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February 18, 2009

To: Members of the Executive Board
From: The Acting Secretary
Subject: **Progress Report on the 2009 Coordinated Direct Investment Survey**

Attached for the **information** of Executive Directors is a progress report on the 2009 Coordinated Direct Investment Survey.

It is not intended to publish this paper on the Fund's external website.

Questions may be referred to Mr. Kozlow, STA (ext. 39398).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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INTERNATIONAL MONETARY FUND

Progress Report on the 2009 Coordinated Direct Investment Survey

Prepared by the Statistics Department

Approved by Ms. Burgi-Schmelz

February 18, 2009

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EXECUTIVE SUMMARY

In May 2007, Fund management agreed to a proposal by the Statistics Department (STA) to conduct a worldwide Coordinated Direct Investment Survey (CDIS). At that time, STA was requested to provide management and Executive Directors with a report on the completion of the development phase, that is, from May 2007 to December 2008. This paper provides that report.

The CDIS will collect data on inward and outward direct investment positions, broken down between equity and debt, by immediate counterpart country of investment or investor, as of end-December 2009.

In order to help ensure that data are as comprehensive and as comparable as possible, STA prepared a *CDIS Guide*. A complete version of the *Guide* was posted on the CDIS website in March 2008. The *Guide* has been translated into Arabic, Chinese, French, Russian, and Spanish. Final versions of the *Guide* will be posted early in 2009.

In August 2007, the Managing Director invited all the IMF's members and a few nonmembers to participate in the survey. As of end-December 2008, 130 jurisdictions have expressed an interest in participating in the survey.

STA held 10 regional seminars in 2008. These were attended by 189 participants from 128 jurisdictions. STA or other international or regional organizations paid for the airfare, accommodation, and subsistence costs of the participants from non-developed economies. STA used supplemental funds made available by management in financing participants' costs. STA is assessing what further follow up will be required in FY 2010.

STA has involved its interagency partners—the ECB, Eurostat, the OECD, UNCTAD, and the World Bank—to a considerable degree in developing the CDIS. In addition, the ECB and Eurostat co-hosted two of the seminars and they have strongly encouraged the participation of all their members in the CDIS. CARTAC hosted a CDIS seminar for jurisdictions in the Caribbean and Atlantic, and covered the participants' costs. Other regional and national organizations also have assisted by hosting various regional seminars.

STA anticipates that preliminary results of the CDIS will be released within about a year of the reference date (that is, by the end of 2010 or early in 2011), and that revised estimates will be released later in 2011. In addition, STA will obtain from the participating jurisdictions metadata on the methodology they have employed as well as an indication of how the CDIS has improved their data on direct investment.

I. INTRODUCTION

1. In May 2007, Fund management agreed to a proposal by the Statistics Department (STA) to conduct a worldwide Coordinated Direct Investment Survey (CDIS) of data on direct investment positions. At that time, STA was requested to provide management and Executive Directors with a report on the completion of the development phase, that is, from May 2007 to December 2008. This paper provides that report.
2. Direct investment represents the provision of finance from an entity resident in one economy to a related entity resident in another economy. It is a major source of cross-border finance. Unlike other types of cross border investment, it brings a degree of influence (and, more often, control) over the entity in which the funds are invested. It tends to be a lasting relationship. Direct investment also brings nonfinancial dimensions, such as management expertise, technology transfer, marketing, and market access, that are not usually associated with other forms of cross-border investment. Enterprises in a direct investment relationship are more likely to trade with and finance each other. Direct investment tends to provide a stable source of funds during periods of market stress.
3. Data on direct investment are of uneven quality. To help address this problem, the CDIS will collect data on inward and outward direct investment positions, by immediate counterpart country, broken down between equity and debt, as of end-December 2009. Further breakdowns, showing positions between fellow enterprises,¹ and showing positions of resident financial intermediaries, separately from other direct investment positions, will also be encouraged. Countries will be asked to provide metadata on the extent that they have used the internationally agreed methodological standards, and to provide an assessment of what improvements have resulted at least in part due to their participation in the survey.

II. IMPLEMENTATION

4. The implementation of the CDIS is based on four pillars: (i) the preparation of a survey guide; (ii) the invitation to participate; (iii) an outreach exercise of seminars, and training; and (iv) the partnership with international and regional organizations.

A. Preparation of the *CDIS Guide*

5. Following the decision to undertake the CDIS, STA set up a task force to provide input for the preparation of a *CDIS Guide (Guide)*. The task force comprised the IMF's interagency partners in the measurement of direct investment, as well as eleven

¹ "Fellow enterprises" are entities that are in a direct investment relationship through having a common direct investor without either having a 10 percent equity interest in the other.

jurisdictions.² It met in Washington, D.C. in June 2007, at which time the framework and content of the *Guide* were agreed. The STA then prepared a draft of the *Guide*, which was sent to the Task Force for comment. The task force met for the second time in Hong Kong SAR in January 2008, at which meeting the *Guide* was accepted, subject to some minor changes. The document has been posted on the CDIS website (see further below) and it has been translated into Arabic, Chinese, French, Russian, and Spanish. STA made minor modifications to the *Guide* as a result of feedback received from 10 outreach seminars. Final versions of the *Guide* in these languages will be posted to the CDIS website in the next few weeks.

6. In an annex to the *Guide*, all the jurisdictions of the world are listed, and these have been grouped into regions. The reason for the groupings is to help limit the loss of information that may arise from confidential data. Thus, if an individual cell for a counterpart economy is confidential, rather than including this in an “other” cell with no regional attributes, the information could be included in the total for a given regional group, thereby providing some geographical dimension that might otherwise be lost.

7. STA has prepared a one-page flyer that is designed to be used to assist compilers in demonstrating to respondents the importance of the exercise. The flyer sets out the purpose of the CDIS, indicates that it is an international undertaking, and identifies important features of direct investment, including its stability and as facilitator of technology transfer. The flyer also notes that such investment may raise concerns when it involves strategic sectors. It notes the importance of direct investment in the international investment position and the need for comprehensive and accurate data. The flyer has been translated into Arabic, Chinese, French, Russian, and Spanish—and distributed at regional seminars (see below).

8. The Task Force and the IMF Committee on Balance of Payments Statistics (Committee) agreed with the implementation plan that the IMF proposed. The plan notes that the implementation process is a dynamic and flexible one, and that it will be adjusted as circumstances require. The plan sets out proposals for a post-assessment of the CDIS. These proposals include a review of the data from the survey, the number of participants, and the extent to which the data quality had improved (such as, the inclusion of fellow enterprises where previously these may not have been covered in national surveys, or the removal of debt positions between financial intermediaries where previously they had been included). Finally, the plan proposed that a decision on whether the CDIS should be conducted again, such as annually, will be taken by the Committee.

² The members of the task force were: Brazil, China, PR, France, Hong Kong SAR, Japan, Mexico, The Netherlands, Oman, South Africa, the United Kingdom, the United States, the ECB, Eurostat, the OECD, and UNCTAD, as well as the IMF.

B. Letters of Invitation

9. Letters of invitation signed by the Managing Director were sent to all Fund members and a few other jurisdictions in August 2007. Follow-up letters to those who had not responded, and to obtain contact details from those who had, were sent by the Statistics Department in December 2007. At the time of writing, 130 jurisdictions have indicated their interest in participating in the survey. See Table 1. This is a very high level of interest, although it can be expected that some of these jurisdictions will be unable to participate in the coordinated direct investment survey. In addition, there are a few jurisdictions that have advised STA that they wish to wait to make a decision and have requested that they remain informed about developments on the CDIS.

Table 1. Countries Indicating an Interest in Participating in the CDIS

N. America & Caribbean	Latin America	Europe: EU	Europe: Non EU	Former Soviet Union: non EU	Middle East and North Africa	Sub-Sahara Africa	East and South Asia and Pacific
Barbados	Argentina	Austria	Albania	Armenia	Bahrain	Benin	Australia
Canada	Bolivia	Belgium	Bosnia	Azerbaijan	Iran	Botswana	Bangladesh
Grenada	Chile	Bulgaria	Croatia	Belarus	Israel	Burundi	Bhutan
Guyana	Costa Rica	Czech Rep.	Iceland	Georgia	Jordan	Cameroon	Cambodia
Haiti	Ecuador	Denmark	Macedonia	Kazakhstan	Kuwait	Cape Verde	China PR
Jamaica	El Salvador	Estonia	Montenegro	Kyrgyz Rep.	Lebanon	Comoros	China HK SAR
Netherlands	Honduras	Finland	Norway	Moldova	Libya	Congo DR	
Antilles	Mexico	France	Serbia	Tajikistan	Oman	Cote d'Ivoire	China Macao SAR
Trinidad and Tobago	Nicaragua	Germany	Switzerland	Ukraine	Syria	Ethiopia	Fiji
United States	Panama	Greece	Turkey			Gabon	India
	Paraguay	Hungary				Gambia, The	Indonesia
	Peru	Ireland				Ghana	Japan
	Uruguay	Italy				Guinea-Bissau	Korea (Rep. of)
		Latvia				Guinea	Malaysia
		Lithuania				Kenya	Maldives
		Luxembourg				Madagascar	Mongolia
		Malta				Mauritius	Myanmar
		Netherlands				Morocco	Nepal
		Poland				Mozambique	New Zealand
		Portugal				Namibia	Pakistan
		Romania				Rwanda	Philippines
		Slovakia				Seychelles	Samoa
		Slovenia				Sierra Leone	Solomon Islands
		Spain				Somalia	Sri Lanka
		Sweden				South Africa	Thailand
		United Kingdom				Swaziland	Tonga
						Tanzania	
						Uganda	
						Zambia	
Total	130						

C. Outreach: Regional Seminars and other Outreach

10. During 2008, the IMF conducted 10 regional seminars. These are shown in Table 2. One hundred and eighty-nine participants attended from 128 jurisdictions and regional organizations.

Table 2. Seminars on the CDIS Conducted during 2008: Dates, Locations, Regions, and Participation

Date	Location	Region/country	Number of jurisdictions/ participants
February	Ljubljana, Slovenia	Formerly centrally planned economies in SE Europe and Central Europe	14/14
April	Beijing, China PR	China PR	1/15
May	Muscat, Oman	Middle East and North Africa	9/25
June	Mexico City, Mexico	Latin America	15/15
June*	Luxembourg	EU, EFTA, Turkey	16/28
June*	Luxembourg	EU, EFTA	16/29
July	Putrajaya, Malaysia	East and South Asia, and Pacific	17/17
July	Tunis, Tunisia	Francophone Africa	10/10
August	Pretoria, South Africa	Anglophone Africa	14/14
September	Barbados	Caribbean and Atlantic	16/22

* Two seminars were held in Luxembourg as there were too many participants for one seminar.

11. The seminars were generally of two to three days in duration. They covered the *Guide* in depth, chapter by chapter. The seminars focused on the importance of: (i) the use of common measurement standards; (ii) the need to improve the quality of the positions data collected, even for economies with highly developed systems; (iii) the use of the books of the direct investment enterprises for both inward and outward direct investment; (iv) the use of own funds at book value as the basis for valuing unlisted equity; (v) collecting, or improving collection of, data on “fellows,” given that they may be the source of major gaps in countries’ data; (vi) the exclusion of all debt positions between financial intermediaries (in line with the standards in the *Balance of Payments and International Investment Position Manual*, sixth edition (*BPM6*)); (vii) metadata; and (viii) identifying how the CDIS may improve data quality. Participants who were undertaking a comprehensive survey for the first time were encouraged to prepare as detailed a plan as possible, to involve respondents early in the planning stage, and were cautioned about trying to take on too much at once. Although no formal decision has been taken about whether the CDIS will be an ongoing exercise, participants were advised to work on the basis that it would be.

12. As noted above, the IMF has created a website for the CDIS (see: <http://www.imf.org/external/np/sta/cdis/index.htm>). The home page gives some background

on the survey, sets out the purposes of the CDIS, the reference date, when preliminary data are expected to be released by the IMF (end-2010 or early 2011), and when revised data are expected to become available (later in 2011).

13. In addition to the *Guide*, the website has the following documents posted:

- The Framework of Direct Investment Relationships (FDIR).
- The Implementation Plan for 2009 Coordinated Direct Investment Survey.
- List of Countries Indicating an Interest in Participating in the Coordinated Direct Investment Survey.
- Japan's Experience in Compiling a Mailing List.
- United Kingdom's Experience in Building a Register.
- Experience of the United Kingdom in Use of Electronic Direct Investment Questionnaire.
- Data Template for Reporting to the IMF.
- Summary of Outcomes of June 2007 meeting of the Task Force on the Coordinated Direct Investment Survey.
- Items Compilers May Wish to Collect, in Addition to Direct Investment Positions.
- Country Codes and Regional Groupings.

14. It also is linked to the following websites:

- Coordinated Portfolio Investment Survey.
- Balance of Payments and International Investment Position Statistics.
- Direct Investment Methodology.
- OECD Benchmark Definition of Foreign Direct Investment.
- *Balance of Payments and International Investment Position Manual (BPM6)*.
- IMF Committee on Balance of Payments Statistics (and the papers on the CDIS that were discussed by the Committee at the 2003–2008 meetings).
- External Debt Statistics and the IMF.

15. In addition, the IMF has established a CDIS mailbox at cdis@imf.org for data users to contact the STA.

D. Partnership with International and Regional Organizations

16. In its discussion of the feasibility of undertaking the CDIS, the Board stressed the need for STA to work closely with other international and regional organizations with an interest in direct investment data. Accordingly, STA has very much appreciated the participation of international and regional partner organizations, as well as a number of national organizations, in advancing the CDIS. Their involvement included the following:

- The ECB, Eurostat, the OECD, and UNCTAD were active members of the CDIS Task Force.
- The Hong Kong Census and Statistics Department hosted the second meeting of the CDIS Task Force.
- Eurostat, in conjunction with the ECB, hosted the two seminars in Luxembourg for members of the European Union, the European Free Trade Area, and Turkey.
- The Center for Excellence in Finance hosted the seminar for formerly centrally planned countries in South East Europe and Central Asia.
- The Centro de Estudios Monetarios Latinoamericanos (CEMLA) hosted the seminar for countries from Latin America.
- The Caribbean Technical Assistance Center (CARTAC) hosted and covered all participants' travel accommodation and subsistence costs, for economies of the Caribbean and the Atlantic.
- The Malaysian Department of Statistics hosted the seminar for economies of the Asia-Pacific region.
- The Omani Ministry of Economy hosted the seminar for countries in the Middle East.
- The South African Reserve Bank hosted the seminar for Anglophone African countries.

17. STA is also very grateful for the support and assistance provided by the Joint African Institute, which is funded by the IMF and other donors, in arranging the seminar for Francophone African countries that was held in Tunis.

E. Budget

18. Management provided STA with additional funding to cover expenses related to undertaking the CDIS. The next recent or final allocations of funds (reflecting a scaling back of funding in FY 2009 as part of the Fund's downsizing) are:

For FY 2008, \$0

For FY 2009, \$255,000

For FY 2010, \$230,000

The budgets for FY 2011 and FY 2012 are yet to be determined.

19. So far in FY 2009, the funds have been used as follows:

Participants' and staff travel expenses to attend the 10 regional seminars:	\$250,000
Printing of flyers	<u>2,500</u>
Total	\$252,500

III. NEXT STEPS

A. Further Assistance to Participants

20. Many economies have well organized collection systems and have already planned—and in some cases, already implemented—important improvements, at least partly due to their participation in the CDIS, including improved coverage of fellow enterprises. It is clear that a second round of seminars is not required for economies that have well developed direct investment data collection and compilation systems in place. However, for other economies, especially those with limited experience in conducting surveys, further follow-up by STA may be very valuable. Accordingly, STA is exploring how best to assist these economies—whether through a series of targeted visits, or smaller seminar/workshop groups that focus on the practical problems they may be encountering. This approach is a modification from the original proposal, which was to conduct two rounds of regional seminars/workshops (one in 2008 and another in 2009) for all economies.

B. Templates for Reporting the CDIS Data and Metadata to the IMF

21. Over the next few months, STA will finalize the reporting templates of the CDIS results to the IMF (the latest versions have been posted to the CDIS website). To accompany the reporting of data, STA will also include a metadata outline, and a series of questions that would allow an assessment of how the CDIS may have improved the quality of data on direct investment positions.

22. It is noteworthy that several economies have already improved their direct investment forms or have indicated a clear intention to do so. For example, a number of economies have improved their report forms to capture data that had previously been missed for fellow

enterprises. Another economy has indicated its intention to record bilateral positions for outward direct investment based on the economy of the immediate direct investment enterprise (consistent with the standards in *BPM6*), rather than reallocating such positions to ultimate destinations, in order to comply with the CDIS requirements.

C. Software for Aggregation and Dissemination of the Results of CDIS

23. STA has begun to explore the software options for the aggregation, editing, validation, and dissemination of the results. Conscious of shortcomings of the static tables used in the dissemination of the CPIS data, STA is considering developing a dynamic database for the CDIS to allow users a means of specifying the composition of tables and for manipulating these data.