FOR EVERY $1
DEVELOPING COUNTRIES
GAIN

<table>
<thead>
<tr>
<th>Source</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest repayments on foreign debt</td>
<td>14¢</td>
</tr>
<tr>
<td>Profits taken out by foreign investors</td>
<td>42¢</td>
</tr>
<tr>
<td>Lending to rich countries</td>
<td>59¢</td>
</tr>
<tr>
<td>Illicit financial flows</td>
<td>93¢</td>
</tr>
<tr>
<td>Other official flows</td>
<td>3¢</td>
</tr>
<tr>
<td>Charitable</td>
<td>3¢</td>
</tr>
<tr>
<td>Portfolio equity (stocks &amp; shares)</td>
<td>6¢</td>
</tr>
<tr>
<td>Aid</td>
<td>10¢</td>
</tr>
<tr>
<td>Remittances from migrant workers</td>
<td>34¢</td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>44¢</td>
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THEY LOSE MORE THAN $2
Eurodad has produced a new report providing a comprehensive review of the quantity of different financing sources available to developing countries, and how they have changed over the past decade. This report finds that developing countries are losing twice as much money as they earn because of issues like tax evasion, loans to rich countries, profits taken out by foreign investors and interest repayments on debt. This toolkit has been put together to provide concise information on this report for the media, including useful tools to help communicate its findings.

The contents of this pack are:

Summary of the report 03
Conclusions 08
Frequently asked questions 09
Tweetable infographics 11
Media release 12
Summary of the report:
The State of Finance for Developing Countries, 2014

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 almost 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 are 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 almost 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 17% of GDP in 2012.
- The largest outflows were illicit financial flows ($634 billion in 2012) and profits repatriated by international investors ($486 billion).
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 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 Foreign Direct Investment (FDI), with LICs particularly affected, with outflows of over 8% of GDP.

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 8% 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

<table>
<thead>
<tr>
<th></th>
<th>All developing countries</th>
<th>LICs</th>
<th>LMICs</th>
<th>UMICs</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>$bns %GDP</td>
<td>$bns %GDP</td>
<td>$bns %GDP</td>
<td>$bns %GDP</td>
</tr>
<tr>
<td>1. Domestic resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic Investment</td>
<td>7,328 33.4</td>
<td>112 27.2</td>
<td>1,316 28.1</td>
<td>5,900 35.1</td>
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<tr>
<td>Government Revenue (2011)</td>
<td>4,125 18.8</td>
<td>63 14.4</td>
<td>694 14.5</td>
<td>3,367 20.4</td>
</tr>
<tr>
<td>2. Losses - Domestic resource outflows</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Illicit Financial Flows (2011)</td>
<td>-634 -4.3</td>
<td>-16 -6.7</td>
<td>-185 -5.8</td>
<td>-432 -3.8</td>
</tr>
<tr>
<td>Tax loss to abusive tax avoidance</td>
<td>no data</td>
<td>no data</td>
<td>no data</td>
<td>no data</td>
</tr>
<tr>
<td>Lending to rich countries</td>
<td>-766 -2.3</td>
<td>-9 -1.8</td>
<td>-20 -0.1</td>
<td>-247 -0.9</td>
</tr>
<tr>
<td>Interest repayments on external debt</td>
<td>-188 -2.5</td>
<td>-4 -0.9</td>
<td>-34 -0.7</td>
<td>-150 -0.9</td>
</tr>
<tr>
<td>Profits repatriated by foreign investors</td>
<td>-486 -2.3</td>
<td>-28 -6.1</td>
<td>-88 -1.9</td>
<td>-371 -2.2</td>
</tr>
<tr>
<td>Sub-total: Losses</td>
<td>1,583 -8.1</td>
<td>-57 -17.4</td>
<td>-327 -8.5</td>
<td>-1,200 -7.8</td>
</tr>
<tr>
<td>3. Inflows</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1 International Public Resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Aid</td>
<td>90 0.4</td>
<td>33 7.2</td>
<td>35 0.7</td>
<td>16 0.1</td>
</tr>
<tr>
<td>Other Official Flows</td>
<td>23 0.1</td>
<td>0 0.1</td>
<td>8 0.2</td>
<td>15 0.1</td>
</tr>
<tr>
<td>3.2 International for-profit private flows</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign Direct Investment</td>
<td>480 2.1</td>
<td>24 5.1</td>
<td>107 2.2</td>
<td>349 2.0</td>
</tr>
<tr>
<td>Portfolio investment (stocks and shares)</td>
<td>104 0.5</td>
<td>0 0.1</td>
<td>38 0.8</td>
<td>66 0.4</td>
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<tr>
<td>3.2 International not-for-profit private flows</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Charitable flows</td>
<td>30 0.1</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Remittances</td>
<td>351 1.8</td>
<td>30 8.0</td>
<td>199 4.6</td>
<td>121 0.8</td>
</tr>
<tr>
<td>Sub-total: Inflows</td>
<td>1,078 5.0</td>
<td>88 20.4</td>
<td>388 8.4</td>
<td>567 3.4</td>
</tr>
<tr>
<td>4. Debt creating flows</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public borrowing, long term</td>
<td>168 0.8</td>
<td>8 1.7</td>
<td>51 1.0</td>
<td>109 0.6</td>
</tr>
<tr>
<td>Private borrowing, long term</td>
<td>154 0.7</td>
<td>1 2.2</td>
<td>44 0.9</td>
<td>108 0.7</td>
</tr>
<tr>
<td>Short term borrowing</td>
<td>103 0.5</td>
<td>-1 -0.3</td>
<td>29 0.6</td>
<td>75 0.4</td>
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<tr>
<td>Sub-total: debt creating flows</td>
<td>425 1.9</td>
<td>8 3.5</td>
<td>124 2.6</td>
<td>293 1.7</td>
</tr>
</tbody>
</table>
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 sources, 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.
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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 almost 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 136 other civil society organisations (CSOs), which set out how the governments of the world can begin to change this at the FFD summit next year.

To access the full report, please go to: www.eurodad.org/finance_for_developing_countries
Frequently asked questions

1. **What is this report about?**
   This report looks at the size of resources currently available to developing countries to help them lift their citizens out of poverty. It examines not just funds flowing into countries, through foreign investments for example, but also the money that developing countries are losing, for example through corporations evading taxes or because profits are taken out of a country and reinvested elsewhere.

2. **Where do your figures come from?**
   We have analysed the best available data produced by international institutions. Most data comes from the World Bank data bank, except for the data on Country Programmable Aid and Other Official Flows, which are from the OECD, and the data on Foreign Direct Investment, which are from UNCTAD. We have examined data over a ten year period from 2003 to 2012 where possible. 2012 is the most recent year for which a reliable picture can be built up around all resources. We provide figures in absolute terms in dollars, and also as percentages of GDP – the best indicator of how important they are to the developing country.

3. **What countries did you look at for this report?**
   We looked at all 193 UN member states (with the exception of Nauru as it does not have a World Bank income classification). We examined the figures for all developing countries as a whole, before separating them out into upper-middle-income countries, lower-middle-income countries, and low-income countries to see which categories were most affected by different kinds of inflows and outflows.

4. **What was your overall finding?**
   Our findings are startling. We have found that since the global financial crisis, developing countries have lost more than $2 for every dollar they have received. That means that they are losing twice as much money as they receive in investment, aid, charitable donations and remittances.

5. **How are developing countries losing these funds?**
   By far the biggest losses come from illicit financial flows – in other words money that was illegally earned, transferred or used, costing developing countries $634 billion in 2011. And this is just the tip of the iceberg, as we do not know how much money is lost through legal but morally wrong – tax avoidance by big companies.

   The second biggest loss is through the profits extracted from developing countries by foreign investors: totaling $486 billion in 2012.

   The third is through developing countries lending to rich countries by buying (mainly US) bonds.

   The fourth main loss is through interest repayments on foreign debt.
6. **How are the world’s poorest countries affected?**

Low income countries are particularly badly affected by the financial outflows described above, losing more than 17 per cent of their GDP in 2012. The largest losses were illicit financial flows and profits repatriated by international investors.

7. **Where are the biggest sources of revenues for developing countries?**

Domestic resources (i.e. domestic investment) are far larger than all external financing sources, though there are very low levels of public investment per capita in low-income countries on the whole.

8. **Tax dodging is clearly wrong. But if companies do pay their taxes, why shouldn’t they reinvest their profits back in their home countries?**

Of course companies are permitted to reinvest their money elsewhere, but it is the sheer scale of these outflows from some of the poorest countries in the world that causes the most concern. The idea is that foreign investment should bring benefits to a country, particularly one in desperate need of resources. FDI should be carefully managed, so that it brings with it skills training, new ideas, and doesn’t push out domestic investment. This has not always been the case, particularly in industries such as mining, for example. Our other concern is that Foreign Direct Investment has, in recent years, been seen as the answer to alleviating poverty in developing countries by institutions such as the World Bank. This report shows that this reliance on FDI is seriously misguided unless the risks are also taken into account, not just the benefits. The three main lost resources – IFFs, repatriated profits, and lending money to rich countries to build reserves – are all directly related to private investment, showing how important it is to put managing these risks front and centre in development discussions.

9. **If developing countries have fallen into debt, shouldn’t they have to repay it?**

Some countries have legitimate reasons for borrowing from abroad – to get better terms, or finance investment for example. But there are also multiple problems leading to this massive debt. First, developing countries would not have had to borrow so much if rich countries had delivered the predictable, high quality aid they have promised since 1970. Some donor countries have even been counting profit-making loans as aid to get around their commitments. Second, there is no mechanism to deal with unsustainable, unfair, or unpayable debts of developing countries. An independent insolvency regime for states to help reduce their debts in a rapid, orderly and fair manner is much needed.

10. **What are the solutions to these problems?**

Eurodad has worked with CSO allies from around the globe to develop focused recommendations to tackle these issues. Firstly, the international community must act to end tax corporate tax dodging, and to prevent the tax wars that mean that governments are giving up on taxing corporations. We need to establish an intergovernmental committee under the auspices of the UN to take the lead and tackle these issues head on, representing all countries – including developing nations. There must be a comprehensive mandate for the new tax body, including base erosion and profit shifting, tax and investment treaties, tax incentives, taxation of extractive industries, beneficial ownership transparency, country by country reporting and automatic exchange of information for tax purposes.

Secondly, foreign investments must obey responsible financing standards, and not undermine domestic investments. All of those nations that have promised to deliver high quality aid to the poorest countries must keep to those promises; and an effective global debt workout procedure must be established. The UN has promised to establish such a system by the end of 2015. Eurodad is part of a global movement pushing them to keep this promise. These measures will help enormously to stem the enormous flow of money pouring out of developing countries.
Figure 1: Inflows vs. losses for developing countries, % GDP (2008-2011)
Media release

$2 lost for every $1 gained: New report shows global financial system fails developing countries

Developing countries are losing twice as much money as they earn because of issues like tax evasion, profits taken out by foreign investors and interest repayments on debt.

A new report – The State of Development Finance for Developing Countries, 2014 – has found that for every dollar developing countries have earned since 2008, they have lost $2.07. Furthermore they have lost, on average, 10 per cent of their Gross Domestic Product (GDP) through these financial losses.

Report author Jesse Griffiths, Director of the European Network on Debt and Development (Eurodad), said: “The results of our research are shocking. We are not talking about all flows of money out of developing countries, just lost resources – money that should have been invested to support development, and was instead drained out. It is outrageous that the global financial system is skewed so much against developing countries.”

The report finds that:

- The biggest loss was through illicit financial flows – money that was illegally earned, transferred or used – which cost developing countries $634 billion (€509 billion) in 2011.

- The second biggest loss is the profits extracted from developing countries by foreign investors: totalling $486 billion in 2012. In fact, since 2008, foreign investors have been taking more profits out of developing countries than new investments have been coming in.

- The third biggest loss is the money that developing countries are lending rich countries by buying (mainly US) bonds. This totalled 1.2% of their GDP - $276 billion (€222 billion) in 2012.

- The fourth biggest loss for developing countries is interest repayments on foreign debt, totalling $188 billion (€151 billion) in 2012.

These losses far outweighed financial inflows through foreign direct investment, aid, portfolio equity (stocks and shares), charitable money and remittances from migrant workers.

Jesse Griffiths said: “What is clear is that the global economic system is failing developing countries. However, the solutions are on the table. For example, the UN has promised to create an international legal framework that would introduce a fair and rapid way of resolving debt crises by the end of 2015: it’s time to hold them to that promise.”

To read the full report go to: www.eurodad.org/finance_for_developing_countries.

For more information, or to request an interview, please contact Julia Ravenscroft, Communications Manager at Eurodad, on +32 2 893 0854.

Notes to Editors:

Eurodad has worked with CSO allies from around the globe to develop focused recommendations to tackle the issues raise in this report. Those recommendations can be found in our joint position paper towards the Third UN Conference on Financing for development here.