



المركز الإحصائي  
لدول مجلس التعاون لدول الخليج العربية  
GCC-STAT



# Special Cases in FDI Statistics



حاصل على شهادة الأيزو 27001  
في أمن المعلومات



## Residency vs. Citizenship

- FDI data based on residency and not citizenship
- Administrative records in GCC countries based on citizenship and not residency
- High proportion of residents in GCC countries are non-citizens
- Hence tendency to categorize resident non-citizens as foreign
- However, this issue arises mostly in the case of portfolio equity investments rather than in large FDI enterprises with MNCs as foreign direct investors.
- Some medium and small private enterprises may get classified as FDI enterprises on the basis of citizenship

## Remittances VS. Investments

- This issue impacts all the countries that are significant as source or recipient countries of remittances.
- However, since a significant proportion of the residents of GCC countries are foreign citizens, there is a significant impact on remittances and investments data as a result of how these data presently classified.
- A significant proportion of data currently classified to remittances should be re-classified to foreign investments especially FDI
- Real estate is the characteristic FDI in the home countries for expatriates.

## Remittances VS. Investments (Contd)

- Portfolio investments (especially equity in companies whose shares are traded on the stock exchanges) also misclassified to remittances.
- Other misclassified investments are various components of foreign other investments (FOI) such as bank deposits, loans to the non-corporate sector (individuals)
- The misclassified data also have a mirror effect on the data of the recipient countries especially as these data have a big effect on BOP/IIP data e.g. Philippines

## Sovereign Wealth Funds (SWFs)

- Home countries of SWFs have difficulties obtaining comprehensive data on investments abroad of SWFs based in their countries;
- In some countries, these data provided to the Central Banks on a highly aggregated basis under strict confidentiality requirements;
- These data may not be available to BOP/IIP compilers to make usual statistical adjustments or classify them strictly on functional, financial instruments, industrial or geographical basis;
- Therefore, home countries of SWFs may have to depend on partner countries or commercial data bases to obtain data on investments abroad of their own SWFs.

## Sovereign Wealth Funds (Contd)

- Host countries do not experience difficulties obtaining data on inward investments of SWFs based in other countries since they survey the FDIEs and other reporting entities in their own countries rather than the direct investors or other investors, resident abroad;
- Host and Home countries also have access to media information on investments made by SWFs;
- It is costly, time consuming and needs a lot of skills for each compiling agency in any country to track SWFs investments abroad;
- Unless SWFs cooperate in providing comprehensive data, dependence on partner country and commercial data bases would be necessary.

## Portfolio Investments with FDI Characteristics except ownership requirement

- There are significant blocks of portfolio investments in FDIEs that have all the other characteristics of FDI except for the ownership condition (10% or more of equity)
- These ownership blocks are usually between 5% - just under 10%
- Normally such blocks are found in privately owned enterprises with a handful of investors who are related to one another through family, political or other affiliations;
- Since they are privately owned, ownership rarely changes;
- When ownership changes, it is usually among existing owners;



## Portfolio Investments with FDI Characteristics except ownership requirement (Contd)

- In the GCC countries, there are several examples of such concentrated blocks of ownership;
- The governments of the GCC member countries have made several investments in member countries on the basis of their own GDP to the total GDP of the GCC member countries. On that basis, should all GCC countries cooperate in making an investment in a particular country, maybe 2-3 countries may qualify as direct investors while others would be portfolio investors;
- Should investments in all privately held companies considered FDI?



# Production/Development Sharing Agreements

- PSAs and DSAs are common in the mining industry especially oil and gas in upstream and downstream activities;
- Upstream activities refer to exploration activities and downstream activities to refining or industries based on the upstream products such as various chemical industries or production of LNG;
- PSAs and DSAs are basically agreements between governments or government controlled entities and international oil and mining companies which specify the conditions under which the non-resident companies carry out exploration and development;

## Production/Development Sharing Agreements (Contd)

- The agreements between the parties encompass the financing of the PSAs/DSAs, provision of technology, market access, the basis of sharing the output, repatriation of capital and sharing of profits;
- These agreements may vary from country to country and from one period to another;
- Some of these agreements signed for 25 years between the UAE and international oil companies expired in 2017;
- Since then, UAE has signed new agreements, sometimes with new partners and on better terms especially with regard to provision of technology;

# Production/Development Sharing Agreements (Contd)

- New agreements allow access to technology to the host country partners;
- Exploration is carried out in identified “exploration blocks” onshore or offshore;
- These exploration blocks are auctioned off and any interested parties could bid for them;
- Provisions are made for farm out agreements between the parties that win the bids and others (usually non-resident oil companies);
- Such agreements could lead to collusion among international oil cos in the bidding process;

## Production/Development Sharing Agreements (Contd)

- The host country government controlled entities may or may not joins the IOCs as partners;
- Usually, there is no partnership agreements;
- Therefore, the IOCs bear all the risk of investments;
- If no oil is found, the investment is written off by the IOCs;
- If oil is found, the investment activities last for the agreed on period (usually 25 years) and then terminated;
- The IOCs do not own the exploration blocks; they have only the right to explore for specified period;

# Production/Development Sharing Agreements (Contd)

- When oil is found, it is shared between the IOCs and the host country government entities on an agreed upon ratio;
- The IOCs are allowed to take out their share to compensate for the cost of exploration (called cost oil) and this amounts to repatriation of investments or outflows of FDI inward investments;
- Besides that, the IOCs are allowed to take out their portion of profits (income on investments) This is called profit oil;
- IOCs allowed to take out their investments on an accelerated depreciation basis;

# Production/Development Sharing Agreements (Contd)

- Enterprises are required to report financial transactions on internationally accepted accounting principles which do not allow for accelerated depreciation;
- If normal accounting practices followed, in the early years of production, some of the repatriation of capital would have to be shown as profits;
- However, the IOCs fulfill the terms of the PSA/DSA agreements with the host government;
- There is no requirement on their part to follow internationally accepted accounting practices in meeting the requirements with the host governments.

# Production/Development Sharing Agreements (Contd)

- However, in preparing their company financial statements, they need to follow internationally accepted accounting principles;
- Accounting for tax purposes may be done for the enterprise in a regional headquarters or head office of the ultimate parent company;
- Responses by the IOCs for surveys differ from country to country;
- Some would direct inquiries to the government entities with which they enter into agreements;



# Production/Development Sharing Agreements (Contd)

- Others would provide data for their own operations but not for their parent partners or those who may have farmed into their exploration blocks;
- There is a need for the statisticians to refer to the PSA/DSA agreements;
- But these are not publicly available documents;
- It would be surprising if any Oil and Gas Ministry would allow access to these documents to statisticians;

## Production/Development Sharing Agreements (Contd)

- It took the Investment Authority of Egypt (GAFI) at least two years to get meaningful data on PSAs/DSAs from the Ministry of Oil and Gas;
- It was accomplished with the help of TA help stretching over a period of years and as a result of establishing professional contacts with officials with decision making powers at the Ministry of Oil and Gas;
- In the new PSA/DSA agreements signed by the UAE with IOCs, on the expiry of the previous 25 years agreement, some changes were made regarding the IOC partners who also made concessions on technology transfers on behalf of UAE.

## Special Purpose Entities (SPEs)

- SPEs are usually set up by MNCs in tax haven countries;
- They serve various purposes (that is why the name SPEs);
- Some are holding companies (parents of companies elsewhere);
- Shell has created numerous holding companies in Bermuda, each owning an operating company in another country; the FDI in these operating companies would be therefore shown to their immediate parent company in Bermuda; the ultimate controlling company would be in the Netherlands;
- Other SPEs are created for the purpose of financing the enterprise group, as regional headquarters of some of the member companies of the enterprise group, as recipient of services payments etc;

## Special Purpose Entities (SPEs)

- Purpose of establishing the SPEs is for efficient tax planning for the Enterprise Group;
- However, some would regard the SPEs as entities created with the help of accountants and lawyers to minimize taxes on a world wide scale;
- The SPEs are incorporated in tax-haven countries and data on incorporation etc are kept in files of the incorporating law firm;
- There are no other business activities in those countries and therefore no employees;

## Special Purpose Entities (SPEs)

- All the financial accounting of these SPEs done in the head office of the controlling entity of the Enterprise Group.
- For these reasons, the SPEs are also known as pass-through companies;
- Canada, until the advent of BPM6, ignored or by-passed these SPEs and showed the origin or destination of its investments to their operating parent companies which in most cases were the ultimate controlling parent company;
- From a few countries, the number of tax haven countries have increased;

## Special Purpose Entities (SPEs)

- Singapore has become a well known tax haven country in the Asian Country
- On 3/25/2019, it was announced that Singapore was making the biggest FDI investment of any country in Sri Lanka with an investment of about \$3.65 billion in an oil refinery. On closer examination, it was learnt that the investment was by a holding company in Singapore owned 100% by a company in India in partnership with Oman's Ministry of Oil and Gas. The Singapore company would own 70% of equity and the Omanis 30%.
- How would you apportion the \$3.65 billion to FDI, including geographical origins, amount of FDI etc? Where is the ultimate control?

## Fellow Enterprises

- For the first time, fellow enterprises were clearly defined in BPM6 and recognized as contributing to FDI without being recognized as direct investors;
- They are not recognized as direct investors since fellow enterprises by definition can hold only between 0% - less than 10% of investment in an investee;
- If they hold 10% or more equity, they become direct investors (not fellow enterprises) in their own rights;
- Any equity less than 10% or loan investments made by a fellow enterprise in a member of its own enterprise group is considered FDI;



## Fellow Enterprises (Contd)

- Fellow enterprises have become important in the enterprise group organization;
- Important links exist between them and other members of an Enterprise Group especially in supply – link FDI investments e.g. the automobile and IT related industries in Asia and to ignore them would result in under- estimating FDI and over-estimating FPI and FOI; How?
- Fellow enterprises would also affect the direction of FDI depending on their ultimate control; How?

## Controlled FDI enterprises

- Controlled FDI enterprises are those whose equity are owned more than 50% by a single parent or in association with other members of an enterprise group;
- Controlled FDI enterprises are differentiated as a separate group for the provision of data on activities of multinational enterprises (AMNES);
- However, for FI/BOP/IIP data, they are included with all other FDI enterprises;
- Although FI/BOP/IIP data differentiate between fellow enterprises and other FDI, no separate distinction is made for controlled FDI. Why? Maybe in the next BPM Manual on the advice of GCC member countries.



4 8 1 8 9  
5 5 7 9  
1 2 5 7 9  
6 6 9 4  
7 2 9 4  
3 4



حاصل على شهادة الأيزو 27001  
في أمن المعلومات