

2. Key Findings of the 2001 SIMSDI Update

2.1 The results of the 2001 SIMSDI update show that there have been marked improvements in both the availability of FDI statistics, particularly position data, and in the application of a number of the recommendations of the international standards for compilation of FDI statistics. However, there are still areas where the majority of countries do not yet follow the international standards. Box 2.1 summarizes (1) the areas where there have been marked improvements since 1997; (2) the areas where more than 75 percent of the 61 countries that participated in the 2001 update now follow the international standards applicable to their economies at present; and (3) areas where, despite improvements, the majority of the 61 countries do not yet follow the international recommendations.

Areas of Significant Improvement Since the 1997 SIMSDI Survey

Data Availability

2.2 There has been a significant increase since the 1997 survey in the number of countries disseminating FDI statistics. The increases are most marked for the countries that are not OECD members,¹ for FDI position data, and for inward FDI income data. In the four years between the 1997 SIMSDI survey and the 2001 update, an additional 13 countries began to report inward position data, an additional 9 countries began to report data on inward FDI financial flows, and 8 additional countries began to report data to the IMF on inward FDI income. A similar improvement was seen for the outward FDI statistics (FDI abroad), with an additional 14 countries reporting data on positions, an additional 10 countries reporting data on financial flows, and an additional 6 countries reporting data on income. Moreover, within the FDI income data, an additional 10 countries now report

¹As Table 3.1 indicates, in 1997 most OECD countries already reported these data to the international organizations.

inward FDI income on equity, an additional 11 now report inward reinvested earnings, and an additional 10 now report inward FDI income on debt. (Tables 3.1 and 5.2 in the main body of this report give further details of the changes since 1997, including the split between the OECD and other countries. Tables 1, 2, and 23 of Appendix I give information on the practices of the individual countries in 2001.)

2.3 During the same period, there was a marked increase in the compilation of data showing geographic breakdowns, particularly for the FDI financial flows data, and the position data. An additional 11 countries now compile data showing geographic breakdowns for the inward FDI financial flows and an additional 13 countries for the outward FDI financial flows. Similar improvements were seen for the FDI position data, with an additional 11 countries compiling geographic breakdowns for the inward positions, and an additional 12 for the outward positions. The increases in the number of countries that compile breakdowns for the FDI income data were not as marked—seven for the inward data and five for the outward data. (See Table 3.10 and Table 11 of Appendix I for further details.)

2.4 The compilation of data showing breakdowns by industrial sectors also increased markedly in the four years between the 1997 survey and the 2001 update. For the inward FDI statistics, an additional 11 countries began to compile industrial breakdowns for income, an additional 12 for financial flows, and an additional 11 for the position data. For the outward FDI statistics, the increases were 10 additional countries for income, 12 for financial flows, and 8 for position data. (Table 3.13 and Table 13 of Appendix I give further details.)

Data Coverage

2.5 The four years between the 1997 SIMSDI survey and the 2001 update saw significant improvements in the items covered by the FDI statistics, with

Box 2.1. Highlights of the 2001 SIMSDI Update**Areas where there have been marked improvements since 1997:**

- Availability of foreign direct investment (FDI) statistics, particularly:
 - Position data
 - Income data (including reinvested earnings)
 - Geographic and industrial sector breakdowns
- Coverage of the FDI statistics, particularly the inclusion of:
 - Noncash acquisitions of equity
 - Intercompany loans and financial leases
 - Real estate owned by nonresidents
 - Activities of special purpose entities (SPEs)
 - Activities of offshore enterprises in the outward FDI statistics
 - Expenditure on natural resource exploration

Areas where more than 75% of countries surveyed now follow the international standards applicable to their economies:

- Use of the 10 percent ownership rule as the basic criterion for defining FDI relationships

- Equity capital transactions between affiliated banks and between affiliated financial intermediaries
- Recording of reverse investment equity transactions when two FDI relationships have been established
- Inclusion of data on real estate owned by nonresidents
- Inclusion of data on activities of SPEs
- Inclusion of data on activities of offshore enterprises

Areas where, despite improvements, the majority of countries do not yet follow the international standards:

- Inclusion of activities of indirectly owned direct investment enterprises—the Fully Consolidated System (FCS)
- Use of the Current Operating Performance Concept (COPC) to measure direct investment earnings
- Time of recording FDI income on equity and income on debt
- Recording of reverse investment transactions when the FDI relationship is in one direction only
- Inclusion of data on quasi-corporations involving construction enterprises and mobile equipment
- Valuation of FDI positions (assets and liabilities)

a marked increase in the number of countries now following the recommendations of the international standards regarding the inclusion of data on the following aspects:

- **Noncash acquisitions of equity, such as through the provision of capital equipment:** Fifty-one countries now include noncash acquisitions of equity in their inward transactions data on FDI equity capital, an increase of 11 countries since the 1997 survey. (See Table 6.1 and Table 28 of Appendix I for further details.)
- **Intercompany loans and financial leases:** Fifty-six of the 61 countries that participated in the 2001 SIMSDI update include long-term loans in their FDI inward transactions data on other capital, an increase of 11 countries. In addition, the number of countries that include short-term loans in their inward transactions data on FDI other capital increased by 10 to 51, and the number that include financial leases increased by 11 to 34. (Table 6.2 and Table 30 of Appendix I give further details.)
- **Real estate owned by nonresidents:** Forty-eight countries now include purchases and sales of land and buildings by nonresident enterprises in their inward FDI transactions data, and 47 include these in their outward FDI transactions data, increases of

15 countries (8 OECD countries and 7 other countries) in both instances. There have also been marked increases in the number of countries that include purchases and sales of land and buildings by nonresident individuals in their inward FDI transactions data—12 additional countries—and their outward FDI transactions data—13 additional countries. (See Table 8.2 and Table 43 of Appendix I for further details.)

- **Activities of special purpose entities (SPEs):** There have been improvements in the inclusion of the activities of SPEs in the outward FDI transactions data of 12 countries and in the inward FDI transactions data of 8 countries for which SPEs were applicable or for which SPE activities could be identified. (Table 8.4 and Table 45 of Appendix I give details.)
- **Activities of offshore enterprises:** There have also been improvements in the inclusion of the relevant activities of offshore enterprises in the outward FDI transactions data of 12 countries. (See Table 8.3 and Table 44 of Appendix I for details.)
- **Expenditure on natural resources exploration:** An additional 11 countries now include expenditure on natural resources exploration in their inward FDI transactions data, and an additional 10

countries include these expenditures in their outward FDI transactions data. (Table 8.5 and Table 47 of Appendix I provide details.)

Areas Where More Than 75 Percent of the Countries Surveyed Follow the Applicable International Standards

2.6 The results of the 2001 SIMSDI update show that there are now a number of areas where more than three quarters of the 61 countries that participated in the survey follow the international standards that are applicable for their circumstances:

- **Use of the 10 percent ownership rule for identifying FDI:** Ninety percent of the 61 countries use the 10 percent ownership rule as their basic criterion for identifying direct investment enterprises in at least part of their inward FDI transactions data, and 82 percent use the rule as the basic criterion for identifying direct investors in their outward FDI transactions data. (See Tables 4.1 and 4.2 and Tables 15 and 17 of Appendix I for further details.)
- **Inclusion of equity capital between affiliated banks and between affiliated financial intermediaries:** Ninety-three percent of the 58 countries for which the activities are applicable follow the international standards regarding the inclusion of equity capital transactions between affiliated banks and between affiliated financial intermediaries in their inward FDI transactions data. (Table 6.3 and Table 34 of Appendix I give details.)
- **Recording of reverse investment equity transactions when two FDI relationships have been established:** Eighty-two percent of the 51 countries for which reverse investments involving the acquisition of equity are applicable record the transactions in accordance with the international standards. (Table 6.5 and Table 38 of Appendix I provide details.)
- **Inclusion of purchases and sale of real estate by nonresidents:** Eighty-nine percent of the 54 countries for which the issue is applicable include purchases and sales of land and buildings by nonresident enterprises in their inward FDI transactions data, and 75 percent of the 53 countries for which the issue is applicable include purchases and sales by nonresident individuals. (See also Table 8.2 and Table 43 of Appendix I.)
- **Inclusion of data on activities of SPEs:** Ninety-three percent of the 42 countries for which SPEs

are applicable, or for which SPE activities can be identified, include the relevant transactions of those SPEs in their outward FDI transactions data. Eighty-eight percent of the 40 countries for which SPEs are applicable, or for which SPE activities can be identified, include the relevant transactions in their inward FDI transactions data. (Table 8.4 and Table 45 of Appendix I give details.)

- **Inclusion of activities of offshore enterprises:** Eighty-eight percent of the 40 countries for which offshore enterprises are applicable, or for which activities of offshore enterprises can be identified, include the relevant transactions of those enterprises in their outward FDI transactions data. Seventy-nine percent of the 33 countries for which offshore enterprises are applicable include the relevant activities in their inward FDI transactions data. (See Table 8.3 and Table 44 of Appendix I for details.)

Areas Where, Despite Improvements, the Majority of the Countries Surveyed Do Not Yet Follow the Applicable International Standards

2.7 Notwithstanding the improvements in the implementation of the international standards since the 1997 SIMSDI survey, the 2001 update indicates that there are still a number of aspects of the international recommendations that are not yet followed by the majority of the 61 countries that participated in the update:

- **Inclusion of activities of indirectly owned direct investment enterprises—use of the Fully Consolidated System (FCS):** Only 11 countries fully apply the FCS for their inward FDI transactions data, and there has been no change in this number since 1997. However, 28 countries partially apply the system, and a number of countries are unable to apply it because of difficulties in identifying all relevant indirect FDI relationships. (See Table 4.3 and Table 19 of Appendix I for further details.)
- **Use of the Current Operating Performance Concept (COPC) for measuring direct investment earnings:** Only 19 countries fully apply the COPC for measuring their direct investment earnings in their inward FDI statistics, and only 16 fully apply the COPC for their outward FDI statistics. (Table 5.1 and Tables 21 and 22 of Appendix I give details.)

- **Time of recording FDI income on equity and income on debt:** Only 22 countries record income on equity (dividends and distributed branch profits) in their inward and outward FDI transactions data at the time they are payable. Only 25 record income on debt (interest) as it is accruing for their inward data and 22 do so for their outward data. (See Table 5.3 and Tables 24 and 25 of Appendix I for details.)
- **Recording of reverse investment transactions when the FDI relationship is in one direction only:** Of the 49 countries for which reverse investment transactions in one direction are applicable, only 17 record the acquisition of equity, and 25 record the provision of loans in accordance with the international standards. (Table 6.4 and Table 36 of Appendix I provide details.)
- **Inclusion of data on quasi-corporations involving construction enterprises and mobile equipment:** Only 23 countries include in their inward FDI transactions data the activities of quasi-corporations involving construction enterprises. Even fewer include the activities of quasi-corporations involving mobile equipment, such as ships, aircraft, and drilling rigs. (Table 8.1 and Table 41 of Appendix I give further details.)
- **Valuation of FDI positions (assets and liabilities):** Only 21 countries value their inward equity capital positions at market values. Even fewer value their inward other capital positions, and outward equity capital and other capital positions at market values. (See Table 7.1 and Table 40 of Appendix I for details.)