Direct Investment Compilation as Complementary information - FATS

AMF – WTO – UN ESCWA – UNSD

Follow-up Regional Workshop on the Compilation of Trade in Services Statistics

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Direct Investment

• International standards on Direct Investment (DI) are set out in:

  • Sixth edition of the IMF *Balance of Payments and International Investment Position Manual (BPM6)* 2009

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

• Direct investment 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.

• All enterprises that are under the control or influence of the same direct investor are considered to be in a direct investment relationship.
**DI: What it is: Overall Concept**

- **Direct investment** involves both:
  - the initial equity transaction between the two entities that meets the 10% threshold ("10 percent rule")
  - and *subsequent* equity and debt transactions *between* the two entities and *between* fellow enterprises, both incorporated and unincorporated
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)

• **Fellow enterprises** are:
  • related enterprises (those in a direct investment relationship with each other) because both enterprises are owned by the same direct investor
  • neither holds 10 percent or more voting power in the other
DI: What it is: Definitions

• Direct investment enterprises comprise:
  • Branches
    • 100% owned
  • Subsidiaries
    • over 50% owned (the direct investor is able to exercise control)
  • Associates
    • 10-50% owned (the direct investor is able to exercise a significant degree of influence, but not control)
Basis of recording Direct Investment

- Direct Investment (DI) is recorded in the BOP and the IIP on a strict asset/liability basis.
- Alternatively, DI can be recorded on a directional basis:
  - Direct investment in the reporting country (inward DI)
  - Direct investment abroad (outward DI)
Classification structure: Components of DI transactions

- There are components of DI in both the Current Account and the Financial Account of the BOP

- The Current Account includes:
  - Investment income:
    - Direct Investment
      - Income on equity and investment fund shares:
        (i) Dividends and withdrawals from income of quasicorporations
        (ii) Reinvested earnings
    - Income on debt (interest)
Classification structure: Components of DI transactions/positions

The Financial Account covers:
- Direct Investment **Assets**
  - Of direct investors in direct investment enterprises
  - Of direct investment enterprises in direct investors (reverse investment)
  - Of resident fellow enterprises *in* fellow enterprises abroad
- Direct investment **Liabilities**
  - Of direct investment enterprises to direct investors
  - Of direct investors to direct investment enterprises (reverse investment)
  - Of resident fellow enterprises *to* fellow enterprises abroad
Classification structure:
Components of DI in Financial Account

• Both DI Assets and Liabilities
  • Equity capital
  • Reinvestment of earnings
  • Debt instruments
  • For Fellows, equity and debt sub-divided depending on residence of ultimate controlling parent
Components of DI data:
Debt instruments

• Debt instruments cover **intercompany** borrowing and lending
  • The borrowing or lending between direct investors and subsidiaries, branches and associates
  • Borrowing or lending **directly** between enterprises in a direct investment relationship located in **different economies**

• Debt instruments include:
  • Loans, marketable debt instruments, financial leases
  • Suppliers’ credit (trade credit)
  • Nonparticipating preference shares (treated as debt securities, NOT equity)
  • Insurance technical reserves
  • Accounts payable
Measuring DI - Geographic allocation: DI position data

• DI position data should be allocated by country/region on an immediate country basis
• However, some countries also compile data on an ultimate country basis
FATS – what they are

Summary of the statistical framework

Foreign direct investment statistics (FDI)
=> (international) financial transactions

FATS
=> indicators of the activity of the foreign controlled enterprises
FDI Statistics and FATS

Country A (outward FDI/FATS)

Country B (inward FDI/FATS)

INTERNATIONAL
- Investment financial transactions
- Investment income
- Direct investment positions (stock)
- FDI statistics (in BOP)

Direct investment enterprises
- Foreign affiliates
  - Activities (turnover, exports/imports...)
  - Employment...
  - FATS
« Control »: an essential concept

Ultimate Controlling Institutional unit (UCI) (if not controlled)

Immediate investor for A

Foreign affiliate for C

Foreign affiliate for B and C
Economic Variables for FATS

Most are drawn from SNA 2008

Basic FATS variables
(minimum recommended by MSITS)

- Sales (turnover) and/or output
- Employment
- Value added
- Exports and imports of goods and services
- Number of enterprises

- Assets
- Compensation of employees
- Net worth
- Net operating surplus
- Gross fixed capital formation
- Taxes on income
- Research and development expenditures
- Purchases of goods and services

Additional FATS variables
FATS vs. DI statistics

- **Structural Business Statistics**
  - **Inward FDI**
    - **Resident Enterprises (Foreign-Controlled)**
    - **Non-Resident Enterprises (Controlling)**
  - **Outward FDI**
    - **Resident Enterprises (Controlling)**
    - **Non-Resident Enterprises (Controlled)**

- **Inward FATS**
- **Outward FATS**
Data collection

- FDI surveys
- FATS specific surveys

Maximize the use of existing information!
FDI surveys (1/2)

Possible synergies between FATS and FDI:

• FDI registers can be used to identify foreign-controlled affiliates
• FATS variables can be included in existing FDI surveys
• If FATS are not yet produced, FDI positions can be used as approximation of a country’s interest in commercial presence
FDI surveys (2/2)

- Risk of increasing the response burden for non-controlled foreign affiliates
- Need to identify affiliates indirectly controlled
- Different frequency needed for FDI and FATS

Can be a cost-effective, short-term solution (especially for OUTWARD FATS)
FATS surveys

• FATS collection carried out separately from other collection systems
• INWARD and OUTWARD conducted separately (different target populations)

• Easier to follow international recommendations
• Targeted to the controlled/controlling enterprises only

• Requires additional resources
### FATS data collection

#### Selected economies

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*Compiling agency? mainly Statistics office and/or Central bank*
Questions / Comments / Conclusions