

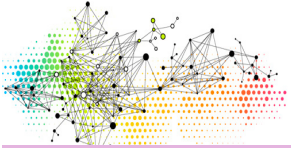


Direct Investment (L5)

Course on External Sector Statistics

Nay Pyi Taw, Myanmar

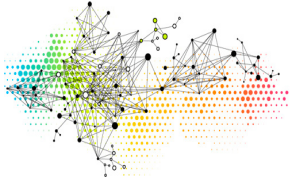
January 19-23, 2015



Direct Investment (DI)

- DI - What it is
 - International “standards”
 - Overall concept
 - Definitions
 - Framework for Direct Investment Relationships

- DI - What it is not

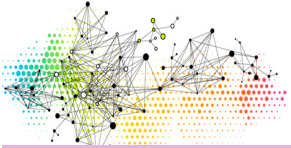


DI - What It Is: International “Standards”

The international standards on DI are set out in the:

- Sixth edition of the IMF *Balance of Payments Manual (BPM6)* 2009
 - Chapter 6, (functional categories), Chapter 7 (IIP), Chapter 8 (financial account), Appendix 6a

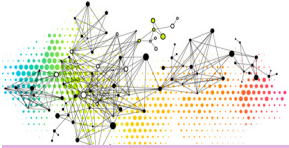
- Fourth edition of the *OECD Benchmark Definition of Foreign Direct Investment (BD4)* 2008



Direct Investment

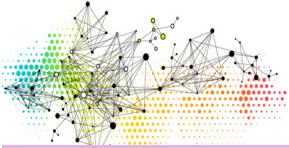
- Direct investment (FDI) arises when an investor resident in one economy makes an investment that gives control or a significant degree of influence on the management of an enterprise that is resident in another economy (Para 6.9)
 - “Lasting interest” in *BPM5*

- All enterprises that are under the control or influence of the same direct investor are considered to be in a direct investment relationship



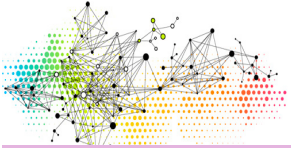
Direct Investment

- An entity or group of related entities that is able to exercise control or influence over another entity resident in another economy is called the “direct investor” (Para 6.11)
- Entity subject to control or influence is called the “direct investment enterprise” (DIE)
- In some cases, an entity may be both a direct investor and a DIE
- Fellow enterprises



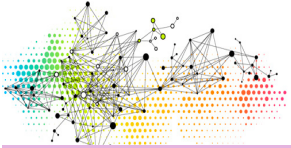
Direct Investment

- Control and/or influence may be direct or indirect, as described in the Framework for Direct Investment Relationships (FDIR, see below).
- FDIR provides criteria for determining whether cross-border ownership results in an FDI relationship, based on control and/or influence (Para 6.8)
- “10 percent rule” remains in *BPM6*



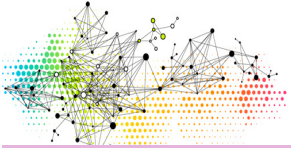
DI - What It Is: Overall Concept

Direct investment involves both the initial transaction between the two entities and *all subsequent* transactions *between* the two entities and *between* fellow enterprises, both incorporated and unincorporated



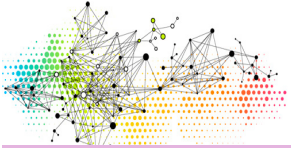
DI - What It Is: Definitions

A direct investor is an entity (or group of related entities) that has a direct investment enterprise operating in an economy other than that in which the direct investor resides



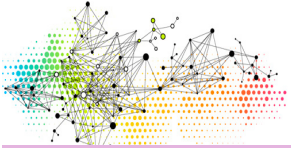
DI - What It Is: Definitions

- A *direct investment enterprise* is an incorporated or unincorporated enterprise in which a direct investor, directly or indirectly, *owns* 10 percent or more of either:
 - The voting power (for an incorporated enterprise), or
 - The equivalent (for an unincorporated enterprise)



DI - What It Is: Definitions

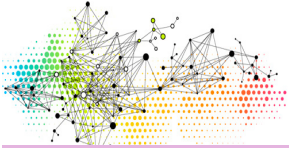
- Fellow enterprises
 - Fellow enterprises are related enterprises (those in a direct investment relationship with each other) but neither holds 10 percent or more voting power in the other



DI - What It Is: Definitions

Direct investment enterprises can be either directly or indirectly owned by the direct investor, and comprise:

- Branches
- Subsidiaries
- Associates

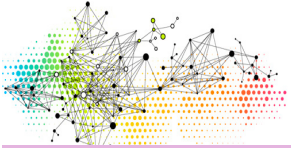


DI - What It Is: Definitions

Once a direct investor owns 10% (or more) of the voting power of an enterprise, the definition of direct investment enterprises extends to the branches and subsidiaries of the branches and subsidiaries of the direct investor

Called *indirectly-owned direct investment enterprises*

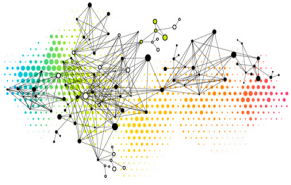
Once a direct investor owns more than 50 percent of a direct investment enterprise, the associates of the DIE become associates of the DI



DI - What It Is: Definitions

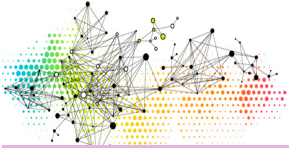
Direct investment enterprises that are in a direct investment relationship with a direct investor are also in a direct investment relationship with *each other*

Conceptual basis: *Framework for Direct Investment Relationships*



DI: *Framework for Direct Investment Relationships (FDIR)*

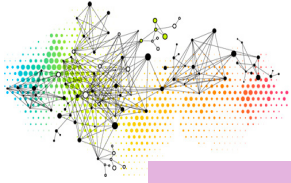
N				
I	I	I	I	I
A	D	F	H	K
60%	10%	30%	9%	70%
I	I	I	I	I
B	E	G	J	L
55%	60%	25%	100%	100%
I				
C				
12%				



DI - What It Is: *Framework for Direct Investment Relationships (FDIR)*

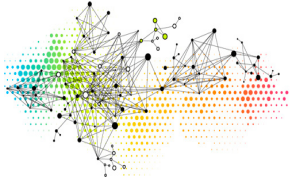
The DIR includes the following:

- Branches
- Subsidiaries (50% + directly owned by the direct investor)
e.g. A and K
- Associates (10%-50% directly owned by the direct investor)
e.g. D and F
- Subsidiaries of subsidiaries e.g. B and L
- Subsidiaries of associates e.g. E
- Associates of subsidiaries e.g. C
- Fellows



DI - What It Is: *Framework for Direct Investment Relationships (FDIR)*

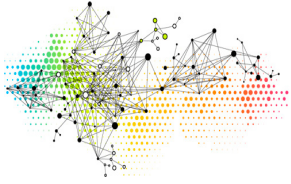
In the example in the earlier slide, Enterprises A, B, C, D, E, F, K, and L are all involved in a direct investment relationship with Enterprise N - even though, for example, Company N owns indirectly only 4% of Company C.



DI - What It Is: *Framework for Direct Investment Relationships (FDIR)*

The FDIR excludes the following:

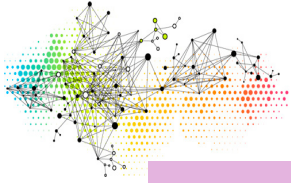
- Enterprises in which the direct investor directly owns less than 10% e.g. H
- Subsidiaries of those enterprises in which the direct investor directly owns less than 10% e.g. J
- Associates of associates of the direct investor e.g. G



DI - What It Is: *Framework for Direct Investment Relationships (FDIR)*

In the example in the earlier slide:

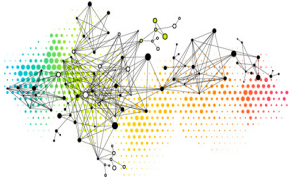
- Enterprises H and J are not in a direct investment relationship with Enterprise N, because Enterprise N owns less than 10% of Enterprise H
- Enterprise G is not in a direct investment relationship with Enterprise N because Enterprise G is an associate of an associate of Enterprise N



DI: *Framework for Direct Investment Relationships (FDIR)*

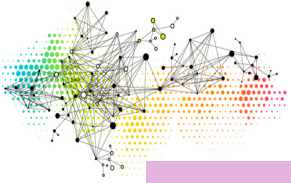
Remember that once an enterprise is determined to be in a direct investment relationship with N, it is also in a direct investment relationship with all the other enterprises that are in a direct investment relationship with N.

For example, C is in a direct relationship with A, B, D, E, F, K, and L, as well as with N



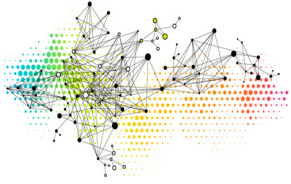
DI: Framework for Direct Investment Relationships (FDIR)

An important consequence of this rule is that the DI data should include all transactions/positions made/held directly between enterprises in different economies that are in a direct investment relationship – including enterprises that share a common direct investor but have no ownership in each other.



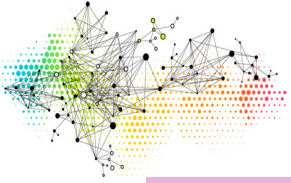
Who Can Be a Direct Investor?

- Individual or household
- Enterprise (incorporated or not)
- Investment fund
- Government or I/O
- Non-Profit Institution Serving Households (NPISHs)
- Estate, trustee in bankruptcy or other trustee
- Any combination of above
 - NB: Impact of “group” and unit on role of related resident entity



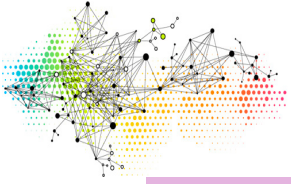
Who Can Be a Direct Investor?

- To act together, individuals and/or other entities must be in FDIR or be family members, AND
- Be resident of the same economy, and EXCLUDE residents of same economy as DIE
- Equity ownership by group can be summed BUT
- NOT equity held by associate (as influence cannot be passed on without CONTROL)



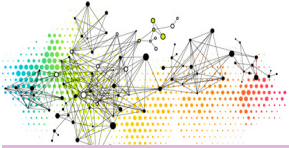
Who Can Be a Direct Investor?

- Governments can be DIs
- NB. Special treatment where Governments have fiscal SPEs (see paras. 8.24 – 8.26)
- If equity can be either *Reserve Assets* or *Direct Investment*, should be treated as DI, BUT
- If debt instruments can be either *Reserve Assets* or *Direct Investment*, should be treated as *Reserve Assets*, provided other reserve assets criteria apply



Who Can Be a Direct Investor?

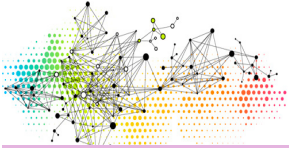
- NPISHs cannot be DIs as not created with intention of repatriating earnings
- NPISHs can be DIs in for-profit entities



DI: What It Is NOT

DI is *not*:

- Determined by who **controls** the enterprise
- Composed of the equity holdings of a group of unrelated entities or of a foreign country
- Based on the nationality, citizenship or ethnic origin of the investor



DI: What It Is NOT

DI is *not*:

- Based on approvals of investments that may never take place
- Determined by the purpose of the investment, such as manufacturing
- Based on the nature of the investment, such as a “greenfield” enterprise