

UNPUBLISHED PROOFS

# Global Development Finance

Financing the Poorest Countries

ANALYSIS AND SUMMARY TABLES

2002



THE WORLD BANK

Embargoed until Wednesday, March 13, 1 p.m. EDT

# UNPUBLISHED PROOFS

© 2002 The International Bank  
for Reconstruction and Development / The World Bank  
1818 H Street, NW  
Washington, DC 20433

All rights reserved.

1 2 3 4 04 03 02

The findings, interpretations, and conclusions expressed here do not necessarily reflect the views of the Board of Executive Directors of the World Bank or the governments they represent.

The World Bank cannot guarantee the accuracy of the data included in this work.  
The boundaries, colors, denominations, and other information shown on any map in this work do not imply on the part of the World Bank any judgment of the legal status of any territory or the endorsement or acceptance of such boundaries.

## **Rights and Permissions**

The material in this work is copyrighted. No part of this work may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or inclusion in any information storage and retrieval system, without the prior written permission of the World Bank. The World Bank encourages dissemination of its work and will normally grant permission promptly.

For permission to photocopy or reprint, please send a request with complete information to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, USA, telephone 978-750-8400, fax 978-750-4470, [www.copyright.com](http://www.copyright.com).

All other queries on rights and licenses, including subsidiary rights, should be addressed to the Office of the Publisher, World Bank, 1818 H Street NW, Washington, DC 20433, USA, fax 202-522-2422, e-mail [pubrights@worldbank.org](mailto:pubrights@worldbank.org).

Cover design by W. Drew Fasick, Serif Design Group  
Cover photo: Curt Carnemark, World Bank Photo Library

ISBN 0-8213-5085-4  
ISSN 1020-5454

**Embargoed until Wednesday, March 13, 1 p.m. EDT**

# Table of Contents

The Report Team	vii
Preface	viii
Abbreviations and Acronyms	ix
Overview	1
<b>Chapter 1 Challenges for Developing Countries during the Coming Global Recovery</b>	<b>5</b>
Recession and recovery in the industrial world	7
Bust and boom in world trade	13
Regional developments	19
Risks to the forecast	26
Notes	28
References	29
<b>Chapter 2 Private Capital Flows to Emerging Markets</b>	<b>31</b>
The global slowdown reduced capital market flows to developing countries	31
Net resource flows	32
Capital market flows	32
Trends in FDI	37
Emerging market financial crises	43
The prospects for capital market flows and FDI	47
Annex 2.1: Forecasts of private flows to developing countries	49
Annex 2.2: Measuring resource flows to developing countries	51
Notes	51
References	52
<b>Chapter 3 The Poor Countries' International Financial Transactions</b>	<b>55</b>
Poor countries have benefited from the growth of global capital flows	55
Financial integration in the poor countries	55
FDI to the poor countries	59
Improved investment climate is associated with rapid growth of FDI	61
Effective competition policies are critical	63
The participation of foreign banks in poor countries' financial systems	64
Capital outflows	69
Annex 3.1: Econometric analysis of foreign bank participation	78
Notes	81
References	83

<b>Chapter 4 Strengthening Official Financial Support for Developing Countries</b>	<b>89</b>
Mixed results from aid have led to a fall in aid	89
The policy framework	89
Trends in aid	90
The macroeconomic impact of aid	96
Conditionality and adjustment lending	101
Aid and debt relief	104
Strengthening the effectiveness of official guarantees	107
Data Annex	110
Notes	111
References	113
<b>Appendix 1 Debt Burden Indicators and Country Classifications</b>	<b>119</b>
<b>Appendix 2 Commercial Debt Restructuring</b>	133
<b>Appendix 3 Official Debt Restructuring</b>	151
<b>Appendix 4 Regional Economic Developments and Prospects</b>	<b>165</b>
East Asia and Pacific	166
Europe and Central Asia	170
Latin America and the Caribbean	174
Middle East and North Africa	178
South Asia	183
Sub-Saharan Africa	186
<b>Appendix 5 Global Commodity Price Prospects</b>	<b>191</b>

## Summary Tables

### Tables

1.1	Global conditions affecting growth in developing countries and world GDP growth	7
1.2	Initiating factors: turning points to downturn and recovery in OECD recessions	10
1.3	Developing-country forecast summary, 1991–2004	20
2.1	Net long-term resource flows to developing countries, 1991–2001	32
2.2	Capital market commitments to developing countries, 1991–2001	33
2.3	Debt ratios during recessions, East Asia and Latin America	33
2.4	International equity placement and performance of stock markets	34
2.5	Capital market commitments and spreads for developing countries	38
2.6	Projected capital market flows to developing countries	47
2A.1	How representative is the forecasting model?	49
2A.2	Comparison of forecasts with actual capital market flows to developing countries	50
2A.3	Statistics for the forecast of FDI	51
3.1	Net external financial flows to developing countries, 1999	56
3.2	Net long-term capital flows to poor countries, 1986–99	56
3.3	Annual change in policy performance and FDI as ratio to GDP, 1991–99	61
3.4	FDI as ratio to GDP and policy performance index in poor countries	61
3.5	Mining sector performance in three countries, before and after reforms	65
3.6	Cumulated outflows during 1980–99	70
3.7	Volatility of capital flows, 1990–99	70
3.8	Cumulated outflows as a share of GDP, 1999	71

3A.1	Foreign bank presence and domestic bank performance	78
3A.2	Panel-VAR results for all developing countries	80
3A.3	Summary of impulse response functions, all developing countries	80
3A.4	Results of panel-VAR regression for poor countries	80
3A.5	Summary of impulse response functions, poor countries	80
4.1	Net official aid to developing countries, by type and source, 1990–2001	93
4.2	Trends in aid allocation	95
4.3	Forgiveness of ODA claims, 1970–2000	105
4.4	Impact of HIPC Initiative in 24 decision-point cases	106
4.5	Export credit commitments to HIPCs, 1990–2000	110

### Figures

1.1	World and industrial and developing country GDP growth, 1997–2004	6
1.2	Manufacturing production in the G-3 countries 2000–02	8
1.3	U.S. manufacturing output, high-tech and non-high-tech industries	9
1.4	Consumer confidence in the United States, the Euro Area, and Japan	9
1.5	OECD GDP growth and fiscal balance, 1970–2000	12
1.6	GDP growth in the industrial countries, 2001–04	12
1.7	World export growth, 1999–2001	13
1.8	World industrial production and import volumes	14
1.9	Shipping cost index (Baltic Dry)	15
1.10	Real non-oil commodity prices since 1980	18
1.11	Per capita agricultural production	18
1.12	Oil prices and OECD oil stocks	19
1.13	GDP growth in developing regions	21
1.14	Forecasting the 2001 U.S. slowdown	27
1.15	Two recessions in the United States, 1990–91 and 2001	27
2.1	Performance of developing-country stock markets by sector	34
2.2	Bank lending standards and bank credit to developing countries, 1990–2001	35
2.3	Corporate default rate and risk premiums, 1990–2001	37
2.4	FDI and M&A in developing countries, 1991–2001	38
2.5	FDI as ratio to GDP, 1991–2001	40
2.6	Regional trends of FDI flows, 1991–2001	42
2.7	North-South and South-South FDI, 1991–1999	42
3.1	Five-year rolling correlation between savings and investment, 1974–1999	57
3.2	FDI-to-GDP ratios, 1991–2000	59
3.3	Foreign direct investment in mining exploration and government policies	64
3.4a	Foreign bank presence in poor countries	65
3.4b	Foreign bank presence in Africa	65
3.5	Effect of greater foreign bank presence on intermediation costs and domestic bank profitability	66
3.6	Effect of greater foreign bank presence on international bank lending to poor countries	67
3.7	Effect of greater foreign bank presence on nonperforming loans	68
3.8	Capital outflows from developing countries, 1985–99	70
3.9	Cumulated outflows and minerals exports	73
3.10	Capital account restrictions	74

# UNPUBLISHED PROOFS

- 4.1 ODA from donor countries in relation to their GNP, 1990–2000 94
- 4.2 Compliance with conditionality and economic performance 101
- 4.3 NPV of external debt of the 24 countries that reached their HIPC decision point 105

## Boxes

- 1.1 The Doha Development Agenda 17
  
- 2.1 Evidence of changes in the appetite for risk and capital market flows 36
- 2.2 The concentration of FDI flows 39
- 2.3 Round-tripping of capital flows between China and Hong Kong 41
- 2.4 Financial market contagion from the Argentine crisis 44
- 2.5 Moral hazard and rescue packages 46
  
- 3.1 Improving market access through future-flow securitization 58
- 3.2 The investment climate and domestic investment 60
- 3.3 Capital outflows from the middle-income countries 72
- 3.4 Narrowly focused capital controls in emerging markets 75
  
- 4.1 The PRSPs 91
- 4.2 The Financing for Development (FfD) process 92
- 4.3 The relationship between private and multilateral flows in poor countries 98
- 4.4 Official guarantees and the Mozal project 109

## The Report Team

**T**HIS REPORT WAS PREPARED BY THE Economic Policy and Prospects Group, and drew on resources throughout the Development Economics Vice-Presidency, the Economic Policy Sector Board, the World Bank operational regions, the International Finance Corporation, and the Multilateral Investment Guarantee Association. The principal author was William Shaw, with direction by Uri Dadush. Chapter 1 was led by Hans Timmer, with contributions by John Baffes, Betty Dow, Caroline Farah, Fernando Martel Garcia, Bernard Hoekman, Robert Keyfitz, Annette I. De Kleine, Robert Lynn, Donald Mitchell, Mick Riordan, Virendra Singh, Shane Streifel, Dominique van der Mensbrugge, and Bert Wolfe. Chapters 2–4 were largely prepared by the international finance team of the Economic Policy and Prospects Group, including Gholam Azarbayejani, Shweta Bagai, Maria Pia Iannarello, Himmat Kalsi, Eung Ju Kim, Aparna Mathur, Sanket Mohapatra, Shoko Negishi, Bilin Neyapti, Malvina Pollock, Dilip Ratha, and Jeff Ziarko. Additional contributions and background papers were provided by Dilek Aykut, Punam Chuhan, and Barry Eichengreen (chapter 2); Sara Calvo, Stijn Claessens, Susan Collins, Sebastian Edwards, Simon Evenett, Nagesh Kumar, Jeffrey Lewis, Deepak Mishra, Koh Naito, Claudine Ndayiken-gurutse, Andrew Powell, Jaya Prakash Pradhan, Felix Remy, Tony Thompson, Esen Ulgenerk, Aristomene Varoudakis, and Peter van der Veen (chapter 3); and Paul Collier, David Dollar, Robert Keyfitz, and Dan Morrow (chapter 4). Appendix 1 was prepared by Ibrahim Levent, appendix 2 by Eung Ju Kim, and appendix 3 by Malvina Pollock. Appendix 4 was prepared by Caroline Farah, Robert Keyfitz, Annette I. De Kleine, Robert Lynn,

Mick Riordan, and Virendra Singh, and benefited from the guidance of the Bank’s regional chief economists. Appendix 5 was prepared by John Baffes, Betty Dow, Don Mitchell, and Shane Streifel. The financial flow and debt estimates were developed in a collaborative effort by Punam Chuhan, Nevin Fahmy, Shelley Fu, Ibrahim Levent, and Gloria Moreno of the Financial Data Team along with Himmat Kalsi, Eung Ju Kim, and Malvina Pollock of the Economic Policy and Prospects Group. The report was prepared under the general direction of Nicholas Stern.

Many others from inside and outside the Bank provided input, comments, guidance, and support at various stages of the report’s publication. Gerard Caprio, Paula Donavan, Guy Pfeffermann, and Sanjivi Rajasingham were discussants at the Bankwide review. Sebastian Edwards, Shahrokh Fardoust, Jan Willem Gunning, Jim Hanson, and Stephen O’Connell provided extensive reviews of individual chapters. Comments were provided by Jehan Arulpragasam, Amarendra Bhattacharya, Jaime Biderman, Gerard Caprio, Haydee Celaya, James Emery, Alan Gelb, Ian Goldin, Charleen Gust, Daniel Kaufman, Jeni Klugman, Stefan Koeberle, Jacob Kolster, Ricahard Newfarmer, John Page, Enrique Rueda-Sabater, Sudhir Shetty, Philip Suttle, Axel van Trotsenberg, and Ulrich Zachau. Comments were also received from the International Monetary Fund. Mark Feige edited the report to highlight the main messages. Awatif Abuzeid and Katherine Rollins provided assistance to the team. Robert King managed dissemination and production activities by the Economic Policy and Prospects Group. Book design, editing, production, and dissemination were coordinated by the World Bank Publications team.

## Preface

**G**LOBAL 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 148 countries.

*Country Tables* contains statistical tables on the external debt of the 136 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 x to xii summarize graphically the relation between

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.

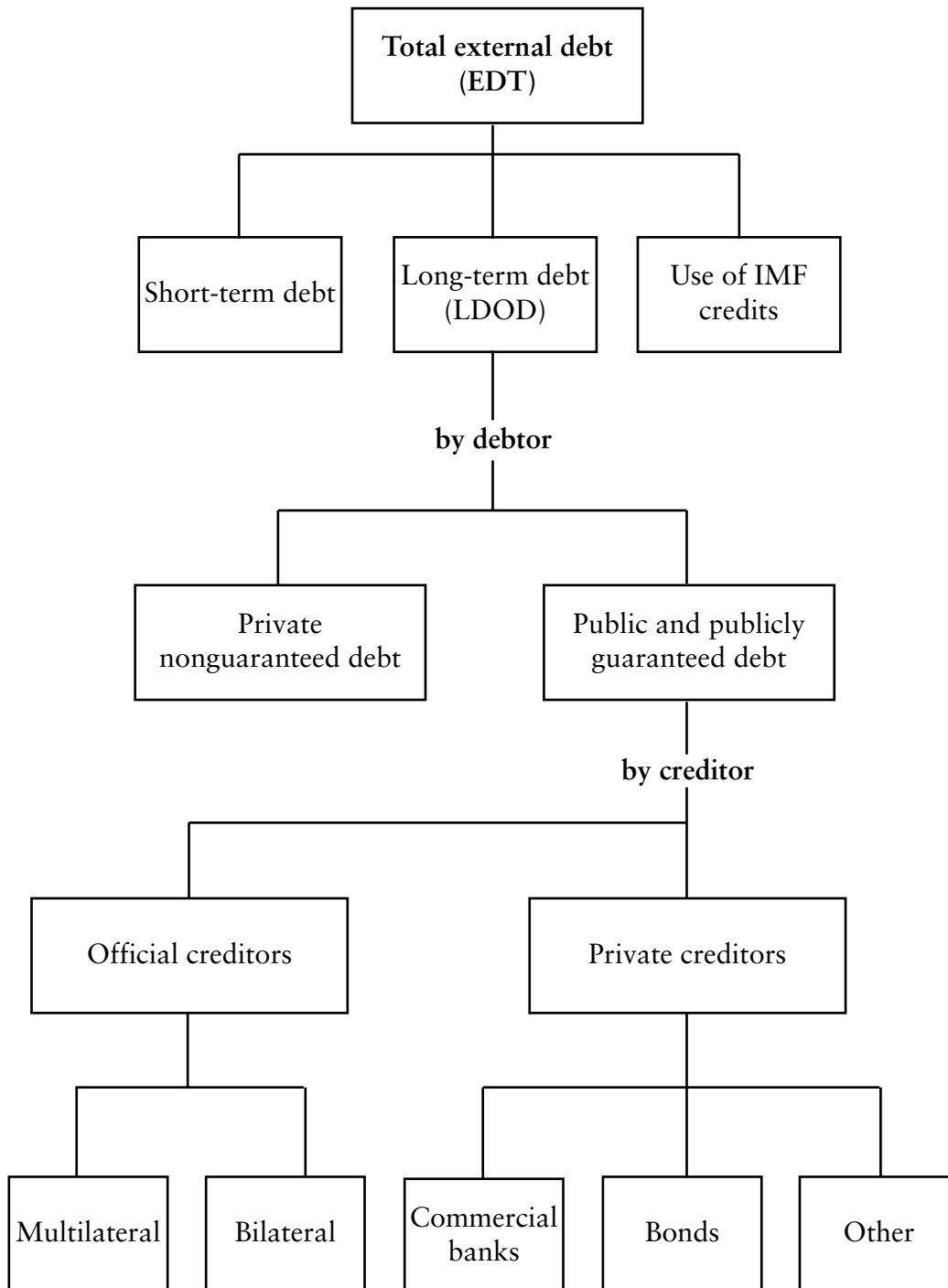


# Abbreviations and Acronyms

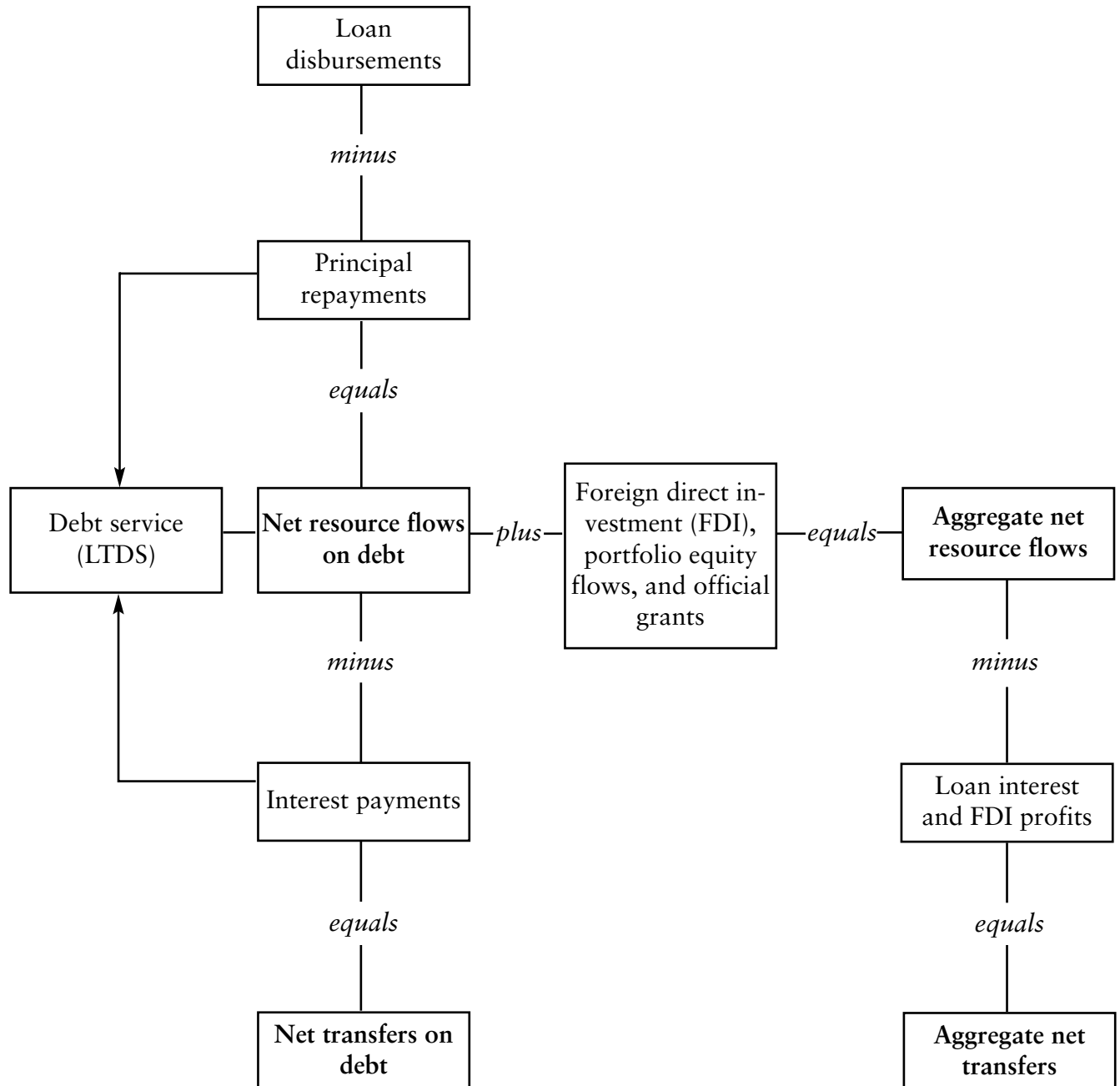
CIS	Commonwealth of Independent States	M&A	mergers and acquisitions
CPPR	Country Portfolio Performance Review	Mercosur	Southern Cone Common Market (Argentina, Brazil, Paraguay, Uruguay)
DAC	Development Assistance Committee (of the OECD)	MILIC	moderately indebted low-income country
DCB	debt conversion bond	MIMIC	moderately indebted middle-income country
DDSR	debt and debt service reduction	MUV	manufacturing unit value
DRS	Debtor Reporting System (of the World Bank)	MYRA	multiyear rescheduling agreement
EI	eligible interest bond	NAFTA	North American Free Trade Agreement
EMBI	Emerging Market Bond Index	NBC	National Bank of Commerce (Tanzania)
EPZ	export processing zone	NGO	nongovernmental organization
EU	European Union	NIE	newly industrialized economy
FDI	foreign direct investment	NPV	net present value
FfD	Financing for Development	OA	official aid
FLIRB	front-loaded interest reduction bond	ODA	official development assistance
FRN	floating-rate note	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
GATS	General Agreement on Trade in Services	PRSC	Poverty Reduction Support Credit
GDP	gross domestic product	PRSP	Poverty Reduction Strategy Paper
GNI	gross national income	REER	real effective exchange rate
HIPC	heavily indebted poor countries	SDR	special drawing right (of the International Monetary Fund)
HIV	human immunodeficiency virus	SILIC	severely indebted low-income country
IBRD	International Bank for Reconstruction and Development (of the World Bank Group)	SIMIC	severely indebted middle-income country
ICT	information and communications technology	SMEs	small and medium enterprises
IDA	International Development Association (of the World Bank Group)	U.N.	United Nations
IFC	International Finance Corporation	UNCTAD	United Nations Conference on Trade and Development
IMF	International Monetary Fund	URR	unremunerated reserve requirement
LIBOR	London interbank offered rate	VAR	vector autoregression
LILIC	less indebted low-income country	WTO	World Trade Organization
LIMIC	less indebted middle-income country	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.

# UNPUBLISHED PROOFS

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

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

Aggregate net resource flows

Net resource flows on debt (long-term)