

B.3. Construction

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Introduction

14.242. Construction covers the creation, management, renovation, repair or extension of fixed assets in the form of buildings, land improvements of an engineering nature and such other constructions as roads, bridges and dams. It includes related installation and assembly work, site preparation and general construction, as well as specialized services such as painting, plumbing and demolition (see MSITS 2010, paras. 3.132-3.135).

14.243. Construction is valued on a gross basis, i.e., inclusive of all goods and services used as inputs to the work (whether subcontracted or not), other costs of production and the operating surplus that accrues to the owners of the construction enterprise.^[1] Construction is also valued on a gross basis in the sense that it can be disaggregated into construction abroad and construction in the compiling economy. The construction exports (credits) would result from summing up the credit entries (a) from construction abroad and (b) from construction in the compiling economy. Similarly, the construction imports (debits) would consist of debit entries (a) from construction abroad and (b) from construction in the compiling economy.^[2] If the external operations of a construction company are substantial enough, a separate branch, resident in the host economy, may be constituted which will usually give rise to a direct investment relationship between the parent company and the branch.

Compiling statistics for construction

14.244. With respect to the value of the goods and services used as inputs to the work, compilation difficulties may arise when it is not possible to identify separately the goods purchased in the home economy and the host economy. For practical reasons, the compiler may need to estimate a breakdown, or otherwise attribute all goods purchased to either the host or the home economy of the construction enterprise (see also box 14.2). Also, it may not always be possible to identify the purchase of goods and services separately from labour costs. In that case, the compiler will need to estimate a breakdown or, alternatively, allocate all costs either as goods and services or as compensation of employees (for employees that are residents of the host economy).

14.245. In order to correctly compile the item, it is particularly important to precisely identify the residence of the enterprise realizing the construction work. Indeed, a construction enterprise established in one economy may undertake construction projects in another economy directly (no local entity created) or through a branch, i.e., via a direct investment relationship. In the former case, the construction activities are regarded as export of services, whereas in the other case, they are considered direct investment operations.

14.246. In the case of long-term projects where no local entity needs to be created, MSITS 2010 and BPM6 suggest a number of factors to identify if a unit of one economy, which is active in another, has operations substantial enough to consider that the unit has a branch resident in that other economy (see MSITS 2010, para. 3.142). The operations, therefore, need to be analysed to identify if they are substantial. In particular, compilers should avoid creating too many notional units.

14.247. First of all, the compiler should identify the duration of the construction project. If the project extends over a period of at least one year, it is a strong indication that the compiler should investigate the project further. If certain other factors are met, the construction work undertaken is to be treated as if a separate institutional unit—a branch (subsidiary)—has been created that is resident in the economy in which the activity is being carried out. That branch would be considered a direct investment enterprise. If some or all of those factors are not met, the activity is to be treated as an export by the construction enterprise. The other suggested criteria are the following:

- (a) The maintenance of a complete and separate set of accounts for the activity (i.e., income statement, balance sheet, transactions with the parent company, etc.);
- (b) The activity being subject to tax in the host country;
- (c) The existence of a substantial physical presence;
- (d) The receipt of funds for its work for its own account, etc.

14.248. The decision is based on the weight of the evidence for a set of criteria and not on any single criterion; for example, it would be very difficult to identify a branch if, for the construction activity, a separate set of accounts cannot be prepared or maintained. Construction activities involving major projects (bridges, dams, power stations, etc.) that are carried out through unincorporated site offices, in many cases meet the criteria of a direct investment enterprise and thus are treated as part of the production of the host economy, not as an export of services to that economy.^[3]

14.249. In the case of construction projects conducted in the context of aid programmes, the treatment should be to record a transaction under services if relevant (i.e., if the project is small scale, using the criteria defined in the previous paragraphs) between the economy in which the aid agency financing the project is located (credits) and the economy in which the construction is taking place (debits). The counterpart entry should be in the capital account. If the contractor is not a resident of the economy of the donor, then there would also be some (construction) transactions to record between the economy of the donor and the economy from which the contractor is conducting its operations (using a gross recording).^[4]

14.250. To compile statistics on construction, both an ITRS and surveys can be used as sources of information regarding construction. However, surveys may provide more detailed and relevant data than the ITRS, in particular when it comes to gathering information on construction abroad (debit) and construction in the compiling economy (credit). The complexity of cross-border construction activities is another reason to prefer a survey, in particular if the compiling economy has many international construction projects (either exports or imports). If countries decide to use ITRS data, particular care should be taken to measure transactions involving bank accounts of construction companies in the host economy, because some of those companies may meet the criteria for treatment as residents.^[5]

Box 14.2

Numerical example of measurement of construction

A construction enterprise resident in economy A starts a construction project in economy B on 1 February. The end date of the project is 10 April of the same year. The gross construction value is 100,000. The project is considered a construction service, as it lasts less than one year (69 days). The enterprise is requested to report the construction project in the questionnaires related to both the first and the second quarters, specifying the project start and end dates, the counterpart country and the gross value of the construction.

In order to undertake the construction project, the enterprise purchases inputs (materials, services and labour) in the first quarter. The purchases are reported as follows:

- Goods purchased in Italy: 20,000
- Goods, services and labour purchased/acquired abroad: 50,000

The gross construction value pertaining to Q1, to be allocated in A's BOP as construction abroad (export with counterpart country B) is computed as follows:

$$(100,000 / 69 \text{ total days}) \times (59 \text{ days in the quarter}) = 85,507$$

The reported goods, services and labour purchased/acquired abroad are allocated as construction abroad (import with counterpart country B). The reported goods purchased in Italy are deducted from the goods exports, again with partner country B, of the BOP. The complete recording for Q1 is shown in the table that follows:

Q1 BOP

	Export	Import
Construction abroad	85,507	50,000
Goods (adjustment)	-20,000	

- In Q2, the enterprise does not purchase any input either in Italy or abroad. Thus, it has only to report the construction start and end dates, the counterpart country and the gross construction value. The construction value pertaining to Q2, to be allocated to the BOP as construction abroad (export with counterpart country B) is computed as follows:
- $(100,000 / 69 \text{ total days}) \times (10 \text{ days in the quarter}) = 14,493$.

Q2 BOP

	Export	Import
Construction abroad	14,493	

Next: [B.4. Insurance, pension and financial services](#)

[1] *BPM6 Compilation Guide*, para. 12.95.

[2] *Ibid.*, paras. 12.99 and 12.101.

[3] *Ibid.*, paras. 12.92-12.94.

[4] Such treatment is not limited to construction.

[5] A survey collecting data on construction could also jointly collect information on foreign direct investment and other resident/non-resident transactions (*BPM6 Compilation Guide*, table 12.4).