



Foreign, Commonwealth
& Development Office

James Duddridge MP
Minister for Africa
King Charles Street
London
SW1A 2AH

Tel: 0207 008 5000

Email:
FCDO.correspondence@fcdo.gov.uk

www.gov.uk/fcdo

Theo Clarke MP
Sarah Champion MP
Kate Osamor MP
Richard Bacon MP
Chris Law MP
Dr Dan Poulter MP
House of Commons
London
SW1A 0AA

5th February 2021

I was pleased to join members of the International Development Committee (IDC) on 14th December 2020 for the evidence session on the UK's support to the African Development Bank. At this session, I was asked about capital flows to and within the African continent, and I committed to providing IDC members with further information. The short note attached to this letter addresses these points.

In summary, the note outlines how, for the past five years, Africa as a whole has been a net importer of recorded capital. However, it is important to highlight that there are significant illicit financial flows out of Africa that are only partially reflected in official statistics. While these flows are, by definition, difficult to measure, some studies estimate they are perhaps of a similar order of magnitude to net capital imports.

With regards to intra-African flows of Foreign Direct Investment, these totalled US\$93 billion between 2003 and 2017. South Africa was by far the largest investor on the continent accounting for around 40% of total intra-African FDI during this period. While intra-African FDI is estimated to have created around 165,000 jobs, it remains small relative to total FDI from the rest of the world. Data on other capital flows such as portfolio investment are not readily available from public sources, and so it has not been possible to analyse these.

James Duddridge MP
Minister for Africa

Is Africa a Net Exporter of Capital?

Summary

Official data shows that Africa was a net importer of capital every year in the five-year period covering 2014 - 2018¹. The same pattern is generally observed at the country level with a handful of exceptions. However, official data only partially captures illicit financial flows which Africa is thought to be a net exporter of. Some estimates of illicit financial outflows from the continent are in the range of US\$40-60bn a year which is a similar order of magnitude to officially recorded net capital inflows.

Detail

According to official sources, in aggregate, Africa ran a current account deficit every year from 2014 to 2018. A current account deficit makes a country or region a net importer of capital as the deficit needs to be financed through capital inflows, reduced central bank reserves, or a combination of both.

Current Account Deficit for Africa 2014-2015 (US\$)

	2014	2015	2016	2017	2018
Deficit (US\$)	114.4bn	154.0bn	115.4bn	70.6bn	52.0bn

Source: World Bank, World Development Indicators dataset

While the vast majority of individual countries on the continent also ran current account deficits every year during this period, there were a few exceptions. In 2018, three of the continent's oil exporters ran current account surpluses in excess of US\$1bn, namely Angola (US\$7.4bn), Libya (US\$11.3bn), and Nigeria (US\$3.8bn).

An important aspect to the data presented above is that it reflects officially recorded data which may only partially capture illicit financial flows. While these flows by their very nature are very difficult to estimate, some studies claim they are highly significant, and perhaps of a similar order of magnitude to official net capital inflows. For example, a study conducted by UNCTAD in 2020² estimates that every year between US\$40-60bn leaves the continent in illicit financial flows. These flows consist of illicit capital flight, and the proceeds from criminal activities such as illegal markets, corruption, or theft.

¹ Data taken from the World Bank's World Development Indicators dataset. 2018 is the most recent data available

² Economic Development in Africa Report: Tackling Illicit Financial Flows for Sustainable Development in Africa (2020)

Intra-African Capital Flows

Summary

Public information on intra-African capital flows is limited and data on debt and portfolio flows aren't readily available, but the African Development Bank estimates that cumulative intra-African foreign direct investment (FDI) flows totalled around US\$93 billion from 2003-2017. This represents just 0.3% of Africa's cumulative GDP of US\$27 trillion during the same period. It is also relatively small in comparison with FDI from the rest of the world between 2003 and 2017, accounting for just 13% of the total.

Detail

A recent paper by the African Development Bank³ analysed all foreign direct investment by African Multi-National Corporations (MNCs) into other African countries throughout the period 2003-2017. Using data from the FDI markets database⁴, they show that 587 MNCs from 33 African countries invested in all 54 countries in Africa. Over the fifteen-year period, the firms made a total of US\$93bn in investments, which financed 1,386 projects and created an estimated 165,000 jobs.

MNCs in South Africa (39%), Morocco (11%), Nigeria (9%), and Kenya (8%) were the source of 67% of all intra-African FDI flows, and the main recipients of FDI were Nigeria (13%), Mozambique (12%), Ghana (12%), and Ethiopia (7%), accounting for 44% of total intra-African FDI. While these investments covered a broad range of sectors, the majority of investments were concentrated in financial services, communications, real estate, construction, chemicals, and extractive industries.

UNCTAD reports total (inclusive of intra-African) FDI flows to Africa in their annual World Investment Report⁵ which shows total FDI averaged around US\$50bn a year between 2014 and 2019. So while cumulative intra-African FDI of US\$93bn between 2003 and 2017 is not insignificant, FDI from most African countries (excluding South Africa) remains relatively small compared with inflows from the rest of the world.

Total FDI inflows to Africa 2015-2019

	2015	2016	2017	2018	2019
FDI Invested (US\$)	57.5bn	46.0bn	41.5bn	50.5bn	45.3bn

Source: UNCTAD World Investment Report (2020)

³ Intra-African Foreign Direct Investment (FDI) and Employment: A Case Study (2020)

⁴ <https://www.fdimarkets.com/>

⁵ https://unctad.org/system/files/official-document/wir2020_en.pdf