



Thirty-Fifth Meeting of the IMF Committee on Balance of Payments Statistics

Washington, D.C.
February 22–25, 2021

BOPCOM VM1—21/04.1
For discussion

D.1 Greenfield Investment and Extension of Capacity: Outcome of the Public Consultation

Prepared by the Direct Investments Task Team (DITT)

INTERNATIONAL MONETARY FUND

D.1 Greenfield Investment and Extension of Capacity: Outcome of the Public Consultation¹

The public consultation reveals consensus on including guidance on the definition and collection of data on greenfield investments and extension of capacity in the updated IMF's Balance of Payments and International Investment Position Manual, sixth edition, (BPM6). When considering the two practical and complementary measures of greenfield investment—the capital approach and the transactions approach, the general preference was to include the transactions approach into the BPM framework and explore the capital approach, which is broader, as part of the reconciliation framework of direct investment (DI) with multinational enterprises statistics. Before developing detailed guidance on the transactions approach for inclusion in the revised manual, respondents largely supported the need for testing to gather more countries' experiences. The Compilation Guide should also include practical guidance on how data on greenfield DI could be collected and compiled by countries.

In view of the broad agreement received during the public consultation, the GN is proposed to be considered by the Committee for final decision.

- 1. The public consultation² revealed general support to include guidance on the definition and data collection on greenfield investments and extension of capacity in the update of the manual.** Demand for these supplementary statistics are deemed relevant from an analytical perspective, as this would enhance the interpretability and usefulness of direct investment (DI) statistics among policymakers and other users. In that respect, it would be useful to have a standard definition and guidance on data collection to allow producing harmonized data. The minority opposing views thought that including the topic and its discussion in the forthcoming OECD's *Benchmark Definition of Foreign Direct Investment, fifth edition (BD5)* would serve better. The current estimates of greenfield investments and extension of capacity suffer from serious methodological concerns, amongst which the difficulty in identifying greenfield investment particularly when new companies are often created as vehicles for Mergers and Acquisitions (M&As) or in the context of corporate restructurings, the applicability of three years in all sectors, and confidentiality issues.
- 2. There was general consensus that both greenfield investments in newly established enterprises and extensions of capacity into existing businesses should be collected as the impact on the host economy is expected to be similar.** This is expected to provide a thorough view of the economic and financial impact of DI, including as M&As. One respondent also raised the usefulness of gathering more information on disinvestment as well as capital investment.
- 3. The consultation has revealed a preference for the transactions approach, which is supported within the BOP/IIP framework, and easier to implement.** The capital approach, which goes beyond the BPM framework could be explored as part of the reconciliation framework of DI with multinational enterprises (MNEs) statistics. This approach measures fixed capital formation of newly created enterprises and the expansion of existing ones, regardless of the source of funding.

¹ Prepared by Ms. Padma S. Hurree-Gobin (IMF), and Ms. Francesca Spinelli (OECD), both DITT Secretariat

² Seventeen responses, out of which two respondents from the same country. See detailed results in Annex II.

4. **There has been general support for undertaking a period of research and testing with countries collecting such statistics using the transactions approach before developing detailed guidance.** Although the Eurostat pilot study has been acknowledged, the respondents believed that other countries' experience can be useful to capitalize on all best practices in place. The research and testing would be convenient to identify practical difficulties and develop guidance on data collection, particularly if respondents do not separately identify "greenfield" transactions in their accounting system.

5. **There has been general agreement that the Compilation Guide should include practical guidance on how data on greenfield DI should be collected and compiled by countries.** A practical guide that gives guidelines for compiling these data is deemed essential to guarantee the production of homogeneous statistics allowing for cross-country comparison and compliance with the quality standards required in all official statistics. Finally, the guide should show different examples of complex cases to facilitate compilation.

6. **Respondents pointed to several practical issues that should be considered when compiling statistics on greenfield investment.** According to them, the data collection underscored (i) the importance of institutional collaboration, for which close coordination and data-sharing agreements are needed; (ii) lack of information in the current reporting system; (iii) legal constraints and confidentiality issues; (iv) reporting burden/costs; (v) the importance of having a clear definition with no gray areas; (vi) the exclusion of reinvested earnings because of practical reasons; (vii) the applicability of the three-year rule; and (viii) the need to coordinate the definition of greenfield investment with the national accounts.

Annex I. WGIIS Consultation on GN D.1

As part of the BPM6 and BD4³ update process, the OECD Working Group on International Investment Statistics (WGIIS) Secretariat, consulted with WGIIS delegates⁴ on the DITT GN D.1 to gauge their support and preferences. The OECD also organized a webinar⁵ on February 4 to discuss the outcomes of the consultation and gather additional insights on the feasibility of the proposed approaches.

1. **There was strong support (from 22 respondents) to include a definition of greenfield investment (GI) and extension of capacity (EC) and guidance on related data collection (on a supplemental basis) in BPM7 and in the BPM7 Compilation Guide.** Three respondents indicated that they currently produce estimates of greenfield investments. A couple of respondents preferred to include guidance on GI and EC in *BD5* as they favoured the capital approach, and that goes beyond the BPM framework by considering all forms of financing beyond those received from the parent company.
2. **There was also strong support for the collection of both GI and EC, although some practical concerns were raised including increased respondents' burdens and difficulties to identify GI and EC separately.** The survey also asked whether a good compromise would be a threshold of three years from the establishment of a new enterprise to identify GI. The majority of respondents (17) supported a conventional period of three years, although some suggested a sectoral analysis prior to making a decision, or a higher threshold (e.g., between five and seven years) to account for investment in other sectors (e.g., physical infrastructure, energy, etc.), for which the proposed threshold might be too short.
3. **Most respondents expressed their support for including guidance in BPM7 on GI&EC using the transaction approach and there was unanimous support for undertaking further research and testing to develop detailed guidance on this approach** (10 respondents expressed interest to participate in this exercise). A few respondents called for more specific guidance on the type of ownership (influence versus control) and on the type of debt instruments to consider increasing cross-country comparability. Despite the overall support, many practical considerations were raised on the feasibility of the transaction approach. Those included operational difficulties in separating GI from EC but also general difficulties to identify the various types of transactions (greenfield, M&A), particularly when using an ITRS system or when collecting the information at the Local Enterprise Group level. One respondent mentioned the existence of legal restrictions preventing them from asking about the purpose of the transactions. There were also concerns expressed as regards confidentiality.

³ The IMF and the OECD are collaborating in the work of the Direct Investment Task Team (DITT), serving as co-Chairs and in the DITT Secretariat. The OECD's *Benchmark Definition of Foreign Direct Investment, fourth edition (BD4)*, which is being updated, provides detailed guidance on the compilation of direct investment (DI) statistics in line with the IMF's *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)*. The WGIIS reviews the guidance notes produced by the DITT and provides feedback at different stages.

⁴ Twenty-six countries responded to an online survey set up by the OECD, but not all countries responded to all questions. Includes answers provided by two countries during the earlier WGIIS/BPTT consultation exercise conducted in December 2020.

⁵ There were more than 100 participants, and no dissenting opinions emerged during the discussion.

4. There was strong support to further explore the capital approach in a crosscutting context with statistics on MNEs. It was generally recognised that the capital approach is better suited for users' analytical needs but that it can be resource intensive and impractical to implement in certain countries. It was suggested to use the stock-taking survey (to be conducted as part of the next steps of the GN D.9) to further develop guidance and explore the feasibility of merging foreign affiliates statistics (FATS) and DI-transactions, essentially to exploit information from Gross fixed capital formation (GFCF) from the former. However, some raised the issue of data consolidation within FATS, which might pose some challenges in matching the two data sources and identifying the correct source and use of funding.

Table 1. Answers of WGIIS Delegates to the Questions Included in the Online Survey

	Yes	No
Q1. Do you currently produce estimates of Greenfield DI?	3	20
Q2. Do you agree to include in <i>BPM7</i> further guidance on the definition and collection of greenfield investment (GI) and extension of capacity (EC), on supplemental basis?	22	3
Q3. Do you think that the <i>BPM7</i> Compilation Guide should include practical guidance on how data on greenfield DI should be collected and compiled by countries?	19	4
Q4. Do you agree that <u>both investment in newly established enterprises</u> (i.e., greenfield investment) <u>and investment into existing business</u> (i.e., extension of capacity) should be collected, as the impact on the host economy is expected to be similar?	22	3
Q5. Do you think that <u>a threshold of three years</u> from the establishment of a new enterprise would be a good compromise to identify GI in its narrower sense?	17	6
Q6. Do you agree that the transactions approach is within the scope of the BOP/IIP framework?	23	0
Q7. Do you agree that the capital approach goes beyond the BOP/IIP framework and should be explored as part of the development of a framework to reconcile DI and statistics on MNEs?	18	4
Q8. Do you support that a period of research & testing be undertaken to gather more experience in collecting such statistics using the transactions approach to further develop detailed guidance?	25	0
Q9. Would you be interested in taking part in this research & testing?	10 (maybe)	11
Q10. From your perspective, is the collection/compilation of GI&EC for equity (other than reinvested earnings) and debt instruments, excluding pass-through funds, feasible?	8	13

Annex II. Summary Results of the Public Consultation

1. Do you agree with including guidance on the definition and collection of data⁶ on greenfield investments and extension of capacity in the updated IMF's *BPM6*?

Yes	No
88%	12%

2. Do you agree that both greenfield investments in newly established enterprises and extensions of capacity into existing businesses should be collected as the impact on the host economy is expected to be similar?

Yes
100%

3. The GN presents two practical and complementary measures of greenfield investment—the capital approach and the transactions approach that can be used.⁷

a. Do you agree that the transactions approach is within the scope of the BOP/IIP framework?

Yes	Abstention
94%	6%

b. Do you agree that the capital approach goes beyond BPM and could be explored as part of the development of a framework to reconcile DI and statistics on MNEs?

Yes	No	Abstention
82%	12%	6%

4. Do you support a period of research and testing with countries to gather more experience in collecting such statistics using the transactions approach to further develop detailed guidance?

Yes	No
94%	6%

5. Do you think that the Compilation Guide should include practical guidance on how data on greenfield DI should be collected and compiled by countries?

Yes	No
88%	12%

⁶ Note that this will be as a supplementary DI series under direct investment.

⁷ Dependent on policy-analytic needs as well as the available statistical capacity and degree of cooperation among compilers.