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Update on Feasibility Study on Coordinated Direct Investment Survey

**Prepared by the Statistics Department
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Update on Feasibility Study on Coordinated Direct Investment Survey

Introduction

1. In December 2003, the IMF Committee on Balance of Payments Statistics (the Committee) was informed of plans to undertake, under the auspices of the Committee, a feasibility study to assess the costs and benefits of conducting an internationally coordinated survey of direct investment positions and to gauge international interest in such an undertaking.¹ The Committee supported the study. The results of the feasibility study and the Committee's recommendation on whether to proceed with a coordinated direct investment survey (CDIS) will be presented to the IMF's Executive Board around the end of 2005. This note provides the Committee with an overview of the work underway and concludes with some proposed issues for discussion.

2. **Using the Coordinated Portfolio Investment Survey (CPIS)² as a model, the objectives of a CDIS would be to:**

(i) collect comprehensive information, with geographical detail, on the stock of direct investment assets and liabilities for use in the compilation or improvement of international investment position (IIP) statistics on direct investment capital.³ The IIP statistics, in turn, can provide information to check the coverage of recorded estimates of direct investment financial flows and associated investment income transactions recorded in the balance of payments; and

(ii) to exchange the bilateral data. When the results of the survey become available, the participating countries, with the assistance of the IMF's Statistics Department, would exchange the data among themselves and with other countries.⁴ By exchanging comparable

¹ This proposal was first put forth in a paper prepared for an informal Executive Board seminar on direct investment trends and statistics held in November 2003 (see IMF public website at: <http://www.imf.org/external/np/sta/fdi/eng/2003/102803.htm>; a summary document is also available: <http://www.imf.org/External/np/sta/fdi/eng/2003/102803s1.htm>.)

² Information on the CPIS is available on the IMF's public website at: <http://www.imf.org/external/np/sta/pi/cpis.htm>

³ In principle, reliable information on the geographical distribution of direct investment positions can be collected for both direct investment assets and liabilities, unlike in the CPIS where reliable geographic information can be collected only for portfolio investment assets.

⁴ The availability, from the major industrial countries, of partner country data on inward and outward direct investment positions from collections involving common methodologies would facilitate the elaboration of stock data on investments by/into developing countries, many of which have difficulties in compiling such data.

data (so far as confidentiality constraints permit) on direct investment in the reporting economy, participating countries should be able to improve their estimates of direct investment abroad as well as associated financial flows and investment income data; and by exchanging comparable data on direct investment abroad, participating countries should be able to improve their estimates of direct investment in the reporting economy as well as associated financial flows and investment income data.

Task Force on Feasibility of Conducting a Coordinated Direct Investment Survey

3. In their support of the feasibility study, the Executive Board urged coordination with other international and regional organizations involved in foreign direct investment (FDI) statistics. The Statistics Department convened a meeting of involved organizations in March 2004 to discuss this initiative. The participants—ECB, Eurostat, OECD, UNCTAD, and the World Bank—expressed strong support for the possible conduct of a direct investment survey coordinated by the IMF and accepted the IMF’s invitation to take part in an inter-agency task force—Task Force on Feasibility of Conducting a Coordinated Direct Investment Survey (DI Task Force). There was strong support for a regional orientation, including involvement of other regional organizations, in providing support to those countries that may not have the capacity to compile FDI statistics. There was also broad agreement that end-2009 would be the earliest period for which a CDIS could be considered.⁵

4. The first meeting of the DI Task Force was held in June and also included the participation of national balance of payments compilers from Australia, Belgium, Hong Kong SAR, South Africa, United Kingdom, and the United States. The participants gave general support for conducting a CDIS, though they recognized the statistical hurdles involved.

5. **With regard to the scope of a CDIS, it was generally agreed that information on the stock of FDI liabilities by counterpart country, broken down by instrument (equity and debt), would be essential** (taking into account confidentiality constraints). With respect to FDI assets, it was suggested that, as a first step, data could be sought from the OECD member countries and selected additional countries with important regional roles. Other countries could become involved at a later stage (if survey were to be undertaken on an annual basis like the CPIS).

6. **The national compilers at the meeting agreed that end-2009 would be a suitable reference date for a CDIS**, providing sufficient time to organize such a survey.⁶ It would

⁵ End-2009 coincides with the timing of the benchmark survey of outward FDI positions to be conducted by the United States, the world’s largest direct investor.

⁶ Preparations for the 1997 CPIS, on which a CDIS might be modeled, took about four years to complete. Like the CPIS, country participation in a CDIS would be voluntary.

also allow the participating countries to take account of new international guidelines for FDI statistics being developed in connection with the revision of the IMF's *Balance of Payments Manual (BPM5)* and the OECD's *Benchmark Definition of Foreign Direct Investment (Benchmark Definition)*.

7. **In view of the resources required by the IMF and other international/regional organizations to put such a large survey into place there was general agreement that a CDIS might initially seek participation of between 60-80 countries**, rather than inviting all countries' participation. The issue of involving various regional organizations such as ASEAN and ESCWA was raised, given their substantial involvement in FDI statistics in their respective regions.

Planned consultation with countries

8. To gauge international interest in a CDIS and seek other information for the feasibility study, the IMF proposes to send a questionnaire to countries in mid-2005, following the expected completion, around May 2005, of the work program of the Direct Investment Technical Expert Group (DITEG).⁷ The DITEG is jointly chaired by the IMF and a representative of the OECD's Workshop on International Investment Statistics and its work program for making recommendations for the revision of the direct investment related parts of the *BPM5* is being coordinated with the OECD's revision of the *Benchmark Definition*.⁸

9. A draft of the questionnaire will be completed by the end of October 2004 and sent to the DI Task Force and a group of national compilers who participate in the work of the Task Force and who are also members of the DITEG. The draft questionnaire will be discussed following the December meeting of the DITEG. A revised version of the questionnaire would be prepared for review following the final meeting of the DITEG, which is currently planned for March 2005.

10. **In addition to assessing country interest in participating in a CDIS, the questionnaire could also seek information on:**

- Merits of the undertaking from a country perspective;
- Possible data coverage in a CDIS, e.g., full enumeration versus sample;

⁷ The DITEG is one of three technical expert groups formed to assist in the research and resolution of more complex methodological issues related to the revision of the *BPM5* (see IMF public website at: <http://www.imf.org/external/np/sta/bop/diteg.htm>).

⁸ The IMF will provide a progress report on the feasibility study to the OECD Workshop on International Investment Statistics at its meeting on October 12-13, 2004.

- Resource, capacity building, and other requirements of developing and emerging market countries and the provision of technical and other assistance by advanced countries and international/regional organizations;
- Significance of data confidentiality issues (e.g., where a small number of enterprises account for a large share of direct investment in/from specific countries) and any other envisaged data-related problems; and
- Technical issues, such as valuation of FDI positions—market versus book values.

11. Some 80 countries might be included in the consultation, which would include the largest FDI investing/recipient countries based on data published in UNCTAD's *World Investment Report*. However, adjustments would be made to the list to ensure a good regional representation of countries in the consultation process.

12. In addition to the planned questionnaire, the IMF also intends to (i) consult with international and regional organizations on what assistance they may be able to provide in the conduct of a CDIS and (ii) review the data requirements associated with the policy needs in the IMF.

Questions for the Committee

(i) *Is the Committee in broad agreement with the objectives, scope, timing, and planned country coverage of a CDIS?*

(ii) *What are the most important issues that need to be raised in the questionnaire to countries in order to ascertain the feasibility of successfully conducting a CDIS?*

(iii) *In addition to highlighting the potential benefits and voluntary nature of CDIS, are there other issues/themes that should be stressed in the letter transmitting the questionnaire to countries? To whom (i.e., what level) should the transmittal letter be addressed?*