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**Recent Activities of the OECD Working Group on  
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Organisation de Coopération et de Développement Économiques  
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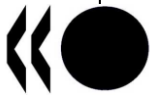
**English - Or. English****DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS  
INVESTMENT COMMITTEE****Working Group on International Investment Statistics****RECENT ACTIVITIES OF THE OECD WORKING GROUP ON INTERNATIONAL INVESTMENT  
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## **RECENT ACTIVITIES OF THE OECD WORKING GROUP ON INTERNATIONAL INVESTMENT STATISTICS - WGIIS<sup>1</sup>**

1. The OECD Working Group on International Investment Statistics (WGIIS) met on 23-25 March 2010 and will hold its next meeting on 6-7 October 2010. The present document provides an overview of its major activities in 2010:

- 1) Implementation of BMD4
- 2) Harmonisation and integration of FDI and AMNE statistics
- 3) Defining and measuring green FDI

### **1. IMPLEMENTATION OF BMD4**

#### ***1.1 Tour d'Horizon***

2. After the approval of the OECD Benchmark Definition of Foreign Direct Investment, 4<sup>th</sup> edition a regular item "Tour d'Horizon" was introduced in WGIIS agendas. Its objective is to inform the statistical community of recent activities in member countries to implement international standards and to exchange experiences between compilers.

3. With regard to market valuation, Canada presented the impact of recent crises on prices in the light of its experience. Denmark presented a new model to forecast preliminary income data in order to obtain more timely estimates within the balance of payments framework. Japan provided a preliminary review of its plans for the implementation of BMD4 recommendation and will elaborate further its action plan in the October session. The United Kingdom will provide a progress report on its new survey for direct investment statistics. At the time of accession to OECD, Chile was committed to improve significantly its FDI statistics and will provide its first progress report.

4. In addition to country reports, Eurostat and ECB reported on their co-ordinating activities for European Union and European Monetary Union. Even if some of the major EU countries would be in a position to report data according to BMD4, European requirements implied the provision of two different sets of FDI statistics. In addition to the increased burden on reporting institution, reporting two different sets of data is not a desirable solution. From the user perspective and considering the wide range individuals who are users of its statistics, OECD observed with disappointment the position taken in Europe to delay the implementation of BMD4. This issue will be further raised in the forthcoming meeting.

#### ***1.2 New reporting forms according to BMD4***

5. In the meantime, WGIIS reviewed new survey forms/templates for data reporting to the OECD according to BMD4. Out of 33<sup>2</sup> member countries, 20 are also EU members. Therefore, it is useful and

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<sup>1</sup> By Ayse Bertrand: Secretariat of WGIIS.

desirable to co-ordinate data report forms and their coverage to reduce the reporting burden of member countries. However, OECD observes more and more deviations between the requirements by OECD and Eurostat. While the OECD data collection is a multipurpose activity for the public at large (in addition to its immediate users) one can observe that the focus of Eurostat has shifted more to European aggregates.

### **1.3 Access to confidential data**

6. WGIIS continued the review on OECD's request to access confidential data. This issue, first discussed by WGIIS, is now transferred to the Statistics Committee. Requirements are broadly of three different types: (i) legal framework; (ii) available technology to treat and hide confidential data; and (iii) administrative framework including confidentiality in staff rules and obligations.

## **2. HARMONISATION AND INTEGRATION OF FDI AND AMNE STATISTICS**

### **2.1 WGIIS mandate**

7. BMD4 includes in Annex 13 a list of future research items. WGIIS has set high priority to Item 4: Globalisation and Item 2: Ultimate investing/host country and decided to carry out the work in tandem for the sake of consistency and coherence.

8. The priority item under research work on "globalisation" is the harmonisation and integration of the statistics on foreign direct investment (FDI) and the statistics on the activities of multinational enterprises (AMNEs<sup>3</sup>) which is also the subject of a separate Council mandate addressed to the Investment Committee [C(2008)76]. Both statistics relate to foreign direct investment but they analyse international investment from different angles. While FDI deals with cross-border financial activities of multinational enterprises, AMNE statistics relate to their economic activities. Presently, conceptual and methodological differences do not allow a sound analysis of MNEs but can only provide fragmented snapshots. The objective of the Council mandate is to provide to the policy community a complete set of analytical indicators on the financing and operations of multinational enterprises based on comprehensive concepts and methodologies.

9. The harmonisation and integration of FDI and AMNE statistics effectively started before the Council mandate of 2008. The initial step was to include a chapter on the activities of multinational enterprises for the first time in BMD4. There was a general agreement amongst technicians that these data sets were intimately related and should be treated in tandem in the future for a sound analysis of the global market. The Council recommendation is the confirmation of that view and endorsement of the practice.

### **2.2 Main issues**

10. There are two types of issues: (i) *analytical coherence of FDI and AMNE statistics; and (ii) methodological consistency within that analytical context*. While the first issue is the expression of "what do we want to measure and what do we want to analyse?" the second issue will respond to a related technical question, "how do we analyse?".

11. To date, a number of documents were circulated and discussed by experts from member countries/international organisations and by the Secretariat in relation to the harmonisation and integration of FDI/AMNE statistics. Even if the large majority of these documents related primarily to methodology

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<sup>2</sup> Chile became OECD member on in May, Slovenia in June and Israel in September. Estonia was invited by the Council to join the OECD and is expected to join before end-2010.

<sup>3</sup> Also referred to as Foreign AffiliaTes Statistics (FATS) within the European Union.

some others attempt to identify user needs in the form of an inventory or trying to link the two sets of data. The methodological work resulted in a preliminary draft of revised basic recommendations to compilers on statistical standards for AMNE statistics. The other one is the preliminary draft of a survey to collect information on country practices which would inform on the feasibility of certain recommendations, the difficulties encountered by national compilers, deviations from standards, etc.

12. There is substantial work which remains to be done by WGIIS throughout its 2011-2012 work programme cycle. ***The questions are: what to measure? what to analyse? which indicators? which data framework? and which variables?***

### **2.3. What to analyse and what to measure?**

#### *FDI as first linkage*

13. FDI differs in its objectives and impact from other types of cross-border financing such as portfolio investment, bank loans, derivative instruments, etc. BMD4 describes FDI and AMNE statistics as follows:

§ 11. Foreign direct investment is a key element in this rapidly evolving international economic integration, also referred to as globalisation. FDI provides a means for creating direct, stable and long-lasting links between economies. Under the right policy environment, it can serve as an important vehicle for local enterprise development, and it may also help improve the competitive position of both the recipient (“host”) and the investing (“home”) economy. In particular, FDI encourages the transfer of technology and know-how between economies. It also provides an opportunity for the host economy to promote its products more widely in international markets. FDI, in addition to its positive effect on the development of international trade, is an important source of capital for a range of host and home economies.

§381 “While FDI statistics are crucial to an understanding of the direct investment relationship and allow important insights into the economic linkages between home and host economies, additional indicators are necessary to place these statistics into context and to describe the enterprises in which there is direct investment, measure their activities, and assess their economic impact. (underline added) The need for such complementary indicators arises for two primary reasons. The first is the requirement for a factual foundation to underpin analyses of the globalisation of economic activity – a phenomenon that entails not only the internationalisation of consumption through trade between residents and non-residents, but also the internationalisation of production through FDI. The second is to provide statistical information that can be used in support of international agreements, such as the General Agreement on Trade in Services, which include commercial presence as a mode of supply.”

14. FDI statistics relate to cross-border equity and debt transactions and positions between direct investors and their direct investment enterprises. Hence, ***direct investment establishes the primary linkages between home and host economies.*** But direct investment does not cover all types of financing which foreign affiliates may enjoy throughout their existence.

#### *MNEs' access to financing*

15. In addition to FDI, multinational enterprises and their affiliates have regularly recourse to various means of financing all of which are not necessarily cross-border transactions. The choice of the source and type of financing may be due to different reasons at different times and generally subject to market conditions. For example, a foreign controlled affiliate may borrow funds locally or from abroad in addition to or in replacement of a loan extended by its parent. Nevertheless, funds raised in forms other

than FDI will equally impact the extent of operations of the affiliate, its employment, turnover, productivity, etc.

16. AMNE statistics measure through different variables the impact of one economy on another economy by having control over local enterprises (or by local presence). Therefore, the statistics include the activities of a foreign direct investment enterprise under foreign control, disregarding the type of financing or its source to carry out all the activities of the enterprise. Therefore, AMNE statistics include the activities of a resident affiliate (A) of a direct investment enterprise (B) which is controlled by a foreign parent (C). The underlying argument is that C will control not only the activities of B but also of A. In contrast, FDI statistics will only record FDI transactions/positions between C and B but not between B and A. Moreover, cross-border transactions other than FDI are also excluded. Another example is borrowing from a local bank D (or a non-resident bank E) by B as opposed to C extending a loan to B to finance the purchase of new machinery. FDI statistics will exclude the loan from D to B (or from E to B). In contrast, the impact of the purchase of a new piece of machinery will appear in the economic activity of B and the corresponding statistics. In other words, B will record changes in its economic activities due to this new investment while inward FDI from C to B will remain unchanged. The analytical coherence between financing and economic activity of MNEs will not be fully established. This could be established only if total assets are incorporated included in the data.

17. WGIIS Bureau considers that that it is analytically useful to assess and present total financing of MNEs. However, the Bureau is of the opinion that any such presentation should not be part of BOP/IIP statistics, even as a supplemental presentation. The Bureau is of the opinion that these data should be part of AMNE statistics as financial variables (from exiting official data) which would naturally include FDI and other types of financing, as appropriate. Therefore, it is proposed that the exercise on financial variables of direct investment enterprises should complement the statistics on the activities of MNEs and that the work be carried out as part of the study on the harmonisation of FDI and AMNE statistics.

#### *Economic measurement of FDI stock*

18. While the methodology of FDI positions (financial measure) described in BMD4 is fully consistent with balance of payments and international investment measures, its integration with globalisation and AMNE statistics may be questioned. The proposal is to provide a set of statistics which is different from traditional estimates of FDI stocks on the grounds that there are several advantages of the new approach to analyse globalisation using statistics relating to multinational enterprises:

- (i) measurement of the financial magnitude of the direct or indirect “presence” of the direct investor that initiates economic activities in the direct investment enterprises;
- (ii) country breakdown of FDI statistics in relation with the countries where the investor is directly or indirectly present;
- (iii) activity breakdown of FDI statistics in relation with the economic activity of both the investor and the directly or indirectly owned direct investment enterprises;
- (iv) localisation by country and by activity of the entities generating earnings;
- (v) improvement of the cohesion between detailed FDI statistics and statistics on activities of affiliated enterprises (e.g. FATS).

19. Some countries already have estimates on the economic measures of stocks. Switzerland will provide an initial presentation of the methodology they apply at WGIIS meeting of 6-7 October 2010.

#### *Ultimate source and destination: UIC/UHC)*

20. Concepts of ultimate investing/ultimate host country (UIC/UHC) are closely related to the economic definition of FDI discussed above. BMD4 already recommends the compilation of FDI positions according to UIC according to a methodology compatible with that of AMNE statistics. A methodology on outward FDI stocks according to ultimate host country was not developed due to time constraints but included in the research agenda.

21. Outward AMNE statistics are currently compiled according to the immediate country which is not symmetrical to the methodology applied for inward AMNEs. Immediate country method is a pragmatic approach guided by data availability which, however, presents recognised analytical limitations.

22. Any work on outward investment stocks according to ultimate host country should be conducted taking into account its consistency (and feasibility) with AMNE statistics as well.

#### **2.4 *A coherent framework to measure financial and economic variables***

23. It is useful to recall that the intention is not to modify existing standards but to continue applying the approach of building blocks which was adopted as the basis for BMD4 recommendations. The intention is also to broaden the view on the phenomenon of direct investment and its collateral and subsequent effects. Let us take the example of mergers and acquisition (M&A) versus greenfield investments, a distinction highly appreciated by analysts to assess the impact of investment on economic activities of MNEs. BMD4 recommends that supplemental FDI series be compiled on M&A type transactions. These data relate only to FDI transactions (10% to 100% or 50%-100% equity ownership) but do not reflect total capital. If the future framework should include total capital for M&A transactions and the share of FDI, it would be analytically useful. However, such estimates are meaningful only if they are based on compatible concepts within a broader framework.

24. Recommendations which will be put in place should take into consideration several practical concerns. These are mainly, the reporting burden for survey responses; cost for compiling institutions and resource implications; availability of data in compiling countries; clarity and comprehensiveness for data users. The survey on metadata for FDI is available. Similar metadata on MNEs would also provide information on the availability or the feasibility of collecting certain variables.

#### **2.5 *Way forward***

25. Until recently the process was limited mostly to gathering information. Several suggestions were made in March 2010 to set up discussion groups on various subjects. Rather than creating several discussion groups, it is proposed to setup an electronic discussion group (EDG): MNE Statistics Advisory Group (MSAG). This group could include experts from different horizons but be limited in the number of participants to around six countries including experts from FDI and AMNE statistics and representatives from international organisations. This discussion group will report to WGIIS.

26. WGIIS will present its findings and conclusions the latest by end 2012 in a report addressed to the Investment Committee. The Investment Committee, upon approval by its membership may wish to transmit the report to the Council which mandated the Committee to conduct work on the harmonisation and integration of FDI and AMNE statistics of the OECD [C(2008)76].



### 3. DEFINING AND MEASURING GREEN FDI

27. At the 2009 OECD's Ministerial Council Meeting, ministers recognised that "Economic recovery and environmentally and socially sustainable economic growth are key challenges that all countries are facing today." They acknowledged that "Green growth will be relevant going beyond the current crisis, addressing urgent challenges including the fight against climate change and environmental degradation, enhancement of energy security, and the creation of new engines for economic growth." To provide a response to those challenges, ministers asked the OECD to develop a Green Growth Strategy<sup>4</sup> with recommendations on how countries can achieve economic growth and development while at the same time moving towards a low-carbon economy, reducing pollution, minimising waste and inefficient use of natural resources and maintaining biodiversity.

28. An important pillar of the OECD Green Growth Strategy is the development of green growth indicators in order to monitor progress with green growth (see Chapter IV on "How do we measure progress towards green growth" of the OECD Green Growth Strategy Interim Report in Annex). Five major areas have been highlighted as being critical for green growth: (i) environmental efficiency of production, (ii) environmental contents of consumption, (iii) natural resource stocks and biodiversity, (iv) environmental quality of life, and (v) policy responses and instruments. This last area includes indicators on international transfers, among which international investments.

29. The Interim Report of the Green Growth Strategy recognises the need to adopt a pragmatic approach to the development of these indicators by relying on existing work and experience in the OECD, the International Energy Agency (IEA), other international organisations, and in member and partner countries. Responding to the demand, the Investment Committee supported further work on defining and measuring "green FDI" at its 24 March 2010 meeting.

30. A consultant's report which is also submitted to WGIIS (for its October 2010 meeting) responds to this demand. The group will discuss the methodology proposed in the report to capture green FDI and review industry sectors proposed in the document. They will also discuss the two-part definition of "green" FDI: (i) FDI in green industries and environmental services; and (ii) FDI in environmentally preferred processes.

31. Activities on green FDI have a short-term and a longer-term horizon. In the short-term, the OECD will deliver a Green Growth Strategy Synthesis Report to the 2011 Ministerial Council Meeting, with specific tools and recommendations to help governments to identify the policies that can help achieve the most efficient shift to greener growth. Preliminary evidence on green FDI and related policy restrictions can usefully inform the discussion on how international flows are supporting technology transfer and the shift towards greener growth. But, better indicators to support the monitoring of the progress for efforts towards green growth are also needed. Developing these indicators require longer time and additional effort. WGIIS will discuss both short and long-term solutions. For the latter, it is proposed to create a discussion group which will report back to WGIIS.

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<sup>4</sup> Declaration on Green Growth adopted by 34 ministers from OECD and non-OECD countries: C/MIN(2009)5/ADD1/FINAL. See [www.oecd.org/greengrowth](http://www.oecd.org/greengrowth).