



THE WORLD BANK

Global Development Finance

Building Coalitions for Effective Development Finance

ANALYSIS AND SUMMARY TABLES

2001



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First printing May 2001
1 2 3 4 03 02 1

Global Development Finance was formerly published under the title *World Debt Tables*.

This publication has been compiled by the staff of the Development Prospects Group of the World Bank's Development Economics Vice Presidency. The World Bank does not accept responsibility for the accuracy or completeness of this publication. Any judgments expressed are those of World Bank staff or consultants and do not necessarily reflect the views of the Board of Executive Directors or the governments they represent.

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ISBN 0-8213-4892-2
ISSN 1020-5454

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Many others from inside and outside the Bank provided inputs, comments, guidance, and support at various stages of the report's publication. Nancy Birdsall, Sara Guerschanik Calvo, Marco Ferroni, Gregory Ingram, Ravi Kanbur, Bruce Ross-Larson, and Enrique-Rueda Sabater

provided guidance throughout the preparation of the report. Frank Lysy, Swati Ghosh, Homi Kharas, Sudhir Shetty, and Paul Isenman were discussants at the Bankwide review.

Comments on individual chapters were provided by Jonathan Beynon, Amarendra Bhat-tacharya, Barry Bosworth, Milan Brahmabhatt, Gerard Caprio, Paul Collier, Kemal Dervis, Ishac Diwan, William Easterly, Barry Eichengreen, Victoria Elliott, Simon Evenett, Alan Gelb, Catherine Gwin, Nagy Hanna, Patrick Honohan, Olga Jonas, Michael Klein, Gary Kleinman, Kenneth Kletzer, Jacob Kolster, Motoo Kusakabe, Geoffrey Lamb, Uma Lele, Joan Martin-Brown, Ernesto May, Fred Mishkin, Susana Moorehead, Mustapha Nabli, Richard Newfarmer, Michael Pomerleano, Lant Pritchett, Larry Promisel, Sanjivi Rajasingham, Sergio Schmukler, Susan Seckler, Luis Servén, Brad Smith, Akihiro Tanaka, Hans Timmer, Axel van Trotsenberg, and participants at a workshop on chapter 3 organized by the Development Prospects Group and the Managing Volatility Thematic Group. Chapter 5 of the report drew on a Development Workshop on Global Public Policies and Programs, organized by UNDP Evaluation Office, World Bank Development Economics, World Bank Operations Evaluations Department, and World Bank Resource Mobilization and Cofinancing. The proceedings of that workshop will be available shortly. Drafts of the report were presented to and discussed with staff of the U.N. Secretariat and with U.N. Ambassadors. Comments were also received from the Development Assistance Committee of the Organisation of Economic Cooperation and Development and the International Monetary Fund. Katherine Rollins served as the principal assistant to the team. Book design, editing, production, and dissemination were coordinated by the World Bank Publications team.

Preface

GLOBAL DEVELOPMENT FINANCE WAS formerly published as *World Debt Tables*. The new name reflects the report's expanded scope and greater coverage of private financial flows.

Global Development Finance consists of two volumes: *Analysis and Summary Tables* and *Country Tables*. *Analysis and Summary Tables* contains analysis and commentary on recent developments in international finance for developing countries, with particular focus on the global financial crisis. Summary statistical tables are included for selected regional and analytical groups comprising 150 countries.

Country Tables contains statistical tables on the external debt of the 137 countries that report public and publicly guaranteed debt under the Debtor Reporting System. Also included are tables of selected debt and resource flow statistics for individual reporting countries, as well as summary tables for regional and income groups.

For the convenience of readers, charts on pages xi to xiii summarize graphically the relation be-

tween debt stock and its components; the computation of flows, aggregate net resource flows, and aggregate net transfers; and the relation between net resource flows and the balance of payments. Exact definitions of these and other terms used in *Global Development Finance* are found in the Sources and Definitions section.

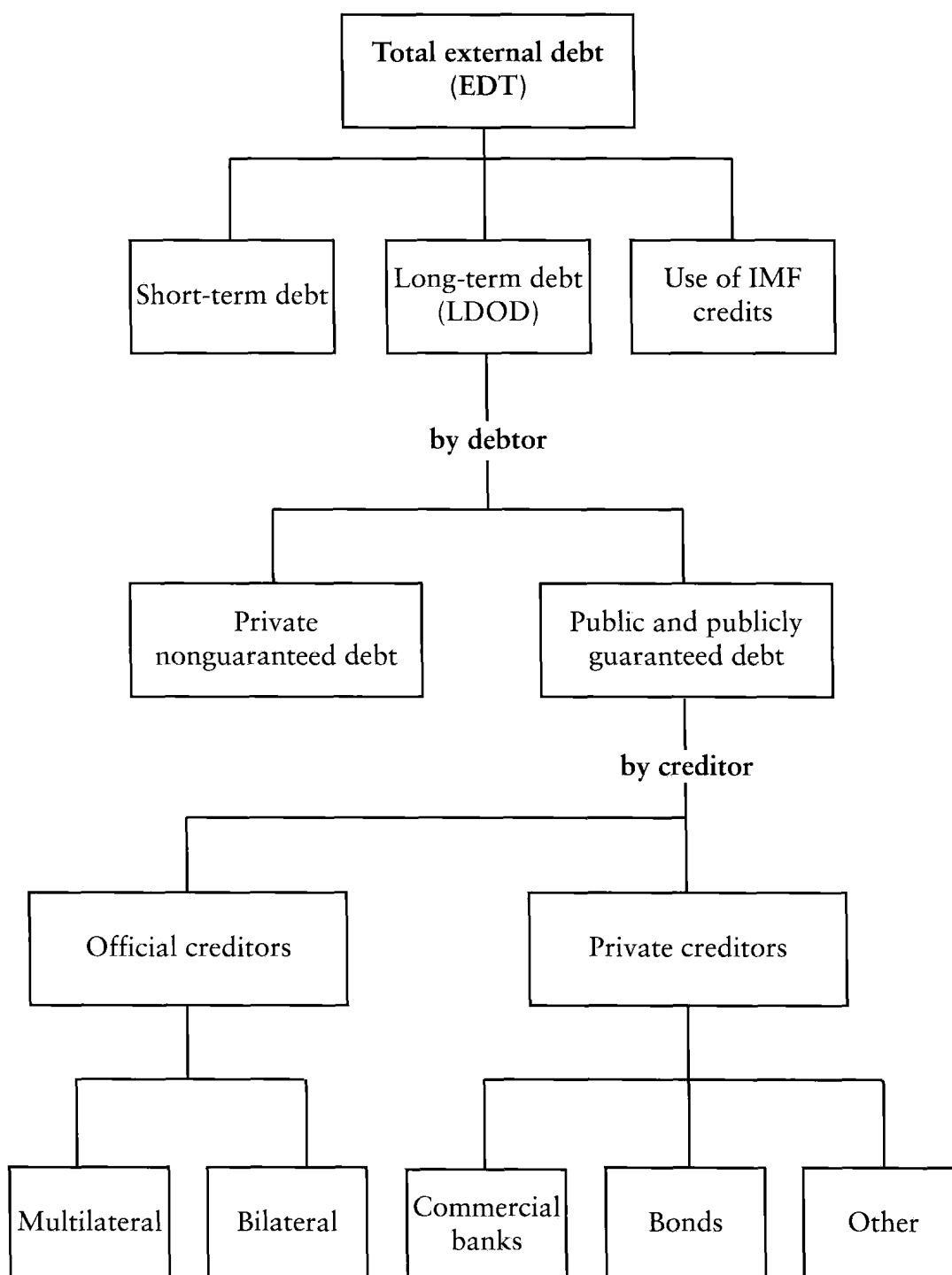
The economic aggregates presented in the tables are prepared for the convenience of users; their inclusion is not an endorsement of their value for economic analysis. Although debt indicators can give useful information about developments in debt-servicing capacity, conclusions drawn from them will not be valid unless accompanied by careful economic evaluation. The macroeconomic information provided is from standard sources, but many of them are subject to considerable margins of error, and the usual care must be taken in interpreting the indicators. This is particularly true for the most recent year or two, when figures are preliminary or subject to revision.

Acronyms and Abbreviations

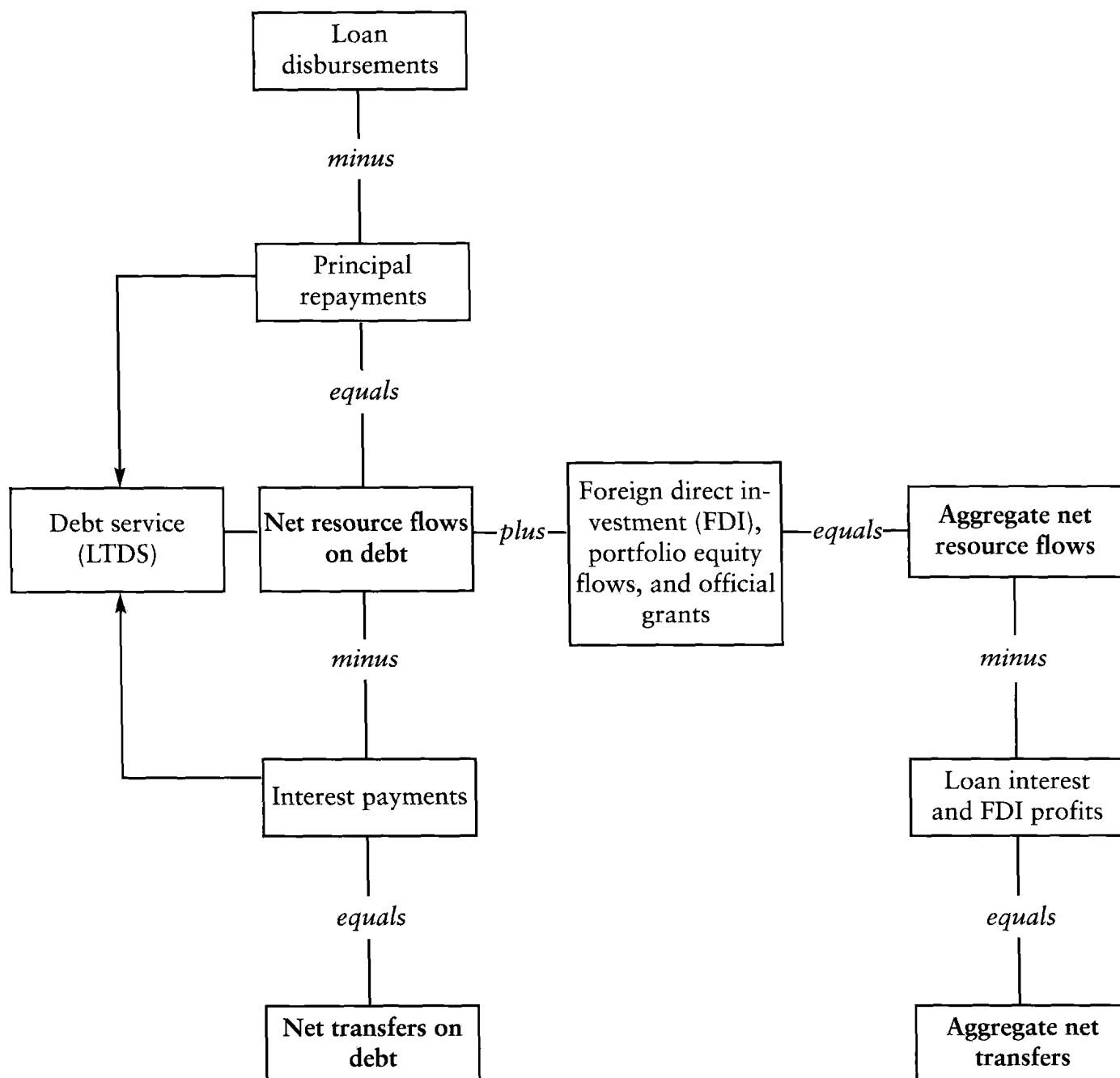
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|-------|---------------------------------------------------------------------------------------------|----------|---------------------------------------------------------------------------|
| AIDS | acquired immune deficiency syndrome | IDB | Inter-American Development Bank |
| CDF | Comprehensive Development Framework | IMF | International Monetary Fund |
| CFC | chlorofluorocarbon | LIBOR | London interbank offered rate |
| CGIAR | Consultative Group for International Agricultural Research | LILIC | less indebted low-income country |
| CIS | Commonwealth of Independent States | LIMIC | less indebted middle-income country |
| CPIA | Country Policy and Institutional Assessment index | M&A | mergers and acquisitions |
| CRS | Creditor Reporting System (of the OECD) | Mercosur | Southern Cone Common Market (Argentina, Brazil, Paraguay, and Uruguay) |
| DAC | Development Assistance Committee (of the OECD) | MILIC | moderately indebted low-income country |
| DDSR | debt and debt service reduction | MIMIC | moderately indebted middle-income country |
| DGF | Development Grant Facility | MMV | Medicines for Malaria Venture |
| DRF | Debt Reduction Facility (of the International Development Association) | MYRA | multiyear rescheduling agreement |
| DRS | Debtor Reporting System (of the World Bank) | NAFTA | North American Free Trade Agreement |
| DSA | debt sustainability analysis | NATO | North Atlantic Treaty Organization |
| ECB | European Central Bank | NGO | nongovernmental organization |
| EMBI | Emerging Market Bond Index | NPV | net present value |
| EU | European Union | ODA | official development assistance |
| FDI | foreign direct investment | OECD | Organisation for Economic Co-operation and Development |
| G-7 | Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) | OPEC | Organization of Petroleum Exporting Countries |
| GDP | gross domestic product | PRIN | principal notes |
| GEF | Global Environment Facility | PRSP | Poverty Reduction Strategy Paper |
| GNP | gross national product | PV | present value |
| HIPC | heavily indebted poor countries | R&D | research and development |
| HIV | human immunodeficiency virus | Saar | seasonally adjusted annual rate |
| IAN | interest arrears notes | SDR | special drawing right (of the International Monetary Fund) |
| IBRD | International Bank for Reconstruction and Development (of the World Bank Group) | SILIC | severely indebted low-income country |
| ICT | information and communications technology | UNCTAD | United Nations Conference on Trade and Development |
| IDA | International Development Association (of the World Bank Group) | XGS | exports of goods and services |

Dollars are current U.S. dollars, unless otherwise specified.

Debt stock and its components



Aggregate net resource flows and net transfers (long-term) to developing countries



Note: Includes only loans with an original maturity of more than one year (long-term loans). Excludes IMF transactions.

Aggregate net resource flows (long-term) and the balance of payments

| | <i>Credits</i> | <i>Debits</i> |
|--------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Current account | <ul style="list-style-type: none"> • Exports of goods and services • Income received • Current transfers Including workers' remittances and private grants | <ul style="list-style-type: none"> • Imports of goods and services • Income paid • Current transfers |
| | <ul style="list-style-type: none"> • Official unrequited transfers (by foreign governments) | <ul style="list-style-type: none"> • Official unrequited transfers (by national government) |
| Capital and financial account | <ul style="list-style-type: none"> • Official unrequited transfers (by foreign governments) • Foreign direct investment (by nonresidents) (disinvestment shown as negative) • Portfolio investment (by nonresidents) (amortizations shown as negative) • Other long-term capital inflows (by nonresidents) (amortizations shown as negative) | <ul style="list-style-type: none"> • Official unrequited transfers (by national government) • Foreign direct investment (by residents) (disinvestment shown as negative) • Portfolio investment (abroad by residents) (amortizations shown as negative) • Other long-term capital outflow (by residents) (amortizations shown as negative) |
| | <ul style="list-style-type: none"> • Short-term capital inflow | <ul style="list-style-type: none"> • Short-term capital outflow |
| Reserve account | Net changes in reserves | |



Aggregate net resource flows



Net resource flows on debt (long-term)

Table of Contents

The Report Team viii

Preface ix

Acronyms and Abbreviations x

Overview 1

| | |
|-----------------------------------------------------------------------------|-----------|
| Chapter 1 The Global Slowdown: Prospects for Developing Countries | 9 |
| Industrial countries: sharp downturn with opportunities for a quick rebound | 11 |
| World trade growth expected to fall by more than half from its 2000 record | 16 |
| Divergence between oil and non-oil prices to narrow | 17 |
| Capital flows to developing countries on an upward trend | 20 |
| Current accounts: opportunities and risks from an unwinding of imbalances | 22 |
| Overview of developing regions | 24 |
| Notes | 30 |
| References | 30 |
| Chapter 2 Trends in Private Capital Flows | 33 |
| Trends in external finance to developing countries | 34 |
| Foreign direct investment | 35 |
| Capital market flows | 43 |
| Notes | 55 |
| References | 55 |
| Chapter 3 International Capital Flows and Economic Growth | 59 |
| Capital inflows and domestic investment | 60 |
| Private capital flows and productivity | 64 |
| The volatility of capital flows | 70 |
| The policy agenda | 76 |
| Annex 3.1 | 77 |
| Notes | 80 |
| References | 80 |
| Chapter 4 Making International Aid and Debt Relief More Effective | 85 |
| Trends in aid flows | 86 |
| Allocation of aid across countries | 89 |
| Coordinating donors: greater specialization and programmatic aid | 96 |
| Enhanced debt relief: the challenges ahead | 100 |

| | |
|--------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| More aid <i>and</i> more effective aid | 105 |
| Notes | 105 |
| References | 105 |
| Chapter 5 Effective Use of Development Finance for International Public Goods | 109 |
| Integrating country-based finance and global and regional programs | 110 |
| Leveraging official and philanthropic resources | 118 |
| Incentives for responsible action | 123 |
| Looking ahead: the new challenges for international organizations | 127 |
| Annex 5.1 | 129 |
| Notes | 132 |
| References | 133 |
| Appendix 1 Debt Burden Indicators and Country Classifications | 139 |
| Appendix 2 Commercial Debt Restructuring | 153 |
| Appendix 3 Official Debt Restructuring | 171 |
| Appendix 4 Progress in Privatization in Developing Countries | 183 |
| Appendix 5 Regional Economic Developments and Prospects | 193 |
| East Asia and Pacific | 194 |
| Europe and Central Asia | 198 |
| Latin America and the Caribbean | 201 |
| Middle East and North Africa | 205 |
| South Asia | 208 |
| Sub-Saharan Africa | 211 |
| Appendix 6 Global Commodity Price Prospects | 215 |
| Summary Tables | |
| Tables | |
| 1.1 | Global conditions affecting growth in developing countries, and growth forecasts by world region, 2000–03 10 |
| 1.2 | Contribution of ICT exports to total exports and export growth, selected countries and regions, 1990–99 17 |
| 1.3 | Contribution to world import growth by region, 1998–2003 19 |
| 1.4 | Changes in oil and non-oil commodity prices, 1981–2002 21 |
| 1.5 | Gross capital market flows to developing countries 21 |
| 2.1 | Trends in external finance 34 |
| 2.2 | Net long-term resource flows to developing countries, 1991–2000 36 |
| 2.3 | Developing-country shares 37 |
| 2.4 | FDI flows to middle- and low-income countries and least developed countries 39 |
| 2.5 | FDI flows in selected fast-growing African countries, 1991–94 and 1995–99 40 |
| 2.6 | Capital market commitments to developing countries by type of flow 45 |
| 2.7 | Indicators of external vulnerability of developing countries and selected developing regions 49 |
| 2.8 | Actual and projected capital market flows to principal developing countries 54 |
| 3.1 | Composition of net resource flows to developing countries by region, 1972–98 63 |
| 3.2 | Indicators of absorptive capacity in selected developing countries, 1980–98 68 |
| 3A.1 | Marginal impact of various types of capital flows on investment and saving 78 |

| | | |
|------|---------------------------------------------------------------------------------------------------|-----|
| 3A.2 | Effect of capital flows and their volatility on growth per capita, by decade | 79 |
| 3A.3 | Data sources | 80 |
| 4.1 | Official flows to developing countries by type and source, 1990–2000 | 87 |
| 4.2 | Official development assistance from Development Assistance Committee countries, 1990–99 | 88 |
| 4.3 | Aid flows by developing region, 1990–2000 | 89 |
| 5.1 | Sources of funding for core and complementary activities related to international public goods | 112 |
| 5.2 | Production technologies of public goods and their institutional implications | 120 |
| 5.3 | Sources of funding for recent financial rescue packages | 124 |
| 5A.1 | Donor contributions to trust funds administered by selected international organizations | 130 |
| 5A.2 | Contributions to World Bank–administered trust funds | 131 |
| 5A.3 | Allocation of DAC development assistance to international public goods by five-digit CRS category | 132 |

Figures

| | | |
|------|----------------------------------------------------------------------------------------------------------------------------|----|
| 1.1 | Spreads on high-yield asset class and the dollar/euro rate in 2000 | 11 |
| 1.2 | GDP growth for major industrial countries | 12 |
| 1.3a | NASDAQ market and Conference Board consumer confidence indexes | 13 |
| 1.3b | U.S. real retail sales and manufacturing output | 13 |
| 1.4 | New orders, shipments, and inventories in U.S. manufacturing sector, January 1999 to December 2000 | 14 |
| 1.5 | U.S. inventory/sales ratio | 14 |
| 1.6 | Japan: growth of selected GDP components 2000q1–2000q4 | 15 |
| 1.7 | Euro Area GDP, industrial production, and leading indicator | 16 |
| 1.8 | World industrial production, import volumes, and GDP, 1996–2002 | 17 |
| 1.9 | Comparison of semiconductor cycles | 18 |
| 1.10 | World trade growth during episodes of global slowdown (peak to peak) | 18 |
| 1.11 | Ratio of oil to non-oil commodity prices | 19 |
| 1.12 | Oil and non-oil commodity indexes | 20 |
| 1.13 | Developing regions' real GDP growth, 2000–03 | 26 |
| 2.1 | Private capital flows in relation to GDP and trade | 36 |
| 2.2 | Foreign direct investment and cross-border mergers and acquisitions | 37 |
| 2.3 | FDI as ratio to GDP | 38 |
| 2.4 | FDI in Africa | 40 |
| 2.5 | Investment climate and FDI flows in host countries | 41 |
| 2.6 | FDI in the United States by type of entry | 41 |
| 2.7 | Aggregate FDI and M&A: regional trends | 42 |
| 2.8 | Developing-country yields and U.S. interest rates | 45 |
| 2.9 | Primary market cost of borrowing | 46 |
| 2.10 | Performance of equity markets | 47 |
| 2.11 | Average credit ratings in developing countries | 49 |
| 2.12 | Developing countries and the external environment | 52 |
| 3.1 | Computed incremental relationships between private capital flows and investment, savings, and the current account, 1972–98 | 61 |

| | | |
|------|------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| 3.2 | Computed incremental relationships between private capital flows and investment, consumption, and the current account, by region, 1972–98 | 62 |
| 3.3 | Computed incremental relationships between private capital flows and investment, and between FDI and investment, over time | 63 |
| 3.4 | The relationships between various types of capital flows and investment as a function of school enrollment, political stability, and financial depth | 64 |
| 3.5 | Private capital flows and growth: low-income, middle-income, and top 10 emerging markets, 1970–98 | 65 |
| 3.6 | Foreign capital and financial sector development across various groups of countries, 1970–98 | 69 |
| 3.7 | Portfolio flows and financial sector development, 1990–98 | 70 |
| 3.8 | Correlations and partial correlations between per capita average growth rates and private capital flows volatility over the period 1970–98 | 73 |
| 3.9 | Precrisis and postcrisis growth rates and capital flows, 1970–98 | 74 |
| 3.10 | Capital flows volatility by decade and by region | 75 |
| 3.11 | Volatility of capital flows and the changing relationship with growth | 75 |
| 4.1 | Level and composition of international resource flows by income group, 1990–99 | 86 |
| 4.2 | Trends in aid/GNP | 90 |
| 4.3 | Policy performance index in developing countries, 1991 and 1999 | 94 |
| 4.4 | Poor performers experience a decline in aid | 95 |
| 4.5 | The increasing coordination challenge | 98 |
| 4.6 | Trends in disbursements for sectorwide programs | 99 |
| 4.7 | Ratios of debt service to exports and fiscal revenues, 22 HIPC | 103 |
| 4.8 | Cross-country correlations between various debt indicators for HIPC (1990–98 average) | 103 |
| 5.1 | A growing share of development assistance allocated to international public goods | 117 |
| 5.2a | Rising support for the environment, health, and peacekeeping: core plus complementary expenditures | 118 |
| 5.2b | Stronger complementary expenditure on health and knowledge | 118 |
| 5.3a | Support for international public goods is strong in low-income countries | 119 |
| 5.3b | Core plus complementary expenditures by purpose and income group | 119 |

Boxes

| | | |
|-----|-----------------------------------------------------------------------------|----|
| 1.1 | Benefits of a weaker dollar for non-oil commodity producers | 20 |
| 1.2 | Recent developments in current accounts | 23 |
| 1.3 | Overreactions and reassessments in financial markets | 25 |
| 2.1 | Capital outflows: causes and implications | 35 |
| 2.2 | Foreign direct investment in Bangladesh | 39 |
| 2.3 | Foreign direct investment and mergers and acquisitions: definitional issues | 42 |
| 2.4 | Mergers and acquisitions in the financial sector | 44 |
| 2.5 | Are developing countries credit rationed? | 48 |
| 2.6 | Limited contagion from Argentina and Turkey | 50 |
| 2.7 | Implications of sovereign debt defaults | 51 |
| 3.1 | Capital flows and growth: what do cross-country regressions tell us? | 67 |
| 3.2 | Has there been an environmental race to the bottom? | 72 |
| 3.3 | Early warning indicators | 76 |

| | | |
|------|---------------------------------------------------------------------|-----|
| 4.1 | Aid and poverty reduction: what do econometric studies tell us? | 92 |
| 4.2 | The role of nongovernmental organizations in development assistance | 97 |
| 4.3 | Enhancements to the HIPC Initiative | 101 |
| 5.1 | International public goods for poverty reduction | 111 |
| 5.2 | Foundations and the provision of international public goods | 113 |
| 5.3 | The Global Environment Facility: objectives and new challenges | 115 |
| 5.4 | The Inter-American Development Bank and regional public goods | 116 |
| 5.5 | Safeguarding peace: the role of development and relief assistance | 117 |
| 5.6 | The Development Gateway | 121 |
| 5.7 | Biotechnology and the CGIAR | 122 |
| 5.8 | The Medicines for Malaria Venture | 123 |
| 5.9 | The new capital adequacy guidelines | 125 |
| 5.10 | The incentive structures of the Montreal and Kyoto Protocols | 127 |

Overview: Building Coalitions for Effective Development Finance

Policy highlights

THE STRING OF FINANCIAL CRISES IN DEVELOPING countries in the second half of the 1990s shook the confidence of many in global financial markets. At the same time, aid, on the decline through much of the decade, was increasingly criticized as ineffective. Together these experiences called into question the long-held view that international resource transfers—both private and official—play a significant and positive role in economic development.

This report concludes that, to the contrary, international financial flows to developing countries are perhaps even more valuable than traditionally thought—and that the prospects for using them effectively continue to improve. These flows work to transfer resources across national borders, from rich countries to poor ones, and to create and realize investment opportunities. But they can have an even greater influence on development by stimulating improvements in developing countries' policies and institutions and keeping them sound. They can thus reinforce those countries' initiatives to step up productivity and efficiency in the economy.

The report also highlights ongoing international initiatives to leverage the far-reaching potential of international financial flows. Among these initiatives are, at the global level, the reform of the international financial architecture and, at the country level, the World Bank's Comprehensive Development Framework, which emphasizes the critical importance of a holistic approach to development. The success of both will depend on effective coordination among various parties, attention to diverse local conditions, and a track record of strong and effective implementation. These, in turn, will require international and national coalitions to inter-

nalize the evolving lessons—and to give them legitimacy. Even then, these and other initiatives will require a period of strong commitment to produce the desired results.

In this context the report attempts to identify the conditions under which international financial transfers support the development process. And it considers what public policy—national and international—can do to foster productive transfers. Among the key findings:

- The cyclical slowdown of the global economy that began toward the end of 2000 has been significant because U.S. equity markets, consumer confidence, and short-term economic prospects have all dropped sharply and in tandem. A rebound in the course of this year seems possible due to the available policy instruments for stabilization.
- After precipitous declines in 1998 and 1999, capital flows to developing countries grew smartly in 2000, but their recovery has still lagged behind growth of output and trade since the late-1990s crises.
- For all countries with strong investment climates, private capital flows reinforce the pay-offs to good policies and good institutions through even faster growth. But the volatility of those flows needs to be managed through stronger domestic financial systems and, possibly, larger foreign exchange reserves and sources of contingent credit.
- Aid flows increased in 2000, and the pace of debt relief was stepped up—but it will take vigilance to sustain these gains. The increases in aid effectiveness in the 1990s support the case for greater aid to achieve the Interna-

tional Development Goals set by the international community.

- International resource transfers provide about \$5 billion a year to finance such international public goods as health, a clean environment, knowledge, and peace. To achieve the maximum dividends from these activities, the international financial institutions need to take a flexible and pragmatic approach to coalition building.

Challenges for developing countries during the cyclical slowdown

The cyclical slowdown of the global economy that began in the second half of 2000, brought on by higher interest rates and oil prices, suddenly intensified toward the end of the year. Shifts in market sentiment have become more important in determining short-term output and trade trends.

Chapter 1 of this report argues that a recovery in the course of this year from the current slowdown is more likely than prolonged slow growth, because economic cycles have become shorter and because the scope for policy adjustments (fiscal and monetary stimulus) is greater. However, the possibility of a continued feedback from financial markets to the real economy may delay the recovery. The slowdown is expected to differ in magnitude across developing countries, creating both risks and opportunities. A harder-than-expected landing in the industrial world would have serious consequences in many developing countries but could bring some partially offsetting benefits, such as lower interest rates. Even in the more likely soft-landing scenario, some sectors and countries will be hit hard.

Trends in private capital flows

As chapter 2 documents, resource transfers to developing countries increased in 2000 but remain well below their 1997 levels, before the series of crises. In 2000, private capital flows increased smartly after the precipitous decline in 1998 and 1999, but the recovery of capital flows since the crises has not caught up with postcrisis growth of output and trade. This relative decline reflects some improvement in the “quality” of flows: volatile short-term debt flows have fallen sharply.

Trends in capital flows to and from developing countries reflect three forces. The first is the greater, although still imperfect, financial integra-

tion of the global economy. The second is recent technological change, which requires increasingly sophisticated investment environments for efficient business operations. And the third is psychological factors. Some of the chapter’s findings:

- Although the rise in capital inflows to developing countries in the first half of the 1990s received most of the attention, capital outflows also increased. And at least a part of the decade’s increase in capital inflows may reflect transactions tied to capital outflows, perhaps to avoid taxes. Those outflows also reflect greater economic integration with the rest of the world.
- The worldwide boom in cross-border capital flows has been directed to industrial economies, especially the United States, reflecting, in part, optimism about technological trends. Developing-country shares in capital flows have declined sharply since the crises. The greater concentration of capital in a few countries reemphasizes the importance of a hospitable business climate in attracting and sustaining foreign direct investment (FDI) flows, which, although resilient during the crises, appear to have plateaued.
- Capital market flows were bolstered last year by modest improvements in perceived creditworthiness. But a lack of liquidity and indications of investor nervousness suggest that the memory of the crises remains. For countries with marginal access but significant dependence on international capital markets, the risk of being unable to roll over their borrowings could be significant. Despite the strong rise in 2000, international capital flows are likely to account for smaller shares of developing countries’ gross domestic product (GDP) in the next few years.

International capital flows and economic growth

Private capital was implicated in the severe crises of the late 1990s, and some have questioned its efficacy in stimulating long-term growth. Chapter 3 examines how private capital inflows are related to, and perhaps contribute to, domestic investment and productivity, but also to volatility. The chapter concludes that private capital flows bear a significant relationship to long-term growth, although in

general they tend to reinforce an existing positive growth dynamic generated by domestic efforts and initiatives. Among the chapter's findings:

- On average, private capital inflows raise domestic investment almost one for one. But the effect is strongest for those countries least integrated with international financial markets, where FDI augments domestic saving, identifying and financing new investment opportunities. The association between greater foreign inflows and domestic investment is thus strong in Africa. For developing countries in general, however, the relationship has declined since the 1980s, because growing financial integration means that countries' domestic investment decisions depend less on the availability of external financing.
- The potential for productivity growth through private capital flows has probably increased because of the growing importance of knowledge as a production input. But the benefits are available mainly to countries that have a strong capacity to absorb these flows.
- Capital inflows, through their volatility, can also impose significant costs. Although the management of this volatility has improved, prudential safeguards (through greater liquidity and measures to limit domestic financial instability) remain high on the policy agenda.
- There has been no environmental "race to the bottom": FDI to developing countries is not attracted primarily by lower environmental standards. Countries experiencing rapid growth of FDI have also steadily improved their environments, because communities in those countries place a growing value on protecting their environment, and because foreign investors have reputations to maintain.

Making aid and debt relief more effective

The achievement of the International Development Goals will require a significant rise in aid flows—and in their effective use. As chapter 4 reports, aid flows did increase in 2000, and the pace of debt relief was stepped up, but continued commitment is required to ensure that these increases are not temporary.

The effectiveness with which aid was allocated across countries also increased in the 1990s. This happened in part because policies in recipient

countries improved, increasing their capacity to absorb aid, and in part because countries with weak policies got less aid. But there exists significant potential to reduce poverty by directing flows from middle-income to low-income countries and by increasing flows to countries with good performance that thus far have received little or no increase in aid. More resources can also be effectively deployed for international public goods, as discussed in chapter 5.

Recent moves toward donor specialization can also make aid more effective. So can increasing the commitment to provide assistance through predictable and medium-term budgetary support to each country's chosen development programs, based on agreed-on policy frameworks and conditioned on results. The shift to programmatic approaches reflects the importance of country "ownership" of the policy agenda and the long-standing difficulties in coordinating a host of separate projects, each with different donor reporting requirements.

The Heavily Indebted Poor Countries (HIPC) Initiative, which embodies some leading-edge approaches to aid effectiveness, marks an opportunity for a new start. The recent enhancements to the initiative have quickened the pace and increased the resources for debt relief, although the extent to which the initiative will increase total donor assistance is unclear. Since weak policies and institutions are the key constraint on growth in most heavily indebted countries, the tie to policy reform is the key factor for success. At the same time, greater access to industrial-country markets will help these countries integrate with global markets and grow.

Financing international public goods

Chapter 5 attempts a first-ever comprehensive inventory of the use of international resource transfers to fund the creation of international public goods in developing countries. It finds that, for all developing countries worldwide, transfers of about \$5 billion a year go to finance international public goods, and an additional \$11 billion finances the complementary domestic infrastructure that allows the absorption of these goods. These resources mainly support activities in health, environmental protection, knowledge creation and diffusion, and safeguarding peace. With active support from private charitable foundations, donors have been channeling more resources to international public goods, even as aid budgets have de-