United Nations Conference on Trade and Development
Division on Investment and Enterprise

UNCTAD Training Manual on Statistics for FDI and the Operations of TNCs

Volume III

Collecting and Reporting FDI/TNC Statistics: Institutional Issues

United Nations
New York and Geneva, 2009

Note

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Transition economies: South-East Europe and the Commonwealth of Independent States.

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Two dots (..) indicate that data are not available or are not separately reported. Rows in tables have been omitted in those cases where no data are available for any of the elements in the row;

A dash (–) indicates that the item is equal to zero or its value is negligible;

A blank in a table indicates that the item is not applicable, unless otherwise indicated;

A slash (/) between dates representing years, e.g. 1994/95, indicates a financial year;

Use of an en dash (–) between dates representing years, e.g. 1994–1995, signifies the full period involved, including the beginning and end years;

Reference to "dollars" ($) means United States dollars, unless otherwise indicated;

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates;

Details and percentages in tables do not necessarily add up to totals because of rounding.

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UNITED NATIONS PUBLICATION
Sales No. E.09.II.D.17
ISBN 978-92-1-112777-5

Printed in Switzerland

Preface

Many developing countries, including the least developed countries, have attracted only small amounts of foreign direct investment (FDI) despite their efforts at economic liberalization in an increasingly globalizing world. Moreover, FDI inflows are highly concentrated in a small number of countries. It is generally well known that the modest levels of, and disparity in, the distribution of FDI inflows, are due to factors such as a deficient regulatory framework, a poor business environment and opportunities, weak FDI policies and incentives, poor institutional frameworks, limited market access, unfavourable comparative costs and lack of political stability. However, what is less known is that the scarcity, unreliability and inconsistency of data collecting and reporting systems in many developing countries cause severe problems in formulating policies and strategies relating to FDI, which in turn affects their attractiveness as host countries.

Against this background, UNCTAD has prepared this three-volume manual with the aim of helping developing countries to enhance the capacity of their government agencies to compile, analyse and disseminate data on FDI and the operations of transnational corporations (TNCs), based on internationally recommended standards. The manual should enable national authorities to maintain high-quality and up-to-date databases by providing them with concrete and practical guidance on how to collect and report FDI and TNC statistics (volumes I and II) and how to establish an FDI statistical system (volume III). The manual comprises the following volumes:

Volume I: FDI Flow and Stock Data

Volume II: Statistics on the Operations of Transnational Corporations

Volume III: Collecting and Reporting FDI/TNC Statistics: Institutional Issues

Volume I stresses the importance of collecting data on FDI flows and stocks in line with international definitions and standards. It provides definitions and an overview of the existing standards set or used by international organizations and national compilers. It

then discusses and evaluates different approaches to compiling FDI flow and stock data, identifies data complexities and problems, and presents solutions to each of them. International guidelines on FDI data compilation need to take into account recent practices emanating from globalization, and therefore they need to be constantly updated to reflect current practices (such as mergers and acquisitions) and new requirements. This volume therefore also discusses issues and areas that need further attention.

Data on the activities of foreign affiliates can be an important complement to the FDI data contained mainly in balance of payments (BOP) statistics (volume I). This is the subject of *volume II*. In many cases, this data set conveys a clearer picture of the economic activities of foreign affiliates and their importance to the host economy. Financial and operations data, such as those relating to assets, employment, exports and imports, are important as they enable policymakers to assess the economic impact of FDI and to design policy measures geared to maximizing the benefits of inward FDI for their country. Data on the operations of home-country TNCs are equally important to enable policymakers to monitor the performance of these TNCs' affiliates and assess the integration of their country into the global economy through its outward investment.

Information of such type is more difficult to obtain than BOP-related information. It requires extra effort by statistics agencies, often through surveys of foreign affiliates and TNCs operating in the domestic economy. *Volume II* contains clearly defined instructions and definitions to help officials from relevant institutions in developing countries to compile and process financial and operations data of TNCs in their economies.

Volume III provides an overview of the methodologies being used in the countries where FDI and TNC data are collected and reported. The aim is to examine how the surveys are actually conducted and how the work of various institutions is coordinated. Based on the findings, best practices of standard survey questionnaires are provided. Countries that have no "dedicated" office for reporting FDI statistics are advised to establish such an office. The volume discusses where and how an FDI statistics office could be established, the different sources of FDI statistics, and how their data are reported. It stresses the importance of

coordination and harmonization of reporting and dissemination of FDI statistics.

Volume III also aims to assist developing countries in achieving the development objective of strengthening cooperation within their regions and with other regions in the area of FDI and TNC data collection and coordination through human resources development and capacity-building.

All three volumes of this manual cover the elements required for the country's FDI statistics authorities to collect and report FDI and TNC data effectively. It is hoped that the manual, together with some training, will help developing countries establish FDI and TNC statistical systems that will be able to present useful, timely, accurate and comparable FDI and TNC statistics. Each volume attempts to present relevant issues, identifying problems and providing solutions that are illustrated by concrete examples. Best practices are also suggested. These examples and practices are collected from various countries, including developing countries.

September 2009

Division on Investment and Enterprise
UNCTAD

Acknowledgements

The UNCTAD Training Manual on Statistics for Foreign Direct Investment and the Operations of Transnational Corporations was prepared and finalized by Masataka Fujita with draft inputs from Frank Chow (volume I), David Buxton (volume II) and Emanuela Balestrieri (volume III) under the general guidance of Anne Miroux. Major inputs and comments were also received from Wan Ramlah, Astrit Sulstarova and Katja Weigl. Production was carried out by Katia Vieu. It was edited by Praveen Bhalla and desk-top published by Teresita Ventura. Cooperation with FDI statisticians and relevant national and international statistical authorities (e.g. IMF, OECD) dealing with FDI and TNC data was also essential. The preparation of this manual was partly financed by the United Nations' development account project (2008-2009), Support to decision-making and policy formulation on foreign direct investment in the context of the Millennium Development Goals and the Monterrey Consensus, and by the joint ESCWA/ UNCTAD project, Strengthening networking and expertise on FDI in ESCWA member countries, which was undertaken in 2004–2006.

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Abbreviations

BD3	OECD, Benchmark Definition of Foreign Direct Investment, third edition, 1996
BD4	OECD, Benchmark Definition of Foreign Direct Investment, fourth edition, 2008
BOP	balance of payments
BPM5	IMF, Balance of Payments Manual, fifth edition, 1993
ECB	European Central Bank
EU	European Union
FATS	Foreign AffiliaTe Statistics
FDI	foreign direct investment
FPI	foreign portfolio investment
GAAP	Generally Accepted Accounting Principles
GATS	General Agreement on Trade in Services
IIP	international investment position
IMF	International Monetary Fund
IASC	International Accounting Standards Committee
ISIC	International Standard Industrial Classification of all Economic Activities
ITRS	International Transactions Reporting System
M&A	merger and acquisition
NACE	Nomenclature statistique des activités économiques dans la Communauté européenne
OECD	Organisation for Economic Co-operation and Development
R&D	research and development
SNA	System of National Accounts 1993
SPE	special purpose entities
TNC	transnational corporation
UBO	ultimate beneficial owner
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

INTRODUCTION

III.1. Given the prominent role that FDI plays in the global market, policymakers are particularly concerned with the monitoring of this specific category of cross-border activities. The statistical measurement of FDI therefore continues to be a priority on the agenda of national authorities and international organizations. The quality of the statistics depends largely on the comprehensiveness, timeliness, reliability and international comparability of data. To meet these criteria, official compilers need to be attentive not only to the methodology used for producing estimates of FDI activity, but also to the various types of institutional support available for properly recording and monitoring such activity. In addition, their concerns should go well beyond the compilation issue, to include revision cycles for data improvement as well as dissemination formats and policies.

III.2. Institutional capacity-building in the field of FDI statistics has two aspects. One is methodology-related, and concerns the relevant scientific principles and methodological standards for the particular data product under investigation. The other dimension relates to organizational issues. These two complementary aspects are discussed in this volume.

III.3. The coverage and contents of FDI statistics compiled by government agencies vary significantly across countries. For example, the kinds of data sources used for measuring FDI activity differ, not only from one country to another, but also between FDI flows and stocks. Chapter I of this volume focuses on the institutional dimension of the major methodological issues and practices related to the measurement of FDI. With a view to narrowing methodological gaps and advancing harmonization and standardization of FDI statistics among countries, examples of good practices in various countries are provided throughout the volume. The intention of this

volume is not to generalize, but rather to provide an orientation tool for those concerned with FDI statistics.

III.4. Data quality depends on the quality of the institutions (and system) involved in the production of the data. This is why institutional arrangements governing the role and functioning of the data producing agency are key to the successful implementation of an FDI statistical capacity-building strategy. Also, these arrangements have an impact on the development of desirable attributes of the FDI statistical authority. Chapter II attempts to "contextualize" the general concerns relating to a statistics office's capacity to deal with the specificity of FDI statistics.[1] It is intended to show, through a "hands-on" exercise, what guiding principles and widespread practices in the field of FDI statistics are in achieving the ultimate goal of quality FDI data production. Far from being prescriptive, the contents imply the need to use judgment when considering the appropriate institutional set-up for an FDI office, based on country-specific situations and prevailing conditions for international investments. Just as there is no standard model for a statistical institution, there is no codified rule for the establishment of office services and facilities in the field of FDI. Thus, a number of behavioural norms provide the reference framework for this volume. For operational purposes, the issues and topics presented here can easily be translated into a customized list of items (the "checklist approach") by any authority concerned with capacity-building in an FDI statistics office.

[1] The United Nations Statistical Division has produced a reference handbook on the organization of a statistical agency (United Nations, 2001).

CHAPTER I. INSTITUTIONAL ARRANGEMENTS FOR COLLECTING AND REPORTING FDI STATISTICS

A. The context

III.5. Major discrepancies still exist among countries in key areas of FDI statistics, including data sources, collection methods and dissemination policies. There is a need to improve and harmonize FDI statistics in order to maximize their usefulness and reliability for analytical and economic planning purposes. In this respect, the methodologies used should not only determine the availability of particular categories of data, but also their timeliness and the accuracy of revisions and disaggregations.

III.6. There continues to be a need for improvement of FDI methodologies. Many countries are unable to accomplish the following tasks:

- Compile data on reinvested earnings.
- Meet international standards in relation to data collection of short-term financing arrangements between affiliated enterprises. While the majority of countries include short-term loans made by affiliated enterprises to each other in their FDI transactions component, some countries continue to include these flows in the *other investment* component of the financial account.
- Record, properly classify and report separately the activities of special purpose entities (SPEs) of transnational corporations (TNCs). Indeed, only about half of non-OECD countries record the transaction between SPEs and their affiliated enterprises in their FDI statistics (IMF/OECD, 2003).
- Record cross-border real-estate transactions. In 1992, a significant number of countries excluded all cross-border purchases and sales of real estate from their reported FDI flows, and many additional countries excluded "non-commercial" real-

estate transactions from their statistics. However, there has been some improvement in their practices since then, with 29 OECD countries now covering cross-border real-estate transactions by enterprises and 24 covering such transactions by individuals (IMF/OECD, 2006).

- Correctly classify the investments of affiliates in their parent companies (reverse investment). Only a minority of countries record – in strict conformity with the recommendations of international standards – acquisitions by direct investment enterprises (foreign affiliates) of the equity capital in their direct investors (parent companies). According to recommended international standards, all financial transactions of resident direct investment enterprises with direct investors should be recorded by the country of the direct investment enterprise as *direct investment in the reporting economy* (directional principles). All financial transactions with foreign direct investment enterprises should be recorded by the country of the direct investor as *direct investment abroad*. In instances of reverse investments or cross-participation, the direct investment enterprise acquires an interest of less than 10 per cent in its direct investor. That interest should be offset against the capital invested by the direct investor, which is equivalent to recording the transaction as a *disinvestment* by the direct investor. However, the majority of countries record such transactions as *portfolio investments.*

III.7. Another aspect of variability of FDI statistics lies in the extent to which countries conform with the recommendations of the International Monetary Fund's *Balance of Payments Manual,* 5th edition *(BPM5)* (IMF, 1993) and the OECD's *Benchmark Definition of Foreign Direct Investment* (OECD, 1996), and their subsequent updates (recent ones in 2008/2009 for both). For instance, an increasing number of countries apply the "10 per cent rule" criterion, while some of them still do not use a predetermined threshold, relying instead on investment approval authorities as the source of data for their FDI statistics.

III.8. A further area that varies widely from country to country relates to the ways of determining

and measuring the existence of indirect ownership relationships by foreign direct investors, and the coverage of the transactions with these indirectly owned concerns.[2] There are only 18 countries that have complied with the international recommendations (IMF/OECD, 2006).

III.9. Many developing countries adopt a "mixed system" of FDI reporting based on a combination of different data sources. In such a context, collaboration and coordination assume greater significance, depending on the nature and number of institutions involved in the reporting process. However, all countries share the ultimate objective of producing quality data and harmonizing FDI information for comparability purposes.

III.10. In reviewing data compilation and dissemination practices, major methodological issues emerge (e.g. principles and practices relating to availability and confidentiality of data, frequency of reporting, disaggregations and revision policy), and are discussed in this volume in relation to the technical approaches adopted by different countries. In their dual role as users and providers of FDI data, institutions are expected to safeguard the relevance and accuracy of FDI statistics in compliance with international standards.

III.11. The following issues deserve a few introductory remarks:

Cooperation and coordination. According to United Nations principles for official statistics (United Nations, 2001), coordination and cooperation are fundamental requisites for producing statistics that meet the test of practical utility (i.e. enabling a correct interpretation of a situation). "Coordination among statistical agencies within countries is essential to achieve consistency and efficiency in the statistical system", and "bilateral and multilateral co-operation in statistics contributes to the improvement of systems of official statistics in all countries" (United Nations, 2001: 117).

Indeed, cooperation and coordination among agencies are a cross-cutting issue that is relevant at all levels of FDI measurement, irrespective of

[2] See Box I.19 in volume I for an explanation of indirect investment.

the particular system in place for recording FDI activity. The cooperation and coordination functions also extend beyond national boundaries to include international mechanisms aimed at facilitating the recording of cross-border activities. This includes, for example, the exchange of technical expertise and the organization of international ad hoc task forces and working groups.

New industries. The emergence of industries involved in the production of advanced technologies, together with the growth and diversification of services industries, affects the universe of FDI data. To record the nature and magnitude of cross-border transactions of this type, countries are increasingly turning to enterprise surveys as a means of collecting the more detailed information they need for compilation purposes. Furthermore, developments in the composition of industry entail a reassessment of industry classifications to better reflect the changes in the industrial base of the concerned economy. For example, the *benchmark survey* conducted in the United States (1997) introduced a new industry classification system based on the North American Industry Classification System (NAICS). In previous surveys, the data were classified by industry using a system based on the Standard Industrial Classification (SIC). The latter proved to be inadequate to properly reflect new kinds of industries in industrial diversification.

Regionalism and data exchange networks. Besides bilateral practices to exchange FDI information (i.e. the exchange of data between compiling partner countries, or data compiled by international organizations), regional organizations could be used to incorporate FDI statistical activities. For example for the European Union (EU), the European Central Bank and Eurostat are the relevant institutions. The feasibility of a regional mechanism to record FDI transactions is also a major item on the agenda of some regional integration arrangements, such as the Association of Southeast Asian Nations (ASEAN). The

prerequisites for the proper functioning of a regional data exchange network include the willingness of the participating countries to share FDI data sets and uniformity of the information collected by conforming with shared principles and common guidelines. A choice has to be made between an "on-site" and an "off-site" system. In an on-site system, if a member country wanted to compare its FDI data with another member, it could directly access the latter's FDI database system. In an off-site system there would need to be an FDI database *administrator* (for example, the secretariat of the concerned regional grouping). However, this is an issue that deserves a separate study.

B. Balance of payments and survey data

III.12. As discussed in volume I, the possible choices of methodology for recording FDI activity have a direct impact on the types of FDI information that are made available to the public, as well as on the comprehensiveness and timeliness of the information made available. The *BPM5* (IMF, 1993) and the *Benchmark Definition* (OECD, 1996), and their subsequent updates, namely *BPM6* (IMF, 2008) and the *Benchmark Definition* (fourth edition) *(BD4)* (OECD, 2008), recommend that FDI statistics be compiled as part of balance of payment (BOP) statistics and international investment position (IIP) statistics (volume I). Consequently, countries are expected to collect and disseminate FDI data according to the standard components presented in *BPM5* as well as *BPM6*.

III.13. Some progress has been achieved in recent years, as more countries have begun to record relevant international transactions according to the recommendations *of BPM5*. However, while many countries report data on inward FDI income and financial flows, some developing countries are still not reporting statistics for outward FDI. Some countries rely on exchange control authorities or investment approval authorities as primary sources of data from which to compile FDI statistics. As a result, the compilers have to supplement this data source for collecting information on outward investment. Regarding FDI position data (or stock data), most of these countries'

compilation systems are still in the "planning" stage. This is particularly true for countries where the implementation of indicated plans would result in significant additions to reported FDI income data and data on FDI financial flows.

III.14. Data dissemination refers to statistical series that are made available to the public. The frequency/periodicity of release of FDI statistics varies across countries. There are also variations in the types of statistics (flows and/or stocks) and the level of detail (such as type of claim, industrial and geographical detail), and between "most timely" and "most comprehensive" data.

III.15. The following two sets of FDI statistics are referred to as the *most timely* and the *most comprehensive* data (IMF/OECD, 2003):

- The most timely data are those that are released with the shortest lapse of time between the end of a reference period (or a reference date) and the dissemination of the data. Although disseminated, these data may be preliminary and subject to *revision*;
- The most comprehensive data are those that are compiled from most comprehensive and regularly available data sources. However, many countries do not make such a differentiation.

The speed or *timeliness* with which data are disseminated is an important aspect of statistical information, as it affects the analytical value of the statistics. Because it is important to provide timely data, many countries collect and compile preliminary FDI data that can be released soon after the end of the reference period. Often, these countries later compile revised FDI statistics from more comprehensive data sources (for example, the data from benchmark years).

III.16. Depending on the data dissemination cycles, countries may use different data sources. For example, Iceland and Poland use the International Transactions Reporting System (ITRS) as a primary source for compiling their most timely FDI transactions, while they rely on different data sources such as enterprise surveys for the most comprehensive transactions data.

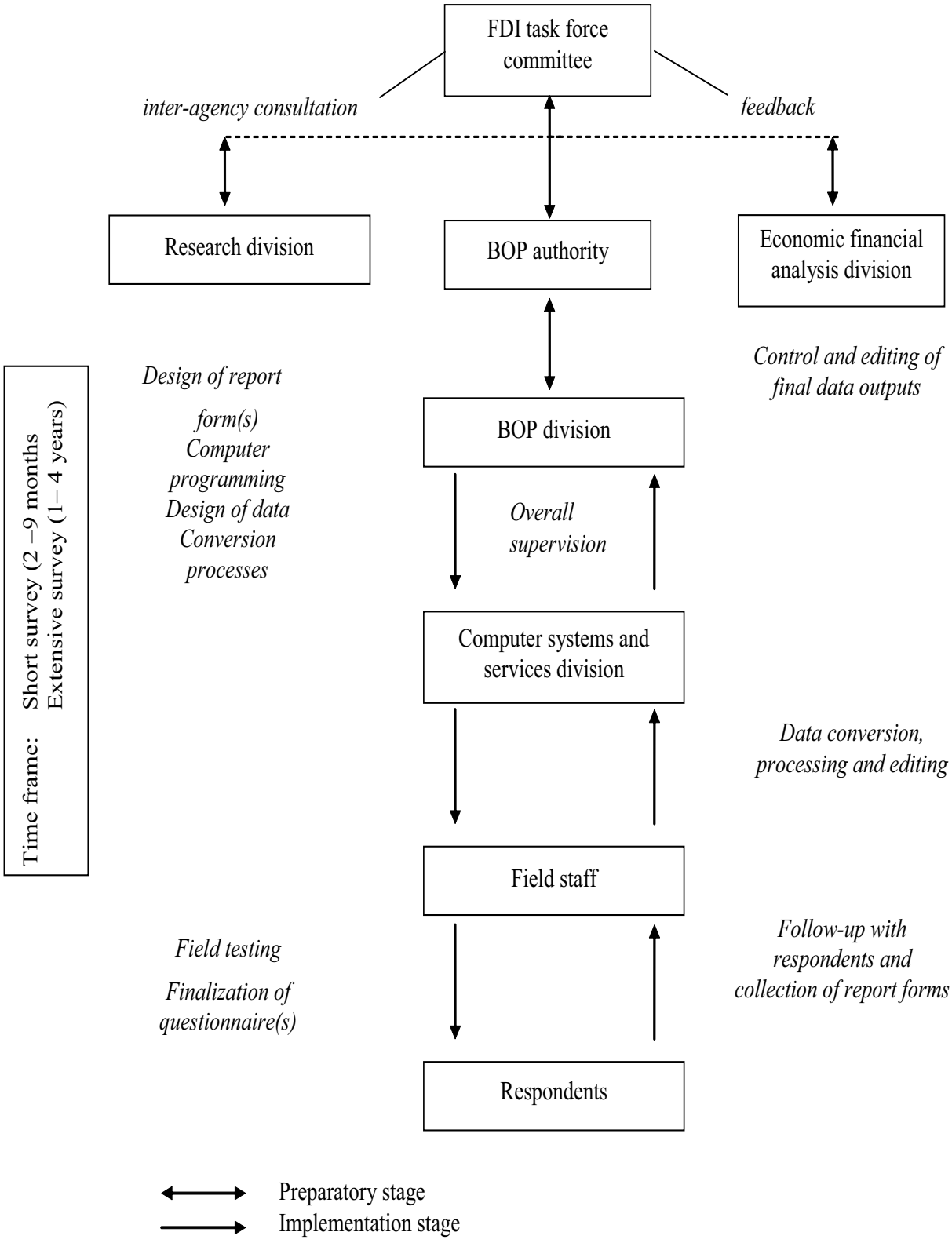
III.17. The periodicity of data collection and dissemination varies substantially among countries. While most timely transactions

data are in many instances compiled or disseminated on a monthly or quarterly basis, the most comprehensive data are compiled on a quarterly and annual basis, depending on the reporting economy. More than half of the OECD countries disseminate most timely data on FDI financial flows on a monthly basis (IMF/ OECD, 2006). This is because the provision of monthly BOP data is among the requirements for accession to the European Monetary Union. In addition, about half of all OECD countries disseminate comprehensive transactions data on a monthly basis, while two thirds of all OECD countries also disseminate a set of transactions data on a quarterly and annual basis. IIP data, whether disseminated on a most timely basis or on a most comprehensive basis, are provided annually by the majority of the OECD countries that compile such data. A large number of Asian and non-OECD countries also disseminate timely data on a quarterly basis. However, most of the African countries that compile transactions data, do so on an annual basis.

III.18. The availability of most timely data (i.e. after the end of the reference period) may also vary significantly between countries. For example, less than 3 months by more than two thirds of OECD countries, 2–3 months mainly by Central and Eastern European countries, and up to 9 months to one year by African and Asian countries. The time lag for more comprehensive data sets is longer, as a longer period is required to revise and disseminate final data: 1–4 years (figure III.1). However, a less extensive revision process (in the case of non-OECD countries compared to OECD countries) produces final data more rapidly. In an extreme situation there is no formal data revision process (as in many African countries).

III.19. Most countries disseminate FDI data by geographical breakdown, but not all of them may be able to provide such data by industrial breakdown. Thus, geographic and industrial disaggregations of FDI statistics, together with the level of detail available from each country, are areas where significant discrepancies in data dissemination exist. The dissemination of FDI data broken down geographically enables principally bilateral comparisons of the data. Although there are no definite recommendations regarding regional allocation of

Figure III.1. Standard cycle of an enterprise survey



Source: UNCTAD.

FDI transactions, *BPM5* suggests that IIP data be allocated according to the debtor/creditor principle (see volume I of this Training Manual: box I.39). Consequently, countries that allocate FDI transactions according to the transactor principle require reconciliation items to bridge the difference between BOP data and IIP data. Most of these countries rely on an ITRS, and this reveals the limitations of this settlement-based system for regional presentation of FDI data (table III.1).

III.20. For measurement of FDI (discussed in volume I) and TNC activities (discussed in volume II), official compilers in most countries use several data sources. This affects their ability to implement international recommendations on FDI statistics, which in turn is a determinant of the international comparability of data, and, ultimately, of the capacity to monitor the impact of FDI on overall economic performance. The three major, or primary, sources for FDI statistics are enterprise surveys, ITRS,[3] and exchange control or investment approval authorities. Each of these data sources can be supplemented by direct information from a company.

III.21. Alternative or secondary sources are used to verify, complement and also confirm data collected from primary sources, although their principal purpose is not the measurement of FDI and TNC activities. Administrative and publicly available information from government and non-government agencies of reporting countries and partner countries (bilateral sources) constitutes information from secondary sources. Examples of government agencies from which relevant information can be obtained include central banks, investment agencies, government licensing and regulatory bodies, taxation authorities and insurance supervisory authorities (see volume II for details). Examples of non-governmental sources are the financial press, company reports and chambers of commerce. Information compiled by international organizations has also proved extremely useful for

[3] An ITRS measures individual BOP cash transactions (passing through the domestic banks and through 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 (OECD, 1999).

Table III.1. Sources of information on FDI: advantages and disadvantages

Sources	Advantages	Disadvantages
Enterprise surveys	· Enable complete recording of FDI transactions and stocks of each enterprise surveyed;	· It may be difficult to maintain comprehensive lists of enterprises involved in direct investment transactions;
	· Information on other economic activity relating to FDI can be easily collected for analytical purposes and quality control;	· Countries that do not normally use enterprise surveys for BOP measurement will incur costs in developing and implementing specialized FDI surveys.
	· Best opportunity to explain to data providers the concept of FDI and the treatment of particular transactions.	
ITRS	· A large part of the necessary information is often readily available from banking records;	· In general, only cash transactions are measured. However, FDI often involves non-cash transactions (e.g. reinvested earnings, equity provided in the form of machinery, and intra-company indebtedness). ITRS would therefore have to be supplemented by other sources in order to measure all the elements of these transactions.
	· Use of an ITRS avoids the expense of developing alternative means of data collection for countries already using the method for compilation of BOP statistics.	· Problems with classification and limited level of detail;
		· An ITRS may not readily provide information on levels of investment;
		· Transactions in domestic currency or through accounts with non-resident banks are difficult to measure.
Administrative sources	· Information is often readily available as a by-product of the approval process;	· Approval processes are rarely set up with BOP requirements in mind;
	· Level of detail may not be satisfactory.	· Time lags between approval and actual investment (or approved investment may never actually take place);
		· May not provide information on income (including reinvested earnings) and on withdrawals of investment;
		·Information on non-equity transactions (e.g. lending by the direct investor and inter-company accounts) is limited;
		· Information on FDI stocks valued at market price is typically not available;
		· The approval process may relate only to investment in particular industries or to those above minimum thresholds;
		· Approvals generally relate only to FDI in the reporting economy and not to FDI abroad.

Source: IMF, 1995, paragraphs 696-698.

cross-checking purposes as well as for estimates. Some countries regularly exchange information on FDI transactions, although this is not practiced widely. Efforts are currently under way at the international or regional level to improve the bilateral exchange of data between compiling partner countries (e.g. ASEAN Working Group on FDI Statistics; COMESA Task Force on FDI Statistics).

III.22. In addition to country-specific variations in the most frequently used (primary and secondary) data sources,[4] there is another important difference between the sources used for primary data for the most comprehensive transactions data and those used for providing the most timely data (box III.1). The majority of the OECD countries rely on enterprise surveys instead of an ITRS for the most comprehensive data (IMF/OECD, 2006). This shift towards the use of data from enterprise surveys could be explained by the existence of a requirement to produce reinvested earnings data. The production of such data is not possible when relying exclusively on an ITRS. It is evident that countries embarking on the process of planning and implementing a survey-based FDI statistical system may find that they need to make a significant modification to their institutional framework for collecting FDI statistics, and the reform process may have budgetary implications.

III.23. Most timely FDI stock data are compiled largely from enterprise surveys, while the second-most frequently used data source in non-OECD countries is exchange control or investment approval authorities. Only one OECD country (Denmark) uses the *perpetual inventory method* (i.e. the process of deriving stocks from transactions data) to take into account exchange rate changes, price changes and other changes when compiling position data (IMF/OECD, 2006). This is the only means by which position data can be compiled from an ITRS. However, use of

[4] For example, enterprise surveys and ITRS are the two primary data sources used by OECD countries for compiling most of their timely data. A very large proportion of EU countries rely on an ITRS, while enterprise surveys are relatively more popular outside Europe. On the other hand, Japan and the Netherlands use both an ITRS and surveys as primary data sources. Data from exchange or investment control authorities are used by relatively few OECD countries, but they are used, along with an ITRS, by the Republic of Korea and Turkey (IMF/OECD, 2006).

Box III.1. Primary data sources in the OECD and Baltic countries

As a general practice, OECD countries use enterprise surveys and ITRS for compiling data on FDI transactions, while the vast majority of the countries that compile FDI stocks data rely on enterprise surveys. Since 1997, an increasing number of countries are using enterprise surveys as the primary source for compiling the most timely data on FDI transactions. Limited use is now made of ITRS and other sources (IMF/OECD, 2003).

Box table III.1.1. Primary sources of FDI flows and stocks used by OECD countries

Flows[a]		Stocks	
ITRS	41%	Enterprise survey	79%
Enterprise survey	62%	ITRS	13%
Others	39%	Others	8%

[a] Includes use of multiple sources.

In addition, many countries maintain a *business register* which is updated on an ongoing basis from various sources that are not necessarily statistical sources, as shown in the list below.

Only three of the OECD countries (Portugal, the Republic of Korea and Turkey) use the information from approval authorities as their primary data source for FDI transactions, and only very few countries use them as a secondary or tertiary source. Their use is even more limited for estimating FDI stock positions. Baltic countries (Estonia and Latvia) use enterprise surveys and only Estonia uses ITRS for inward flows. In addition, Estonia and Lithuania make use of published sources and press reports, while only Estonia also makes use of bilateral sources.

Box table III.1.2. Primary information sources for business registers in OECD countries

Statistical sources (statistical forms, regional branches/ offices of the compiling agency, other departments)	28%
Financial press	22%
ITRS	14%
Licensing/regulatory authority	13%
Stock exchange	6%
Tax authority	5%
Industry	3%
Non-residents	4%
Other	5%

Source: IMF/OECD, 2003.

the perpetual inventory method has revealed discrepancies in the results, which highlights the difficulties associated with this kind of measurement.[5]

III.24. In an FDI statistical information system exclusively based on surveys, enquiries are designed to cover essentially two broad sets of data. Each of these data sets focuses on a distinct aspect of FDI in the concerned country:

- *BOP* and *direct investment position data* track the transactions and positions of both new and existing country affiliates with their foreign parents; and
- *Financial and operating data* provide a picture of the overall economic activities of foreign affiliates in an economy.

III.25. While estimates from annual FDI surveys may be based on *sample data,* estimates for benchmark years are based on *universe data.* Benchmark surveys are conducted to obtain *complete* and *accurate* data on FDI in the concerned country. (Annex III.1 provides the example of the United States.) In other words, they are the most comprehensive surveys in terms of both the number of companies covered and the amount of information gathered. The information on overall operations may then be used to analyse the impact of FDI in the concerned economy. Mandatory reporting in this type of survey is normally required under public law.[6]

III.26. In order to delimit the coverage of the benchmark survey, the basic concepts and criteria to be used in the survey need to be established. They should be outlined in the methodological notes accompanying the publication of the survey (as shown in box III.2 for the United States, for example).

III.27. Information collected by means of surveys should be protected by law against unauthorized public disclosure. The law should state that the information collected cannot be published or released in

[5] Using the *perpetual inventory method*, when a stock estimate for some base point in time is required, compilers can calculate the values of stocks at the end of a period as being equal to the values of the stocks at the beginning of that period plus the impact of transaction and non-transaction changes occurring in the values of stocks during that period.

[6] An example of such legislation is the International Investment and Trade in Services Act of the United States.

Box III.2. Example of methodological concepts and notes included in the survey: the case of the United States

The following notes are included in the United States benchmark survey undertaken by the Bureau of Economic Analysis (BEA):

- The criterion that establishes a direct investment relationship between the equity holder and the enterprise (the "10 per cent rule") and related definitions (e.g., definition of a "person" or entity, and of direct and indirect ownership by a foreign person).
- Determination of residency: This refers to the country of residence, not the country of citizenship, of a person or entity that is used to determine whether a direct investor, or the business enterprise owned by a direct investor, is United States or foreign. A person is considered a resident of, or subject to the jurisdiction of, the country in which the person is located if the person resides or expects to reside in it for one year or more. Otherwise, the citizenship criterion becomes relevant.
- Business enterprise: This includes United States affiliates, incorporated and unincorporated business affiliates. If an operation or activity is incorporated in the United States – as most are – it is always considered a United States affiliate. The situation is not so clear with unincorporated United States operations or activities. Most are legally or functionally separable from those of the foreign person and thus are considered United States affiliates, but some are not clearly separable, and the determination of whether they constitute United States affiliates is made on a case-by-case basis, depending on the weight of evidence. The general consolidation rule for the accounting of affiliates is outlined below (exceptions are possible). Each United States affiliate is required to report on a consolidated domestic (United States) basis. The full consolidation includes all other United States affiliates of the foreign parent in which the affiliate directly or indirectly owns more than 50 per cent of the outstanding voting interests. The consolidation excludes all other United States business enterprises and all foreign business enterprises owned by the United States affiliate.
- Foreign ownership: Three concepts are necessary to identify fully the owners of United States affiliates. These are foreign parent, foreign parent group and the ultimate beneficial owner.

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Box III.2. Example of methodological concepts and notes included in the survey: the case of the United States (concluded)

- Accounting principles: Data are required to be reported as they would be for stockholders' reports rather than for tax or other purposes. Thus, United States generally accepted accounting principles are followed unless otherwise indicated by the survey instructions. Instructions could depart from the said principles in cases where the departure would result in data conceptually or analytically more useful or appropriate for direct investment purposes. A case of major departure from generally accepted accounting principles is the use of unique consolidation rules (see consolidated reporting under the preceding "Business enterprise").
- Fiscal year reporting: Data for United States affiliates are required to be filed on a fiscal year basis. For example, in the benchmark exercise of 2002, an affiliate's 2002 fiscal year was defined to be the affiliate's financial reporting year that ended in calendar year 2002. The benchmark survey data must be adjusted to a calendar year basis before they are entered into the FDI position and the international transactions accounts. The extent of the non- comparability between the benchmark survey data and the direct investment estimates presented in the FDI position and the international transactions accounts depends on the number and size of the United States affiliates whose fiscal year do not correspond to the calendar year. In the 2002 benchmark survey, affiliates whose fiscal year exactly corresponded to the calendar year 2002 accounted for most of the foreign investment position and direct investment income for all affiliates. Unlike the direct investment position and balance of payments data, financial and operating data in all BEA (Bureau of Economic Analysis) surveys are consistently collected and published on a fiscal year basis.

Source: United States, Department of Commerce, 2002.

such a manner that the person or company that furnished it can be specifically identified. The law could further specify that the information collected must be used only for statistical and analytical purposes, and it should prohibit the use of an individual company's data for tax, investigative, or regulatory purposes. Confidentiality is crucial for maintaining the integrity of the FDI data collection system. The confidentiality

provisions provide assurance to companies that information about them will not be disclosed, directly or residually, particularly to competitors. They also provide assurance that the data are gathered for statistical and not regulatory purposes. Without such confidentiality assurances, companies would be less willing to provide accurate information, which would adversely affect the quality of the resulting statistics.

III.28. To ensure confidentiality, data need to be tested before publication to determine if they should be suppressed (that is, not shown). To avoid disclosing the data of an individual company, a particular sign (such as the sign "D" used by the United States Bureau of Economic Analysis) can be inserted in the data cell. The suppression of data in a cell limits analysis by users. However, agencies may undertake analyses based on individual company data and they may also use such data to do special analyses for outside researchers at a cost, as long as the results do not disclose proprietary information. The law could also permit other agencies to have access to individual company data if they are designated to perform analytical or statistical functions under the law.

III.29. Both the financial and operating data and the FDI data should be classified by the industry of the affiliate, by the country and industry of the ultimate beneficial owner, and by the country and industry of the foreign parent. The United States 2002 benchmark survey used International Survey Industry (ISI) classification system for classifying data on United States affiliates by industry. The ISI classification system was updated to reflect the 2002 revision to the NAICS,[7] which is the new industry classification system of the United States, Canada and Mexico.

III.30. Among other improvements, NAICS better reflects *new* and *emerging industries*, such as industries involving advanced technologies and service industries. The new NAICS-based ISI classification system contains 197 industries, compared with the 137 industries in the old ISI system that was based on the 1987 Standard Industrial Classification (SIC).[8]

[7] Information on NAICS can be accessed on the Internet at: www.census.gov/epcd/naics.html.

[8] A list and description of the NAICS-based ISI codes are presented in the Guide to Industry and Foreign Trade Classifications for International Surveys, available at BEA's website at:

III.31. The ultimate beneficial owner and the foreign parent of a foreign affiliate are each classified by country. For affiliates that have more than one ultimate beneficial owner or foreign parent, each ultimate beneficial owner or foreign parent is classified.[9] Classification by country of ultimate beneficial owner tracks the ownership to the country of residence of the owner that ultimately owns or controls a foreign affiliate, and that therefore derives benefits from owning or controlling the affiliate.

III.32. The data reported by foreign affiliates have to pass a substantial number of computerized edit checks. Where possible, these data are reviewed for their consistency with related data for the affiliate from other parts of the report form, with data provided in related report forms, with comparable data reported by other affiliates, and with comparable data from outside sources. As a result of this edit and review process, a number of changes to the reported data will be made, usually after consulting with the reporting affiliate.[10] In some cases, often involving small affiliates, estimates based on industry averages or other information are substituted for missing information or erroneously reported data. For some items, affiliates may have difficulty in supplying the required information because the data are not easily accessible or are unavailable from the standard accounting records. In these cases, affiliates often make estimates, the quality of which is difficult to assess.

III.33. In the case of the United States, the data from the benchmark survey are used as the basis for expanding to *universe levels* the data for non-benchmark years that are collected in quarterly and annual sample surveys. These sample surveys cover all affiliates above a *size-exemption level* (table III.2). The quarterly sample surveys collect data on BOP transactions between given

www.bea.gov/surveys/pdf/2002be799print.pdf.

[9] Even if there are two or more significant ownership interests, one of them is normally identified as the ultimate beneficial owner. For example, although Royal Dutch Shell and Unilever are headquartered in the Netherlands and the United Kingdom, the former may be considered as Netherlands-owned and the latter as United Kingdom-owned.

[10] In practice, however, changes are often made to the reported data without contacting the reporting affiliate.

Table III.2. Surveys of FDI in the United States

Survey title	Types of information	Data collection procedures	Dissemination
Initial report on a foreign person's direct or indirect acquisition, establishment or purchase of the operating assets of a United States business enterprise, including real estate, and report by a United States person who assists or intervenes in the acquisition of a United States business enterprise by, or who enters into a joint venture with, a foreign person.	Investment outlays by foreign direct investors for the direct or indirect acquisition or establishment of a new United States affiliate and selected operating data of the new United States affiliate (total assets, sales, acres of land, net income, employment).	Mandatory report required when a foreign person or an existing United States affiliate establishes or acquires a 10-per cent or more voting interest in a United States business enterprise, and when real estate is purchased other than for personal use. An exemption form is required if the newly acquired or established United States affiliate costs less than $1million(*) and does not own more than 200 acres of land.	"United States business enterprises acquired or established by foreign direct investors", an annual special article (appearing in the May issue of the *Survey of Current Business*). Supplementary tables available from BEA (from 1980 onwards).
Transactions of United States affiliate, except an unincorporated bank, with foreign parent and transactions of banking branch or agency with foreign parent	Changes in foreign parents' equity in their United States affiliates; intra-company debt transactions between United States affiliates and foreign parent groups; foreign parents' share of affiliate's net income, distributed earnings, capital gains and losses, reinvested earnings and interest; royalties and licence fees; and other services transactions between United States affiliates and their foreign parent groups.	Mandatory quarterly survey of United States affiliates that have assets, annual sales, or annual net income exceeding $20 million.	Quarterly data on capital income and other flows in quarterly *survey* articles on United States international transactions. Annual article (published in June) on the United States international investment position data. Detailed tables on the position and related capital, income, and other flows between parents and affiliates appear in a specialized survey article (in August).
Annual Survey of Foreign Direct Investment in the United States	United States affiliates' balance sheets and income statements; external financial position; property, plant and equipment; employment and employee compensation; United States merchandise trade, and R&D expenditures including selected data items by State.	Mandatory annual survey of United States affiliates, when an affiliate's assets, sales, or net income exceeds $10 million. Beginning 1988, a long form must be filed by affiliates with assets, sales or net income over $20 million, and a short form must be filed by affiliates with assets, sales, or net income between $10 million and $20 million.	"Operations of United States affiliates of foreign companies", a special survey article appearing once a year (usually in May). More detailed data appear in separate publications of BEA with the same title.
Benchmark Survey of Foreign Direct Investment in the United States	Complete financial and operating data for each United States affiliate of foreign direct investors, including selected items by State and data on the investment position and transactions between United States affiliates and their foreign parent groups.	Mandatory benchmark survey, or census, taken every 5 years of each United States affiliate when the United States affiliate's assets, sales, or net income exceeds $1 million (*), or when the affiliate owns 200 or more acres of United States land. Affiliates below the exemption level must file an exemption claim on which they report the value of their assets, sales and net income. Affiliates with assets, sales or net income greater than $20 million (*) file a long form; those with assets, sales or net income exceeding $1 million(*), but for which no one item exceeds $20 million, file a short form.	Preliminary data appear in the article, "*United States affiliates of foreign companies: Benchmark Survey results",* published after 18 months from the end of reference year. Final results are published after more than 24 months (usually, 2 ½ years, in the August publication) in the *Survey of Current Business*.

Source: United States, Bureau of Economic Analysis.

(*) Note*:* Size categories of reporting enterprises are revised and updated as necessary. For example, the criterion for filing full reports in the New Investment Survey was raised from $1 million in total assets in 1980-1997 to $3 million in 1998. Land ownership (200 acres) is unchanged. Because of the adjustments in size categories, some of the data may not be reasonably comparable.

country affiliates and their foreign parents. The annual surveys collect sample data on the financial structure and operations of the country's affiliates.[11] Estimates for non-benchmark years from annual surveys provide similar information, although these estimates are less detailed. For both types of data, estimates for non-sample affiliates usually are derived by extrapolating forward their data from the benchmark survey on the basis of the year-to-year movements in the data reported by affiliates in the sample.

III.34. Data on the operations of affiliates of foreign companies are normally at the enterprise (company) level. However, data at the establishment (plant) level could be produced, provided that there is some cooperation between different agencies. For example, more detailed establishment-level data are available from the FDI Link Project (see box III.3) that links BEA's enterprise data with the establishment data collected by the Bureau of the Census for all United States companies (box III.3).

C. Non-survey data

III.35. This section reviews the organizational structure of a government entity making use of administrative records of foreign investment or FDI-equivalent statistics. These statistics are compiled by various government agencies using different definitions, concepts and times of recording. The FDI-equivalent statistics disseminated by investment promotion agencies (IPAs) are "approved FDI" or "registered FDI", with classification normally by country of investor, type of investment and industry.

III.36. *Approved FDI* represents the amount of the proposed contribution or share of foreigners to various projects in the country, as approved by IPAs (e.g. boards of investment) and economic or export processing zones. Unfortunately, the approvals sometimes represent the full value of the project, and not just the share or contribution of the foreigner

[11] Many of the items for which data are collected in the benchmark survey are also collected annually. However, other items are collected *only* in benchmark survey years. These items include: research and development expenditures broken down by source of funding, the number of employees covered by collective bargaining agreements, and exports and imports of goods by product and by country of destination and origin.

Box III.3. Institutional collaboration: the Bureau of Economic Analysis and Bureau of the Census of the United States

The *Bureau of Economic Analysis* (BEA) of the Department of Commerce obtains most of its source data from other Federal Government agencies – primarily the Bureau of the Census, the Bureau of Labor Statistics and the Department of Treasury (in the latter, especially the Internal Revenue Service). Therefore, BEA staff at all levels need to work with their colleagues in those agencies to upgrade the economic accounts. Such upgrading involves improving the relevance, quality and timeliness of existing source data, identifying untapped but potentially useful existing data and developing new data.

Bureau of the Census: This is a key data source and a focal point of BEA's efforts to work with its partner agencies to improve source data for the economic accounts. Every five years, the census profiles the United States economy from the national to the local level. For example, 2002 Economic Census forms were sent to 5 million businesses between November and December asking for information on their business activity.

Planning for collaboration: For its industry and national accounts, BEA is currently in need of better and more timely data on the intermediate outputs of industries, while its international accounts need improved data on exports and imports of goods. This is why the BEA's *Strategic Plan for 2001-2005* included a number of new initiatives to improve source data and their management. Concerning FDI, for example, the 2001-2005 Plan envisaged a specific programme to utilize stratified sampling in annual surveys on FDI in the United States: in 2002, the feasibility of using stratified sampling in the annual survey on FDI in the United States was investigated; in 2003 the instrument was incorporated into the design of the annual survey; in 2004, the new design was used to conduct an annual survey on FDI covering 2003; and in 2005, the feasibility of using stratified sampling in the annual survey of direct investment abroad was investigated. For improvement of work with the Census, the focus is on data quality and timeliness as well as on the expansion of the number of intermediate inputs collected from industry.

FDI Link Project for establishment data: The data referred to cover the operations of establishments of United States affiliates of foreign companies for any given year. These are obtained from the Census Bureau's Economic Censuses and Standard Statistical Establishment List (SSEL). They are the result of a project that links BEA enterprise or company data on FDI in the United

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Box III.3. Institutional collaboration: the Bureau of Economic Analysis and Bureau of the Census of the United States (continued)

States with Bureau of the Census establishment data for all United States businesses.

Rationale: Establishment data from the Link Project complement BEA's enterprise data for United States affiliates. BEA's enterprise data are needed for analysing the overall significance of, and trends in, direct investment and for compiling the United States international transactions accounts, the international investment position and the national income and product accounts. The data on positions and transactions between United States affiliates and their foreign parents used in compiling the national and international accounts exist only at the enterprise level. Analyses of some topics, such as profits and taxes, are meaningful only at that level. Furthermore, balance sheets and income statements containing the critical, *non-duplicative* financial and operating data needed for examining these topics exist only at the enterprise level. The establishment data facilitate analyses of the activities and the importance of foreign-owned United States companies in specific, detailed industries. Each establishment of an enterprise can be classified individually to its industrial sector, while the BEA's enterprise data classify the entire enterprise, however diversified, to one industry. As a result, the level of industrial classification for establishments is much more detailed than for consolidated enterprises, whose operations may span numerous narrowly defined industrial sectors. Foreign-owned enterprises can thus be classified into 197 new NAICS-based ISI.

How the link was done: BEA and the Census Bureau exchanged their data in order to identify and obtain data for those United States establishments on the SSEL that are foreign-owned. The BEA data used for the link cover United States affiliates that have total assets, sales, or net income greater than $1 million. These affiliates account for virtually all of the FDI universe in terms of value. The SSEL is a computerized list of all United States companies and their establishments. It includes names, addresses and other identification information, as well as key economic data obtained from Census Bureau surveys and from administrative records. Foreign-owned establishments on the SSEL were identified primarily through a computer match of employer identification numbers (EINs) that are reported both in BEA's surveys of FDI in the United States and in the Census Bureau's SSEL. Companies and their establishments are required to use EINs when filing Federal and State payroll and

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Box III.3. Institutional collaboration: the Bureau of Economic Analysis and Bureau of the Census of the United States (continued)

income taxes. For enterprises that fail to link in the computer match of EINs, other enterprise identification information, such as names and addresses, are used to match the BEA enterprises to Census Bureau establishments. The data items that are available on the SSEL in Economic Census years are the number of establishments, employment, payroll and shipments or sales.

To gather additional data, elements for the manufacturing establishments and the foreign-owned establishments were linked to the Census of Manufacturers for the relevant year. In this manner, data items such as value added, capital expenditures and cost of materials were added.

Evaluation of the link: The data for foreign-owned establishments cover only establishments with employees. Virtually all of the large affiliates in the BEA data link to Census Bureau establishments. Affiliates that fail to link are generally quite small and account for very little employment. In general, affiliates fail to link to a Census establishment if the two agencies have different EINs or other identification information for a given company, or if the company does not provide a valid EIN or other identification information.

Census Bureau and BEA data compared: In comparing BEA published data on the United States affiliates of foreign companies with the Census Bureau's data on foreign-owned establishments (FDI Establishment Data) for a given year, the two data sets are seen to differ in coverage, definition and classification. The differences in the overall totals may not be significant, but they may be significant for specific industries. The main differences are summarized below.

- Coverage differences: the industry coverage of the Census Bureau's establishment data is more detailed than that of BEA's enterprise data. The Census Bureau's SSEL data do not cover crops and livestock production and railroad transportation, whereas these industries are covered in BEA data. The geographic coverage of the Census's data for foreign-owned establishments is also somewhat narrower than that of BEA's enterprise data: the former cover the 50 States and the District of Colombia, while the latter also includes American Samoa, Guam, Puerto Rico, the United States Virgin Islands and other outlying United States territories.
- Differences in definitions: BEA data are reported on a fiscal year basis, whereas the Census data are generally reported on a calendar year basis. As a result,

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Box III.3. Institutional collaboration: the Bureau of Economic Analysis and Bureau of the Census of the United States (concluded)

for some industries, BEA totals for certain items, such as employee compensation, can differ from the totals for similar items in the Census Bureau data for foreign-owned establishments. Where similar items are available from both agencies, some of the BEA definitions differ from those used by the Census Bureau. (These differences can be noted in the "Definitions" section for each published data item).

- Classification differences: Most BEA data for United States affiliates are classified by the principal industry of the consolidated enterprise, whereas the Census Bureau data are classified by the main industry of each individual establishment within the enterprise. Affiliates are often highly diversified, and as a result many of them are likely to have other industrial activities in addition to the principal activity to which the consolidated enterprise as a whole has been classified. As a result, totals for industries in the BEA data often differ significantly from totals for the same industries in the Census Bureau data.

(i.e. equity, loans and reinvested earnings). Moreover, approvals do not represent actual investments generated, but rather foreign investment commitments, which may or may not materialize in the future. These foreign investments are normally accorded special treatment such as tax holiday privileges. The statistics provided by the investment boards do not normally cover investors who could qualify for incentives but prefer not to apply for them.

III.37. *Registered FDI* covers only foreign equity investments or paid-up capital and does not include intra-company loans. While some IPAs (e.g. the Malaysian Industrial Development Authority) register newly-established/organized enterprises or grant licences to branches, others might also register the foreign equity participation in such firms. Foreign investors may prefer to register investments with agencies where documentary requirements for registration and operations are not too onerous. Among the requirements for registration are a bank's certification of the inward remittance of foreign exchange and its conversion to local currency to fund the investment, and the

investee firm's certification of the number of shares issued to the foreign investor in consideration for the investment made.

III.38. The following table presents the different types of FDI data and their corresponding data sources (table III.3).

III.39. Since the production of FDI statistics is undertaken by several agencies, coordination among the different concerned agencies is necessary to facilitate the collection and integration of FDI data on a quarterly basis.

III.40. The main players and corresponding linkages are shown in figure III.2. In this respect, the Philippines provide a good example (box III.4).

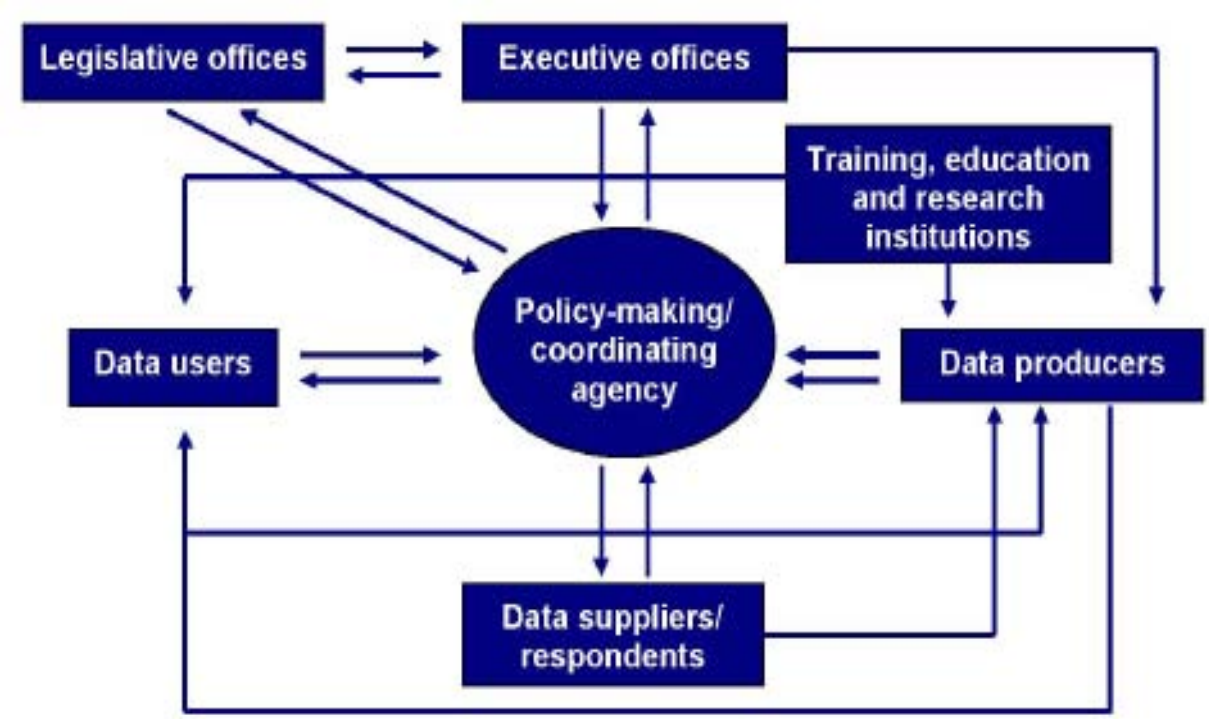
III.41. A coordination framework, such as the one found in the Philippines, can prevent errors due to conflicting data from various agencies, but the coordinating agency can also encounter some difficulties in producing quality FDI data (as described in annex III.2).

III.42. Revision of the institutional framework for FDI is under way in some countries. For example, in order to coordinate FDI data collection, the Jordan Authority for Economic Development, is preparing the legal basis to harmonize the work of six existing

Table III.3. Sources of administrative data on FDI

Types of FDI	Data Source	Remarks
Approved FDI	Investment promotion agencies: (e.g. BOI in Thailand)	Approved FDI represents the amount of the proposed contribution or the share of foreigner investment in various projects in the country as approved and registered by the IPA. It does not represent *actual* investment generated but rather foreign investment commitments that may materialize in the future. They consist of equity, loans and reinvested earnings. Based on the experience of the IPAs, capital inflows from approved FDI are spread or are expected to be fully implemented after five years or longer.
Registered FDI	IPAs or other government agencies (e.g. Malaysian Industrial Development Authority)	Registered FDI pertains only to foreign equity investments or paid-up capital and does not include intra-company loans.
BOP data	Central banks	BOP FDI covers only those FDI cash transactions that are made through the banking system (e.g. ITRS). Thus it does not include non-cash investments, which are often reported as part of foreign equity investments.

Figure III.2. Example of the coordination framework in the Philippines statistical system



agencies (the Jordan Investment Board, Free Zones Corporation, Industrial Estate Corporation, Export Development and Commercial Centres Corporation, Jordan Tourism Board and the Vocational Training Corporation) with the aim of eliminating duplication, consolidating the respective tasks and, ultimately, facilitating national and foreign investment.

III.43. In some countries, FDI statistics are compiled based on declarations or approvals of capital investment to be made by foreign investors. This is not the actual capital invested. In Jordan, for example, companies are not required by law to declare the real amount of capital invested, which may differ from the registered capital.[12] The methodological revision of an FDI statistical system needs to take into account the institutional support base existing in a country.

[12] Moreover, a limited update is made by the Ministry of Trade and Industry on any changes occurring in the capital investment and shareholders over the years. For annual changes in the shares of foreign investors it is necessary to revert to the data published by the Amman Stock Exchange.

Box III.4. Cooperation and coordination to produce unified FDI statistics: the case of the Philippines

The Inter-Agency Committee on Foreign Direct Investment Statistics (IAC-FDIS) was formally created in September 1996 by the National Statistical Co-ordination Board (NSCB) through NSCB Memorandum Order No. 1-96 to rationalize and integrate the collection, processing and dissemination of foreign investment data. The Committee is currently composed of representatives of the following agencies: NSCB (which chairs the Committee), the Board of Investment (co-chair), and Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC), the Bureau of Trade Regulation and Consumer Protection (BTRCP), the Philippine Economic Zone Authority (PEZA), Subic Bay Metropolitan Authority (SBMA), the Clark Development Council (CDC), the National Economic Development Authority (NEDA) and the National Statistics Office (NSO).

The IAC-FDIS is a venue for resolving issues related to the current Foreign Investment Information System (FIIS) in the Philippines as well as national development issues. Quarterly meetings are conducted to discuss the various issues. The IAC-FDIS also facilitates the collection, processing, integration and dissemination of FDI statistics and finally packaging it into a Consolidated Quarterly Report (CQR). NSCB collects data from the different agencies through telephone interviews or e-mails. The source agencies submit the data either by fax, e-mail or on diskettes. These data are processed and integrated by NSCB into corresponding tables, which are then returned to the different agencies for their evaluation and comment. Once their comments are incorporated, NSCB analyses the results and produces the CQR for dissemination. This system has proved to be effective in minimizing discrepancies in FDI statistics. Moreover, since the whole report presents and explains the different concepts and coverage, the users are properly informed about the FDI statistics coming from various sources.

NSCB is part of the Philippines Statistical System (PSS), a government-wide system for providing statistical information and services to the public. The present system, as defined in Executive Order No. 121 dated 1 October 1987, comprises statistical organizations at all administrative levels, the personnel therein and the national statistical programme. These organizations include a policy-making and coordinating body (which is NSCB), a statistical research and training centre, a single general-purpose statistical

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Box III.4. Cooperation and coordination to produce unified FDI statistics: the case of the Philippines (concluded)

agency, all ministries, bureaus, offices and agencies of the national and local governments, and all government-owned or controlled corporations and their subsidiaries that are engaged in statistical activities, either as their primary function or as part of their administrative or regulatory functions. Each institution has its own role and responsibility in the System. The PSS is decentralized with a strong coordinating function achieved through a close link between statistical programming and budgeting.

NSCB is the highest policy-making and coordinating body on statistical matters in the country. In line with its function of promoting and maintaining an efficient statistical system, it undertakes assessment of selected sectoral data, and recommends polices for the orderly generation and dissemination of statistics. It has a body of staff that provides technical and secretarial support. It also serves as the statistical clearinghouse and liaison for international statistical matters, and performs other functions as may be assigned and as may be necessary to carry out the purposes of Executive Order 121. The NSCB Technical Staff is headed by a Secretary-General with the rank of Undersecretary, assisted by the Assistant Secretary General with a rank of Assistant Secretary. The Secretary-General is appointed by the President, and has proven competence and recognized stature in the statistical profession.

The major offices of the NSCB are the Economic Statistics Office (ESO), Social Statistics Office (SSO), Programs, Policies and Standards Office (PPSO), Subnational Statistics Office (SubSO), National Statistical Information Centre (NSIC) and the Management Services Office (MSO). At present, the NSCB, through the ESO, is acting as the focal point for FDI statistics in the country. It spearheaded the FIIS Project, which was funded by the United States Agency for International Development (USAID), and put in place an integrated system for generating and reporting FDI in the Philippines in coordination with the IAC-FDIS. It is also acting as the repository of FDI data until such time as an agency is officially designated as the responsible agency. The Economic Indicators and Satellite Accounts Division (EISAD) is responsible for regularly generating the Consolidated Quarterly Report on FDI. The Division maintains and develops the FDI database as input for producing the CQR. Copies of the CQR are sent to NEDA, the Department of Trade and Industry, the Office of the President, and to the various source agencies.

Source: UNCTAD, based on field work.

III.44. Most government agencies are in a better position to use, rather than produce, FDI information. Some of them have also become increasingly specialized in providing services to investors, and function as "one-stop shops" for business registration and licensing (in particular, special economic zones). As a result, they generally lack the type of expertise and resources to establish an FDI system based on enterprise surveys. However, an enterprise survey system may be feasible for a country that is relatively small (with a concomitant modest number of enterprises), as the burden and costs of the surveys would be manageable.

CHAPTER II. ORGANIZATIONAL ISSUES IN FDI STATISTICS

III.45. Statistical capacity-building is crucial and central to the development of a robust and high quality data system. This is needed because of the increasing demand for quality and comprehensive data, spurred by globalization, the information society, increasing quantification of national and development objectives and the growing demand for transparency. The harmonization of national systems is crucial to meet these national and international goals. In order to comply with international investment standards and to better understand the contribution of TNC activities to host economies, governments are increasingly concerned with the quality of FDI data.

III.46. The reliability of the individual sets of data as well as the integrity of the institution or system producing the data are both crucial determinants of data quality.[13] In this regard, it is important to link institutional issues to the unique attributes of FDI data, so as to determine which organizational features would best serve the purpose of producing reliable FDI statistics in terms of methodological soundness, accuracy, coverage and timeliness. It is therefore useful to recall here the three major determinants relevant to the discussion that follows. These include:

- FDI data (*the product*) in terms of their standard components;
- The system in place to collect and manage data on direct investment, which relates to methodological and institutional frameworks; and
- Data quality, with its various prerequisites and dimensions (the *ultimate objective*).

These are the "variables" that an FDI statistical office is likely to be

[13] Quality in statistics is of course linked to users' needs. One of the main attributes of FDI statistics is relevance with respect to the statistical information provided and the extent of use of the information.

dealing with in order to produce quality data of internal consistency and international comparability.

III.47. This section explains the main features and attributes that an FDI statistics office should have, regardless of location, policies, traditions and regulations, needs and development expectations, although it is not intended to be prescriptive. In line with current development trends, the office should be seen as part of an integrated direct investment system, rather than simply as a coordinating mechanism for the various institutions involved. The setting up of an FDI statistics office is a dynamic, evolutionary process that might require successive reforms.

III.48. Institutional arrangements for collecting and managing FDI statistics vary considerably among countries, which renders comparisons of such arrangements and their performance very difficult. Moreover, there is a highly diverse range of country situations and currently a lack of comparability of the FDI data collected. This is why joint efforts are being undertaken at the international level to bring about harmonization of data collection. [14]

III.49. However, given the preliminary, inconclusive nature of the results of comparisons, this Training Manual has resorted to the use of country evidence to highlight the following:

- The standard components of FDI and of TNC statistics (described extensively in volumes I and II, and thus not further discussed here); and
- The guiding principles of statistical capacity-building, which refer to the United Nations Fundamental Principles for Official Statistics[15] and their further elaboration by the IMF in the context of the Data Quality Assessment framework.[16]

[14] See, in particular, the work carried out by Task Team PARIS 21 chaired by the IMF to identify, validate and test indicators of statistical capacity-building. In FDI statistics also, UNCTAD has recently initiated activity on framework for the collection, compilation and dissemination of FDI statistics, and expanded it widely. The Foreign Investment Advisory Service (FIAS) of the World Bank and OECD are also undertaking similar activities.

[15] Adopted by the United Nation Statistical Commission in 1994 (United Nations Economic and Social Council, 1994).

[16] The IMF Data Quality Assessment Framework is a methodology for assessing data quality that brings together best practices and

III.50. While the guiding principles of statistical capacity-building can have operational implications with respect to the process of establishing an FDI office, the technical specifications of FDI data, along with the major characteristics of the national statistical system already in place, are the factors most likely to shape the form of the new office. They will also affect the range of options available in redesigning the existing organizational set-up.

III.51. The "pragmatic" approach suggested here aims to avoid proposing an office model that is too rigid. That would not reflect the articulated reality of FDI services and office capacities. On the contrary, it envisages a dynamic component, which lends itself to a gradual and ongoing process of evolution of the eventual office. In particular, it allows for:

- Extrapolating the "core" functions of the office in question, so that necessary adjustments can be made without threatening the fundamental attributes of the office;
- Developing indicators to monitor the performance of the office in relation to major questions, such as complete compatibility of data produced by using different sources; and
- Compliance with internationally agreed standards and requirements, and new users' demand for FDI information, both at the national and international levels.

III.52. In this way, the reforming authority in any country concerned with FDI statistical capacity-building can immediately identify the issues to be addressed at all levels of government operation. Thereafter, the process of creating or strengthening the national capacity to deal with FDI statistics can be launched by developing an integrated framework of action. For example, having determined the key components of FDI, national authorities may decide to introduce company surveys in order to compensate for an exclusive reliance on records of exchange transactions – thus "correcting" the exclusion of reinvested earnings from FDI flow data.

internationally accepted concepts and definitions relating to statistics. A comprehensive overview of this can be found on the IMF official website (Data Quality Reference Site) at: http://dsbb.imf.org/DQRS_intro.htm and http://dsbb.imf.org/glossary.pdf.

A. Guiding principles

1. Basic principles

III.53. Advancements in computer technology and communications have affected the way statistical agencies disseminate data, and, more generally, their relationships with both the media and the data users. Another area where changes are likely to occur is with respect to networking among systems; this should increase capabilities to exchange experiences, develop models and confront results. In other words, the fundamental principle of publicity applying to official statistics – and the function of public utility that goes along with it – is likely to give a new dimension to the task of the reformer concerned with statistical capacity-building for FDI. This, to the extent to which not only data products, but also the institutional and methodological arrangements for FDI reporting increasingly use computer technology.

III.54. The United Nations guiding declaration states that, to facilitate a correct interpretation of data, "the laws, regulations and measures under which the statistical system operate are to be made public." For example, official websites should provide extensive coverage of FDI data issues that national authorities are dealing with, as a necessary component of their financial reporting and analytical work. Information on country-specific practices should include: methodological approaches and strategic plans, scientific and professional standards, organizational structure and staffing requirements, as well as budgetary and legal provisions applying to FDI statistical information. [17]

III.55. While widespread press coverage testifies to the public relevance of FDI statistics, the apparently contradictory principle of confidentiality stems from the need to protect individual respondents and their interests. Confidentiality extends well beyond the information collected for statistical purposes and its sources: it also encompasses behavioural norms of the staff involved, as

[17] The Statistical Service of the United Nations Economic Commission for Europe (UNECE) has a useful website on general statistics http://www.unece.org/stats/links.htm. The online Handbook of Official Statistics covers the legal basis and the organizational structures of national statistical authorities in the member countries of UNECE.

well as the programming of data management and analysis.

III.56. In establishing the operational objectives of the FDI office, a number of fundamental principles need to be considered, including the following:

Independence: The FDI office should be independent in technical and scientific matters. The autonomy of the office extends to statistical independence on the following matters: the methodology and professional statistical standards used; content of statistical releases and publications issued by the office, and the timing and methods of dissemination of the compiled statistics.

Relevance and responsiveness: This generally refers to the proximity factor (i.e. being close to and attracting "customers" rather than discouraging them). This has implications for the capacity to provide additional estimates/data services upon demand by a particular group of clients.

Reliability: This is a function of accuracy, but also of integrity and the implicit recognition of the authority of the office in the field of FDI statistics.

Timeliness: Data must not only be accurate, but also timely, to support planning and policy formulation. Accessibility to the office service facilities, coupled with clarity of working methods, are important factors contributing to timely delivery of data output.

Accountability: This is largely based on the quality of statistics (as well as the quality of the system behind them) and the amount of inputs and efforts the government is willing to invest.

III.57. There are some pre-requisites for the establishment of an FDI statistics office, which are a function of the policy and legislation that shape the environment in which international investment is dealt with. The relevance of the FDI statistics office within the national statistical system depends upon the policy priority accorded to it by the government and on the allocation of the necessary resources (both human and capital). Despite the variety of country-specific situations, the underlying assumptions to be made in relation to the establishment of an FDI statistics office are the same, whether the office is set up in a country with

an open regime or in one with restrictions (box III.5).

III.58. When analysing institutional arrangements for FDI statistics, it becomes apparent that there is a wide range of situations and players. The major partners are the ministry of finance, the central bank and the national statistics office. Other significant partners may include the investment promotion board, authorities responsible for special economic zones, trade regulatory and foreign exchange bodies, and the ministries responsible for industry, commerce and trade. In addition, any institution that has an interest in international investments may be included in the list of partners. However, evidence shows that a decentralized system, requiring collaboration between services within different administrative units, is often problematic: there may be weak or inefficient coordination in data collection, lack of coherency of the information that is published, and inappropriate inferences of cross-country data. Therefore may be preferable to opt for a centralized approach to managing FDI statistics by positioning the FDI statistics office within the central administration.

III.59. In conjunction with the critical aspect of location of the FDI statistics office there are a number of office-specific attributes to be considered. These are:

Autonomy: The fundamental principle of independence is of vital importance for an FDI statistical system. Direct investment can be an extremely sensitive measure requiring independent compilation and assessment. In particular, the risk of political pressures should be avoided by firmly rooting the autonomous functioning of the office in both scientific principles and professional ethics. It is clear that in order to prevent politicization there should be no political appointee in the FDI statistical authority of any government.

Authority: The degree of authority given to the FDI office affects its capacity to establish and maintain operational links within the national hierarchy, and to enlist collaboration from parallel and subordinate government bodies. Authority ultimately determines the capacity of the office to perform its role and functions. Often, legislation that provides the office with the

Box III.5. Basic assumptions underlying the establishment of an FDI statistics office

These assumptions relate to a number of decisions that need to be taken in the following areas:

Definition of FDI: The way FDI is defined affects the task of the FDI statistical authority as well as its operating modalities and institutional linkages. In most cases, it may simply adopt or conform to the IMF/OECD definition and standards. Compliance with the requirements of these two organizations implies the adoption of often new criteria to identify the direct investment relationship and the development of increasingly sophisticated tools to measure it.[a]

Data sources: As mentioned earlier, depending on the sources, data are not always entirely compatible and discrepancies may occur within the national and international statistical information systems. This applies particularly to the measurement of FDI flows and stocks, as these may be derived from different sources. While better coordination is desirable for analytical purposes, sometimes it is considered an advantage to have two independent sources. It should be possible to cross-check reports, and this could also help improve the respective working methods.

Time frame and resources: FDI statistical systems evolve over time and can be brought in line with new requirements. Methodological comparability and, more generally, shortcomings in the existing statistical system can be improved in the short run. Testing periods should be allowed for and resources planned accordingly. An integral part of the FDI office structure should be the capacity to develop monitoring devices.

Policy willingness and reforming attitude: The creation of the FDI statistics office may require devolution of competencies from other government agencies to the newly established authority. In some instances, suppression of existing structures may be required and/or the revision and redistribution of responsibilities within the national administration. This process could generate potential conflict between related agencies. In this respect, the success of the newly established body largely depends on the extent to which conflicting interests are resolved and overlapping responsibilities dealt with effectively. This is where the existence of a multidisciplinary working body (i.e. an inter-agency task force and/or committee) becomes crucial as a necessary complement and support to the structure of the FDI statistics office.[b]

Principal actors: Evidence shows an increasing concern to integrate data producers and users within the national statistical system so as to bring data products closer to the needs and expectations of users. This is why it is important

/...

Box III.5. Basic assumptions underlying the establishment of an FDI statistics office (concluded)

to identify all actors to be involved in the establishment of the FDI statistics office and ensure their participation, and contribution to the design of the office, in the early stages of planning. According to new organizational management style, the collaboration of three key actors (i.e. government authorities, institutional specialists from national specialized agencies and the private sector) is required for pertinence, promptness and ease of use of statistical information. Institutional arrangements aimed at regular consultation among these principal actors involved are instrumental to the satisfactory performance of the FDI statistics office.

[a] In Italy, for example, in 1998 the definition of FDI finally became fully consistent with the requirement of the international system. It was decided to modify data collection forms, and the survey framework was extended as a consequence of the introduction of the reinvested earnings and directional principle. In Germany, the revised, more comprehensive interpretation of FDI called for a broader analytical approach by the Bundesbank. The Bank has become more issues-specific, investigating the individual components of direct investment, as these become relevant to the actual question in focus.

[b] The role and function of such a body, often referred to as the foreign investment board or steering committee, is further discussed in paragraph III-57 (currently, it may change though).

legal authority is not sufficient; other factors, such as policy willingness staff commitment and external networking, are also important.

Flexibility: It is often easier for a separate office within the central administration to have a pliable structure so as to better respond to the dynamics of international investment. FDI is undergoing a process of continuous adjustment in many countries due to events and turbulences, both internal and international. The office structure should therefore be able to evolve in response to constant changes. Uniformity of practices and simplified office procedures (principal characteristics of a flexible structure) also minimize the burden[18] on both the central administration and the respondents. In addition,

[18] According to the United Nations Guiding Principles of Statistics, statistical agencies are expected to make choices with regard to, among other factors, costs and burden on respondents.

flexibility is conducive to specialization (see below).

Transparency: This is a fundamental principle applicable to any public administration. The international dimension of FDI statistics further emphasizes the need for transparency of sources, reporting and estimation procedures.

Specialization: "The range and composition of FDI statistics should be reflected in the office structure, with the different types of statistics enhancing the focus on a distinct aspect of FDI."[19]. As already pointed out, FDI statistics are subject to strict scientific standards and professional ethics. Therefore bureaucratization may be an impediment to technical specialization and professionalism in general. This is measured by the proportion of government appointees (public functionaries) in relation to technical staff.

III.60. In an "ideal" situation, the BOP/FDI office should assume a prominent position within the public administration hierarchy (figure III.3). The office should be stable but not rigid, possessing highly specialized skills and staff with the capability to handle feedback and pressure, particularly political pressure, and to manage change.

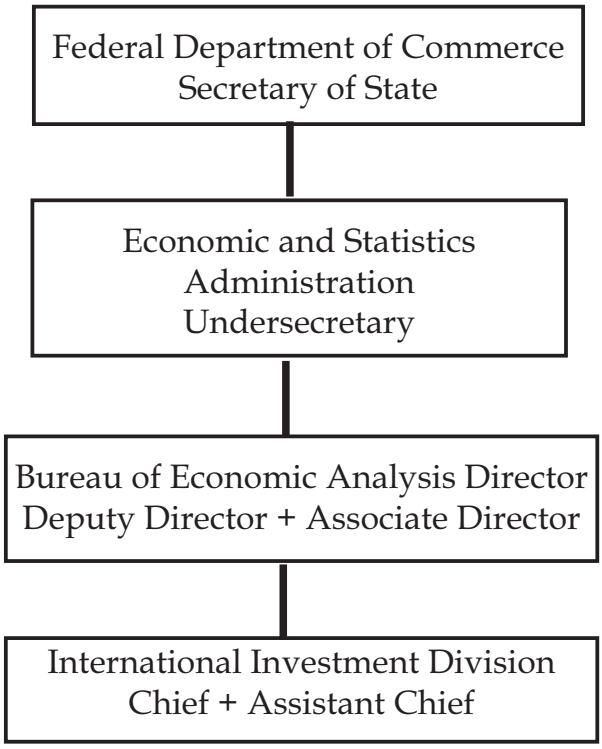
2. General features

III.61. There are a number of features common to any FDI statistics office, irrespective of its size and role within the central administration, level of specialization and scale of operations. These relate to its main function, its expected activities and the rules governing its functioning – all of which are normally spelt out in the statutory act establishing it. More specific features are a function of the strategic choices made with respect to the significance and relevance of FDI statistics in national development priorities. These specific features are reviewed in the discussion later on the types of FDI statistics offices.

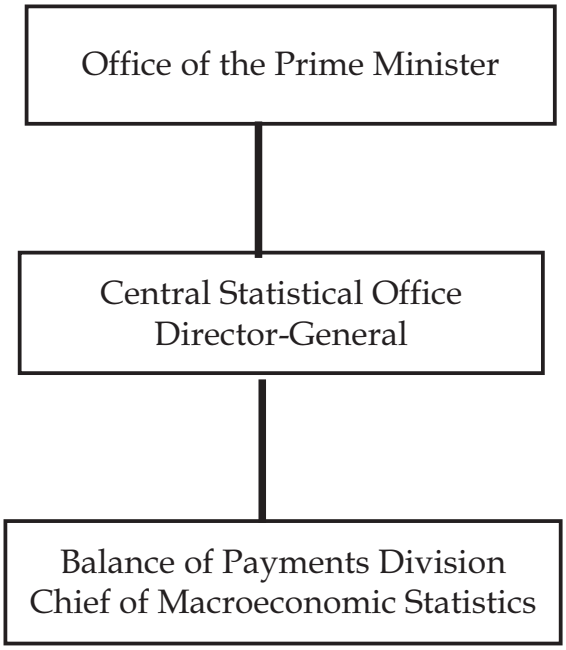
[19] This approach to FDI statistics is "systemic" in the FDI specialized agency of the United States. Each of the three broad sets of data collected by (i.e. FDI flows and stock data; financial and operating data of United States affiliates; and establishment and acquisition data) focuses on a distinct aspect of FDI in that country. This facilitates monitoring and follow-up on the data in question as "tracking" is made possible all along the process of data production, as well as for updating and revision.

Figure III.3. Examples of the location of FDI statistic offices within public administrations

a. A federal administration arrangement: United States



b. A national government arrangement: Ireland



Source: UNCTAD.

(a) The purpose of the FDI statistics office

III.62. An FDI statistics office/ agency is established with the primary objective of *measuring* and *monitoring* international investments. It is necessary to clearly state the intended role and mandate of the office. A general statement of purpose could be the following:

The FDI statistical authority/ agency is established to provide comprehensive and reliable information, which is required for measuring and monitoring international investment and guiding government policy in this area. This involves the provision of accurate and timely statistics that the public and policymakers need in order to be able to assess the impact of FDI on the country.

III.63. In support of such a mission statement, the FDI office would be expected to:

- Prepare a complete picture of the levels, growth, origin/ destination of FDI, including the geographical and industrial distribution of FDI and the financial and operating activities of the affiliates operating in the country as well as those of the TNCs based in the country;
- Perform the task of harmonization of FDI statistical concepts, definitions, nomenclatures and units; and
- Establish the framework for statistical aggregation. This is of particular significance for BOP and national accounts compilations.

(b) Core functions and areas of work

III.64. The main functions of an FDI statistics office include:

- Elaboration of the methodology, and harmonization of scientific and professional standards. This is a sensitive task, as it could influence the establishment of the general framework for statistical aggregations. Quality of data and their relevance depend upon this function. This is why development of the statistical methodology is a major area of work for the office. It has four main steps: Step 1: Statistical policies are developed to guide acquisition and dissemination of data. Step 2: Statistical standards and guidelines are produced, with the aim of internal and international harmonization. A glossary is also constructed. Step 3: Explanatory metadata are collected, and accompany all the data being disseminated, to enable users to assess data quality (i.e. fitness for use). Metadata also allow comparability. Step 4: Statistical research is undertaken in selected areas (*Source*: OECD).
- Preparation of the programme of work in line with the country's FDI strategy. This function is important at all stages of the development of FDI statistics.
- Development and management of registers, which is an important tool for the compilation of accurate and complete statistics.
- Dissemination and publication, which involves deciding on the content of statistical releases

issued by the office, as well as the timing of publications and methods of dissemination.

- Research and analysis, which involves not only standard analyses, such as those related to FDI trends to monitor the impact of FDI, but also the provision of particular estimates in response to specific requests by data users. In addition, the office may be required to investigate the use of other means, including indirect methods, for the compilation of particular estimates.
- Coordination, which occurs at various levels: internal (within the office/agency), national, regional and international. This implies generally promoting collaboration and coherence among all those involved in the production of the relevant statistics. It also includes the participation of specialized working groups, whether national or international (e.g. FDI steering committee and task force).

III.65. The programme of work should be jointly determined by the office and its advisory board, in consultation with users (see figure III.1). The functioning of the office can also be strongly influenced by international requirements. It should be subject to public approval (e.g. by the national parliament), and standard budgetary controls should apply. Special budgets for specific activities (e.g. a new investments survey) may be envisaged.

(c) Legislation

III.66. Legal provisions regulating the work of the FDI statistics office are more specifically addressed in the section on the various types of offices, as there may be differences according to the type of organization chosen. Two broad scenarios are possible. In the first one, FDI statistics fall under the general coverage of the law governing the statistical system in the concerned country. This is normally a statistics law establishing the central statistics office, or the set of laws regulating the central bank. In this scenario, it is likely that investment and/or statistical legislation will complement the regulatory framework proposed by both national and international legislators. In the alternative scenario, a more focused (i.e. specific to the subject matter) legal framework is established, to provide a legal mandate for an investigation into FDI in the country and which

would specifically serve the purpose of an agency/authority handling all aspects of FDI data management.[20]

III.67. The main provisions of a standard statistics law include:

- General provisions: These include definitions, status of the chief statistician, work plan, release calendar and annual reporting system, status and composition of the national statistical council/committee.
- Statistical operations and data collection: This part of the law is mainly concerned with practical arrangements for data collection, including access to government data sources that may be relevant for the particular data products envisaged. It is important that statistics are collected in the most efficient way and that respondents are not unduly burdened. Provisions in the law also relate to technical personnel, as well as cooperation arrangements and sharing of information (including statutory data collection for statistical purposes).
- Data confidentiality: In addition to a general prohibition against divulging confidential information (and possible exceptions to it), an oath of office for statistical personnel is often part of statistics legislation as well.

III.68. Other legal provisions affecting the functioning of the office may include the following:

- *National level*: A general regulation governing FDI entry and operations might cover areas such as incentive provisions, tax exemptions, types of activity and dispute settlement. In some cases, a process of review and amendment may be ongoing, with a consequent need to review the underlying institutional arrangements.

[20] For countries that choose to introduce a general statistics law, or modify an existing one, it might be useful to consult existing texts that provide a model for a statistics law. Such an exercise is not intended to be prescriptive or normative. It is simply for illustrative purposes to give an idea of the issues that are dealt with in existing statistics laws in various countries. In broad terms, two sets of elements can be identified in such models: issues that should be dealt with in all statistics laws because they are about matters of principle, and alternative and optional elements. "Alternatives" relate to solutions not necessarily inferior to the ones included under the first point. "Optional" elements are more country-specific, in that they may work for some countries and not for others.

Legal acts concerning statistical activities may also exist governing the system of compulsory surveys, transmission of administrative data (protected by a professional secrets provision) to statistical services, computerized data files and privacy protection.

- *International level*: This applies to regional agreements and the way international investments are dealt with among the participating member States (e.g. the system in place within the European Union based on collaboration between the European Central Bank and Eurostat).

(d) Financing

III.69. The general rules for financing statistical capacity-building also apply to FDI statistics. These cover the following:

- *Financing through government budgets*. Taking into consideration the public relevance and public purposes of FDI information, and also as a way to guarantee autonomy and prevent abuse of the monopoly position of statistics offices, they need to be publicly financed, by means of government budgetary allocations. Funding should be based on clear, systematic, transparent annual work programmes. These should be agreed by parliament and subject to general budgetary control as is applied to other civil services. The amount of resources allocated to the office will determine whether the office will be in a position to expand its statistical capacity, including research and personnel training.

- *Revenues from selling products and services at market prices.* In general terms, few statistics offices generate more than 10–20 per cent of their own budget from market pricing of goods and services (United Nations, 2001). However, a number of countries do not permit use of the revenue generated by the statistics office for its operations; instead, the revenue goes directly to the government treasury. Financing issues are current topics to be resolved by statistical agencies. The traditional question of what information is to be placed in the public domain free of charge is complicated by the fact that conventional publications are no longer the main vehicles for the dissemination of statistics.

Also, budget allocations are often challenged by the new, achievement-oriented dimension (and the far-reaching powers) that characterizes the typical specialized FDI agency. As part of its "corporate strategy", accompanying an entrepreneurial management style, gains momentum within the statistical system, the FDI agency may pioneer alternative funding practices along with the development of new services.[21]

(e) Organizational structure

III.70. There is no doubt that the building of a solid statistical service is contingent on assigning *top* people to it (United Nations, 2001: 21). The level of expertise of the staff/personnel is a determinant of the professionalism, and thus of the credibility, of the agency as a whole. This in turn will determine the level of the agency's independence.

Office director: FDI statistical services report, like other services, to the chief statistician (Director-General), who is the head of the statistical agency. Although the terms of reporting might vary a great deal from country to country, the office director has a rank equivalent to a Secretary-General of a government department (or the administrative status of a director, if in a ministry). This implies that the head of the agency has the necessary level of authority and competence and the underlying qualifications to perform technical, planning and supervisory functions. In some cases, the office director is appointed directly by the president of the country upon nomination by the parliament, following a competitive selection process. The statistics act should explicitly provide for the independence of the office director in the performance of its statistical functions.

The basic structure: The basic organizational structure of the FDI office includes a number of key units (equivalent to departments) corresponding to their core functions. the relative size of the units and their hierarchical relations are less of a consideration than ensuring the smooth flow of information. Actual implementation best determines how the structure should be designed to suit local circumstances.

[21] For example, the Economic Development Board (EDB) of Singapore has already developed a capacity for co-investing with other TNCs, and manages a special fund through the EDB Investment Pte Ltd.

- *Specialized department:* This is a department responsible for specialized area(s) of expertise. In the case of macroeconomic statistics (i.e. those relevant to BOP and IIP), for example, the department will normally deal with the whole architecture of the national economic accounts. Although there is no standard way to organize macroeconomic statistics, these are best managed by an independent unit. In some cases, they are estimated solely by the national statistics office, or in collaboration with the research departments of central banks and specialized departments in national ministries of finance (and/or economic affairs). More relevant, however, is whether or not the macroeconomic accounts department is held responsible for BOP data. This depends on the capability of the central statistical agency to access and interpret financial transactions. Because its capability will vary considerably from one country to another, in many cases the responsibility for BOP will remain with the central bank.
- *Statistical infrastructure:* This relates to various aspects of statistical operations, consisting mainly of the development and application of scientific methods, drafting of codes and creation of databases. This is why it is considered the "professional conscience" of the system. The actual design of such an infrastructure largely depends upon country-specific circumstances, and determines the extent to which statistical capacities are physically distinct from an integral part of the other sections of the office.
- *Technical infrastructure:* This consists of the information technology (IT) capacity and support provided to statistical production and management. Progress in this field has given rise to new concerns on how best to manage the IT environment. As a general rule, IT is used to "advance" the tasks of the office (e.g. to anticipate needs, incorporate feedback, improve networking and facilitate communication).
- *Analytical and planning functions:* The analytical function must be truly pervasive, and planning is central to the performance of the office. This is why the unit in charge of analysis is most often to be found in the

subject-matter area (such as the macroeconomic statistics department), if it is not located directly in the office of the Director-General/Chief Statistician.

III.71. The *vertical*, or line, structure of an FDI statistics office broadly follows the public administration hierarchy. In many instances, the structure is specified in legislation, and often corresponds to the financial allocations made by the government to the statistical service. As such, it cannot be easily altered, although inflexibility is counter-productive. Indeed, the notion of vertical integration evokes the idea of a hierarchy.

III.72. Although the organization must clearly and unambiguously assign responsibilities to ensure stability, a simple hierarchy is not sufficient to secure interrelation and the smooth flow of information. Thus it should be possible to sacrifice strict adherence to the hierarchical structure, as FDI must adjust to a changing environment, and must do so in a timely fashion. The existence of a non-hierarchical (i.e. *horizontal*) organization might be of help in this case, as a necessary complement to the office structure. The decision-making and consensus-building processes of the office are thereby enhanced, provided that the overall system remains streamlined, dynamic and results-oriented. The horizontal structure becomes relevant when creating an ad hoc FDI working group to facilitate the integration and harmonization of the FDI information system and, more specifically, the work of the statistical agency throughout its life cycle.

III.73. It is clear that the involvement and active collaboration of representatives of the major categories of FDI data producers and users is key to the process of reviewing FDI statistical functions and to the establishment of an office that has the capacity to meet the needs of both the government and the general public. For operational purposes, an FDI inter-agency working group can be organized to review the FDI information system and rationalize it within an integrated framework. The group's work normally results in the production of a report in which concepts and methodologies are presented, taking into account the institutional arrangements and support facilities.

III.74. At some point the working group evolves from a non-statutory body into a statutory one with the creation of an inter-agency (steering) committee on FDI statistics. Once the system is in place, the inter-agency authority maintains a role of leadership and guidance. Its advisory role may extend to the resolution of subject matter (i.e. FDI), management and/or procedural imbalances inherent in the data products.

III.75. The design and implementation of an FDI statistical information system is a long-term process. The experience of the National Statistical Coordination Board (NSCB) in the Philippines provides an example of how national governments could move towards the establishment of an institutional capability in the field of FDI statistics (box III.6). This example also demonstrates the dynamic evolution of an FDI statistical organization.

III.76. The flow of information, rather than the level of authority, better serves the purpose of FDI statistical production. While determining the levels of hierarchy remains a function of the scale of operations (e.g. what is considered manageable, level of specialization) it is also necessary to take into consideration parallel bodies and ancillary activities.

III.77. Building external support is another relevant aspect of the office structure. No statistics office can function effectively without the systematic help of relevant outside contacts and sources. Furthermore, "the more prestigious they are, the more they will bolster the office's credibility" (United Nations, 2001: 164). The extent of external linkages depends on the capacity of the FDI office to establish collaboration mechanisms (formal and/or informal) with other national homologues and the international community at large.

III.78. General expectations regarding data quality have risen as a result of developments in computer and communications technologies. One of the immediate consequences is the impact on the human resource policies adopted by, or imposed on, statistical agencies. These policies deserve particular attention by statistics offices undergoing or requiring structural changes and reconstruction. While the number of personnel to be employed by the office is discretional and may largely vary depending upon the core functions of the organization,

Box III.6. A phased approach to FDI statistical capacity-building: the case of the Philippines

The Foreign Investment Information System of the Philippines started as a project in 1991 with the aim of developing an integrated and uniform approach to generating and reporting FDI statistics in the country. Until that time, statistics on FDI were reported by a number of agencies that carried out functions relating to the monitoring, management and promotion of foreign investments. However, they produced inconsistent data because of the differences in definitions and reporting periods adopted. To address this problem, the NSCB created an ad hoc inter-agency group to develop and implement the FDI information system (for details, see annex III.2). The *institutionalization* of such a system was aimed at rationalizing FDI statistics for international comparability purposes.

Step 1: An Inter-Agency Working Group was appointed by NSCB on a non-statutory basis in order to provide guidance and orientation at the early stages of the development. Its major task was to carry out a study for the proposed FDI information system, initially making use of available annual administrative data to establish concepts and methodologies. A report (produced in 1996) contained the specifications for the data system and *institutional support* needed to implement the integrated FDI information system. Activities focused on the modalities of implementation of the three major components, namely: a register, an annual reporting system and a consolidated quarterly reporting system. On the basis of the report's recommendations, the first two components could be implemented immediately.

Step 2: The Working Group then evolved into a statutory body to form the Inter-Agency Committee on FDI Statistics.[a] The newly established authority was expected to rationalize and integrate all aspects of foreign investment data, including collection, processing and dissemination. Currently the Committee is composed of the NSCB (Chair), the Investment Board (co-chair), the Central Bank, the Foreign Exchange Control Authority, the Bureau of Trade Regulation and Consumer Protection, the Economic Zone Authority, the National Economic and Development Authority and the National Statistical Office (Box III.4).

Step 3: All members of the Inter-Agency Committee on FDI Statistics implemented the consolidated quarterly reporting system by integrating the monthly/quarterly data on FDI reported by the various concerned agencies. The three components were later integrated to form the Foreign Investment Information System (FIIS).

Source: National Statistical Coordination Board, the Philippines.
[a] NSCB Memorandum Order N.1-96.

the type of expertise required is not debatable, and neither is the level of professionalism.

III.79. The staff of an FDI statistics office does not comprise only statisticians, although it is common practice to appoint specialists with strong credentials in that particular area. A balanced mix of academic and work experience backgrounds in the fields of economics and econometrics, sociology and computer engineering is advisable, even for office undertaking moderately sophisticated statistical work. The "ideal" composition of the office staff includes the following profiles (which, in practice, may correspond to a category or to a single professional): subject matter (FDI) specialists (methodologists), mathematical/survey statisticians, and IT managers and technicians knowledgeable about data dissemination. According to their seniority, professionals perform executive and managerial functions and supervise junior staff. General staff include administrative and field support staff (i.e. interviewers and clerical staff). For any survey, personnel from at least these three groups would be required (box III.7). It should be noted that this structure could be augmented by the occasional hiring of consultants, or by the addition to the core staff of temporarily assigned staff from other agencies for undertaking periodic enquiries, such as enterprise censuses and benchmark surveys.

III.80. Thus, it is not possible to make generalizations concerning staff size; this will depend largely on the type of agency established. Also, the size of the budget may dictate the size of operations, and hence the number of employees hired by the agency.[22]

III.81. Because of the economic importance of FDI statistical information, it is crucial to be able to maintain a flexible office structure staffed by well-trained personnel capable of coping with the planning and launching of new operations.[23] Managing FDI

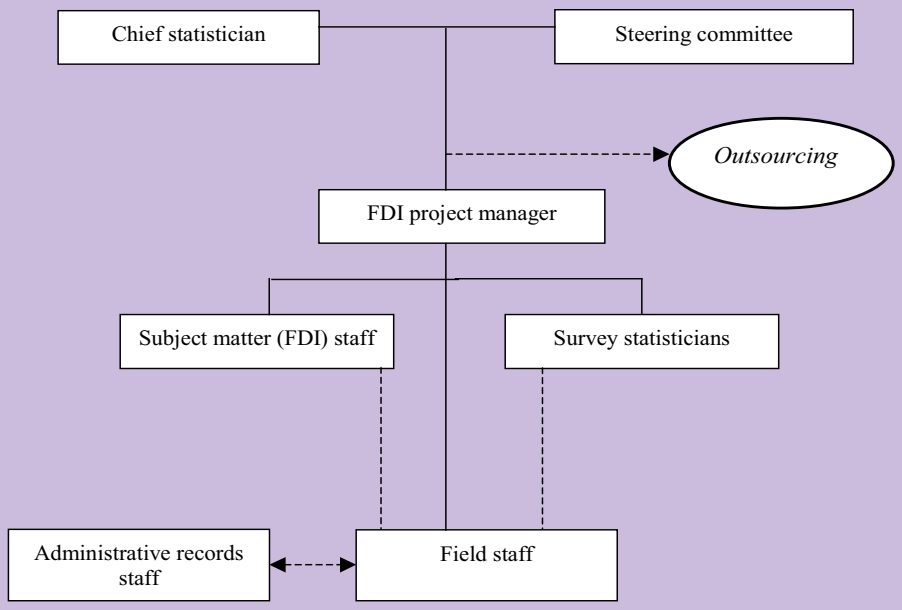
[22] Figures included in this section are intended to promote understanding and are not intended to be prescriptive.

[23] Indeed, to face the challenges of rapid trends in development, national governments are increasingly investing in human as well as technological and organizational resources. In Italy, for example, 70 per cent of recruitment in the past decade has consisted of university graduates. Each year, a special budget item is devoted to personnel training. Furthermore, a new organizational style has emerged which assigns extensive autonomy

Box III.7. Staff required for surveys

In any project leading up to conducting a survey, at least three different perspectives need to be taken into consideration and these should be reflected in the corresponding categories of project staff working under the overall supervision of the chief statistician (as shown in box figure III.7 below). These three groups, in simple cases, correspond to three different categories: subject matter (FDI), statisticians, survey statisticians and field staff.

Box figure III.7.1 Possible management of an FDI survey project



(a) Subject matter (FDI) statisticians interact with users and transform their needs into measurement projects. They are mostly in charge of evaluating survey results and interpreting them. The relevance of results is their major concern, together with timeliness. Both elements are crucial to justify the survey project – and the budget allocated for its implementation.

(b) Survey statisticians (synonymous with mathematical statisticians) interact with the community (e.g. academics and researchers) that is interested in methods rather than in results, and they ensure that the measurement has the proper attributes. In particular, they ascertain that the methods applied stand up to scrutiny and are properly documented and accessible, and that inferences are supported by data, and eventual biases properly understood. They are concerned with integrity and consistency in the survey administration (i.e. statistical conscience of the agency).

/...

Box III.7. Staff required for surveys (concluded)

(c) Field staffs comprise the arm of the agency that deals with contacting respondents, providing assistance to them or handling their complaints, such as too burdensome a survey. Field staff members need to be safeguarded from abuse. They are responsible for taking follow-up action to ensure that reports are properly completed and filed.

Depending upon specific national situations, administrative records may be used to supplement statistical survey information (for details, see Volume II). If the usefulness of administrative data is recognized, this should be reflected in the above categorization. Somewhere, preferably alongside the field organization chart, a link should be shown to reflect efforts with respect to information-sharing with other government institutions, bearing in mind the legal constraints regarding government information activities.

Source: United Nations, 2001.

statistics implies a continuous learning-by-doing process, especially in countries that are in the process of trying out different solutions (e.g. the use of administrative records) and are moving towards an integrated system of FDI. The establishment of in-house training facilities that cater to the immediate needs of the staff is an important means of contributing to the development of well-trained staff. Another avenue of training is to promote close collaboration between senior and junior staff. For example, it is good practice to have newly-appointed chiefs working with former (retired) senior managers during a particular undertaking (e.g. benchmark survey).[24]

III.82. Outsourcing is of course an alternative, and may be feasible at any stage of planning, execution, analysis and dissemination of FDI statistics. However, there may be circumstances where it may not be appropriate to outsource. For example, standardization and coordination remain a uniquely government function, and it would not be possible for the private sector, or a non-government agency, to contribute to this area of work. It is advisable

to managerial staff entrusted with responsibilities.

[24] As is done by the Bureau of Economic Analysis of the United States.

to use outsourcing only when the FDI statistics office needs specific types of expertise and advice.

B. Types of office structures

III.83. Prior to embarking on the actual process of institutionalizing the development of FDI statistical capacity, the government authority will be confronted with a strategic choice: whether to maintain FDI-specific competencies within the official compiler of financial (and BOP) statistics, or adopt a "data-specific" focus with the creation of an ad hoc capacity in a separate FDI authority. Whether the choice is a radical solution or a gradual reform of the existing system will depend upon the conditions in place, national development priorities and the available resources.

III.84. In making a choice, it is helpful to consider whether a "straightforward" approach to FDI data production or a BOP-type approach is preferable. The former approach normally involves the organization of a separate, specialized agency, while the latter would involve using existing structures within the central bank (eventually, the foreign exchange control authority) or the statistics office.

III.85. Institutions – and institutional arrangements – normally reflect the evolution and process of change undergone by the system in which they exist and function. Consequently, examples of model agencies based on these two approaches are not necessarily "set in stone", in the sense that different models may be of relevance in a phased approach to the institutionalization of FDI statistical capacity-building. A possible deviation from this streamlined organization is the investment services agency approach adopted by some of the existing investment promotion agencies (IPAs),[25] although it may not necessarily be the best practice.

III.86. It is worth noting at this stage, that practices tailored to the local situation sometimes can be the most effective way to address concerns about FDI

[25] It is a deviation in the sense that where the FDI authority is located within an investment services agency (such as an investment promotion agency), it may encompass features pertaining to either of the two above-mentioned organizational set-ups (e.g. a high level of thematic specialization jointly with an organizational structure that receives inputs from the central bank/ statistical office for national accounting and BOP/IIP compilations).

statistics.[26] However, the existence of such an FDI statistics office is not necessarily a guarantee that it will produce uniform and homogeneous FDI data to enable comparability.[27]

1. The straightforward option: a highly specialized FDI authority

III.87. A straightforward approach involves a data-specific focus to regulate, produce and manage FDI information for both analytical and reporting purposes.[28] Such an option relies on an open system, where there are very few or no laws dealing specifically with direct investment. Such thematic administrations enjoy significant "technical authority" compared with the less autonomous capacity and governance structures of functional bodies (e.g. ministries). Thus a strategic choice as to where to locate such a system is at the core of this model FDI authority. It is essentially a specialized body that "centralizes" sources (i.e. surveys) for FDI data collection, with a consequent "concentration" of the statistical information process.

III.88. A typical law or act creating such an authority may have specific provisions, including:[29]

- Authorizing the collection of FDI data by the (newly) established authority.
- Establishing mandatory reporting for certain categories of respondents (where respondents above certain threshold limits are required to file reports).
- Setting the criteria (e.g. stipulating the percentage of ownership and/or the threshold which is used to classify direct investment) for the two critical elements of FDI – "lasting interest" and "significant degree of influence on management" – as evidence of a direct investment relationship.

[26] Countries such as Singapore and the Philippines are illustrative cases in this respect.

[27] The method of calculating reinvested earnings is a good illustration in this respect. Many developing countries do not even include reinvested earnings in FDI data, even though they might be producing official FDI statistics.

[28] An example of this approach is the direct investment statistical system of the United States, often referred to as "the reference model" for FDI statistics.

[29] Source: International Investment and Trade in Service Survey Act of the United States.

- Protecting against unauthorized public disclosure of information by ensuring confidentiality. In so doing, such a provision also establishes the integrity of the FDI data collection system, as respondents are assured that information is gathered for analytical and statistical, and not regulatory, purposes.[30]
- Identifying partner institutions that contribute to or complement, for example, portfolio investment data to be prepared by another authority. This necessitates measures that provide for transparency.
- Establishing the official sources and periodicity for data dissemination (e.g. monthly, quarterly, annual and benchmark reports and specialized publications).
- Ratifying the top positions in the hierarchy (director general, or others) and making relevant budgetary provisions for them.
- Validating administrative and budgetary items.

[30] A legal provision protecting the confidentiality of data is stronger than including a confidentiality clause in the regulations of the national statistical office.

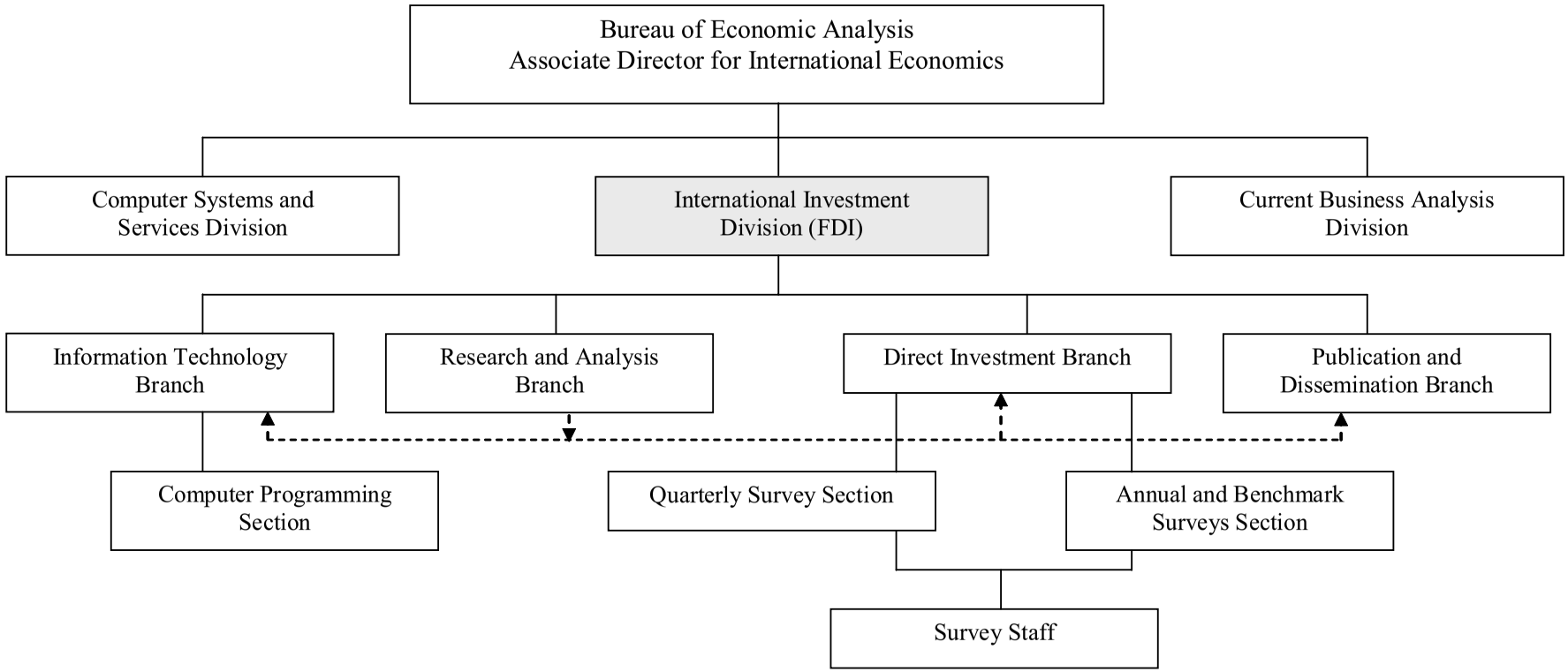
It is evident that these provisions of a typical act indicate concern for the accuracy of information, and aim at the production of quality statistics.

III.89. The highly integrated framework of such a specialized agency for FDI is illustrated in the organizational chart below (figure III.4). Possible office dynamics are also mapped in the information flow chart (figure III.5). The strength of such a model is that it creates a "dedicated" organization with the capacity to manage highly specialized and/or large-scale surveys throughout the process of data collection, elaboration and dissemination. The obvious result of an integrated framework is not only the homogeneity of data products, but also the immediate injection of innovative components into the statistics management process. There are of course limitations, such as resources and adaptability (table III.4).

2. The "BOP" option: the balance of payments authority

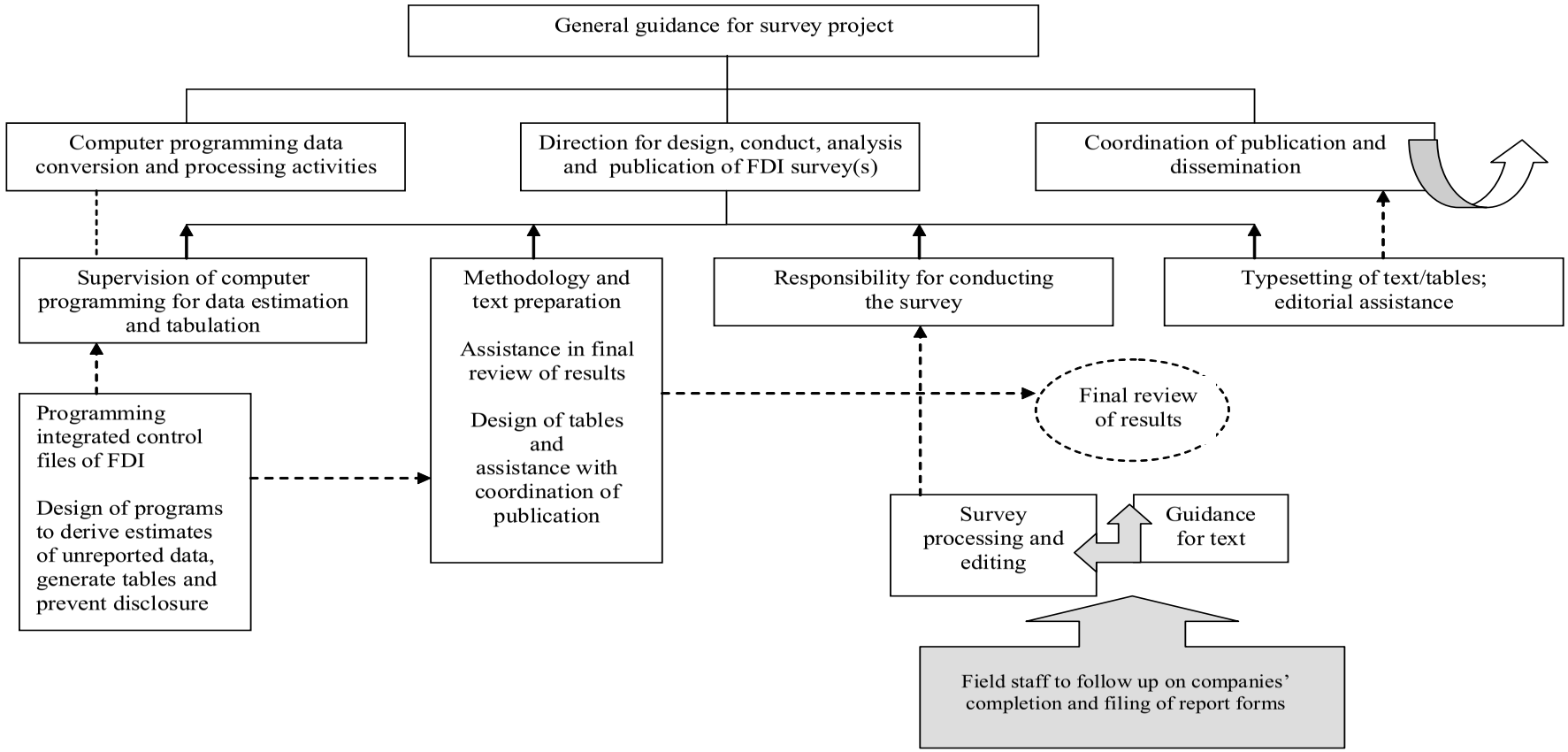
III.90. FDI is a financial concept. More precisely, it is a BOP concept (see Volume I). The BOP system provides the data framework for all international transactions of

Figure III.4. Integrated framework of a highly specialized FDI statistical agency: the United States model



Source: United States, Department of Commerce.

Figure III.5. Mapping of functional tasks performed by the units in figure III.4



Source: United States, Department of Commerce.

Table III.4. Specialized FDI statistical offices: advantages and disadvantages

Advantages	Disadvantages
• Integration of functions	• Lack of resources (including infrastructural support)
• Complementary statistical expertise	• Specialized personnel may not be affordable for some countries
• Uniformity of the product and of the statistical process	
• Simultaneous ability to change/adapt the whole system	
• In-house R&D capacity linked to staff training	

Source: UNCTAD.

the national economy, in which FDI is just one item. When FDI statistics are produced from the BOP compilation process as a component within the BOP recording and reporting system, there is no need for a separate FDI office, as the FDI data would fall under the responsibility of the official compiler of BOP and IIP statistics.[31]

III.91. More precisely, data on FDI are collected as part of the quarterly/annual collection exercises, each of which essentially covers all BOP transactions and related position statistics. In such a system, collaboration is essential between at least two partners: the national statistics office and the central bank. This is why the BOP/IIP divisions are normally located in either of these two institutions. Countries,

[31] The previous section of this volume (as well as Volume I) showed the limitations of investment data derived from the compilation of BOP statistics. It is useful to repeat here that if there is an exclusive reliance on records of exchange transactions, reinvested earnings risk being excluded from FDI flow data. Several other significant transactions, especially at the initial stage of investment, could also be missed. These take place in the form of "investment in kind", such as machinery, raw materials and building materials. Foreign affiliates do not pay for these imports, as they usually come from or are arranged by the direct investors (parent firms). The value of these imports would be recorded in the accounts of foreign affiliates as either equity or loan (or both) liabilities of their parent firms. If they are recorded as loan liabilities, they could be either short- or long-term trade credits or other types of intra-company loans (see Volume I for details). This is where the system needs to be complemented by company surveys that also generate stock data. Thus, collaboration between the financial authority and the statistical authority becomes crucial.

like the United Kingdom, have issued official methodological descriptions which clearly indicate the complementary role played by these two authorities. For instance, estimates of direct investment by foreign residents are mainly derived from quarterly and annual inquiries by the Office for National Statistics (ONS) and the Bank of England. The combined results are published periodically in their respective national statistics press releases and in the Business Monitor reports (United Kingdom, ONS, 2001).

III.92. Despite their complementarity, there is no standard way to organize macroeconomic statistics, which include BOP/FDI statistics. In many countries, they are compiled by the research departments of central banks, or by a specialized department in national ministries of finance and economic affairs. In other countries, the capacity of the central statistical agency to access and analyse financial transactions is a determining factor as to whether its macroeconomic accounts department will also be responsible for BOP statistics. Because capacity varies so much, it is often the central bank that has responsibility for collecting BOP statistics. The shape of an FDI office therefore varies as a function of the host authority. The options are normally either to locate it in the national monetary authority (box III.8) or as a separate national statistics agency (box III.9). Another option for consideration could be the foreign exchange control authority (box III.10).

III.93. The reporting function carried out either by the central bank or the national statistics office should normally coincide with the final objectives to be achieved, namely:

- To provide interested parties with *uniform* data compiled in accordance with internally agreed methodological approaches and standards; and
- To analyse and comment on ongoing and projected trends and longer-terms relationships in the area of FDI.

One major implication of such a function is the development of the general framework for statistical aggregation in relation to national accounts.

III.94. The relative advantages/disadvantages of having FDI statistics produced in the national statistics office or the central bank

Box III.8. Institutional aspects of FDI statistics within the central bank

Rationale: The institutional arrangement is in place when the FDI statistical system relies on the practice of keeping bank records of all FDI involving foreign currency transactions, including exclusive compilation of statistics on FDI inflows based on transactions in foreign currency. When the central bank of a country is responsible for compiling and publishing BOP / IIP statistics, it acts independently of the general government.

Legislative provisions: By law, all banks and other entities holding information necessary for the compilation of the BOP should be obliged to report this information. The central bank could identify the population of entities covered by this obligation and define the content, form, dates and manner of submission, including documents required from them. Non-compliance with the rules could result in a fine, with the amount stipulated by law. Reporting obligations for non-residents who are foreign exchange entities and for residents, regarding FDI and other financial items, are spelled out in a separate act (e.g. a foreign exchange act). This act would also identify the terms and modalities of the reporting obligation as stipulated by the central bank and the foreign exchange authority (e.g. the ministry of finance).

Internal organization: The BOP division may be located within, or comprise, the statistics department of the central bank, sometimes together with the general economic statistics division. It is responsible for conceptual and methodological issues and for the compilation of BOP statistics (direct investment and portfolio investment, including the IIP) (box figure III.8). It is also responsible for providing data to domestic users as well as international institutions, and, where applicable, for coordinating the IMF's Special Data Dissemination Standards system. In order to compile the BOP and IIP, statistical information from the banking sector, corporate sector and government institutions is used. In this exercise, the division itself collects most of the data directly from providers, using surveys, the ITRS and administrative data.a Besides close collaboration with other divisions in the same department, the main intra-agency partners include those units responsible for foreign trade statistics and the monetary department that undertakes economic analysis of BOP data.

Staffing: The BOP division staff are directly involved in the collection, control and processing of data as well as output compilation. In accordance with the nature of the working process, the BOP division is normally further structured into four specific sections, as indicated above.

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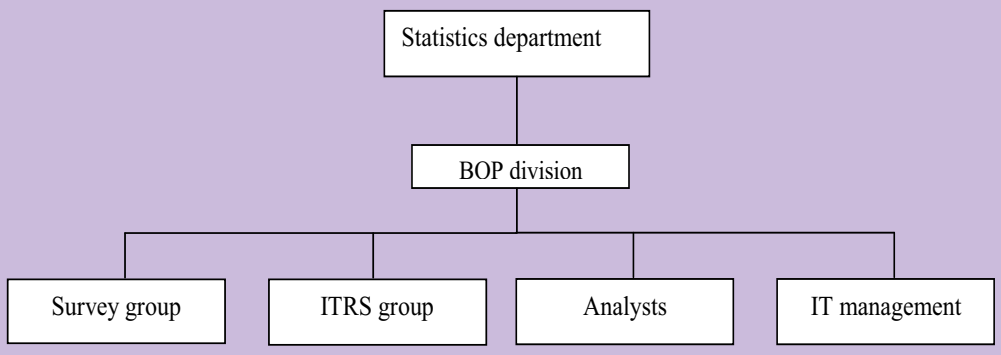
Box III.8. Institutional aspects of FDI statistics within the central bank (concluded)

Box figure III.8.1. The major areas of work of the BOP division



External cooperation: Within the national administration, the national statistics office is the most important external partner of the BOP division, both as provider and user of data: the former provides complementary data for BOP compilation purposes, while, reciprocally, central bank data (of the BOP division) are used for the compilation of the national accounts by the former. Other institutional partners include: the customs authority (foreign trade statistics), the ministry of labour and social affairs (foreigners employed in the country), the national property fund (non-resident investment) and the securities authority (ownership of securities by non residents). At the international level, the BOP division maintains contacts with several other leading global financial institutions (e.g. IMF and OECD), mostly to consult on methodological, collection and compilation issues. The BOP division also participates in specialized working groups, and acts in close collaboration not only with the leading global institutions (i.e. with whom it may also consult on specific topics), but also with other relevant regional institutions, such as the European Central Bank and Eurostat.

Publication and analysis: FDI data, as a component of BOP data, are made available to the general public on a quarterly and annual basis. Updates to quarterly data can be made available both through press releases and the website of the central bank. Specialized publications produced by the BOP division generally include quarterly inflation reports, an annual BOP report, a central bank report and a statistical yearbook. Data analysis for economic and financial planning purposes is carried out, in particular, by the banking statistics and monetary units.

Source: UNCTAD.

a This aspect is particularly relevant for FDI statistics, as the burden on data providers can be limited by using administrative sources (e.g. information on value added tax (VAT)).

Box III.9. Institutional aspects of FDI statistics in the national statistics office

In some countries (e.g. Canada and Ireland), the central statistics office is the official and sole compiler of BOP (including FDI) and IIP statistics. This could be influenced by the following factors:

Rationale: A centralized statistical system with separate office facilities is already in place. In order to respond to the increased sophistication of FDI data products, there is a gradual evolution towards an exclusively survey-based system. When FDI statistics are under a national statistics body, the office has two responsibilities:

- It collects, compiles, analyzes and disseminates FDI statistical information in the context of its economic and financial recording domain; and
- It is also responsible for coordinating the official statistics of other public authorities and for developing the statistical potential of administrative records.

Given that the national statistics office is expected to contribute valuable information to the statistical system for policymaking and planning purposes, strategy statements spanning a certain time frame (3 to 5 years) are an important component of the work programme of the office, along with the development of an appropriate statistical methodology. This is why the national statistics office is, in many cases, assisted by a national board in the formulation of its strategic direction. Although the Board can be established on a non-statutory basis, it normally evolves into a statutory entity through a legislative act. Statistical confidentiality is also ratified by legislation that sets stringent confidentiality standards.

Legislative provisions: The office should be defined by a law, which will provide the legal foundation for the institutional structure that forms the basis for official statistics. The structure would have three components: the office, the chief statistician/director-general and the national statistics board. The surveys will be conducted in conformity with the statutory provisions of the same act, by means of a specific ministerial order. The statistics act underpins the statistical independence of the central office on a statutory basis, providing the director-general with the sole responsibility for: the statistical methodology and professional standards used by the office; the content of statistical releases and publications issued; and the timing and methods of dissemination of the compiled statistics.

Other principal areas regulated by the statistic act could include:

- A mandate for general coordination: the authority to

/...

Box III.9. Institutional aspects of FDI statistics in the national statistics office (concluded)

coordinate statistics produced by other public bodies as defined by law;

- Confidentiality: statutory confidentiality provisions for data collected by the national statistics office from survey respondents and other sources;
- The authority to access administrative records for statistical purposes;
- A system of mandatory statistical surveys (if this is not the subject of a separate act on statistical activities);
- Provisions for forms to be completed in the reporting system;
- Special provisions (regarding anonymity) for micro-data to be made available for research purposes; and
- Reproduction of statistics: the reporting government would have copyright ownership of the statistics disseminated by the national statistics office. The act could stipulate which statistics and other information should be provided on the official website free of charge.

Internal organization: The BOP division normally is located under the macroeconomic statistics (more broadly, the economics and finance) department of the national statistics office. As the amount and details of data increase, the workload of BOP and FDI statistics can be split between (at least) two core units. The first could deal with actual data collection and processing, including maintaining the statistical register of BOP-relevant enterprises. The second could be responsible for analysis and dissemination tasks. The data processing arrangements could be managed and coordinated between the two divisions.

External cooperation: Cooperation between the administrative authorities and private enterprises is required to ensure timely and reliable data collection.

Source: UNCTAD.

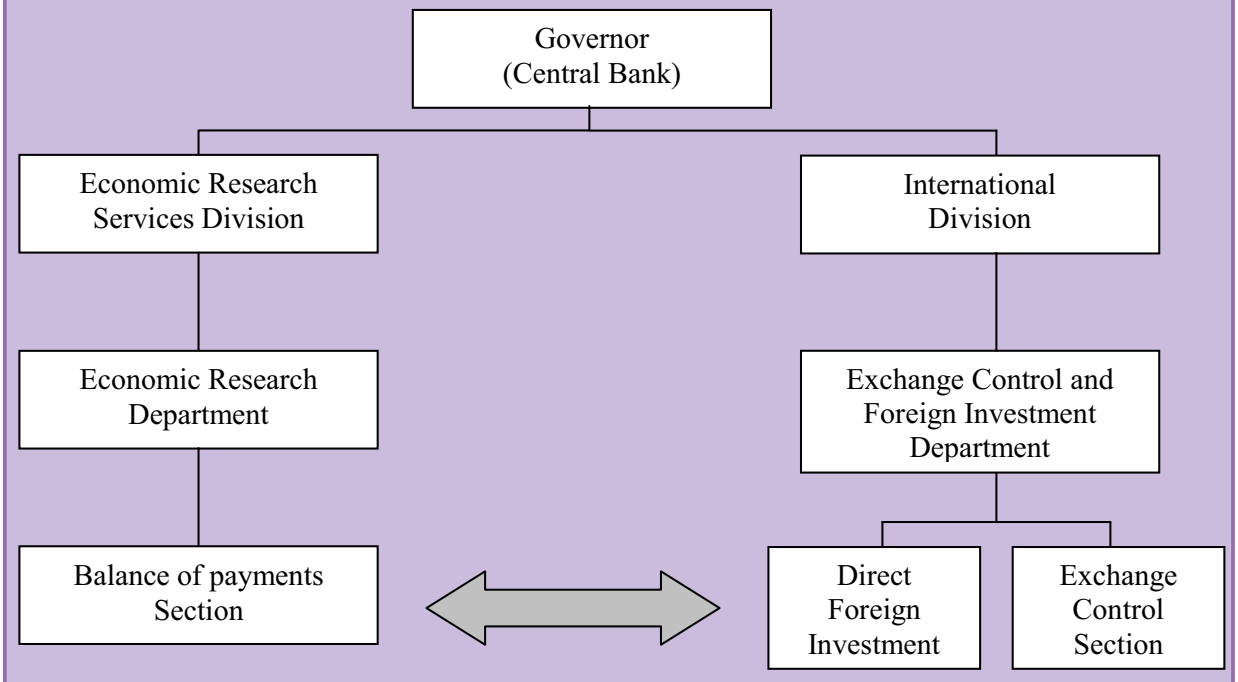
can be compared by looking at foreign exchange records *versus* company surveys. If the system relies exclusively on the foreign exchange records of the central bank, it is not possible to report on *all* the components of FDI. In particular, it is only possible to report on capital that crosses the border, thus excluding reinvested earnings. In order to complement the limited details provided by exchange records, central banks in some countries require additional information from foreign investors. The additional

Box III.10. FDI and the foreign exchange control authority

This approach is based on the use of exchange control approval forms to compile FDI flows. The FDI statistical system is gradually integrated to comply with international methodologies and standards. In many countries, FDI is measured by the compilation of foreign currency transactions. In other countries (e.g. Columbia) the foreign exchange control authority is responsible for the collection of FDI statistics.

When the FDI statistical office is based in the foreign exchange control authority, the functioning modalities of the FDI office do not substantially differ from those of such an office when it is located in the central bank. What may vary is the organizational structure within the central bank, as the foreign exchange office would be located within the international division of that institution and would work in close collaboration with the BOP section. A sample organizational chart is reproduced below (box figure III.10).

Box figure III.10.1. A typical case of an FDI office that resides in a foreign exchange authority



information is requested from the direct investment enterprises domiciled in the country, rather than from the foreign direct investors. Central banks in other countries supplement their recording of foreign exchange transactions with company surveys, though in this case, reconciliation between FDI flows and FDI stocks remains to be seen. However an increasing number of central banks in developed countries use enterprise surveys as a primary source of data. The comparative analysis of advantages/disadvantages is summarized in table III.5. At a first glance, the central bank model appears workable. However, effort should be made to overcome its disadvantages for the long-term development of the FDI statistical system. A possible exception could be the foreign exchange model, to the extent that it has the capacity to evolve into a highly-specialized unit that is integrated into, though independent of, the bank structure in the performance of its FDI function.

3. Investment services agency approach: a one-stop service

III.95. The locational attraction of a country is partly determined by how efficiently its relevant institutions function. Corresponding with greater liberalization of FDI policy regimes, most countries have attempted introduce improvements to the operational efficiency of various institutions servicing investors. Such a trend is reflected in the growing number of IPAs that have been set up in the last decade. In many, especially developing, countries a newly configured organization has brought together all functions relating to the entry and supervision of FDI: the so-called "one-stop service" agency. This agency assembles in one place the relevant/appropriate government apparatus and expertise to provide assistance and support to investment projects.

III.96. Despite national differences, speed and transparency in decision-making are considered the paramount attributes of such a structure. In addition, experience gained from negotiations with potential and actual investors is an invaluable attribute. The advantages of one-stop organizations extend beyond the initial stages of investment screening and approval to cover later stages, including monitoring and reporting of the implementation of investment projects (UNCTAD, 2002).

Table III.5. Advantages and disadvantages of central bank and statistical office in providing FDI statistics

	Central bank	Statistical office
Advantages	• Draws on own statistics for financial estimates • In-house analytical capacity	• Proximity to users (i.e. better placed to ensure pertinence and responsiveness) • BOP (FDI) and national accounts statistics: facilitates ongoing liaison between two sets of data, ensuring insofar as possible, compatibility of the survey capacity
Disadvantages	• Rigidity of the bank structure • Limited capacity for implementing surveys • Reliance on outside estimates resulting in lack of standards and harmonization of data	• Access to financial records • Interpretation of financial records

Source: UNCTAD.

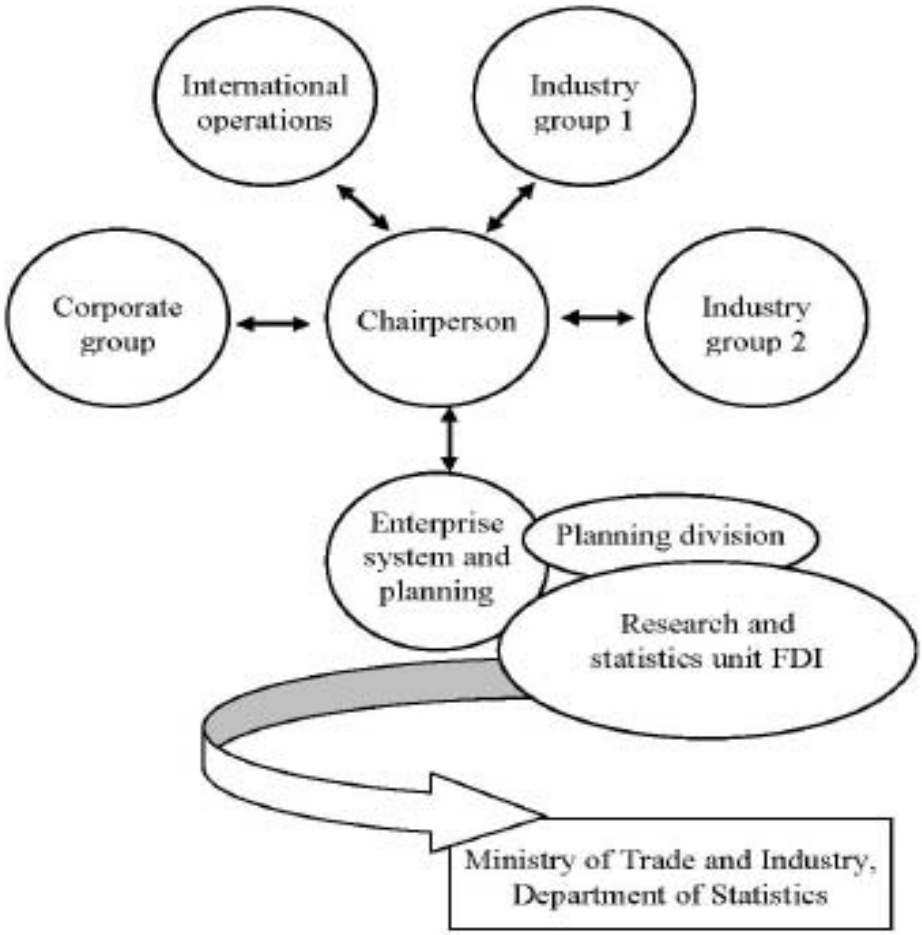
III.97. In theory, this could be an ideal place for establishing the FDI statistical capacity/office, because it could be argued that a coherent and integrated framework is already in place for FDI information management purposes. As such, it would impose a limited burden in terms of institutional reform, and would facilitate coordination and collaboration among all institutions concerned. In practice, however, this may not be as easy as it might seem. Given that investment agencies need a high degree of technical specialization, coupled with managerial flexibility and considerable financing, they may not be well suited to managing an FDI statistical system.

III.98. In some instances, owing to the heavy demands on an already overloaded IPA, imposing these additional statistical responsibilities may simply be unfeasible. Specifically, the capacity to deal with the functions of an FDI statistical office may be seriously constrained by the IPA's lack of both functional and technical expertise and resources.[32]

[32] One of the most frequent criticisms of this type of institution relates to its lack of industry-specific knowledge as compared to the relevant national ministry (a common case concerns the petroleum industry) and to its lack of capacity to deal with administrative sources of data (such as tax revenues).

III.99. Nevertheless, the advantages of locating an FDI statistics office in such agencies seem to outweigh the disadvantages, provided that the necessary conditions are in place. These conditions relate to an investment-friendly environment, accompanied by the type of governance that facilitates investment. They also include an outward-oriented development strategy and the necessary infrastructure support. The Economic Development Board (EDB) of Singapore is an example. The EDB has a strategic location within a pro-business environment, along with advanced technological infrastructure and dynamic governance. The entrepreneurial attitude of the institution is reflected in the management style and in the results-oriented mentality of the staff. The organizational chart of such a multipurpose structure clearly shows how the different functions respond to the core unit of the agency (figure III.6).

Figure III.6. FDI data production within an investment service agency: a possible organizational chart



III.100. The features of the one-stop investment service agency are mirrored in the highly specialized agency model discussed above. The same *pros* and *cons* discussed above therefore apply (table III.5). However, given the thematic structure of this type of agency, it is able to give some importance to FDI statistics. The investment service can take advantage of the close working relationship with foreign investors (i.e. TNCs and the private sector) in order to compile FDI information that is relevant, responsive and timely. From a development perspective, this "model" service agency is particularly suitable for adopting a corporate strategy on FDI data management.

C. Concluding remarks

III.101. The following are some topics that warrant further examination and discussion.

- *From financial transaction records to surveys*: The evolution of FDI statistical measurement shows a marked tendency to supplement – or even replace – bank-based with survey-based collection systems. This development has been influenced by the growing demand for greater details in data products and dissemination. For many countries, this shift to surveys for the collection of information is a prerequisite for aligning with international methodological standards and practices.[33] In some countries questions are being raised about the capability of bank-based data collection systems to meet all the BOP flow and position requirements and to integrate the BOP, IIP and national accounts data.[34] As a result, major BOP/IIP development programmes involve or envision the expansion of the range of surveys and, within those, of the type of information collected. However, conducting these new and largely expanded surveys has a major impact on the workload of the BOP compiling authority.
- *Corporate strategy*: As applied to a statistical system, corporate strategy refers to

[33] This is confirmed by the growing involvement of international technical assistance in preparing countries for the introduction of sample survey mechanisms.

[34] In Europe, the European Central Bank, in agreement with its national counterparts, generally favours an expansion and strengthening of the existing survey-based system, managed by central statistics offices.

the management of different, often decentralized, statistical activities within the integrated architecture of a corporate information warehouse (e.g. figure III.6). The warehouse has facilities to store, catalogue and access all the output data produced by the agency, together with the metadata describing the underlying concepts and procedures. This is the model adopted by the Australian Bureau of Statistics and Singapore's EDB. By adopting this system, all thematic/functional units contribute to the warehouse data management capacity. This in return provides all internal users with full and easy access to relevant raw and final data. In terms of data production management, the corporate strategy also encompasses the notion of quality output and the introduction of principles of entrepreneurial management in an FDI statistics agency.

- *A "business-oriented" model*: As statistics agencies evolve, the decision to embark on commercialization of their services (i.e. data products) has become a significant factor in their future development. It is useful to note that the charging of commercial prices for paper and/or electronic publications provides the statistics agency with valuable market feedback, in addition to financial income. Clients may also be able to provide direct inputs to the statistical work by commenting, for example, on the usefulness of the information and requesting more extensive exploitation of the statistics.

Annex III.1

Questionnaire surveys used by the United States Bureau of Economic Analysis

The United States Bureau of Economic Analysis (BEA) collects two types of data in benchmark surveys (or censuses), which are currently conducted every five years. They are the most comprehensive surveys in several respects. They cover virtually the entire population - or universe – of United States TNCs in terms of dollar value, and they collect more data items than any other survey. In addition to the benchmark surveys, BEA conducts quarterly and annual sample surveys. The BOP and direct investment position estimates are based on data collected in the quarterly surveys, while the financial and operating estimates are based on data collected in the annual sample surveys. In the sample surveys, reports are not required for small affiliates in order to reduce the reporting burden for United States companies. Instead, BEA estimates the data for these affiliates by extrapolating forward their data from the most recent benchmark survey on the basis of the movement of the sample data. Thus the coverage of the universe of United States TNCs is complete both for the non-benchmark and benchmark periods.

The primary focus of the financial and operating data is on the *overall operations* of the United States affiliate, not just on the affiliate's transactions or positions with the foreign parent group. Financial and operating data are separately tabulated for two foreign affiliate groups: all foreign affiliates and majority-owned foreign affiliates. The data cover, among other things: United States affiliates' balance sheets and income statements, sales by type (such as goods and services) and destination (local or non-local), employment and employee compensation, merchandise trade, technology, sources of external financing, as well as selected data by State. Each of these categories includes many more individual data items. For example, for majority-owned foreign affiliates, detailed components of the balance sheet (inventories, net property, plant, equipment) are available annually (although the amount of additional detail available within many of the

categories is much greater in benchmark survey years than in other years). One of the most useful measures of United States TNC operations – *gross product* (or value added) – is derived from financial and operating data.[35] They cover only non-bank United States affiliates. Selected data for bank affiliates are available from the Federal Reserve System.

The estimates are based on sample data from BEA's annual survey of FDI in the United States, or for universe data, from BEA's Benchmark Survey of FDI. An annual article in the *Survey of Current Business* gives a brief description and analysis of the data. Separate publications provide more detailed data. Data have been available annually since 1977.

The information collected on the overall operations of United States affiliates may be used to analyse the impact of FDI on that country's economy. For example, it is possible to derive information on how many people foreign-owned companies employ, how much affiliates spend on plant expansion, and the value of their assets or sales. To obtain this information, data on the activities of the affiliate as a whole are needed, regardless of the foreign ownership share or the source of financing. However, the data are not adjusted for percentage of foreign ownership. For example, if a foreign company has a 49 per cent interest in a United States affiliate, all of that affiliate's employment is included in the data, because all of the employees are affected by the foreign parent's influence or control over the management of the enterprise. In some cases, however, data users may want to focus their analysis on United States affiliates in which the foreign parent has a majority ownership share. In response to

[35] United States TNCs' gross product is the value of goods and services produced by TNCs, either in the United States (United States parents' gross product) or abroad (majority-owned foreign affiliates' gross product). For a firm, gross product (or value added) differs from sales, because sales include the inputs that the company purchases from outsiders as well as what it produces itself. TNC gross product estimates have a variety of uses. For instance, they can be used to measure the contribution of United States parent and majority-owned foreign affiliate production to total home or host country production (i.e. United States or a foreign country's gross domestic product). In addition, the ratio of gross product to output (sales plus inventory changes) for parents and majority-owned foreign affiliates measures the extent to which parents and majority-owned foreign affiliates produce what they sell rather than relying on outside suppliers.

this need, BEA has developed separate estimates of financial and operating data for majority-owned United States affiliates (i.e. those in which foreigners have more than 50 per cent ownership).

In the late 1970s, BEA developed and implemented a survey of new investments, which requires reporting by every United States business that is newly acquired or established by a foreign direct investor. Since 1979, this survey has provided the information on new investments needed to continually update the universe of FDI. The survey also provides users with more timely information on new investments than was previously available. The results of the survey are summarized in an annual *Survey* article, and supplementary tables containing additional detail are also made available upon request.

The data from the survey cover existing United States business enterprises in which foreign direct investors acquired, directly or through their United States affiliates, at least 10 per cent ownership interest and new United States business enterprises established by foreign direct investors. The data do not cover the acquisition of additional equity in an existing United States affiliate by the foreign parent, the acquisition of an existing United States affiliate from a different foreign investor, or plant expansions by an existing United States affiliate. These transactions are not considered new investments because they do not result in United States affiliates being added to the direct investment universe; rather, they are considered either a transfer or an expansion of an ongoing investment by foreign direct investors.[36] The survey provides data on investment outlays, that is, on how much foreign direct investors spend in a given year to acquire or establish new United States affiliates. Outlays are the total dollar cost of the equity interests acquired or established. The survey also includes data on the number and types of investments and investors, and on selected operating items (i.e. total assets, sales, net income, employment, and acres of land

[36] For example, if a foreign chemical manufacturer supplied its United States affiliate with funds to expand a plant, the funds would be included in the balance of payments data as a capital inflow, but they would not be included in the acquisition and establishment data as an investment outlay because no new affiliate was created.

owned) for the new affiliate. Outlays are presented by type of investor, that is, the foreign parent or an existing United States affiliate of the foreign parent. In the first case, the foreign parent acquires a direct ownership interest in the United States affiliate; in the second case, the foreign parent acquires an indirect ownership interest through its existing United States affiliate.

Comparing these data with BOP data, the acquisition and establishment data cover the actual outlays to establish or acquire new United States affiliates, regardless of how or by whom the investment was financed. Thus, the outlays may be made by either the foreign parent or an existing United States affiliate, and the source of financing may be other than the foreign parent group, such as local borrowing by existing United States affiliates. In contrast, the balance of payments data cover only transactions between foreign parent groups and United States affiliates.[37]

[37] If, for example, a United States affiliate of a foreign chemical manufacturer acquired a chemical company by borrowing funds in the United States, the borrowed funds would be included in investment outlays, but not in capital inflows in the balance of payments because the acquisition did not involve funds from the foreign parent.

Annex III.2

Recording administrative data: the case of the Philippines

The Foreign Investment Information System (FIIS) was launched in the Philippines in 1991 as a project to develop an integrated approach for generating and reporting FDI in the country. The FIIS has three major components: the FDI Registry, the Consolidated Quarterly Reporting System (CQRS) and the Annual Reporting System (ARS). The CQRS measures FDI *flows* while ARS provides data for FDI *stocks*. However, as the system is still evolving, various difficulties have been encountered in the implementation of the Annual Reporting System (annex box III.2). [38]

The National Statistical Co-ordination Board (NSCB), through the Inter-agency Committee on Foreign Direct Investment Statistics, continues to implement the CQRS. It integrates the quarterly data on foreign investments reported by all investments-related agencies as a by-product of their regulatory, administrative or financial functions. The quarterly report, which started in 1996, provides data on approved, registered and FDI data contained in the balance of payments statement as well as projected employment.

In addition to the consolidated quarterly report on FDI, the Inter-agency Committee on Foreign Direct Investment Statistics compiles an annual issue of the *Registry of Top Foreign Direct Investment Enterprises in the Philippines*. The FDI Register is a master list of the top 5,000 corporations in the country (based on reported revenues) that have foreign equity investments exceeding 10 per cent of their total initial capital stock. It contains all the information on the identity or major characteristics of the FDI enterprises (e.g. name, address, ranking and financial profile such as assets, liabilities and owner's equity).

To measure FDI flows, administrative-based data are

[38] Initial work on the Annual Reporting System was done in 1991-1992 with the compilation of FDI annual stocks in the country.

Annex box III.2. Difficulties of enterprise surveys: example of the initial experience with a survey in the Philippines

The Philippines at present does not conduct a regular survey to generate FDI statistics. However in 1993, the Foreign Investment Baseline Survey, which was funded by the United States Agency for International Development (USAID), was conducted by a private research agency, to gather benchmark data on FDI stocks and flows covering the years 1991 and 1992.

FDI exploratory survey: This was conducted to provide a complete and updated list of enterprises with foreign ownership. Information on foreign direct investors and resident foreign investors was collected, including the percentage of their equity ownership and voting shares. The list of the FDI enterprises generated from this survey was used for designing a sample Foreign Investment Baseline Survey. This survey elicited responses from 1,662 enterprises with FDI, of which 495 were categorized as belonging to the top 3,000 corporations listed on the Securities and Exchange Commission (SEC) in 1991.

Administrative sources: These included the SEC list of the top 5,000 corporations in 1992, the Bangko Sentral ng Pilipinas (BSP) list of foreign direct investors, the Board of Investment's list of applicants, and a list of periodicals of the different chambers of industry and investment. A sample of the largest FDI enterprises was selected. Ultimately a total of 508 enterprises were covered using the different sources. Among these, 354 belonged to the top 5,000 firms, of which about 298 belonged to the top 2,000 firms.

A questionnaire containing 241 data items was designed and tested. The most important items were those dealing with ownership and operations of FDI enterprises, including ownership and equity distribution, ownership of other enterprises, assets, liabilities, owners' equity, income, costs and expenses, net gains/losses, changes in retained earnings, and changes in equity investment. Field operations began in mid-1993. The survey met with considerable resistance and hesitation from respondents, who regarded it as an additional government-imposed reporting burden. Concerns were also expressed about the confidentiality of the data, as the implementation of the survey was commissioned to a private research institute.

A primary source document used by respondents to the survey was the financial statement of their enterprises. Approximately 250 questionnaires were completed, 210 of which were FDI enterprises in the SEC's top 3,000 corporations. Data for the remaining FDI enterprises

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Annex box III.2. Difficulties of enterprise surveys: example of the initial experience with a survey in the Philippines (concluded)

in the list (approximately 300) had to be collected from administrative sources, specifically financial statements filed with the SEC, despite data limitations. To compensate for such limitations, other data sources were also utilized, including other SEC records, the central bank, the National Statistics Office and the BOI/Philippine Economic Zone Authority. These sources covered around 94 per cent of the total data items.

Since the survey utilized both primary and administrative data, data processing was not simple. First, the data coming from the administrative sources were entered into the Foreign Investment Baseline Survey questionnaire. Sometimes reconciliation of data coming from different sources was required before inputting into the questionnaire. Data entry and processing programs developed by the Census Bureau were utilized to compute the results.

However, the administrative data used for the survey did not provide all the details to complete all the necessary FDI information. Since these data were provided by a number of agencies, they still needed to be reconciled and consolidated. The system entailed the transfer of diskettes between agencies, which added to the amount of input required for processing.

In 1994, it was decided to terminate the survey due to the low response rate and the many reconciliation problems.

collected from the following government agencies: Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission, Bureau of Trade Regulation and Consumer Protection, Board of Investments, Philippine Economic Zone Authority, Subic Bay Metropolitan Authority and Clark Development Council.

Bangko Sentral ng Pilipinas (BSP): The Department of Economic Research of the central bank compiles the BOP, which provides the data framework on all external transactions of the national economy, of which FDI is one item. Conceptually, the FDI flows in the BOP are consistent with the IMF definition, and are therefore taken as the global total of FDI inflows on a quarterly basis. The BOP records FDI remittances, including reinvested earnings, bond conversions, non-cash

investments and other transactions on the date of remittance, if the remittance is reported by banks as being intended for investment purposes.

On the other hand, the International Operations Department of the central bank registers FDI in cash or in kind in any enterprise existing under the laws of the Philippines. Registration of foreign investments with the bank is not mandatory, but it gives foreign investors the authority to source foreign exchange from the local banking system to service capital repatriation and cash dividends/ profits and other earnings accruing to BSP-registered investments. As there is currently no mandatory period within which to register these investments, there is a time lag between registration with the BSP and the inflow of the investment funds, or, in the case of investment in kind, receipt by the investee firm of that investment. In some cases, this time lag could be a year or longer.

Prior to 1999, FDI by country of investor was estimated by applying the ownership structure of BSP-registered investments to actual foreign investments as recorded in the BOP data. At the time, data from the International Operations Department constituted the only database that could provide breakdown by country of the investor. With the adoption of *BPM5* in 2000, the Department of Economic Research now generates the BOP series with a country breakdown of inward investments.

Securities and Exchange Commission (SEC): Under the Corporation Code, the SEC has the authority to approve or not approve the registration of Philippine corporations, as well as to grant licences to foreign corporations doing business in the Philippines. Specifically, SEC is mandated to register corporations applying to operate in the Philippines under the Foreign Investments Act (FIA) of 1991. As a result, it can compile data on investments, and the number of non-FIA registered FDI corporations (with less than 40 per cent foreign equity ownership) and FIA-registered corporations (with more than 40 per cent foreign equity ownership), by country of investor and by industry.

Bureau of Trade Regulation and Consumer Protection (BTRCP): The mandate of the Bureau is the same as that of SEC. However,

the BTRCP deals only with sole proprietorships, and it has been found that those registered with it account for a statistically insignificant share of total FDI, both in terms of numbers and magnitude of investment.

Board of Investments (BOI): The principal role of the BOI is to promote investments in the country. It provides data on proposed foreign equity investments (expressed in terms of project cost) in new and expanded projects submitted to and approved by it.

Other investment promotion agencies: The other investment promotion agencies compile data on approved investments in their respective areas, which include the proposed amount of foreign and local capital contribution to approved projects.

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