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Recent Activities of the OECD Working Group on International Investment Statistics

Prepared by the Directorate for Financial and Enterprise Affairs
Organisation for Economic Co-operation and Development

RECENT ACTIVITIES OF THE OECD WORKING GROUP ON INTERNATIONAL INVESTMENT STATISTICS[1]

1. The present document includes a summary of selected statistical activities of the Working Group on International Investment Statistics (WGIIS) and the Investment Division[2] over the last twelve-month period;

(i) Implementation of the OECD *Benchmark Definition of Foreign Direct Investment, 4th edition* (BMD4);

(ii) Globalisation research agenda:

a. Harmonisation and integration of FDI statistics and statistics on the Activities of Multinational Enterprises (AMNE)[3]

b. Green FDI

c. Bilateral FDI data hub

(iii) FDI Restrictiveness Index

1. IMPLEMENTATION OF BMD4

2. Issues related to the implementation of revised international standards of BMD4 are discussed under a regular agenda item "Tour d'Horizon".

3. Finland circulated a comprehensive assessment of revised international standards on FDI statistics of Finland for discussion in October 2011. The following table shows the impact of the extended directional principle in overall FDI aggregates. The application of BMD4 has led to decreases for both inward and outward investment positions (by 15% and 10%, respectively).

Finland's FDI positions at end-2008 according to directional principle, mEUR

	BPM6/BMD4	*BPM5/BMD3*	*New / Old (%)*
INWARD FDI	***51 754***	***60 870***	***85 %***
OUTWARD FDI	***78 494***	***87 611***	***90 %***

1 Report prepared by Ayse Bertrand, principle administrator, WGIIS Secretariat (Investment Division of Directorate for Financial and Enterprise Affairs, OECD)

2 The OECD Working Group on International Investment Statistics (WGIIS) is a subsidiary body of the Investment Committee, one of the major policy committees of the OECD. The work on investment statistics is the responsibility of the Investment Division which is located in the Directorate for Financial and Enterprise Affairs. WGIIS meets twice yearly, in March and October at the same time as the Investment Committee and its other subsidiary bodies. WGIIS meetings of 2011: 23-25 March and 3-5 October.

3 Also referred within the European Union as Foreign AffiliTes Statistics (FATS)

4. For a more complete and detailed results, the reader is encouraged to read the full report which can also be accessed at the web site of the Bank of Finland: Effects of the new statistical standards on Finland's FDI positions

5. In March 2011, three OECD countries reported progress in their efforts to implement revised international Standards: Belgium, Israel and Turkey.

6. Belgium described its current survey system which replaced the earlier data collection using a settlement system. Belgium also presented preliminary results of the extended directional principle which had more significant impact on gross figures as compared to net figures.

7. Israel which joined the OECD in 2010 has taken major steps to implement BMD4 to improve its FDI statistics and has provided preliminary data to the OECD according to the standard format. Main improvements relate to: (i) the Introduction of new surveys for inward FDI and the revision of existing surveys for outward FDI; (ii) the management of business registers. The coverage of outward investment based on the revised survey was estimated to have increased to 90% while that of inward investments was below 60%. 2010 survey is expected to provide improved results; (iii) Introduction of the directional principle; (iv) introduction of Current Operating Performance Concept to calculate reinvested earnings; (v) identification of SPE; (vi) introduction of market value for listed companies (future work required for approximating market values for unlisted companies currently based on book values); (vii) Identifying inward positions by country of ultimate investor

8. The presentation by Turkey provided a good example of co-operation between national agencies while there are two official bodies involved in FDI data collection with a well established division of labour between them: the Central Bank of Turkey and the Undersecretariat of Treasury. As part of the implementation of BMD4, additional enhancements for inward investment were introduced namely for the geographical allocation by ultimate investing country and investments of non-resident fellows in resident FDI enterprises. For outward investment an new survey was implemented.

2. Harmonisation and integration of FDI/AMNE Statistics

2.1 Scope and objective

9. OECD provided a preliminary introduction of this activity to the BOPCOM in October 2010. In March 2011, MNE Statistics Advisory Group of WGIIS (MSAG- Operating as an electronic discussion group) presented a list of issues for discussion and held a side meeting for next steps. MSAG prepared its first draft report for discussion on 3-5 October 2011.

10. The primary *objective of this exercise is to improve the analysis of multinational enterprises in the global economy*. To achieve this objective it is necessary to reduce recognised methodological divergences and/or inconsistencies which may exist between the financial and economic measures of multinational enterprises and to propose a comprehensive analytical framework in the form of building blocks. (See Annex 1 for the mandate: OECD Council recommendation).

11. Historically, FDI statistics, first compiled as part of "balance of payments statistics", developed into a more detailed statistics since early 1980s. The most recent methodological guidance is provided in the BMD4. Underlying concepts/definitions are consistent with those of *IMF Balance of Payments and International Investment Positions Manual, 6th edition* (BPM6). Additional breakdowns were introduced in FDI statistics as building blocks to accommodate user needs which require a variety of analytical data series. These breakdowns are mainly by partner country (geographical allocation) and by industrial activity.

Box 1. What do we measure with FDI statistics?

FDI measures long-term cross-border investments between enterprises affiliated to the same multinational group as described in the BMD4.

(i) *FDI flows and stocks measure cross-border equity investments and intercompany debt*. FDI includes acquisitions of existing *equity* or issuance of new *equity* (greenfield investments) representing 10% or more of the voting power as well as *inter-company loans* between parents and their non-resident affiliates (or vice-versa). FDI statistics also inform on MNEs' *income from direct investment* which is measured as *income from equity* (dividends and reinvested earnings) and *income on debt* (interest from intercompany loans). FDI transactions and positions are measured with respect to the first counterparty. On a supplemental basis, inward FDI positions can be reported according to *ultimate investing country* (UIC). The methodology of similar measures for outward investment is not available.

(ii) FDI measures only *the percentage share of cross-border investments* but not the total capital of enterprises.

(iii) Rules set by the *framework of direct investment relationship* (FDIR) allow mapping the relationships between affiliated enterprises; i.e. identifying the population of enterprises which is to be surveyed for data collection purposes. FDIR includes not only non-resident relationships but also affiliates resident in the same economy and belonging to the same multinational group, even if transactions and positions between them are not recorded in FDI statistics.

(iv) FDI statistics *exclude other types of cross-border flows* such as portfolio investments, financial derivatives and other investments. FDI also *excludes all flows and stock between affiliated enterprises resident in the same economy*.

12. AMNE statistics were developed from what is generally referred to as "business statistics" in national statistical systems. A presentation of these data according to common definitions and a consistent framework emerged much later in the latter part of 1990s. The *OECD Handbook on Economic Globalisation Indicators* (2005) (Handbook) is the first manual including recommendations on how these statistics should be compiled and presented[4]. OECD's database includes AMNE statistics for manufacturing and services sectors. Data are broken down by partner country and by industrial activity.

13. FDI and AMNE data sets are not consistent and the task to reconcile them could be complex. Guiding principles and underlying concepts of financial and economic measures may be different even if both sets of statistics are related to cross-border investment of multinational enterprises. It is, therefore, necessary to describe what "harmonisation and integration" of FDI and AMNE statistics entail. The OECD Council leaves it up to the experts to determine the scope and coverage of the exercise as well as the modalities to reach the objective:

(i) *Harmonisation* implies a certain degree of consistency of FDI and AMNE statistics with general definitions and concepts underlying macroeconomic statistics. In contrast to FDI

4 Eurostat FATS Recommendations Manual was issued for the first time in 2007, complemented by revisions in 2008, 2009, 2011 (forthcoming).

standards (published in 2008), AMNE guidelines, published in 2005, need to be aligned to SNA 2008. In other words, the chapters of the *Handbook* relating to FDI (providing a summary of the earlier BMD3) and AMNE have to be revised.

(ii) On the other hand, *integration* relates to a pertinent analytical framework which would incorporate financial and economic variables in such a way to allow a sound analysis of the impact of multinational enterprises in the global economy.

Box 2. What do we measure with AMNE statistics

AMNE statistics provide measures related to economic activities of MNEs following the recommendations of the *OECD Handbook on Economic Globalisation Indicators*[5]:

(i) AMNE statistics have a broader coverage than FATS. In addition to foreign controlled affiliates which are covered by FATS, AMNE statistics include information on the activities of the ultimate controlling parent and its resident affiliates;

(ii) AMNE/FATS statistics relate to control relationships which are measured by the numerical guide of more than 50% ownership of the voting power. Minority holdings are excluded.

(iii) Main economic variables for AMNE/FATS statistics are sales (turnover); employment; value added; imports/exports of goods and services; number of enterprises. Other variables which could have significance are total assets (financial and non-financial, produced or non-produced); compensation of employees; net worth; net operating surplus; gross fixed capital formation; taxes on income, research and development expenditures.

(iv) Measures used by AMNE/FATS statistics relate to total activities of the enterprise even when foreign control is achieved by less than 100% ownership. The underlying assumption is that the ultimate controller is the decision making unit for all the activities of the enterprise but not only for the share which corresponds to the percent of foreign ownership of the company's voting share.

2.2 Conceptual inconsistencies

14. OECD developed a series of indicators in response to the needs of policy analysts of foreign direct investment and its impact on the economic activity of home and host countries. These indicators are derived from FDI and AMNE statistics (See Handbook and BMD4).

15. In order to respond more completely to users' needs, there are instances where FDI and AMNE statistics would be used in tandem to construct meaningful indicators. Currently, all indicators focus on either one or the other dataset; FDI or AMNE. Reconciling these statistics under a comprehensive framework would enable developing *advanced indicators,* as appropriate.

16. Nevertheless, the underlying philosophy and concepts of FDI and AMNE statistics should remain unchanged while they reflect the essence of each type of data for their primary purpose: FDI *statistics*

5 See also Chapter 8: FDI and Globalisation, BMD4.

measure cross border flows and stocks of capital and AMNEs measure the performance of enterprises under foreign control.

17. *Total versus foreign share of capital:* FDI transactions (financial and income flows) and positions relate only to the share of cross-border investment but not to the entire equity holding if FDI represents less than 100% of the voting power. Even if FDI is further broken down by control (50% to 100% ownership) versus influence (10% or more), this basic principle remains unchanged. In other words, FDI always relates to the share of cross-border ownership of voting power when it is less than 100% but not to total equity. On the other hand, AMNE data relate to the totality of a given economic variable even if foreign control is obtained by less than 100% ownership of the voting power. For example, if foreign control is obtained by 80% ownership of the voting power and 20% is in the hands of domestic investors, AMNE data will reflect total employment but not 80%. FDI transactions and positions will reflect only 80% of total capital.

18. It is important to note that these different approaches adapted by FDI and AMNE data are not due to lack of harmonisation but are justified conceptually for the type of analysis they are compiled for. Therefore, these concepts should not be subject to alteration.

19. Financial versus economic variables of MNEs: It is more appropriate to compare FDI positions and the activities of MNEs while the latter is measured on total stocks of FDI but not according to financial flows within a given period. This said, FDI flows may also be useful to supplement indicators based on positions. For example, FDI by type (M&A or Greenfield) are flow measures but could be of prime interest for the analysis of the impact of MNEs in the host country.

20. FDI positions are composed of *equity financing* and *intercompany loans.* It would be useful to explore whether all indicators should be based on total FDI positions or should one consider, in some cases, to base the indicator on equity financing only or equity financing and intercompany loans separately.

21. The extension of the directional principle to the treatment of loans between fellow enterprises as well as the segregation of Special Purpose Entities (SPE) to exclude funds in transfer are significant improvements to identify genuine (economically meaningful) FDI stocks. Moreover, the geographical allocation of inward FDI positions to the ultimate investing country (i.e. to the ultimate controlling parent) follows the same conceptual pattern for inward AMNE statistics. Nevertheless, such FDI data are to be compiled on optional bases and also include influence relationship for FDI (between 10-50% ownership of voting power) which is not consistent with AMNEs. Allocation of the ultimate host country for outward FDI was not completed at the time of the revision of BMD4 but is included in thisexercise.

22. Both FDI and AMNE statistics refer to inward and outward investments but their coverage is not the same. FDI statistics do not include transactions/positions of affiliates resident in the same economy even though they are identified in FDIR. In contrast, AMNE statistics include the activities of a resident affiliate controlled by its resident parent which itself is foreign controlled.

DEFINITION OF INWARD AND OUTWARD INVESTMENT[6]

	FOREIGN DIRECT INVESTMENT		ACTIVITIES OF MNES/FOREIGN AFFILIATES	
	Reporting controlling/influencing entity	***Controlled/influenced affiliate***	***Reporting controlling entity***	***Controlled affiliate***
Outward	Resident direct investor (i) UCP (ii) direct Parent	Non-resident DIE - direct affiliation	Resident UCP including its resident subsidiaries	Non-resident subsidiaries (i) directly controlled DIE (ii) Indirectly controlled DIE
Exclude	Its resident affiliates	Its non-resident indirect affiliates	Resident parent	Resident subsidiaries of non-resident subsidiaries
	Reporting controlled/influenced entity	***Controlling/influencing entity***	***Reporting controlled entity***	***Controlling parent***
Inward	Resident DIE	Non-resident investor - direct affiliation (i) UCP (ii) parent	Resident subsidiary	Non-resident UCP
Exclude	Its resident affiliates			

2.3 Integration under a common MNE framework: Building blocks

23. It is proposed to group all variables, financial and economic, under a single comprehensive scheme, the ***MNE Framework***.

24. AMNE statistics are solely based on control relationships. In principle, the population of controlled affiliates is a sub-set of the overall FDI population which comprises influence relationships as well but includes only direct cross-border financial transactions and positions to indirect relationships. Nevertheless, in practice, this is not always the case. Also, it is quite common that a large share of FDI corresponds to more than 50% ownership of the voting power by the non-resident investor. *The MNE framework is limited to control relationships.*

25. FDI measures relate to FDI financial flows and positions. FDI flows can be associated to economic activities. For example, measures distinguishing M&A type investments and greenfield investment can provide interesting analytical observations in relation to economic variables. However, as a matter of principle, economic variables are more closely related to the stock concept. For example, the turnover or number of employees will be measured on the accumulated investment, i.e. the total existing capacity of the enterprise, but not on the flows within a given period. *While the MNE framework considers that the standard approach is stock data FDI by type provides complementary information*.

26. Direct investment enterprises have recourse to other sources of financing to conduct and expand their activities. These additional sources may be purely domestic (local) or cross boarder funds other than FDI. All these supplementary financing, local or cross-border, will impact the operations of the enterprise in addition to FDI received by the enterprise. *MNE framework expands the coverage of the financial analysis to total assets and liabilities, going beyond (and including FDI).*

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6 Parent is defined as the direct investor which controls directly or indirectly resident or non-resident subsidiaries. A parent company itself may be controlled by another parent. Parent is not an ultimate controller.

27. Regarding inward investment, AMNE statistics allocate all variables to the ultimate controlling parent (UCP), i.e. to the entity which is on top of the ownership chain and which is not controlled or influenced by another entity. The same concept applies to FDI inward positions according to UCP which is recommended by BMD4 on a supplemental basis. The reporting enterprise could be an operating company or a special purpose entity (SPE). It could be in the middle of the ownership chain, i.e. have affiliates abroad. *MNE framework allocates all variables to the UCP.*

28. Regarding *outward investment*, the recommendations of the OECD Handbook is not crystal clear. If the reporting resident enterprise is not the UCP but only a direct or indirect parent (which is controlled by a non-resident UCP) then there is room for substantial overestimation of the control abroad of the reporting country. If, on the other hand, the reporting stops after the first non-resident affiliate, then there may be significant underestimation of its overseas control.

29. Eurostat's Recommendations Manual requires that (i) the reporting entity for outward investment should be the Ultimate Controlling Institutional Unit -UCI (but not the parent) and; (ii) the UCI should report for all its affiliates down the chain of enterprises, i.e. all non-resident controlled affiliates should be recorded in the geographical allocation (but should not stop after the first counterpart). However, in practice, most non-European countries allocate outward AMNEs to the first non-resident affiliate. Moreover, some countries report outward AMNE data for UCI (or UCP) and for direct/indirect parents. *MNE framework includes all non-resident affiliates controlled by the UCP (or UCI) resident in the reporting country.*

2.4 Basic concepts of MNE Framework

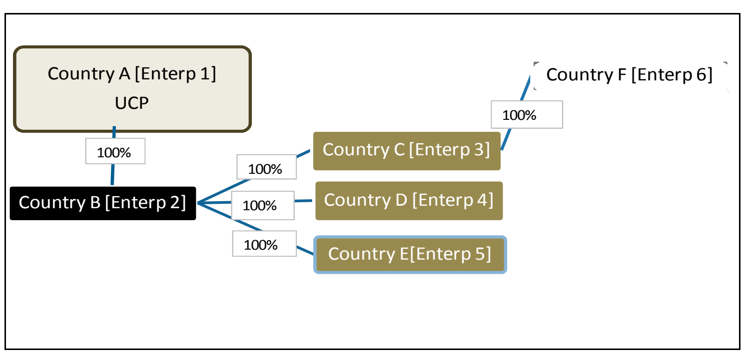
30. For the purpose of the demonstration, the example used is based on a simple MNE group structure. Each enterprise is located in a different economy and affiliates are 100% owned by the immediate parent:

(i) Enterprise 1 resident in Country A
- is the ultimate controlling parent (UCP) of enterprises 2, 3, 4, 5 6;
- fully owns Enterprise 2 resident in Country B;

(ii) ***Enterprise 2 resident in Country B*** fully owns three non-resident affiliates:
- Enterprise 3 resident in Country C;
- Enterprise 4 resident in Country D, and
- Enterprise 5 resident in Country E;

(iii) Enterprise 3 resident in Country C fully owns Enterprise 6 resident in Country F.

A MULTINATIONAL GROUP OF ENTERPRISES



BALANCE SHEETS

ASSETS	$	***LIABILITIES***	$
Enterprise 1 in Ctry A			
Equity in affiliated enterprises	10000	Equity capital	50000
Other [7]	34500		
Loan to Ent 2 (in Ctry B)	1500		
Loan to Ent 3 (in Ctry C)	3000		
Loan to Ent 4 (in Ctry D)	1000		
Enterprise 2 in Ctry B			
Equity in affiliated enterprises	15000	Equity capital	10000
Other	3000	Loans	5000
Liquidity	1500	*Of which: from Ent 1 in A*	1500
		Other	3000
Enterprise 3 in Ctry C			
Equity in affiliated enterprises	3000	Equity capital	6000
Loans	3500	Loans from Ent 1 (in Ctry A)	3000
Other	1500	Other	2000
Liquidity	3000		
Enterprise 4 in Ctry D			
Other	4000	Equity capital	4000
Liquidity	1000	Loans from Ent 1 (in Ctry A)	1000
Enterprise 5 in Ctry E			
Other	5000	Equity capital	5000
Enterprise 4 in Ctry F			
Other	4000	Equity capital	3000
Liquidity	2500	Loans to Ent 3 (in Ctry C)	3500

7 Other = assets/liabilities with no related counterpart (loans and deposits with financial institutions, trade credits with customers and providers, real estate, equipment, etc)

31. Allocating outward investments to the UCP resident in the reporting economy for all its assets from non-resident affiliates directly and indirectly owned by the UCP is the proposed methodology for economic measures of FDI stocks.

32. According to this scheme, in total country A will report in its FDI statistic according to economic measures $ 28000 outward equity investment and $ 9000 intercompany loans which will be allocated to countries B, C, D, E, F (see following table).

Outward FDI Position of Country A according to economic measures

Geographical allocation	Equity - $	Loans - $
Total	**28000**	**9000**
Country B	10000	1500
Country C	6000	3000
Country D	4000	1000
Country E	5000	**-**
Country F	3000	3500

33. This approach provides full symmetry with inward investment recorded according to economic measures. In other words, AMNE statistics allocate all inward variables to the ultimate controller as is the case for supplementary FDI series according to ultimate investing country. Accordingly, the reporting country will allocate all its inward investments to the ultimate controlling parent. Enterprises in countries B, C, D, E, and F will allocate inward investments to their UCP Enterprise 1 in Country A as follows:

Inward FDI Position of Country B, C, D, E, F
according to economic measures allocated to Country A

Reporting Country	Equity - $	Loans -$
Total	**28000**	**9000**
Country B	10000	1500
Country C	6000	3000
Country D	4000	1000
Country E	5000	..
Country F	3000	3500

34. According to this proposal, the economic measure should be equal to the sum of all the FDI data compiled individually. However, it is also argued that this proposed scheme may be subject to double counting due to capital in transit. A preliminary proposal to eliminate double counting which may result from the above described scheme is presented to WGIIS for discussion. The basic idea is to measure the amount of assets (cash, property, plant, equipment, intangible assets, etc.) in a foreign controlled subsidiary and that is not reinvested, on behalf of the ultimate controlling parent, in other subsidiaries of the group (such as financial assets relative to other affiliates, or accounts receivable from other affiliates). The proposed methodology is to calculate the difference between : "***Total assets –[minus] Assets held in other affiliated companies".***

35. *OECD will report future developments to BOPCOM and invites its members to provide comments to the draft report in 2012 before it is submitted to the Investment Committee.*

3. GREEN FDI

36. Defining green FDI is part of the broader exercise "Green Growth Indicators". In October 2010 WGIIS agreed to contribute to the exercise of the Investment Committee on defining and measuring green FDI and to incorporate this work in its globalisation research agenda. WGIIS also endorsed the proposal to conduct this research work with the guidance of an electronic discussion group composed of selected WGIIS members. The findings will be incorporated in the Globalisation research agenda report which will be submitted to the Investment Committee.

37. The main objective is to make recommendations on how to define and measure green FDI with a view to developing meaningful indicators to evaluate the scale and trends of green FDI. The scope of the exercise is to agree on:

(i) An operational definition of green FDI using existing definitions where applicable;

(ii) Identifying relevant statistics, preferably from existing data series compiled to measure FDI activity;

(iii) Propose meaningful indicators using these and other statistics to proxy the extent and the progress of green FDI.

38. The first step was a stock taking exercise of existing concepts and definitions in relation to environmental activities. A summary is included in Annex 3.

39. OECD's FDI statistics are derived from official sources of individual countries which provide the most reliable and most comparable information on measures of cross-border investments. National authorities are currently busy preparing the implementation of revised international standards recommended by BMD4. However, BMD4 does not provide a definition for "green FDI" or elaborate concepts related to it or make specific recommendation as to which indicators would be most meaningful to measure progress of the contribution of FDI to greening of economies.

40. Measuring the impact of green FDI is considered as an important and useful tool to measure development and well being of societies. But central banks and national statistics offices which collect and compile national FDI statistics have major concerns for putting additional reporting burden on their respondents (enterprises which are surveyed). Taking this into account, it is crucial to use, as much as possible, existing information rather than creating new data series. In other words, efforts should first focus on the possible use of existing material before considering the collection of additional data. This approach will also allow moving forward more rapidly.

41. WGIIS Secretariat circulated a fact finding survey to OECD members, the results of which are included in Annex 4. Out of 34 countries which received the survey only 23 responded. One country indicated that they had an activity to measure green FDI and two others indicated that they plan to establish such activities.

SUMMARY RESULTS OF WGIIS SURVEY – STOCKTAKING OF ENVIRONMENTAL ACTIVITIES

(as of January 2011)

1. Does your country carry out activities related to measurement of "environmental" or "green" FDI?

Please check one of the following with X:

Yes	No	Don't know	**Did not answer:**
Sweden	Austria	Hungary (CB)	Chile (CB)
	Belgium		New Zealand
	Canada		
	Chile (ENV)		
	Czech Rep.		
	Denmark		
	Finland		
	France		
	Germany		
	Hungary (CSO)		
	Iceland		
	Ireland		
	Israel		
	Japan		
	Luxembourg		
	Norway		
	Poland		
	Portugal		
	Switzerland		
	Turkey		
	United Kingdom		
	United States		

2. <u>If no</u>, are there any plans for establishing such activities?

Please check one of the following with X:

No	Yes,	Please specify:	**Did not answer:**
Austria	Chile (Env)		Chile (CB)
Belgium	Canada		New Zealand
Czech Rep.			
Denmark			
Finland			
France			
Germany			
Hungary (CB& CSO)			
Iceland			
Ireland			
Israel			
Japan			
Luxembourg			
Norway			
Poland			
Portugal			
Switzerland			
Turkey			
United Kingdom			
United States			

42. On the basis of the responses received and interest expressed by delegations, an electronic discussion group was setup to make recommendations to WGIIS for the exercise.

43. WGIIS will agree on meaningful FDI data series and relevant indicators to measure the extent and progress of green FDI. The task of WGIIS can be articulated as follows:

(i) to provide an agreed *definition of green FDI*;

(ii) to establish *statistical measures and a reporting framework* based on these definitions while at the same time maintaining the concepts of direct investment described in the BMD4. The outcome of this work would be a supplement to BMD4;

(iii) to use as much as possible existing definitions and concepts established as part of other green or environmental projects. "…*green growth is about maximising economic growth and development while avoiding unsustainable pressure on the quality and quantity of natural assets. Green growth is also about harnessing the growth potential that arises from transiting towards a green economy*." (OECD)

(iv) to avoid, as much as possible, additional burden for respondents' reporting requirements.

(v) to follow three quality parameters: *policy relevance*; *analytical soundness*; and *measurability*.

44. It is proposed to consider the definition of green FDI in two tranches: (i) *direct investment in green industries and environmental services*; and (ii) *direct investment in environmental processes, i.e. use of cleaner and/or more energy efficient technologies*.

> " ....while the potential of FDI to contribute to financing and transferring green technology and processes is undoubtedly large, it remains largely unexplored so far. There are at least three channels through which FDI can have a greening effect: the transfer of clean technologies which are less polluting and more input-efficient compared to the host country production ("cleaner" technology); technology leapfrogging, whereby FDI transfers state-of-the-art production and pollution-control technologies to foreign affiliates ("cleanest" technology); and transfer and diffusion of best practices in environmental management to foreign affiliates and then to domestic competitors and suppliers. There are, however, national, sector- and industry-specific technological and regulatory characteristics that enhance or reduce potential of FDI for transferring green technology and management practices. And apart from a few qualitative studies, the contribution of FDI to financing and transferring green technology and processes and its obstacles remain largely unexplored so far."[8]

45. It is generally agreed that the best approach to collect data to measure I green FD would be to organise surveys including information specific to both definitions. However, this is likely to generate additional cost and reporting burden. Another approach would be to have record linkages of existing FDI and AMNE statistics. To this end, WGIIS will examine the experience of Sweden in early October 2011.

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[8] DAF/INV/WP/WD(2010)1

4. BILATERAL FDI DATA HUB

46. WGIIS expressed a strong interest in bilateral comparison of FDI statistic of partner countries as an additional means for the improvement of FDI statistics and the statistics on the activities of multinational enterprises (AMNE). The scope of the exercise relates to both inward and outward investments. However, it is expected that benefits would be more significant for the improvement of outward investments. It is generally considered that compilers may have access to more complete information for inward investments from resident enterprises affiliated to foreign investors even though the task of data collection is similar to that for outward investments.

47. Data comparison between partner countries at micro level is deemed to be most efficient. However, national confidentiality obligations prohibit such cross-country comparisons with the exception of some international organisations such as Eurostat. A bilateral comparison of higher aggregation of data may also provide a useful tool, in particular when they are supplemented by comprehensive metadata such as the Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI)

48. WGIIS examined preliminary results based on OECD's FDI statistics showing large discrepancies across partner countries. These differences may be due to several reasons such as the methodology, data collection methods, time of recording, etc. WGIIS requested that the Secretariat looks into the possible creation of a central data hub using predefined formats and procedures which would serve as a pilot study whereby the exercise could be reviewed in a year or so.

49. Data could be presented in two possible formats. (i) comparing a single item between all countries; or (ii) comparing a single country for several items and all countries.

50. WGIIS agreed to create a central data hub as a trial application subject to evaluation in a year or so. In response to this request, a test environment was put in place by WGIIS Secretariat.

51. Main features of the "***Bilateral FDI Data Hub***" are as follows:

(i) Which data? OECD collects FDI statistics from all its members. FDI flows and positions by 'partner country' are used as the basis. At the present time FDI income is not included but could be added if it is deemed useful.

FDI data are to be reported according to the first counterparty for both inward and outward investments (but not according to ultimate investing country recommended for supplemental FDI series).

Data set	***Direction***	***Breakdowns by partner country***
FDI financial flows	Inward Outward	• Equity • Reinvested earnings • Debt • TOTAL
FDI Positions	Inward Outward	• Equity (including RE) • Debt • TOTAL

(ii) Reporting country: 34 OECD members[9]

(iii) Partner country: The presentation by default includes OECD members and five Enhanced Engagement countries[10]. However, the geographical coverage can be expanded by the user.

(iv) Currency unit: Most comparison will be based on US dollars. However some countries may wish to use other currencies (e.g. Euro). For the sake of completeness, amounts are provided in both reporting currency and US dollars. For most countries, reporting currency is the national currency but in some cases data are reported in US dollars. These cases are announced in the metadata.

(v) Frequency: Annual

(vi) Historical series: For most countries, data go back as far as 1985. For others, data are included as from the first reporting year.

(vii) Date stamp: date of last revision

(viii) Metadata: in addition to general notes, outcome of SIMSDI (2003) will be posted as metadata.

52. Administrative features of the Bilateral FDI Data Hub are as follows**:**

(i) ***Location of the data***: Data are located in OECD's data warehouse at a dedicated platform which can be access to participants only.

(ii) Status of the exercise: Participation is on a <u>voluntary </u>basis without any obligation to participate. On the other hand, participating countries have <u>no obligation</u> to modify their data on the basis of findings from partner country information.

(iii) ***Bilateral comparison:*** This work will be carried out by national delegations who are willing to do compare their FDI with their partners. Contacts with partner countries can be established via WGIIS membership.

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9 34 OECD countries: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Portugal, Poland, Slovak Republic, Spain, Slovenia, Sweden, Switzerland, Turkey, United Kingdom, United States

10 Enhanced Engagement Countries: Brazil, India, Indonesia, Russia, South Africa.

5. OECD FDI RESTRICTIVENESS INDEX

53. OECD's FDI Restrictiveness Index (Index) is used to assess the restrictiveness of FDI policies. It was first developed in 2003 and the latest revision was introduced in 2010. The FDI Index is used in OECD economic surveys; reviews of candidates for accession; investment policy reviews, The extension to cover all G-20 countries enables its use in the G- 20 context as well. A brief description of the Index is included in the following paragraphs as extracts from the full report: OECD's FDI Restrictiveness Index 210 Update –OECD Working Paper on International Investment[11] which can be downloaded from the OECD web site.

54. As a result of 2010 revision, the coverage of the FDI Index by sectors has been upgraded. All primary sectors (agriculture, forestry, fishing and mining) and investments in real estate are presently included. Sub-sectors have been added to cover services other than banking and insurance (under finance), as well as media services (TV and radio broadcasting, as well as printed and other media). There is greater detail in manufacturing (five sub-sectors), in electricity (generation and distribution), distribution (retail and wholesale) and transport (international/domestic breakdown for air and road transport). Overall, the expanded coverage by sector and finer detail by sub-sector improve the cross-country comparability of the results, as restrictions in some sectors/sub-sectors may be more extensive in certain groups of countries.

55. Four types of measures are covered by the FDI Restrictiveness Index:

(i) foreign equity restrictions:

(ii) screening and prior approval requirements:

(iii) rules for key personnel: and

(iv) other restrictions on the operation of foreign enterprises.

56. The highest score for any measure in any sector is 1 (the measure fully restricts foreign investment in the sector) and the lowest is 0 (there are no regulatory impediments to FDI in the sector). The score for each sector is obtained by adding the scores for all four types of measures, with the constraint that their sum is also capped at a value of 1. The Index covers 22 sectors, the scores for which are averaged to obtain a country score: the FDI Index for the country concerned.

Foreign equity limits

57. Foreign equity limits in specific sectors have constituted important barriers to FDI in the past and many countries still apply them, particularly in services. The scoring makes a difference between a full exclusion of foreign participation, restrictions on majority holdings and limits on full foreign ownership. These three thresholds are also the key limits most commonly found in legislation. If no foreign equity is permitted the score is 1 (the sector is closed); if majority foreign control is not allowed the score is 0.5 and if there is a requirement of a domestic minority holding the score is 0.25. The 2010 update introduces a further distinction between start-ups and acquisitions: the score is reduced by half if the restriction only applies to takeovers.

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[11] By B.Kalinova, A. Palerm, S.Thomsen

Screening and prior approval

58. Screening mechanisms applicable only to foreign investors fulfill many functions and vary widely in their scope. At their most restrictive, they may apply economic needs, net economic benefit or national interest tests to both start-ups and acquisitions. But in some cases, they are automatic and amount to little more than a pre-notification requirement for investors. The 2010 update retains the criteria not to cover the screening mechanisms applied for national security reasons, nor screening at the sub-national level. does not make any major changes to the way screening is treated within the overall restrictiveness index; but it does make more explicit the criteria for assessing the relative restrictiveness of a country's screening mechanism.

2010 FDI Index: Scoring of restrictions

		Scores
I.	**Foreign equity limits**	**Scores**
		Start-ups and acquisitions
	No foreign equity allowed	1
	Foreign equity < 50% of total equity	0.5
	Foreign equity > 50% but < 100% of total equity	0.25
		Acquisitions
	No foreign equity allowed	0.5
	Foreign equity < 50% of total equity	0.25
	Foreign equity > 50% but < 100% of total equity	0.125
II.	**Screening and approval 1/**	
	Approval required for new FDI/acquisitions of < USD 100mn or if corresponding to < 50% of total equity	0.2
	Approval required for new FDI/acquisitions above USD100mn or if corresponding to > 50% of total equity	0.1
	Notification with discretionary element	0.025
III.	**Restrictions on key foreign personnel/directors**	
	Foreign key personnel not permitted	0.1
	Economic needs test for employment of foreign key personnel 2/	0.05
	Time bound limit on employment of foreign key personnel 2/	0.025
	Nationality/residence requirements for board of directors	
	Majority must be nationals	0.075
	At least one must be national	0.02
IV.	**Other restrictions**	
	Establishment of branches not allowed/local incorporation required	0.05
	Reciprocity requirement	0.1
	Restrictions on profit/capital repatriation	1 - 0.1
	Access to local finance	0.05
	Acquisition of land for business purposes 3/	0.1
	Land ownership not permitted but leases possible	0.05 - 0.01
	TOTAL	**Up to 1**

1/ Excludes reviews of foreign investment based solely on national security grounds.
2/ If both restrictions apply, 0.05 is added to score.
3/ Score scaled by 1/3 when the measure applies only to border and coastal areas and by a factor of 5 for agriculture and forestry.

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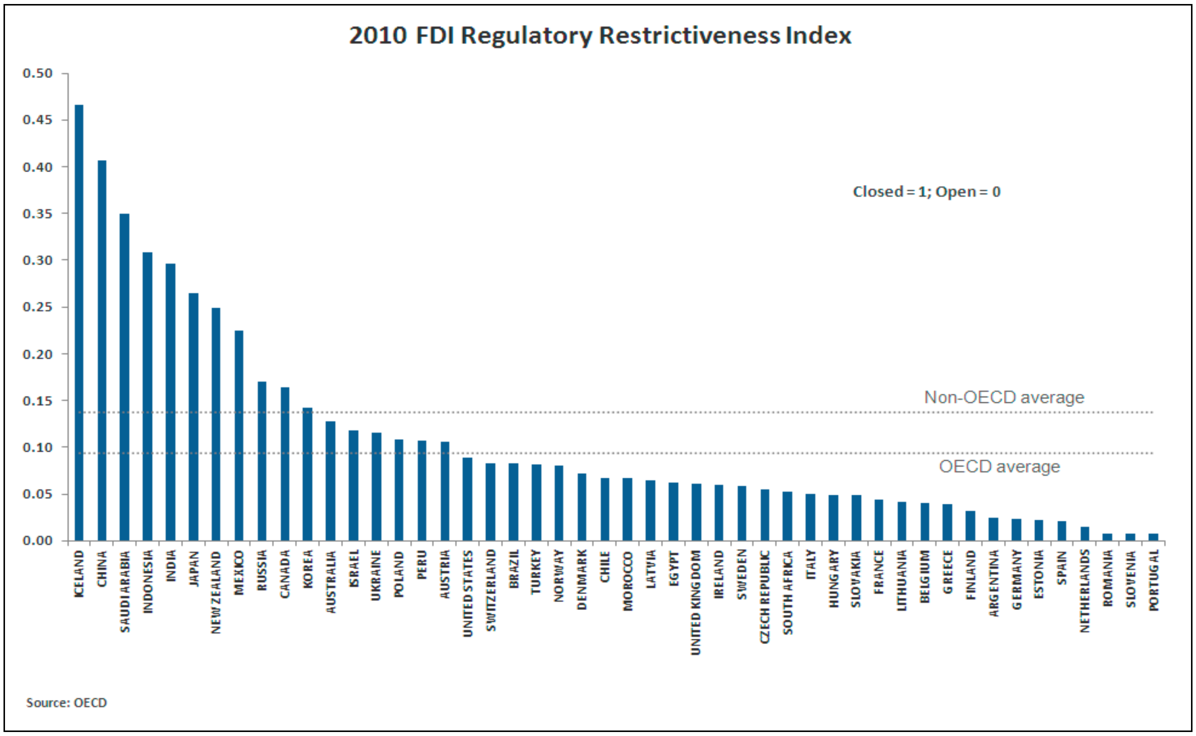
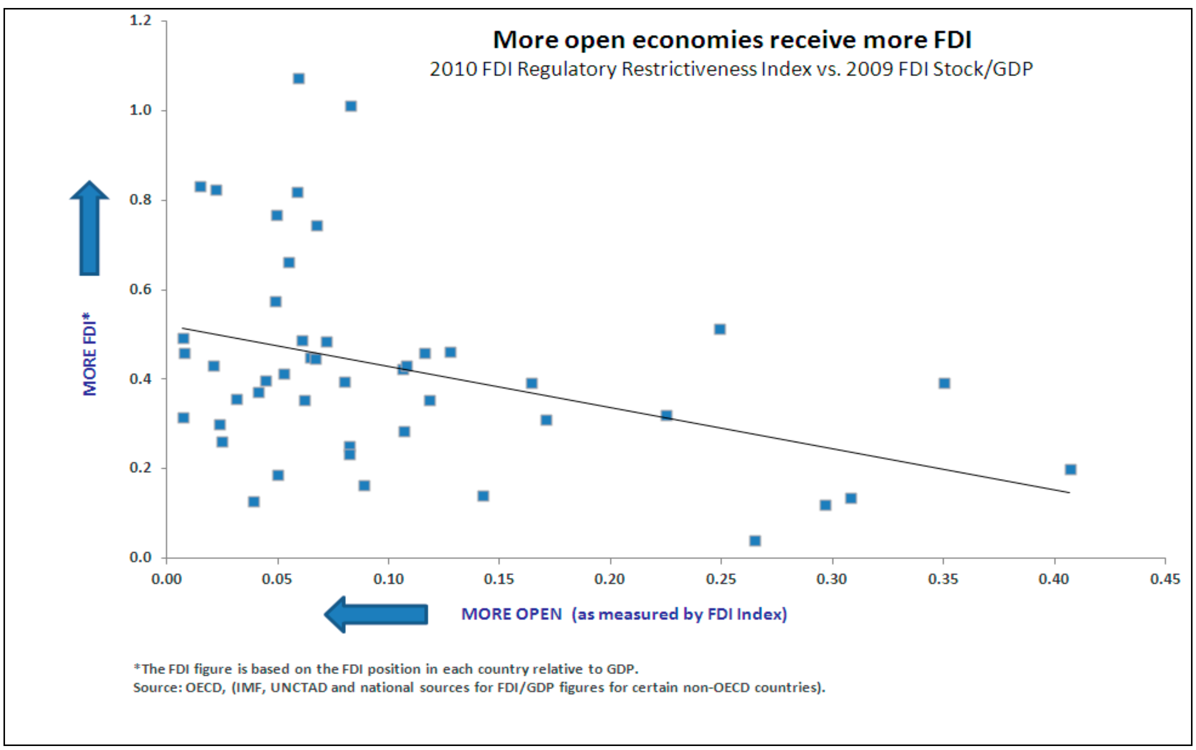


See Annex 2 for data



Restrictions on foreign key personnel.

59. Measures regarding key personnel (directors, managers and other key personnel) are systematically recorded under the transparency list of the National Treatment Instruments (NTI). Such measures include economic needs tests for the employment of foreign managers, time bound limits on the employment of foreign managers as well as nationality requirements for members of the board of directors. The scoring rules for these measures have been streamlined. In particular, the requirement that there be some legal representative that resides in the country is quite common and not necessarily as restrictive as rules excluding foreigners from the management/direction of the local enterprise.[8]

Other restrictions on the operation of foreign controlled entities.

60. FDI Index also covers various restrictions which affect the potential operations of foreign investors. It provides guidance on the scoring of a broad range of measures. Some of the measures covered cut across all sectors, which accounts for their significant impact on the overall index for some countries. These measures include:

- Restrictions on the establishment of branches.
- The acquisition of land for business purposes, including cases where foreigners may not own property but may sign leases.
- Reciprocity clauses in particular sectors.
- Restrictions on profit or capital repatriation.

ANNEX 1: WGIIS MANDATE TO HARMONISE AND INTEGRATE FDI/AMNE STATISTICS AND WORKING METHODS

The OECD Council recommendation on the *Benchmark Definition of Foreign Direct Investment, 4th edition* (BMD4), adopted by the Council on 22 May 2008, instructed the Investment Committee, to take steps through its Working Group on International Investment Statistics "*for the harmonization and integration of FDI statistics and the statistics on the activities of multinational enterprises to respond to the needs of the analysis of the global economy*".

This request is in recognition of the needs for comprehensive and reliable data on multinational enterprises' activities for sound policy making. While foreign direct investment (FDI) statistics include financial information on cross border investments, statistics on the activities of multinational enterprises (AMNE) examine other economic information. The need for a meaningful analysis of MNE financing and related economic activities has become all the more important as highlighted by the recent global crises.

The Working Group on International Investment Statistics endorsed in October 2010 the roadmap on the harmonization and integration of FDI and AMNE statistics. [DAF/INV/STAT92010)5/REV1]. Following the roadmap on the harmonisation and integration of FDI and AMNE statistics, WGIIS has set up an electronic discussion group (EDG) MNE Statistics Advisory Group (MSAG) which is complemented by a second EDG on Green FDI. **T**his exercise promotes further dialogue between statisticians involved in FDI and AMNE statistics in both national and international agencies.

WGIIS will submit its report in 2012 to the Investment Committee and to the Committee on Industry, Innovation and Entrepreneurship. The Investment Committee may decide to transmit the report to the Council in response to its instruction in C(2008)76.

ANNEX 2:

2010 FDI REGULATORY RESTRICTIVENESS INDEX

		2010 FDI REGULATORY RESTRICTIVENESS INDEX
1	ICELAND	0.467
2	CHINA	0.407
3	SAUDI ARABIA	0.350
4	INDONESIA	0.308
5	INDIA	0.297
6	JAPAN	0.265
7	NEW ZEALAND	0.249
8	MEXICO	0.225
9	RUSSIA	0.171
10	CANADA	0.164
11	KOREA	0.143
12	AUSTRALIA	0.128
13	ISRAEL	0.118
14	UKRAINE	0.116
15	POLAND	0.108
16	PERU	0.107
17	AUSTRIA	0.106
18	UNITED STATES	0.089
19	SWITZERLAND	0.083
20	BRAZIL	0.083
21	TURKEY	0.082
22	NORWAY	0.080
23	DENMARK	0.072
24	CHILE	0.068
25	MOROCCO	0.067
26	LATVIA	0.065
27	EGYPT	0.062
28	UNITED KINGDOM	0.061
29	IRELAND	0.059
30	SWEDEN	0.059
31	CZECH REPUBLIC	0.055
32	SOUTH AFRICA	0.052
33	ITALY	0.050
34	HUNGARY	0.049
35	SLOVAKIA	0.049
36	FRANCE	0.045
37	LITHUANIA	0.041
38	BELGIUM	0.040
39	GREECE	0.039
40	FINLAND	0.032
41	ARGENTINA	0.025
42	GERMANY	0.023
43	ESTONIA	0.022
44	SPAIN	0.021
45	NETHERLANDS	0.015
46	ROMANIA	0.008
47	SLOVENIA	0.007
48	PORTUGAL	0.007
49	LUXEMBOURG	0.004
	NON-OECD	0.148
	AVERAGE ALL	0.097
	OECD	0.108