



# Data report: Foreign Direct Investment in developing countries

Methodological Note

14.12.2020

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## Objective

The primary focus was to produce an overview of foreign direct investment (FDI) outflows from Norway and the aggregated global volume to developing countries of interest, to enable Norad to conduct comparison and analysis. Sweden and Denmark have been included as comparative Nordic cases.

The data report from KPMG will be used as the basis for a Norad note on FDI, as part of the preparation for the 2021 Norad Conference, which will explore what Norway can do, and what the private sector requires, to stimulate increased FDI to developing countries.

## Methodological background

The IMF's *Balance of Payments and International Investment Position Manual 6th edition* (BPM6) and the *OECD Benchmark Definition of Foreign Direct Investment* are universally accepted standards for classifications of FDI. The *Benchmark* is fully compatible with the underlying concepts and definitions of the International Monetary Fund's *Balance of Payments and International Investment Position Manual 6th edition* (BPM6). It also follows the general economic concepts set out by the *System of National Accounts, 2008* (SNA, 2008).

The *Benchmark* provides operational guidelines on how FDI activity should be measured and sets the world standard for collecting direct investment statistics. OECD Reporting Countries, including Norway, Sweden and Denmark, follow the *Benchmark* in their statistical compilation of FDI. Under the *Benchmark*, FDI is understood as a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. This is consistent with the IMF's interpretation, in which FDI is distinguished from other kinds of international investment, as it is made to establish a lasting interest in or effective management control over an enterprise in another country.

The *Benchmark* recommends that FDI data be presented in two ways: on a straightforward asset/liability basis (i.e. under the asset/liability principle) and reflecting the direction of direct investment influence within the context of the Framework for Direct Investment Relationships (FDIR) (i.e. under the directional principle).

The Directional Principle<sup>1</sup> has been the basis for the compilation of all FDI figures for Statistics Norway (SSB) and forms the base principle for the assignment.

## Definitions<sup>2</sup>

The IMF's *Balance of Payments and International Investment Position Manual 6th edition* (BPM6) categorises FDI to include the following components: equity investment, (including investment

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<sup>1</sup> Note that SSB applies a "revised directional principle" in which the principle is only partly applied in the foreign direct investment statistic as SSB only covers debt instruments between fellow enterprises.

<sup>2</sup> For a glossary of FDI terms and definitions under the *OECD Benchmark*, see: <https://www.oecd.org/daf/inv/investment-policy/2487495.pdf>

associated with equity that gives rise to control or influence); investment in indirectly influenced or controlled enterprises; investment in fellow enterprises; debt (except selected debt); and reverse investment.

The main instruments of FDI are equity and debt. FDI financial flows are cross-border transactions between affiliated parties (direct investors, direct investment enterprises and/or fellow enterprises) recorded during the reference period (typically year or quarter), and are broken down into two components:

- **FDI positions**, which represent the value of the stock of direct investments held at the end of the reference period (typically year or quarter). The change in direct investment positions from one period to the next is equal to the value of financial transactions recorded during the period plus other changes in prices, exchange rates, and volume. It consists of **shares and other equity** and **debt instruments**.
- **FDI income**, the data of which are closely linked to the stocks of investments and are used for analysis of the productivity of the investment and calculation of the rate of return on the total funds invested. It consists of **distributed earnings, reinvested earnings** and **income on debt**.

Supporting definitions for the purposes of this assignment include:

- **Equity** includes common and preferred shares (exclusive of non-participating preference shares which should be included under debt), reserves, capital contributions and reinvestment of earnings.
- **Debt instruments** include marketable securities such as bonds, debentures, commercial paper, promissory notes, non-participating preference shares and other tradable non-equity securities as well as loans, deposits, trade credit and other accounts payable/ receivable.
- **Reinvested earnings**: Reinvested earnings comprise of the share of earnings that is not paid out to investors as dividend. It is instead withheld in the direct investment enterprise. This represents an income in the balance of payments and retained earnings in the financial account.
- **Income on debt**: Interest returns on debt instruments.
- **Net income on debt**: Income on debt minus interest expense.
- **Ultimate investor country**: The ultimate investor country is defined as the country where the economic agent that controls the largest direct investor in a Norwegian enterprise is registered.
- **Fellow enterprises**: fellow enterprises are enterprises that are directly or indirectly controlled or influenced by the same enterprise in the ownership hierarchy, but neither fellow enterprise controls or influences the other.

## Parameters

The analysis is guided by five broad characteristics, all of which have a bearing on the level, distribution and concentration of FDI:

1. **By geographical region**: countries are classified according to the regional groupings used by the World Bank: 1) East Asia and Pacific; 2) Europe and Central Asia; 3) Latin America and the Caribbean; 4) Middle East and North Africa; 5) South Asia; and, 6) Sub-Saharan Africa.<sup>3</sup> Note that overseas territories and sovereign city states are classified under "Other" for regions in the excel.
2. **By country income classification**: countries are classified according to the World Bank four income groups <sup>4</sup>—low, lower-middle, upper-middle, and high-income countries – which are

<sup>3</sup> World Bank. See: <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519>

<sup>4</sup> Ibid.

updated each year based on GNI per capita in current USD. Note that overseas territories and sovereign city states are classified under “Not defined” for income groups in the excel. Groups are current as of July 2019:

- Low-income country (LIC): < 1,036
  - Lower-middle income country (LMIC): 1,036 – 4,045
  - Upper-middle income country UMIC): 4,046 – 12,535
  - High-income country (HIC): > 12,535
3. **By Norwegian partner country:** prioritised countries reflect Norway's list of long-term development partners and stabilisation countries, as found in Meld. St. 17 (2017-2018) *Report to the Storting*.<sup>5</sup>
  4. **By industry (sector):** the OECD breaks down FDI statistics by major industrial sectors based on the UN's *International Standard Industrial Classification* (ISIC 4) while SSB uses the *Standard Industrial Classification 2007* (SIC 2007). The two sets are compatible, as the basis of SIC 2007 is the EU *Nomenclature européenne des activités économiques* (NACE Rev. 2) and (ISIC 4).<sup>6</sup>
  5. **By FDI type:** for consistency of comparison, and aligned with the *Benchmark* and *BPM6*, we break down FDI into sub-indicators for income (Total income, Distributed earnings, Reinvested earnings, Income on debt) and positions (Total positions, Shares and other equity, Debt instruments).<sup>7</sup>

## Data and Tables

Values are displayed in both USD and NOK. Currency conversions from NOK, SEK and DKK to USD were done through the OECD's *Foreign Direct Investment Statistics: Data, Analysis and Forecasts* databank, which allows users to download metadata in OECD Reporting Country currency or in USD.<sup>8</sup>

Global figures are sourced from the IMF's *Coordinated Direct Investment Survey* (CIDS). Comparative data from Sweden and Denmark were sourced from the OECD's *Foreign Direct Investment Statistics: Data, Analysis and Forecasts* databank, which is also used for industry classifications and FDI flows for Sweden and Denmark. Norwegian figures are sourced from SSB's *Direct investment, stocks and income*, with some complimentary use of OECD dataset for industry classifications and Norwegian FDI data presented in USD.

Note that some FDI financial transactions may be negative. According to the OECD<sup>9</sup>, negative FDI *positions* largely result when the loans from the affiliate to its parent exceed the loans and equity capital given by the parent to the affiliate and is most likely to occur when FDI statistics are presented by partner count. Negative FDI positions manifest for three reasons:

1. If there is disinvestment in assets i.e. the direct investor sells its interest in a direct investment enterprise to a third party or back to the direct investment enterprise.
2. If the parent borrowed money from its affiliate or if the affiliate paid off a loan from its direct investor.

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<sup>5</sup> Norges Regjeringen. See: [https://www.regjeringen.no/contentassets/aa31d1e5d6e94d0eaa8b1eeb047f4576/partnerland\\_summary.pdf](https://www.regjeringen.no/contentassets/aa31d1e5d6e94d0eaa8b1eeb047f4576/partnerland_summary.pdf)

<sup>6</sup> While SIC 2007 builds on the ISIC4, the slight deviation relates to SSB's basis for coding units according to the most important activities in SSB's Business register and in the Central Coordinating Register for Legal Entities.

<sup>7</sup> Note that where it is possible to identify a reporting company, for confidentiality reasons, SSB has not included their data in country overviews. The implication is that the sum of parts might sometimes differ from total amounts (e.g. Total Income or FDI for all countries). We have included special notation in cases where numbers are excluded due to confidentiality reasons.

<sup>8</sup> According to SSB, the OECD does not have permission to make changes to SSB data other than presenting in foreign currency (US Dollars) and including them in various aggregated tables and charts. This applies to other OECD Reporting countries, allowing for cross-comparisons using the dataset.

<sup>9</sup> OECD *Foreign Direct Investment statistic: Explanatory Note*. See: <https://www.oecd.org/daf/inv/FDI-statistics-explanatory-notes.pdf>

3. If reinvested earnings are negative i.e. if the affiliate loses money or if the dividends paid out to the direct investor are greater than the income recorded in that period.

## Limitations

### I. Timeframe

For simplicity of comparison, the assignment covers the time period from 2013 to 2018.

The OECD considers 2010 as the target year for the full implementation of the *OECD Benchmark Definition of Foreign Direct Investment*, thereby providing a comparable and reliable basis for users of FDI statistics. However, SSB only has figures from 2013 onwards.

The new mandatory requirements and compiling methods under the *Benchmark*, notably changes regarding the treatment of investments between fellow enterprises, resulted in a significant impact on the debt instruments for both inwards and outwards FDI. There was reportedly no recalculation of previous data by SSB. And while previous data series compiled according to the previous method are available,<sup>10</sup> the series is not directly comparable due to the aforementioned methodological challenges. Data beyond 2018 from SSB has not been published while 2019 figures for the OECD are not final.

### II. Industry data

Only aggregated figures for Norwegian FDI to industry classifications and to partner countries are available. SSB does not publish FDI data broken down by country and industry due to issues of data quality and confidentiality of the reporting by Norwegian enterprises. SSB is experimenting with this issue, and data might be available in the future. SSB has discontinued FDI transaction-level data in FDI statistics due to quality concerns.

A comparative dataset for global FDI per-industry classification proved challenging. The IMF does not disseminate geographic or industrial sector breakdowns of FDI statistics. Data deficiencies reflect the complexities of compiling FDI data, as well as the use by countries of different methodological practices in compiling these data.<sup>11</sup> However, to offer a basis for comparison, outward FDI from Denmark and Sweden to industry classifications were included using OECD data.

### III. Methodological and data variance<sup>12</sup>

Data deficiencies and variance exist, which reflect the complexities of compiling FDI data and the use by countries of different methodological practices in compiling these data.

For instance, there is a sizable discrepancy seen in global aggregations of FDI outflows and inflows published by the IMF when, theoretically, at the global level, outflows of FDI capital from investing countries should equal the inflows recorded by the recipients of this capital. Similarly, Many, countries fail to report reinvested earnings, and the definition of long-term loans differs among countries.

Varying definitions have a bearing. For instance, the IMF suggests that investments should account for at least 10 percent of voting stock to be counted as FDI. This is consistent with the *Benchmark's* threshold of 10 to 50 percent. However, the IMF notes that in practice many countries set a higher

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<sup>10</sup> These can be found under the heading "See all figures in Statbank (5)" and then under "Closed time series".

<sup>11</sup> IMF *Foreign Direct Investment: Trends, Data Availability, Concepts, and Recording Practices*. See: <https://www.imf.org/external/pubs/ft/fdi/2004/fditda.pdf>

<sup>12</sup> Several examples and their implications sourced from the IMF's *Foreign Direct Investment: Trends, Data Availability, Concepts, and Recording Practices* (see above footnote) and OECD's *Measuring International Investment by Multinational Enterprises Implementation of the OECD's Benchmark* (<http://www.oecd.org/corporate/FDI-BMD4-brochure.pdf>).

threshold. For instance, while Sweden and Denmark apply the 10 per cent of ownership, SSB applies a 20 per cent ownership as the limit for distinguishing between direct investments and portfolio investments.<sup>13</sup>

However, measuring voting power as a proxy for “ownership” isn’t straightforward. While voting power is generally obtained through the purchase of equity, it is possible to have voting power that is not in the same proportion as the equity ownership (for example, ‘golden shares’ have greater voting power than other shares). It is also possible to obtain voting power without purchasing equity (for example, through derivative contracts and repurchase agreements).

Similarly, there is no single universal definition of Special Purpose Entities (SPEs). It is left to individual countries to identify such entities according to their own definitions or descriptions. The implication is that, in some cases, countries with many SPEs would, for instance, give the wrong impression of being overly attractive as a location for direct investment or overly active in investing in developing countries. Countries hosting intermediate entities (SPEs or other entities acting on behalf of the parent), observe artificially high investment statistics.

These pass-through investments or capital-in-transit—have no real immediate economic impact such as job creation, productivity gains etc. on the host economy. Further, capital in transit can distort the country patterns of FDI statistics and cause double-counting in the statistics; it can lead to double-counting of FDI financial flows as well as of income and positions, for instance when debt passes through affiliated entities. It also affects the geographical and industrial distribution of all direct investment statistics.

The main challenge appears that multinational enterprises (MNEs) have become more complex over time and in response to several factors, including the need to manage global production networks and the desire to minimize tax and regulatory burdens. This complexity can distort FDI statistics in a couple of ways, for instance when MNEs channel investments through several countries, FDI flows are inflated because each flow into and out of each country is counted even if the capital is passing through. It also obscures the ultimate source and destination countries of FDI.

The *Benchmark* is a living document and evolving to address some of these issues. For instance, the latest release recommends countries to compile statistics excluding resident Special Purpose Entities (SPEs) so countries have a much better measure of the FDI into their country that is having a real impact on their economy.

Data deficiencies and variances may also, to an extent, be counteracted or juxtaposed by triangulating / complimenting with other datasets. For particular purposes it might be useful, for example, to identify separately those flows that occur as a result of cross-border mergers and acquisitions (M&As). This would serve to distinguish between FDI in which ownership of existing enterprises is transferred and FDI in which new enterprises are established by direct investors – often termed “greenfield” investments – or in which existing direct investment enterprises are expanded. This distinction would allow insights to be gained into, not only the amount of FDI, but also into its likely economic effects.

## Narrative

### I. Approach and methodology

- We began by researching the internationally agreed terminology for FDI, and in particular, the relevant definitions, collection methodologies, and supporting indicators.
- A mapping of how definitions, datasets and indicators held across sources and discovered that the leading guidelines were the *OECD Benchmark Definition of Foreign Direct*

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<sup>13</sup> A mapping of OECD countries can be found here:

[https://gd.d.oecd.org/data/FDI\\_Metadata\\_ComparativeTables/Q8+C\\_Q8\\_1+C\\_Q8\\_1\\_EXC+C\\_Q8\\_2+C\\_Q8\\_3+C\\_Q8\\_3\\_EXC+C\\_Q8\\_4+C\\_Q8\\_4\\_EXC+C\\_Q8\\_COMM](https://gd.d.oecd.org/data/FDI_Metadata_ComparativeTables/Q8+C_Q8_1+C_Q8_1_EXC+C_Q8_2+C_Q8_3+C_Q8_3_EXC+C_Q8_4+C_Q8_4_EXC+C_Q8_COMM).

*Investment*, the *IMF Balance of Payments and International Investment Position Manual 6th edition (BPM6)*, and the *System of National Accounts, 2008 (SNA, 2008)*, which are all aligned methodologically.

- With these three documents forming our methodological framework for consistent comparison, we then examined whether SSB's collection methodology and definitions for Norwegian FDI data were consistent. We discovered alignment, though timeframes and industry-level data were incomplete (see **Limitations**).
- This enabled us to draft our data collection approach and parameters for analysis. We decided to use the World Bank's income-group and regional country classifications. Industry (i.e. sector) classifications from the OECD and SSB are aligned with some minor variance (see **Parameters**).
- Quality Assurance of parameters and data collection methodology was then conducted by the Team Leader.

## II. Data collection

- With the assumption that the level of data granularity would be more challenging to source for Norwegian FDI flows, we began compiling data from SSB into our analytical parameters. We discovered that SSB data had FDI positions, income, and aggregate FDI per industry classification for Norwegian outflows and inflows. It was limited in its timeframe and ability to disaggregate FDI data per industry per partner country, however.
- Sourcing global dataset proved a challenge in terms of ensuring methodological alignment to scope required for analysis in the ToR. We pulled data from several main sources for global FDI flows to map indicators initially, discovering:
  - OECD: *Foreign Direct Investment Statistics: Data, Analysis and Forecasts* has FDI positions, income and flows only from OECD countries to partner countries, making it ineligible for a comprehensive global view;
  - World Bank Databank: The Databank does not break down FDI by type sufficiently, and while data on equity flows are based on balance of payments data reported by the IMF while FDI data is supplemented by the World Bank staff estimates using data from UNCTAD and official national sources, which could complicate the basis for a robust comparison;
  - UNCTAD: The UNCTAD STAT held FDI inflows and outflows, as well as stock, but does not break down FDI by type sufficiently;
  - IMF: The *Coordinated Direct Investment Survey (CIDS)* data includes global FDI positions and is both the guideline organization through BPM6 and primary data source for UNCTAD, OECD, World Bank and others.
- We settled on the IMF CIDS as the primary dataset for global FDI positions while the OECD was used as the primary source for comparable neighbouring countries of Sweden and Denmark.
- Our search for a comparative dataset for global FDI per-industry classification proved elusive. However, to offer a basis for comparison, outward FDI from the Sweden and Denmark to industry classifications were included from OECD data, which follows ISIC 4 methodology.
- Quality Assurance of chosen databases was conducted by the Team Leader.

## III. Sanitation and Tabulation

- *Regions and Income groups*: Data sanitation was conducted on World Bank income and regional classification data, notably on organising overseas territories and autonomous city-states. into a separate categorisation ("Others" for Regions and "Not Defined" for Income Groups).
- *Industry*: Data sanitisation here focused on alignment of industry classification to ensure aggregated fields were aligned between OECD and SSB datasets. We have also removed



Level 2 classifications as some Level 2 industries are listed and reported on while others are listed, yet not reported on. This complicates the accurate aggregation of Level 1 in some instances.

- *GDP*: Gross domestic product (current prices), sourced from the IMF's *World Economic Outlook* database, only includes 195 countries. Values reported by IMF are in USD billions and were converted to USD millions to align with reported USD amounts for FDI.
- *FDI data*: Data has been consolidated in excel sheets from the following sources:

Reference to name of consolidated sheet:	Reference to data source, database and tables used as input	Link:	Accessed on
IMF Global FDI Per Country	Data Source: Coordinated Direct Investment Survey (CDIS) Table: Table 4-i: Inward Direct Investment Positions as Reported by All Reporting Economies by End-Year	IMF: <a href="https://data.imf.org/regulation.aspx?key=60564263">https://data.imf.org/regulation.aspx?key=60564263</a>	Data extracted from IMF Data Warehouse on: 09.12.2020
	Data Source: Coordinated Direct Investment Survey (CDIS) Table: Table 4-i: Inward Equity Positions (Net) as Reported by All Reporting Economies by End-Year	IMF: <a href="https://data.imf.org/regulation.aspx?key=60564263">https://data.imf.org/regulation.aspx?key=60564263</a>	Data extracted from IMF Data Warehouse on: 09.12.2020
	Data Source: Coordinated Direct Investment Survey (CDIS) Table: Table 4-i: Inward Debt Instruments Positions (Net) as Reported by All Reporting Economies by End-Year	IMF: <a href="https://data.imf.org/regulation.aspx?key=60564263">https://data.imf.org/regulation.aspx?key=60564263</a>	Data extracted from IMF Data Warehouse on: 09.12.2020
	Database: International Monetary Fund, World Economic Outlook Database, October 2020 Indicator: Gross domestic product, current prices	IMF: <a href="https://www.imf.org/en/Publications/WEO/weo-database/2020/October/download-entire-database">https://www.imf.org/en/Publications/WEO/weo-database/2020/October/download-entire-database</a>	Data extracted from IMF, World Economic Outlook Database, on 08.12.2020
	SSB Norwegian FDI Per Country	Database: External PROD Table: 11324: Direct investments (NOK million), by income, country, contents and year	SSB: <a href="https://www.ssb.no/en/statbank/table/11324">https://www.ssb.no/en/statbank/table/11324</a>
	Database: External PROD Table: 11326: Direct investments (NOK million), by positions, country, contents and year	SSB: <a href="https://www.ssb.no/en/statbank/table/11326">https://www.ssb.no/en/statbank/table/11326</a>	Data extracted from SSB.no on: 06.12.2020
SSB NO FDI Per Industry	Database: External PROD Table: 11323: Direct investments (NOK million), by	SSB: <a href="https://www.ssb.no/en/statbank/table/11323/">https://www.ssb.no/en/statbank/table/11323/</a>	Data extracted from SSB.no on: 06.12.2020

	income, industry (SIC2007), contents and year		
	Database: External PROD Table: 11325: Direct investments (NOK million), by positions, industry (SIC2007), contents and year	SSB: <a href="https://www.ssb.no/en/statbank/table/11325">https://www.ssb.no/en/statbank/table/11325</a>	Data extracted from SSB.no on: 06.12.2020
OECD NO-SW-DK FDI per country	Data Source: OECD International direct investment database Dataset: FDI statistics by partner country and by industry – Summary	OECD: <a href="https://stats.oecd.org/Ind ex.aspx?DatasetCode=FDI_FLOW_INDUSTRY">https://stats.oecd.org/Ind ex.aspx?DatasetCode=FDI_FLOW_INDUSTRY</a>	Data extracted from OECD.Stat on 09.12.2020
OECD NO-SW-DK Per Industry	Data Source: OECD International direct investment database Dataset: FDI statistics by partner country and by industry – Summary	OECD: <a href="https://stats.oecd.org/Ind ex.aspx?DatasetCode=FDI_FLOW_INDUSTRY">https://stats.oecd.org/Ind ex.aspx?DatasetCode=FDI_FLOW_INDUSTRY</a>	Data extracted from OECD.Stat on 14.12.2020

## Notations

In the various statistical tables presented, the following notations and conventions are used:

	SSB	IMF	OECD – More detailed notations are provided as comments in original data sheets and can be provided upon request
Data not available	"-" = Nil	Blank cells = data not available	"-" = Absolute zero observation
Data not applicable	"." = Category not applicable. Figures do not exist at this time, because the category was not in use when the figures were collected.	Blank cells = data not applicable	".." = Non-publishable, but non-confidential value
Confidential	":" = Confidential. Figures are not published so as to avoid identifying persons or companies.	"c" = data that were suppressed by the reporting economy to preserve confidentiality.	".." = Non-publishable and confidential value  "..": Secondary Confidentiality
General notes: Totals	Totals may not be equal to the sum of their components due to confidential data.  SSB reports that figures are not published if less than three enterprises form a cell in the table, due to risk of identification, i.e. the figures could be traced back to the respondent. This also applies when there are more than three units, if one of the respondents is so big that it can be identified.	Totals may not be equal to the sum of their components due to rounding. "0" reflects amounts that are less than +/- \$500,000, or amounts reported as "0".	





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