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**Report on the OECD Workshop on Foreign Direct Investment Statistics  
held on June 5-7, 2001, Paris**

**Update of Paper Presented at the  
Fourteenth Meeting of the IMF Committee on Balance of Payments Statistics**

**Prepared by the Organisation for Economic Co-operation and Development**

## REPORT ON THE OECD WORKSHOP ON FOREIGN DIRECT INVESTMENT STATISTICS<sup>1</sup>

5-7 June 2001, Paris

### Session 1: Introduction

#### 1.1 *Welcome and introduction*

1. Mr. Pierre Poret, Head of Capital Movements, International Investment and Services Division, welcomed the Delegations to this workshop on foreign direct investment (FDI) statistics. Mr. Poret stressed the importance of the work conducted by the Working Party on Financial Statistics (WPFS) with regard to the overall analytical work of the Committee on International Investment and Multinational Enterprises (CIME) and, in particular, in the context of the Ministerial mandate to analyse the cost and benefits of FDI for development. He also underlined the importance attached to the methodological work in view of harmonisation of FDI statistics and the international co-operation with IMF and European institutions (EUROSTAT and European Central Bank).

#### 1.2 *Adoption of the agenda*

2. The agenda was adopted.

### Session 2: Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI)

#### 2.1 *Conclusions resulting from the interim revision of SIMSDI in 2001*

3. Following the recommendations of the IMF Committee on Balance of Payments Statistics (IMF Committee) and the OECD Working Party on Financial Statistics (WPFS) in 2000, OECD countries reviewed the content of their responses to the Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI) which they had provided for the first time in 1997. Based on the returns submitted by Member countries, the Secretariat updated the information for individual countries and revised the initial report incorporating the most recent developments in the OECD area. The current version of the report analyses only OECD countries given that, at the time of drafting, non-OECD countries had not yet fully provided their revisions to the IMF<sup>2</sup>. The draft version of the report by the Secretariat was circulated to the Workshop for consideration.

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1. The Workshop was organised under the auspices of the OECD Working Party on Financial Statistics

2. The geographical coverage of the *Report on the Survey of Implementation of Methodological Standards for Direct investment, 1999* is wider and includes all OECD countries and 66 non-OECD countries which are members of IMF.

4. A review of the conclusions of the report indicated that, compared to the 1997 consultation, the results could be divided into three categories:

- i) areas where noticeable progress was made by Member countries in implementing the recommendations included in the IMF *Balance of Payments Manual, 5<sup>th</sup> edition (BPM5)* and the OECD *Benchmark Definition of Foreign Direct Investment, 3<sup>rd</sup> edition (the Benchmark)* (such as the use of the 10 per cent rule, the compilation of reinvested earnings, the coverage of the sub-component “other capital”, the inclusion of non-cash acquisitions of equity as well as the coverage of data on foreign-owned real estate, Special Purpose Entities (SPEs) and off-shore enterprises);
- ii) recommendations applied by the majority of OECD countries (such as the treatment of transactions between affiliated banks and between affiliated financial intermediaries);
- iii) recommendations where some improvements were marked but which are still followed only by a minority of OECD countries (such as the use of the Fully Consolidated System to define FDI relationships, the treatment of reverse investment, the recording of natural resource exploration, construction enterprises, and mobile equipment, the use of the Current Operating Performance Concept to measure earnings, the time of recording FDI income transactions --with the exception of reinvested earnings--, the valuation of FDI position data.

5. Some of the Delegations provided additional comments on factual information included in the report and it was agreed that both general and country specific comments shall be sent to the Secretariat by end-June 2001. A revised version of the report will be circulated to WPFS in November 2001 for their approval. The final report will be disseminated to the public through the web site of both IMF and OECD.

## **2.2 *First steps towards the revision of the Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI)***

6. In November 2000, WPFS agreed to review the questionnaire used for SIMSDI in order to improve the shortcomings of the previous questionnaire used in 1997, to provide clarifications on some of the issues and to incorporate new concepts and definitions developed in the recent years. Delegates considered the document by IMF and OECD which includes a preliminary draft of a revised questionnaire. The new survey will not be launched before end-2002 but would require substantial preparations by the Secretariat.

7. Delegations provided comments mostly based on their recent experience during the revision of survey responses in the first half of 2001. They emphasised the importance of clarity and consistency throughout the questionnaire. Some areas were identified as requiring further elaboration (such as the sections on Special Purpose Entities, offshore enterprises, etc.) and some definitions needed improvements. They also indicated the usefulness of the additional space for comments.

8. The importance of the format of the information for easy access and comprehension by users was also noted as one of the priority items for the improvement of the end-product. It was, however, indicated that the structure of the survey should first of all meet the requirements of compilers who are the primary users of SIMSDI. On the other hand, the needs of the analysts are usually different. Therefore, the format of the outputs should be adjusted accordingly for the best comprehension and ease of access by each type of user. For example, separating flows and stocks is usually considered as a useful presentation of the end-product.

9. Delegations also underlined the importance of user feedback for improving the questionnaire. The recent revision of the SIMSDI information is a unique opportunity to collect such comments from the public while it was agreed that the detailed information compiled in 2001 would be disseminated to the public at large along with the final version of the resulting report. IMF and OECD should take the necessary steps to obtain such feedback by implementing a mechanism based on other similar experiences.

10. It was agreed that Delegations would review further the content of the draft questionnaire and provide additional comments to the Secretariat by mid-August 2001. A revised version of the questionnaire will be submitted to WPFS in November 2001 for discussion.

### **Session 3: Harmonisation of FDI statistics: preliminary observations and data requirements**

#### ***3.1 An analysis of the international comparability of foreign direct investment statistics***

11. All OECD countries report FDI statistics to international organisations. IMF receives FDI transactions and position data as a part of the balance of payments statistics and OECD receives detailed FDI statistics based on the joint OECD-EUROSTAT questionnaire. According to the information provided through SIMSDI and the metadata regularly submitted to the Secretariat, it is expected that, in the great majority of the countries, FDI statistics sent to both international agencies are the same or very similar. To verify this statement, OECD and IMF have exchanged data for comparison.

12. Delegates considered a document by IMF and OECD including the results of a comparative analysis of FDI flows and stocks. The results of the analysis was rather informative. The purpose of the exercise was to measure the comparability of FDI statistics of IMF and OECD. It allowed identifying the differences and some of the underlying reasons. This comparative study is expected to contribute to the improvement of the comparability of internationally available FDI statistics and to bring further transparency to data submissions by Member countries.

#### ***3.2 Harmonisation and the coverage of foreign direct investment statistics of OECD countries***

13. Based on the FDI database of the OECD, the Secretariat conducted a comparative analysis of FDI flows between partner countries. The analysis was based on FDI inflows of the host country and FDI outflows by the partner country, the so-called “mirror statistics”. The objective is to promote bilateral analysis although such exercises are limited due to confidentiality obligations of national compilers vis-à-vis the respondents.

14. Delegations considered a document by the Secretariat. The analysis was based on annual aggregate FDI flows in US dollar equivalents for the period 1988-1999 but did not distinguish any sub-components. The document also includes short statements by country under three headings: general observations, most striking discrepancies between the reporting country and partner country data, and a review of the share of five largest countries classified according to the size of the flows during the period under review.

15. Some data patterns resulted from the study but differently for flows and stocks. However, drawing conclusions and identifying specific asymmetries based on these general observations should be

avoided. Such statements would require further research and analysis. On the other hand, the study highlighted the shortcomings of recordings in relation to holding companies (or other similar entities).

16. The Group expressed its interest to receive briefings from other international bodies if and when such comparative studies are conducted.

#### **Session 4: Foreign direct investment statistics: best practices**

##### ***4.1 Methodological concepts and definitions: issues for clarification and recommendations for practical application***

17. Delegates considered a Secretariat document based on the information provided by SIMSDI and taking into account earlier discussions of WPFS on unresolved issues in FDI statistics. The objective of the agenda item was i) to clarify some of the methodological recommendations; ii) to assess national practices, in particular where compilers encounter difficulties in applying some of the recommendations; iii) to promote practical guidelines/solutions for best practices; and iv) to promote bilateral exchange of data between compilers of partner countries.

18. During the session, three small working groups were established to discuss specific topics and to report their conclusions for practical applications and for future work:

- Group 1: 10 per cent rule and thresholds
- Group 2: Fully Consolidated System
- Group 3: “Other capital” component of FDI statistics

##### ***Group 1: 10 per cent rule and thresholds [Austria acting as the reporter]***

19. According to the preliminary conclusions of the Group, the meaningful application of the 10 per cent rule depended closely on the data collection system. If the data collection system is based on a survey system, the concept can be easily incorporated in the survey. In settlement based systems, one has to rely on the information provided by the respondents. Therefore, allowing for additional cross-checking of the information is very useful to achieve reliable results.

20. The Group also considered additional qualifications of the 10 per cent rule: i) including transactions based on the criteria of having a “voice in the management” even if investments do not fulfil the 10 per cent criteria; or ii) excluding transactions which meet the 10 per cent requirement but do not allow “a voice in the management”. Some countries use the first qualification but the second qualification is rarely applied within the OECD countries. It was recommended that additional qualifications to the 10 per cent rule should be avoided to keep the concepts as simple as possible.

21. The application of an additional threshold to define a sample for surveys is usually used for FDI stock statistics. In order to identify the sample, it is important to know the universe and the population of enterprises. There are various techniques for sampling. The Group also recommended that it was preferable not to use a unique threshold for sampling but to make adjustments according to the sector of economic activity.

22. Regarding the results based on samples, there is a need for grossing up which may be more or less complicated depending on the sample and its size.

23. It was also recommended that reconciliation between flows and stock statistics could be very useful to improve the data quality.

24. In addition to these conclusions, some future work was identified for discussion with regard to the practical application of the 10 per cent rule. The advantage of keeping the concepts simple should at the same time correspond to quality results. Thus, some compromise in the practical application of this rule may be needed but would require further discussions. The growing participation of institutional investors in FDI and their relationship to the direct investment enterprise should be analysed. Other work relates to the choice of the threshold to apply for the sample. Using equity capital as the base may create discrepancies for financial institutions. Grossing up of the sample may result in more complications for FDI statistics than other components of the balance of payments and, therefore, needs special attention.

**Group2: Fully Consolidated System (FCS) [United Kingdom acting as the reporter]**

25. The Group analysed the theory and reviewed the case studies included in the Secretariat document. Participants agreed on the theory and the basic concepts of the FCS. However, in practice, there are major deviations from the theory while only a very few OECD countries declare that they fully apply the system.

26. To apply the FCS, it is preferable to have a survey system or a direct reporting system as opposed to settlement systems which include information on transactions that cannot be clearly identified for the FCS.

27. It is extremely important that enterprise registers are kept up to date to keep abreast of developments. The difficulty relates to maintaining accurate records of the actual percentage of ownership within the group of enterprises. It may be useful to look more closely at large transactions for cross-checking the information.

28. Moreover, the Group identified elements for possible double counting of reinvested earning. Some future work will be conducted by IMF and OECD to clarify the theory.

29. Given the difficulties in its application, the Group recommended that further work will be required to make recommendations for practical and meaningful application of the FCS.

**Group 3: "Other Capital" component of FDI statistics [Belgium acting as the reporter]**

30. "Other capital" component of FDI statistics is characterised by major differences in its application across the countries. The coverage of the sub-component also depends on the data collection system which can be grouped under four categories: i) settlement systems focusing mainly on the registration of FDI flows; ii) survey systems and direct reporting cover both FDI flows and stocks; iii) deriving flows from the stocks; and iv) inventory balance sheet information .

31. In the settlement system, the identification of the transaction as "other capital" relies on the respondent. Therefore it is very useful to have separate registers to identify the transactions. Some countries make the distinction between short and long-term loans although such a classification is not obligatory according to standards. It is, in most cases, difficult to distinguish them unless the information is obtained from a loan registry (such as the loan registers in Spain and Poland). The identification of trade credits is easier in the survey or direct reporting systems as opposed to settlement systems. The

same conclusions apply for the securities. It is difficult to obtain reliable information on cash pooling within the group of multinational enterprises under all collection systems.

32. The coverage and the reliability of the “other capital” item will require further work. The amount of work will also depend on the overall weight of this sub-component in FDI statistics. The usefulness of the proposal to identify separately the sub-item of “other capital”, although not obligatory, will also be reviewed if it is concluded that “other capital” has a significant share of FDI and that looking at these items separately may have additional analytical value.

33. Regarding other issues raised in the Secretariat document, Delegates postponed the discussion to a later session. However they recommended that descriptive material should be developed regarding the typology of SPEs, off-shore centres, estimation methods of reinvested earnings, valuation methods and clarification of book values, etc.

34. Most of the discussion points will be subject to future work and will be incorporated in the best practices guide to foreign direct investment statistics (see item 4.6).

#### **4.2 Clarification of foreign direct investment recommendations**

35. Delegates considered a document by the IMF including clarifications of the recommendations for FDI statistics with regard to: i) transactions with affiliated financial intermediaries; ii) payments associated with the acquisition of a right to undertake direct investment; iii) shut-down of foreign direct investment enterprise set up for natural resources exploration. All these three recommendations were approved by the IMF Committee in 1999 and the last two by the OECD WPFS in 2000. The Workshop was requested to discuss and to agree on a common text regarding the clarification on transactions with affiliated financial intermediaries. This clarification was necessary due to some confusion resulting from methodologies set out in the *Balance of Payments Manual, 5<sup>th</sup> edition*, *Balance of Payments Compilation Guide* and the *Balance of Payments Textbook*.

36. The proposed text presented for the agreement of the Group was:

- The *BPM5* definition of the scope of enterprises included under “banks and other financial intermediaries such as security dealers” should be clarified as being equivalent to the following *System of National Accounts, 1993 (SNA93)* financial corporations sub-sectors: other depository corporations (other than the central bank); other financial intermediaries, except insurance corporations and pension funds; and financial auxiliaries. As a result, SPEs principally engaged in financial intermediation for a group of related enterprises would be encompassed in that definition.
- The implications of the above clarification are that financial (and investment income) transactions between two affiliated enterprises that are part of i) other depository corporations (other than the central bank); ii) other financial intermediaries, except insurance corporations and pension funds; or iii) financial auxiliaries would be excluded from FDI except for transactions in the form of equity capital or permanent debt.
- Financial transactions between units that are not financial intermediaries and affiliated financial SPEs abroad should be recorded under FDI.

37. The Workshop agreed on the following conclusions:

- Delegates endorsed the above recommendations;
- National compilers will try to apply these recommendations despite some practical aspect which may still be difficult to implement;
- Delegates, however, suggest that, in the longer-term, the whole aspect of financial institutions be reconsidered with some emphasis on their economic significance.

#### ***4.3 IMF proposal for the treatment of financial derivatives in foreign direct investment statistics***

38. Delegates considered a document by the IMF on the proposed treatment of financial derivatives in FDI statistics. In 1999 the IMF Committee decided to create a new functional category “financial derivatives” in the financial account of balance of payment and, thereafter, to exclude them from “portfolio investment”. At the same time, a provisional decision was taken by the IMF Committee to classify financial derivatives which are included in “direct investment” and “reserve assets” as separate sub-components of those categories. It was also agreed to make similar adjustments in the international investment position.

39. Delegates were requested to review the proposal regarding the treatment of financial derivatives in FDI statistics: i) should financial derivatives be included in FDI; and, ii) if yes, is there an agreement for their classification as a separate sub-component.

40. The Workshop agreed that in theory and in practice financial derivatives should be excluded from FDI statistics while there is no provision of capital but they should all be included under the new functional category of the financial accounts “financial derivatives”. In practice some countries include financial derivatives in FDI statistics either because they are not able to segregate them or because they have not taken any provision to exclude them while the amounts involved are very insignificant. The Workshop was informed that the ECB reached similar conclusions in response to the proposal by the IMF.

#### ***4.4 Mergers & Acquisitions***

41. The Secretariat provided an oral report on the work regarding mergers and acquisitions submitted to WPFS in November 2000.

#### ***4.5 OECD Foreign direct investment data collection and dissemination***

42. The Secretariat provided an oral report on the current data collection cycle of FDI statistics based on the joint OECD-EUROSTAT questionnaire. Delegations were requested to send the data to the OECD as soon as the statistics are available and, if necessary, in two separate deliveries for flows and stock while the timeliness of the two sets of data differs. The Secretariat reiterated its interest in receiving historical revisions.

43. Furthermore, the Secretariat requested that Member countries submit the statistics on aggregate flows and stocks (even estimates) in the most timely way to enable the OECD to rely on up to date statistics in their assessment of FDI trends.



4.6 *“Foreign direct investment statistics: Operational guidelines for best practices” -- draft outline*

44. Delegates considered a Secretariat document including a proposal to develop a documentation on operational guidelines for best practices. Delegates welcomed the initiative in the light of survey results which indicate the need to develop further methodological work in view of international harmonisation. Nevertheless, it was underlined that such a document should not be in the form of a manual and it should not repeat what is already included in other existing manuals. It should, on the contrary, provide practical information both to national compilers and to the users of the statistics. IMF expressed its support of this initiative.

45. In order to address the needs of both compilers and users, which are not necessarily the same neither in the level of detail or in the complexity of the concepts and definitions, it was agreed to divide the document into two separate volumes: i) operational guidelines focusing on the needs of compilers; and ii) user’s guide including country notes which would eventually replace the notes currently included in the OECD *International Investment Statistics Yearbook*.

46. Delegates agreed that the guide for the compilers will include clarification of existing recommendations, practical solutions proposed to overcome difficulties encountered by national compilers, an inventory of most frequently asked questions by compilers and the answers and any other practical information. This document will be developed as an ongoing effort and will be disseminated in electronic format to allow access to the most recent version (as opposed to hard copy editions).

47. Regarding the users guide, to avoid repetitive statements, the document will include a general chapter describing the overall methodology of the FDI statistics of OECD countries followed by an individual country note which will indicate only the deviations from the general methodology. The document will be disseminated to the public at large.

48. The Secretariat will provide proposals to WPFS taking into account the recommendations from the Workshop and in consultation with other counterparts from international organisations.

4.7 *Recent achievements and/or work in progress in other international agencies regarding direct investment statistics*

49. Delegates heard oral reports.

**Session 5: Other work on international statistical harmonisation and analysis**

**5.1 *Manual on economic globalisation indicators***

50. In April 2001 CIME asked the WPFS to examine and report back on the relevant chapters of the Draft Manual on Economic Globalisation Indicators of the Statistical Working Party of the Committee on Industry and Business Environment. Accordingly, the Workshop considered the draft chapter on foreign direct investment and a Secretariat document including written comments by Member countries. The Workshop made several recommendations and underlined the need to treat in separate chapters 1) *Foreign direct investment* and ii) *Economic Activity of Multinational Firms*. Delegates also recommended that such a document could be usefully vetted by an inter-agency task force.

## **5.2 *Manual on statistics of international trade in services and related work: progress report***

51. The Secretariat provided an oral progress report on the *Manual on Statistics of International Trade in Services* (the *Manual*) which was conducted under the auspices of an Interagency Task Force including EUROSTAT, IMF, OECD, UN, UNCTAD, WTO. The *Manual*, which, for the first time, provides a detailed and comprehensive description of the activity, was a long effort of around five years and required a world-wide consultation with different parties. Its purpose is to support international trade negotiations, and in particular, the negotiations on trade in services.

52. The *Manual* addresses four modes of supply of services:

- Cross-border trade in services;
- Consumption abroad of trade in services;
- Commercial presence;
- Presence of natural persons.

53. The concepts used in the *Manual* were deliberately kept, as much as possible, within the existing statistical frameworks. It relies on the IMF BPM5, SNA93, OECD Benchmark, OECD FATS, ISIC3, etc. It also provides numerous correspondence between various classifications.

54. The draft *Manual* was approved by the UN Commission in March 2001 and the arrangements are underway for its publication.

55. Regarding future work, the UN Commission requested from the Task Force to provide guidance to national compilers. To this end, a compilation guide will be developed based on the experiences of the countries.

## **Annex 1**

### **Agenda**

#### **Session 1: Introduction**

- 1.1 Welcome and introduction
- 1.2 Adoption of the agenda.

#### **Session 2: Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI)**

- 2.1 Conclusions resulting from the interim revision of SIMSDI in 2001.
- 2.2 First steps towards the revision of the Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI).

#### **Session 4: Foreign direct investment statistics: best practices**

- 4.1 Methodological concepts and definitions: issues for clarification and recommendations for practical application.
- 4.2 Clarification of foreign direct investment recommendations.
- 4.3 IMF proposal for the treatment of financial derivatives in foreign direct investment statistics.
- 4.4 Mergers & Acquisitions.
- 4.5 OECD Foreign direct investment data collection and dissemination.
- 4.6 *“Foreign direct investment statistics: Operational guidelines for best practices” -- draft outline.*
- 4.7 Recent achievements and/or work in progress in other international agencies regarding direct investment statistics.

#### **Session 3: Harmonisation of FDI statistics: preliminary observations and data requirements**

- 3.1 An analysis of the international comparability of foreign direct investment statistics.
- 3.2 Harmonisation and the coverage of foreign direct investment statistics of OECD countries.

#### **Session 5: Other work on international statistical harmonisation and analysis**

- 5.1 *Manual on economic globalisation indicators.*
- 5.2 Manual on statistics of international trade in services and related work: progress report.

#### **Session 6: Conclusions and future work**