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The Joint IMF/OECD
Survey of Implementation of Methodological Standard for Direct Investment
Report to the IMF Committee on Balance of Payments Statistics

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At its October 1997 meeting, the IMF Committee on Balance of Payments Statistics (Committee) endorsed the idea that the IMF and OECD produce a joint final report on the results of the *Survey of Implementation of Methodological Standards for Direct Investment* (SIMSDI). This note introduces the attached report on the SIMSDI results and raises two issues on which the IMF and OECD would welcome the views of Committee members.

The report summarizes the SIMSDI findings regarding the extent to which IMF member countries have adopted the international standards on foreign direct investment (FDI) statistics. In doing so, it identifies the major improvements that have taken place since a survey of this type was last conducted in 1991 for the IMF *Report on the Measurement of International Capital Flows*. The report draws attention to particular aspects of the statistical methodology followed by countries that participated in the survey and provides information on FDI dissemination practices, data sources, and availability of geographical and industrial breakdowns of the data.

A draft version of this report was submitted at the April 1998 meeting of the OECD Group of Financial Statisticians (GFS) for review and approval by the participants at the meeting. The GFS endorsed the draft report although it suggested clarifications of some of the FDI recommendations described in the report. The opportunity has been taken to address these suggestions in the attached report. In addition, the section of the draft report on data availability, sources, and geographical and industrial allocation was revised, with a view to increasing the amount of information related to non-OECD countries. The attached report also includes information recently received from late respondents and from countries that have sent revisions.

The Fund and OECD would welcome the views of the Committee on two issues regarding the attached report. First, the Committee should determine whether the report adequately addresses the mandate given to the IMF/OECD, which was to determine the extent of implementation of the international standards for FDI statistics. Suggestions from Committee members for improving the structure and content of the report in fulfilment of this mandate would be welcome. Second, once finalized, it is proposed that the report be made available on the Internet site of the Committee. Hard copies will also be available on request. A summary of the report will also be published in the *Balance of Payments Statistics Newsletter*, indicating how readers can obtain copies of the report. We would be grateful for the views of the Committee on the proposed approach for distributing the final report.

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I. INTRODUCTION

1. In May 1997, the IMF and OECD launched the *Survey of Implementation of International Methodological Standards for Direct Investment (SIMSDI)*, after consulting with the IMF Committee on Balance of Payments Statistics (the Committee) and the OECD Group of Financial Statisticians (GFS). The survey is a comprehensive study of data sources, collection methods, and dissemination and methodological practices for foreign direct investment (FDI) statistics. Similar surveys were conducted in 1983 by the OECD concerning OECD member countries, and in 1991 by the IMF's Working Party on Measurement of International Capital Flows (*Godeaux Report*), the latter concerning 38 of the largest reporters of FDI statistics.
2. 114 countries replied to the 1997 survey, a very encouraging response indicating the importance that national compilers attach to these data. This report presents the survey results on data collection and dissemination, as well as on the methodological issues, focusing on the major weaknesses in national FDI compilation systems.

II. BACKGROUND TO THE SURVEY

3. At its October 1995 meeting, the Committee decided to review the progress countries were making in implementing the FDI standards set out in the fifth edition of the *Balance of Payments Manual (BPM5)* and the third edition of the OECD's *Benchmark Definition of Foreign Direct Investment (Benchmark)*. The OECD was approached about the possibility of conducting a joint Fund/OECD survey. This approach was timely because the OECD Council Recommendation, adopted in July 1995, had mandated the GFS to continue the collection of information on FDI statistics, accompanied by notes describing the areas where the methodology used by Member countries differed from the *Benchmark*. At its October 1996 meeting, the Committee supported a joint Fund/OECD inquiry, of Fund and OECD member countries, which would determine the extent to which countries have adopted the international standards for FDI statistics.

III. THE 1997 FDI SURVEY

4. Three objectives were set for the survey:
 - ▶ To discover the extent to which member countries have adopted the recommendations on FDI statistics made in *BPM5* and the *Benchmark*. Consequently, the survey included questions on all the major methodological issues related to the measurement of FDI.
 - ▶ To obtain standardized information on data sources, collection methods, and dissemination practices (e.g., availability, periodicity, timeliness, revision policy, breakdowns) from the member countries.
 - ▶ To facilitate the exchange of information between reporting countries. Consequently, the survey form was designed with a view to providing a set of easily comparable metadata (information about data) on FDI statistics. The survey form was also

designed to identify countries that would make available their survey information to IMF member countries.

5. The survey form was designed as a multiple choice questionnaire. This design was intended to reduce, as much as possible, the time required by compilers to complete the form, while covering all the major issues. It was understood that the multiple choice design meant that uncommon practices might not always be explicitly reported. Therefore, room was provided for comments throughout the survey form. A draft form was circulated for comments in March 1997 to all members of the Committee. The OECD circulated the same draft to the GFS. The draft was discussed at the GFS meeting that was held on April 9-10, 1997. The comments from the Committee members and the GFS participants were incorporated to the survey form that was sent for completion to all OECD member countries and most IMF member countries in late-May 1997. A working procedure was established so that the Fund and OECD could share a common database to process the results from the joint survey. This database is maintained on the Internet, and is both user-restricted and password-protected to insure data confidentiality. The Fund and OECD have designed and implemented a series of automated data checks, as the survey contains over 600 responses per fully completed form. These automated edits impute responses for some questions for which no response is made, based on other information in the completed questionnaire, and perform consistency checks.

6. The survey form was sent to 171 IMF member countries (of which 29 were also OECD member countries). The form was made available in the English, French, Spanish and Russian languages to insure a higher response rate and facilitate the comprehension of the questions, thus improving the quality of response. As of end-July 1998, 114 countries had responded to the questionnaire. All 29 OECD countries have returned the completed form, while 85 of the 142 IMF but non-OECD member countries have done the same. The response rates from European non-OECD countries and Western Hemisphere countries were very good, with over 70 percent of these countries completing and returning the form, while over 60 percent of Asian countries did the same. Approximately 45 percent of African and the Middle Eastern countries returned the completed questionnaire to the IMF. Appendix 1 provides a complete list of the survey respondents, classified according to the above mentioned regions.

7. The overall quality of the survey responses was very good. The editing process suggested that the questions were generally understood and that countries' submissions were generally internally consistent. In a few instances where countries had difficulty completing the detailed questions, the information that they provided in comments or about their future plans was still very useful. A few countries that have undeveloped systems for compiling FDI statistics preferred not to complete the form but provided letters indicating their future plans in this area. A total of 18 countries either provided letters or completed part of the questionnaire but do not compile and disseminate FDI statistics. These countries were excluded from the analysis of the survey results that focused on 96 countries, distributed as

follows: 29 OECD countries, 15 African countries, 13 Asian countries, 16 European countries, 2 Middle Eastern countries, and 21 Western Hemisphere countries.

IV. SUMMARY RESULTS OF THE 1997 SURVEY

A. Changes since the 1992 IMF

“Report on the Measurement of International Capital Flows (Godeaux Report)”

8. The *Godeaux Report* found that reported global outflows on FDI exceeded reported global inflows. Set out below are the most significant sources of the discrepancy as identified by the *Godeaux Report* and the position as now indicated by the 1997 SIMSDI.
 - a. *The failure of many countries to compile data on reinvested earnings was identified by the Godeaux Report as the most important source of the global discrepancy.* The 1997 SIMSDI results indicate that over three-fourths of OECD countries compile reinvested earnings data. The 1991 survey used for the *Godeaux Report* indicated that half of the 22 industrial countries in the survey sample were not compiling reinvested earnings. In 1997, 6 of these previous non-reporters compile data on reinvested earnings and 3 others have future plans for the collection of these data. The SIMSDI results indicate that 44 non-OECD countries also compile reinvested earnings for inward FDI statistics, which represents about two-thirds of the non-OECD respondents. However, less than 50 percent of these countries compile outward reinvested earnings data.
 - b. *The failure to follow international standards in relation to short-term financing between affiliated enterprises.* The *Godeaux Report* indicated that data on short-term loans between affiliated enterprises were included in the FDI statistics of only a minority of the countries included in the survey sample. The 1997 SIMSDI results indicate that almost 80 percent of the OECD countries and over 60 percent of the non-OECD countries include short-term loans between affiliated enterprises in FDI. Notwithstanding this improvement, there are still many OECD countries that include these flows in the *other investment* component of the financial account.
 - c. *The failure of many countries to record and properly classify the activities of “Special Purpose Entities” (SPEs) of multinational enterprises.* The 1997 SIMSDI results indicate that financial transactions between SPEs and affiliated enterprises are recorded in the FDI statistics of over 80 percent of the OECD countries that report the establishment of SPEs in their economy or the establishment of SPEs abroad by resident enterprises. However, only about half of non-OECD countries record the transactions between SPEs and their affiliated enterprises in FDI statistics.

- d. *The failure of many countries to record cross-border real estate transactions.* The *Godeaux Report* indicated that a significant number of countries were excluding all cross-border purchases and sales of real estate in reporting FDI flows, while many additional countries were excluding “noncommercial” real estate transactions from the statistics. The 1997 SIMSDI results indicate little improvement compared with the practices described in the *Godeaux Report*. Only 19 OECD countries cover cross-border real estate transactions by enterprises and 17 cover such transactions by individuals. A small proportion of non-OECD countries include these transactions in FDI statistics, as only 28 countries (about 40 percent) include real estate transactions in the reporting economy when they are conducted by nonresident enterprises, while 18 countries (or about one-fourth of respondents) include these transactions in the statistics when they are conducted by nonresident individuals.
- e. *The failure of many countries to properly classify investment by affiliates in their parent companies.* The 1997 SIMSDI results indicate that only 4 OECD countries and 11 non-OECD countries record the acquisition of equity capital by the direct investment enterprise in its direct investor in strict conformance with the recommendations of the international manuals. According to the international standards, all financial transactions of resident direct investment enterprises with foreign direct investors should be recorded by the country of the direct investment enterprise as *direct investment in the reporting economy*; symmetrically, all financial transactions with foreign direct investment enterprises should be recorded by the country of the direct investor as *direct investment abroad*. For the instances of reverse investment or cross-participation, such as the acquisition of equity capital by the direct investment enterprise in its direct investor, the direct investment enterprise acquires an interest in its direct investor. That interest should be regarded as an offset to capital invested by the direct investor and is equivalent to recording a disinvestment by the direct investor. However, many OECD countries record these transactions as *portfolio investment*. In cases in which the equity participation is at least 10 percent in both directions, two direct investment relationships are established. Reverse investment transactions in equity capital or in the form of other instruments should then be recorded as direct investment claims and liabilities in both directions; that is, as *direct investment in reporting economy* and as *direct investment abroad*, for each economy as appropriate. In the instances when two direct investment relationships are established, the acquisition of equity capital by the direct investment enterprise in its direct investor is recorded according to the international standards by 20 OECD countries and 24 non-OECD countries.

B. Other Major Findings

9. One of the major objectives of the SIMSDI was to discover the extent of adoption by the member countries of the recommendations on FDI statistics depicted in *BPM5* and the

Benchmark. Listed below are the major findings from the survey results regarding the status of implementation of the methodological standards for the measurement of direct investment.

- a. *The international manuals recommend that 10 percent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise) establishes a direct investment relationship - the so-called “10 percent rule”.* The 1997 SIMSDI results indicate that about of three-fourths of OECD and non-OECD countries apply this recommendation for the identification of direct investment relationships. 3 of the 7 OECD countries that currently do not apply the 10 percent rule are in the process of implementing it. Many of the non-OECD countries responding to the survey that do not apply the 10 percent rule rely on investment approval authorities for the collection of their FDI statistics and only a few of them indicated future plans to adopt the 10 percent rule.
- b. *Direct investment statistics should cover all enterprises in which the investor directly or indirectly has a direct investment interest.* This means that once the 10 percent “across the border” link is achieved with an enterprise, certain other enterprises related “down-the-line” to the first enterprise will also be regarded as direct investment enterprises. As a result, the FDI statistics should cover transactions between the direct investor and the first enterprise and certain of its affiliates and between the affiliates themselves if they are in different countries. The OECD’s specification of this group of enterprises is referred to as the “Fully Consolidated System”. The 1997 SIMSDI indicate that 23 OECD countries and 36 non-OECD countries take account of indirectly owned direct investment enterprises in their statistics. However, the procedures to determine the existence of indirect relationships between enterprises and the coverage of transactions between indirectly owned concerns vary considerably between countries. The SIMSDI results indicate that 35 countries, of which 13 are OECD countries, include earnings data of indirectly owned FDI enterprises and that 31 countries, of which 13 are OECD countries, classify equity and other capital transactions between enterprises that belong to the same group of related enterprises as FDI transactions. Despite these results, only 11 countries indicate that they fully comply to the rules of the “Fully Consolidated System”.
- c. *International standards state that both realized and unrealized capital gains and losses should be excluded from the calculation of reinvested earnings data.* The international manuals recommend that earnings of FDI enterprises be measured according to the rules of the “*Current Operating Performance Concept*” (COPC), under which earnings of an enterprise are its income from normal operations and before allowing for non-recurring items and capital gains and losses. However, of the countries that compile reinvested earnings data, about half of OECD countries and a large number of non-OECD countries incorporate realized or unrealized capital gains or losses. The *BPM5* and the *Benchmark* also recommend that

earnings data be calculated net of any provision for depreciation of fixed capital, but only half of OECD and non-OECD countries follow this recommendation. Overall, only 8 countries fully apply the rules of the COPC when measuring reinvested earnings.

- d. *Direct investment income data should be recorded on an accrual basis, that is recording dividends as they are payable and income on debt as it is accruing.* Most OECD countries record dividends as they are paid. This is not a departure from the international standards with regard to the time of recording income as long as dividends are paid on the date they are payable. About half of OECD countries and almost 60 percent of non-OECD countries record interest on a paid basis, instead of as it is accruing.
- e. *The BPM5 and the Benchmark recommend that all external financial assets and liabilities should be measured at current market prices as of the date involved.* However, the international manuals recognize that book values from the balance sheets of direct investment enterprises are generally utilized to determine the value of the stock of direct investments. The SIMSDI results indicate that 19 of the 22 OECD countries that compile FDI position data use book value to determine the stock of FDI assets and liabilities, although 5 of these countries also use market value as the second most frequent valuation method.
- f. *Work undertaken in one economy by a construction enterprise resident in another economy should be regarded as being done by a direct investment enterprise resident in the economy in which the work is being carried out if production is maintained for one year or more, a separate set of accounts is maintained for the local activities and income tax is paid to the host country.* About one-fourth of OECD countries and even fewer non-OECD countries apply this recommendation for construction enterprises that do not establish a separate legal corporation in the host country.

10. SIMSDI was also designed to provide standardized information on FDI reporting practices, data sources, and availability of geographical and industrial allocation of the data. The survey results indicate that, despite the progress of the recent years, many countries still do not disseminate FDI data on a regular basis. For example, over 30 percent of non-OECD countries do not report statistics to the IMF Statistics Department on direct investment in the reporting economy and more than one half of these countries do not report statistics on direct investment abroad. FDI position data are disseminated by approximately three-quarters of the OECD countries but less than 30 percent of the non-OECD countries report these data. When reporting data, two-thirds of OECD countries have two data dissemination cycles; the “most timely” FDI statistics are monthly or quarterly data usually available about 10 weeks after the end of the reference period while the “most comprehensive” FDI statistics are most often annual data disseminated between 30 to 52 weeks after the end of the reference period. Disseminated data are compiled using data sources that vary across the countries. Over half of

the OECD countries rely on an international transactions reporting system (ITRS) for the “most timely” transactions data, while the “most comprehensive” transactions data are usually based on data collected from enterprise surveys. Non-OECD countries also rely largely on these two sources, although the information collected by exchange control and investment approval authorities represent the primary data source for 30 percent of these countries. Geographical breakdowns of FDI data are available from most OECD countries, which bodes well for the bilateral exchange of the data. However, only about half of non-OECD countries compile FDI financial flows with geographical breakdowns.

11. The remaining 6 sections of the report describe the survey results on FDI data availability and sources, the application of the international methodological standards regarding the definition of direct investment enterprise and direct investor, the components of direct investment capital, the components and measurement of direct investment income, the valuation of FDI position data, and special types of direct investment relationships or transactions, that warrant mention.

Box 1. A Note on the Tables

The tables indicate the number of countries that follow a certain procedure or apply a specific methodology. The tables contain 7 rows; one for each of the 6 regions, corresponding to the country classification used in the IMF *International Financial Statistics* publication, plus one row for the total number of responding countries. The responses are additive vertically and show the total number of countries following a specific procedure. The number in brackets beside each region (OECD, Africa, Asia, Europe, Middle East and Western Hemisphere) represents the number of countries that responded to the section of the questionnaire used to build the table. The number in brackets may be higher than the number of responding countries included in one table cell as countries may not apply the described methodologies or not have responded to the question. Each table cell must be treated individually and the responses provided in one cell cannot be analyzed in combination with responses provided in other cells of the same table row. Responses are only additive within a table cell, but not across a table row.

For example:

Region	Countries that apply the 10 percent equity threshold	Countries that use a percent of ownership different from the 10% threshold	Countries that apply the 10% threshold but allow for a qualification to the threshold, such as	
			Including enterprises in which the investor has a voice in management	Excluding enterprises in which the investor has no voice in management
OECD (29)	22	3	4	0
	cell 1		cell 2	cell 3

A total number of 25 countries apply one of the two procedures described in cell 1, while 4 countries apply that of cell 2 and 0 country that of cell 3.

V. DATA

A. Data Availability

12. The *BPM5* and the *Benchmark* recommend that foreign direct investment statistics should be compiled as part of balance of payments and international investment position statistics. Consequently, countries are expected to collect and disseminate FDI data according to the standard components of *BPM5*: direct investment income, direct investment transactions and direct investment position. The direct investment income component is broken into income on equity and income on debt while direct investment transactions are subclassified into equity capital, reinvested earnings, and other capital (intercompany transactions). Direct investment position data are subdivided into equity capital plus reinvested earnings and other capital. Although some progress was achieved in the recent years as more and more countries properly record relevant international transactions according to *BPM5* recommendations, many countries still do not compile and report FDI data according to the standard *BPM5* components. The following table shows the number of countries that report FDI statistics to international organizations and indicates the periodicity of available data.

Reporting to international organizations

Table 1. Data reporting to international organizations
(by number of countries)

Region	Countries that report FDI statistics for the following components:					
	Direct investment income		Direct investment financial flows		Direct investment position data	
	Inward	Outward	Inward	Outward	Inward	Outward
OECD (29)	28	26	28	26	21	18
Africa (15)	11	12	13	10	5	4
Asia (13)	8	5	10	9	5	4
Europe (16)	13	11	14	11	9	8
Middle East (2)	1	2	0	1	0	0
West. Hem. (21)	21	5	20	5	4	1
TOTAL (96)	82	61	85	62	44	35

OECD Countries

13. The vast majority of the 29 OECD countries report FDI income and financial flows data to the IMF or OECD on a regular basis. However, the Czech Republic and Mexico only compile and disseminate data for direct investment in the reporting economy (inward) and do not report data for direct investment abroad (outward). Also, fewer countries report direct investment position data, as only about two-third of OECD countries disseminate these data.

Non-OECD Countries

14. Over 80 percent of the 67 non-OECD countries report FDI statistics to the IMF, although many of these countries only report FDI income and financial flows data for inward direct investment. As a result, no more than half of non-OECD countries also report statistics for outward direct investment. This difference is particularly significant for Western Hemisphere countries. The majority of these countries rely on exchange controls or investment approval authorities as their primary data source for compiling FDI data. Most investment approval authorities are concerned with direct investment in the reporting economy and, as a result, the compilers need to supplement this data source in order to collect information on outward investment. About one-third of non-OECD countries report position data to the Fund, and these reporters are mostly European non-OECD countries.

15. It is encouraging to observe that, of all the countries included in the survey analysis, 44 indicate that they have future plans to compile FDI position data, 27 for FDI income data and 23 for FDI financial flows.

Periodicity of disseminated equity capital data

16. The following two tables examine the respective periodicity of the most timely and most comprehensive inward equity capital data disseminated by countries, although the survey results also provide similar information for all the standard components of FDI statistics. Data dissemination refers to all the means by which data are made available to the public while the periodicity refers to the frequency of compilation of the data. The speed of dissemination of the data, or timeliness, is an important quality of statistical information. The timeliness is measured as the number of weeks, months or years after the end of the reference period (or the reference date for position data) and dissemination of the data. Because of the importance of providing timely data, many countries choose to collect and compile preliminary FDI data that can be released rapidly after the end of the reference period. Often, these countries later compile revised FDI statistics based on more comprehensive regularly available data sources. In SIMSDI, these two sets of FDI statistics are referred to as the “most timely data” and the “most comprehensive data”, respectively.

Table 2. Periodicity of the most timely and most comprehensive equity capital transactions data for direct investment in the reporting economy (by number of countries)

Region	Periodicity of the most timely transactions data			Periodicity of the most comprehensive transactions data		
	Monthly	Quarterly	Annually	Monthly	Quarterly	Annually
OECD (29)	18	7	3	5	6	7
Africa (15)	2	3	7	2	0	4
Asia (13)	2	8	0	1	5	2
Europe (16)	5	9	2	2	7	2
Middle East (2)	0	1	1	0	0	1
West. Hem. (21)	1	8	10	0	3	11
TOTAL (96)	28	36	23	10	21	27

Table 3. Periodicity of the most timely and most comprehensive equity capital position data for direct investment in the reporting economy (by number of countries)

Region	Periodicity of the most timely position data			Periodicity of the most comprehensive position data		
	Monthly	Quarterly	Annually	Monthly	Quarterly	Annually
OECD (29)	1	4	16	0	2	15
Africa (15)	0	1	4	0	1	2
Asia (13)	1	2	2	1	1	2
Europe (16)	0	5	4	0	4	4
Middle East (2)	0	0	0	0	0	0
West. Hem. (21)	0	2	2	0	0	1
TOTAL (96)	2	14	28	1	8	24

OECD Countries

17. Over 60 percent of OECD countries disseminate their most timely FDI financial flows data on a monthly basis. With the exception of Japan, Korea, Poland and Turkey, these are all European Union (EU) countries. The availability of monthly balance of payments data is among the requirements for accessing to the European Monetary Union, explaining why so many European countries disseminate monthly FDI statistics. About two-thirds of OECD countries disseminate a set of “most comprehensive transactions data” and these data are normally disseminated with a quarterly or annual periodicity. Whether they are disseminated on the basis of the most timely or most comprehensive data, position data are disseminated at an annual periodicity by over three-quarters of OECD countries that compile such data.

Non-OECD Countries

18. The periodicity of FDI transactions data vary substantially among non-OECD countries, although half of non-OECD respondents disseminate their most timely data with a quarterly periodicity, including a large number of Asian and European non-OECD countries. On the other hand, African and Western Hemisphere countries often compile and disseminate their most timely transactions data with an annual periodicity. As observed with OECD countries, about two-thirds of non-OECD countries also disseminate a set of “most comprehensive transactions data” that are mostly annual data. Position data disseminated by non-OECD countries are either quarterly or annual data.

Timeliness and revision policy

OECD Countries

19. In the OECD area, the availability of most timely data usually vary between 5 to 12 weeks after the end of the reference period. Only 3 countries, New Zealand, Ireland, and Belgium, need between 15 to 24 weeks after the end of the reference period to compile and disseminate their data. As expected, the most comprehensive data are available after a longer delay, which varies between 30 to 52 weeks. However, in about one-third of the countries, data are compiled always based on the same data sources, hence there is only one set of data, although data are not final, as they are still subject to revision. Regarding revision policies, OECD countries are the ones that take the longest before disseminating their final FDI data. About one-third of these countries require between 2 to 4 years before making available their final data. On the opposite, about one-third provide final data within a year after the end of the reference period. The rest of OECD countries disseminate their final FDI data 1 to 2 years after the end of the reference period.

Non-OECD Countries

20. Most European non-OECD countries disseminate their FDI transactions data very rapidly, within 2 to 3 months after the end of the reference period. A large number of African and Asian countries take about one year for compiling and disseminating their FDI statistics, while Western Hemisphere countries most frequently take about 9 months. Non-OECD countries, on average, undertake a less extensive revision process than OECD countries and, as a result, provide their final data more rapidly. This is especially true of African countries as all these countries, except 3, provide their final FDI data within a year after the end of the reference period. In many African countries, this delay corresponds to the timeliness of the most timely data. Most European non-OECD and Western Hemisphere countries complete their revision process in 12 to 18 months after the end of the reference period. Finally, Asian countries most frequently require 2 years for providing final FDI data.

B. Data sources

21. When compiling the “most timely” and the “most comprehensive” transactions data, the various sources used have an impact on the ability of the compilers to implement the international recommendations regarding FDI statistics. In most countries, compilers use several data sources, although there are three major sources for FDI statistics: enterprise surveys, international transactions reporting systems (ITRS)¹, and data from exchange control authorities or investment control authorities. The IMF *Balance of Payments Compilation Guide* reviews the advantages and disadvantages of these three main data sources (paragraph 696-698 of the *Guide*).

Data sources for transactions data

¹ An ITRS measures individual balance of payments cash transactions (passing through the domestic banks and foreign bank accounts of enterprises) and non-cash transactions and stock positions. Statistics are compiled from forms submitted to domestic banks and from forms submitted by enterprises to the compiler.

Table 4. Primary data sources for the “most timely” transactions data
(by number of countries)

Region	Enterprise surveys		International transactions reporting system (ITRS)		Exchange control or investment approval authorities		Other (published sources, bilateral sources, press reports)	
	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward
OECD (29)	11	10	18	18	2	-	-	-
Africa (15)	7	5	5	3	6	3	1	-
Asia (13)	6	6	5	3	3	1	-	1
Europe (16)	9	7	5	5	1	1	1	-
Middle East (2)	-	-	1	1	1	-	-	1
West. Hem. (21)	6	2	2	1	12	5	4	1
TOTAL (96)	39	30	36	31	25	10	6	3

Table 5. Primary data sources for the “most comprehensive” transactions data
(by number of countries)

Region	Enterprise surveys		International transactions reporting system (ITRS)		Exchange control or investment approval authorities		Other (published sources, bilateral sources, press reports)	
	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward
OECD (29)	12	10	9	9	2	-	-	-
Africa (15)	6	5	2	-	6	3	-	-
Asia (13)	6	5	3	3	3	1	1	1
Europe (16)	9	4	3	3	2	1	1	-
Middle East (2)	-	-	1	1	1	1	-	-
West. Hem. (21)	4	3	1	1	13	5	-	3
TOTAL (96)	33	27	19	17	27	11	2	4

OECD Countries

22. Table 4 indicates that enterprise surveys and ITRS are the two primary data sources used by OECD countries for compiling the most timely data. A very large proportion of EU countries rely on ITRS, while enterprise surveys are relatively more popular outside Europe. Japan and the Netherlands use both enterprise surveys and ITRS as primary data sources, while Korea and Turkey use both ITRS and data from exchange or investment control authorities, although this last data source is relatively unpopular in OECD countries. Table 5 shows that there is an important difference in the primary data sources used for the most comprehensive transactions data as compared to the most timely data; the majority of OECD countries rely on enterprise surveys, instead of ITRS. This shift towards enterprise surveys could be explained by the requirement to produce reinvested earnings data, which is not possible when relying exclusively on an ITRS.

Non-OECD Countries

23. When compiling most timely data, non-OECD countries largely rely on enterprise surveys as their primary data sources. However, over one-third of non-OECD countries use data from exchange control or investment approval authorities as the primary sources for compiling FDI data. This data source is commonly used by countries of the Western Hemisphere, as well as African countries.

Data sources for position data

Table 6. Primary data sources for the “most timely position data”
(by number of countries)

Region	Enterprise surveys		International transactions reporting system (ITRS)		Exchange control or investment approval authorities		Other (published sources, bilateral sources, press reports)	
	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward
OECD (29)	17	12	3	1	0	-	2	-
Africa (15)	4	3	1	1	2	1	-	1
Asia (13)	7	5	2	3	3	1	1	2
Europe (16)	7	5	2	1	1	-	-	-
Middle East (2)	-	-	1	1	1	1	-	-
West. Hem. (21)	3	1	-	-	5	3	3	2
TOTAL (96)	38	26	9	7	12	6	6	5

Table 7. Primary data sources for the “most comprehensive position data”
(by number of countries)

Region	Enterprise surveys		International transactions reporting system (ITRS)		Exchange control or investment approval authorities		Other (published sources, bilateral sources, press reports)	
	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward
OECD (29)	13	18	1	3	0	-	-	-
Africa (15)	4	4	1	1	2	1	-	1
Asia (13)	6	5	3	2	3	1	2	1
Europe (16)	6	7	1	1	1	-	-	-
Middle East (2)	-	-	1	1	1	1	-	-
West. Hem. (21)	2	2	-	-	5	3	1	2
TOTAL (96)	18	18	6	5	12	6	3	4

OECD Countries

24. Table 6 indicates that the most timely position data are largely compiled using enterprise surveys, as only 3 OECD countries rely on an ITRS compared to 17 that use surveys. These results highlight the difficulties associated to the measurement of position data based on a perpetual inventory method, which is the only way to compile position data using an ITRS, as no more than 6 countries in the OECD area use the perpetual inventory method, accounting for exchange rate changes as well as price changes, when compiling the position data.

Non-OECD Countries

25. As indicated by the results of tables 6 and 7, non-OECD countries also largely rely on enterprise surveys for compiling FDI position data. For these countries, data from exchange control or investment approval authorities remain the second most frequently used data source.

C. Geographical and Industrial Allocation

Availability of geographical and industrial breakdowns

26. The SIMSDI results also provide information on the types of geographical and industrial breakdowns of FDI statistics and the level of details available in each country. These breakdowns correspond to the details included in the statistical questionnaire of OECD/EUROSTAT designed for data collection by these institutions.

Table 8. Availability of geographical breakdowns of FDI income, financial flows and position data (by number of countries)

Region	Countries compiling geographical breakdowns of FDI:					
	Income		Financial flows		Position data	
	Inward	Outward	Inward	Outward	Inward	Outward
OECD (29)	23	22	25	22	21	18
Africa (15)	6	4	7	7	3	3
Asia (13)	8	5	6	7	5	7
Europe (16)	5	5	10	7	7	6
Middle East (2)	-	-	-	-	-	-
West. Hem. (21)	5	3	9	4	4	1
TOTAL (96)	47	39	57	47	40	35

Table 9. Availability of industrial breakdowns of FDI income, financial flows and position data (by number of countries)

Region	Countries compiling industrial breakdowns of FDI:					
	Income		Financial flows		Position data	
	Inward	Outward	Inward	Outward	Inward	Outward
OECD (29)	15	14	22	19	21	18
Africa (15)	4	2	7	5	2	1
Asia (13)	4	4	7	5	5	4
Europe (16)	3	2	6	4	6	5
Middle East (2)	-	-	-	-	-	-
West. Hem. (21)	6	1	10	4	4	1
TOTAL (96)	32	23	52	37	38	29

OECD Countries

27. Tables 8 indicates that over 85 percent of OECD countries can provide geographical breakdowns of FDI financial flows and that about three-quarters can provide geographical breakdowns of FDI position data. This bodes well for the bilateral exchange of the data. Information on industrial breakdowns is almost as commonly available, as shown by table 9. Many OECD countries can provide such breakdowns, unless they are related to income flows. However, fewer countries can provide information on both industrial and country breakdowns taken together.

Non-OECD Countries

28. A significantly lower proportion of non-OECD countries can provide geographical breakdowns of FDI transactions or position data. Less than half of non-OECD countries compile FDI financial flows data by country and just over one-quarter can provide FDI position data by countries.

Geographical allocation of FDI data

29. The allocation principle used for FDI transactions will have, all other things being equal, an important impact on the bilateral comparison of the data. Countries may allocate FDI transactions to the country to which the funds are paid to or received from, even if this is not the country of the direct investment enterprise or direct investor; this allocation principle is referred to as the transactor principle. On the other hand, the geographical allocation could be based on the country of the direct investment enterprise or direct investor, even if the amounts paid or received are to or from another country; this is known as the debtor/creditor principle. Although there are no definite recommendations regarding the regional allocation of FDI transactions, the *BPM5* recommends that position data be allocated in respect of the debtor/creditor principle. Consequently, countries that allocate FDI transactions in respect of the transactor principle would need a reconciliation item to bridge the difference between the regional balance of payments entries and the position data. Equally important, the allocation of position data might vary considerably depending on whether the geographical allocation is based on the immediate host or investing country or on the ultimate host or investing country. The *BPM5* and the *Benchmark* recommend that position data be allocated in respect of the immediate host or investing country, although the *Benchmark* also recommends that separate accounts be maintained based on the country of ultimate ownership.

Table 10. Allocation of geographical FDI transactions data
(by number of countries)

Region	Countries compiling geographical breakdowns in respect of the:			
	Debtor/creditor principle		Transactor principle	
	Inward	Outward	Inward	Outward
OECD (29)	18	15	9	9
Africa (15)	5	5	3	4
Asia (13)	5	3	2	2
Europe (16)	7	6	1	-
Middle East (2)	-	-	-	-
West. Hem. (21)	8	4	4	2
TOTAL (96)	43	33	19	17

Table 11. Allocation of geographical FDI position data
(by number of countries)

Region	Countries compiling geographical breakdowns in respect of the:			
	Immediate host/investing country		Ultimate host/investing country	
	Inward	Outward	Inward	Outward
OECD (29)	21	18	6	5
Africa (15)	1	1	-	-
Asia (13)	7	3	-	-
Europe (16)	8	6	2	2
Middle East (2)	-	-	-	-
West. Hem. (21)	4	4	2	2
TOTAL (96)	41	32	10	9

OECD Countries

30. 60 percent of OECD countries allocate geographical breakdowns of transactions data in respect of the debtor/creditor principle, avoiding the need for a reconciliation item between balance of payments entries and position data. However, almost a third of OECD countries

use the transactor principle for the regional allocation of FDI transactions. Most of these countries rely on an ITRS, showing the limitations of a settlement based system for the regional allocation of FDI transactions. Table 11 indicates that OECD countries follow the recommendation for the allocation of position data, as these data are allocated in respect of the immediate host/investing country by the 21 countries that compile position data. All 5 countries that compile position data in respect of the ultimate host/investing country also compile these data in respect of the immediate host/investing country, as recommended by the international manuals.

Non-OECD Countries

31. About 70 percent of non-OECD countries compile geographical breakdowns of transactions data in respect of the debtor/creditor principle. As observed for OECD countries, the recommendation regarding the regional allocation of position data is largely implemented by non-OECD countries. Among the 4 countries that compile position data in respect of the ultimate host/investing country, 2 countries also compile this information in respect of the immediate host/investing country.

VI. DEFINITION OF DIRECT INVESTMENT ENTERPRISE AND DIRECT INVESTOR

32. The *Benchmark* and the *BPM5* define the concept of foreign direct investment as international investment by a resident entity in one economy in an enterprise resident in another economy with the objective of obtaining a lasting interest. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction establishing the relationship between the two entities and all subsequent transactions between them and among affiliated enterprises, both incorporated and unincorporated.

33. The *Benchmark* and the *BPM5* define a direct investment enterprise as an incorporated or unincorporated enterprise in which a direct investor, who is resident of another economy, owns 10 percent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise). The direct investor is an individual, an incorporated or unincorporated private or public enterprise, a government, associated groups of individuals or enterprises that own a direct investment enterprise in an economy other than those in which the direct investors reside. The numerical guideline of ownership of 10 percent of ordinary shares or voting stock determines the existence of a direct investment relationship.

34. Although the 10 percent equity threshold is specified in the *Benchmark* and *BPM5*, some countries may choose to allow for two qualifications to the numerical guideline. First, if a direct investor owns less than 10 percent of an enterprise but has an effective voice in management, the transactions between the investor and the enterprise may be included in FDI.

Second, if the investor owns 10 percent or more, but does not have an effective voice in management, the enterprise may be excluded. The application of these two qualifications is not recommended by the *Benchmark* and *BPM5*.

35. The next two sections examine the extent to which countries adhere to the international standards for the identification of direct investment enterprises and direct investors resident of the reporting economy, while the third section examines how various countries account for indirectly owned direct investment enterprises in FDI statistics.

A. Identification of Direct Investment Enterprises

Table 12. The definitions applied for the identification of direct investment enterprises resident in the reporting economy (by number of countries)

Region	Countries that apply the 10 percent equity threshold	Countries that use a percent of ownership different from the 10 percent threshold	Countries that apply the 10 percent threshold but allow for a qualification to the threshold, such as		Countries that apply a value threshold when identifying FDI enterprises	Countries that apply a differing treatment for incorporated and unincorporated enterprises
			Including enterprises in which the investor has a voice in management	Excluding enterprises in which the investor has no voice in management		
OECD (29)	22	3	4	0	7	2
Africa (15)	11	2	2	0	-	-
Asia (13)	10	2	-	0	1	-
Europe (16)	14	2	3	-	3	1
Middle East (2)	2	-	-	-	1	-
West. Hem. (21)	16	1	2	1	1	1
TOTAL (96)	75	10	11	1	13	4

OECD Countries

36. Three quarters of OECD countries apply the 10 percent equity threshold for the identification of direct investment enterprises resident in the reporting economy. 22 OECD countries use the 10 percent threshold, while the 3 countries that currently use a different percent of ownership (Germany, Italy and New Zealand) are in the process of implementing the 10 percent criterion. 4 countries do not rely on a pre-determined percentage of foreign

ownership for the identification of resident direct investment enterprises. For example, the Netherlands uses a lasting interest in an enterprise and influence on policy making as the criterion to identify a resident direct investment enterprise. There are 4 countries that apply one of the two qualifications to the 10 percent rule that involve a degree of judgement. Japan, Mexico, Poland and Switzerland include in FDI statistics the transactions between a resident enterprise and its direct investor when the investor has an effective voice in management, although the investor does not own 10 percent or more of the enterprise. Another qualification to the threshold, not shown in table 12, is applied by Portugal and New Zealand. When the total foreign ownership in a resident enterprise is greater than a certain percentage, the transactions between the enterprise and its foreign investors are recorded in FDI, even though no single investor owns 10 percent or more of the enterprise. The thresholds of total foreign ownership used are 20 percent for Portugal and 25 percent for New Zealand.

37. 7 of the 29 OECD countries apply a value threshold when identifying inward direct investment enterprises. 4 countries include only enterprises with a total balance sheet value higher than a pre-determined threshold, while 3 countries request detailed information only for transactions for which values are higher than a pre-determined threshold. Finally, only 2 countries apply a differing treatment when identifying incorporated and unincorporated direct investment enterprises. The Netherlands capture only flows from unincorporated enterprises, and would not record position data for these enterprises while the Belgium FDI survey does not include unincorporated enterprises.

Non-OECD countries

38. About 80 percent of non-OECD countries apply the 10 percent threshold for the identification of direct investment enterprises resident in the reporting economy. 7 countries use a different threshold and apply a percentage of foreign ownership that normally varies between 20 and 25 percent for the identification of a resident direct investment enterprise. There are 7 countries that do not apply a percentage of foreign ownership to identify a resident direct investment enterprise. Most of these countries rely on data provided by the investment approval authorities for the collection of their FDI statistics and include any resident enterprises in which nonresidents own equity capital providing them with a voice in management. 7 non-OECD countries that apply the 10 percent criterion include transactions between a resident enterprise and its direct investor when the investor owns less than 10 percent but has an effective voice in management while 1 country excludes from the FDI statistics transactions of enterprises in which the direct investor has no effective voice in the management. Finally, 6 of the 67 non-OECD countries apply a value threshold when identifying a direct investment enterprise, and 2 countries apply a differing treatment for the identification of incorporated and unincorporated direct investment enterprise.

B. Identification of Direct Investors

Table 13. The definitions applied for the identification of direct investors resident in the reporting economy (by number of countries)

Region	Countries that apply the 10 percent equity threshold	Countries that use a percent of ownership different from the 10 percent threshold	Countries that apply the 10 percent threshold but allow for a qualification to the threshold, such as		Countries that apply a value threshold when identifying FDI enterprises	Countries that apply a differing treatment for incorporated and unincorporated enterprises
			Including enterprises in which the investor has a voice in management	Excluding enterprises in which the investor has no voice in management		
OECD (28)	21	4	5	1	6	3
Africa (12)	10	0	-	3	-	-
Asia (11)	5	3	-	0	2	-
Europe (14)	12	1	-	1	2	1
Middle East (2)	1	0	-	-	-	-
West. Hem. (7)	6	1	2	2	2	-
TOTAL (74)	55	9	7	7	12	4

OECD Countries

39. For OECD countries, the survey results on the application of the recommendations for the identification of direct investors resident in the reporting economy are very similar to those obtained for the identification of resident direct investment enterprises, except for Mexico, which does not compile outward FDI statistics. 21 countries apply the 10 percent equity threshold, while 4 countries (Germany, Italy, Korea and New Zealand) apply a percentage of equity ownership that varies between 20 and 25 percent to identify a resident direct investor. The Netherlands apply the notion of lasting interest and influence on policy making in the direct investment enterprise. There are 5 OECD countries that include in FDI statistics transactions between resident direct investors and affiliated nonresident enterprises when investors have an effective voice in the management although they own less than 10 percent of the enterprise. One country (Canada) excludes from FDI statistics resident direct investors that own 10 percent or more but do not have an effective voice in the management of the direct investment enterprise. 6 of the 27 OECD countries apply a value threshold for the identification of direct investors; they exclude from the statistics transactions for which the

value is below a certain threshold, or for which the total net asset value of the participation in the enterprise abroad is below a pre-determined threshold. Finally, 3 OECD countries apply a differing treatment when identifying incorporated and unincorporated direct investors.

Non-OECD countries

40. About 70 percent of non-OECD countries apply the 10 percent equity threshold to identify a direct investor in the resident economy. This proportion is calculated based on the 46 countries that compile outward FDI statistics. The majority of the 12 countries that do not apply the 10 percent equity threshold rely on data from investment approval authorities or an international transactions reporting system. Only 4 of these 12 countries apply a percentage of ownership, which varies between 20 and 25%, to identify a resident direct investor. 2 non-OECD countries include investors that have an effective voice in the management of the direct investment enterprise although they do not own 10 percent or more of equity participation, while 6 non-OECD countries exclude investors that own 10 percent or more of a non-resident enterprise but do not have an effective voice in the management. 6 of the 46 non-OECD countries apply a value threshold when identifying a direct investor and one country applies a differing treatment of incorporated and unincorporated direct investors.

C. Indirectly Owned Direct Investment Enterprises

41. Direct investment enterprises include those entities that are
- subsidiaries (a nonresident investor owns more than 50 percent);
 - associates (a nonresident investor owns between 10 and 50 percent); and
 - branches (unincorporated enterprises wholly or jointly owned by a nonresident investor) of the direct investor.

A direct investment relationship is established when a direct investor either directly or indirectly owns a direct investment enterprise. As a result, once the 10 percent “across-the border” direct investment link is achieved with an enterprise, certain other enterprises related “down the line” to the first enterprise will also be regarded as direct investment enterprises.

Hence, the definition of direct investment enterprise extends to

- branches and subsidiaries of subsidiaries of a direct investor (that is a subsidiary of a non-resident investor owns more than 50 percent);
- enterprises in subsidiaries of a direct investor have equity participation between 10 and 50 percent (i.e. nonresident associates); and
- subsidiaries of nonresident associates of a direct investor.

42. Also, direct investment enterprises that are considered to be in a direct investment relationship with a direct investor are also considered to be in direct investment relationships with each other. The OECD *Benchmark Definition* and the *BOP Compilation Guide* describe the scope of enterprises, both directly and indirectly owned that, in principle, should be included in the definition of direct investment. For convenience, this approach is referred to as the “Fully Consolidated System”.

Table 14. Countries that take account of indirectly owned FDI enterprises in their statistics (by number of countries)

Region	Countries that include earnings data of indirectly owned FDI enterprises	Countries that classify all equity and other capital transactions within a group of related enterprises as FDI without consideration of the percent of equity held by these enterprises in each other	Countries that apply the Fully Consolidated System	
			Partially	Fully
OECD (29)	13	13	17	6
Africa (15)	6	5	5	3
Asia (13)	4	4	6	1
Europe (16)	5	6	7	1
Middle East (2)	1	1	1	0
West. Hem. (21)	6	2	12	0
TOTAL (96)	35	31	48	11

OECD Countries

43. There are 23 OECD countries that take account of indirectly owned direct investment enterprises in their statistics, although the types of transactions recorded and the procedures for determining the coverage of indirectly owned FDI enterprises vary considerably from one country to another. There are 13 OECD countries that endeavor to include earnings of indirectly owned direct investment enterprises in the FDI statistics. There are also 13 OECD countries that include all equity and other capital transactions between resident and non-resident that belong to the same group of related enterprises in the FDI statistics. These transactions refer to those other than the ones between the immediate direct investment enterprise and the immediate direct investor and they are often referred to as transactions between “fellow” subsidiaries. The international manuals recommend that equity and other capital transactions between enterprises that belong to the same group of related enterprises be classified as FDI transactions, without consideration of the percent of equity held by these enterprises in each other. The general guidelines for the application of the Fully Consolidated System (FCS) is applied by three-fourths of the OECD countries, although only 6 countries say that the fully apply the rules of the FCS.

Non-OECD Countries

44. A significant number of non-OECD countries attempt to include transactions with indirectly owned FDI enterprises in the statistics. There are 22 non-OECD countries that endeavor to include in their earnings data the relevant share of earnings of indirectly owned FDI enterprises, while 18 record transactions between resident and non-resident enterprises

that belong to the same group of related enterprises as FDI transactions. However, many of these countries have data collection systems that are not very well developed and that often rely on data provided by investment approval authorities. Of the 36 countries that apply the general guidelines of the FCS, only 5 say that they fully apply the rules of the FCS.

VII. DIRECT INVESTMENT CAPITAL TRANSACTIONS

45. Direct investment capital is capital provided by the direct investor - either directly or through other enterprises related to that investor - to the direct investment enterprise or capital received by the direct investor from the direct investment enterprise. Direct investment capital includes equity capital, reinvested earnings, and other capital involved in various intercompany debt transactions. Direct investment capital includes only actual amounts provided; for example, funds for which the direct investor merely makes the arrangements or guarantees repayment are not considered direct investment capital.

A. Components of Direct Investment Capital Transactions

46. Equity capital covers equity in branches, all shares (whether voting or nonvoting) in subsidiaries and associates, and other capital contribution like the provision of machinery - which constitutes part of the capital of the direct investment enterprise - by a direct investor to a direct investment enterprise. Equity capital also covers the acquisition by a direct investment enterprise of shares in its direct investor.

47. Reinvested earnings are the direct investors' shares (in proportion to equity held) of the undistributed earnings of the direct investment enterprise. They are conceived of as providing additional capital to the direct investment enterprises. Reinvested earnings are recorded as income with an offsetting capital transaction.

48. Other capital (or intercompany debt transactions) covers the borrowing and lending of funds, including debt securities and trade credits, between direct investors and direct investment enterprises and between two direct investment enterprises that share the same direct investor. Debt claims on the direct investor by the direct investment enterprise are also recorded as direct investment capital.

Equity capital transactions

Table 15. The components of FDI equity capital transactions included in the statistics (by number of countries)

Region	Countries that include in their FDI equity capital transactions :		
	Transactions in voting and non-voting stocks	Reinvested earnings	Non-cash acquisition of equity
OECD (29)	29	23	19
Africa (15)	6	6	7
Asia (13)	7	9	7
Europe (16)	11	9	13
Middle East (2)	2	2	2
West. Hem. (21)	10	18	18
TOTAL (96)	65	67	66

OECD Countries

49. All OECD countries include transactions in voting and non-voting stocks between a direct investor and its direct investment enterprise as part of FDI statistics. Over three-fourths of the respondents also include the measurement of reinvested earnings in FDI, while non-cash acquisition of equity, such as through the provision of capital equipment, is included in the statistics of about two-thirds of OECD countries.

Non-OECD Countries

50. Just over half of non-OECD countries include transactions in listed or unlisted voting stocks or other non-voting stocks in FDI statistics. This is a surprising result as many of these countries report FDI equity capital flows to the IMF Statistics Department for inclusion in the *Balance of Payments Statistics Yearbook*. Many non-OECD economies have very small or nonexistent organized stock markets and do not include in FDI statistics transactions in listed voting stocks, but these countries often include equity capital participation by nonresidents in resident enterprises, such as the purchase of enterprises. However, many of the countries that report FDI equity capital flows to the IMF Statistics Department did not indicate in their survey responses that transactions in unlisted voting stocks or other non-voting stocks were recorded in FDI statistics. There could have been a misunderstanding by some respondents on the actual meaning of "stocks" which was intended to include any holding of shares or equity in an incorporated enterprise. Two-thirds of non-OECD countries include data on reinvested earnings, while over 70 percent record non-cash acquisition of equity in the FDI statistics. The large number of countries recording non-cash acquisition of equity could be linked to the fact that many non-OECD countries rely on investment approval authorities for the collection of the FDI statistics. This administrative data source often provides information on the provision

of capital equipment registered for approval. However, there could be significant time lags between approval and actual investment and some of these approved investments may never take place.

Other capital transactions

Table 16. The components of FDI other capital transactions included in the statistics (by number of countries)

Region	Countries that include in their FDI other capital transactions:				
	Long-term loans	Short-term loans	Financial leasing	Trade credits	Bonds and money market instruments
OECD (29)	25	23	13	17	11
Africa (15)	8	8	4	7	4
Asia (13)	10	10	4	7	3
Europe (16)	14	12	6	10	4
Middle East (2)	-	-	-	-	-
West. Hem. (21)	13	10	3	12	1
TOTAL (96)	70	63	30	53	23

OECD Countries

51. Table 16 shows that the coverage of the various debt instruments used in the transactions between affiliated enterprises varies considerably among OECD countries. About 85 percent of OECD countries record long-term loans between affiliated enterprises in their FDI statistics, while over 75 percent of OECD countries report short-term loans. However, other inter-company debt flows, such as financial leasing, trade credits, and bonds and money instruments, are not as well covered in the FDI statistics. About half of OECD countries do not record transactions in bonds and money market instruments between affiliated enterprises in FDI statistics; this proportion is based on 23 countries as it excludes the 5 countries that indicated that these transactions would never occur in their economy.

Non-OECD Countries

52. About one-third of non-OECD countries do not include long-term loans between affiliated enterprises in FDI statistics, while around 40 percent of them do not include short-term loans. Very few non-OECD countries include transactions in bonds and money market instruments between affiliated enterprises as FDI transactions, although half of non-OECD countries reported that such transactions never occur in their economy. This means that about

one-third of countries that observe these flows record them as FDI. Just under half of non-OECD countries do not include trade credits between affiliated enterprises, while only 17 countries compile information on financial leasing operations between affiliated enterprises in FDI.

Transactions of financial intermediaries

53. The *Benchmark* and the *BPM5* recommend that, for intercompany transactions between affiliated banks and affiliated financial intermediaries, only those transactions associated with permanent debt and equity capital should be recorded under FDI. Deposits and other claims and liabilities related to usual banking transactions of depository institutions and claims and liabilities of other financial intermediaries are classified under *portfolio investment* or *other investment*.

Table 17. Transactions between affiliated banks and affiliated financial intermediaries (by number of countries)

Region	Countries that record in FDI the transactions between affiliated banks for:			Countries that record in FDI the transactions between affiliated financial intermediaries for:		
	Equity capital	Permanent debt	Other claims and liabilities related to usual banking transactions	Equity capital	Permanent debt	Claims and liabilities related to transactions other than those on equity and permanent debt
OECD (29)	25	18	1	25	20	5
Africa (16)	5	4	4	4	3	3
Asia (13)	7	6	3	8	5	1
Europe (16)	14	8	5	8	6	4
Middle East (3)	2	0	1	2	0	1
West. Hem. (21)	16	12	10	13	2	8
TOTAL (96)	69	48	24	60	36	22

OECD Countries

54. For equity capital transactions between affiliated banks, the recommendations of the international manuals are followed by most OECD countries as only Turkey does not record any transactions between affiliated banks in FDI, while three countries indicated that these transactions do not occur in their economy. However, transactions associated with permanent debt between affiliated banks are excluded from the FDI statistics of 5 OECD countries (Austria, Belgium, Luxembourg, Mexico and Norway) while these transactions reportedly do not occur in Korea. New Zealand includes other long-term banking transactions other than those in equity capital and permanent debt under direct investment, if conducted between related institutions, while all short-term banking transactions are recorded under *other investment*. Overall, very similar results are obtained when transactions between affiliated financial intermediaries are considered, except that 5 OECD countries classify claims and liabilities related to transactions other than those on equity capital and permanent debt of affiliated financial intermediaries as FDI, which is a departure from the international standards.

Non-OECD Countries

55. About two-thirds or 44 non-OECD countries include equity capital transactions between affiliated banks in the FDI statistics while one-third, contrary to international standards, include usual banking transactions between affiliated banks in the FDI statistics. Transactions in equity capital between affiliated financial intermediaries are included in the FDI statistics of approximately 50 percent of the non-OECD countries, while 25 percent of the countries, contrary to international standards, classify claims and liabilities related to transactions other than those on equity capital and permanent debt of affiliated financial intermediaries in the FDI statistics.

B. Instances of Reverse Investment

56. Reverse investment transactions relate to circumstances where a direct investment enterprise has acquired a financial claim on its direct investor. The *Benchmark* and the *BPM5* recommend that, for the economy of the direct investment enterprise, the acquisition of financial assets by direct investment enterprises in foreign direct investors should be recorded as “*direct investment in reporting economy, claims on direct investors*” in the instances when the equity participation by the direct investment enterprise in its direct investor is not sufficient to establish a direct investment relationship in its own right. Symmetrically, for the economy of the direct investor, these transactions with foreign direct investment enterprises should be recorded as “*direct investment abroad, liabilities to affiliated enterprises*”. These reverse investment transactions are recorded on a directional basis, based on the direction of the direct investment relationship.

57. In the instances when the equity participation is at least 10 percent in both directions, two direct investment relationships are established. Equity and other capital transactions between enterprises that have direct investment relationships in both directions are recorded

as direct investment claims and liabilities in both directions; that is, as *direct investment in reporting economy* and as *direct investment abroad*, as appropriate. These transactions are recorded on the assets-liabilities principle; all assets are recorded as *direct investment abroad* and all liabilities as *direct investment in the reporting economy*.

58. The following two tables show how countries record the acquisition of equity capital and the provision of a loan by a direct investment enterprise resident of the reporting economy into its direct investor, when the FDI relationship is in one direction only (table 18) and when two direct investment relationships exist (table 19).

Reverse investment as disinvestment by the direct investor

Table 18. Reverse investment: investment by a resident direct investment enterprise in its direct investor when the FDI relationship is established in one direction only (by number of countries)

Region	Countries that record the acquisition of equity by the direct investment enterprise in its investor according to the:				Countries that record the provision of a loan by the direct investment enterprise to its investor according to the:			
	Directional principle, as:		Assets-liabilities principle	As portfolio but not in FDI statistics	Directional principle, as:		Assets / liabilities principle	As other investment but not in FDI statistics
	Increase in claims	Decrease in liabilities			Increase in claims	Decrease in liabilities		
OECD (23)	4	1	3	13	8	2	5	6
Africa (7)	3	-	2	2	2	-	2	2
Asia (9)	2	1	2	4	2	1	2	4
Europe (11)	4	0	1	4	4	1	2	3
Middle East (1)	-	-	-	1	-	-	-	1
West. Hem. (15)	2	1	3	9	1	2	1	11
TOTAL (64)	15	3	11	33	17	6	12	27

OECD Countries

59. When the acquisition of equity capital by a resident direct investment enterprise in its direct investor is not sufficient to establish a direct investment relationship in both directions, only 5 OECD countries follow the international recommendations and record such transactions based on the directional principle as *direct investment in the reporting economy*. On the other hand, 3 countries record these transactions according to the assets-liabilities

principle as *direct investment abroad*. In about half of the instances, reverse equity capital transactions are classified as *portfolio investment*.

60. In the instances when the FDI relationship is in one direction only, the provision of a loan by the resident direct investment enterprise to its direct investor is recorded according to the international standards by 10 OECD countries. Of these 10 countries, 8 record such transactions as *direct investment in reporting economy, increase in claims on direct investors*, while 2 countries record the transactions as *direct investment in reporting economy, decrease in liabilities to direct investors*. Such classifications mean that these transactions are treated as disinvestment flows, according to the international recommendations. Contrary to international standards, 4 OECD countries apply the assets/liabilities principle and 6 countries record these transactions as *other investment* and not in the FDI statistics.

Non-OECD Countries

61. For non-OECD countries, the response rate to the questions on reverse investment was only about 60 percent of the response rate normally recorded for most questions in the survey. A few respondents indicated that such transactions never occur in their economy, or that their data collection system would not capture them. 13 non-OECD countries classify instances of reverse equity capital investment by resident direct investment enterprises on a directional basis, according to the international standards. 8 countries follow the assets-liabilities principle and record these reverse investment transactions as *direct investment abroad*, instead of recording such transactions as disinvestment in *direct investment in reporting economy*. 20 countries report the instances of reverse equity capital transactions as *portfolio investment* and not in the FDI statistics. The results obtained in the instances of reverse loan transactions are almost identical to these observed for reverse transactions in equity capital.

Reverse investment as direct investment abroad

Table 19. Reverse investment: investment by a direct investment enterprise in its direct investor, when two FDI relationships are established (by number of countries)

Region	Countries that record equity capital transactions between enterprises for which two FDI relationships are established according to the:			Countries that record other capital (loan) transactions between enterprises for which two FDI relationships are established according to the:		
	Assets-liabilities principle	Directional principle, as: (based on the direction of the original FDI relationship)		Assets-liabilities principle	Directional principle, as: (based on the direction of the original FDI relationship)	
		Increase in claims	Decrease in liabilities		Increase in claims	Decrease in liabilities
OECD (22)	20	1	1	15	2	3
Africa (7)	3	2	2	2	1	2
Asia (10)	4	4	2	3	4	1
Europe (10)	10	-	-	7	1	-
Middle East (1)	1	-	-	1	-	-
West. Hem. (17)	6	10	1	3	7	1
TOTAL (69)	44	17	6	31	15	7

OECD Countries

62. 20 OECD countries follow the international recommendations and record the equity capital flows from a resident direct investment enterprise in its direct investor based on the assets-liabilities principle, that is as *direct investment abroad*, when the equity participation by the direct investment enterprise in its direct investor is sufficient to create a direct investment relationship in both directions. 2 OECD countries record these flows according to the directional principle in *direct investment in the reporting economy*, which is a departure from the international standards. The provision of a loan by the direct investment enterprise to its direct investor is recorded by 15 OECD countries that classify these transactions appropriately based on the assets-liabilities principle in the instances when two direct investment relationships are established. 5 countries apply the directional principle and, contrary to international standards, record the provision of a loan by a resident direct investment enterprise in its direct investor as *direct investment in the reporting economy* as an offset to capital invested by the direct investor.

Non-OECD Countries

63. 24 non-OECD follow the international standards and record reverse equity capital transactions on the assets-liabilities principle when two direct investment relationships are established. However, 21 countries record these transactions on a directional principle; for example, in the instances when the acquisition of equity by a direct investment enterprise resident of the reporting economy in its foreign direct investor is sufficient to establish a direct investment relationship in its own right, such transactions are recorded as *direct investment in reporting economy*, which is a departure from the international standards. A smaller number of non-OECD countries responded to the question on reverse loans, as fewer non-OECD countries record transactions on inter-company debt in the FDI statistics. 16 non-OECD countries classify the provision of a loan by a resident enterprise to a nonresident enterprise that has a direct investment relationship in both directions on the assets-liabilities principle. 17 countries record these reverse loan transactions on the directional principle, while many non-OECD countries classify the provision of a loan by a resident enterprise that has a direct investment relationship in both directions with its direct investor as *other investment* and not in the FDI statistics.

VIII. DIRECT INVESTMENT INCOME

A. Components of Direct Investment Income

64. The components of FDI income comprise dividends and distributed branch profits, reinvested earnings and income on debt. The dividends include all dividends payable in the period to the direct investor less dividends payable by the direct investor to the direct investment enterprise. Reinvested earnings and undistributed branch profits comprise the direct investors' shares - in proportion to equity held of (1) earnings that foreign subsidiaries and associated enterprises do not distribute as dividends and (2) earnings that branches and other unincorporated enterprises do not remit to direct investors. The income on debt is the interest accrued during the period by the enterprise to the direct investor, less the interest accrued during the period by the direct investor to the enterprise.

Table 20. The components of FDI income included in the statistics
(by number of countries)

Region	Countries that include in their FDI income statistics:					
	Dividends		Reinvested earnings		Income on debt	
	Inward	Outward	Inward	Outward	Inward	Outward
OECD (29)	25	24	23	21	21	20
Africa (15)	10	8	6	5	5	5
Asia (13)	10	6	9	5	7	6
Europe (16)	14	10	9	7	9	8
Middle East (2)	2	2	2	1	1	1
West. Hem. (21)	19	12	18	13	15	1
TOTAL (96)	80	62	67	52	58	41

OECD Countries

65. 25 of the 29 responding OECD countries compile dividends payments by direct investment enterprises resident in the reporting economy (inward) while 24 compile dividends receipts by direct investors resident in the reporting economy (outward). Distributed branch profits are also compiled by most OECD countries, as only 5 countries do not including these statistics in their FDI income data. About three-fourths of OECD countries include reinvested earnings, both for inward and outward FDI, in the direct investment income statistics. Belgium and Italy currently do not measure reinvested earnings but have indicated plans to start the collection of these data soon. The other countries that do not collect data on reinvested earnings are Austria, the Czech Republic, Hungary and Spain, while Mexico and Turkey only collect reinvested earnings data on inward direct investment. Just over two-thirds of OECD countries compile interest on inter-company loans and debts as FDI income, while three countries (France, Belgium and Turkey) record these income as *other investment income* instead of FDI income.

Non-OECD Countries

66. Over 80 percent of non-OECD countries compile dividends for inward FDI, but only about half include dividends receipts by a resident direct investor in FDI income. A similar situation is portrayed for the measurement of reinvested earnings, as over two-thirds of non-OECD countries compile these statistics for inward investment, while less than half do the same for outward FDI. Many countries, including China, the Philippines, Thailand, Russia, and the Bahamas do not include reinvested earnings in their FDI statistics. Only about half of non-OECD countries include the income on inter-company debt in FDI statistics. Although

over 70 percent of the Western Hemisphere countries record the income payments related to inter-company debts for direct investment in the reporting economy, only 1 country (Costa Rica) compiles these income flows for outward FDI.

B. Measurement of Earnings

67. In measuring earnings, the *Benchmark* and the *BPM5* recommend that the compilers use the “current operating performance concept”, where earnings of an enterprise are its income from normal operations and before allowing for non-recurring items and capital gains and losses. Operational earnings of the direct investment enterprise should be reported after deducting provisions for depreciation of capital and for income and corporation tax charged on these earnings. Direct investment earnings should not include any realized or unrealized capital gains or losses made by either the direct investment enterprise or the direct investor, or write-offs, such as inventory write-offs, write-offs of intangibles, write-offs of bad debts or on expropriation without compensation. Many enterprises are using the “all-inclusive concept” to measure earnings, for which income is after allowing for all items (including capital gains and losses) causing any increase or decrease in the shareholders’ or investors’ interests during the period, other than dividends and any other transactions between the enterprise and its shareholders or investors. Because data for many countries are available only on an all-inclusive basis, those countries that report earnings on either an operating basis or all-inclusive basis should collect and publish supplementary information on holding gains and losses and other extraordinary items. This practice would enhance international comparability for both flows and stock positions.

Table 21. The components of earnings included in the statistics
(by number of countries)

Region	Earnings statistics that:				Countries that apply the COPC
	make allowance for:		include:		
	Depreciation of capital	Host-country corporation taxes	Capital gains or losses	write-offs	
OECD (24)	15	15	15	14	5
Africa (13)	8	9	7	7	-
Asia (8)	5	3	3	3	2
Europe (14)	2	8	6	6	-
Middle East (2)	1	1	-	-	-
West. Hem. (21)	13	18	11	6	1
TOTAL (82)	44	54	42	36	8

OECD Countries

68. Table 21 shows that, when measuring FDI enterprises' earnings, about half of the OECD countries make allowance for depreciation of capital and host-country income and corporation taxes, while half include capital gains or losses and write-offs. However, the results do not imply that about half of OECD countries follow all of these rules taken together when measuring earnings. Instead, the survey responses show that there are four categories of respondents: (1) 7 OECD countries do not make allowance for provisions for depreciation of capital or corporation taxes and include capital gains and losses in earnings data; (2) 8 countries make allowance for depreciation of capital or corporation taxes, but include capital gains and losses; (3) 4 countries do not make allowance for depreciation of capital or corporation taxes, and do not include capital gains and losses, and; (4) 5 countries apply the COPC while 5 countries (the Czech Republic, Denmark, Hungary, Korea and Turkey) did not answer the questions on the measurement of earnings. The disparity in the methodologies used for the measurement of earnings is an important issue for OECD countries, as it will lead to various inconsistencies in the data on reinvested earnings.

Non-OECD Countries

69. The survey responses are showing a situation very similar to that described for OECD countries, with no common rules followed when measuring FDI enterprises earnings. Although about half the countries make allowance for depreciation of capital, and two-thirds for host-country corporation taxes, only 3 countries apply the rules of the COPC as a large proportion of countries include realized and unrealized capital gains and losses and write-offs when measuring earnings.

C. Time of Recording of Income

70. In principle, all investment income flows should be recorded at the time of accrual. Interest income should be recorded on an accrual basis while dividends should be recorded as of the date they are payable. The *Benchmark* and the *BPM5* recommendations for the time of recording of reinvested earnings is that such earnings be recorded in the periods in which the underlying profits are earned.

Table 22. Time of recording of FDI income transactions
(by number of countries)

Region	Countries that record:						
	Dividends as of the date they are:			Reinvested earnings in the periods they were earned	Income on debt as it is:		
	Payable	Paid	Other		Accruing	Paid	Other
OECD (29)	6	18	1	15	9	11	1
Africa (15)	3	5	-	6	2	3	-
Asia (13)	6	2	1	8	4	3	-
Europe (16)	4	10	-	7	5	4	1
Middle East (2)	-	1	-	-	-	1	-
West. Hem. (21)	9	8	1	14	3	8	1
TOTAL (96)	28	44	3	50	23	30	3

OECD Countries

71. Over 60 percent of OECD countries record dividends as of the date they are paid, and not according to the date they are payable, although that departure from the international standards will have an impact on the time of recording dividends only if dividends are not actually paid on the date they are payable. The data collection systems used by reporting countries are a major factor in determining the ability of a country to applying the international standards. For instance, 14 of the 18 OECD countries that record dividends on a paid basis use an international transactions reporting system (ITRS) as their main data source, while 5 of the 6 countries that record dividends on a payable basis use enterprise surveys as their main data source. Australia follows an “other” procedure as dividends are recorded at “books close date”, whether or not they are payable or actually paid in that quarter.

72. 15 OECD countries follow the international recommendations for the time of recording reinvested earnings and record them in the period in which the underlying profits were earned. Among the 7 OECD countries that do not follow that rule, some explained that the reinvested earnings were recorded in the period in which the dividends were payable or paid.

73. Half of the OECD countries record interest on direct investment debt on a paid (i.e. cash) basis. The table excludes those countries that record interest on inter-company debt as *other investment income*. New Zealand records interest on a “due for payment” basis, a procedure recommended in the fourth edition of the *Balance of Payments Manual (BPM4)*. That time of recording will be modified as New Zealand is implementing the *BPM5*.

Non-OECD Countries

74. Dividends are recorded on a paid basis by 26 non-OECD countries, while 22 record dividends on a payable basis. Chile indicated that, because of different data sources used to collect inward and outward FDI, the time of recording is different for the recording of dividends debits and credits. Over half of non-OECD countries report reinvested earnings in the period they were earned. A few countries record reinvested earnings in the period in which the decision to pay the dividends was taken, or in the period when they were calculated. While only about half of non-OECD countries include the income on inter-company debt in their FDI statistics, the recommended accrual principle is used by 14 of these countries, and 19 are recording interest on the date they were paid. Two countries, Bulgaria and Argentina, still follow the *BPM4* recommendation and record interest on a due for payment basis.

IX. DIRECT INVESTMENT POSITION DATA

A. Valuation of Assets

75. In principle, all external financial assets and liabilities should be measured at current market prices as of the dates involved. However, there are some recognized departures from the market price principle. For direct investment, book values from the balance sheets of direct investment enterprises are generally used to determine the value of the stock of direct investment. If these balance sheet values are recorded on the basis of current market value, they would be in general accordance with the principle. If they are based on historical cost or an interim but not current revaluation, such balance sheet values would not conform to the principle.

Table 23. Valuation of assets
(by number of countries)

Region	The number of countries that value FDI equity capital stock using:	
	Market value	Book value
OECD (22)	3	19
Africa (3)	1	2
Asia (6)	4	2
Europe (8)	3	5
Middle East (1)	1	-
West. Hem. (5)	-	5
TOTAL (45)	13	33

OECD Countries

76. The vast majority (85 percent) of the 22 OECD countries that compile FDI international investment position data use book values from the balance sheets of direct investment enterprises or investors as the most frequent valuation method when compiling the equity position of direct investment enterprises and direct investors, although 5 of these countries also use market value as the second most frequent valuation method when compiling data on direct investment position.

Non-OECD Countries

77. 14 of the 23 non-OECD countries that compile direct investment position data rely on book values for the valuation of the stock of equity capital. 6 of these 14 countries also use market value to compile FDI position data or adjust book values to market valuation. The other 9 countries compile FDI position data based on market value.

X. SPECIAL CASES

78. There are some types of enterprises or activities that warrant mention in reference to particular aspects. The survey examined how some of these special cases were treated in FDI statistics, namely international construction activities; the operation of mobile equipment; cross-border real estate transactions; transactions with offshore enterprises and special purpose entities (SPEs), and; the treatment of natural resources exploration.

A. Construction Enterprises and Mobile Equipment

79. In certain instances, an enterprise will produce goods and services outside of its own economy, but not establish a separate legal corporation in the host economy. According to the *Benchmark* and the *BPM5*, if production is maintained for one year or more, and a separate set of accounts is maintained for the local activities and income tax is paid to the host country, then a quasi-corporation should be established, for balance of payments compilation purposes, in the host economy, which is in a direct investment relationship with its parent. This recommendation should be followed with regard to the activities of construction enterprises. A similar standard applies when an enterprise in one economy installs machinery and equipment in another economy. Mobile equipment that operates in the territory of an economy for one year or more is considered to be owned by a resident of that economy.

Table 24. Construction enterprises and mobile equipment
(by number of countries)

Region	Countries that follow the <i>Benchmark</i> and <i>BPM5</i> recommendations with regard to:			
	Construction enterprises		Mobile equipment	
	Inward	Outward	Inward	Outward
OECD (29)	7	8	6	5
Africa (15)	3	3	3	3
Asia (13)	2	1	2	2
Europe (16)	4	4	1	1
Middle East (2)	1	1	1	1
West. Hem. (21)	1	1	4	-
TOTAL (96)	18	18	17	13

OECD Countries

80. Only 7 OECD countries follow the international standards for construction enterprises operating in the host country and owned by foreign investors and regard the activities of the construction enterprise as that of a resident enterprise in a direct investment relationship with its parent company. 8 OECD countries would apply the recommended standards for outward FDI and record the flows of relevant transactions associated with the construction activities undertaken abroad by resident construction enterprises in their FDI statistics, with proper entries to other items of the balance of payments. Only 6 OECD countries include transactions involving mobile equipment according to the recommendations, when the mobile equipment

operates in their economy for one year or more, while 5 do the same when the equipment is owned by a resident enterprise and operates abroad. Approximately 25 percent of OECD countries indicated that activities such as construction work undertaken in one economy by an enterprise resident in another or the operation of mobile equipment in the territory of one economy by an owner resident of another never occur in their economy. Therefore, about two-thirds of OECD countries do not follow the *Benchmark* and the *BPM5* recommendations regarding these activities when they involve their economy.

Non-OECD Countries

81. Only 11 non-OECD countries follow the *Benchmark* and the *BPM5* recommendations for construction work undertaken in their economy and for the operation, in their territory, of mobile equipment owned by residents of another economy. However, over 60 percent of the non-OECD respondents indicate that such type of activities do not occur in their economy.

B. Foreign Ownership of Land

82. By convention, all land and buildings located within the economy must be regarded as being owned by a resident unit (except structures owned by a foreign government). If the actual owner is nonresident, he is treated as if he has transferred his ownership to a resident notional institutional unit, that is deemed to own the land and buildings. The nonresident has a financial investment in this notional unit, which is therefore a direct investment enterprise.

Table 25. Foreign ownership of land
(by number of countries)

Region	Countries that include in their FDI statistics cross-border transactions in real estate with:			
	Non-resident enterprises		Non-resident individuals	
	Inward	Outward	Inward	Outward
OECD (29)	19	18	17	16
Africa (15)	6	6	5	5
Asia (13)	4	4	4	4
Europe (16)	6	3	2	2
Middle East (2)	1	2	1	2
West. Hem. (21)	11	3	10	2
TOTAL (96)	47	36	39	31

OECD Countries

83. About 65 percent of OECD countries record transactions in land and buildings by nonresident enterprises in FDI statistics and almost 60 percent that of nonresident individuals. Norway and the United States specified that only the investments by individuals conducted with a commercial purpose would appear in the FDI statistics.

Non-OECD Countries

84. Only about one-third of non-OECD countries are recording cross-border real estate transactions by enterprises in the statistics, a coverage that drops to about one-fourth when transactions by individuals are considered. Among the respondents, Singapore, Thailand and Hong Kong SAR include real estate transactions in their FDI statistics, while China, Indonesia, and the Philippines do not include these transactions in FDI.

C. Offshore Enterprises and Special Purpose Entities

85. According to international standards, the residency of so called “offshore enterprises” is attributed to the economies in which they are located without regard to the special treatment they may receive by the local authorities. This applies to enterprises engaged in the assembly of components manufactured elsewhere, in trade and financial operations, and to those located in special zones. The financial flows between the offshore enterprise and its direct investor should be included in the FDI statistics. Other difficulties arise in recording FDI because of the treatment of so-called special purpose entities (SPEs) of multinational enterprises. SPE’s are (1) generally organized or established in economies other than those in which the parent companies are resident and (2) engaged primarily in international transactions but in few or no local operations. They are either defined by their structure (e.g., financing subsidiary, holding company, base company, regional headquarters), or their purpose (e.g., sale and regional administration, management of foreign exchange risk, facilitation of financing of investment). Since these SPEs are an integral part of the organizational structure of a multinational enterprise, their transactions that arise from direct investment relationship should be reflected in the FDI statistics.

The recording of transactions of offshore enterprises

Table 26. Offshore enterprises
(by number of countries)

Region	Transactions between resident offshore enterprises and affiliated nonresident enterprises		Transactions between non-resident offshore enterprises and affiliated resident enterprises	
	Included in the FDI statistics	Not included in FDI the statistics	Included in the FDI statistics	Not included in FDI the statistics
OECD (22)	10	6	14	5
Africa (8)	8	-	5	-
Asia (6)	3	3	2	1
Europe (9)	5	2	5	3
Middle East (1)	-	-	-	1
West. Hem. (17)	5	7	4	8
TOTAL (63)	31	18	30	18

OECD Countries

86. About 60 percent of OECD countries that report the establishment of offshore enterprises in their economy (and in a direct investment relationship with nonresident enterprises) record their relevant transactions in FDI statistics. The United Kingdom indicate that they would soon start including such transactions in the FDI statistics. 14 OECD countries include financial transactions between nonresident offshore enterprises and affiliated resident enterprises, which represents almost three-fourths of OECD countries reporting the activities of nonresident offshore enterprises in which a resident direct investor has an interest.

Non-OECD Countries

87. Approximately 40 percent of non-OECD countries do not include transactions of resident offshore enterprises with affiliated enterprises in FDI. The data exclude the activities of offshore enterprises established in countries such as Hong Kong SAR, the Philippines and member countries of the Eastern Caribbean Central Bank region (the ECCB compiles balance of payments data for Antigua and Barbuda; Dominica; Grenada; St. Kitts & Nevis; St. Lucia; and St. Vincent and the Grenadines).

The recording of transactions of special purpose entities

Table 27. Special Purpose Entities
(by number of countries)

Region	Transactions between resident SPEs and affiliated nonresident enterprises		Transactions between non-resident SPEs and affiliated resident enterprises	
	Included in the FDI statistics	Not included in FDI the statistics	Included in the FDI statistics	Not included in FDI the statistics
OECD (20)	16	3	16	3
Africa (9)	7	2	3	-
Asia (6)	5	1	4	1
Europe (6)	5	1	5	1
Middle East (1)	-	1	-	1
West. Hem. (14)	2	12	4	8
TOTAL (56)	35	20	32	14

OECD Countries

88. 16 OECD countries record the transactions between resident SPEs and their affiliated nonresident enterprises in their FDI statistics. This number represents over 80 percent of the OECD countries that indicated the establishment of SPEs in their reporting economy or established abroad by resident enterprises. Only the Netherlands, Ireland, Luxembourg (inward only) and Norway (outward only) indicated that such enterprises were established in their economy or abroad and their relevant activities not recorded as FDI statistics.

Non-OECD Countries

89. Only 19 non-OECD countries record in FDI statistics transactions between resident SPEs and their affiliated nonresident enterprises and 16 countries do the same for transactions between nonresident SPEs and their affiliated resident enterprises. These countries represent almost two-thirds of the non-OECD countries that observe the activities of SPEs in their economy, or that of SPEs established abroad and in a direct investment relationship with resident enterprises. However, statistics from the Bahamas or member countries of the ECCB do not include the activities of SPEs.

D. Natural Resources Exploration Included in FDI

90. When a direct investment enterprise is set up for exploration of natural resources, related exploration expenditures are treated as capital expenditures in the System of National Accounts. Inward investment flows from the investor abroad for such expenditures are recorded in the balance of payments under FDI. If the exploration proves unsuccessful and

results in a shutdown of the enterprise, no further balance of payments entries are recorded, but a negative stock adjustment is made in the IIP of the two economies involved.

Table 28. Natural resources exploration
(by number of countries)

Region	Countries that record in FDI statistics the expenditures in natural resources exploration in one economy by an enterprise resident of another	
	Inward	Outward
OECD (23)	11	11
Africa (9)	5	4
Asia (9)	4	1
Europe (7)	2	1
Middle East (1)	1	1
West. Hem. (18)	8	2
TOTAL (67)	31	19

OECD Countries

91. Half of the OECD Countries that report natural resources exploration activities conducted by nonresidents in their economy, or abroad by resident enterprises, do not include the expenditures related to such activities in the FDI statistics.

Non-OECD Countries

92. 20 non-OECD countries include the expenditures of nonresident enterprises related to natural resources exploration activities in their economy in FDI statistics. Only 8 non-OECD countries follow the same recording procedure for exploration activities conducted abroad by resident enterprises, which represents only one-third of the non-OECD countries that are aware of such activities by resident enterprises.

Country Classification and List of Respondents

(the survey respondents are identified in bold)

OECD Countries (29 respondents)	Africa (22 respondents)	Asia (16 respondents)	Europe (18 respondents)	Middle East (6 respondents)	Western Hemisphere (23 respondents)
Australia	Algeria	Bangladesh	Albania	Bahrain	Antigua &
Austria	Benin	Bhutan	Armenia	Egypt	Barbuda
Belgium	Botswana	Brunei *	Azerbaijan	Iran, I.R. of	Argentina
Canada	Burkina Faso	Darussalam	Belarus	Israel	Bahamas, The
Czech Republic	Burundi	Cambodia	Bulgaria	Jordan *	Barbados
Denmark	Cameroon	China, P.R.:	Croatia	Kuwait	Belize
Finland	Cape Verde	Mainland	Cyprus *	Lebanon *	Bolivia
France	C. African Rep.	China,	Estonia	Libya	Brazil
Germany	Chad	P.R.:Hong Kong	Georgia	Oman	Chile
Greece	Comoros	Fiji	Kazakhstan	Qatar	Colombia
Hungary	Côte d'Ivoire *	India	Kyrgyz Rep.	Saudi Arabia *	Costa Rica
Iceland	Djibouti	Indonesia	Latvia	Syrian Arab *	Dominica
Ireland	Equatorial	Kiribati	Lithuania	Rep.	Dominican Rep.
Italy	Guinea	Lao P. D. Rep.	Macedonia, *	United Arab	Ecuador
Japan	Ethiopia *	Malaysia	former	Emirates	El Salvador
Korea	Gabon	Maldives *	Yugoslav Rep.	Yemen, Republic	Grenada
Luxembourg	Gambia, The *	Myanmar	of	of	Guatemala *
Mexico	Ghana	Nepal *	Malta		Guyana
Netherlands	Guinea *	Pakistan	Moldova		Haiti
New Zealand	Guinea-Bissau	Papua New	Romania		Honduras
Norway	Kenya	Guinea	Russia		Jamaica
Poland	Lesotho	Philippines	Slovak Republic		Nicaragua *
Portugal	Liberia	Singapore	Slovenia		Panama
Spain	Madagascar	Solomon Islands	Tajikistan		Paraguay
Sweden	Malawi	Sri Lanka	Turkmenistan		Peru
Switzerland	Mali	Thailand	Ukraine		St. Kitts & Nevis
Turkey	Mauritania	Tonga	Uzbekistan		St. Lucia
United Kingdom	Mauritius	Vanuatu			St. Vincent and
United States	Morocco *	Vietnam			The Grenadines
	Mozambique				Suriname
	Namibia				Trinidad &
	Niger				Tobago
	Nigeria				Uruguay
	Rwanda *				Venezuela
	Sao Tomé &				
	Principe				
	Senegal				
	Seychelles				
	Sierra Leone				
	Somalia				
	South Africa				
	Sudan *				
	Swaziland				
	Tanzania				
	Togo				
	Tunisia				
	Uganda				
	Zambia				
	Zimbabwe				

* indicates countries that either provided letters or completed part of the questionnaire but have incomplete FDI compilation and data dissemination systems. These countries were excluded from the analysis of the survey results.