

Items Compilers May Wish to Collect, in Addition to Direct Investment Positions

In addition to respondent identification information and data on direct investment positions that are needed for participating in the IMF's CDIS, compilers may wish to collect additional data items on their direct investment surveys for their own purposes. It is more efficient to collect several items on the same survey than to conduct numerous separate surveys pertaining to the same respondents.

Industry classification

General principles to identify industry allocation

There is significant interest in the industry classification of both direct investment enterprises and their direct investors. However, direct investment enterprises and direct investors engage in a variety of economic activities. For a comprehensive economic analysis, enterprises should be grouped by type of activity. Under ideal circumstances, data should be available to compilers to classify each direct investor and each direct investment enterprise to the industry of the direct investment enterprise and the industry of its direct investor. For both inward and outward direct investment statistics, where feasible, data pertaining to the direct investment enterprise should be compiled based on both of these bases – that is, based on its own industrial activity in the host country, and based on the industrial activity of its direct investor.

If data for both inward and outward direct investment cannot be compiled on both of these bases, it is suggested that data be compiled at least on the activity of the direct investment enterprise, for both inward and outward direct investment. In other words, inward direct investment should reflect the industry of the resident direct investment enterprise and outward investment should reflect the industry of the non-resident direct investment enterprise (i.e. of the foreign affiliate).

Each direct investor and each direct investment enterprise must be classified to a single industry, even though many direct investors and direct investment enterprises are involved in a wide range of activities. The industry classification of the enterprise should be based on its principal activity. Ideally, the principal product or service will be determined with regard to the value added of the enterprise. In some cases, it is recognised that data on value added may not be available and that data on sales, revenues, or payroll or other basis may need to serve as a proxy.

It is recommended for FDI statistics that when the enterprise (direct investor or direct investment enterprise) is part of a local enterprise group, the industry classification be that of the local enterprise group's primary activity. This is determined by the local group's principal product or group of products produced or distributed, or services rendered. Again value added weight is ideal for this determination.

A direct investor involved in a wide range of activities may make its overseas investment in each activity through numerous separate domestic subsidiaries specialising in a given activity, or it may make all of its overseas investment through a single domestic

subsidiary established to handle overseas investments or a mixture of these approaches. For data that are presented based on the industry of the direct investor, the industry corresponds to the main activity of the direct investor, including all of its activities in its own country of residence. This approach avoids distortions due to different organisational arrangements.

Data that are presented based on the industry of the direct investment enterprise should be based on the reporting enterprise. (If the reporting unit is both a direct investment enterprise and a direct investor, its industry classification should be based on the activities that it conducts and should exclude those conducted by its own foreign affiliates.) In general, direct investment enterprises will reflect their operations in a given economy and in this circumstance it is recommended that the industry of the enterprise represent the primary activity of that the enterprise, including all of its subsidiaries, associates and branches in its country of residence.

International Standard Industry Classification (ISIC)

Countries should compile data by industries that correspond to the major tabulation categories in the United Nations' ISIC. The major categories in ISIC Revision 4 are:

- A – Agriculture, forestry and fishing
- B – Mining and quarrying
- C – Manufacturing
- D – Electricity, gas, steam and air-conditioning supply
- E – Water supply, sewerage, waste management and remediation activities
- F – Construction
- G – Wholesale and retail trade
- H – Transportation and storage
- I – Accommodation and food service activities
- J – Information and communication
- K – Financial and insurance activities
 - K1¹ – Financial intermediary
 - K2¹ – Finance and insurance, except financial intermediary
- L – Real estate activities

¹ K1 comprises the following financial corporations: Central bank; deposit-taking corporations except the central bank; money market funds (MMFs); non-MMF investment funds; and other financial intermediaries, except insurance corporations and pension funds. K2 is comprised of financial auxiliaries; other financial corporations; insurance corporations; and pension funds.

- M – Professional, scientific and technical
- N – Administrative and support services
- O – Public administration
- P – Education
- Q – Human health and social work
- R – Arts, entertainment and recreation
- S – Other services activities
- T – Activities of households as employers of domestic personnel;
undifferentiated goods- and services-producing activities of private households
for own use
- U – Activities of extraterritorial organizations and bodies

Direct investment income

For details on the concepts of direct investment income, see *BPM6*, Chapter 11. *BPM6* can be found on the IMF website at <http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm>.

Direct investment financial transactions

For details on the concepts of direct investment financial transactions, see *BPM6*, Chapter 8. *BPM6* can be found on the IMF website at <http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm>.

Market valuation of equity

For details on other market valuation principles, see the *OECD Benchmark Definition of Foreign Direct Investment*, fourth edition, Annex 5.

Ultimate investing country

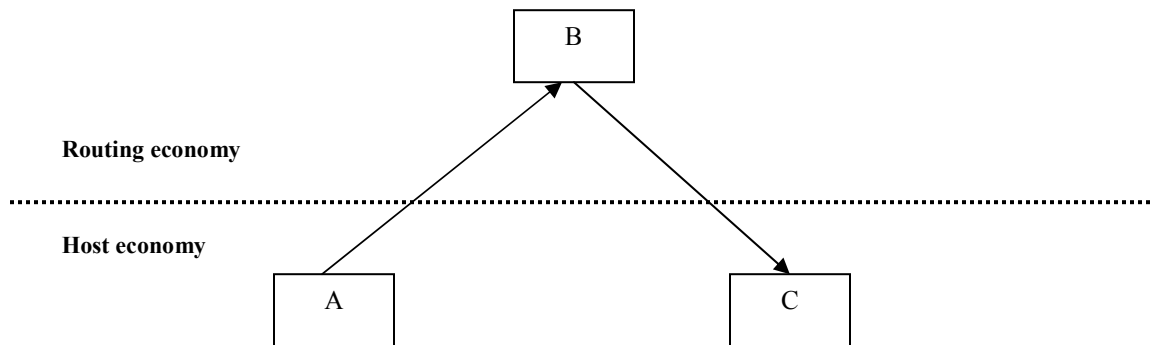
For details on ultimate investing country, see the *OECD Benchmark Definition of Foreign Direct Investment*, fourth edition, Annex 10. See http://www.oecd.org/document/33/0,3343,en_2649_33763_33742497_1_1_1_1,00.html.

Round tripping

Round tripping involves funds from an entity in one economy, i.e. host economy, being invested in an entity resident in a second economy, i.e. routing economy, then having them reinvested in an entity in the first economy. The entity in the routing economy often has limited operations of its own.

From the perspective of the host economy, the simplest example of round tripping occurs when a domestic investment is disguised as FDI through a non-resident subsidiary or associate in the routing economy. In Figure A4.1, a company A in the host economy provides FDI funds to a non-resident related company B in the routing economy for investing back in another company C in the host economy. On the other hand, round tripping can also be viewed from the perspective of the routing economy, i.e. company B in the routing economy receives FDI funds from company A in the host economy, and reinvests these funds in company C in the host economy.

Figure A4.1



Round tripping of funds within a direct investment network should be recorded as FDI transactions/positions. In the example shown in Figure A4.1, round tripping funds appear as outward direct investment of the host economy for the funds channeled to the routing economy, and as inward direct investment for the subsequent return of the funds to the host economy. For the routing economy, they appear as inward direct investment for the funds received from the host economy, and as outward direct investment for the return of these funds to the host economy.

Round tripping activities may be significant in some economies but not so in other economies. While round tripping gives rise to international direct investment positions, economies with significant round tripping activities are encouraged to publish additional information on the extent of round tripping.