Knowledge, evidence and learning for development

# The role of regional financial centres for development finance

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*29 January 2019*

## Question

*What evidence exists on the role of regional financial centres in mobilising investment finance for developing countries?*

## Contents



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# 1. Summary

International and regional financial centres facilitate the flow of international investments in developing countries. This review provides a brief summary of evidence available on the role of selected regional financial centres in mobilising investment finance toward low- and middle-income countries. It also provides a synthesis of the literature on the role of international financial centres (IFCs) for development finance. Where available, it provides country case studies that illustrate an overview of the selected centre's role in investment mobilisation to developing countries.

Overall, the financial centres contribute to enhancing public and private investment in developing countries. This report has looked in particular at studies and data of 11 regional financial centres: Egypt, Indonesia, Kenya, Lebanon, Malta, Mauritius, Morocco, Nigeria, Seychelles, South Africa and Turkey. Among the selected examples, South Africa and Mauritius appear to be important regional financial centres providing a large share of their investments in Africa and Asia.

Key findings include:

**Role of IFCs**

- There are three ways that IFCs facilitate investment flows to developing countries: **mobilising foreign direct investment (FDI), facilitating private equity funds and intermediating funds from development finance institutions (DFIs)**.
- Empirical evidence confirms that **IFCs contribute to stimulating additional investment finance** for developing countries.

**Regional financial centres**

- **Morocco, South Africa, Mauritius, Indonesia, Malta and Turkey are rated among the world's global financial centres** by the Global Financial Centre Index.
- **Mauritius is a key source of investment for low- and lower-middle income countries** among the selected financial centres.
- In addition to Mauritius, **South Africa and Turkey contribute to mobilising investment in middle-income countries.**
- For intra-regional investment in Africa, **South Africa and Morocco provided more investment in the region** compared to other regional members.
- **South Africa, Morocco, Nigeria and Kenya have dominant positions in cross-border banking in the continent.**
- Outside Africa, **none of the selected financial centres was cited as a major source of intra-regional investment.**
- Egypt and Indonesia appear to be major recipients of intra-regional investments.

**Country-case studies**

- **Mauritius: Mauritius directed most of its outward FDI to developing countries**. **Mauritius's investment is an important source of international financing for many African countries and India** as it accounted for a large share of total inward investment in these countries.

- **South Africa: South Africa significantly contributed to inward FDI in least developed and other developing countries in 2016.** More than half of the outward investment went to developing and transition countries.
- **Morocco:** Empirical evidence confirms that **a large share of FDI from Morocco was directed to Sub-Saharan Africa.** The investment focused on value-added sectors such as banking and telecommunications.
- **Turkey: Turkey contributed to investment in landlocked developing countries** such as Ethiopia, Azerbaijan and Kazakhstan.

There is no commonly agreed definition of IFCs (EMPEA, 2015, p.42; IMF, 2007, p.4; UNCTAD, 2015, p.189; Waris, 2014, p.2). In this report, IFCs or financial centres refers to "a country or jurisdiction that provide financial services to non-residents on a scale that is incommensurate with the size and the financing of its domestic economy" (Bara & Le Roux, 2017, p.69)[1]. Regional financial centres refers to financial centres that "have developed financial markets and infrastructure and intermediate funds in and out of their region, but have relatively small domestic economies" (IMF, 2000, para.12). As this report focuses on the financial activities of financial centres, it also draws on evidence of studies that use other terms such as offshore financial centres and investment hubs.

For the definition of "investment", international investment statistics comprise different categories of cross-border investment; namely direct investment, portfolio investment, financial derivatives and other investment (mainly bank loans and deposits) (Fauser & Godar, 2016, p.3). Due to the availability of studies, this report mainly focuses on FDI but also draws on evidence of other types of investment.

There are limited empirical studies and statistics on cross-border capital flows between countries. It is more difficult to find firm-level cross-border financial transactions. Many literature highlights this limitation (Guichard, 2017, p.8; Lane & Milesi-Ferretti, 2010, p.3). Very few developing countries provide information on the origin of the investments they receive and for which purposes the investments are spent. Identified studies on investment flows mainly focuses on the flow of FDI. It is also important to note that many countries do not report their bilateral investment flows with financial centres for confidentiality reasons.

The lack of common definition and concepts of IFCs also reduce the comparability of studies. The literature uses various terms including tax haven, offshore financial centres, conduits, and investment hubs. There is a consensus in the literature that very little research has been done on the role of financial centres for development finance while most studies focus on the link between financial centres and tax evasion (see for example UNCTAD, 2015a). The academic literature on regional financial centres is particularly limited than on international financial centres or offshore financial centres. More empirical evidence is found in South Africa and Mauritius, while few case studies exist in other countries.

[1] Other characteristics of IFCs typically cited in the literature include: a high concentration of financial intermediaries and service providers, favourable tax regimes and other benefits for investors, well-developed regulatory and legislative frameworks, lack of effective exchange of information and transparency (Bara & Le Roux, 2017, p.68; EMPEA, 2015, p.69; IMF, 2000, para.12;UNCTAD, 2015a, p.214; Waris, 2014, p.2). IMF (2007) provides a comprehensive literature review of the definition of financial centres.

# 2. Role of financial centres

There are three ways in which IFCs can contribute to facilitating international capital movement for developing countries. These include; mobilising foreign direct investment (FDI), facilitating private equity funds, and intermediating funds by development finance institutions (DFIs).

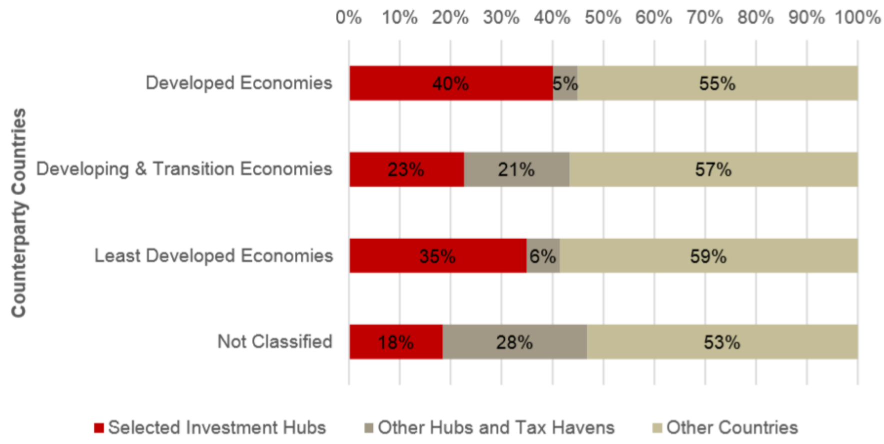
### Mobilising FDI

**IFCs help private investors to mobilise investments for developing countries** (Carter, 2017, p.8; Hers et al., 2018, p.19; Tyson, 2019, p.30; UNCTAD, 2015a, p.189). For instance, United Nations Conference on Trade and Development (UNCTAD) estimated the share of international corporate investment (i.e. FDI) stock[2] routed through 42 financial centres[3] (UNCTAD, 2015a, p.188). As of 2012, 30% of all international corporate investment stock in developing countries was channelled through the financial centres, totalling more than $6.5 trillion (UNCTAD, 2015a, p.189). The share of investment stock in Africa originated from the financial centres accounted for 24% (UNCTAD, 2015a, p.199). There was an increase in the average share of investment flows to developing economies routed through the financial centres from 21% (average 2001-2004) to 26% (average 2010-2012) (UNCTAD, 2015a, p.199).

This result echoes the finding from a recent analysis of FDI stocks through five financial centres (Ireland, Luxembourg, Mauritius, the Netherlands and Singapore) to developing countries. As of February 2018[4], these five financial centres constituted 35% of total FDI stock in least developed countries, and 23% of total FDI stock in developing and transition economies[5] (Hers et al., 2018, p.18). Together with other financial centres[6], 41% of FDI stock in least developed economies were channelled from these financial centres. In Sub-Saharan Africa, 45% of FDI stock originated from these financial centres. Figure 1 shows the shares of FDI stock in developed and developing economies coming from different source countries.

[2] The analysis is based on data of bilateral corporate investment stock from the International Monetary Fund (IMF) Coordinated Direct Investment Survey 2012 and 2011 (UNCTAD, 2015b, p.5).
[3] This report focuses on “offshore financial centres” including Anguilla, Antigua and Barbuda, Aruba, Austria, Bahamas, Bahrain, Belize, Bermuda, British Virgin Islands, Cayman Islands, Cook Islands, Cyprus, Dominica, Gibraltar, Grenada, Guernsey, Hungary, Isle of Man, Jersey, Liberia, Liechtenstein, Luxembourg, Malta, Marshall Islands, Mauritius, Monaco, Montserrat, Nauru, Netherlands Antilles, the Netherlands, Niue, Panama, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, San Marino, Seychelles, Turks and Caicos Islands, US Virgin Islands and Vanuatu (UNCTAD, 2015b, p.8).
[4] The primary data source is the IMF's Coordinated Direct Investment Survey (CDIS) database, supplemented by data from the OECD’s FDI Statistics (Benchmark Definition 4th Edition), the Central Bank of Mauritius, Singstat, the World Bank, and UNCTAD (Hers et al., 2018, p.8).
[5] Country classification is based on the World Bank classification (Hers et al., 2018, p.18).
[6] Andorra, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Bahrain, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Cook Islands, Jersey, Costa Rica, Cyprus, Dominica, Gibraltar, Grenada, Guernsey, Hong Kong, Isle of Man, Jordan, Lebanon, Liberia, Liechtenstein, Macau, Maldives, Malta, Marshal Islands, Monaco, Montserrat, Nauru, Netherlands Antilles, Niue, Panama, Samoa, San Marino, Singapore, St. Kitts and Nevis, St. Lucia, St. Vincent and Grenadines, Switzerland, Tonga, Turks and Caicos, U.S. Virgin Islands, Vanuatu

Figure 1: Share of FDI stock in counterparty countries from investment hubs, other hubs and tax havens, and other countries (% of total FDI stock)




Source: Hers et al., 2018, p.18. Based on disaggregated bilateral data from the IMF's Coordinated Direct Investment Survey database (retrieved, February 2018). Country classification is based on the World Bank. This report uses the term "selected investment hubs" to refer to Ireland, Luxembourg, Mauritius, the Netherlands and Singapore, the term "other hubs and tax havens" to refer to offshore financial centres listed in footnote 6, and the term "other countries" refer to the rest of the world.

While Ireland, Luxembourg, and the Netherlands mainly directed investments to developed countries, Mauritius directed 79% of its outward FDI towards developing and least developed countries, and Singapore held 69% of outward FDI stocks in developing and least developed economies (Hers et al., 2018, p.19). This result supports other empirical studies that found similar results showing that a large share of inward FDI in developing countries originates from financial centres (ActionAid, 2013, p.8; Christian Aid, 2013, p.5; UNCTAD, 2013a, p.15)[7].

### Facilitating private equity funds[8]

**IFCs provide investors with a secure platform for structuring and domiciling collective funds for developing countries** (Carter, 2017, p.23; EMPEA, 2015, p.20; GIIN, 2016, p.2; Tyson, 2019, p.23). Africa-focussed private equity funds are typically pooled and structured in offshore financial centres[9] (EMPEA, 2015, p.20). For instance, FSD Africa (FSDA) and EMPEA surveyed 118 managers and investors of private equity funds in Sub-Saharan Africa from over 90 firms in order to understand how they structure the funds (EMPEA, 2015, p.13). This survey reveals that nearly 75% of fund managers used an offshore jurisdiction to domicile their fund (EMPEA, 2015, p.20). Mauritius was the most popular jurisdiction (51%) followed by Jersey / Guernsey (8%) and Cayman Islands (3%). 22% of managers also use South Africa, onshore jurisdiction, to domicile their funds. Fund managers use financial centres because of tax efficiency, well-functioning legal and regulatory frameworks, stable political and economic environments as well as the availability of support services and infrastructures (EMPEA, 2015,

[7] For instance, Action Aid found that 46% of reported cross-border investment into low- and lower-middle income countries came from tax havens (i.e. offshore financial centres), compared to 37% into upper middle- and high-income countries in 2011 (ActionAid, 2013, p.8)
[8] Private equity funds are structured as limited partnerships. The private equity fund manager raises capital from investors for a pooled fund, and then the manager invests in portfolio companies (EMPEA, 2015, p.15).
[9] "Offshore refers to a jurisdiction that is not located on the continent of Africa (e.g., Jersey / Guernsey, Cayman Islands, Luxembourg)" (EMPEA, 2015, p.19).

p.43). They also provide a neutral location to pool and host funds from multiple investors, thus facilitating the diversification and structuring of the pooled funds (Tyson, 2019, p.22). These collected funds have been spent on low-income countries where investment barriers are high (Tyson, 2019, p.26). For instance, a private company domiciled in Mauritius, collected their funds from private investors and DFIs to invest in agricultural development projects in Cote d'Ivoire, Mali and Niger, increasing incomes of more than 9,500 farmers (Tyson, 2019, p.24).

### Intermediating funds from DFIs

**IFCs also help DFIs to mobilise their development financing in developing countries** (Carter, 2017, p.8; Hers et al., 2018, p.23; Oxfam, 2016, p.14; Tyson, 2019, p.24). DFIs including the International Finance Corporation, Norwegian Development Bank (Norfund), CDC Group and the Dutch Development Bank (FMO), use financial centres for their fund management as they provide reliable financial, judiciary and legal systems for investment (Tyson, 2019, pp.23-24). For instance, out of the 38 fund commitments by the African Development Bank in 2014, the majority of funds were legally domiciled in Mauritius (African Development Bank, 2014, p.18).

DFIs also use financial centres to facilitate co-financing with private investors as the use of offshore financial centres reduces investment risks in developing countries, which encourages investments from the private sector (Carter, 2017, p.16; Tyson, 2019, p.21). The pooling vehicles such as private equity funds also allow DFIs to invest in smaller local businesses and diversify risks in the event of default (Carter, 2017, p.16).

Identified literature emphasises that the amount of development finance for low-income countries could decrease if DFIs cannot use financial centres as financial intermediaries of their development funds (Tyson, 2019, p.25; UNCTAD, 2015, p.206). For instance, Norfund was restricted on the use of offshore financial centres between 2009 and 2011. This restriction resulted in decreasing the percentage of investments in Sub-Saharan Africa to 46% in 2011 compared to the 70% average for the 2009-2016 period (Tyson, 2019, p.25). In 2012, when a tax information exchange agreement between Norway and Mauritius came into force, Norfund was allowed to invest through companies domiciled in Mauritius (Carter, 2017, p.16). Consequently, Norfund's equity investments in Sub-Saharan Africa have increased and the percentage of investment in Sub-Saharan Africa recovered to above 70%.

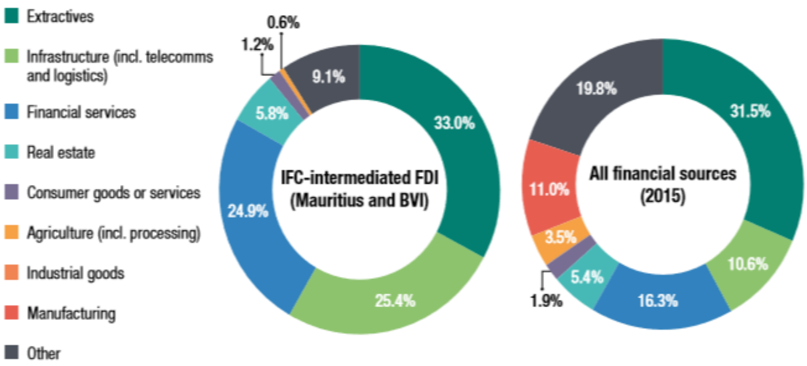
### Stimulating additional investment for developing countries

In addition to enhancing investment movement for developing countries, there is empirical evidence confirming that **IFCs contribute to increasing investment finance for developing countries.** Tyson (2019, p.29) estimated the amount of additional finance passed through IFCs that would otherwise not have been mobilised. The study revealed $1.6 trillion extra investment finance for developing countries as a result of the use of IFCs between 2007 and 2014 (Tyson, 2019, p.29). The study also found that this additional finance was mainly channelled into financial services and infrastructure sectors, which largely contribute to economic growth. For instance, 25.4% of IFC-intermediated finance[10] went into the infrastructure sector while 10.6% of non-IFC intermediated finance was spent on the same sector (see Figure 2) (Tyson, 2019, p.29). This result can be explained by the fact that infrastructure development projects are capital-intensive

[10] IFC-intermediated finance refers to FDI and investment funds that were intermediated by IFCs (Mauritius and the British Virgin Islands).

and require long-term investments. Therefore, these funds are typically collected from various DFIs and private investors and structured via IFCs (Tyson, 2019, p.29).

Figure 2: IFC-intermediated and non IFC-intermediated finance by sector in Africa and Middle East (% of total FDI and funds, 2007–2014, or total financial stock)




Source: Tyson, 2019, p.29

Overall, these studies highlight the conduit role of financial centres in mobilising public and private investments to developing countries.

**Rationale**

The literature explains the rationale of the use of IFCs for international investment in developing countries. Firstly, there is a high investment risk in developing countries because of weak legal and political systems (EMPEA, 2015, p.16; GIIN, 2016, p.227; Hers et al., 2018, p.21; Tyson, 2019, p.22). The issues include corrupt judiciary, unpredictable legal processes, and political and macroeconomic instability. IFCs can provide international investors with **well-functioning legal and judicial systems** that mitigate these issues. Secondly, they provide **a neutral location** that facilitate the pooling of funds from various donors and private investors (Tyson, 2019, p.23). **The tax neutrality** of IFCs also ensures that private investors are not taxed a third time at fund level, while they are only taxed in countries where they locate and where their investments are spent (Tyson, 2019, p.23; UNCTAD, 2015, p.205). Hence, the use of IFCs reduces the cost and risks of financing for developing countries (UNCTAD, 2015, p.206; Tyson, 2019, p.25).

# 3. Role of regional financial centres

This section provides available evidence on the performance of selected regional financial centres in mobilising investment finance for developing countries. These countries include Egypt, Indonesia, Kenya, Lebanon, Malta, Mauritius, Morocco, Nigeria, Seychelles, South Africa and Turkey. For the remainder of this rapid review, “selected countries” or “selected financial centres” refers to these 11 countries.

## Status of the financial centres

Various initiatives exist for classifications and assessments of international financial centres. **The Global Financial Centre Index (GFCI)** rates 110 cities into five areas of competitiveness: business environment, human capital, infrastructure, financial sector development and reputation

(Z/Yen Group, 2018, p.11). **The Organisation for Economic Co-operation and Development (OECD)** has reviewed over 100 jurisdictions to evaluate their compliance with the international standard of transparency and exchange of information (EMPEA, 2015, p.71). **The Tax Justice Network** has assessed 112 jurisdictions regarding their financial secrecy and the scale of their offshore financial activities using the Financial Secrecy Index. Finally, **The IMF** lists 53 jurisdictions as offshore centres for inclusion in their assessment programme (EMPEA, 2015, p.70). The status of the selected financial centres is summarised in Table 1.

In the GFCI, Casablanca ranked top compared to other financial centres. South Africa has the best (i.e., lowest) score in terms of financial secrecy under the Financial Secrecy Index ranking. South Africa and Mauritius are the only countries to be fully 'compliant' with the international standard of exchange of information on request (EOIR) assessed by the OECD Global Forum peer review exercise.

Table 1: Status of the selected financial centres

| Country | The Global Financial Centres Index Ranking (2018) | Financial Secrecy Index (2018) | | | OECD Global Forum Status (As of October 2018) | IMF (2008) If listed as offshore centres |
|---|---|---|---|---|---|---|
| | | Secrecy Score[11] | Global Scale Weight[12] | FSI Value[13] | | |
| **Egypt** | - | - | - | - | Not yet | |
| **Indonesia** | 76 (Jakarta) | 61.45 | 0.05% | 188.79 | Largely compliant | |
| **Kenya** | Associate centre[14] | 80.05 | 0.04% | 378.35 | Largely compliant | |
| **Lebanon** | - | 72.03 | 0.51% | 644.41 | Provisionally largely compliant[15] | x |
| **Malta** | 88 | 60.53 | 0.71% | 426.31 | Largely compliant | x |
| **Mauritius** | 49 | 72.35 | 0.02% | 223.47 | Compliant | x |
| **Morocco** | 28 (Casablanca) | - | - | - | Largely compliant | |
| **Nigeria** | - | - | - | - | Largely compliant | |
| **Seychelles** | - | 75.20 | 0.00% | 125.26 | - | x |
| **South Africa** | 38 (Cape Town) 57(Johannesburg) | 56.10 | 0.18% | 216.44 | Compliant | |
| **Turkey** | 68 (Istanbul) | 67.98 | 0.14% | 353.89 | Partially Compliant | |

Source: Z/ Yen Group (2018, pp6-8); TJN (2018, pp1-2); OECD (2018, p.23)

[11]The Secrecy Scores are calculated based on 20 indicators relating to knowledge of beneficial ownership; corporate transparency; efficiency tax and financial regulation; and, international standards and cooperation (EMPEA, 2015, p.84).

[12] The Global Scale Weight represents a jurisdiction's share in global financial services exports. It is based on an assessment of the size of each jurisdiction's share of the global market for financial services provided to non-resident clients, are calculated based on IMF's Balance of Payments Statistics (EMPEA, 2015, p.71).

[13] The FSI Value is calculated by multiplying the cube of the Secrecy Score with the cube root of the Global Scale Weight. This value creates a ranking of each jurisdiction's contribution to the ultimate global problem of financial secrecy (EMPEA, 2015, p.71).

[14] The centre has not yet to achieve the number of assessments required to be listed in the main GFCI index (Z/ Yen Group, 2018, p.8).

[15] The jurisdiction has been reviewed under the Fast-Track review procedure and assigned a provisional overall rating (OECD, 2018, p.23).

## Investment in developing countries

### Foreign Direct Investment

External sources of finance for developing economies comprise FDI, portfolio investment, bank lending, official development assistance and remittances (UNCTAD, 2015c, p.4). FDI is the largest external financing source for developing economies, accounting for 39% of total incoming finance, followed by remittances (24%), portfolio investment (18%), ODA (11%) and other investment (mainly bank lending) (9%) during 2013-2017 (UNCTAD, 2018, p.13). As FDI is a critical financing source for developing countries, this section looks at evidence on the role of the selected financial centres in channelling FDI in developing countries.

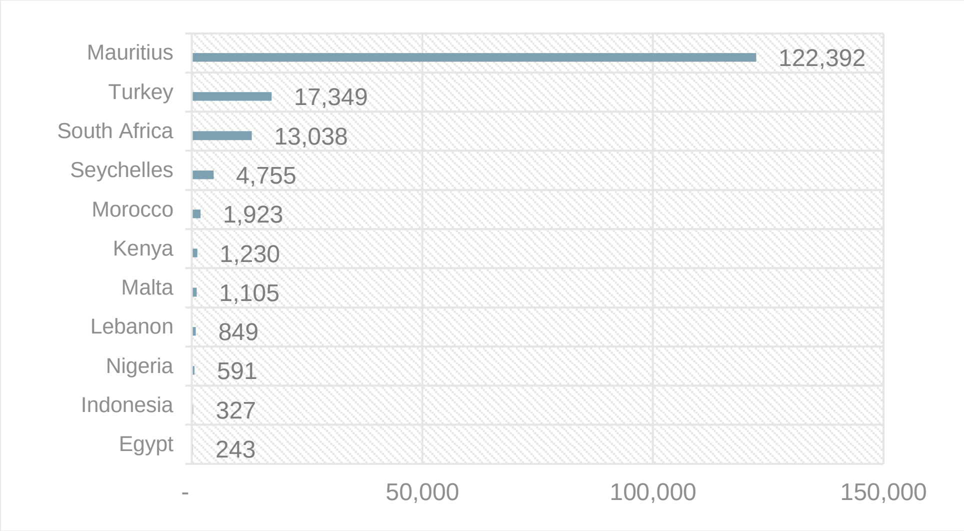
The IMF's Coordinated Direct Investment Survey (CDIS), which collects bilateral data on inward and outward FDI stocks, provides suggestive evidence of capital movements from the selected countries to low- and middle-income countries. Figure 3 provides the volume of inward direct investment stock in low- and lower-middle-income countries[16] coming from the selected financial centres. Table 2 and 3 provide the volume of inward investment from the selected countries in different income groups and regions as of 2017.

Mauritius accounted for the largest amount of FDI stock in low- and lower-middle-income countries, followed by Turkey and South Africa, among the 11 countries. Turkey contributed to inward investments in middle-income countries. South Africa appears to be an important source of FDI in upper-middle-income countries.

For Sub-Saharan Africa, South Africa and Mauritius were still important regional financial centres channelling more investment into the region than other countries. In addition, Mauritius was the top source of investment for Asia, particularly for Central and South Asia. It can be explained by the fact that India is the top beneficiary of Mauritian FDI (44% of total Mauritian outward FDI stocks) (Hers et al., 2018, p.46). Annex 1 provides an overview of FDI of the selected countries.

[16] Country classification is based on the World Bank classification. (https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups)

Figure 3: Inward FDI to low- and lower-middle-income countries from the selected hubs in 2017(US$ millions)




Source: Author's calculation based on IMF Coordinated Direct Investment Survey database, retrieved January 2019.

Table 2: Inward FDI stock in low-, lower middle- and upper-middle-income countries from the selected hubs in 2017 (US$ millions)

| Low income | | Lower middle income | | Upper middle income | |
|---|---|---|---|---|---|
| Mauritius | 9,923 | Mauritius | 112,469 | South Africa | 184,242 |
| South Africa | 7,076 | Turkey | 17,041 | Mauritius | 20,094 |
| Kenya | 1,135 | South Africa | 5,962 | Turkey | 7,272 |
| Morocco | 660 | Seychelles | 4,658 | Malta | 6,135 |
| Turkey | 308 | Morocco | 1,263 | Seychelles | 4,621 |
| Lebanon | 115 | Malta | 1,103 | Lebanon | 2,310 |
| Seychelles | 97 | Lebanon | 734 | Nigeria | 1,927 |
| Nigeria | 87 | Nigeria | 504 | Indonesia | 1,596 |
| Egypt | 17 | Indonesia | 327 | Kenya | 1,077 |
| Malta | 2 | Egypt | 226 | Egypt | 725 |
| Indonesia | 0 | Kenya | 95 | Morocco | 61 |
| World Total | 49,806 | World Total | 835,600 | World Total | 3,553,458 |

Source: Author's calculation based on IMF Coordinated Direct Investment Survey database, retrieved January 2019.

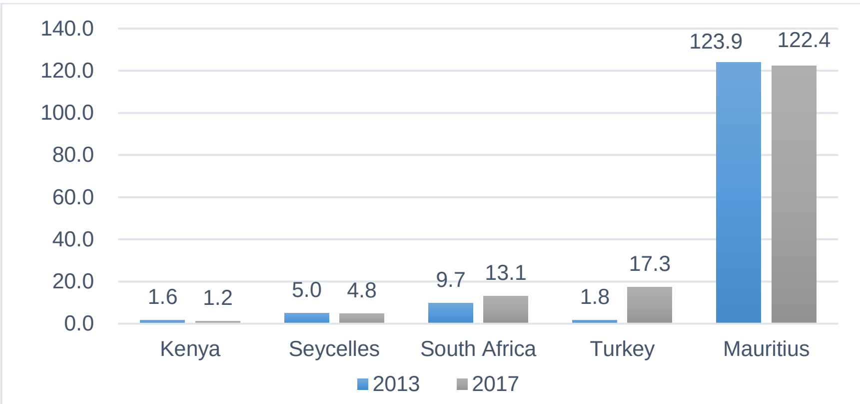
Table 3: Inward FDI stock in each region[17] from the selected countries in 2017 (US$ millions)

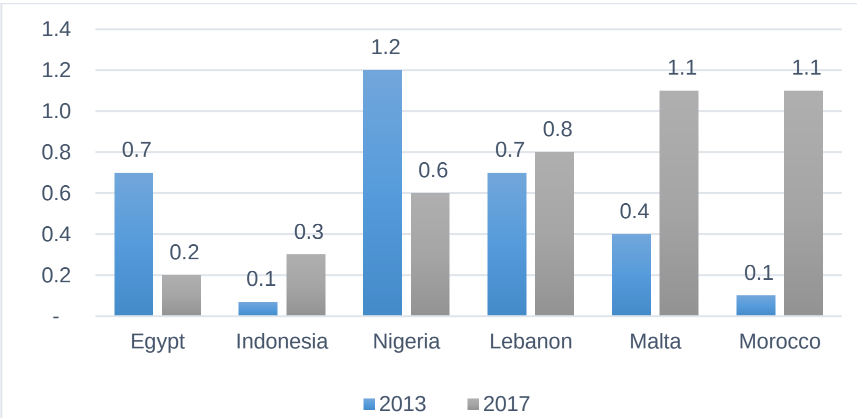
| North Africa | | Sub-Saharan Africa | | Middle East | | Central and South Asia | | East Asia | |
|---|---|---|---|---|---|---|---|---|---|
| South Africa | 266 | South Africa | 29,970 | Mauritius | 6,937 | Mauritius | 117,308 | Mauritius | 28,977 |
| Malta | 143 | Mauritius | 13,946 | Seychelles | 250 | Indonesia | 19,230 | South Africa | 20,132 |
| Mauritius | 60 | Malta | 4,480 | South Africa | 219 | Seychelles | 5,075 | Malta | 9,871 |
| Indonesia | 16 | Nigeria | 2,439 | Turkey | 219 | Malta | 1,876 | Seychelles | 2,658 |
| Lebanon | 9 | Kenya | 2,282 | Malta | 209 | Turkey | 1,526 | Indonesia | 1,038 |

Source: Author's calculation based on IMF Coordinated Direct Investment Survey database, retrieved January 2019. Top five countries are listed among the selected countries in this table.

Figure 4 shows the volume of inward FDI stock in low- and lower-middle income countries from the selected countries in 2013 and 2017. Compared to 2013, inward FDI from Indonesia, Malta, Morocco and Turkey increased by more than double in 2017. In contrast, there was a significant reduction of FDI stock from Egypt and Nigeria.

Figure 4: Inward FDI stock in low- and lower-middle-income countries from the selected countries, 2013 and 2017 (US$ billions)




Source: Author's calculation based on IMF Coordinated Direct Investment Survey database, retrieved January 2019.

[17] Country classification is based on the IMF regional classification (IMF, 2015a, p.114).

**Cross-border banking activities**

Another important consideration to measure the level of investments by selected countries is the international investments made by their financial systems as it shows their capacity to provide financial services (EMPEA, 2015, p.91). The Bank for International Settlements (BIS) locational banking statistics measure international banking activities and provide data on deposits and loans from internationally active banks located in the BIS reporting countries[18] to counterparty countries (more than 200 countries)[19]. This report was not able to identify any empirical studies of capital flows of international banking activities in the selected countries to residents in developing countries using the BIS database. However, the database captures assets and liabilities of the selected countries to the BIS reporting banks. Therefore, it provides a broad picture and a quantitative sense of importance of the role of these financial centres in international financial intermediation (Lane & Milesi-Ferretti, 2010, p.9). Annex 2 summaries external assets and liabilities of the selected countries in international banking[20].

## Intra-regional investment

This section reviews evidence on the relative role of selected financial centres in intra-regional investment compared to other neighbouring economies. Where available, evidence on the performance of the selected financial centres in cross-border banking is provided.

**Africa[21]**

**South Africa provides the largest direct investment stakes in Africa compared to other hubs**. The World Investment Report 2018 estimated FDI stock in Africa held by source countries using the UNCTAD FDI/MNE database [22](UNCTAD, 2018, p.38). The report illustrates that South Africa placed fifth among the top 10 investors, providing US$ 24 billion to Africa as of 2016 (Table 4).

Table 4: Top 10 investor economies in Africa by FDI stock, 2016 (US$ billions)

| **Top 10 investor economies in Africa by FDI stock, 2016 (US$ billions)** | |
|---|---|
| **1.** United States (US) (57) | 6. Italy (23) |
| **2.** United Kingdom (UK) (55) | 7. Singapore (17) |
| **3.** France (49) | 8. India (14) |
| **4.** China (40) | 9. Hong Kong (13) |
| **5. South Africa (24)** | 10. Switzerland (13) |

Source: UNCTAD, 2018, p.38

[18] Currently, 44 countries report the locational banking statistics (LBS). The LBS captures around 95% of all cross-border interbank business around the world. Among the selected countries, only South Africa, Indonesia and Turkey are BIS reporting countries.
[19] See more details about the BIS. https://www.bis.org/statistics/bankstats.htm?m=6%7C31%7C69
[20] In addition, World Bank Global Financial Development Report 2017/2018 provides useful information about financial system characteristics of each economy, including aspects of international banking (See World Bank, 2018, p.137).
[21] "Africa" refers to all 54 countries comprising the African continent. "North Africa" refers to Morocco, Algeria, Tunisia, Libya, Egypt and Sudan (but not South Sudan). "Sub-Saharan Africa" refers to all African countries that are not constituents of North Africa.
[22] www.unctad.org/fdistatistics

When it comes to capital investment[23]**, Morocco was the third leading source country** into Africa by capital expenditure after China and the United Arab Emirates (UAE). Morocco invested US$ 4.8 billion, accounting for 5% of the total capital investment in Africa in 2016 (African Development Bank, OECD & UNDP, 2017, p.51; Financial Times, 2017, p.6). This finding reflects the increasing capabilities of Moroccan firms in financial services, telecommunications and manufacturing (UNCTAD, 2016, p.42). **South Africa remains a significant source of capital investment in Africa**. In 2015-16, South Africa was responsible for a capital investment of US$ 3.6 billion, funding about 60 projects. Kenya, Nigeria and Mauritius were also important sources of intra-African investment, accounting for 51, 22 and 18 greenfield projects respectively, over the same period (African Development Bank, 2018, p.13).

For international banking activities, **there is a rapid expansion of pan-African banks in the region** (Beck et al., 2014, p.43; EMPEA, 2015, p.91; Enoch et al., 2015, p.7; UNCTAD, 2015a, p.38; World Bank, 2016, p.163). Much literature cited that **South Africa, Kenya, Nigeria and Morocco have dominant positions in cross-border banking in Africa** (Beck et al., 2014, pp.31-32; Central Bank of Kenya, 2017, p.50; Enoch et al., 2015, pp.79-83). Beck et al. (2014) listed ten major pan-African banks, of which, nine banks are owned by either South Africa, Kenya, Nigeria or Morocco (See Table 5 and Figure 5). African cross-border banks hold a significant share of assets in host country banking systems showing their systemic importance in host countries.

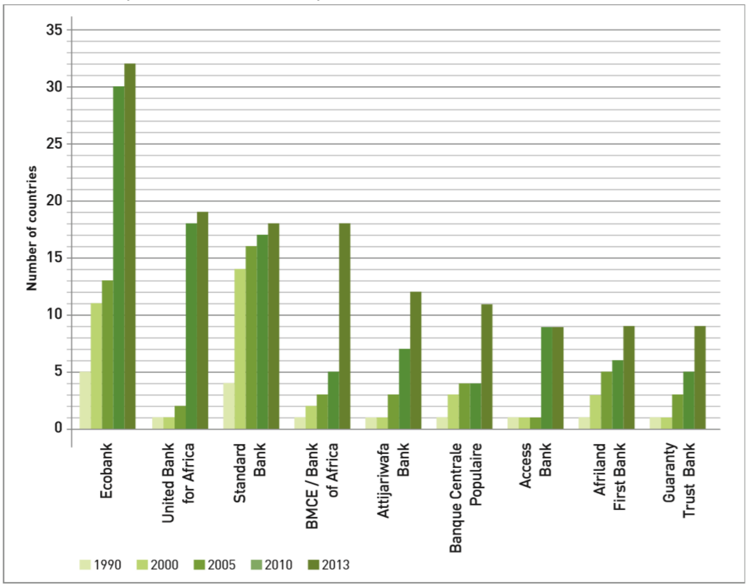
Table 5: List of major African cross-border banks in 2011

| Name | Location (Majority ownership) | # of African countries in operation | # of countries with more than 10% of the host country's banking system assets held by the bank |
|---|---|---|---|
| Ecobank | Togo (South Africa) | 32 | 13 |
| United Bank for Africa (UBA) | **Nigeria** | 19 | 2 |
| Standard Bank Group (Stanbic) | **South Africa** | 18 | 9 |
| Banque Marocaine du Commerce Extérieur (BMCE) | **Morocco** | 18 | 5 |
| Banque Sahélo- Saharienne pour l'Investissement et le Commerce (BSIC) | Libya | 14 | 2 |
| Attijariwafa Bank | **Morocco** | 12 | 3 |
| Banque Centrale Populaire du Maroc (BCP) | **Morocco** | 11 | 2 |
| Barclays Africa Group | **South Africa** (UK) | 10 | 6 |
| Access Bank | **Nigeria** | 9 | - |
| Guaranty Trust Bank Ltd. | **Nigeria** | 9 | - |

Sources: Beck et al., 2014, p.42, p.43, p.46. The reference year is 2011; where 2011 data was not available, figures from 2009-2012 were used instead. Note: Number of countries includes home country and representation through subsidiaries or branches in African countries.

[23] It refers to greenfield investment. Greenfield investment is a type of FDI that invest in the creation of a firm from scratch, or the extension of existing production capacity by non-resident investors. Data is based on the fDi Markets databases (https://www.fdimarkets.com/) from the Financial Times. The database tracks greenfield investment projects, which does not include mergers and acquisitions or other equity-based or non-equity investments (Financial Times, 2017, p.12).

Figure 5: Number of countries where pan-African banks operate, 1990-2013




Sources: Beck et al., 2014, p.39. Based on annual reports and websites of banks.

According to Enoch et al. (2015, p.81), Nigerian banks contributed to increasing bank branches by 20% in Ghana during 2007 and 2008. They were also responsible for 26% and 35% of branch growth in Sierra Leone and the Gambia respectively. These branches are increasingly outside of the capital cities contributing to financial access across the countries (Enoch et al., 2015, p.81).

The country report published by IMF (2015b), also presents an overview of the cross-border expansion of Moroccan banks in Sub-Saharan Africa. The international activity of the three largest Moroccan banks (Attijariwafa, Banque Marocaine du Commerce Extérieur (BMCE) and Banque Centrale Populaire (BCP)) accounted for 19% of total volume of activity of the financial sector in Morocco as of 2013. The share of the Sub-Saharan African assets through cross-border operation in the total assets was 9% for BCP, 20% for Attijariwafa, and 24% for BMCE (IMF, 2015b, p.3). While this report illustrates potential benefits of cross-border banks on host countries by reaching underserved populations, it also highlights the lack of data and rigorous studies of the impact of Moroccan banks on financial inclusion in Africa (IMF, 2015b, p.8).

### Middle East and North Africa

**None of the selected financial centres were cited in the identified literature as significant sources of intra-regional investment in the Middle East region**. The UAE plays a significant role in mobilising investments in the region. For instance, the UAE contributed to 48.9% of the total intra-Arab[24] FDI by capital expenditures, followed by Kuwait (11.9%) and Bahrain (11.5%) between 2003 and 2017 (Arab Investment and Export Credit Guarantee Corporation, 2018, p.14). In contrast, **Egypt was the top recipient among Arab countries** by acquiring 25.9% of the total intra-regional investments, followed by Saudi Arabia (9.6%) and Jordan (7.3%) over the same period (Arab Investment and Export Credit Guarantee Corporation, 2018, p.14).

[24] Algeria, Bahrain, Djibouti, Jordan, Egypt, Iraq, Kuwait, Lebanon, Libya, Morocco, Mauritania, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Somalia, Tunisia, UAE, Yemen (http://dhaman.net/en/about-dhaman/member-countries/).

This finding broadly supports the study of UNCTAD (2013b) that examined intra-regional FDI flows in the Organisation of the Islamic Cooperation (OIC) countries. UAE was also the largest intra-OIC investor, accounting for about half of total intra-regional FDI[25] during 2003-2012, followed by Bahrain, Qatar, Kuwait and Saudi Arabia (UNCTAD, 2013b, p.7). Egypt was the largest recipient, followed by Tunisia, Libya, Indonesia and Iraq (UNCTAD, 2013b, p.8).

**Asia[26]**

The literature reviewed does not provide evidence on the contribution of selected countries in mobilising investment finance in the region. By contrast, many studies confirm that **Indonesia is a major destination of intra-regional investments** (ASEAN & UNCTAD, 2018, p.26; ESCAP, 2018, p.58). According to the ASEAN Investment Report 2018, Indonesia is the largest recipient of intra-regional investments among ASEAN countries since 2013, accounting for over 45% of intra-ASEAN investments in 2017(ASEAN & UNCTAD, 2018, p.26). The largest source of intra-regional investment came from Singapore (69%), followed by Malaysia and Thailand. This report also reveals that many financial multinational enterprises invested in Indonesia in 2017-2018. It includes Prudential (UK), Allianz (Germany), Woori Bank (Republic of Korea), HSBC (UK), Standard Chartered (UK) and Bank of Tokyo-Mitsubishi UFJ (Japan) (ASEAN & UNCTAD, 2018, pp.44-45).

This result is consistent with the findings of the Asia-Pacific Trade and Investment Report 2018 (ESCAP, 2018). It is found that Malaysia, Singapore and Thailand were the major intra-ASEAN investors for greenfield FDI flows from 2015 to 2018, while Indonesia and Viet Nam received the most significant share of greenfield FDI (ESCAP, 2018, p.58). Beyond ASEAN countries, the top sources of intra-regional cross-border investments include Japan, Hong Kong and China (ADB, 2018, p.53), and the top destinations of investments are China, India and Singapore (ADB, 2018, p.56).

Regarding cross-border banking activities within Asia, there was a rise of intra-regional shares of bank claims and liabilities, pointing to an increasing role of regional bank lending (ADB, 2018, p.69). However, the main sources and destinations of intra-regional cross-border lending were Hong Kong, China and Singapore (ADB, 2018, pp.70-71).

# 4. Country case studies

This review found very limited information on the performance of the selected countries to mobilise investment for developing countries. While central banks of the selected countries provide reports and statistics including data on international investment position and balance of payments (see Annex 3), very few agencies provide aggregated data on cross-border investment by recipient countries, sectors and purposes. This limitation is widely cited by other literature (Guichard, 2017, p.8; Lane & Milesi-Ferretti, 2010, p.3; UNCTAD, 2014, p.7).

Various databases from international organisations provide statistics that track cross-border investment flows between countries. As there is no comprehensive data source that compiles

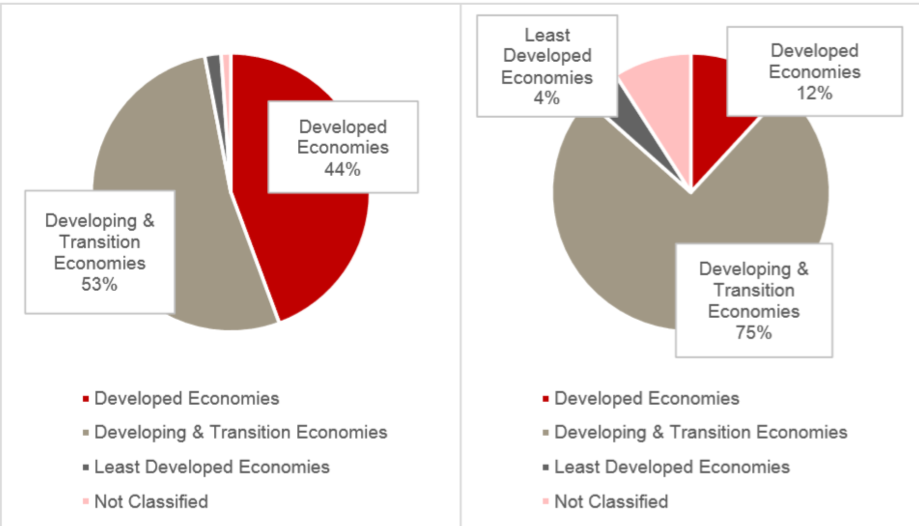
[25] Based on data from UNCTAD cross-border mergers and acquisitions (M&A) database and fDi Markets (www.fDimarkets.com). FDI is comprised of greenfield investments and net-cross border M&As. Note that the nature of these two data sets is different. Therefore, some of these two investments are not equal to FDI inflows. It should be considered as an indication of FDI (UNCTAD, 2013b, p.8).
[26] Asia refers to the 48 Asia and the Pacific members of the Asian Development Bank.

different categories of investment, the analysis of international investment flows needs to be put together with a variety of data sources (Lane & Milesi-Ferretti, 2010, p.13). While these data sources provide useful information on performances of the financial centres in international financial intermediation, it was beyond the research scope of this rapid review to look at this raw data in detail. Annex 4 summarises lists of databases of cross-border investment.

## Mauritius

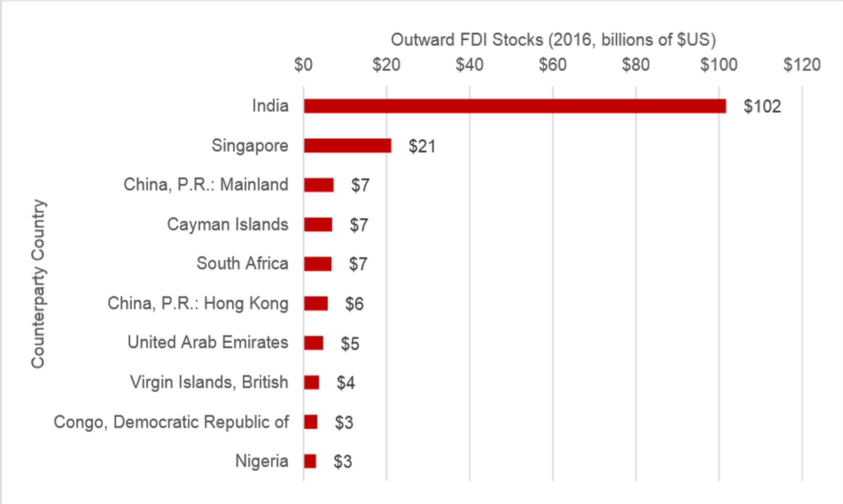
There is empirical evidence that **Mauritius spends most of its investments in developing countries.** Hers et al. (2018) examined the role of Mauritius as a FDI hub between developed and developing economies. They used FDI stock data from the IMF's Coordinated Direct Investment Survey (CDIS), augmented with data from the OECD's FDI Statistics, the Central Bank of Mauritius, the World Bank and UNCTAD to estimate investment flows between Mauritius and counterpart countries (Hers et al., 2018, p.45). They found that Mauritius' outward FDI totalled US$ 234 billion in 2016, and 79% of outward FDI was directed to developing economies and least developed economies (see Figure 6). The major beneficiaries are listed in Figure 7. In contrast, inward FDI in Mauritius amounted to US$283 billion, of which 44% came from developed economies (Hers et al., 2018, p.45).

Figure 6: Sources of inward FDI (left) and destinations of outward FDI (right) in Mauritius in 2016




Source: Hers et al., 2018, p.45. Based on data from the IMF's Coordinated Direct Investment Survey database (retrieved, February 2018).

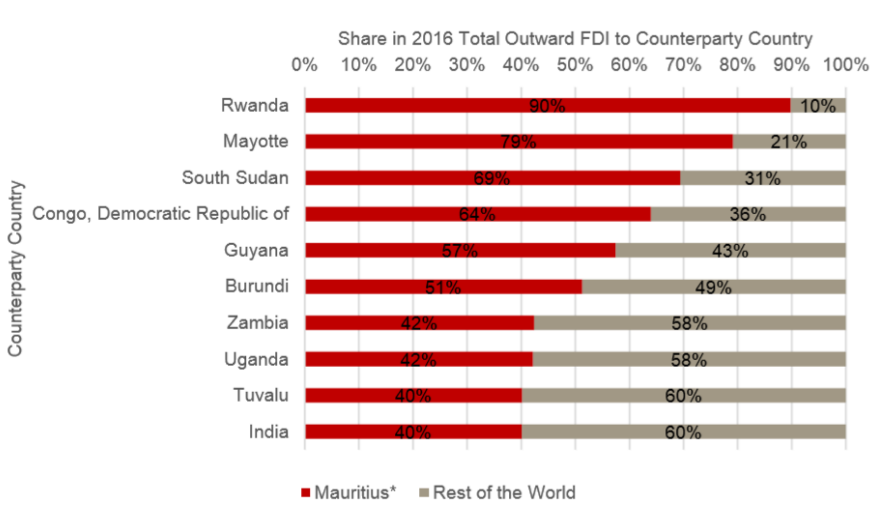
Figure 7: Top 10 destinations of outward FDI from Mauritius




Source: Hers et al., 2018, p.46. Based on data from the IMF's Coordinated Direct Investment Survey database (retrieved, February 2018).

This study also argues that **Mauritius is the dominant source of international investments for many Sub-Saharan African countries and India**. These African countries include Rwanda, South Sudan, the Democratic Republic of Congo, Burundi, Zambia, and Uganda (Hers et al., 2018, p.47). For instance, 90% of the total FDI stocks in Rwanda and 40% in India came from Mauritius in 2016 (see Figure 8) (Hers et al., 2018, p.46). It is, however, important to note that other recipient countries do not heavily rely on Mauritius' FDI as it accounted for a small share of the total FDI in these countries.

Figure 8: Importance of outward FDI from Mauritius for developing countries




Source: Hers et al., 2018, p.47. Based on data from the IMF's Coordinated Direct Investment Survey database (retrieved, February 2018).

This result supports the finding of Tyson (2019) showing that **most activities of Mauritius domiciled entities relate to FDI and fund-based investments to developing countries**. She examined firm-level activities in all of the Mauritius-domiciled entities in the International Consortium of Investigative Journalists (ICIJ) database[27] as of May 2018 (Tyson, 2019, p.12). She categorised each entity by activity purposes to assess whether their operations bring value to developing countries. It is found that between 2007 and 2014, 33% of Mauritius-domiciled entities (i.e. companies, trusts and foundations) were involved in FDI to developing countries and 9% of the entities were emerging-market funds (a fund managed by investment funds or private equity funds that invest in developing countries through subsidiaries in IFCs) (Tyson, 2019, pp.12, 26, 28). FDI flowed into infrastructure, agricultural processing and manufacturing as well as healthcare sectors (Tyson, 2019, p.28). Furthermore, the percentage of these activities (FDI and emerging-market funds) increased from 47% to 78% between 2007 and 2014 (Tyson, 2019, p.27). Other purposes of these entities, which are not related to developing countries, include trusts and foundation[28] (25%), tax structuring[29] (14%) and illicit activity[30] (5%).

## South Africa

Much empirical evidence confirms that **South Africa contributes to inward investment in low-income countries.** UNCTAD (2018) estimated inward FDI stock in least developed countries, landlocked developing countries as well as small island developing states[31]. The report reveals that South Africa ranked among the top 10 countries investing in these countries in 2016 (see Table 6) (UNCTAD, 2018, p.66, p.70, p.74).

Table 6: Top 10 investor economies for least developed countries, landlocked developing countries and small island developing states, 2016 (FDI stock, US$ billions)

| Least developed countries | Landlocked developing countries | Small island developing states |
|---|---|---|
| China (34) | China (29) | Canada (67) |
| France (22) | France (23) | US (59) |
| Thailand (8) | Canada (6) | Brazil (32) |
| Hong Kong (6) | Russian Federation (5) | India (12) |
| Korea (6) | **South Africa (4)** | Singapore (12) |
| Norway (5) | Thailand (3) | Australia (12) |
| Portugal (5) | Korea (2) | **South Africa (11)** |
| **South Africa (5)** | Italy (2) | UK (8) |
| US (3) | Spain (2) | Thailand (7) |
| Singapore (3) | Turkey (2) | Hong Kong (7) |

Source: UNCTAD, 2018, p.66, p.70, p.74, based on UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Another UNCTAD report also shows that **South Africa spent nearly half of its investments in developing countries**. South Africa provided US$ 78 billion of outward FDI to developing and transition economies in 2014, accounting for 54% of its total outward FDI stock (UNCTAD, 2016,

[27] International Consortium of Investigative Journalists ‘Offshore Leaks Database’ (https://offshoreleaks.icij.org/) provides activity details of 290,000 companies, trusts and foundations in IFCs, including Bermuda, the British Virgin Islands, the Cayman Islands, Jersey, Guernsey and Mauritius (Tyson, 2019, p.12).
[28] “Trusts and foundations: Trust and foundations located in IFCs, including family trusts or other special-purpose trusts associated with private wealth management” (Tyson, 2019, p.12).
[29] “Tax structuring: Entities whose purpose is identified as legal tax reduction and avoidance, including entities whose activities are related to known tax-reduction structures or whose primary business has no other apparent substantive rationale for using an IFC” (Tyson, 2019, p.12).
[30] “These included entities connected to politically exposed persons and those with beneficial owners in locations with a reputation for money laundering” (Tyson, 2019, p.28).
[31] See UNCTAD (2018, p.187) for the definitions and list of countries.

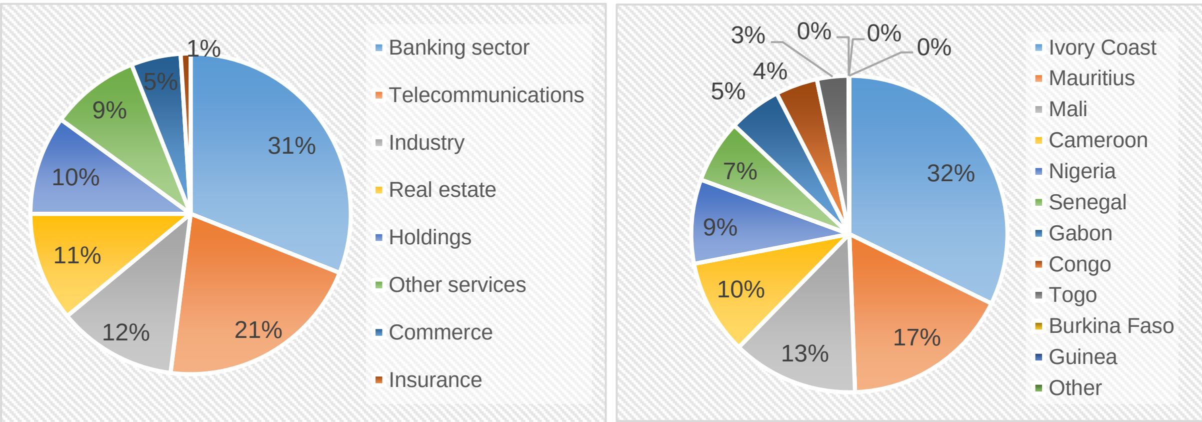
p.12). Out of US$ 78 billion to developing countries, East Asian and African regions received US$ 47 billion and US$ 26 billion respectively. Major beneficiary countries among developing and transition economies included China (US$ 46 billion), Mozambique (US$ 2 billion), Zimbabwe (US$ 2 billion), Botswana (US$1 billion) and Namibia (US$ 1 billion).

Additionally, **many neighbouring countries heavily rely on the investments from South Africa**. World Bank (2016, p.166) analysed FDI stock from South Africa to neighbouring countries between 2011 and 2013 using the IMF Coordinated Direct Investment Survey. It is found that South Africa was the largest source of FDI for Botswana, Namibia, Lesotho and Swaziland. It accounted for nearly 80% of total FDI inflows in these countries (World Bank, 2016, p.163).

## Morocco

Empirical studies show that **Morocco placed a large share of its investment in Sub-Saharan Africa**. Berahab (2017) analysed the recipients and the structure of Moroccan FDI in Sub-Saharan Africa using data from the Moroccan Office des Changes. This report shows that 40% of outward FDI stock from Morocco went to Sub-Saharan Africa in 2015 (Berahab, 2017, p.6). Between 2011 and 2015, the top FDI recipients included Ivory Coast, Mauritius and Mali. Moroccan investments focused on sectors with high added value such as banking and telecommunications (Berahab, 2017, p.6). Figure 9 shows the distribution of outward FDI per sector and recipients.

Figure 9: Distribution of Moroccan FDI in Sub-Saharan Africa per sector (2015) and per recipients (2011-2015 average)




Source: Berahab, 2018, pp.6-7. Based on data from the Moroccan Office des Changes

This result reflects empirical evidence from a study by Abderrahim and Aggad (2018, p.8), confirming that 62.9% of Morocco's external investment was made in Sub-Saharan Africa between 2008 and 2013. The banking sector attracted 41.6% of Moroccan FDI, followed by telecommunications (Abderrahim & Aggad, 2018, p.9; Kingdom of Morocco, 2014, p.18). This trend can be explained by the fact that Morocco has signed bilateral and regional agreements with Sub-Saharan African countries for trade and investment promotion and protection (Abderrahim & Aggad, 2018, p.8). Morocco's investments have also been facilitated by legislative reforms that liberalised private investment abroad in 2014 (Kingdom of Morocco, 2014, pp.4-6). Together these studies suggest that Morocco places vital importance on strengthening its relations with other African countries through investment (Berahab, 2017, p.1; Kingdom of Morocco, 2014, p.3).

## Turkey

**Turkey contributed to mobilising investment in land-locked developing countries** (UNCTAD, 2018, p.70; UNCTAD, 2017, p.86). According to the World Investment Report 2018 (UNCTAD, 2018), Turkey ranked among the top 10 investor economies for landlocked developing countries[32] by FDI stock in 2016 (UNCTAD, 2018, p.70). Major landlocked recipients of inward FDI include Kazakhstan, Ethiopia, Azerbaijan, Turkmenistan and Mongolia.

This result echoes the finding of the Central Bank of Turkey (2018) that provides monthly data on outward FDI flows aggregated by destination countries. Table 8 provides the list of top five recipient countries of outward FDI from Turkey in each region during 2016-2018, four of which were also land-locked countries (Azerbaijan, Kazakhstan, Ethiopia and Uzbekistan).

Table 8: Top five recipient countries of outward FDI from Turkey, 2016-2018 average (US$ millions)

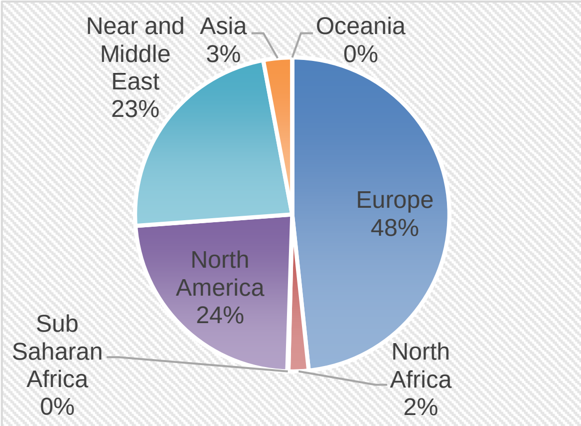
| Africa | | Near and Middle East | | Asia | |
|---|---|---|---|---|---|
| Algeria | 80 | **Azerbaijan** | **548** | **Kazakhstan** | 93 |
| Egypt | 56 | United Arab Emirates | 113 | China | 62 |
| Morocco | 44 | Iraq | 113 | **Uzbekistan** | **30** |
| South Africa | 8 | Georgia | 42 | India | 18 |
| **Ethiopia** | **7** | Saudi Arabia | 11 | South Korea | 17 |

Source: Central Bank of Turkey, Balance of Payments statistics, November 2018. (*) provisional. Light red shades indicate low-income countries; dark red shades indicate lower-middle-income countries, and no colour indicates higher middle- and high-income countries. Bold means land-locked developing countries (UNCTAD classification).

This data also reveals that most of the recipient countries are classified as upper-middle income or high-income countries while only Ethiopia is classified as a low-income country. In terms of the distribution of investment by region, the majority of FDI went to Europe, North America and Near and Middle East (Figure 10). It is clear that Africa and Asia received only a small share of Turkish FDI. Figure 11 provides the volume of outward FDI in North Africa, Sub-Saharan Africa and Asia between 2008 and 2018.

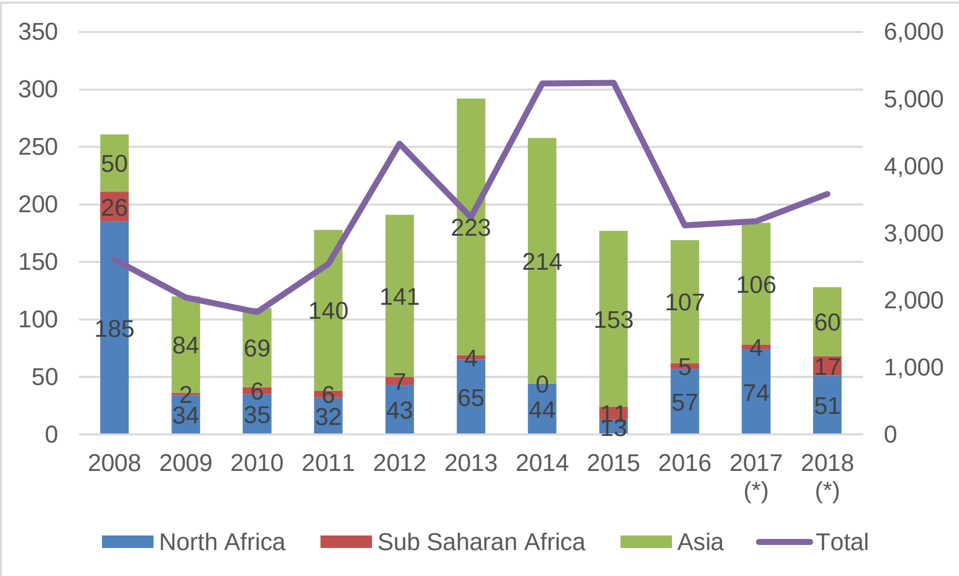
[32] Landlocked developing countries include Afghanistan, Armenia, Azerbaijan, Bhutan, the Plurinational State of Bolivia, Botswana, Burkina Faso, Burundi, the Central African Republic, Chad, Ethiopia, Kazakhstan, Kyrgyzstan, the Lao People's Democratic Republic, Lesotho, Republic of Macedonia, Malawi, Mali, the Republic of Moldova, Mongolia, Nepal, the Niger, Paraguay, Rwanda, South Sudan, Swaziland, Tajikistan, Turkmenistan, Uganda, Uzbekistan, Zambia and Zimbabwe.

Figure 10: The proportion of Turkish FDI abroad by region, 2017




Source: Central Bank of Turkey, Balance of Payments statistics, November 2018.

Figure 11: The volume of Turkish outward FDI flows in North Africa, Sub-Saharan Africa and Asia (US$ millions) 2008 -2018




Source: Central Bank of Turkey, Balance of Payments statistics, November 2018. (*) provisional

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## Acknowledgements

We thank the following experts who voluntarily provided suggestions for relevant literature or other advice to the author to support the preparation of this report. The content of the report does not necessarily reflect the opinions of any of the experts consulted.

- Bruno Casella, United Nations Conference on Trade and Development
- Elizabeth Cobb, Carleton University
- Isya H. Kresnadi, United Nations Conference on Trade and Development
- Johannes Hers, SEO Economic Research
- Judith Tyson, Overseas Development Institute (ODI)
- Maha El Masri, United Nations Conference on Trade and Development
- Ward Rougoor, SEO Economic Research

## Key websites

- OECD The Global Forum on Transparency and Exchange of Information for Tax Purposes: http://www.oecd.org/tax/transparency/about-the-global-forum/
- Tax Justice Network: https://www.financialsecrecyindex.com/
- The Global Financial Centres Index: https://www.longfinance.net/programmes/financial-centre-futures/global-financial-centres-index/

## Suggested citation

Hatayama, M. (2019).*The role of regional financial centres for development finance.* K4D Helpdesk Report 522. Brighton, UK: Institute of Development Studies.

# 6. Annex

Annex 1: Overview of inward and outward FDI in selected countries

| | Gross positions (US$ million) | Top five sources (US$ million) | | Gross positions (US$ million) | Top five destinations (US$ million) | |
|---|---|---|---|---|---|---|
| **Indonesia** | 240,104 | Singapore | 58,046 | | N/A | |
| | | Netherlands | 43,667 | | | |
| | | US | 24,020 | | | |
| | | Japan | 22,609 | | | |
| | | UK | 21,324 | | | |
| **Lebanon** | 2,180 | Luxembourg | 716 | 5,591 | Turkey | 1,495 |
| | | France | 287 | | France | 776 |
| | | Libya | 197 | | Egypt | 709 |
| | | UAE | 175 | | Jordan | 433 |
| | | Egypt | 150 | | Luxembourg | 423 |
| **Malta** | 203,551 | Germany | 35,430 | 73,981 | Germany | 12,718 |
| | | Netherlands | 24,847 | | UK | 4,945 |
| | | UK | 14,123 | | Spain | 1,699 |
| | | Denmark | 10,646 | | France | 1,335 |
| | | Jersey | 5,707 | | Italy | 1,146 |
| **Mauritius** | 333,281 | US | 64,261 | 268,454 | India | 99,768 |
| | | Cayman Islands | 52,738 | | Singapore | 18,491 |
| | | Singapore | 27,738 | | Cayman Islands | 9,118 |
| | | India | 23,724 | | UK | 8,783 |
| | | South Africa | 18,603 | | South Africa | 7,754 |
| **Morocco** | 31,351 | France | 12,360 | 4,532 | France | 885 |
| | | UAE | 10,644 | | Cote d'Ivoire | 711 |
| | | Spain | 1,116 | | Luxembourg | 366 |
| | | Kuwait | 969 | | Mauritius | 318 |
| | | Netherlands | 828 | | Switzerland | 197 |
| **Nigeria** | 78,322 | Bermuda | 13,639 | | N/A | |
| | | Netherlands | 13,278 | | | |
| | | France | 8,847 | | | |
| | | UK | 7,995 | | | |
| | | US | 7,471 | | | |
| **Seychelles** | 838 | Mauritius | 326 | | N/A | |
| | | Cyprus | 161 | | | |
| | | Russian Federation | 115 | | | |
| | | UK | 44 | | | |
| | | Virgin Islands | 35 | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| **South Africa** | 156,103 | UK | 64,505 | 276,450 | China | 165,477 |
| | | Netherlands | 28,075 | | UK | 24,334 |
| | | US | 10,459 | | Mauritius | 11,422 |
| | | Germany | 7,623 | | Australia | 8,840 |
| | | China | 7,290 | | US | 7,782 |
| **Turkey** | 113,901 | Netherlands | 21,780 | 45,951 | India | 14,902 |
| | | Germany | 8,809 | | UK | 3,893 |
| | | Spain | 8,494 | | Jersey | 3,539 |
| | | Russia | 7,969 | | Japan | 2,080 |
| | | Azerbaijan | 6,345 | | Malaysia | 2,047 |

Source: IMF coordinated direct investment survey (CDIS), 2019. Data is not available for Egypt and Kenya.

Annex 2: Scale of international banking activities in selected financial centres

| Country | GDP (US$ millions) (2017)[33] | Liabilities to the BIS reporting banks (US$ millions) | | Liabilities to GDP | Claims on the BIS reporting banks (US$ millions) | |
|---|---|---|---|---|---|---|
| | | Total | Part bank sector | | Total | Part bank sector |
| **Turkey** | 851,549 | 59,826 | 38,797 | 5% | 174,916 | 85,962 |
| **Lebanon** | 53,577 | 43,815 | 34,485 | 64% | 9,917 | 6,128 |
| **Nigeria** | 375,745 | 41,246 | 30,604 | 8% | 25,502 | 13,404 |
| **South Africa** | 348,872 | 39,090 | 21,617 | 6% | 53,801 | 19,161 |
| **Egypt** | 235,369 | 24,881 | 12,693 | 5% | 33,754 | 15,385 |
| **Indonesia** | 1,015,539 | 20,544 | 14,171 | 1% | 114,114 | 36,913 |
| **Malta** | 12,518 | 18,484 | 5,634 | 45% | 22,754 | 10,832 |
| **Mauritius** | 5,025 | 17,216 | 6,073 | 121% | 21,431 | 2,913 |
| **Seychelles** | 1,498 | 12,619 | 216 | 14% | 4,244 | 24 |
| **Kenya** | 79,263 | 9,431 | 5,444 | 7% | 13,199 | 1,466 |
| **Morocco** | 109,709 | 9,021 | 6,206 | 6% | 14,036 | 5,722 |

Source: Author's calculation based on BIS locational banking statistics, retrieved January 2019.

Note: The database provides data for claims and liabilities of the BIS reporting banks on individual counterpart countries. Counterparties are split into bank and no-bank sector. It is important to note the limitation of the data source. According to Lane & Milesi-Ferretti (2010, p.4), "the data sources are indirect as the claims and liabilities were reported by the BIS reporting countries. Therefore, the estimates can be seen as providing a broad order of magnitude of the financial intermediation role of these countries rather than a precise assessment."

[33] https://data.worldbank.org/indicator/NY.GDP.MKTP.CD

Annex 3: Available reports and statistics relating to international investment positions published by the selected countries

| Country/ Institutions | Relevant reports and statistics |
|---|---|
| Egypt/ Central Bank of Egypt http://www.cbe.org.eg/en/EconomicResearch/Publications/Pages/ExternalPosition.aspx | **Report**: External Position of the Egyptian Economy, Economic Review, Annual report **Statistics**: Time series- Balance of Payments, Investments, Net Foreign Direct Investment |
| Indonesia/ Bank Indonesia https://www.bi.go.id/en/statistik/seki/terkini/eksternal/Contents/Default.aspx | **Report:** Economic Report on Indonesia, Indonesia's International Investment Position Report **Statistics**: Indonesian Financial Statistics-External sectors, Indonesia Banking Statistic |
| Kenya/ Central Bank of Kenya https://www.centralbank.go.ke/statistics/monetary-finance-statistics/ | **Report:** Financial stability reports **Statistics**: Macro economic statistics-Balance of payment statistics |
| Lebanon/ Banque du Liban http://www.bdl.gov.lb/webroot/statistics/ | **Report:** Quarterly Bulletins **Statistics:** External Sector and Balance of Payments, Consolidated Balance Sheet of Commercial Banks |
| Malta/ Central Bank of Malta https://www.centralbankmalta.org/external-statistics | **Report:** Annual report, Economic update, Quarterly review **Statistics**: External-Balance of Payments, International Investment Position |
| Malta/ National Statistics Office (NSO) https://nso.gov.mt/en/News_Releases/ | **Report:** News Releases **Statistics:** Eurostat-Economy and finance |
| Mauritius/ Bank of Mauritius https://www.bom.mu/publications-and-statistics/statistics/ | **Report**: Monetary Policy and Financial Stability Report, Financial Stability Report, Annual Report **Statistics**: External statistics - Balance of Payments, International Investment Position, Direct Investment Flows*, Coordinated Direct Investment Survey, Coordinated Portfolio Investment Survey |
| Nigeria/ Central Bank of Nigeria http://statistics.cbn.gov.ng/cbn-onlinestats/ | **Report**: Statistical Bulletin: External Sector Statistics, Annual Report **Statistics**: External Sector Statistics |
| Seychelles/ Central Bank of Seychelles http://www.cbs.sc/Statistics/StatisticsData.html | **Report:** Annual Report **Statistics**: External Sector Statistics |
| South Africa/ South Africa Reserve Bank https://www.resbank.co.za/Research/Statistics/Pages/International-Investment-Position.aspx | **Report**: Monthly Releases, Quarterly Bulletins, **Statistics:** International investment positions |
| Turkey/ Central Bank of the Republic of Turkey https://www.tcmb.gov.tr/wps/wcm/connect/EN/TCMB+EN | **Report**: Balance of Payments and International Investment Position Report **Statistics**: Balance of Payments and Related Statistics* |

Note:* indicates that statistics provide disaggregated data by recipient countries.

Annex 4: Lists of data sources of statistics of investment flows

| Investment types | Database |
|---|---|
| **Foreign Direct Investment** | **IMF Coordinated Direct Investment Survey (CDIS):** It provides bilateral data on inward and outward FDI stocks. Each year, reporting countries report the amount of inward FDI and outward FDI (stocks) from and to counterparty countries. http://data.imf.org/CDIS<br><br>**UNCTAD FDI statistics**: UNCTAD's Bilateral FDI Statistics provides up-to-date and systematic FDI data for 206 economies around the world, covering inflows, outflows, inward stock and outward stock by region and economy. https://unctad.org/en/pages/DIAE/DIAE.aspx<br><br>**OECD FDI statistics**: A comprehensive set of statistics on FDI into and out of OECD countries. The data are presented in a standardised format combining sectoral and geographical breakdowns for flow and stock data since 1982. https://data.oecd.org/fdi/fdi-flows.htm<br><br>**FDI Markets database by the Financial Times**: It provides database cross-border greenfield investments covering 179 countries. https://www.fdimarkets.com/ |
| **Portfolio investment** | **IMF Coordinated Portfolio Investment Survey (CPIS):** It provides data on its holdings of portfolio investment securities of an economy. Data are separately requested for equity and investment fund shares, long-term debt instruments, and short-term debt instruments. http://data.imf.org/CPIS<br><br>**Emerging Portfolio Fund Research (EPFR) data**: It provides fund flow and asset allocation data to financial institutions around the world to track both traditional and alternative funds domiciled globally. https://www.epfrglobal.com/countryflows.aspx |
| **Other investment including loans, deposits and others** | **BIS international banking statistics (locational statistics):** The database provides cross-border data on loans and deposits measuring international banking activity, focusing on the location of the banking office. It captures outstanding financial assets and liabilities of internationally active banks located in reporting countries on counterparties residing in more than 200 countries. Data sets are reported at a country, rather than individual bank level. https://www.bis.org/statistics/bankstats.htm<br><br>**Thomson Reuters's Securities Data Corporation (SDC) Platinum database:** It provides the syndicated loan flows data and consists of direct cross-border lending through which a group of financial intermediaries provides funds to a single borrower. https://www.refinitiv.com/en/products/sdc-platinum-financial-securities |

## About this report

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