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**International Investment Statistical Co-operation in MENA Region
and the Possible Role of the OECD**

Information Note

This document is prepared by the OECD Secretariat for information to participants about the OECD's role in international investment statistics and responds to a number of inquiries coming from the MENA countries on how the Organisation could best contribute, subject to the availability of funds, to the dissemination of best practices to implement/improve the statistical systems in these countries.

Contact person:

Ayse Bertrand, tel. 33 1 4524 9124, fax 33 1 4524 1334, e-mail ayse.bertrand@oecd.org

INTERNATIONAL INVESTMENT STATISTICAL CO-OPERATION IN MENA COUNTRIES

1. One of the issues which came up as a possible future follow-up at the OECD-MENA Investment Exploratory Meeting in Istanbul last February was the dissemination of best practices to implement and/or to improve the statistical systems in MENA countries as data are published and gaps and shortcomings are identified. As for all countries, such an undertaking would imply enhancing the technical expertise and capacities of national authorities. This Information Note is intended as a backgrounder on OECD's role in foreign direct investment (FDI) statistics.

2. OECD has a recognised role in the compilation and dissemination of foreign direct investment (FDI) statistics. The *OECD Benchmark Definition of Foreign Direct Investment* provides operational guidelines to compilers on how FDI activity should be measured according to internationally agreed standards. The initial version of the *Benchmark Definition* (in 1983) and its subsequent revisions, all endorsed by the OECD Council, were prepared under the supervision of the Investment Committee. Moreover,

3. OECD's Investment Division has the responsibility for compiling and disseminating detailed FDI statistics from its member countries at regular intervals. These statistics are published in *International Direct Investment Statistics Yearbook* (both electronic and paper editions) and in a dedicated article on "Recent FDI trends and developments" in *International Investment Perspectives*. All the technical work on foreign direct investment statistics is conducted under the auspices of the OECD Workshop on International Investment Statistics (WIIS) which is composed of a network of experts from OECD member countries. WIIS operates under the supervision of the Investment Committee. Moreover, WIIS has developed a set of FDI indicators to measure economic globalisation.

4. Concepts and definitions used in the *OECD Benchmark Definition* are generally similar to IMF recommendation. However, it is worth emphasizing that FDI statistics are detailed as opposed to highly aggregate FDI components included within the broader framework of IMF balance of payments statistics. FDI statistics are broken down by partner country data as well as by industry classification for detailed components of FDI flows (financial flows and income flows) and stocks. OECD's FDI statistics are compiled on the basis of a common questionnaire which is also used by EUROSTAT, the statistical body of the European Union.

5. The increasing importance of multinational enterprises in the global economy has stimulated a growing interest to improve the availability, the accuracy, and the coverage of FDI statistics. In consequence, IMF and OECD have established close working relations over the past decade to respond to such interest by policymakers, analysts, and statisticians. As a part of this co-operation, in 1997, the two organisations implemented a joint exercise, the "Survey of Implementation of Methodological Standards for Direct Investment - SIMSDI". The survey is a comprehensive study of methodological standards applied by national compilers to measure direct investment as well as their data sources, and data collection and dissemination methods.

6. One hundred and fourteen countries (including all OECD countries and other IMF countries) replied to the 1997 survey. Recognising its usefulness for both compilers and analysts, the SIMSDI exercise was repeated at end 2001 and at end 2003. A report was prepared jointly by the IMF and OECD that analysed the survey results of 1997 and 2001 surveys. The most recent report was published jointly under the title *Foreign Direct Investment Statistics: How countries measure FDI*. The results of 2003 survey are still being processed.

7. Regarding the participation of Middle East and North African countries to SIMSDI exercises, Lebanon and Morocco participated only in the 1997 survey while Kuwait and Tunisia provided information both in 1997 and 2001. The situation has improved only slightly for the most recent 2003 survey with the participation of Kuwait, Lebanon, Morocco, Syria, and Yemen. In sum, only five of fifteen MENA countries have participated in the recent survey. This result indicates clearly the need to establish reliable statistical systems in MENA countries to measure FDI according to international standards where such statistics are not available and to improve the existing statistics in other countries. Tunisia is one of the countries in the region which can be considered as a good example where there is a relatively advanced statistical system. To illustrate this, we include in the annex some examples (not the full description) of FDI related statistical work of Tunisia.¹

8. Establishing best practices may be a long process. If so requested by MENA countries and subject to available funding, OECD's contribution to implement best practices for FDI statistics in the region could include the following:

- (i) To produce yearly FDI statistics of selected MENA countries where there are already existing elements of FDI statistics as an extension of the statistics for OECD countries, i.e. using the OECD framework for partner country and industry breakdown which is more detailed than other FDI statistics (see annex 1). These outputs will provide comparative analytical information on the FDI activity of these countries.
- (ii) To disseminate best practices to implement and/or to improve the statistical systems progressively as data are published and gaps and shortcomings are identified. Such an undertaking would imply enhancing the technical expertise of national authorities through following initiatives:
 - Organising technical capacity building seminars
 - Bilateral contacts including the provision of on-site assistance (as required)
 - Establishing contacts with the OECD network of experts on FDI statistics (of WIIS)
 - Exchange of staff

OECD contact person

Ayse Bertrand (Ms)
Manager, International Investment Statistics
Investment Division
Directorate for Financial and Enterprise Affairs
OECD

Tel: (33 1) 45 24 91 24
Fax: (33 1) 45 23 13 34
E-mail: ayse.bertrand@oecd.org

1. Tunisia is a member of the joint IMF/OECD Direct Investment Technical Expert Group (DITEG) which was set up in 2004 for the revision of international statistical standards for FD described in the *IMF Balance of Payments Manual* and the *OECD Benchmark Definition of Foreign Direct Investment*. The note on mergers and acquisitions included in Annex 2 of the present document was prepared by Tunisia as a contribution to that work.

**ANNEX 1:
STANDARD FRAMEWORK OF OECD FDI STATISTICS**

➤ **FDI Income**

- *Income on equity*
 - Dividends and distributed branch profits
 - Reinvested earnings and undistributed branch profits
- *Income on debt (interest)*

➤ **FDI flows:**

- *Direct investment in the reporting economy: inflows*
- *Direct investment abroad: outflows*

For each component, statistics are broken down by *equity capital, reinvested earnings and other capital*.

➤ **FDI positions**

- *Direct investment in the reporting economy: inward investment*
- *Direct investment abroad: outward investment*

For each component, statistics are broken down by *equity capital and reinvested earnings and other capital*.

All the above listed components are presented with further breakdowns

- by geographical allocation (partner country and/or economic zone covering countries and regions of the World)
- by industrial activity classified according to ISIC revision 3 (and NACE) which is standard classification established by the United Nations (see Annex 4)

**ANNEX 2:
EXAMPLES FROM FDI STATISTICS OF TUNISIA**

**Trend in foreign investments in Tunisia
breakdown by beneficiary sector
(Liabilities)**

(in million TD)

Description	1995	1996	1997	1998	1999	2000	2001	2002
Direct foreign investments	305.1	272.5	403.9	759.9	437.2	1068.2	700.0	1167.3
Energy	245.4	166.9	271.3	201.8	194.8	323.4	327.3	427.5
Tourism&real estate	28.1	48.4	23.0	24.6	37.2	41.5	101.1	21.9
Manufacturing industries	24.2	49.5	85.7	523.3	197.9	688.3	251.0	255.4
Other sectors	7.4	7.7	22.9	10.2	7.3	15.0	20.6	462.5
Portfolio investments	48.1	68.1	129.8	89.2	74.5	69.5	18.3	23.8
Total	353.4	340.6	532.7	849.1	511.7	1137.7	718.3	1191.1

Source: Central Bank of Tunisia

Some indicators of foreign investments in Tunisia

(in % unless otherwise indicated)

Description	1995	1996	1997	1998	1999	2000	2001	2002
Direct foreign investments/GDP	1.8	1.4	1.9	3.4	1.8	4.0	2.4	3.9
Direct foreign investments/Gross fixed capital formation	7.6	6.2	7.8	13.6	7.0	15.2	9.3	15.7
Direct foreign investments/External capital inflow	13.5	11.3	14.7	31.5	14.8	28.7	18.8	27.7
Direct foreign investments per Capita								
(in US dollars)	37.0	30.9	39.7	71.8	39.1	81.9	50.4	84.2
(in Tunisian dinars)	35.0	30.1	43.7	81.4	46.5	112.3	72.5	119.6

(*) : Provisional figures.

Source: Central Bank of Tunisia

OVERALL EXTERNAL POSITION OF TUNISIA
(in million TD)

Description	1999	2000	2001	2002
Direct Investments	-14276.2	-15947.6	-17083.4	-18708.7
- Assets	41.7	45.8	47.5	49.5
- Liabilities	-14317.9	-15993.4	-17130.9	-18758.2
Portfolio investments	-1277.2	-1310.9	-1329.6	-1377.4
- Assets	60.9	63.7	65.6	67.5
- Equity security	60.9	63.7	65.6	67.5
- Debt security	-	-	-	-
- Liabilities	-1338.1	-1374.6	-1395.2	-1444.9
- Equity security	-1338.1	-1374.6	-1395.2	-1444.9
- Debt security	-	-	-	-
Other investments	-13595.6	-14093.6	-15605.7	-16168.1
* Government MLT loans	-9576.0	-10159.9	-11264.0	-11688.4
- Assets	-	-	-	-
- Liabilities	-9576.0	-10159.9	-11264.0	-11688.4
. Public origin	-6709.3	-7075.9	-7915.7	-7538.6
. Privaye origin	-2866.7	-3084.0	-3348.3	-4149.8
* Businesses MLT loans	-3089.5	-3393.7	-3625.1	-4293.2
- Assets	129.0	137.4	143.9	133.4
- Liabilities	-3218.5	-3531.1	-3769.0	-4426.6
. Public origin	-1429.1	-1490.1	-1667.9	-2233.8
. Privaye origin	-1789.4	-2041.0	-2101.1	-2192.8
* Short term credit	-930.1	-540.0	-716.6	-186.5
- Financial	-1016.7	-1048.7	-1214.7	-1231.3
. Assets	808.6	963.7	803.0	947.6
. Liabilities	-1825.3	-2012.4	-2017.7	-2178.9
- Commercial	86.6	508.7	498.1	1044.8
. Assets	203.2	700.1	758.9	1114.8
. Liabilities	-116.6	-191.4	-260.8	-70.0
Reserves assets	2967.2	2634.4	3008.0	3206.7
- Monetary gold	4.4	4.4	4.4	4.4
- Special drawings rights	39.5	11.9	13.3	14.3
- IMF reserve position	32.2	34.5	36.5	37.5
- Foreign currency	2891.1	2583.6	2953.8	3150.5
TOTAL	-26181.8	-28717.7	-31010.7	-33047.5

DIRECT INVESTMENT: TRANSACTIONS ASSOCIATED WITH MERGERS AND ACQUISITIONS

Prepared by
Direction Balance of Payments, Central Bank of Tunisia
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1. Movements in Tunisia's external accounts have increasingly reflected the impact of opening the Tunisian economy through a continued process of trade and exchange liberalization.
2. Tunisia's external policy over the last 10 years has been characterized by promoting exports and attracting foreign direct investment.
3. Measures and incentives were adopted to give impetus to exports as part of the national strategy to strengthen the economy's competitiveness in order to face the new context of trade globalisation and increased international competition. This new context will be intensified since trade protection has been removed and tariffs dismantled (establishment of a free trade zone with EU).
4. For FDI, the government has softened investment regulations for most sectors, offered fiscal incentives to investment, made the dinar convertible for current account transactions and guaranteed foreign investor's right to repatriate capital investments made in accordance with law.
5. Consequently, external account equilibrium has been ensured despite unfavorable international conditions over the last years and especially FDI has increased subsequently starting from the 1990's in particular after the signing up of the Association Agreement with the EU in 1995.
6. Since 1998, the privatization program has boosted FDI to high levels (cf figures in Appendix 1).
7. In effect direct investment inflows have been very influenced since this date by acquisitions of public enterprises by non-resident investors.

I – Current international standards for the statistical treatment of issue

8. The IMF's balance of payments manual and the OECD Benchmark Definition of Foreign Direct Investment do not provide separate treatment of flows associated with merger and acquisition activity from other direct investment flows. Well the nature of this kind of transactions is quite different from other direct investment transactions.

II – Concerns/shortcomings of the current treatment

9. First acquisitions transactions do not provide new financing for the firm as other investments. However those transactions are included in the BOP and in the IIP of Tunisia because they are associated with changes in ownership of assets between residents (Public Sector) and non-residents (Private foreign investor). For the SNA breakdown between sectors is also observed with the decrease of Public Sector's stock investment and increase of foreign investment liabilities.
10. Secondly, while the original transactions in the host country (Tunisia) are considered as direct investment inflows and the firm as a branch which belongs to foreign direct investor, the financing of the acquisition, usually a big transactions, may give rise to some changes in the BOP of the investor's country recording the transactions in the heading portfolio or other investment instead of direct investment

outflows. This change will introduce an asymmetry between BOP's statistics compiled in the two countries having FDI relationship under this kind of operations.

11. Third, analysis of FDI activity including acquisitions becomes less consistent because of the importance of such operations in the whole figures of FDI and their unsteadiness.

12. The fluctuations observed from one year to another are mainly due to those acquisitions and we often need better analysis to have amounts of FDI including or excluding privatization proceeds.

13. Considering different possibilities of treatments and compilation done for such transactions, some other topics could be concerned such as FCS (Fully consolidated system) in the case of intermediation between investor and the direct investment company and the possibility that those transactions could not be covered. As a result gaps may occur between FDI statistics of different countries.

III - Possible alternative treatment

14. In order to improve compilation of such operations and to have better analysis in the BOP and IIP, of both FDI inflows and outflows, it would be useful to extend FDI statistics to classification by category of FDI introducing specific standard direct investment presentation for «mergers and acquisitions».

15. Definitions and descriptions of those operations should be also developed to ensure more uniformity and treatment of FDI statistics across countries.

16. For some countries such as Tunisia, it is possible nowadays to detect and compile this kind of transactions because of the low number of operations, but when the number of acquisitions rises it will be better to separate those operations from other investment. It should be noted, however, that the recording of those operations in BOP as FDI inward takes into account the real price of the acquisitions negotiated between the two parties.

APPENDIX

Foreign direct investment data 1994-2003

(Millions of dollars and number)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
FDI inward flows (<i>Direct investment in the reporting economy</i>)	535,9	322,6	279,6	365,3	668,1	367,9	778,8	486,4	821,3	583,9
FDI outward flows (<i>Direct investment abroad</i>)	7,7	3,4	2,4	9,2	1,8	2,5	1,7	0,3	0,5	1,4
FDI inward stock	9 918	10 967	11 181	10 629	12 237	11 432	11 545	11 667	14 061	16 567
FDI outward stock	31	30	29	32	34	33	33	32	37	44
Number of foreign affiliates located in economy	1 426	1 520	1 604	1 841	1 995	2 105	2 230	2 339	2 503	2 616
Number of employees of foreign affiliates located in economy	132 355	143 031	153 268	166 315	178 745	189 903	204 555	215 299	222 905	232 064

Exchange rates, 1994-2003

(National currency per United States dollar)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Period average ^a	1,0116	0,9458	0,9734	1,1059	1,1387	1,1862	1,1707	1,4387	1,4217	1,2885
End-of-period ^b	0,9912	0,9508	0,9985	1,1475	1,1010	1,2525	1,3853	1,4683	1,3341	1,2083

a used for the conversion of FDI flows.

b used for the conversion of FDI stocks.

Inward Flows of Foreign Direct Investment by Beneficiary Sector (Liabilities)

in dollar millions

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Energy	488,2	259,5	171,2	246,0	177,4	163,9	235,8	227,4	300,8	245,3
Tourism and real estate	16,8	29,7	49,7	20,9	21,6	31,3	30,3	70,3	15,4	14,6
Manufacturing industries	13,8	25,6	50,8	77,7	460,1	166,5	501,8	174,4	179,7	219,5
Others	17,2	7,8	7,9	20,8	9,0	6,1	10,9	14,3	325,4	104,5
TOTAL FDI	535,9	322,6	279,6	365,3	668,1	367,9	778,8	486,4	821,3	583,9
M & A	-	-	-	-	359,2 ¹	-	340,0 ²	44,5 ³	-	-
FDI excluding M&A	535,9	322,6	279,6	365,3	308,9	367,9	438,8	441,9	821,3	583,9

1. Privatisation of two cement companies (USD 359,2).

2. Privatisation of two cement companies (TND 264) and a chemical company (USD 76).

3. The acquisition by non-residents of a tourist unit (USD 44,5).

