

The State of Finance for Developing Countries, 2014

An assessment of the scale of all sources of finance
available to developing countries

By Jesse Griffiths

FOR EVERY \$1
DEVELOPING COUNTRIES
GAIN

Other official flows	3¢
Charitable	3¢
Portfolio equity (stocks & shares)	6¢
Aid	10¢
Remittances from migrant workers	34¢
Foreign direct investment	44¢

Interest repayments on foreign debt **14¢**

Profits taken out by foreign investors **42¢**

Lending to rich countries **59¢**

Illicit financial flows **93¢**

**THEY
LOSE
MORE THAN \$2**

Acronyms

CPA	Country programmable aid
CSO	Civil society organisation
DAC	Development Assistance Committee (OECD)
DFI	Development Finance Institution
EDFI	European Development Finance Institution
FfD	Financing for Development
FTTs	Financial Transaction Taxes
GDP	Gross Domestic Product
GFCF	Gross fixed capital formation
GFI	Global Financial Integrity
GNI	Gross National Income
IFC	International Finance Corporation
IFFs	Illicit financial flows
IFI	International Finance Institution
HIC	High-income country
IMF	International Monetary Fund
LIC	Low-income country
LMIC	Lower-middle-income country
MDG	Millennium Development Goal
NGO	Non-governmental organisation
ODA	Overseas Development Assistance
OECD	Organisation for Economic Co-operation and Development
OOFs	Other official flows
SDRs	Special Drawing Rights
TJN	Tax Justice Network
UMIC	Upper-middle-income country
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department of Economic and Social Affairs
WBG	World Bank Group

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Executive summary

This report provides the most comprehensive review of the quantity of different financing sources available to developing countries, and how they have changed over the past decade.

We have analysed the best available data produced by international institutions, both from the point of view of developing countries as a whole, and for low-income (LICs), lower-middle-income (LMICs) and upper-middle-income countries (UMICs) separately. We provide figures in absolute terms in US dollars, and also as percentages of Gross Domestic Product (GDP) – a much better indicator of how important they are to the developing country in question.

Unlike other recent analyses, we have not just examined the resources flowing into developing countries, but have also analysed the resources flowing out, identifying the lost resources. We define losses as resources that have either been directly lost by developing countries, such as illicit financial outflows, or resources that represent a lost opportunity, such as lending by developing countries to rich countries. This has allowed us to examine four very different categories of resources:

- Domestic resources, including domestic investment and government revenue;
- Lost resources, including illicit financial flows, profits taken out by foreign investors, interest payments on foreign debt and lending by developing countries to rich countries;
- Inflows of external resources, including international public resources (aid and other official flows), for-profit private flows (foreign direct investment and portfolio investments in stocks and shares) and not-for-profit private flows (including charitable flows and remittances from migrant workers);
- Debt-creating flows: both public and private borrowing by developing countries.

One key finding of the report is that losses of financial resources by developing countries have been more than double the inflows of new financial resources since the financial crisis, as Figure 1 shows.

Lost resources have been close to or above 10% of GDP for developing countries as a whole since 2008 – meaning that for every \$100 the country makes, \$10 were lost, flowing out of the country. The main drivers of this are illicit financial flows, profits taken out by foreign investors and lending by developing countries to rich countries.

Our main findings for each category of resource are as follows:

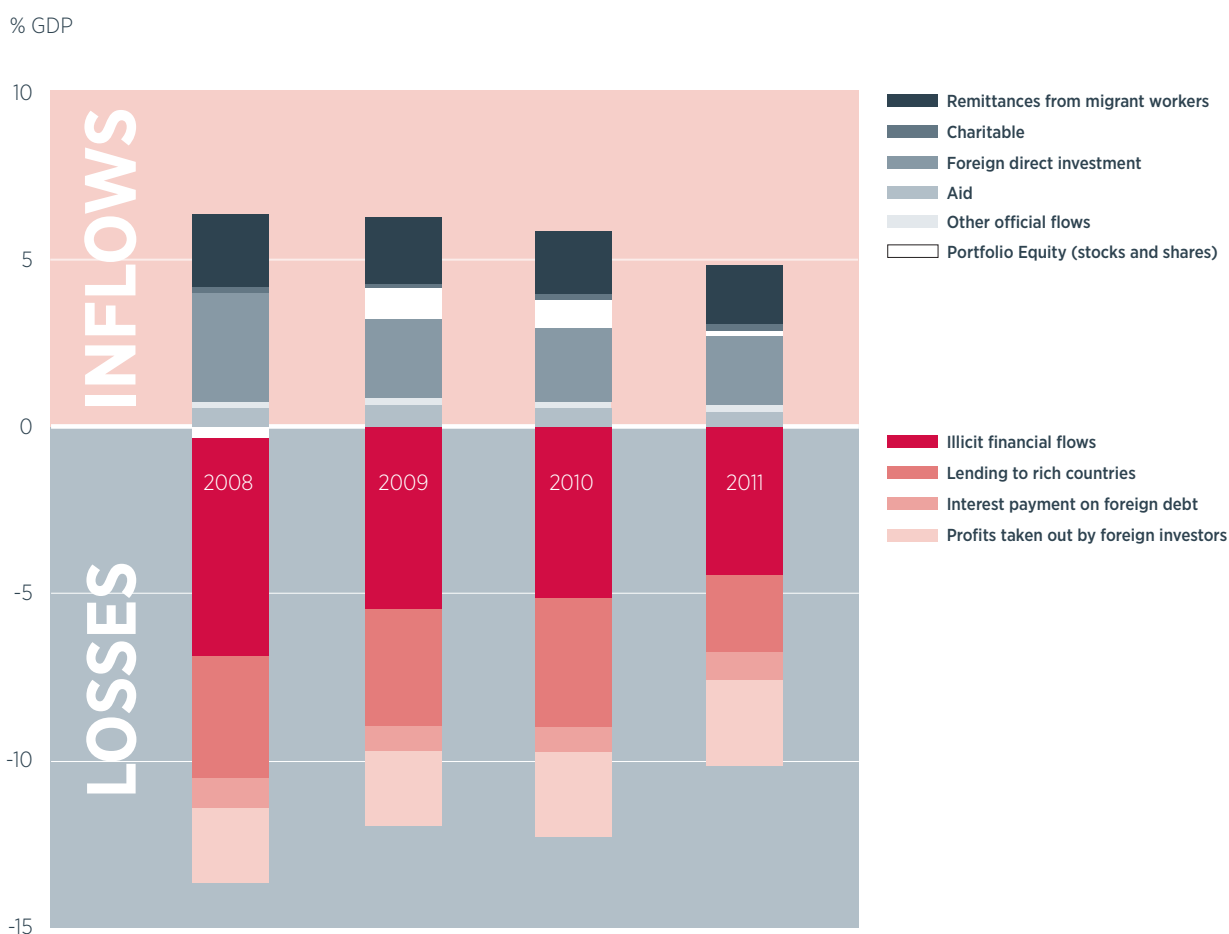
1. Domestic resources (Section 1) – Here we examined both domestic investment and government revenue. We found that:

- Domestic resources are far larger than all external financing sources for developing countries, with domestic investment reaching over 33% of GDP and government revenue over 18% in 2012.
- UMICs have reached \$2,700 per capita domestic investment annually, while LICs manage only \$165 per capita.
- There are low levels of public investment in LICs – 3.5% of GDP in 2011, compared to over 9% in LMICs.



Losses of financial resources by developing countries have been more than double the inflows of new financial resources since the financial crisis.

Figure 1: Inflows vs. losses for developing countries, % GDP (2008-2011)



2. Losses of domestic resources (Section 2) – Here we have focused on those outflows that represent a genuine loss of resources that would have been better invested in the developing country.

- Outflows of domestic resources represent major losses for developing countries, and have been running at double the inflows of new resources since 2008, as Figure 1 shows.
- LICs are particularly badly affected, losing more than 18% of GDP in 2011.
- The largest outflows were illicit financial flows (\$634 billion in 2011) and profits repatriated by international investors (\$486 billion in 2012).



Lost resources have been close to or above 10% of GDP for developing countries as a whole since 2008 – meaning that for every \$100 the country makes, \$10 are lost, flowing out of the country.

- In 2012, developing countries lent \$276 billion to rich countries, and paid \$188 billion in interest on external debts.
- Since 2010, repatriated profits have exceeded new inflows of Foreign Direct Investment (FDI). LICs are particularly affected, with outflows of repatriated profits over 8% GDP in 2012.

3. Inflows of external resources (Sections 3, 4 and 5):

We have divided this section into three categories:

International public resources (Section 3) –

- Country programmable aid (CPA) levels, while increasing in absolute terms to a high of \$96 billion in 2011, have been falling relative to developing country GDP, which has been growing at a faster rate.
- In LICs, however, aid remains an important resource, with CPA accounting for over 7% of GDP in 2012.
- The statistics on non-aid government-to-government ‘other official flows’ are incomplete.

International for-profit private flows (Section 4) –

- FDI to developing countries was badly hit by the global crisis and remains below its 2008 peak. Rising GDP means it has fallen as a percentage of GDP from 3.2% in 2008 to 2.1% in 2012.
- LICs, however, have had steadily increasing amounts of FDI compared to GDP, rising from 2.6% in 2003 to 5.1% in 2012, driven by a small number of countries.
- For-profit flows can be highly volatile, particularly portfolio equity flows of stocks and shares, which rose sharply for developing countries before the global financial crisis drove them into negative figures in 2008.

International not-for-profit flows (Section 5) –

- Remittances from private emigrants to their families back home increased from just over \$130 billion in 2003 to more than \$350 billion in 2012, although this figure may be due to improvements in data collection.
- Remittances are particularly important in LICs and LMICs; they represented 7% of GDP in LICs and 4.6% in LMICs in 2012. They are highly concentrated in a small number of countries.
- Charitable flows remain relatively small – around \$30 billion in 2012, or 0.13% of developing country GDP.

Table 1: Financial resources for developing countries, 2012

	All developing countries		LICs		LMICs		UMICs	
	\$bns	%GDP	\$bns	%GDP	\$bns	%GDP	\$bns	%GDP
1. Domestic resources								
Domestic Investment	7,328	33.4	112	27.2	1,316	28.1	5,900	35.1
Government Revenue (2011)	4,125	18.8	60	14.4	697	14.5	3,367	20.4
2. Losses - Domestic resource outflows								
Illicit Financial Flows (2011)	-634	-4.3	-16	-6.5	-185	-5.8	-432	-3.8
Tax loss to abusive tax avoidance	no data	no data	no data	no data	no data	no data	no data	no data
Lending to rich countries	-276	-1.2	-8	-2.1	-20	-0.4	-247	-1.5
Interest repayments on external debt	-188	-0.8	-4	-0.9	-34	-0.7	-150	-0.9
Profits repatriated by foreign investors	-486	-2.3	-28	-8.1	-88	-1.9	-371	-2.2
Sub-total: Losses	1,583	-8.6	-56	-17.6	-327	-8.8	-1,200	-8.4
3. Inflows								
3.1 International Public Resources								
Aid	90	0.4	33	7.2	35	0.7	16	0.1
Other Official Flows	23	0.1	0	0.1	8	0.2	15	0.1
3.2 International for-profit private flows								
Foreign Direct Investment	480	2.1	24	5.1	107	2.2	349	2.0
Portfolio investment (stocks and shares)	104	0.6	0	0.1	38	1.5	66	0.5
3.2 International not-for-profit private flows								
Charitable flows	30	0.1	n/a	n/a	n/a	n/a	n/a	n/a
Remittances	350	1.8	29	7.0	200	4.6	121	0.8
Sub-total: Inflows	1,077	5.1	86	19.5	388	9.2	567	3.5
4. Debt creating flows								
Public borrowing, long term	168	0.8	8	1.7	51	1.0	109	0.6
Private borrowing, long term	154	0.7	1	2.2	44	0.9	108	0.7
Short term borrowing	103	0.5	-1	-0.3	28	0.6	76	0.4
Sub-total: debt creating flows	425	1.9	8	3.5	124	2.5	294	1.7



Domestic resources are far larger than all external financing sources for developing countries, with domestic investment reaching over 33% of GDP and government revenue over 18% in 2012.

4. Debt-creating flows (Section 6)

We have separated these from other flows because the fact that they create debt is an important characteristic and because, as the loan is repaid, the net flow to developing countries will be zero (not including the negative flow of interest repayments).

- Since 2006, there has been a sharp increase in new debt taken on by developing countries, driven by LMICs and UMICs.
- Developing country debt stocks reached their highest level ever in 2012 – \$4.8 trillion, according to the World Bank – which was largely driven by increases in indebtedness by private actors.
- LIC governments have remained heavy net borrowers throughout the period, averaging between 1.3% and 2% of GDP in additional long-term borrowing between 2003 and 2012.

Table 1 summarises the current state of all financing resources for developing countries in 2012.

This report does not tackle the extremely important issue of the quality of these resources, which will be examined in future editions. Page 36 gives a very brief summary of some of the most important issues, including: macro-economic risks, accountability and transparency; impacts on domestic politics; and contributions to sustainable development.

As the United Nations gears up for its critically important summit on financing for development (FfD) in Addis Ababa in 2015, it will be important to have a clear-eyed view of the current scale of all different financing resources available. It is hoped that this report will make a significant contribution to that understanding.

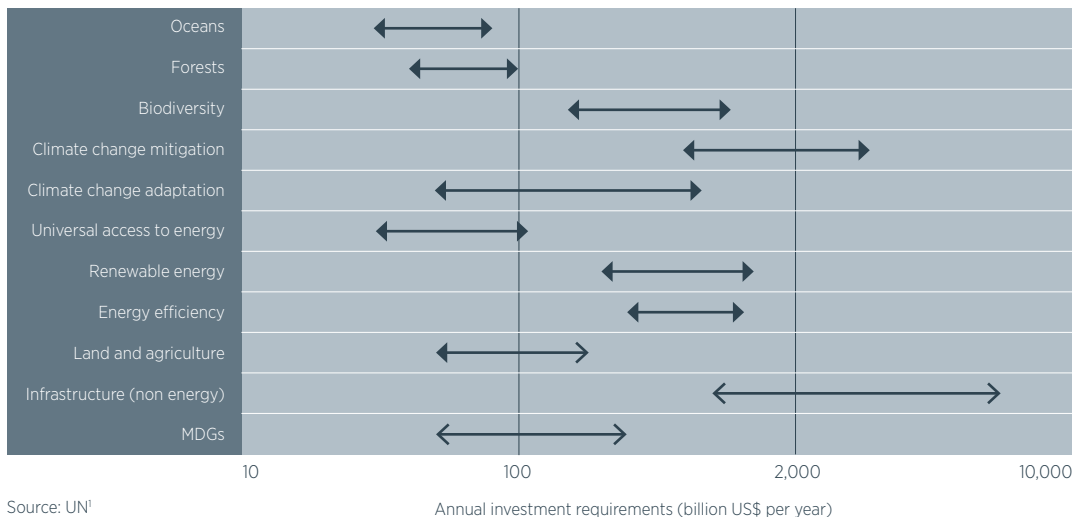
Introduction

Finance and sustainable development

This report provides a comprehensive review of the quantity, trends and volatility of different financing sources available to developing countries.

A recent United Nations (UN) expert committee report provided a useful summary showing the need to mobilise significant resources to meet environmental, anti-poverty and infrastructure needs. This was based on a review of the literature, and is reproduced in Figure 2. It provides useful background information, but we do not go into detail about the scale of resources needed to meet global targets to eradicate poverty or to achieve sustainable development goals, as this is not the focus of this report.

Figure 2: Order of magnitude of different financing needs



Report focus and methodology

We have focused on answering three questions:

- 1 What is the scale of different resources for developing countries, and how has this evolved over the past ten years?
- 2 Do the scale and trends differ between the three main classes of developing country: LIC, LMIC and UMIC?
- 3 How volatile have the different resources proved to be?

We have tried to answer the question of the true scale of the different resources from the point of view of the developing country. This means examining:

- **Domestic resources (Section 1)** – Both investment and government revenue.
- **Losses of domestic resources through outflows (Section 2)** – Here we have focused on those outflows that represent a genuine loss of resources that would have been better invested in the developing country. This includes illicit financial outflows, tax losses to tax evasion, avoidance and tax treaties, lending to rich country governments, interest repayments on foreign debt and profits repatriated by foreign investors. We have not included outflows that are likely to have beneficial impacts for the developing country, such as FDI leaving developing countries.
- **Inflows of external resources (Sections 3, 4 and 5)** –
 - International public resources, including aid and other government-to-government flows.
 - International for-profit flows, including FDI and portfolio equity.
 - International not-for-profit private flows, including charitable flows and remittances.
- **Debt-creating flows (Section 6)** including short- and long-term debt. We have separated these from other flows because the fact that they create debt is an important characteristic, and because, as the loan is repaid, the net flow to developing countries will be zero (not including the negative flow of interest repayments).

We have chosen these questions because they are essential to developing a firm understanding of the quantity of different financing sources. However, we recognise that issues regarding the quality of the different sources are equally, if not more important. This includes issues regarding the macro-economic impacts, transparency, accountability, political and poverty impacts of the resources. These are noted on page 36 and we also plan to examine them in future editions of this report.

Data selection and analysis – some key points

- We have compared the 193 countries of the UN, with the exception of Nauru, which does not have a World Bank income classification.
- We have used 2012 data whenever possible, as this is the most recent year for which a reliable total picture can be built on all the different resources.
- We have used the World Bank's income classifications for countries, listed in Table 2, as these are the only objectively calculated option. The main alternatives – from the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) – are updated through political negotiation and so inevitably contain strange anomalies, such as the IMF counting Saudi Arabia as a developing country. However, it should be noted that the World Bank's cut-off points are essentially arbitrary. In future editions of this report, we may find it useful to break them down.
- The trends are shown for countries that are currently in the income classification shown – so the historical figures for LICs are for countries that are classified as LICs as of December 2014. This allows us to see the historical trajectories of a specific group of countries – if we had adjusted the figures according to the income classification at the time when countries moved between categories it could significantly affect the figures, without necessarily telling us anything important.
- We have provided figures in both current US dollars and as a percentage of GDP – which gives a much better impression of the true value of the resource.
- Full details of our methodology can be found online at www.eurodad.org.

Table 2: 193 UN member states: which countries are in which categories?

High-Income Countries (HICs)	Upper-Middle-Income Countries (UMICs)	Lower-Middle-Income Countries (LMICs)	Low-income Countries (LICs)
\$12,746+ GNI per capita	\$4,126 to \$12,745 GNI per capita	\$1,046 to \$4,125 GNI per capita	\$1,045 or less GNI per capita
Andorra Antigua and Barbuda Australia Austria Bahamas, The Bahrain Barbados Belgium Brunei Darussalam Canada Chile Croatia Cyprus Czech Republic Denmark Equatorial Guinea Estonia Finland France Germany Greece Iceland Ireland Israel Italy Japan Kuwait Latvia Liechtenstein Lithuania Luxembourg Malta Monaco Netherlands New Zealand Norway Oman Poland Portugal Qatar Korea, Rep. Russian Federation St. Kitts and Nevis San Marino Saudi Arabia Singapore Slovak Republic Slovenia Spain Sweden Switzerland Trinidad and Tobago United Arab Emirates United Kingdom United States Uruguay	Albania Algeria Angola Argentina Azerbaijan Belarus Belize Bosnia and Herzegovina Botswana Brazil Bulgaria China Colombia Costa Rica Cuba Dominica Dominican Republic Ecuador Fiji Gabon Grenada Hungary Iran, Islamic Rep. Iraq Jamaica Jordan Kazakhstan Lebanon Libya Malaysia Maldives Marshall Islands Mauritius Mexico Montenegro Namibia Palau Panama Peru Romania St. Lucia St. Vincent and the Grenadines Serbia Seychelles South Africa Suriname Thailand Macedonia, FYR Tonga Tunisia Turkey Turkmenistan Tuvalu Venezuela, RB	Armenia Bhutan Bolivia Cape Verde Cameroon Congo, Rep. Cote d'Ivoire Djibouti Egypt, Arab Rep. El Salvador Georgia Ghana Guatemala Guyana Honduras India Indonesia Kiribati Kyrgyz Republic Lao PDR Lesotho Mauritania Micronesia, Fed. Sts. Mongolia Morocco Nicaragua Nigeria Pakistan Papua New Guinea Paraguay Philippines Moldova Samoa Sao Tome and Principe Senegal Solomon Islands South Sudan Sri Lanka Sudan Swaziland Syrian Arab Republic Timor-Leste Ukraine Uzbekistan Vanuatu Vietnam Yemen, Rep. Zambia	Afghanistan Bangladesh Benin Burkina Faso Burundi Cambodia Central African Republic Chad Comoros Korea, Dem. Rep. Congo, Dem. Rep. Eritrea Ethiopia Gambia, The Guinea Guinea-Bissau Haiti Kenya Liberia Madagascar Malawi Mali Mozambique Myanmar Nepal Niger Rwanda Sierra Leone Somalia Tajikistan Togo Uganda Tanzania Zimbabwe

NB: Nauru is a UN member state, but is not classified by the World Bank in any of the above categories.

1 Domestic resources

Summary

Domestic resources are far larger than all external financing sources for developing countries, with domestic investment reaching over 33% of GDP and government revenue over 18% in 2012.

UMICs have reached \$2,700 per capita domestic investment annually, while LICs manage only \$165 per capita.

There are very low levels of public investment in LICs – 3.5% of GDP in 2011 compared to over 9% in LMICs.

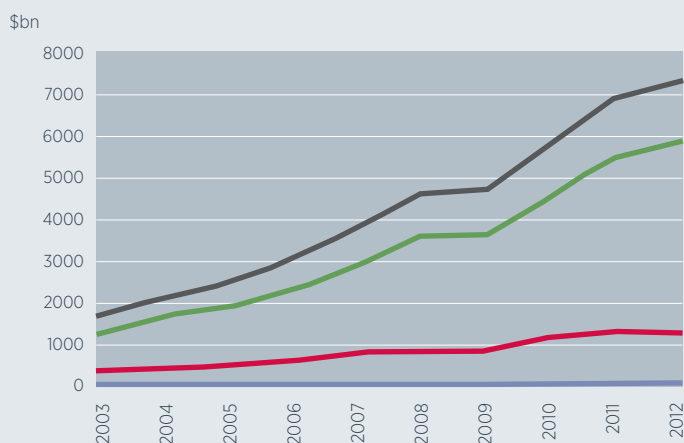
About the data

- The data is World Bank figures for 'gross fixed capital formation' (GFCF), which measures investment in 'permanent' assets including machinery, buildings and roads.
- These figures are given to provide a yardstick against which to measure external flows. A relatively small portion of the totals are double counted with some of these external flows.² A more significant element of double counting will exist with domestic government revenue (section 1.2). Unfortunately, the data are not sufficiently detailed for us to remove this double counting.

Table 3: Domestic Investment (2012)

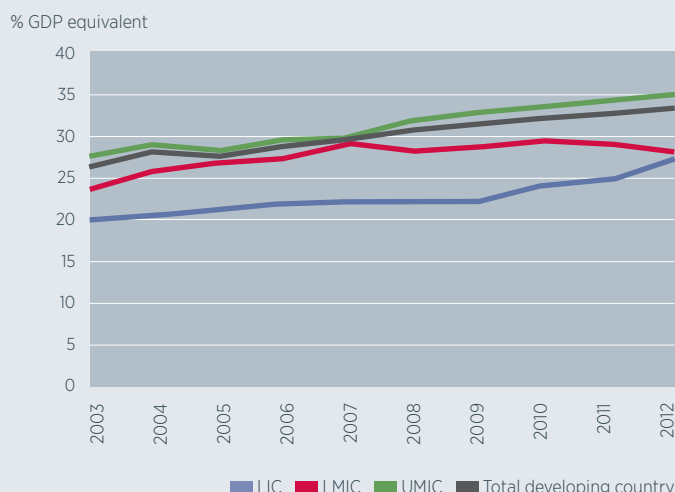
	\$billions	% GDP equivalent
LICs	112	27.2
LMICs	1,316	28.1
UMICs	5,900	35.1
All Developing Countries	7,328	33.4

Figure 3: Domestic Investment Trends (\$bn)



Source: World Bank, Eurodad calculations

Figure 4: Domestic Investment Trends (%GDP)



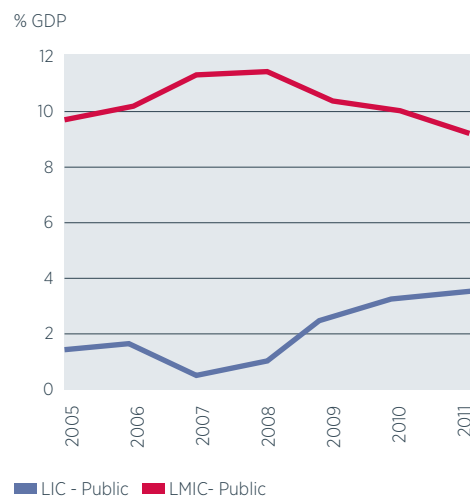
Trends and distribution

- Domestic investment is far larger than all external financing sources in all categories of developing countries.
- There is a significant difference between UMICs, which have reached around 35% of GDP as domestic investment, compared to LMICs, which have recently reached around 25%, as Figure 4 shows.³
- There is a huge variation in investment *per capita*, which was over \$2,700 in UMICs in 2012 and \$590 in LMICs, but only \$165 in LICs.⁴
- A key difference is the very low levels of public investment in LICs – 3.5% of GDP in 2011, compared with 9.2% in LMICs, as Figure 5 shows.

Volatility

- For developing countries as a whole, domestic investment has not proved volatile over the past decade, as Figures 3 and 4 show.
- In addition it has not been greatly affected by external shocks, having increased as a percentage of GDP for developing countries since the global financial crisis.

Figure 5: Public investment (%GDP)



Source: World Bank data, Eurodad calculations

1.2 Government revenue

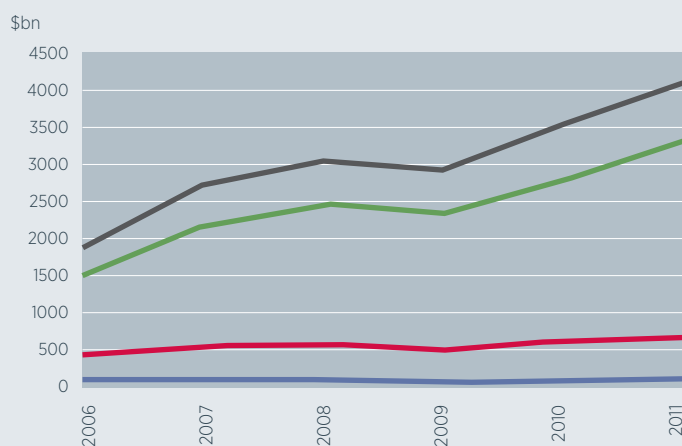
About the data

- The data shows World Bank estimations of central government revenue, excluding grants.
- There will be double counting with domestic investment, as some government revenue will be spent on investment. As the data does not include grants, Overseas Development Assistance (ODA) loans are excluded, as are revenues raised through borrowing.

Table 4: Government Revenue (2011)⁶

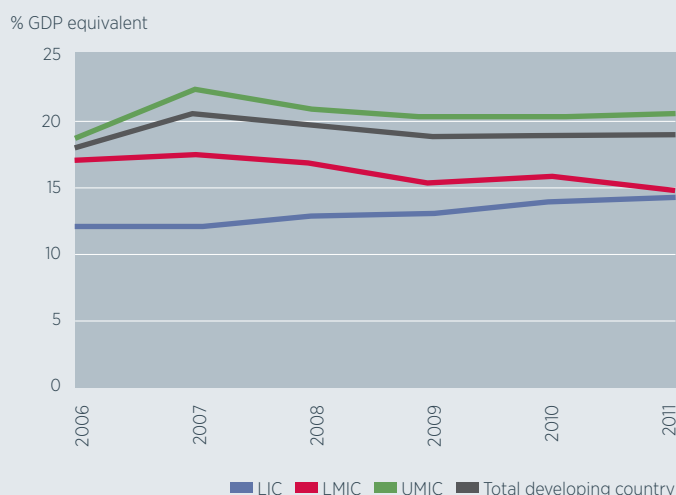
	\$billions	% GDP equivalent
LICs	60	14.4
LMICs	697	14.5
UMICs	3,367	20.4
All Developing Countries	4125	18.8

Figure 6: Government Revenue trends (\$bn)



Source: World Bank, Eurodad calculations

Figure 7: Government Revenue trends (%GDP)



■ LIC ■ LMIC ■ UMIC ■ Total developing country

Trends and distribution

- Developing country governments have increased revenue collection, with government revenues accounting for close to 19% of GDP in 2011, up from just under 17% in 2005. For comparison, the *developed* country average was close to 24%.
- UMICs raised over 20% of GDP as government revenue in 2011, compared to LMICs and LICs, which managed less than 15%. However, LICs have improved revenue collection significantly, from 11.8% of GDP in 2006 to 14.4% in 2011.
- In the poorest developing countries, this translates to tiny amounts *per capita* for governments to spend on basic services, public infrastructure and security – less than \$80 per person per year in LICs, under \$300 per person in LMICS in 2012. For UMICs, the figure was under \$1,500 per person.⁷

Volatility

- As Figure 7 shows, government revenues have proved resilient to external shocks, remaining relatively stable as a percentage of GDP since the global financial crisis for developing countries as a whole, and rising in LICs.
- In future editions of this report, we will examine in more detail the portion of government expenditure financed by borrowing. International borrowing is covered in section 6, but there is also a significant component of domestic borrowing. According to the IMF, the domestic component of developing country governments' debt increased from around 15% of the total in 2003 to almost 30% in 2010.⁸

2 Losses of domestic resources

Summary

Outflows of domestic resources represent major losses for developing countries and significantly exceeded inflows of new resources in 2011, totalling almost 10% of GDP.

LICs are particularly badly affected, losing over 18% of GDP in 2011.

The largest outflows were illicit financial flows (\$634 billion in 2011) and profits repatriated by international investors (\$486 billion in 2012). Both are likely to be underestimates.

In the same year, developing countries lent \$276 billion to rich countries and paid \$188 billion in interest on external debts.

Since 2010, repatriated profits have exceeded new inflows of FDI, with LICs particularly affected, with outflows of over 8% of GDP in 2012.

2.1 Illicit financial flows (IFFS)

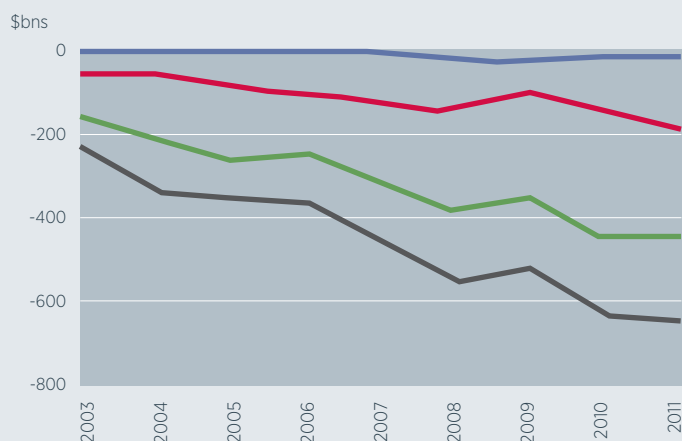
About the data

- “Illicit [financial] flows are all unrecorded private financial outflows involving capital that is illegally earned, transferred, or utilised.”¹⁰
- The data is from Global Financial Integrity (GFI) and is based on their analysis of IMF data, including net errors and omissions in balance of payments statistics and discrepancies in trade statistics.
- Our total figures differ from those published by GFI because of a difference in classifying what is a ‘developing country’. We use the World Bank’s system (for reasons noted above), while GFI uses the IMF’s. As the IMF list includes some large countries that the World Bank classifies as high-income countries (HICs), such as Russia, our total figures are smaller than GFI’s.

Table 5: Illicit financial flows (2011)⁶

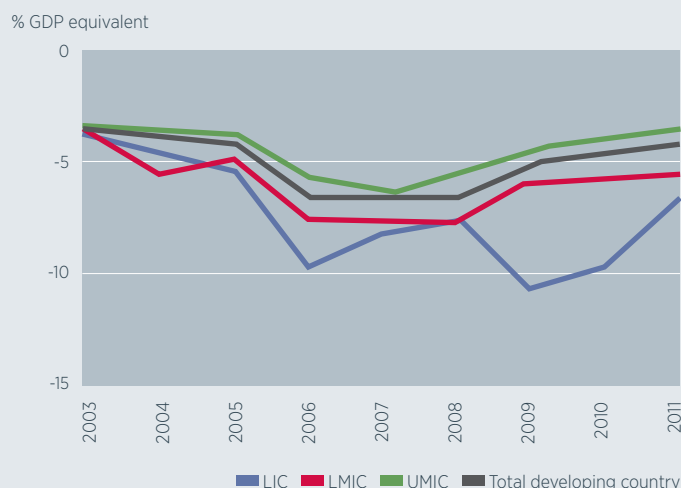
	\$billions	% GDP equivalent
LICs	-16	-6.5
LMICs	-185	-5.8
UMICs	-432	-3.8
All Developing Countries	-634	-4.3

Figure 8: Illicit financial flows (\$bn)



Source: GFI, Eurodad calculations

Figure 9: Illicit financial flows (GDP)



Trends and distribution

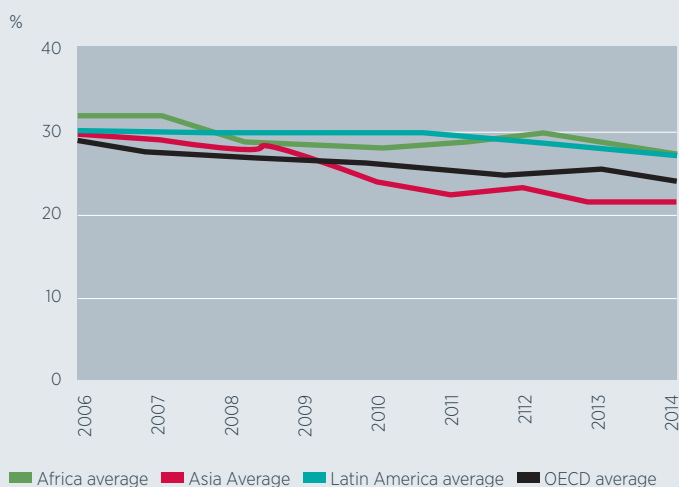
- In 2011, domestic resources lost by developing countries to IFFs was over \$630 billion, equivalent to 4.3% of developing country GDP.
- IFFs have been increasing gradually for all categories of countries, though as a percentage of GDP this has not been the case, as GDP has grown more quickly than IFF estimates in recent years.
- LICs are particularly badly affected, losing 6.7% of GDP in 2011 to IFFs. Given the very low level of public resources and domestic investment in these countries, this is a particularly important loss.
- Given the illicit nature of these flows, data is inherently difficult to collect, but it is likely that the GFI figures are under-estimates, as GFI recognises.¹¹

Volatility

- As Figures 8 and 9 show, IFFs actually increased after the global financial crisis. The overall GFI figures showed a decrease after the crisis, but this was driven by HICs in the GFI sample. However, the loss of IFFs as a percentage of GDP fell for all categories of developing countries, as GDP grew at a faster rate than IFFs.

2.2 Tax loss to tax avoidance and tax treaties

Figure 10: Corporate profit tax rates (GDP)



Source: KPMG

Illicit flows are only one way that developing countries lose out on tax revenues from corporations. Abusive tax avoidance – where companies try to dodge taxes through complex internal structures and by finding loopholes in tax laws – is likely to be a very significant problem. Although global figures are not available, there is ample evidence of the huge scale of this problem. For example,

in Europe, tax evasion and avoidance has been estimated at €1 trillion per year, of which €150 billion is tax avoidance.¹²

In addition, taxes on multinational corporations have been significantly reduced through the proliferation of tax breaks, tax deals and other tax ‘incentives’ offered by developing countries to multinational

companies. This ‘race to the bottom’ – where all countries compete with each other to offer lower tax rates to attract multinationals – is compounded by the difficulty developing countries face when trying to levy taxes in the first place. It has also been encouraged by advice and conditionality of International Financial Institutions (IFIs) in recent decades. As a result, taxes on corporate profits have been declining across the world, as Figure 10 shows.

Lost tax revenues can also be exacerbated by tax treaties. A recent study¹³ found that “one estimate... is that treaties with the Netherlands led to foregone revenue for developing countries of at least EUR 770 million in 2011”.

The accumulation of wealth transferred out of developing countries and hidden in tax havens means that tax revenues are not just lost in the year the wealth is transferred. The Tax Justice Network (TJN) estimates that, as of 2010, between \$21 trillion and \$32 trillion of global financial wealth from a sample of 139, mostly developing, countries has been invested “virtually tax free” through secrecy jurisdictions.¹⁴ Using a conservative method, based only on taxing the income from that wealth, they estimate that this has resulted in \$189 billion in lost tax revenues annually.¹⁵

2.3 Lending to rich countries by developing country governments

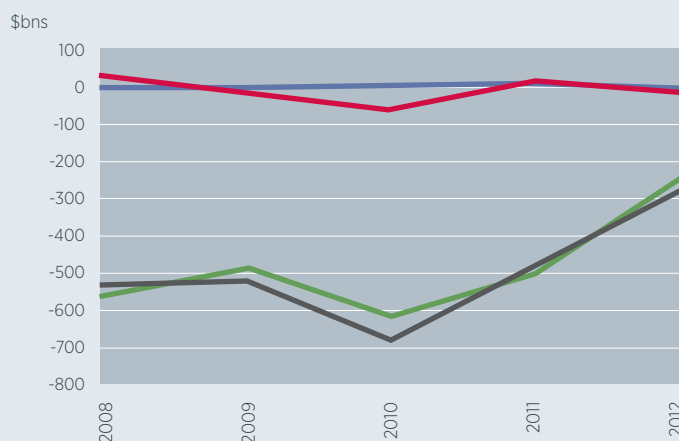
About the data

- The data shows lending to developed (rich) countries by developing country governments, caused by developing countries buying safe assets such as US government bonds to boost their reserves.
- It is calculated from World Bank data on increases in reserve assets, excluding gold and IMF-related assets. Unfortunately we can only obtain figures for the past five years.

Table 6: Lending to rich countries by developing country governments, 2012

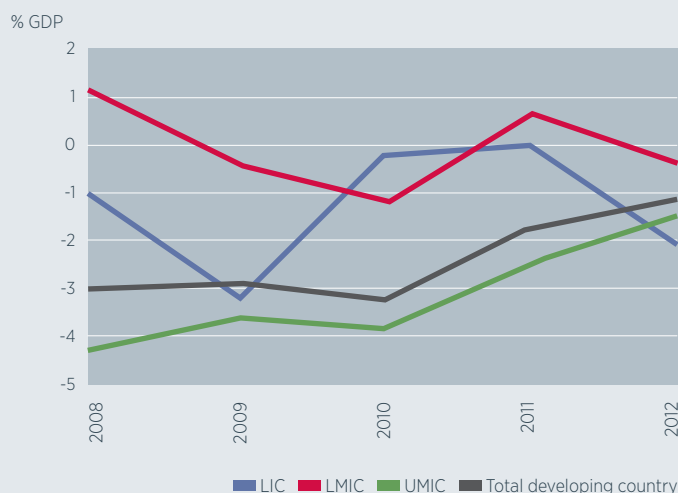
	\$billions	% GDP equivalent
LICs	-8	-2.1
LMICs	-20	-0.4
UMICs	-247	-1.5
All Developing Countries	-276	-1.2

Figure 11: Lending to rich countries by developing country governments (\$bn)



Source: World Bank, IMF, Eurodad calculations

Figure 12: Lending to rich countries by developing country governments (% GDP)



Legend: LIC (blue), LMIC (red), UMIC (green), Total developing country (black)

Trends and distribution

- Developing countries have been lending to developed countries on a significant scale for several years. Over the five years between 2008 and 2012, close to \$2.5 trillion was lent by developing countries to the developed world, in particular to the USA.
- UMICs dominate these figures, and lent over 3% of their GDP in each of 2008, 2009 and 2010, as Figure 12 shows. However, LICs have also lent significantly – over 3% of their GDP in 2009, for example.
- It should be noted that our figures appear highly conservative compared to other estimates. For example, according to a major report by the UN Department of Economic and Social Affairs (UNDESA), increases in reserves means that “Developing countries, as a group, are

expected to provide a net transfer of financial resources of approximately \$826.6 billion to developed countries in 2011”.¹⁶

- It is a misconception that the figures are caused purely by the large reserve holdings of populous countries such as China and India. For example, 16 developing countries, including three LICs, invested more than 5% of their GDP in building reserves between 2011 and 2012.¹⁷ In comparison, China invested 1.6% of its GDP and India actually decreased its reserves over the same period.

Volatility

- Building reserves represents a major effort by many developing countries to protect themselves from the risks associated with global capital flows, particularly volatile and pro-cyclical private flows. It has also allowed them

to protect their currencies, helping to prevent crises.

- However, as a Eurodad report pointed out,¹⁸ it entails significant opportunity costs in terms of revenues that could have otherwise been invested for development. The reasons that developing countries have to pay this price are because liberalisation over recent decades has increased the scale of international private capital movements, and because developing countries do not have faith in existing global institutions and mechanisms of global economic governance, particularly the IMF.
- Therefore, unlike the other figures in this section, these represent a lost opportunity for developing countries rather than a direct loss of resources. The reserves represent an asset that developing countries can sell at a later date, and which can also earn returns.

2.4 Interest repayments on foreign debt

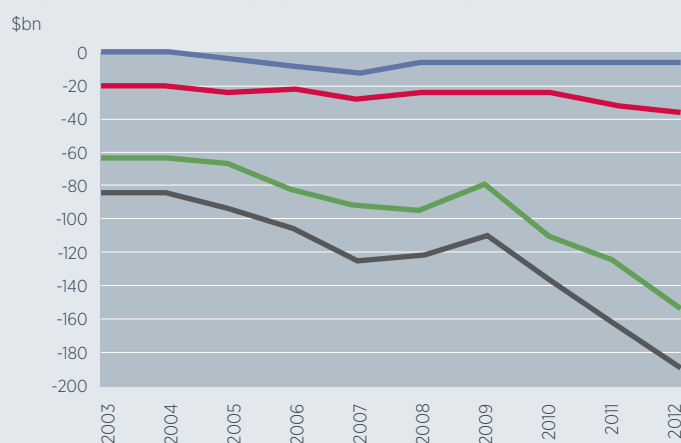
About the data

- The data, from the World Bank, shows total interest repayments by developing countries on short- and long-term external debt, for public and private actors together.

Table 7: Interest repayments on foreign debt (2012)

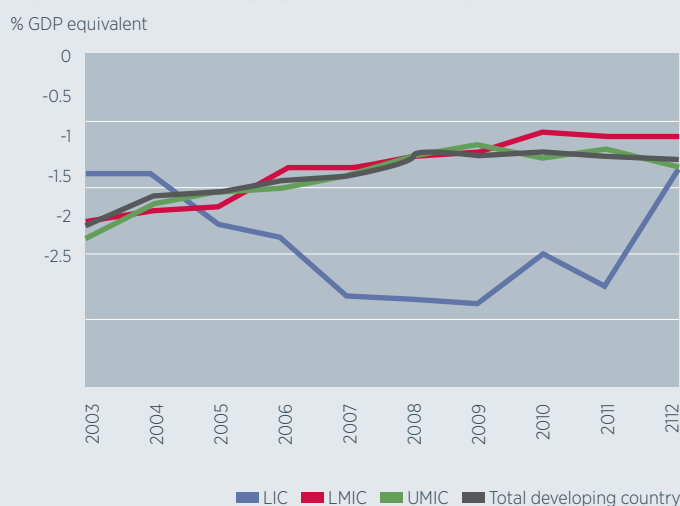
	\$billions	% GDP equivalent
LICs	-4	-0.9
LMICs	-34	-0.7
UMICs	-150	-0.9
All Developing Countries	-188	-0.8

Figure 13: Interest repayments on foreign debt (\$bn)



Source: World Bank, Eurodad calculations

Figure 14: Interest repayments on foreign debt (%GDP)



Trends and distribution

- Interest repayments have been rising over the past ten years for developing countries as a whole, reaching just under \$190 billion in 2012. However, they have actually been falling as a percentage of GDP, due to GDP growth in LMICs and MICs being higher than growth in interest repayments.
- In any one time period, certain borrowers are likely to dominate the figures, particularly for smaller economies. For example, the LIC figures have been heavily influenced by very high repayments from Kazakhstan (\$6.2 billion out of the LIC total of \$7.3 billion in 2011, for example). The significant fall in 2012 was due to a sharp reduction in interest repayments by Kazakhstan to \$2.3 billion.

Volatility

- These repayments are the result of loans taken out, so need to be understood in the context of section 6. As debt levels increase, so too do interest repayments. How important this is depends on growth in GDP, but also on the interest rates charged.

2.5 Profits repatriated by foreign investors

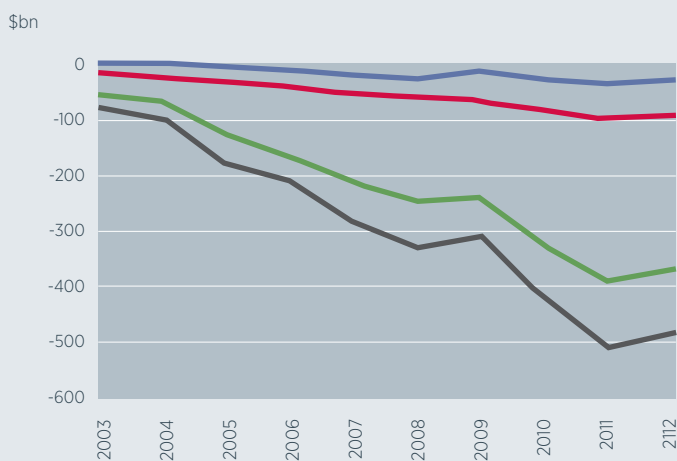
About the data

- The data on repatriated profits on money earned from FDI (see section 4.1) is calculated from World Bank figures.
- However, there is no data for the dividends and other income earned by the foreign investors on their portfolio equity (stocks and shares where the total holding is less than 10% of the company) that leaves the country, meaning the figures are underestimates.

Table 8: Profits repatriated by foreign investors (2012)

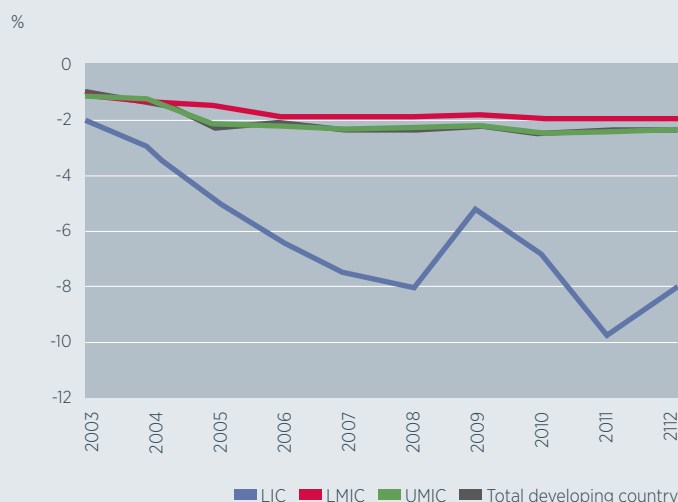
	\$billions	% GDP equivalent
LICs	-28	-8.1
LMICs	-88	-1.9
UMICs	-371	-2.2
All Developing Countries	-486	-2.3

Figure 15: Profits repatriated by foreign investors (\$bn)



Source: World Bank, Eurodad calculations

Figure 16: Profits repatriated (%GDP)



Scale and trends

- Developing countries lose a consistent and large proportion of GDP to investors repatriating profits from their FDI investments – over 2% of total GDP since 2005 (see Figure 16.¹⁹ Since 2010, repatriated profits have exceeded new inflows of FDI as a percentage of GDP, as Figure 16 shows.²⁰
- This does not mean that FDI has a negative impact whenever it occurs. The question is whether significant benefits can be gained during this period to compensate for the losses through repatriated profits, either through investing in areas that domestic investment will not reach, or, more likely, through the adoption of new technologies that come with FDI. As UNDESA has noted, “the evidence on the impact of FDI on the domestic economy remains mixed. In countries that experienced positive spillovers, there

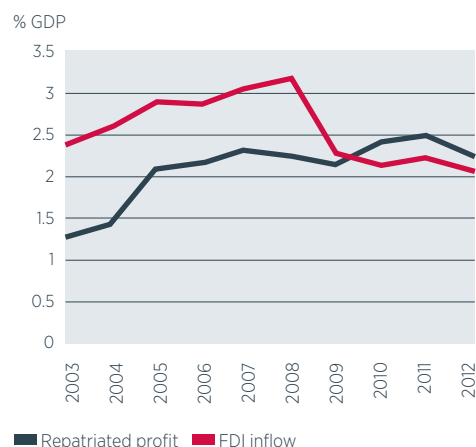
is evidence that government policies played an important role in facilitating these spillovers.”²¹ This is why UNCTAD has developed an FDI Contribution Index, which provides one template for assessing when FDI is a positive flow, and how to improve FDI inflows.

- Interestingly, the World Bank data for net FDI²² (not including boomerang flows) paints an even gloomier picture: it shows a net negative FDI flow for developing countries every year since 2005 (when the dataset begins). In 2012, the World Bank figures show a net FDI flow for developing countries of -\$418 billion.²³

Volatility

- The increase in repatriated profits since 2009 may reflect the fact that investors have responded to troubling economic conditions in their home countries that have been caused by the financial crisis.

Figure 17: FDI inflows and repatriated profits, all developing countries (%GDP)



Source: UNCTAD + World Bank data, Eurodad calculations

3 International public resources

Summary

Country programmable aid (CPA) levels, while increasing in absolute terms to a high of \$96 billion in 2011, have been falling relative to developing country GDP, which has been growing at a faster rate.

In LICs, however, aid remains an important resource, with CPA accounting for over 7% of GDP in 2012.

Reliable statistics on non-aid government-to-government flows are not available.

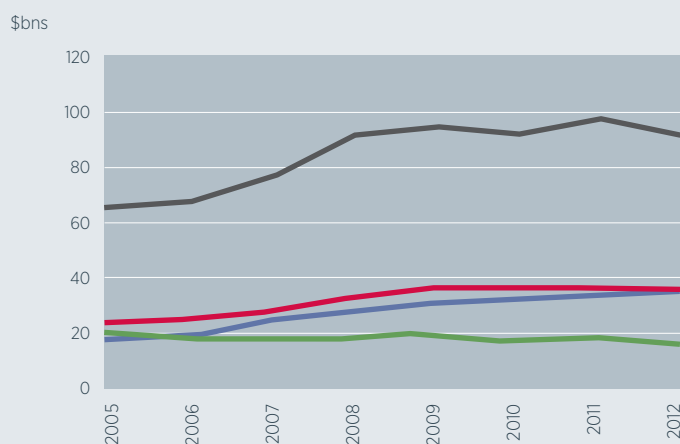
About the data

- The data is from the OECD Development Assistance Committee (DAC), and shows Country Programmable Aid (CPA). This is a subset of Official Development Assistance (ODA), removing items that are: unpredictable by nature;²⁵ entail no cross-border flows;²⁶ do not form part of co-operation agreements between governments;²⁷ or are not country programmable by the donor.²⁸
- According to the DAC, “CPA is much closer to capturing the flows of aid that go to the partner countries than the concept of Official Development Assistance (ODA).”
- CPA does not cover all aid flows – those between developing countries are not included, and some high-income countries are not included.²⁹ It is based on disbursements, and does not net out repayments of concessional loans (which means there will be some double counting with section 6.)

Table 9: Country Programmable Aid (CPA) 2012

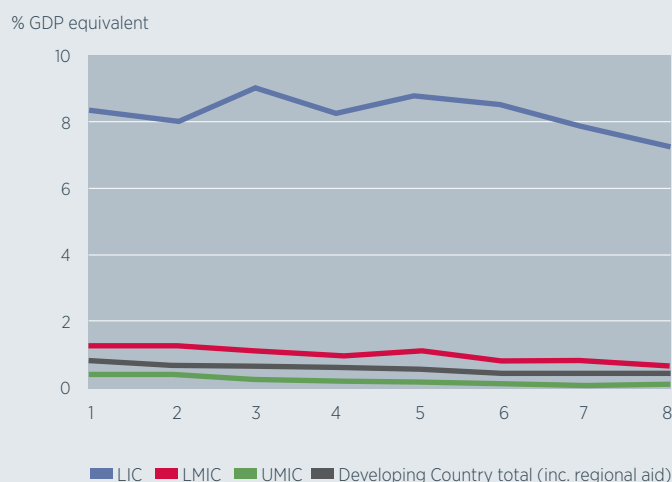
	\$billions	% GDP equivalent
LICs	33	7.2
LMICs	35	0.7
UMICs	16	0.1
Developing Country Total (including regional aid)	90	0.4

Figure 18: Country Programmable Aid (\$bn)



Source: OECD, Eurodad calculations

Figure 19: Country Programmable Aid (%GDP)



Trends and distribution

- CPA received by developing countries increased steadily from 2005, peaking at \$96 billion in 2011. These increases were directed at LMICs and particularly LICs: CPA to UMICs fell from \$20 billion in 2005 to \$16 billion in 2012.
- However, as a share of developing country GDP, CPA decreased from 0.7% in 2005 to 0.4% in 2012. This was driven by the significant growth of GDP in developing countries.

- There is a huge difference between developing countries, with LICs relying heavily on CPA where it made up the equivalent of 7.2% of total GDP in 2012, although this has been decreasing since 2009, when it was the equivalent 8.7% of GDP. In 2012, CPA received was equivalent to 0.7% of GDP in LMICs – still a significant figure – but only 0.1% in UMICs.
- CPA figures are not available for aid flows between developing countries. These ‘South-South cooperation’ flows are significant, estimated to be between \$16 and \$19 billion in 2011.³⁰

Volatility

- Overall, CPA levels have not responded rapidly to economic changes in donor countries – increasing even after the financial crisis – meaning it could be a valuable counter-cyclical resource.
- However, it can be a very volatile at national level for developing countries. In Africa, UNCTAD has estimated that ODA is up to four times more volatile than domestic tax revenue.³¹

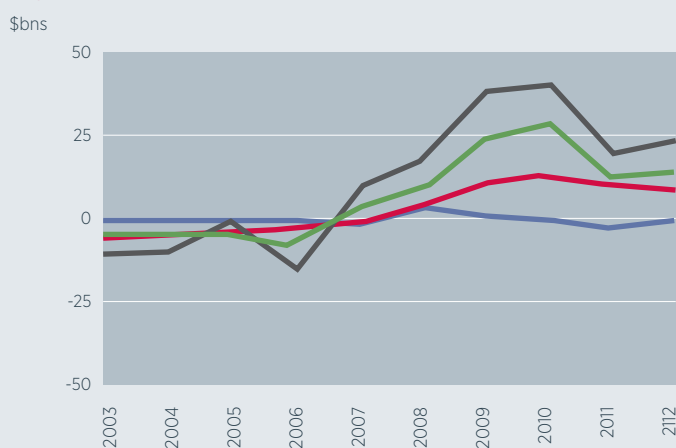
About the data

- Reliable, accurate statistics on all government-to-government financial transfers – which would include, for example, transfers for political, military or economic purposes – are not kept by an international organisation, which represents a significant gap in the figures.
- We use the best data available – Other Official Flows (OOFs) – from the OECD DAC. This is less an attempt to capture all non-ODA government-to-government transfers than a mechanism to classify reporting to the DAC that does not meet ODA requirements. This includes, for example, non-concessional loans or security-related expenditure.

Table 10: Other Official Flows (2012)

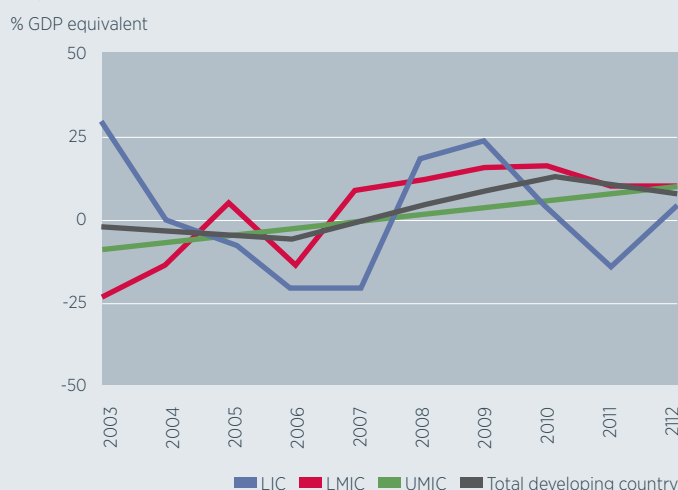
	\$billions	% GDP equivalent
LICs	0.3	0.1
LMICs	8	0.2
UMICs	15	0.1
All Developing Countries	23	0.1

Figure 20: Other Official Flows (\$bn)



Source: OECD, Eurodad calculations

Figure 21: Other Official Flows (%GDP)



Trends and distribution and risk

- As the figures above show, OOFs are a relatively small share of GDP in all categories of developing countries, but can be a highly volatile one, and sometimes represent net negative transfers, due to repayments of OOF loans.

Box 1:

‘Innovative’ public finance

This report has focused on the main existing sources of finance. However, considerable efforts have been made in recent years to promote new, additional ‘innovative’ sources of public finance, some of which are bearing fruit, although totals mobilised so far are very low. Eurodad examined these in detail in a previous report.³² Below we summarise the findings.

Financial Transaction Taxes

Financial Transaction Taxes (FTTs) are taxes on the trading of shares, bonds, derivatives and foreign exchange. In a sample of just seven G20 countries, the IMF has estimated that FTTs are already raising \$15 billion per year, although this is not allocated to development.³³

A group of 10 European countries have agreed to adopt new FTTs in stages, starting with shares and some derivatives. In 2011, the European Commission estimated that an EU-

implemented FTT across all asset classes could raise “between €16.4 billion and €400 billion depending on assumptions on decrease in volume, the scope of products covered and the tax rates (0.01% for the first estimate and 0.1% for the second).”³⁴

Carbon and other Environmental Taxes

Airline ticket levy: This is already in existence in nine countries, with the proceeds from most countries earmarked for UNITAID. It has raised over \$1 billion for UNITAID since 2006.³⁵ If expanded to more countries, or increased in scope, the potential raised could increase significantly.

Developed country carbon taxes: A 2011 joint report by the IMF, World Bank and OECD estimated that a tax of \$50 per tonne in developed countries would yield about \$450 billion per year, or \$250 billion (\$25 per tonne) or \$155 billion (\$15 per

tonne.)³⁶ If a tax of \$25 per tonne was levied on *aviation and bunker fuels* and taxes paid by developing countries were rebated, the same report estimates that \$22 billion per year could be raised, or \$14 billion if the rate was \$15 per tonne.

New SDR creation

Special Drawing Rights (SDRs) are an international reserve asset held at the IMF by all member governments. The main proposal is to agree regular additional allocations of SDRs – in effect to create new reserve assets. In 2009, a G20 agreement led to the issuance of \$250 billion in extra SDRs,³⁷ showing that such ‘global quantitative’ easing is possible. UNDESA suggests annual allocations of \$100 billion to £250 billion per year³⁸ and, if the majority of new SDRs went to developing countries this would yield them \$100 billion to \$167 billion annually.

4 International for-profit private flows

Summary

FDI to developing countries was badly hit by the global crisis, but has risen since then, although it remains below its 2008 peak. Rising GDP means FDI has fallen as a percentage of GDP from 3.2% in 2008 to 2.1% in 2012.

LICs, however, have had steadily increasing amounts of FDI compared to GDP, rising from 2.6% in 2003 to 5.1% in 2012, driven by a small number of countries.

For-profit flows can be highly volatile, particularly portfolio equity flows of stocks and shares, which rose sharply before the global financial crisis before collapsing into negative figures in 2008.

4.1 Foreign Direct Investment (FDI)

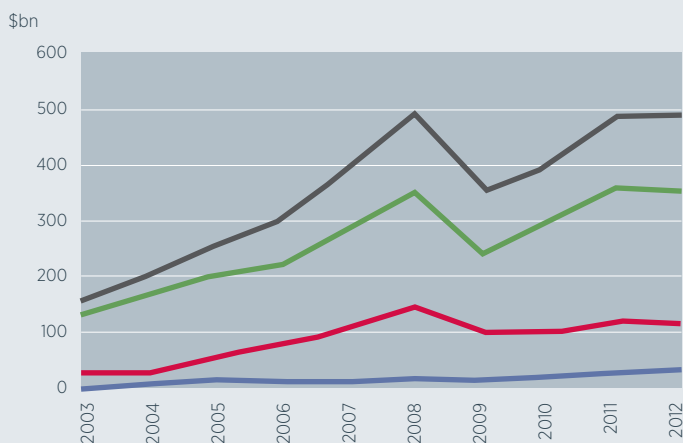
About the data

- FDI is foreign investment where the investor is thought to take an active interest in management of the company – normally assumed when they own 10% or more of the company. It is made up of three elements: equity capital, reinvested earnings and intra-company loans.³⁹
- The data on inflows and outflows is from UNCTAD, which takes great care to compile accurate statistics, including removing flows that are routed through ‘special purpose entities’ to avoid taxes. However, FDI figures are inevitably distorted by companies’ efforts to dodge taxes. For example, the concept of ‘round tripping’ – exporting FDI in order to import it again and earn more favourable tax advantages – is well known.

Table 11: FDI (2012)

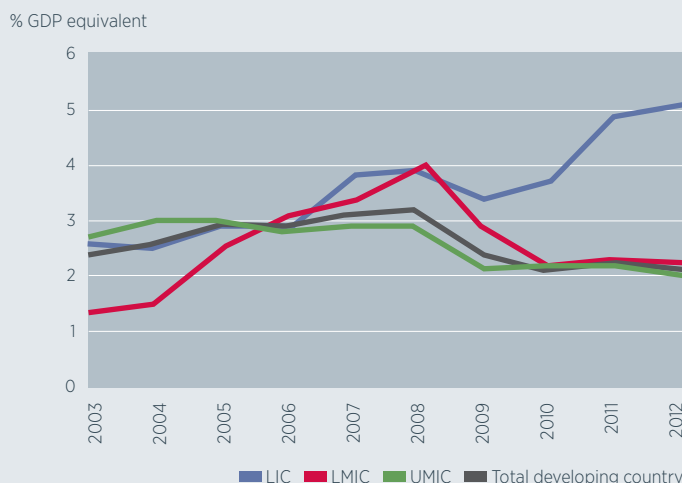
	\$billions	% GDP equivalent
LICs	24	5.1
LMICs	107	2.2
UMICs	349	2.0
All Developing Countries	480	2.1

Figure 22: FDI (\$bn)



Source: UNCTAD, Eurodad calculations

Figure 23: FDI (%GDP)



Trends and distribution

- Developing countries have been receiving increasing quantities of FDI but this reflects overall increases in their economies. In fact, as an equivalent of GDP, FDI inflows have risen and then fallen over the past decade, driven by LMICs and UMICs, starting at 2.4% in 2003, rising to 3.2% in 2008 and falling again after the financial crisis to 2.1% in 2012.
- LICs have had steadily increasing amounts of FDI compared to GDP, rising from 2.6% in 2003 to 5.1% in 2012. However, this is heavily concentrated in a few countries – with half of the 2012 total going to just four resource-rich countries.⁴⁰

- Developing country FDI outflows – where the developing country is investing overseas – have experienced a similar trend, but on a smaller scale. Outflows rose from \$17 billion in 2003 to \$195 billion in 2012, and increased from 0.4% of GDP to 0.8% over the same period, with a peak of 1% in 2008.⁴¹

Volatility

- FDI can be a highly pro-cyclical flow on a global scale, as it responds heavily to incentives in the home country. FDI inflows to developing countries also fell from \$491 billion in 2008 to \$354 billion in 2009 due to the financial crisis. Although they have subsequently recovered, this is in part also driven by

low interest rates in developed countries driving investors to ‘search for yield’ elsewhere. When interest rates begin to rise again in the coming years, developing countries could face significant shocks in terms of reduced FDI and other private flows.⁴²

- FDI can also be highly volatile at the national level, for a variety of reasons. A study of FDI to low-income countries found that “it has been quite volatile in eight countries, reflecting peaks in oil investment in Cameroon, Chad and Gabon, large individual projects in Gambia and Mali, and political instability in Bolivia, CAR [Central African Republic] and Togo”.⁴³

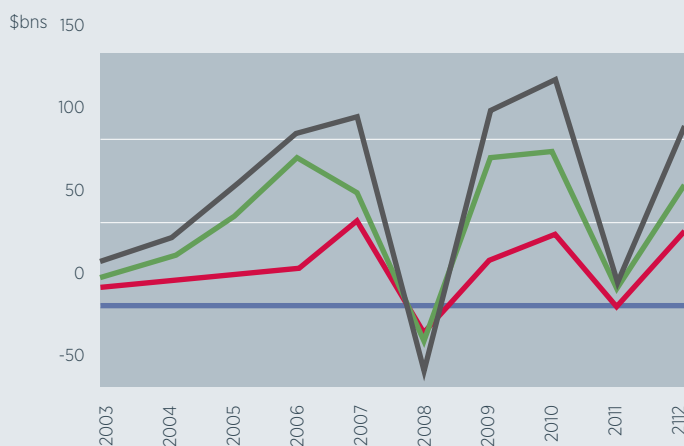
About the data

- The data is from the World Bank estimates of portfolio equity inflows, which record the buying and selling of stocks and shares and other equity assets in developing countries by foreign investors. As noted above, it is distinguished from FDI by a cut-off point of 10% ownership – if the investor owns less than 10% of the company, it is counted as portfolio equity.
- The data includes both purchases and sales of stocks and shares, and hence reflects the extent to which foreign investors increased their holdings of developing country equities.

Table 12: Portfolio Equity (2012)

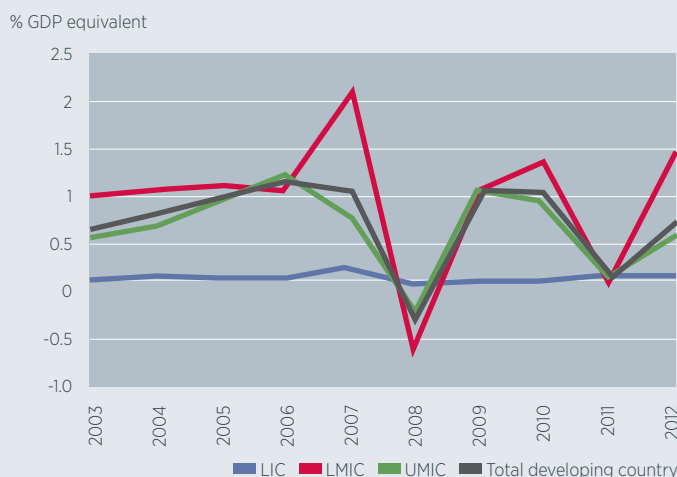
	\$billions	% GDP equivalent
LICs	0.1	-0.1
LMICs	38	1.5
UMICs	66	0.5
All Developing Countries	104	0.6

Figure 24: Portfolio Equity (\$bn)



Source: World Bank, Eurodad calculations

Figure 25: Portfolio Equity (%GDP)



Trends and distribution

- Portfolio equity flows have proven to be highly pro-cyclical and volatile, rising before the global financial crisis and then collapsing into negative figures in 2008, as investors sold stocks and shares in response to their own problems at home.
- In LMICs and UMICs, portfolio equity flows are concentrated in a small number of countries. For example, India and Nigeria accounted for \$23 billion of the \$38 billion LMIC total in 2012, while China and Mexico accounted for \$40 billion of the \$66 billion UMIC total in 2012. As LICs tend to have small stock markets, portfolio equity as a share of GDP has been tiny.

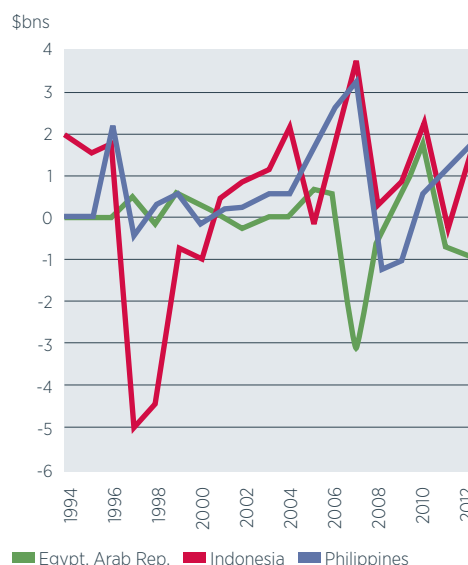
Volatility

- Portfolio equity flows tend to be the most volatile and pro-cyclical of all financial flows, along with short-term debt, as they respond rapidly to investors'

changing perceptions of risk and reward, and can therefore become 'hot money' flows, which can cause and exacerbate financial crises. This is because stocks and shares are highly liquid assets, and hence are easily sold should the investor face problems at home or lose faith in the economy in which they have invested. Figure 25 shows how volatile these flows can be for individual countries.

- As Figure 24 shows, private equity inflows reversed in response to the global financial crises, as investors sold stocks and shares to bring money home, and have been volatile since then. UNDESA argues that this volatility has been partly due to investors' changing opinions about the investment climate in developed countries.⁴⁵
- For this reason, an increasing number of developing countries are re-imposing capital controls to prevent sudden outflows or excessive inflows from causing macro-economic problems.⁴⁶

Figure 26: Portfolio Equity, selected countries (\$bn)



World Bank, Eurodad calculations

Box 2:

Estimating lending by Development Finance Institutions (DFIs)

Development Finance Institutions (DFIs) are government-controlled institutions that invest in private-sector projects in developing countries. They include the private sector arms of the multilateral development banks, such as the International Finance Corporation (IFC) of the World Bank Group (WBG). There are also bilateral DFIs linked to donor country governments. In Europe, 15 bilateral DFIs are members of the Association of European Development Finance Institutions (EDFI).

We have not examined these institutions in detail in this report. This is because it is not currently possible to disentangle their activities from other

existing flows, principally FDI, but also including OOFs and ODA, and also because there is a limited amount of data available.

According to a report published by the IFC in 2011, the joint financial commitments of 31 DFIs, including bilateral and multilateral institutions, increased from \$10 billion in 2002 to over \$40 billion per year in 2010. However, commitments do not always translate into disbursements, and it is not clear how much of this money actually flowed to developing countries.

We will attempt to produce a more detailed analysis in future editions.

5 International not-for-profit flows

Summary

Remittances increased from just over \$130 billion in 2003 to more than \$350 billion in 2012, although this may be due to improvements in data collection. They are highly concentrated in a small number of countries.

Remittances are particularly important in LICs and LMICs; they represented 7% of GDP in LICs and 4.6% in LMICs in 2012.

Charitable flows remain relatively small – around \$30 billion in 2012, or 0.13% of developing country GDP.

5.1 Charitable flows

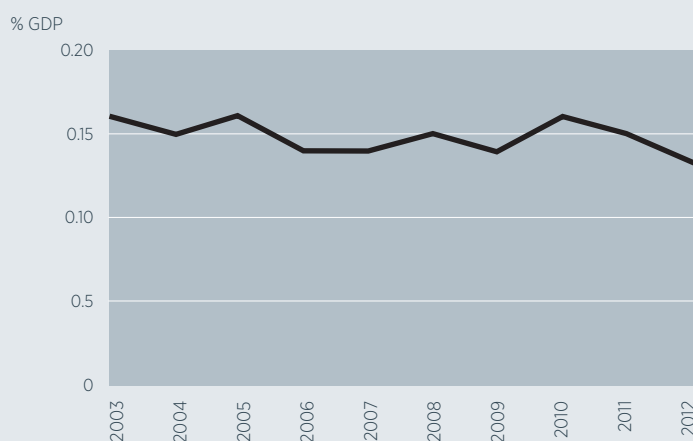
About the data

- The data, from the OECD, records flows from donor countries to developing countries by NGOs, private foundations and similar bodies.
- It includes expenditure in donor countries, and there is no measure of how much actually reaches developing countries. It is also therefore impossible to estimate how much went to different categories of country.

Table 13: Charitable flows (2012)

	\$billions	% GDP equivalent
All Developing Countries	30	0.1

Figure 27: Charitable flows as a percentage of developing country GDP



Trends, distribution and risk

- The scale of the flows is small – around \$30 billion, or 0.13% of developing country GDP in 2012. Although it has been growing in absolute terms, up from \$10 billion in 2003 – it has been shrinking as a proportion of developing country GDP, down from 0.16% in 2003, as Figure 27 shows.
- However, this may paint an inaccurate picture – if the majority is directed to LICs, as is the case for net ODA received, it may be a more important share of GDP in those countries.

- The Hudson Institute provides alternative statistics, which put the figure at \$59 billion in 2011.⁴⁷ However, this is not a reliable estimate of actual transfers as it includes many expenditures in developed countries, such as volunteer time. Development Initiatives provided an alternative estimate of ‘private development assistance’ of \$45 billion annually.⁴⁸

Volatility

- It is not possible to estimate volatility given the paucity of the data.

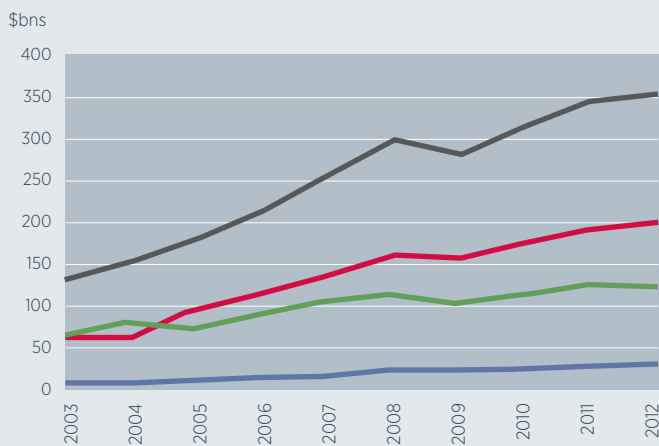
About the data

- Remittances data, from the World Bank, records transfers from people living or working overseas to their families and friends, or to invest at home.

Table 14: Remittances (2012)

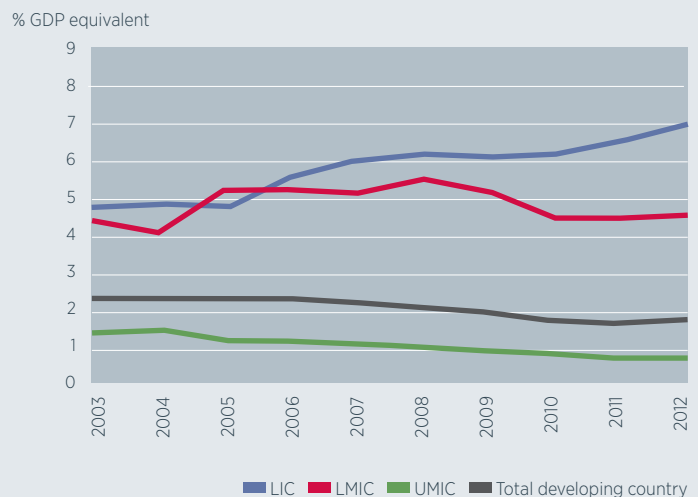
	\$billions	% GDP equivalent
LICs	29	7.0
LMICs	200	4.6
UMICs	121	0.8
All Developing Countries	350	1.8

Figure 28: Total Remittance inflows



Source: World Bank, Eurodad calculations

Figure 29: Remittances



Trends and distribution

- Remittances have been rising strongly and steadily for all categories of developing countries over the past decade, from just over \$130 billion in 2003 to over \$350 billion in 2012, as Figure 28 shows.
- They are an important resource, particularly in LICs and LMICs, where they represent a significant share of GDP – 7% in LICs and 4.6% in LMICs in 2012. However, as remittances tend to be highly concentrated in certain countries, this means that some countries are heavily dependent on remittances. According to World Bank estimates, in 2012, 21 countries had inflows of remittances exceeding 10% of GDP.⁴⁹

- The most significant changes have occurred in LICs, where remittances have risen from the equivalent of 4.8% of GDP in 2003 to 7% of GDP. In LMICs and UMICs, remittances have been falling as a share of GDP, despite rising in absolute terms, because of GDP increases.
- However, a recent paper suggests that rises in remittances have not been driven by changes in migration patterns, but rather by improvements in data collection.⁵⁰ If this is true, it would mean that remittances have played a much more important role in some developing countries for the past decade than the official figures suggest.
- It is important to note that remittance transfers are dominated by a relatively small number of countries, as they

depend on migration patterns. For example, in 2012, Bangladesh accounted for \$14 billion of the \$29 billion LIC total, while five countries accounted for \$147 billion of the \$200 billion LMIC total.⁵¹

- A significant portion of remittances may be lost during transfer. Sub-Saharan Africa is particularly badly affected, with remittance costs in the first quarter of 2014 estimated by the World Bank at a little under 12%.⁵²

Volatility

- Remittances have proved to be stable and counter-cyclical as a whole, rising steadily, including after the global financial crisis. However, it is not clear whether this is the case on a country level.⁵³

6 Debt-creating flows

Summary

Since 2006, there has been a sharp increase in new debt taken on by developing countries, driven by LMICs and UMICs.

Developing country debt stocks reached their highest level ever in 2012 – \$4.8 trillion, according to the World Bank – which was largely driven by increases in indebtedness by private actors.⁵⁴

LIC governments have remained heavy net borrowers throughout the period, averaging between 1.3% and 2% of GDP in additional long-term borrowing between 2003 and 2012.

6.1 Long-term foreign borrowing - public

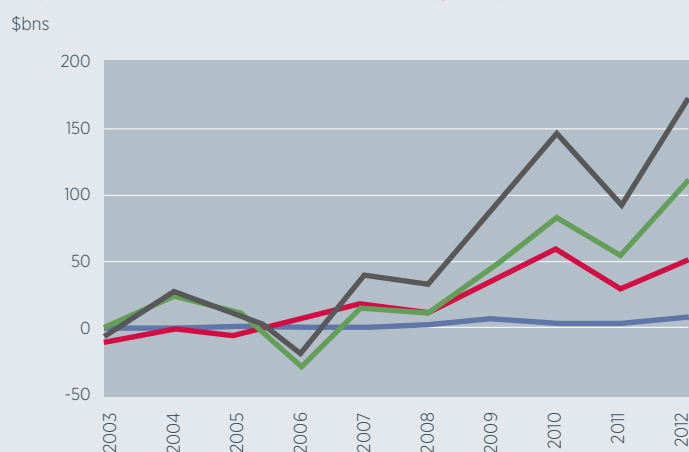
About the data

- The data, from the World Bank, measures long-term loans (more than a year) received by developing country governments minus repayment of principal on existing loans. Interest repayments are recorded for all categories of loans together in section 2.4.

Table 15: Net public external borrowing, long term (2012)

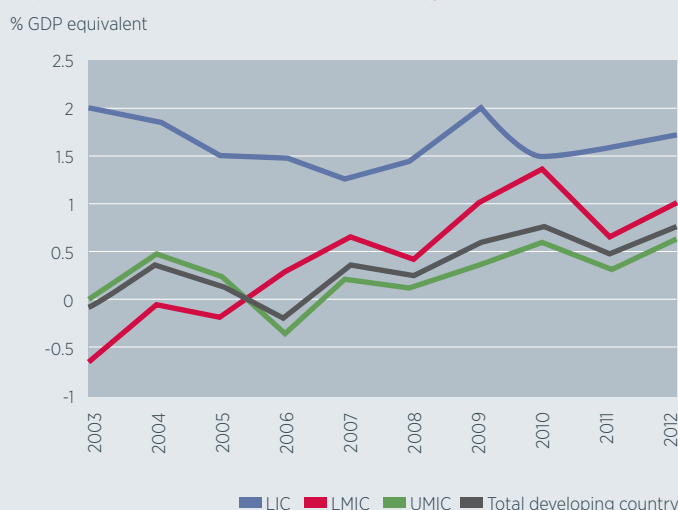
	\$billions	% GDP equivalent
LICs	8	1.7
LMICs	51	1.0
UMICs	109	0.6
All Developing Countries	168	0.8

Figure 30: Public external borrowing, long term (\$bn)



Source: World Bank, Eurodad calculations

Figure 31: Public external borrowing, long term (%GDP)



Trends and distribution

- As Figure 30 shows, up to 2006, developing country governments were taking on low levels of additional debt, or paying off existing debts. However, since 2006, there has been a sharp increase in additional debt taken on. This means that additional borrowing minus capital repayments for developing countries as a whole rose from a negative figure in 2006 (more capital being repaid than new loans taken on) to close to \$170 billion in 2012. This was caused by sharp increases in borrowing, by LMICs and UMICs, as Figure 31 shows.
- However, the most telling figure is that LIC governments have remained heavy long-term borrowers throughout the

period, averaging between 1.3% and 2% of GDP in additional borrowing between 2003 and 2012.

- This increased public borrowing by LMICs and UMICs, and consistently high levels by LICs, has largely come from private sources, accounting for 90% of net debt flows (public and private) in 2012.⁵⁵

Volatility

- The World Bank's latest *International Debt Statistics*⁵⁶ report shows that, although developing country governments' debt levels are low by historical standards, they are increasing, in particular through the issue of sovereign bonds.

- According to the World Bank and IMF, by November 2014 there were two LICs in debt distress⁵⁷ and 15 LICs at high risk of debt distress (up from 13 in August the same year) and a further 29 at moderate risk of debt distress (up from 27 in August the same year).⁵⁸

6.2 Private external borrowing - long term

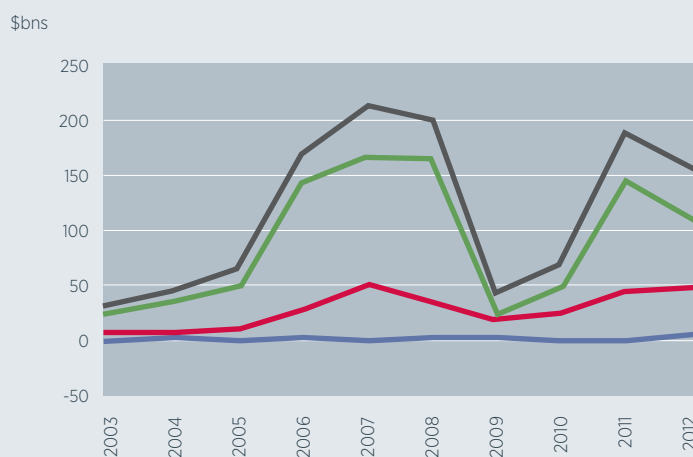
About the data

- The data, from the World Bank, shows long-term private borrowing, minus repayment of principal on existing loans. This is private debt that is not guaranteed by a public body, and has a maturity of more than one year. Interest repayments are recorded for all categories of loans together in section 2.4 above.

Table 16: Net private external borrowing, long term (2012)

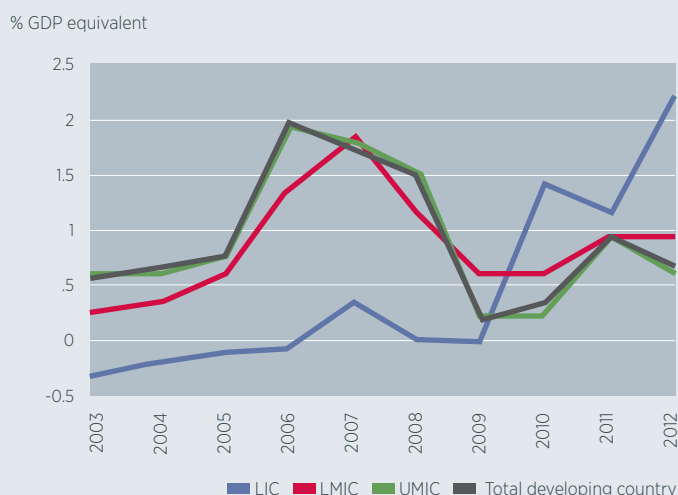
	\$billions	% GDP equivalent
LICs	1	2.2
LMICs	44	0.9
UMICs	108	0.7
All Developing Countries	154	0.7

Figure 32: Private external borrowing, long term (\$bn)



Source: World Bank, Eurodad calculations

Figure 33: Long term foreign borrowing - private (%GDP)



Trends and distribution

- Long-term borrowing by private actors has been a significant flow, reaching 1.8% of developing country GDP in 2006 and 2007.
- This represents a very large cumulative increase in private debt for LICs over this period. Developing country debt stocks reached their highest level ever in 2012 - \$4.8 trillion, according to the World Bank - which was largely driven by increases in indebtedness by private actors.⁵⁹
- Ultimately, as recent experience shows, private debts can become public debts during times of crisis. This problem of 'contingent liabilities' has been a frequent feature of debt crises, and is one reason why financial crises are normally succeeded by sovereign debt crises, as governments inevitably bail out stricken

financial institutions, often at great cost.⁶⁰ For example, the fiscal cost of the 1997 Indonesian banking crisis was close to 50% of the country's GDP.⁶¹

Volatility

- Private debt has proved to be a volatile flow - as witnessed by the crash in 2009-10 following the global financial crisis, caused by decreased willingness or ability of developed country financial institutions to lend over the long term to developing country private actors.
- As a recent Eurodad report has pointed out, increases in private debt have played a key role in previous crises, including the Asian financial crisis at the end of the last century, and the recent global financial crisis.⁶²

6.3 Short-term foreign borrowing – public & private

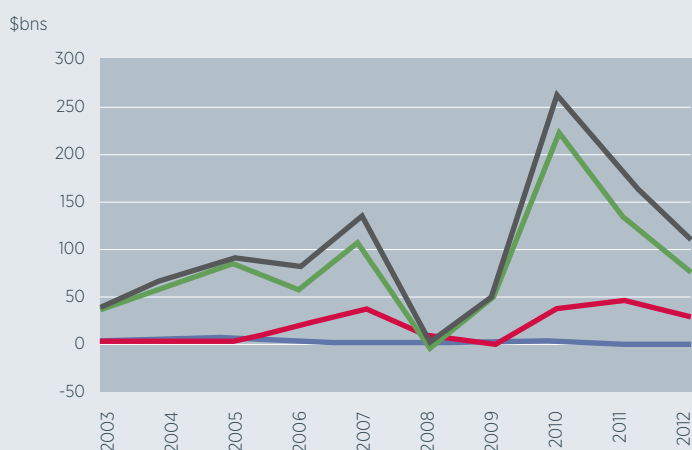
About the data

- The data, from the World Bank, shows short-term borrowing minus repayment of principal on existing loans. These are loans with a maturity of less than one year. It includes both public and private borrowing. Interest repayments are recorded for all categories of loans together in section 2.4 above.

Table 17: Short-term foreign borrowing (public & private), 2012

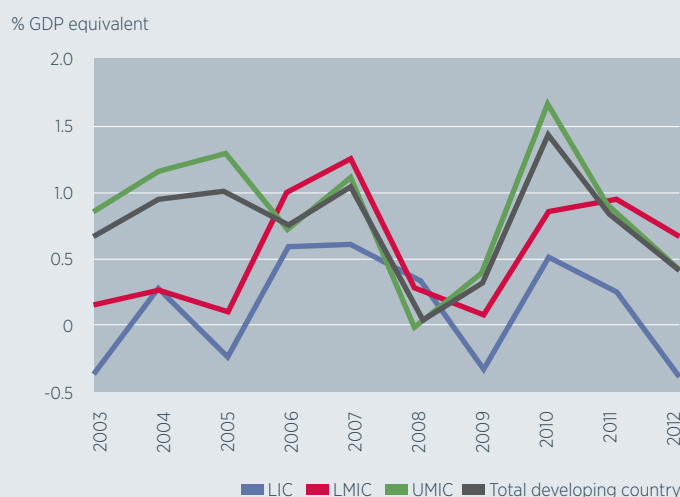
	\$billions	% GDP equivalent
LICs	-1	-0.3
LMICs	28	0.6
UMICs	76	0.4
All Developing Countries	103	0.5

Figure 34: Short-term foreign borrowing (public & private) (\$bn)



Source: World Bank, Eurodad calculations

Figure 35: Short-term foreign borrowing (public & private) (%GDP)



Trends and distribution

- Short-term foreign borrowing by developing countries has followed the pattern of long-term private borrowing, rising before the global financial crisis, slumping to around zero in 2008 and then rising again since.
- As a percentage of GDP, it has been an important flow for UMICs in particular, exceeding 1% in four out of ten years between 2003 and 2012.
- In LICs, it has been a negative flow in four out of ten years between 2003 and 2012, meaning that they have frequently been paying back more loans than they take on. In LMICs and UMICs, of course, the consistently net positive figures mean that they are taking on more loans than they are paying back.

Volatility

- Like private equity, short-term borrowing can be particularly high risk for developing countries, as it needs to be paid back over a rapid timescale. Whether or not lenders are willing to roll over loans will depend upon their assessment of the borrowing country. As the Figures 34 and 35 show, during times of crisis, short-term credit can dry up, causing problems for companies that have relied on it.

Other important characteristics of available resources

In this report, we have focused on the scale, distribution among countries and volatility of different financing resources. However, the quality of different resources matters as much as, if not more than, their quantity. We will focus on these issues in future editions of this report. Previous Eurodad research highlighted several of these, as summarised below.⁶³

Macro-economic risks

Inflows and outflows of resources affect a countries' exchange rate directly, but also affect the confidence of investors in the country. For example, 'hot money' outflows of short-term investment and lending caused by perceived problems in the host economy, or issues in the home economy, can trigger severe crises in the currency market and financial sector. These have damaging and often long-term impacts on the real economy. This type of panic exit of capital triggered the Asian financial crisis of 1997-98 and was a major mechanism for the transmission of the global financial crisis to developing countries.

Accountability and transparency

All of the resources discussed would benefit from significant improvements in their accountability and transparency. Civil society organisations have often focused on public flows – aid and domestic public resources – precisely because some notion of accountability and transparency is expected of the actors involved, even though they may not live up to those expectations. Efforts made to make private resources more accountable and transparent, such as working on minimum social or environmental standards, have been less successful.

Impacts on domestic politics

The domestic political impacts of resource flows can be extremely important for poverty reduction and sustainable development. For example, the conditionalities attached to lending by IFIs proved highly controversial. In addition, the strong influence of external actors on domestic policy-making undermines the space for developing countries to set their own policy agendas, and for citizens of those countries to hold their governments to account.

It is also important to note that the process of international economic liberalisation over recent decades, and the growth in the offshore economy, have provided incentives for governments to engage in a 'race to the bottom' on taxation and on standards expected of companies.⁶⁴

Contributions to sustainable development

Ultimately, the impacts of different resources on poverty reduction depend on the overall macro-economic, political and environmental conditions in each individual country. It may be worth distinguishing between two spheres where resources may be needed. In the first sphere of public goods – including basic services, the environment, natural resources and security – there is a greater demand for public sources of finance. However, in the area of productive development – the financing of infrastructure, business expansion and so on – the debate is highly contested. Ultimately, impacts on poverty reduction in this sphere depend both on how much real economic growth is created, how sustainable this is and how the proceeds of that growth are distributed.

As the United Nations gears up for its critically important summit on financing for development (FfD) in Addis Ababa in 2015, it will be important to have a clear-eyed view of the current scale of all different financing resources available. It is hoped that this report will make a significant contribution to that understanding.

In addition to giving a comprehensive analysis of all types of resources available and classifying them into sensible groups, we have attempted to add important lenses to our analysis that are not available in other reviews of the data.

First, we have examined the data as a percentage of GDP, which gives a far better impression of the importance of different resources from the perspective of the developing country than just examining total numbers. Second, we have examined the data over a ten-year time frame, which allows us to see trends and examine overall volatility. For future editions we will consider extending the time series further backwards, and providing more commentary on the causes of the trends.

Finally, we have examined the data by different categories of developing countries, which has helped to highlight the particular problems faced by low-income countries. These countries are far more affected by external resource inflows, as well as losses of domestic resources, than developing countries with higher levels of income.

The most striking finding of the report is that losses of financial resources by developing countries have been more than double the inflows of new financial resources since the financial crisis. Lost resources have been close to or above 10% of GDP for developing countries as a whole since 2008.

This single statistic helps to highlight an important truth: the international economic and financial system is currently failing developing countries. Readers are encouraged to examine the set of recommendations endorsed by Eurodad and over 100 other civil society organisations (CSOs),⁶⁵ which set out how the governments of the world can begin to change this at the FfD summit next year.

- 1 UN. (2014). *Report of the Intergovernmental Committee of Experts on Sustainable Development Financing*. New York. UN.
- 2 There is double counting with a portion of a number of external flows, most significantly FDI (section B4.1), private external borrowing (sections 6.2 and 6.3) and aid (section 3.1).
- 3 By comparison, the figure for developed countries was under 20% in 2012.
- 4 Figures are Eurodad calculations, using UN population figures, and World Bank GFCF figures.
- 5 Unfortunately, World Bank data that splits domestic investment between public and private sources is only available for LICs and LMICs at present. This may be an underestimate, as it is not clear whether public enterprises are included in the World Bank's private investment figures.
- 6 2012 figures not yet available for all income groups.
- 7 Eurodad analysis of World Bank figures, using UN population estimates.
- 8 See <http://www.imf.org/external/pubs/ft/survey/so/2012/POL032812A.htm>
- 9 Figures for 2012 are not yet published.
- 10 Kar, Dev and LeBlanc, Brian. (2013). *Illicit Financial Flows from Developing Countries: 2002-2011*. Washington, D.C. Global Financial Integrity, p.1.
- 11 See <http://www.undp.org/content/undp/en/home/librarypage/democratic-governance/anti-corruption/a-snapshot-of-illicit-financial-flows-from-eight-developing-coun/>
- 12 Murphy, Richard. (2012). *Closing the European Tax Gap*. UK. Tax Research UK.
- 13 IMF. (2014). *Spillovers in international corporate taxation*. Washington D.C. IMF.
- 14 TJN has developed the Financial Secrecy Index to define such jurisdictions that provide: "(1) anonymity for them, their families, and their business and political dealings; (2) the ability to minimize the net present value of future taxes...; (3) investment management...; (4) ability to easily access and manage their wealth from anywhere on the planet; (5) secure places to hang out, hide out and enjoy life; and (6) iron clad financial security." Henry, James. (2012). *The price of offshore revisited*. London. Tax Justice Network, p.10.
- 15 Henry, James. (2012). *The price of offshore revisited*. London. Tax Justice Network.
- 16 UNDESA. (2012). *World Economic Situation and Prospects 2012*. New York. UN.
- 17 Timor Leste, Libya, Mongolia, Mauritania, Bhutan, Lebanon, Peru, Vietnam, Moldova, Comoros, Bolivia, Bulgaria, Cambodia, Solomon Islands, Yemen and Niger.
- 18 Eurodad. (2010). *The cost of reserves*. Brussels. Eurodad.
- 19 The number of countries for which repatriated profit data is available is different from the number for which FDI data is available, which means that the GDP base for comparison is different. This explains why the figures for repatriated profit as % GDP are higher than those for FDI as a percentage of GDP, even when the absolute totals are lower.
- 20 Given the fact that a proportion of FDI is also the reinvestment of earnings from within the host (developing) country, this suggests that the net investment benefit in terms of new money entering the country is also lower.
- 21 UNDESA. (2014). *World Economic Situation and Prospects 2014*. New York. UN.
- 22 "Net FDI in the reporting economy from foreign sources less net FDI by the reporting economy to the rest of the world" <http://data.worldbank.org/indicator/BN.KLT.DINV.CD?display=Figure>
- 23 This may be due to the fact that the World Bank does not take the same care as the UN Conference on Trade and Development (UNCTAD) to remove distortions caused by tax dodging practices.
- 24 A portion of CPA is only allocated by the DAC on a regional basis (\$6 billion in 2012), which explains why the total for All Developing Countries is higher than the sum of LICs+LMICs+UMICs.
- 25 Humanitarian aid and debt relief.
- 26 Administrative costs, imputed student costs, promotion of development awareness and research and refugees in donor countries.
- 27 Food aid and aid from local governments.
- 28 Core funding of non-governmental organisations (NGOs).
- 29 CPA covers flows from 29 DAC members, 25 of the largest multilateral agencies, 3 OECD non DAC members and 3 non OECD members.
- 30 United Nations. (2014). *Trends and progress in international development cooperation Report of the Secretary-General*. New York. UN.
- 31 UNCTAD. (2009). *Enhancing the role of domestic financial resources in Africa's development*. Geneva, UN, p.7.
- 32 Griffiths, Jesse. (2013). *Global Financial Flows, Aid and Development*. Brussels. CONCORD.
- 33 Gates, Bill. (2011). *Innovation With Impact: Financing 21st Century Development*, p.13.
- 34 See http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/142513.pdf, Financial Transaction Tax, p.9.
- 35 UNDESA. (2012). *World Economic and Social Survey 2012. In Search of New Development Finance*.
- 36 World Bank Group. (2011). *Mobilizing Climate Finance A Paper Prepared at the Request of G20 Finance Ministers*.
- 37 See <http://www.brettonwoodsproject.org/art-564159>
- 38 UNDESA. (2012). *World Economic and Social Survey 2012. In Search of New Development Finance*.
- 39 As noted above, these will cross over with the domestic investment figures (section 1.1).
- 40 Mozambique, Myanmar, Congo and Tanzania.
- 41 Again, this reflects patterns in LMICS and UMICS – in LICs, the ratio was relatively low and stable at between 0.1% and 0.2% of GDP until an increase in 2011 and 2012, when it reached 0.4%, still far smaller than inflows.
- 42 Akyüz, Yilmaz. (2012). *Financial Crisis and Global Imbalances: A Development Perspective*. South Centre. Geneva.
- 43 Bhinda, Nils & Martin, Matthew. (2010). *Private capital flows to low-income countries. Dealing with boom and bust*.
- 44 Korinek, Anton. (2011). *Hot Money and Serial Financial Crises, IMF Economic Review*.
- 45 UNDESA. (2013). *World Economic Situation and Prospects 2013*. New York. UN, pp.67-68.
- 46 Chowla, Peter. (2011). *Time for a New Consensus. Regulating Financial Flows for Stability and Development*. London. Bretton Woods Project.
- 47 Hudson Institute. (2014). *Index of Global Philanthropy 2013*.
- 48 Hénon, Sarah. (2014). *Measuring private development assistance. Emerging trends and challenges*. Bristol. Development Initiatives.
- 49 See <http://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS> (accessed 9 September 2014).
- 50 Clemens, Michael & McKenzie, David. (2014). "Why Don't Remittances Appear to Affect Growth?" *World Bank Policy Research Working Paper No. 6856*. Washington D.C. World Bank.
- 51 India, Philippines, Nigeria, Egypt and Pakistan.
- 52 See https://remittanceprices.worldbank.org/sites/default/files/RPW_Report_Mar2014.pdf
- 53 Neagu, I and Schiff, M. (2009). *Remittance Stability, Cyclical and Stabilizing Impact in Developing Countries*. Washington, D.C. World Bank suggest they are pro-cyclical, but less so than FDI.
- 54 World Bank. (2014). *International Debt Statistics 2014*. Washington D.C. World Bank.
- 55 World Bank. (2014). *International Debt Statistics 2014*. Washington, D.C. World Bank, p.1.
- 56 World Bank. (2014). *International Debt Statistics 2014*. Washington, D.C. World Bank.
- 57 Sudan and Zimbabwe – see <http://www.imf.org/external/pubs/ft/dsa/dsalist.pdf>
- 58 See <https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf>
- 59 World Bank. (2014). *International Debt Statistics 2014*. Washington, D.C. World Bank.
- 60 Rogoff, Eric & Reinhart, Carmen. (2011). *This time is different. Eight Centuries of Financial Folly*.
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- 62 Ellmers, Bodo. (2013). *The new debt vulnerabilities*. Brussels. Eurodad.
- 63 Griffiths, Jesse. (2013). *Global financial flows, aid and development*. Brussels. CONCORD.
- 64 Zambia is a case in point. See Mwambwa et al. (2010). *A Fool's Paradise? Zambia's Mining Tax Regime*, http://www.ctpd.org.zm/index.php?option=com_phocadownload&view=category&download=8:ctpd_fools-paradise_zambia-mining-tax-regime-briefing-paper&d=4:publications&Itemid=119.
- 65 137 CSOs (2014). *UN Financing for Development negotiations: What outcomes should be agreed in Addis Ababa in 2015?*

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