

**RESTRICTED**

**IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS AND OECD  
WORKSHOP ON INTERNATIONAL INVESTMENT STATISTICS**

**DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)**

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**ISSUES PAPER (DITEG) # 27**

**PRINCIPLES FOR CLASSIFICATION BY INDUSTRY  
(ACCORDING TO DIRECT INVESTOR OR DIRECT INVESTMENT  
ENTERPRISE)**

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**I. Current international standards for the statistical treatment of the issue**

1. The *BPM5* does not refer to the industrial classification of FDI statistics. The OECD *Benchmark Definition of Foreign Direct Investment (Benchmark Definition)* treats the classification of FDI by industry in paragraphs 48-51, under the title “Industry sector classification”.

2. The *Benchmark Definition* recommends that, where feasible, the direct investment enterprise be analysed both by its industrial activity in the host country and by the activity of its direct investor.

3. The *Benchmark Definition* recommends that countries should as a minimum provide an industrial analysis which corresponds to the nine major divisions in the United Nations International Standard Industrial Classification (ISIC).

4. Concerning the activity of the direct investor, the *Benchmark Definition* recommends that the economic activity should be the main activity of the direct investor and all its subsidiaries and related companies in its country of residence.

5. For the activity of the direct investment enterprise, the recommendation of the *Benchmark Definition* is more articulated:

- i) when unconsolidated data exist for directly and indirectly owned direct investment enterprises, the activity should be the main activity of each enterprise for which data are available;

- ii) when only consolidated data are available, the activity should be the main activity of the direct investment enterprise and all its subsidiaries and related companies.
6. However, paragraph 117 of the *Benchmark Definition* says that holding companies are considered financial corporations even though the investments that they hold is in other industries.

## II. Concerns/shortcomings of the current treatment

7. The use of the term “sector” (“Industry sector classification”) can create confusion with the classification by institutional sectors.

8. The reference to the ISIC nine major divisions appears to be incorrect. In the ISIC, the highest level of the structure is called *section*, while the *division* is the second level in the hierarchy of the structure. In the present version of the ISIC (Rev. 3.1) there are 17 sections (from A to Q) and 99 divisions<sup>1</sup>.

9. The recommendation to record, where feasible, the activity of both the direct investment enterprise and of its direct investor covers all possible cases. However, in practice, the majority of compilers record the activity of the resident entity (direct investment enterprise, for inward FDI; direct investor, for outward FDI)<sup>2</sup>. As it is said in IMF-OECD (2003, p. 20), this can create difficulties for bilateral comparisons when the activity of the direct investment enterprise is different from the activity of the direct investor.

10. Concerning holding companies, differently from paragraph 117 of the *Benchmark Definition*, ISIC Rev. 3.1 gives two possibilities:

i) class 6599, *Other financial intermediation n.e.c.* (included in section J - Financial intermediation), contains the *activity of financial holding companies*;

ii) class 7414, *Business and management consultancy activities* (included in section K - Real estate, renting and business activities) contains the *activity of management holding companies*.

## III. Possible alternative treatments

11. To avoid confusion with the breakdown by institutional sector, it is advisable to change the title to something like “industrial activity classification”.

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<sup>1</sup> See the following website: <http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=17&Lg=1>. A revision of the ISIC is presently under discussion at the United Nations.

<sup>2</sup> See pages 20-21 in IMF-OECD (2003), and table 14 in Appendix I of the same publication.

12. Alternative possible treatments in respect to the concerns mentioned in points 8-10 are proposed below.

***Content of the list of activities to be recommended***

13. Reference could be made to “current ISIC sections”, as a minimum requirement. Some sections can be excluded, because they are not relevant for FDI: section P (Activities of private households as employers and undifferentiated production activities of private households) and section Q (Extraterritorial organizations and bodies).

14. A supplementary, more specific, list of ISIC activities could be proposed for FDI statistics. For services, a possible reference is the classification ICFA (ISIC Categories for Foreign Affiliates) contained in the *Manual on statistics of international trade in services* (2002, p. 64).

***Classification according to the activity of the direct investor or of the direct investment enterprise***

15. It is suggested that, as a second priority (after the double classification recommended by paragraph 48 of the *Benchmark Definition*), the methodology recommend to record the activity of the direct investment enterprise for both inward and outward FDI.

***Classification of holding companies by activity***

16. It is proposed that:

i) if a holding company owns no enterprise resident in the same country, the holding company is included in class 6599 (*Other financial intermediation n.e.c.*), in section J (Financial intermediation). This proposal is consistent with Outcome paper # 9 and 10 of BOPTeg;

ii) if a holding company owns enterprises resident in the same country, and a main activity of the resident group can be determined, the holding company is classed in the main activity of the group;

iii) if a holding company owns enterprises resident in the same country, and a main activity of the resident group cannot be determined, the holding company is included in class 7414 (*Business and management consultancy activities*), in section K (Real estate, renting and business activities);

#### **IV. Points for discussion**

1. *Do DITEG members agree that the Benchmark Definition should refer to the “industrial activity classification”, rather than to the “industry sector classification”?*
2. *Do DITEG members agree that the Benchmark Definition should refer to “current ISIC sections” as a minimum requirement for the classification by industrial activity?*
3. *Do DITEG members agree that a supplementary classification by industrial activity specific for FDI statistics should be recommended in the Benchmark Definition?*
4. *Do DITEG members agree that, as a second priority, the Benchmark Definition should recommend to record the activity of the direct investment enterprise for both inward and outward FDI?*
5. *Do DITEG members agree with the classification by industrial activity proposed in point 16 for holding companies?*

## **References**

*Balance of Payments Manual*, fifth edition (*BPM5*), IMF, 1993.

*Benchmark Definition of Foreign Direct Investment (Benchmark Definition)*, third edition, OECD, 1996

*Manual on statistics of international trade in services*, United Nations, European Commission, IMF, OECD, Unctad, WTO, 2002.