

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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Malik Bani Hani

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

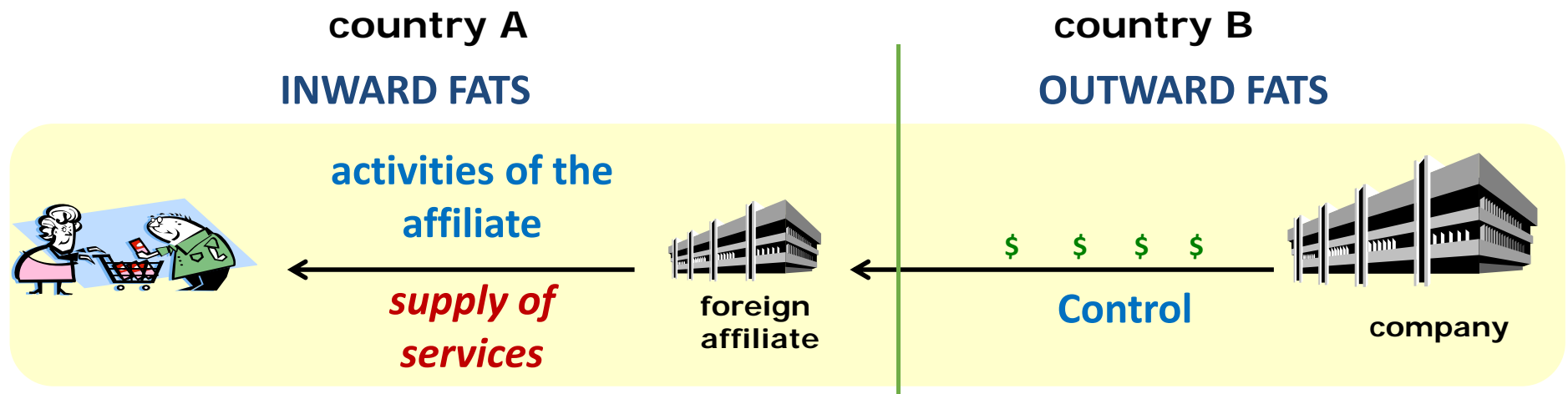
- Debt instruments cover **intercompany** borrowing and lending
 - The borrowing or lending between direct investors and subsidiaries, branches and associates
 - Borrowing or lending directly between enterprises in a direct investment relationship located in different economies
- Debt instruments include: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



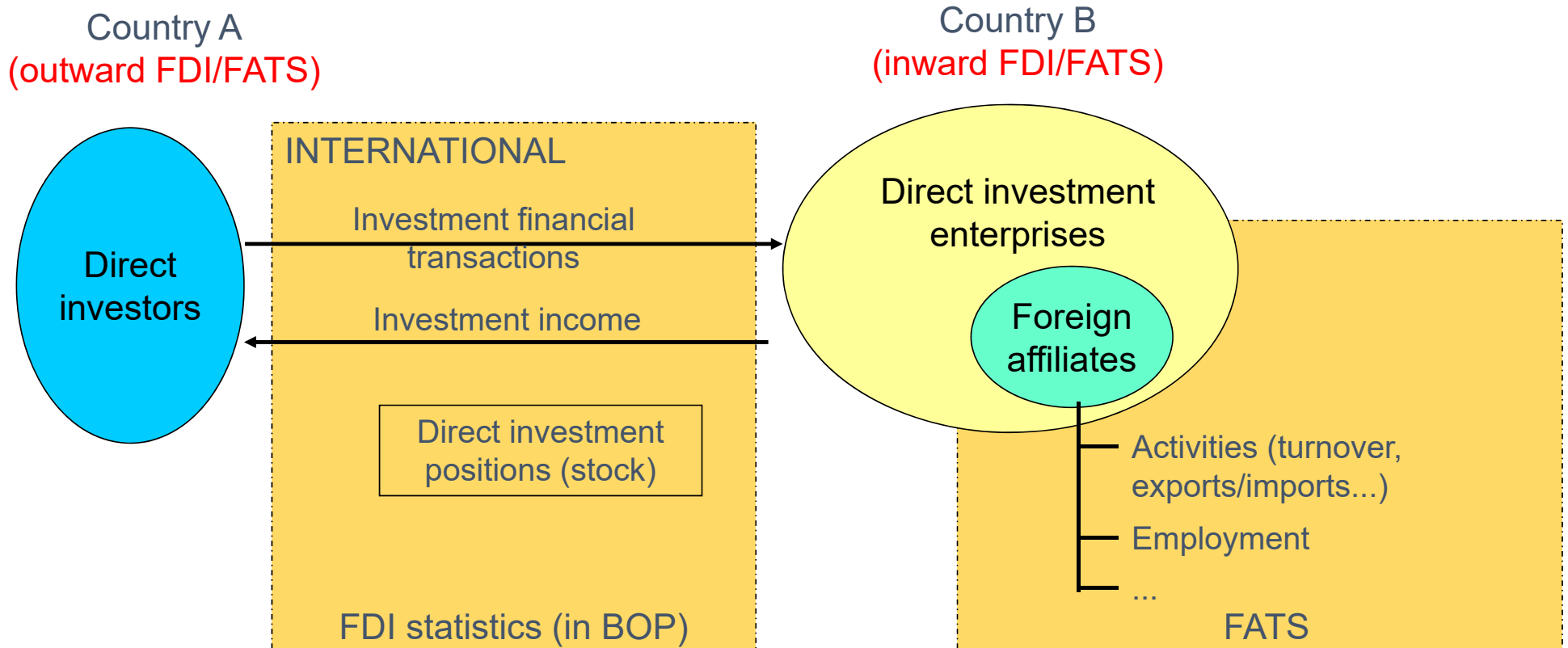
Foreign direct investment statistics (FDI)

=> (international) financial transactions

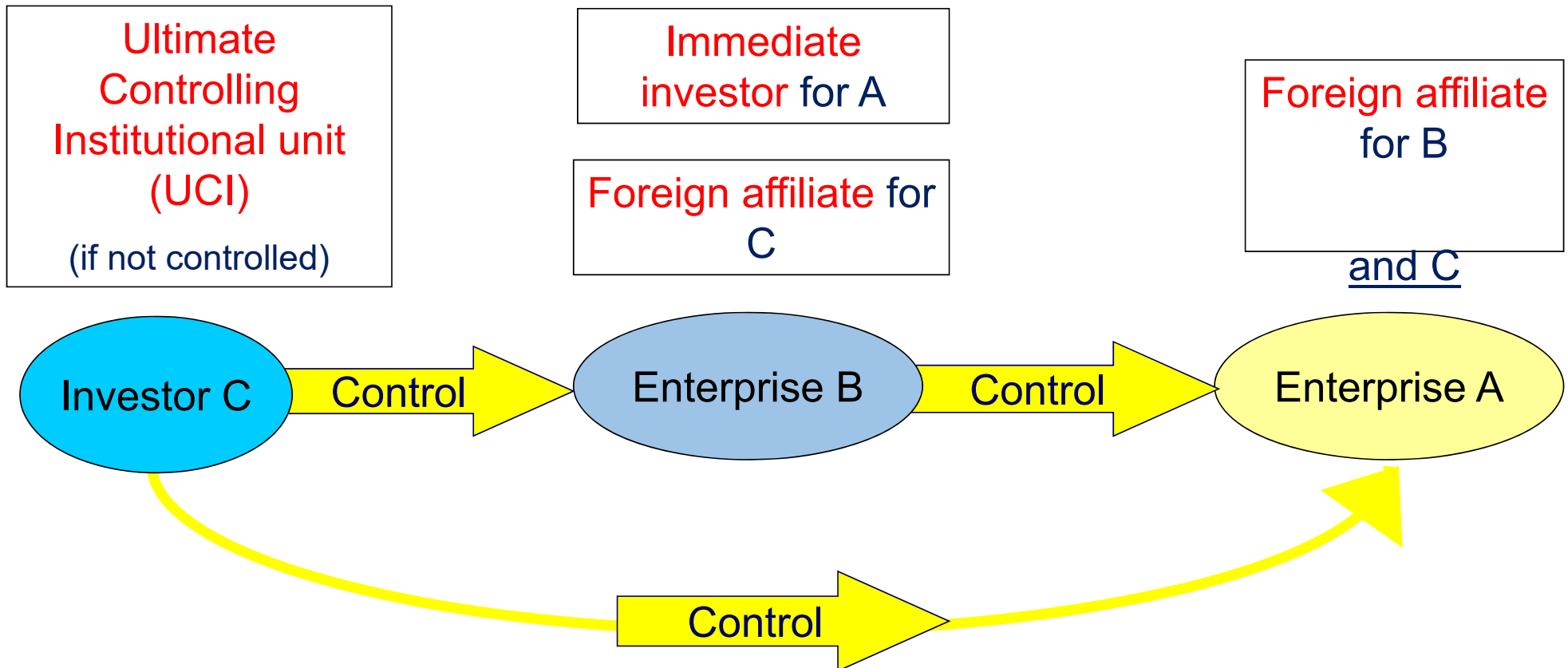
FATS

=> indicators of the activity of the foreign controlled enterprises

FDI Statistics and FATS



« Control »: an essential concept



Economic Variables for FATS

Most are drawn from SNA 2008

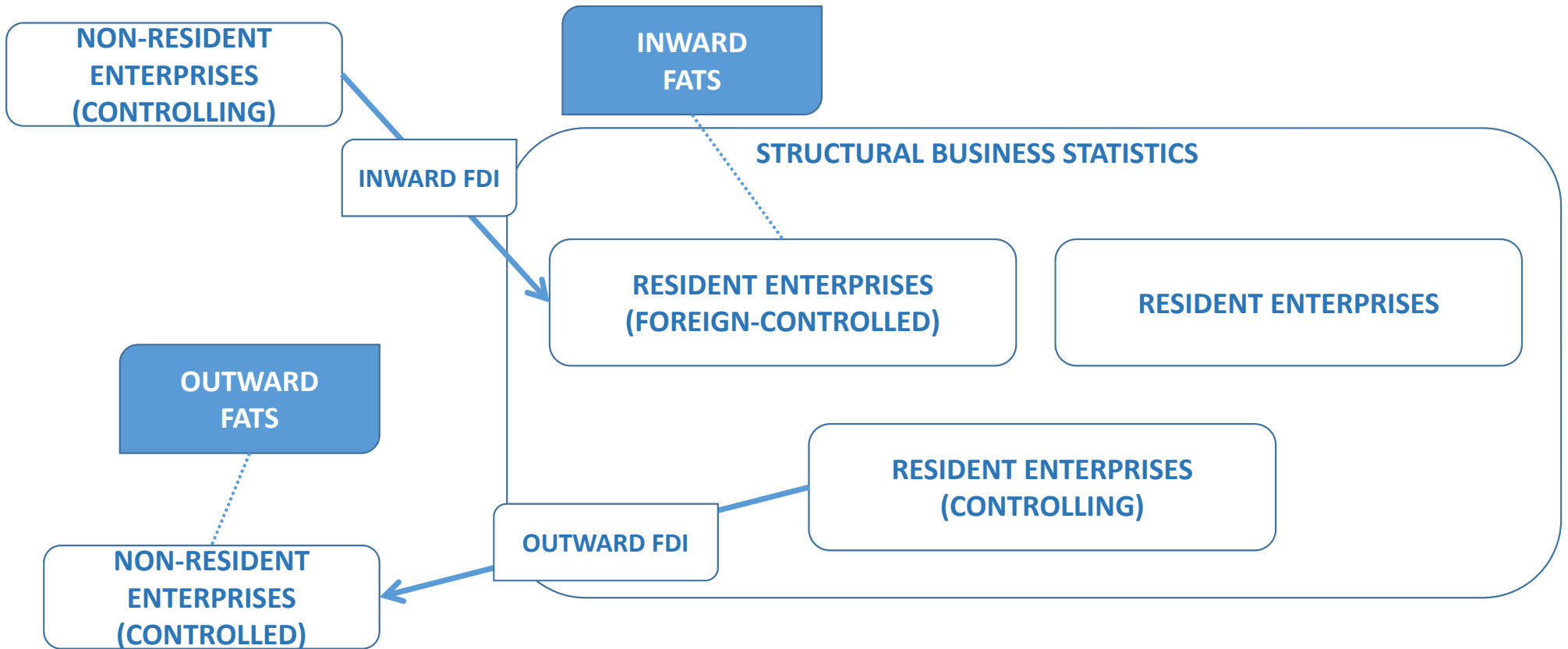
Basic FATS variables
(minimum recommended
by MSITS)

- 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

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

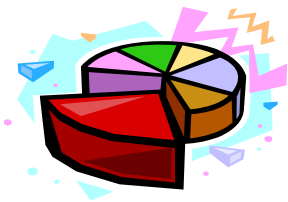
**Additional FATS
variables**

FATS vs. DI statistics



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

	Inward			Outward		
	FDI survey	Resident enterprise statistics	Separate survey	FDI survey	Resident enterprise statistics	Separate survey
Australia		X				X
Austria	X			X		
Belgium		X		X		
Canada				X		
Czech Republic		X		X		
Denmark		X				
Finland	X	X+				
France		X				
Germany	X			X		
Hong Kong, China		X		X		
India						X*
Israel						X
Italy				X+		
Japan						X
Luxembourg	X			X		
Netherlands		X				X+
Norway	X			X		
Poland		X				X
Portugal	X			X		
Sweden			X			X
Switzerland	X			X		
Thailand		X				
United Kingdom		X				X
United States	X		22	X		

Compiling agency?
mainly Statistics office
and/or Central bank

Questions / Comments /
Conclusions