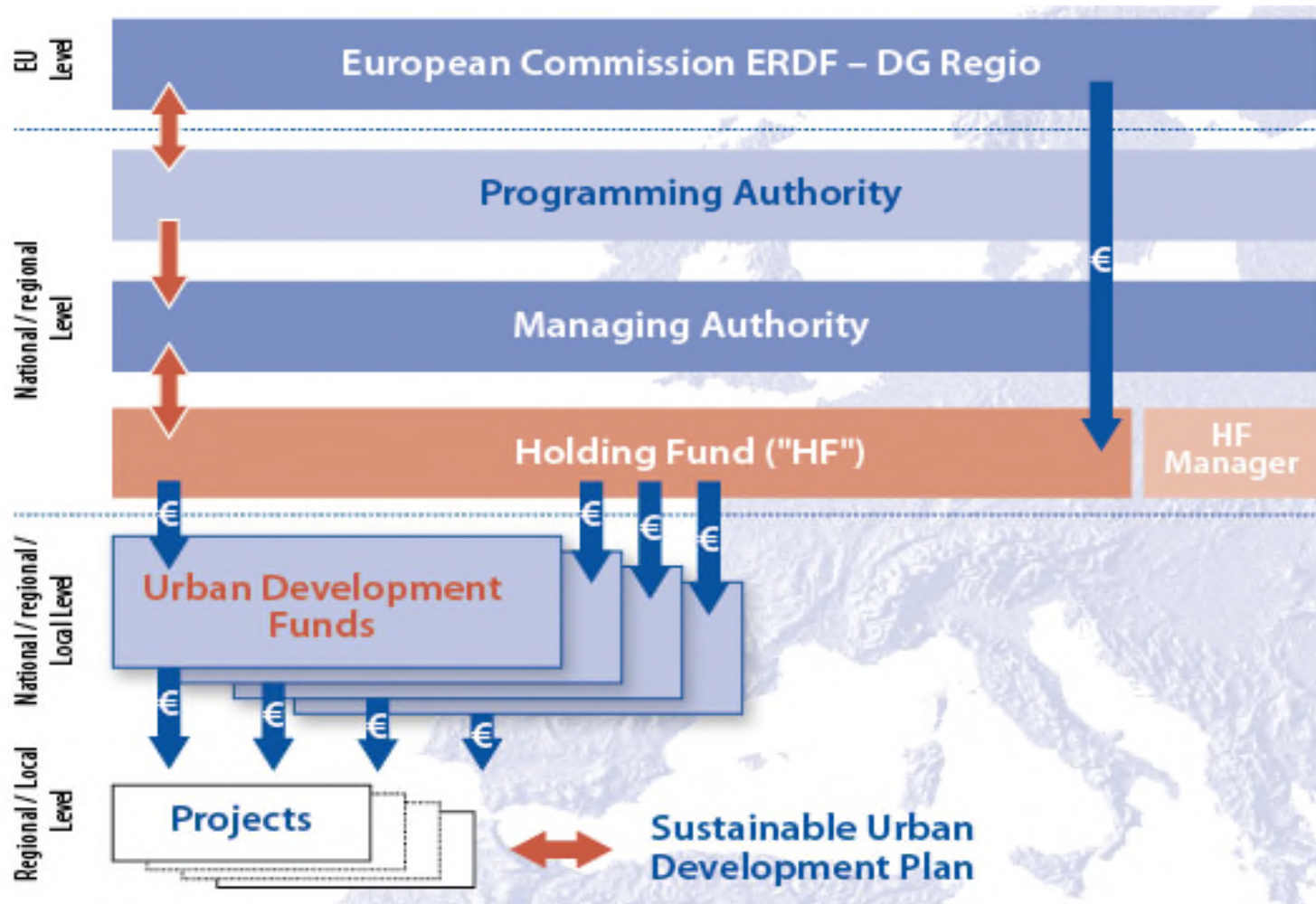
- Assessment tools are used, by their nature, to reduce the arbitrariness of decisions;
- Political decisions still have a component of arbitrariness that is related to the personal responsibility of the decision maker
- Solutions:
 - define a threshold of “unacceptability”
 - consider all the priority projects
 - allocation between intermediate projects
- The [Guide to Cost-Benefit Analysis](#) (obligatory for all major projects submitted to ESIF 2014-2020 [LINK](#))

III Part

Jessica programmes: the Italian experience



Financial instruments and Fund JESSICA



Pros and Cons (1)

Main benefits are:

- Leveraging
- Public resources invested on the most efficient projects
- Funded projects are financially sustainable
- Greater awareness
- More effective processes of projects selection
- Availability of resources
- Capacity building (mixed)

Pros and Cons (2)

Weaknesses at regional level

- absence of a medium/long term strategic program
- focusing on new projects not in line with the timing of JESSICA funds
- long lasting planning strategies that delay the inclusion of financial instruments (like Jessica) within regional operational programme

Weaknesses at municipal level

- difficulties in adopting an investment planning coherent with the planning of financial instruments
- reimbursement of financial resources

Pros and Cons (3)

Critical issues:

- Timing of implementation
- Insufficient progress in the evaluative expertise
- Modest private participation
- PPP as purely substitute of the more

Pros and Cons (4)

- Institutional fragmentation
- Uncertainty on local budgets resources
- Insufficient analysis of project alternatives

The way out: a Guide to the Feasibility Studies for the PPP

The Guide was made operational through the engineering of an executable application (*Web application*) useful to:

- evaluate *ex ante* the financial and economic feasibility of investments
- order on an economic merit criteria other potential projects or project alternatives
- assess the financial and economic feasibility of projects consist of a set of works
- Link: <http://sdf.irpet.it/login>

Financial instruments' success factors

- The financial instruments and their use within the 2014-2020 cycle are moving in the right direction.
- **Critical success factors** are:
 - adopting multiannual investment strategy
 - breaking down fragmentation
 - supplying technical assistance to local administrations
 - using evaluation tools
 - reducing the time to market of investments
 - engaging private investors
 - exploiting PPP's potential

Conclusions

- Tackle weak strategic planning and project definition
- Periodically review needs and forecasts
- Promote the culture of evaluation
- Standardize processes and provide guidelines
- Improve project selection relying on objective and transparent criteria
- Support local administration in building capacities
- Exploit synergies between tangibles and intangibles, as well as within the same asset types

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Thank you

Any comment or suggestion is welcome: renato.loiero@senato.it



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