FOREIGN DIRECT INVESTMENT (FDI) NET INFLOWS AND NET OUTFLOWS AS SHARE OF GDP		
Global Economic Partnership	**External financing**	

1. INDICATOR

(a) Name: Foreign Direct Investment net inflows and net outflows as share of GDP

(b) Brief Definition: *Foreign Direct investment (FDI)* is investment made to acquire a lasting interest in or effective control over an enterprise operating outside of the economy of the investor. *FDI net inflows* are the value of inward direct investment made by non-resident investors in the reporting economy, including reinvested earnings and intra-company loans, net of repatriation of capital and repayment of loans. *FDI net outflows* are the value of outward direct investment made by the residents of the reporting economy to external economies, including reinvested earnings and intra-company loans, net of receipts from the repatriation of capital and repayment of loans. These series are expressed as shares of GDP.

(c) Unit of Measurement: Percentage

(d) Placement in the CSD Indicator Set: Global Economic Partnership/ External financing

2. POLICY RELEVANCE

(a) Purpose: These indicators show the provision of external financing resources in the form of direct investments in the reporting economy from foreign investors and to external economies by domestic investors. Negative values of *FDI net inflows* for a particular year show that the value of disinvestment by foreign investors was more than the value of capital newly invested in the reporting economy. Negative values of *FDI net outflows* show that the value of direct investment made by domestic investors to external economies was less than the value of repatriated (disinvested) direct investment from external economies.

(b) Relevance to Sustainable/Unsustainable Development (theme/sub-theme): For many developing countries, FDI inflows are a major source of external financing and thereby provide important means of implementation of sustainable development goals and growth of the private sector. Moreover, FDI is typically less volatile than foreign portfolio investment. In many cases, FDI also contributes to the transfer (spill-over) of technology and improvement of labor and management skills. Sustained increases in FDI inflows are often a sign of an improved investment climate. Although the largest share of FDI goes from high income economies to other high income economies, flows to developing countries are increasing and are very important in helping to support sustainable development. They now dwarf flows of official development assistance. In recent year, FDI flows between developing countries have also increased.

(c) International Conventions and Agreements: None.

(d) International Targets/Recommended Standards: None

(e) Linkages to Other Indicators: This indicator is closely linked with other measures of international and domestic economic development.

3. METHODOLOGICAL DESCRIPTION

(a) Underlying Definitions and Concepts: The internationally accepted definition of FDI is provided in the fifth edition of the IMF's Balance of Payments Manual (1993). Under this definition FDI has three components: equity investment, reinvested earnings, and short- and long-term inter-company loans between parent firms and foreign affiliates. The components of direct investment capital transactions are recorded on a directional basis (i.e., resident direct investment abroad and nonresident direct investment in the recording economy). The *FDI net inflow* records the net flow of nonresident direct investment in the recording economy, while the *FDI net outflows* records the net flow of resident direct investment abroad. Distinguished from other kinds of international investment, FDI is made to establish a lasting interest in or effective management control over an enterprise in another country. As a guideline, the IMF suggests that investments should account for at least 10 percent of voting stock to be counted as FDI. In practice, many countries set a higher threshold. Also, many countries fail to report reinvested earnings, and the definition of long-term loans differs among countries [41]

GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

(b) Measurement Methods: These indicators are derived by dividing net inflows and net outflows of FDI by total GDP.

(c) Limitations of the Indicator: Foreign direct investment does not include capital raised locally, which has become an important source of financing for investment projects in some developing countries. In addition, foreign direct investment data capture only cross-border investment flows that involve equity participation and thus omit non-equity cross-border transactions such as intra-firm flows of goods and services.

(d) Status of Methodology: The methodology is generally well developed.

(e) Alternative Definitions/Indicators: Total private capital investment (direct plus portfolio) as percentage of GDP may be used as indicator to measure the financing provided by foreign investors for development if volatility and technology transfers are

[41] For further details on concepts and recording methods, refer to the *Balance of Payment Manual 5thEdition*, International Monetary Fund (1993).

not major concerns. A sectoral breakdown of FDI inflows may provide additional information, but it requires information not included in the balance of payments records.

4. ASSESSMENT OF DATA

(a) Data Needed to Compile the Indicator: Data on foreign direct investment flows from the balance of payment records and GDP data from national accounts records.

(b) National and International Data Availability and Sources: In most countries national statistical offices, central banks or ministries collect the balance of payment statistics which contains records of resident direct investment abroad and nonresident direct investment in the recording economy. The World Bank publishes FDI data based on balance of payment data reported by the International Monetary Fund (IMF), supplemented by staff estimates using data reported by the United Nations Conference on Trade and Development (UNCTAD) and official national sources. UNCTAD publishes data on foreign direct investment in its annual *World Investment Report*. Because of the multiplicity of sources and differences in definitions and reporting methods, there may be more than one estimate of foreign direct investment for a country, and data may not be comparable across countries.

(c) Data References: Data on FDI is included in the World Development Indicators (WDI) publications and WDI Online database of the World Bank, see
http://go.worldbank.org/3JU2HA60D0 and http://go.worldbank.org/6HAYAHG8H0

Data on FDI for developing countries that report to the World Bank's Debt Reporting System are included in the Global Development Finance (GDF) publications and GDF Online database, see http://go.worldbank.org/KHJME9OSU0,
http://go.worldbank.org/HK59C6HQL0, and http://go.worldbank.org/6HAYAHG8H0

International Monetary Funds' data on FDI is available in the Balance of Payment Statistics database, http://www.imfstatistics.org/bop/

UNCTAD data on FDI is available in the World Investment Report and in the Foreign Direct Investment online database, available at
http://www.unctad.org/Templates/Page.asp?intItemID=1923&lang=1

5. AGENCIES INVOLVED IN THE DEVELOPMENT OF THE INDICATOR

(a) Lead Agency: The World Bank. The contact point is Data Help Desk: data@worldbank.org

(b) Other Contributing Organizations: The IMF, which is the source of international data on FDI flows published by the World Bank.

6. REFERENCES

(a) Readings:

International Monetary Fund**,** *Balance of Payment Manual*, 5th edition, 1993.

IMF Committee on Balance of Payments Statistics, *Annual Report,* various years.

The World Bank, *Word Development Indicators*, various years.

The World Bank, *Global Development Finance*, various years.

UNCTAD, *World Investment Report*, various years.

(b) Internet sites:

The World Bank: www.worldbank.org/data

World Development Indicators: http://go.worldbank.org/3JU2HA60D0

Global Development Finance (GDF) Volume I: http://go.worldbank.org/KHJME9OSU0

Global Development Finance (GDF) Volume II: http://go.worldbank.org/HK59C6HQL0,

IMF: http://www.imf.org/external/pubs/ft/bopman/bopman.pdf

UNCTAD: http://www.unctad.org/Templates/Page.asp?intItemID=1923&lang=1