INTERNATIONAL MONETARY FUND

Foreign Direct Investment Trends and Statistics

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G1ossary

ASEAN	Association of Southeast Asian Nations
BOPSY	*Balance of Payments Statistics Yearbook* (IMF)
BPM5	*Balance of Payments Manual*, fifth edition (IMF)
CDIS	Coordinated Direct Investment Survey
CPIS	Coordinated Portfolio Investment Survey
ECB	European Central Bank
ECLAC	Economic Commission for Latin America and the Caribbean
ESCWA	United Nations Economic and Social Commission for Western Asia
Eurostat	Statistical Office of the European Communities
FDI	Foreign Direct Investment
IIP	International Investment Position
M&A	Mergers and Acquisitions
OECD	Organisation for Economic Co-operation and Development
SIMSDI	Survey of Implementation of Methodological Standards for Direct Investment
SPE	Special Purpose Entity
SDDS	Special Data Dissemination Standard
UBO	Ultimate Beneficial Owner
UNCTAD	United Nations Conference on Trade and Development

EXECUTIVE SUMMARY

Growing international linkages through foreign direct investment (FDI) are an important feature of financial globalization and raise important challenges for policymakers and statisticians in industrial and developing countries alike. Following a request from Executive Directors, this paper surveys some implications for the work of the IMF with regard to FDI statistics.

With the integration of international capital markets, world FDI flows grew strongly in the 1990s at rates well above those of global economic growth or trade. This has placed the activities of direct investors and direct investment enterprises under increasing scrutiny by international organizations, and presented new challenges for statistical recording, balance of payments projections, surveillance, and vulnerability analysis. Assessing the medium-term sustainability of recent flows and the implications for financial vulnerability will be particularly important for the surveillance work of the IMF. These developments have raised demands for new statistical work in industrial and developing countries and in international organizations.

Recorded world inflows of FDI, which increased by an average of 13 percent a year during 1990-97, surged by an average of nearly 50 percent a year during 1998-2000, driven by large cross-border mergers and acquisitions. World FDI inflows reached a record US$1.5 trillion in 2000 before falling to US$0.7 trillion in 2001 as a result of the sharp contraction in cross-border mergers and acquisitions among industrial countries. Inflows of FDI into developing countries grew by an average of 23 percent a year during 1990-2000, but declined by 13 percent to US$215 billion in 2001.

Countries are compiling and disseminating more data on FDI transactions and stocks and increasingly adopting the recommendations of the international statistical manuals. However, despite these improvements, and reflecting the complexities of compiling these data, there remain important deficiencies in the coverage and comparability of data in both industrialized and developing countries. One symptom of these deficiencies is the sizeable discrepancies seen in global aggregations of FDI outflows and inflows published by STA.

A recent joint IMF-OECD survey of country practices provides users of FDI statistics with a wealth of information on how countries compile FDI data (flows, stocks, and income, including reinvested earnings) and how these practices compare with the recommendations of the international statistical manuals. The survey results show in specific detail how FDI data are frequently not comparable across countries because of different recording practices.

The IMF and other international and regional organizations are working with countries to improve FDI statistics through the provision of methodological materials, technical assistance, and training courses and workshops. The question arises whether these activities are sufficient to address emerging data requirements or whether a major internationally coordinated effort would be required, along the lines of the IMF-sponsored Coordinated Portfolio Investment Survey (CPIS). This initiative, together with the IMF's work on international reserves, the work of the Inter-Agency Task Force on Finance Statistics on external debt, and the Bank for International Settlements's International Banking Statistics, have helped countries address data deficiencies in other important areas of the external accounts. STA therefore proposes to investigate the feasibility of conducting an internationally coordinated benchmark survey of FDI stocks.

I. Introduction

1. This background paper was prepared for the Executive Board seminar on foreign direct investment and provides information on the statistical recording of foreign direct investment (FDI). This issue has become increasingly important with the greater integration of global capital markets and the strong growth in world FDI flows. These developments have presented new challenges for statistical recording, balance of payments projections, surveillance, and vulnerability analysis.

2. The IMF and other international and regional organizations have been working with countries to improve FDI statistics by developing statistical methodologies and providing guidance in data compilation, including associated metadata, through technical assistance and various training courses and workshops. At the national level, countries are compiling and disseminating more information on FDI transactions and stocks and improvements are being made in better aligning these statistics with recommendations set out in international statistical manuals.

3. However, there are deficiencies in the data on direct investment and other cross-border capital flows, which are evident from the discrepancies in the global balance of payments statistics. These discrepancies were analyzed in the IMF's 1992 *Report on the Measurement of International Capital Flows* and are monitored each year in connection with the work program of the IMF Committee on Balance of Payments Statistics.

4. This paper, which provides an overview of the available statistics on FDI and the concepts and definitions underlying these statistics, is structured as follows: Section II defines direct investment. Section III reviews recent trends in the global data on FDI. Section IV describes the main sources of statistics on direct investment and discusses some of the statistical discrepancies in the published data on FDI. Section V reviews the key concepts and definitions set out in the international statistical manuals for the recording of FDI. Section VI presents some of the findings from a recent joint IMF-OECD survey on methodological practices regarding the measurement of FDI in 61 countries. Section VII provides a brief overview of some of STA's planned and proposed activities to further develop FDI methodologies and statistics, and Section VIII concludes with a discussion of the resource implications if an internationally coordinated direct investment survey were to be conducted.

II. Statistical Definition of Foreign Direct Investment

5. The fifth edition of the IMF's *Balance of Payments Manual* (*BPM5*) defines FDI as a category of international investment that reflects the objective of a resident in one economy (the direct investor) obtaining a lasting interest in an enterprise resident in another economy (the direct investment enterprise). The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise, and a significant degree of influence by the investor on the management of the enterprise. A direct

investment relationship is established when the direct investor has acquired 10 percent or more of the ordinary shares or voting power of an enterprise abroad.

6. Direct investment comprises not only the initial transaction establishing the FDI relationship between the direct investor and the direct investment enterprise but all subsequent capital transactions between them and among affiliated enterprises resident in different economies. The key concepts in the measurement of FDI are elaborated in Section V.

7. There are a number of popular misconceptions about what FDI is.

- FDI does not necessarily imply control of the enterprise, as only a 10 percent ownership is required to establish a direct investment relationship.

- FDI does not comprise a "10 percent ownership" (or more) by a group of "unrelated" investors domiciled in the same foreign country—FDI involves only one investor or a "related group" of investors.

- FDI is not based on the nationality or citizenship of the direct investor—FDI is based on residency.

- Borrowings from unrelated parties abroad that are guaranteed by direct investors are not FDI.

8. Statistics that measure the operations of the foreign affiliates of multinational enterprises—such as sales, employment, and assets—do not form part of the traditional balance of payments and international investment position (IIP) statistics,[1] which capture only the net investment of the direct investor in foreign affiliates. Statistics on the operations of foreign affiliates are referred to as Foreign Affiliate Trade Statistics. In recent years the relevance of statistics on the operations of foreign affiliates has been acknowledged and efforts are underway to encourage and assist countries in compiling these data. STA has contributed to work in this area in the context of the new inter-agency *Manual on Statistics of International Trade in Services*, published in 2002 by the United Nations, which provides a framework for developing foreign affiliate trade in services statistics. Other organizations, notably the Organisation for Economic Co-operation and Development (OECD) and the United Nations Conference on Trade and Development (UNCTAD), maintain databases on the activities of foreign affiliates. Box 1 highlights some of the types of data produced on the activities of foreign affiliates. The discussion of FDI in this paper focuses on the traditional balance of payments and IIP statistics.

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[1] The IIP is the balance sheet of the stock of external financial assets and liabilities. The terms stocks and positions are used interchangeably.

Box 1. Foreign Affiliate Trade Statistics

Foreign Affiliate Trade Statistics measure the operations of affiliates of foreign firms in an economy and the operations of the affiliates of domestic firms that are domiciled abroad. Typically, the data cover the majority-owned affiliates (ownership of more than 50 percent). The United States has, for many years, compiled data in this area of statistics, and other countries, such as Canada and France, have more recently begun to produce them. Many other industrial countries as well as Eurostat, OECD, and UNCTAD are doing work in this area. At present, except in the area of services transactions, there are no internationally-agreed guidelines on how Foreign Affiliate Trade Statistics should be recorded.

Foreign Affiliate Trade Statistics complement the residency-based foreign direct investment statistics of the balance of payments in that they provide a measure of the impact of direct investment on an economy. Questions that can be addressed include—How much employment do foreign affiliates generate in the host economy? What levels of sales and types of sales are generated by foreign affiliates? How much does intra-firm trade contribute to world trade? What are the sources of financing in addition to cross-border flows from the direct investor or affiliates that are part of the parent group? How much of the value added generated in an economy can be attributed to foreign affiliates?

The data below show global FDI balance of payments and IIP data compared with some of the additional level of detail available through Foreign Affiliate Trade Statistics (outward investment).

Item	**2001 (Billions of U.S. Dollars)**
Balance of Payments	
FDI inflows	729
FDI outflows	621
International Investment Position	
FDI inward stock	6,846
FDI outward stock	6,582
Foreign Affiliate Trade Statistics*	
Sales of foreign affiliates	18,517
Gross product of foreign affiliates	3,495
Total assets of foreign affiliates	24,952
Exports of foreign affiliates	2,600
Employment of foreign affiliates (000s)	53,581

* The data are extrapolations based on the shares of a very limited number of countries covered in the worldwide outward FDI stocks.

Sources: Balance of Payments data—IMF's *Balance of Payments Statistics Yearbook 2002, Part 2, Table B-24;* International Investment Position data—UNCTAD's *World Investment Report 2002, Annex Table B-3;* and Foreign Affiliate Trade Statistics—UNCTAD's *World Investment Report 2002, Table I.1*.

III. Recent Trends in FDI

9. With the integration of international capital markets, global FDI flows grew strongly in the 1990s at rates well above those of global economic growth or global trade. Recorded global inflows grew by an average of 13 percent a year during 1990-1997.[2] Driven by large cross-border mergers and acquisitions (M&A), these inflows increased by an average of nearly 50 percent a year during 1998–2000, reaching a record US$1.5 trillion in 2000. (See Table 1.) Inflows declined to US$729 billion in 2001, mostly as a result of the sharp drop in cross-border M&A among the industrial countries, coinciding with the correction in world equity markets. Worldwide, the value of cross-border M&A declined from the record US$1.1 trillion in 2000 to about US$600 billion in 2001.[3]

10. The industrial countries have long dominated the FDI inflows and outflows and accounted for 94 percent of outflows and over 70 percent of inflows in 2001. (See Figure 1.) Inflows of FDI to developing countries grew by an average of 23 percent a year during 1990-2000. In 2001, these inflows declined by 13 percent to US$215 billion, largely reflecting reduced inflows into Hong Kong Special Administrative Region (SAR), Brazil, and Argentina. Excluding these three economies, FDI inflows into developing countries increased by about 18 percent in 2001. During 1998–2001, FDI inflows to developing countries averaged US$225 billion a year. In the same period, portfolio investment and other investment inflows to developing countries were much lower and in aggregate averaged US$22 billion a year.[4]

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[2] In this paper, inflows mean net inward FDI transactions, i.e., inward investments less disinvestments (FDI in the reporting economy); outflows mean net outward FDI transactions, i.e., outward investments less disinvestments (FDI abroad).

[3] Data on mergers and acquisitions (M&A) deals are from UNCTAD's *World Investment Report 2002* (Annex Tables B-7 and B-8) and are based on information compiled by Thomson Financial, a private commercial database. It should be noted that many compilers have found that these data considerably overstate the measure of cross-border capital flows associated with M&A deals because they include, inter alia, domestically-financed transactions, and in some cases include M&A deals between foreign affiliates and firms resident in the same host economy, neither of which are FDI transactions recorded in balance of payments statistics.

[4] During 1998–2001, portfolio investment inflows averaged US$72 billion a year, while other investment inflows averaged a negative US$50 billion a year, representing an excess of disinvestments over investments.

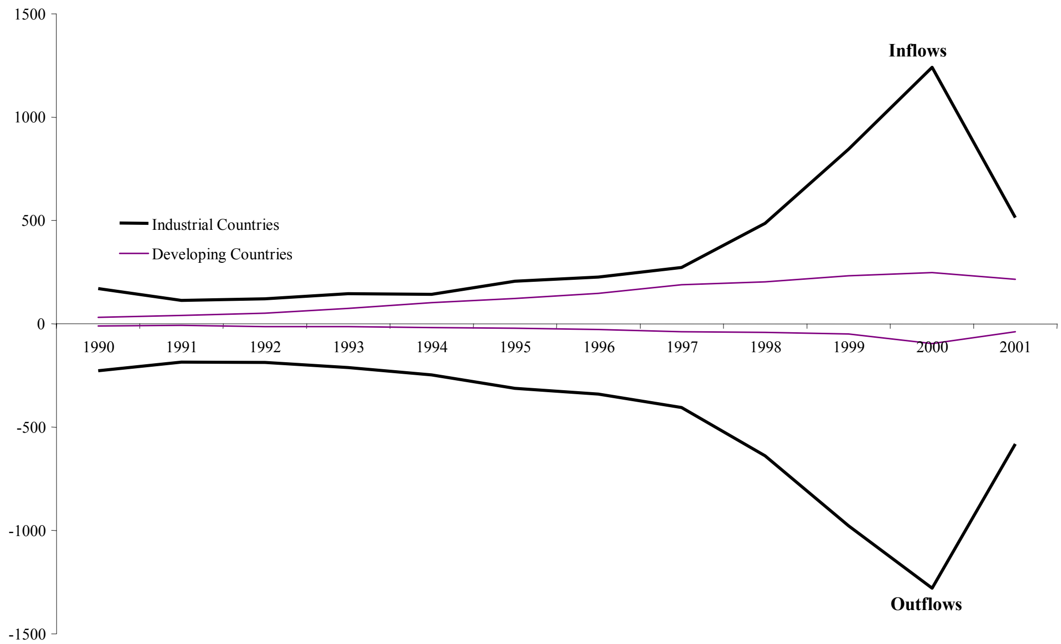
Table 1. Regional Allocation of FDI Inflows, 1990–2001
(Billions of U.S. dollars)

	1990–94 (Average)	1995	1996	1997	1998	1999	2000	2001
Total	197.7	327.9	372.9	461.4	690.4	1076.6	1489.8	729.2
Industrial countries	137.7	205.5	226.4	272.3	486.5	844.8	1241.5	513.8
Developing countries [1/]	59.9	122.4	146.5	189.1	203.9	231.8	248.3	215.4
Africa	2.7	5.0	5.3	9.8	7.5	9.7	7.5	17.7
Asia	33.5	66.3	74.4	82.8	87.0	99.9	128.2	91.4
o/w China P.R.	*16.1*	*35.8*	*40.2*	*44.2*	*43.8*	*38.8*	*38.4*	*44.2*
Hong Kong SAR	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*14.8*	*24.6*	*61.9**	*22.8*
Europe	4.4	17.4	16.7	22.3	26.6	29.3	30.1	31.2
Middle East	3.6	3.2	5.8	8.0	9.3	4.9	6.5	5.7
Western Hemisphere	15.7	30.5	44.4	66.2	73.5	88.0	76.0	69.5
o/w Argentina	*3.0*	*5.6*	*6.9*	*9.2*	*7.3*	*24.0*	*11.7*	*3.2*
Brazil	*1.7*	*4.9*	*11.2*	*19.7*	*31.9*	*28.6*	*32.8*	*22.6*
Mexico	*5.4*	*9.5*	*9.2*	*12.8*	*11.9*	*12.5*	*14.2*	*24.7*

[1/] The FDI data for industrial and developing countries used in this section relate to the balance of payments statistics published in the *Balance of Payments Statistics Yearbook* (*BOPSY)*. The coverage of “developing countries” is broader than the *WEO* classification of the group of developing countries as it includes Cyprus, Hong Kong SAR, Israel, Korea, Singapore, and the countries in transition.

* Reflects M&A transactions in the telecommunications sector. Source: *External Direct Investment Statistics of Hong Kong 2001*.

Figure 1. Direct Investment Capital Flows, 1990–2001
(Billions of U.S. dollars)



Source: *Balance of Payments Statistics Yearbook*, various issues.

11. During the 1998–2001 period, of the US$900 billion of FDI inflows to developing countries, Asia accounted for US$407 billion, followed by the Western Hemisphere (US$307 billion). Cross-border M&A were an important contributor to these inflows, reflecting the privatization of state-owned assets, especially in Latin America, and the purchase of distressed banking and corporate assets in several Asian economies in the wake of the 1997 financial crisis. Within Asia, the two largest recipients of FDI inflows during this four-year period were China P.R. (US$165 billion) and Hong Kong SAR (US$124 billion). The investment inflows to the Western Hemisphere were dominated by Brazil (US$116 billion) and Mexico (US$63 billion).

12. While FDI flows predominantly comprise equity capital, US$1 trillion of cumulative FDI inflows in the form of intercompany debt (e.g., trade credits, loans, advances) were recorded during 1998–2001, most of which went to industrial countries. During the same period, cumulative FDI equity inflows—comprising equity capital and reinvested earnings—were close to US$3 trillion.

13. The book value of the estimated global stock of inward FDI totaled US$6.8 trillion at end 2001. Four countries, the United States, the United Kingdom, France, and Germany were the largest recipients of inward FDI capital. About one third of the global stock of inward FDI represented investment in developing economies, with five economies—China P.R., Argentina, Brazil, Hong Kong SAR, and Mexico—accounting for more than half of the inward FDI stock of developing economies. The estimated global stock of outward FDI valued at book value totaled US$6.6 trillion at end 2001,[5] The largest investing countries were the United States, the United Kingdom, France, and Germany, which accounted for half of the global stock of FDI assets. Only 12 percent (US$800 billion) of the world stock of outward FDI represented FDI investment from developing economies.

IV. DATA AVAILABILITY

A. FDI Statistics Compiled by International Organizations

14. Many countries compile and disseminate in national publications and/or websites information on FDI, typically in the context of balance of payments and IIP statistics. To facilitate analysis, these statistics are often extended to provide geographic information on FDI transactions and positions vis-à-vis individual partner countries or regions. Many countries also compile FDI statistics broken down by industrial sector.

15. Various international and regional organizations, such as the IMF, the OECD, UNCTAD, and the Statistical Office of the European Communities (Eurostat) have long-established programs for the collection and dissemination of these FDI statistics and also work with countries to improve data compilation practices in this area of statistics.[6] [7] The IMF's statistics on direct investment are disseminated as a component of the balance of payments and IIP statistics, while the other organizations have publications devoted to FDI statistics.

16. The primary publications (all annual) of these four organizations that cover FDI statistics are:

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[5] Data on the world stock of inward and outward FDI are from UNCTAD's *World Investment Report 2002.* The world stock of FDI assets and liabilities, should in principle be the same.

[6] Other regional organizations, such as ASEAN and ECLAC, also disseminate direct investment statistics relating to their members and conduct various activities in support of the development and harmonization of FDI statistics in the regions. The World Bank also provides technical assistance in FDI statistics.

[7] The IMF and OECD also have responsibility for the work on developing the methodology for FDI statistics.

- IMF's *Balance of Payments Statistics Yearbook* (*BOPSY*);
- OECD's *International Direct Investment Statistics Yearbook*;
- UNCTAD's *World Investment Report*; and
- Eurostat's *European Union Foreign Direct Investment Yearbook.*

17. Both the IMF and UNCTAD compile global statistics on FDI, while the focus of the OECD and Eurostat is on a narrower group of countries. UNCTAD's *World Investment Report* contains world tables that aggregate national data on both FDI transactions and stocks and also provides a comprehensive analysis of issues related to FDI, which in recent years included cross-border M&A (2000 edition) and operations of transnational corporations (2002 edition). The IMF's *BOPSY* contains world tables on FDI capital flows and investment income. The OECD and Eurostat disseminate information on the geographic breakdown of FDI transactions and stocks vis-à-vis selected partner countries. The OECD and Eurostat also disseminate data on FDI transactions and stocks by industrial sector. The IMF does not disseminate geographic or industrial sector breakdowns of FDI statistics.

18. In late 2002, the OECD updated an earlier joint IMF-OECD survey to explain significant differences that were found to exist in the FDI data that each organization disseminated. As both institutions adopt common methodological recommendations, the data that countries report to the two institutions should, in principle, be identical or very similar. The study, based on reports from 26 of the 30 OECD countries surveyed, showed that there were differences in the following areas:

- **Methodology and coverage.** Twenty-two of the respondents apply the same methodology in reporting to the IMF and the OECD. However, four countries—Denmark, Japan, Korea, and the United States—apply different methodologies.[8] In addition, the coverage of the data of three countries—Germany, Iceland, and Switzerland—differs between the two sets of data. Iceland and Switzerland exclude real estate, and Germany excludes both real estate and reverse investments, from the data reported to the OECD while including these items in the data reported to the IMF.
- **Data sources.** Japan and the United States use different sources for the data reported to the IMF and those reported to the OECD.

[8] Japan's data to the OECD are currently based on investment notifications (a new system will be implemented in 2005); Korea's data to the OECD are believed to be based on approval data; and the United States uses historical cost information for stock data reported to the OECD and market valuations in reporting IIP data to the IMF. In addition, FDI income reported to the OECD are net of withholding taxes, while those reported to the IMF are gross of these taxes. Denmark did not specify the differences in the methodology used for the two sets of data.

- **Reporting periods.** The data that Japan reports to the OECD are compiled on a fiscal year basis, while the data reported to the IMF are on a calendar basis.
- **Time of reporting.** There are significant differences in the time of reporting the original data and revised data to the IMF and to the OECD. Only 11 countries send the primary data to both organizations at the same time; only eight of those 11 countries also send revised data to both organizations at the same time for both flows and stocks.
- **Reporting of revisions.** Only 19 countries send revisions of FDI transactions data to both organizations for the same number of years while only 17 countries cover the same number of years for submitting revised FDI position data.

19. A comparison was also undertaken of the IMF and UNCTAD data sets for FDI stocks of individual countries for selected years. The statistics were found to be broadly comparable.[9] Differences could largely be explained by the following: different publication release dates, which can involve the availability of revised data at different times; the data reported by member countries to the IMF are a mixture of both book values and, for a number of countries, market values, while UNCTAD uses book values to the extent possible; and the UNCTAD data contain estimates for countries that have not reported stock data or that do not compile these data.

20. The IMF and the OECD are jointly working with countries and other agencies to harmonize reporting of data on direct investment.

B. FDI Statistics Reported to STA

21. FDI statistics are reported to STA as part of national submissions of balance of payments and IIP statistics for publication in *BOPSY* and *International Financial Statistics* (see Box 2). The 2002 *BOPSY* contained balance of payments statistics for 164 economies, about the same number as in the 1996 issue. Over that six-year period, about two dozen countries, mostly in Africa, fell behind in the reporting of balance of payments statistics to STA, but this decline has been largely offset by an increase in the number of reporters from other parts of the world. Of the 164 countries, 140 reported data for 2000/2001.

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[9] The IMF does not compile world tables on FDI stocks, as only 70 countries report IIP statistics on FDI to STA. Reported IIP data appear in the individual country tables in Part 1 of *BOPSY* and in *International Financial Statistics*. To compile the world aggregates of FDI stocks published in the *World Investment Report*, UNCTAD accumulates data on reported FDI transactions for the large number of nonreporting countries, without making adjustments for nontransaction changes, such as price changes. UNCTAD made these estimates for about 120 countries in the case of the inward stock data for the year 2000 published in Annex Table B.3 of the 2002 edition of the *World Investment Report*.

22. Member countries are now reporting more component detail on FDI to STA, which reflects the availability of data from new collections as well as improvements in classification. Figure 2 compares the number of countries that reported information for the components of FDI capital flows published in the 1996 and 2002 issues of *BOPSY* (using data for 1994 and 2000/2001 from these publications).[10] It shows that between the reporting periods 1994 and 2001, the number of countries reporting data on reinvested earnings on outward direct investment nearly doubled to 45 while reporting on reinvested earnings on inward direct investment increased by more than a quarter to 84. The number of countries reporting inward data on equity capital also increased significantly from 92 in 1994 to 123 in 2001 and from 55 to 66 for the outward data. The increases for the data on other capital were from 76 to 91 for the inward data and from 31 to 54 for the outward data.

Box 2. *Balance of Payments Statistics Yearbook*

Publication of the IMF's *Balance of Payments Statistics Yearbook* began in 1949. The Yearbooks were originally designed "to pass on to the public a large portion of the balance of payments data that the IMF has developed for operating purposes." Since then, the Yearbooks have evolved into a comprehensive source of information—data and metadata—on balance of payments and international investment position (IIP) statistics. The 2002 Yearbook (Volume 53), presented according to the IMF's fifth edition of the *Balance of Payments Manual* (1993), consists of three parts. Part 1 presents balance of payments and IIP data of individual countries. Part 2 contains regional and world totals for major components of the balance of payments. Part 3 provides technical descriptions of compilation practices for selected reporting countries, including some qualifications affecting the data.

The 2002 Yearbook contained annual balance of payments statistics for 164 countries, which are presented in two tables—an analytic summary providing an array of balance of payments components to highlight the financing items (Table 1) and a detailed presentation according to the *BPM5* (Table 2). Quarterly balance of payments statistics for 91 countries are published in an abbreviated format in *International Financial Statistics* (*IFS*) and are also available on CD-ROM. To close gaps in global summations of balance of payments data published in Part 2, STA uses country data from Area Departments, including staff estimates, compiled in connection with the *World Economic Outlook* exercise. These country data are not separately identified in *BOPSY* but are included in regional aggregates in the world tables.

IIP or stock statistics were first disseminated in 1984, with data for the United States. Three years later, stock data, with different degrees of completeness, were published for 33 countries based on the classification system of the *Balance of Payments Manual*, fourth edition. With the introduction of *BPM5* in 1993, many of the nonindustrial countries began compiling IIP statistics. The 2002 Yearbook contained annual IIP statistics for 81 countries (Table 3 of the Yearbook). More recently, IIP data for 85 countries were published in the October 2003 *IFS*, including quarterly data for 26 countries. At this time, the number of countries reporting IIP data is insufficient to generate world IIP tables.

23. There has been an even more significant improvement in reporting of IIP statistics on direct investment to STA, where the number of reporting countries more than doubled

[10] In order to allow for late reporters, 21 countries reporting balance of payments data for 2000 were included in the counts, with supplemental information from the February 2003 *IFS*.

from 30 to 70 as measured in a study conducted in January 2003 (see Figure 3).[11] Within the IIP category of direct investment, many countries reported additional component detail in recent years, especially for the other capital component of FDI (i.e., intercompany debt). About three times more countries reported data on other capital in 2001 than in 1994 (increases from 16 to 54 for the inward data and from 16 to 46 for the outward data). There were similarly significant increases in the numbers that reported data on equity capital and reinvested earnings (from 24 to 66 for the inward data and from 23 to 60 for the outward data).

24. At the national level, countries sometimes supplement their published FDI statistics with various metadata (i.e., information on data) that explain to users of the statistics how the data were compiled, including information on the concepts and definitions employed. At the international level, surveys have been conducted across a range of countries to provide an understanding of FDI recording practices. Such a survey was conducted in connection with the IMF's 1992 *Report on the Measurement of International Capital Flows*. More recently, there have been two joint IMF-OECD surveys. The first, which was conducted with respect to compilation and dissemination practices in 1997, was called the Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI), and the second, which reviewed recording practices in 2001, was referred to as the 2001 SIMSDI update. The latter covered 61 of the 114 economies that participated in the 1997 SIMSDI. Background information on the SIMSDI surveys is provided in Box 3.

25. The results of the 2001 SIMSDI update—*Foreign Direct Investment Statistics: How Countries Measure FDI, 2001*—are expected to be published by the IMF in late October 2003. The report provides a wealth of information (e.g., data availability, data sources, deviations from the international recommendations, etc.) for direct investment analysts and policy makers. It indicates that progress is being made in moving towards accordance with the international recommendations for FDI compilation developed by the IMF and the OECD. Selected FDI recording issues from the 2001 SIMSDI update are discussed in Section VI.

C. FDI International Recommendations and Their Implementation

26. There are a number of methodological materials available to national compilers that provide conceptual and practical guidance in the compilation, analysis, and dissemination of FDI and other external sector statistics. The *BPM5* provides guidance to member countries in the compilation of balance of payments and IIP statistics, and the OECD's *Benchmark Definition of Foreign Direct Investment* (*Benchmark Definition*)

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[11] Of the 85 countries with IIP statements published in the October 2003 issue of the *International Finance Statistics*, at the time of the January 2003 study eight did not report data for FDI stocks: Bangladesh, Costa Rica, Jordan, Lesotho, Macedonia, Maldives, Mauritius, and Uganda. A further four countries did not have IIP data for the 2000–2001 period: Botswana, Senegal, Vanuatu, and Yemen. Three new countries have also begun to report IIP data since the study: Cyprus, Korea, and Ireland.

provides operational guidance on how FDI should be compiled to meet the internationally agreed recommendations.[12] The two manuals are consistent. UNCTAD is developing a training manual on direct investment to help developing countries enhance the capacity of government agencies to compile data on FDI and the operations of transnational corporations. Some national compilers also prepare and disseminate material on their methodologies for FDI and other external sector statistics in national publications and on websites, including copies of direct investment and other statistical report forms employed. These, too, can be used as aids by national compilers in other countries in developing their FDI statistics.

27. Through training courses, workshops, and technical assistance programs, the involved international and regional organizations work with countries to implement international statistical methodologies and improve data compilation and dissemination practices. In calendar year 2002, STA conducted 32 technical assistance missions in external sector statistics and 13 training courses. In September 2003, UNCTAD, in a joint project with the United Nations Economic and Social Commission for Western Asia (ESCWA), organized the first two of a series of six national workshops to strengthen networking and expertise on FDI in ESCWA member countries.

28. Also, several European governments—Austria, Denmark, Sweden, Switzerland, and the United Kingdom—have during 2000-02 funded a series of projects to monitor and analyze private capital flows and stocks and private sector debt covering eight countries.[13] These projects were undertaken with technical assistance from Development Finance International[14] and regional organizations such as the Macro Economic Financial Management Institute for Eastern and Southern Africa. This involved the development of surveys of private capital flows that helped gather information on FDI. The surveys exposed substantial discrepancies in the published balance of payments data.

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[12] Other methodological materials published by the IMF that provide information on direct investment include the *Balance of Payments Compilation Guide* (1995); *Balance of Payments Textbook* (1996); *Financial Derivatives: A Supplement to the Fifth Edition of the Balance of Payments Manual* (2000); *International Investment Position—A Guide to Data Sources* (2002); *Recommended Treatment of Selected Direct Investment Transactions* (2002); and *Classification of Financial Derivatives Involving Affiliated Enterprises in the Balance of Payments Statistics and the International Investment Position (IIP) Statement* (2002). All these documents are available in electronic format on the IMF website at http://www.imf.org/external/np/sta/bop/biblio.htm.

[13] The Gambia, Ghana, Guyana, Malawi, Tanzania, Trinidad and Tobago, Uganda, and Zambia.

[14] Development Finance International is a nonprofit economic and policy advisory, research, training, and capacity building group based in London.

Figure 2. Countries Reporting FDI Capital Flows to STA, 1994 and 2000/2001[1]

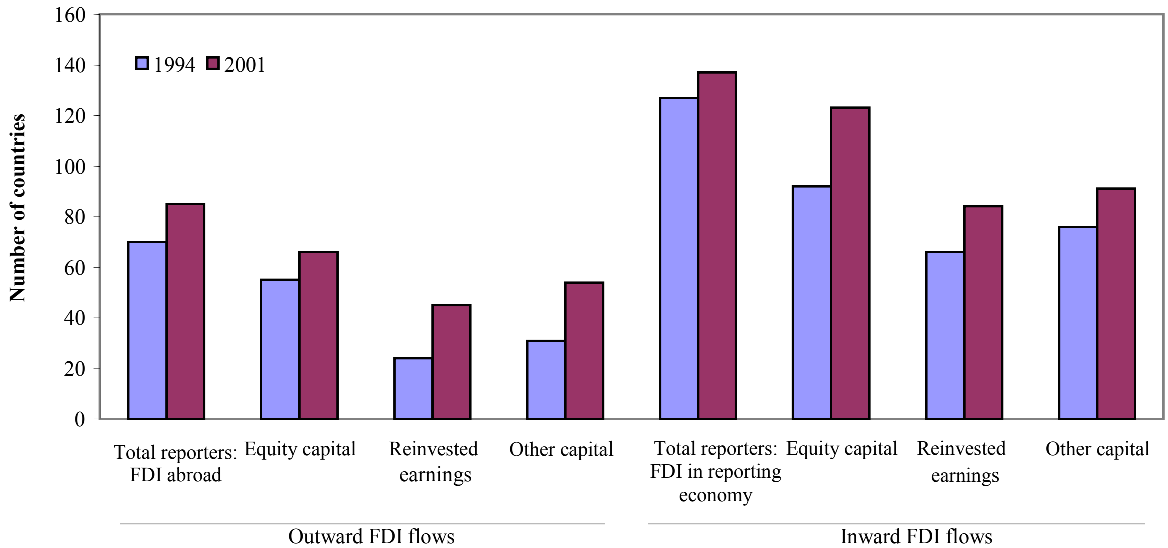
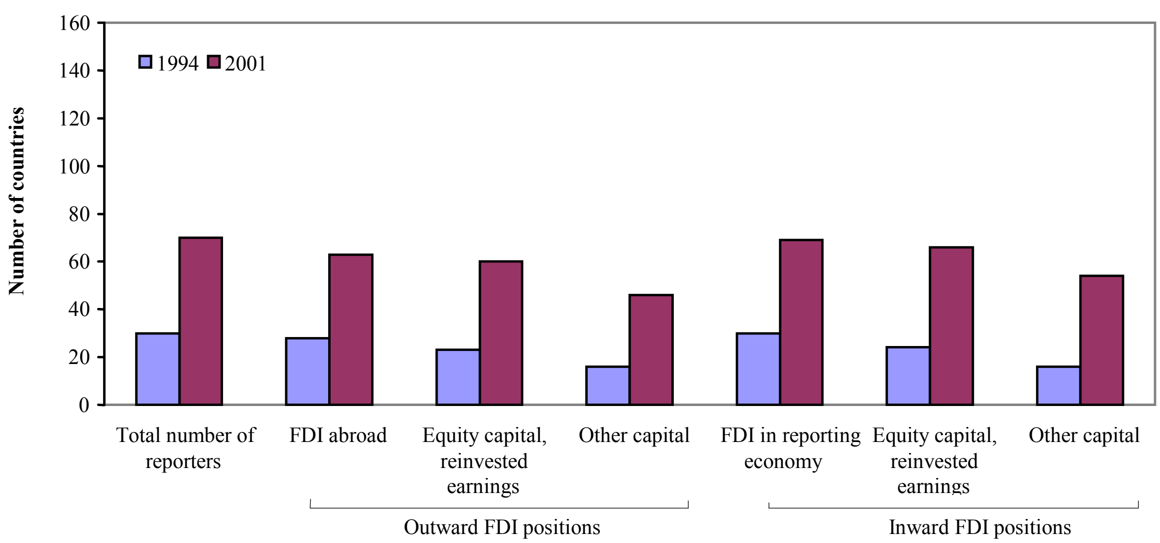


Figure 3. Countries Reporting FDI Positions to STA, 1994 and 2000/2001[2]



1/ In order to allow for late reporters, 21 countries reporting balance of payments data for 2000 were included in the counts.
2/ In order to allow for late reporters 9 countries reporting IIP data for 2000 were included in the counts.

Box 3. Background to the Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI)

On the recommendation of the IMF Committee on Balance of Payments Statistics (the Committee) and in consultation with the OECD, the IMF and the OECD jointly launched in May 1997 the Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI), which was a comprehensive survey of data sources, collection methods, and dissemination and methodological practices for FDI statistics. One hundred and fourteen countries replied to the 1997 survey—a very encouraging response rate which indicated the importance that national compilers attached to FDI statistics. A report analyzing the results was prepared jointly by the IMF and the OECD and posted on the websites of the two organizations, and sent by the IMF to its member countries. The results of the 1997 SIMSDI prompted experts to raise additional methodological questions, to identify difficulties in the implementation of some the international statistical recommendations, and to review the consistency of certain recommendations in efforts towards harmonization of FDI statistics.

In October 2000, the Committee agreed that the information from the 1997 SIMSDI should be updated. Similarly, in November 2000, the OECD's Working Party on Financial Statistics asked its Secretariat to take the necessary steps to update the information for its member countries. Agreement was reached that a new survey would be conducted during 2003 that would incorporate revisions to the content and presentation of the 1997 questionnaire to take account of the methodological changes that had been implemented in recent years.

Following these recommendations, the IMF and the OECD launched an interim revision in 2001 to update the SIMSDI information for all OECD countries and for 31 of the 85 other IMF member countries that had responded to the 1997 SIMSDI survey—those 31 included all of the subscribers to the IMF's Special Data Dissemination Standard. Countries were asked to review the information initially provided in 1997 and to revise it as necessary.

The IMF prepared summary metadata for each of the 61 countries that participated in the 2001 SIMSDI update, in consultation with the authorities in each country. The summary metadata clearly indicate whether a country's practices are in accordance with the international guidelines set out in the IMF's *Balance of Payments Manual* and the OECD's *Benchmark Definition of Foreign Direct Investment*. Cross-country comparison tables, organized by issue, were also prepared. The metadata for the 56 countries that agreed to make their information available to the general public, and the cross-country comparison tables, were posted on the Fund's external website in October 2002 (see http://www.imf.org/external/np/sta/di/mdb97.htm). The metadata for the remaining five countries (Brazil, China P.R., El Salvador, India, and Lithuania) are available to national compilers and staff of international organizations on request.

The results of the 2001 SIMSDI update show that there have been marked improvements since 1997 in both the availability of FDI statistics, particularly position data, and in the application of a number of the recommendations set out in the international statistical manuals for compilation of FDI statistics. However, there are still areas where the majority of countries do not yet follow the international guidelines.

29. Countries employ a variety of data sources and methods to compile FDI statistics, including enterprise surveys, bank reporting systems and international transactions reporting systems (ITRS),[15] administrative data from exchange control or investment control authorities, partner country bilateral data, etc.[16] The ability of compilers to implement the recommendations set out in the international statistical manuals may be constrained by the data sources used. For example, bank reports on foreign currency settlements may not be able to correctly distinguish direct investment transactions from portfolio investment transactions.

30. Specially designed forms submitted to enterprises are being increasingly used to gather comprehensive information on FDI transactions and stocks. For some components of FDI, such as reinvested earnings data, direct collections from enterprises, rather than bank reporting systems or administrative sources, are the only way that data can be readily obtained, although the reported data may not always conform with the international recommendations because of countries' accounting or taxation regulations. FDI transactions compiled on the basis of investment intentions or similar information collected by investment control authorities are fraught with difficulties, not least because the planned investment may not take place or the timing of the investment may not be known. Also, while stock data on FDI compiled by summing capital flow data can be used to fill gaps in the data, using this practice to compile FDI aggregates affects the accuracy of the estimates, as it does not take into account nontransaction changes arising from, for example, exchange rate and price changes, which can be significant.

31. Countries may not fully implement the recommendations for FDI statistics in the international statistical manuals for other reasons:

- difficulties in gathering the data (e.g., resources may not be available to collect data on reinvested earnings or stock data, compilers may not have a legal mandate to collect data, the private sector may be reluctant to complete report forms, etc.);
- different accounting and/or administrative procedures (e.g., accounting rules may recommend using the all-inclusive concept of income to measure earnings of direct investment enterprises);
- legal constraints (e.g., investment or other laws may require use, for example, of a 20 percent threshold to define a direct investment);
- unwillingness to adopt international recommendations that may be viewed as inconsistent with the particular needs and priorities of the compiling economy (e.g.,

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[15] An ITRS measures individual balance of payments cash transactions that pass through domestic banks and may also measure (i) individual cash transactions through enterprise accounts abroad, (ii) noncash transactions, and (iii) stock positions. Statistics are compiled from forms submitted to domestic banks and may also be compiled from forms submitted by enterprises to the compiler.

[16] The *Balance of Payments Compilation Guide* reviews the advantages and disadvantages of the main sources of information on direct investment (Table 16.1, Page 153).

certain short-term intercompany debt flows, such as trade credits, may not be considered to represent FDI capital);

- confidentiality concerns may preclude disseminating certain data sets because of arrangements with respondents to keep their individually reported data confidential; or

- unfamiliarity on the part of compilers with aspects of *BPM5* methodology.

32. Deviations at the national level from international statistical recommendations on FDI data compilation hamper cross-country comparisons and contribute to bilateral asymmetries in data comparisons with partner countries. They may also contribute to asymmetries with other macroeconomic statistics produced by the country. Similarly, deviations from international recommendations contribute to asymmetries in global FDI aggregations published by the IMF and UNCTAD, which also hamper cross-country data comparisons by users of statistics. Importantly, unless the statistical methodologies employed by countries are well documented, users may misinterpret the FDI data and thus surveillance and other policy activities may be hampered. In this regard, the SIMSDI project (see Box 3) provides extensive documentation on country methodological practices, including comparisons of FDI recording practices across countries.

D. Discrepancies in Global Balance of Payments Statistics on FDI

33. In principle, the global sum of outward flows of FDI recorded by the economies of the direct investor should be matched by the corresponding global sum of FDI inflows in the statistics compiled by the economies of the direct investment enterprises, as the debits of one economy are the credits of another. As is well known, there are discrepancies in the global balance of payments statistics because of gaps in coverage and the use by reporting countries of different definitions and classification systems. The substantial growth in private sector flows during the 1990s and the abolition of exchange controls, without concomitant broadening of statistical reporting, presented new challenges for statistical recording. This included difficulties in identifying the private sector transactors and, sometimes, the poor response rates to enterprise surveys.

34. The size of the statistical discrepancies in the global balance of payments statistics has been a cause of concern to the IMF in connection with the analytical implications for the IMF's surveillance activities and the *World Economic Outlook*.[17] The IMF has undertaken two studies of the imbalances in statistics on global current and capital transactions,[18] both of which highlighted various country recording practices that contributed to asymmetries in

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[17] See, for example, the essay on external imbalances in Box 2.1 in the September 2002 *World Economic Outlook.*

[18] *Report on the World Current Account Discrepancy* (September 1987) and *Report on the Measurement of International Capital Flows* (September 1992).

global (and bilateral) balance of payments statistics, including in the area of direct investment, and made recommendations to address them. Many of the problem areas identified in these studies continue to exist, notwithstanding important statistical improvements made by countries in the past decade. The discrepancies in global balance of payments statistics are monitored each year in connection with the work program of the IMF Committee on Balance of Payments Statistics (see Box 4).

Box 4. IMF Committee on Balance of Payments Statistics

The IMF Committee on Balance of Payments Statistics (Committee) was established in 1992 in response to a recommendation contained in the IMF's 1992 *Report on the Measurement of International Capital Flows*, which saw the need for an effective follow-up mechanism to "ensure that the recommendations of this report are followed and that the quality of capital account statistics is improved." In addition to overseeing the implementation of recommendations contained in the capital flows report (and the IMF's 1987 *Report on the World Current Account Discrepancy*), the Committee's terms of reference call for it to advise the IMF on balance of payments and international investment position statistics, and foster greater coordination of data collection among countries.

The Committee is chaired by the Director of STA and at the end of 2002 included senior statistical experts from 14 member countries—Australia, Belgium, Canada, Chile, France, Hong Kong SAR, India, Japan, Russia, Saudi Arabia, South Africa, Uganda, United Kingdom, and the United States—and STA. Representatives from the Bank for International Settlements, European Central Bank, Eurostat, and the OECD are invited to Committee meetings as observers. STA serves as Secretariat to the Committee. The Committee meets once a year to discuss a wide range of external sector statistical issues. Discussion papers prepared by the staff, Committee members, and involved international organizations are posted on the IMF's external website at http://www.imf.org/external/bopage/bopindex.htm. The Committee was actively involved in the SIMSDI project and development and review of the IMF's Coordinated Portfolio Investment Survey.

FDI capital flows

35. Table 2 shows the global discrepancies underlying the statistics on FDI capital flows reported to STA and published in *BOPSY*. The data show a considerable widening of the discrepancies between recorded inflows and outflows of FDI in 2000 and 2001 to more than US$100 billion.[19] It should be noted that the data for current periods typically represent preliminary estimates and are thus subject to larger revisions than earlier periods.

[19] In the context of global cross-border capital flows, the discrepancies on portfolio investment and other investment (e.g., trade credits, deposits, loans) transactions have until recently been much larger than those seen on FDI transactions. For example, in 1997 and 1998 the discrepancies on recorded portfolio investment transactions exceeded US$200 billion a year.

36. Looking at the components of FDI capital—(i) equity capital, (ii) reinvested earnings,[20] and (iii) other capital (intercompany debt)—the widening of the discrepancies in recent years relates to the recording of FDI transactions involving equity capital and intercompany debt. The discrepancy on intercompany debt transactions was especially large in 2000 when recorded FDI inflows of US$394 billion were double the level of recorded FDI outflows.[21]

37. The statistical discrepancy in the recording of data on reinvested earnings in the financial account was in the opposite direction, showing an excess of recorded debits. This has been a long-standing trend. The discrepancy averaged US$77 billion during the 1999–2001 period, 40 percent higher than the average of the previous three years. A significant contributor to the discrepancies in this item is likely to be the use of different accounting practices in defining the operating earnings of direct investment enterprises, which is discussed in Section V.

FDI investment income

38. In the global current account, the mirror image of the above discrepancy on reinvested earnings reflects an excess of recorded credits (see Table 3). Overall, the discrepancies on other FDI income (i.e., dividends and distributed branch profits, and interest on intercompany debt from/to direct investors/direct investment enterprises) are smaller than those recorded for reinvested earnings and mostly show the opposite sign—an excess of recorded debits over credits. The reported data on FDI interest flows show a discrepancy of US$23 billion in 2001 (22 percent of reported FDI interest receipts and payments). The imbalances on FDI interest flows—excess interest payments—are consistent with the positive imbalances (excess inflows) seen in the data for intercompany debt flows in Table 2. For dividend and distributed branch profits, the largest discrepancy was US$22 billion in 1999 (eight percent of reported dividend and profit receipts and payments) but has declined significantly since that time.

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[20] That is, the direct investor's share (in proportion to equity held) of earnings not distributed as dividends by subsidiaries and associated enterprises and earnings of branches not remitted to the direct investor during the reporting period.

[21] Like other components of the balance of payments, the discrepancies do not provide a complete indication of the underlying data problems, as there are offsetting errors, e.g., when both parties to a transaction fail to report.

Table 2. Discrepancies in Global FDI Capital Flows, 1990–2001
(Billions of U.S. dollars)

	1990-94 (Average)	1995	1996	1997	1998	1999	2000	2001
Total								
Abroad	-224.3	-333.8	-368.8	-442.5	-681.8	-1027.0	-1375.5	-620.9
In reporting economy	197.7	327.9	372.9	461.4	690.4	1076.6	1489.8	729.2
Discrepancy	*-26.6*	*-5.9*	*4.1*	*18.9*	*8.6*	*49.6*	*114.3*	*108.3*
Equity capital*								
Abroad	n.a.	-183.1	-176.1	-237.5	-402.2	-670.7	-993.6	-349.7
In reporting economy	n.a.	230.0	246.5	274.9	439.9	750.6	975.7	442.5
Discrepancy	n.a.	*46.9*	*70.4*	*37.4*	*37.7*	*79.9*	*-17.9*	*92.8*
Reinvested earnings								
Abroad	-46.7	-97.2	-111.4	-123.1	-98.8	-166.4	-185.7	-145.1
In reporting economy	1.2	38.4	43.5	65.1	61.2	83.8	119.7	62.3
Discrepancy	*-45.5*	*-58.8*	*-67.9*	*-58.0*	*-37.6*	*-82.6*	*-66.0*	*-82.8*
Other capital*								
Abroad	n.a.	-53.5	-81.3	-81.9	-180.8	-189.9	-196.2	-126.1
In reporting economy	n.a.	59.5	82.9	121.4	189.3	242.2	394.4	224.4
Discrepancy	n.a.	*6.0*	*1.6*	*39.5*	*8.5*	*52.3*	*198.2*	*98.3*

Source: *BOPSY*, various issues.
* For 1995–2001 a split into equity capital and other capital was derived using data from *BOPSY* 2002 plus a methodology developed to allocate the estimates; these data could not be derived for 1990-94.

Table 3. Discrepancies in Global FDI Investment Income Flows, 1990–2001
(Billions of U.S. dollars)

	1990-94 (Average)	1995	1996	1997	1998	1999	2000	2001
Total								
Credit	130.4	206.5	237.1	267.8	275.1	323.9	375.5	341.7
Debit	83.4	161.9	179.0	203.4	236.0	277.7	336.7	290.4
Discrepancy	47.0	*44.6*	*58.1*	*64.4*	*39.1*	*46.2*	*38.8*	*51.3*
Dividends and distributed branch profits*								
Credit	n.a.	100.7	116.0	126.1	149.8	129.7	157.9	156.7
Debit	n.a.	101.8	113.9	110.2	136.6	151.3	163.1	165.5
Discrepancy	n.a.	*-1.1*	*2.1*	*15.9*	*13.2*	*-21.6*	*-5.2*	*-8.8*
Reinvested earnings								
Credit	46.7	97.2	111.4	123.1	98.8	166.4	185.7	145.1
Debit	1.2	38.4	43.5	65.1	61.2	83.8	119.7	62.3
Discrepancy	45.5	*58.8*	*67.9*	*58.0*	*37.6*	*82.6*	*66.0*	*82.8*
Interest*								
Credit	n.a.	8.6	9.7	18.6	26.5	27.8	31.9	39.9
Debit	n.a.	21.7	21.6	28.1	38.2	42.6	53.9	62.6
Discrepancy	n.a.	*-13.1*	*-11.9*	*-9.5*	*-11.7*	*-14.8*	*-22.0*	*-22.7*

Source: *BOPSY*, various issues.
*For 1995–2001 a split into (i) dividends and distributed branch profits, and (ii) interest was derived using data from *BOPSY 2002* plus a methodology developed to allocate the estimates; these data could not be derived for 1990–1994.

E. Discrepancies in Bilateral FDI Stock Data

39. The imbalances in the global balance of payments statistics are also manifested in the bilateral balance of payments and IIP statistics disseminated by countries. Table 4 compares published bilateral data on inward and outward FDI stocks (on a book value basis) for six of the eight largest investing economies as at end 2001 (2001 bilateral data for France and Germany were not available when the table was prepared). Several of the comparisons reveal very large differences, some of which can be explained by different statistical practices employed by countries. As noted earlier, the data for current periods typically represent preliminary estimates. Two comparisons are highlighted below.

40. In the case of the Netherlands, the data of the partner countries are consistently larger than the positions reflected in the Dutch data, both on outward investment to the Netherlands and inward investment from the Netherlands. For example, the United Kingdom shows FDI in the Netherlands of US$247 billion at end-2001, which was more than US$200 billion above the corresponding liability recorded by the Netherlands (US$44 billion). In the other direction, the stock of Dutch FDI in the United Kingdom was US$26 billion, compared to the U.K. estimate of US$90 billion.

41. The major contributor to these discrepancies is the exclusion from the Dutch bilateral data of investment in/by Special Financial Institutions (SFIs) in the Netherlands, which are entities that are directly or indirectly owned by nonresidents and used mainly to channel funds received from nonresidents to other nonresidents. In effect, the Dutch data suggest that most of the large U.K. investment in the Netherlands is ultimately employed in third countries, with the Netherlands acting as a conduit for tax or other reasons. The *BPM5* recommends that the activities of SPEs such as the Dutch SFIs be included as part of direct investment. The statistical treatment of SPEs is discussed in Section V.

42. Countries generally allocate stock positions bilaterally to the first, or immediate, country of ownership, which is in conformity with the debtor/creditor principle recommended in the *BPM5*. In Canadian statistics on outward FDI, when the first foreign direct investment enterprise is a foreign holding company, an attempt is made to attribute the investment to the "ultimate country of destination," to improve the analytical usefulness of the FDI data. This may explain why outward Canadian FDI positions are higher than the inward positions recorded by the other countries in Table 4.

43. Bilateral comparisons can throw light on the accuracy of direct investment data, but care must be exercised in making use of them. In some instances, the bilateral discrepancies in the stock data discussed above would have no impact on the compiled national aggregates, as the differences may reflect different recording conventions for allocating positions to individual countries rather than indicators of potential gaps in the data. In other cases, bilateral discrepancies may flag gaps or recording errors in the national data. However, investigations into bilateral discrepancies are very resource intensive and, because of confidentiality constraints, are difficult to resolve, perhaps especially so in the area of direct investment where data on individual transactors or a small number of transactors can have a major impact on the statistics. An OECD direct investment workshop in 2001 decided not to attempt a detailed reconciliation of bilateral FDI data as the exercise was considered to be too difficult until such time as countries' methodologies used to compile the data are more in line with the international statistical recommendations.

Table 4. Bilateral Comparisons of FDI Stocks, Selected Countries, End-2001
(Billions of U.S. dollars)

	Reported by investor country	**Reported by host country**	**Discrepancy**
United States investment in:			
Canada	139.0	134.5	4.5
Japan	64.1	18.4	45.7
Hong Kong SAR	29.4	20.0	9.4
United Kingdom	249.2	188.4	60.8
Netherlands	131.9	68.3	63.6
Canadian investment in:			
United States	118.5	108.6	9.9
Japan	4.4	1.6	2.8
United Kingdom	24.9	13.1	11.8
Netherlands	7.3	0.7	6.6
Japanese investment in:			
United States	140.3	159.0	-18.7
Canada	4.2	5.0	-1.2
Hong Kong SAR	5.5	12.4	-6.9
United Kingdom	33.1	15.8	17.3
Netherlands	19.5	9.2	10.3
Hong Kong SAR investment in:			
United States	2.8	1.6	1.2
United Kingdom	2.4	5.1	-2.7
United Kingdom investment in:			
United States	231.7	217.7	14.0
Canada	17.2	15.8	1.4
Japan	2.6	2.4	0.2
Hong Kong SAR	9.4	4.1	5.3
Netherlands	246.7	44.1	202.6
Netherlands investment in:			
United States	87.2	158.0	-70.8
Canada	5.8	8.5	-2.7
Japan	0.8	7.3	-6.5
Hong Kong SAR	1.3	14.5	-13.2
United Kingdom	26.4	90.0	-63.6

Sources:
United States: *Survey of Current Business,* July, 2002. Tables 2.2 & 3.2
Canada: *Foreign direct investment*, *Daily*, March 26, 2003
(http://www.statcan.ca/Daily/English/030326/d030326a.htm) Data by country are available in Table 376-0051 (CANSIM).
Japan: *Balance of Payments Monthly,* April 2002, Tables 15.1 & 15.2
Hong Kong SAR: *External Direct Investment Statistics of Hong Kong 2001.* Appendix III, Tables IIIA & IIIC
United Kingdom Office for National Statistics: http://www.statistics.gov.uk/statbase/Expodata/Spreadsheets/D3804.xls
Netherlands: http://www.statistics.dnb.nl/indexuk.htm

V. KEY CONCEPTS IN THE MEASUREMENT OF FDI

A. Overview

44. As introduced in Section II, the *BPM5* defines direct investment as a category of international investment that reflects the objective of a resident in one economy (the direct investor) obtaining a lasting interest in an enterprise resident in another economy (the direct investment enterprise). The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence by the investor on the management of the enterprise.

45. The concept of direct investment does not necessarily imply control of the direct investment enterprise, as according to *BPM5*, an ownership criterion of only 10 percent of the ordinary or voting shares of the direct investment enterprise is used to define or establish a direct investment relationship. However, in practice a large proportion of FDI capital involves majority-owned subsidiaries and branches. For example, Statistics Canada reported that majority-owned subsidiaries and branches accounted for 93 percent of Canada's stock of inward FDI and 94 percent of the stock of outward FDI in 2001. The 1992 *Report on the Measurement of International Capital Flows* (*Godeaux Report*) reported similar ratios for several industrial countries—94-96 percent of inward FDI and 83-97 percent of outward FDI was accounted for by majority-owned subsidiaries and branches. The *Godeaux Report* also noted that "equity holdings in the range of 10 to 20 or 25 percent accounted for only 1 or 2 percent of the stock of direct investment."

46. The lasting interest in a direct investment enterprise typically involves the establishment of manufacturing facilities, bank premises, warehouses, and other permanent or long-term organizations abroad, but may also involve the operation of mobile equipment, such as drilling rigs, construction activities, and expenditures on exploration for natural resources. This may involve the creation of a new establishment abroad (greenfield investments), joint ventures, or the acquisition of an existing enterprise abroad (M&A). The direct investment enterprises can be incorporated or unincorporated, and include ownership of land and buildings by nonresident enterprises, as well as by nonresident individuals.

47. Once a direct investment relationship has been established, all subsequent capital transactions between the direct investor and the direct investment enterprise and among affiliated enterprises resident in different economies are considered to be direct investment. The direct investment relationship extends to certain other enterprises indirectly owned by the direct investor. Thus, direct investment enterprises comprise nonresident subsidiaries, associates, and branches either directly or indirectly owned by the direct investor. The inclusion of transactions with and between indirectly-owned entities can greatly extend the number of entities involved in the direct investment relationship, and adds to the complexity of compiling the data.

48. Once established, increases in FDI can take the form of injections of additional equity capital, the reinvestment of earnings not distributed as dividends by subsidiaries and associated enterprises and earnings of branches not distributed, and intercompany debt, both long- and short-term, such as the extension of suppliers' credits or loans, all of which represent FDI capital.

49. FDI capital flows are recorded on a net basis, in the same manner as other cross-border financial flows, i.e., investments during the reporting period are netted against disinvestments, separately for claims and liabilities. FDI is recorded on a directional basis—broadly as an asset for the economy of the direct investor and a liability for the economy of the direct investment enterprise.

50. Two recording features—that of recording transactions with indirectly-owned direct investment enterprises (e.g., transactions between two foreign subsidiaries of the direct investor located in different economies) and the netting of certain transactions between the direct investor and the direct investment enterprise (reverse investment)—appear to pose special difficulties for compilation and contribute to asymmetries in the recording of FDI.[22] These two items are discussed in Box 5. Other selected recording features of FDI transactions, stocks, and investment income are described in the following paragraphs. Some of these features—such as applying the Current Operating Performance Concept to measure direct investment earnings and the valuation of direct investment stocks—also pose difficulties for compilation.

B. FDI Capital Flows

51. Equity capital covers equity in branches, voting or nonvoting shares in subsidiaries (> 50 percent ownership) and associates (10–50 percent ownership), and other capital contributions, which can include the provision of machinery or other capital equipment, raw materials, and technical know-how.

52. A direct investor can also increase its direct investment equity through the reinvestment of earnings of the direct investment enterprise, which consist of the direct investors' share (in proportion to equity held) of earnings not distributed as dividends by subsidiaries or associates and earnings of branches not remitted to the direct investor during the reporting period. In conformity with the double entry system for constructing the balance of payments, the *BPM5* recommends, for the economy of the direct investor, the recording of a credit in reinvested earnings under FDI investment income for the amount of the reinvested or undistributed earnings of the direct investment enterprise abroad, together with an

[22] See the SIMSDI cross-country comparison tables posted on the IMF's website at http://www.imf.org/external/np/sta/sta/di/tables.htm#met for other examples of differences in compilation practice.

Box 5. Treatment of Indirectly-owned Enterprises and Reverse Investment

Indirectly-owned direct investment enterprises

Once a direct investment relationship has been established, all subsequent capital transactions between the direct investor and the direct investment enterprise and among affiliated enterprises resident in different economies are considered to be direct investment. In other words, the direct investment relationship extends to certain other enterprises indirectly owned by the direct investor. Thus, the direct investment enterprises comprise: (i) nonresident subsidiaries (enterprises in which the investor owns more than 50 percent), (ii) nonresident associates (enterprises in which the investor owns 10–50 percent), and (iii) nonresident branches (wholly or jointly owned unincorporated enterprises) either directly or indirectly owned by the direct investor. In the OECD's *Benchmark Definition of Foreign Direct Investment* the treatment of indirectly-owned direct investment enterprises is referred to as the "Fully Consolidated System." Countries have reported difficulties in obtaining the level of detail needed to track the chain of ownership of indirectly-owned enterprises, particularly for multinational corporations that have a large global base. Only 11 of the 61 countries surveyed in the 2001 SIMSDI update fully applied the "Fully Consolidated System" for their inward FDI transactions.

Reverse investment

Reverse investment occurs when a direct investment enterprise acquires a financial claim on its direct investor. Because direct investment is recorded on a directional basis, capital invested by the direct investment enterprise in its direct investor is regarded as an offset to capital invested in a direct investment enterprise by its direct investor or its related enterprises, except in instances when the equity participations are at least 10 percent in both directions. For example, if the direct investment enterprise acquires equity in its direct investor that represents less than 10 percent of the total equity of the direct investor, that investment would be recorded under FDI in the reporting economy in line with the directional basis for recording direct investment (see classification below). In effect, the equity investment is regarded as an offset to the capital invested by the direct investor (i.e., as disinvestment). Similarly, a reduction in inward FDI would be recorded if the direct investment enterprise makes a loan to the direct investor. However, in cases where the equity participation by the direct investment enterprise in its direct investor reaches, or exceeds, 10 percent of the total equity of the direct investor, the *BPM5* recommends that two direct investment relationships be established, i.e., the investment by the direct investment enterprise in its direct investor or related enterprise is regarded as the establishment of a direct investment abroad.

Direct Investment Capital Flows

Abroad	*In reporting economy*
Equity capital	Equity capital
Claims on affiliated enterprises	Claims on direct investors*
Liabilities to affiliated enterprises*	Liabilities to direct investors
Reinvested earnings	Reinvested earnings
Other capital	Other capital
Claims on affiliated enterprises	Claims on direct investors*
Liabilities to affiliated enterprises*#	Liabilities to direct investors #

* Reverse investment
# Also represents a component of external debt

offsetting debit entry under FDI abroad to reflect the net increase in investment arising from the undistributed earnings.[23] The rationale for this "imputation" is that the direct investor has consciously chosen to forgo a distribution of income and elected to increase its investment in the direct investment enterprise.

53. Like other financial transactions, undistributed earnings are recorded on a net basis—earnings from operations are netted against any operational losses incurred during the reporting period. Earnings should be measured net of host country income and corporation taxes and depreciation, and exclude realized and unrealized capital gains and losses, write-offs, and realized and unrealized exchange rate gains and losses, viz., the "Current Operating Performance Concept" of recording direct investment earnings. If operating losses exceed profits, the recommended recording remains the same as above, except that a net debit would be recorded in reinvested earnings under direct investment income in the current account and a credit would be recorded under FDI abroad to reflect the net decrease in investment arising from the losses. At times, this recording practice can give rise to peculiar results in the current account, such as negative investment income receivable, whenever unusually large losses are incurred by direct investment enterprises abroad. (Conversely, the economy of the direct investment enterprise would record a credit under investment income payable.)

54. The international statistical methodology also recommends that the reinvested earnings of indirectly-owned direct investment enterprises (see Box 5) be included in proportion to the indirect ownership of the equity of those enterprises, which may be difficult to measure when they extend down through a chain of affiliates.[24] The ability of compilers to gather the necessary data may also be constrained by accounting conventions regarding the preparation of consolidated company accounts.

55. The third component of FDI capital—other capital—covers intercompany debt, i.e., the extension of trade credits, loans, and other advances to the direct investment enterprise. The *BPM5* makes two important exceptions. Intercompany debt transactions between affiliated banks (depository institutions) and between affiliated financial intermediaries and auxiliaries (e.g., security dealers) recorded under FDI are limited to those transactions associated with permanent debt (loan capital representing a permanent interest)

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[23] The concept of reinvested earnings does not apply to the balance of payments category of portfolio investment equities.

[24] At an OECD workshop on international investment statistics held in March 2003, experts concurred with an IMF paper that raised the possibility that at the global level the inclusion of reinvested earnings of indirectly-owned direct investment enterprises resulted in double counting of earnings in instances of an extended chain of ownership. This issue will be reviewed in the context of the revision of *BPM5*, which is discussed in Section VII below.

and equity (share capital) investment, or in the case of branches, fixed assets.[25] Second, intercompany transactions in financial derivatives are not considered to be FDI.[26]

Cross-border mergers and acquisitions (M&A)

56. The surge in FDI flows during 1998-2000 was driven by cross-border M&A, which reached a record US$1.1 trillion in 2000. Data on cross-border M&A transactions are published in UNCTAD's *World Investment Report* and are based on information provided by Thomson Financial, a private commercial database. Although M&A data reported by commercial databases are widely used by the financial press and other users of business statistics, studies undertaken by the OECD and ECB indicate that they cannot be used as a source for FDI data, and should be used by national compilers only to check that all cross-border M&A transactions have been reviewed for possible inclusion in the FDI data. Data on inward M&A supplied by Dealogic, another commercial database, were published in 2002 in the OECD's *International Investment Perspectives*, together with official country data on total FDI transactions. There were significant differences between the two sets of data and in many cases the M&A transactions reported by the private commercial database were higher than the data on total inward FDI reported in the official balance of payments statistics.

57. Variations in the definitions of residence and the percentage ownership used to determine a FDI relationship account for some of the differences between the two sets of data. However, the most important difference appears to arise from the method used for recording the transaction, as the data in the private commercial databases include financing from domestic sources, or from unrelated foreign sources, that are not FDI transactions. In addition, in some cases the data include M&A between foreign affiliates and firms located in the same host economy.

58. The precise differences between the figures on cross-border M&A transactions recorded in the private commercial databases and the amounts that result in FDI cannot be accurately identified in many countries, as only a few OECD countries presently compile and

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[25] Deposits, loans, financial derivatives, and other claims and liabilities related to usual banking and financial intermediation activities between affiliated banks and between affiliated financial intermediaries are classified, as appropriate, under portfolio investment, financial derivatives, or other investment in the balance of payments and IIP.

[26] In June 2002, the *BPM5* treatment was revised to record financial derivatives involving affiliated enterprises under the category of financial derivatives in the balance of payments and IIP. However, it was noted that some such financial derivatives may not be able to be identified and would therefore be included indistinguishably in direct investment (other capital).

disseminate FDI data showing "of which" lines for M&A.[27] [28] However, the official 2000 data for Canada for inward M&A transactions that resulted in FDI flows show a figure of US$44 billion (Can$65 billion),[29] which is significantly lower than the figure for total inward cross-border M&A of US$139 billion (Can$207 billion) published in the OECD's *International Investment Perspectives.*

Special Purpose Entities (SPEs)

59. It is useful to explain the treatment of SPEs, which the *BPM5* recommends be included as FDI provided that they meet the criteria stated in the previous paragraphs. SPEs, which are frequently established in offshore financial centers, engage primarily in international transactions but have few or no local operations. Although SPEs may have different structures (e.g., holding company, regional headquarters) or purposes (e.g., administration, facilitation of financing), they are, according to the *BPM5*, an integral part of the structure of the direct investment network as are, for the most part, SPE transactions with other members of the direct investment group.

60. In recent years, the use of SPEs for "round tripping" has attracted attention in connection with the official data on FDI inflows to a number of Asian economies. The term "round tripping" refers to the practice of channeling local funds to SPEs abroad and the subsequent return of the funds to the local economy in the form of FDI capital. These transactions are motivated by tax and other incentives available to foreign investors. Although some analysts believe this type of investment leads to an overstatement of the true magnitude of FDI, the recording of such transactions under FDI is in conformity with recommendations in the international statistical manuals. The funds channeled to the SPE (debit) would be recorded as outward FDI and the return flow to the local economy (credit) would be regarded as inward FDI.

C. FDI Stocks

61. The classification of the stock of FDI assets and liabilities in the IIP is virtually identical to that shown for financial flows in Box 5. The only difference is that equity capital and reinvested earnings are combined into a single category in the IIP. The various factors that contribute to changes in the IIP are presented in Figure 4.

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[27] These countries include Canada, Mexico, and the United Kingdom.

[28] At the instruction of the ASEAN Investment Area Ministerial Council, work by ASEAN countries on collecting and reporting of cross-border merger and acquisition transactions was initiated with the first set of such data to be reported to the Ministers in September 2003 (*Statistics of Foreign Direct Investment in ASEAN*, 2002).

[29] *Canada's Balance of International Payments*, Fourth Quarter 2001, Page 101, Statistics Canada Catalogue 67-001.

Figure 4: Factors Accounting for Change in the International Investment Position (IIP)

		Balance of Payments				
		FINANCIAL ACCOUNT	OTHER CHANGES IN POSITION			
	Position at beginning of period	**Transactions** Plus	**Price changes** Plus	**Exchange rate changes** plus	**Other adjustments** plus	**Position at end of period** =
IIP	**Assets** 120 **Liabilities** 100 **Net IIP** 20	-15 5 -20	7 - 7	-2 4 -6	1 -2 3	111 **Assets** 107 **Liabilities** 4 **Net IIP**

62. In addition to the capital flows (including reinvested earnings) discussed above, other factors that contribute to increases/decreases in the stock of FDI in the IIP include:

- Price changes, e.g., changes in the market value of listed equity securities of direct investment enterprises; changes in the market value of holdings of land and buildings;
- Exchange rate changes, e.g., impact of valuation changes on foreign currency denominated loans from direct investors to direct investment enterprises (and reverse investment);
- Other adjustments:
  - Reclassifications, e.g., a portfolio investor that owns, for example, eight percent of the voting shares of an enterprise abroad increases the level of holdings to 10 percent. The previous eight percent ownership would be reclassified from portfolio investment to direct investment in the IIP in the current reporting period (the additional two percent investment would be recorded as an FDI transaction in the balance of payments in the current period); another example would be where the direct investment enterprise acquires incrementally 10 percent or more of the voting shares of the direct investor. In this case, any equity holdings below the 10 percent threshold would be reclassified (when the 10 percent threshold is reached) from direct investment in the reporting economy (reverse investment) to direct investment abroad;
  - Write-downs, e.g., the direct investment enterprise is no longer a viable concern; natural resources owned by a mining enterprise have been fully depleted; exploration for natural resources proves unsuccessful, such as a “dry well.”

63. Trade credits, loans, and other advances from foreign direct investors also constitute a component of the external debt position in the economy of the direct investment enterprise.[30] The same applies for reverse investment, where the direct investor borrows funds from the direct investment enterprise (see Box 5). In contrast to the portfolio and other investment components of the financial account, no distinction is made in the *BPM5* standard components between short- and long-term investments within FDI capital, although some countries do compile such data.[31] If the data are available to the compilers, the inter-agency *External Debt Statistics: Guide for Compilers and Users*, published by the IMF in mid-2003, recommends the dissemination of a short/long-term maturity attribution of intercompany debt.

64. There are activities related to FDI that are not recorded in the balance of payments or IIP but which can subsequently increase (or decrease) the direct investor's equity in the direct investment enterprise through an increase or decrease in reinvested earnings. For example, the operations of the direct investment enterprise can be financed through local currency borrowing in the domestic market by the direct investment enterprise, which would not be recorded in the balance of payments as it represents a transaction between two resident entities. These funds can be employed as working capital or to expand production, which could increase earnings that accrue to the direct investor (in proportion to equity held).

65. Direct investment enterprises can also expand operations in the local economy (or abroad) through M&A, which need not give rise to FDI transactions with the initial foreign direct investor or with other affiliates that are part of the " related group" if the transactions were financed locally or in international markets. Here, too, the direct investor's equity in the direct investment enterprise can increase or decrease through reinvested earnings, as well as any revaluations that affect the books of the direct investment enterprise. For example, revaluations may result from capital gains and losses realized from the partial sale of a direct investment enterprise's assets for an amount different from the assets' historical cost.[32]

[30] Gross external debt, at any given time, is the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to nonresidents by residents of an economy (paragraph 2.3 of *External Debt Statistics: Guide for Compilers and Users*). If an intercompany liability meets this definition, it is part of external debt.

[31] An IMF survey conducted in 1999 in connection with the strengthening of the external debt statistics in the SDDS showed that nearly half of the 48 reporting countries were able to compile data on short-term external debt (on an original maturity basis) related to direct investment.

[32] Further detail on this type of revaluation can be found in the article *A Guide to BEA Statistics on U.S. Multinational Companies,* in the *Survey of Current Business*, March 1995. (Also available on the Internet at http://www.bea.doc.gov/bea/articles/internat/usinvest/1995/0395iid.pdf)

Valuation of FDI stocks

66. The *BPM5* recommends that all external financial assets and liabilities recorded in the IIP be measured at current market prices as of the dates involved. While market valuations for FDI can be computed where the shares of the direct investment enterprise (or the direct investor) are listed on a stock exchange, difficulties arise in valuing wholly-owned subsidiaries and branches, which make up a significant part of overall FDI. For this reason, many compilers use book values from the balance sheets of direct investment enterprises (or the direct investor) to determine the value of the stock of FDI as this represents the only data source that is readily available to them.

67. If a country compiles its FDI stock data based on the book value of the direct investment enterprise abroad, there may be large differences between the financial flows recorded in the balance of payments and the resultant change in stocks when transactions involving cross-border M&A are made at prices that exceed the valuations on the books of the direct investment enterprise. The excess over book value would be shown as a valuation adjustment in the reconciliation of changes in IIP positions.

68. An increasing number of countries are compiling estimates of FDI stocks on a market value basis, and different approaches are used in deriving these estimates. For example, since 1991, the U.S. Bureau of Economic Analysis has used two measures of valuing FDI positions—the current-cost method and the market-value method—as an alternative to the book/historical cost basis. The current-cost method values the U.S. and foreign parents' shares of their affiliates' investment in plant and equipment, using the current cost of capital equipment; in land, using general price indexes; and in inventories, using estimates of their replacement costs. The market-value method values the owner's equity share of direct investment using indexes of stock market prices. The Australian Bureau of Statistics has, since 1985, gathered data on the market value of FDI equity positions directly from surveys of enterprises. For unlisted enterprises, if a market value is not available, the reporting enterprise is asked to estimate the market value by one of the following methods—a recent transaction price; director's valuation; or net asset value (total assets less nonequity liabilities and less paid up value of nonvoting shares).[33] In the case of Singapore, which recently began disseminating IIP statistics, the Singapore Department of Statistics values only the listed companies at market values, while unlisted companies are recorded at book values. Israel follows a similar practice.

69. The United States compiles FDI data on both a market and a book value basis and the data for 2001 show that for FDI abroad the book value was 60 percent of the corresponding market value. For FDI in the United States the book value was 52 percent of the market value. U.S. bilateral direct investment data are available only on a book value basis. Hong Kong SAR also publishes stock data on both book and market valuations. Book

[33] To the extent that assets are not revalued to reflect market values, the calculation of net asset values will have deficiencies as a proxy for market value. However, Australian accounting standards require fairly frequent assets revaluations.

values and market values are closer—for outward FDI the book value is 84 percent of market value positions (end-2001) while the book value of the stock of inward FDI is 77 percent of the market value. The closer ratios may be explained by the fact that the FDI stock for Hong Kong SAR reflects more recent acquisitions and investments than the stock of FDI for the United States. Hong Kong SAR bilateral direct investment data are available according to both valuation methods.

Geographic allocation of FDI stocks

70. Information on the geographic allocation of foreign financial assets and liabilities (as well as transactions) are useful to analyze different aspects of a country's economic and financial relationships. Such data are being compiled for FDI stocks by a growing number of countries. The most common approach employed by countries is to allocate claims to the immediate country of domicile of the direct investment enterprise (host country)/direct investor (investing country), which is in line with the debtor/creditor principle recommended in *BPM5*.

71. However, analysis of geographic detail on the debtor/creditor principle (immediate country basis) may be complicated whenever holding companies are used to channel investments to different countries, including funds that return to the country of the direct investor ("round tripping"). In these cases, the data may simply show large investments in holding companies domiciled in a small number of offshore and other financial centers. As shown in the discussion of imbalances in bilateral data on FDI stocks, the Netherlands excludes SPEs in the geographic breakdowns of its FDI stock data, while Canada attempts to allocate positions where the first foreign direct investment enterprise is a foreign holding company to the ultimate country of destination.

72. In some economies, the use of enterprises abroad, such as SPEs, for the purpose of "round tripping" accounts for a significant portion of the overall stock of FDI assets and liabilities. For example, Hong Kong SAR compiles an alternative set of statistics, as supplementary information, to analyze direct investment. These statistics remove the effect of round tripping. Excluding inward/outward FDI from/to "nonoperating companies" set up by Hong Kong SAR companies in offshore financial centers for indirect channeling of funds had the effect of reducing the end-2001 stock of inward and outward FDI valued at market prices by 32 percent and 38 percent, respectively. [34]

73. In order to identify who ultimately owns or controls the affiliate and derives the benefits associated with ownership or control, some countries compile geographic data on the basis of country of ultimate beneficial owner (UBO). Two countries (Denmark and the United States) compile and disseminate geographic breakdowns of inward position data on

[34] *External Direct Investment Statistics of Hong Kong 2001,* Tables IIA and IIC.

the basis of the country of the UBO.[35] The U.S. Bureau of Economic Analysis defines the UBO as "that person (in the broad legal sense, including a company), proceeding up the affiliate's ownership chain beginning with the foreign parent, that is not owned more than 50 percent by another person."[36]

D. FDI Investment Income

74. The *BPM5* standard components for investment income pertaining to the ownership of direct investment capital include income on equity and income on debt. Income on equity is subdivided into (i) distributed income (dividends and distributed branch profits), and (ii) reinvested earnings and undistributed branch profits. In line with the directional recording of FDI transactions, income on FDI is presented on a net basis for direct investment made abroad and in the reporting economy—that is, receipts of income on equity and interest on debt instruments less payments of income on equity and interest on debt instruments. The *BPM5* recommends that interest be recorded on an accrual basis. Dividends should be recorded on the date they are payable/declared payable.

75. The measurement of operating profits, and therefore reinvested earnings, can be affected by the pricing adopted by related parties for bookkeeping purposes, often referred to as transfer pricing. Transfer pricing not based closely on market considerations could be common among affiliated enterprises conducting business across national boundaries because disparities between taxes and regulations imposed by different governments are a factor in management decisions on the optimum allocation of profits among units.[37] While *BPM5* recommends that in the relatively rare cases where transfer pricing is identified and quantified the relevant entry be adjusted to an arm's length value, compilers can rarely identify and quantify these instances. A recent paper by the U.S. Bureau of Economic Analysis[38] considers the question: *Is intra-firm trade conducted at arm's length prices, or are prices set to shift profits and avoid taxes*? and concludes that although extensive studies have been made of this topic, no consensus opinion has been reached and that additional data must be collected and further research undertaken before a consensus can be reached.

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[35] Two other countries, Estonia and Portugal, compile, but do not disseminate, geographic breakdowns of inward FDI position data on an UBO basis. In addition, inward position data for Luxembourg compiled on an UBO basis are disseminated in the OECD and Eurostat publications but not in the national publications.

[36] *Survey of Current Business*, September 2002, Page 39.

[37] *BPM5*, paragraph 97.

[38] *Globalization and Multinational Companies: What Are the Questions, and How Well Are We Doing in Answering Them?*, June 2003, http://www.bea.gov/bea/papers/Globalization.pdf

76. Direct investors also earn income through management and other fees and charges levied on direct investment enterprises, which are recorded under business services transactions in the current account of the balance of payments. Although such charges are not separately identified in the standard balance of payments reports submitted to STA, data published by countries provide some indication of their significance.[39] For example, U.S. receipts of royalties and license fees from direct investment affiliates abroad averaged US$24 billion a year during 1999–2001, which compared to distributed earnings on U.S. direct investment abroad of US$45 billion.[40]

VI. Country Practices in the Implementation of International Recommendations for FDI Statistics

A. Key Findings of the 2001 SIMSDI Update

77. This section summarizes the findings from the 2001 update of the Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI) conducted by the IMF and the OECD (see Box 3). The forthcoming report on the 2001 SIMSDI update—*Foreign Direct Investment Statistics: How Countries Measure FDI, 2001*—will provide a comprehensive analysis of all of the items covered in the survey questionnaire and include tables showing country-by-country comparisons of recording practices of the 61 countries that participated in the update. The report is expected to be published in late October 2003 and highlights of the results are provided in Box 6.

78. The results showed that there have been marked improvements in the availability of FDI statistics in the four years between the 1997 SIMSDI survey and the 2001 update—in particular, for inward and outward position data (an additional 13 and 14 countries, respectively) and for inward and outward FDI financial flows (an additional 9 and 10 countries, respectively). In addition, there have been improvements in the reporting of data on FDI income, with an additional 10 countries reporting data on inward FDI income on equity, an additional 11 reporting data on inward reinvested earnings, and an additional 10 reporting data on inward FDI income on debt.

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[39] Although the extended balance of payments services classification presented in the *Manual on Statistics of International Trade in Services* contains only a residual category relating to transactions between related parties (services between related enterprises, n.i.e.), the *Manual* recommends that data on transactions in services should separately identify, at the total level, transactions with related enterprises and transactions with unrelated enterprises. Statistics Canada, for example, provides a complete breakdown of commercial services transactions between affiliated and other transactors and by type of service. The *Manual* notes that such information is helpful in understanding the degree to which globalization of services supply is taking place.

[40] *Survey of Current Business*, September 2002.

79. During the same period, there was also a significant increase in the compilation of data showing geographic breakdowns, particularly for the inward and outward FDI financial flows data (an additional 11 and 13 countries, respectively) and for the position data (an additional 11 and 12 countries, respectively). Similar increases were seen in the number of countries compiling data showing breakdowns by industrial sectors.

80. The four years between the 1997 SIMSDI survey and the 2001 update also saw significant improvements in the items covered by the FDI statistics, with a marked increase in the number of countries now following the international recommendations in a number of areas. For the data on equity capital, increases were seen in the number of countries that include noncash acquisitions of equity (such as through the provision of capital equipment) and real estate owned by nonresidents, while for the data on other capital, significantly more countries include intercompany loans, both short-term and long-term, and financial leases. Other areas where the coverage of the data improved markedly were the inclusion of activities of SPEs in both the inward and outward FDI transactions data, the inclusion of relevant activities of offshore enterprises in the outward FDI transactions data, and the inclusion of expenditure on natural resources exploration in both the inward and outward FDI transactions data.

81. The results of the 2001 SIMSDI update also showed that there are now a number of areas where more than three quarters of the 61 countries that participated follow the international recommendations applicable for their circumstances—namely, the use of the 10 percent ownership rule as the basic criterion for defining direct investment enterprises and direct investors, the inclusion of equity capital between affiliated banks and between affiliated financial intermediaries, the correct recording of reverse investment equity transactions when two FDI relationships have been established, the inclusion of purchases and sale of real estate by nonresidents, and the inclusion of data on activities of SPEs and offshore enterprises.

82. However, despite these improvements in the implementation of the international standards since the 1997 SIMSDI survey, the 2001 update indicated that there are still a number of aspects of the international recommendations that are not yet followed by the majority of the 61 countries that participated in the survey:

- Only 11 countries fully applied the recommendations regarding the inclusion of indirectly-owned direct investment enterprises for their inward FDI transactions data—the same number as in1997.

- Only 19 countries fully apply the recommended Current Operating Performance Concept for measuring their direct investment earnings in their inward FDI statistics.

Box 6. Highlights of the 2001 SIMSDI Results

Areas where there have been marked improvements since 1997:

- Availability of FDI statistics, particularly:
  - Position data
  - Income data (including reinvested earnings)
  - Geographic and industrial sector breakdowns

- Coverage of the FDI statistics, particularly the inclusion of:
  - Noncash acquisitions of equity
  - Intercompany loans and financial leases
  - Real estate owned by nonresidents
  - Activities of Special Purpose Entities (SPEs)
  - Activities of offshore enterprises in the outward FDI statistics
  - Expenditure on natural resource exploration

Areas where more than 75 percent of countries surveyed follow the international recommendations applicable to their economy:

- Use of the 10 percent ownership rule as the basic criterion for defining FDI relationships
- Equity capital transactions between affiliated banks and between affiliated financial intermediaries
- Recording of reverse investment equity transactions when two FDI relationships have been established
- Inclusion of data on real estate owned by nonresidents
- Inclusion of data on activities of SPEs
- Inclusion of data on activities of offshore enterprises

Areas where, despite improvements, the majority of countries do not yet follow the international recommendations:

- Inclusion of activities of indirectly-owned direct investment enterprises
- Use of the Current Operating Performance Concept to measure direct investment earnings
- Time of recording FDI income on equity (when payable or declared payable) and income on debt (when accrued)
- Recording of reverse investment transactions when the FDI relationship is in one direction only
- Inclusion of activities involving construction enterprises and mobile equipment
- Valuation of FDI positions (assets and liabilities)

- Only 22 countries record income on equity (dividends and distributed branch profits) in their inward and outward FDI transactions data at the time they are payable as recommended, and only 25 record income on debt (interest) as it is accruing for their inward data and 22 do so for their outward data.

- Few countries correctly classify reverse investments when the FDI relationship is in one direction only (17 countries in the case of reverse investment involving the acquisition of equity by the direct investment enterprise in its direct investor and 25 in cases involving the provision of loans).

- Only 23 countries include in their inward FDI transactions data the activities of quasi-corporations involving construction enterprises and even fewer include the activities of quasi-corporations involving mobile equipment, such as ships, aircraft, and drilling rigs.

- Few countries value their FDI asset and liability positions at market prices (only 21 countries value their inward equity capital positions at market prices and even fewer value their inward other capital positions, and outward equity capital and other capital positions at market prices).

83. The following section addresses in more detail some of these aspects, focusing in particular on the FDI items discussed earlier, which are primarily the same items that the 1992 *Godeaux Report* identified as being important contributors to the discrepancies in the global data on FDI capital flows.

B. Selected Recording Issues

84. Both industrial and developing countries have difficulties in implementing fully the international recommendations for FDI statistics, which require adequate resources to conduct surveys, well-trained staff, and a high level of cooperation from the private sector respondents. The latter, in turn, may also have difficulties in reporting data that conform to the international statistical recommendations because, for example, of countries' accounting or taxation regulations and/or a misunderstanding of the reporting requirements.

Direct investment threshold

85. On a very positive note, the 2001 SIMSDI update showed that 90 percent (55 countries including all OECD countries except Turkey) of the survey respondents use the 10 percent ownership threshold as their basic criterion in recording inward FDI transactions. However, contrary to the international recommendations, about one third of these countries, including an almost equal number of OECD and non-OECD countries, also employ additional criteria in making a final determination of a FDI transaction or relationship. This might include, as in the case of Argentina, Belgium, Botswana, Israel, Korea, Mexico, the Netherlands, Nigeria, Norway, and Portugal, recognizing a direct investment relationship in cases where the nonresident direct investor owns less than 10 percent of the voting shares but has an effective voice in the management of the enterprise. Other deviations from the

10 percent ownership criterion can be the application of a value threshold or differing treatments of incorporated and unincorporated enterprises. For example, one G-7 country (Italy) treats all unincorporated enterprises with foreign ownership as FDI, regardless of the percentage owned by nonresidents. Moreover, in some cases, the definitions employed by countries may differ between the inward and outward FDI.

86. Such differences result in an inconsistent classification of FDI flows and stocks by countries. However, the 1992 *Godeaux Report* concluded that the use of different ownership thresholds likely did not contribute significantly to global asymmetries, because a very high proportion of direct investment occurs in branches or in majority-owned subsidiaries, which both the investing and host countries would regard as direct investment enterprises.

Measurement of earnings

87. The *BPM5* and the *Benchmark Definition* recommend the use of the "Current Operating Performance Concept" to measure direct investment earnings, which defines the earnings of an enterprise as income from normal operations before nonrecurring items (e.g., write-offs) and any realized or unrealized capital gains and losses and realized or unrealized foreign exchange rate gains and losses are accounted for. Operational earnings of the direct investment enterprise should be reported after provisions for depreciation and income and corporation tax charged on these earnings have been deducted. The statistical recommendations also call for the inclusion of reinvested earnings data of indirectly-owned direct investment enterprises.

88. The 2001 SIMSDI update showed that 19 countries (31 percent of the 61 surveyed) fully apply the Current Operating Performance Concept in the measurement of inward direct investment earnings. This was more than double the number of countries that indicated in the 1997 survey that they followed this practice. Eight of the countries that reported implementing the *BPM5* practice were OECD members, including two G-7 countries—the United Kingdom and the United States.

89. In many countries, enterprises use the "All-inclusive Concept" of earnings measurement, under which earnings are the amount remaining after all items (including capital and exchange rate gains/losses and write-offs) that cause a change in shareholders' or investors' interests during the period are allowed for. According to the 2001 SIMSDI update, around half of the surveyed countries exclude exchange rate gains/losses, write-offs, and realized capital gains/losses, while approximately two thirds exclude unrealized capital gains and losses. Also, approximately a quarter of the countries reported that the earnings measures do not include deductions for depreciation or make provision for host country income/corporation taxes, as called for under the Current Operating Performance Concept for earnings measurement.

90. The use of different concepts of measuring operating earnings for determining reinvested earnings and the varying coverage of earnings of indirectly-owned direct investment enterprises are likely to be significant contributors to the asymmetries in bilateral

and global data on direct investment. More generally, the SIMSDI showed that some countries compile estimates of reinvested earnings on an annual basis and then divide this amount by four to derive quarterly estimates. The discussion of imbalances in global FDI income flows in Section IV showed a persistent excess of credits of reinvested earnings from direct investment abroad in comparison to the debits recorded by the economies of the direct investment enterprises.

Indirectly-owned direct investment enterprises

91. While compilers are generally able to record and correctly classify transactions between the direct investor and the directly-owned direct investment enterprise, extending the coverage to include indirectly-owned direct investment enterprises, as discussed in Box 5, is difficult to implement. Only 11 (18 percent) of the surveyed countries could fully apply the recommended recording treatment for their inward FDI transactions data (no change from 1997),[41] while another 28 (46 percent) countries indicated that they were able to partially apply the treatment. The findings were similar for outward FDI transactions and for the reporting of FDI stock data, except that fewer countries partially apply the recommended recording treatment for stock data.

92. Canada was the only G-7 country that indicated that it was able to fully apply the recommended treatment of including indirectly-owned direct investment enterprises for inward and outward FDI transactions. The other countries that fully apply the treatment to both their inward and outward FDI transactions were Argentina, Australia, Botswana, Denmark, Estonia, Iceland, Ireland, Norway, South Africa, and Sweden.

93. The issue of indirectly-owned enterprises is being reassessed in the upcoming revision of *BPM5* (see Section VII) with the aim of possibly simplifying the present international recommendations which many countries have found difficult to apply or explain to survey respondents. Options being considered are to limit the indirectly-owned enterprises included in the direct investment relationship to either those in which the direct investor has an indirect ownership of 10 percent or more (the so-called U.S. methodology) or to those in which the direct investor has an indirect ownership of 50 percent or more (a proposal favored by a number of European countries).

Reverse investment

94. Reverse investment occurs when a direct investment enterprise has acquired a financial claim on its direct investor, through the acquisition of shares in its direct investor or through the provision of a loan to its direct investor (see Box 5). Only 17 (35 percent) of the

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[41] To be considered in full compliance a country needed to include in its FDI statistics (i) the earnings data of indirectly-owned direct investment enterprises; and (ii) all equity capital and other capital transactions within the group of related enterprises, regardless of the percentage ownership held by the related enterprises in each other.

49 surveyed countries for which reverse investment was known to be applicable record an increase in equity claims on direct investors of less than 10 percent of the total equity of the direct investor as a reduction in FDI in the reporting economy (an increase in equity claims on direct investors), in accordance with the international statistical recommendations. Approximately equal numbers of OECD and non-OECD countries reported that they apply the recommended treatment; Japan is the only G-7 country that did so. Twenty three of the countries that did not implement the *BPM5* treatment record the equity investment in the foreign direct investor as part of portfolio investment assets and a number of others record it as FDI abroad.

95. In the case of reverse investment involving the provision of a loan by the direct investment enterprise to its direct investor when the direct investment enterprise owned less than 10 percent of the total equity of its direct investor, the situation was somewhat better; 25 countries reported that they record a reduction in FDI in the reporting economy (an increase in loan claims on direct investors). These countries include three G-7 countries—Germany, Japan, and the United States—and 13 other OECD countries. Thirteen of the 23 countries that do not apply the *BPM5* treatment, including one G-7 country (the United Kingdom) and two other OECD countries (Hungary and Korea), recorded the loan transactions under other investment assets—loans (i.e., not as FDI).

Special Purpose Entities (SPEs)

96. The 2001 SIMSDI update showed that most of the 40 countries for which SPEs are known to be applicable include SPEs in their inward direct investment statistics; only five of the surveyed countries for which SPEs were applicable (including Bolivia, Malaysia, the Netherlands, and Tunisia), do not include the activities of SPEs in their data on inward FDI transactions. Six exclude them from their inward position data, including Bolivia, Luxembourg, Malaysia, the Netherlands, and Tunisia.

97. In the case of SPEs that have the sole purpose of financial intermediation, the *BPM5* and the *Benchmark Definition* recommend that transactions with affiliated banks and affiliated financial intermediaries, except for permanent debt and equity capital, be excluded from the FDI data.[42] Five countries—four OECD countries (Belgium, Finland, France, and Germany) and one non-OECD country (Argentina) do not follow this recommendation for their inward and outward FDI transactions and position data. In addition, two OECD countries (Canada and the Netherlands) do not apply the recommended treatment for their outward transactions and position data, and one non-OECD country (Chile) does not apply it for its inward and outward transactions data.

[42] In 2002, the international methodology was changed to cover SPEs with the "primary" function of financial intermediation, rather than just those with the "sole" function of financial intermediation as stated in *BPM5*.

Financial intermediation

98. The international statistical methodology recommends that, for transactions between affiliated banks and between affiliated financial intermediaries, only those transactions associated with permanent debt and equity capital should be recorded as direct investment. Deposits, loans, and other claims and liabilities related to the usual banking activities between affiliated banks, and claims and liabilities related to usual financial intermediation activities between financial intermediaries should be excluded from FDI capital and instead be classified under portfolio investment or other investment in the balance of payments statistics, as appropriate. The 2001 SIMSDI update indicated that only two countries—Costa Rica and Guatemala—do not exclude usual banking activities between affiliated banks from their inward FDI and nine countries do not exclude claims and liabilities related to usual financial intermediation activities between affiliated financial intermediaries from their inward FDI data (Belgium, Costa Rica, Finland, Germany, Guatemala, Hungary, Indonesia, Kazakhstan, and Korea—long term loans only).

Valuation of FDI Stocks

99. Although the *BPM5* recommends that market prices be used as the basis of valuation for stocks, it recognizes that in practice there may be some departures from the market price principle in the recording of direct investment, where book values from the balance sheets of direct investment enterprises (or of direct investors) are often used to determine the value of the stock of FDI. These balance sheet values, if recorded on the basis of current market value, would be in general accordance with the principle. If based on historical cost or on an interim but not current revaluation, such balance sheet values would not conform to the recommended valuation principle.

100. The 2001 SIMSDI update showed that, of the 51 reporting countries that compiled data on inward FDI equity positions, 21 countries (41 percent) reported using market values as the primary method of valuation of their inward FDI equity capital positions, 36 countries use book valuations, and some countries use a mixture of market and book valuations. (Only eight countries reported using market valuations in the 1997 SIMSDI.) Approximately equal numbers of OECD and non-OECD countries use market valuations for their inward FDI equity capital positions. The OECD countries are Australia, Austria, Belgium, France, Italy, Mexico, New Zealand, the Slovak Republic, Sweden, and the United States; the non-OECD countries are Botswana, Croatia, Estonia, Hong Kong SAR, Israel, Kazakhstan, Malaysia, Russia, Singapore, South Africa, and Thailand.[43] In the case of Israel and Singapore, only listed companies with direct investment are recorded at market values, and unlisted companies are recorded at book values. South Africa is also able

[43] Croatia and Malaysia compile, but do not disseminate, FDI data on market values. Two other countries—Ecuador and Ireland—who use book valuations as the primary method for valuing inward FDI equity capital reported that they compiled market value data on inward FDI but also do not disseminate them.

to record only part of the equity capital at market values. Valuation practices for outward equity positions were broadly similar.

101. Notwithstanding the increase in the number of countries employing market prices to value direct investment, this is an area that is difficult to measure when company shares are not listed on stock exchanges.[44]

102. In view of the distortions in statistics created by the wide range of valuation practices applied by European Union Member States for the compilation of FDI equity stocks in IIP statistics, a joint ECB/Eurostat Task Force of Foreign Direct Investment recently made a proposal to value euro area inward and outward FDI equity stocks by valuing (i) FDI in listed companies' shares on the basis of stock exchange prices and (ii) FDI in nonlisted companies' shares on the basis of book values, assuming the lack of any appropriate market reference for these companies.[45]

103. In most cases, it is not possible to assess the impact of the above recording practices on the data of individual reporting countries or on the global FDI statistics published by the IMF and UNCTAD. Moreover, it is also difficult to assess whether countries that indicated adherence to a certain recording treatment are indeed able to fully implement the treatment in practice. For example, in the case of reverse investment involving loans to direct investors, one third of the 25 countries that indicated that they implement the recommended treatment did not report such data to the IMF in their balance of payments submissions. The 2001 SIMSDI update indicated that the data sources used by many countries are inadequate for the compilation of FDI statistics that are fully consistent with the recommended methodology. Moreover, because of the dominance of the industrial countries in FDI, it would seem that methodological improvements in these countries would be needed to narrow the sizeable discrepancies that exist in the global FDI data.

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[44] The issue of how countries compile market values for unlisted enterprises will be examined in the 2003 SIMSDI survey.

[45] The task force also recommended that inward and outward FDI equity stocks be reported to the ECB and Eurostat with a split between listed and nonlisted FDI companies, and FDI stocks in listed companies' shares be reported on the basis of both market values and book values. The task force also expressed the opinion that the compilation of FDI stocks should be based on information collected via FDI surveys and that the provision of annual FDI stocks based on the accumulation of balance of payments flows should be discontinued as soon as possible. The proposal calls for data for FDI stocks with the recommended valuation to be sent to the ECB and Eurostat for the first time in September 2006 in reference to end 2004 and end 2005 stocks; this timetable will be reviewed by the end of the year.

VII. Plans to Develop FDI Statistics

104. In light of the growing importance of FDI and the deficiencies in coverage and comparability, improved statistics on FDI capital flows, stocks, and income (including reinvested earnings) are needed for balance of payments projections, surveillance, and vulnerability analysis. More and improved data on FDI stocks are essential also for further developing IIP statistics, which are becoming increasingly important for surveillance and also for their potential use in the revision of quota formulas.

105. STA's forward work program includes a number of initiatives that will assist compilers and users of FDI statistics, both in the availability of more information—data and metadata—and in improvements in statistical methodologies and coverage.

- **Continuation of the SIMSDI project**. The IMF Committee on Balance of Payments Statistics and the OECD strongly support continuing the SIMSDI on an ongoing basis. The IMF and the OECD plan to launch in late 2003 another survey of methodological and dissemination practices with respect to FDI statistics. The questionnaire for the 2003 SIMSDI has been modified to take into account the experience gained from the two previous surveys, as well as recent changes or clarifications of the methodology, and will be sent to significantly more countries than the 61 covered by the 2001 SIMSDI update. As with the 2001 update, a report will be prepared and summary metadata drafted in consultation with national compilers and posted on the IMF's website.

- **Revision of the *BPM5***. In connection with the work program of the IMF Committee on Balance of Payments Statistics, STA has initiated a project to update the recommendations contained in the *BPM5*. This will entail an extensive program of research and consultation with international agencies, regional groups, country compilers, and users of statistics, with the objective of producing a new balance of payments and IIP manual in 2008. The new manual will include, inter alia, a wider discussion of recording issues relating to FDI statistics. The OECD will be revising the *Benchmark Definition* in alignment with the revisions to the *BPM5*. With regard to direct investment, STA and other involved international organizations are already examining a number of issues that will potentially have an impact on the recording of FDI statistics, including the treatment of indirectly-owned direct investment enterprises, with a view to simplifying the international recommendations.

- **Further development of IIP statistics**. At its meeting on June 3, 2002 in the context of further considerations of alternative quota formulas, the Executive Board discussed possible revisions to the formulas used to calculate members' quotas, including broadening the openness measure by including a variable such as the IIP. Many Directors encouraged additional work to improve the collection and reporting of IIP data. In the recent past, STA has undertaken a number of steps to encourage reporting of IIP statistics, including strengthening of the SDDS, requests to countries to report partial IIP data that may be readily available, and the preparation in 2002 of a guide to help countries compile first-time IIP statistics.[46] [47] In 2004, STA intends to conduct a course at the IMF-Singapore Regional Training Institute to guide countries in compiling/improving IIP statistics.

- **Changes in the orientation and delivery of technical assistance in statistics, including FDI statistics**. STA is participating fully in the capacity-building technical assistance centers that are being set up in Africa—African Regional Technical Assistance Centers—to help countries strengthen their domestic institutional framework; each center has one full time statistics advisor, who has access to a budget for short-term experts to assist him in delivering technical assistance in statistics. Also, STA's technical assistance in Africa is increasingly being conducted in the context of implementation of the IMF's General Data Dissemination System to develop capacity in statistics, including in the area of IIP statistics. These programs are expected, inter alia, to improve data reporting to the IMF. STA's considerable training program in external sector statistics has been extended to include separate courses on external debt statistics, which also provide inputs into the recording of FDI (i.e., intercompany debt).[48]

106. The question arises whether these activities are sufficient to address emerging needs or whether a major internationally coordinated effort would be required along the lines of the IMF-sponsored Coordinated Portfolio Investment Survey (CPIS).[49] This initiative, together with the IMF's work on international reserves, the work of the Inter-Agency Task Force on Finance Statistics on external debt, and the Bank for International Settlements's

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[46] As of June 30, 2002, dissemination of an annual IIP statement has been mandatory for SDDS subscribers.

[47] *International Investment Position—A Guide to Data Sources* (2002). Also available on the IMF website. See http://www.imf.org/external/np/sta/iip/guide/index.htm

[48] As indicated in Section IV, STA conducted 32 technical assistance missions and 13 training courses and seminars in external sector statistics in 2002.

[49] Under the auspices of the IMF, a CPIS, involving the voluntary participation of 67 economies, was undertaken at end 2001. This followed the first CPIS, in which 29 major investing economies participated, which was conducted for end 1997. The purpose of the CPIS is to collect information on the stock of cross-border holdings of equities and long- and short-term debt securities valued at market prices and broken down by the economy of residence of the issuer. Holdings of securities that comprise direct investment are out of scope of the survey. From 2002, the CPIS will be conducted on an annual basis. Considerable effort has been made to set standards for compilation of CPIS data by documenting best practices in compilation (see IMF *Coordinated Portfolio Investment Survey Guide,* Second Edition, 2002) and to draw on the synergies released by a coordinated effort to conduct such surveys for a common reference date. The result is a global database of cross-border holdings of securities and derived portfolio investment liabilities with the capacity for showing bilateral and partner country data from the creditor or debtor perspective. See http://www.imf.org/external/np/sta/pi/cpis.htm

International Banking Statistics, has helped countries address data deficiencies in other areas of the external accounts.

107. Following the success of the CPIS, STA proposes to investigate the feasibility of conducting a similar survey in respect of FDI positions, classified by partner country, that would draw on the lessons learned from the CPIS. A coordinated direct investment survey would be a major undertaking and would likely involve a larger number of participating economies than was the case for the portfolio survey. It would also involve coordination with a wider range of involved international organizations, require many participating countries to modify their existing collection and compilation systems or develop new systems, and require more resources to implement than did the CPIS. If it were deemed feasible, it could take at least five years to implement.

108. With the right level of participation, such an undertaking could be expected to create a comprehensive database for use by compilers and users of FDI statistics. There would be improvements in the (i) coverage of FDI (and IIP) statistics; (ii) comparability of FDI statistics across all countries; and (iii) data on the geographic distribution of FDI capital. Regarding the latter, creditor/investor data could be used to generate inward FDI data for nonparticipating countries. More generally, the compiled and partner country data could be used to evaluate and/or identify potential gaps in the coverage of national data on FDI capital and related investment income flows. Such an FDI database would also provide additional information on bilateral links/exposures, complementing the data on portfolio and banking exposures available in the CPIS and the Bank for International Settlements's International Banking Statistics, respectively. This would strengthen the database for vulnerability analysis. Box 7 sets out the objectives of the undertaking and highlights some of the key tasks likely to be involved.

VIII. Resource Implications for the IMF of a Coordinated Direct Investment Survey

109. Preliminary investigations by STA into the conduct of a coordinated direct investment survey would cost US$30,000 and require 0.2 full time equivalents (FTEs) in regular staff positions this year. The cost could be absorbed within the STA budget for FY 2004. The follow-up outreach and feasibility study in FY2005 would require 1½ FTEs and US$100,000 travel costs. OBP confirms that this cost also could be absorbed within the IMF's medium-term expenditure framework. A feasibility study would consider, among other matters, whether the IMF could absorb the considerable additional costs within its medium-term expenditure framework; if not, the survey would not proceed. Consideration would be given to whether some of the resource requirements could be met by other international organizations.

110. The survey would represent an addition to the existing policy base. In the medium-term horizon, and depending upon the survey model chosen, STA's preparatory work leading up to the survey and the conduct of the survey could require as much as

2½ FTEs per year during FY2006-08 and US$1 million of other costs (travel, accommodation, and per diem for workshop participants). The IMF's overall cost of undertaking a single benchmark survey of FDI positions could amount to around US$3 million. The earliest that the survey could be conducted would be for year-end 2007.

Box 7. Outline of Tasks for the Conduct of a Coordinated Direct Investment Survey

The implementation of an internationally coordinated survey of FDI positions would entail considerable organization and staff and financial resources in countries and international organizations. In several important respects such an undertaking would be larger in scope than the 1997 and 2001 Coordinated Portfolio Investment Surveys (CPIS), which were conducted under the auspices of the IMF. The following sets out the objectives of the undertaking and highlights some of the key tasks likely to be involved in the conduct of a coordinated direct investment survey (CDIS):

Objectives: (i) Simultaneous collection using standard methodologies of comprehensive information, with geographic breakdowns (on an immediate country basis) of the stock of FDI; the survey would involve the collection of stock data on inward direct investment by all participating countries, and possibly stock data on outward direct investment as well for the large investing countries; (ii) the exchange of the bilateral data among countries; (iii) spreading best practice in the compilation of stock data in order to develop IIP statistics; and (iv) provision of an assessment of the global information on the stock of FDI capital, including the geographic distribution of this capital.

Key tasks

1. *Coverage*: Likely to involve the participation of significantly more than the 67 economies that participated in the 2001 CPIS, given the wider distribution of FDI capital compared with portfolio investment capital.

2. *Inter-agency coordination*: In addition to the IMF, a CDIS would likely also involve the OECD, UNCTAD, and the World Bank given the roles these agencies play in direct investment data collection and technical assistance, as well as regional organizations such as Eurostat. By comparison, the CPIS was principally overseen by the IMF.

3. *Country acceptance of guidelines*: Some major industrial countries with long-established collection systems may be reluctant to modify their systems to collect the data agreed for the CDIS. Also, to effect a successful exchange of bilateral data it would be important to cover all of the large investing countries.

4. *Outreach and feasibility study*: The first tasks would be to (i) obtain the advice of the IMF Committee on Balance of Payments Statistics (the Committee); and (ii) conduct a feasibility study, under the auspices of the Committee, that would include gauging international agency and country interest in the project and determining whether the IMF could absorb the costs within its medium-term expenditure framework.

5. *Preparatory work*: If the CDIS is deemed feasible by the Committee and the staff, (i) report to the Executive Board; (ii) organize a task force comprising national compilers and the involved international agencies to establish the timetable and scope of the survey, agreed definitions, valuation principles, and modalities for data collection (and exchange of data); (iii) prepare a survey guide; and (iv) conduct a series of regional seminars and workshops to explain reporting requirements and resolve technical difficulties.

6. *Country data processing and dissemination*: Tasks would include (i) design and develop the survey and the collection and processing system; (ii) conduct the survey; (iii) review/check enterprise reports and compile statistics; (iv) prepare metadata on how the survey was conducted; and (v) analyze and disseminate data, and report to the IMF.

7. *IMF data processing and dissemination*: Tasks would include (i) design and develop the data processing system, including the mechanism for exchange of bilateral data; (ii) review/check country data submissions and related metadata, including assessments of data quality; and (iii) analyze data and produce publication.

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