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G20 Enhanced Structural Reform Agenda

Prepared by the G20 Framework Working Group

Introduction

Structural reform has been a priority for the G20 and a key part to achieving the G20's goal of strong, sustainable and balanced growth. It is an important driver of growth over the long term, and can support confidence, demand and growth in the short term especially when used in conjunction with macroeconomic policies. G20 Finance Ministers and Central Bank Governors are committed to using **"*all policy tools – monetary, fiscal and structural – individually and collectively" to "strengthen growth…foster confidence and preserve and strengthen the recovery*"**.

Given the critical role played by structural reform, it is important to ensure that members' efforts in this area are ambitious, relevant, focused and effective. This underlies the motivation for the development of an enhanced structural reform agenda, which is a priority for the G20 in 2016. In this context, Finance Ministers and Central Bank Governors "***committed to further enhancing the structural reform agenda, including by developing a set of priorities and guiding principles as a reference for G20 reform efforts, as well as by creating an indicator system to further improve assessing and monitoring of the progress of structural reforms and their adequacy to address structural challenges, taking into account the diversity of country circumstances. This enhanced structural reform agenda will be incorporated into the existing work stream under the Framework for Strong, Sustainable and Balanced Growth***".

This paper sets out the details of the G20's enhanced structural reform agenda as developed this year by the G20 Framework Working Group for Strong, Sustainable and Balanced Growth.

Priorities

As endorsed by Finance Ministers and Central Bank Governors in April 2016, the nine areas identified as structural reform priorities for the G20 are:

- Promoting trade and investment openness
- Advancing labour market reform, educational attainment and skills
- Encouraging innovation
- Improving infrastructure
- Promoting competition and an enabling environment
- Improving and strengthening the financial system
- Promoting fiscal reform
- Enhancing environmental sustainability
- Promoting inclusive growth

It should be noted that the specific priority areas making up the structural reform agenda will differ from country to country, and countries will focus on those priority areas that are of greatest relevance to their reform agendas. As the IMF has noted in its paper entitled "A Framework for Structural Reforms:

Priorities and Guiding Principles", the identification of reform priorities begins with an assessment of the country's structural policy gaps as this will indicate where reforms are likely to have the largest impact in terms of boosting growth. The choice and design of specific structural reforms must necessarily be informed by a country's macroeconomic environment and national preferences. This includes taking into account the country's income level, its position in the economic cycle and its policy space for reforms.

Guiding Principles

The guiding principles for each of the nine priority areas are listed as follows:

Promoting trade and investment openness

- Reduce tariff and non-tariff barriers to trade
- Reduce barriers and restrictions to foreign direct investment
- Implement trade facilitation measures to reduce border costs
- Reduce, as appropriate, behind-the-border restrictions on trade and investment and seek greater cross-border harmonisation
- Reduce barriers to trade and investment through multilateral as well as plurilateral and bilateral agreements while minimising the discriminatory measures against third parties

Advancing labour market reforms, educational attainment and skills

- Reduce barriers to the labour force for groups with low participation rates such as women, youth and older workers
- Expand and improve the effectiveness of active labour market policies
- Rebalance protection from jobs to workers and reduce labour market duality and informality
- Improve access and efficiency of vocational education and training, tertiary education, skilling and reskilling
- Improve educational outcomes through widening access and raising quality of early childhood, primary and secondary education
- Promote quality job creation and enhance labour productivity

Encouraging innovation

- Ensure and sustain research and development expenditures
- Raise effectiveness and efficiency of research and development and innovation support policies
- Strengthen collaboration between research institutions/universities and industry
- Improve international research cooperation
- Improve access to early-stage venture capital

Improving infrastructure

- Raise the quality of public infrastructure investment (while ensuring sufficient financing for infrastructure and infrastructure maintenance) and promote private sector participation including through the use of Public-Private Partnerships (PPPs)

- Raise the efficiency of regulatory approval processes for infrastructure projects, while ensuring transparent bidding processes
- Promote the use of cost-benefit and value-for-money analysis, possibly supplemented by multi-criteria analysis, for public infrastructure projects
- Reduce institutional and regulatory barriers for long-term investment financing by institutional investors and promote new financial instruments while ensuring financial stability

Promoting fiscal reform

- Promote sustainable and comprehensive social protection programs which are supported by growth-friendly tax/contribution and expenditure measures
- Broaden the tax base and phase-out inefficient tax expenditures
- Prioritise growth-friendly expenditure, preserve productive public investment and improve efficiency in spending
- Improve the transparency and efficiency of tax collection
- Improve the efficiency of public administration and public service delivery
- Strengthen the role of fiscal frameworks, rules and institutions
- Focus on fighting tax fraud and tax evasion

Promoting competition and an enabling environment

- Strengthen competition law and enforcement
- Reduce administrative and legal barriers to starting and expanding a business
- Promote a level playing field for market competition
- Implement efficient bankruptcy procedures
- Reduce restrictive regulations that impair competition, lessen the excess burden of regulatory compliance and apply sound oversight of regulatory policy
- Enhance the rule of law, improve the efficiency of the judicial system and fight against corruption

Improving and strengthening the financial system

- Ensure financial stability
- Support growth, enhance competition and innovation while maintaining prudential objectives
- Ensure that the institutional framework is conducive to market finance, while ensuring financial stability and investor protection
- Improve and strengthen access to both traditional bank financing and innovative sources of finance, while ensuring financial stability
- Prevent systemic risks inherent in activities of financial institutions; strengthen macroprudential policy framework

Enhancing environmental sustainability

- Extend the use of market-based mechanisms to mitigate pollution and increase resource efficiency
- Promote the development of clean and renewable energy and climate-resilient infrastructure

- Promote the development and deployment of environment-related innovations
- Improve energy efficiency

Promoting inclusive growth

- Improve equality of opportunity by reducing barriers to employment and improving outcomes in education and training
- Expand coverage and enhance efficiency of pre-school, primary and secondary education
- Provide social transfers and income redistribution programs that are well targeted and designed in a growth- and employment-friendly way
- Promote financial inclusion and financial literacy
- Reduce barriers to gender equality, particularly with respect to education, employment and entrepreneurship
- Adopt measures to mitigate the possible adverse impact of certain pro-growth policies on inequality

As outlined by the OECD, principles provide useful, high-level guidance to members when considering reforms in a given priority area. It is important to note that the principles above are intended to be used on a voluntary basis. They are non-binding and non-prescriptive, as they do not necessarily apply to all countries planning to undertake reforms in the nine priority areas discussed above. G20 members recognize that a balance needs to be struck between different principles when undertaking reforms within a priority area.

The priorities and guiding principles may be used by members to help guide future policy reform efforts, including in the context of updating their growth strategies. In 2016, members have been encouraged to utilize, on a voluntary basis, the nine priority areas in discussing new structural reform policies in their 2016 growth strategies.

Quantitative Framework: Indicator System

As indicated above, the development of an indicator system to enhance the assessment and monitoring of the progress and effectiveness of G20 members' structural reform efforts and their adequacy to address structural challenges is an important component of the enhanced structural reform agenda. Following extensive discussions and with the support of international organizations, particularly the OECD, members of the Framework Working Group have agreed on the following common set of core indicators for the quantitative framework. This set of core indicators is intended to complement rather than duplicate the indicators already used in the G20 Accountability Assessment Report as well as the IMF's Update of Staff Sustainability Assessment, developed through the G20 Indicative Guidelines.

<table>
<tr><th rowspan="2">G-20 Structural Reform Priorities</th><th colspan="3">Structural Indicators[1]</th></tr>
<tr><th>Policy indicator[2]</th><th colspan="2">Outcome indicator[3]</th></tr>
<tr><td>Promoting trade and investment openness</td><td>Implicit barriers to trade and investment
OR*
Trading across borders</td><td></td><td rowspan="5">Labour productivity</td></tr>
<tr><td>Promoting competition and an enabling environment</td><td>Barriers to entrepreneurship
OR*
Starting a business</td><td></td></tr>
<tr><td>Encouraging innovation</td><td>Public funding of business R&D (share of GDP)
AND
R&D tax incentives (share of GDP)</td><td>OR* Total spending on R&D (share of GDP)</td></tr>
<tr><td>Improving infrastructure</td><td>Public Investment (share of GDP)
OR*
Investment (share of GDP)</td><td></td></tr>
<tr><td>Advancing labour market reform, educational attainment and skills</td><td></td><td>Employment to population ratio</td></tr>
<tr><td>Promoting inclusive growth</td><td></td><td colspan="2">Shared Prosperity Premium
OR*
Gini coefficient</td></tr>
</table>

*Members choose either one of the two indicators.

The annex provides further information from the OECD and World Bank Group on each of these indicators.

It is expected that this indicator system will evolve over time to enhance its comprehensiveness, in particular to include additional indicators to cover other priority areas.

With respect to data sources, the indicators make use only of data that is already publicly available. In most cases, international organizations will be the main source of data for the above indicators, and international organizations will discuss with members where significant inconsistencies or substantial data gaps as compared with national data sources exist. In those few cases where the international organizations do not currently collect the data on an indicator for a member, the member may propose an alternative indicator for which they collect the data. Members' proposed alternative indicators

[1] A key objective for the use of the indicators is to provide a reference in the assessment and monitoring of the progress of structural reforms and their adequacy to address structural challenges under the G20 process, as appropriate. Use of these indicators within the G20 does not necessarily represent national positions in occasions other than the G20.

[2] According to the OECD, policy indicators are essential for capturing the role that structural reform has on economic outcomes.

[3] According to the OECD, outcome indicators reflect economic developments that can be driven by many other factors not controlled by policy makers.

should be appropriate for assessing the priorities and would require discussion with international organizations on the overall comparability with the missing common indicators.

Usage of Indicators

As mentioned, a key purpose of the development of the indicator system is to help assess and monitor the progress of G20 structural reforms and their adequacy to address structural challenges, taking into account the diversity of country circumstances. In this context, the OECD will produce a technical report, with input from other international organizations, using the common set of indicators to help assess G20 progress and challenges within the structural reform priority areas. The report will consist of two components:

1. An assessment of the G20's collective structural reform efforts in the priority areas drawing on the data on the indicators and supplemented by other publicly available information specifically for those priority areas with no agreed-upon indicators.
2. A description of individual members' data on indicators presented using a dashboard approach.

Relevant information from the G20 growth strategies, including the peer reviews, and the OECD technical report will feed into the annual G20 Accountability Assessment Report as appropriate. Dashboards consisting of a series of charts for each member could be included in the Accountability Assessment Report. The charts would illustrate the member's changes against each of the indicators over time.

The frequency of the OECD technical report will be every two years to coincide with the IMF's Update of Staff Sustainability Assessments based on the G20 Indicative Guidelines, beginning in 2017. Data available in 2016 will form the benchmark for each of the indicators and will be used to produce the technical report in 2017 going forward.

It is important to note that national circumstances will need to be reflected in the discussion of the results of the indicators. It is also understood that not all countries will necessarily be pursuing reforms in all priority areas at the same time. While the indicators will be presented in a dashboard approach, these are not meant for cross-country comparisons, but rather to demonstrate developments at the member level over time.

Furthermore, members may use additional policy and outcome indicators of their own choosing and give their own quantitative assessment of expected growth impact of reforms within their growth strategies as well as during the peer review process, to enhance the analysis of structural policy challenges as well as to monitor the progress of structural reforms. Members may use their own data sources for these additional indicators.

Conclusion

Structural reforms play an essential role in boosting productivity and potential output as well as fostering inclusive growth. The G20's enhanced structural reform agenda, comprising the priority areas, their guiding principles and the indicator system, demonstrates the G20's commitment to the implementation of effective and impactful structural reforms as part of its efforts to foster strong, sustainable and balanced growth. An increased focus on implementing structural reforms will help bolster potential growth and make G20 economies more innovative, strong and resilient.

The Framework Working Group will look for opportunities to continue to improve the G20's enhanced structural reform agenda. This enhanced structural reform agenda will be incorporated into the existing workstream of the Framework Working Group as a tool to help assist members' structural reform efforts. Building on the foundation laid in 2016, other policy and outcome indicators may be added in future years to enhance the system. Moreover, the Framework Working Group will continue, as appropriate, to explore additional ways to utilize the indicator system to enrich analyses of the structural challenges members face and to monitor progress with the implementation of structural reforms.

Annex - Additional Information for Indicators from the OECD and World Bank Group

Indicator	Source	Notes	G20 country coverage	Time coverage
Labour productivity	IMF, ILO	Measures the efficiency with which inputs are used to produce goods and services. Calculated as a ratio of a volume measure of output to a volume measure of input use. Labour productivity is measured here as GDP at PPP exchange rates (IMF) per employed person (ILO). This is to provide the broadest country comparison possible rather than alternative measures using gross value added or total hours worked. PPP exchange rates are based on the International Comparisons Program 2011 report.	All	Annually to 2014
Employment to population ratio	ILO	Measures the share of employment for the working age population (15 and over). A high ratio means that a large proportion of a country's population is employed. This excludes those not directly in market-related activities (potentially in the informal sector), because they are either unemployed or out of the labour force altogether. ILO harmonised estimates are used.	All	Annually to 2014
Shared Prosperity Premium	WBG	Measures the difference between the average income or consumption growth of the bottom 40% of the population and the growth in mean consumption or income per capita for the entire population during the same period.	All except Japan, Korea and Saudi Arabia	Annually starting in 2016 using data circa 2008-2013
Public Investment	OECD	Measures government investment by gross fixed capital formation (GFCF) expenditure by all levels of government, expressed as a share of GDP. GFCF measures gross net investment (acquisitions less disposals) in fixed capital, including public infrastructure.	All except Argentina, Brazil, China, India, Indonesia and Saudi Arabia	Annually to 2015 for most countries

		Public investment contributes to changes in the public capital stock over time. A comparison between the averages for two five year periods is used to compare the recent trend in public investment.		
Investment	IMF	Measures total GFCF (private and public) expenditure as a share of GDP. Total investment contributes to changes in the aggregate capital stock over time. A comparison between the averages for two five year periods is used to compare the recent trend.	All	Annually to 2015 for most countries
Gini coefficient	WBG, OECD	Measures the level of inequality based on the distribution of income in an economy. It is expressed as a percentage ranging from 0 (perfect equality) to 100 (perfect inequality). The Gini measure based on disposable income post taxes and transfers is used as it provides the best measure of inequality. World Bank Group data are used where available as it provides the broadest country coverage (OECD data used for Korea). Data are based on underlying country household surveys. The estimation method for advanced and developing countries is consistent.	All except Saudi Arabia	Frequency and most recent WBG data varies Latest (generally 2011 to 2013) shown against 2008 where available
Implicit barriers to trade and investment	OECD Product Market Regulation	Measures regulatory barriers to foreign competition through the differential treatment of foreign suppliers and barriers to trade facilitation. This measures behind-the-border factors that can facilitate trade and investment such as the recognition of foreign regulations, use of international standards and international transparency of domestic regulation. The composite indicator is constructed based on a detailed assessment of	All except Saudi Arabia	1998-2013 for OECD, 2008-2013 for BRIICS, 2013 for Argentina

		specific policy measures, collected through a survey of national policy settings. Detailed information on the OECD Product Market Regulation indicators can be found at: [www.oecd.org/eco/growth/indicatorsofp roductma rketregulationhomepage.htm](www.oecd.org/eco/growth/indicatorsofproductmarketregulationhomepage.htm)		
Barriers to entrepreneur ship	OECD Product Market Regulation	Measures regulatory barriers to domestic competition through the complexity of regulatory procedures (linked to license and permit systems), administrative barriers to start-ups and the regulatory protection of incumbents. The composite indicator is constructed based on a detailed assessment of specific policy measures, collected through a survey of national policy settings. Detailed information on the OECD Product Market Regulation indicators can be found at: [www.oecd.org/eco/growth/indicatorsofp roductma rketregulationhomepage.htm](www.oecd.org/eco/growth/indicatorsofproductmarketregulationhomepage.htm)	All except Saudi Arabia	1998-2013 for OECD, 2008-2013 for BRIICS, 2013 for Argentina
Trading across borders	WBG Doing Business	Measures the time and cost (excluding tariffs) associated with three sets of procedures—documentary compliance, border compliance and domestic transport—within the overall process of exporting or importing a shipment of goods. The distance-to-frontier score is the simple average of the distance to frontier scores for the time and cost for documentary compliance and border compliance to export and import. Detailed information on the World Bank Doing Business indicators can be found at: http://www.doingbusiness.org/methodology/trading-across-borders	All	Annually

Starting a business	WBG Doing Business	Measures all procedures officially required, or commonly done in practice, for an entrepreneur to start up and formally operate an industrial or commercial business, as well as the time and cost to complete these procedures and the paid-in minimum capital requirement. The distance-to-frontier score is the simple average of the distance-to-frontier scores for each of the four component indicators. Detailed information on the World Bank Doing Business indicators can be found at: http://www.doingbusiness.org/methodology/starting-a-business	All	Annually
Public funding of business R&D	OECD	Measures government support for research and development (R&D) aimed at encouraging innovation by direct public funding of business R&D. Calculated as a share of GDP.	All except Argentina, Brazil, India, Indonesia and Saudi Arabia	Annually 2000-2013 2011 or 2012 latest for some countries
R&D tax incentives	OECD	Measures government support for business R&D aimed at encouraging innovation through tax incentives. Calculated as a share of GDP.	All except Argentina, India, Indonesia and Saudi Arabia	Annually 2000-2013 2011 or 2012 latest for some countries
Total spending on R&D	OECD	Measures gross domestic expenditure on R&D, including spending by business, higher education institutions and government. Data for spending by each of these sectors is also available with the same coverage. Calculated as a share of GDP.	All except Brazil, India, Indonesia and Saudi Arabia	Annually 2000-2013 2011 or 2012 latest for some countries